

# CREDIT SUPPLY SURVEY

(Trends in 4<sup>th</sup> Quarter 2020 & Outlook for 1<sup>st</sup> Quarter 2021)

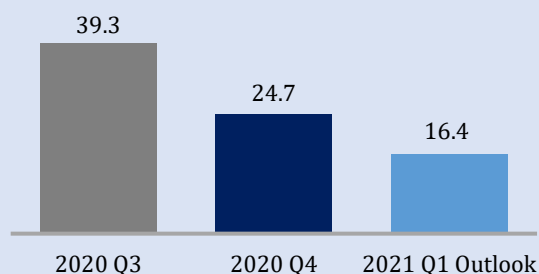


STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

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## Executive Summary

### Willingness to Lend



- Banks' overall willingness to lend increased at a slower pace in 2020 Q4 compared to 2020 Q3 and all categories (i.e. retail, corporate, SME and SOE) reported an increase in willingness to lend.
- This increase was due to the availability of ample liquidity and low interest rates prevailing in the banking system with the reduction of Statutory Reserve Ratio (SRR) and policy interest rates by the CBSL to support the revival of economic activities.
- Improved risk perception on the economic activities, with the recovery in businesses that were affected by the COVID-19 pandemic, also contributed towards the increase in willingness to lend.
- However, due to the concerns on credit quality and cash flow of clients' banks have adopted prudent credit controls in granting new loans.
- Nevertheless, willingness to lend is expected to increase further in 2021 Q1, yet at a slower pace.

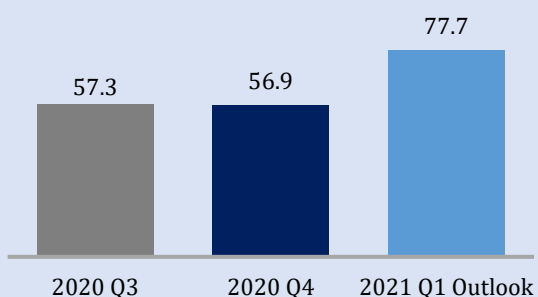
### Key to Interpretation

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

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

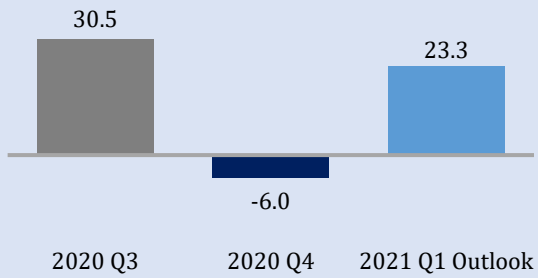
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

### Demand for Loans



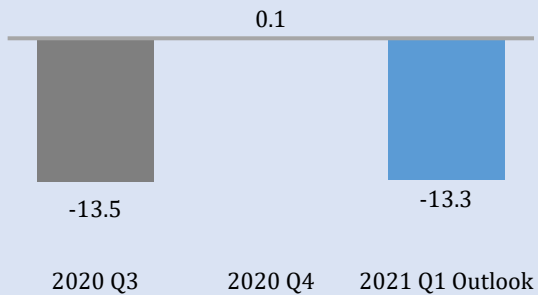
- Amidst the spread of the second wave of COVID-19 pandemic, the overall demand for loans increased further in 2020 Q4 compared to 2020 Q3 due to low interest rates and it was observed across all lending categories.
- Revival of economic activities and initiatives of the government to develop domestic industries have also contributed towards the increase in demand for loans.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q4.
- Meanwhile, demand for loans is expected to increase at a higher pace in 2021 Q1 with the improved investor confidence.

## Non-Performing Loans (NPL)



- Overall number of NPL decreased in 2020 Q4 compared to 2020 Q3 and it was observed in retail and corporate categories.
- The decrease in NPL was due to rescheduling and restructuring of loans and extension of moratorium facilities offered with the second wave of COVID-19 pandemic.
- However, NPL are expected to increase in 2021 Q1 with the expiration of moratorium facilities.

## Rejected Loan Applications

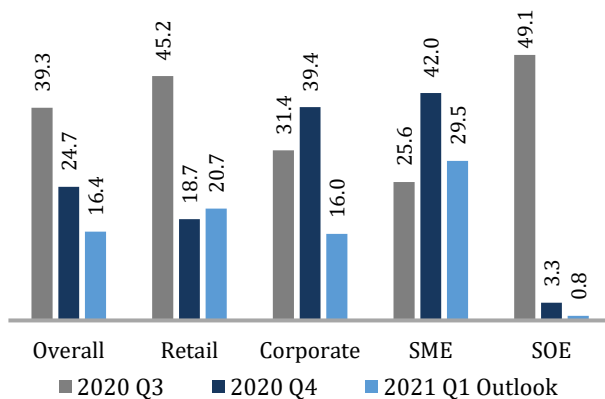


- Overall number of rejected loan applications mostly remained unchanged in 2020 Q4 compared to 2020 Q3.
- This was due to the nullification of increase in number of rejected loan applications of retail category by the decrease of that observed in corporate and SME categories.
- However, rejections are expected to decrease in 2021 Q1 with the revival of economic activities.

