Data Services and Innovations Department

Bank Lending Survey – Q4-FY24 (28th wave)

The Bank Lending Survey (BLS) for Q4-FY24 was conducted from July 1 to 19, 2024. Fifty seven (57) senior officers from banks and investment companies shared their views through the survey as compared to sixty two (62) respondents in the previous wave.

Summary

- Overall demand for loans increased slightly in Q4-FY24 over Q3-FY24. It also increased over the corresponding quarter of the previous year. The increase is in line with the expectations expressed in the previous survey. The respondents expect an increase in overall demand for loans in the next quarter.

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

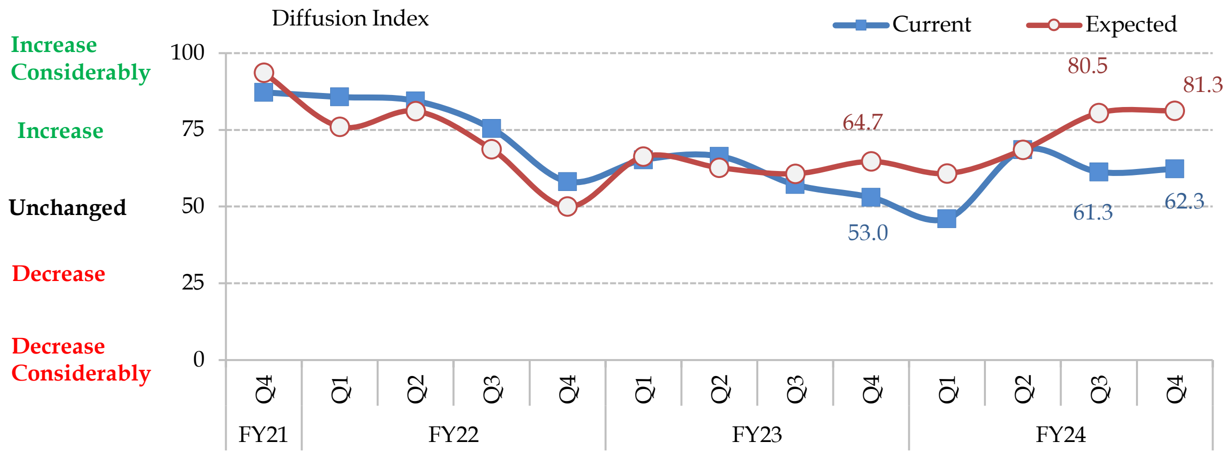
- The overall cost of borrowing decreased from the previous quarter contrary to the expectations expressed in the previous survey. The cost of borrowing decreased significantly on Year-on-Year (YoY) basis. The respondents expect decrease in the cost of borrowing in the next quarter.

- Overall availability of funds increased in Q4-FY24 on QoQ basis but decreased slightly on YoY basis. The respondents expect a decrease in the availability of funds in the next quarter.

Overall Demand for Loans

The overall demand for loans increased slightly in Q4-FY24 over the previous quarter (Fig 1). The respondents also expect a slight increase in demand for loans in the next quarter.

Fig 1: Overall Demand for Loans



There are various factors affecting overall demand for loans (**Table 1**). Monetary policy decisions made a substantial positive contribution and entered into positive zone for the first time after Q1-FY22. Contribution of general economic activity improved slightly but remained within the negative zone (<50) in Q4-FY24 over Q3-FY24. However, seasonal effects followed by security conditions contributed negatively in demand when compared with previous quarter. On YoY basis, all the factors contributed positively to the increase in demand for loans. Most notably, monetary policy decisions followed by general economic activity played a significant role in the increase in 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)

	FY23	FY24	
	Q4	**Q3**	**Q4**
Inventories and working capital	53.1	63.0	63.7
Fixed investment needs	47.6	50.0	50.0
Monetary policy decisions	10.8	27.7	60.0
Seasonal effects	47.7	53.7	49.1
Security conditions	43.1	48.1	45.2
General economic activity	14.9	27.2	28.7

While analyzing sector-wise demand for loans on QoQ basis, the demand of agriculture sector improved significantly while other sectors contributed negatively to the demand led by consumer sector followed by corporate and SME sectors (**Fig 2**).

On YoY basis, all sectors exhibited positive contribution in the demand for loans in Q4-FY24 (**Fig 3**).

