Quarterly Credit Conditions Survey Report

September 2017 Quarter

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Background

In order to meet its core mandate to maintain monetary and financial stability, Bank of Jamaica (BOJ) seeks to assess a wide set of data on credit market conditions. In this regard, the BOJ's Quarterly Credit Conditions Survey (QCCS) broadens the range of credit statistics used in the analysis of inflation and to determine the risks to growth in private sector credit. The survey is conducted online on a quarterly basis among commercial banks, building societies, near banks, credit unions and development banks. It is designed to elicit qualitative information on changes in the demand and supply of credit to various types of businesses as well as individuals. The QCCS explores the main factors underpinning these reported changes, including price and non-price lending terms and other credit market developments.

The results presented in this report are based on the credit conditions indices constructed from the results of the surveys. Each credit conditions index (credit demand or credit availability index) is a single metric used to assess overall changes in demand for credit from households and businesses or the amount of credit made available to households and businesses. The credit conditions indices range from 0 to 200. An index less than 100 indicates a decline in the particular variable whereas an index greater than 100 indicates an increase in the variable in question (see Glossary for more information). The interest rates presented in this report are based on weighted average interest rates reported by the respondents of the survey.

This report presents the results of the September 2017 survey which was conducted during the period 17 October and 6 November 2017.

Past survey reports are available on the BOJ website at http://www.boj.org.jm/publications.

Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium Businesses	Large Businesses
Commercial Banks	8	8	8	8	8	8
Building Societies	1	1	1	1	1	1
Merchant Banks	1	1	1	1	1	1
Credit Unions	9	9	9	9	9	9
Total	**19**	**19**	**19**	**19**	**19**	**19**

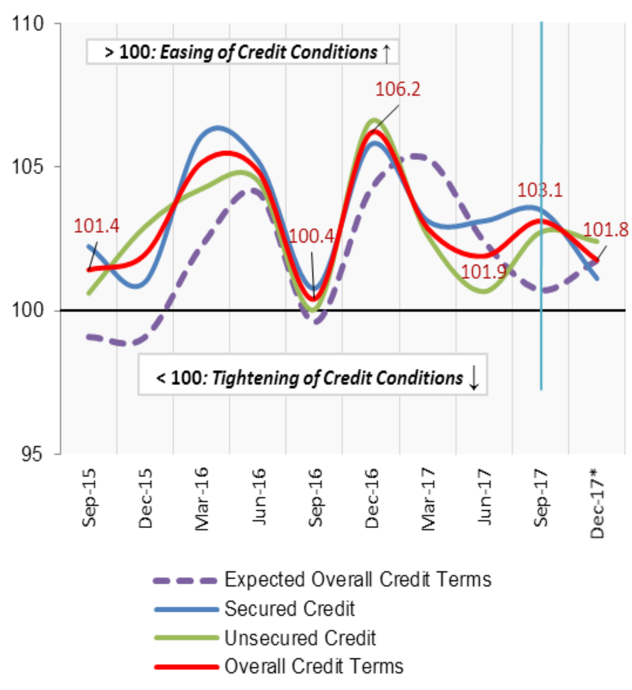
Overview

Overall credit conditions eased during the September 2017 quarter at a faster pace than was anticipated as well as the outturn observed in the previous quarter (see **Figure 1**).

This easing occurred against the background of an estimated expansion in the real economy within the range of 0.5 per cent to 1.5 per cent, from the mild contraction of 0.1 per cent recorded in the June 2017 quarter. The expansion was attributed to an increase in all sectors with the exception of the *Agriculture, Forestry & Fishing, Producers of Government Services* and the *Mining & Quarrying* industries. Annual inflation at September 2017 was 4.7 per cent, within the Bank's target range of 4.0 per cent – 6.0 per cent. The outturn represented an uptick relative to 4.4 per cent at June 2017 and 1.8 per cent for the corresponding period in 2016.

The September 2017 quarter was also characterized by buoyant liquidity conditions, which was supported by the Bank's monetary policy initiatives. These policy measures included the transition of the policy rate to the rate on the overnight deposit (O/N) from the 30-day Certificate of Deposit (CD), which was followed by a reduction in the new policy rate by 25 basis points to 3.50 per cent. Correspondingly, the standard interest rate on the overnight Standing Liquidity Facility (SLF) was also lowered by 25 basis points (bps) to 6.50 per cent, thus maintaining the width of the interest rate corridor at 3.0 percentage points (pps) between the overnight lending rate and the overnight deposit rate. The policy action was informed by the Bank's assessment that inflation for the next four to eight quarters will be within BOJ's target range of 4.0 per cent to 6.0 per cent and was consistent with the Government's strong commitment to fiscal consolidation. During the quarter, the Bank also introduced fixed volume auctions for BOJ's 30-day CD, which resulted in increased demand for the O/N deposits by some institutions to meet liquidity requirements. The average placement on O/N deposits increased to $35.8 billion for the September 2017 quarter from $17.8 billion in the previous quarter.

Figure 1: Index of Credit Market Conditions



In the context of the macroeconomic developments for the September 2017 quarter, lenders reported that the easing in credit conditions continued to reflect improvements in lending policies for both secured and unsecured loans. The easing in credit terms for secured loans was largely evident by a reduction in *interest rates* and *fees* and to a lesser extent, some institutions reported an extension in *credit lines*. Similarly, reductions in interest rates on credit card and non-credit card loans as well as lower fees applicable to unsecured loans, underpinned more relaxed lending policies for unsecured loans (see **Appendix A: Figures 16** and **17**).

