

# CREDIT SUPPLY SURVEY

(Trends in 3<sup>rd</sup> Quarter 2021 & Outlook for 4<sup>th</sup> Quarter 2021)

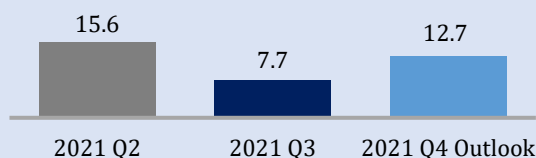


STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

Survey concluded on 15.10.2021

## Executive Summary

### Willingness to Lend



- Banks' overall willingness to lend increased further at a slower pace in 2021 Q3 compared to 2021 Q2.
- This continuous increase in willingness to lend is driven by the availability of liquidity in the market as well as growing demand for credit.
- Nevertheless, banks appetite towards lending is affected to a certain extent by the uncertainty in the business conditions amid the spread of the third wave of COVID-19 pandemic and import related issues.
- Meanwhile, willingness to lend is expected to increase further in 2021 Q4 in line with the expected improvements in economic activities following the relaxation of travel and other restrictions, and the progress of administering vaccination program.

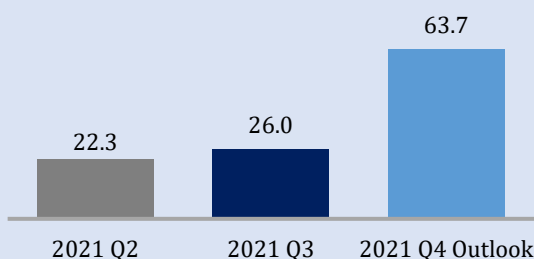
### Key to Interpretation

- *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.

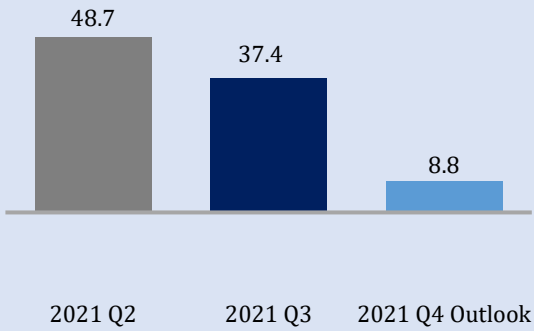
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

### Demand for Loans



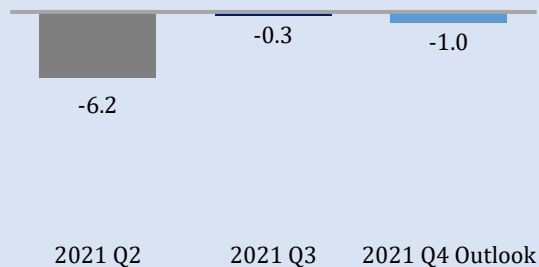
- The overall demand for loans increased at a higher pace in 2021 Q3 compared to 2021 Q2 despite the travel restrictions imposed to contain the spread of the third wave of COVID-19 pandemic.
- This continuous increase in demand for loans is driven by the low lending interest rates, the financing needs faced by individuals and businesses due to continued effects of the COVID-19 pandemic and the increase in credit obtained by the public sector.
- Meanwhile, demand for loans is expected to increase at a higher pace in 2021 Q4 with the anticipated normalization of economic activities amid the relaxation of travel restrictions.

## Non-Performing Loans (NPL)



- The overall number of NPL increased, yet at a slower pace, in 2021 Q3 compared to 2021 Q2.
- The deterioration in the credit quality is due to the financial difficulties faced by the borrowers amid the disruptions to their business or income generating activities amid the COVID-19 pandemic induced restrictions and difficulties.
- Meanwhile, NPL are expected to increase, yet at a substantially slower pace, in 2021 Q4 supported by the relaxation of restrictions and extended concessions to affected parties.

## Rejected Loan Applications

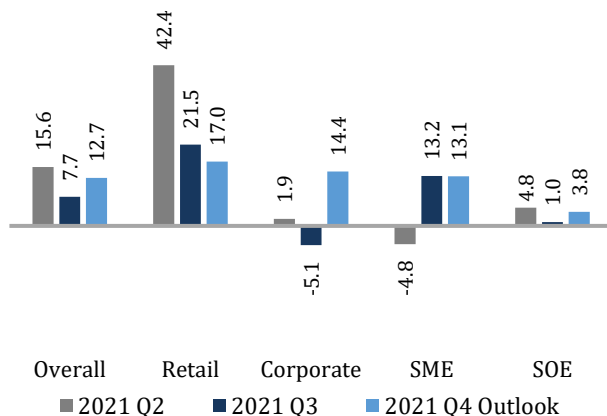


- The overall number of rejected loan applications decreased at a slower pace in 2021 Q3 compared to 2021 Q2 in line with the slowdown in the rate of increase in willingness to lend.
- Meanwhile, rejections are expected to decrease further at a higher pace in 2021 Q4 in line with the expected improvements in willingness to lend supported by the progresses in economic activities.