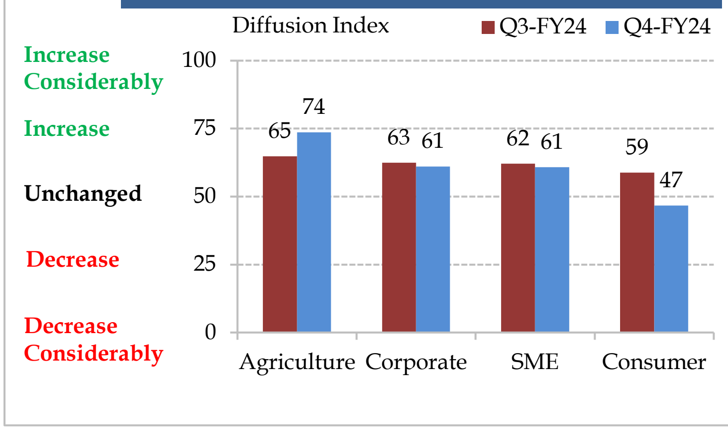


Fig 2: Demand for Loans by Sectors (QoQ)

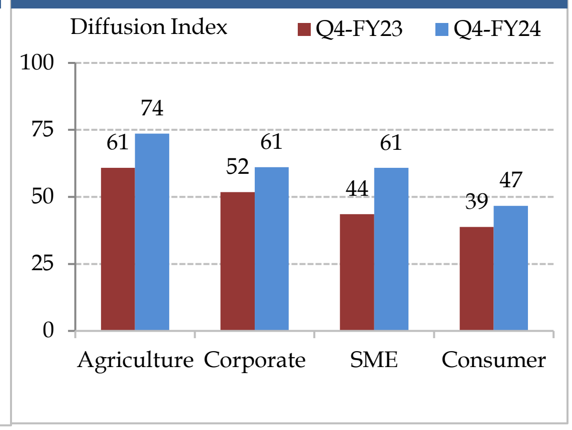


Fig 3: Demand for Loans by Sectors (YoY)

Number of Loan Applications

The respondents reported an increase in the number of loan applications in Q4-FY24 (**Fig 4**) over the previous quarter as well as over the corresponding quarter of preceding year. Likewise, they expect increase in the number of loan applications in the next quarter.

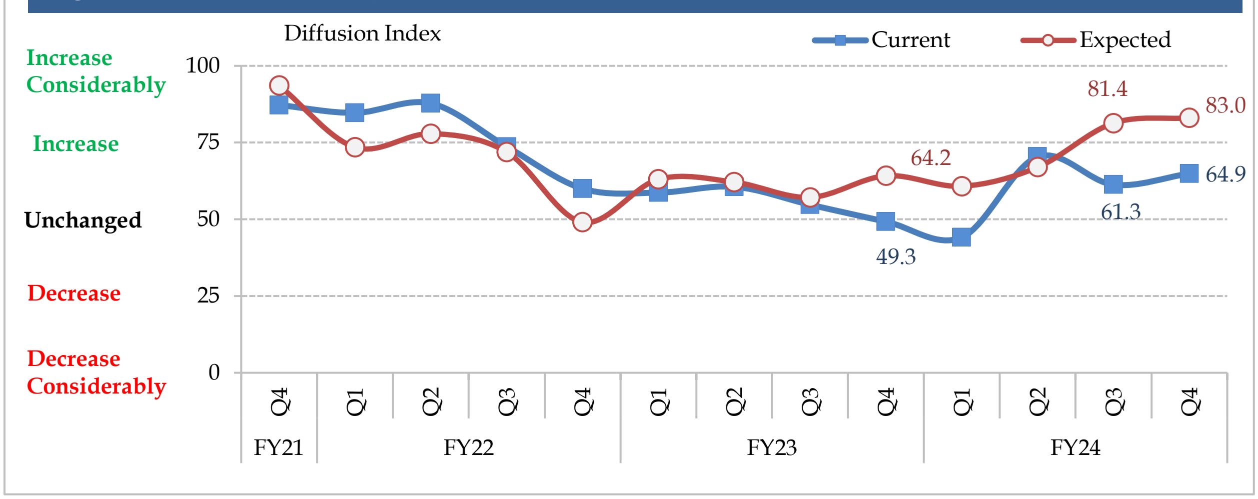
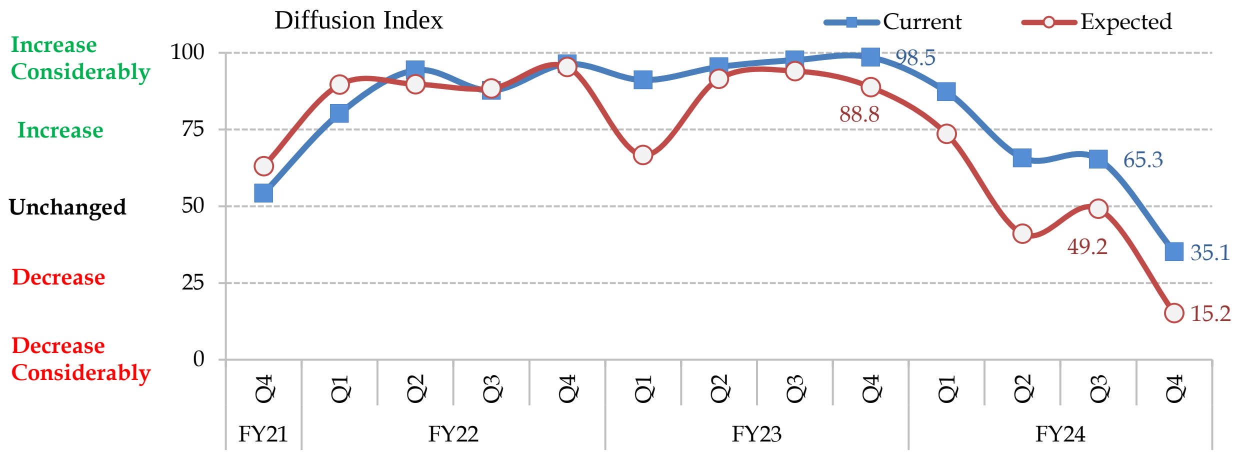