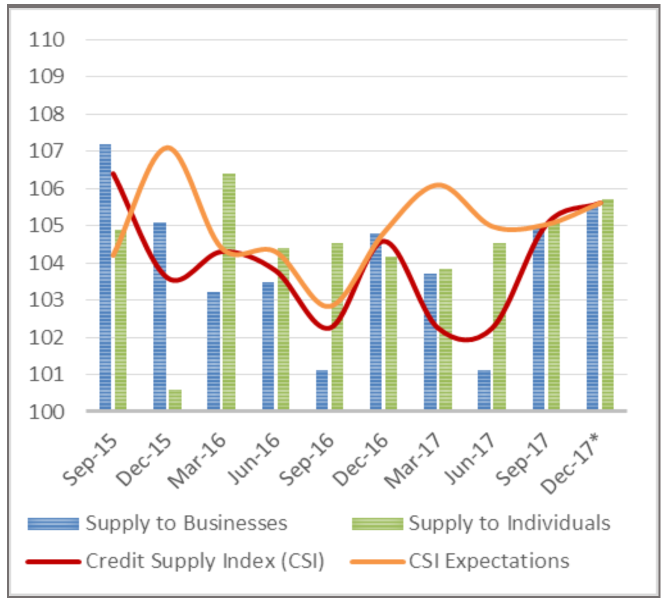
For the December 2017 quarter, more institutions plan to reduce interest rates and fees on unsecured loans while a more moderate pace of easing in credit terms on secured loans is anticipated, relative to the September 2017 quarter.

Credit Supply

Credit availability as measured by the Credit Supply Index (CSI) increased when compared to the previous quarter (see **Figure 2**). The CSI rose to **105.1** from **102.2** and reflected increased credit made available to all firm sizes and households, with the exception of small businesses that recorded a mild contraction. Institutions' willingness to provide credit during the quarter continued to be driven by their economic outlook, market share objectives and competition. In addition, some lenders indicated factors such as *changes in risk appetite* and *economic sector-specific risks* had become important drivers of credit supply in the quarter. There was also an observed shift in the credit allocation to medium sized businesses from large businesses during the quarter (see **Appendix A: Figure 18**).

For the review quarter, the growth in the availability of both local and foreign currency credit to individuals increased at a faster pace relative to the previous quarter. With respect to local currency loans to businesses, lenders reported that they increased their supply of credit to the *Manufacturing, Tourism and Distribution* sectors. In relation to foreign currency loans, credit supply increased to the *Tourism, Distribution* and *Professional & Other Services* sectors.

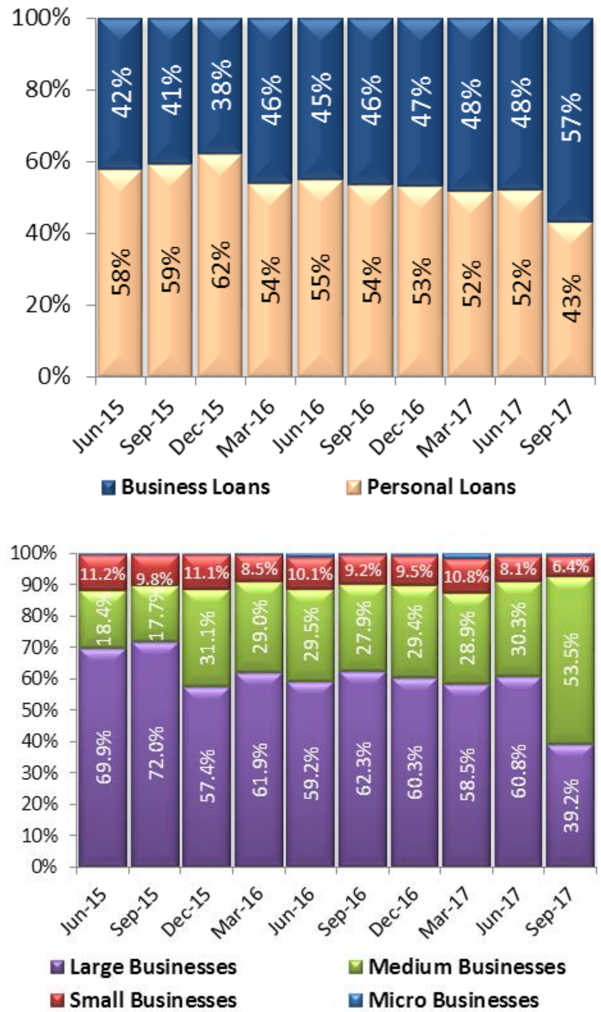
Figure 2: Components of Credit Supply



1. **Expectations for the upcoming quarter from the current survey.*
2. *Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.*

Regarding credit allocation, there was a noticeable increase in the proportion of credit offered to medium-sized businesses relative to the previous quarter. The proportion of credit allocated to medium-sized businesses increased to **53.4 per cent** from **30.3 per cent** in the previous quarter while credit allocated to large businesses declined to **39.5 per cent** from **60.8 per cent** in the June 2017 quarter (see **Figure 3**). Of note, this shift largely reflected the lending policies of one institution. Given the increased allocation to medium-sized businesses, the proportion of personal loans, declined to **43.0 per cent** from **52.0 per cent** in the previous quarter.

