Data Services and Innovations Department

Bank Lending Survey – Q1-FY24 (25th wave)

The Bank Lending Survey (BLS) for Q1-FY24 was conducted during October 2-9, 2023. Fifty one (51) senior officers from banks and investment companies shared their views in the survey as compared to sixty nine (69) respondents in the previous wave.

Summary

- Overall demand for loans decreased in Q1-FY24 over Q4-FY23 while it also decreased significantly over the corresponding quarter of previous year. Decrease in overall demand for loan has also been anticipated during the next quarter of FY24.

- A continuous fall in number of loan applications has been observed since Q2-FY23. Respondents also expect further deceleration in number of loan applications during the next quarter.

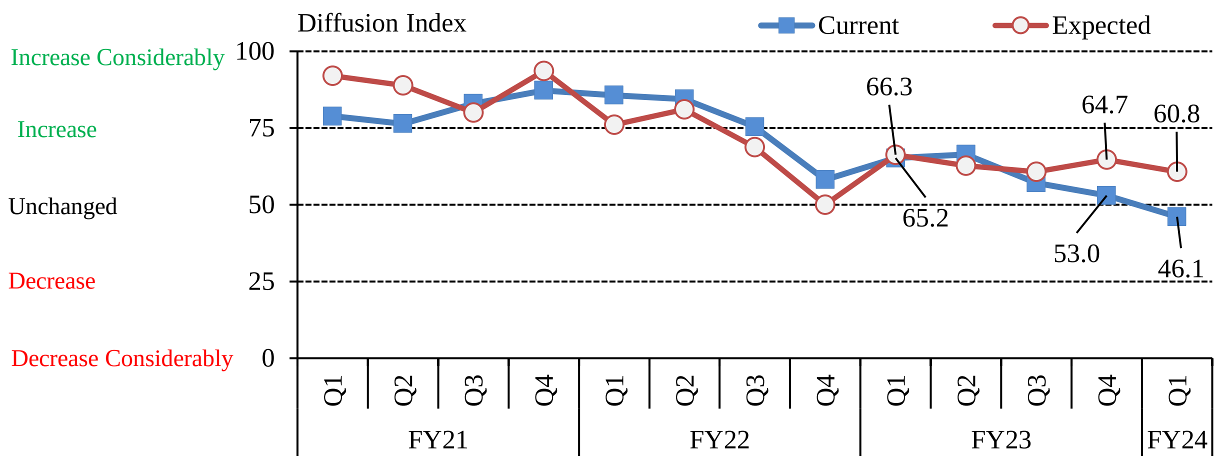
- The overall cost of borrowing decreased on both Quarter on Quarter (QoQ) and Year on Year (YoY) basis during the 1st quarter of FY24. Respondents expect further decrease in cost of borrowing during the second quarter of FY24.

- Overall availability of funds increased in Q1FY24 on QoQ as well as YoY basis in this quarter. This increase is in line with the expectations of respondents expressed in the previous wave of the survey. On the contrary, respondents expect a decrease in availability of funds in the next quarter.

Overall Demand for Loans

The majority of the respondents viewed that the overall demand for loans during current quarter of FY24 has decreased over the previous quarter and entered into negative zone (**Fig 1**) after a period of three and half years. Respondents also expect that the decreasing trend will continue in the next quarter of current fiscal year.

Fig 1: Overall Demand for Loans



There are various factors affecting overall demand for loans (**Table 1**). The respondents showed mixed views about these factors in Q1-FY24 over the same quarter of preceding year. The inventories and working capital needs and fixed investment needs were main factors towards sharp decrease in demand for loans over the previous year. The contribution of monetary policy decision and security conditions besides general economic activity remained in negative zone (<50) during Q1-FY24 over Q1-FY23. Seasonal effects contributed positively and entered into positive zone (>50) while fixed investment needs showed contrary behavior and entered into negative zone (<50).

Table 1: Factors affecting overall demand for loans

Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)

	FY23		FY24
	Q1	**Q4**	**Q1**
Inventories and working capital needs	76.7	53.1	52.0
Fixed investment needs	53.6	47.6	36.3
Monetary policy decisions	26.1	10.8	26.5
Seasonal effects	45.2	47.7	52.0
Security conditions	46.3	43.1	43.1
General economic activity	22.2	14.9	19.6

Overall decrease in the demand for loans index was contributed by all the sectors in Q1-FY24 over the same quarter last year (**Fig 2**). According to the respondents, the biggest (YoY) decline was observed in the corporate sector. SME and consumer were the second and third downward contributory factors, while demand from agriculture sector marked further decline entering into negative zone.

