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CENTRAL BANK OF SRI LANKA

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Press Release

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The Imposition of a Loan to Value (LTV) Ratio for Loans and Advances in Respect of Motor Vehicles

The Central Bank of Sri Lanka has observed with concern the recent growth of exposure of banks and financial institutions to certain categories of lending, including lending in respect of motor vehicles. As such, with a view to pre-empt this trend which may develop into a system-wide risk to the financial sector, the Monetary Board of the Central Bank of Sri Lanka decided to impose a maximum Loan to Value (LTV) ratio of 70 per cent in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and financial institutions supervised by the Central Bank in terms of the relevant legal and supervisory provisions. The imposition of such LTV ratios is a key regulatory practice adopted globally to address such macro-prudential concerns on lending activities of regulated entities as and when such concerns are raised. Accordingly, with effect from September 15, 2015, loans and advances granted by licensed banks, finance companies and leasing companies for the purpose of purchase or utilisation of motor vehicles should not exceed 70 per cent of the value of such vehicles. The Central Bank will monitor the developments closely to ensure the timely realisation of the envisaged outcomes of this macro-prudential regulatory measure and make appropriate revisions as and when necessary.