

## State Bank of Pakistan’s Bank Lending Survey – Q1-FY18

In Q1-FY18 Bank Lending Survey (BLS), SBP received feedback from senior officers of 20 commercial banks.

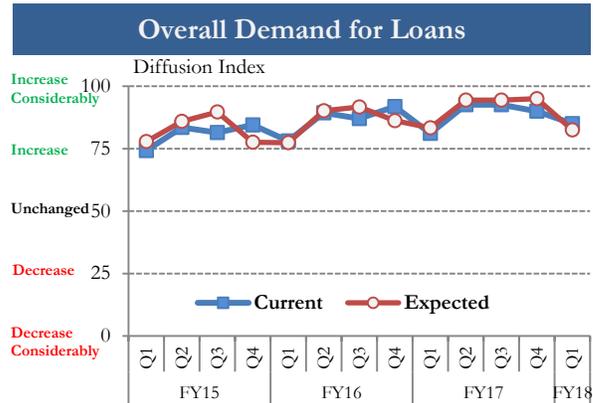
### Overall Demand

According to the opinions of bank officials, the overall demand for loans continued to expand over the last quarter and is expected to increase in the next quarter as well.

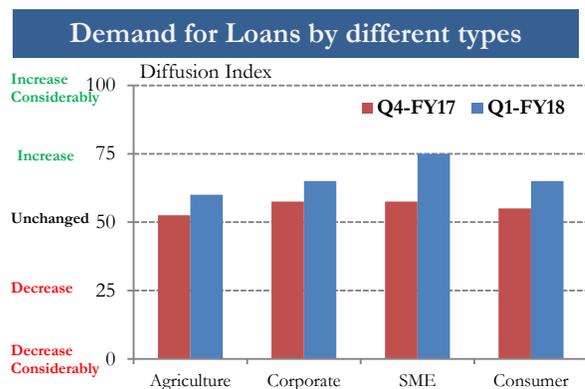
However, as compared to our previous survey in Q4-FY17 the numbers of people having positive views about the credit conditions are slightly lower in the survey during Q1-FY18.

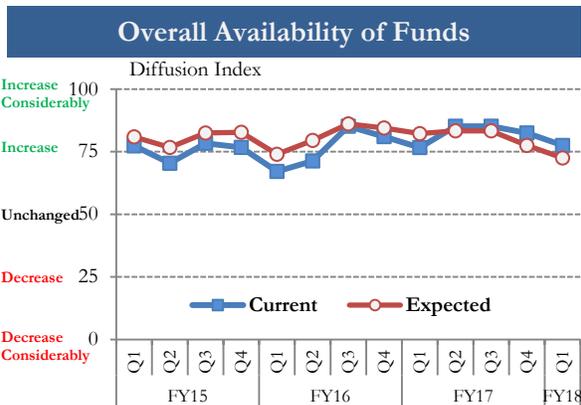
The main factors supporting the expansion in the credit demand has been the need of firms for inventories and working capital, fixed investment, improved security conditions, supportive monetary policy and seasonal increase in credit demand, as identified by the survey respondents. The only factor showing lower contribution to the overall demand for credit is the general economic conditions.

Interestingly, the expansion in current credit demand is broad based as it has increased for agriculture, corporate, SME and consumers alike. The largest increase in demand from the last survey is witnessed in the SME sector which bodes well for both economic growth and employment generation.



<b>Factors affecting overall demand for loans</b>			
Diffusion Index			
	Q4-FY17	Q1-FY18	Change
Inventories and working capital	75	88	13
Fixed investment needs	48	60	12
Monetary Policy	58	63	5
Seasonal effect	55	70	15
Security Conditions	48	65	17
Economic conditions	65	55	-10





## Overall Availability of Funds

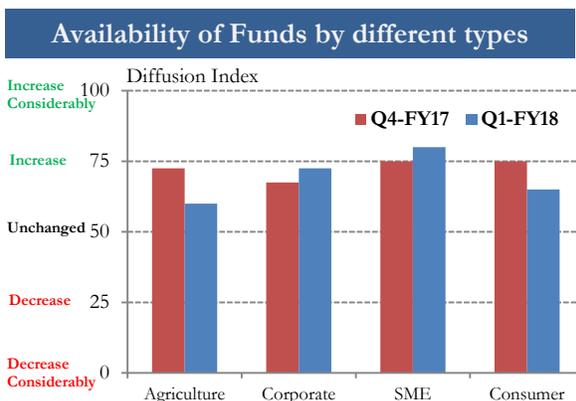
The overall availability of fund has continued to expand in the last quarter and is expected to increase for the next quarter as well.

However, a declining trend in this increase is evident from the last four quarters for both current and expected availability of funds.

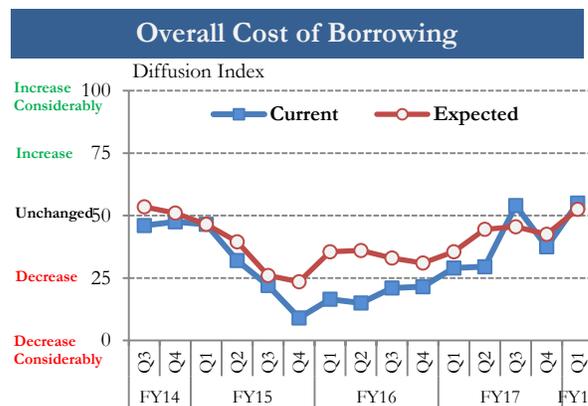
The availability of funds has been positively affected by the volume of deposits, bank liquidity and monetary policy. While, the results show that NPLs are affecting the overall availability of funds negatively, the share of such views is lower in Q1-FY18 survey as compared with the previous survey. Like in case of demand, the contribution of general economic conditions to the availability of funds has declined in this quarter.

Factors affecting overall availability of funds for loans			
Adjusted Diffusion Index			
	Q4-FY17	Q1-FY18	Change
Volume of deposits	43	90	47
NPL's	28	38	10
Competition	28	58	30
MP decisions	43	65	22
Bank liquidity position	50	75	25
Government borrowing	48	55	7
Economic conditions	60	53	-7

The availability of funds has increased for the corporate and SME sector compared to the last wave. However, it has declined for both the agriculture and the consumer sector. The decline in availability of funds for the agriculture sector can be attributed to seasonal changes.



The overall cost of borrowing has been on an increasing trend for the last few years and after a slight decline in the last wave of the survey it has resumed the increasing trajectory for both current quarter as well as its expectation for the next quarter.



## Banking Lending Survey (BLS) Notes

### **1. Computation of the Diffusion Index**

Let,

A = Number of respondents giving positive view in response to our question about some aspect

B = Number of respondents giving negative view in response to our question about some aspect

Then, the diffusion index can be computed as:

$$\text{Net Response (NR)} = \frac{(A-B)}{\text{Total Respondents}} * 100$$

$$\text{Diffusion Index (DI)} = \frac{(NR+100)}{2}$$

### **2. How to interpret the index?**

The survey results are presented in Diffusion Index (DI) format which varies between 0 and 100.

The DI can be interpreted as follows:

DI < 50 indicates credit contraction/reduction in availability of funds/decline in the borrowing cost;

DI = 50 indicates unchanged credit growth/availability of funds/cost of borrowing;

DI > 50 indicates credit expansion/increase in availability of funds/increase in the borrowing cost.