

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 1st Quarter 2025 & Outlook for 2nd Quarter 2025)

Survey concluded on 05.05.2025

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

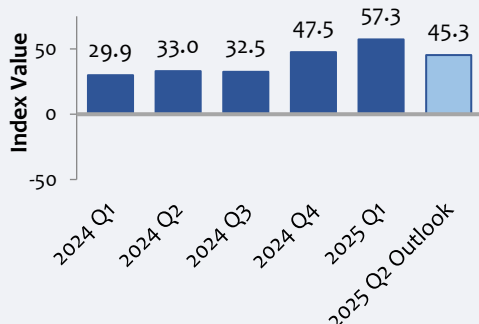
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

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



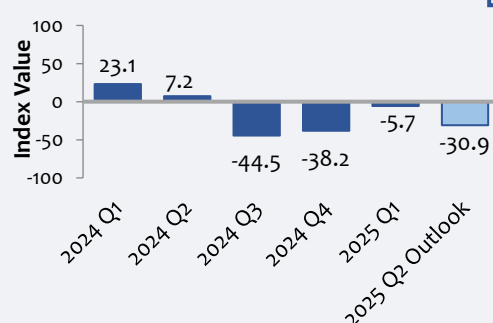
- During 2025 Q1, the willingness to lend in the banking sector remained high.
- Experienced economic growth, stable interest rates, prevailing improvements in the economic condition, improved liquidity positions and political stability led to observed increase in willingness to lend.
- Due to the expectations on positive economic activities, the willingness to lend is expected to further increase during 2025 Q2.

Demand for Loans



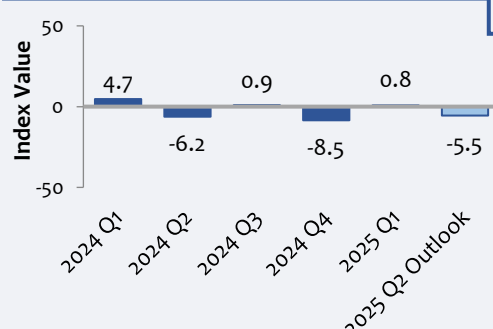
- The increasing trend in demand for loans continued into the first quarter of 2025.
- The recorded increase may have led by Improvements in general economic activities, reduced interest rates, political stability, low and stable inflation and improved business confidence of the country.
- Demand for loans is expected to further increase during 2025 Q2, due to expected economic growth, relaxation of vehicle import restrictions and political stability.

Non-Performing Loans (NPLs)



- The overall number of NPLs continued to decline in the 2025 Q1, marking the third consecutive quarter of decrease.
- Enhanced cashflows, reduced interest rates, increased recovery efforts, continued flexible payment options and improved economic conditions may have led to the observed decline in number of NPLs.
- Due to the reduction in APIT, the continuation of flexible payment options, and the favorable economic outlook, the declining trend in NPLs is expected to continue during the 2025 Q2.

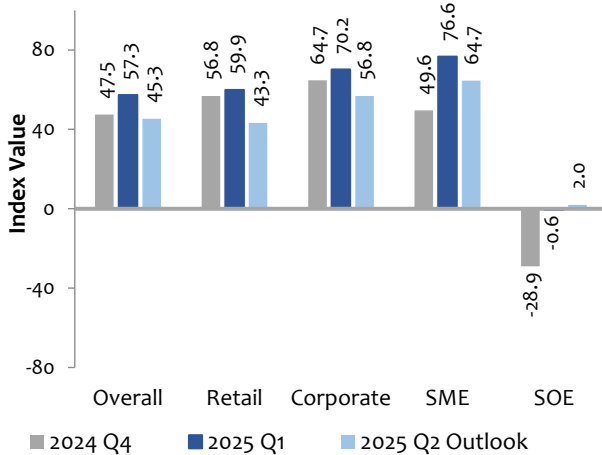
Rejected Loan Applications



- During 2025 Q1, a marginal increase was recorded in the index value of the number of rejected loan applications, compared to the previous quarter.
- In 2025 Q2, loan application rejections are expected to decline, driven by favorable economic outlook, further reductions in interest rates, and improved cash flow generation.

