# Bank Lending Survey Report
# Third Quarter - FY 2015/16

**STATISTICS DEPARTMENT, BANK OF UGANDA**

## EXECUTIVE SUMMARY

Statistics Department conducted the lending survey for supervised deposit-taking institutions, for the quarter ended March 2016. The objectives of the quarterly survey were to: enhance BOU's understanding of the lending behavior and loan financing conditions among deposit-taking institutions; capture leading information on credit developments and bank lending in the Ugandan market during the quarter ended March 2016 and expectations for the quarter ending June 2016.

**The key findings from the survey are detailed below.**

### *Credit Standards*

In net terms, banks reported tightened overall credit standards, although slightly higher than in the previous quarter. This was consistent with the anticipated net tightening reported by banks in the previous survey round for the same period.

In terms of loan duration, banks eased credit standards on short-term loans, but tightened on long-term loans in the quarter ended March 2016. The tightening was due to slow business activity on account of uncertainty in the economy that increased Non Performing Assets (NPAs), continued depreciation of the Shilling, upward adjustment of the Central Bank Rate (CBR), enhanced portfolio monitoring and risk mitigation to improve asset quality, tight liquidity and a desire to reduce the ratio of large exposures to gross loans (especially with large enterprises).

### *Outlook on Credit Standards*

In the quarter to June 2016, banks expect to further tighten credit standards for overall loans to enterprises; albeit at a slower pace. Reasons given included: expected lag effects of uncertainty to the macroeconomic environment in the quarter to March 2016, the need to continue managing credit risk, implementation of revisions to the banks' credit underwriting process to improve credit standards and scarcity of long term deposits to support long term lending.

### *Outlook on Demand for credit*

Overall, banks anticipate an increase in net demand for credit to enterprises and households in the next three months to June 2016. This cuts across all categories for enterprises, a break from the trend in expectations given in the previous survey round, where most lenders anticipated a decline in demand across the board for the quarter to March 2016.

Some of the reasons given for this positive outlook included: an expected improvement in the macroeconomic environment that ought to boost business and encourage borrowing, resumption of import cycles given the end of the election season and increased credit demand for the planned and ongoing infrastructure projects.

### *Outlook on Terms & Conditions for credit*

In the quarter to June 2016, banks expect most price and non-price terms to remain unchanged in net terms, with the exception of the margin on riskier loans which is anticipated to tighten significantly. This suggests a lower appetite for credit risk by lenders, in the quarter to June 2016.

### *Outlook on the default rate on loans*

On a net basis, banks expect default rates on loans to enterprises and households to increase in the coming three months. However, the expected rate of default is significantly lower than the net expectation, recorded in the previous survey round. This sentiment is a function of the expectation that lagged effects of the uncertainty during the quarter to March 2016 will persist into the next quarter.

### *Interest Rate Expectations*

The survey results indicate that the majority of banks expect their lending rates to remain unchanged over the next quarter to June 2016, but with a bias towards a decrease. Banks that expect to maintain their lending rates over the next quarter pointed out that they anticipate a stabilization of the macroeconomic variables after the election period.

On the other hand, banks that expect to reduce their lending rates in the quarter to June 2016 cited an expectation that treasury bills and bonds yields will continue to decline, leading to a softening of rates.

## 1. Introduction to the lending survey

**Objectives of the Survey**

The lending survey is conducted by Statistics Department to capture past and prospective developments in the credit market. The survey is designed to complement existing quantitative data on credit and lending rates.

The main objectives of the survey are to:

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

ii) Capture leading information on credit developments.

The survey covered the outturn for the quarter ended March 2016 and expectations for the quarter ending June 2016. Questionnaires were sent to all 25 commercial banks in Uganda, yielding a response rate of 92 percent.

This survey report therefore presents the findings from the analysis of the responses received from the commercial banks. <u>The methodology used in the analysis is detailed in *Appendix 1.*</u>

## 2. Survey Findings

### 2.1 Enterprises

#### 2.1.1 Credit standards to Enterprises

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.) to be provided and to which clients. This survey measures changes in such standards including cases when a bank has amended the implementation or application of an existing lending policy.

In the third quarter of FY 2015/16, credit standards on loans to enterprises were tightened at a higher pace compared to the previous quarter.

Banks reported tightened credit standards in net terms of 28.1 percent in March 2016 compared to a tightening of 20.4 percent in the quarter ended December 2015. The net tightening was however at a slower pace than had been anticipated (49.2 percent) in the previous survey. (*See Table 1 and Figure 1*).

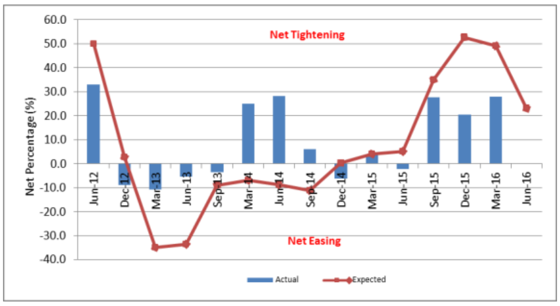
Across firm size, credit standards were tightened for both SMEs (45.7 percent) and large enterprises (33.1 percent) in net terms. Notably however, in both cases, the rate of tightening was lower than in the previous quarter.

In terms of loan duration, banks eased credit standards on short-term loans, but tightened standards on long-term loans, in the quarter ended March 2016 (*See Table 1*).

In easing standards for short term loans, banks pointed to a desire to boost inflows of interest and charges by easing short term lending such as overdrafts to SMEs. Moreover, they wanted to diversify their portfolios to SMEs.

