South African bank lending practices survey

Working paper series

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The Centre of Excellence in Financial Services is a non-profit organization focusing on collaborative research, bringing together local and international thought leaders, industry experts and academics to interrogate the role financial services can play in achieving national and international objectives. This working paper is available in electronic format on www.coefs.org.za.

Table of contents

Preface

The Bank Lending Practices Survey provides a useful insight into sentiment amongst bankers in South Africa. The survey takes cognisance of the approach used in the senior loan officer survey conducted quarterly in America and similar surveys in Canada, Europe, Britain and other economies, but has been adapted to the particular circumstances of the South African credit markets. The survey provides an ongoing quantitative basis for assessing bank behaviour, likely changes and impending challenges relating to credit, lending and risk.

The survey is targeted at senior bank credit executives to gauge their reactions, intentions and likely future responses to credit policy and new lending, resulting from the introduction of legislative and other changes to the economy. The biannual survey conducted through interaction with senior executives in respondent banks and analysed by Econometrix (Pty) Ltd, provides an ongoing quantitative basis for assessing bank behaviour relating to lending.

The survey contains 18 standard questions and is supplemented with additional questions that give some insight into potential trends emerging at the time of the survey. In this survey we consider the effects of political and government changes on sentiment, together with the announcement of a stimulus package by government

Banking sector data series compiled by the South African Reserve Bank is used in conjunction with survey results, to show provision of credit under various classes and categories, with estimations of econometric relationships. Data is compiled and analysed at a combined level for banks, so that individual bank information is not revealed in the modelling analysis. The results are compiled using a diffusion index approach, with responses weighted by asset values in order to combine across banks.

This is the third bank lending practices survey and we believe that over time, it should provide a useful measure in the understanding of the importance of sentiment in the credit landscape, particularly to the credit industry.

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Executive Summary

The South African Bank Lending Practices Survey was based on the third quarter of 2018, from July to September. A combination of a survey and interviews with certain senior bank lending executives of the contributing banks formed the basis of this working paper. The aggregated results of the survey are provided together with additional information in the following section.

This working paper continues with the three long-term themes: the impact on household lending, enterprise lending and the strategic direction being taken by banks from previous publications. In this working paper we also included a question on the effects of political and governance changes on bank lending sentiment and the effect of the government stimulus package announced in September 2018. A comparison between actual and expected credit stance was also included.

Loans to households

Loans to households focus on three sub-categories: mortgage lending for residential homes, secured lending such as motor vehicle finance and unsecured lending, typically credit cards and other term credit arrangements.

The overall sentiment towards households remains positive, with the credit stance in this publication indicating that banks were generally more lenient than what was forecast in the previous working paper at the beginning of the year.

The forecast indicated that credit sentiment towards all market segments would decline however, the middle and upper income market was presented with a more favourable stance. Sentiment towards lending in the mass market has declined as predicted and is forecast to move negative during the last quarter of 2018 making access to credit more difficult.

Mortgage lending

The forecast at the beginning of the year, indicating that sentiment towards mortgage lending would turn negative, did not materialise. The banks' credit stance towards residential home loans did however decline, with the most significant factors being the increased perception of risk and the expectations regarding economic activity, that turned sentiment negative.

Terms and conditions for approving mortgage loans were tightened, with loan-to-value ratios, the only positive factor.

The banks' have forecast that mortgage lending will become more lenient as the year draws to a close, with sentiment moving into positive territory.

Secured lending

The banks' credit stance towards secured lending including motor vehicle financing has improved significantly, moving away from a negative sentiment to being more favourable than mortgage lending.

Overall perception of risk within secured lending remains positive evidenced by more favourable terms and conditions and this sentiment is forecast to continue for the remainder of the year despite negative sentiment being expressed around the economy, the creditworthiness of customers and collateral.

Unsecured lending

Sentiment towards unsecured lending remained favourable across all categories, however the banks' credit stance towards the category unsecured credit, declined from previous highs. Factors such as the perception of risk and expectations regarding economic activity, contributed to the more stringent approach.

The banks' forecast that their credit stance towards both credit facilities such as credit cards and overdrafts, together with unsecured credit will turn negative and more restrictive as the year draws to a close.

Loans to enterprises

The credit stance of banks' towards loans and credit lines to business enterprises recorded for the third quarter of 2018, did not meet the expectations of the forecast at the beginning of the year, but overall, remained lenient. The most significant credit stringency applied to the agriculture and forestry sector which after a positive forecast, turned more negative than the credit stance recorded in the first quarter.

