

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on all lending categories are obtained.

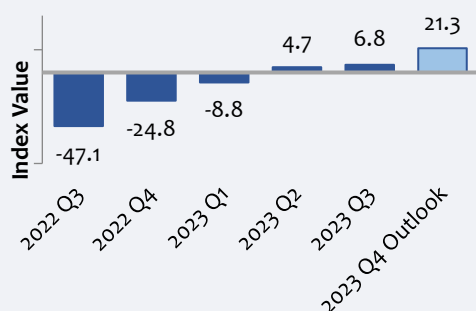
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

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

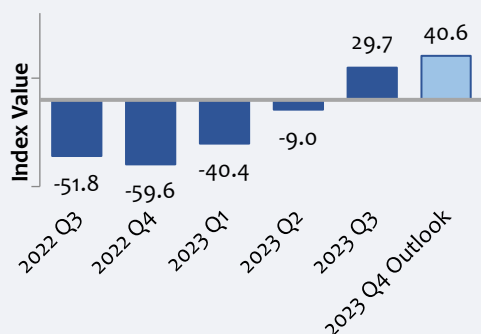
On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend



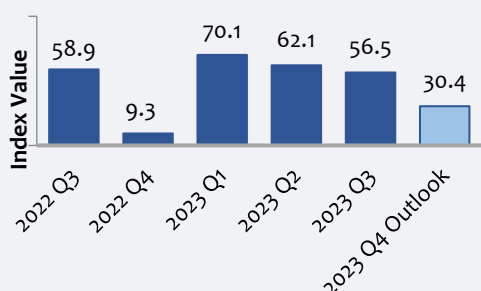
- The willingness to lend in the banking sector increased during 2023 Q3 at a marginally higher pace than the previous quarter.
- It is expected that the willingness to lend will further increase during 2023 Q4, at a significantly higher pace than 2023 Q3.
- These improvements are attributable to the relatively stable economic conditions and expected improvements in the business environment.

Demand for Loans



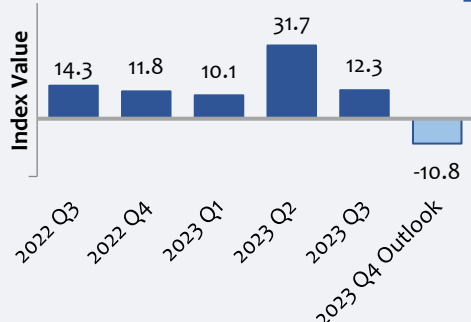
- During 2023 Q3, demand for loans increased compared to the previous quarter in the backdrop of declining lending rates and improved macroeconomic conditions.
- Demand for loans is expected to further increase during 2023 Q4, due to the expected low interest rates and festive seasonal demand.

Non-Performing Loans (NPLs)



- Number of NPLs increased during 2023 Q3, at a marginally lower pace over the previous quarter.
- Factors that contributed towards this increase are the lower disposable income as well as the increased market stress in certain industries.
- NPLs are expected to increase during 2023 Q4 at a slower pace.

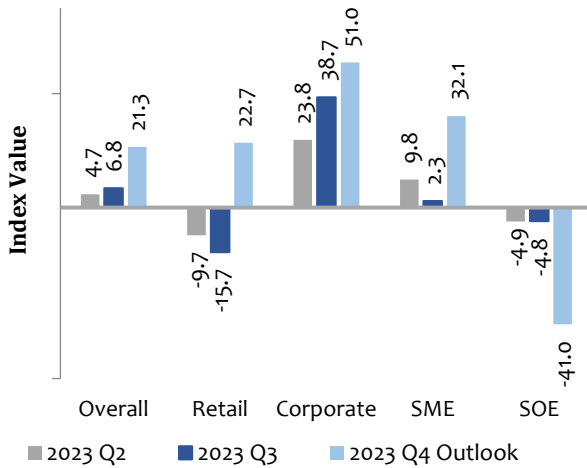
Rejected Loan Applications



- During 2023 Q3, the number of rejected loan applications increased though at a slower pace compared to the previous quarter as a result of conservative debt attitude toward certain sectors.
- Rejected loan applications are anticipated to decline during 2023 Q4.

