CREDIT SUPPLY SURVEY

(Trends in 2ⁿᵈ Quarter 2023 & Outlook for 3ʳᵈ Quarter 2023)

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on all lending categories are obtained.
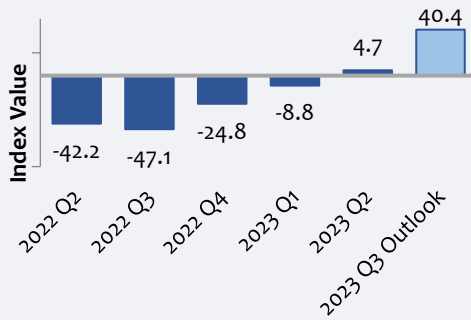
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

- *Index value > 0 : increase*
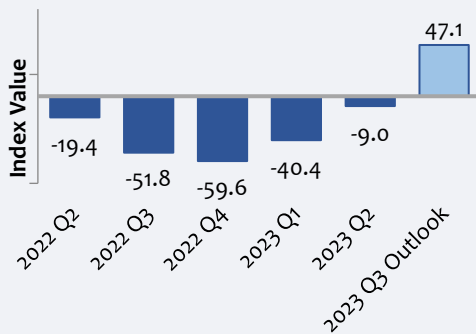- *Index value < 0 : decrease*
- *Index value = 0 : unchanged*

On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend

Bar chart — Index Value:
- 2022 Q2: -42.2
- 2022 Q3: -47.1
- 2022 Q4: -24.8
- 2023 Q1: -8.8
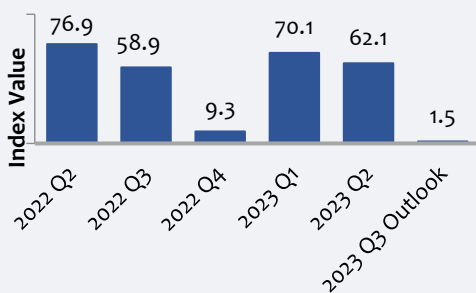- 2023 Q2: 4.7
- 2023 Q3 Outlook: 40.4

- During 2023 Q2, the willingness to lend in the banking sector increased marginally compared to the previous quarter.
- Willingness to lend is expected to increase during 2023 Q3, at a much higher pace than the increase observed during 2023 Q2.
- Improvements in general economic conditions and revival of business climate have led to this increase in willingness to lend among banks.

Demand for Loans

Bar chart — Index Value:
- 2022 Q2: -19.4
- 2022 Q3: -51.8
- 2022 Q4: -59.6
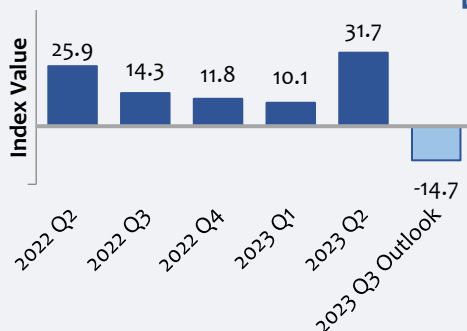- 2023 Q1: -40.4
- 2023 Q2: -9.0
- 2023 Q3 Outlook: 47.1

- Demand for loans declined during 2023 Q2, yet at a significantly slower rate compared to that prevailed over the recent past due to upturn in business conditions as well as increased working capital requirements.
- Demand for loans is expected to increase significantly during 2023 Q3.

Non-Performing Loans (NPLs)

Bar chart — Index Value:
- 2022 Q2: 76.9
- 2022 Q3: 58.9
- 2022 Q4: 9.3
- 2023 Q1: 70.1
- 2023 Q2: 62.1
- 2023 Q3 Outlook: 1.5

- Number of NPLs continued to increase during 2023 Q2 as well.
- The main factors that caused this increase were the high financial commitments owing to expiration of concessions offered and difficulties in repayment as a result of higher taxation.
- The level of NPL is expected to increase during 2023 Q3 at a significantly slower pace.