The forecast that the manufacturing sector would emerge from negative sentiment was not achieved, while the forecast decline in credit stance towards the transport, communication and ICT sector was not as severe.

The perception of risk, including negative expectations of economic activity and industry or firm specific outlook, were factors having a negative impact on banks' credit stance. Pressure from competition, particularly other banks and to a lesser extent but still significant, non-bank lenders, resulted in lower margins being charged by banks. Terms and conditions for approving loans changed with larger loans and credit facilities being offered for shorter terms.

Overall banks' credit stance towards business is forecast to remain more lenient over the last quarter of 2018 except for the agriculture, forestry and construction sectors where sentiment remains negative.

Strategic direction

The banks' indicated that SME lending was still a priority lending category, with allocations of funding towards asset-based financing for plant and equipment and debtor finance becoming a focus area. Overdraft and unsecured credit together with import / export finance remained buoyant while the provision of lending to short-term bridging loans has reduced.

Banks' indicated their preference for household lending rather than business enterprise lending going forward. Credit card finance and credit facilities to households combined with unsecured lending dominate their strategy. Business enterprises will benefit from import / export finance and overdraft and unsecured lending facilities.

When comparing banks' credit stance to households, against five years earlier (2013), there is a significant shift to a more stringent approach across all lending types and market segments. When compared to the first quarter of 2018 the overall credit stance to households has worsened.

Developmental credit e.g. education finance remains the worst affected, with short-term lending to households up to one-year significantly more stringent than before. The middle-income market is the least impacted when compared to five years earlier with the credit stance almost unchanged.

In contrast to the household sector, the overall credit stance towards business enterprises is more lenient than five years earlier, favouring short-term lending up to one-year.

The agriculture and forestry sector is substantially more stringent than five years ago when compared to the beginning of 2018, with the worst performer remaining the construction sector.

Political and governance changes

Sentiment towards political and governance changes continues to improve from the previous working paper released at the beginning of the year.

Continued improvement in political leadership and governance remain significant positive factors, whilst the uncertainty over land expropriation, resulting in more stringent approach to credit, has improved but is still negative overall. The discord between factions within the ANC has also turned sentiment negative.

Banks' lending stance has been dramatically influenced by the impending adoption by parliament of the debt intervention bill, remaining the single largest contributor to the more stringent approach taken by them.

Confidence in state institutions such as the judiciary, National Prosecuting Authority, Police, Public Protector, South African Reserve Bank etc. has declined significantly into negative territory and combined with fiscal pressures relating to government commitments, increasing demands on the fiscus, continue to weigh heavily on confidence, translating into a more stringent approach to the granting of credit.

Government stimulus package

The once-off question relating to the expected effect of the government stimulus measures announced in September 2018 on bank lending, shows a moderately positive influence overall. The sectors that will be least affected by the stimulus package are agriculture, forestry and manufacturing. Construction, traditionally not a focus area for lending, may also benefit from the stimulus package.

The response to the stimulus package may be a reflection of the recognition that there is very little new or additional funding to be made available under the stimulus measures, due to the severe fiscal constraints and demands currently faced by government.

Bank lending practices survey

This survey is based on the assessment of bank lending executives of lending undertaken by their bank in the most recent three-month period, compared to that of a prior three-month period. It also looks at the expectation or intention of bank executives for lending by their bank over the next three-month period. Through a compilation of results, it provides a gauge of how bank lending behaviour is changing over time. The survey results are only published at combined bank level, so that no individual bank results are released. The results can be used for monitoring trends in lending from a bank behaviour perspective, especially in providing a gauge of how lending behaviour is changing and how it is likely to change in the near future. The results are also able to feed into further analysis and research relating to how bank behaviour influences the progress of the economy, both at macro level and in relative effects between economic participants.

The survey is divided into questions related to household lending, enterprise (business or corporate) lending, and strategic direction relating to small enterprises and shifts in lending emphasis. It was undertaken in Q3 2018, with comparison to a prior period two quarters earlier in most questions.

The results obtained will be discussed in this paper, it should be noted that all responses are normed to a score of 50. Thus, a score greater than 50 indicates an increase or easing of credit stance or a positive influence, less than 50 conversely indicates a decrease, tightening or negative influence. A score of 50 reflects unchanged or a neutral effect. The symbol ~ indicates no change from the previous period or previous survey. The symbol ☐ is used where there was no comparable question in the previous survey. Δ 6m indicates the change compared to the period 6 months prior, similarly Δ 1 year and Δ 5 years. Δ ➔ indicates the expected change going forward. Δ survey indicates the change compared to the response in the previous survey.

