Bank Lending Survey Report
Second Quarter - FY 2016/17

STATISTICS DEPARTMENT, BANK OF UGANDA

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Executive Summary

Statistics Department conducted the lending survey for supervised deposit-taking financial institutions, for the quarter ending December 2016. The objectives of the survey were to: enhance BOU's understanding of the lending behavior and loan financing conditions among deposit-taking financial institutions; capture leading information on credit developments and bank lending on the Ugandan market during the quarter ending December 2016 and expectations for the quarter ending March 2017.

Credit Standards

In the second quarter of FY 2016/17, credit standards on loans to enterprises were tightened at a higher pace compared to the previous quarter. This was due to the banks' deliberate efforts to improve and maintain the quality of the loan book, high default rates particularly from large enterprises; scarcity of long term deposits and tight liquidity conditions in the market.

Across firm size, credit standards were tightened at a slower pace compared to the previous quarter for SMEs and tightened at higher pace for large enterprises in net terms. In terms of loan duration, banks also tightened credit standards for both short and long term loans, on net basis, in the quarter ended December 2016.

In the quarter to March 2017, banks expect to further tighten credit standards; across duration except for short term loans, at a higher pace for large enterprises and slower pace for SMEs. The main reasons cited by banks included: increase in default rate, inadequate capital for large enterprises and long term facilities and volatility of the exchange rate. The easing of short term credit standards is expected from the further anticipated decline in the Central Bank Rate (CBR).

Banks tightened credit standards to households and individuals on a net basis while on the other hand, they expect to ease the standards in the quarter to March 2017 due to expected improvement in the economic environment and reduction in the CBR which might trigger lowering of the bank lending rates to the sector.

Credit Standards by Economic Sector

Compared to quarter ended September 2016, all sectors registered a net tightening in credit standards in the quarter ended December 2016.

Outlook on Demand for credit

In the quarter to March 2017, banks anticipate an overall increase in demand for credit from both enterprises and households. The increase in demand will be driven by the expected reduction in interest rates resulting from the decline in the CBR, the need for traders to stock up for the new year and increased demand for education loan.

Outlook on Terms & Conditions for credit

In the quarter to March 2017, most banks expect to tighten the margins on riskier loans while easing conditions for prime borrowers to enterprises and households on a net basis. The expectations will be driven by banks' expected increase in default rate, expected reduction in interest rates as a response to the drop in the CBR and the need to reward borrowers with good credit records, respectively.

All non-price terms and conditions to enterprises and households are expected to tighten due to tight liquidity conditions, the lenders' desire to improve the quality of loan portfolio by increasing security coverage and curbing non-performing loans.

Outlook on the default rate on loans

On a net basis, banks expect default rates on loans to both enterprises and households to increase in the coming three months The expected increase in default rate for enterprises is on account of the low economic activity, depreciation of the shilling, expected increase in inflation coupled with a tighter taxation regime. On the other hand, the change in prioritisation away from credit servicing towards school fees payment and over expenditure during the festive season account for the expected increase in default rate for households.

Interest Rate Expectations

The survey results indicate that the majority of banks expect their lending rates to remain unchanged, while some expect to reduce their lending rates over the next quarter to March 2017.

Introduction

Objectives of the Survey

The lending survey conducted by Statistics Department captures 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 December 2016 and expectations for the quarter ending March 2017. Questionnaires were completed by all 25 commercial banks in Uganda, yielding a response rate of 100 percent.

This report presents the findings from the analysis of the responses received from the commercial banks only. The methodology used in the analysis is detailed in *Appendix 2.*

1. Survey Findings

1.1 Enterprises

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

In the second quarter of FY 2016/17, credit standards on loans to enterprises were tightened at a higher pace compared to the previous quarter.

