

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

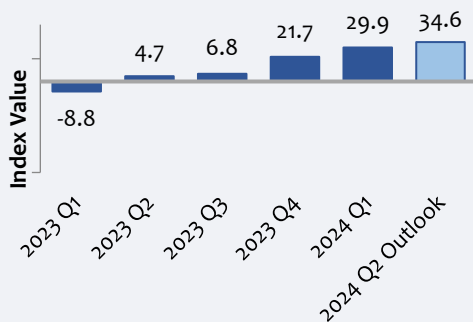
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

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

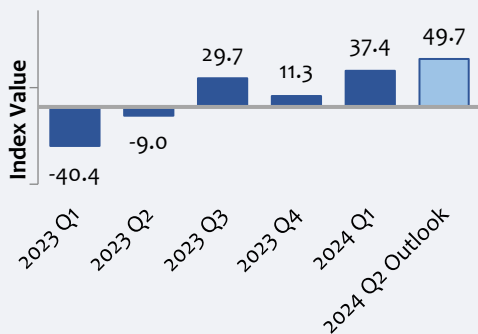
On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend



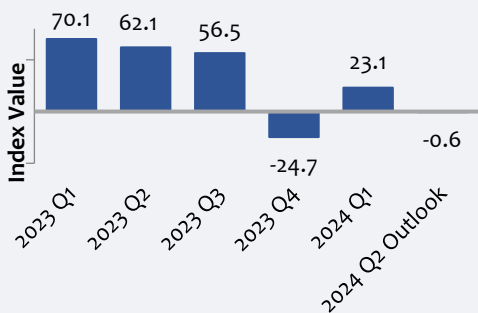
- The willingness to lend in the banking sector continued to increase during 2024 Q1 at a higher pace compared to the previous quarter.
- The improved liquidity positions and better access to market financing within the banking sector as well as the improvements observed in the economic conditions have contributed towards this increase.
- The willingness to lend is expected to increase during 2024 Q2 as well, at a higher pace than 2024 Q1.

Demand for Loans



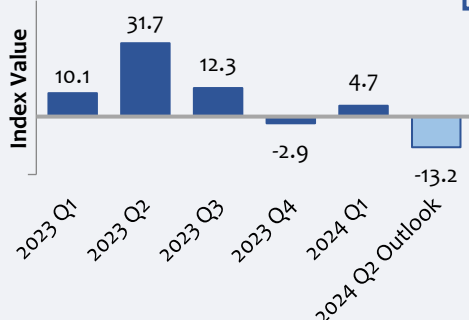
- During 2024 Q1, the demand for loans has increased in the banking sector at a higher pace compared to the previous quarter.
- Continued reduction in interest rates and improved economic conditions of the country led to the increase in demand.
- Demand for loans is expected to further increase during 2024 Q2, due to expected further reduction of market lending rates.

Non-Performing Loans (NPLs)



- The overall number of NPLs increased during 2024 Q1 compared to the previous quarter.
- This increase was mainly attributable to the seasonal pattern observed in the first quarter and impact on loan repayment capacity due to changes to tax policies with effect from January 2024.
- The level of NPL is expected to decrease marginally during 2024 Q2 due to prevailing low interest rates and expectations on stable macro-economic conditions.

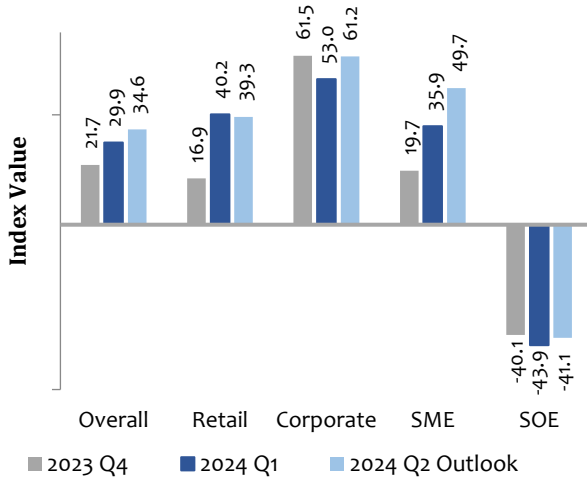
Rejected Loan Applications



- Number of rejected loan applications increased marginally compared to the previous quarter.
- During 2024 Q2, rejected loan applications are anticipated to decline mainly due to improved repayment capacity of borrowers stemming from reduced interest rates and foreseen favorable economic conditions.