Loans to Households[1]

Q1: Banks' credit stance[2] to households

Compared to 6 months ago, how has your bank's **credit stance** as applied to the approval of loans to **households** changed?

Loans to households: credit stance change	**18Q3**	**Δ**	**18Q1**	**Δ 6m**
Overall relative to 6 months ago	53	-2	55	+3
Mortgage lending Note 1	57	-5	62	+7
Secured credit e.g. motor vehicle finance Note 2	59	+14	45	+9
Credit facilities e.g. credit cards and overdrafts	50	-1	51	~
Unsecured credit	54	-8	62	+4
Short term credit up to R8000, within 6 months	50	+1	49	~
Developmental credit e.g. education	50	~	50	~
Mass market	50	-5	55	~
Mid market	58	-1	59	+8
Upper market	54	-9	63	+4

Note 1: Typically lending secured through a residential mortgage bond.
Note 2: Typically secured through a notarial bond or similar over the vehicle/asset.

Overall, the credit stance of banks towards households has become more lenient compared to 6 months previously across all lending. The most marked change towards leniency has been in motor vehicle financing, followed by mortgage lending, and is focussed in the mid-market income bracket. The change towards leniency was

[1] In the survey, a household refers to a consumption entity in the economy which typically compromises of a group of related persons situated at a single residential location.

[2] Credit stance refers to the stringency (< 50) or leniency (> 50) which the bank applies in considering new applications for loans or credit.

especially large in the case of motor vehicle finance compared to the previous survey (Q1), with a score change from 45 to 59.

Q2: Factors affecting banks' credit stance on mortgage lending to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **mortgage lending** to households (as referred to in question 1)? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance factors	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Cost of funds and balance sheet constraints	50	~	50	~
B) Pressure from competition	50	-8	58	¬~
Competition from other banks	57	-1	58	+7
Competition from non-bank lending	50	-5	55	~
Competition from direct / self financing	55	+5	50	+5
C) Perception of risk	41	-12	53	-9
Expectations regarding economic activity	38	-19	57	-12

The two main factors underpinning the greater leniency in mortgage credit provision have been competition from other banks and competition from direct/self-financing. Most other factors had a countering, tightening effect on the credit stance of banks. The negative effects relate in the main to perception of risk, worsening expectations of economic growth, and lower expectations of housing market prospects.

Q3: Factors affecting banks' credit stance on secured credit to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **secured credit** to households (as referred to in question 1) i.e. secured excluding mortgage-secured lending? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance	18Q3	Δ survey	18Q1	Δ 6m
A) Cost of funds and balance sheet constraints	55	+5	50	+5
B) Pressure from competition	57	-4	61	+7
Competition from other banks	55	+1	54	+5
Competition from non-bank lenders	55	+1	54	+5
Competition from direct / self financing	55	+5	50	+5
C) Perception of risk	58	+8	50	+8
Expectations regarding economic activity	37	-20	57	-13
Creditworthiness of consumers	42	-5	47	-8
Risk on the collateral required	45	-5	50	-5
D) Other factors	50	~	50	~

In the case of secured lending to households, competitive pressures from other banks as well as non-bank financiers was again the primary source of greater leniency in credit stance. Countering this were negative risk perceptions relating to collateral, creditworthiness of consumers, and falling expectations of economic growth.

The change from the last survey (Q1) concerning expectations of economic activity is especially notable. The score fell from 57 to 37 between the two surveys.

Q.4: Factors affecting stance: credit facilities and unsecured lending to households

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of **credit facilities and unsecured lending** to households (as referred to in question 1) i.e. excluding mortgage and secured lending? Contribution of the following factors to the tightening or easing of credit stance:

Loans to households: credit stance	18Q3	Δ survey	18Q1	Δ 6m
A) Cost of funds and balance sheet constraints	50	+1	49	~

B) Pressure from competition	50	-11	61	~
Competition from other banks	50	-10	60	~
Competition from non-bank lenders	50	-6	56	~
Competition from direct / self financing	50	+2	48	~
C) Perception of risk	44	-15	59	-6
Expectations regarding economic activity	43	-19	62	-7
Creditworthiness of consumers	51	+1	50	+1
Risk on the collateral required	51	+1	50	+1
D) Other factors	50	~	50	~

With credit facilities and unsecured lending, there was little identification of factors contributing to greater leniency in credit provision. Lowering expectations of economic growth and general perception of risk were identified as factors constraining the credit stance of banks.