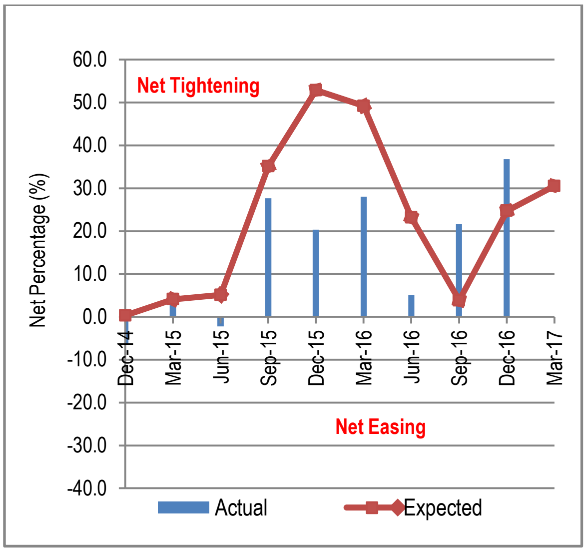
Banks reported tightened credit standards on net basis at 36.8 percent in the quarter ended December 2016 compared to 21.6 percent in September 2016. The overall net tightening was also higher than what banks had anticipated (24.7 percent) in the previous survey (*See Table 1 & 2 and Figure 1)*.

Across firm size, credit standards were tightened at a slower pace compared to the previous quarter for SMEs (from 31.7 percent to 31.6 percent) and tightened at a much higher pace for large enterprises (from 20.2 percent to 43.1 percent) in net terms.

In terms of loan duration, banks also tightened credit standards for both short and long term loans, on net basis, in the quarter ended December 2016 (*See Table 1*).

Key reasons cited for the tightening include: deliberate efforts to improve and maintain the quality of the loan book, high default rates particularly from large enterprises; scarcity of long term deposits and tight liquidity conditions in the market.

Figure 1: Overall Credit standards to enterprises



Source: Bank of Uganda

Notes:

(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	**Sep-16**	**Dec-16**	**Sep-16**	**Dec-16**	**Sep-16**	**Dec-16**	**Sep-16**	**Dec-16**	**Sep-16**	**Dec-16**
Tightened(A)	22.1	37.7	32.9	37.9	20.2	43.1	12.8	22.6	34.9	39.1
Unchanged	77.5	61.4	65.9	55.8	9.8	56.9	81.6	70.6	64.7	60.2
Eased (B)	0.4	0.9	1.2	6.3	0.0	0.0	5.7	6.8	0.4	0.7
Net %(A-B)	**21.6**	**36.8**	**31.7**	**31.6**	**20.2**	**43.1**	**7.1**	**15.8**	**34.5**	**38.4**
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

In the quarter to March 2017, banks expect to further tighten credit standards; across duration except for short term loans, at a higher pace for large enterprises and slower pace for SMEs (*See Figure 1 and Table 2*).

The main reasons cited by banks for the expected tightening in credit standards, in the quarter to March 2017 include: increase in default rate, inadequate capital for large enterprises and long term facilities and volatility of the exchange rate.

The easing of short term credit standards is expected as a result of the observed further decline in the Central Bank Rate (CBR).

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	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**
Tighten (A)	29.7	30.5	39.9	30.5	30.1	32.1	0.2	6.5	42.2	41.2
Unchanged	65.4	69.5	49.7	62.3	69.5	67.9	84.9	85.8	57.4	58.6
Ease (B)	5.0	0.0	8.6	7.2	0.4	0.0	14.8	7.7	0.4	0.2
Net %(A-B)	24.7	30.5	31.3	23.3	29.7	32.1	-14.6	-1.3	41.8	41.0
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

