CREDIT SUPPLY SURVEY

(Trends in 3rd Quarter 2026 & Outlook for 4th Quarter 2026)

STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

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. Therefore, they should be interpreted as survey-based estimates.

Key to Interpretation

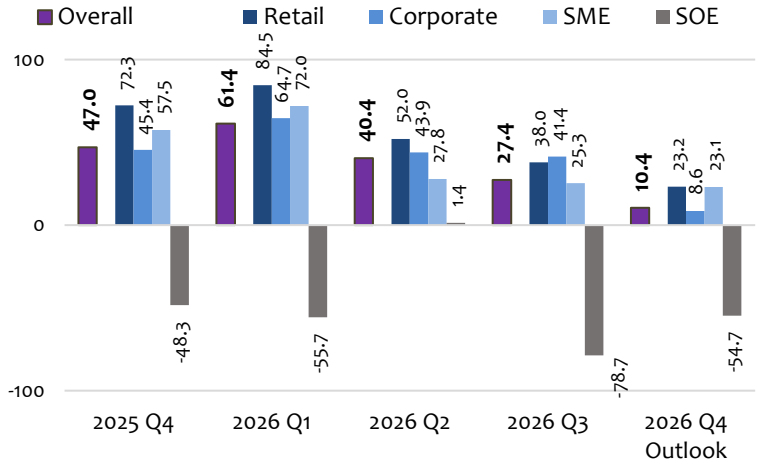
- ***Index value > 0: increase***
- ***Index value < 0: decrease***
- ***Index value = 0: unchanged***

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

Willingness to Lend	Demand for Loans	Non-Performing Loans	Rejected Loan Applications
27.4	**42.8**	**-30.1**	**-11.7**
▼ 13.0 pts vs Q2 (40.4)	▲ 7.7 pts vs Q2 (35.1)	▼ 26.3 pts vs Q2 (-3.8)	▼ 11.4 pts vs Q2 (-0.3)

Willingness to Lend

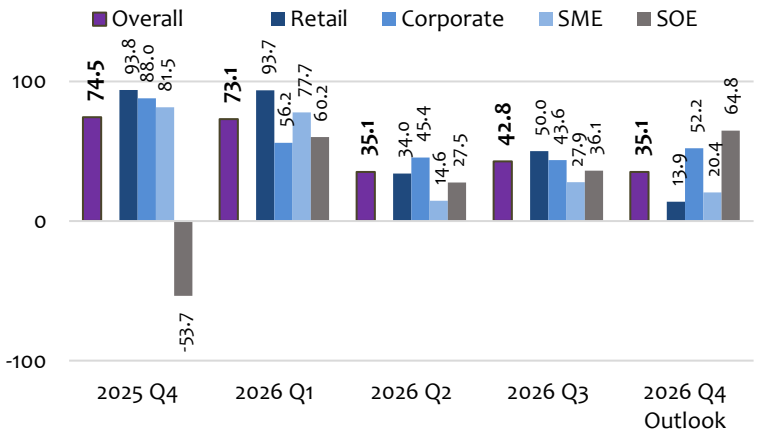
A more cautious stance moderated willingness to lend



- The overall willingness to lend in the banking sector increased during Q3 2026, yet at a slower pace compared to Q2 2026, as banks have adopted a more cautious lending approach. This slowdown could be observed across Retail, Corporate and SME sectors. Meanwhile, a decline in willingness was observed within the SOE sector.
- This overall slowdown could largely be attributed to the *gradual transmission of the monetary policy tightening measures introduced in May 2026, coupled with more selective risk appetite of the banks,* and *regulatory and exposure limitations related constraints.*
- Meanwhile, banks' outlook on willingness to lend during Q4 2026 is expected to increase at a slower pace compared to Q3 2026. This slowdown is largely attributable to the *anticipated inflationary pressures, rising operating costs*, and *restrictions on leasing facilities.*

