

CREDIT SUPPLY SURVEY



STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

(Trends in 1st Quarter 2026 & Outlook for 2nd Quarter 2026)¹

Survey concluded on 22.04.2026

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on lending categories Retail, Corporate, Small and Medium Enterprise (SME) and State Owned Enterprise (SOE) sectors 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.

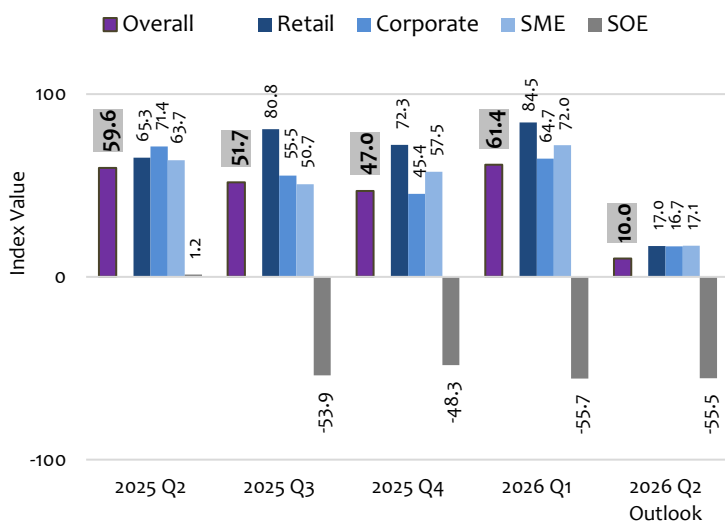
Key to Interpretation

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

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

Willingness to Lend

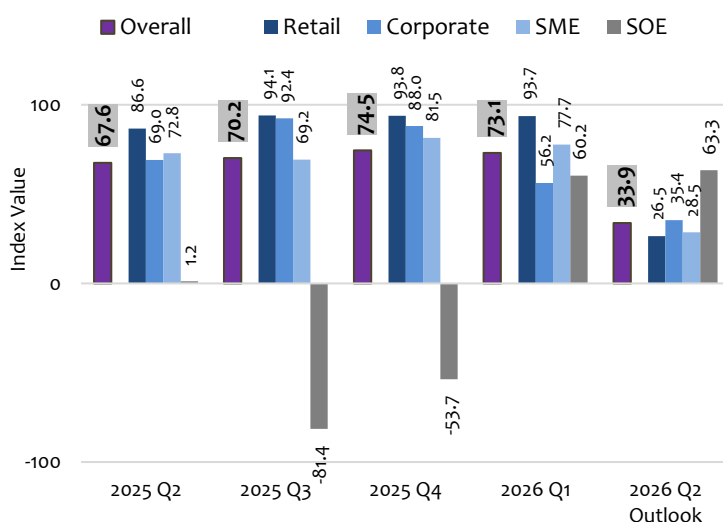
Willingness to Lend by Category



- During 2026 Q1, the willingness to lend of the banking sector increased further compared to 2025 Q4. This increase was observed across Retail, Corporate, and SME sectors, while the SOE sector recorded a decline.
- The banks have cited that the *positive economic outlook, stable interest rates, favourable market and business conditions* together with the *improved asset quality and strong corporate earnings* have fuelled this increase across Retail, Corporate and SME sectors, despite the adverse impact of Cyclone Ditwah and the Middle East tensions.
- In 2026 Q2, the banks' willingness to lend is expected to increase, yet at a slower pace compared to 2026 Q1. The spillover effects of geopolitical tensions causing supply-side disruptions for industries have led the banks to maintain a cautious lending approach during 2026 Q2.

