

## State Bank of Pakistan’s Bank Lending Survey – Q2-FY18

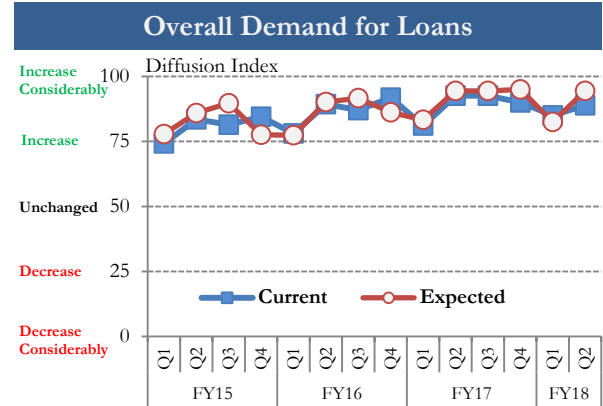
In Q2-FY18 Bank Lending Survey (BLS), SBP received feedback from senior officers of 18 commercial banks.

### Overall Demand

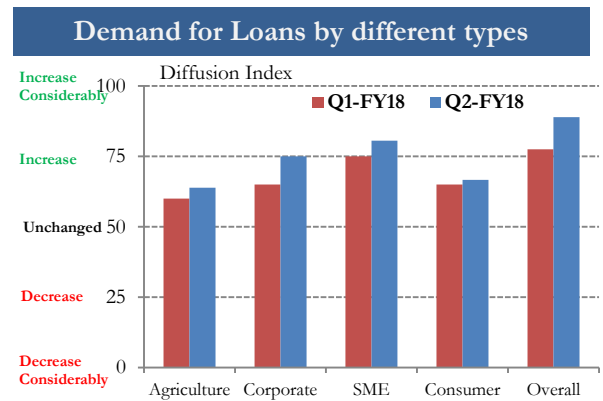
According to the opinions of bank officials, the overall demand for loans continued to expand over the last quarter and is expected to increase in the next quarter as well. However, as compared to our previous survey in Q1-FY18 the numbers of people having positive views about credit conditions are higher in the survey during Q2-FY18.

The two main factors supporting the expansion in the credit demand has been the need of firms for inventories and working capital and improved economic conditions. In addition, fixed investment, seasonal increase in credit demand are the other factors identified by the survey respondents. The biggest positive change is in economic conditions, which is significantly contributing to increase in overall demand for credit.

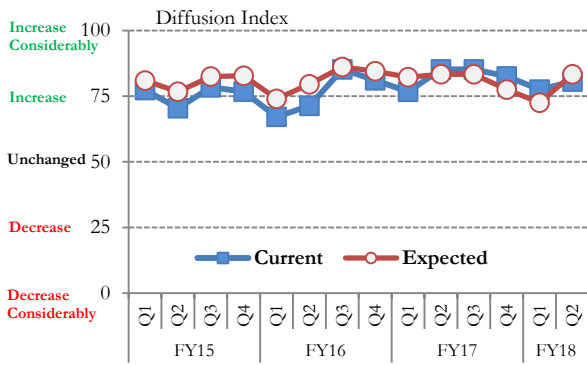
Interestingly, the expansion in current credit demand is broad based as it has increased for agriculture, corporate, SME and consumers alike. The largest increase in demand from the last survey is witnessed in the corporate sector which bodes well for both economic growth and employment generation.



<b>Factors affecting overall demand for loans</b>		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q1-FY18	Q2-FY18
Inventories and working capital	88	83
Fixed investment needs	60	67
Monetary Policy	63	58
Seasonal effect	70	67
Security Conditions	65	53
Economic conditions	55	81



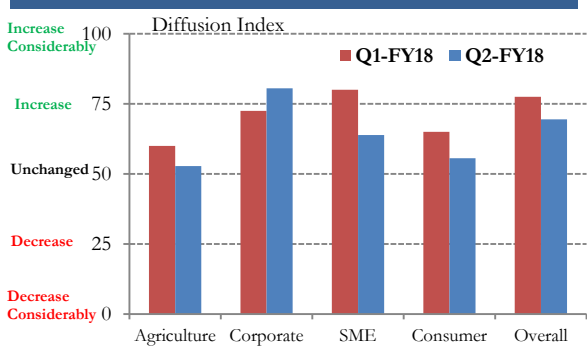
### Overall Availability of Funds



**Factors affecting overall availability of funds for loans**  
 Diffusion Index: (Value>50 indicates the factor is contributing to increase in availability of funds and vice versa)

	Q1-FY18	Q2-FY18
Volume of deposits	90	81
NPL's	38	39
Competition	58	42
MP decisions	65	58
Bank liquidity position	75	72
Government borrowing	55	61
Economic conditions	53	61

### Availability of Funds by different types



The overall cost of borrowing has increased significantly from the last wave of the survey. The expectation for increase in cost of borrowing is even higher for the next quarter. These expectations are in line with recent increase in lending rates.

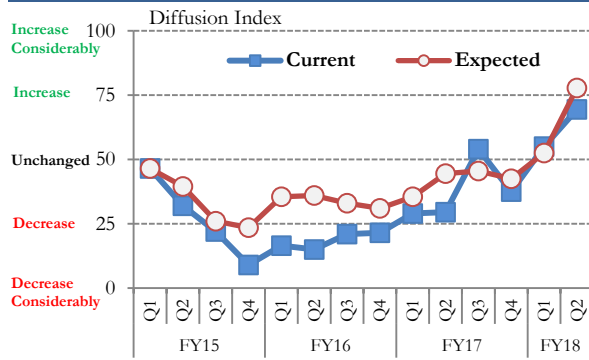
### Overall Availability of Funds

The overall availability of fund has continued to expand in the last quarter and is expected to visibly increase for the next quarter. The declining trend that was present for the last few quarters have reversed for both current and expected availability of funds. This is in line with the pickup in the second quarter of previous years as well.

The availability of funds has been positively affected by the volume of deposits, bank liquidity and economic conditions. While, the results show that NPLs are affecting the overall availability of funds negatively, the share of such views is slightly decreased in Q2-FY18 survey as compared with the previous survey. The perceptions regarding the effect of competition in the banking industry on the availability of funds for loans has changed from greater than 50 in the last survey to below 50 in the current survey.

As per opinion of banks officials, the availability of funds has increased for the corporate sector compared to the last wave. However, it has declined for SME, agriculture and consumer sectors.

### Overall Cost of Borrowing



## 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.