

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 2nd Quarter 2024 & Outlook for 3rd Quarter 2024)

Survey concluded on 29.07.2024

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

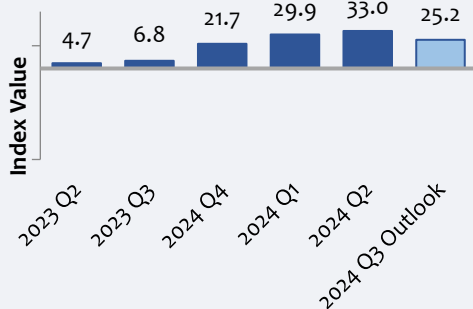
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Key to Interpretation

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

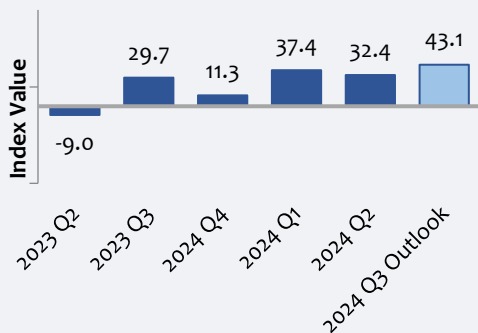
On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend



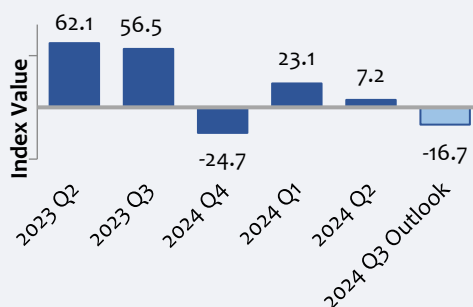
- The willingness to lend in the banking sector increased during 2024 Q2 compared to the previous quarter.
- This increase is mainly attributable to improved liquidity positions, positive expectations regarding general economic activities and macroeconomic stability.
- The willingness to lend is expected to increase during 2024 Q3 due to favorable economic outlook.

Demand for Loans



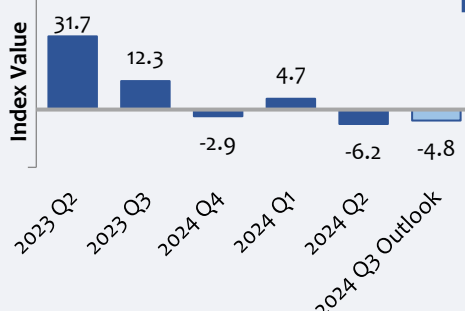
- The demand for loans increased during 2024 Q2 compared to the previous quarter.
- Reduction in interest rates and improved economic conditions of the country led the increase in demand.
- During 2024 Q3, demand for loans is expected to increase due to expected further reduction of market lending rates.

Non-Performing Loans (NPLs)



- The increase observed in overall number of NPLs during 2024 Q2 may have caused by the increase of cost of living and tax burdens. However, the index value increased only at a slower pace compared to the previous quarter.
- The level of NPL is expected to decrease during 2024 Q3 due to further reduction of interest rates, continuation of flexible payment options and favorable expectations on economic outlook.

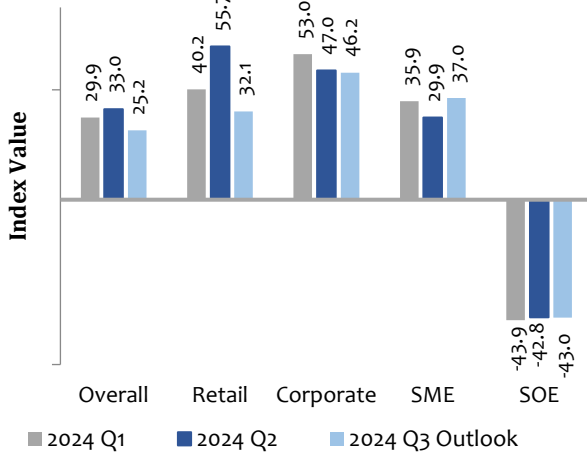
Rejected Loan Applications



- Number of rejected loan applications decreased compared to the previous quarter.
- Loan application rejections are expected to decline during 2024 Q3 as well, due to the favorable lending conditions caused by reduction of interest rates.

