Bank Lending Survey Report
Third 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 March 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 March 2017 and expectations for the quarter ending June 2017.

Credit Standards

In the third 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 slow down in the economic activities and efforts by banks to improve the quality of their loan book as a result of high default rates observed in the past.

Across firm size, credit standards were tightened at a higher pace compared to the previous quarter for SME (from 29.5 percent to 32.2 percent) and large enterprises (from 40.9 percent to 51.1 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 March 2017.

In the quarter to June 2017, banks expect to further tighten overall credit standards on a net basis albeit at a slower pace across size and duration except for short term loans.

The main reasons cited by banks for the expected tightening in credit standards, in the quarter to June 2017 include: unstable foreign exchange rates especially the dollar rate which make borrowing expensive for both banks and their customers, and unpredictability of the markets.

Credit Standards by Economic Sector

Similarly to quarter ended December 2016, all sectors registered a net tightening in credit standards in the quarter ended March 2017.

Outlook on Demand for credit

In the quarter to June 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 improvement in the economy and new potential borrowers resulting from the declining interest rates expected in the coming quarter.

Outlook on Terms & Conditions for credit

In the quarter to June 2017, most banks indicated that they expect to tighten the margin on riskier loans and non-price terms and conditions for both enterprises and households, except for the margins on average loans, prime borrowers which registered easing. On the other hand, collateral requirements and maturity period are expected to be eased for households in the coming quarter to end June 2017.

The key reason cited for the expected the tightening of terms and conditions was mainly attributed to the increase in default rate and non-performing loans. On the other hand, the net easing of price and conditions was attributed to; decrease in the banks weighted average cost of funding to support onward lending as a result of the change in pricing of funding sources and the expected further reduction in interest rates as a response to the drop in the CBR.

Outlook on the default rate on loans

On a net basis, banks expect the default rate on loans to both enterprises and households to increase respectively in the coming three months to June 2017.

The expected increase in default rate for enterprises is on account of the unfavourable economic conditions experienced during the last couple of months which were partly manifested through higher borrowing costs.

Interest Rate Expectations

The survey results indicate that the majority of banks expect their lending rates to decrease, while some expect to remain unchanged over the next quarter to June 2017. The anticipated decline will largely be driven by the downward trend in the CBR and the stiff competition in the market.

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 March 2017 and expectations for the quarter ending June 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 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 third quarter of FY 2016/17, credit standards on loans to enterprises were tightened at a higher pace compared to the previous quarter.

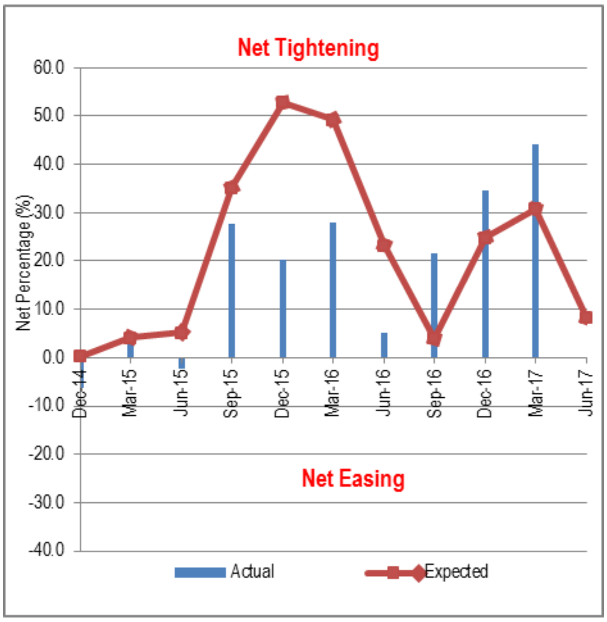
Banks reported tightened credit standards on net basis at 44.3 percent in the quarter ended March 2017 compared to 34.7 percent in December 2016. The overall net tightening was also higher than what banks had anticipated (30.7 percent) in the previous survey (*See Table 1 & 2 and Figure 1)*.

Across firm size, credit standards were tightened at a higher pace compared to the previous quarter for SMEs (from 29.5 percent to 32.2 percent) and large enterprises (from 40.9 percent to 51.1 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 March 2017 (*See Table 1*).

Key reasons cited for the tightening include: slowdown in the economic activities and efforts by banks to improve the quality of their loan book as a result of high default rates observed in the past.

