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CENTRAL BANK OF SRI LANKA

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Press Release

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Central Bank of Sri Lanka implements Extraordinary Regulatory Measures to Provide Liquidity to Banks amidst COVID-19 outbreak

The Monetary Board of the Central Bank of Sri Lanka (CBSL), in the wake of the possible adverse impact on liquidity and other key performance indicators of licensed commercial banks and licensed specialised banks (licensed banks) due to the implementation of the credit support scheme to assist COVID-19 hit businesses and individuals, and the need to meet other urgent liquidity needs of banks, considers it imperative to strengthen the liquidity positions of banks.

Accordingly, the Monetary Board has decided to implement the following extraordinary regulatory measures to strengthen the liquidity positions of licensed banks, under the provisions of the Banking Act and the Monetary Law Act, to ensure the continued supply of credit and to meet urgent liquidity needs of banks during these exceptional times.

a) Provide additional funding under the refinance facility or other credit operations enabling the banking sector to provide working capital and other loans at concessionary rates of interest, to spur demand in the economy.

b) Up to 30 June 2021:

   (i) permit licensed banks to consider certain assets as liquid assets in the computation of the Statutory Liquid Assets Ratio (SLAR) subject to conditions, and

   (ii) reduce the minimum requirement of Liquidity Coverage Ratio and Net Stable Funding Ratio to 90% with enhanced supervision and frequent reporting.

c) Enable licensed banks to avail liquidity through the Sri Lanka Deposit Insurance and Liquidity Support Scheme or as loans and advances in Rupees under the Framework of Emergency Loans and Advances to Licensed Banks, based on acceptable collateral and liquidity forecasts.

Concurrently, the Monetary Board, with a view to strengthening the liquidity position of banks under these exceptional circumstances has decided to restrict certain discretionary payments of licensed banks, such as declaring cash dividends or repatriation of profits, engaging in share buy backs, increasing management allowances and payments to the Board of Directors for a limited period until 31 December 2020. Further, licensed banks are required to exercise prudence and refrain to the extent possible when incurring non-essential and capital expenditure during the above-mentioned period.

In the meantime, considering the resource constraints currently faced by banks and prevailing market conditions due to COVID-19 outbreak, the Monetary Board has also decided to waive the annual assessment of Domestic Systemically Important Banks (D-SIBs) for the year 2020 and maintain the already designated D-SIBs as published in December 2019, for year 2020 as well.

Boards of Directors and the senior management of licensed banks are strongly advised to closely monitor the liquidity positions of the respective banks and use liquid funds accruing as a result of these Extraordinary Measures prudently for intended purposes. Through these extraordinary measures, CBSL expects the banks to provide uninterrupted credit flows in a prudent manner to revive economic activities where in turn all sectors including the financial sector of the economy will benefit. CBSL solicits the support of all stakeholders of the banking sector including shareholders to achieve the desired outcomes of all measures taken so far during these unprecedented times.