Fig 2: Demand for Loans by Sectors (YoY)

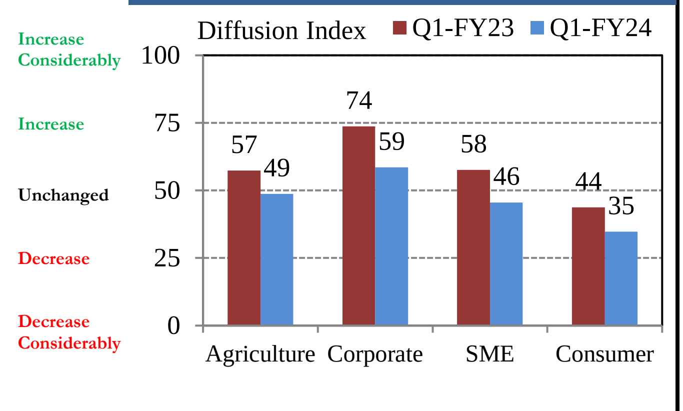
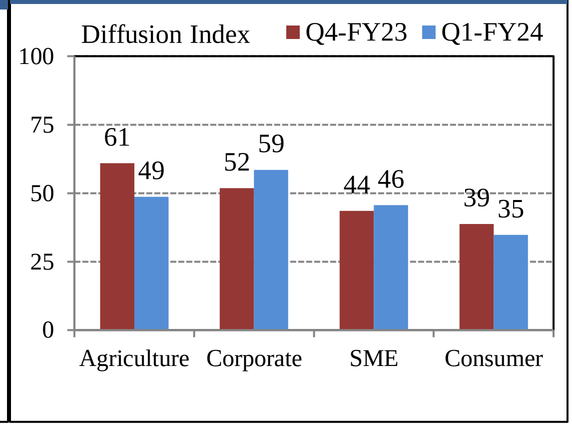


Fig 3: Demand for Loans by Sectors (QoQ)

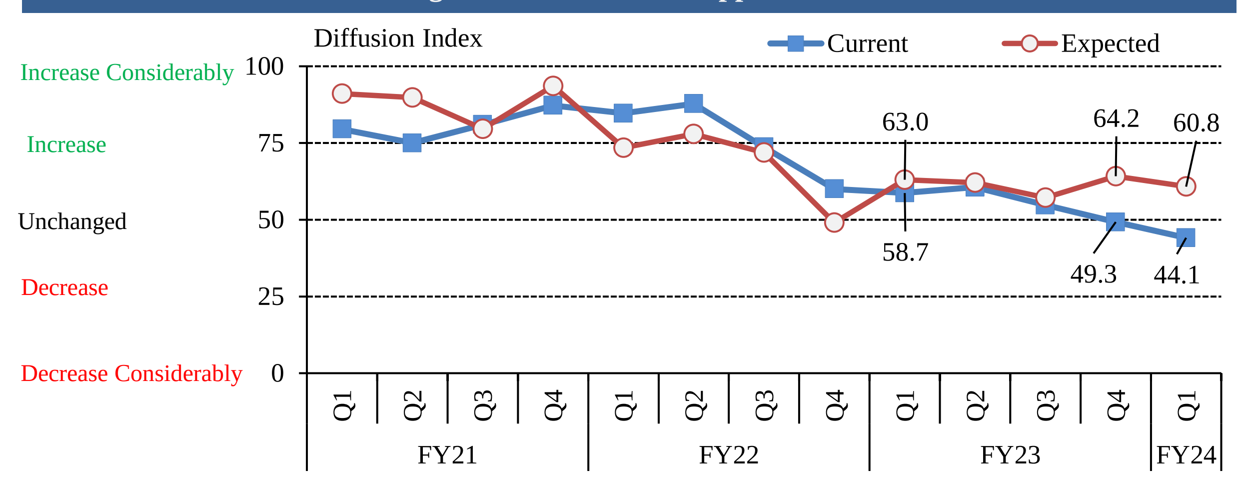


On QoQ basis, demand for loans by corporate and SME sectors exhibited a rise (Fig 3) in Q1-FY24 as compared to the previous quarter, while other sectors shown decline in the current quarter.

Number of Loan Applications

Respondents reported a continuous fall in number of loan applications since Q2-FY23 (**Fig 4**). Respondents also expect further deceleration in number of loan applications during the next quarter.