## Detailed Report

### Willingness to Lend

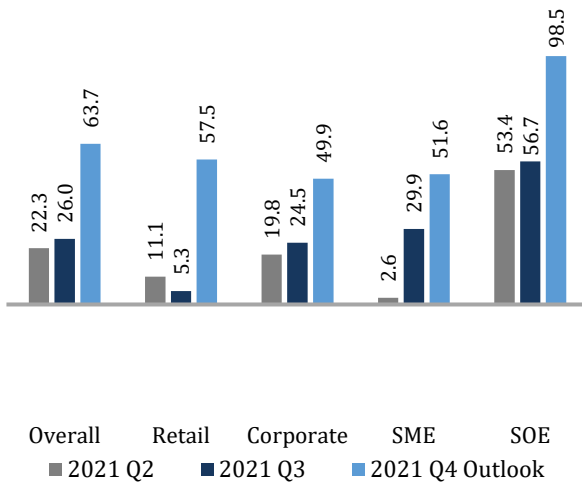
#### Willingness to Lend by Category



- Banks' overall willingness to lend increased further at a slower pace in 2021 Q3 compared to 2021 Q2.
- This increase was supported by the increase in willingness to lend towards retail, SME and SOE categories.
- This continuous increase in willingness to lend is driven by the availability of liquidity in the market as well as growing demand for credit.
- Nevertheless, banks appetite towards lending is affected to a certain extent by the uncertainty in the business conditions amid the spread of the third wave of COVID-19 pandemic and import related issues.
- Meanwhile, willingness to lend is expected to increase further in 2021 Q4 in line with the expected improvements in economic activities following the relaxation of travel and other restrictions, and the progress of administering vaccination program.

## Demand for Loans

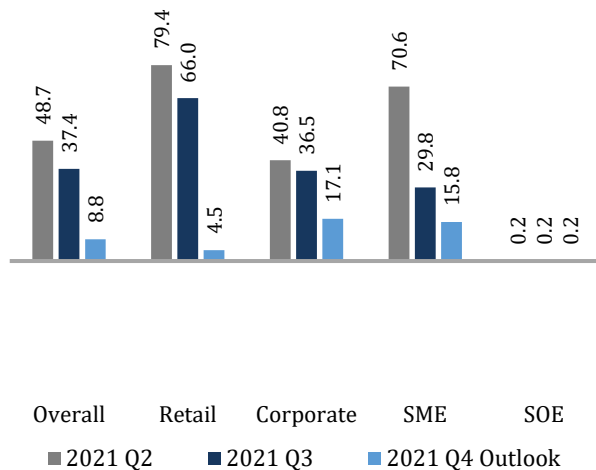
### Demand for Loans by Category



- The overall demand for loans increased at a higher pace in 2021 Q3 compared to 2021 Q2 despite the travel restrictions imposed to contain the spread of the third wave of COVID-19 pandemic.
- Increase in demand for loans was observed across all lending categories, specifically in the SOE category.
- This continuous increase in demand for loans is driven by the low lending interest rates, the financing needs faced by individuals and businesses due to continued effects of the COVID-19 pandemic and the increase in credit obtained by the public sector.
- Meanwhile, loans demanded by the corporate category for the purposes of working capital increased, while that of business expansions and debt restructuring declined in 2021 Q3.
- Meanwhile, demand for loans is expected to increase at a higher pace in 2021 Q4 with the anticipated normalization of economic activities amid the relaxation of travel restrictions.

## Non-Performing Loans (NPL)

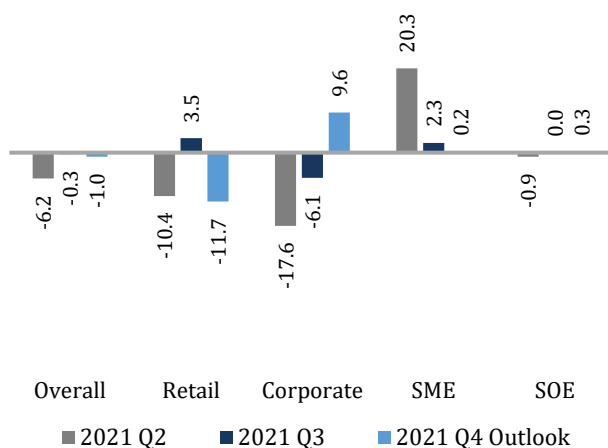
### Non-Performing Loans by Category



- The overall number of NPL increased, yet at a slower pace, in 2021 Q3 compared to 2021 Q2.
- Increase in NPL was mainly observed in retail, corporate and SME sectors.
- The deterioration in the credit quality is due to the financial difficulties faced by the borrowers amid the disruptions to their business or income generating activities amid the COVID-19 pandemic induced restrictions and difficulties.
- Meanwhile, NPL are expected to increase, yet at a substantially slower pace, in 2021 Q4 supported by the relaxation of restrictions and extended concessions to affected parties.

## Rejected Loan Applications

### Rejected Loan Applications by Category



- The overall number of rejected loan applications decreased at a slower pace in 2021 Q3 compared to 2021 Q2 in line with the slowdown in the rate of increase in willingness to lend.
- Rejected loan applications of retail and SME categories observed an increase, while that of corporate category observed a decline.
- Meanwhile, rejections are expected to decrease further at a higher pace in 2021 Q4 in line with the expected improvements in willingness to lend supported by the progresses in economic activities.