Data Services and Innovations Department
Bank Lending Survey – Q4-FY23

The 24th wave of Bank Lending Survey (BLS) for the period Q4-FY23 was conducted during July 4-17, 2023. Sixty nine (69) senior officers from commercial and specialized banks shared their views in the survey as compared to 42 respondents in the previous wave.

Summary

- Confirming the expectations of previous survey wave, overall demand for loans decreased in Q4-FY23 over Q3-FY23 while it also declined as compared to the corresponding quarter of preceding year. Respondents expect an increase in overall demand for loans during the first quarter of FY24.

- The overall cost of borrowing slightly increased both on QoQ and YoY basis during the 4th quarter of FY23. Respondents expect a decline in the cost of borrowing during the first three months of FY24.

- Overall availability of funds increased on QoQ as well as YoY basis in the last quarter of FY23. The increase is in line with the expectations expressed in the previous wave of the survey. Respondents expect an increase in availability of funds in the next quarter.

Overall Demand for Loans

The overall demand for loans in the last quarter of FY23 decreased over the third quarter of FY23. It also declined over the corresponding quarter of the last year (**Fig 1**). However, respondents expect an increase in overall demand for loans in the first quarter of FY24.

Fig 1: Overall Demand for Loans

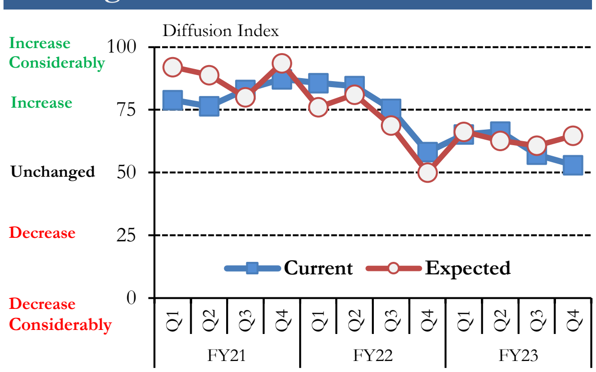


Table 1: Factors affecting overall demand for loans

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

	Q4-FY22	Q4-FY23
Inventories and working capital needs	77.1	53.1
Fixed investment needs	55.4	47.6
Monetary policy decisions	15.1	10.8
Seasonal effects	51.0	47.7
Security Condition	50.0	43.1
General economic activity	19.8	14.9

There are various factors affecting overall demand for loans (**Table 1**). All the factors negatively affected in Q4-FY23 over Q4-FY22.The general economic activity, monetary policy decision, security conditions and fixed investment needs were main causative factors to the decrease in demand for loan. The contributions of fixed investment needs and security conditions besides seasonal effects fell below the benchmark Diffusion Index (DI) of 50 (neutral) and turned into negative zone (<50) during Q4-FY23 compared to same quarter last year. Inventories and working capital needs also declined, but still remained in positive zone (>50).

Overall decrease in the demand for loans was contributed by all the sectors in Q4-FY23 over the same quarter last year (**Fig 2**). According to the respondents, the biggest (YoY) decline was witnessed in the SME sector during the current quarter. Consumer and corporate sectors also recorded (YoY) decline in the same period, while the agriculture sector had a minimum, though significant decline in Q4-FY23. On QoQ basis, demand for loans by consumer and agriculture sectors displayed a rise (**Fig 3**) as compared to other sectors in Q4-FY23.

Fig 2: Demand for Loans by Different Sectors YoY

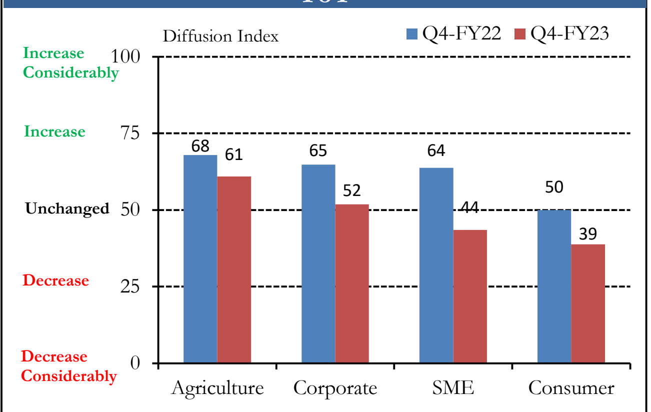
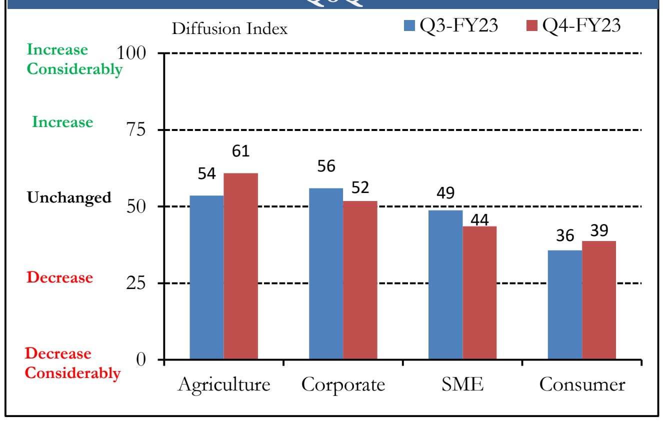


