

# CREDIT SUPPLY SURVEY

(Trends in 4<sup>th</sup> Quarter 2022 & Outlook for 1<sup>st</sup> Quarter 2023)



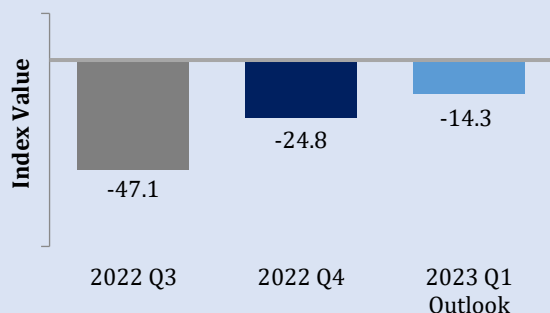
STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

Survey concluded on 26.01.2023

## Executive Summary

### Willingness to Lend

- Banks' overall willingness to lend continued to decline, yet at a slower pace, in 2022 Q4 compared to 2022 Q3.



- This decline in willingness to lend was mainly due to deteriorating creditworthiness amid reduced repayment capacities as a result of high inflation and declining income levels.
- In addition, LKR and USD liquidity constraints, and ongoing moratoriums and loan restructurings continued to have a negative impact on the willingness to lend.
- Meanwhile, the willingness to lend is expected to decline at a slower pace in 2023 Q1 due to adverse impact of tax hikes on disposable income, despite positive sentiments on easing of inflation.

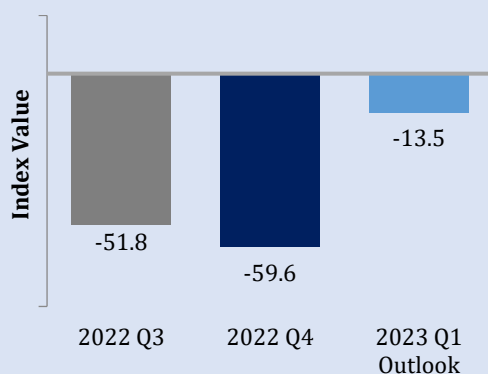
### Key to Interpretation

- 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.

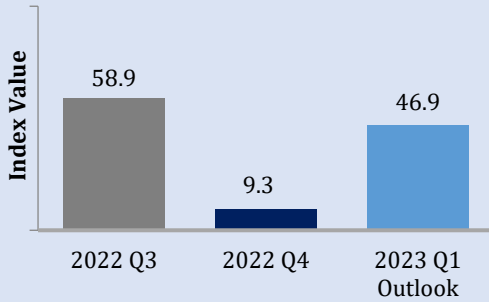
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

### Demand for Loans



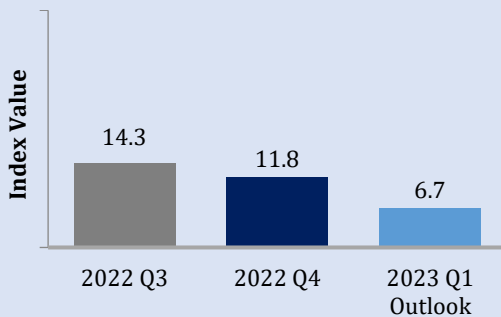
- The overall demand for loans declined further at a higher pace in 2022 Q4 compared to 2022 Q3.
- This continued decline in demand for loans is specifically due to the prevailing high lending rates.
- Despite expectations of a policy rate cut, demand for loans is expected to decline at a slower rate in 2023 Q1.
- The significant decline in disposable income and curtailment of new investments and expansions amid prevailing weak economic conditions and new tax structure is contributing towards this continued decline in demand for credit.

## Non-Performing Loans (NPL)



- The overall number of NPL continued to increase at a slower pace in 2022 Q4 compared to 2022 Q3.
- Reductions in disposable income due to inflation and adverse economic conditions led this increase in NPL.
- However, the increase was subdued to a greater extent due to reduction in NPL in the Retail category.
- Meanwhile, NPL are expected to increase at a significantly higher pace in 2023 Q1 in line with the expiration of moratorium and further reductions in disposable income due to the new tax structure.

## Rejected Loan Applications

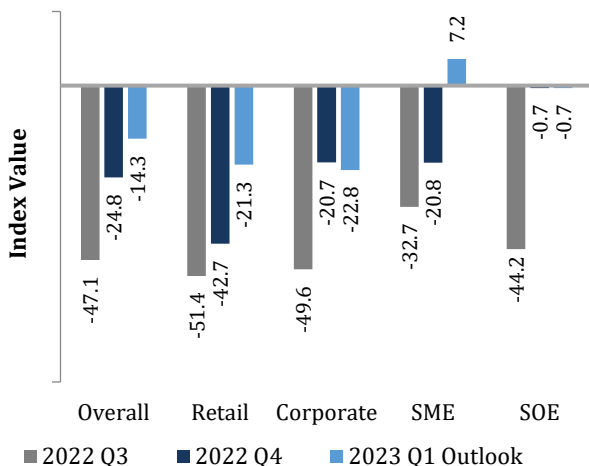


- The overall number of rejected loan applications increased at a slower pace in 2022 Q4 compared to 2022 Q3.
- This increase was driven by further tightening of lending parameters in line with reduced willingness to lend.
- Meanwhile, rejected loan applications are projected to rise further at a slower pace in 2023 Q1 due to liquidity constraints and concerns over debt servicing abilities amid further reductions in repayment capacities.

