

State Bank of Pakistan’s Bank Lending Survey – Q2-FY22

This wave of Bank Lending Survey (BLS) was conducted during January 1-12, 2022, which was participated by 45 senior officers from commercial and specialized banks.

Overall Demand for Credit

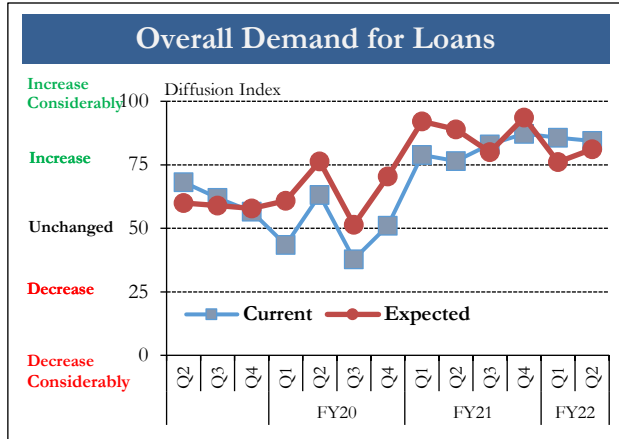
According to the opinions of bank officials in the second wave of the BLS Survey of FY22, the overall demand for loans in Q2-FY22 decreased from the last quarter, however, remained very strong compared to same quarter of FY21. Respondent’s expectation for overall demand for loans improved significantly for the next quarter.

The main factors that positively affected the overall credit demand in Q2-FY22 were inventories & working capital and seasonal effect. However, fixed investment needs and economic condition affected negatively. Whereas, respondents think that the impact of monetary policy decision on overall credit demand is significantly negative in the quarter under discussion.

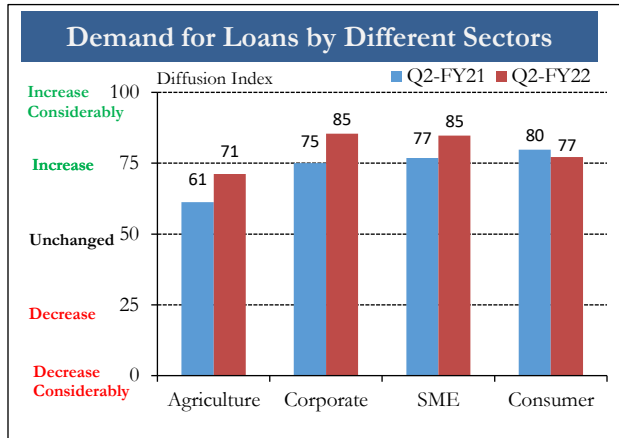
Overall stability in the demand for loans mainly contributed by three sectors in Q2-FY22: agriculture, corporate, and SME sectors. The consumer’s credit demand decreased compared to the corresponding quarter in the last year.

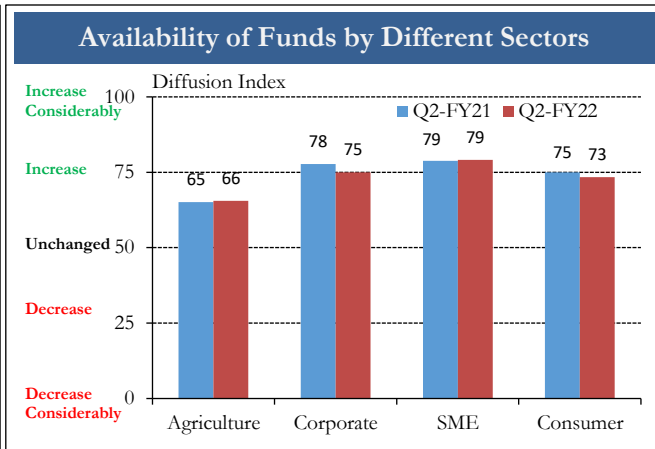
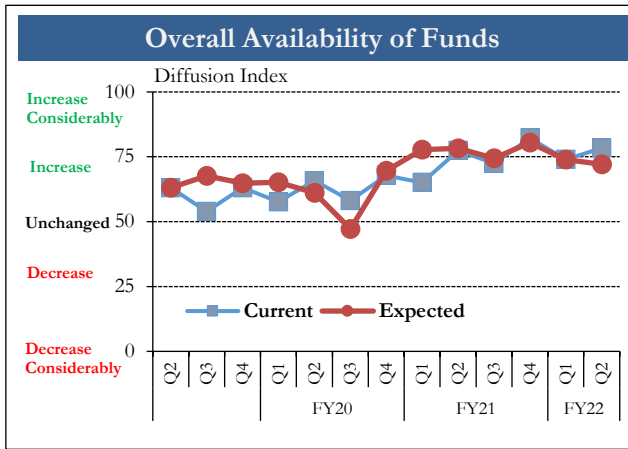
Overall Availability of Funds

The overall availability of funds improved in the second quarter of FY22 over Q2-FY21. Furthermore, it improved significantly over previous quarter. However, respondents expect decline in availability of funds in the next quarter compared to what they had expected in the previous quarter.



Factors affecting overall demand for loans		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q2-FY21	Q2-FY22
Inventories and working capital	74.0	82.9
Fixed investment needs	75.5	65.5
Monetary policy	75.0	27.9
Seasonal effect	59.6	69.8
Security conditions	53.9	53.5
Economic conditions	59.0	46.6





The availability of funds in second quarter witnessed varied behavior by different sectors. Consumer and corporate sector inched down while agriculture sector showed slight improvement. However, SME sector remained almost unchanged over the corresponding quarter last year.

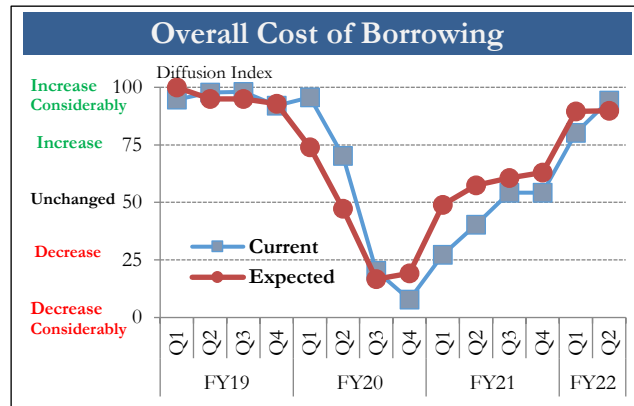
The factors positively affecting the overall availability of funds were volume of deposits, competition with other banks, bank liquidity position, and economic conditions. On the other hand, non-performing loans and MP decision had a negative impact on the overall availability of funds. Further, volume of deposits showed improvement over the corresponding quarter last year.

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-FY21	Q2-FY22
Volume of deposits	75.96	77.91
NPLs	41.67	35.71
Competition	54.72	59.52
MP decisions	67.31	42.05
Bank liquidity position	73.15	61.63
Government borrowing	54.90	50.00
Economic conditions	60.78	58.33

Overall Cost of Borrowing

The overall cost of borrowing continued its sharp increase in Q2-FY22 as well. However, respondents expect the current increase to continue with the same pace in the next quarter as well.



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.