Willingness to Lend

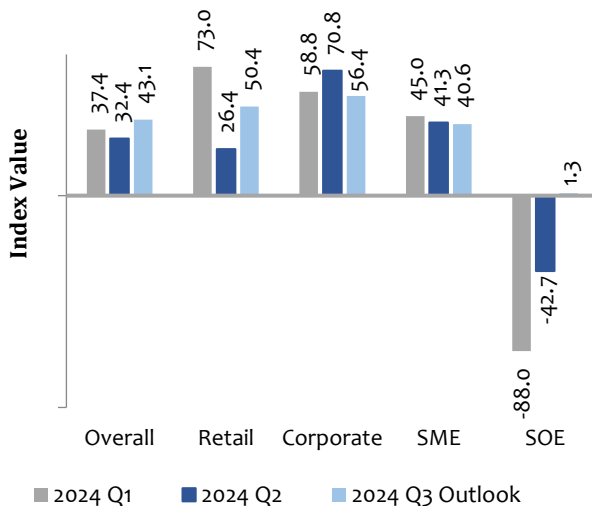
Willingness to Lend by Category



- In Q2 2024, the willingness to lend to the retail, corporate, and SME sectors continued to increase, while the willingness to lend to the SOE sector continued to decrease.
- Enhanced willingness to lend was supported by the improved liquidity positions of banks, favorable expectations on economic activities, improvements in sector specific outlooks and improved business conditions.
- Willingness to lend to SOE sector remained unfavorable due to uncertainties in settling debt commitments and possibility of restructuring of SOEs.
- In 2024 Q3, willingness to lend is expected to increase across all sectors, except SOE sector due to favorable expectations on business outlook and economic growth.

Demand for Loans

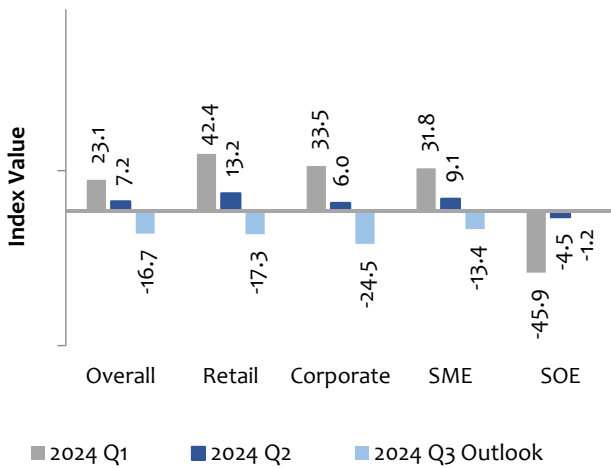
Demand for Loans by Category



- The demand for loans increased in retail, corporate and SME sectors while a reduction was observed in SOE sector during 2024 Q2.
- Reduced interest rates, economic growth, improvements in the business environment, relatively stable exchange rates and expansions in economic activities mainly attributed to the observed increase in demand.
- The outlook on the overall demand for loans for 2024 Q3 remains positive, with the contribution of all the sectors.
- In 2024 Q3, the expected increase in demand will primarily be driven by anticipated further reductions in interest rates, policy consistency, expectations on continued growth in economy, stabilization of foreign exchange rates, and recovery in key economic sectors.
- The expected increase in demand observed in the SOE sector during 2024 Q3 may be due to expectations of commencing new projects related to sustainable and renewable energy.

Non-Performing Loans

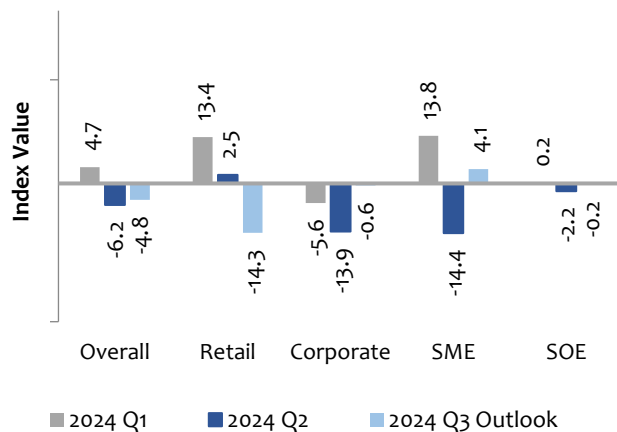
Non-Performing Loans by Category



- During 2024 Q2, overall number of NPLs remained increase with the contribution of retail, corporate and SME sectors.
- The high cost of living and customer migrations may have led to an increase in NPLs in the retail sector, while high expenditure and tax burdens on businesses might have caused the sustained increase in NPLs in the SME and corporate sectors.
- The reduction of NPLs observed in SOE sector could be due to restructuring and rescheduling of loans.
- Due to further reduction of interest rates, economic stabilization, positive cash flows due to expected improvement in macro-economic conditions and continuation of restructuring options, NPL's are expected to decrease among all sectors in 2024 Q3.

Rejected Loan Applications

Rejected Loan Applications by Category



- Low market rates and enhanced economic stability have resulted in the decrease in overall rejections in loan applications during 2024 Q2.
- The decrease in rejections were observed in SME, corporate and SOE sectors, while an increase in rejections was observed in the retail sector.
- The reduction in loan rejections for the SME and corporate sectors was driven by quality proposals, lower interest rates, positive cash flows, and favorable business conditions.
- Increase in loan rejections of retail sector during 2024 Q2 may be due to low disposable income of borrowers.
- With the favorable expectations of economic outlook and expected further reduction in interest rates, loan application rejections are expected to decline among all sectors except for SME sector during 2024 Q3.