PRESS RELEASE

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Investments by Licensed Banks in International Sovereign Bonds

The Central Bank of Sri Lanka (CBSL) wishes to provide the general public and the investor community the following information, while refuting the statements of Rating Agencies that continue to undermine the banking sector's stability and fuel speculation regarding investments of licensed banks in Government of Sri Lanka International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs).

With a view to facilitating investment opportunities in the country and to further encourage foreign currency inflows, the CBSL has allowed Licensed Commercial Banks (LCBs) and the National Savings Bank (NSB) to invest funds sourced externally in US Dollar denominated ISBs and SLDBs, equally splitting such investments into both ISBs and SLDBs, having considered all relevant risks involved including the following.

- Capital adequacy: To mitigate the risk arising from the foreign currency exposure to the Government, CBSL has specified a capital charge under the Basel III framework for credit risk arising from foreign currency exposure to the Government and specifying a general capital charge for market risk under the Basel III framework for trading book investments in Government securities.

- Limit on foreign currency borrowings: With a view to mitigating the risk arising from their foreign currency borrowings, licensed banks are required to make such borrowings subject to a limit computed based on external credit rating and the capital adequacy ratios of the bank. The limit is expressed as a percentage of total assets, ranging between 5 % and 10% as per the latest available audited accounts.

- Foreign currency liquidity ratio: Foreign currency liquidity positions are monitored through Basel III liquidity coverage ratio (LCR) and LCR monitoring tools to ensure that licensed banks keep adequate foreign currency liquid stocks to meet their foreign currency obligations.

- Integrated risk management framework (IRM): Licensed banks are required to put in place IRM techniques for monitoring and managing their risks including maturity mismatch and to ensure that adequate capital is available to meet various risks to which they are exposed. The IRM framework covers various potential risks, possible sources of such risks, and the mechanism to identify, monitor and control such risks at prudent levels.

- Market risk and foreign exchange risk management framework: Licensed banks are required to strengthen the market risk management, foreign exchange trading activities, market conduct and treasury operations, in order to mitigate any foreign exchange risks in licensed banks.

The sourcing of resources externally by LCBs and the NSB are on account of investment opportunities available for such institutions in the market is purely based on the strength of their balance sheets and after having adopted prudent risk mitigation practices.

Central Bank of Sri Lanka wishes to inform that all licensed banks comply with the capital adequacy and liquidity requirements which are based on Basel III International Standards and other key prudential requirements, thus indicating a resilient banking sector in the country.

Furthermore, the Government of Sri Lanka has reiterated its stance of ensuring that all its debt service obligations would be met on time, thus maintaining Sri Lanka's unblemished record of servicing all its debt-relate obligations. Accordingly, arrangements are already in place to settle US dollars 1 billion ISBs maturing on 27 July 2021.