

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 4th Quarter 2024 & Outlook for 1st Quarter 2025)

Survey concluded on 14.02.2025

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

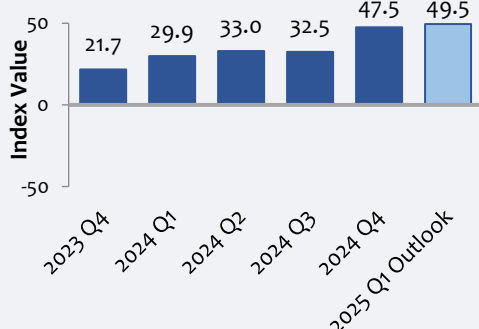
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

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



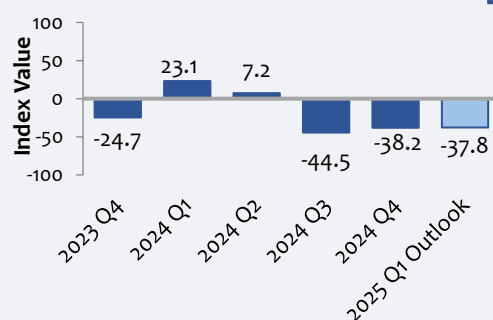
- The willingness to lend in the banking sector increased during 2024 Q4 compared to the previous quarter.
- The observed increase in willingness to lend was driven by economic stabilization, stable interest rates, positive expectations for economic activity, improved liquidity positions and political stability.
- During 2025 Q1, the willingness to lend is expected to further increase due to expected economic revival.

Demand for Loans



- During 2024 Q4, the increasing trend in demand for loans continued for the sixth consecutive quarter.
- Further reduction in interest rates, low and stable inflation and improved business confidence of the country may have led to this increase.
- Due to the favorable economic outlook and expectations regarding further reduction of market lending rates, demand for loans is expected to further increase during 2025 Q1.

Non-Performing Loans (NPLs)



- During 2024 Q4, the overall number of NPLs remained decrease.
- The observed decline in NPLs could be due to continued flexible payment options, reduced interest rates, enhanced cashflows and improved economic conditions.
- The decline in NPLs is expected to continue in 2025 Q1, due to continuation of flexible payment options, expected further reduction of interest rates, and favorable economic outlook.

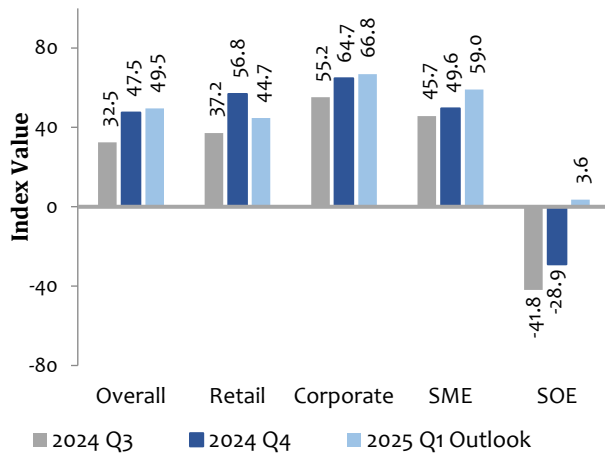
Rejected Loan Applications



- The number of rejected loan applications decreased in 2024 Q4, compared to the previous quarter.
- In 2025 Q1, loan application rejections are expected to decline further, driven by anticipated improvements in economic conditions, low interest rates, and improved cash flow generations.