Again, expectations of economic progress/growth fell markedly from the Q1 survey, with the score falling from 62 to 43.

Q.5: Terms and conditions[3] for mortgage lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **mortgage lending** to households changed?

Loans to households: terms change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Price	45	-15	60	-5
Your bank's margin on average loans 1	45	-4	49	-5
Margin on riskier loans Note1	44	-3	47	-6
B) Credit scoring	46	-13	59	-4
C) Other conditions	50	~	50	~

[3] In this paper, "terms and conditions" refer to the stipulated requirements applied to borrowers, as expressed in documents relating to new lending or credit provided.

Collateral requirements	50	-5	55	~
Loan-to-value ratio	53	-9	62	+3
Maturity	50	~	50	~
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

Note 1 wider margin = tightened, narrower margin = eased.

Terms and conditions for mortgage lending are reflected in the survey as tighter compared to 6 months prior in respect of interest rate margins and credit scoring. Loan-to-value ratios are however indicated as slightly more lenient.

Tightening of credit scoring was the most salient change from the Q1 survey, with the score falling from 59 to 46.

Q.6: Banks' terms and conditions for secured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **secured lending to households** changed i.e. secured lending other than mortgage-based lending?

Loans to households: credit terms change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Price	58	+8	50	+8
Your bank's margin on average loans	57	+9	48	+7
Your bank's margin on riskier loans	51	+5	46	+1
B) Credit scoring	50	+6	44	~
C) Other terms and conditions	66	+16	50	+16
Collateral requirements	55	+5	50	+5
Maturity	55	+5	50	+5
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

For secured lending to households, such as motor vehicle financing, banks indicate a shift towards greater leniency in terms and conditions over the last six months, both in respect of interest rate margins and other terms and conditions, collateral requirements and loan duration in particular.

There was a turnaround in bank margins compared to the previous survey from a score of 48 to 57 for average loans, and a similar but more moderate turnaround for riskier loans.

Q.7: Terms and conditions for credit facilities and unsecured lending to households

Compared to 6 months ago, how have your bank's **terms and conditions** for approving **credit facilities and unsecured lending to households** changed i.e. other than mortgage-based and other secured lending?

Loans to households: credit terms change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Price	55	+5	50	+5
Your bank's margin on average loans	53	+3	50	+3
Your bank's margin on riskier loans	50	~	50	~
B) Credit scoring	50	-4	54	~
C) Other terms and conditions	50	~	50	~
Collateral requirements	50	~	50	~
Maturity	53	+3	50	+3
Non-interest rate charges (fees)	50	~	50	~
D) Other factors	50	~	50	~

For credit facilities and unsecured lending to households, most terms and conditions were reflected as unchanged over the past 6 months, but with slightly greater leniency in interest rate margins and repayment periods.

Q.8: Interest rate spread relative to cost of funds: households

Compared to 6 months ago, how has your bank's **interest rate spread** relative to cost of funds changed, as applied to the approval of loans to **households**?

Loans to households: interest rate spread	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
Overall relative to 6 months ago	50	+5	45	~
Mortgage lending	47	+2	45	-3
Secured credit e.g. motor vehicle finance	50	~	50	~
Credit facilities e.g. credit cards and overdrafts	50	~	50	~
Unsecured credit	53	+3	50	+3
Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	50	~	50	~
Mid market	50	-4	54	~
Upper market	50	-4	54	~

Note: wider margin = tightened i.e. lower score, narrower margin = eased i.e. higher score.

Interest rate spreads relative to cost of capital are reflected as little changed for household lending compared to 6 months prior. A minor increase is reflected for mortgages, a minor decrease for unsecured credit.

Q.9: Thresholds on credit scores to households

Compared to 6 months ago, how have your bank's **thresholds on credit scores** to qualify for credit changed, as applied to the approval of lending to **households**?

Loans to households: credit score thresholds	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
Overall relative to 6 months ago	50	-4	54	~
Mortgage lending	50	-9	59	~
Secured credit e.g. motor vehicle finance	45	+1	44	-5
Credit facilities e.g. credit cards and overdrafts	50	-4	54	~
Unsecured credit	50	-4	54	~

Short term credit up to R8000, within 6 months	50	~	50	~
Developmental credit e.g. education	50	~	50	~
Mass market	50	+1	49	~
Mid market	54	~	54	+4
Upper market	50	-4	54	~

Credit score thresholds were reflected by banks as little changed compared to 6 months prior, with some tightening for motor vehicle finance and slightly more leniency in the mid market segment. Compared to the previous survey, mortgage lending in particular reflected a change towards greater stringency.