Willingness to Lend

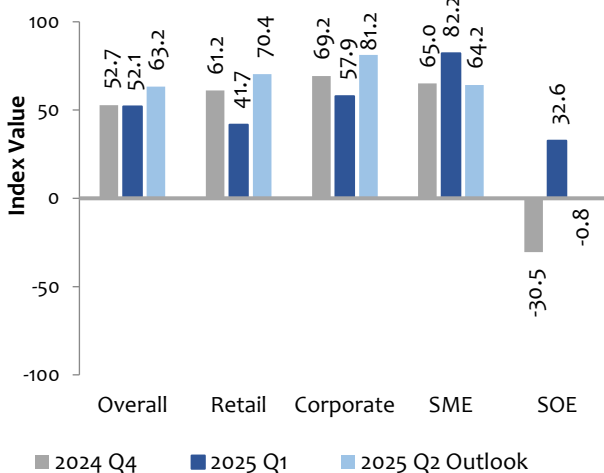
Willingness to Lend by Category



- The willingness to lend to the retail, corporate, and SME sectors continued to increase during 2025 Q1 compared to the previous quarter, while willingness to lend to the SOE sector continued to decline.
- Experienced economic growth, favorable expectations on economic activities, improved liquidity positions of banks, stable interest rates, improved business conditions and political stability were attributable to the observed increase in willingness to lend.
- Willingness to lend to the SME sector showed a notable increase during the 2025 Q1, possibly due to the growth of tourism and domestic manufacturing.
- The willingness to lend is expected to increase across all sectors during 2025 Q2, due to favorable economic outlook, market expectations on good governance and favorable policies, improved business confidence and anticipated further reduction of interest rates.

Demand for Loans

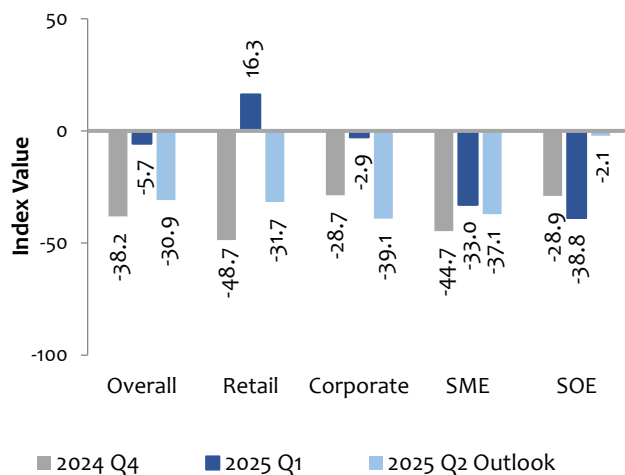
Demand for Loans by Category



- During the 2025 Q1, loan demand increased across the retail, corporate, SME, and SOE sectors.
- The observed increase in loan demand may have led by low and stable interest rates, political stability, improved macroeconomic conditions, improved business environment, price stability and stable exchange rates.
- Improvements in tourism, domestic manufacturing, and energy sectors may have contributed to the continued increase in loan demand from the Corporate and SME sectors.
- Due to the relaxation of vehicle import restrictions, expectations on good governance and policy consistency, projected economic growth, reduction of APIT, and anticipated improvements in business conditions, loan demand is expected to increase in retail, corporate and SME sectors further in 2025 Q2.

Non-Performing Loans

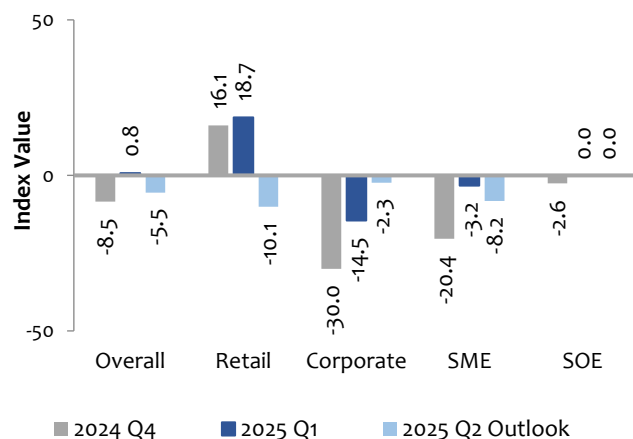
Non-Performing Loans by Category



- The overall number of NPLs decreased during the 2025 Q1, supported by reductions in the Corporate, SME, and SOE sectors.
- Enhanced cash flows, improved business conditions, strengthened recovery actions, continuation of flexible payment options, reduction of interest rates and improved macroeconomic conditions may have led to observed decline in NPLs.
- Observed increase of NPLs in Retail sector may be due to high cost of living.
- NPLs are expected to decline across all sectors during 2025 Q2, driven by reduction of APIT, continuation of 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



- Index value of overall rejections in loan applications increased marginally during 2025 Q1, driven by rejections observed in the Retail sector.
- The observed increase in loan rejections in the Retail sector may be attributed to applications not meeting the required evaluation criteria and the low disposable income of individuals.
- The observed decline in loan rejections in the Corporate and SME sectors during the quarter may have led by reduced interest rates, quality proposals, positive cash flows, and improved business conditions.
- During 2025 Q2, loan application rejections are expected to decrease in Retail, Corporate and SME sectors with the reduction of APIT, expected improvements in business conditions, expected improvements in cashflow generation and favorable expectations of economic outlook.