Data Services and Innovations Department

Bank Lending Survey – Q3-FY24 (27th wave)

The Bank Lending Survey (BLS) for Q3-FY24 was conducted from April 1 to 19, 2024. Sixty two (62) senior officers from banks and investment companies shared their views through the survey as compared to fifty four (54) respondents in the previous wave.

Summary

- Overall demand for loans decreased in Q3-FY24 over Q2-FY24 while it increased over the corresponding quarter of the previous year. The respondents expect an increase in overall demand for loans in the next quarter.

- Number of loan applications decreased in the current quarter compared to the previous quarter. However, the respondents expect an increase in number of loan applications in the next quarter.

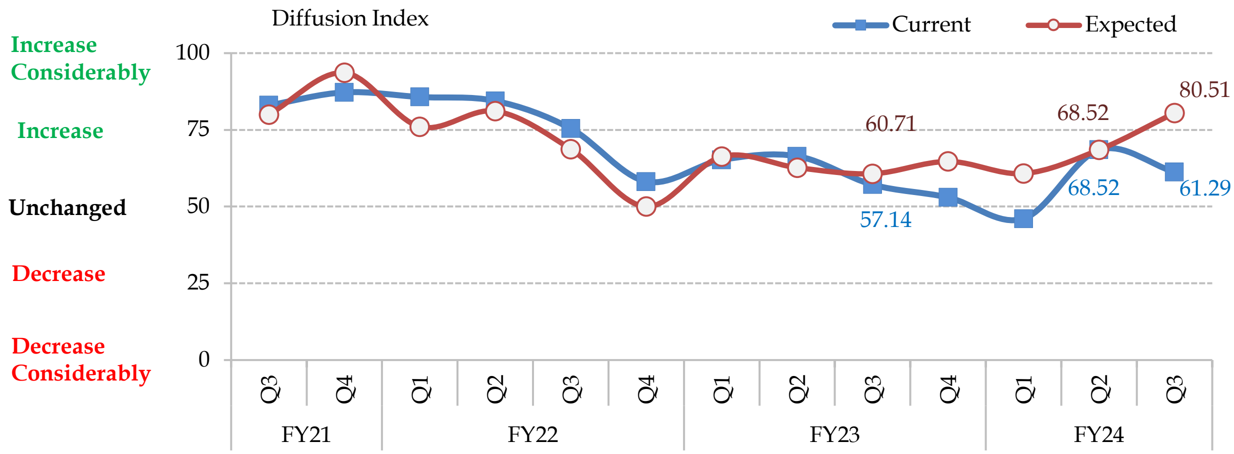
- The overall cost of borrowing remained unchanged from the previous quarter. This is contrary to the expectations expressed in the previous survey wherein the respondents expected a decrease in cost of borrowing. The cost of borrowing decreased on Year-on-Year (YoY) basis. The respondents expect increase in the cost of borrowing in the next quarter.

- Overall availability of funds decreased in Q3-FY24 on QoQ basis as well as on YoY basis. The respondents expect an increase in the availability of funds during the next quarter.

Overall Demand for Loans

The overall demand for loans decreased in Q3-FY24 over the previous quarter (**Fig 1**). However, the respondents expect an increase in the next quarter.

Fig 1: Overall Demand for Loans



There are various factors affecting overall demand for loans (**Table 1**). The results show that majority of the factors contributed negatively on the overall demand in Q3-FY24 over the previous quarter. Seasonal effects followed by general economic activity and fixed investment needs had a significant contribution in the overall decrease in demand. However, seasonal effects and fixed investment needs remained in the positive zone. Contribution of security conditions and monetary policy decisions improved slightly but remained within the negative zone (<50) during Q3-FY24 over Q2-FY24. On YoY basis, all factors improved except inventories and working capital needs, which deteriorated on QoQ basis as well.

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	
	Q3	**Q2**	**Q3**
Inventories and working capital needs	67.9	65.3	63.0
Fixed investment needs	45.2	53.3	50.0
Monetary policy decisions	14.3	27.5	27.7
Seasonal effects	51.2	65.2	53.7
Security conditions	38.1	47.9	48.1
General economic activity	10.7	32.4	27.2

While analyzing sector-wise demand for loans on QoQ basis, the highest decrease was observed in the Agriculture sector followed by corporate sector. On the other hand, the demand of Consumer and SME sectors improved (**Fig 3**).

On YoY basis, all sectors exhibited significant increase in the demand for loans in Q3-FY24 (**Fig 2**).

