Data Services and Innovations Department
Bank Lending Survey – Q2-FY23

The current wave of Bank Lending Survey (BLS) covering Q2-FY23 was conducted during January 1-9, 2023. Sixty seven (67) senior officers from commercial and specialized banks participated in the survey.

Summary

- Overall demand for credit increased in Q2-FY23 over Q1-FY23, while it declined as compared to the same quarter of preceding year. Respondents expect a decrease in overall demand for loans during Q3-FY23.

- Overall availability of funds slightly moved down (on QoQ) in the second quarter of FY23, while it declined significantly on YoY basis. Respondents expect further decline in availability of funds in the next quarter.

- The overall cost of borrowing slightly increased, on both, QoQ and YoY basis. Respondents expect significant increase in the cost of borrowing during Q3-FY23.

Overall Demand for Credit

The overall demand for loans in Q2-FY23 increased as compared to the last quarter, while it declined significantly over the corresponding quarter of the last year (**Fig 1**). Further, respondents expect decrease in overall demand for loans in the next quarter.

Fig 1: Overall Demand for Loans

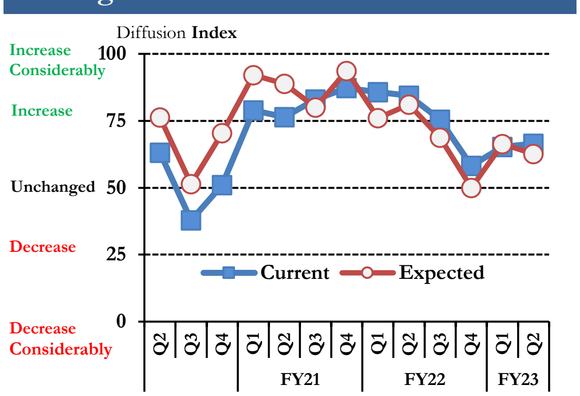
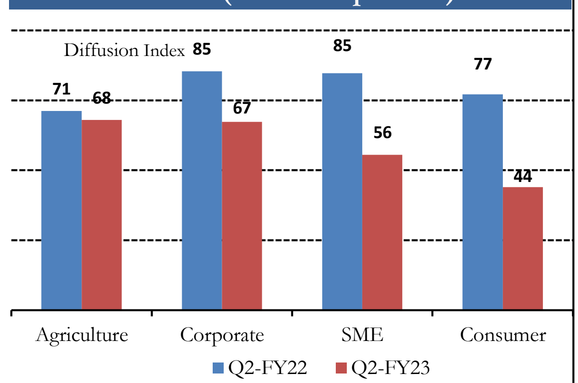


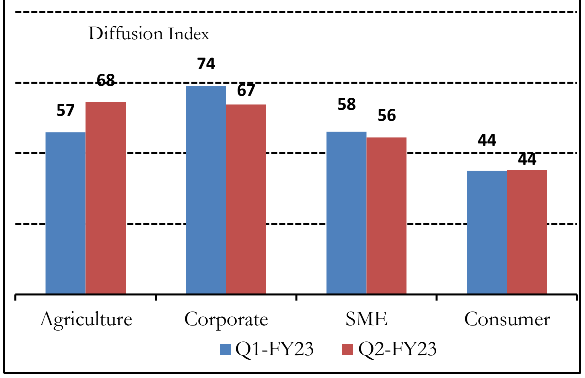
Fig 2: Demand for Loans by Different Sectors (YoY Comparison)



Overall, there was a decrease in the demand for loans, which was contributed by all the sectors in Q2-FY23 over the same quarter last year (**Fig 2**). According to the respondents, the biggest (YoY) decline was witnessed in the consumer sector during the current quarter. In addition, SME and corporate sectors also recorded (YoY) decline in the same period, while the agriculture sector had a minimal impact on the overall demand for loans. On QoQ basis, demand for loan by SME exhibit minimal decrease (**Fig 3**).

There are various factors affecting overall credit demand. The factors that negatively affected in Q2-FY23 were inventories & working capital and seasonal effects over Q2-FY22. However, their contribution is still above the benchmark Diffusion Index (DI) of 50 (neutral). The DI of other factors such as fixed investment needs and security conditions have turned into negative zone (<50) during Q2-FY23 compared to Q2-FY22. Further, respondents of the survey noted that the factors such as monetary policy decision and general economic conditions had severe negative and contractionary impact on overall credit demand (Value<50) during Q2-FY23.