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	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**	**Dec-16**	**Mar-17**
Tightened(A)	35.7	46.7	36.0	40.4	40.9	52.0	21.2	37.1	36.7	46.4
Unchanged	63.2	50.8	57.6	43.4	59.1	47.2	71.8	56.2	62.6	50.8
Eased (B)	1.0	2.5	6.4	8.2	0.0	0.8	7.0	6.7	0.7	2.8
Net %(A-B)	**34.7**	**44.3**	**29.5**	**32.2**	**40.9**	**51.1**	**14.2**	**30.4**	**36.0**	**43.6**
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

In the quarter to June 2017, banks expect to further tighten overall credit standards on a net basis albeit at a slower pace across size and duration except for short term loans (*See Figure 1 and Table 2*).

The main reasons cited by banks for the expected tightening of credit standards, in the quarter to June 2017 include: unstable foreign exchange rates especially the dollar rates which make borrowing expensive for both banks and their customers, and unpredictability of the markets.

The easing of short term credit standards is due to the anticipated further reduction in the 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	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**
Tighten (A)	30.7	8.6	30.7	13.1	31.6	16.6	6.4	1.1	41.0	9.9
Unchanged	69.3	88.5	62.6	79.7	68.4	83.3	86.2	86.8	58.8	89.6
Ease (B)	0.0	0.4	6.7	5.3	0.0	0.1	7.4	12.1	0.2	0.4
Net %(A-B)	**30.7**	**8.2**	**24.0**	**7.8**	**31.6**	**16.5**	**-1.0**	**-10.9**	**40.8**	**9.5**
Interpretation: Negative-net easing, positive-net tightening										

Source: Bank of Uganda

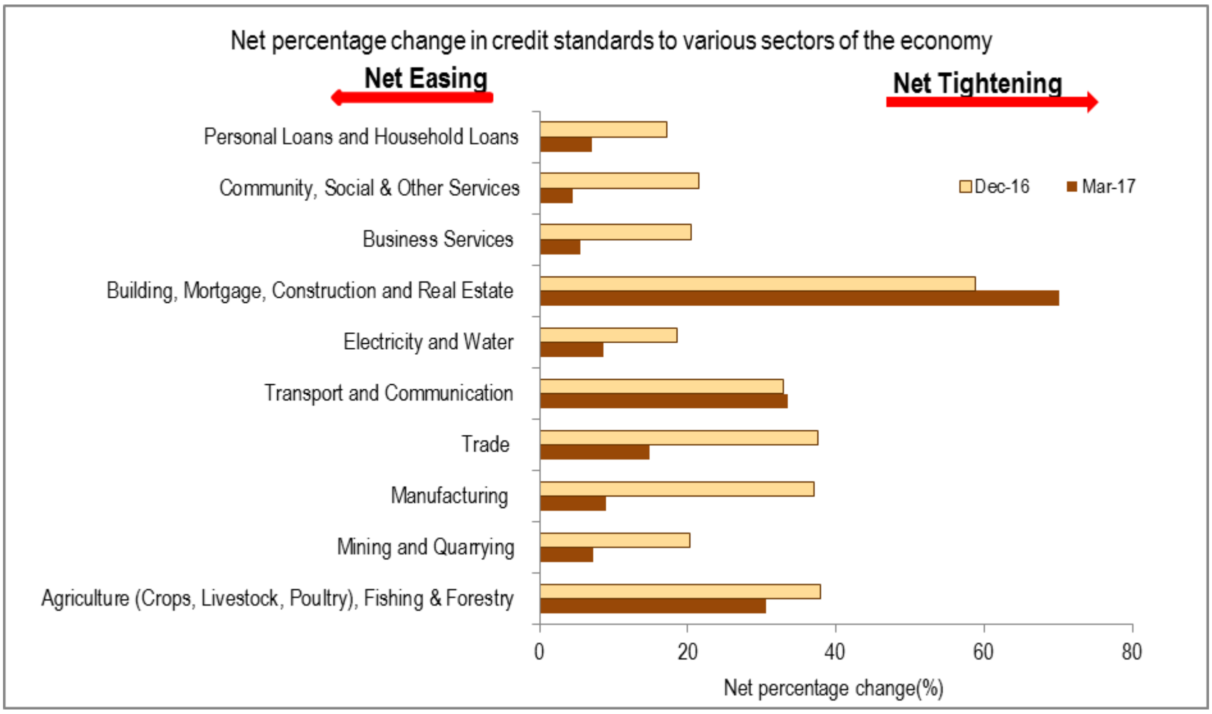
1.1.2 Credit Standards by Economic Sector

Banks were asked to indicate how their credit standards had changed for the different sectors of the economy. Similar to December 2016, all sectors registered a net tightening in credit standards in March 2017 (*See Figure 2*).

