

# CREDIT SUPPLY SURVEY

(Trends in 3<sup>rd</sup> Quarter 2020 & Outlook for 4<sup>th</sup> Quarter 2020)



STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

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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.

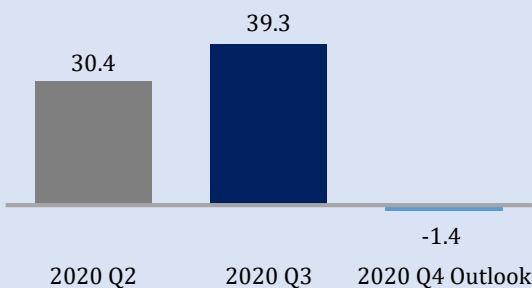
Note : Since most of the banks responded to the survey during the period from 01<sup>st</sup> October 2020 to 15<sup>th</sup> October 2020, the full impact from the second wave of COVID-19 on the credit supply might not be reflected in 2020 Q4 outlook .

## Key to Interpretation

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

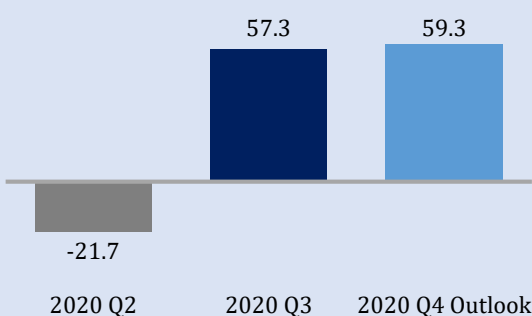
## Executive Summary

### Willingness to Lend



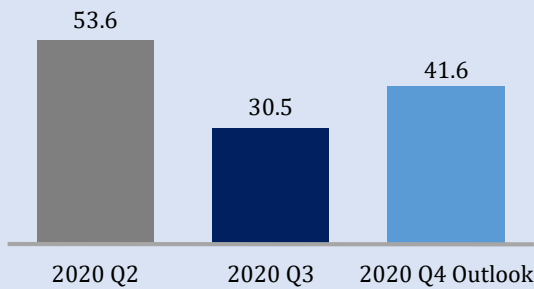
- Banks' willingness to lend increased at a higher pace in 2020 Q3 compared to 2020 Q2 and it was observed in retail, corporate and SME categories.
- This increase was underpinned by the measures taken by the Central Bank of Sri Lanka to support the revival of economic activities in the country, including the reduction in policy interest rates and Statutory Reserve Ratio (SRR), and the introduction of "Saubagya COVID-19 Renaissance Facility" and credit guarantee scheme.
- Improved risk perception and improved liquidity position also contributed towards the increase in willingness to lend.
- However, willingness to lend is expected to decrease marginally in 2020 Q4.

### Demand for Loans



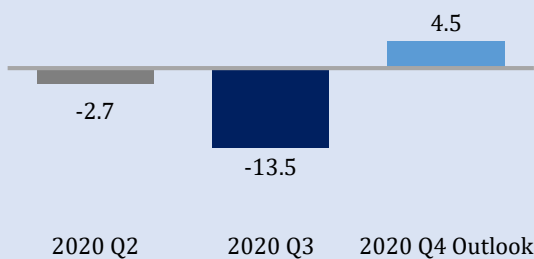
- Demand for loans increased significantly in 2020 Q3 compared to 2020 Q2 due to the sharp reduction in interest rates and it was observed across all lending categories.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q3.
- Meanwhile, demand for loans is expected to increase further in 2020 Q4 with the optimism prevailed on the recovery of economic activities.

## Non-Performing Loans (NPL)



- Number of NPL increased at a slower pace in 2020 Q3 compared to 2020 Q2 and it was observed in retail, corporate and SME categories.
- The increase in NPL in the retail sector was due to the expiration of moratorium facilities provided on personal loans and leasing rentals.
- The increase in NPL in corporate and SME categories was due to defaults of clients who had not applied for moratorium facilities under the impression that it will be implemented from the banks' end.
- Meanwhile, NPL are expected to increase further in 2020 Q4.

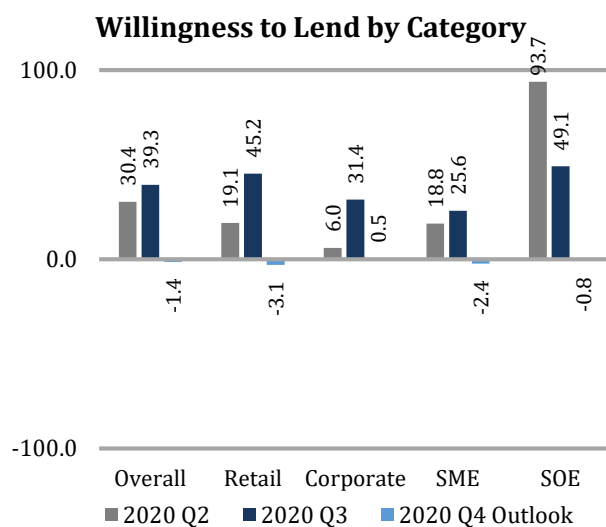
## Rejected Loan Applications



- Number of rejected loan applications decreased in 2020 Q3 compared to 2020 Q2 due to the higher number of loans granted under "Saubagya COVID-19 Renaissance Facility".
- This decrease was observed across all lending categories.
- However, rejections are expected to increase marginally in 2020 Q4.

