

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 4th Quarter 2023 & Outlook for 1st Quarter 2024)

Survey concluded on 31.01.2024

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

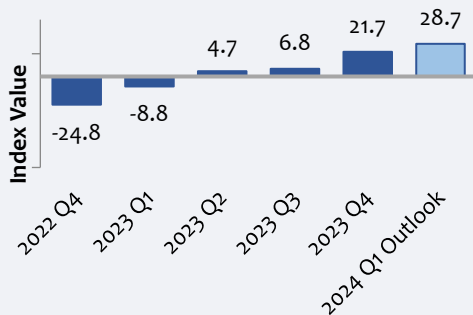
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

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

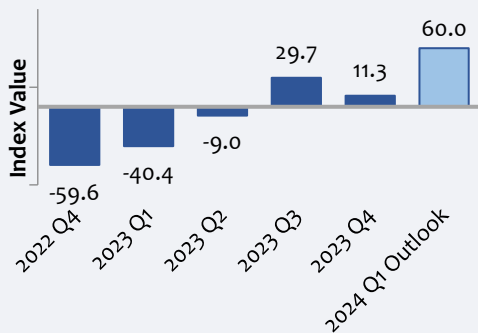
On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend



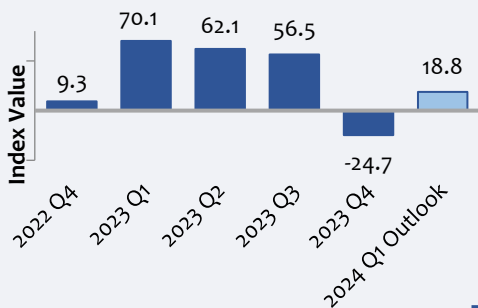
- During 2023 Q4, the willingness to lend in the banking sector continued to increase at a higher pace than the previous quarter.
- The willingness to lend is expected to increase during 2024 Q1 as well, at a higher pace than 2023 Q4.
- The improved liquidity positions and better access to market financing within the banking sector as well as the improvements observed in the economic conditions have contributed towards this increase.

Demand for Loans



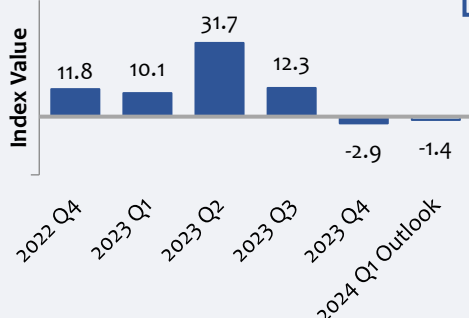
- The demand for loans has increased in the banking sector during 2023 Q4, though at a slower pace compared to the previous quarter.
- While continued reduction in interest rates led to the increase in demand, the hindered repayment capacity of customers has caused the slowdown in the increase observed.
- Demand for loans is expected to increase at a significantly higher pace during 2024 Q1.

Non-Performing Loans (NPLs)



- Following the usual pattern observed during the end of financial years, the number of NPLs decreased during 2023 Q4, compared to the previous quarter, while an increase is expected during 2024 Q1.
- Factors that contributed towards decreased NPLs are the collection efforts carried out by banks as well as the negotiated settlement with clients.

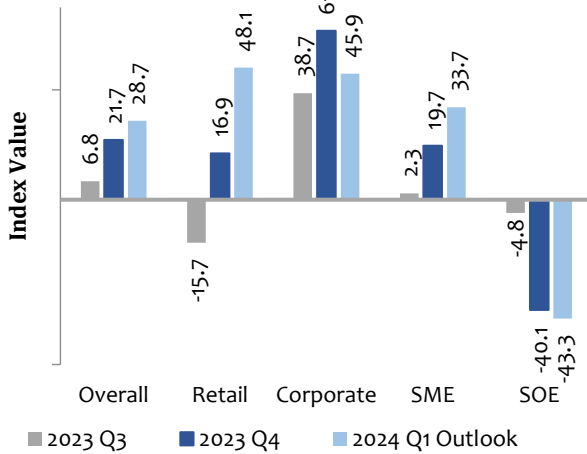
Rejected Loan Applications



- Number of rejected loan applications decreased marginally compared to the previous quarter due to the improved quality of proposals received and majority of proposals meeting the required credit criteria.
- Loan application rejections are expected to remain broadly unchanged during 2024 Q1.