The building, mortgage, construction and real estate sector registered the highest net tightening (70.1 percent) on account of long term funding requirement for most projects in this sector which ideally should be backed up with long-term deposits, low transactions in the real estate market and the high default rates.

This sector was followed by transport and communication (33.6 percent), agriculture (30.6 percent), and trade (14.9 percent). Major reasons given were; the effects of adverse weather conditions on production and food supply, and high default rates in the different sectors.

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.

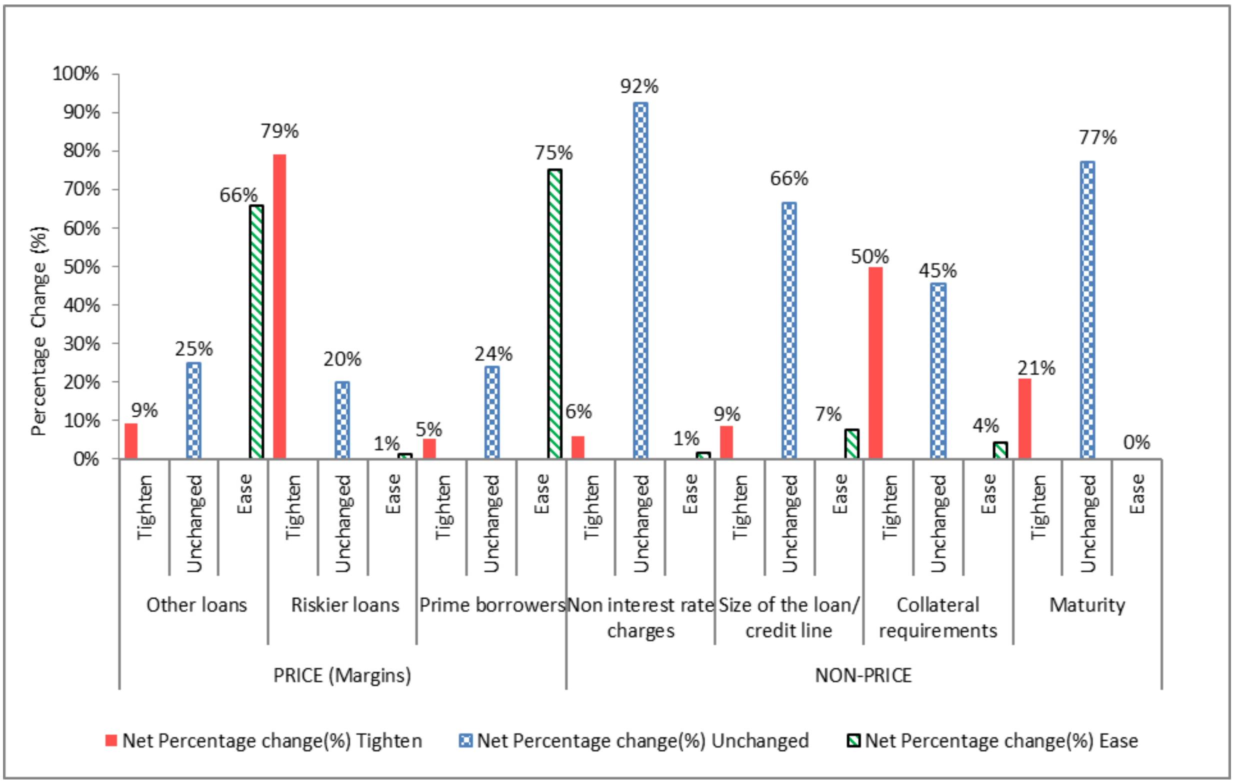
b) Non-price related terms and conditions that include the maximum size of the loan, the access conditions as well as other terms and conditions in the form of: non-interest charges (e.g. fees); collateral requirements (including compensating balances); loan covenants and maturities (short-term versus 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 June 2017.

The easing of margins on average loans and prime borrowers is attributed to the expected further reduction in interest rates as a response to the drop in the CBR, while the increases in default rate and non-performing loans are anticipated to lead to the tightening of conditions for riskier borrowers.