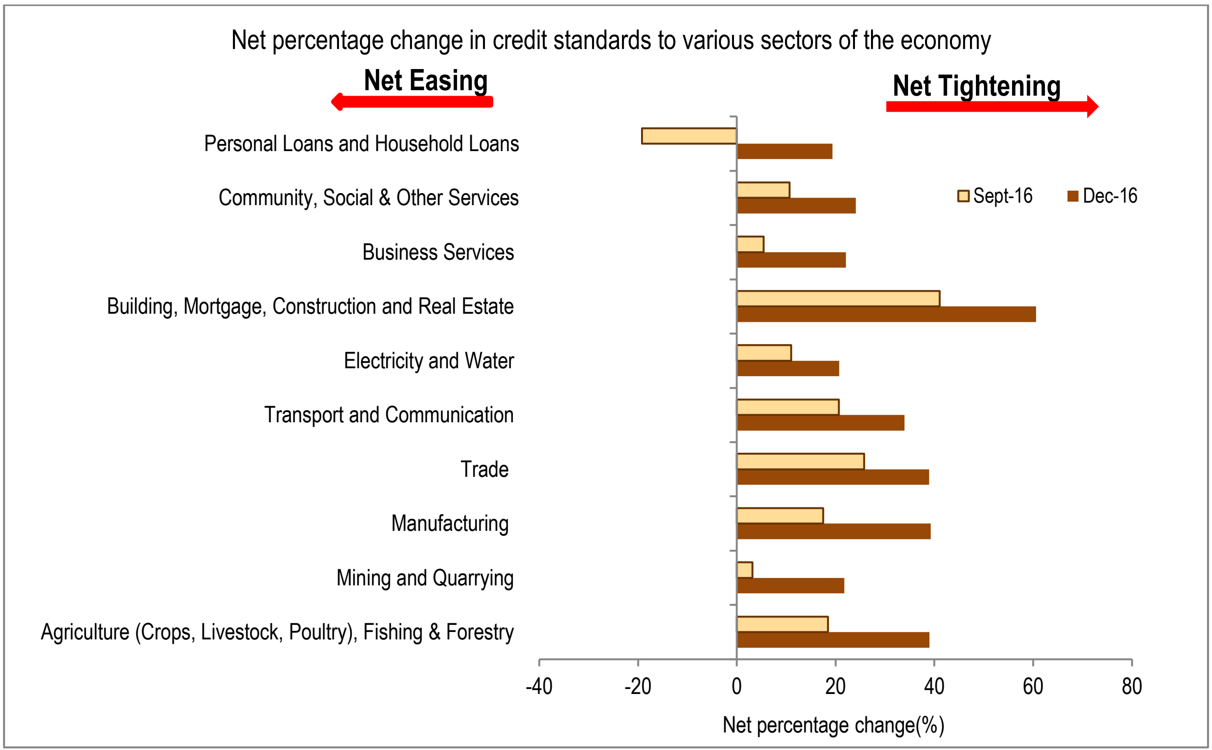
1.1.2 Credit Standards by Economic Sector

Banks were asked to indicate how their credit standards had changed for the different sectors of the economy. Compared to September 2016, all sectors registered a net tightening in credit standards in December 2016 (*See Figure 2*).

The building, mortgage, construction and real estate sector registered the highest net tightening (60.6 percent) due to; delayed payments to contractors, most projects in this sector require long term funding yet liquidity conditions are tight in the market, the slowdown in the real estate market due to high rental fees resulting into unoccupied buildings hence the increase in default rate.

This sector was followed by Manufacturing (39.3 percent), trade (39.0 percent) and agriculture (39.0 percent). Major reasons given were; depreciation in the shilling which has greatly impacted on the traders' margins especially those involved in importation and the uncertainty in seasonal changes, respectively.

Figure 2: Changes in credit standards by economic sector



Source: Bank of Uganda

1.1.3 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 that include the direct price or interest rate.

