State Bank of Pakistan's Bank Lending Survey – Q3-FY21

This wave of Bank Lending Survey (BLS) was conducted during 1-9 April, 2021, which was participated by 50 senior officers from commercial and specialized banks.

Overall Demand for Credit

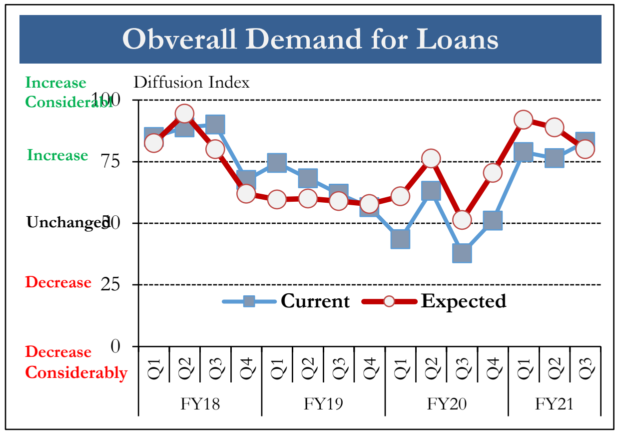
According to the opinions of bank officials in the third wave of the Survey in FY21, the overall demand for loans in Q3-FY21 slightly increased. However, expected demand for credit in the next quarter continued to show a declining trend.

The main factors that positively affected the overall credit demand in Q3-FY21 are inventories & working capital and fixed investment needs. In addition, easy monetary policy, improved economic & security conditions, and seasonal factors also positively affected the overall demand for credit.

Overall increase in the demand for loans was contributed by all the sectors in Q3-FY21. While credit demand by corporate, consumer, and agriculture sectors also showed increase in the quarter, the biggest surge came from SME sector.

Overall Availability of Funds

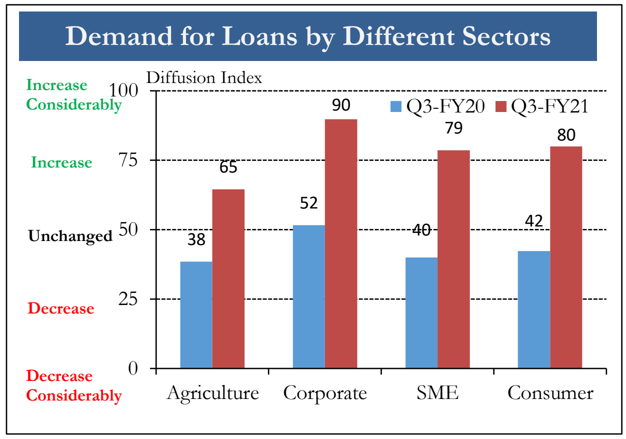
The overall availability of funds continued to expand in the third quarter of FY21, compared to the corresponding quarter last year. However, the respondents expect slight decline in growth of availability of funds in the next quarter.

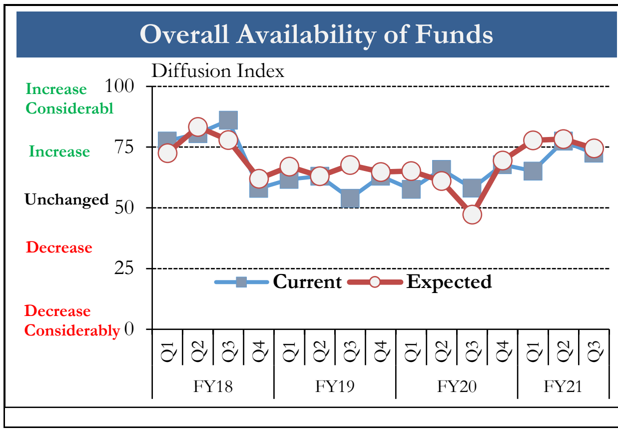


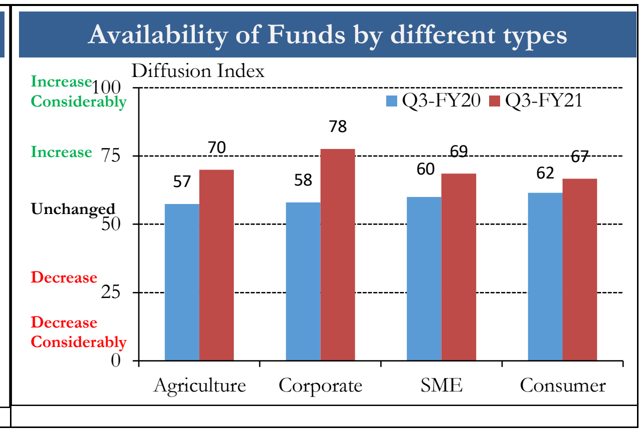
Factors affecting overall demand for loans

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

	Q3-FY20	Q3-FY21
Inventories and working capital	48.5	73.9
Fixed investment needs	38.6	73.8
Monetary policy	63.5	61.7
Seasonal effect	47.1	53.2
Security conditions	52.8	53.3
Economic conditions	18.1	59.6







The availability of funds in the third quarter witnessed increase by all the sectors. The biggest increase, though was by corporate sector in Q3-FY21. In addition, agriculture and SME 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,
- Monetary policy decision, and
- Competition with other banks.

Factors affecting overall availability of funds for loans

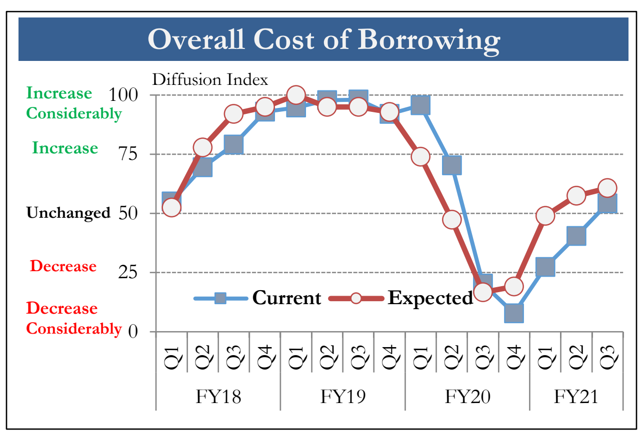
Diffusion Index: (Value>50 indicates the factor is contributing to increase in availability of funds and vice versa)

	Q3-FY20	Q3-FY21
Volume of deposits	65.7	73.3
NPLs	35.7	42.9
Competition	51.4	52.1
MP decisions	59.7	58.3
Bank liquidity position	58.3	64.9
Government borrowing	50.0	48.9
Economic conditions	22.9	58.5

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

Overall Cost of Borrowing

As anticipated by the respondents in previous wave, the cost of borrowing showed an increase in Q3-FY21 and diffusion index exceeded the level of 50 after remaining below 50 for previous four consecutive waves. Moreover, respondents expect further increase in overall cost of borrowing in the next quarter as well.



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.