## Detailed Report

### Willingness to Lend

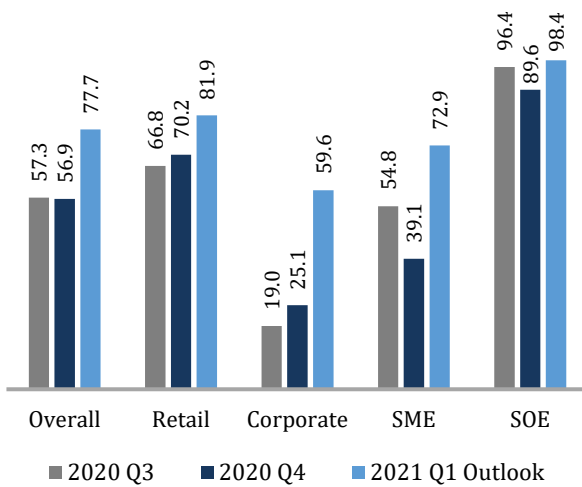
#### Willingness to Lend by Category



- Overall willingness to lend increased at a slower pace in 2020 Q4 compared to 2020 Q3 and all categories reported an increase in willingness to lend.
- This increase was due to the availability of ample liquidity and low interest rates prevailing in the banking system with the reduction of Statutory Reserve Ratio (SRR) and policy interest rates by the CBSL to support the revival of economic activities.
- Improved risk perception of the banks, particularly with risks related to expectations on general economic activities, also contributed towards the increase in willingness to lend.
- Banks increased their willingness by reducing interest rates and increasing size of credit lines.
- However, due to the concerns on credit quality and cash flow of clients' banks have adopted prudent credit controls in granting new loans.
- Nevertheless, willingness to lend is expected to increase further in 2021 Q1 compared to 2020 Q4.

## Demand for Loans

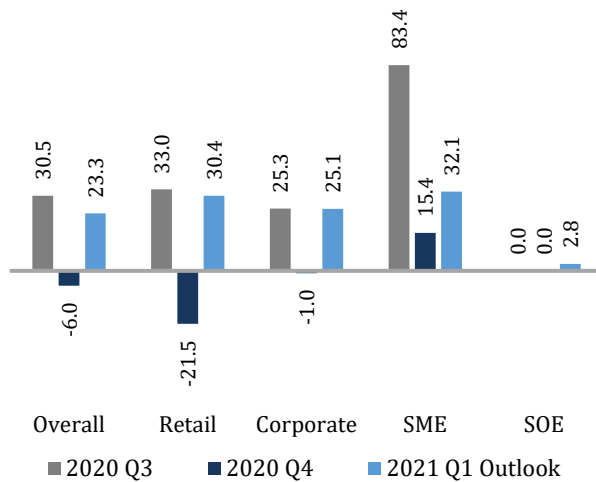
### Demand for Loans by Category



- Overall demand for loans increased in 2020 Q4 compared to 2020 Q3 across all lending categories.
- Respondents cited that the demand for loans increased due to low interest rates, revival of economic activities and initiatives of the government to develop domestic industries.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q4, 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 2021 Q1 compared to 2020 Q4 with the optimism prevailing on the recovery of economic activities.

## Non-Performing Loans (NPL)

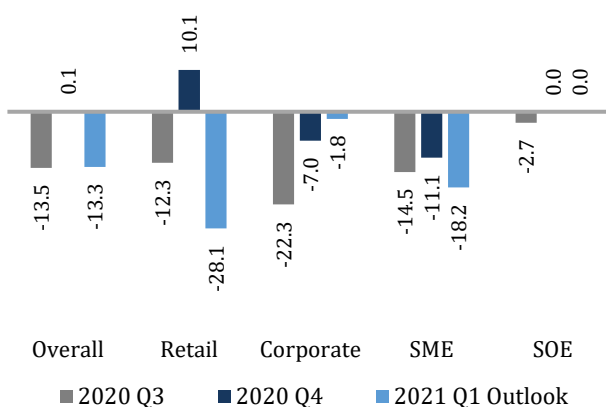
### Non-Performing Loans by Category



- Overall number of NPL decreased in 2020 Q4 compared to 2020 Q3 and it was notable in the retail category.
- The decrease in NPL in the retail and corporate categories was mainly due to rescheduling of loans and extension of moratorium facilities offered with the second wave of COVID-19 pandemic.
- The increase in NPL in the SME category was due to defaults of clients who had not applied for moratorium facilities.
- Meanwhile, the number of NPL is expected to increase in 2021 Q1 compared to 2020 Q4 with the expiration of moratorium facilities.

## Rejected Loan Applications

### Rejected Loan Applications by Category



- Overall number of rejected loan applications mostly remained unchanged in 2020 Q4 compared to 2020 Q3.
- This was due to the nullification of increase in number of rejected loan applications of retail category by the decrease of that observed in corporate and SME categories.
- Respondents cited that rejections in the retail category were increased due to inadequate cash flows of those applicants.
- However, rejections are expected to decrease in 2021 Q1 with the revival of economic activities.