CREDIT SUPPLY SURVEY

(Trends in 3rd Quarter 2022 & Outlook for 4th Quarter 2022)
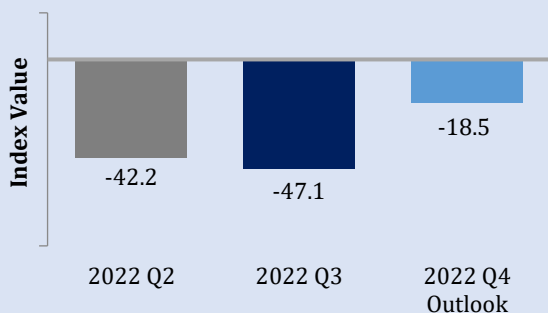
Executive Summary

Willingness to Lend

- Banks' overall willingness to lend continued to decline at a higher pace in 2022 Q3 compared to 2022 Q2.

- This decline in willingness to lend was mainly driven by the deteriorations in the credibility due to reduced repayment capacities resulted by high inflation and weaker economic conditions.

- In addition, domestic and foreign liquidity constraints continued to have negative effects on the willingness to lend.

- Meanwhile, willingness to lend is expected to decline further, yet at a slower pace, in 2022 Q4 due to further decreases in disposable income amid weaker economic outlook, high inflation and increase in taxation.

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
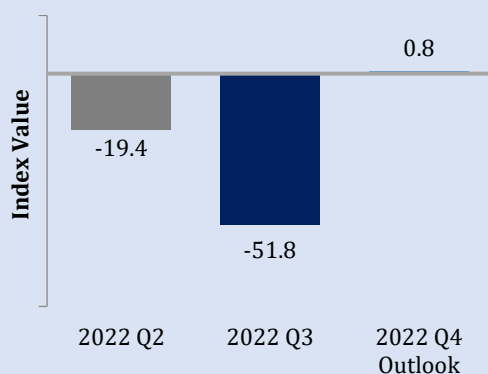
- The overall demand for loans declined further at a higher pace in 2022 Q3 compared to 2022 Q2.
- This continued decline in demand for loans is mainly due to the prevailing high lending rates.
- In addition, the significant reductions in disposable income and curtailment of new investments and expansions due to the adverse economic conditions also led the reduction in demand for loans.
- Nevertheless, demand for loans is expected to increase, yet at a very low rate, in 2022 Q4 due to liquidity shortages and high working capital requirements faced by corporates and government institutions.

Non-Performing Loans (NPL)
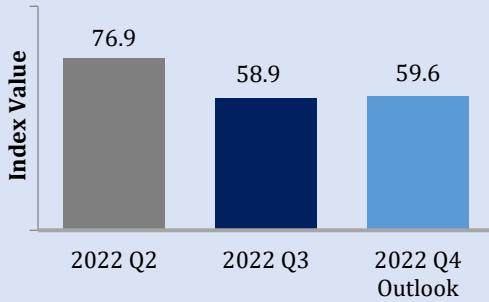
- The overall number of NPL continued to increase at a slower pace in 2022 Q3 compared to 2022 Q2.
- Reduction in repayment capacities due to loss of income streams, high inflation and low performance of businesses led this further increase in NPL.
- Meanwhile, NPL are expected to continuously increase at a slightly higher pace in 2022 Q4 with the further reductions in disposable income especially with the increases in taxes and high inflation.

Rejected Loan Applications
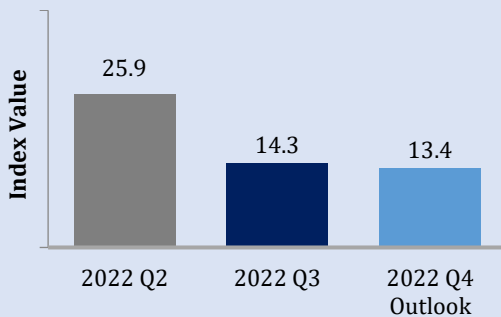
- The overall number of rejected loan applications increased at a slower pace in 2022 Q3 compared to 2022 Q2 in line with tightening of credit criteria.
- Meanwhile, rejections are projected to increase further at a slightly slower pace in 2022 Q4 due to tight liquidity in the banking system and concerns over debt servicing abilities amid further reductions in repayment capacities.

Detailed Report

Willingness to Lend

Willingness to Lend by Category
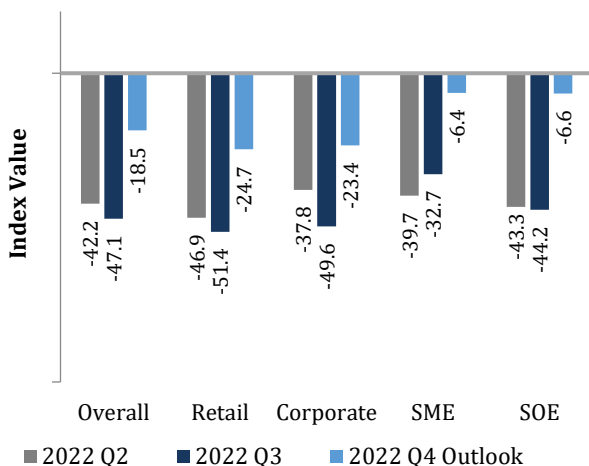
- Banks' overall willingness to lend continued to decline at a higher pace in 2022 Q3 compared to 2022 Q2.
- This decline in overall willingness to lend was driven by the declines in willingness to lend towards all the categories namely, retail, corporate, SME and SOE.
- The highest rate of decline in willingness to lend was towards the retail category, whereas the lowest rate of decline in willingness to lend was towards the SME category.
- Meanwhile, willingness to lend is expected to decline further, yet at a slower pace, in 2022 Q4 in line with further declines expected mainly towards retail and corporate categories.