Willingness to Lend

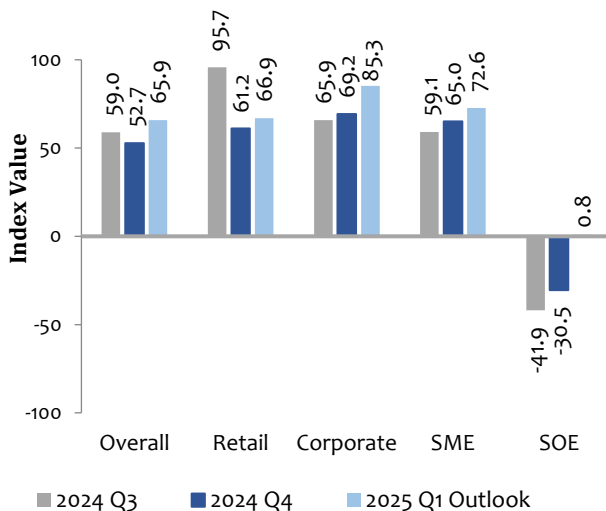
Willingness to Lend by Category



- During 2024 Q4, the willingness to lend to the retail, corporate, and SME sectors continued to increase compared to the previous quarter, while willingness to lend to the SOE sector continued to decline.
- The observed increase in willingness to lend was driven by improved liquidity positions of banks, favorable expectations on economic activities, improvements in sector specific outlooks, stable interest rates, improved business conditions and political stability.
- During the quarter, the willingness to lend to SOE sector remained unfavorable due to uncertainties in settling debt commitments and the possibility of restructuring of SOEs.
- Due to projected economic growth, expectations on good governance and favorable policies, improved business confidence and anticipated further reduction of interest rates, the willingness to lend is expected to increase across all sectors during 2025 Q1.

Demand for Loans

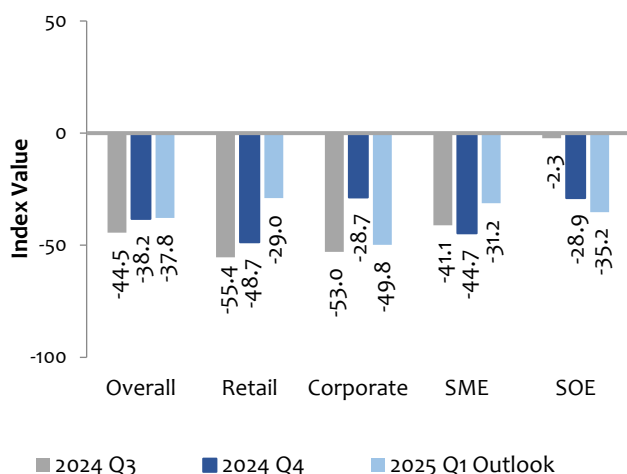
Demand for Loans by Category



- Demand for loans remained increase in retail, corporate and SME sectors during 2024 Q4, while a reduction was observed in SOE sector.
- Continued reduction in interest rates, improved macroeconomic conditions, improved business environment, price stability and stable exchange rates may have led to the observed increase in demand for loans.
- The increased loan demand in the corporate and SME sectors may be driven by improvements in tourism, domestic manufacturing, and renewable energy industries.
- In 2025 Q1, demand for loans is expected to rise further, driven by anticipated interest rate reduction, price stability, policy consistency, projected economic growth, and overall improvements in business conditions.
- Demand for loans in SOE sector expect a marginal increase during 2025 Q1, mainly due to growth in renewable energy projects.

Non-Performing Loans

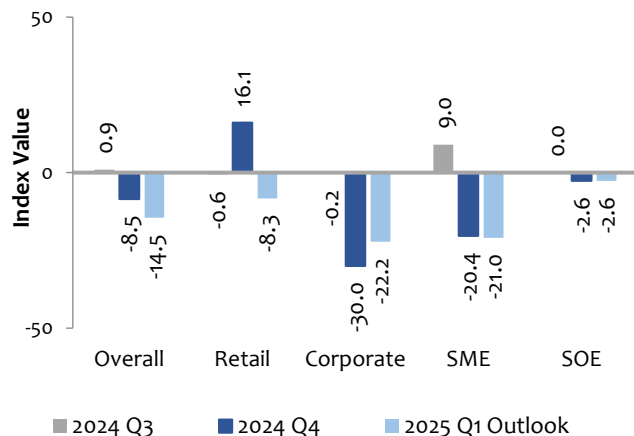
Non-Performing Loans by Category



- During 2024 Q4, the overall number of NPLs decreased with the contribution of all sectors.
- The observed decrease in NPLs over all sectors may have driven by strengthened recovery actions, continuation of flexible payment options, reduction of interest rates, improved cash flows and improved macroeconomic conditions.
- In 2025 Q1, NPLs are expected to decline across all sectors, driven by ongoing flexible payment options, anticipated interest rate reductions, proposed SME concessions, improved cash flows, continued economic stabilization, business recovery, and favorable macroeconomic conditions.

Rejected Loan Applications

Rejected Loan Applications by Category



- During 2024 Q4, overall rejections in loan applications decreased compared to the previous quarter.
- The observed increase in loan rejections in the retail sector may be due to applications not meeting the required evaluation criteria.
- Reduced interest rates, quality proposals, positive cash flows, and improved business conditions may have led to the observed decline in loan rejections in the corporate and SME sectors during the quarter.
- Loan application rejections are expected to decrease within all sectors during 2025 Q1, with the expected further reduction in interest rates, expected improvements in cashflow generation and favorable expectations of economic outlook.