Tightening on the other hand was noted to be on account of: uncertainty in the quarter to march and slow business activity which led to a rise in NPAs, continued depreciation of the Shilling, upward adjustment of the CBR, enhanced portfolio monitoring and risk mitigation to improve asset quality, tight liquidity, a desire to reduce the ratio of large exposures to gross loans (esp. with large enterprises) as well as tightening of the credit underwriting process to insure against fraud..

<u>**Figure 1: Overall Credit standards to enterprises**</u>




***Source:*** **Bank of Uganda**

<u>*Notes:*</u>

*(a) Net percentage balances are calculated by obtaining the difference between the percentage 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 graph shows the net percentage 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.*

**Table 1: Credit Standards as applied to approval of loans to enterprises**

| | Overall | | Loans to SMEs | | Large enterprises | | Short-term Loans | | Long-term Loans | |
|---|---|---|---|---|---|---|---|---|---|---|
| Bank's action | Dec-15 | Mar-16 | Dec-15 | Mar-16 | Dec-15 | Mar-16 | Dec-15 | Mar-16 | Dec-15 | Mar-16 |
| Tightened(A) | 20.4 | 28.1 | 51.2 | 45.7 | 34.3 | 33.8 | 11.3 | 3.1 | 49.6 | 24.0 |
| Unchanged | 79.6 | 70.0 | 48.8 | 54.3 | 65.7 | 65.5 | 81.9 | 90.6 | 46.0 | 53.8 |
| Eased (B) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 6.8 | 6.3 | 4.3 | 0.0 |
| Net %(A-B) | 20.4 | 28.1 | 51.2 | 45.7 | 34.3 | 33.1 | 4.4 | -3.2 | 45.3 | 24.0 |
| Interpretation: Negative-net easing, positive-net tightening | | | | | | | | | | |

***Source: Bank of Uganda***

In the quarter to June 2016, banks expect to further tighten credit standards for overall loans to enterprises; albeit at a slower pace.

In terms of duration and loan size, banks also expect to further tighten credit standards across short and long-term loans to enterprises, and loans to large enterprises and SMEs, over the three months to June 2016 (*See Figure 1 and Table 2*), but at a slower pace. In all the analytical groups cited above, the expected rate of tightening for the quarter to June 2016 is significantly lower than what was expected for the quarter to March 2016.

Among the main reasons cited by banks for the expected tightening in credit standards, in the quarter to June 2016, was the expected persistence of the economic uncertainty experienced in the quarter to march as well as the lagged effects of higher lending rates and an increase in the CBR. The banks also indicated a need to continue managing credit risk, implementation of revisions to their credit underwriting process to improve credit standards, and a scarcity of long term deposits to support long term lending.

**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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Bank's expected action | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 |
| Tighten (A) | 49.2 | 30.3 | 49.2 | 42.4 | 42.7 | 35.5 | 31.0 | 28.0 | 53.3 | 46.5 |
| Unchanged | 49.3 | 62.5 | 47.2 | 48.4 | 57.3 | 63.5 | 63.1 | 63.0 | 46.7 | 54.8 |
| Ease (B) | 0.0 | 7.2 | 3.7 | 7.9 | 0.0 | 1.0 | 5.9 | 9.0 | 0.0 | 0.0 |
| Net %(A-B) | 49.2 | 23.2 | 45.5 | 34.5 | 42.7 | 34.5 | 25.1 | 19.1 | 53.3 | 46.5 |
| Interpretation: Negative-net easing, positive-net tightening | | | | | | | | | | |

***Source: Bank of Uganda***

### 2.1.2 Credit Standards by Economic Sector

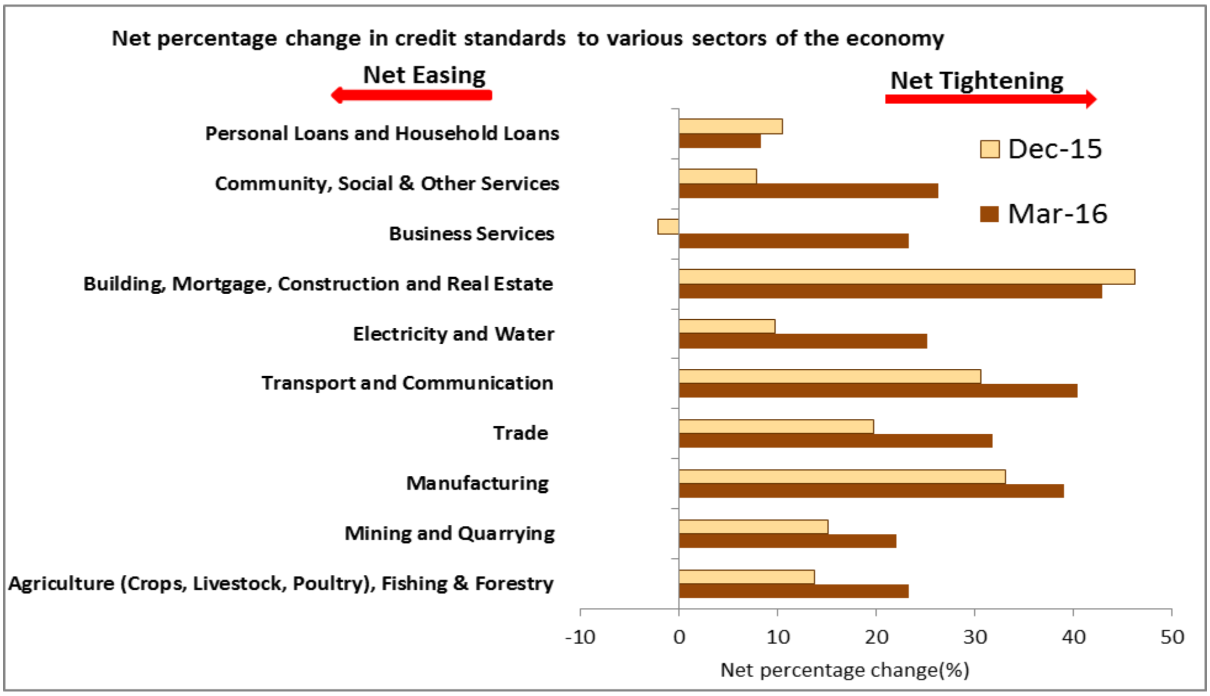
In terms of the sectors of the economy, majority of banks reported having kept overall credit standards broadly unchanged, with a bias towards tightening in the quarter ended March 2016, on a net basis.

