Bank Lending Survey Report fourth 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 June 2017. 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 June 2017 and expectations for the quarter ending September 2017.

Credit Standards

In the fourth quarter of FY 2016/17, credit standards on loans to enterprises were tightened at a slower pace compared to the previous quarter. Bank on the other hand eased credit standards on loans to households.

In terms of loan duration, banks also tightened credit standards for both short and long term loans, on net basis, in the quarter ended June 2017.

Across firm size, credit standards were tightened at a slower pace compared to the previous quarter for SMEs and large enterprises in net terms.

In the quarter to September 2017, banks expect to ease overall credit standards on a net basis for both loans to enterprises and households.

The main reasons cited by banks for the expected easing in credit standards, in the quarter to end September 2017 include: growth in deposits and reduction in CBR which will influence pricing and further the uptake loans.

Credit Standards by Economic Sector

Like in the quarter ended March 2017, all sectors registered a net tightening in credit standards in the quarter ended June 2017.

Outlook on Demand for credit

In the quarter to September 2017, banks anticipate an overall increase in demand for credit from both enterprises and households. The increase in demand is expected to be largely influenced by movements in pricing.

Outlook on Terms & Conditions for credit

In the quarter to September 2017, banks indicated a net tightening of all non-price terms and conditions and riskier borrowers to enterprises, while average loans and prime borrowers are expected to be eased on a net basis.

The key reason cited for the expected the tightening of terms and conditions was the high default rate experienced within most banks.

Outlook on the default rate on loans

On a net basis, banks expect the default rate on loans to enterprises to increase while the households' default rate is anticipated to decrease in the coming three months to September 2017.

The expected increase in default rate for enterprises is on account of the unfavourable economic conditions with businesses across sectors downsizing and battling to make ends meet, coupled with the effect of the prolonged drought which have cut across entirely in the sector leading to slow economic activity.

Interest Rate Expectations

The survey results indicate that the majority of banks expect their lending rates to remain unchanged while a significant number of banks expect the rates to decrease over the next quarter to September 2017 with varying reasons.

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 June 2017 and expectations for the quarter ending September 2017. Questionnaires were completed by all 24 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 3. Detailed summary results of Non-bank financial institutions are presented 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, duration, 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 a new lending policy or amended existing one.

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

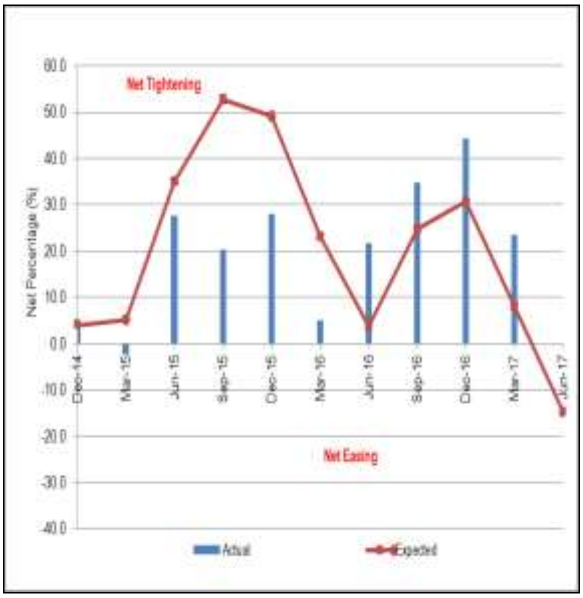
Banks reported tightened credit standards on net basis at 23.4 percent in the quarter ended June 2017 compared to 44.3 percent in March 2017. The overall net tightening was higher than what banks had anticipated (8.2 percent) in the previous survey (*See Table 1 & 2 and Figure 1)*.

Across firm size, credit standards were tightened at a much lower pace compared to the previous quarter for SMEs (from 32.3 percent to 3.3 percent) and large enterprises (from 51.1 percent to 29.8 percent), in net terms.

In terms of loan duration, banks also tightened credit standards at a slower pace, for both short and long term loans, on net basis, in the quarter ended June 2017 (*See Table 1*).

Key reasons cited for the tightening include: slowdown in the economic activities, and continued scarcity of funds in the economy primarily affecting the real estate sector where long term funding is required.