## Detailed Report

### Willingness to Lend

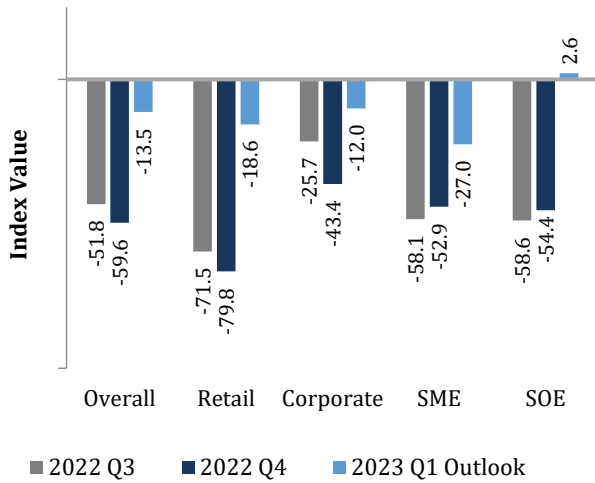
#### Willingness to Lend by Category



- Banks' overall willingness to lend continued to decline, yet at a slower pace, in 2022 Q4 compared to 2022 Q3.
- 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 SOE category.
- Meanwhile, the willingness to lend is expected to decline further at a slower pace in 2023 Q1 in line with further declines expected mainly towards corporate and retail categories.

## Demand for Loans

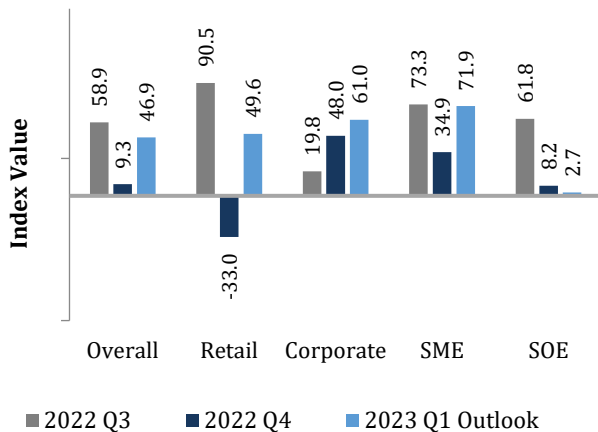
### Demand for Loans by Category



- The overall demand for loans declined further at a higher pace in 2022 Q4 compared to 2022 Q3.
- This decline in overall demand for loans is due to the decline in demand for loans from all the categories.
- Loans demanded by the corporate category decreased due to decrease observed in demand for loans for business expansions. However, loans demanded for the purpose of debt restructuring increased, while for the purpose of working capital remained unchanged.
- Demand for loans is expected to increase at a slower rate in 2023 Q1, with the expected decreases in demand for loans from retail, corporate and SME categories in line with further deteriorations in repayment capacities.

## Non-Performing Loans (NPL)

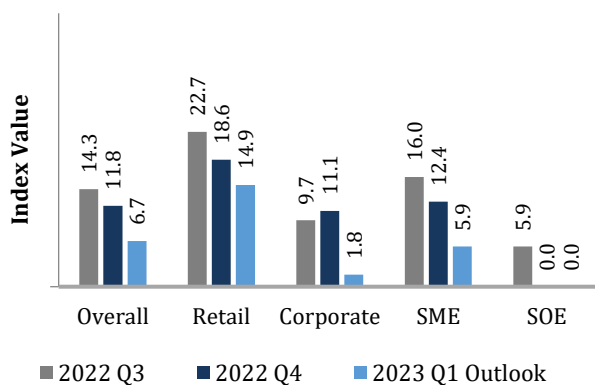
### Non-Performing Loans by Category



- The overall number of NPL continued to increase at a slower pace in 2022 Q4 compared to 2022 Q1.
- This increase in overall number of NPL was attributable to the increase in NPL observed across corporate, SME and SOE categories.
- However, a decrease in NPL was observed in the retail category.
- Meanwhile, NPL are expected to increase at a significantly higher pace in 2023 Q1 with further increases 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 slower pace in 2022 Q4 compared to 2022 Q3 in line with the decline in willingness to lend.
- Accordingly, an increase in rejected loan applications was observed across retail, corporate and SME categories.
- Meanwhile, rejected loan applications are projected to rise further at a slower pace in 2023 Q1 in line with the anticipated increases in rejected loan applications related to same categories.