

# CREDIT SUPPLY SURVEY

(Trends in 2<sup>nd</sup> Quarter 2021 & Outlook for 3<sup>rd</sup> Quarter 2021)

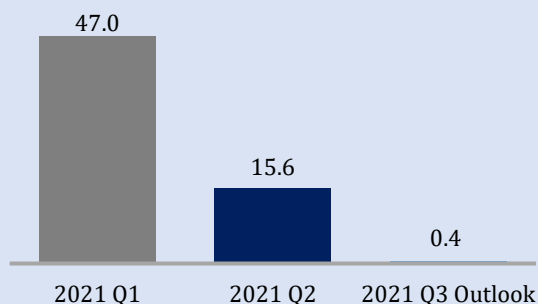


STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

Survey concluded on 15.07.2021

## Executive Summary

### Willingness to Lend



- Banks' overall willingness to lend increased at a slower pace in 2021 Q2 compared to 2021 Q1.
- Even though the availability of excess liquidity in the market drives the willingness to lend, the rate of increase is suppressed to a certain extent due to the uncertainty in business outlook amid the spread of the third wave of the COVID-19 pandemic, and foreign currency liquidity shortage and related import restrictions.
- Meanwhile, willingness to lend is expected to increase slightly in 2021 Q3 supported by the recommencement of economic activities in line with the expedition of vaccination program.

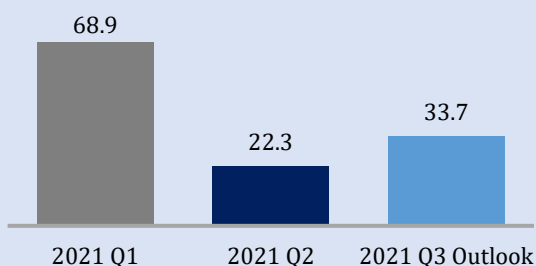
### Key to Interpretation

- *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.

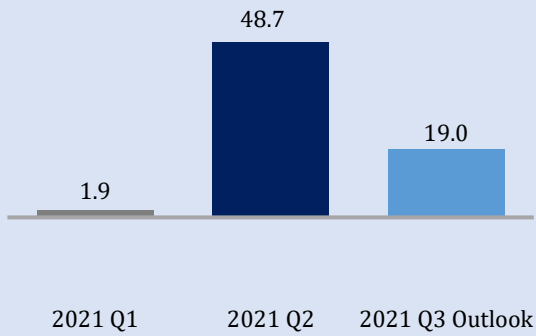
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

### Demand for Loans



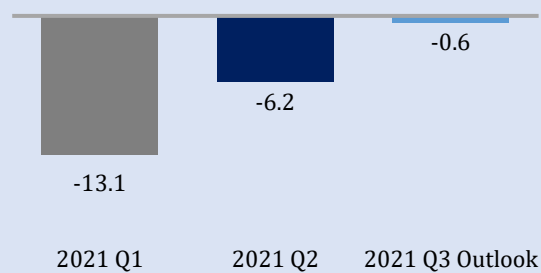
- The overall demand for loans increased, yet at a slower pace, in 2021 Q2 compared to 2021 Q1 due to the travel restrictions imposed to combat the spread of the third wave of COVID-19 pandemic.
- The increase in demand for loans is driven by the prevailing low interest rates, opportunity to refinance at low rates, increase in consumption and working capital needs and Government policy of using domestic financing.
- Meanwhile, loans demanded by the corporate category for the purposes of working capital and business expansions decreased, while that of debt restructuring remained unchanged in 2021 Q2.
- Meanwhile, demand for loans is expected to increase at a relatively higher pace in 2021 Q3 with the expectation of economic activities returning to normalcy amid the mass vaccination program.

## Non-Performing Loans (NPL)



- Overall number of NPL increased at a higher pace in 2021 Q2 compared to 2021 Q1.
- The increase in NPL could be attributed to the re-emerged difficulties faced by businesses and individuals due to the third wave of COVID-19.
- Meanwhile, NPL are expected to increase at a slower pace in 2021 Q3 amidst concessions extended towards credit facilities in the non-performing category and expected revival of economic activities.

## Rejected Loan Applications

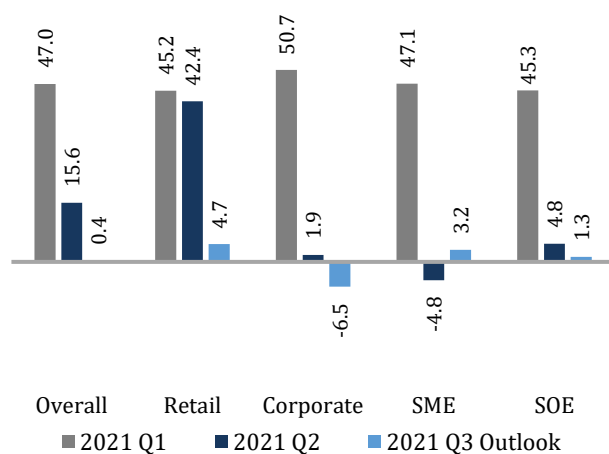


- Overall number of rejected loan applications decreased at a slower pace in 2021 Q2 compared to 2021 Q1 in line with the slowdown in the rate of increase in willingness to lend.
- Meanwhile, rejections are expected to decrease further, yet at a slower pace, in 2021 Q3 in line with the expected recovery of the economy.