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	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**
Tightened(A)	46.7	24.7	40.4	9.2	52.0	31.1	37.1	8.6	46.4	39.0
Unchanged	50.8	74.0	43.4	78.9	47.2	67.6	56.2	84.9	50.8	59.2
Eased (B)	2.5	1.3	8.2	5.9	0.8	1.3	6.7	6.5	2.8	1.8
Net %(A-B)	**44.3**	**23.4**	**32.2**	**3.3**	**51.1**	**29.8**	**30.4**	**2.1**	**43.6**	**37.3**
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

In the quarter to September 2017, banks expect to ease overall credit standards on a net basis. For short term loans and SMEs banks expect to ease their credit standards in the quarter to September 2017 and tighten credit standards for large enterprises and long term loans in the same period. (*See Figure 1 and Table 2*).

The main reasons cited by banks for the expected easing in credit standards, in the quarter to September 2017 include: growth in deposits and reduction in CBR which is expected to improve pricing and further the uptake of more 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	
Bank's expected action	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**
Tighten (A)	8.6	4.4	13.1	9.2	16.6	14.6	1.1	0.0	9.9	20.7
Unchanged	88.5	75.1	79.7	55.9	83.3	83.3	86.8	91.4	89.6	77.3
Ease (B)	0.4	19.2	5.3	27.6	0.1	0.8	12.1	7.2	0.4	0.7
Net %(A-B)	**8.2**	**-14.8**	**7.8**	**-18.4**	**16.5**	**13.8**	**-10.9**	**-7.2**	**9.5**	**20.0**
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

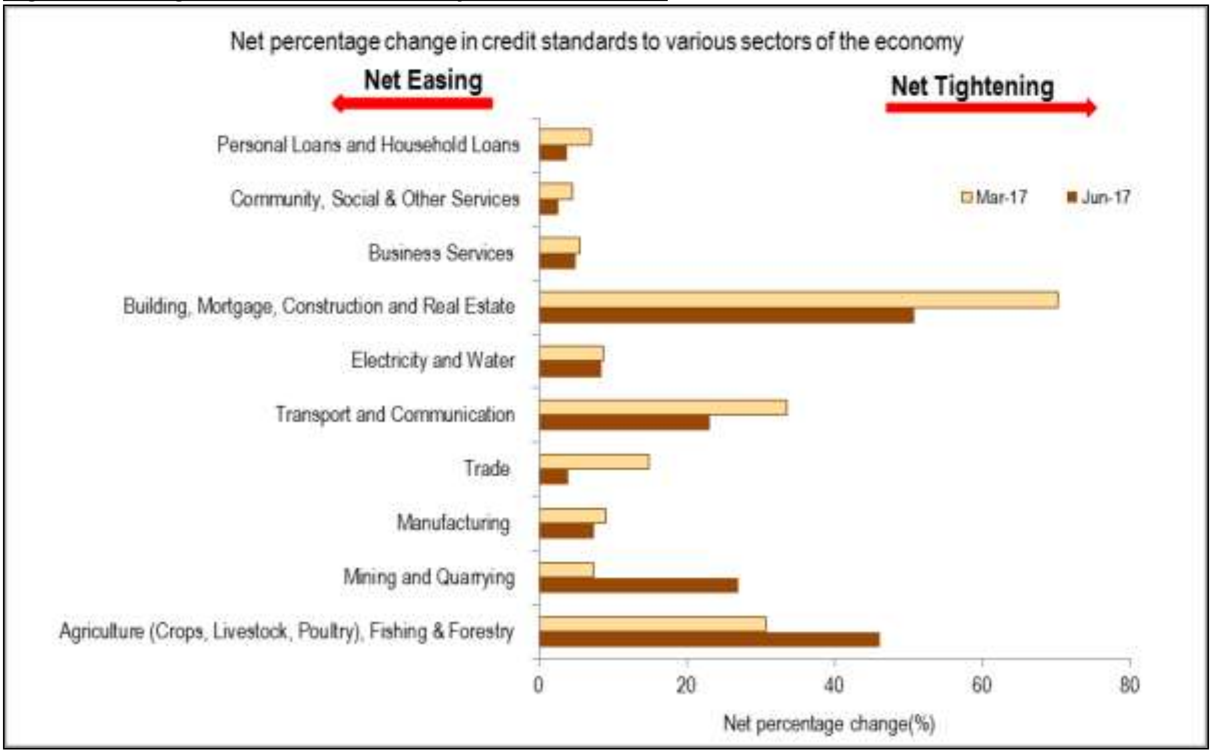
1.1.2 Credit Standards by Economic Sector

Banks were asked to indicate how their credit standards had changed for the different sectors of the economy. Similar to March 2017, all sectors registered a net tightening in credit standards in June 2017 (*See Figure 2*).

