



# CBSL's NEW SRR FRAMEWORK 2026

## FLASH NOTE

### CBSL INTRODUCES A NEW SRR FRAMEWORK, FOCUSED ON STABILITY, DISCIPLINE, AND POLICY TRANSMISSION

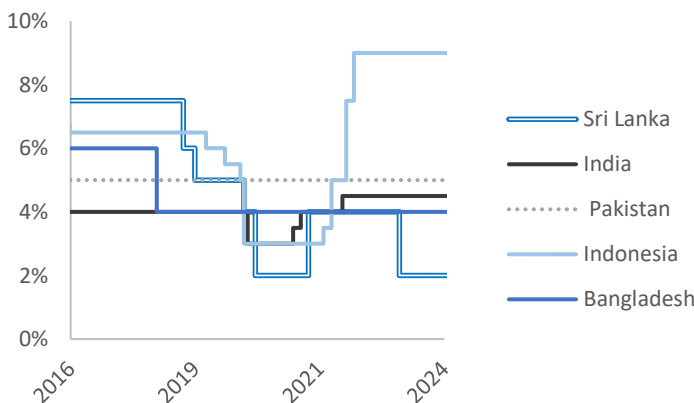
#### Overview

The Central Bank of Sri Lanka has tightened the operational framework governing banks' reserve maintenance with effect from 1 April 2026. While banks are required to maintain 2.0% of their rupee deposit liabilities with the CBSL as a statutory reserve requirement, this obligation was previously met under a looser framework that allowed the inclusion of currency notes and coins held by banks (such as vault and till cash) as part of the required reserves. Through the issuance of the "Rules on Reserve Requirement, No. 01 of 2026", the Central Bank requires reserves against deposit liabilities to be maintained as rupee deposits in the Central Bank, while withdrawing (on a phased basis) the concession permitting the inclusion of currency notes and coins as part of required reserves.

#### Background

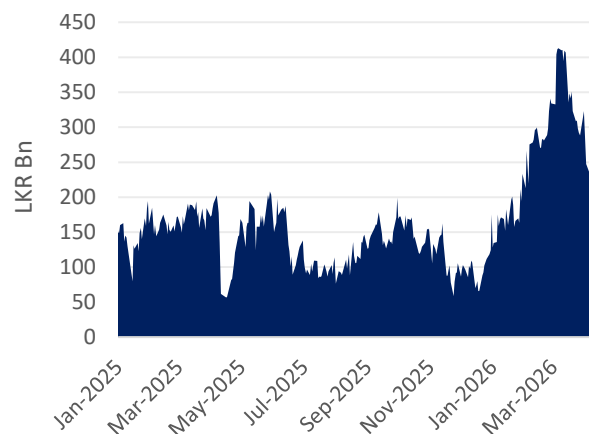
- ❖ **Policy Signalling on SRR Normalisation:** In its January 2026 Policy Agenda, the CBSL signalled its intention to tighten the SRR framework, noting that the prevailing SRR of 2.0% is a COVID-era accommodative measure misaligned with current macro-financial conditions.
- ❖ **SRR Below Structural Benchmarks:** The current SRR remains well below both Sri Lanka's historical averages and regional peer central bank reserve ratios, making a strong case for recalibration as the economy transitions from crisis recovery to normalisation.
- ❖ **Excess Liquidity at Record Highs:** Excess liquidity in the domestic banking system rose to historically high levels during 1Q2026, driven primarily by the CBSL's substantial foreign exchange purchases from the domestic market, supported by steady remittance and other foreign exchange inflows.
- ❖ **Liquidity and Interest Rate Transmission:** The SRR acts as a structural liquidity absorption tool, where a tighter SRR reduces the pool of lendable funds and excess liquidity, while a lower SRR amplifies surplus liquidity, exerting downward pressure on short-term money market rates and weakening alignment with the Overnight Policy Rate (OPR).

SRR/CRR Rates



Sources: CBSL, Reserve Bank of India, State bank of Pakistan, Bangladesh Bank, Bank Indonesia

