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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Press Release

Issued By	**Communications Department**
Date	29 April 2019

Measures to reduce lending rates and drive credit flows to Small and Medium Enterprises (SMEs) Sector

The Central Bank of Sri Lanka has observed high interest rates charged on lending products and excessively high interest rates offered on deposit products by licensed commercial banks and licensed specialized banks (licensed banks) and Non-Bank Financial Institutions (NBFIs) despite the measures taken to bring down overnight interest rates and enhance market liquidity through the reduction of Statutory Reserve Ratio (SRR). Especially in the context of well contained inflation and inflation expectations, Sri Lanka's interest rates in real terms also have been found to be excessive in comparison to other regional economies.

Accordingly, the Central Bank has requested licensed banks and NBFIs to reduce interest rates on deposits to accelerate monetary policy transmission through the financial sector, enabling licensed banks to reduce their interest rates on lending products in general, and to SMEs in particular, and thereby enhance credit flows to the real economy.

Interest rates on Savings and other deposits with tenures less than 3 months offered by licensed banks and NBFIs will be linked to the Standing Deposit Facility Rate (SDFR) whilst longer tenures will be linked to the 364 day Treasury bill rate. Licensed banks and NBFIs may offer an additional interest rate up to 50 basis points for savings deposits of children under the age of 18 years, and for Fixed Deposits (FD) of senior citizens with tenure of 01 year or more. Debt instruments issued by NBFIs will also be subject to maximum interest rates. In spite of these measures, interest rates on deposits are expected to remain competitive, providing a substantial real return to depositors.

Through the above measures, that would reduce excessive cost of funds borne by the financial sector, the Central Bank expects the lending rates to reduce by around 200 basis points to SMEs in the near term. The reduction in SRR by 250 basis points in two steps in November 2018 and March 2019 has already reduced cost of funds and is expected to result in a narrower margin between deposit and lending rates. The Central Bank will closely monitor the behaviour of interest rates of licensed banks and NBFIs on both deposits and loans and take further measures as appropriate in future.