CREDIT SUPPLY SURVEY

(Trends in 2nd Quarter 2022 & Outlook for 3rd Quarter 2022)
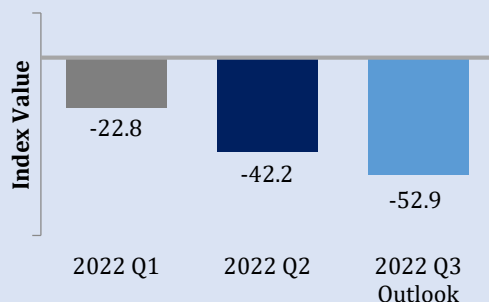
**STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA**

Survey concluded on 26.07.2022

Executive Summary

Willingness to Lend

- Banks' overall willingness to lend continued to decline at a higher pace in 2022 Q2 compared to 2022 Q1.

Index Value

-22.8 — 2022 Q1
-42.2 — 2022 Q2
-52.9 — 2022 Q3 Outlook

- This decline in willingness to lend was mainly driven by the increase in default risk due to reduced repayment capacities and negative business outlook in account of rising macroeconomic stresses and political turmoil in the country.
- Further, the appetite towards lending was also negatively affected by the increase in cost of funding, and domestic and foreign liquidity pressures.
- Meanwhile, willingness to lend is expected to decline further at a higher pace in 2022 Q3 due to the possibility of further tightening the monetary policy and the worsening situation of the country.

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
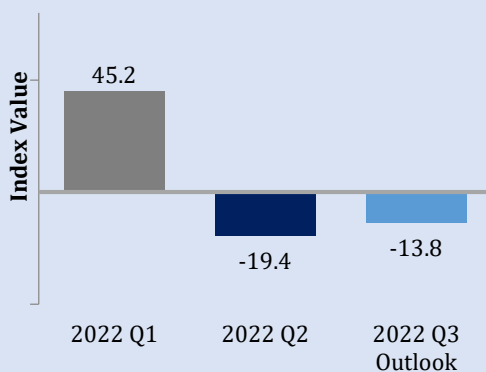
Index Value

45.2 — 2022 Q1
-19.4 — 2022 Q2
-13.8 — 2022 Q3 Outlook

- For the first time since 2020 Q2, the overall demand for loans declined in 2022 Q2 compared to 2022 Q1.
- This decline in demand for loans was mainly driven by the significant increase in lending rates during the quarter.
- In addition, less growth in new investments and expansions due to the adverse economic conditions, and less disposable income also led the reduction in demand for loans.
- Meanwhile, demand for loans is expected to decline further, yet at a slower pace, in 2022 Q3 in line with the expected further increases in lending rates, deterioration in repayment capacities and subdued economic activities.

Non-Performing Loans (NPL)
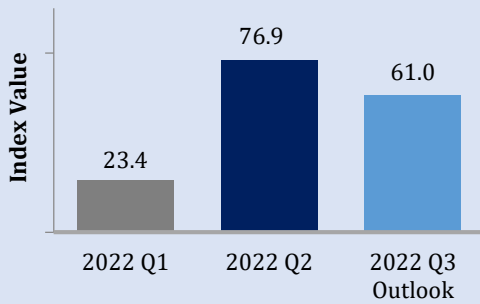
- The overall number of NPL continued to increase at a higher pace in 2022 Q2 compared to 2022 Q1.
- Reduction in repayment capacities due to loss of income streams, rising inflation and downturn in business activities amid economic woes led this considerable increase in NPL.
- Meanwhile, NPL are expected to continuously increase, yet at a slower pace, in 2022 Q3 with the further deteriorations in economic conditions, despite the concessions directed by the CBSL.

Rejected Loan Applications
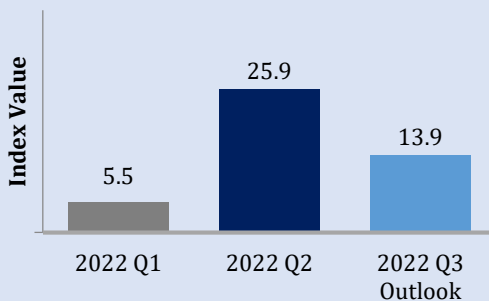
- The overall number of rejected loan applications increased at a higher pace in 2022 Q2 compared to 2022 Q1 in line with tightening of credit criteria.
- Meanwhile, rejections are projected to increase further, yet at a slower pace, in 2022 Q3 due to further tightenings of lending parameters amid liquidity constraints, reduction in repayment capacities and various uncertainties associated with the political and economic distresses in the country.

