

Survey on Credit Supply

(Trends in 4th Quarter 2019 & Outlook for 1st Quarter 2020)



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) from which information on all lending categories are obtained.

Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Executive Summary

• Willingness to lend decreased at a slower pace

Banks' willingness to lend decreased at a slower pace in 2019 Q4 compared to 2019 Q3 and it was observed across all lending categories, notably in SME category. However, a significant increase in willingness to lend is expected in 2020 Q1.

• Demand for loans increased at a slower pace

Demand for loans increased at a slower pace in 2019 Q4 compared to 2019 Q3, due to increase in demand from corporate and SOE categories. Demand for loans is expected to increase further in 2020 Q1 with the expectation of recovery in economic activities.

• Number of non-performing loans (NPL) increased at a slower pace

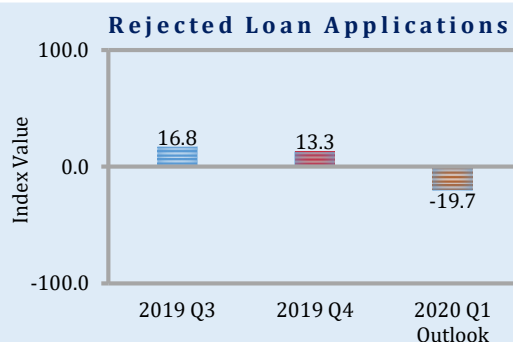
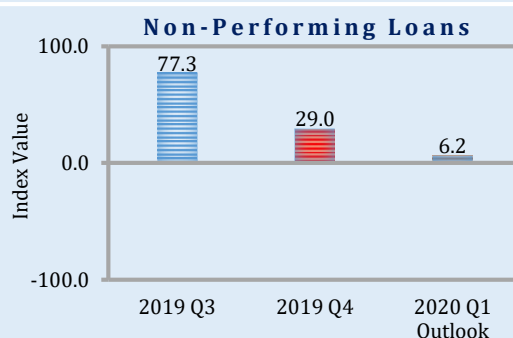
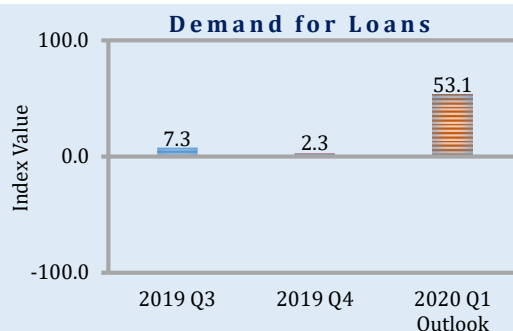
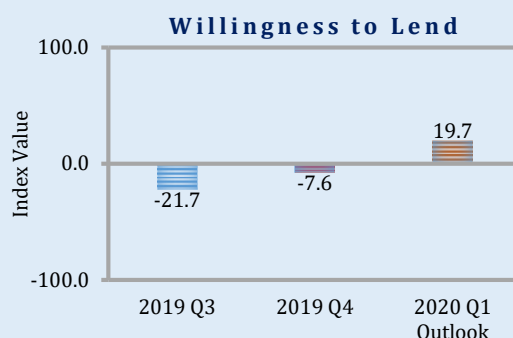
Number of NPL increased at a slower pace in 2019 Q4 compared to 2019 Q3 and it was observed across all lending categories. Further, a slight increase in NPL is expected in 2020 Q1.

• Number of rejected loan applications increased at a slower pace

Number of rejected loan applications increased at a slower pace in 2019 Q4 compared to 2019 Q3, though the increase was notable in SME category. However, rejections are expected to decrease in 2020 Q1 across all lending categories.