On a net basis, majority of sectors were noted to have registered an increase in the pace of tightening over the quarter, with the exception of credit standards applied to personal and household loans which tightened at a lower rate over the quarter to March 2016.

Across the board, commercial banks tightened for among other reasons, a need to reduce their exposure to long term funding, to keep within their own sector limits, and broad efforts to manage credit risk and improve underwriting standards by tightening the underwriting process.

Specific to sectors, standards on lending to agriculture tightened because most loans to this sector are long term, and long term deposits needed to support such loans are scarce. Additionally, for the Building, Mortgage, Construction and Real Estate sector, it was noted that the cost of building materials is moving upwards, the economy is slowing down due to high interest rates, and most borrowers are civil servants who are paid late and thus have poor credit ratings. Standards on lending to Households and individuals tightened because most are salary earners whose ability to pay is a direct function of changes in interest rates that are currently relatively high.
Trade experienced tightening as a consequence of depreciation of the Shilling against the dollar, commodity prices, and market instability in neighboring countries (*See Figure* 2).

**Figure 2: Changes in credit standards by economic sector**




*Source: Bank of Uganda*

### 2.1.3 Expectations in the Terms and Conditions for Credit to Enterprises

Credit terms and conditions refer to the specific obligations agreed upon by the lender and the borrower. In the context of this survey, they consist of:

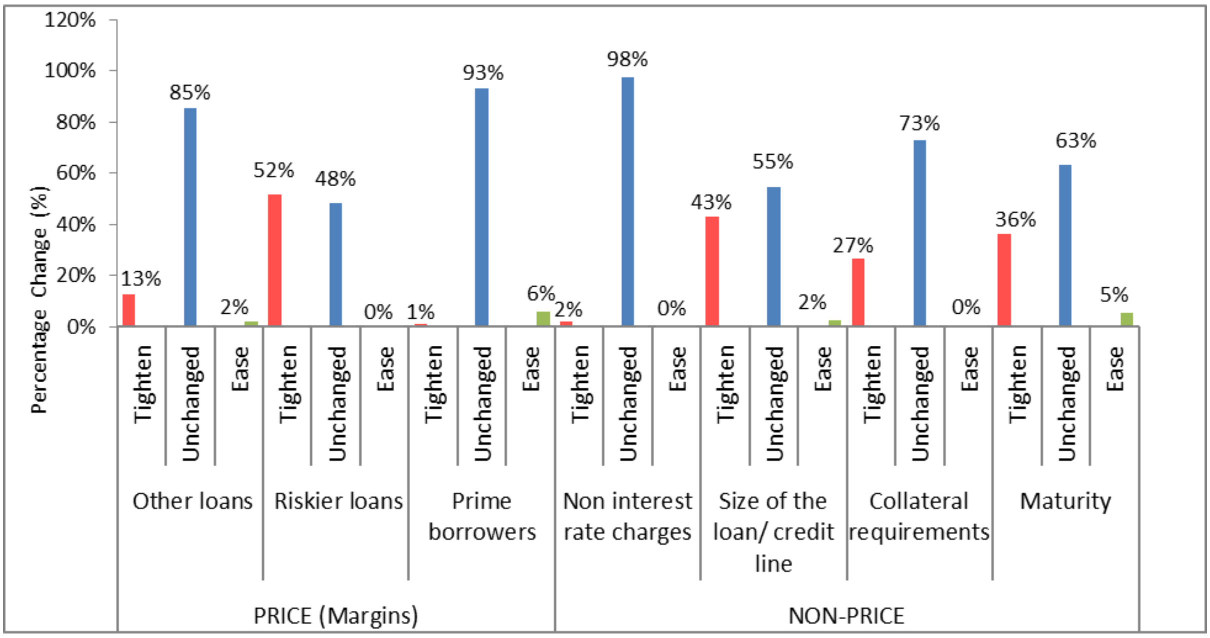
a) Price related terms and conditions - these include the direct price or interest rate.
b) Non-price related terms and conditions - these include the maximum size of the loan and the access conditions as well as other terms and conditions in the form of: non-interest charges (e.g. fees); collateral requirements (including compensating balances); loan covenants and maturities (short-term versus long-term).

In the quarter to June 2016, banks anticipate most price and non-price terms to stay unchanged in net terms; with the exception of price charges to riskier loans which are expected to significantly tighten. This suggests a lower appetite for credit risk in the quarter to June 2016.

On a net basis, most banks will keep price and non-price conditions unchanged as they watch the trajectory of the economic environment, but this will be with a bias towards tightening. 52% of banks expect to tighten conditions on riskier loans in acknowledgement of their risky profile. 43% expect to tighten conditions based on size given the decline in the risk appetite for large loans, and a desire to keep within their lending limits that are already reduced.