Q.10: Expected banks' credit stance to households over the next three months

Please indicate how you **expect** your bank's **credit stance** as applied to the approval of loans to households to change over the **next three months**.

Loans to households: future 3 months	**18Q3**	**Δ survey**	**18Q1**	**Δ 3m**
Overall	50	~	50	~
Mortgage lending	52	+3	49	+2
Secured credit e.g. motor vehicle finance	50	~	50	~
Credit facilities e.g. credit cards and overdrafts	44	-8	52	-6
Unsecured credit	47	-4	51	-3
Short term credit up to R8000, within 6 months	51	-1	52	+1
Developmental credit e.g. education	50	~	50	~
Mass market	46	-4	50	-4
Mid market	54	+4	50	+4
Upper market	54	+4	50	+4

Going forward for the next three months, banks indicated an expectation that there would be some greater leniency toward the mid and upper market, but greater stringency towards the mass market. The expectation is that the greater stringency will apply mainly to credit facilities and unsecured credit.

2. Loans or credit lines to enterprises[4]

Q.11: Banks' credit stance to enterprises

Compared to 6 months ago, how has your bank's **credit stance** (lenient vs stringent) as applied to the approval of loans or credit lines to enterprises changed?

Loans to enterprises: credit stance change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
Overall relative to 6 months ago	54	+4	50	+4
Short-term loans (up to 1 year)	54	~	54	+4
Longer-term loans (over 1 year)	49	+3	46	-1
Agriculture, forestry	42	-4	46	-8
Mining, quarrying	54	+11	43	+4
Manufacturing	49	+11	38	-1
Construction	41	+11	30	-9
Wholesale, retail, accommodation	54	+8	46	+4
Transport, communication, ICT	49	-1	50	-1
Financial, real estate, services	50	~	50	~
Utilities, social and state services	58	+7	51	+8

With credit provision to enterprises, banks reflect that the credit stance overall has been more lenient compared to 6 months prior, though this applied to short-term loans rather than longer-term loans. The sectors in which greater leniency applied are

[4] In this paper, an enterprise refers to a business entity which is not a bank or other financial intermediary.

mining, wholesale/retail and utilities/SOEs. Increased stringency applied to agriculture, construction, and slightly to manufacturing and transport/communications.

The survey reflects a significantly more positive credit stance towards mining, manufacturing and construction sectors compared to the previous (Q1) survey.

Q12: Factors affecting banks' credit stance

Compared to 6 months ago, how have the following **factors** affected your bank's **credit stance** as applied to the approval of loans or credit lines to enterprises? Contribution of the following factors to the tightening or easing of credit stance:

Loans to enterprises: reasons for change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Cost of funds and balance sheet constraints	50	+5	45	~
Costs related to your bank's capital position Note 1	54	+4	50	+4
Your bank's ability to access market financing Note 2	50	-4	54	~
Your bank's liquidity position	49	+4	45	-1
B) Pressure from competition	50	-11	61	~
Competition from other banks	44	-18	62	-6
Competition from non-bank lenders	46	-12	58	-4
Competition from direct market financing	50	-4	54	~
C) Perception of risk	50	+7	43	~
Expectations on general economic activity	42	-2	44	-8
Industry or firm-specific outlook	42	-5	47	-8
Risk on the collateral required	48	-3	51	-2
D) Other factors	50	~	50	~

Note 1 can include the use of credit derivatives, with the loans remaining on the bank's balance sheet

Note 2 e.g. money or bond market financing, including securitisation

Costs relating to banks' capital was a positive factor towards leniency in credit stance. However, bank liquidity, competition from other banks and non-bank lenders, general economic growth expectations, industry and firm specific expectations, as well as collateral risk were all indicated as factors contributing to strictness in credit provision.

Competition from banks and non-bank lenders was a significantly greater factor towards leniency identified in the current survey compared to the Q1 survey.

Q.13: Terms and conditions for approving credit to enterprises

Compared to 6 months ago, how have your bank's **terms and conditions** for approving loans or credit lines to enterprises changed?

Loans to enterprises: terms change	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Price	50	~	50	~
Your bank's margin on average loans Note 1	56	+15	41	+6
Your bank's margin on riskier loans Note 1	48	+5	43	-2
B) Other terms and conditions	50	~	50	~
Non-interest rate charges	50	+4	46	~
Maximum size of the loan or credit line	54	+11	43	+4
Loan to value ratio	50	~	50	~
Collateral requirements	50	~	50	~
Loan covenants	50	~	50	~
Maturity	45	+1	44	- 5
C) Other factors	50	~	50	~

Note 1 wider margin = tightened, narrower margin = eased

On terms and conditions to enterprises, banks indicate a reduction in margins generally, but with increased margins in the case of higher risk loans. Maximum loan sizes granted increased, but repayment periods were reduced. Collateral requirements and loan to value ratios were unchanged compared to 6 months prior.