Key to Interpretation

- **Index value > 0 : increase**
 - **Index value < 0 : decrease**
 - **Index value = 0 : unchanged**
- on quarter-on-quarter (Q-o-Q) basis**

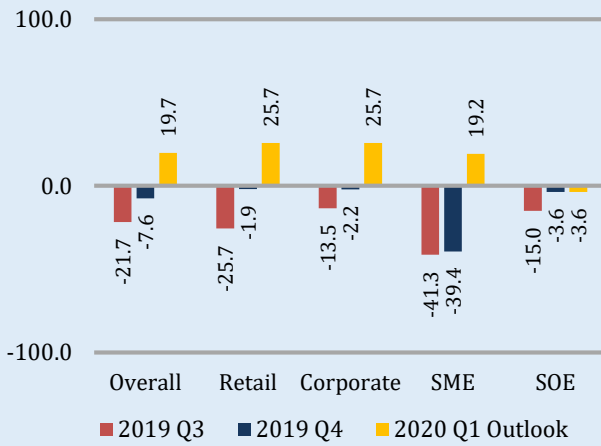


Update:

The threshold level of 100 index points, which was used to interpret the survey results in previous survey rounds, has been changed to 0 index points from this survey round onwards.

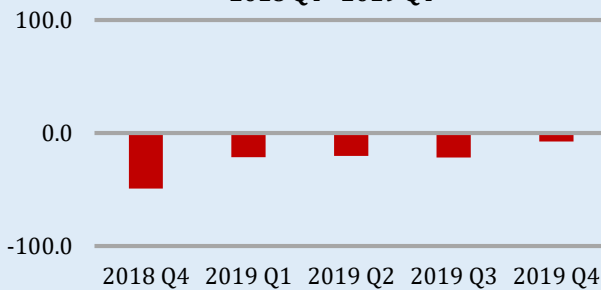
Willingness to lend decreased at a slower pace

Willingness to Lend



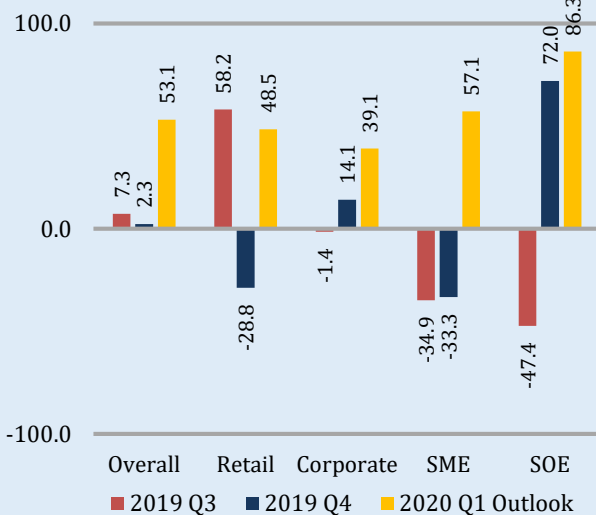
- Overall willingness to lend decreased at a slower pace in 2019 Q4 compared to 2019 Q3, and this trend was observed in all lending categories.
- Further, this was the lowest decrease in willingness to lend reported in the recent past.
- Banks decreased their lending by reducing the size of credit line, increasing collateral requirements and increasing loan covenants.
- However, expectations on willingness to lend in 2020 Q1 indicates an increase compared to 2019 Q4, with the improvement in market sentiments and recovery of economic activities during 2020.

Overall Willingness to Lend 2018 Q4 - 2019 Q4



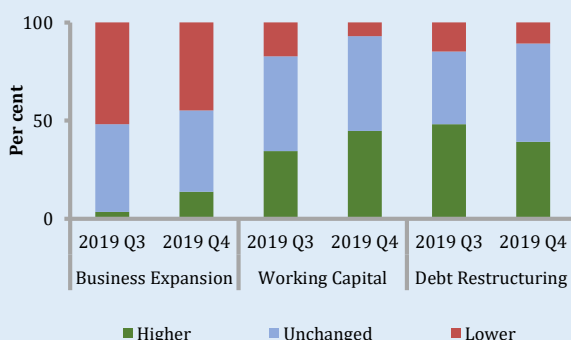
Demand for loans increased at a slower pace

