

Survey on Credit Supply

(Trends in the 3rd Quarter 2019 & Outlook for the 4th Quarter 2019)



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

Executive Summary

- **Willingness to lend contracted**

Willingness to lend continued to contract in 2019 Q3, while the contraction was notable towards retail and SME categories. Banks tightened their willingness to lend by reducing the size of credit line, increasing collateral requirements and increasing loan covenants.

- **Demand for loans increased**

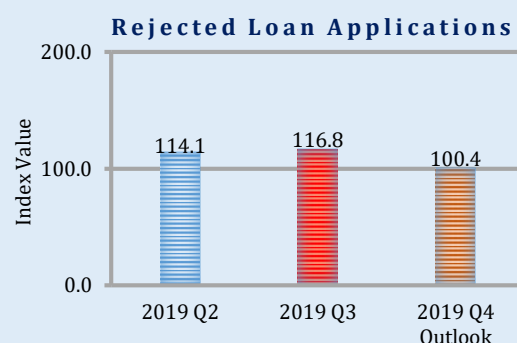
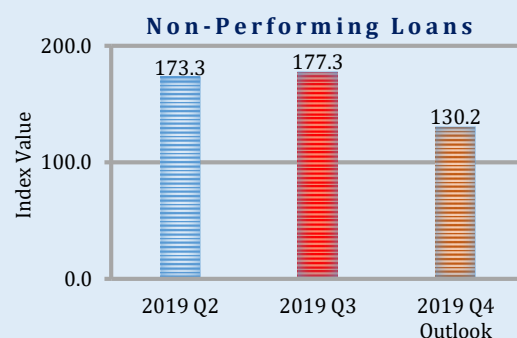
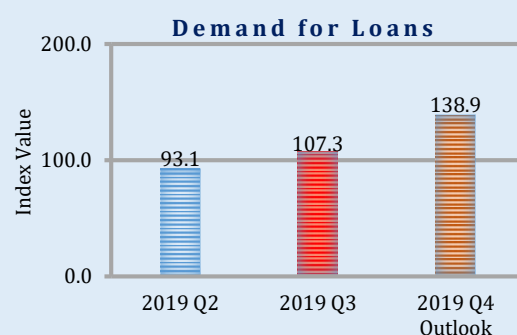
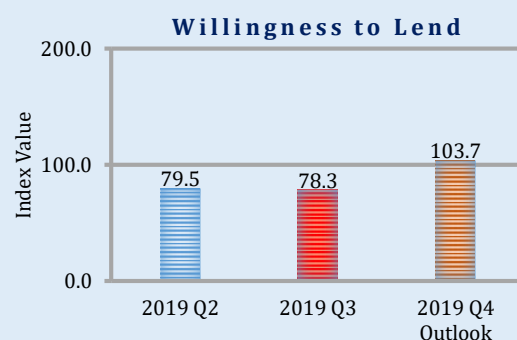
Overall demand for loans increased in 2019 Q3 compared to the contraction observed in 2019 Q2, while the increase was solely due to growing demand from the retail category.

- **Number of non-performing loans (NPLs) increased**

Number of NPLs increased in 2019 Q3 compared to the previous quarter, particularly in retail and corporate categories. Low levels of business activity and personal income, and delayed payments from state sector entities are among reasons cited by respondents which have led to this increase in NPLs.

- **Number of rejected loan applications increased**

Number of rejected loan applications increased in 2019 Q3 compared to 2019 Q2 where the increase was notable towards SME and retail categories.

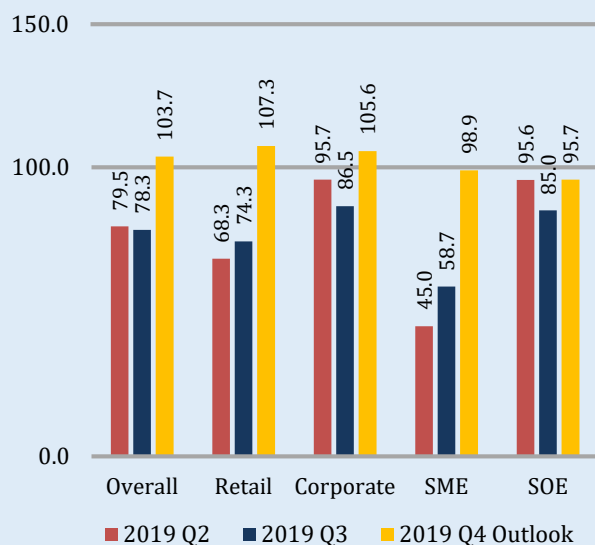


The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) (Banking Sector) from which information on all lending categories, namely Corporate, Retail, Small and Medium Enterprises (SMEs) and State Own Enterprises (SOEs) are obtained.