The increase in loan value maximums was particularly notable, being a reversal from the survey 6 months prior, at which point maximum loan sizes were reflected as decreased. The change in score was from 43 to 54, a significant shift on the part of banks.

Q.14: Expect credit stance to enterprises over the next three months

Please indicate how you **expect** your bank's **credit stance** as applied to the approval of loans or credit lines to enterprises to change over the **next three months**.

Loans to enterprises: stance next 3 months	**18Q3**	**Δ survey**	**18Q1**	**Δ 3m □**
Overall	56	-2	58	+6
Short-term loans (up to 1 year)	55	-3	58	+5
Longer-term loans (over 1 year)	55	-3	58	+5
Agriculture, forestry	46	-4	50	-4
Mining, quarrying	54	+4	50	+4
Manufacturing	50	~	50	~
Construction	45	+4	41	-5
Wholesale, retail, accommodation	50	~	50	~
Transport, communication, ICT	50	+4	46	~
Financial, real estate, services	54	+4	50	+4
Utilities, social and state services	54	~	54	+4

Banks' expectations over the next three months for business lending were indicated as being to greater leniency overall, for both short term and longer term lending. The sectors to which the greater leniency applied were mining, financial and utilities/SOEs.

On the other hand, greater stringency was expected towards agriculture and construction sectors.

3. Strategic direction

Q.15: Focus towards small enterprises

Has the focus of your bank shifted more or less towards provision of lending to small enterprises over the past 3 months compared to six months prior, under the following lending categories?

Small enterprise focus	**18Q3**	**Δ survey**	**18Q1**	**Δ 6m**
A) Enterprise lending	50	-2	52	~
Property finance Note 1	50	-4	54	~
Plant and equipment finance (asset based)	54	+5	49	+4
Debtor finance	56	+4	52	+6
Overdraft and unsecured	53	-1	54	+3
Import/export finance	53	-1	54	+3
Short-term bridging loans	50	-4	54	-2
B) Other lending	50	~	50	~

Note 1 Small enterprises can be considered approximately as those with total employment of 50 or fewer. Asset and revenue guidelines as adopted by the DTI may be used.

The survey reflects an increased focus on small enterprise lending compared to 6 months prior. This applied to asset based finance, debtors, overdrafts, and import/export financing, but property finance reflected as unchanged and short-term bridging finance reflected as reduced compared to 6 months earlier.

Q.16: Preference for shifts going forward

Which **forms of lending** would your bank prefer to be more engaged in or less engaged in going forward?

Strategic direction: preferred shifts	**18Q3**	**Δ survey**	**18Q1**	**Δ □**
A) Enterprise lending	67	+15	52	+17
Property finance Note1	58	~	58	+8
Plant and equipment finance (asset based) Note 2	57	+8	49	+7
Debtor finance	58	~	58	+8
Overdraft and unsecured	60	+3	57	+10
Import/Export finance	61	+6	55	+11
B) Household lending	83	+16	67	+33
Mortgage lending 1	60	-1	61	+10
Secured / Vehicle finance 2	59	~	59	+9
Credit card finance /credit facility	64	-1	65	+14
Unsecured lending	63	-1	64	+13
Short-term loans	60	+10	50	+10

Note 1 Typically lending secured through a residential mortgage bond
Note 2 Typically secured through a notarial bond or similar over the vehicle or asset

In strategic direction, banks indicated that they would like to be more engaged in most forms of lending. Highest directional shift was reflected towards credit card/facilities and unsecured lending to households, and towards import/export finance and overdraft/unsecured lending in the case of business enterprises.

Most significant changes from the last survey show in the increased preference towards short-term lending to households, and towards asset based and import/export finance in the case of enterprises. The scores compared to the Q1 survey indicate a generally more positive view towards new lending activities.

Q.17: Change from 5 years ago: Households

How does your bank’s current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2012/13, as applied to the approval of loans or credit lines to **households**?