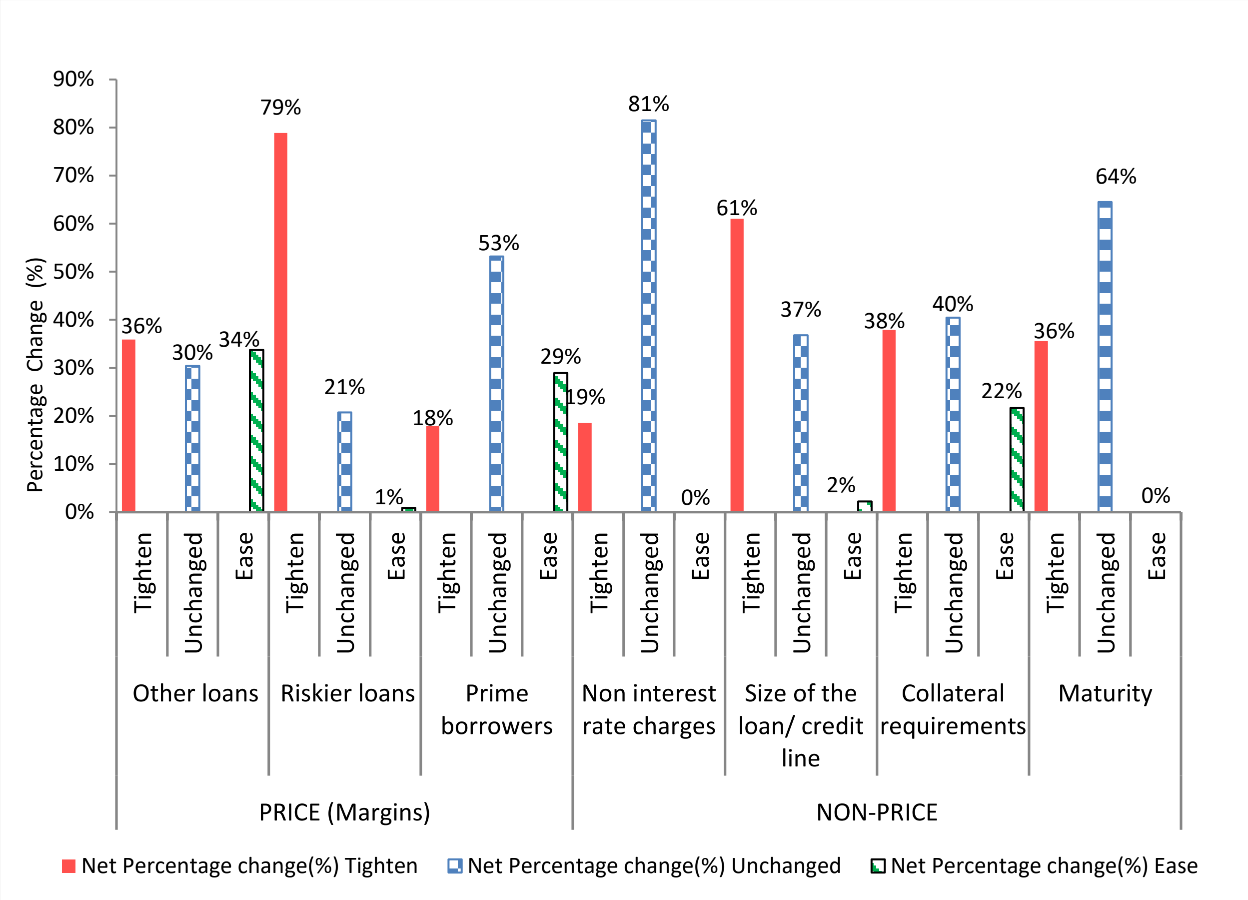
b) Non-price related terms and conditions that include the maximum size of the loan, the access conditions as well as other terms and conditions in the form of: non-interest charges (e.g. fees); collateral requirements (including compensating balances); loan covenants and maturities (short-term versus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

On a net basis, most banks expect to tighten the margin on average (other) loans and riskier borrowers while easing conditions for prime borrowers in the quarter to March 2017.

This is driven by banks' expected increase in default rate, expected reduction in interest rates as a response to the drop in the CBR in addition to competition in the lending market, respectively.

All the non-price terms and conditions are expected to be tightened. The net tightening particularly in regards to size of loan and collateral requirements is attributed to the tight liquidity conditions and the lenders' desire to improve the quality of loan portfolio by increasing security coverage (see Figure 3).