Figure 3: Distribution of Private Sector Credit[1]

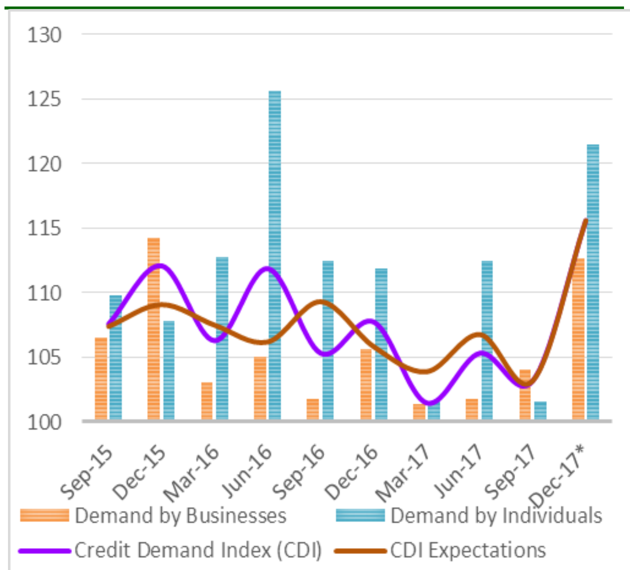


For the December 2017 quarter, lenders plan to further increase the amount of credit made available to both businesses and households (see **Figure 2 and Appendix A: Table 6**). This outlook is premised on creditors' plans to maintain or increase market share in the context of new entrants in the banking sector and their economic outlook. The increased supply is expected across all business sizes and economic sectors.

Credit Demand

Growth in credit demand, as measured by the Credit Demand Index (CDI) for the September 2017 quarter, increased at a slower pace relative to the June 2017 quarter (see **Figure 4**). This moderation in the CDI to **103.2** from **105.3** was related to reduced demand for personal loans (see **Appendix A: Table 6**). Lenders reported that the moderation in demand for these loans was a reflection of substantially weaker demand for credit card debt and other secured loans during the quarter. There continued to be moderate demand from most economic sectors.

Figure 4: Components of Credit Demand



1. *Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.*
2. *The asterisk (*) represents expectations provided by the respondents.*

There was an expansion in the demand for local currency business loans, predominantly by small businesses to finance developments in most

[1] Figure 3 shows the distribution of credit between households and businesses. Credit to businesses is further disaggregated to show total business loans distributed to firms of various sizes.

sectors of the economy. Demand for foreign currency loans also increased and was primarily demanded by medium-sized firms, particularly in the *Distribution* and *Entertainment* sectors. Lenders reported that borrowers have responded to various loan promotion activities offered and also remain sensitive to interest rates.

Credit demand continued to be driven by factors such as increased business activities, loan promotion activities, and lower interest rates. Of note, some institutions have indicated that *change in government policies* and *macroeconomic risks* are not significant drivers of demand which may be indicative of confidence in the ability of the Government and the monetary authority to maintain policies that enhance credit growth (see **Appendix: Figure 19**).

For the December 2017 quarter, lenders indicated that they are anticipating an uptick in the demand for credit from both individuals and businesses. Creditors cited the important role of lower interest rates and additional loan promotions in the Christmas season, in enticing borrowers to access additional credit opportunities. The CDI is consequently projected to rise to **115.6** from **103.2**.

Price of Credit

Based on the survey responses, average **indicative** interest rates on new local currency loans **declined** by approximately **35 bps** to **13. 57 per cent** during the review quarter, relative to the previous quarter. This reflected reductions of **77 bps** and **25 bps** in rates for personal and business loans, respectively. Lower rates were observed in a context of increased loan promotion activities as lenders tried to remain competitive given additional entrants in the commercial banking space. In addition, the buoyant liquidity conditions in the September 2017 quarter contributed to lower interest rates on loans in the quarter (see **Table 1**).

In contrast, the **indicative** average interest rate on new foreign currency loans rose by **34 bps** to **7.77 per cent**, which largely reflected higher rates on foreign currency loans to micro businesses. The interest rates on loans to small and medium sized firms recorded declines, while interest rates on foreign currency loans to large firms increased slightly.

For the December 2017 quarter, lenders reported that they plan to increase the interest rates on new local and foreign currency loans to businesses by **100 bps** and **66 bps** to **14.57 per cent** and **8.43 per cent**, respectively.[2]

Table 1: Overall Weighted Average Lending Rates on Local and Foreign Currency Loans

	June 2017 Survey		September 2017 Survey	
	Jun-17	**Sep-17***	**Sep-17**	**Dec-17***
Local Currency (LC) Loans				
Business loans	12.92	14.23	12.67	13.82
Personal loans	17.94	17.85	17.18	17.58
Reference rate	13.23	13.56	12.71	13.35
Average LC rates	**13.92**	**14.95**	**13.57**	**14.57**
Foreign Currency (FC) Loans				
Business loans	7.43	7.86	7.77	8.43
Reference rate	7.78	7.77	7.39	8.48

[2] Note that the projected rates are usually higher than transaction rates as lenders generally resort to quoting their posted rates.