Non-price terms and conditions while broadly remaining unchanged, are expected to experience significant tightening based on maturity due to the scarcity of long term deposits to support long term lending, and to improve general credit risk management (*See Figure 3* below).

**Figure 3: Expected changes in terms & conditions for approving loans to enterprises (April – June 2016)**




***Source: Bank of Uganda***

### 2.1.4 Demand for Credit by Enterprises

Overall, banks anticipate an increase in demand for credit in the next three months to June 2016. This cuts across all analytical categories, and marks a change in the trend in expectations given for the quarter to March 2016, where most lenders anticipated a decline in demand across the board. The highest demand is expected for short term loans, and loans to SMEs, while long term loans are anticipated to rise moderately. These expectations are in harmony with the current industry shift from long term lending towards short term lending, as well as a preference for SMEs (*See Table 3* below).

**Table 3: Demand expectations for the next three months (April-June 2016)**

| | Overall | | Loans to SMEs | | Large enterprises | | Short-term Loans | | Long-term Loans | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bank's expected action** | **Mar-16** | **June-16** | **Mar-16** | **June-16** | **Mar-16** | **June-16** | **Mar-16** | **June-16** | **Mar-16** | **June-16** |
| Increase(A) | 0.0 | 71.1 | 4.3 | 87.0 | 0.0 | 40.4 | 13.4 | 89.7 | 0.0 | 35.5 |
| Unchanged | 60.5 | 18.1 | 56.9 | 10.0 | 56.1 | 47.9 | 51.4 | 7.3 | 49.2 | 52.7 |
| Decrease(B) | 37.9 | 3.0 | 38.8 | 1.3 | 43.9 | 10.1 | 35.2 | 1.3 | 46.4 | 10.1 |
| **Net %(A-B)** | **-37.9** | **68.1** | **-34.4** | **85.7** | **-43.9** | **30.3** | **-21.8** | **88.3** | **-46.4** | **25.4** |
| Interpretation: Negative-net decrease, positive-net increase | | | | | | | | | | |

***Source: Bank of Uganda***

Some of the major reasons given for the expected demand by enterprises above include:

a) The expected improvement in the macroeconomic environment that ought to boost business and encourage borrowing.
b) Import cycles are expected to resume given the end of the election season
c) The Increased demand from the planned and ongoing infrastructure projects.
d) Increased demand for short term loans as enterprises seek to fulfil contractual obligations before end of the financial year.
e) Treasury bill rates are also expected to decline, leading to a drop in market interest rates, and thus spurring demand.
f) Expected decline in the Central Bank's benchmark policy rate (CBR) and subsequently retail interest rates that will spur demand.

## 2.2 Households and Individuals

### 2.2.1 Credit standards to households

Majority of banks indicated that they kept credit standards to households and individuals broadly unchanged in the quarter ended March 2016, but with a bias towards easing, on a net basis (*See Appendix 2*).

Banks that maintained their credit standards to this sector cited a relatively stable economic environment for households, while those that eased standards cited promotion of products targeting households and lending that targets stable income earners such as salary earners.

Banks that tightened credit standards to this sector cited increasing default rates due to an overall worsening of portfolio profiles as well as the need to minimise credit default risk from fixed income earners who are sensitive to interest rate hikes.

In the quarter to June 2016, banks expect to tighten credit policy to households, but at a slower pace - a net tightening of 0.2 percent is expected in the quarter to June 2016, compared to a tightening of 48.7 percent expected in the previous quarter (*See Appendix 3)*. This anticipated decline in the pace of tightening was attributed to the expectation that the cost of living will decline with the decline in inflation, thus reducing the risk profile of this sector. Moreover lenders feel it's easier to monitor consumer loans to households.

### 2.2.2 Outlook on Terms and Conditions for Credit to Households

Majority of lenders indicated that they expect to keep both price and non-price terms and conditions for consumer credit largely unchanged over the next three months to June 2016, but with a bias towards tightening in net terms. (*See Appendix 4*).

### 2.2.3 Demand for Credit by households

In the three months to June 2016, majority of banks anticipate the demand for credit by households to stay unchanged, with a bias towards an increase in net terms. 57.2 percent of respondents noted that the demand would stay unchanged compared to 23.0 percent expecting an increase and 14.7 percent expecting a decline(see appendix 5).

The majority of Banks expect household incomes to remain stable, and therefore their demand for credit.

The banks that expect an increase in demand cited: increasing political stability that should bring economic stability leading to a reduction in the CBR, interest rates, and reduced prices, increase demand for goods and services, and higher employment. Others expect seasonal demand for school fees to spur greater demand for loans. Respondents that expect a decrease in credit demand from households cited increased non-price barriers to credit such as the introduction of guarantors in the application process.

## 2.3 Expected Default rate on loans to enterprises and households

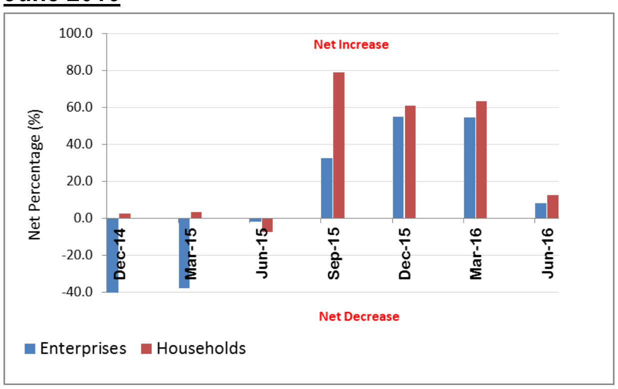
Compared to the quarter ended March 2016, the anticipated increase in default rates declined significantly for both loans to enterprises and households, as observed in *Figure 4*.

