# State Bank of Pakistan's Bank Lending Survey – Q1-FY20

In Q1-FY20 Bank Lending Survey (BLS), SBP received feedback from senior officers of 31 commercial and specialized banks.

Overall Demand

According to the opinions of banks officials, the overall demand for loans has contracted over the last quarter with the value of diffusion index less than 50. As compared to our survey last year in the same quarter Q1-FY19, the number of people having positive views about current credit conditions decreased. Current demand for loans has continued to slide downward for the fourth consecutive quarter, however, respondents are hopeful that demand for loans will increase in the next quarter.

The main factor supporting the expansion in the current credit demand is the firms' need for inventories and working capital. In addition, improved security conditions and seasonal effects also positively affected the overall demand for credit. However, monetary policy and prevailing economic conditions adversely affected overall credit demand same as in Q1-FY19.
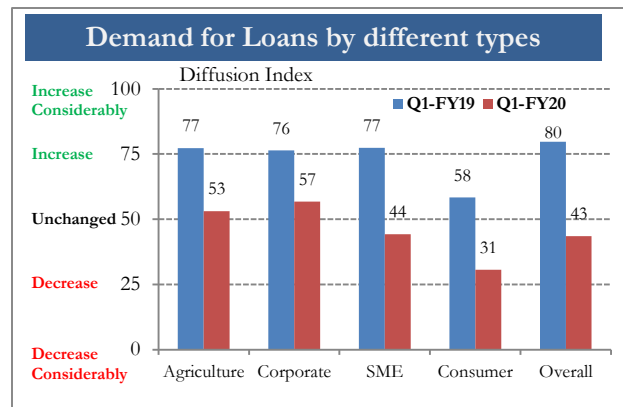
The demand for loans in all sectors have decreased as compared to same quarter last year. Consumer and SME sector lending witnessed the largest decline. However, despite a dip in agriculture and corporate sector lending in the current quarter, the diffusion index of both is still above 50.
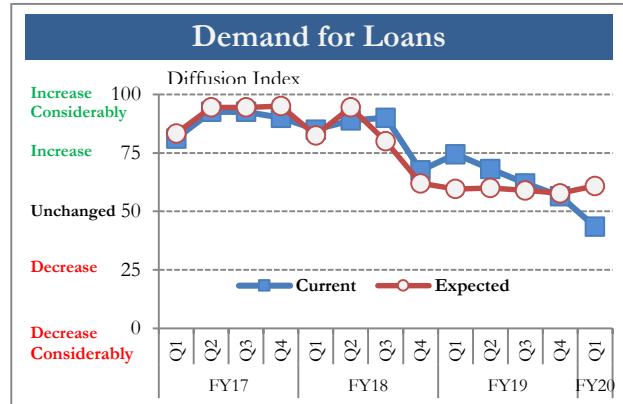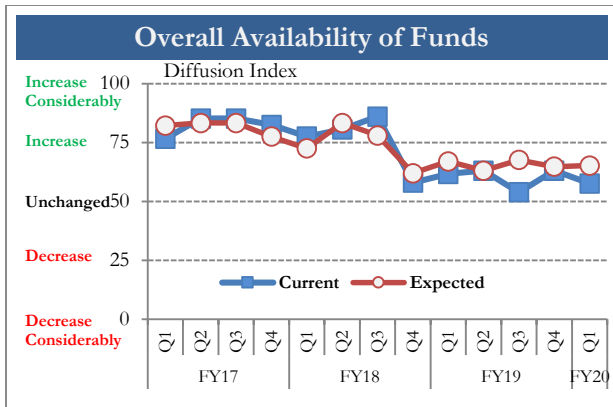

Demand for Loans

Factors affecting overall demand for loans		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q1-FY19	Q1-FY20
Inventories and working capital	73.9	55.7
Fixed investment needs	57.6	44.0
Monetary Policy	23.4	16.3
Seasonal effect	60.6	55.7
Security Conditions	57.6	55.7
Economic conditions	39.4	22.2

Demand for Loans by different types

Overall Availability of Funds

Overall Availability of Funds

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Current — Expected

Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1
FY17 — FY18 — FY19 — FY20

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-FY19	Q1-FY20
Volume of deposits	63.0	54.4
NPL's	46.8	36.0
Competition	43.5	42.0
MP decisions	28.7	35.2
Bank liquidity position	55.3	48.9
Government borrowing	43.2	46.4
Economic conditions	31.5	26.1

Availability of Funds by different types

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Q1-FY19 Q1-FY20

Agriculture 70 / 53; Corporate 57 / 57; SME 68 / 53; Consumer 65 / 48; Overall 61 / 58

Overall Cost of Borrowing

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Current — Expected

Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1
FY17 — FY18 — FY19 — FY20

Overall Availability of Funds

The overall availability of funds continued to expand in the current quarter with relatively lower growth compared to Q1-FY19. However, the respondents expect the growth in availability of funds to increase at a better rate in the next quarter.

The only factor contributing to increase in availability of funds in the current wave of our survey is volume of deposits. All other factors such as economic conditions, monetary policy decisions, NPLs, competition, government borrowing and banks liquidity position negatively affected the overall availability of funds as reflected by a value of less than 50 for diffusion index.
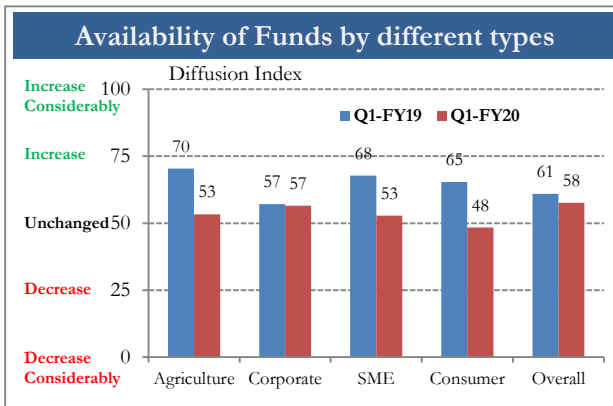
The overall decline in availability of funds in Q1-FY20 is broad-based, as it has decreased for all sectors except the corporate sector as compared to the same quarter of last year. A large decline in availability of funds from Q1-FY19 to Q1-FY20 is reported for agriculture, consumer and SME sectors.
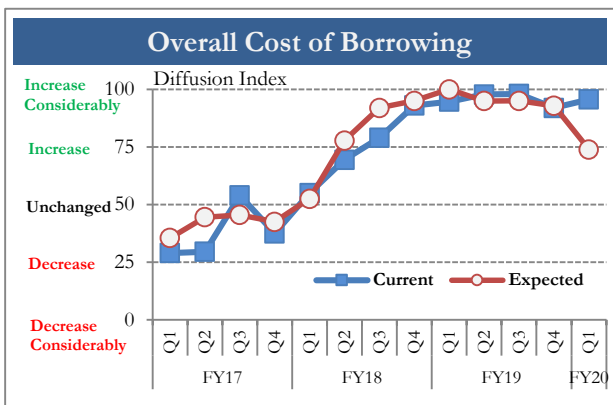
Overall Cost of Borrowing

The current cost of borrowing remains at significantly elevated level same as the last six waves of the survey. However, respondents that expect the cost of borrowing to increase in the next quarter have declined significantly for the first time in the last three years.

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:

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

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

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.