BANK OF UGANDA

STATISTICS DEPARTMENT

BANK LENDING SURVEY FOR APRIL TO JUNE 2012 (Q4)

Abstract:

The credit conditions survey captures past, present and prospective perceptions or developments in the Ugandan credit market. The current survey, which was conducted in July 2012, covers developments for the quarter ending June 2012 and expectations for the period July - September 2012 (future). In order to relate actual outturns with the survey results, the report goes on further to analyze commercial banks' actual credit developments for the quarter to June 2012. The results of the survey are weighted by the respondent institutions' average market share over the three-month period (April-June 2012) as represented by each bank's share of the total outstanding stock of loans.

The survey results show that on the supply side; most banks reported tight credit policy/standards regarding the availability of loans to borrowers but with a strong bias towards easing on a net basis. Similarly, going forward to end-September 2012, the expectation among lenders is geared more towards tightening of credit policy/standards. On the demand side; most lenders anticipate increased credit demand from both enterprises and households, over the next three months to September 2012.

1. Introduction to the lending survey

Objectives of the Survey

The lending survey is undertaken by the Statistics Department of the Bank of Uganda (BoU) to capture past and prospective developments in the credit market. The survey is designed to complement existing data on credit and lending rates by providing supplementary information on supply and demand conditions in the credit markets and the lending policies of banks.

The main objectives of the survey are to:

i) Enhance BoU's understanding of lending behaviour and loan financing conditions among the deposit-taking institutions.

ii) Capture leading information on credit developments and bank lending in the Ugandan market during the reference period.

Methodology

Questionnaires were sent out to 23 commercial banks in Uganda, yielding an overall response rate of 100 percent. The questions in the lending survey questionnaire distinguish between two categories of loans namely: a) loans or credit lines to enterprises and b) loans to households and individuals. For each category, questions were posed on credit standards for approving loans; credit terms and conditions; as well as credit demand and factors affecting it.

The results of the survey were weighted by the respondent institutions' market share in the credit market. This approach takes into account the varying sizes and participation of the different respondent institutions in the formal credit market. The weights used in the computation were derived by taking an average of each institution's market share over the three month period (April-June 2012), as represented by each bank's outstanding stock of loans to total outstanding loans of the commercial banking sector.

To calculate aggregate results, lenders who report that credit conditions have changed 'considerably' are summed together with those who report that conditions have changed 'somewhat'. The results are then analyzed by calculating 'net percentage'- the difference between the percentage of banks lenders reporting that, a factor has tightened/increased and those reporting that it has eased/decreased.

2. Survey Findings

Increased Credit availability to Enterprises in Q4

2.1 Enterprises

2.1.1 Credit standards

In the last three months to June 2012, the percentage of respondents that reported easing credit policy/standards for overall loans to enterprises, increased to 14 per cent compared to the previous quarter's 4 percent while the percentage of those that reported having tightened credit standards declined in June 12. Overall, the net percentage of respondents reporting tightened credit standards decreased from 51 percent in the previous survey down to 33 percent. *(Figure 1 and Table 1 below)*

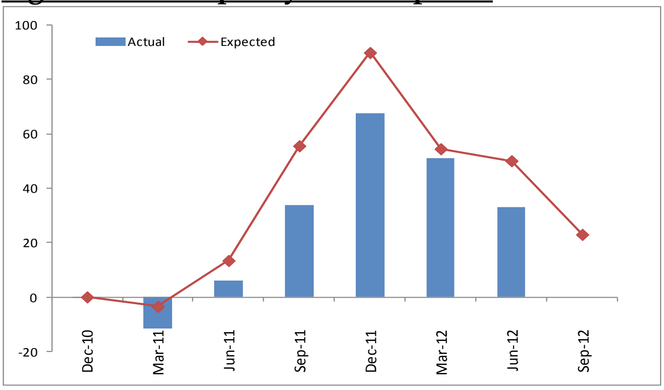
The key factors highlighted as having influenced the slowdown in tightening of credit standards to enterprises were: a) easing liquidity positions and b) the continued decline in inflation, over the quarter, which implied that banks were able to ease or maintain their credit policy stance. On the other hand, banks that reported a tightening in credit standards over the quarter cited increased default risk which lessened the banks' credit risk appetite and created the need for closer portfolio monitoring.