Figure 3: Expected changes in terms & conditions for approving loans to enterprises (January – March 2017)



Source: Bank of Uganda

1.1.4 Demand for Credit by Enterprises

In the quarter to March 2017, a smaller percentage of banks (35.8 percent) anticipate an overall increase in demand for credit, compared to the 74.7 percent that expected increased demand for the quarter ended December 2016 in the previous survey results. The expected net increase in demand cuts across all enterprises and duration of the loans albeit, at a slower pace (*See Table 3* below).

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

a) The expected reduction in interest rates resulting from the decline in the CBR. This is expected to encourage new borrowers.

b) The need for traders to stock up for the new year.

Table 3: Demand expectations for the next three months (January-March 2017)

	Overall		**Loans to SMEs**		**Large enterprises**		**Short-term Loans**		**Long-term Loans**	
Bank's expected action	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**
Increase(A)	74.7	35.8	75.7	35.8	59.9	29.1	74.4	36.7	48.3	29.2
Unchanged	25.3	59.5	24.3	41.4	40.1	45.3	25.6	41.4	51.7	48.0
Decrease(B)	0.0	4.7	0.0	22.8	0.0	25.6	0.0	21.9	0.0	22.8
Net %(A-B)	**74.7**	**31.1**	**75.7**	**13.0**	**59.9**	**3.6**	**74.4**	**14.8**	**48.3**	**6.4**
Interpretation: Negative-net decrease, positive-net increase										

Source: Bank of Uganda

1.2 Households and Individuals

1.2.1 Credit standards to households

Banks tightened credit standards to households and individuals on a net basis (11.8 percent). This is contrary to net easing (8.7 percent) observed in the previous period (*See Appendix 1*). Banks noted the high default rate and no fall-back position since its considered unsecured, as the major reason for tightening credit standards.

However, in the quarter to March 2017, banks expect to ease credit standards to households, a net easing of 7.4 percent (*See Appendix 1*). The easing is attributed to expected improvement in the economic environment and reduction in the CBR which might trigger lowering of the bank lending rates to the sector.

1.2.2 Outlook on Terms and Conditions for Credit to Households

Although both price and non-price terms and conditions for consumer credit are expected to remain largely unchanged over the next three months to March 2017, banks indicated that on a net basis, they expect to further ease interest rate margins on average loans and prime borrowers and widen margins of riskier borrowers. Banks also indicated that they expect to tighten the other terms and conditions for credit to the household sector (*See Appendix 1*).

The key reason cited for the expected net easing of price terms and conditions include: the continued reduction in CBR and the need to reward borrowers with good credit records. On the other hand, an effort to improve the quality of the portfolio by curbing non-performing loans was the major reason cited for the net tightening of non-price terms and conditions.

1.2.3 Demand for Credit by households

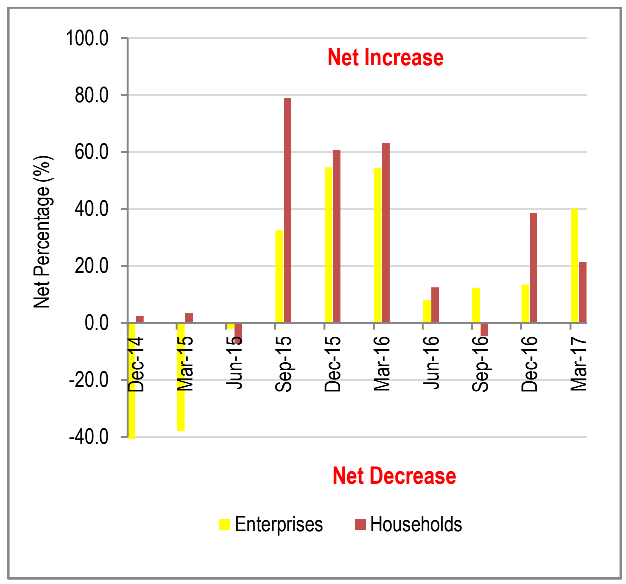
Credit demand by households is expected to increase in the three months to March 2017 with 48.2 percent of banks anticipating an increase, lower than the56.4 percent of banks that expected an increase in the previous survey results. The anticipated increase in demand was driven by the expected reduction in interest rates following a further drop in the CBR and increased demand for education loans.