Excess Liquidity



Source: CBSL

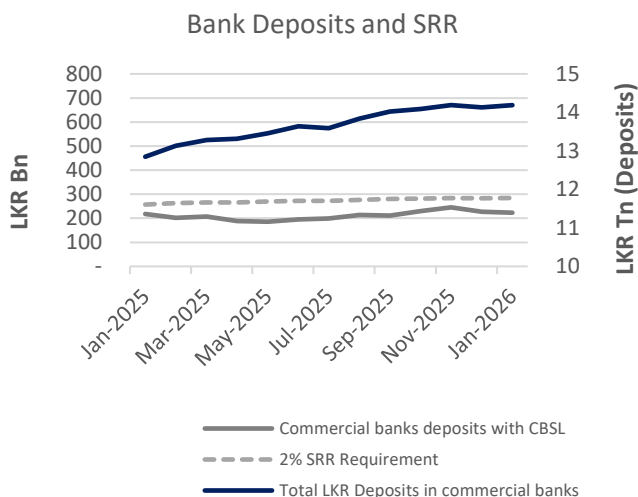


## Key Highlights

- ❖ **Headline SRR Unchanged, But Framework Tightened:** While the SRR remains at 2.0% of rupee deposit liabilities, the effective restrictiveness of the framework has been strengthened. Previously, banks were permitted to count a portion of their vault cash (currency notes and coins) toward meeting the SRR, making the framework relatively loose in practice.
- ❖ **Phased Withdrawal of Till-Cash Recognition:** From 1 April 2026, banks are required to maintain the full 2.0% SRR entirely as rupee deposits with the Central Bank of Sri Lanka. Any currency notes and coins held by banks may be maintained only in excess of the mandatory 2.0% deposit requirement and can no longer be used to meet the 2.0% core SRR holdings.
- ❖ **Shift to Central Bank Deposits as Reserves:** The residual recognition of cash holdings as any form of SRR requirement will be fully discontinued from 30 September 2026. Thereafter, SRR compliance must be met exclusively through rupee deposits maintained with the CBSL, which strengthens centralised liquidity absorption and improves policy transmission.
- ❖ **Stronger Penalty Structure for Non-Compliance:** Previously, SRR compliance was assessed on a two-week average basis over the Reserve Maintenance Period, allowing banks flexibility in their day-to-day reserve positions. Under the new Rules, any shortfall will attract a penalty rate equivalent to two times the Overnight Policy Rate (OPR), applied on a daily basis to the amount of the deficiency.

## Implications

- ❖ **Mechanical Liquidity Tightening Without Rate Action:** Although the headline SRR ratio remains unchanged at 2.0%, the withdrawal of the till-cash concession will mechanically shift a considerable volume of funds into non-remunerated CBSL deposits, effectively absorbing surplus liquidity from the banking system without any change in the policy rate.
- ❖ **Improved Policy Transmission:** The reallocation of reserves from vault cash to CBSL deposits is expected to reduce freely deployable funds in the system, improving alignment of money-market rates with the Overnight Policy Rate (OPR) and strengthening the transmission of monetary policy signals.
- ❖ **Financial Stability & Banks' Trade-offs:** While maintaining SRR as non-remunerated CBSL balances curbs excess liquidity and strengthens systemic stability, it raises the opportunity cost of liquidity for banks and may influence balance-sheet optimisation, deposit pricing, and marginal lending decisions.



Source: CBSL

**Note:** The graph plots domestic deposit liabilities of commercial banks alongside the implied 2.0% SRR line, together with month-end commercial bank deposits maintained with the Central Bank of Sri Lanka (CBSL). This comparison is intended to illustrate the directional impact of the revised SRR framework on structural liquidity absorption, reflecting the expected reallocation of liquidity from banks to CBSL balances following the withdrawal of the till-cash concession, which requires banks to maintain the full 2.0% SRR as deposits at the CBSL.

**Important:** Due to data limitations, month-end CBSL balances are used as an indicative proxy and may not fully reflect SRR-related deposits. In addition, during the period shown, SRR compliance was assessed on a two-week average Reserve Maintenance Period basis rather than on a point-in-time basis.



**First Capital**  
A Janashakthi Group Company

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Charith Gamage	+94 11 2639 863	Dilhari Dias	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

## EQUITY SALES

<b>CEO</b>	Jaliya Wijeratne	+94 723 055 000	<b>Equity Branches</b>		
<b>Colombo</b>			<b>Negombo</b>	Priyanka Anuruddha	+94 77 4546 070
Isuru Jayawardana	+94 76 7084 953			Priyantha Wijesiri	+94 77 9065 779
Nishantha Mudalige	+94 77 3204 929		<b>Jaffna</b>	Gratian Nirmal	+94 77 4510 000
Anushka Buddhika	+94 71 4310 600		<b>Agents</b>		
Thushara Pathiraja	+94 77 0076 314		<b>Colombo</b>	Kithsiri Jayasinghe	+94 77 7790 657
Dayan Fernando	+94 77 7354 081		<b>Anuradhapura</b>	Amila Luwishewa	+94 71 0628 195
Anjelo LaBrooy	+94 77 7546 645		<b>Galle</b>	Nuwan Abeynayake	+94 77 7288 274
Dillon Lowe	+94 76 6160 647		<b>Kandy</b>	Ajith Ihalawatta	+94 77 8477 530
Evelyn John	+94 77 779 2452		<b>Embilipitiya</b>	Ruwan Wanniarachchi	+94 77 3877 734
Yudheshan Kannadasan	+94 77 415 5809				
Yumeth Samarakoon	+94 72 4444 135				

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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## BRANCHES

<b>Kandy</b>	<b>Kurunegala</b>	<b>Matara</b>	<b>Negombo</b>
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1 st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

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