

State Bank of Pakistan’s Bank Lending Survey – Q2-FY20

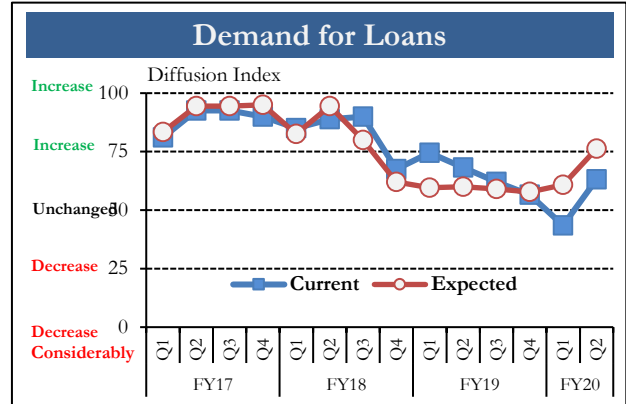
In Q2-FY20 Bank Lending Survey (BLS), SBP received feedback from senior officers of 24 commercial and specialized banks.

Overall Demand

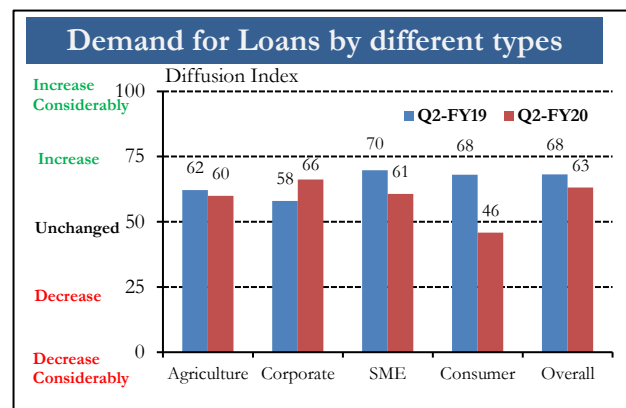
According to the opinions of banks officials, the overall demand for loans has expanded over the last quarter with the diffusion index value greater than 50. As compared to our survey last year in the same quarter Q2-FY19, the number of bank loan officers having positive views about current credit conditions increased. Current demand for loans increased in the current wave of BLS after a decline in last four quarters. Furthermore, survey respondents also anticipate that the demand for loans will continue to increase in the next quarter.

The main factor supporting expansion in the current credit demand is the firms’ need for inventories and working capital. In addition, improved security conditions and seasonal effects also positively affected the overall demand for credit. However, monetary policy and prevailing economic conditions adversely affected overall credit demand in Q2-FY20.

The demand for loans for most of the sectors decreased as compared to the same quarter last year. However, the demand for credit of the corporate sector actually increased in Q2-FY20 compared to Q2-FY19. The biggest decline in current demand was witnessed for the consumer sector. On the other hand, despite a dip in the SME and agriculture sector credit demand in the current quarter, the diffusion index of both is well above 50.



| Factors affecting overall demand for loans | | |
|---|---------|---------|
| Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa) | | |
| | Q2-FY19 | Q2-FY20 |
| Inventories and working capital | 71.7 | 65.8 |
| Fixed investment needs | 52.9 | 47.3 |
| Monetary policy | 20.4 | 27.8 |
| Seasonal effect | 61.1 | 56.8 |
| Security Conditions | 55.6 | 55.4 |
| Economic conditions | 36.8 | 37.8 |



Overall Availability of Funds

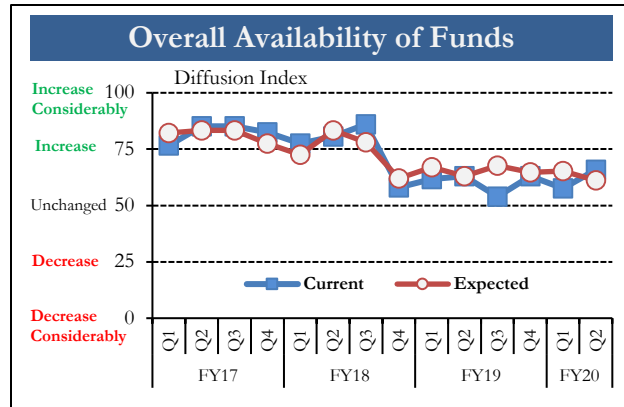
The overall availability of funds continued to expand in the current quarter with relatively higher growth compared to Q2-FY19. However, the respondents expect slight decline in growth of availability of funds in the next quarter.

The volume of deposits is the major factor contributing to increase in availability of funds in the current quarter as compared to the same quarter last year. The bank liquidity position and competition from other banks also positively affected the current availability of funds. On the other hand, NPL's, monetary policy decisions, economic conditions and government borrowing all had a negative impact on the current overall availability of funds.

The overall increase in availability of funds in current quarter shows a mixed trend for different sectors. The availability of funds in Q2-FY20 has increased marginally for the corporate and agriculture sectors, while consumer and SME sectors showed decline in availability of funds as compared to same quarter in FY19. However, all sectors remained in the positive zone with diffusion index value above 50.

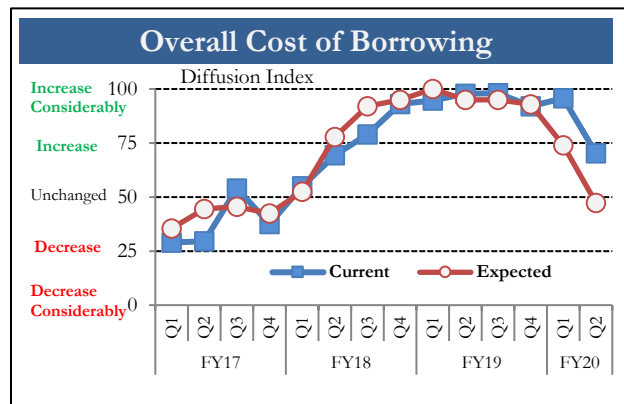
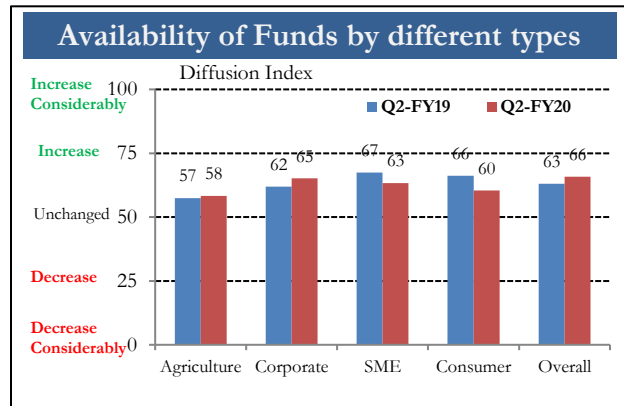
Overall Cost of Borrowing

After remaining at significantly elevated levels for the last six waves of BLS, the current cost of borrowing showed a significant decline in the current wave. Interestingly, the respondents in the last wave anticipated this decline in current cost of borrowing. Furthermore, respondents that expect the cost of borrowing to increase in the next quarter have declined significantly for the second consecutive wave of the survey.



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)

| | Q2-FY19 | Q2-FY20 |
|-------------------------|---------|---------|
| Volume of deposits | 66.7 | 78.4 |
| NPL's | 44.1 | 33.8 |
| Competition | 44.3 | 52.7 |
| MP decisions | 29.2 | 35.1 |
| Bank liquidity position | 51.9 | 61.8 |
| Government borrowing | 42.3 | 48.5 |
| Economic conditions | 30.6 | 39.5 |



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.