1.3 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 and households over the quarter to March 2017. On a net basis, 40.1 percent and 21.4 percent of the banks expect the default rate on loans to both enterprises and households to increase, respectively, in the coming three months to March 2017. (See Appendix 1).

The expected increase in default rate for enterprises is on account of the low economic activity coupled with the depreciation of the shilling, expected increase in inflation coupled with a tighter taxation regime. The change in prioritisation away from credit servicing towards school fees payment and over expenditure during the festive season leaving borrowers with less liquidity to pay off the loans were suggested for the expected increase in default rate for households.

Figure 4: Default rate expectations



Source: Bank of Uganda

1.4 Interest Rate Expectations for Q3 FY 2016/17

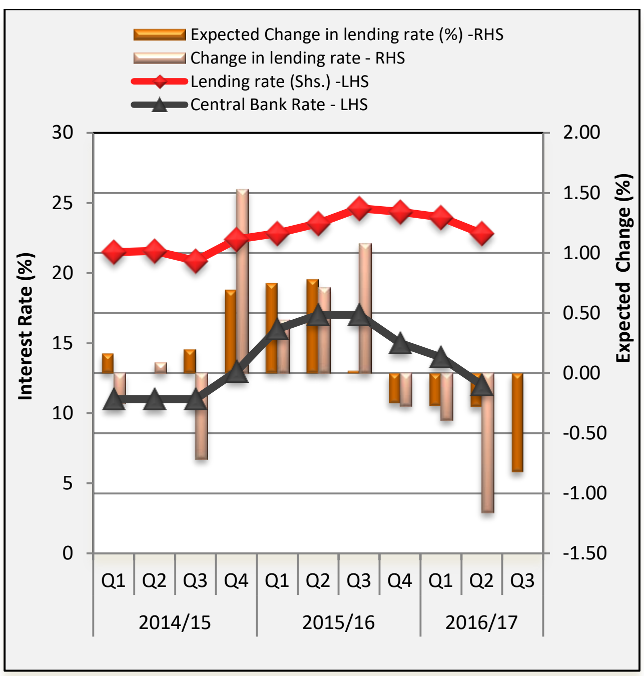
In an effort to understand the direction of interest rates from lenders, banks were asked to indicate the direction and magnitude of the change in lending rate in the coming three months.

The survey results indicate that over 60.1 percent of banks expect their lending rates to remain unchanged, while some expect to reduce their lending rates over the next quarter to March 2017.

The average percentage decrease in lending rates over the next quarter to March 2017 is estimated at 0.82 percentage points, compared to the 0.14 percentage points decrease that as anticipated in the previous survey results for the quarter ended December 2016 (See *Figure 5)*.

The anticipated decline will largely be driven by the downward trend in the CBR, the relatively stable economy and the stiff competition in the market.

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.

1.5 Monetary Policy Stance

In light of the current economic situation, banks were asked to indicate their expectations on the monetary policy stance in the next three months to March 2017.

Banks expect the monetary policy stance to tighten in the three months to March 2017, mainly driven by anticipated increase in inflation levels as a result of expected increase in food prices.

2. Conclusion

The bank lending survey results indicated that banks tightened their credit standards to enterprises at a higher pace contrary to the previous quarter and also tightened credit standards to households in Q2 FY 2016/2017.

The tightening to enterprises was due to deliberate efforts to maintain the quality of the loan book, high default rates particularly from large enterprises; scarcity of long term deposits and tight liquidity conditions in the market. In the coming three months to end March 2017, banks expect to further tighten credit standards for enterprises and long term loans but ease credit standards on short term loans.

The major reason for tightening credit standards for households was the default rate and no fall-back position since it is considered unsecured.

The demand for credit and default rate is expected to increase for both enterprises and households.

