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CBSL takes measures to improve economic growth

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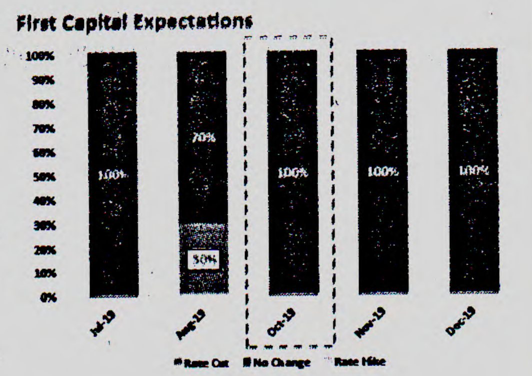

The GDP growth for the 2Q-2019 recorded at 1.6% was significantly lower, compared to 3.9% recorded in 2Q-2018.

In order to address the overly sluggish credit growth, over the past 11 months, Central Bank of Sri Lanka (CBSL) undertook a number of monetary policy and regulatory measures to induce a reduction in market lending rates and thereby boost the GDP growth of the country.

Accordingly, CBSL reduced its policy rates by 50bps each in May and August and also reduced the SRR applicable on rupee deposit liabilities of Licensed Commercial Banks by 2.50% in order to improve the liquidity in the financial market. These measures were expected to stimulate the demand for credit while improving GDP growth of the country.

The growth of credit extended to the private sector has increased marginally by 1.16% since the beginning of this year, remaining far below the levels observed in the corresponding period of 2018, while NPLs have grown due to various factors.

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CBSL is of the view that, excessively high nominal and real lending rates are a key reason for slowing credit expansion and rising NPAs. Moreover, SL's real lending rates are found to be unacceptably high compared to its peer economies.

Accordingly, the Monetary Board decided to order the Licensed Banks to reduce interest rates applicable on all rupee denominated loans and advances by at least 200bps by October 15, 2019, in comparison to the interest rates applicable as at April 30, 2019. Moreover, in the case of credit card advances, the maximum interest rate applicable has been reduced to 28% per annum. These measure are expected to lower market lending rates by banks, thereby boosting credit flows to productive sectors.

This, along with improved repayment capacity of borrowers at lower interest rates, was expected to strengthen licensed banks, by addressing the challenge of rising NPLs.

First Capital