Detailed Report

Willingness to Lend

Willingness to Lend by Category
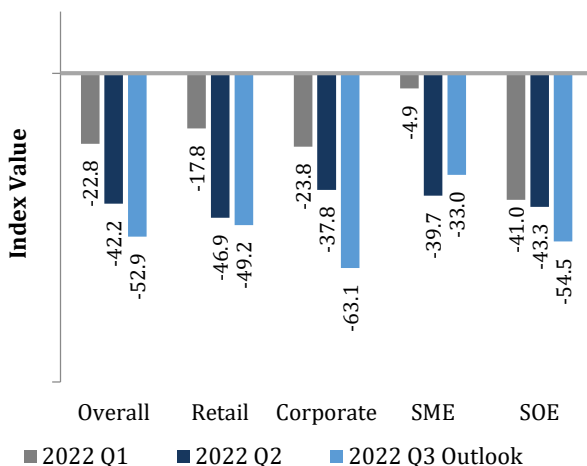
- Banks' overall willingness continued to decline at a higher pace in 2022 Q2 compared to 2022 Q1.
- This decline in overall willingness to lend was driven by the declines in willingness to lend towards all the categories namely, retail, corporate, SME and SOE.
- The highest rate of decline in willingness to lend was towards the retail category, whereas the lowest rate of decline in willingness to lend was towards the corporate category.
- Meanwhile, banks' overall willingness to lend is expected to decline further at a higher pace in 2022 Q3 in line with the declines expected towards all categories.

Demand for Loans

Demand for Loans by Category
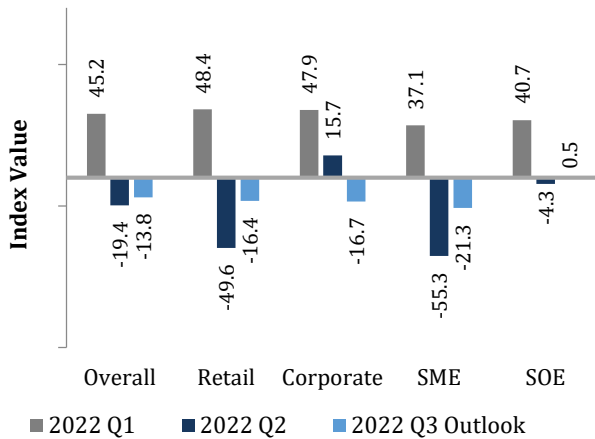
- For the first time since 2020 Q2, the overall demand for loans declined in 2022 Q2 compared to 2022 Q1.
- This decline in overall demand for loans is due to the decline in demand for loans from retail, SME and SOE categories.
- Nevertheless, loans demanded by the corporate category increased at a slower pace due to increases observed in demand for loans for the purposes of working capital and debt restructuring. However, loans demanded for business expansions by the corporate category declined.
- Meanwhile, overall demand for loans is expected to decline further, yet at a slower pace in 2022 Q3, with the expected declines in demand for loans from retail, corporate and SME categories.

Non-Performing Loans (NPL)

Non-Performing Loans by Category
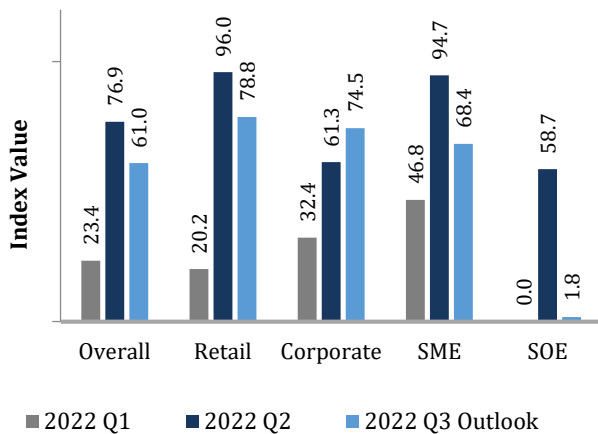
- The overall number of NPL continued to increase at a higher pace in 2022 Q2 compared to 2022 Q1.
- This increase in overall number of NPL was attributable to the increase in NPL observed across all categories.
- The highest increases in NPL were observed in retail and SME categories, respectively.
- Meanwhile, overall number of NPL are expected to continuously increase, yet at a slower pace, in 2022 Q3 with further increases in NPL expected especially in retail, corporate and SME categories.

Rejected Loan Applications

Rejected Loan Applications by Category
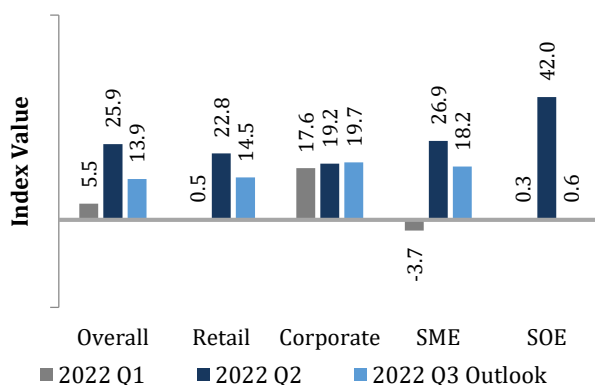
- The overall number of rejected loan applications increased at a higher pace in 2022 Q2 compared to 2022 Q1 in line with the decline in willingness to lend.
- Accordingly, an increase in rejected loan applications was observed across all categories.
- Meanwhile, rejected loan applications are projected to increase further, yet at a slower pace, in 2022 Q3 in line with the anticipated increases in rejected loan applications especially related to retail, corporate and SME categories.