Fig 3: Demand for Loans by Different Sectors (QoQ Comparison)



Factors affecting overall demand for loans

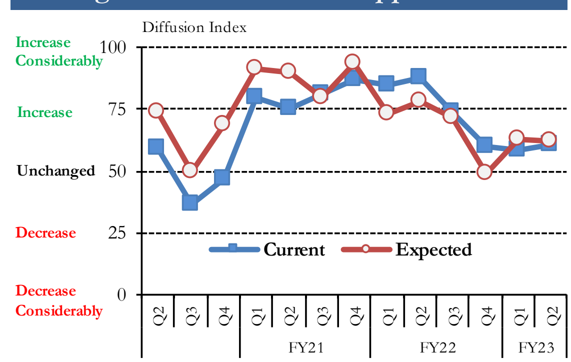
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)

	Q2-FY22	Q2-FY23
Inventories and working capital	76.1	64.5
Seasonal effects	60.0	50.8
Fixed investment needs	70.5	48.3
Security condition	55.4	43.3
Monetary policy decisions	50.0	22.7
General economic activity	55.6	17.2

Number of Loan Applications

Respondents reported a fall in number of loan applications received in second quarter of FY23 as compared to the corresponding quarter preceding year (**Fig 4**). However, respondents expect number of loan applications to inch up in the next quarter.

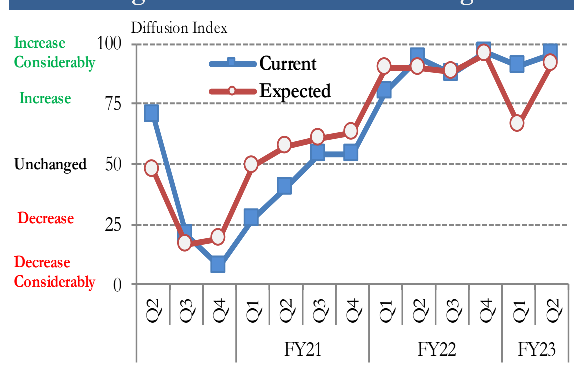
Fig 4: Number of Loan Applications



Overall Cost of Borrowing

The overall cost of borrowing slightly increased in Q2-FY23 when compared to both previous quarter as well as the corresponding quarter of last year (**Fig 5**). Furthermore, respondents anticipate considerable increase in the cost of borrowing in the next quarter from its current level, while a small increase was expected in Q2-FY23 over the corresponding quarter of last year.

Fig 5: Overall Cost of Borrowing

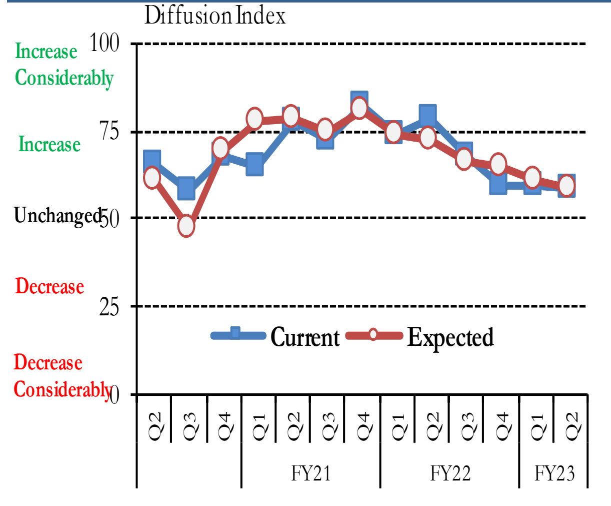


Overall Availability of Funds

According to respondents, the overall availability of funds slightly moved down during the second quarter of FY23 (QoQ), however, it showed significant decline when compared with the same quarter last year. Moreover, respondents expect a significant decline in availability of funds in the next quarter (**Fig 6**).

As per the respondents, main factors which negatively affected availability of funds (as compared to corresponding quarter of preceding year) includes uncertain macroeconomic conditions, monetary policy decision, and competition from other banks.

Fig 6: Overall Availability of Funds



Banking 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:

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

$$\text{Diffusion Index (DI)} = \frac{(NR+100)}{2}$$

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.