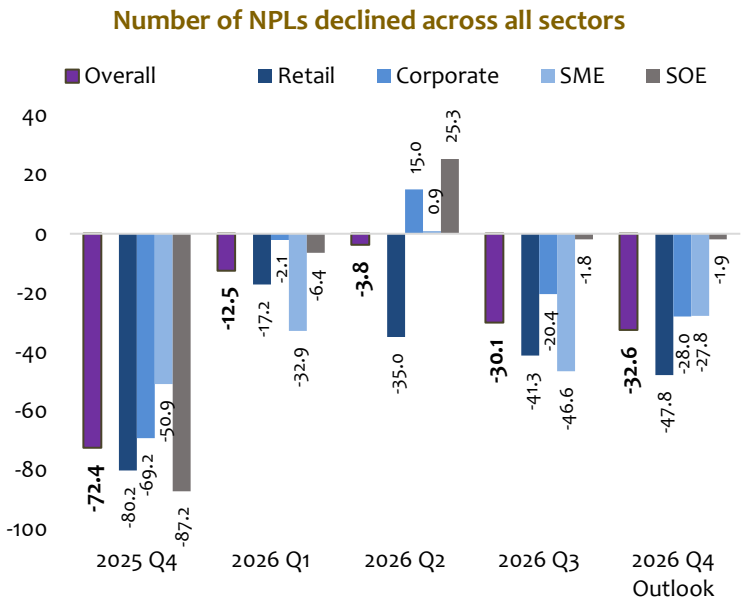
Demand for Loans

Demand for loans increased across all sectors



- Despite the slowdown in banks' willingness to lend, the overall demand for loans in the banking sector increased during Q3 2026, compared to Q2 2026.
- This increase in demand for loans was largely driven by the *expansion in working capital requirements, demand for short term loans, and demand for essential and consumption-related financing* and *continued recovery in economic activities* during the quarter.
- The demand for loans in the banking sector is expected to increase across all four sectors during Q4 2026, as well. The anticipated *increase is primarily attributable to higher import financing requirements, seasonal demand*, increased *working capital needs to manage higher operating costs associated with inflationary pressures,* and *the expected improvement in overall economic activities*.

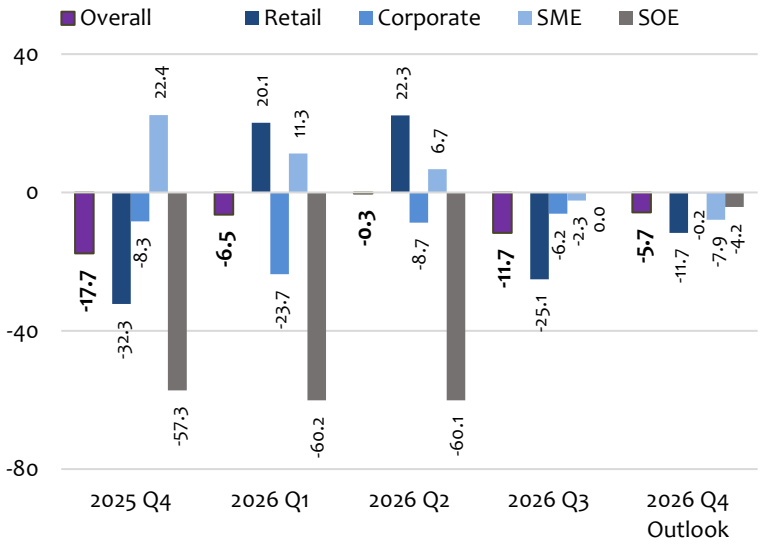
Non-Performing Loans



- The portfolio-weighted survey responses indicated a decrease in the overall number of Non-Performing Loans (NPLs) during Q3 2026 compared to Q2 2026. This decline was visible across all four sectors. A reversal of the Q2 trend was observed in the Corporate, SME, and SOE sectors, with NPLs declining during Q3 after increasing in the previous quarter.
- This improvement in NPLs was supported by the *accelerated recovery actions and remedial options, improved portfolio performance,* and *revival measures by the banks including reschedule resulting in stage upgrades*.

- Banks expect this improvement in NPLs to continue through Q4 2026 across all sectors, driven by the *continuation of accelerated recovery actions* and *new repayment plans involving restructurings and rescheduling*.

Rejected Loan Applications



- The overall loan application rejections in the banking sector indicated a decrease during Q3 2026 compared to Q2 2026. This decline was witnessed across Retail, Corporate and SME sectors while the rejections in SOE sector remained broadly unchanged compared to the previous quarter.
- *Improved loan proposal quality, consistent credit assessment standards,* and *largely stable applicant risk profiles* were the main factors behind the decline in overall loan application rejections in the banking sector during Q3 2026.

- Banks anticipate the same trend to be continued to the Q4 2026, supported by *expected improvements in loan proposal quality, process of credit evaluations from the region ends* and *the cash flow generation capacity of businesses due to improved economic conditions.*