



## Data Services and Innovations Department

### Bank Lending Survey – Q3-FY23

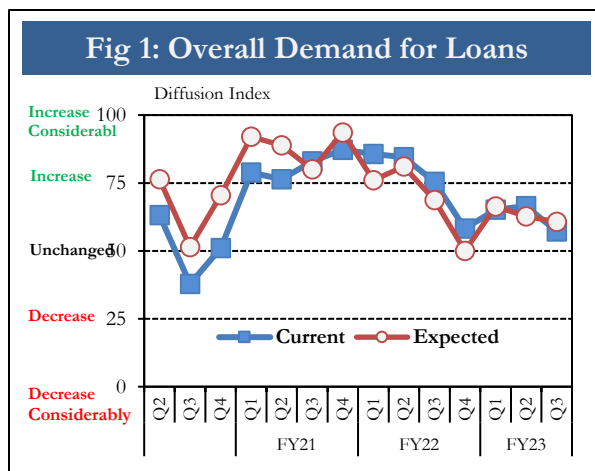
The current wave of Bank Lending Survey (BLS) covering Q3-FY23 was conducted during April 3-10, 2023. Forty two (42) senior officers from commercial and specialized banks participated in the survey.

#### Summary

- Overall demand for loan decreased in Q3-FY23 over Q2-FY23 while it also declined as compared to the same quarter of preceding year. Respondents expect a decrease in overall demand for loans during the fourth quarter of FY23.
- Overall availability of funds moved up (on QoQ basis) in the third quarter of FY23, while it declined on YoY basis. Respondents expect an increase in availability of funds in the next quarter.
- The overall cost of borrowing increased both on QoQ and YoY basis in the third quarter of FY23. Respondents also expect an increase in the cost of borrowing during the next three months of FY23.

#### Overall Demand for Loan

The overall demand for loans in Q3-FY23 decreased as compared to the last quarter, while it declined significantly over the corresponding quarter of the last year (**Fig 1**). Further, respondents expect a decrease in overall demand for loans in the next quarter.



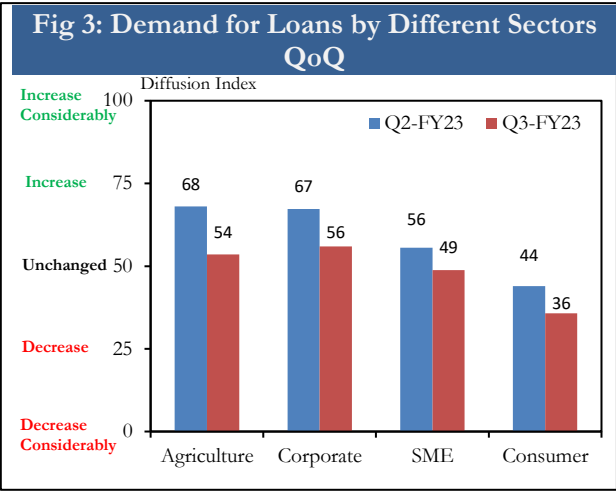
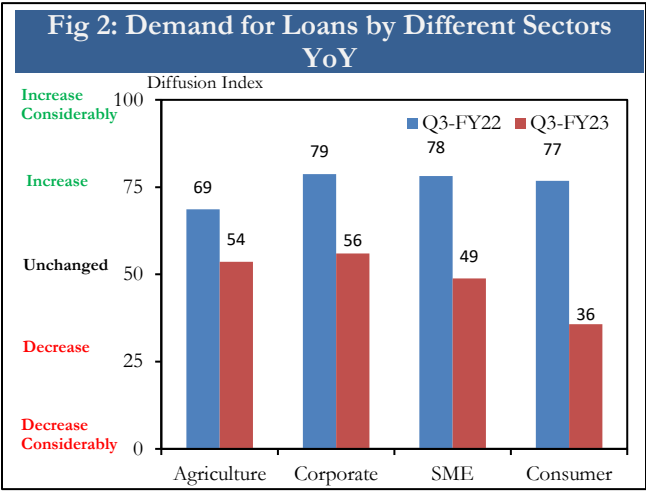
**Table 1: Factors affecting overall demand for loans**

