State Bank of Pakistan's Bank Lending Survey – Q2-FY19

In Q2-FY19 Bank Lending Survey (BLS), SBP received feedback from senior officers of 31 commercial and specialized banks.

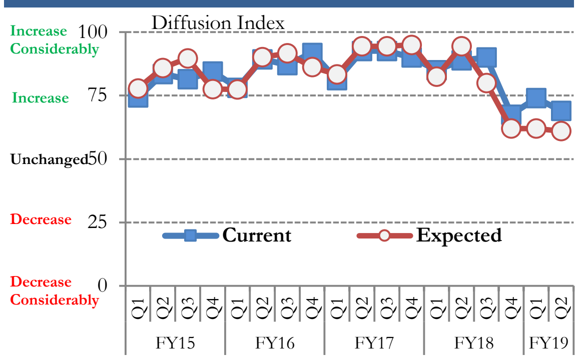
Overall Demand

According to the opinions of bank officials, the overall demand for loans continued to expand over the last quarter and expected to increase in the next quarter as well with the value of diffusion index higher than 50. However, as compared to our previous survey in Q1-FY19, the number of people having positive views about current credit conditions decreased; whereas it stayed the same for expected credit conditions for the next three months in the survey during Q2-FY19.

The main factor supporting the expansion in the current credit demand is the need of firms for inventories and working capital. In addition, seasonal effect, fixed investment needs and improved security conditions also positively affected the overall demand for credit. However, monetary policy and weakening of economic conditions adversely affected overall credit demand compared to previous quarter. The biggest negative change from last quarter is in economic conditions, which is expected to slow down the overall demand for credit over the next three months.

The current credit demand growth has decreased for agriculture, corporate sector and SMEs. However, the decline in credit demand for SME sector is less pronounced compare to the credit demand of the agriculture and corporate sector. Interestingly, credit demand has increased for consumers.

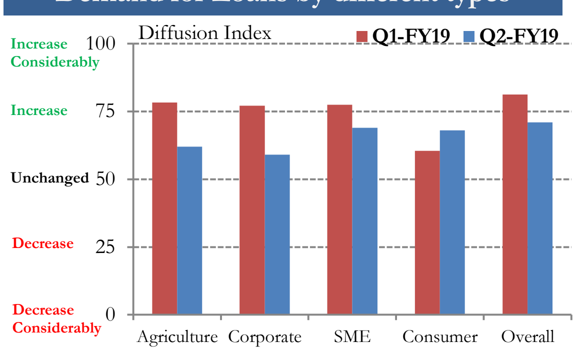
Overall Demand for Loans

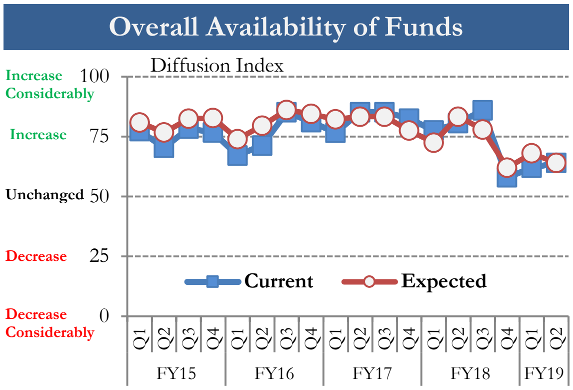


Factors affecting overall demand for loans
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)

	Q1-FY19	Q2-FY19
Inventories and working capital	77	72
Fixed investment needs	60	53
Monetary Policy	23	21
Seasonal effect	61	61
Security Conditions	58	56
Economic conditions	42	37

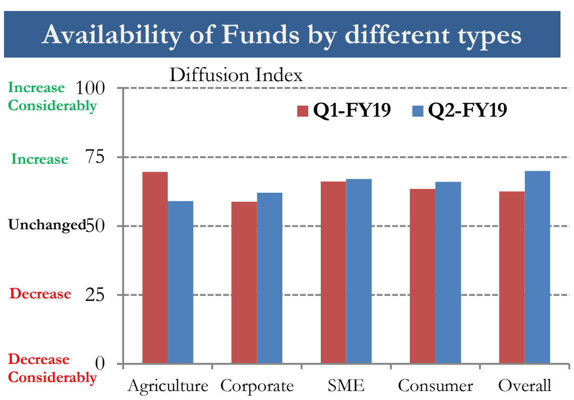
Demand for Loans by different types





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	Q2-FY19
Volume of deposits	64	68
NPL's	47	43
Competition	44	44
MP decisions	31	31
Bank liquidity position	56	53
Government borrowing	46	42
Economic conditions	33	30



Overall Cost of Borrowing

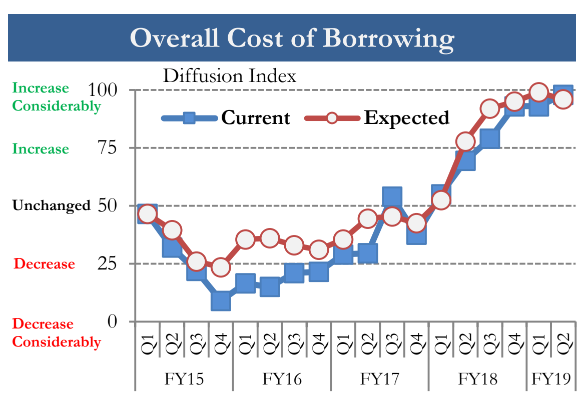
The current cost of borrowing remains at significantly elevated level same as the last three waves of the survey. Furthermore, the expected cost of borrowing is almost at the maximum diffusion index value of 100 for Q2-FY19.

Overall Availability of Funds

The overall availability of fund has continued to expand in the last quarter; it has increased at a marginally higher rate compared to Q1-FY19. However, the availability of funds is expected to increase at a lower rate in the next quarter.

The availability of funds has been positively affected by volume of deposits and bank liquidity position. However, weakening economic conditions and monetary policy decisions continued to negatively affect the overall availability of funds. In addition, competition within the banking sector, government borrowing and NPL's have also contributed towards reduction of availability of funds according to respondents of our survey.

The current slight increase in availability of funds has been broad-based, as it has increased for corporate, SME and consumer sectors alike. However, the availability of funds has declined for the agriculture sector.



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.