Personal Lending

Credit Conditions

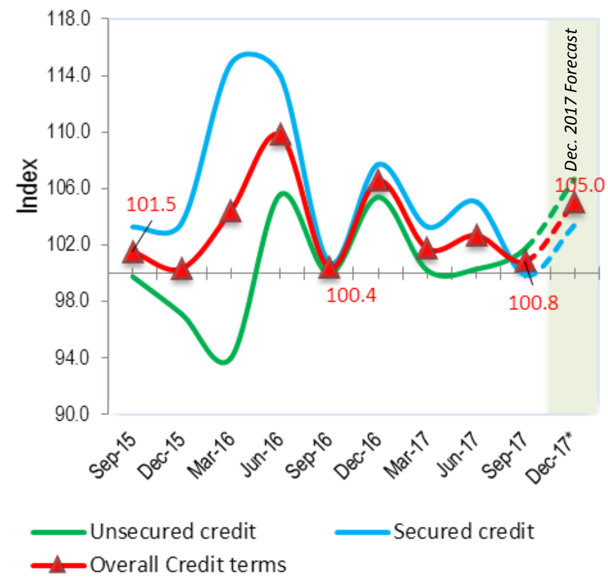
Overall lending conditions for personal loans eased marginally in the September 2017 quarter, evidenced by the index of **100.8** (see **Figure 5)**. The slightly relaxed credit terms solely reflected changes in lending policies on unsecured personal loans as lenders reduced interest rates on credit card debt and lowered the minimum proportion of balance repaid by borrowers. Lenders indicated that they maintained credit terms on all other categories of unsecured personal loans. In contrast, credit conditions on secured loans tightened, albeit marginally, as some institutions increased the associated fees. This was partly offset by lower interest rates and an increase in the maximum loan to value ratio.

For the December 2017 quarter, further easing in lending conditions is expected for both secured and unsecured personal loans. This outlook reflects plans by some lenders to reduce interest rates on credit card and other unsecured loans as they embark on the festive season which is generally characterized by increased loan promotion activities.

Credit Supply

The share of credit made available for personal reasons declined to **43.0 per cent** from **52.0 per cent** in the previous quarter (see **Figure 3**). This noticeable moderation in the share of personal loans in favour of business loans, largely reflected the lending policies of a major institution in the quarter. For the September 2017 quarter, the supply of personal loans for all categories expanded.

Figure 5: Credit Conditions for Personal Lending

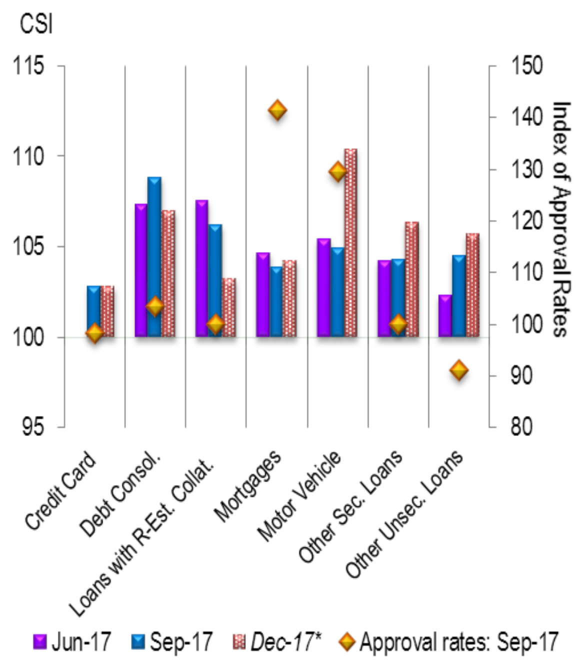


1. *Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.*

Lenders stated that their objective to increase or at least maintain market share, as well as changes in their risk tolerance towards individuals, continued to be important factors fuelling the increased availability of loans. Of note, *changing costs or the availability of funds* was cited as an important factor in credit supply. This possibly pointed to the impact that buoyant liquidity conditions during the review quarter had on some institutions' ability to make credit available to individuals.

For the December 2017 quarter, credit supply to both businesses and individuals is expected to expand at a faster rate compared with the pace of expansion in the September 2017 quarter (see **Appendix A: Table 6 and Figure 6**).

Figure 6: Availability of Credit for Personal Lending



1. *CSI less than 100 indicates a decline in credit supply while a CSI greater than 100 indicates an increase.*
2. *An index less than 100 indicates a reduction in the approval rate while an index greater than 100 indicates an increase.*
3. *The asterisk (*) represents forward looking expectations provided by the respondents.*

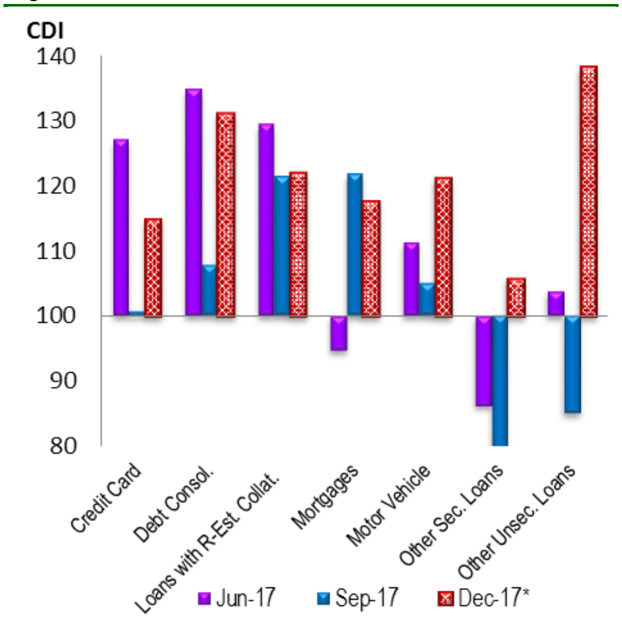
Credit Demand

There was a noticeable moderation in the growth in demand for personal credit in the review quarter, relative to the previous quarter. The CDI fell to **101.6** from **112.5** in the previous quarter, with reduced demand observed across most loan types, with the exception of *mortgages* (see **Figure 7** and **Appendix A: Table 6**).

