

State Bank of Pakistan’s Bank Lending Survey – Q1-FY21

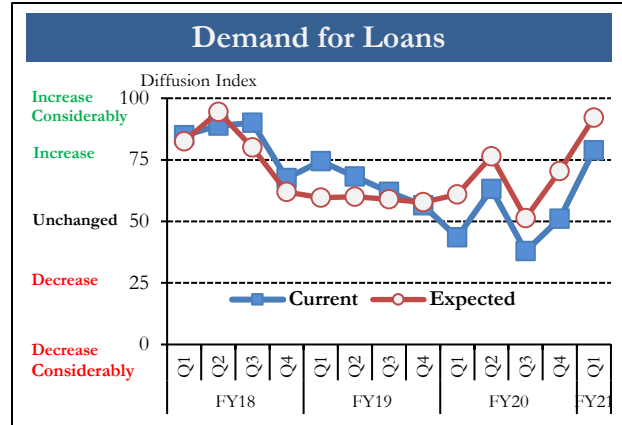
In first quarter of FY21, Bank Lending Survey (BLS), State Bank of Pakistan received responses from senior officers of 27 commercial and specialized banks.

Overall Demand

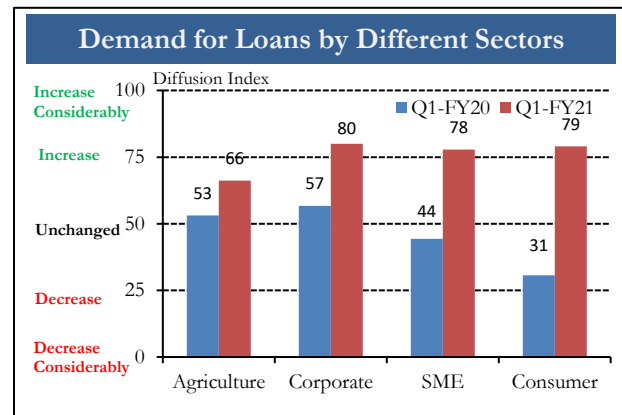
According to the opinions of banks officials, the overall demand for loans increased significantly during the first quarter FY21. Similarly, compared to the results of same quarter last year i.e. Q1-FY20, the number of bank loan officers having positive views about current credit conditions significantly increased. Survey respondents also anticipate increase in demand for loans in the next quarter.

The main factors that positively affected the overall credit demand in Q1-FY21 are recent easing of monetary policy and inventories & working capital needs. In addition, fixed investment needs and seasonal factors also positively affected the overall demand for credit. Although, prevailing economic conditions improved but still remained in negative zone in terms of, affecting the overall demand for credit (the diffusion index being still less than 50).

Overall increase in the demand for loans was contributed by all sectors in the current quarter. As compared to the same quarter last year, the biggest increase in current demand was witnessed for the consumer sector. Corporate and SME sectors also showed a sharp increase. Demand for loan in agriculture sector also increased but with a low pace as compared to other sectors.



Factors affecting overall demand for loans		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q1-FY20	Q1-FY21
Inventories and working capital	55.7	74.4
Fixed investment needs	44.0	66.3
Monetary policy	16.3	83.8
Seasonal effect	55.7	58.3
Security conditions	55.7	53.7
Economic conditions	22.2	41.7



Overall Availability of Funds

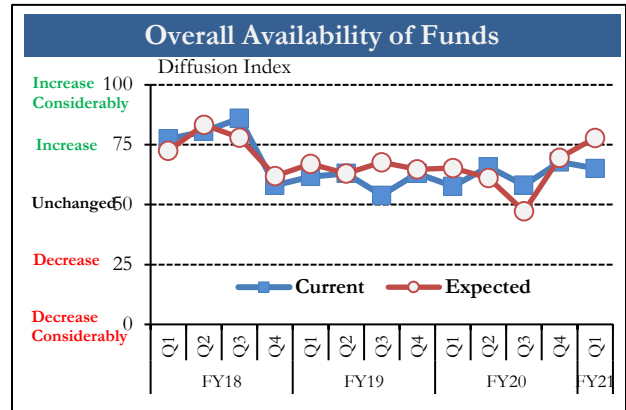
The overall availability of funds continued to expand in the first quarter of FY21, with marginal increase compared to the same quarter of previous year. Furthermore, the respondents also expect increase in growth of availability of funds in the next quarter.

The recent monetary policy stance is the major factor contributing to increase in availability of funds in the current quarter over the same quarter last year. The volume of deposits, bank liquidity position and competition from other banks also positively affected the current availability of funds. On the other hand, NPLs and prevailing economic conditions had a negative impact on the current overall availability of funds.

The availability of funds in current quarter witnessed an overall increase for all sectors. The availability of funds in Q1-FY21 has highest increase for the consumer and SME sectors. Corporate and agriculture sectors also showed significant increase in availability of funds as compared to same quarter in FY20. All sectors remained in the positive zone with diffusion index value well above 50.

Overall Cost of Borrowing

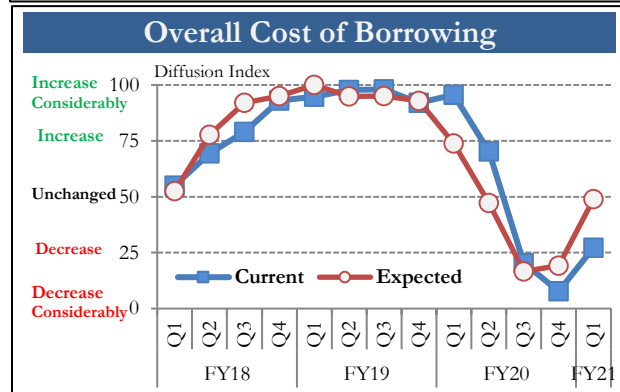
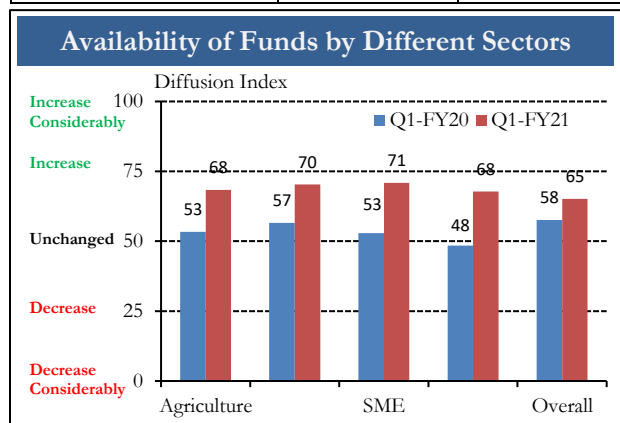
The diffusion index of current cost of borrowing showed an increase in the latest wave as compared to previous quarter, but the level is still far below 50. However, as per expectation of the respondents, expected diffusion index of cost of borrowing has touched the level of 50.



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-FY20	Q1-FY21
Volume of deposits	54.4	73.2
NPLs	36.0	37.2
Competition	42.0	53.8
MP decisions	35.2	78.8
Bank liquidity position	48.9	65.1
Government borrowing	46.4	50.0
Economic conditions	26.1	43.8



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.