Fig 2: Demand for Loans by Sectors (YoY)

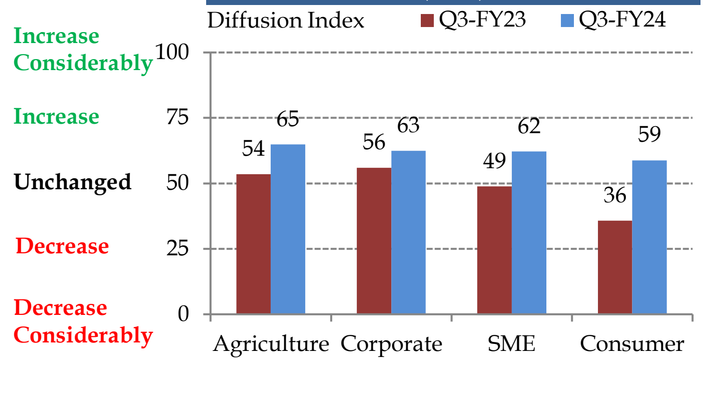
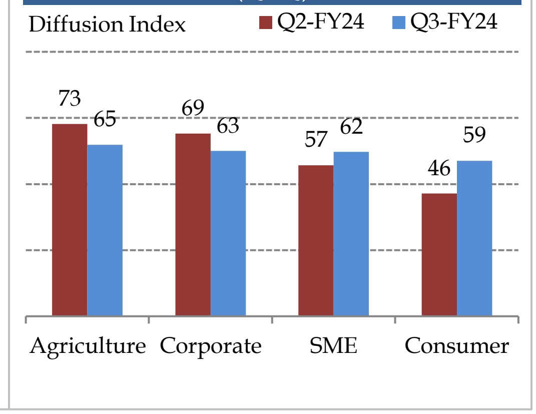


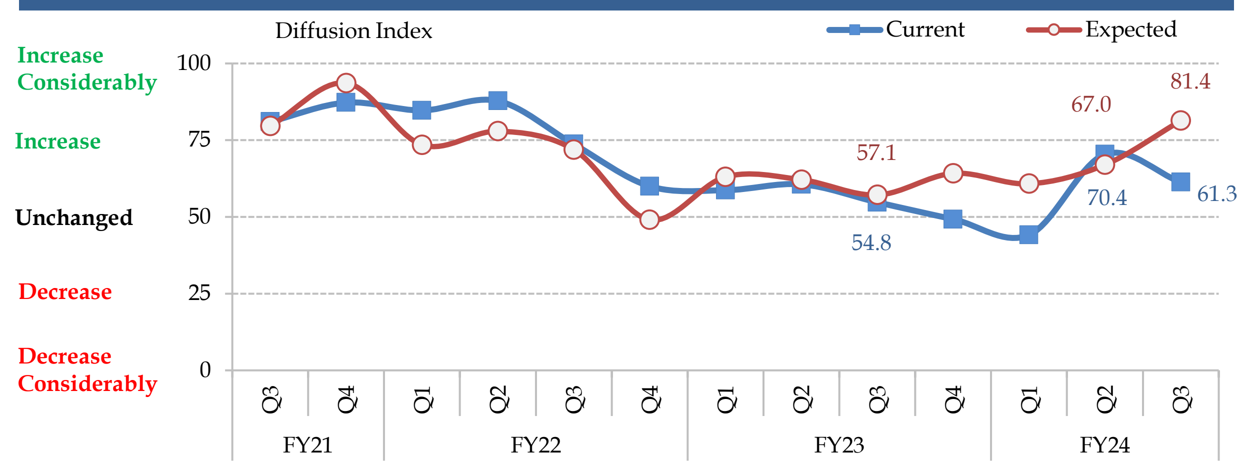
Fig 3: Demand for Loans by Sectors (QoQ)



Number of Loan Applications

The respondents reported a considerable decrease in the number of loan applications in Q3-FY24 (**Fig 4**) over the previous quarter. However, they expect increase in the number of loan applications in the next quarter.