Fig 4: Number of Loan Applications

Overall Cost of Borrowing

The overall perception on the cost of borrowing has decreased in Q4-FY24 compared to the previous quarter and the corresponding quarter of preceding year. Similarly, the respondents expect the cost of borrowing to decrease significantly in the next quarter.

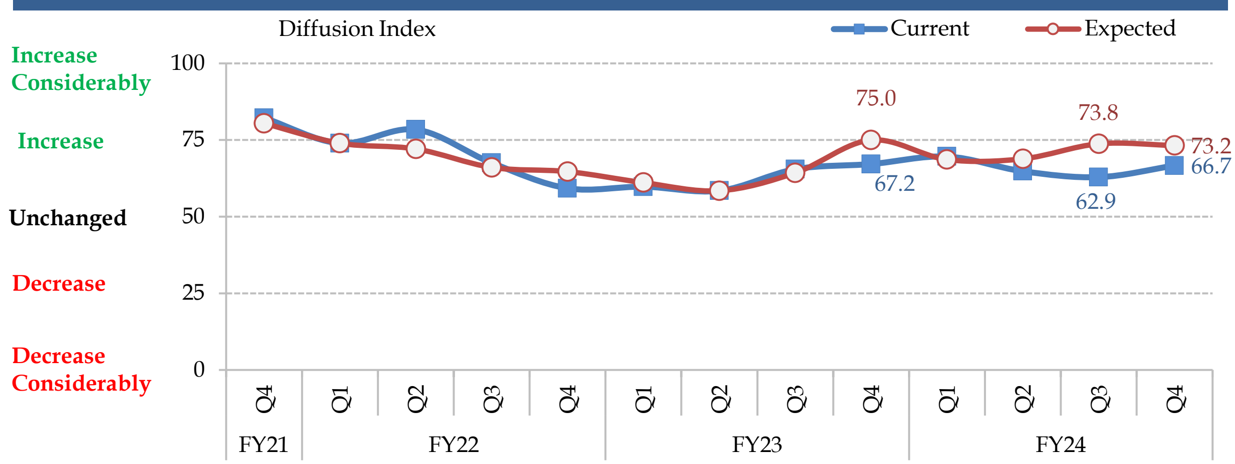
Fig 5: Overall Cost of Borrowings



Overall Availability of Funds

The overall perception on availability of funds has increased during the quarter under review when compared to the previous quarter. However, the respondents expect a slight decrease in the availability of funds in the next quarter (**Fig 6**).

Fig 6: Overall Availability of Funds



Most of the factors affecting the availability of funds for loans contributed to the increase in Q4-FY24 when comparing with the previous quarter. Factors such as monetary policy decisions, competition from other banks and bank liquidity position contributed positively compared to the previous quarter (**Table 2**). Government borrowing followed by volume of deposits affected negatively in Q4-FY24.

On YoY basis, all the factors except government borrowings and volume of deposits improved over the same quarter of the previous 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	
	Q4	**Q3**	**Q4**
Volume of deposits	73.4	71.4	69.4
Non-Performing loans	30.3	34.5	34.0
Competition from other banks	48.4	45.4	52.0
Monetary policy decision	20.0	32.8	57.3
Bank liquidity position	62.1	59.8	64.2
Government borrowing	41.1	41.5	39.2
Macroeconomic situation	16.9	29.5	29.8

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.