In line with the overall results above, credit standards to both large and Small and Medium Enterprises (SMEs) continued to show a bias towards tightening on a net basis, but with a slowdown in the pace of tightening. Similar trends were also observed in credit availability for both short and long term loans.

Table 1: Credit Standards as applied to approval of loans to Enterprises

	Overall		Loans to SMEs		Large enterprises		Short-term Loans		Long-term Loans	
	Mar-12	Jun-12	Mar-12	Jun-12	Mar-12	Jun-12	Mar-12	Jun-12	Mar-12	Jun-12
Tightened	55	47	59	47	63	45	54	42	63	49
Unchanged	40	39	41	40	33	42	38	44	37	36
Eased	4	14	0	14	4	14	8	14	0	15
Net %	51	33	59	33	59	31	46	28	63	34

Figure 1: Credit policy to Enterprises



Notes:
(a) Net percentage balances are calculated by obtaining the difference between the percentages of lenders reporting that, a factor has tightened/ increased and those reporting that it has eased/ decreased.
A negative balance indicates that more credit is available.
(b) The bar graphs show the net percentages over the previous three months. The line graph shows the expectation over the next three months.
(c)Expectations have been moved forward one quarter so that they can be compared with the actual outturn in the following quarter.

Looking ahead to the quarter ending September 2012, the survey results for credit policy to enterprises, point to a further slowdown in the pace of tightening (*Figure 1 above)* which is indicative of an increase in the overall availability of credit to enterprises. However, credit standards for short-term loans and those to large enterprises, are expected to remain broadly unchanged over the period to end- September 2012.

Credit Standards expected to Tighten on a net basis in Q1 FY2012/13 but at a slower pace

Since December 2011, the expectation of lenders towards net tightening of credit standards has been slowing down (*see Figure 1 above*), with significant easing expected for credit to large enterprises and short-term loans *(Table 2 below)*.

Key factors cited for the expected slowdown in tightening of credit policy included: a) increased focus on short-term lending[1] so as to improve liquidity positions and b) banks' expectations that the Central Bank will continue to ease monetary policy following the recent trends in inflation. On the other hand, banks that expected a tightening in credit standards cited higher default risk and a poor global economic outlook which is expected to negatively impact banks' risk appetite with respect to medium-term lending.

2.1.2 Credit Standards by Sector

Tightening of credit standards especially to the Building, mortgage and Construction sector in Q2 but Easing to Agriculture

In addition to the usual questions on changes in credit policy and standards, banks were also asked to report on how credit policy had changed for the various sectors of the economy, over the quarter to end- June 2012. Lenders reported that they kept credit policy broadly unchanged for the majority of the sectors. Notably, however, the Building, Mortgage, Construction and Real Estate sector had the highest percentage of respondents reporting a tightening of credit standards in the three months to June 2012 while the Agricultural sector had the highest percentage of respondents reporting an easing of credit standards.

