



Data Services and Innovations Department

Bank Lending Survey – Q2-FY24 (26th wave)

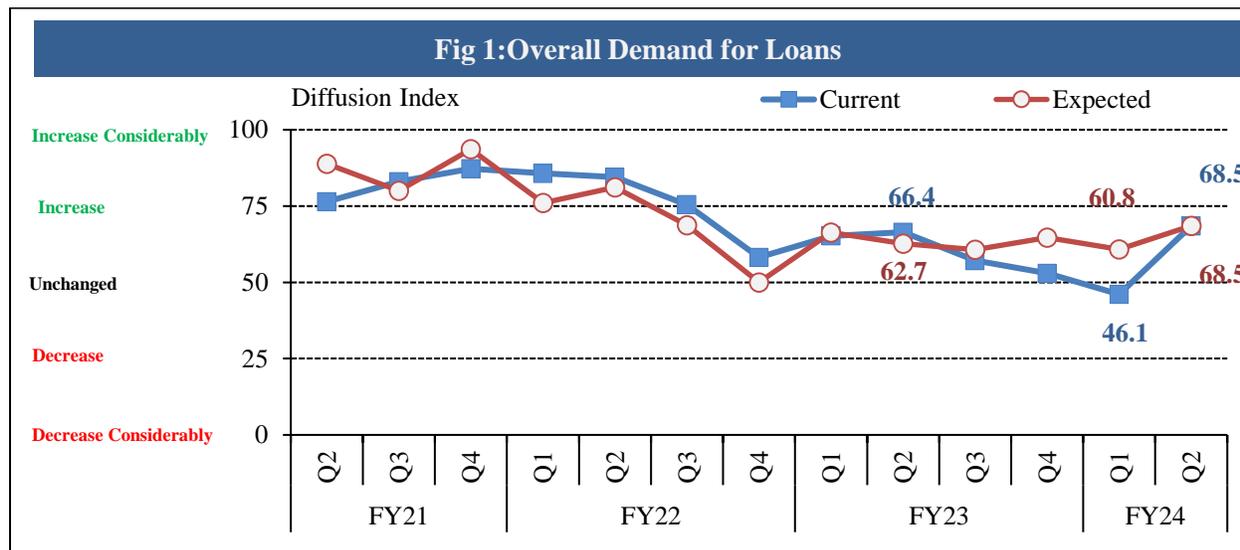
The Bank Lending Survey (BLS) for Q2-FY24 was conducted from January 1 to 10, 2024. Fifty four (54) senior officers from banks and investment companies shared their views through the survey as compared to fifty one (51) respondents in the previous wave.

Summary

- Overall demand for loans increased in Q2-FY24 over Q1-FY24 while it also increased marginally over the corresponding quarter of previous year. Increase in overall demand for loan has also been anticipated in the next quarter of FY24.
- A sharp increase in the number of loan applications has been recorded during the current quarter. Respondents also expect an increase in number of loan applications during the next quarter.
- The overall cost of borrowing continued downward movement on the both Quarter-on-Quarter (QoQ) and Year-on-Year (YoY) basis. This is in line with the expectations recorded in the previous survey. Respondents expect further decrease in cost of borrowing in the next quarter.
- Overall availability of funds decreased in Q2-FY24 on QoQ basis. This decrease is in line with the expectations recorded in the previous wave of the survey. However, respondents expect a slight increase in the availability of funds during the next quarter.

Overall Demand for Loans

The overall demand for loans increased significantly in Q2-FY24 over the previous quarter and entered again into the positive zone (**Fig 1**). Respondents also expect the increasing trend to continue in the next quarter.



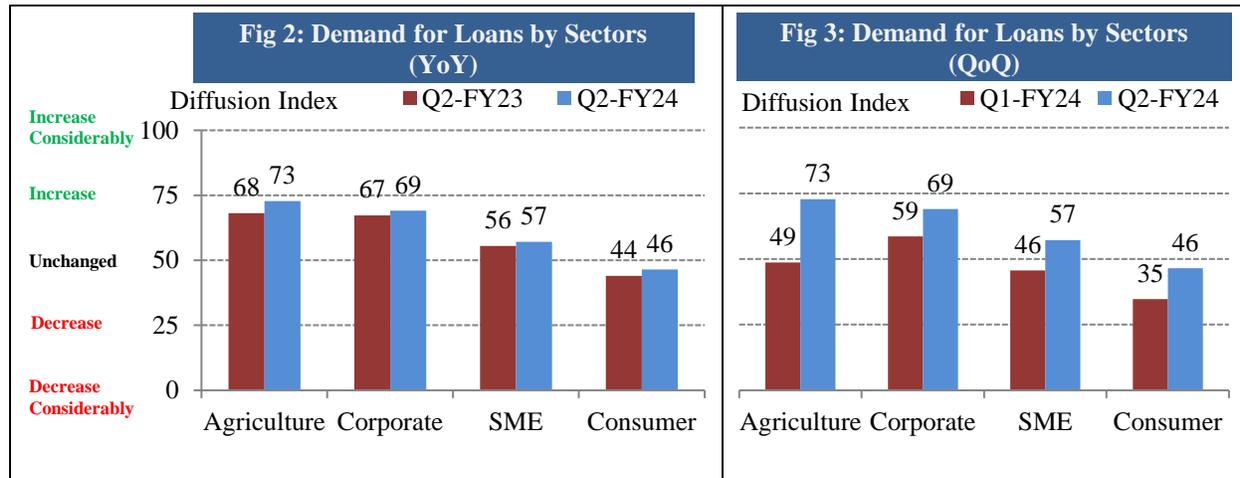
There are various factors affecting overall demand for loans (**Table 1**). The results show that all the factors contributed positively on the overall demand in Q2-FY24 over the same quarter of the previous year. While inventories and working capital needs increased marginally, seasonal effects and fixed investment needs had a significant contribution in the overall increase in demand. The fixed investment needs entered into the positive zone after Q1-FY23. Contribution of monetary policy decisions, security conditions and general economic activity also improved but remained within the negative zone (<50) during Q2-FY24 over Q2-FY23.

