CREDIT SUPPLY SURVEY

(Trends in 1st Quarter 2022 & Outlook for 2nd Quarter 2022)
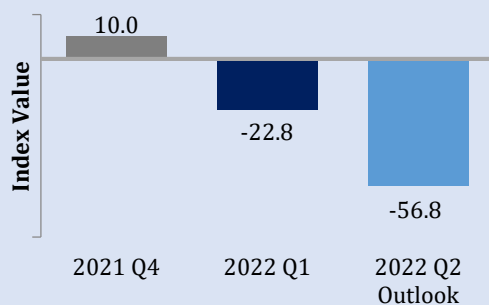
STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

Survey concluded on 20.04.2022

Executive Summary

Willingness to Lend

- For the first time since 2020 Q1, banks' overall willingness to lend declined in 2022 Q1 compared to 2021 Q4.

- This decline in willingness to lend was due to the negative business outlook attributable to the continuous disruptions to business operations caused by power outages, fuel shortages, and scarcity and increase in costs of input materials. Further, the reduced purchasing power of the consumers and related deterioration in their repayment capacities also affected the willingness to lend negatively. In addition, lending appetite is also affected by the foreign currency liquidity shortages in the market.

- Meanwhile, willingness to lend is expected to decline further at a significantly higher pace in 2022 Q2 due to the continued uncertainties amid the political, social and economic instability in the country along with the significant increase in policy rates and resulting tighter liquidity.

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 slightly higher pace in 2022 Q1 compared to 2021 Q4.

- This continuous increase in demand for loans was driven by the improvement in economic activities in 2022 Q1 and the attractive lending rates. In addition, the increased working capital requirements due to surging cost of inputs and increased demand for retail loans due to rising prices of consumable also contributed towards this increase.

- Nevertheless, demand for loans is expected to decline significantly in 2022 Q2 in line with the significant increase in policy rates, and deterioration in repayment capacities due to subdued economic activities and soaring inflation.
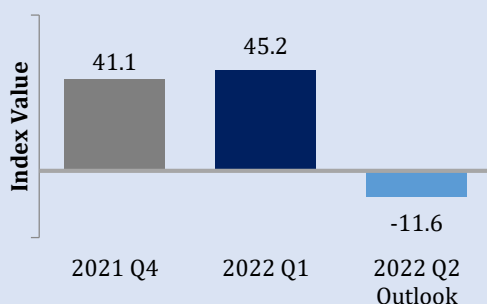
Non-Performing Loans (NPL)
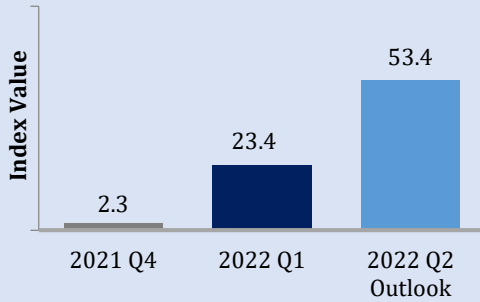
- The overall number of NPL increased at a higher pace, in 2022 Q1 compared to 2021 Q4.
- Deterioration of repayment capacities with the increase in cost of living and continuous disruptions to business operations, and expiration of moratorium facilities drove this considerable increase in NPL.
- Meanwhile, NPL are expected to increase at a significantly higher pace in 2022 Q2 with the further deteriorations in repayment capacities due to the unfavourable economic situation in the country.

## Rejected Loan Applications
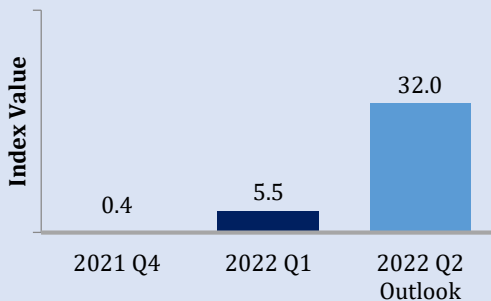
- The overall number of rejected loan applications increased slightly in 2022 Q1 compared to 2021 Q4.
- Meanwhile, rejections are projected to increase further at a higher pace in 2022 Q2 as the lending parameters are expected to be tightened along with low disposable income and declining repayment capacities of the borrowers amid the economic, social and political instability in the country.