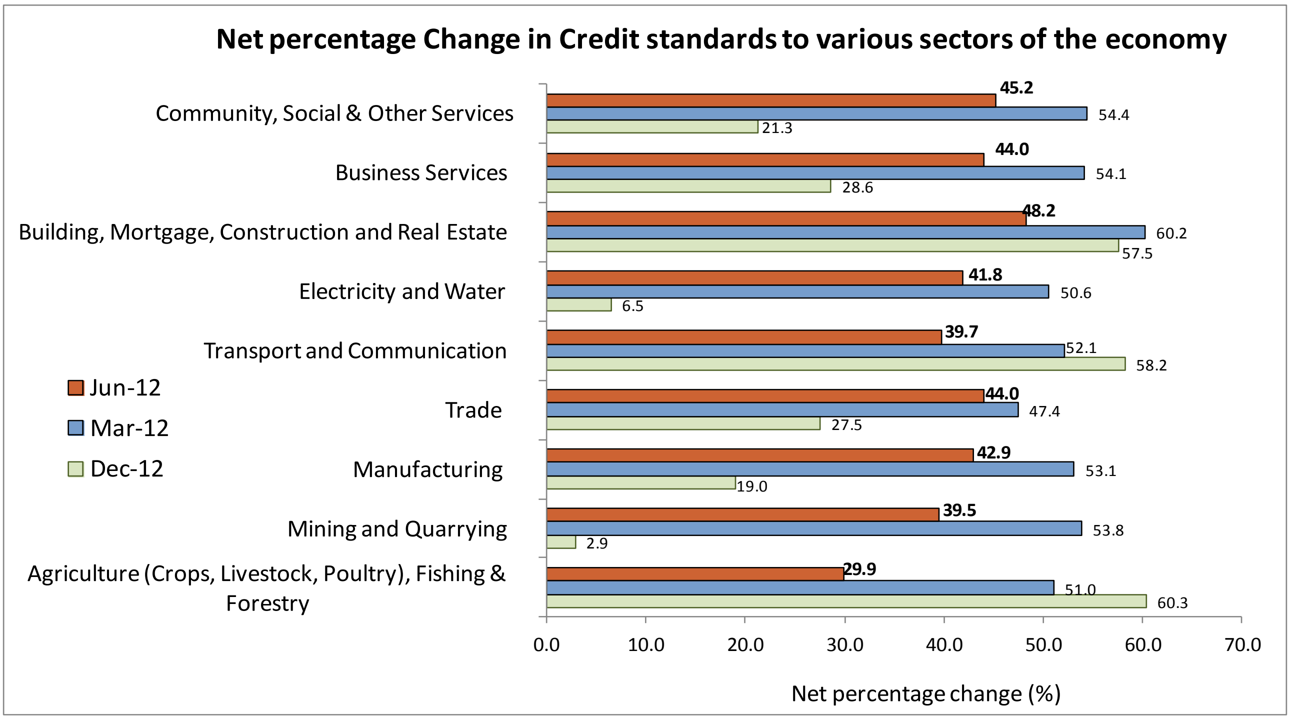
The key factors cited for the tightening of credit standards to the Building, Mortgage, Construction and Real Estate sector were: increased default rates within the sector, slow rates of return and tight liquidity constraints that do not favour long-term funding.
Conversely, banks that reported an easing in credit policy to the agricultural sector were said to have been taking advantage of seasonal credit demand.

[1] Banks noted that, in order to improve liquidity positions and prevent the tie up of funds, there would be increased focus on short term lending which would consequently lead to increased credit availability for short-term loans.

Table 2: Expectations for Credit Standards as applied to approval of loans to Enterprises

	Overall		Loans to SMEs		Large enterprises		Short-term Loans		Long-term Loans	
	Jun-12	Sep-12	Jun-12	Sep-12	Jun-12	Sep-12	Jun-12	Sep-12	Jun-12	Sep-12
Tighten	65	48	66	47	79	32	57	29	81	51
Unchanged	21	26	18	24	16	43	24	47	19	36
Ease	15	25	17	29	5	25	19	24	1	13
Net %	50	23	49	18	74	7	38	5	80	38

Figure 2: Changes in credit standards by economic sector



2.1.3 Expected Changes in Terms & Conditions for Credit to Enterprises

Price terms:
Likely Chances of lower Margins for banks in Q1 of 2012/13

In the quarter to September 2012, the majority of respondents (49 per cent) expect the margin[2] on average loans to narrow, indicating an increase in the availability of credit to enterprises. About 46 per cent of respondents expect the margin on average loans to remain unchanged while only 4 per cent expect a wider (tighter) margin in the next quarter.

The margin on prime borrowers is also expected to follow a similar trend, with majority of respondents expecting the margin on prime lending to ease over the next quarter.

