

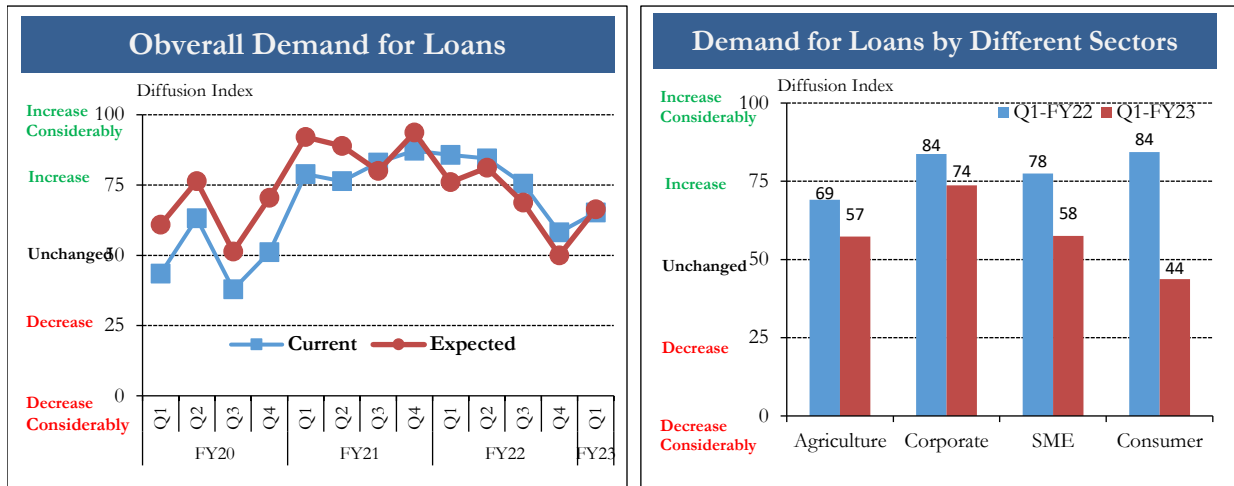
State Bank of Pakistan’s Bank Lending Survey – Q1-FY23

The current wave of Bank Lending Survey (BLS) was conducted during October 1-7, 2022, participated by 46 senior officers from commercial and specialized banks.

Overall Demand for Credit

According to the opinions of bank officials in the first wave of FY23, the overall demand for loans in Q1-FY23 increased as compared to last quarter, while it declined significantly over same quarter last year. Further, respondents expect slight increase in overall demand for loans for the next quarter.

Overall decrease in the demand for loans contributed by all sectors in Q1-FY23 over same quarter last year. According to the respondents, historically biggest (YoY) dip was witnessed in consumer sector during current quarter. In addition, SME and agriculture sectors also recorded (YoY) decline in the same period, while corporate sector contributed the least in decline of overall demand for loans.

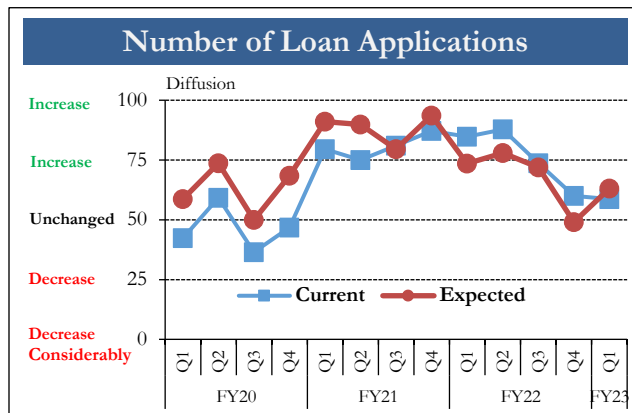


There are various factors affecting overall credit demand. The factors that negatively affected the credit demand in Q1-FY23 over corresponding quarter last year were uncertain economic conditions, monetary policy decision, seasonal effect, security conditions and fixed investment needs. While inventories and working capital has positively (slightly) impacted on overall credit demand.

| Factors affecting overall demand for loans | | |
|---|---------|---------|
| Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa) | | |
| | Q1-FY22 | Q1-FY23 |
| Inventories and working capital | 76.1 | 76.7 |
| Fixed investment needs | 70.5 | 53.6 |
| Monetary policy | 50.0 | 26.1 |
| Seasonal effect | 60.0 | 45.2 |
| Security conditions | 55.4 | 46.3 |
| Economic conditions | 55.6 | 22.2 |

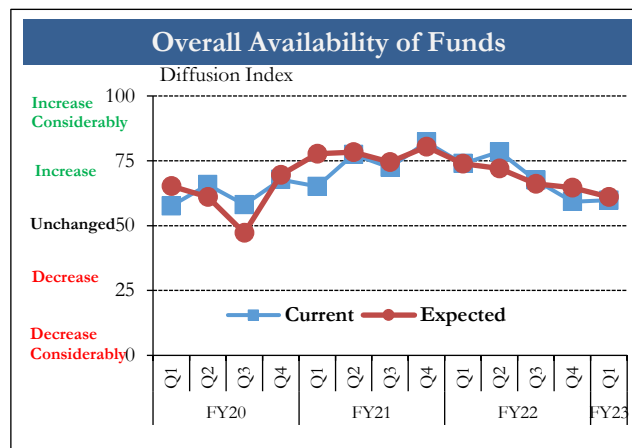
Number of Loan Applications

There is a significant decline in number of loan applications received in first quarter of FY23 over the same quarter last year. However, respondents expect number of loan applications to inch up in the next quarter.



Overall Availability of Funds

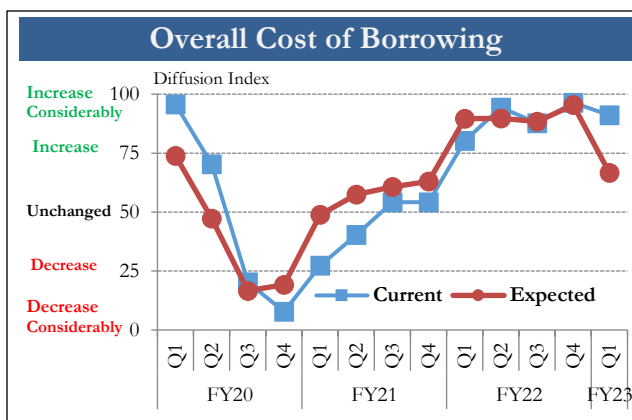
The overall availability of funds inched up in the first quarter of FY23 over previous quarter, while it declined significantly over same quarter last year. Moreover, respondents expect slight decline in availability of funds in the next quarter as well.



Main factors which negatively affected availability of funds over same quarter of preceding year were uncertain economic conditions, monetary policy decision, and competition from other banks.

Overall Cost of Borrowing

The overall cost of borrowing increased significantly in Q1-FY23 over the same quarter of FY22. However, it slightly declined as compared to previous quarter. Furthermore, respondents expect significant decline in the cost of borrowing in the next quarter from its current level.



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.