CREDIT SUPPLY SURVEY

STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 2nd Quarter 2025 & Outlook for 3rd Quarter 2025)

Survey concluded on 28.07.2025

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

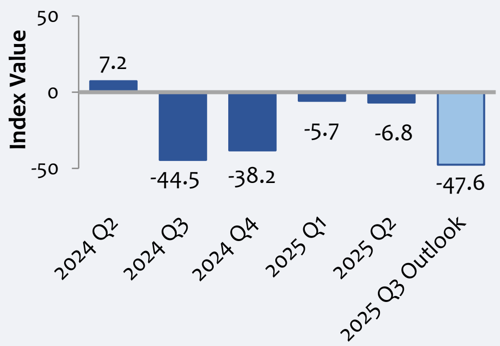
Willingness to Lend

- The banking sector's willingness to lend grew in 2025 Q2, continuing a nine-quarter upward trend.
- This observed increase was led by prevailing economic and political stability, stable interest rates, improved liquidity positions in banks, and expectations regarding general economic activities.
- During 2025 Q3, the increasing trend is expected to continue due to favourable liquidity positions of banks, economic revival and positive economic outlook.

Demand for Loans

- During 2025 Q2, the upward trend in demand for loans continued for the eight consecutive quarter.
- Reduced interest rates, increased wages, vehicle imports, and improvement in business activities may have led to this increase.
- Due to the expected further reduction in interest rates, increase in vehicle imports, and improved business confidence, the demand for loans is expected to further increase during 2025 Q3.

Non-Performing Loans (NPLs)

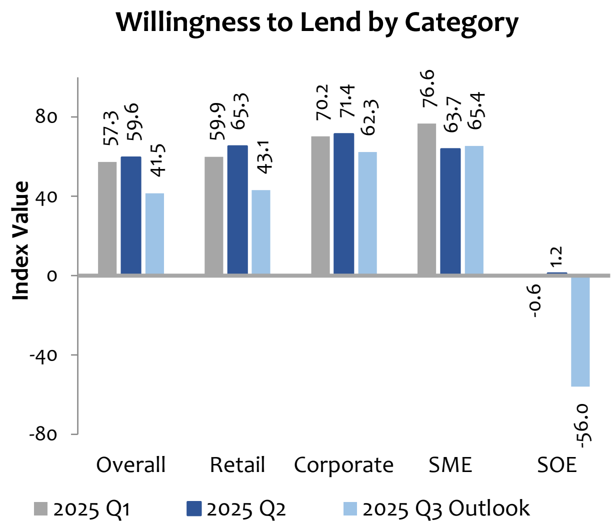


- The overall number of NPLs decreased during 2025 Q2 as well.
- This could be attributed to reduction in interest rates, improved cash flow generation, effective recovery and collection efforts, ongoing flexible payment options, and supportive economic conditions.
- The decline in NPLs is expected to continue in 2025 Q3 as well, due to continuation of flexible payment options, expected further reduction of interest rates, and positive sentiments on economic outlook.

Rejected Loan Applications

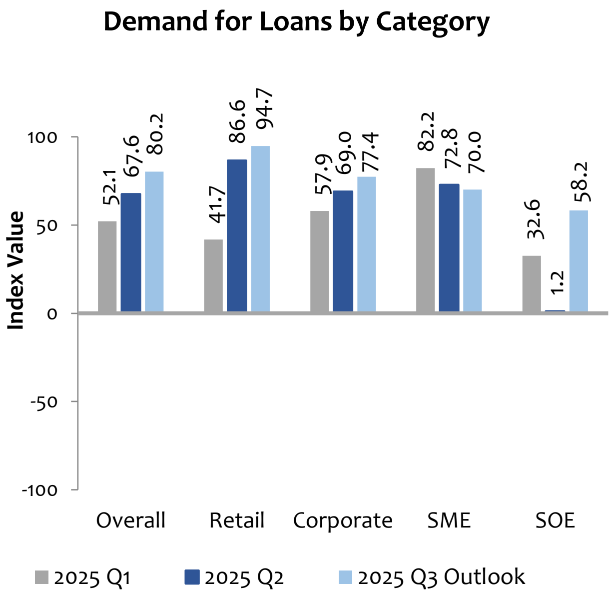
- The number of rejected loan applications decreased in 2025 Q2 compared to the previous quarter, possibly due to quality proposals and improved economic conditions.
- Due to the expected economic recovery, improved cash flow generation, and better business conditions, loan application rejections are expected to further decline during 2025 Q3.

