

# **Research Department**

## Bank Lending Survey - Q1-FY25 (29th wave)

The Bank Lending Survey (BLS) for Q1-FY25 was conducted from October 1 to 18, 2024. Fifty one (51) senior officers from banks and investment companies shared their views through the survey as compared to fifty seven (57) respondents in the previous wave.

#### Summary

- Overall demand for loans decreased slightly in Q1-FY25 over Q4-FY24. However, it increased over the corresponding quarter of the previous year. The respondents expect an increase in overall demand for loans in the next quarter.
- Number of loan applications decreased in the current quarter when compared to the previous quarter. However, the respondents expect an increase in the number of loan applications during the next quarter.
- The overall cost of borrowing decreased from the previous quarter. The cost of borrowing decreased significantly on Year-on-Year (YoY) basis. The respondents expect decrease in the cost of borrowing in the next quarter.
- Overall availability of funds increased in Q1-FY25 on QoQ. The respondents expect an increase in the availability of funds during the next quarter.

#### **Overall Demand for Loans**

The overall demand for loans decreased in Q1-FY25 over the previous quarter (**Fig 1**).However, the respondents expect an increase in the next quarter.



There are various factors affecting overall demand for loans (**Table 1**). Inventories and working capital needs contributed negatively while all other factors were on positive side. Monetary policy decisions made a substantial positive contribution. Contribution of general economic activity improved significantly but

remained within the negative zone (<50) during Q1-FY25 over Q4-FY24. Moreover, seasonal effects, fixed investment needs and security condition also exhibited increase in demand when compared to previous quarter.

While analyzing sector-wise demand for loans on QoQ basis, the highest decrease was observed in the Agriculture sector followed by SME and corporate sectors. On the other hand, the demand of consumers improved (**Fig 3**).

On YoY basis, all sectors exhibited positive contribution in the demand for loans in Q1-FY25 (**Fig 2**).

Table 1: Factors affecting overall demand for loans					
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)					
	FY24		FY25		
	Q1	Q4	Q1		
Inventories and working capital needs	52	63.7	62.8		
Fixed investment needs	36.3	50.0	56.0		
Monetary policy decisions	26.5	60.0	74.5		
Seasonal effects	52	49.1	55.7		
Security condition	43.1	45.2	47.7		
General economic activity	19.6	28.7	41.3		



### Number of Loan Applications

The respondents reported a decrease in the number of loan applications in Q1-FY25 (**Fig 4**) over the previous quarter. However, they expect increase in the number of loan applications in the next quarter.



#### **Overall Cost of Borrowing**

The overall perception on the cost of borrowing has decreased in Q1-FY25 compared to the previous quarter. Similarly, the respondents expect the cost of borrowing to decrease in the next quarter.



## **Overall Availability of Funds**

The overall perception on availability of funds has increased during the quarter under review when compared to the previous quarter. Moreover, the respondents expect a slight increase in the availability of funds in the next quarter (**Fig 6**).



Most of the factors affecting the availability of funds for loans contributed to the increase in Q1-FY25 when comparing with previous quarter. Factors such as macroeconomic situation, monetary policy decisions, volume of deposits, non-performing loans, government borrowing and bank liquidity position contributed positively compared to the previous quarter (Table 2). Competition from other banks affected negatively in Q1-FY25.

On YoY basis, all the factors improved over the same quarter of preceding year.

### Table 2: Factors affecting overall availability of funds

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

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	FY24		FY25
	Q1	Q4	Q1
Volume of deposits	72.5	69.4	75
Non-Performing loans	27.5	34.0	38.3
Competition from other banks	47.1	52.0	48.9
Monetary policy decisions	36.3	57.3	76.6
Bank liquidity position	58.8	64.2	66.3
Government borrowing	41.2	39.2	42.2
Macroeconomic situation	25.5	29.8	50

#### 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:

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