## Detailed Report

### Willingness to Lend

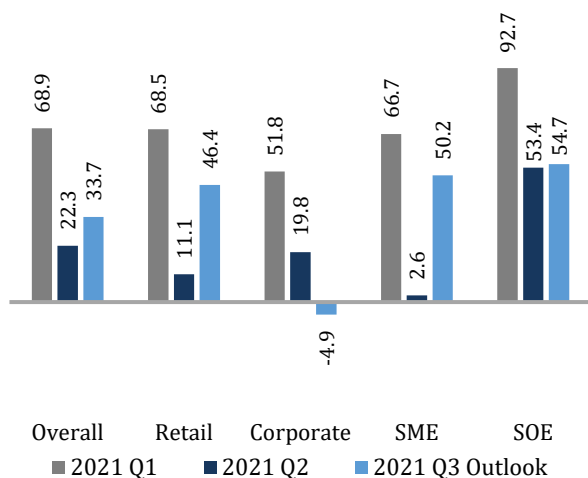
#### Willingness to Lend by Category



- Banks' overall willingness to lend increased at a slower pace in 2021 Q2 compared to 2021 Q1.
- This increase was mainly supported by the increase in willingness to lend in the retail category. The willingness to lend in the SME category decreased in 2021 Q2.
- Even though the availability of excess liquidity in the market drives the willingness to lend, the rate of increase is suppressed to a certain extent due to the uncertainty in business outlook amid the spread of the third wave of the COVID-19 pandemic, and foreign currency liquidity shortage and related import restrictions.
- Meanwhile, willingness to lend is expected to increase slightly in 2021 Q3 supported by the recommencement of economic activities in line with the expedition of vaccination program.

## Demand for Loans

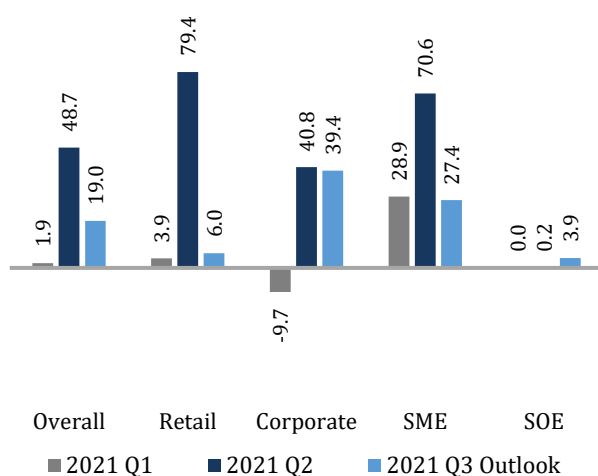
### Demand for Loans by Category



- The overall demand for loans increased, yet at a slower pace, in 2021 Q2 compared to 2021 Q1 due to the travel restrictions imposed to combat the spread of the third wave of COVID-19 pandemic.
- Increase in demand for loans was observed across all lending categories, especially in the SOE category.
- The increase in demand for loans is driven by the prevailing low interest rates, opportunity to refinance at low rates, increase in consumption and working capital needs and Government policy of using domestic financing.
- Meanwhile, loans demanded by the corporate category for the purposes of working capital and business expansions decreased, while that of debt restructuring remained unchanged in 2021 Q2.
- Meanwhile, demand for loans is expected to increase at a relatively higher pace in 2021 Q3 with the expectation of economic activities returning to normalcy amid the mass vaccination program.

## Non-Performing Loans (NPL)

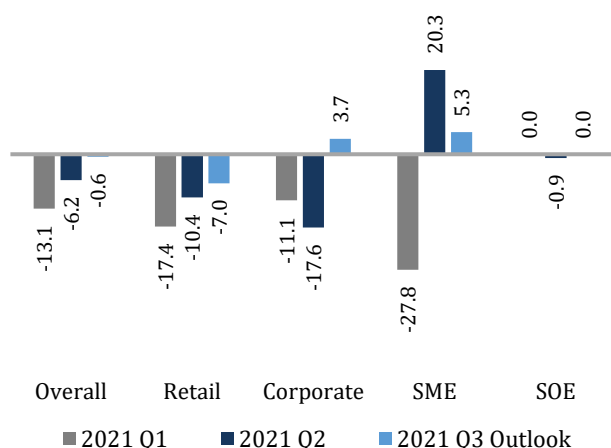
### Non-Performing Loans by Category



- Overall number of NPL increased at a higher pace in 2021 Q2 compared to 2021 Q1.
- Increase in NPL was mainly observed in retail, corporate and SME sectors.
- The increase in NPL could be attributed to the re-emerged difficulties faced by businesses and individuals due to the third wave of COVID-19.
- Meanwhile, NPL are expected to increase at a slower pace in 2021 Q3 amidst concessions extended towards credit facilities in the non-performing category and expected revival of economic activities.

## Rejected Loan Applications

### Rejected Loan Applications by Category



- Overall number of rejected loan applications decreased at a slower pace in 2021 Q2 compared to 2021 Q1 in line with the slowdown in the rate of increase in willingness to lend.
- Rejected loan applications of retail, corporate and SOE categories observed a decline, while that of SME category observed an increase.
- Meanwhile, rejections are expected to decrease further, yet at a slower pace, in 2021 Q3 in line with the expected recovery of the economy.