The building, mortgage, construction and real estate sector registered the highest net tightening (50.8 percent) on account of the slow market operations, high default rate, and depreciation of the shilling.

This sector was followed by Agriculture (46.1 percent), Transport (27.0 percent) and Mining and Quarrying (23.1 percent). Major reason given for tightening in agriculture was the adverse effects of unfavourable climatic conditions coupled with prolonged drought in many parts of the country resulting into an increase in the default rate.

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 comprise of:

a) Price-related terms and conditions that include the direct price or interest rate.

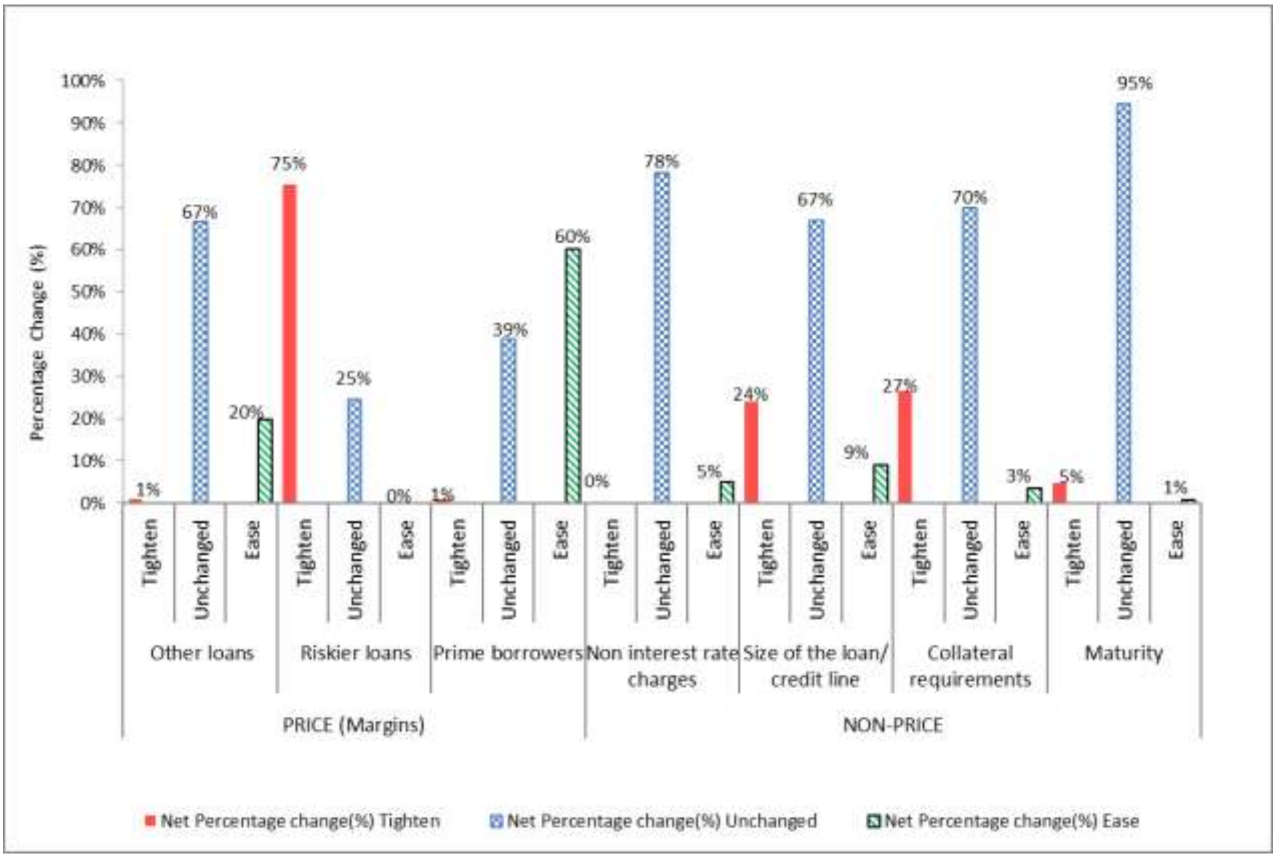
b) Non-price related terms and conditions that include the maximum size of the loan, the access conditions as well as other terms and conditions in the form of: non-interest charges (e.g. fees); collateral requirements (including compensating balances); loan covenants and maturities (short-term versus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