All the non-price terms and conditions are expected to largely remain unchanged except for collateral requirements. 50 percent of lenders expect to tighten collateral requirements compared to only 4 percent that expect to ease, which is attributed to polishing of SME lending parameters with amended collateral requirements and relatively higher loan limits. (See Figure 3).

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



Source: Bank of Uganda

1.1.4 Demand for Credit by Enterprises

In the quarter to June 2017, majority of banks (90.9 percent) anticipate an overall increase in demand for credit, compared to the 38.5 percent that expected increased demand for credit in the quarter ended March 2017. 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) Expected new potential borrowers resulting from the declining interest rates;

b) Anticipated improvement in the economic conditions in coming quarter.

Table 3: Demand expectations for the next three months (April -June 2017)

	Overall		**Loans to SMEs**		**Large enterprises**		**Short-term Loans**		**Long-term Loans**	
Bank's expected action	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**	**Mar-17**	**Jun-17**
Increase(A)	38.5	90.9	38.5	95.4	32.4	71.4	39.5	80.2	32.1	78.8
Unchanged	56.5	6.2	38.2	2.3	41.7	28.3	38.2	19.5	44.6	20.9
Decrease(B)	5.0	0.3	23.3	0.3	25.8	0.3	22.3	0.3	23.3	0.3
Net %(A-B)	**33.5**	**90.6**	**15.2**	**95.1**	**6.6**	**71.0**	**17.2**	**79.9**	**8.8**	**78.5**
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 (7.3 percent). This is contrary to net tightening (11.0 percent) observed in the previous period (*See Appendix 1*). The need to meet the banks growth targets without compromising on the quality of the loan portfolio and the reduction in the CBR were pointed out as the major reasons.

However, in the quarter to June 2017, banks expect to tighten credit standards to households, a net tightening of 13.1 percent (*See Appendix 1*). The tightening is attributed to banks effort to improve the quality of the loan books through prudent lending, and focus on less risky loans like salary loans.

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 June 2017, banks indicated that on a net basis, they expect to further ease the margins on average loans and prime borrowers and widen margins of riskier borrowers. Banks also indicated that they expect to tighten noninterest rate charges and size of the loans, while easing collateral requirements and maturity period (*See Appendix 1*).

The decrease in the banks weighted average cost of funding to support onward lending as a result of the change in pricing of funding sources was cited as the key reason for the expected net easing of price terms and conditions. On the other hand, tightening of terms and conditions was attributed to the high default rates in the market.

1.2.3 Demand for Credit by households

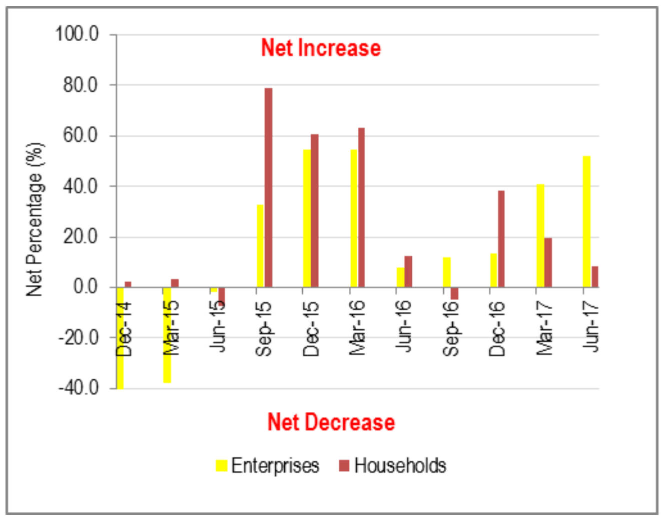
Credit demand by households is expected to increase in the three months to June 2017 with 67.8 percent of banks anticipating an increase, higher than the 50.5 percent of banks that expected an increase in the previous survey. The anticipated increase in demand was driven by the expected improvement in the economy leading to increase in demand for consumer credit.

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 June 2017. On a net basis, 51.8 percent and 8.5 percent of the banks expect the default rate on loans to both enterprises and households to increase, respectively, in the coming three months to June 2017 (See Appendix 1).

The expected increase in default rate for enterprises and households is on account of the unfavourable economic conditions experienced during the last couple of months which were partly manifested through higher borrowing costs (interest rates), hence reducing the disposable income of households and individual borrowers.

