State Bank of Pakistan's Bank Lending Survey – Q4-FY21

This wave of Bank Lending Survey (BLS) was conducted during July 1-8, 2021, which was participated by 47 senior officers from commercial and specialized banks.
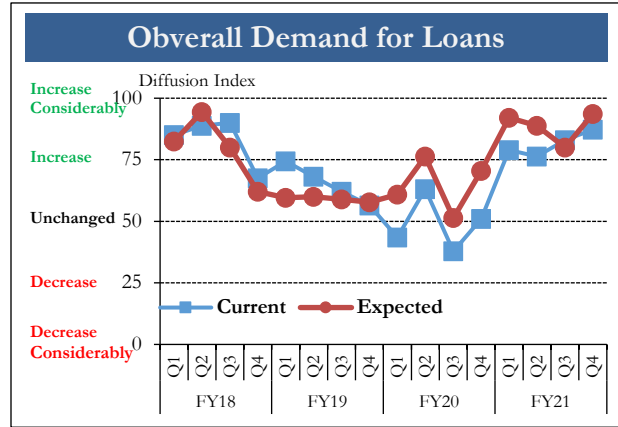
Overall Demand for Credit

According to the opinions of bank officials in the fourth wave of the BLS Survey of FY21, the overall demand for loans in Q4-FY21 remained very strong; strongest since 4th quarter of FY18. Moreover, the increase in demand for loans is expected to continue in the next quarter as well.

The main factors that positively affected the overall credit demand in Q4-FY21 were inventories & working capital and fixed investment needs. In addition, improved economic conditions, seasonal factors, and improved security conditions also positively affected the overall demand for credit.
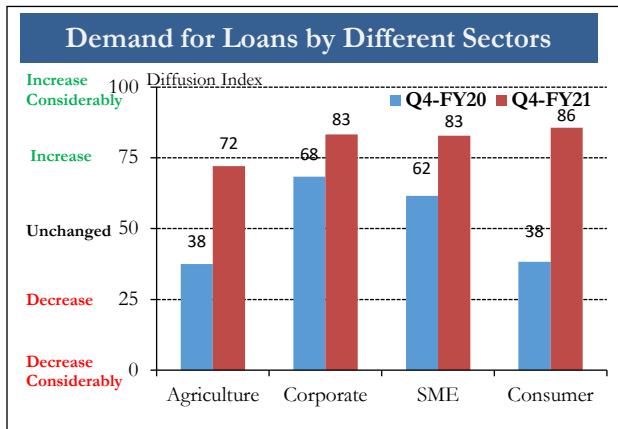
Overall increase in the demand for loans was contributed by all the sectors in Q4-FY21. Credit demand by agriculture, SME and corporate sectors showed significant increase in the quarter. However, compared to same quarter last year, the biggest surge came from consumer sector.
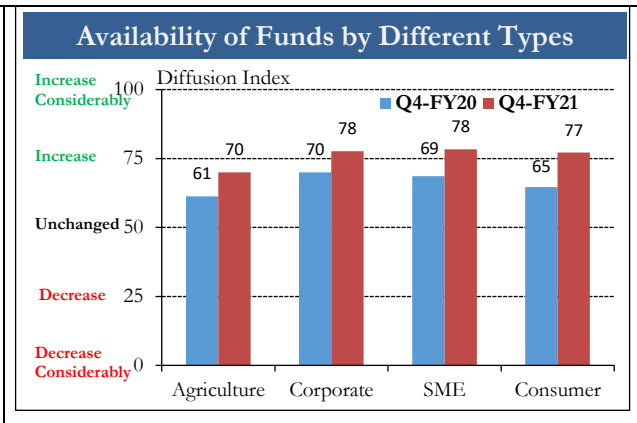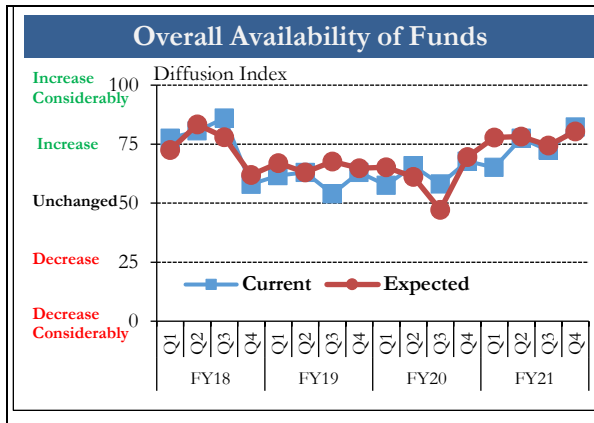
Overall Availability of Funds

The overall availability of funds continued to expand in the fourth quarter of FY21, compared to the corresponding quarter of preceding year. Furthermore, the respondents expect increase in growth of availability of funds in the next quarter as well.

Obverall 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)		
	Q4-FY20	Q4-FY21
Inventories and working capital	50.0	79.1
Fixed investment needs	34.6	79.1
Monetary policy	83.0	64.1
Seasonal effect	46.2	57.8
Security conditions	52.4	55.6
Economic conditions	12.0	75.6

Demand for Loans by Different Sectors

Overall Availability of Funds

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Current — Expected

FY18 · FY19 · FY20 · FY21 (Q1–Q4)

Availability of Funds by Different Types

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Q4-FY20 · Q4-FY21

Type	Q4-FY20	Q4-FY21
Agriculture	61	70
Corporate	70	78
SME	69	78
Consumer	65	77

The availability of funds in the fourth quarter witnessed increase by all the sectors. The biggest increase, though was by consumer sector in Q4-FY21 as compared to corresponding quarter last year. In addition, SME, corporate, and agriculture sectors also showed significant increase in availability of funds during the quarter.

The major factor contributing to increase in availability of funds is volume of deposits in the current quarter. Other factors that also contributed in expansion of current availability of funds are:
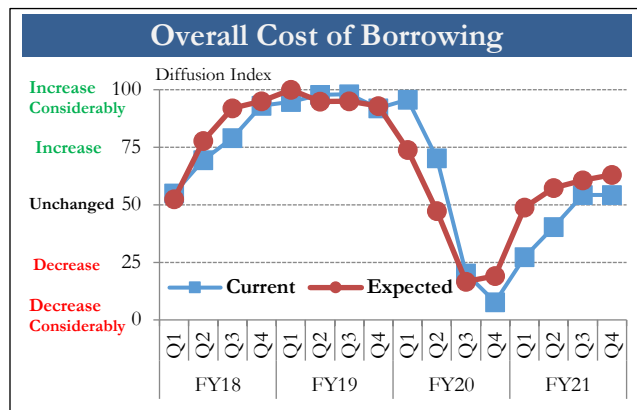
- Bank liquidity position,
- Improved economic conditions,
- Competition with other banks, and
- Government borrowing.

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-FY20	Q4-FY21
Volume of deposits	69.6	82.2
NPLs	40.0	42.4
Competition	51.2	56.7
MP decisions	80.2	63.3
Bank liquidity position	69.6	70.5
Government borrowing	47.5	56.0
Economic conditions	25.0	69.3

On the other hand, non-performing loans had a negative impact on the overall availability of funds.

Overall Cost of Borrowing

Although the current cost of borrowing maintained its level above 50, it remained stagnant in Q4-FY21. However, respondents expect that overall cost of borrowing will inch up in the next quarter.

Overall Cost of Borrowing

Diffusion Index

Increase Considerably 100
Increase 75
Unchanged 50
Decrease 25
Decrease Considerably 0

Current — Expected

FY18 · FY19 · FY20 · FY21 (Q1–Q4)

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.