Demand for Loans

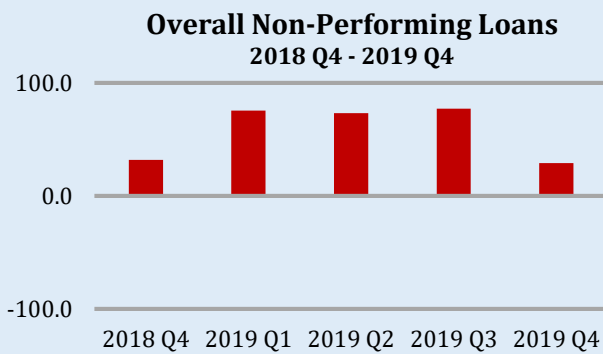
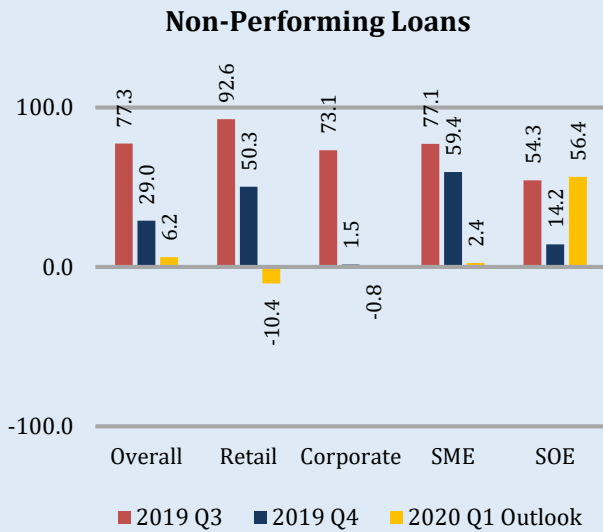


- Overall demand for loans continued to increase in 2019 Q4 compared to 2019 Q3, yet at a slower pace.
- Demand for loans in corporate and SOE categories recorded an increase, while that of retail and SME categories recorded a decline.
- Loans demanded by the corporate category for the purposes of business expansions and working capital showed an increase in 2019 Q4 compared to 2019 Q3, while loans demanded for debt restructuring observed a decline.
- Demand for loans is expected to increase at a higher pace in 2020 Q1 compared to 2019 Q4, with the expectation of recovery in economic activities.

Financial Needs of the Borrowers in Corporate Sector

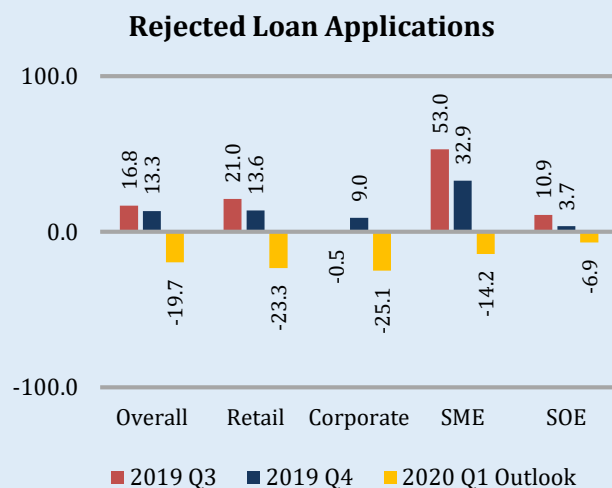


Number of non-performing loans (NPL) increased at a slower pace



- Overall number of NPL increased at a slower pace in 2019 Q4 compared to 2019 Q3 and this trend was observed across all lending categories, notably in the retail and SME categories.
- Further, this was the lowest increase in number of NPL reported in the recent past.
- Respondents cited that the low levels of business activities resulted by the sluggish economic conditions prevailed in the country as a main contributor towards the increase in NPL.
- Further, the respondents cited that banks' focus is being shifted towards quality lending.
- A respondent also cited that moratorium should be implemented carefully since it may adversely affect the repayments of performing loans.
- Number of NPL is expected to increase in 2020 Q1 compared to 2019 Q4, yet at a slower pace, with the expectation of recovery in economic activities.

Number of rejected loan applications increased at a slower pace



- Overall number of rejected loan applications increased in 2019 Q4 compared to 2019 Q3, yet at a slower pace.
- This was observed across all lending categories except in corporate category.
- However, banks expect a decrease in rejected loan applications across all lending categories in 2020 Q1 compared to 2019 Q4.