Creditors reported that the important drivers of demand for personal loans in the review quarter were *interest rates, macroeconomic risks* and the offer of various promotional activities. Lenders also cited that the demand for both secured and unsecured personal loans was largely based on the borrower's ability to adequately service the loan, and the personalized service that may be obtained from the lender.

For the December 2017 quarter, the demand for personal credit is anticipated to remain robust mainly through continued easing in lending conditions on other personal *unsecured loans, motor vehicle loans* and *debt consolidation purposes.* Seasonal trends of increased borrowing during the last quarter of the year and the expectation for continued macroeconomic stability have led creditors to anticipate robust demand for personal loans. There is also an expectation that the reduction in interest rates will lead to consumers undertaking more credit to finance the purchase of assets.

Figure 7: Demand for Personal Loans



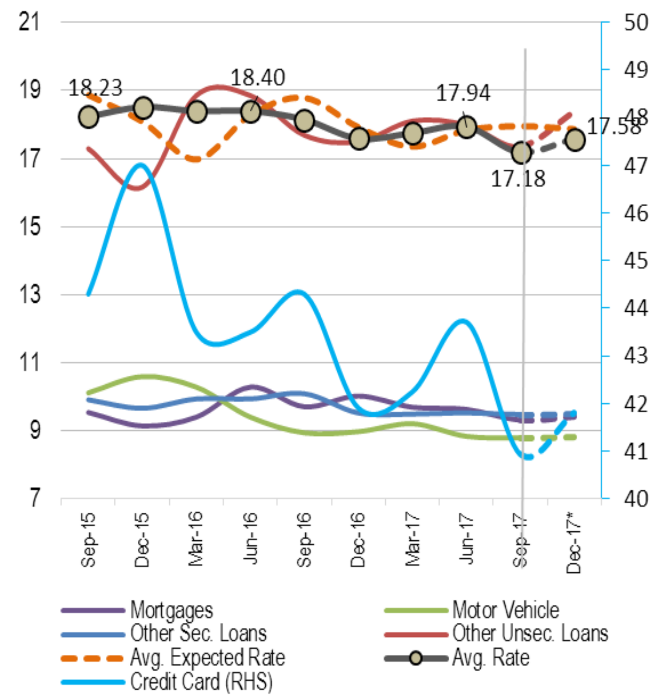
1. *An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.*
2. *The asterisk (*) represents forward looking expectations provided by the respondents.*

Price of Credit

Average **indicative** loan rates on new personal loans offered by participating institutions declined for the review period to **17.18 per cent** from **17.94 per cent** in the previous survey. Lower rates were applied to all categories of personal loans with interest rates on credit cards registering the largest decline (see **Figure 8**). Notably, the average reported rate on credit cards of **40.93 per cent** was the lowest outturn reported since the December 2013 quarter.

Interest rates on personal loans are expected to be higher for the December 2017 quarter. Much of this increase is expected to be reflected in interest rates on other unsecured loans and credit cards.

Figure 8: Interest Rates on Personal Loans



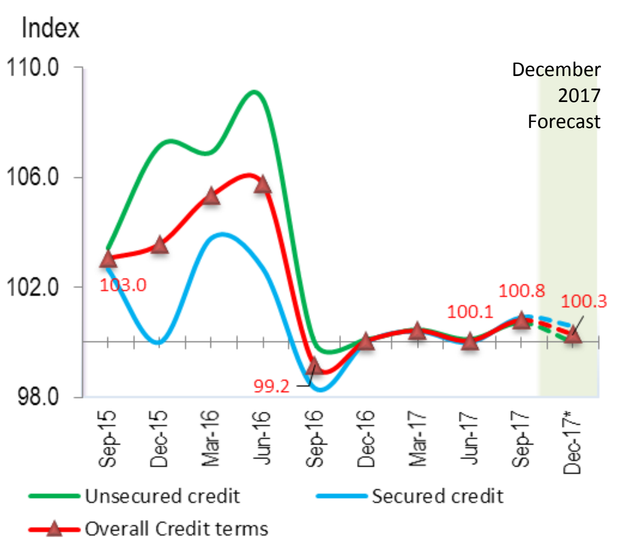
Micro Business Lending

Credit Conditions

For the September 2017 quarter, overall credit terms faced by micro-businesses were largely unchanged in comparison to the previous quarter (see **Figure 9**). The overall index increased to **100.8** from **100.1** and reflected the impact of a reduction in interest rates and fees by one institution. All other credit terms were unchanged for the review quarter.

For the December 2017 quarter, credit conditions are expected to remain relatively unchanged when compared to the September 2017 quarter.

Figure 9: Credit Conditions for Micro-sized Businesses



1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.

Credit Supply

Consistent with the marginal easing in credit terms, the supply of credit to micro firms was relatively unchanged during the quarter as evidenced in a CSI of **100.1**. Notwithstanding, this outturn represented an improvement relative to the contraction in credit supply to micro businesses for the June 2017 quarter. Lenders reported an increase in credit supply solely to the *Transport, Storage & Communication* sector.

For the next quarter, lenders reported that they expect to increase the supply of credit to micro businesses. Lenders reported that additional credit will be made available to finance developments in the *Distribution, Tourism* and *Manufacturing* sectors.