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

The easing of margins on average loans and prime borrowers is attributed to the expected further reduction in the Central Bank Rate and adoption of a wider risk based lending where reliable borrowers are to be rewarded.

All the non-price terms and conditions are expected to largely remain unchanged with a bias towards tightening on a net basis, except for non-interest rate charges which are expected to ease on a net basis. (See Figure 3).

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



Source: Bank of Uganda

1.1.4 Demand for Credit by Enterprises

In the quarter to September 2017, majority of banks (87.8 percent) anticipate an overall increase in demand for credit. The expected increase in demand cuts across all enterprises and duration of the loans (*See Table 3* below).

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

a) Reduction in lending rates as the central bank lowers the CBR;

b) Improvement in economic environment expected from the better market conditions as a result of the anticipated rains in the coming quarter.

Table 3: Demand expectations for the next three months (July-September 2017)

	Overall		**Loans to SMEs**		**Large enterprises**		**Short-term Loans**		**Long-term Loans**	
Bank's expected action	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**	**Jun-17**	**Sep-17**
Increase(A)	0.3	0.0	0.3	0.0	0.3	6.0	0.3	0.0	0.3	1.3
Unchanged	6.2	11.7	2.3	1.5	28.3	31.2	19.5	6.6	20.9	48.9
Decrease(B)	89.8	87.8	95.4	92.0	71.4	62.3	80.2	92.9	78.8	49.4
Net %(A-B)	**89.5**	**87.8**	**95.1**	**92.0**	**71.0**	**56.3**	**79.9**	**92.9**	**78.5**	**48.1**
Interpretation: Negative-net decrease, positive-net increase										

Source: Bank of Uganda

1.2 Households and Individuals

1.2.1 Credit standards to households

Banks eased credit standards to households and individuals on a net basis (5.9 percent) compared to the net easing of 7.3 percent observed in the previous period (*See Appendix 1*). Banks noted high efforts to increase salary loan portfolio to meet the set bank consumer targets without compromising on portfolio quality, as the main reason for easing credit to households.

Similarly, in the quarter to September 2017, banks expect to ease credit standards to households, a net easing of 17.5 percent, attributed to reduction in interest rates. (*See Appendix 1*).

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 September 2017, banks indicated a net tightening of all non-price terms and conditions on riskier borrowers. Margins on average loans and prime borrowers are expected to be eased on a net basis. (*See Appendix 1*).

The main reason cited for the net tightening of price and non-price terms and conditions is the high default rates experienced by most banks.

1.2.3 Demand for Credit by households

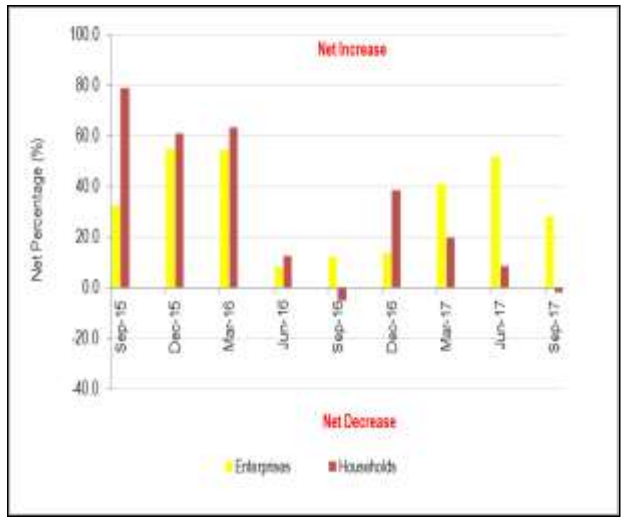
Credit demand by households is expected to increase in the three months to September 2017 with 68.0 percent of banks anticipating an increase, higher than the 67.8 percent of banks that expected an increase in the previous survey. The anticipated increase in demand was largely influenced by movements in pricing.

