

Determinants of Commercial Banks' Lending Behavior in Sri Lanka

Gimhana, K.P.S.¹ Weerasinghe, W.D.J.D.²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

ksasindu1@gmail.com¹, damindaj@kln.ac.lk²

ABSTRACT

Purpose: This study aims to examine the determinants of lending behavior of commercial banks in the Sri Lanka. Commercial banks are critical to the growth and prosperity of the economy. There are 24 commercial banks in Sri Lanka, both locally and internationally owned.

Design/Methodology/Approach: The two theories, Portfolio theory and Bank Lending & Loanable Fund theory have been revisited through this study. Further, two parameters are used to calculate the sample size. They are long-term banking activities, as well as the availability of each bank's data during the time-period under consideration. This study relied on secondary data, and it spanned eleven-year period from 2010 to 2020. The key sources of secondary data for this study are annual reports from local commercial banks and annual reports. Altogether, 23 commercial banks in Sri Lanka sampled for the study. The descriptive statistics, correlation, and multiple regression analysis were used to analyze the collected data.

Findings: The finding implies that commercial banks' lending is dependent on depositor's money. It means that as the ability of the bank to mobilize more deposits, the amount of loan granted to the customer will improve.

Originality: It is investigated that to attain profitability and liquidity, Sri Lankan commercial banks should improve their methods for mobilizing public deposits and build a robust liquidity management mechanism, according to the report.

Keywords: *Loans and Advances, Liquidity, Volume of Deposits, Capital Adequacy, Interest Rate, Asset Quality*