

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 2nd Quarter 2020 & Outlook for 3rd Quarter 2020)

Issued on 31st July 2020

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

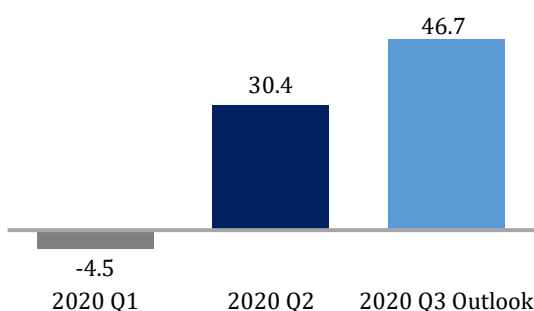
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

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

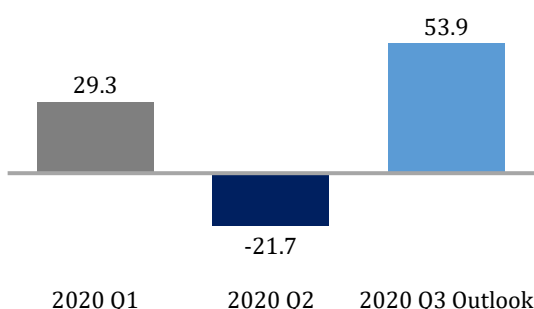
Executive Summary

Willingness to Lend



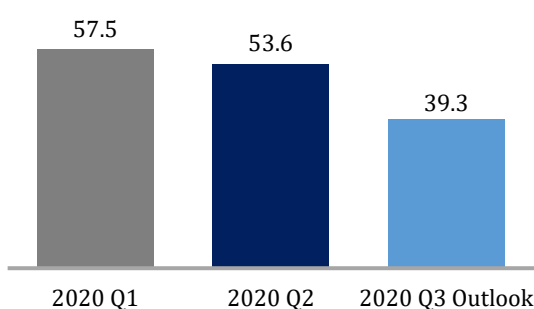
Banks' willingness to lend increased in 2020 Q2 compared to 2020 Q1, across all lending categories, with the measures taken by the Central Bank of Sri Lanka to support the revival of economic activities, which were affected by COVID-19 pandemic. Willingness to lend is expected to increase further in 2020 Q3.

Demand for Loans



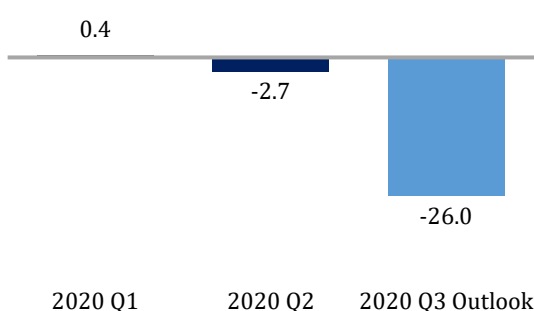
Demand for loans decreased in 2020 Q2 compared to 2020 Q1, due to decrease in demand from all lending categories except from SOE category. However, demand for loans is expected to increase in 2020 Q3 with the gradual recovery of economic activities.

Non-Performing Loans (NPL)



Number of NPL increased at a slower pace in 2020 Q2 compared to 2020 Q1 and the increase was notable in retail and SME categories. NPL is expected to increase further, yet at a slower pace, in 2020 Q3.

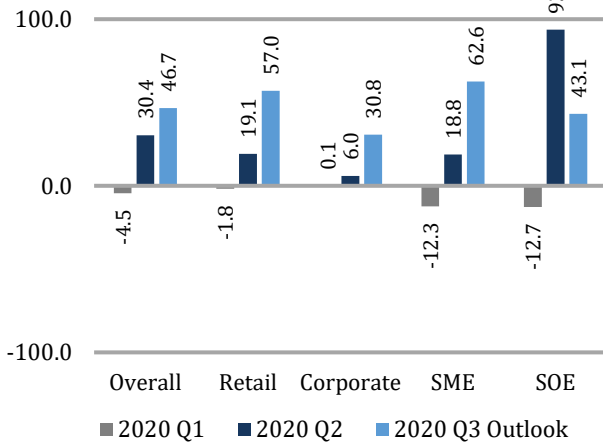
Rejected Loan Applications



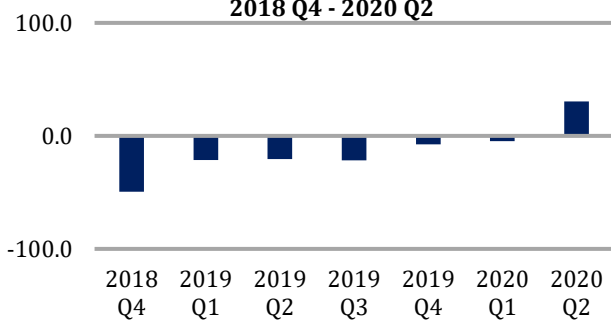
Number of rejected loan applications decreased in 2020 Q2 compared to 2020 Q1, due to decrease of rejections observed in retail, corporate and SME categories. Rejections are expected to decrease further in 2020 Q3 at a higher pace in line with the increase in willingness to lend in 2020 Q3.