Willingness to Lend

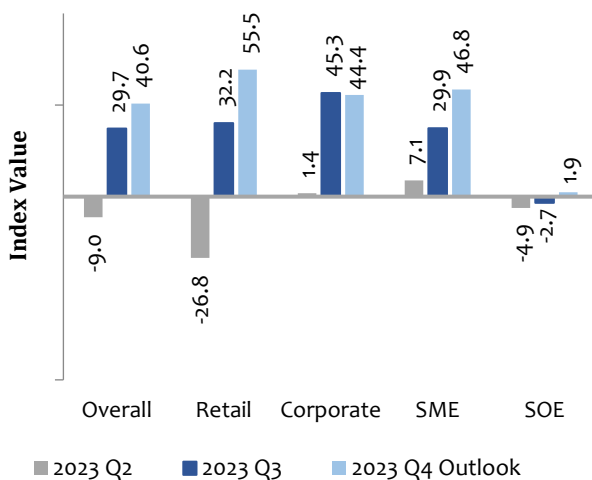
Willingness to Lend by Category



- The observed increase in the willingness to lend in 2023 Q3 was mainly contributed by the improvement observed in the willingness to lend to the corporate sector which accounted for the highest increase, while a marginal increase was observed in the willingness to lend to the SME sector as well.
- General ease of liquidity constraints factored towards the overall increase while, improved foreign currency positions and improved cash flows as well as improvements in sector specific outlooks mainly caused the observed increase in the willingness to lend to the corporate and SME sectors.
- The willingness to lend is expected to increase at a higher pace during 2023 Q4 led by retail, corporate and SME sectors.
- While the uncertainties in settling future commitments have hindered the expected willingness to lend to the SOE sector during 2023 Q4, further improvements expected in the economy coupled with low interest rate environment has fueled the expected increase in the corporate, SME and retail sectors.

Demand for Loans

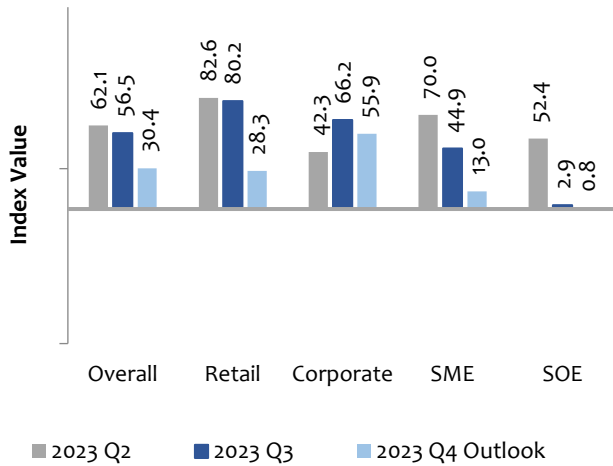
Demand for Loans by Category



- The demand for loans has increased during 2023 Q3, across all sectors except SOE sector.
- Favorable market conditions, improvements in the external front, relaxation of import restrictions as well as the low interest rates have contributed towards these increases.
- At the same time, the outlook on the overall demand for loans for 2023 Q4 remains positive led by increases expected across all sectors.
- Higher working capital requirements owing to favorable market conditions and festive seasonal demand, as well as expansion of existing projects and new ventures will contribute to the expected increase.

Non-Performing Loans

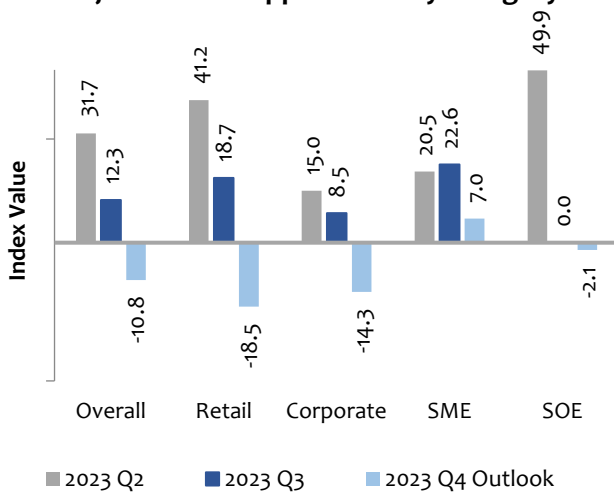
Non-Performing Loans by Category



- Overall NPLs continued to increase, during 2023 Q3 driven by all sectors.
- Inability to repay loans as a result of ending of concessions offered and with increased costs including taxes, operating costs, etc. caused this increase in the backdrop of subdued demand in the economy.
- At the same time, NPLs are expected to increase at a slower pace during 2023 Q4, also led by all four sectors, as the revival of certain businesses are expected to take longer.
- Banks are initiating new repayment plans along with enhanced recovery action aiming to bring down NPLs in the coming quarter.

Rejected Loan Applications

Rejected Loan Applications by Category



- During 2023 Q3, rejected loan applications increased in SME, retail and corporate sectors.
- Issues with debt repayment capacity of borrowers, restrained cashflows, more focus on credit risk by banks contributed towards this increase.
- At the same time, the loan application rejections are expected to decline during 2023 Q4 mainly led by retail and corporate sectors.
- Foreseen adequacy in LKR and forex liquidity in banks as well as favorable business conditions will contribute towards this decline.