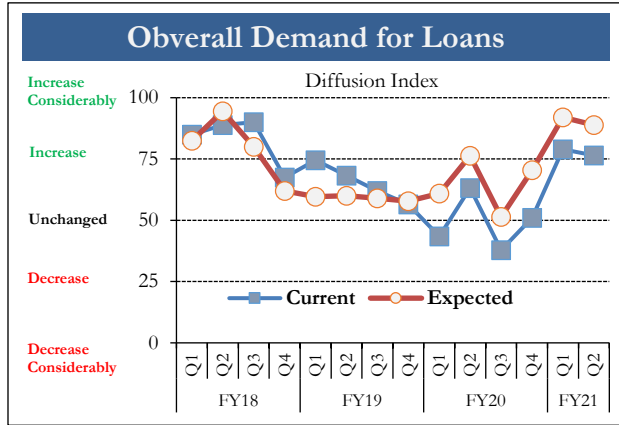


## State Bank of Pakistan's Bank Lending Survey – Q2-FY21

In second quarter of FY21, Bank Lending Survey (BLS), State Bank of Pakistan received responses from senior officers of 30 commercial and specialized banks. The Survey was conducted during 1-8<sup>th</sup> January 2021.

### Overall Demand for Credit

According to the opinions of bank officials in the second wave of the Survey in FY21, the overall demand for loans has declined, though the index is still significantly higher than 50 benchmark. Both the current and expected demand for credit show the similar trends.



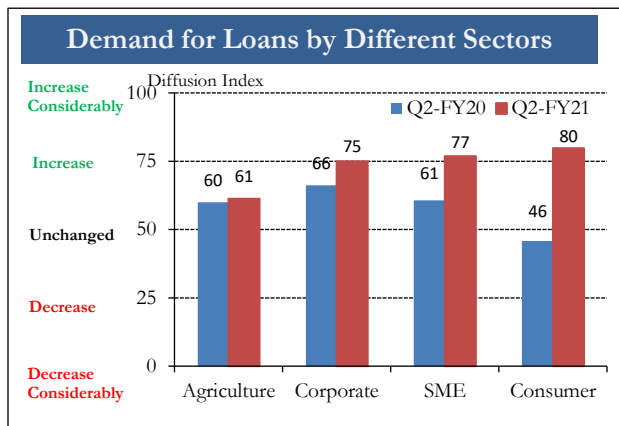
Easy monetary policy has been the largest positive factor behind credit demand, followed by fixed investment needs as the economy begins to revive. In addition, improved economic conditions, inventories & working capital, and increase in seasonal credit demand are the other factors identified by the survey respondents.

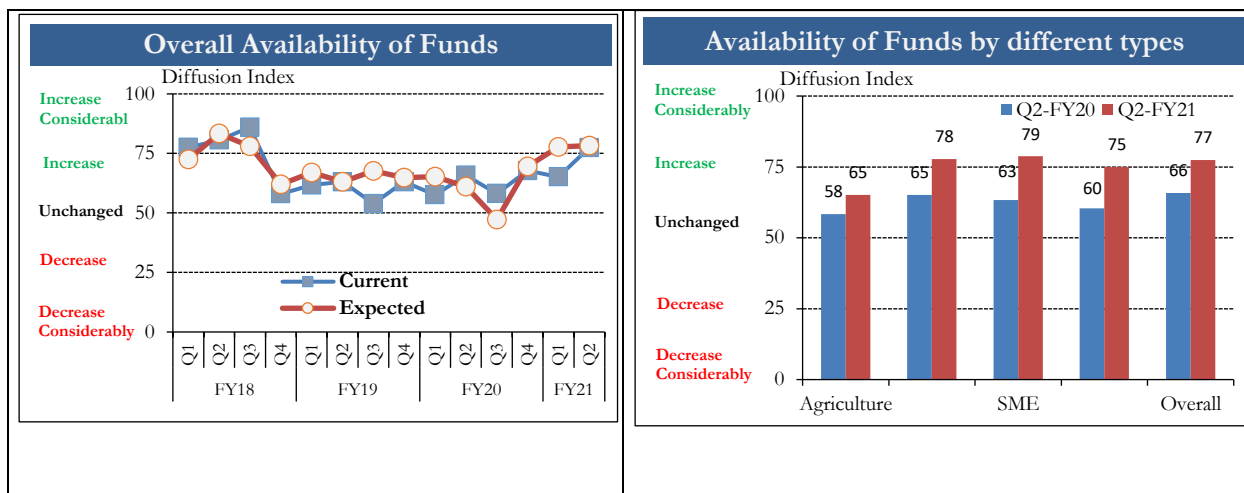
<b>Factors affecting overall demand for loans</b>		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q2-FY20	Q2-FY21
Inventories and working capital	65.8	74.0
Fixed investment needs	47.3	75.5
Monetary policy	27.8	75.0
Seasonal effect	56.8	59.6
Security conditions	55.4	53.9
Economic conditions	37.8	59.0

Interestingly, the expansion in current credit demand is broad based as it has increased for all sectors. While credit demand by agriculture sector, SME, and corporate sector also showed increases, the biggest increase came from consumers.

### Overall Availability of Funds

The overall availability of funds continued to expand in the second quarter of FY21, with significant increase, compared to the corresponding quarter of preceding year. Furthermore, the respondents also expect increase in growth of availability of funds in the next quarter.





The availability of funds in current quarter witnessed an overall increase for all sectors. The biggest increase in availability of funds witnessed for SME and consumer sectors in Q2-FY21 as compared to same quarter last year. In addition, corporate and agriculture sectors also showed significant increase in availability of funds in current BLS wave.

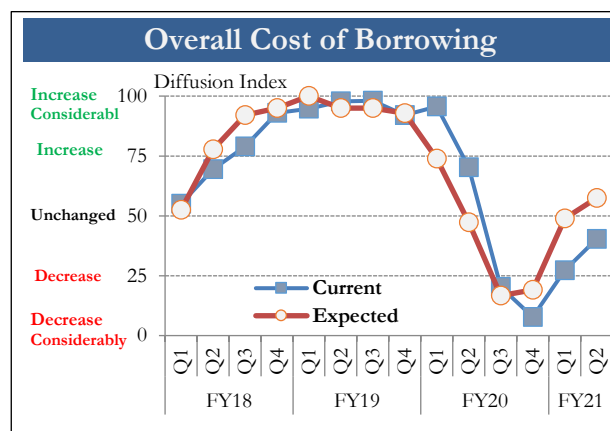
The monetary policy stance is the major factor contributing to increase in availability of funds in the current quarter. The improved economic conditions, bank liquidity position, government borrowing, and competition from other banks also contributed in expansion of current availability of funds. On the other hand, non-performing loans had improved in current wave over same period of the last year, but still remained in negative zone.

**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-FY20	Q2-FY21
Volume of deposits	78.4	76.0
NPLs	33.8	41.7
Competition	52.7	54.7
MP decisions	35.1	67.3
Bank liquidity position	61.8	73.1
Government borrowing	48.5	54.9
Economic conditions	39.5	60.8

### Overall Cost of Borrowing

The diffusion index of current cost of borrowing showed an increase in the latest wave as compared to previous quarter, but the level is still below 50. However, as per expectations of the respondents, cost of borrowing will increase in the next quarter as diffusion index exceeds the level of 50.



## 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.