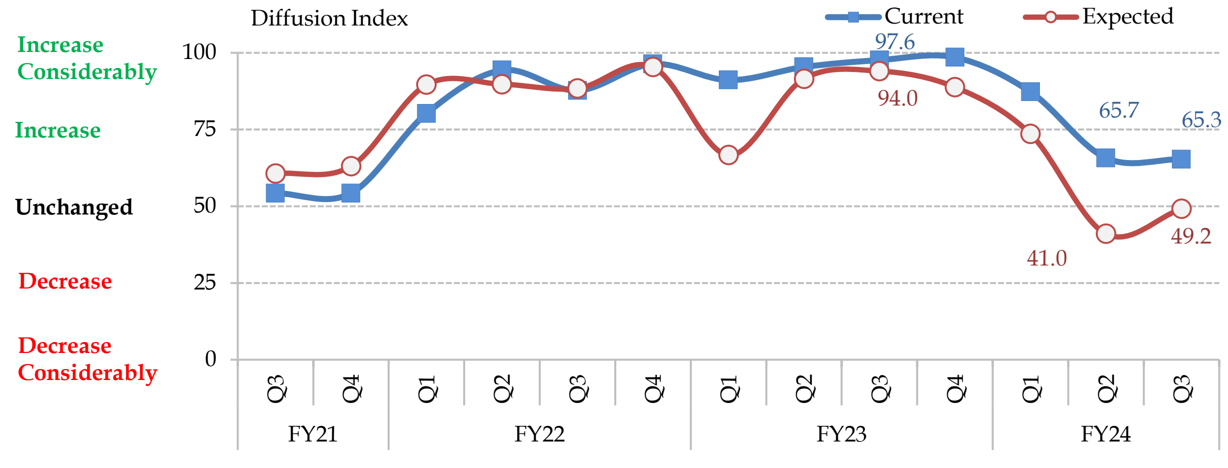
Fig 4: Number of Loan Applications



Overall Cost of Borrowing

The overall perception on the cost of borrowing remained unchanged in Q3-FY24 compared to the previous quarter. However, it decreased significantly as compared to the corresponding quarter of previous year (**Fig 5**). The respondents expect the cost of borrowing to increase in the next quarter of FY24.

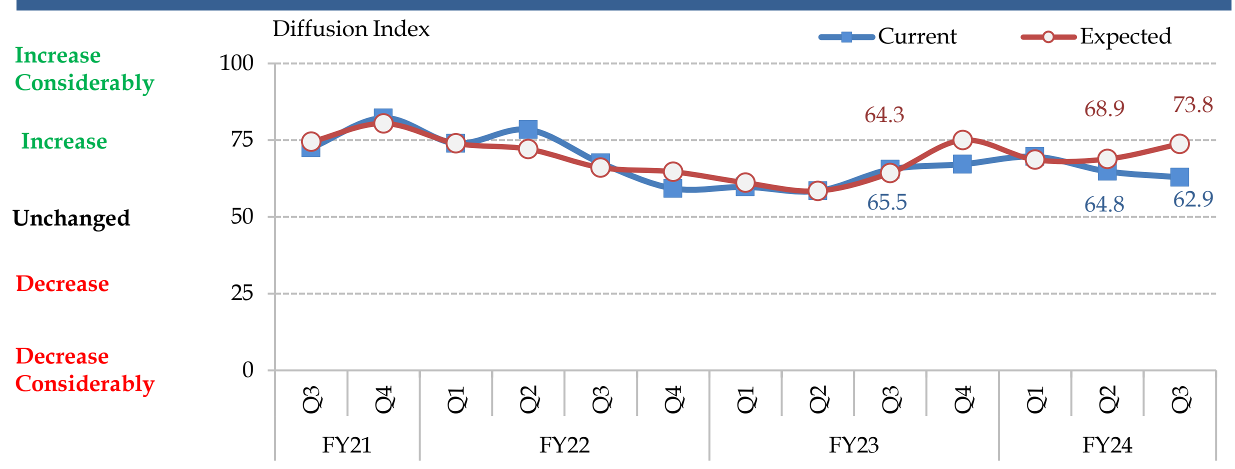
Fig 5: Overall Cost of Borrowing



Overall Availability of Funds

The overall perception on availability of funds has decreased during the quarter under review when compared to both the previous quarter and the corresponding quarter last year (YoY). However, the respondents expect a considerable increase in the availability of funds in the next quarter of FY24 (**Fig 6**).

Fig 6: Overall Availability of Funds



All the factors affecting the availability of funds for loans contributed to the decrease in Q3-FY24 when comparing with previous quarter. Factors such as volume of deposits and bank liquidity position weakened compared to the previous quarter but remained in the positive zone (**Table 2**). Competition from other banks affected negatively and entered into negative zone again in FY24.

On YoY basis, however, all the factors except competition from other banks and government borrowings improved over the same quarter of preceding year.

Table 2: Factors affecting overall availability of funds

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

	FY23	FY24	
	Q3	Q2	Q3
Volume of deposits	60.7	74.5	71.4
Non-performing loans	29.8	43.8	34.5
Competition from other banks	47.6	52.1	45.4
Monetary policy decision	20.2	45.2	32.8
Bank liquidity position	56.0	65.0	59.8
Government borrowings	44.0	46.8	41.5
Macroeconomic situation	17.9	36.5	29.5

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:

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

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

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.