Loans to households: credit stance change	**18Q3**	**Δ survey**	**18Q1**	**Δ 5 yrs**
Overall relative to 5 years ago	35	-6	41	-15
Short term lending (up to 1 year)	35	-10	45	-15
Longer-term lending (over 1 year)	39	- 9	48	-11
Mortgage lending	43	+2	41	-7
Secured credit e.g. motor vehicle finance	45	~	45	-5
Credit facilities e.g. credit cards and overdrafts	46	+7	39	-4
Unsecured credit	45	-3	48	-5
Short term credit up to R8000, within 6 months	40	-2	42	-10
Developmental credit e.g. education	33	~	33	-17
Mass market	44	+ 4	40	-6
Mid market	49	+ 4	45	-1
Upper market	45	~	45	-5

Banks indicate a substantially more stringent credit stance towards household lending compared to 5 years earlier (2013) across all forms of lending and market segments. The greatest move towards stringency is shown for short-term, small loan amounts and for developmental credit. The change is indicated as less marked in the case of credit facilities (e.g. credit cards, overdrafts) and motor vehicle finance. It is also reflected as less striking for the mid market than for the upper or mass market.

Q.18: Change from 5 years ago: Enterprises

How does your bank's current **credit stance** compare to the bank's credit stance **5 years ago** i.e. in 2012/13, as applied to the approval of loans or credit lines to **enterprises**?

Loans to enterprises: credit stance change	**18Q3**	**Δ survey**	**18Q1**	**Δ 5 yrs**

Overall relative to 5 years ago	56	+13	43	+6
Short term lending (up to 1 year)	56	+4	52	+6
Longer-term lending (over 1 year)	49	-2	51	-1
Agriculture, forestry	38	-12	50	-12
Mining, quarrying	42	+4	38	-8
Manufacturing	46	~	46	-4
Construction	37	+8	29	-13
Wholesale, retail, accommodation	50	~	50	~
Transport, communication, ICT	46	-4	50	-4
Financial, real estate, services	50	~	50	~
Utilities, social and state services	42	+3	39	-8

The change compared to 5 years ago shows a more mixed picture for enterprise lending. For enterprises, banks indicate greater leniency for short-term lending, but slightly greater stringency for longer term lending. The sectors to which greater stringency has applied in particular are agriculture, mining, construction and utilities/SOEs.

Q.19: Effects of political and governance changes

How have the following **political and governance** changes affected your bank's lending stance currently compared to **1 year ago** i.e. late 2017?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Effects of political and governance changes	**18Q3**	**Δ survey**	**18Q1**	**Δ 1 yr**
A) Political	54	+3	51	+4
Improved political leadership and governance [Note1]	65	+8	57	+15
Uncertainty relating to land expropriation [Note 2]	43	+5	38	-7

Discord between factions of ANC Note 3	40	-10	50	-10
B) Governance/financial	50	~	50	~
Confidence in state institutions Note 4	41	-10	51	-9
Fiscal pressures: expenditure vs collections Note 5	40	-10	50	-10
Private sector malfeasance: KPMG, Steinhoff, Bain, audit standards, etc Note 6	43	-1	44	-7
Restructuring of state owned enterprises Note 7	54	-2	56	+4
Data releases that the economy experienced negative growth in 1st and 2nd quarter of 2018	45	-5	50	-5
Impending adoption by parliament of the debt intervention bill in its current form	35	□	□	-15
C) Other	50	□	□	~
Effects of political and governance changes	18Q3	Δ survey	18Q1	Δ 1 yr

Note 1: Progress in political leadership and governance under the Ramaphosa presidency.
Note 2: Including active consideration of expropriation without compensation, and possible change to section 25 of the constitution.
Note 3: Possible disruption from resurgence of ANC factions opposing Ramaphosa.
Note 4: Judiciary, NPA, police, Public Protector, SARB, etc.
Note 5: The arrangements which government has made commitments to, despite heavy demands on the fiscus.
Note 6: The private sector debacles which have reduced trust in ethics of large private sector firms, including international consultancies.
Note 7: New boards of directors and executive appointments in SoE's following Ramaphosa appointment as state president, Gordhan appointment to Public Enterprises

On political and governance changes, banks reflect a very marked positive change in lending stance arising from improved political leadership and governance compared to one year ago. Restructuring of state-owned enterprises also reflects as a positive factor towards banks' lending stance. However, a number of political and governance factors are reflected as having a definite negative effect on lending stance. Most negative shown is the impending debt intervention bill, followed by fiscal under-collection, lack of confidence in state institutions, tensions between ANC factions, and uncertainty concerning land expropriation. The revelation that the economy experienced negative growth (a technical recession) in the first half of 2018 was indicated as a less significant negative factor.