### 2.3.1 Expected default rate on loans to enterprises and households

Banks were asked to report their expectations on the change in default rates on loans to enterprises over the quarter to end June 2016. On a net basis, 8.1 percent and 12.5 percent expect default rates on loans to enterprises and households respectively, to increase in the coming three months. These rates are significantly lower than the 54.5 and 63.2 net expectation in the previous quarter (*See Appendix 6).*

The above sentiment is a function of the expectation that lagged effects of the uncertainty experienced in the quarter to march will persist into the next quarter. But a significant number also believe default rates will stay the same because of the expectation for the political and economic environment to improve in the next quarter.

**Figure 4: Default rate expectations for the quarter to June 2016**




***Source: Bank of Uganda***

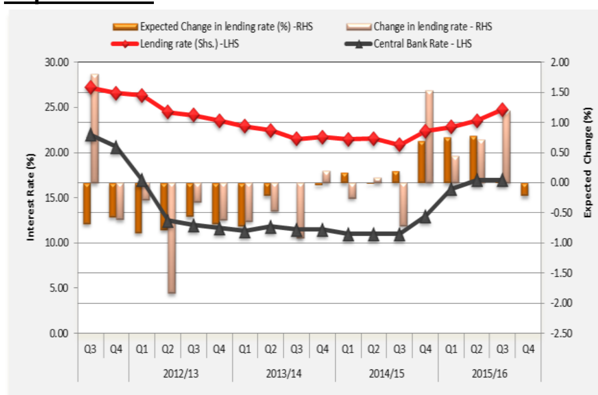
The expectation for increase in default rate for households is based on the high cost of living faced by households. Those that expect no change expect the economic and political situations to stabilise.

### 2.4 Interest Rate Expectations for Q4 FY 2015/16

The survey results indicate that the majority of banks expect their lending rates to remain unchanged over the next quarter to June 2016; but with a bias towards a decrease.

The average percentage decrease in lending rates over the next quarter to June 2016 is estimated at 0.25 percentage points. In the previous quarter, lenders expected to change the lending rate by 0.02 percentage points compared to an outturn of 1.21 percentage points, as shown in *Figure 5*.

**Figure 5: Changes in interest rates vis-à-vis Net Expectations**




***Source: Bank of Uganda***

*Notes: The line graphs show actual lending rate and CBR 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 and the actual change in lending rates over the quarter. Expectations have been moved forward by one quarter so as to be comparable with the actual outturns.*

Banks that expect to maintain their lending rates over the next quarter pointed out that they anticipate a stabilization of the macroeconomic variables after the election period. On the other hand, banks that expect to reduce their lending rates in the quarter to June 2016 cited an expectation that treasury bills and bonds yields will continue to decline, leading to a softening of rates. Moreover, the liquidity position of the market is expected to improve. Those that expect to increase lending rates cited the impact of the weighted average cost of funding.

## 3.0 Conclusion

The bank lending survey results indicated that banks tightened credit standards to both enterprises and households in Q3 FY 2015/2016. Tightening was due to uncertainty in the quarter to March 2016, and slow business activity that increased NPAs, The continued depreciation of the Shilling, upward adjustment of the CBR, enhanced portfolio monitoring and risk mitigation to improve asset quality, tight liquidity and a desire to reduce the ratio of large exposures to gross loans (especially with large enterprises).

In the coming months to June 2016, banks' expectations are inclined towards tightening credit standards for loans to both enterprises and households, albeit at a slower pace.

In terms of demand, most lenders anticipate credit demand to increase. Expected improvement in the macroeconomic environment that ought to boost business and encourage borrowing, resumption of import cycles during the post-election period and increased credit demand for the planned and ongoing infrastructure projects, were some of the reasons given for this positive outlook.

The survey results indicate that the majority of banks expect their lending rates to remain unchanged over the next quarter to June 2016; but with a bias towards a decrease, as lending to government becomes less profitable, as evidenced by a reduction in bill and bond yields.

## APPENDICES

### APPENDIX 1: Methodology

**Questions:**

The questions in the lending survey questionnaire distinguish between two categories of loans namely: a) loans 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; default rate; as well as credit demand and its determinants.

**Weighting:**

The results of the survey were weighted by the respective 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 during the period under review. The weights used in the computation were derived by taking the sum of each institution's market share of credit over the three month period (January – March 2016), as represented by each bank's new gross extensions to total new gross extensions of the commercial banking sub sector for the same period.

**Analysis of data:**

For the analysis of 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 summarized by calculating '*net percentage balance*' which is the difference between the weighted balances of lenders reporting that, say, demand had increased/ decreased or credit standards were tightened/ eased. The net percentage balances are scaled to a range between -100 and +100.

Positive net percentage balances indicate those lenders that reported/expected demand/default rate to be higher than the previous/current three-month period, or rather that the credit standards/ terms and conditions on which credit was/ will be provided became tighter/ are expected to tighten.(See *illustration below)*

On the other hand, 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 the previous quarter's levels and by how much.

