

## State Bank of Pakistan’s Bank Lending Survey – Q3-FY19

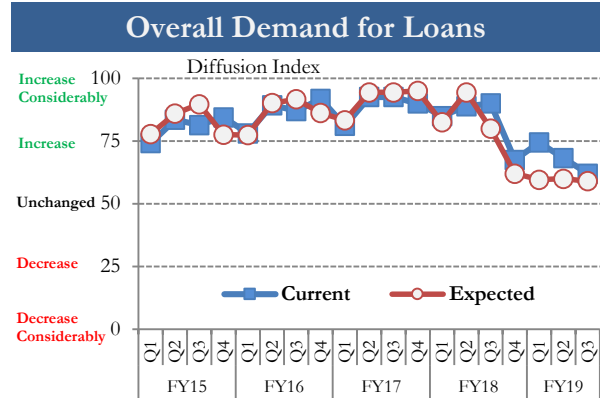
In Q3-FY19 Bank Lending Survey (BLS), SBP received feedback from senior officers of 28 commercial and specialized banks.

### Overall Demand

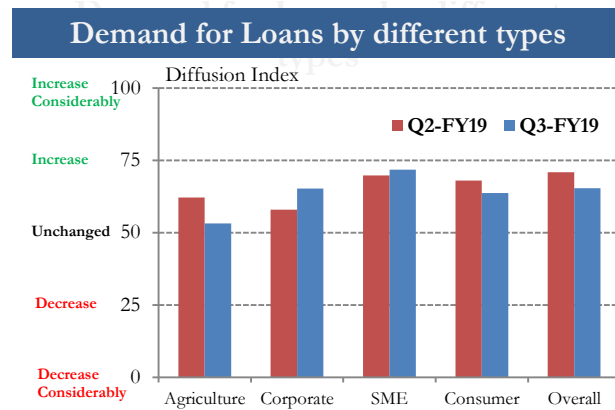
According to the opinions of bank officials, the overall demand for loans has continued to expand over the last quarter and expected to increase in the next quarter as well with the value of diffusion index higher than 50. However, as compared to our previous survey in Q2-FY19, the number of people having positive views about current and expected credit conditions decreased. Expected demand, which were flat over Q1 & Q2-FY19 decreased while current demand continued to slide further for the second consecutive quarter.

The main factor supporting the expansion in the current credit demand is the need of firms for inventories and working capital. In addition, improved security conditions, seasonal effect and fixed investment needs also positively affected the overall demand for credit. Nonetheless, monetary policy and weakening of economic conditions adversely affected overall credit demand compared to previous quarter. The most adverse change from last quarter is in economic conditions, which is expected to slow down the overall demand for credit over the next three months.

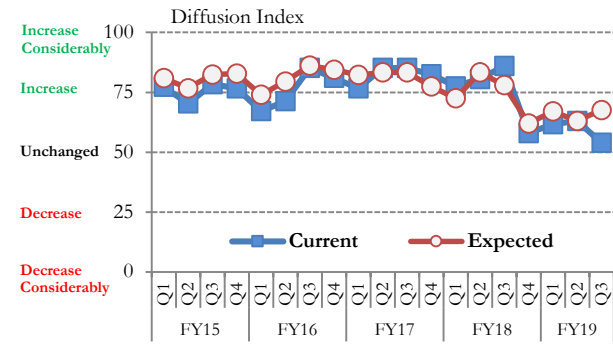
The growth in current quarter credit demand is largely driven by corporate and SME sectors. Growth has decreased for agriculture, corporate sector and SMEs. Current quarter credit demand for Agriculture, consumer and overall achieved relatively lower growth compared to Q2-FY19.



<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-FY19	Q3-FY19
Inventories and working capital	72	69
Fixed investment needs	53	51
Monetary Policy	21	19
Seasonal effect	61	56
Security Conditions	56	58
Economic conditions	37	27



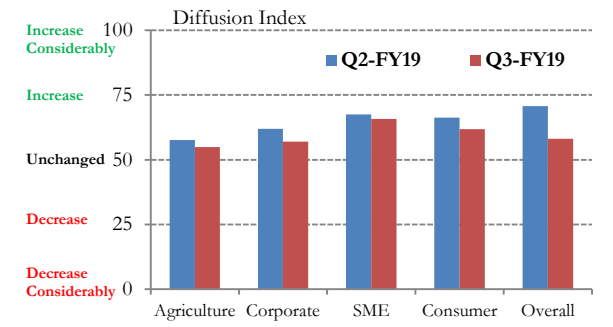
## Overall Availability of Funds



**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	Q3-FY19
Volume of deposits	68	62
NPL's	43	40
Competition	44	46
MP decisions	31	38
Bank liquidity position	53	48
Government borrowing	42	40
Economic conditions	30	29

## Availability of Funds by different types



## Overall Availability of Funds

The overall availability of funds continued to expand in the last quarter; though, the growth saw a considerable decline compared to Q2-FY19. However, the respondents consider the growth in availability of funds to increase at a higher rate in the next quarter.

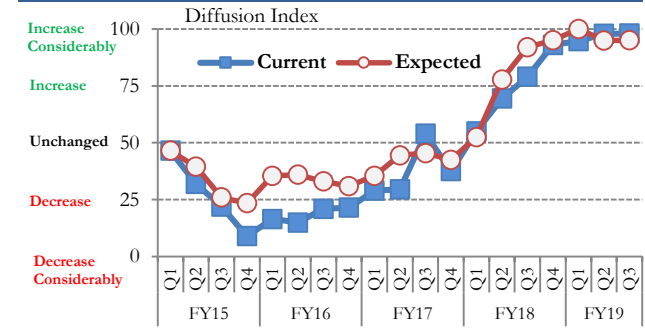
The availability of funds has been positively affected by volume of deposits. However, weakening economic conditions and monetary policy decisions continued to negatively affect the overall availability of funds. In addition, banks liquidity position, competition within the banking sector, government borrowing and NPL's have also contributed towards reduction of availability of funds according to respondents of our survey.

The overall decline in growth of available funds is broad-based, as it has declined for agriculture, corporate, SME and consumer sectors alike.

## Overall Cost of Borrowing

The current cost of borrowing remains at significantly elevated level same as the last four waves of the survey. Furthermore, the expected cost of borrowing is almost at the maximum diffusion index value of 100 for Q3-FY19.

## Overall Cost of Borrowing



## 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.