Indices on willingness to lend, demand for loans, non-performing loans and rejected loan applications are calculated as 'Diffusion Indices', that take values between 0 and 200, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector. **Index value more than 100 indicates an expansion/increase whereas index value less than 100 indicates a contraction/decrease while index value equals to 100 indicates neutral/unchanged state in the respective index on quarter-on-quarter (Q-o-Q) basis.**

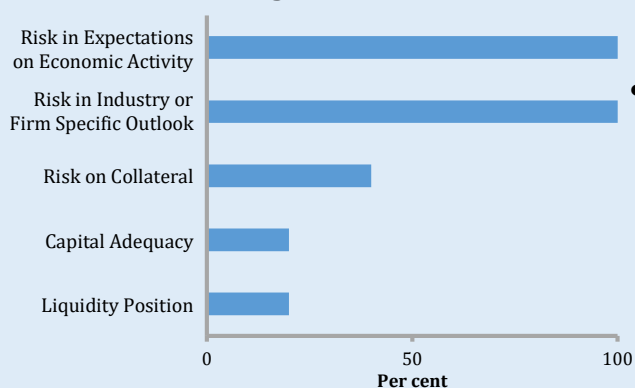
Willingness to Lend contracted at a slower pace

Willingness to Lend



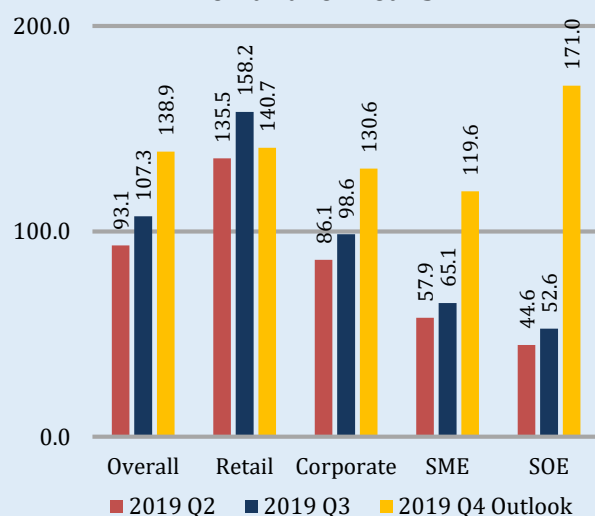
- Banks' willingness to lend continued to contract in 2019 Q3 compared to 2019 Q2. This trend was observed in all lending categories.
- Banks contracted their lending by reducing size of credit line, increasing collateral requirements and increasing loan covenants.
- Contraction in willingness to lend was mainly due to risk perception of the banks, particularly, risks related to expectations on general economic activities and industry or firm-specific outlook.
- However, expectations on willingness to lend in 2019 Q4 indicates an expansion.

Factors affected for Willingness to Lend



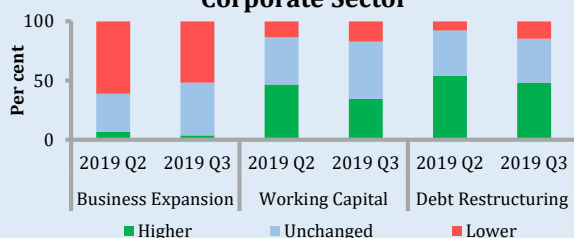
Demand for Loans increased

Demand for Loans

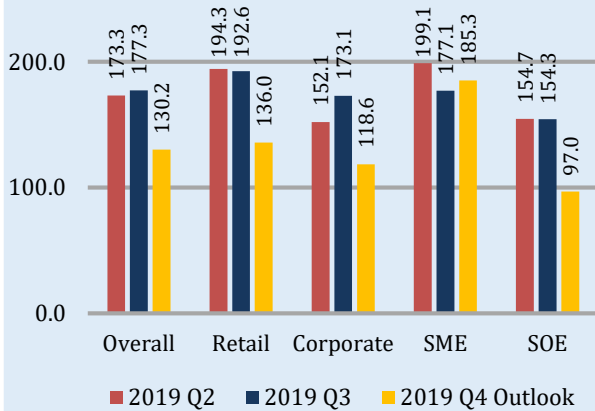


- The increase in demand for loans in 2019 Q3 was solely due to the increase observed in the retail category.
- Demand for loans from all other categories recorded a decline.
- Loans demanded by the corporate category for the purposes of business expansions was at a lower level during the period.
- Demand for loans from all lending categories are expected to increase in 2019 Q4.

Financial Needs of the Borrowers in Corporate Sector

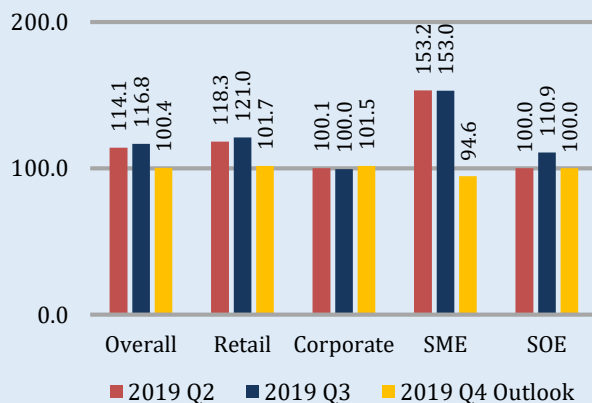


Non-Performing Loans increased at a higher pace



- Number of NPLs increased in 2019 Q3, weakening the quality of banks' loan portfolio compared to 2019 Q2.
- Increase in NPLs was observed across all lending categories and the increase was notable in the corporate sector.
- Low levels of business activity as a result of stagnating economic growth in the recent past, low levels of personal income, delayed payments from state sector entities, expectations on government concessions for interest payments for loans granted to certain sectors have led to an increase in NPLs.
- Respondents have observed an increasing trend in the number of requests for facilities to be restructured and overdrafts to be converted to term loans.
- The increase in NPLs is expected to moderate towards 2019 Q4.

Rejected Loan Applications increased



- Number of rejected loan applications increased in 2019 Q3 compared to 2019 Q2.
- Due to rising NPLs and the introduction of lending caps, some respondents cited that they are compelled to reject loans from high risk sectors based on risk vs. return considerations.
- Banks expect loan rejections to moderate in 2019 Q4.