***Illustration:***

***'Eased somewhat' + 'Eased considerably' = Eased***

***'Tightened somewhat' + 'Tightened considerably' = Tightened***

| **Response** | **Fraction of total giving response (%)** |
|---|---|
| Eased / Decreased | X |
| Unchanged | Y |
| Tightened / Increased | Z |
| Net percentage change | Z- X |

Interpretation of percentage change:

-100 0 +100

← Eased / Decreased Tightened / Increased →

## APPENDIX 2: Credit Standards as applied to approval of loans to households by Banks

| Banks' Action | Jun-15 | Sep-15 | Dec-15 | Mar-16 |
|---|---|---|---|---|
| Tighten (A) | 3.3 | 22.0 | 39.5 | 11.0 |
| Unchanged | 75.6 | 61.1 | 47.8 | 65.0 |
| Eased (B) | 4.2 | 15.1 | 12.7 | 24.0 |
| Net %(A-B) | **-0.9** | **6.9** | **26.8** | **-13.0** |

## APPENDIX 3: Household and consumer credit standards-expectations by Banks

| Banks' Expectation for quarter ending | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
|---|---|---|---|---|
| Tighten(A) | 12.7 | 43.4 | 50.6 | 8.0 |
| Unchanged | 57.0 | 55.9 | 47.6 | 84.2 |
| Ease(B) | 30.3 | 0.7 | 1.8 | 7.8 |
| Net %(A-B) | **-17.6** | **42.7** | **48.7** | **0.2** |

## APPENDIX 4: Expected changes in terms & conditions for approving loans to households by Banks

| | Price | | | | | | Non-price | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Expected Action | Average loans | | Riskier loans | | Prime borrowers | | Non-interest rate | | Size of loan | | Collateral | | Maturity | |
| | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 | Mar-16 | Jun-16 |
| Tighten(A) | 40.4 | 6.9 | 43.6 | 10.7 | 32.2 | 6.5 | 24.4 | 6.6 | 43.9 | 20.9 | 27.7 | 8.3 | 22.1 | 6.6 |
| Unchanged | 56.8 | 86.1 | 54.8 | 83.6 | 66.0 | 87.6 | 75.3 | 92.2 | 54.3 | 76.9 | 72.1 | 90.6 | 75.3 | 92.2 |
| Ease (B) | 0.2 | 1.3 | 0.0 | 0.0 | 1.8 | 0.6 | 0.2 | 1.2 | 1.8 | 2.2 | 0.2 | 1.2 | 0.2 | 1.2 |
| Net %(A-B) | **40.1** | **5.6** | **43.6** | **10.7** | **30.4** | **5.9** | **24.2** | **5.4** | **42.1** | **18.8** | **27.4** | **7.1** | **21.8** | **5.4** |

## APPENDIX 5: Household and consumer credit demand expectations by Banks

| Banks' expectation | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
|---|---|---|---|---|
| Increase(A) | 57.6 | 15.4 | 5.5 | 23.0 |
| Unchanged | 17.6 | 34.1 | 36.6 | 57.2 |
| Decrease(B) | 24.9 | 50.5 | 58.0 | 14.7 |
| Net %(A-B) | **32.7** | **-35.0** | **-52.5** | **8.3** |

## APPENDIX 6: Household and consumer credit default rate expectations by Banks

| Banks' expectation | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
|---|---|---|---|---|
| Increase(A) | 79.7 | 61.3 | 64.5 | 23.4 |
| Unchanged | 19.4 | 38.0 | 34.2 | 65.7 |
| Decrease(B) | 0.9 | 0.7 | 1.3 | 10.9 |
| Net %(A-B) | **78.9** | **60.7** | **63.2** | **12.5** |

# APPENDIX 7: Summary of Bank Lending Survey results

Appendix 7: Summary of Bank lending survey results

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’.
These scores are then weighted by lenders’ market shares. The weights used in the computation were derived by taking an average of each institution’s market share
over the three month period , as represented by each bank’s outstanding stock of loans to total outstanding loans of the commercial banking sector.
The results are analysed by calculating ‘net percentage balances’ — the difference between the weighted balance of lenders reporting that, for example, demand was higher/lower or
credit standards were tighter/looser. The net percentage balances are scaled to lie between ±100.
This annex reports the net percentage balance of respondents for each question in the lending survey questionnaire.

Positive balances indicate that lenders, on balance, reported/expected demand/default rate to be higher than over
the previous/current three-month period, or that the credit standards/ terms and conditions on which credit was/ will be provided became tighter/ are expected to tighten.