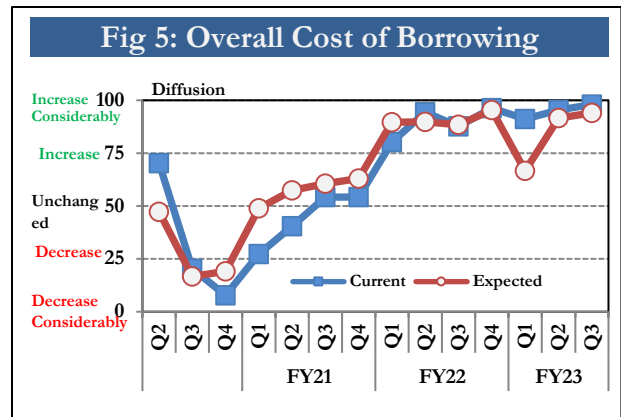
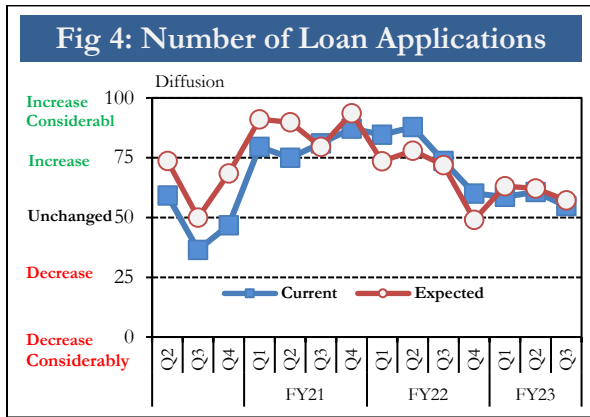
Diffusion Index: (Value > 50 indicates the factor is contributing to increase in demand and vice versa)

	Q3-FY22	Q3-FY23
Inventories and working capital needs	80.9	67.9
Fixed investment needs	64.2	45.2
Monetary policy decisions	36.6	14.3
Seasonal effects	55.5	51.2
Security condition	52.7	38.1
General economic activity	47.4	10.7

There are various factors affecting overall demand for loans (Table 1). All the factors negatively affected in Q3-FY23 over Q3-FY22. The general economic condition, monetary policy decision, security conditions and fixed investment needs were main contributing factors to the decrease in demand for loan. Their contribution have reached below the benchmark Diffusion Index (DI) of 50 (neutral) turned into negative zone (<50) during Q3-FY23 compared to Q3-FY22.

Overall decrease in the demand for loans was contributed by all the sectors in Q3-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 minimum, though significant impact on the overall demand for loans. On QoQ basis, demand for loan by SME exhibit least decrease (**Fig 3**) as compared to other sectors.





### Number of Loan Applications

Respondents reported a fall in number of loan applications received in third quarter of FY23 as compared to the corresponding quarter last year (**Fig 4**). Further, respondents expect number of loan applications to fall further during the next quarter.

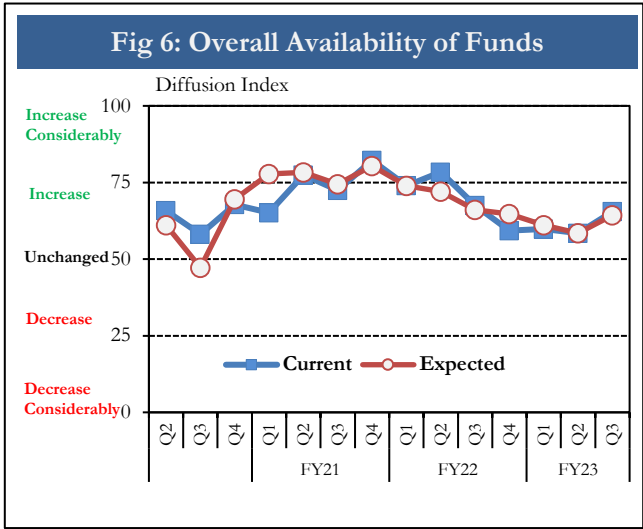
### Overall Cost of Borrowing

The overall cost of borrowing further increased in Q3-FY23 when compared to both previous quarter as well as the corresponding quarter of last year (**Fig 5**). Furthermore, respondents anticipate increase in the cost of borrowing in the next quarter from its current level, while an increase is also expected in Q4-FY23 over the same quarter of last year.

### Overall Availability of Funds

According to respondents, the overall availability of funds slightly moved up during the third quarter of FY23 (QoQ). However, it showed a decline when compared with the same quarter last year. Moreover, respondents expect an increase in availability of funds in the next quarter (**Fig 6**).

As per the respondents, all factors (Table 2) negatively affected availability of funds (as compared to corresponding quarter of last year). Monetary policy decision and macroeconomic situation played a significant role in funds availability during current quarter.



**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)

	Q3-FY22	Q3-FY23
Volume of deposits	66.4	60.7
Non-Performing loans	35.8	29.8
Competition from other banks	50.0	47.6
Monetary policy decision	40.7	20.2
Bank liquidity position	58.3	56.0
Government borrowing	49.1	44.0
Macroeconomic situation	36.4	17.9

## **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:

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

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

### ***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.