The survey results indicate that the majority of banks expect their lending rates to remain unchanged over the next quarter to March 2017. The banks that expect lending rates to reduce cited the downward trend of CBR and the competition in the market as the key factors.

APPENDICES

Appendix 1: Summary of Bank Lending Survey results

Appendix 1: 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		2014/15				2015/16				2016/17	
Part I: Enterprises		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Credit policy as applied to the approval of loans or credit lines to enterprises											
Overall	Past three months	6.1	-6.3	3.9	-2.2	27.7	20.4	28.1	5.1	21.6	36.8
	Next three months	0.3	5.8	5.1	35.1	52.8	49.2	23.2	3.8	24.7	30.5
SMEs	Past three months	2.5	14.3	19.8	18.2	35.8	51.2	45.7	13.1	31.7	31.6
	Next three months	4.8	-0.7	7.3	37.3	48.8	45.5	34.5	7.3	29.5	23.3
Large enterprises	Past three months	8.1	-6.3	11.8	4.8	28.8	34.3	33.1	5.0	20.2	43.1
	Next three months	4.4	4.9	5.1	20.4	36.3	42.7	34.5	14.8	29.7	32.1
Short term loans	Past three months	-25.7	-12.3	2.7	-4.3	25.5	4.4	-3.2	2.7	7.1	15.8
	Next three months	-26.7	-44.9	-17.0	12.2	7.7	25.1	19.1	-1.8	-14.6	-1.3
Long term loans	Past three months	32.5	26.6	20.8	16.4	44.6	45.3	24.0	18.1	34.5	38.4
	Next three months	1.5	38.2	22.0	39.0	55.1	53.3	46.5	18.6	41.8	41.0
Credit policy as applied to the approval of loans or credit lines to enterprises to different sectors											
Agriculture (Crops, Livestock, Poultry), Fishing & Forestry	Past three months	-14.6	-3.5	12.2	0.7	0.3	13.7	23.2	-2.8	18.5	39.0
Mining and Quarrying	Past three months	3.6	5.8	3.3	0.9	6.9	15.1	22.0	1.7	3.2	21.8
Manufacturing	Past three months	-3.9	-6.7	1.6	3.8	6.0	33.2	39.1	11.6	17.5	39.3
Trade	Past three months	-2.5	-1.2	2.7	1.8	5.6	19.7	31.7	9.3	25.8	39.0
Transport and Communication	Past three months	10.8	-5.0	16.5	0.4	11.5	30.6	40.4	1.8	20.6	34.0
Electricity and Water	Past three months	-2.7	-10.1	0.0	2.9	4.1	9.8	25.2	7.1	11.0	20.7
Building, Mortgage, Construction and Real Estate	Past three months	31.8	29.3	30.0	37.3	38.4	46.2	43.0	31.3	41.1	60.6
Business Services	Past three months	-3.7	-15.1	2.0	0.0	2.0	-2.1	23.3	-2.1	5.4	22.1
Community, Social & Other Services	Past three months	-3.5	-13.3	-0.5	-4.2	13.9	7.9	26.3	1.3	10.7	24.1
Personal Loans and Household Loans	Past three months	0.6	-9.3	0.3	-1.0	2.7	10.5	8.2	14.2	-19.2	19.4
Terms and conditions for approving loans or credit lines to enterprises											
Margin on average loans	Next three months	-25.7	4.1	17.5	0.0	1.0	3.8	40.4	68.0	21.8	2.2
Margin on riskier loans	Next three months	56.1	58.9	58.9	0.0	71.2	77.7	47.5	11.7	57.9	77.9
margin on prime borrowers	Next three months	-21.1	-22.2	13.0	0.0	21.8	9.6	10.0	19.1	1.4	-10.9
Non-interest rate charges	Next three months	-2.8	6.7	9.0	6.7	9.0	4.2	10.6	16.6	1.8	18.6
Size of the loan or credit line	Next three months	-2.8	2.7	13.4	2.7	13.4	11.8	21.1	52.2	40.7	58.8
Collateral requirements	Next three months	31.3	39.3	25.3	0.0	0.0	0.0	0.0	0.0	0.0	16.2