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 September 2017. On a net basis, 28.0 percent of the banks expect the default rate on loans to enterprises to increase, while only 1.8 percent of the banks, expect the household default rate on loans to decrease in the coming three months to September 2017 (See Appendix 1).

The expected increase in default rate for enterprises is on account of unfavourable economic conditions with business across sectors downsizing, the effect of the prolonged drought which have led to slow economic activity coupled with the decrease in house hold default rate due to the reduction in food prices.

Figure 4: Default rate expectations



Source: Bank of Uganda

1.4 Interest Rate Expectations for Q1 FY 2017/18

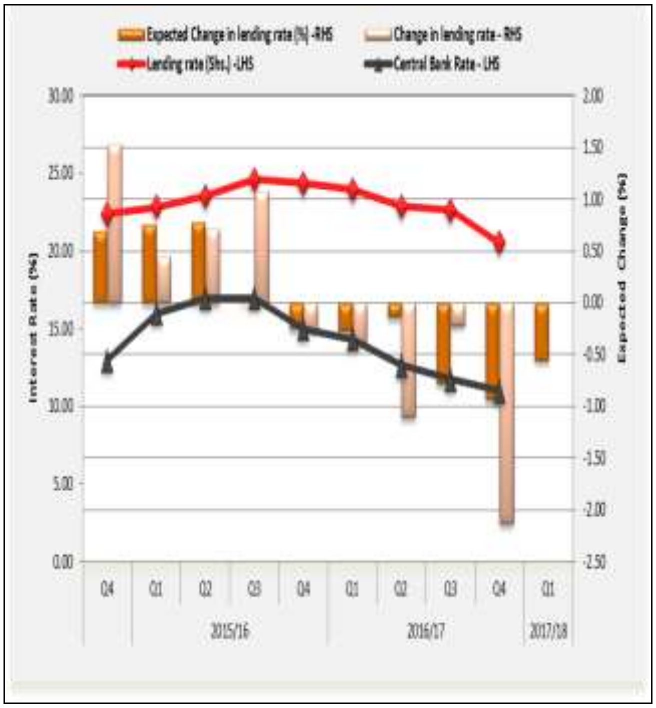
In an effort to understand the direction of interest rates from the lenders point of view, banks were asked to indicate the direction and magnitude of the change in their lending rate in the coming three months.

The survey results indicate that majority of the banks(49.8 percent) expect their lending rates to remain unchanged, while 49.5 percent expect the rates to decrease over the next quarter to September 2017.

The average percentage decrease in lending rates over the next quarter to September 2017 is estimated at 0.56 percentage points, compared to the 0.94 percentage point's decrease that was anticipated in the previous survey for the quarter ended June 2017 (See *Figure 5)*.

The anticipated decline in interest rates may largely be driven by the expected reduction in the CBR and the competition in the pricing levels from 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 Trend in Lending Rates

With regards to the observed decline in CBR, banks were further requested to provide their opinions on the slow decline in the lending rates on loans to borrowers. Some of the major reasons include: high operational costs incurred by banks and the increased risk of lending due to the prevailing economic factors.

2. Conclusion

The bank lending survey results indicate that banks tightened their credit standards to enterprises at a slower pace compared to the previous quarter, but eased credit standards to households in Q4 FY 2016/2017.

The anticipated easing of credit standards in the quarter to September 2017 was due to growth in deposits and reduction in CBR which will influence pricing.

In the quarter to September 2017, banks indicated a net tightening of all non-price terms and conditions and riskier borrowers, on account of high default rates experienced by most banks.

The default rate on loans to enterprises is expected to increase while that of households is anticipated to decrease in the coming three months to September 2017.

The survey results indicate an almost equal percentage of banks that expect their lending rates to remain unchanged and those that expect the rates to decrease over the next quarter.