Demand for Loans

Demand for Loans by Category
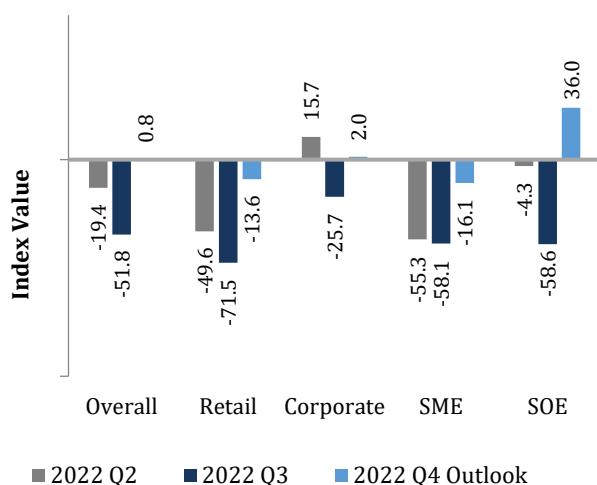
Index Value

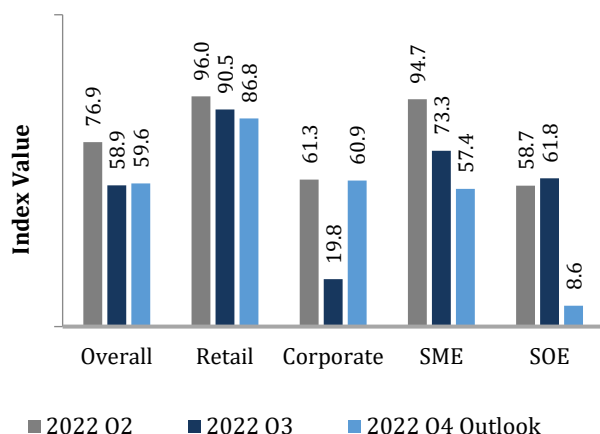|	Overall	Retail	Corporate	SME	SOE
2022 Q2	-19.4	-49.6	15.7	-55.3	-4.3
2022 Q3	-51.8	-71.5	-25.7	-58.1	-58.6
2022 Q4 Outlook	0.8	-13.6	2.0	-16.1	36.0

■ 2022 Q2   ■ 2022 Q3   ■ 2022 Q4 Outlook

- The overall demand for loans declined further at a higher pace in 2022 Q3 compared to 2022 Q2.
- This decline in overall demand for loans is due to the decline in demand for loans from all the categories.
- Nevertheless, demand for loans is expected to increase, even at a very low rate in 2022 Q4, with the expected increases in demand for loans from corporate and SOE categories due to liquidity shortages and high working capital requirements.
- However, demand for loans from retail and SME categories are expected to decline further in 2022 Q4 due to high lending rates and deterioration in repayment capacities amid subdued economic activities, high inflation and increase in taxes.
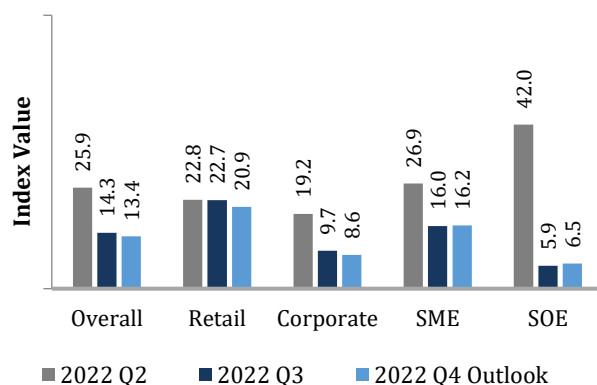
Non-Performing Loans (NPL)

Non-Performing Loans by Category

Index Value

	Overall	Retail	Corporate	SME	SOE
2022 Q2	76.9	96.0	61.3	94.7	58.7
2022 Q3	58.9	90.5	19.8	73.3	61.8
2022 Q4 Outlook	59.6	86.8	60.9	57.4	8.6

■ 2022 Q2   ■ 2022 Q3   ■ 2022 Q4 Outlook

- The overall number of NPL continued to increase at a slower pace in 2022 Q3 compared to 2022 Q2.
- This increase in overall number of NPL was attributable to the increase in NPL observed across all categories.
- Further, a significant increase in NPL were observed in retail and SME categories due to disruptions to their income flows.
- Meanwhile, NPL are expected to continuously increase at a slightly higher pace in 2022 Q4 with further increases in NPL expected especially in retail, corporate and SME categories.

Rejected Loan Applications

Rejected Loan Applications by Category

Index Value

	Overall	Retail	Corporate	SME	SOE
2022 Q2	25.9	22.8	19.2	26.9	42.0
2022 Q3	14.3	22.7	9.7	16.0	5.9
2022 Q4 Outlook	13.4	20.9	8.6	16.2	6.5

■ 2022 Q2   ■ 2022 Q3   ■ 2022 Q4 Outlook

- The overall number of rejected loan applications increased at a slower pace in 2022 Q3 compared to 2022 Q2 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 at a slightly slower pace in 2022 Q4 in line with the anticipated increases in rejected loan applications related to all categories.