Maturity	Next three months	4.3	32.3	29.1	32.3	29.1	22.3	40.7	43.5	30.9	35.6
Demand for loans or credit lines by enterprises(apart from normal seasonal fluctuations)?											
Overall	Next three months	58.4	26.2	30.4	34.8	-38.9	-37.9	68.1	30.1	74.7	31.1
SMEs	Next three months	29.0	27.0	34.5	32.2	-40.2	-34.4	85.7	31.1	75.7	13.0
Large enterprises	Next three months	48.3	42.1	27.9	32.8	-52.0	-43.9	30.3	25.8	59.9	3.6
Short term loans	Next three months	53.2	35.4	36.4	42.9	1.1	-21.8	88.3	39.0	74.4	14.8
Long term loans	Next three months	1.1	-3.4	28.2	33.2	-17.5	-46.4	25.4	9.7	48.3	6.4
Default rate on loans to enterprises											
Overall	Next three months	-43.3	-37.9	-2.0	32.5	54.7	54.4	8.1	12.0	13.5	40.1
SMEs	Next three months	-18.6	-12.6	16.8	35.3	49.5	54.4	26.4	12.0	19.3	28.1
Large enterprises	Next three months	-37.7	-35.2	0.6	13.9	24.8	34.7	14.7	16.6	17.7	39.1
Short term loans	Next three months	-52.8	-41.3	-2.5	6.0	33.3	51.3	27.4	13.5	13.8	32.4
Long term loans	Next three months	-41.1	-35.8	-2.9	12.2	47.8	37.9	19.7	21.2	13.4	28.3
Period			2014/15			2015/16				2016/17	
Part II: Households		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Credit policy as applied to the approval of loans to households and non-enterprises	Past three months	-26.3	5.1	-10.4	-0.9	6.9	26.8	-13.0	12.7	-8.7	11.8
	Next three months	-35.5	-51.8	-6.6	-17.6	42.7	48.7	0.2	22.9	-11.6	-7.4
Demand for loans to households and non-enterprises (for purposes of consumer credit)	Next three months	58.5	73.9	0.7	32.7	-35.0	-52.5	8.3	62.5	56.4	45.4
Terms and conditions for approving loans or credit lines to households											
Margin on average loans	Next three months	-11.0	-2.2	36.8	22.7	28.8	40.1	5.6	-9.4	-15.9	-8.3
Margin on riskier loans	Next three months	9.3	21.0	38.3	31.0	32.2	43.6	10.7	6.7	4.0	29.1
Margin on prime borrowers	Next three months	-9.7	-3.1	-10.1	9.6	12.9	30.4	5.9	-10.5	-29.5	-27.8
Non-interest rate charges	Next three months	21.8	-2.8	-8.3	2.6	8.8	24.2	5.4	2.2	2.0	5.8
Size of the loan or credit line	Next three months	-27.7	-24.1	-12.0	11.6	23.3	42.1	18.8	5.6	-6.4	21.9
Collateral requirements	Next three months	2.5	9.9	-4.6	13.1	15.1	27.4	7.1	6.9	9.2	23.0
Maturity	Next three months	1.2	22.9	21.9	0.0	0.0	0.0	0.0	0.0	14.7	20.6
Default rate on loans to households	Next three months	2.4	3.3	-7.3	78.9	60.7	63.2	12.5	-5.0	38.4	21.4
Period			2014/15			2015/16					
Part III: Occassional Questions		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Lending rates expectation											
Increae(+)/Decrease(-)	Next three months	0.3	7.5	53.1	78.3	37.8	45.8	-21.4	-39.4	-43.6	-37.7
Percentage change	Next three months	0.00	0.20	0.69	0.75	0.78	0.70	-0.25	-0.27	-0.14	-0.82

Note: All figures are on net basis except where stated. 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.

APPENDIX 2: 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 (October – December 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 →