Figure 4: Default rate expectations



Source: Bank of Uganda

1.4 Interest Rate Expectations for Q3 FY 2016/17

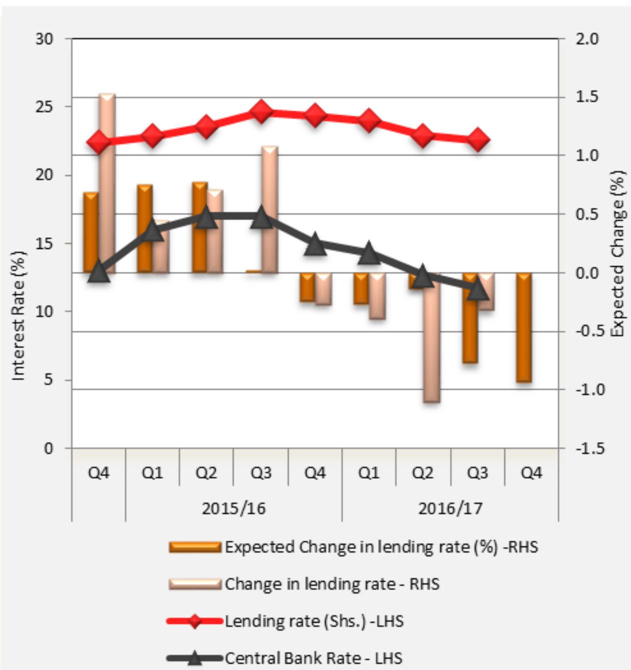
In an effort to understand the direction of interest rates from the lenders point of view, banks were asked to indicate the direction and magnitude of the change in their lending rate in the coming three months.

The survey results indicate that over 74.2 percent of banks expect their lending rates to decrease, while 1.2 percent expect the rates to increase over the next quarter to June 2017.

The average percentage decrease in lending rates over the next quarter to June 2017 is estimated at 0.94 percentage points, compared to the 0.78 percentage points decrease that was anticipated in the previous survey for the quarter ended March 2017 (See *Figure 5)*.

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

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



Source: Bank of Uganda

<u>Notes:</u> 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 June 2017.

Banks expect the central bank to reduce the CBR further down below its current level.

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, but eased credit standards to households in Q3 FY 2016/2017.

The tightening of credit standards to enterprises was due to slowdown in economic activities, and efforts by the banks to improve the quality of their loan book as a result of high default rates observed in the past.

In the coming three months to end June 2017, banks expect to further tighten credit standards for enterprises and long-term loans but ease credit standards on short-term loans.

The reasons for easing of credit standards for households include; the need to meet the banks growth targets without compromising on the quality of the loan portfolio and the reduction in the CBR.

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 decrease over the next quarter to June 2017. The banks cited the downward trend in the CBR and the stiff competition in the market as the key factors for their observations.

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	Q3
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
	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
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
	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
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
	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
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
	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
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
	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
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
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
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
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
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
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
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
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
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
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
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	0.0	0.0	0.0	0.0	0.0	0.5	-56.5
Margin on riskier loans	Next three months	56.1	58.9	58.9	0.0	0.0	0.0	0.0	0.0	0.0	78.5	77.8
margin on prime borrowers	Next three months	-21.1	-22.2	13.0	0.0	0.0	0.0	0.0	0.0	0.0	-13.1	-69.8
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
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
Collateral requirements	Next three months	31.3	39.3	25.3	0.0	0.0	0.0	0.0	0.0	0.0	14.2	45.8
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
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	90.6
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
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
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
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
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
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
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
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
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

Period		2014/15				2015/16				2016/17		
Part II: Households		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
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
	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
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
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	0.0	-8.6	-37.8
Margin on riskier loans	Next three months	9.3	21.0	38.3	31.0	32.2	43.6	10.7	6.7	0.0	28.3	38.3
Margin on prime borrowers	Next three months	-9.7	-3.1	-10.1	9.6	12.9	30.4	5.9	-10.5	0.0	-29.1	-41.8
Non-interest rate charges	Next three months	21.8	-2.8	-8.3	2.6	8.8	24.2	5.4	2.2	0.0	4.9	5.7
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	0.0	21.9	5.1
Collateral requirements	Next three months	2.5	9.9	-4.6	13.1	15.1	27.4	7.1	6.9	0.0	23.1	-15.6
Maturity	Next three months	1.2	22.9	21.9	0.0	0.0	0.0	0.0	0.0	0.0	20.5	-14.1
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

Period		2014/15				2015/16						
Part III: Occassional Questions		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
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
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

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 (January – March 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