| Period | | 2013/14 | | | | 2014/15 | | | | 2015/16 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Part I: Enterprises** | | Q1 | Q2** | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| **How has your bank’s credit policy as applied to the approval of loans or credit lines to enterprises changed?** | | | | | | | | | | | | |
| Overall | Past three months | -3.6 | n/a** | 25.0 | 28.3 | 6.1 | -6.3 | 3.9 | -2.2 | 27.7 | 28.5 | 28.1 |
| | Next three months | -7.0 | n/a** | -8.6 | -11.0 | 0.3 | 5.8 | 5.1 | 35.1 | 52.8 | 25.5 | 23.2 |
| SMEs (b ) | Past three months | 18.3 | n/a** | 22.7 | 26.9 | 2.5 | 14.3 | 19.8 | 18.2 | 35.8 | 28.5 | 45.7 |
| | Next three months | -13.1 | n/a** | -11.2 | -14.2 | 4.8 | -0.7 | 7.3 | 37.3 | 48.8 | 20.1 | 34.5 |
| Large enterprises | Past three months | -5.1 | n/a** | 5.5 | 4.0 | 8.1 | -6.3 | 11.8 | 4.8 | 28.8 | 30.4 | 33.1 |
| | Next three months | -9.5 | n/a** | 2.6 | -0.4 | 4.4 | 4.9 | 5.1 | 20.4 | 36.3 | 40.1 | 34.5 |
| Short term loans | Past three months | -15.0 | n/a** | -19.7 | -24.0 | -25.7 | -12.3 | 2.7 | -4.3 | 25.5 | 5.1 | -3.2 |
| | Next three months | -17.6 | n/a** | -24.2 | -32.8 | -26.7 | -44.9 | -17.0 | 12.2 | 7.7 | 16.8 | 19.1 |
| Long term loans | Past three months | -2.8 | n/a** | 24.0 | 28.2 | 32.5 | 26.6 | 20.8 | 16.4 | 44.6 | 22.4 | 24.0 |
| | Next three months | -3.2 | n/a** | 21.7 | 23.1 | 1.5 | 38.2 | 22.0 | 39.0 | 55.1 | 34.2 | 46.5 |
| **How has your institution’s credit policy as applied to the approval of loans or credit lines to enterprises changed for the following sectors?** | | | | | | | | | | | | |
| Agriculture (Crops, Livestock, Poultry), Fishing & Forestry | Past three months | -7.4 | n/a** | 7.7 | -2.5 | -14.6 | -3.5 | 12.2 | 0.7 | 0.3 | 1.5 | 23.2 |
| Mining and Quarrying | Past three months | 1.0 | n/a** | 1.3 | -1.1 | 3.6 | 5.8 | 3.3 | 0.9 | 6.9 | 2.0 | 22.0 |
| Manufacturing | Past three months | -28.6 | n/a** | 19.0 | 23.1 | -3.9 | -6.7 | 1.6 | 3.8 | 6.0 | 4.5 | 39.1 |
| Trade | Past three months | -10.0 | n/a** | -19.4 | -29.1 | -2.5 | -1.2 | 2.7 | 1.8 | 5.6 | 8.8 | 31.7 |
| Transport and Communication | Past three months | -27.9 | n/a** | -12.3 | -26.4 | 10.8 | -5.0 | 16.5 | 0.4 | 11.5 | 19.4 | 40.4 |
| Electricity and Water | Past three months | -24.5 | n/a** | -18.8 | -26.4 | -2.7 | -10.1 | 0.0 | 2.9 | 4.1 | 12.9 | 25.2 |
| Building, Mortgage, Construction and Real Estate | Past three months | 22.4 | n/a** | 33.9 | 33.2 | 31.8 | 29.3 | 30.0 | 37.3 | 38.4 | 23.8 | 43.0 |
| Business Services | Past three months | -21.3 | n/a** | 2.1 | -2.1 | -3.7 | -15.1 | 2.0 | 0.0 | 2.0 | -4.6 | 23.3 |
| Community, Social & Other Services | Past three months | -25.8 | n/a** | 1.1 | -1.5 | -3.5 | -13.3 | -0.5 | -4.2 | 13.9 | 10.1 | 26.3 |
| Personal Loans and Household Loans | Past three months | -24.6 | n/a** | 2.0 | -1.1 | 0.6 | -9.3 | 0.3 | -1.0 | 2.7 | 15.5 | 8.2 |
| **How do you expect your institution’s terms and conditions for approving loans or credit lines to enterprises to change?** | | | | | | | | | | | | |
| Margin on average loans | Next three months | -32.2 | n/a** | -23.2 | -28.3 | -25.7 | 4.1 | 17.5 | 12.4 | 31.1 | 26.7 | 10.6 |
| Margin on riskier loans | Next three months | 19.5 | n/a** | 37.8 | 44.5 | 56.1 | 58.9 | 58.9 | 43.6 | 49.4 | 39.3 | 51.6 |
| margin on prime borrowers | Next three months | -32.5 | n/a** | -8.3 | -21.8 | -21.1 | -22.2 | 13.0 | 5.0 | 19.7 | 15.6 | -5.0 |
| Non-interest rate charges | Next three months | -1.0 | n/a** | -0.8 | -3.1 | -2.8 | 6.7 | 9.0 | 4.2 | 10.6 | 4.6 | 1.8 |
| Size of the loan or credit line | Next three months | -1.2 | n/a** | -0.3 | -3.9 | -2.8 | 2.7 | 13.4 | 11.8 | 21.1 | 32.9 | 40.7 |
| Collateral requirements | Next three months | 21.2 | n/a** | 25.2 | 26.6 | 31.3 | 39.3 | 25.3 | 23.8 | 37.7 | 34.4 | 26.4 |
| Maturity | Next three months | -21.4 | n/a** | -19.6 | -22.9 | 4.3 | 32.3 | 29.1 | 22.3 | 40.7 | 17.6 | 30.9 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Please indicate how you expect demand for loans or credit lines by enterprises to change at your institution?(apart from normal seasonal fluctuations)?** | | | | | | | | | | | | |
| Overall | Next three months | 57.6 | n/a** | 6.9 | 26.4 | 58.4 | 26.2 | 30.4 | 34.8 | -38.9 | -36.8 | 68.1 |
| SMEs | Next three months | 60.5 | n/a** | -9.6 | -7.0 | 29.0 | 27.0 | 34.5 | 32.2 | -40.2 | -32.0 | 85.7 |
| Large enterprises | Next three months | 46.1 | n/a** | -13.0 | -8.4 | 48.3 | 42.1 | 27.9 | 32.8 | -52.0 | -45.5 | 30.3 |
| Short term loans | Next three months | 78.2 | n/a** | 28.5 | 48.3 | 53.2 | 35.4 | 36.4 | 42.9 | 1.1 | -13.8 | 88.3 |
| Long term loans | Next three months | 46.1 | n/a** | -17.7 | -9.0 | 1.1 | -3.4 | 28.2 | 33.2 | -17.5 | -49.3 | 25.4 |
| **Please indicate how do you expect the default rate on loans to enterprises to change over the next three months ? ?** | | | | | | | | | | | | |
| Overall | Next three months | -3.1 | n/a** | 32.8 | 25.8 | -43.3 | -37.9 | -2.0 | 32.5 | 54.7 | 33.6 | 8.1 |
| SMEs | Next three months | -4.0 | n/a** | 32.9 | 24.6 | -18.6 | -12.6 | 16.8 | 35.3 | 49.5 | 33.6 | 26.4 |
| Large enterprises | Next three months | 2.2 | n/a** | 33.0 | 22.5 | -37.7 | -35.2 | 0.6 | 13.9 | 24.8 | 28.7 | 14.7 |
| Short term loans | Next three months | -3.1 | n/a** | 22.3 | 26.4 | -52.8 | -41.3 | -2.5 | 6.0 | 33.3 | 31.6 | 27.4 |
| Long term loans | Next three months | 3.5 | n/a** | 31.9 | 24.1 | -41.1 | -35.8 | -2.9 | 12.2 | 47.8 | 33.5 | 19.7 |