Willingness to Lend



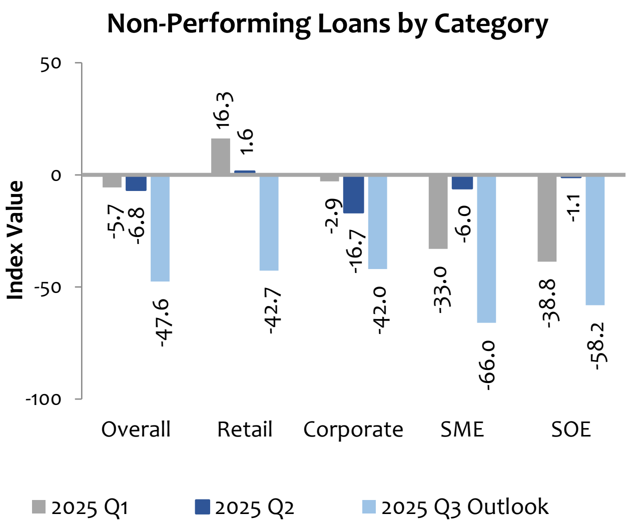
- During 2025 Q2, the willingness to lend across all sectors showed an increase compared to the previous quarter.
- This observed increase was driven by sustained economic growth, economic and political stability, improved liquidity positions of banks, strong capital adequacy, favourable expectations regarding overall economic activities, stable interest rates, improved governance of the country and enhanced business conditions.
- The growth of tourism, improvements in exports, and enhancements in domestic manufacturing may have led to a continued increase in the willingness to lend to the SME and corporate sectors.
- During 2025 Q3, the willingness to lend is expected to increase across the retail, corporate, and SME sectors, driven by improved liquidity positions of banks, favourable economic outlook, political stability, increased business confidence, and expected boom in the tourism sector. However, the expected willingness to lend to the SOE sector has decreased due to tightened credit granting evaluations.

Demand for Loans



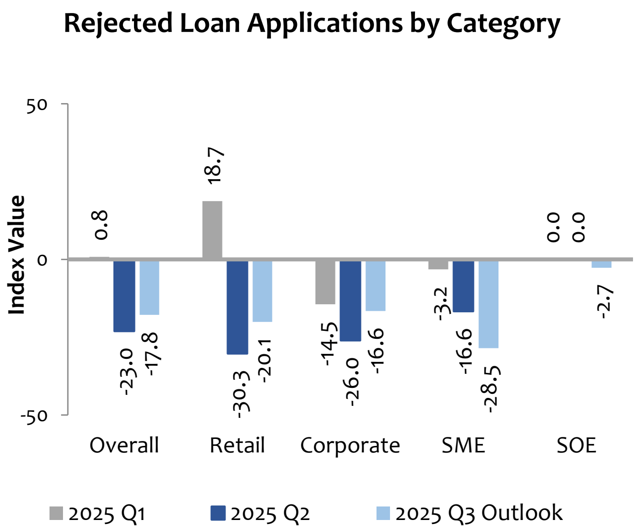
- Loan demand continued to rise across all sectors during 2025 Q2.
- Low and stable interest rates, political stability, improved business activity, the resumption of vehicle imports, price stability, stable exchange rates, and overall improved macroeconomic conditions may have contributed to the continued increase in loan demand across all sectors.
- Increased wages and reduced interest rates may have contributed to the rise in loan demand in the retail sector.
- The revival of the tourism sector, improvements in domestic manufacturing, and the resumption of vehicle imports may have contributed to the observed increase in loan demand across the SME and corporate sectors.
- During 2025 Q3, loan demand is expected to increase across all sectors, driven by the increase in vehicle imports, low interest rates, rising consumer confidence, and favourable business and economic outlook.

Non-Performing Loans



- During 2025 Q2, the overall number of NPLs decreased with the contribution of Corporate, SME, and SOE sectors.
- The observed reduction in overall number of NPLs may have led by improved financial positions, improved business conditions, strengthened recovery actions, continuation of flexible payment options, reduction of interest rates and improved macroeconomic conditions.
- Observed marginal increase of NPLs in Retail sector may be due to high cost of living and low disposable income.
- During 2025 Q3, NPLs are expected to decline across all sectors, driven by strong collection efforts, continuation of flexible payment options, anticipated interest rate reductions, improved cash flows, continued economic stabilisation, business recovery, and favourable macroeconomic conditions.

Rejected Loan Applications



- During 2025 Q2, loan application rejections decreased across Retail, Corporate and SME sectors compared to the previous quarter.
- Increased wages, improved economic conditions, favourable business environment, and reduced interest rates may have contributed to the observed decrease in loan rejections.
- Reduced interest rates, higher-quality loan proposals, positive cash flows, and improved business conditions may have contributed to the continued decline in loan rejections within the corporate and SME sectors.
- Loan application rejections are expected to decrease across all sectors during 2025 Q3, supported by the country's prevailing stability, anticipated improvements in business conditions and cash flow generation, and favourable economic outlook expectations.