Credit Demand

There was a contraction in the overall credit demanded by micro businesses for the period. Reduced demand from micro businesses was observed in all sectors with the exception of *Agriculture & Fishing, Tourism* and *Distribution*, which recorded strong demand for local currency loans. Demand for foreign currency loans was marginally more buoyant with the *Tourism* and *Distribution* sectors accounting for much of the demand for the review period.

The drivers of demand for secured loans by micro businesses continued to be *changes in business activities, government policies, interest rates*, as well as *loan promotion activities*.

For the December 2017 quarter, the overall demand for credit by micro firms is expected to be muted.

Price of Credit

The average **indicative** interest rates on new local currency loans to micro businesses declined by

108 bps to **19.82 per cent** during the quarter (see **Table 2**). Significant reductions in the interest rates on loans were observed in *Agriculture & Fishing, Entertainment* and *Manufacturing* sectors.

In contrast, interest rates on foreign currency loans to micro businesses, increased by **197 bps** to **10.97 per cent** for the quarter. This increase was observed in interest rates on loans to the *Tourism* and *Entertainment* sectors. No loans were offered to the other sectors.

For the December 2017 quarter, average interest rates on local currency loans are expected to increase while average rates on foreign currency loans to micro businesses are expected to decline.

Table 2: Interest Rates on Local and Foreign Currency Loans to Micro-sized Businesses

Micro Firms	Local Currency				Foreign Currency			
	June 2017 Survey		September 2017 Survey		June 2017 Survey		September 2017 Survey	
	Jun-17	Sep-17*	Sep-17	Dec-17*	Jun-17	Sep-17*	Sep-17	Dec-17*
Agriculture & Fishing	23.29	25.40	17.69	25.01	n.a	9.09	n.a	10.52
Construction & Land Development	17.60	25.00	16.93	25.09	n.a	9.09	n.a	10.52
Distribution	25.82	25.00	25.88	25.09	n.a	9.09	n.a	10.52
Electricity Gas & Water	18.77	25.00	19.43	25.09	n.a	9.09	n.a	10.52
Entertainment	20.69	25.40	17.41	25.09	10.00	9.09	10.43	10.52
Manufacturing	21.65	25.00	19.05	25.09	n.a	9.09	n.a	10.52
Mining & Quarrying	21.65	25.00	21.65	25.09	n.a	9.09	n.a	10.52
Professional & Other Services	16.43	23.17	16.27	23.26	n.a	9.09	n.a	10.52
Tourism	19.91	25.40	19.43	25.09	8.50	9.09	11.50	10.52
Transport, Storage & Communication	23.22	23.17	24.49	23.26	8.50	9.09	n.a	10.52
Average Rate	**21.91**	**24.75**	**19.82**	**24.71**	**9.00**	**9.09**	**10.97**	**10.52**

1. *The asterisks (*) represent expectations provided by the respondents.*
2. *Note that "n.a" indicates that creditors did not lend to businesses within those sectors for the review quarter.*

Small Business Lending

Credit Conditions

Lenders continued to relax credit terms for small businesses for the September 2017 quarter. This easing was evident in an uptick in the overall credit conditions index to **105.7** from **100.1** in the previous quarter (see **Figure 10**). For the review quarter, creditors reported that they reduced both interest rates and fees for secured loans to small businesses and lowered fees applicable to unsecured loans.

For the December 2017 quarter, lenders reported that they do not plan to change credit terms offered to small businesses.

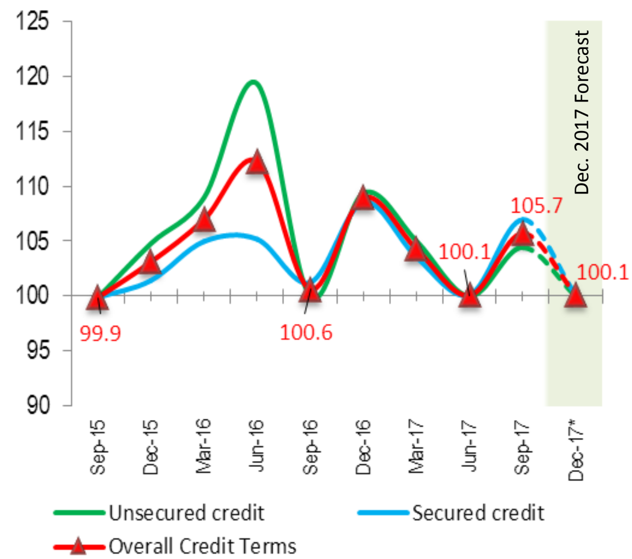
Credit Supply

Credit allocated to small businesses as a share of total credit further declined to **6.4 per cent** for the September quarter, relative to **8.1 per cent** in the previous quarter.

Consistent with the decline in the share, the CSI of **99.9** indicated a contraction in credit supply to small businesses, albeit marginally. Further analysis indicates that this mild contraction solely reflected a reduction in foreign currency credit made available to the *Construction* sector as credit to other sectors was unchanged relative to the previous quarter.

For the December 2017 quarter, lenders plan to significantly augment credit to small businesses, as evidenced in the projected CSI of **107.9**. This rebound in credit supply is associated an anticipated increase in local currency credit to the *Tourism, Manufacturing* and *Distribution* sectors while lenders plan to increase the allocation of loanable funds, denominated in foreign currency, towards the financing of developments in the *Manufacturing, Tourism, Distribution* and *Entertainment* sectors.