Detailed Report

Willingness to Lend

Willingness to Lend by Category
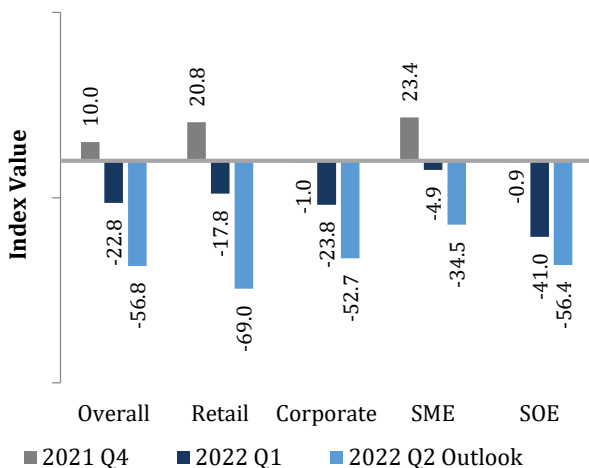
- For the first time since 2020 Q1, banks' overall willingness to lend declined in 2022 Q1 compared to 2021 Q4.
- This decline in overall willingness to lend was driven by the declines in willingness to lend towards all the categories namely, retail, corporate, SME and SOE.
- The highest rate of decline in willingness to lend was towards the SOE category, whereas the lowest rate of decline in willingness to lend was towards the SME category.
- Meanwhile, banks' overall willingness to lend is expected to decline further at a significantly higher pace in 2022 Q2.

Demand for Loans by Category
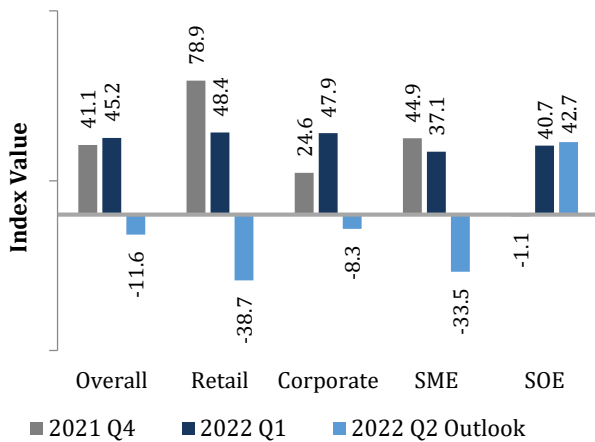
Index Value

2021 Q4: 41.1 | 2022 Q1: 45.2 | 2022 Q2 Outlook: -11.6 (Overall)
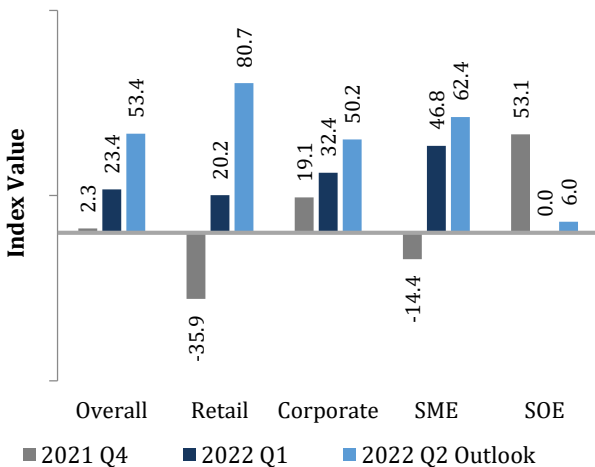2021 Q4: 78.9 | 2022 Q1: 48.4 | 2022 Q2 Outlook: -38.7 (Retail)
2021 Q4: 24.6 | 2022 Q1: 47.9 | 2022 Q2 Outlook: -8.3 (Corporate)
2021 Q4: 44.9 | 2022 Q1: 37.1 | 2022 Q2 Outlook: -33.5 (SME)
2022 Q1: 40.7 | 2022 Q2 Outlook: 42.7 | -1.1 (SOE)