Demand for Loans

Demand for Loans by Category

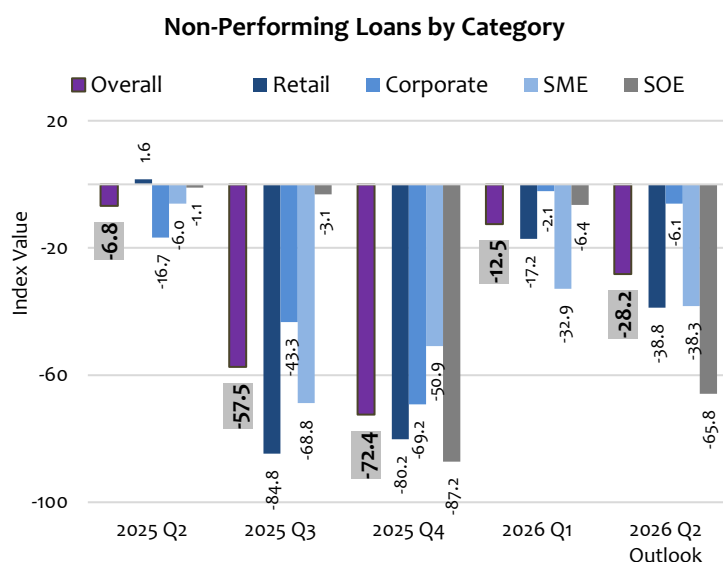


- The demand for loans continued to rise in 2026 Q1 as well, compared to 2025 Q4. This increase was observed across all four sectors.
- This continued increase in demand for loans could have been supported by the *lower and stable interest rates, positive economic outlook, favourable market conditions and improved market sentiment* during the quarter.
- In the Retail sector, the demand for housing loans, pawning and vehicle leases surged while sector specific credit schemes and expansion of existing projects/new ventures have contributed to the observed increase in loan demand across Corporate and SME sectors.

¹ The survey was carried out during the period from 06 to 22 April 2026. Therefore, respondents' views may not fully reflect the impact of recent economic developments and policy decisions.

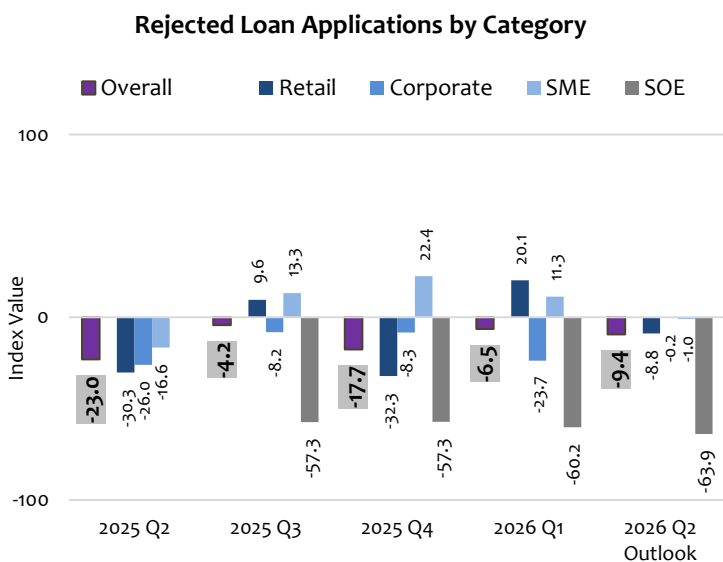
- Loan demand from the SOE sector turned positive, driven by the need to accommodate fuel price escalations amid the ongoing conflict situation in the Middle East, as well as financing requirements for development projects undertaken by SOEs.
- During 2026 Q2, loan demand is expected to increase further across all the sectors, supported by *improved consumer demand* and *anticipated demand for working capital loans*. However, banks remain cautious about the impact of ongoing tensions in Middle East which could lead to *lower demand, higher risk and tighter lending conditions*.

Non-Performing Loans



- The overall number of NPLs continued to decrease across all the sectors in 2026 Q1, compared to 2025 Q4.
- The *intensified recovery efforts, stronger collection mechanisms, restructuring and rescheduling arrangements, improved borrower cash flows and macroeconomic stability* may have supported this improved NPLs situation of the banks.
- The declining trend of number of NPLs is expected to continue to 2026 Q2 as well. However, banks highlighted that external risks such as spillover effects of Middle East tensions and global cost escalations continue to develop risks to borrower performance.

Rejected Loan Applications



- During 2026 Q1, the overall loan application rejections declined across the Corporate, and SOE sectors, while Retail and SME sectors observed a slight increase compared to the previous quarter.
- This decline in loan application rejections across Corporate and SOE sectors were largely supported by *improved macroeconomic conditions and the receipt of higher-quality lending proposals*, while the concerns over *repayment capacity, collaterals and impact of unexpected natural disasters* could have been the key factors for increasing loan rejections in Retail and SME sectors.

- During 2026 Q2, loan application rejections are expected to decline across all the sectors, supported by the expectations on *stronger borrower cash flows, improving new client canvassing and improving process of credit evaluations*.