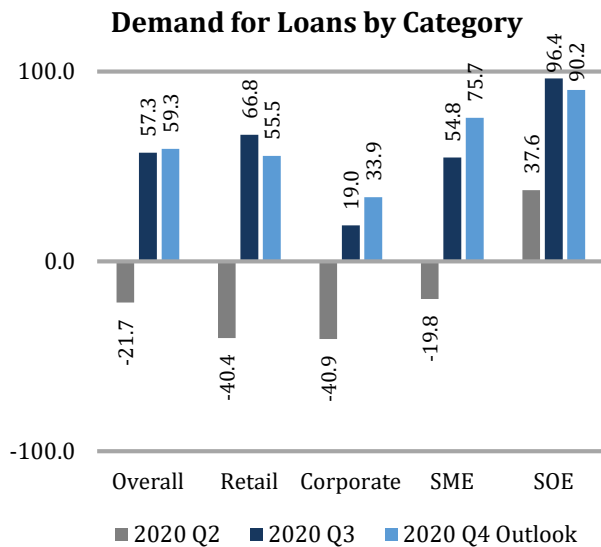
## Detailed Report

### Willingness to Lend



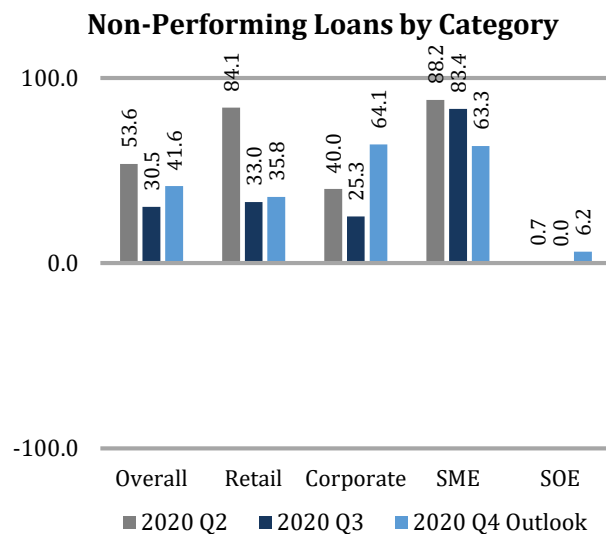
- Overall willingness to lend increased in 2020 Q3 compared to 2020 Q2, across all lending categories.
- Improved risk perception of the banks, particularly with risks related to expectations on general economic activities and industry or firm-specific outlook, and improved liquidity position contributed towards the increase in willingness to lend.
- Further, the respondents cited that the measures taken by the Central Bank of Sri Lanka to support the revival of economic activities, including the reduction in policy interest rates and Statutory Reserve Ratio (SRR), and the introduction of "Saubagya COVID-19 Renaissance Facility" and credit guarantee scheme also contributed towards the increase in their willingness to lend.
- Banks increased their willingness by reducing interest rates, increasing size of credit lines and lengthening the maturity period of loans.
- However, willingness to lend is expected to decrease marginally in 2020 Q4 compared to 2020 Q3.

## Demand for Loans



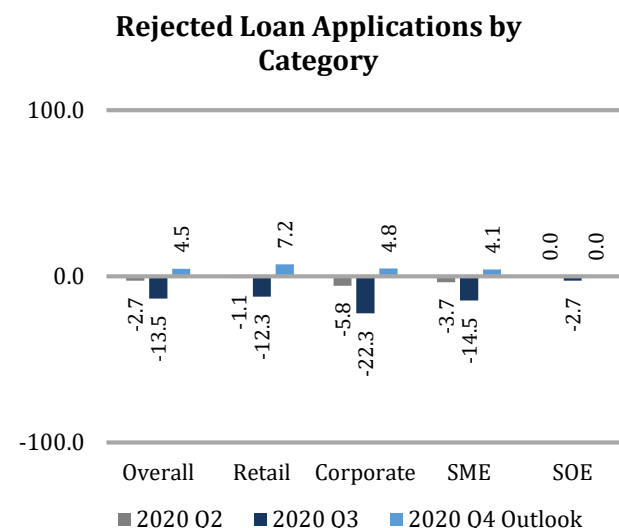
- Overall demand for loans increased in 2020 Q3 compared to 2020 Q2, across all lending categories.
- Respondents cited that the demand for loans increased due to low interest rates, revival of economic activities and introduction of “Saubagya COVID-19 Renaissance Facility”.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q3, while loans demanded for business expansions observed a decrease.
- This increase in demand for debt restructuring may be attributable to borrowers leveraging on the reduced interest rates.
- Meanwhile, overall demand for loans is expected to increase further in 2020 Q4 compared to 2020 Q3 with the optimism prevailed on the recovery of economic activities.

## Non-Performing Loans (NPL)



- Overall number of NPL increased at a slower pace in 2020 Q3 compared to 2020 Q2 and it was observed in retail, corporate and SME categories.
- The increase in NPL in the retail sector was due to the expiration of moratorium facilities provided on personal loans and leasing rentals.
- The increase in NPL in corporate and SME categories was due to defaults of clients who had not applied for moratorium facilities under the impression that it will be implemented from the banks’ end.
- Number of NPL is expected to increase further in 2020 Q4 compared to 2020 Q3.

## Rejected Loan Applications



- Overall number of rejected loan applications decreased in 2020 Q3 compared to 2020 Q2.
- This was due to the decrease in rejections observed across all lending categories.
- Respondents cited that the higher number of loans granted under “Saubagya COVID-19 Renaissance Facility” as the main reason for this decline.
- However, banks expect a marginal increase in rejected loan applications in 2020 Q4 compared to 2020 Q3.