Rejected Loan Applications

Bar chart — Index Value:
- 2022 Q2: 25.9
- 2022 Q3: 14.3
- 2022 Q4: 11.8
- 2023 Q1: 10.1
- 2023 Q2: 31.7
- 2023 Q3 Outlook: -14.7

- The number of rejected loan applications increased significantly during 2023 Q2 due to stringent analysis of credit worthiness as a result of concerns over debt repayment ability of borrowers.
- During 2023 Q3, rejected loan applications are anticipated to decline mainly due to foreseen favorable economic and business conditions and improved confidence in the market.

Willingness to Lend

Willingness to Lend by Category
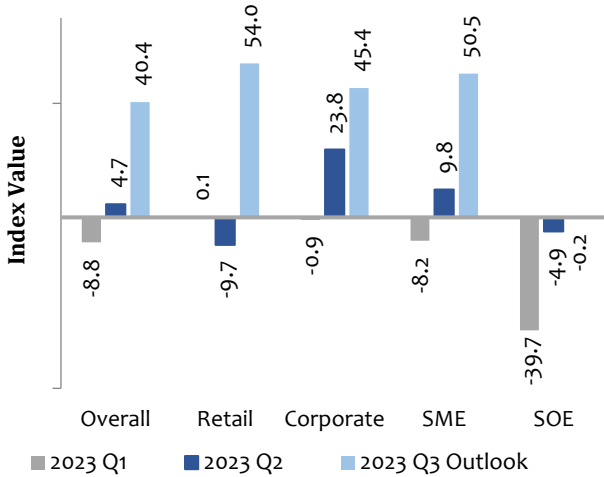
- An improvement could be observed in the overall willingness to lend during 2023 Q2 compared to the previous quarter. This was mainly due to increases observed in the willingness to lend to the corporate and SME sectors, where the highest increase is seen in the corporate sector.
- The overall improvements in the economic and business climate along with positive outlook in several industry sectors contributed towards this increase. At the same time, with the observed and expected economic improvements, banks are expanding lending avenues.
- During 2023 Q3, the willingness to lend is expected to increase at a higher pace in retail, corporate and SME sectors.
- Easing of interest rates is expected to create more lending avenues while banks' ability to access market financing is also expected to improve along with favorable foreign currency and overall liquidity positions. These factors have driven the anticipated increase in willingness to lend during 2023 Q3.
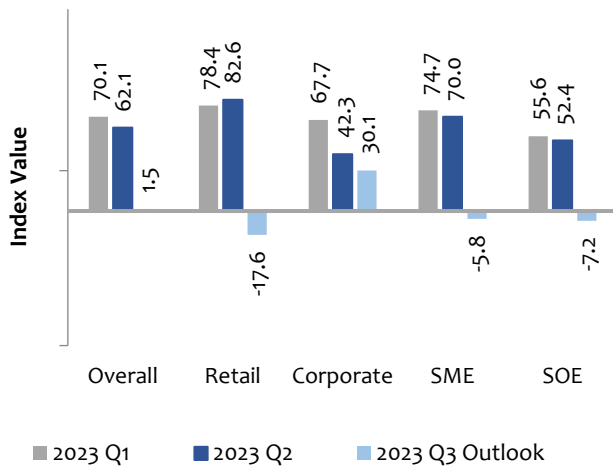
Demand for Loans