Willingness to Lend

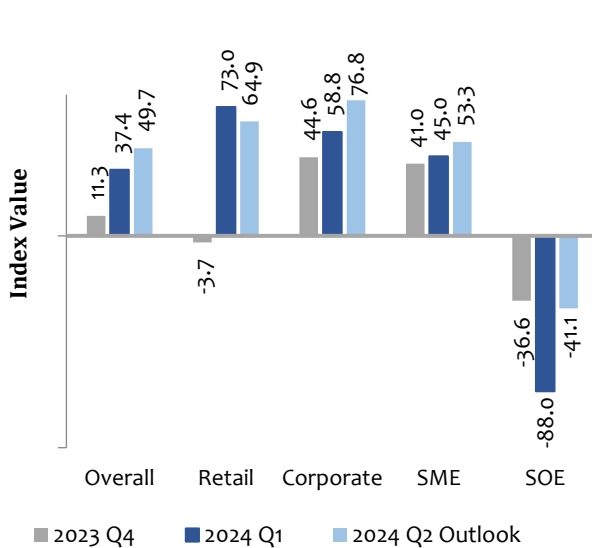
Willingness to Lend by Category



- The observed increase in the willingness to lend in 2024 Q1, was contributed by the corporate, SME and retail sectors, while a further reduction was observed in the SOE sector.
- Improved liquidity positions of banks, favorable expectations in economic activities, improvements in sector specific outlooks and improved business conditions mainly caused the observed increase in willingness to lend to corporate, SME and retail sectors.
- 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 Q2 is favorable across all sectors, except SOE sector.

Demand for Loans

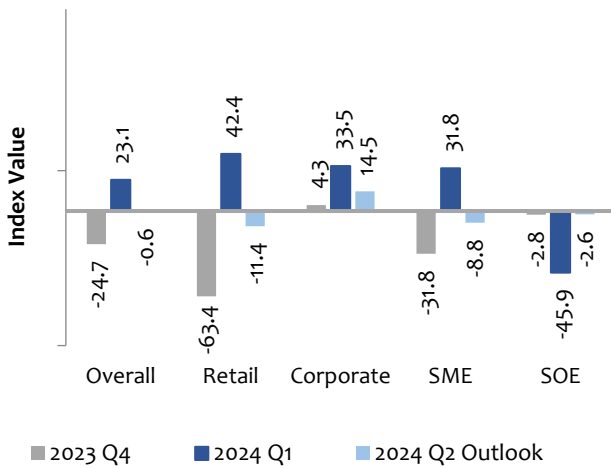
Demand for Loans by Category



- During 2024 Q1, the demand for loans has increased in retail, corporate and SME sectors while a reduction was observed in SOE sector.
- The increase in demand is mainly attributable to the reduction in interest rates, improvements in economic activities, the ease of import restrictions and higher working capital requirements.
- The outlook on the overall demand for loans for 2024 Q2 remains positive, led by all the sectors, except the SOE sector.
- The anticipated reduction of interest rates, stabilization of foreign exchange rates, recovery in key economic sectors, expansion of existing projects and expectations on new ventures would favorably impact the demand for loans in the upcoming quarter.
- The reduction in demand observed in the SOE sector continued over the quarters under review, due to prevailing Government controls on capital expenditure and ongoing restructurings.

Non-Performing Loans

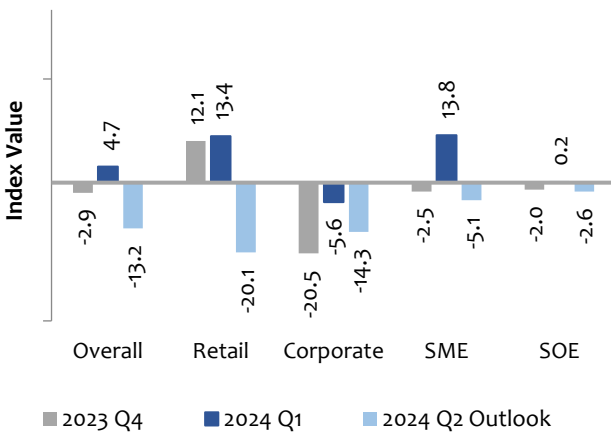
Non-Performing Loans by Category



- Overall number of NPLs increased during 2024 Q1 with the increases in NPLs observed in retail, corporate as well as SME sectors.
- The usual increase in NPLs observed in the first quarter of the year coupled with the impact from the new tax policies from the beginning of the quarter appears to have affected all sectors, except SOEs.
- The reduction of NPL observed in SOE sector could be due to restructuring and rescheduling of loans.
- NPLs are expected to decrease during 2024 Q2 in line with low interest rates, positive cash flows due to expected improvement in macro-economic conditions and continuation of restructuring options.

Rejected Loan Applications

Rejected Loan Applications by Category



- Overall rejections in loan applications increased during 2024 Q1, driven by rejections observed in retail and SME sectors.
- Potential issues with debt servicing ability, credit worthiness concerns and capacity issues with respect to loan applications received during the quarter from retail and SME sectors have caused these rejections.
- Loan rejections of corporate sector remained decreased during 2024 Q1 as well may be due to quality proposals.
- Loan application rejections are expected to decrease during the 2024 Q2 among all sectors.
- This will be due to favorable expectations of economic outlook and expected further reduction in interest rates.