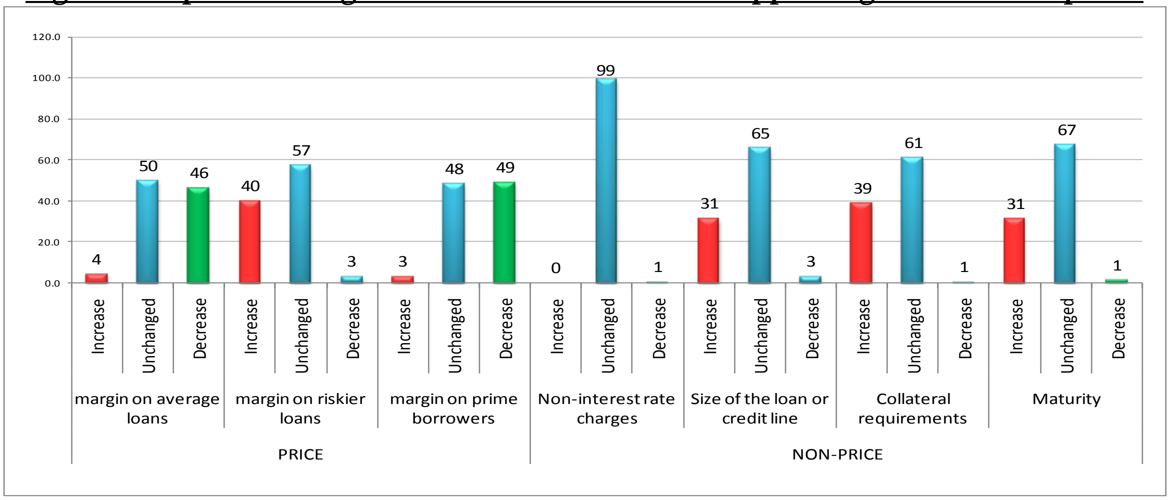
Non-Price terms:
Expected to remain unchanged in Q1 of 2012/13

Non-price terms and conditions are expected to remain largely unchanged with a bias towards tightening. Notably, almost all the surveyed banks (over 99 percent) expect non-interest rate charges such as fees and commissions to remain unchanged in contrast to the previous survey results which showed that majority of respondents expected an increase in non-interest rate charges.

Figure 3 illustrates these expected changes in the terms and conditions for credit to enterprises.

[2] Margin: assumed to be the spread over the official Bank Rate (i.e. the difference between the rate charged by the lender and the official Bank rate.)

Figure 3: Expected changes in terms & conditions for approving loans to enterprises



2.1.4 Demand for Credit

Credit Demand from enterprises expected to Increase in Q1 2012/2013

Looking ahead to the first quarter of FY 2012/13, the net demand for credit from enterprises is expected to increase as the percentage of banks anticipating an increase is slightly higher than those that expect a decrease. The overall percentage of banks expecting a rise in credit demand was 37 per cent compared to only 7 per cent that expect a decrease. Notably however, the overall majority of respondents (55 per cent) expect credit demand to remain broadly unchanged over the next quarter.

This is a reversal from the previous survey results where the majority of lenders expected a decline in credit demand from enterprise (*see Table 5*).

Table 3: Demand expectations for the next three months (Jul – Sep 2012)

	Overall		Loans to SMEs		Large enterprises		Short-term Loans		Long-term Loans	
	Jun-12	**Sep-12**	**Jun-12**	**Sep-12**	**Jun-12**	**Sep-12**	**Jun-12**	**Sep-12**	**Jun-12**	**Sep-12**
Increase	11	37	16	76	10	34	13	40	3	22
Unchanged	33	55	57	24	33	60	65	53	36	40
Decrease	55	7	27	1	56	6	23	7	61	39
Net %	-44	30	-11	75	-46	28	-10	33	-58	-17

Some of the major reasons given for the outlook above were:

a) Commercial banks expect the Central Bank to pursue a loose monetary policy stance over the next quarter, which they anticipate will translate to lower lending rates and consequently spur credit demand by making it cheaper to borrow.

b) Positive general economic conditions (such as the recent downward trend in inflation) are also expected to encourage borrowing as enterprises realize higher profit margins.

c) Banks are also expectant of a rise in government expenditure which is expected to spur credit demand in two ways: firstly by easing liquidity constraints and secondly, by encouraging firms to borrow so as to re-position their enterprises to take advantage of the anticipated government expenditure.

