

State Bank of Pakistan’s Bank Lending Survey – Q3-FY18

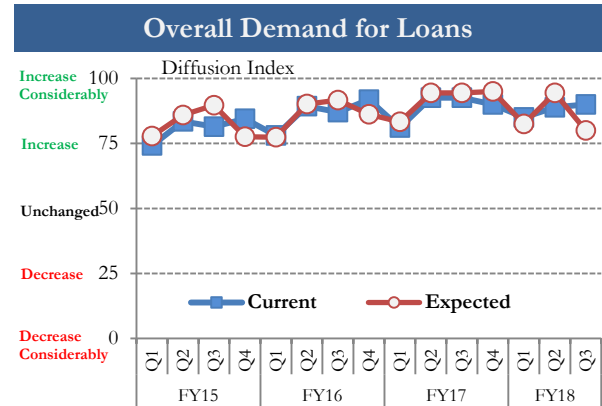
In Q3-FY18 Bank Lending Survey (BLS), SBP received feedback from senior officers of 21 commercial banks.

Overall Demand

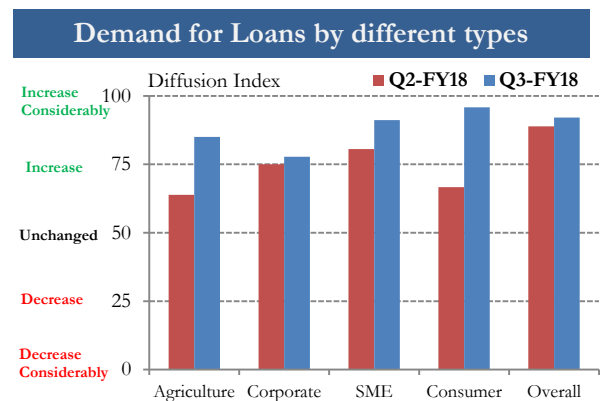
According to the opinions of bank officials, the overall demand for loans continued to expand over the last quarter and is expected to increase in the next quarter as well. However, as compared to our previous survey in Q2-FY18 the numbers of people having positive views about future credit conditions are lower in the survey during Q3-FY18.

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

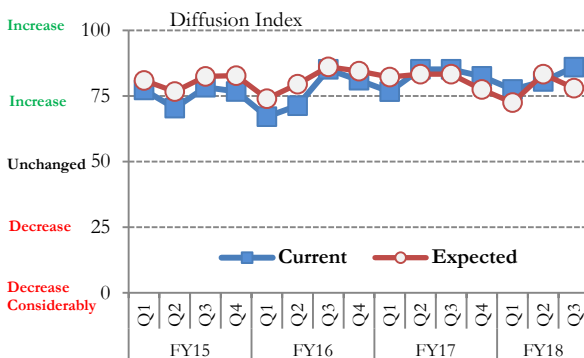
Interestingly, the expansion in current credit demand is broad based as it has increased for agriculture, corporate, SME and consumers alike. The large increase in demand from the last survey is witnessed in the agriculture and consumer sector which bodes well for future economic growth.



Factors affecting overall demand for loans		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q2-FY18	Q3-FY18
Inventories and working capital	83	85
Fixed investment needs	67	63
Monetary Policy	58	58
Seasonal effect	67	72
Security Conditions	53	66
Economic conditions	81	75

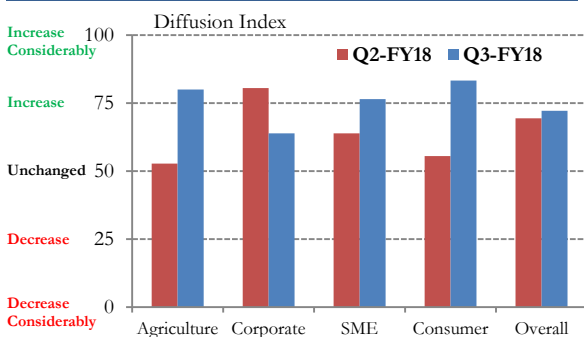


Overall Availability of Funds



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)		
	Q2-FY18	Q3-FY18
Volume of deposits	81	75
NPL's	39	48
Competition	42	56
MP decisions	58	56
Bank liquidity position	72	58
Government borrowing	61	50
Economic conditions	61	52

Availability of Funds by different types



The current and expected overall cost of borrowing has increased significantly compared to the last wave of the survey. The expectation for increase in cost of borrowing is even higher for the next quarter.

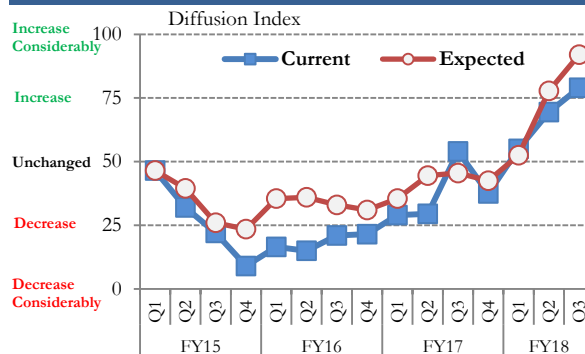
Overall Availability of Funds

The overall availability of fund has continued to expand in the last quarter however it is expected to increase at a lower rate for the next quarter. The declining trend that was present for the last few quarters have reversed for the current availability of funds.

The availability of funds has been positively affected by the volume of deposits. Banks liquidity position, competition in the banking industry, monetary policy and economic conditions also led to an increase in available funding for loans but to a lesser extent. While, the results show that NPLs are affecting the overall availability of funds negatively. However, the share of such views has decreased in Q3-FY18 survey compared to the last iteration. Interestingly, banking officials perceived the impact of government borrowing to be neutral for the overall availability of funds for loans in the current wave.

As per views of bank officials, the availability of funds in Q3-FY18 has significantly increased for the agriculture, SME and consumer sectors. However, it has declined for the corporate sector compared to the last wave.

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.