Demand for Loans by Category
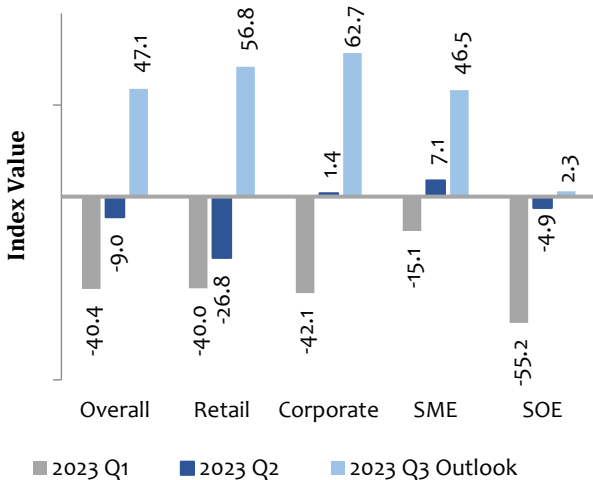
- The overall demand for loans decreased during 2023 Q2, though at a very slow rate, mainly driven by the drop observed in the retail sector.
- Lower disposable income owing to high taxes and high commodity prices has dampened the demand in the retail sector.
- The outlook on the overall demand for loans for 2023 Q3 is positive, with observable increases in retail, corporate and SME sectors.
- The main factor resulting in this increase in expectations is the expected reduction of lending rates. Further, increased working capital requirements arising due to regaining of momentum in commercial activity as well as investments in expansion and diversifications would also stimulate demand for credit.
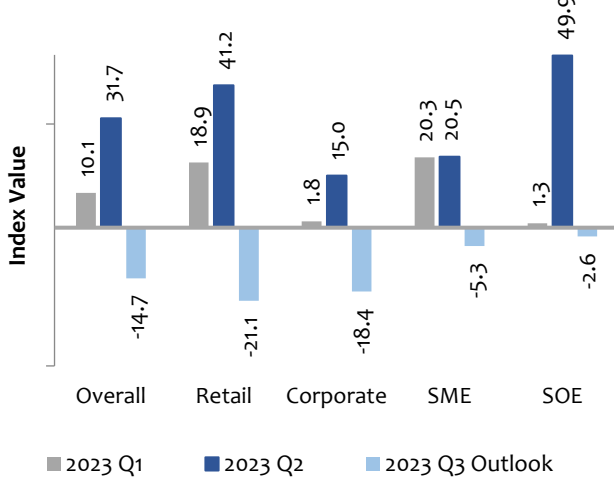
Non-Performing Loans

Non-Performing Loans by Category

Index Value

	2023 Q1	2023 Q2	2023 Q3 Outlook
Overall	70.1	62.1	1.5
Retail	78.4	82.6	-17.6
Corporate	67.7	42.3	30.1
SME	74.7	70.0	-5.8
SOE	55.6	52.4	-7.2

■ 2023 Q1   ■ 2023 Q2   ■ 2023 Q3 Outlook

- During 2023 Q2, the overall NPLs of the banking industry continued to increase.
- This increase was led by all four sectors, where borrowers faced difficulties in repayment as a result of increased taxes and other expenses as well as ending of concessions granted.
- NPLs are anticipated to increase only marginally during 2023 Q3 with an anticipated increase in NPLs of the corporate sector while NPLs of retail, SME and SOE sectors are expected to decline.
- Banks are introducing new repayment plans to customers including rescheduling and restructurings, which coupled with expected further improvements in the economy, will pave way towards easing of NPLs during 2023 Q3.

Rejected Loan Applications

Rejected Loan Applications by Category

Index Value

	2023 Q1	2023 Q2	2023 Q3 Outlook
Overall	10.1	31.7	-14.7
Retail	18.9	41.2	-21.1
Corporate	1.8	15.0	-18.4
SME	20.3	20.5	-5.3
SOE	1.3	49.9	-2.6

■ 2023 Q1   ■ 2023 Q2   ■ 2023 Q3 Outlook

- Rejected loan applications during 2023 Q2 increased compared to the previous quarter, at a significantly high pace, led by all four sectors.
- Stringent credit analysis undertaken by banks with more focus on careful assessment of credit worthiness of customers led to increases observed in loan application rejections across all four sectors.
- It is expected that loan application rejections would reduce during 2023 Q3, across all sectors leading mainly by retail and corporate sectors.
- With reductions in interest rates and upliftment of bans on imports, business conditions are expected to improve thus leading to lower expectations on rejection of loan applications.