2.2 Households and Individuals

2.2.1 Credit standards

Unchanged credit standards to households in Q4

In the three months to end-June 2012, the majority of lenders (86 per cent), reported that the overall availability of credit provided to households and individuals had remained broadly unchanged. Some of the major reasons cited by respondents for the maintenance in credit standards included: lower household disposable income following a relatively high inflation period in the quarter to June 2012 and higher risks on collateral demanded.

In line with these perceptions, the number of personal and household loans approved by commercial banks declined in the last quarter of FY 2011/12, falling from 12,881 applications in the third quarter down to 11,641 applications[3]; a decline of 9.6 per cent.

Outlook: Net easing Anticipated in Q1

Commercial banks expect the overall availability of loans (to households and individuals) to remain unchanged in the quarter ending September 2012, with a bias towards easing.

2.2.2 Demand expectations for credit from Households

Increase in Credit Demand from households expected in Q1

In the quarter ending September 2012, a significant percentage of lenders (60 per cent) expect demand for credit by households to increase, compared to only 0.1 per cent that anticipate a decline. The remaining 40 per cent expect credit demand from households to remain unchanged.

Key factors cited for this expectation included: the anticipated decline in lending rates which will lower the cost of borrowing, the launch of new credit campaigns and products as well as an expected increase in borrowing to make school fees payments.

2.2.3 Outlook on Terms & Conditions for Credit to Households

Majority of lenders indicated that they expect to leave their overall terms and conditions for consumer credit unchanged over the next three months to September 2012. On a net basis, however, the various terms and conditions showed a bias towards tightening with the exception of the margins on average loans which showed a net easing.

2. 3 Interest Rate Expectations for Quarter 1, FY 2012/13

Interest rates expected to decline in Q1 FY 2012/13

Interest rate expectations were derived by asking commercial banks whether they were likely to charge higher or lower lending rates in the next three months, compared to previous quarter's levels, and by how much. The results were also weighted by the respondent institutions' market share in the credit market as shown in Appendix Table 2.

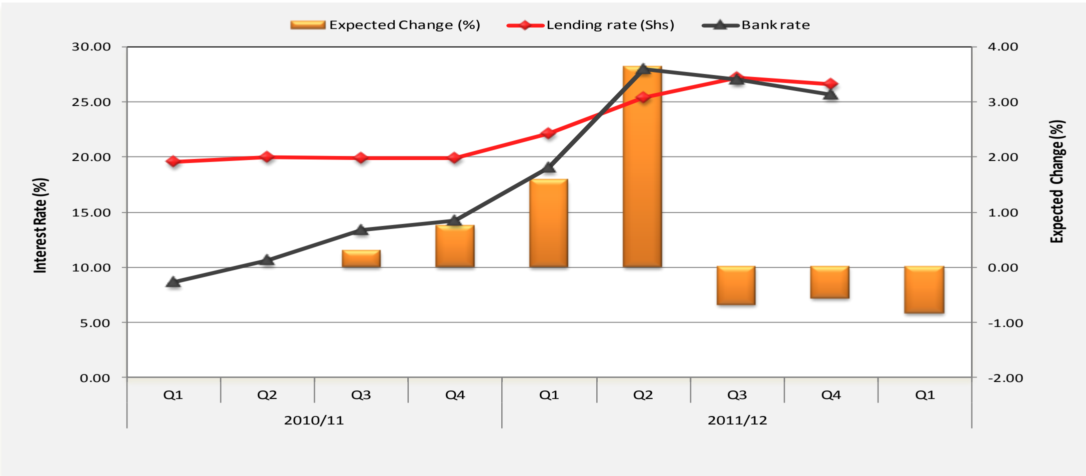
The average percentage, by which banks expect to reduce lending rates over the next quarter to September 2012, is 0.8 percentage points as shown in *Figure 4* below.