| **Period** | | | **2013/14** | | | | **2014/15** | | | **2015/16** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Part II: Households** | | **Q1** | **Q2**** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** |
| **How have your bank's credit policy as applied to the approval of loans to households and non-enterprises changed?** | Past three months | -1.0 | n/a** | -25.0 | -30.9 | -26.3 | 5.1 | -10.4 | -0.9 | 6.9 | 32.6 | -13.0 |
| | Next three months | -31.1 | n/a** | -42.5 | -46.7 | -35.5 | -51.8 | -6.6 | -17.6 | 42.7 | 25.2 | 0.2 |
| | | | n/a** | | | | | | | | | |
| **Please indicate how you expect demand for loans to households (for purposes of consumer credit) to change?** | Next three months | 75.8 | n/a** | 66.0 | 56.5 | 58.5 | 73.9 | 0.7 | 32.7 | -35.0 | -32.2 | 8.3 |
| **How do you expect your institution's terms and conditions for approving loans or credit lines to households to change?** | | | | | | | | | | | | |
| Margin on average loans | Next three months | -11.1 | n/a** | -36.9 | -0.9 | -11.0 | -2.2 | 36.8 | 22.7 | 28.8 | 38.2 | 5.6 |
| Margin on riskier loans | Next three months | 5.3 | n/a** | 2.6 | 18.0 | 9.3 | 21.0 | 38.3 | 31.0 | 32.2 | 41.5 | 10.7 |
| Margin on prime borrowers | Next three months | -20.6 | n/a** | -10.7 | -12.1 | -9.7 | -3.1 | -10.1 | 9.6 | 12.9 | 26.4 | 5.9 |
| Non-interest rate charges | Next three months | 28.5 | n/a** | 20.5 | 23.6 | 21.8 | -2.8 | -8.3 | 2.6 | 8.8 | 15.8 | 5.4 |
| Size of the loan or credit line | Next three months | -15.6 | n/a** | -22.2 | -26.9 | -27.7 | -24.1 | -12.0 | 11.6 | 23.3 | 18.0 | 18.8 |
| Collateral requirements | Next three months | 10.8 | n/a** | 1.3 | 5.0 | 2.5 | 9.9 | -4.6 | 13.1 | 15.1 | 20.6 | 7.1 |
| Maturity | Next three months | 1.2 | n/a** | 0.1 | 1.3 | 1.2 | 22.9 | 21.9 | 8.8 | 10.6 | 13.8 | 5.4 |
| **Please indicate how do you expect the default rate on loans to households to change over the next three months ?** | Next three months | 42.4 | n/a** | 30.3 | 43.7 | 2.4 | 3.3 | -7.3 | 78.9 | 60.7 | 46.6 | 12.5 |

| **Period** | | | **2013/14** | | | | **2014/15** | | | **2015/16** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Part III: Occassional Questions** | | **Q1** | **Q2**** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** |
| **To what extent have the events in the global financial markets affected your bank's willingness to lend?** | Past three months | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** |
| | Next three months | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** | n/a** |
| **How do you expect the lending rates at your institution;** | | | | | | | | | | | | |
| To change? | Next three months | -21.3 | n/a** | -3.3 | 4.9 | 0.3 | 7.5 | 53.1 | 78.3 | 37.8 | 22.0 | -21.4 |
| And by how much?[c] | Next three months | -0.22 | n/a** | -0.04 | 0.16 | 0.00 | 0.20 | 0.69 | 0.75 | 0.78 | 0.02 | -0.25 |

* The frequency of the lending survey was increased from bi annual to quarterly in the Q2 FY 2010/11 survey.

** Additional question not asked in survey.

(a) Net percentage balances are calculated by the difference between the weighted balance of lenders reporting that, demand was higher/lower or credit standrads were tighter/looser.
Positive balances indicate that lenders, on balance, reported/expected demand/default rate to be higher than over the previous/current three-month period, or that the credit standards/ terms and conditions on which credit was/ will be provided became tighter/ are expected to tighten.

(b) Small and Medium Enterprises (SMEs) was defined as an enterprise employing less than 100 employees where as large Enterprises are enterprises were defined as those enterprises employing more than 100 employees.

(C) Expected change in lending rates( in percentage points) is calculated by summing up the weighted decreases/increases(got by multiplying the weights and expected change in lending rate) of the respective lenders.

(d) The survey was not conducted in Q2** FY 2013/14