Q.20: Effect of Government Stimulus Package (Topical question)

How do you expect your bank's **lending / credit stance** to be affected by the economic stimulus measures announced by government on 21 September 2018?

(Note: < 50 indicates that banks have made lending stance more stringent, somewhat or significantly. > 50 indicates that they have made their lending stance more lenient.)

Loans to enterprises: stance next 3 months	**18Q3**	**Δ survey**	**18Q1**	**Δ □**
Overall	55	□	□	+5
Short term lending (up to 1 year)	55	□	□	+5
Longer-term lending (over 1 year)	55	□	□	+5
Agriculture, forestry	50	□	□	~
Mining, quarrying	55	□	□	+5
Manufacturing	50	□	□	~
Construction	55	□	□	+5
Wholesale, retail, accommodation	55	□	□	+5
Transport, communication, ICT	55	□	□	+ 5
Utilities, social and state services	55	□	□	+ 5

The expected effect of the government stimulus measures announced in September 2018 on bank lending was positive overall, and for most sectors, but not strongly so. The sectors for which little change was expected are agriculture and manufacturing. The lukewarm response to the stimulus package probably reflects the recognition that there is very little new or additional funding to be made available under the stimulus measures, due to the severe fiscal constraints faced by government.

4. Comparison

Q.21: Actual vs Expected credit stance: Household lending

Comparison of banks' Q3 assessment of credit stance with banks' expected forward credit stance from the Q1 survey: approval of loans to households.

Loans to households: future 3 months	**18Q3**	**Δ survey**	**18Q1**
Overall	53	+3	50
Mortgage lending	57	+8	49
Secured credit e.g. motor vehicle finance	59	+9	50
Credit facilities e.g. credit cards and overdrafts	50	-2	52
Unsecured credit	54	+3	51
Short term credit up to R8000, within 6 months	50	-2	52
Developmental credit e.g. education	50	~	50
Mass market	50	~	50
Mid market	58	+8	50
Upper market	54	+4	50

A comparison can be made of banks' forward expectations of their likely credit stance at the time of the Q1 survey, with their actual assessment of credit stance which occurred during Q3 as recorded in the Q3 survey. The two are not perfectly comparable, since the Q1 expectation refers to Q2 2018, while the Q3 actual refers to Q3 2018. The comparison does though give a rough indication of forward-looking expectations at the end of Q1 compared to backward looking actual credit stance as at the end of Q3 2018.

For households, the actual credit stance prevailing in Q3 2018 was generally more lenient than the forward-looking expectation at the end of Q1. The more favourable outcome applied in particular to mortgage lending and motor vehicle financing. It was also the mid and upper markets that were more favourable than expected rather than the mass market.

Q.22: Actual vs Expected credit stance: Enterprise lending

Comparison of banks' Q3 assessment of credit stance with banks' expected forward credit stance from the Q1 survey: approval of loans or credit lines to enterprises.

Loans to enterprises: stance next 3 months	**18Q3**	**Δ survey**	**18Q1**
Overall	54	-4	58
Short-term loans (up to 1 year)	54	-4	58
Longer-term loans (over 1 year)	49	-7	58
Agriculture, forestry	42	-8	50
Mining, quarrying	54	+4	50
Manufacturing	49	-1	50
Construction	41	~	41
Wholesale, retail, accommodation	54	+4	50
Transport, communication, ICT	49	+3	46
Financial, real estate, services	50	~	50
Utilities, social and state services	58	+4	54

Cross-comparison of questions relating to enterprise lending indicate that the more favourable credit stance overall and towards short-term lending was supported with more favourable interest rate margins on average-risk lending and increased loan principal amounts, but with interest rate margin restraints on riskier loans and shorter maturity durations for repayment.

Glossary

Collateral: Security given by the borrower to the lender as a pledge, cession or similar for repayment of the loan.

Credit stance: Refers to the stringency (< 50) or leniency (> 50) which the bank applies in considering new applications for loans or credit.

Demand: Refers to demand for new loans or credit by borrowers, as indicated by the volume and value of applications received.

Enterprise: Business entity which is not a bank or other financial intermediary.

Household: Consumption entity in the economy, typically comprising a group of related persons situated at a single residential location.

Loan-to-Value ratio: Ratio of the amount borrowed to the value of the underlying collateral.

Longer term lending: Lending repayable beyond a one-year period.

Non-bank lender: Financial institution providing loans as a significant portion of its business, but which is not a registered bank.

Short-term lending: Lending repayable within a one-year period or on demand.

Terms and conditions: Refer to the stipulated requirements applied to borrowers as expressed in documents relating to new lending or credit provided.