The main reasons cited for the outlook above included: the anticipation of a continued downward trend in inflation, expected reduction in Treasury bill rates and short-term money

[3] Source: Consolidated Commercial banks' balance sheet

market rates , associated with the decline in the Central Bank Rate (CBR), a more favourable economic climate and the anticipation of easing liquidity constraints. Actual credit outturns observed over the fourth quarter of FY 2011/12 indicate that, on an average quarterly basis, lending rates dropped by a margin of 61 basis points between Q3 and Q4 FY 2011/12. This outturn was consistent with the Q3 survey results which pointed towards an expected decrease in lending rates.

Figure 4: Changes in interest rates vis-à-vis Net Expectations



Notes: The line graphs show actual interest rate outturns over the quarter. The bar graphs show the average percentage, by which lending rates were expected to increase over the next quarter following the survey. Expectations have been moved forward by one quarter so as to be comparable with the actual outturns.

4. Conclusion

On the supply side: the bank lending survey for the fourth quarter of 2011/ 12 indicated that the majority of banks reported tight credit policy/standards regarding the overall availability of loans to all the borrowers. However, on a net basis, banks indicated a marked slowdown in the tightening of credit standards. According to the banks, this stance was mainly driven by lower inflation over the period and easing liquidity conditions. Lenders that reported tighter credit conditions cited risk related factors including; expectations regarding global economic activity, firm specific outlook and collateral demanded.

On the demand side: most lenders anticipate credit demand from both enterprises and households to increase, over the next three months to September 2012. The key factors given for these credit demand expectations were: the expected decline in the Central Bank's policy rate, a generally more favourable economic climate and seasonal demand factors such as school fees payments and the upcoming festive season.

Overall, the survey results indicate that in the quarter to September 2012, banks expect higher credit demand coupled with a slowdown in the pace of tightening of credit policy; owing to seasonal factors and greater economic activity.

ANNEX: DEFINITION OF KEY TERMS

To assist respondents in filling out the questionnaire, this glossary defines the most important terminology used in the survey:

- Enterprises: Non financial corporation irrespective of size and legal form, which are not principally engaged in financial intermediation but rather in production of goods and non-financial services.

- Households: Individuals or groups of individuals who share same living accommodation, pool some or all of their income and wealth, and consume certain goods and services collectively.

- Enterprise size: A Small and Medium Enterprise (SME) is an enterprise employing less than 100 employees. Large Enterprises are enterprises employing more than 100 employees.

- A bank's Credit Policy and/or Credit Standards consist of internal banking rules/criteria/guidelines which will determine (based on the classification by sector, area, size, financial indicators etc.) what types of loans (collaterised, non-collaterised, investment, overdraft etc.) it will provide, and to which clients. The questionnaire measures changes in such standards including cases when a bank has modified the implementation or application of an existing lending policy.

- Credit lines: A facility with a stated maximum loan amount that an enterprise is entitled to borrow. For purposes of this survey, developments regarding credit lines should be interpreted as changes in the net amount that can be drawn down under either an existing or new credit line.

- Credit terms and conditions: These refer to the specific obligations agreed upon by the lender and the borrower. In the context of this survey, they consist of :
  - Price related terms and conditions - these include the direct price or interest rate.
  - Non-Price related terms and conditions - these include the maximum size of the loan and the access conditions, as well as, other terms and conditions in the form of non –interest charges (i.e. fees),collateral requirements (including compensating balances), loan covenants and maturities (short-term versus long-term).

- Short term market: refers to a period of one week to 30days

- Consumer Credit: This refers to lending to individuals or households for purchase of durable and non durable goods. It excludes lending under mortgages.