Figure 10: Credit Conditions for Small Businesses



1. *Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.*

Credit Demand

Demand for loans from small businesses, denominated in both local and foreign currency, expanded at a faster pace than the previous quarter. In particular, the CDI for local currency loans increased to **106.3** from **102.0** in the previous quarter while foreign currency loans also increased to **106.3** from **100.2.** This uptick mainly reflected increased demand for local currency loans from the *Agriculture, Manufacturing, Transport, Storage & Communication, Tourism* and *Distribution* sectors.

Increased demand in foreign currency loans emanated from the *Tourism* and *Distribution* sectors.

Lenders cited *changes in interest rates, business activities* and *loan promotion activities* as important factors that drove demand for the review quarter.

For the December 2017 quarter, a considerable increase in demand for local currency loans is expected with the CDI projected to increase to **120.4**. This outlook for strong credit demand is generally characteristic of December quarters when lenders offer various loan promotions to attract prospective borrowers. In addition, the low interest rate environment is also expected to contribute to increased demand. In this context, demand is expected to emanate from most economic sectors for both local and foreign currency denominated loans.

Price of Credit

For the review period, the **indicative** weighted average lending rate on new local currency loans to small businesses increased to **13.16 per cent** from **12.23 per cent**. This was, however, lower than the expected rate of **13.61 per cent** reported in the June 2017 survey (see **Table 3**). The increase in the average local currency rates to small businesses reflected higher borrowing costs across all economic sectors except for the *Entertainment* sector. Conversely, the weighted average interest rate on foreign currency denominated loans was lowered by approximately **55 basis points** to **6.89 per cent,** which was observed across all economic sectors except for the *Tourism* sector.

For the December 2017 quarter, lenders reported a planned reduction in interest rates on new local currency loans. However, creditors plan to charge higher rates on foreign currency loans to small business enterprises.

Table 3: Interest Rates on New Local and Foreign Currency Loans to Small Businesses

Small Firms	Local Currency				Foreign Currency			
	June 2017 Survey		September 2017 Survey		June 2017 Survey		September 2017 Survey	
	Jun-17	Sep-17*	Sep-17	Dec-17*	Jun-17	Sep-17*	Sep-17	Dec-17*
Agriculture & Fishing	11.05	13.28	13.40	12.60	6.80	7.85	6.70	7.94
Construction & Land Development	11.91	11.25	12.58	13.52	7.55	8.21	6.70	8.10
Distribution	12.13	13.98	12.51	13.09	7.55	8.35	6.70	8.27
Electricity Gas & Water	12.70	13.98	13.10	12.60	n.a	8.28	n.a	8.27
Entertainment	14.04	14.35	13.05	12.89	7.87	7.99	7.63	8.27
Manufacturing	11.42	13.26	14.04	12.60	6.80	8.13	6.70	8.27
Mining & Quarrying	13.48	14.85	13.61	13.16	7.20	7.85	6.70	7.94
Professional & Other Services	11.46	13.59	12.96	13.17	8.43	8.28	6.26	8.44
Tourism	11.54	14.35	13.10	12.53	7.37	7.99	7.90	8.10
Transport, Storage & Communication	12.57	13.26	13.30	12.60	7.37	8.13	6.70	8.27
Average Rate	**12.23**	**13.61**	**13.16**	**12.88**	**7.44**	**8.11**	**6.89**	**8.19**

The asterisks (*) represent expectations provided by the respondents. Note that "n.a" indicates that creditors did not lend to businesses within those sectors for the review quarter.

Medium-Sized Business Lending

Credit Conditions

Lending conditions faced by medium-sized enterprises in the September 2017 quarter continued to improve appreciably. This improvement was reflected in an easing in credit terms applied to both secured and unsecured loans as some creditors reduced interest rates and fees while some lenders increased repayment periods. In this context, the overall index of credit conditions to medium-sized businesses increased to **108.0** for the quarter, compared with **106.7** in the previous quarter (see **Figure 11**).

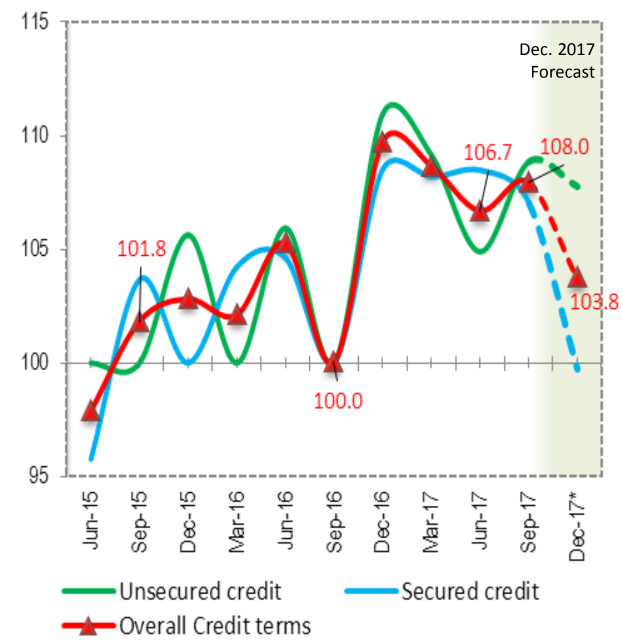
For the December 2017 quarter, improvements in credit terms for medium-sized businesses are anticipated to be more moderate relative to the September quarter as most institutions plan to increase interest rates applicable to secured loans. However, with respect to unsecured loans, lenders plan to impose less restrictive credit conditions through lower interest rates and fees.

