



Media Release

Finance companies to emerge relatively unscathed from current liquidity setback

The recent collapse of unregulated deposit-taking institutions Sakvithi and Golden Key has greatly affected public confidence. So much so that even regulated financial institutions have reported marked reductions in new deposits and renewals. Against this backdrop, RAM Ratings has been in contact with all its rated financial institutions to assess the impact on their liquidity positions; our universe of rated finance companies covers about 60% of the rated registered finance companies ("RFCs") in Sri Lanka.

In view of the Central Bank's timely actions and existing prudential requirements, we are of the view that the domestic RFC industry should be able to overcome any liquidity setback. RFCs adhere to various prudential norms established by the Central Bank; these include the maintenance of liquid assets to ensure sufficient cash reserves to meet deposit withdrawals. Additionally, RFCs have access to the Central Bank's discount-window facility (via primary dealers) for short-term liquidity needs. The Central Bank's recent and unprecedented move in replacing the board of Seylan Bank PLC (affected by the fallout from Golden Key) with that of Bank of Ceylon has also gone a long way towards restoring public confidence and returning normalcy to the financial system.

Nonetheless, there are still challenges ahead as the global recession envelops the country's export-dependent economy. RAM Ratings expects a slowdown in exports and ancillary sub-sectors, which in turn is expected to have a negative impact on lending institutions. In this regard, RAM Ratings will maintain close monitoring of the trends in RFCs' asset quality, liquidity and profitability; we will take appropriate rating actions if necessary.

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