Table 1: Factors affecting overall demand for loans

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

	FY23	FY24	
	Q2	Q1	Q2
Inventories and working capital needs	64.5	52.0	65.3
Fixed investment needs	48.3	36.3	53.3
Monetary policy decisions	22.7	26.5	27.5
Seasonal effects	50.8	52.0	65.2
Security conditions	43.3	43.1	47.9
General economic activity	17.2	19.6	32.4

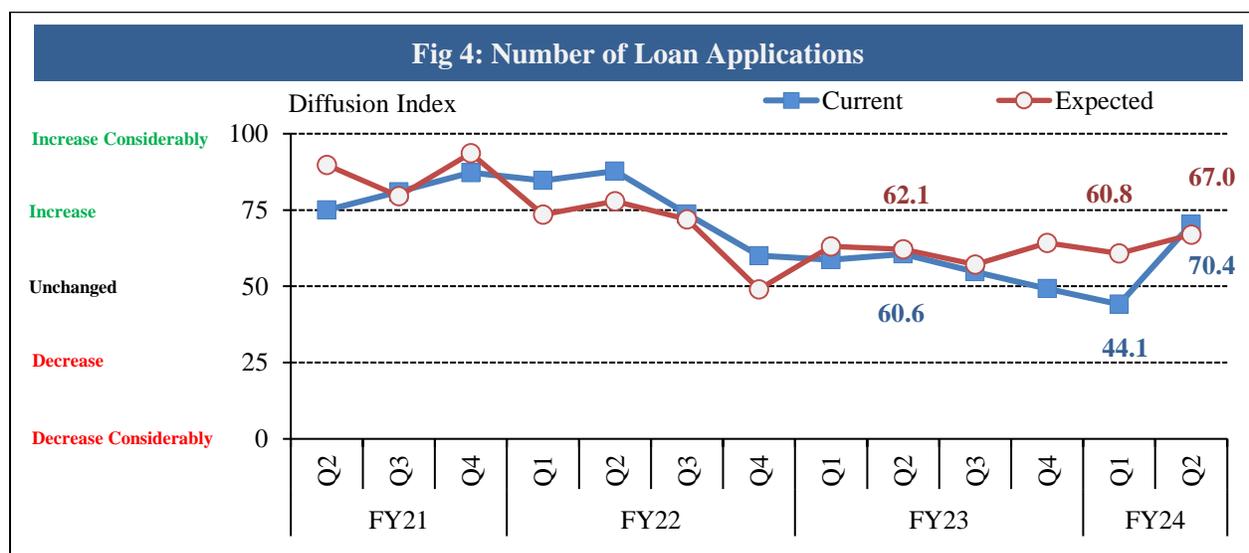
On YoY basis, overall increase in the demand was contributed by all the sectors in Q2-FY24. The highest increase was observed in the Agriculture sector followed by Consumer, Corporate and SME sectors. However, Consumer sector remained in negative zone (**Fig 2**).



Demand for loans (on QoQ basis) also exhibited significant increase for all the sectors in Q2-FY24 (**Fig 3**).