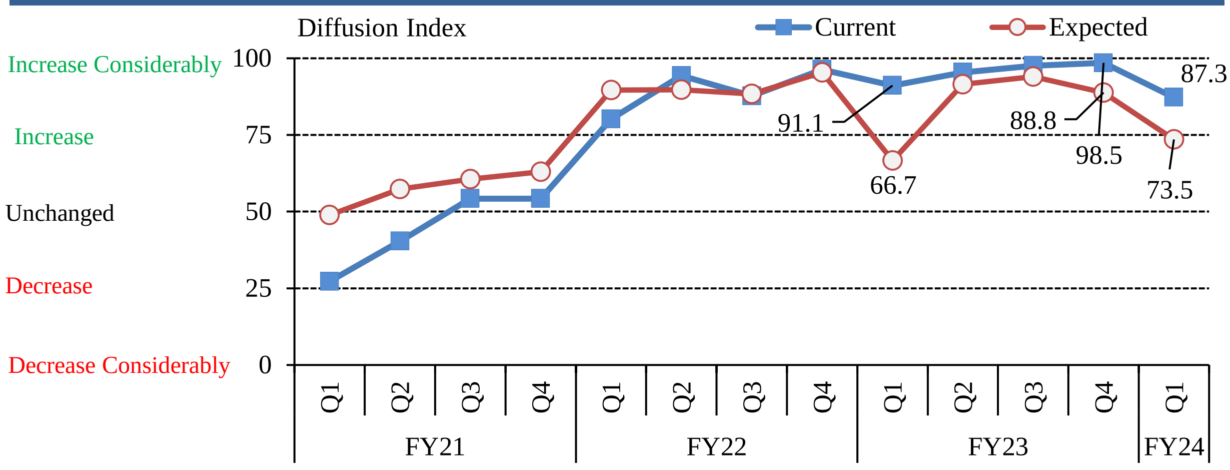
Fig 4: Number of Loan Applications



Overall Cost of Borrowing

The overall cost of borrowing decreased in Q1-FY24 compared with both previous wave as well as the corresponding quarter of last year (**Fig 5**). Likewise, respondents also expect decrease in cost of borrowing in the next quarter of FY24.

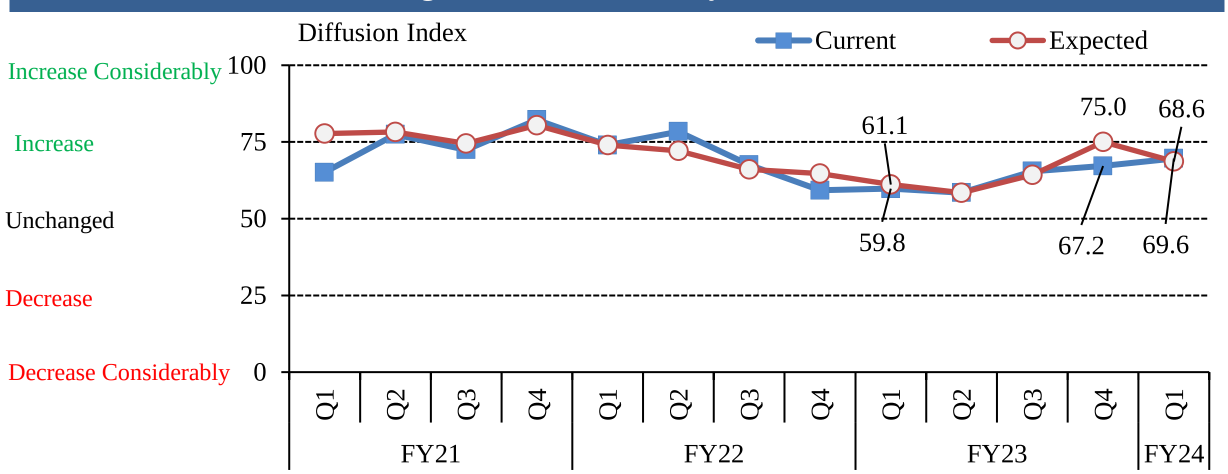
Fig 5: Overall Cost of Borrowings



Overall Availability of Funds

According to the respondents, the overall availability of funds has increased during the quarter under review as compared to previous quarter. A similar trend is also observed when compared with the same quarter last year. On the contrary, respondents expect a decrease in the availability of funds during next quarter (**Fig 6**).

Fig 6: Overall Availability of Funds



Volume of deposits and bank liquidity position have positively contributed towards increase in availability of funds during the quarter under review compared with the same period of preceding year (**Table 2**). On the other hand, non-performing loans played a negative role during the quarter under review with respect to the same quarter of preceding year. Although, respondents' views on other factors such as competition from other banks, monetary policy decision, government borrowing, and macroeconomic situation have improved over the preceding year but still remained in the negative zone. While comparing with the previous quarter, monetary policy decision and macroeconomic situation have positive impact on the overall availability of funds.

Table 2: 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)

	FY23		FY24
	Q1	**Q4**	**Q1**
Volume of deposits	67.4	73.4	72.5
Non-performing loans	36.4	30.3	27.5
Competition from other banks	45.2	48.4	47.1
Monetary policy decision	29.8	20.0	36.3
Bank liquidity position	56.7	62.1	58.8
Government borrowings	39.3	41.1	41.2
Macroeconomic situation	18.6	16.9	25.5

Bank Lending Survey (BLS) Notes

1. Computation of the Diffusion Index

Let

A = Number of respondents giving positive view in response to a question about some aspect;

B = Number of respondents giving negative view in response to a 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.