Willingness to Lend

Willingness to Lend by Category



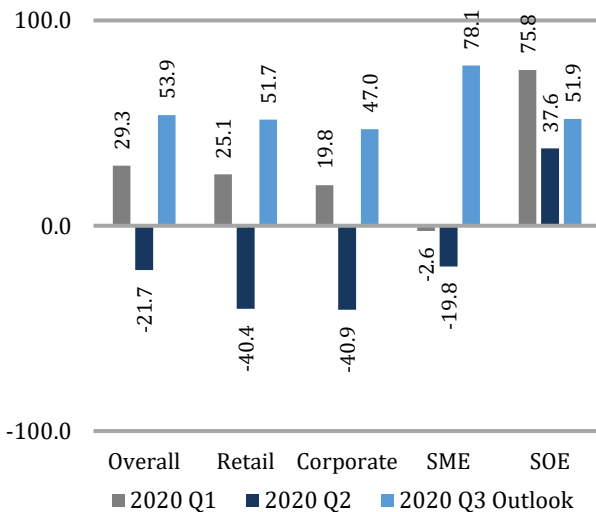
Overall Willingness to Lend 2018 Q4 - 2020 Q2



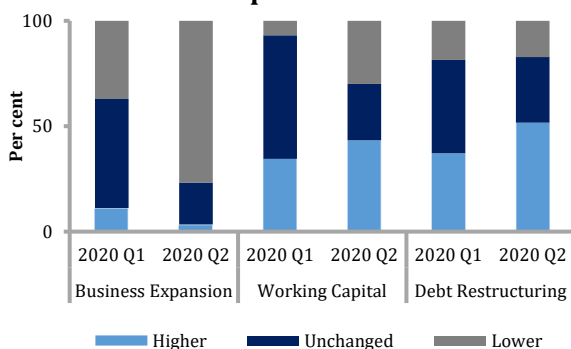
- Overall willingness to lend increased in 2020 Q2 compared to 2020 Q1, across all lending categories.
- This is the first time that willingness to lend reported an increase since 2018 Q4.
- Sufficient capital adequacy position and improved liquidity position of banks contributed to this increase in willingness to lend.
- Respondents cited that measures taken by the Central Bank of Sri Lanka to support the revival of economic activities, which were affected by COVID-19 pandemic, improved their liquidity position.
- Banks increased their willingness to lend by reducing lending rates and non-interest charges.
- Expectations on willingness to lend indicates a further increase in 2020 Q3 compared to 2020 Q2 with the recovery of economic activities.

Demand for Loans

Demand for Loans by Category



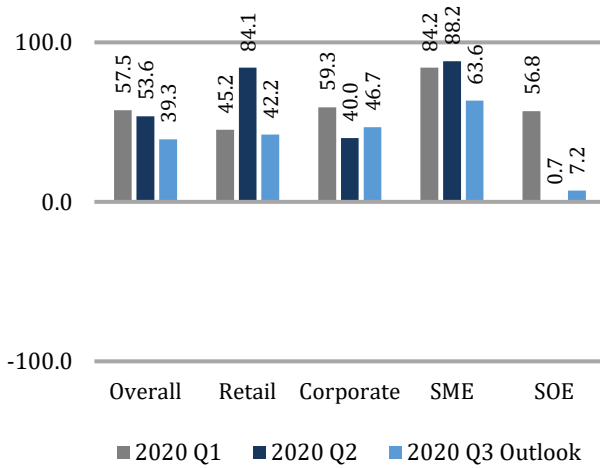
Financial Needs of the Borrowers in Corporate Sector



- Overall demand for loans decreased in 2020 Q2 compared to 2020 Q1.
- Demand for loans in retail, corporate and SME categories recorded a decrease, while that of SOE category recorded an increase.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q2, while loans demanded for business expansions observed a significant decrease.
- However, demand for loans is expected to increase in 2020 Q3 compared to 2020 Q2 with the recovery of economic activities.

Non-Performing Loans (NPL)

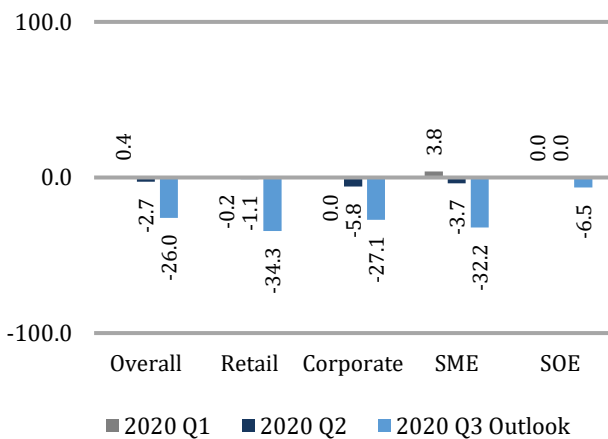
Non-Performing Loans by Category



- Overall number of NPL increased at a slower pace in 2020 Q2 compared to 2020 Q1 and the increase was notable in retail and SME categories.
- Respondents cited that the asset quality has deteriorated with the increase in credit risk due to impact of COVID-19 pandemic
- However, directions of the Central Bank of Sri Lanka on loan restructuring, moratorium and other relief packages contributed to ease the pressure on NPL in 2020 Q2.
- Number of NPL is expected to increase in 2020 Q3 compared to 2020 Q2, at a slower pace.

Rejected Loan Applications

Rejected Loan Applications by Category



- Overall number of rejected loan applications decreased in 2020 Q2 compared to 2020 Q1.
- This was due to decrease in rejections observed in all lending categories except for SOE category.
- However, in line with the expected increase in willingness to lend in 2020 Q3, banks expect a decrease in rejected loan applications, at a higher pace, across all lending categories in 2020 Q3 compared to 2020 Q2.