

## State Bank of Pakistan’s Bank Lending Survey – Q3-FY20

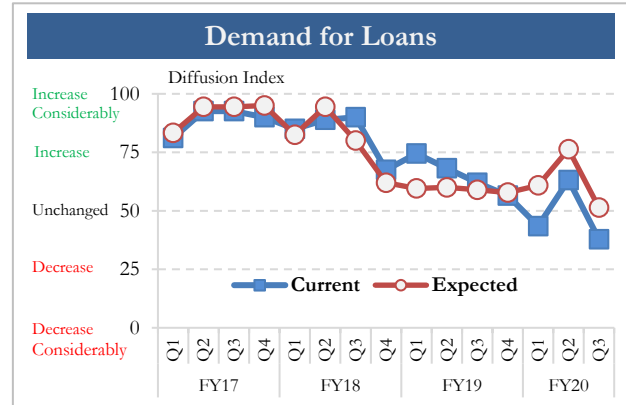
In Q3-FY20 Bank Lending Survey (BLS), SBP received feedback from senior officers of 28 commercial and specialized banks.

### Overall Demand

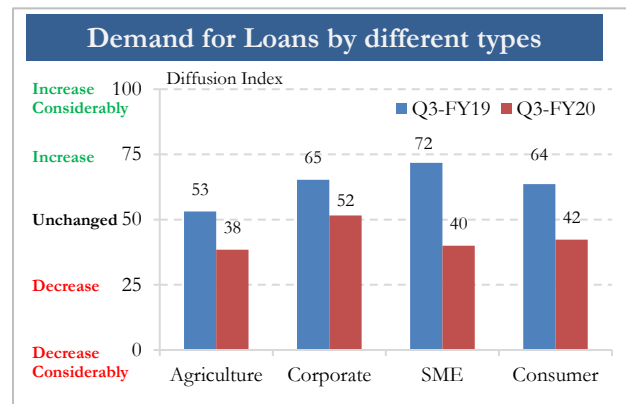
According to the opinions of banks officials, the overall demand for loans has contracted significantly over the last quarter with the diffusion index value less than 50. As compared to our survey last year in the same quarter Q3-FY19, the number of bank loan officers having positive views about current credit conditions decreased sharply. However, survey respondents anticipate that the demand for loans will remain unchanged in the next quarter.

The main factor that adversely affected the overall credit demand in Q3-FY20 was the adverse economic conditions. In addition, fixed investment needs, seasonal effect and inventories & working capital needs also negatively affected the demand for credit. While monetary policy and improved security conditions were the only two factors that positively affected the overall demand for credit.

The demand for loans by all sectors declined significantly in Q3-FY20. The biggest decline in current credit demand was witnessed for the SME sector in Q3-FY20 as compared to Q3-FY19. The consumer and agriculture sector credit demand also decreased considerably. On the other hand, despite a dip in the corporate sector credit demand in the current quarter, the diffusion index is still above 50.



<b>Factors affecting overall demand for loans</b>		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q3-FY19	Q3-FY20
Inventories and working capital	68.5	48.5
Fixed investment needs	51.1	38.6
Monetary policy	18.6	63.5
Seasonal effect	56.1	47.1
Security Conditions	58.3	52.8
Economic conditions	26.5	18.1



### Overall Availability of Funds

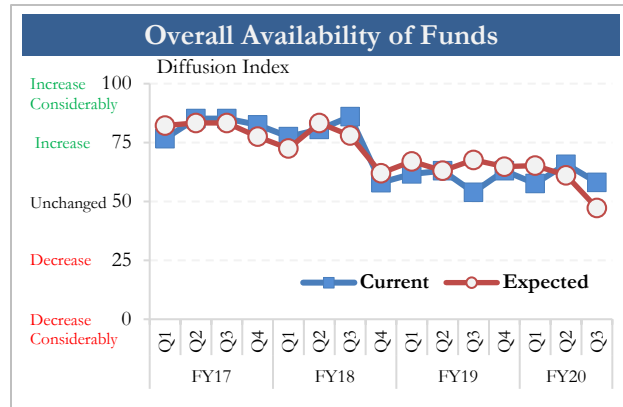
The overall availability of funds continued to expand in the current quarter with marginally higher growth compared to Q3-FY19. However, the respondents expect decline in growth of availability of funds in the next quarter with the diffusion index less than 50.

The volume of deposits is the major factor contributing to increase in availability of funds in the current quarter as compared to the same quarter last year. The monetary policy decisions, bank liquidity position, government borrowing and competition from other banks also positively affected the current availability of funds. On the other hand, prevailing economic conditions and NPLs had a negative impact on the current overall availability of funds.

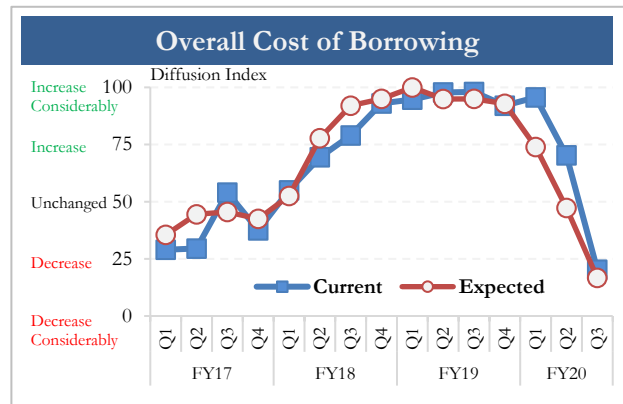
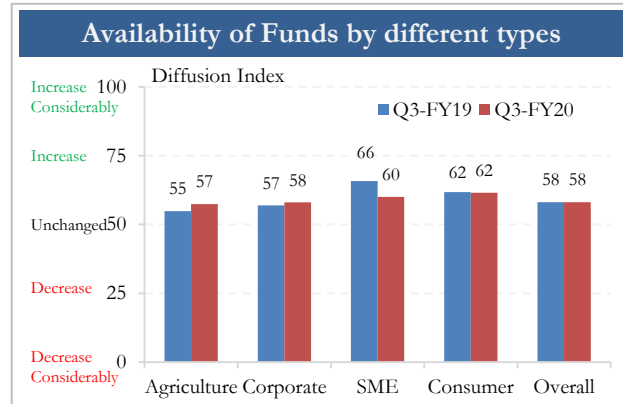
The overall increase in availability of funds in current quarter shows a mixed trend for different sectors. The availability of funds in Q3-FY20 has increased marginally for the corporate and agriculture sectors, consumer sector showed no change while SME sector showed decline in availability of funds as compared to same quarter in FY19. However, all sectors remained in the positive zone with diffusion index value above 50.

### Overall Cost of Borrowing

The current cost of borrowing nosedived in the latest wave as compared to Q3-FY19 and the diffusion index has gone far below 50. Furthermore, respondents anticipate the decline in the cost of borrowing to continue in the next quarter as well.



<b>Factors affecting overall availability of funds for loans</b>		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in availability of funds and vice versa)		
	Q3-FY19	Q3-FY20
Volume of deposits	62.2	65.7
NPLs	39.8	35.7
Competition	45.8	51.4
MP decisions	37.8	59.7
Bank liquidity position	48.0	58.3
Government borrowing	40.2	50.0
Economic conditions	28.6	22.9



## 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.