State Bank of Pakistan's Bank Lending Survey – Q4-FY19

In Q4-FY19 Bank Lending Survey (BLS), SBP received feedback from senior officers of 27 commercial and specialized banks.
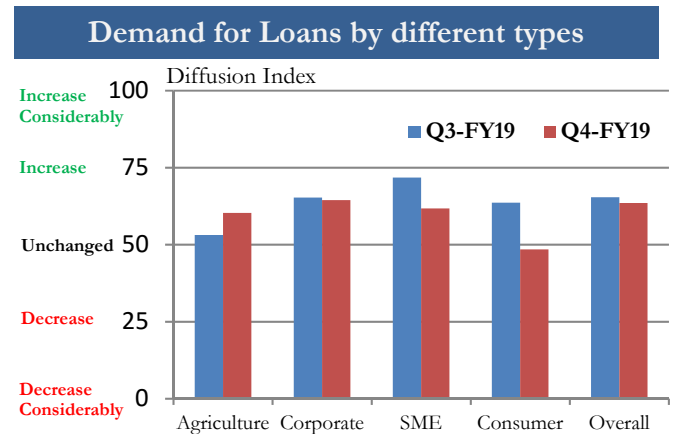
Overall Demand

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 Q3-FY19, the number of people having positive views about current and expected credit conditions decreased. Current and expected demand for loans has continued to slide downward for the third consecutive quarter.
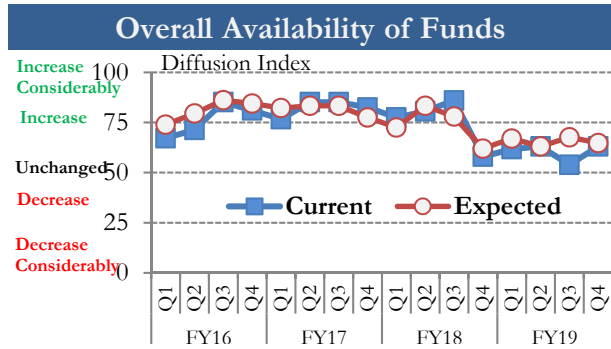
The main factor supporting the expansion in the current credit demand is the need of firms for inventories and working capital. In addition, improved security conditions and fixed investment needs also positively affected the overall demand for credit. However, monetary policy, weakening of economic conditions and seasonal effects adversely affected overall credit demand compared to previous quarter. The biggest negative change from last quarter is in monetary policy followed by 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 agriculture sector. Growth has decreased for, corporate, SMEs, and Consumer lending. Current quarter credit demand for consumer and SMEs achieved relatively lower overall growth compared to Q3-FY19.
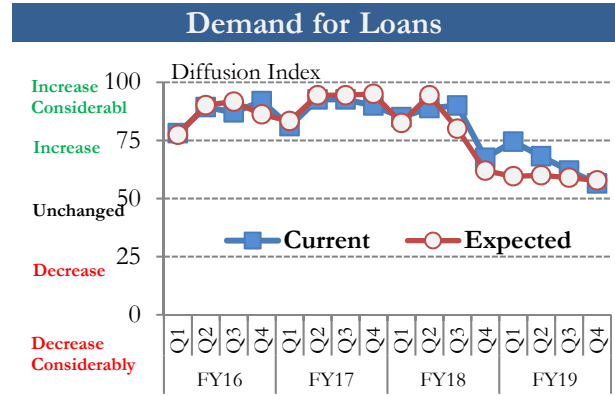
Demand for Loans

Factors affecting overall demand for loans

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

	Q3-FY19	Q4-FY19
Inventories and working capital	68.5	62.5
Fixed investment needs	51.1	51.1
Monetary Policy	18.6	14.1
Seasonal effect	56.1	46.7
Security Conditions	58.3	54.5
Economic conditions	26.5	21.6

Demand for Loans by different types

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)

	Q3-FY19	Q4-FY19
Volume of deposits	62.2	66.3
NPL's	39.8	35.9
Competition	45.8	50.0
MP decisions	37.8	30.4
Bank liquidity position	48.0	51.1
Government borrowing	40.2	40.9
Economic conditions	28.6	28.9

Availability of Funds by different types

Overall Cost of Borrowing

The current cost of borrowing remains at significantly elevated level same as the last five waves of the survey. The rise in the cost of borrowing, however, has marginally declined

and respondents expect the rise to taper off in the next quarter.

Overall Availability of Funds

The overall availability of fund continued to expand in the last quarter with relatively higher growth compared to Q3-FY19. However, the respondents consider the growth in availability of funds to increase at a lower rate in the next quarter.
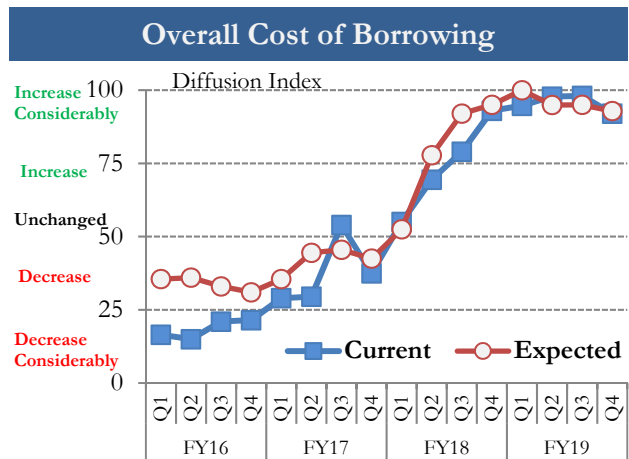
The availability of funds has been positively affected by competition, volume of deposits and banks' liquidity position. However, monetary policy decisions, NPLs and weakening economic conditions negatively affected the overall availability of funds. In addition, government borrowing has also contributed towards reduction of availability of funds according to respondents of our survey.
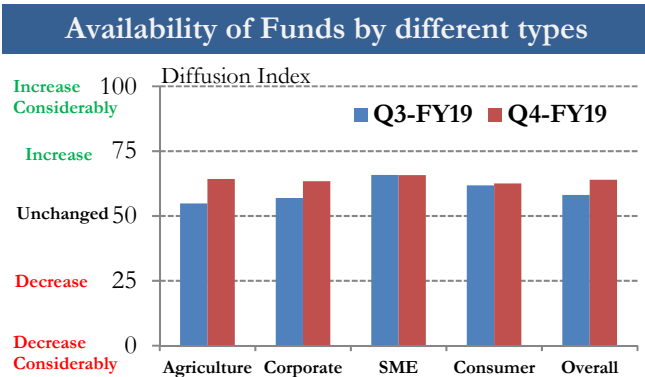
The overall increase in growth of available funds is broad-based, as it has increased for agriculture, corporate, SME and consumer sectors alike.

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:

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

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

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.