Willingness to Lend

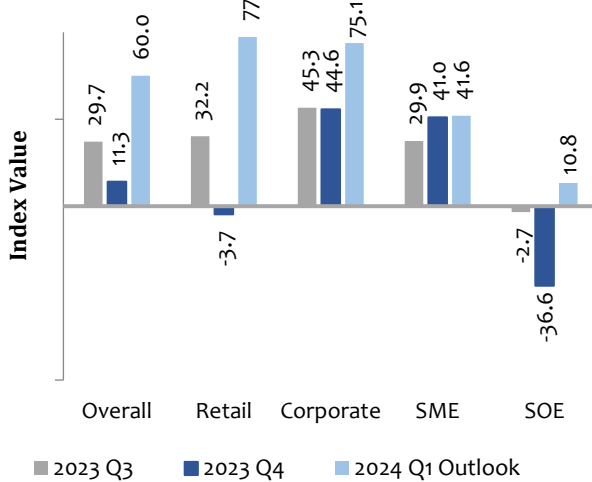
Willingness to Lend by Category



- In 2023 Q4, the overall increase in the willingness to lend was mainly to the corporate sector followed by SME and retail sectors. A significant reduction in willingness to lend was observed to the SOE sector.
- Growth of credit appetite of banks in the backdrop of improved business conditions and relaxed import restrictions have caused the observed increase in willingness to lend to the corporate sector.
- However, willingness to lend to SOE sector reduced due to uncertainties in settling debt commitments and possibility of restructuring of SOEs.
- Owing to improved business outlook, willingness to lend in 2024 Q1 is favorable across all sectors except SOE sector.

Demand for Loans

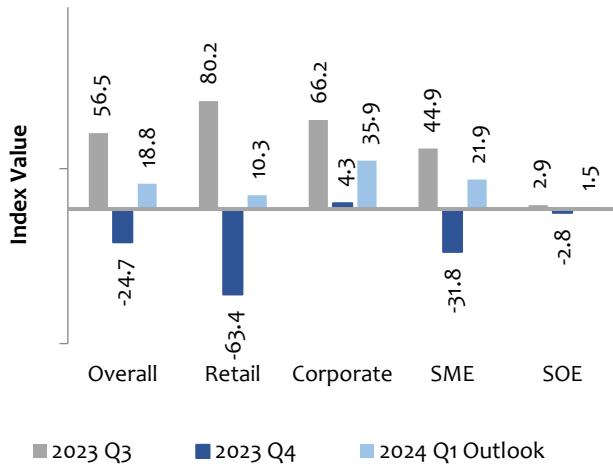
Demand for Loans by Category



- During 2023 Q4, the demand for loans has increased in corporate and SME sectors while reductions were observed in SOE and retail sectors.
- The increase in demand in corporate and SME sectors is owed to the reduction in interest rates and higher working capital requirements amidst increases in costs.
- The reduction in demand observed in the retail sector could be attributable to the hindered repayment capacity with tax burdens and higher cost of living. Meanwhile, demand from SOE sector has decreased owing to the ongoing restructurings.
- The outlook on the overall demand for loans for 2023 Q4 remains positive, led by all the sectors.
- The anticipated stabilization of interest rates, recovery in key economic sectors and expansion of existing projects and new ventures by clients would favorably impact the demand for loans in the upcoming quarter.

Non-Performing Loans

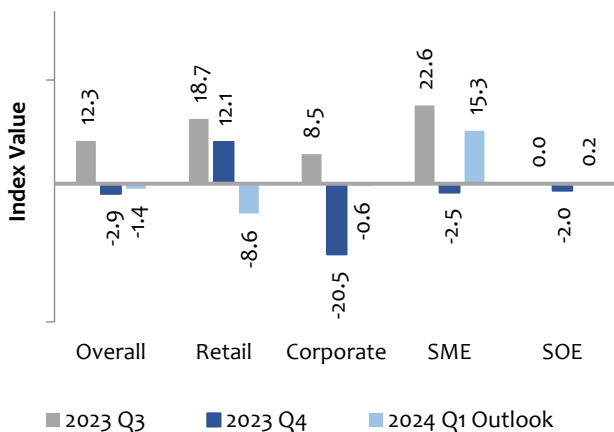
Non-Performing Loans by Category



- Overall number of NPLs decreased during 2023 Q4 displaying the usual pattern observed during financial year ends.
- While a marginal increase was observed in corporate sector, reductions were observed in retail, SME and SOE sectors predominantly due to recovery actions initiated by banks along with restructurings and rescheduling of loans while customers also tend to service their debt to a certain extent during the quarter.
- NPLs are expected to increase during 2024 Q1 in all four sectors in line with high demand. Respondents have also highlighted that even though an overall improved position can be expected in the business climate, recovery of certain affected businesses could take longer time impacting their cashflows.

Rejected Loan Applications

Rejected Loan Applications by Category



- Overall rejections in loan applications reduced during 2023 Q4, as a result of comparatively better proposals received during the quarter.
- This reduction mostly driven by the corporate sector. Marginal reductions were also observed related to SME and SOE sectors while an increase was observed in the retail sector.
- Since most proposals from the corporate sector met the required credit criteria, a decrease was observed in loan rejections in the corporate sector while potential issues with debt servicing ability in the retail sector caused the banks to take a cautious approach leading to an increase in loan rejections.
- Loan application rejections are expected to remain broadly unchanged during 2024 Q1.
- Even though revival of certain businesses in SME sector is anticipated, potential issues in cashflows, and debt repayment capacity will lead the increase in loan rejections in SME sector in 2024 Q1, in the backdrop of high demand for credit from the sector.