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Press Release

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Removal of the 5 per cent Special Standing Deposit Facility Rate

In September 2014, the Central Bank rationalised access to its Standing Deposit Facility (SDF) with a view to encourage commercial banks to utilise the substantially high amount of excess liquidity prevailing in the market to enhance credit flows to the private sector at reasonable interest rates. Consequent to the rationalisation of the SDF, overnight interest rates fell below the policy rate corridor, and the special SDF rate of 5 per cent became the effective floor for overnight money market rates. This has resulted in a faster downward adjustment in market interest rates during last few months as most market interest rates reached historically low levels in nominal terms.

Benefiting from lower interest rates and higher demand for bank funds, credit to the private sector revived after a setback recorded particularly in the early part of 2014. Accordingly, private sector credit growth picked up towards the latter part of 2014 recording an increase of Rs. 223.9 billion in 2014 while it increased by Rs. 76 billion during the month of December 2014 recording the highest monthly increase. By end 2014, on a year-on-year basis, private sector credit grew by 8.8 per cent.

Given signs of sustained increase in credit flows to the private sector, the view of the Central Bank was that the restriction placed on access to the SDF is no longer required. Accordingly, the 5 per cent SDF rate was withdrawn with effect from 2 March 2015. The Central Bank is also of the view that the removal of the special SDF rate of 5 per cent would help stabilise overnight interest rates within the policy rate corridor of the Central Bank.