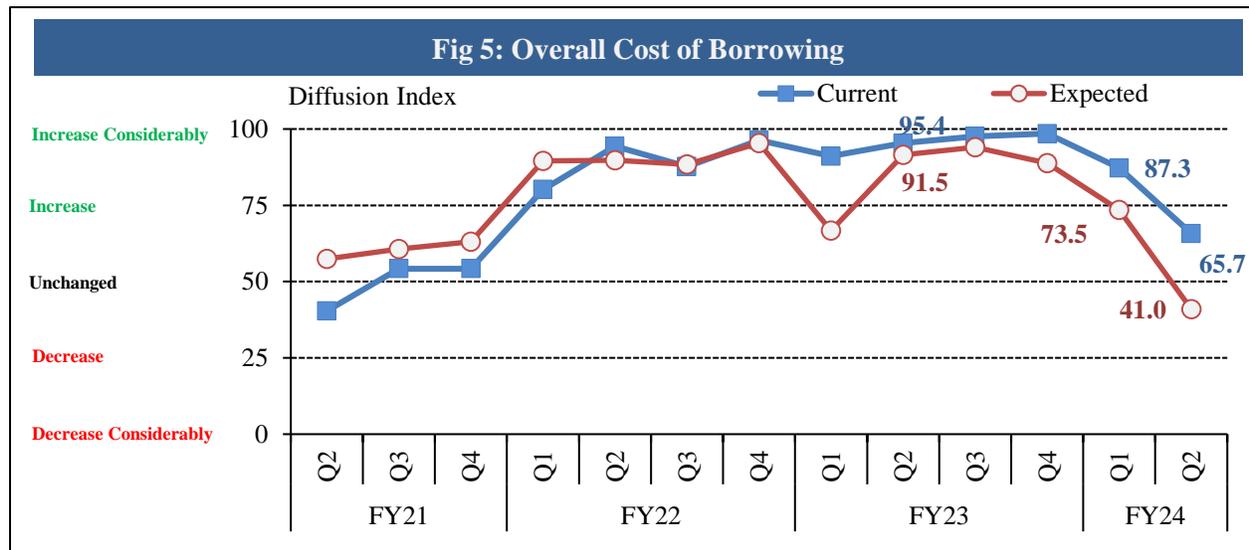
Number of Loan Applications

Respondents reported a sharp increase in number of loan applications during Q2-FY24 (**Fig 4**) on both the YoY and QoQ basis. They also expect an increase in number of loan applications during the next quarter.



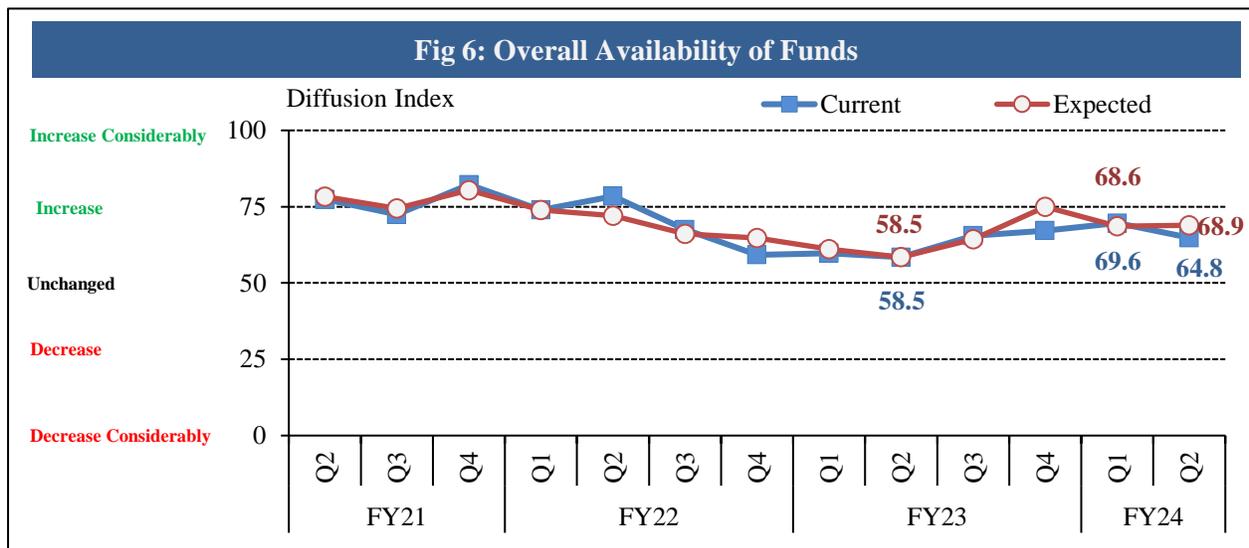
Overall Cost of Borrowing

The overall perception on cost of borrowing decreased further in Q2-FY24 compared with that of previous quarter as well as the corresponding quarter of the previous year (Fig 5). Likewise, respondents also expect downward movement in the cost of borrowing during the next quarter of FY24.



Overall Availability of Funds

The overall perception on availability of funds has decreased during the quarter under review as compared to the previous quarter. However, it remained on higher side when compared with the corresponding quarter of the previous year. However, the respondents expect a marginal increase in the availability of funds in the next quarter (Fig 6).



All the factors contributed to the increase in the overall availability of funds.

While the volume of deposits and bank liquidity position improved within the positive zone when compared with the previous quarter as well as the same period of preceding year (**Table 2**), the competition from other banks entered into positive zone again after Q3-FY22.

Other factors such as non-performing loans, monetary policy decision, government borrowings, and macroeconomic situation also

Table 2: 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)

	FY23	FY24	
	Q2	Q1	Q2
Volume of deposits	64.3	72.5	74.5
Non-performing loans	28.6	27.5	43.8
Competition from other banks	46.9	47.1	52.1
Monetary policy decision	23.9	36.3	45.2
Bank liquidity position	50.8	58.8	65.0
Government borrowings	42.9	41.2	46.8
Macroeconomic situation	20.0	25.5	36.5

improved over the preceding year but remained within the negative zone.

Bank 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:

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

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

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.