Overall   Retail   Corporate   SME   SOE

■ 2021 Q4   ■ 2022 Q1   ■ 2022 Q2 Outlook

- The overall demand for loans increased at a slightly higher pace in 2022 Q1 compared to 2021 Q4.
- This increase in overall demand for loans is due to the increase in demand for loans from all lending categories.
- Accordingly, the loans demanded by the retail category increased at the highest pace due to attractive lending rates besides rising inflation and low purchasing power.
- Meanwhile, loans demanded by the corporate category for the purposes of working capital and debt restructuring increased, while that of business expansions declined.
- Nevertheless, overall demand for loans is expected to decline significantly in 2022 Q2 mainly due to the significant increase in lending rates.
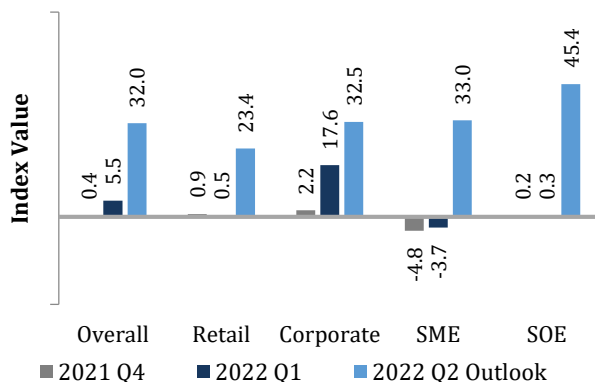
Non-Performing Loans by Category

Index Value

2021 Q4: 2.3 | 2022 Q1: 23.4 | 2022 Q2 Outlook: 53.4 (Overall)
2021 Q4: -35.9 | 2022 Q1: 20.2 | 2022 Q2 Outlook: 80.7 (Retail)
2021 Q4: 19.1 | 2022 Q1: 32.4 | 2022 Q2 Outlook: 50.2 (Corporate)
2021 Q4: -14.4 | 2022 Q1: 46.8 | 2022 Q2 Outlook: 62.4 (SME)
2022 Q1: 53.1 | 2021 Q4: 0.0 | 2022 Q2 Outlook: 6.0 (SOE)

Overall   Retail   Corporate   SME   SOE

■ 2021 Q4   ■ 2022 Q1   ■ 2022 Q2 Outlook

- The overall number of NPL increased at a higher pace, in 2022 Q1 compared to 2021 Q4.
- This increase in overall number of NPL was attributable to the increase in NPL observed across SME, corporate and retail categories, respectively, due to the continuous adversities faced by both individuals and businesses as well as expiration of moratorium facilities.
- Meanwhile, overall number of NPL are expected to increase at a significantly higher pace in 2022 Q2.

Rejected Loan Applications by Category

Index Value

2021 Q4: 0.4 | 2022 Q1: 5.5 | 2022 Q2 Outlook: 32.0 (Overall)
2021 Q4: 0.9 | 2022 Q1: 0.5 | 2022 Q2 Outlook: 23.4 (Retail)
2021 Q4: 2.2 | 2022 Q1: 17.6 | 2022 Q2 Outlook: 32.5 (Corporate)
2021 Q4: -4.8 | 2022 Q1: -3.7 | 2022 Q2 Outlook: 33.0 (SME)
2021 Q4: 0.2 | 2022 Q1: 0.3 | 2022 Q2 Outlook: 45.4 (SOE)

Overall   Retail   Corporate   SME   SOE

■ 2021 Q4   ■ 2022 Q1   ■ 2022 Q2 Outlook

- The overall number of rejected loan applications increased slightly in 2022 Q1 compared to 2021 Q4.
- Accordingly, rejected loan applications of retail, corporate and SOE categories observed an increase, while that of SME category observed a decline.
- Meanwhile, rejections are expected to increase further at a higher pace in 2022 Q2 in line with the anticipated significant increases in rejected loan applications related to all categories because of the expected tightening of lending parameters.