

## State Bank of Pakistan’s Bank Lending Survey – Q4-FY20

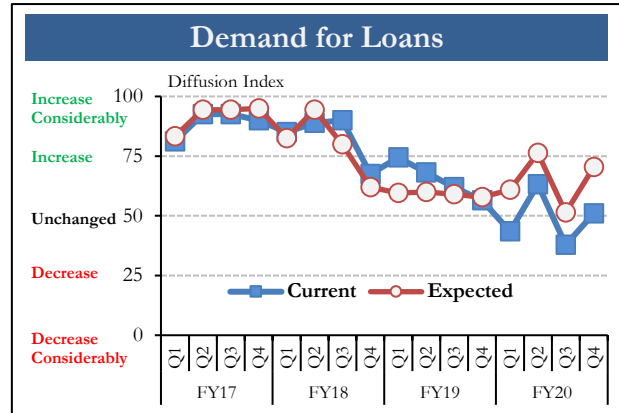
In Q4-FY20 Bank Lending Survey (BLS), SBP received feedback from senior officers of 28 commercial and specialized banks.

### Overall Demand

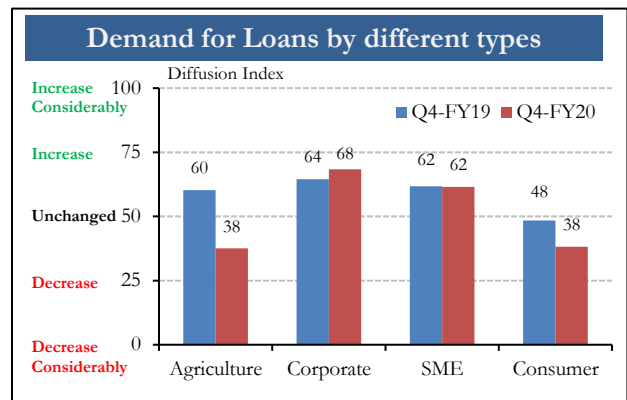
According to the opinions of banks officials, the overall demand for loans remained unchanged during the last quarter. However, compared to the results of same quarter last year i.e. Q4-FY19, the number of bank loan officers having positive views about current credit conditions slightly decreased. On the other hand, survey respondents expect significant increase in demand for loans in the next quarter.

The main factor that positively affected the overall credit demand in Q4-FY20 is the recent monetary policy decisions. In addition, security conditions also positively affected the overall demand for credit. However, prevailing economic conditions, fixed investment needs and seasonal effect negatively affected the overall demand for credit.

The demand for loans for different sectors showed mixed trend. As compared to the same quarter last year, the biggest decline in current demand was witnessed for the agriculture sector. Consumer sector also showed a sharp decline. On the other hand, credit demand for the corporate sector showed slight increase from the same period last year and for SME sector credit demand remained at the same level as in the same quarter last year.



<b>Factors affecting overall demand for loans</b>		
Diffusion Index: (Value>50 indicates the factor is contributing to increase in demand and vice versa)		
	Q4-FY19	Q4-FY20
Inventories and working capital	62.5	50.0
Fixed investment needs	51.1	34.6
Monetary policy	14.1	83.0
Seasonal effect	46.7	46.2
Security Conditions	54.5	52.4
Economic conditions	21.6	12.0



## Overall Availability of Funds

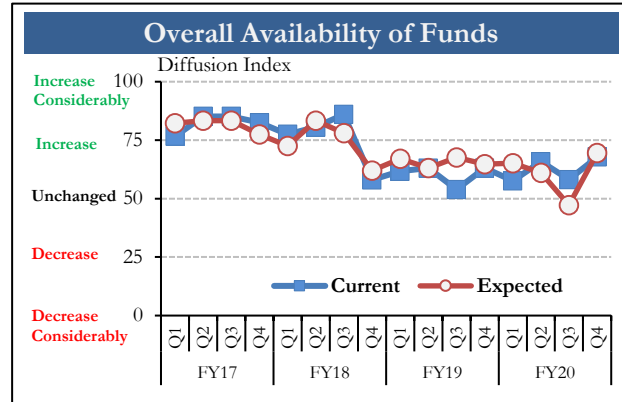
The overall availability of funds continued to expand in the current quarter with significant growth compared to the same quarter last year. Furthermore, the respondents expect same trend in growth of availability of funds in the next quarter as well.

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

The overall availability of funds in current quarter shows an increasing trend for all sectors except agriculture. The availability of funds in Q4-FY20 has increased marginally for the consumer and SME sectors, corporate sector showed significant increase while agriculture sector showed slight decline in availability of funds as compared to same quarter in FY19. However, all sectors remained in the positive zone with diffusion index value well above 50.

## Overall Cost of Borrowing

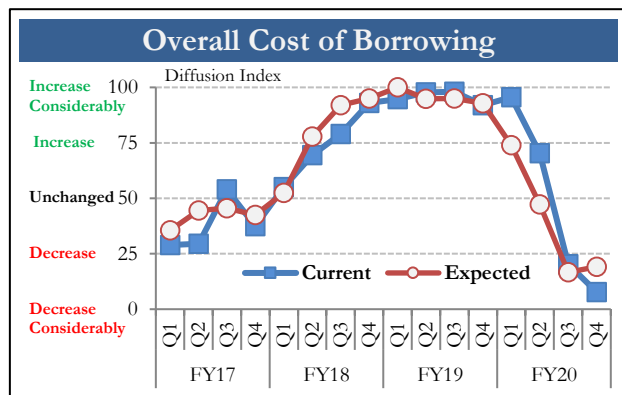
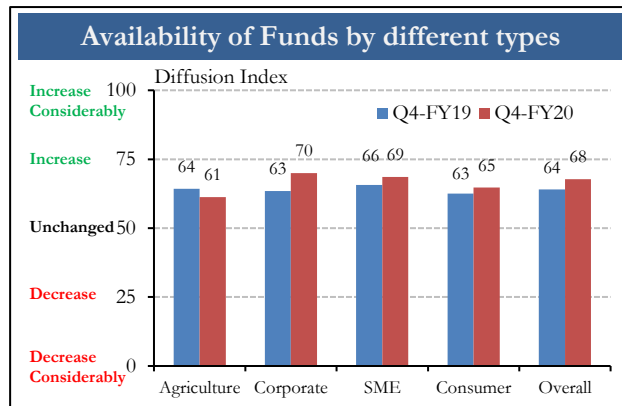
The current cost of borrowing continued to decline sharply in the latest wave as compared to Q4-FY19 and the diffusion index has dropped near zero. Furthermore, respondents anticipate the decline in the cost of borrowing to continue in next quarter albeit at a lower pace.



### 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)

	Q4-FY19	Q4-FY20
Volume of deposits	66.3	69.6
NPLs	35.9	40.0
Competition	50.0	51.2
MP decisions	30.4	80.2
Bank liquidity position	51.1	69.6
Government borrowing	40.9	47.5
Economic conditions	28.9	25.0



## 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.