APPENDICES

Appendix 1: Summary of Bank Lending Survey results-Commercial Banks

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	Q3	Q4
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	34.7	44.3	23.4
	Next three months	0.3	5.8	5.1	35.1	52.8	49.2	23.2	3.8	24.7	30.7	8.2	-14.8
SMEs	Past three months	2.5	14.3	19.8	18.2	35.8	51.2	45.7	13.1	31.7	29.5	32.2	3.3
	Next three months	4.8	-0.7	7.3	37.3	48.8	45.5	34.5	7.3	29.5	24.0	7.8	-18.4
Large enterprises	Past three months	8.1	-6.3	11.8	4.8	28.8	34.3	33.1	5.0	20.2	40.9	51.1	29.8
	Next three months	4.4	4.9	5.1	20.4	36.3	42.7	34.5	14.8	29.7	31.6	16.5	13.8
Short term loans	Past three months	-25.7	-12.3	2.7	-4.3	25.5	4.4	-3.2	2.7	7.1	14.2	30.4	2.1
	Next three months	-26.7	-44.9	-17.0	12.2	7.7	25.1	19.1	-1.8	-14.6	-1.0	-10.9	-7.2
Long term loans	Past three months	32.5	26.6	20.8	16.4	44.6	45.3	24.0	18.1	34.5	36.0	43.6	37.3
	Next three months	1.5	38.2	22.0	39.0	55.1	53.3	46.5	18.6	41.8	40.8	9.5	20.0
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	38.0	30.6	46.1
Mining and Quarrying	Past three months	3.6	5.8	3.3	0.9	6.9	15.1	22.0	1.7	3.2	20.3	7.3	27.0
Manufacturing	Past three months	-3.9	-6.7	1.6	3.8	6.0	33.2	39.1	11.6	17.5	37.1	9.0	7.4
Trade	Past three months	-2.5	-1.2	2.7	1.8	5.6	19.7	31.7	9.3	25.8	37.5	14.9	4.0
Transport and Communication	Past three months	10.8	-5.0	16.5	0.4	11.5	30.6	40.4	1.8	20.6	32.8	33.6	23.1
Electricity and Water	Past three months	-2.7	-10.1	0.0	2.9	4.1	9.8	25.2	7.1	11.0	18.5	8.7	8.4
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	58.9	70.1	50.8
Business Services	Past three months	-3.7	-15.1	2.0	0.0	2.0	-2.1	23.3	-2.1	5.4	20.5	5.5	4.9
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	21.4	4.4	2.6
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	17.2	7.1	3.8
Terms and conditions for approving loans or credit lines to enterprises													
Margin on average loans	Next three months	-25.7	4.1	17.5	4.1	17.5	12.4	31.1	33.9	10.6	0.5	-56.5	-18.7
Margin on riskier loans	Next three months	56.1	58.9	58.9	58.9	58.9	43.6	49.4	58.8	51.6	78.5	77.8	75.4
margin on prime borrowers	Next three months	-21.1	-22.2	13.0	-22.2	13.0	5.0	19.7	23.1	-5.0	-13.1	-69.8	-59.2
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	17.1	4.6	-4.7
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	56.9	1.3	15.1
Collateral requirements	Next three months	31.3	39.3	25.3	39.3	25.3	23.8	37.7	38.6	26.4	14.2	45.8	23.1
Maturity	Next three months	4.3	32.3	29.1	32.3	29.1	22.3	40.7	43.5	30.9	34.3	20.8	4.1
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	33.5	89.5	87.8
SMEs	Next three months	29.0	27.0	34.5	32.2	-40.2	-34.4	85.7	31.1	75.7	15.2	95.1	92.0
Large enterprises	Next three months	48.3	42.1	27.9	32.8	-52.0	-43.9	30.3	25.8	59.9	6.6	71.0	56.3
Short term loans	Next three months	53.2	35.4	36.4	42.9	1.1	-21.8	88.3	39.0	74.4	17.2	79.9	92.9
Long term loans	Next three months	1.1	-3.4	28.2	33.2	-17.5	-46.4	25.4	9.7	48.3	8.8	78.5	48.1
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	40.7	51.8	28.0
SMEs	Next three months	-18.6	-12.6	16.8	35.3	49.5	54.4	26.4	12.0	19.3	29.4	50.1	31.7
Large enterprises	Next three months	-37.7	-35.2	0.6	13.9	24.8	34.7	14.7	16.6	17.7	40.8	40.0	52.9
Short term loans	Next three months	-52.8	-41.3	-2.5	6.0	33.3	51.3	27.4	13.5	13.8	33.4	50.4	42.4
Long term loans	Next three months	-41.1	-35.8	-2.9	12.2	47.8	37.9	19.7	21.2	13.4	30.7	47.4	41.1
Period		2014/15				2015/16				2016/17			
Part II: Households		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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	11.0	-7.3	-5.9
	Next three months	-35.5	-51.8	-6.6	-17.6	42.7	48.7	0.2	22.9	-11.6	-7.7	13.1	-17.5
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	47.5	67.8	68.0
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	-8.6	-37.8	-54.2
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	28.3	38.3	52.0
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	-29.1	-41.8	-56.0
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	4.9	5.7	4.1
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	5.1	5.3
Collateral requirements	Next three months	2.5	9.9	-4.6	13.1	15.1	27.4	7.1	6.9	9.2	23.1	-15.6	23.7
Maturity	Next three months	1.2	22.9	21.9	8.8	10.6	21.8	5.4	4.5	14.7	20.5	-14.1	1.5
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	19.5	8.5	-1.8
Period		2014/15				2015/16							
Part III: Occassional Questions		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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	-36.3	-73.1	-49.5
Percentage change	Next three months	0.00	0.20	0.69	0.75	0.78	0.70	-0.25	-0.27	-0.14	-0.78	-0.94	-0.56

