

State Bank of Pakistan’s Bank Lending Survey – Q4-FY18

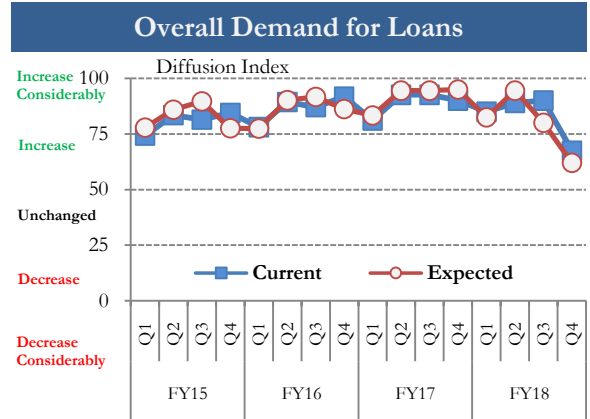
In Q4-FY18 Bank Lending Survey (BLS), SBP received feedback from senior officers of 20 commercial banks.

Overall Demand

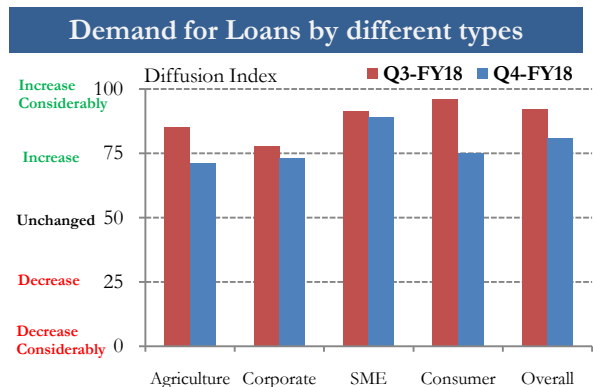
According to the opinions of bank officials, the overall demand for loans continued to expand over the last quarter and expected to increase in the next quarter as well with the value of diffusion index higher than 50. However, as compared to our previous survey in Q3-FY18, the numbers of people having positive views about both current and future credit conditions are significantly lower in the survey during Q4-FY18.

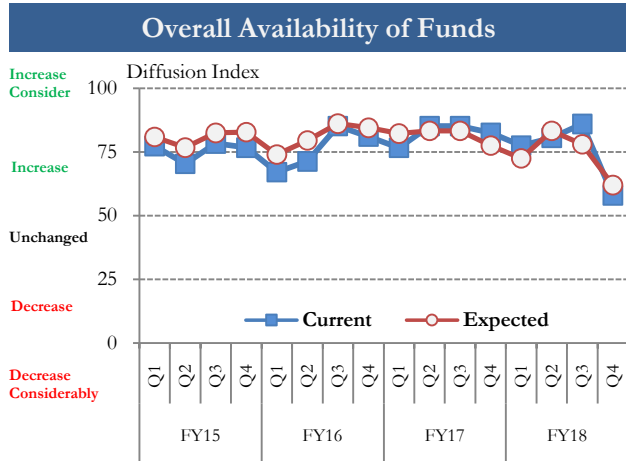
The main factor supporting the expansion in the credit demand is the need of firms for inventories and working capital. In addition, fixed investment needs and improved security conditions also positively affected the overall demand for credit. However, monetary policy and weakening of economic conditions adversely affected overall credit demand compared to previous quarter. The biggest negative change from last quarter is increase in policy rate, which contributed to slowdown in the overall demand for credit over the last three months.

The slowdown in current credit demand growth is broad based as it has decreased for agriculture, corporate, SME and consumer alike. However, the decline in demand for credit for SME and corporate sector is less pronounced compare to agriculture and consumer loans.



| Factors affecting overall demand for loans | | |
|---|---------|---------|
| Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa) | | |
| | Q3-FY18 | Q4-FY18 |
| Inventories and working capital | 85 | 78 |
| Fixed investment needs | 63 | 61 |
| Monetary Policy | 58 | 30 |
| Seasonal effect | 72 | 63 |
| Security Conditions | 66 | 60 |
| Economic conditions | 75 | 55 |





Overall Availability of Funds

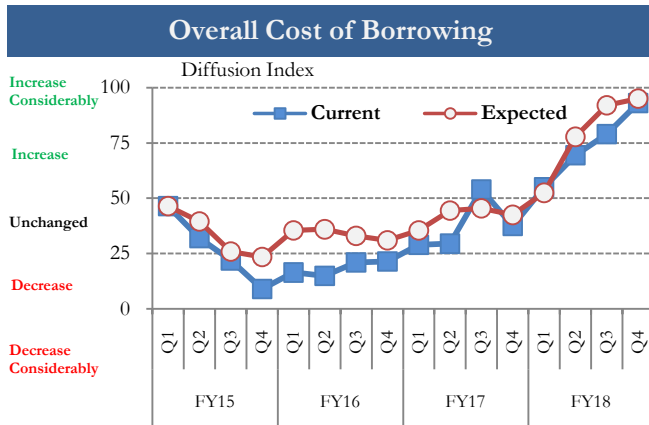
The overall availability of fund has continued to expand in the last quarter, however it has increased at a significantly lower rate compared to Q3-FY18. Furthermore, the availability of fund is expected to increase at a lower rate in the next quarter as well.

The availability of funds has been positively affected by the volume of deposits. Banks liquidity position and reduction in Non-Performing Loans also lead to an increase in available funding for loans but to a lesser extent. However, monetary policy decisions, and weakening economic conditions have significantly negatively affected the overall availability of funds. In addition, government borrowing and competition within the banking sector has also contributed towards reduction of availability of funds according to respondents of our survey.

| 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) | | |
| | Q3-FY18 | Q4-FY18 |
| Volume of deposits | 75 | 74 |
| NPL's | 48 | 55 |
| Competition | 56 | 45 |
| MP decisions | 56 | 33 |
| Bank liquidity position | 59 | 55 |
| Government borrowing | 50 | 47 |
| Economic conditions | 52 | 38 |

Overall Cost of Borrowing

The current cost of borrowing has increased significantly compared to the last wave of the survey. Whereas expected cost of borrowing continues to be close to the highest possible value for Q4-FY18 as well.



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.