Fig 3: Demand for Loans by Different Sectors QoQ



Number of Loan Applications

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

Overall Cost of Borrowing

The overall cost of borrowing further increased in Q4-FY23 when compared with both previous as well as the corresponding quarter of last year (**Fig 5**). Furthermore, respondents expect decrease in the cost of borrowing in the next quarter of FY24.

Fig 4: Number of Loan Applications

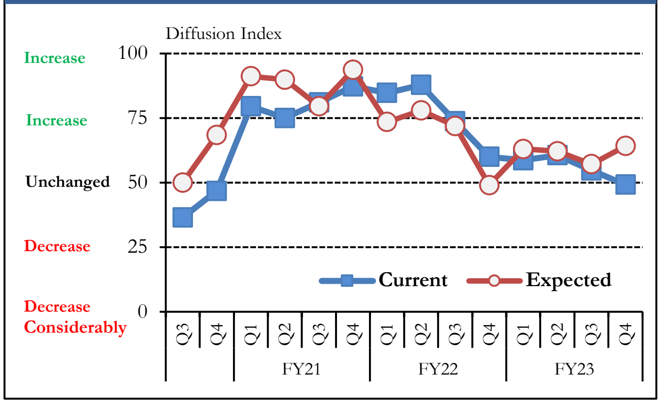
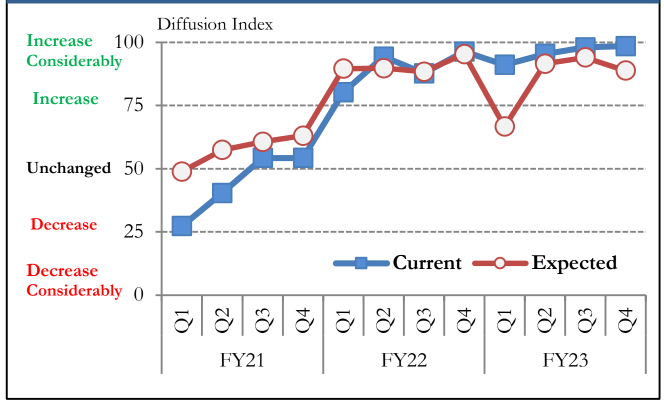


Fig 5:Overall Cost of Borrowing



Overall Availability of Funds

According to the respondents, the overall availability of funds increased during the 4th quarter of FY23 on QoQ basis. Similarly, an increase was observed when compared with the same quarter last year. Moreover, respondents expect an increase in availability of funds in the first quarter of FY24 (**Fig 6**).

The competition from other banks and bank liquidity position are the contributing factors that positively affected the availability of funds as compared to corresponding quarter of last year (**Table 2**). However, volume of deposits, monetary policy decision, Non-performing loans, government borrowing, and macroeconomic situation played a negative role during the quarter under review.

Fig 6:Overall Availability of Funds

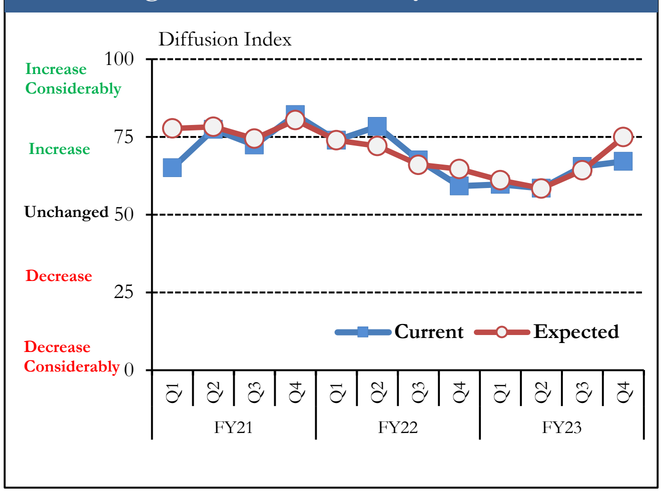


Table 2: Factors affecting overall availability of funds for loans

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

	Q4-FY22	Q4-FY23
Volume of deposits	75.0	73.4
Non-performing loans	38.0	30.3
Competition from other banks	44.2	48.4
Monetary policy decision	24.0	20.0
Bank liquidity position	50.0	62.1
Government borrowing	44.9	41.1
Macroeconomic situation	18.3	16.9

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.