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: Summary of Bank Lending Survey results-NBFIs

Appendix 2: Non bank Financial Institutions

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.

Part I: Enterprises		Mar-17	Jun-17
Credit policy as applied to the approval of loans or credit lines to enterprises			
Overall	Past three months	39.2	19.0
	Next three months	22.0	-31.4
SMEs	Past three months	41.0	19.0
	Next three months	2.7	-34.6
Large enterprises	Past three months	21.7	19.0
	Next three months	13.0	-31.4
Short term loans	Past three months	18.3	28.5
	Next three months	-26.8	-34.6
Long term loans	Past three months	0.6	19.0
	Next three months	2.7	-21.9
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	40.3	15.5
Mining and Quarrying	Past three months	28.5	2.8
Manufacturing	Past three months	30.1	2.8
Trade	Past three months	40.3	28.5
Transport and Communication	Past three months	30.1	28.5
Electricity and Water	Past three months	30.1	2.8
Building, Mortgage, Construction and Real Estate	Past three months	40.3	6.0
Business Services	Past three months	40.3	28.5
Community, Social & Other Services	Past three months	30.1	12.3
Personal Loans and Household Loans	Past three months	30.1	0.4
Terms and conditions for approving loans or credit lines to enterprises			
Margin on average loans	Next three months	-6.3	-21.9
Margin on riskier loans	Next three months	34.1	12.3
margin on prime borrowers	Next three months	-26.8	-57.1
Non-interest rate charges	Next three months	0.0	-25.1
Size of the loan or credit line	Next three months	-7.5	-34.6
Collateral requirements	Next three months	13.6	-10.4
Maturity	Next three months	2.7	-18.6
Demand for loans or credit lines by enterprises(apart from normal seasonal fluctuations)?			
Overall	Next three months	27.1	35.8
SMEs	Next three months	29.0	58.3
Large enterprises	Next three months	18.4	22.7
Short term loans	Next three months	29.0	63.1
Long term loans	Next three months	28.6	32.6
Default rate on loans to enterprises			
Overall	Next three months	12.9	-14.3
SMEs	Next three months	29.9	-40.9
Large enterprises	Next three months	19.7	-0.9
Short term loans	Next three months	22.4	-52.8
Long term loans	Next three months	35.4	8.6
Period		**Mar-17**	**Jun-17**
Part II: Households			
Credit policy as applied to the approval of loans to households and non-enterprises	Past three months	30.1	-12.4
	Next three months	1.0	7.5
Demand for loans to households and non-enterprises (for purposes of consumer credit)	Next three months	2.8	53.9
Terms and conditions for approving loans or credit lines to households			
Margin on average loans	Next three months	13.0	-12.4
Margin on riskier loans	Next three months	14.8	-10.0
Margin on prime borrowers	Next three months	-7.5	-9.5
Non-interest rate charges	Next three months	2.7	-21.9
Size of the loan or credit line	Next three months	-6.3	-21.9
Collateral requirements	Next three months	-7.9	2.4
Maturity	Next three months	-16.6	-21.9
Default rate on loans to households	Next three months	4.1	11.5

(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.

APPENDIX 3: 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 (April – June 2017), 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