Credit Supply

Growth in the availability of credit to medium-sized firms for the September 2017 quarter expanded relative to the June 2017 quarter, mainly reflecting the lending policies of one institution. In particular, the proportion of credit allocated to medium-sized businesses increased to **53.4 per cent** from **30.3 per cent** in the previous quarter. This was evidenced by an increase in the CSI to **108.7** from **100.9** in the previous quarter. Lenders reported an increase in the supply of local currency credit to most economic sectors except *Mining & Quarrying* and the *Distribution* sectors. With regards to foreign currency loans, lenders also reported an increase across most sectors.

Lenders cited *market share objectives, changes in competition*, as well as *changes in the economic outlook*, as important factors that continued to influence the supply of credit in the quarter.

Figure 11: Credit Conditions for Medium-sized Businesses



1. *Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.*
2. *The asterisk (*) represents expectations provided by the respondents.*

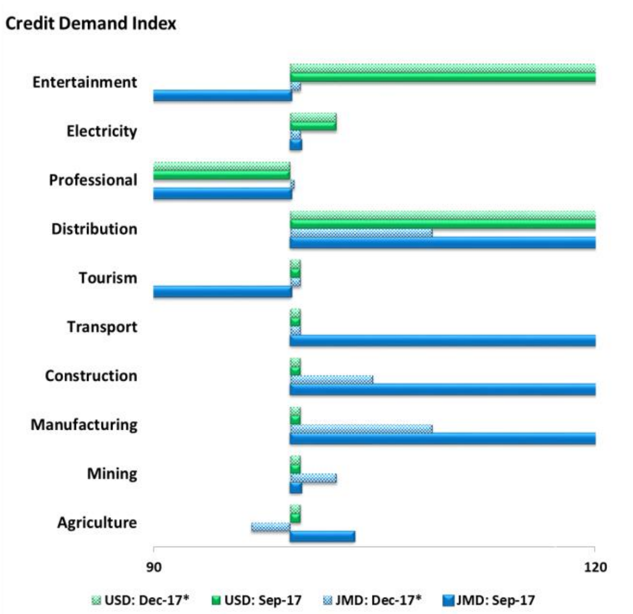
For the next quarter, the CSI for medium-sized businesses is expected to moderate to **103.6** due to a contraction in the supply of local currency loans to the *Transportation, Tourism* and *Professional & Other Services* sectors.

Credit Demand

Demand for loans by medium-sized firms increased at a faster pace relative to the previous quarter. The CDI increased to **105.3** from **100.7** in the previous quarter as there was increased demand for local currency loans across all economic sectors with the exception of the *Entertainment*, *Professional & Other Services* and *Tourism* sectors. Of note, the demand for foreign currency loans increased at a faster pace than the previous quarter specifically in the *Entertainment, Electricity Water & Gas* and *Distribution* sectors (see **Figure 12**).

For the December 2017 quarter, an increase in the CDI is anticipated for local currency loans while no noticeable change in demand for foreign currency loans is expected.

Figure 12: Credit Demanded by Medium-sized Businesses



1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisk (*) represents forward looking expectations provided by the respondents.

Price of Credit

Consistent with the improvement in credit terms for medium-sized firms, the **indicative** weighted average lending rate on new local and foreign currency loans to medium-sized businesses declined for the review period. The average rate on local currency loans decreased to **9.32 per cent** from **9.77 per cent** in the previous quarter. The reduction in the average rate was evidenced across all economic sectors. Similarly, the average rate on foreign currency loans declined by **12 bps** to **6.86 per cent** for the review quarter. Lower rates were evident in the *Construction, Mining & Quarrying* and *Professional & Other Services* sectors (see **Table 4**).

Table 4: Interest Rates on Local and Foreign Currency Loans to Medium-sized Businesses

	Local Currency				Foreign Currency			
	June 2017 Survey		September2017 Survey		June 2017 Survey		September2017 Survey	
	Jun-17	Sep-17*	Sep-17	Dec-17*	Jun-17	Sep-17*	Sep-17	Dec-17*
Agriculture & Fishing	9.50	9.50	8.63	9.75	6.70	7.25	6.70	7.82
Construction & Land Development	10.27	10.27	10.00	9.92	7.09	7.55	6.70	7.62
Distribution	9.73	9.73	9.37	9.31	7.27	7.05	7.87	8.27
Electricity Gas & Water	9.50	9.50	9.00	9.30	7.15	7.05	7.21	7.98
Entertainment	9.25	9.25	8.83	9.30	6.70	7.25	6.70	8.02
Manufacturing	10.07	10.07	9.43	9.38	6.70	7.05	6.70	7.62
Mining & Quarrying	10.63	10.63	10.15	10.24	7.20	7.55	6.70	7.82
Professional & Other Services	9.70	9.70	9.58	9.75	7.15	7.05	6.63	8.02
Tourism	9.54	9.54	9.13	9.23	6.70	7.34	6.70	8.02
Transport, Storage & Communication	9.56	9.56	9.06	9.30	6.71	6.85	6.71	7.67
Average Rate	**9.77**	**9.77**	**9.32**	**9.55**	**6.94**	**7.20**	**6.86**	**7.89**

1. The asterisks (*) represent expectations provided by the respondents.

For the December 2017 quarter, the average interest rate on new local currency credit to medium-sized firms is expected to increase by **23 bps** to **9.55 per cent**. Higher rates are expected across most sectors. Similarly, the average interest rate on foreign currency credit is expected to increase by **103 bps** to **7.89 per cent** with higher rates expected on loans to all sectors.

Large Corporations and Commercial Lending

Credit Conditions

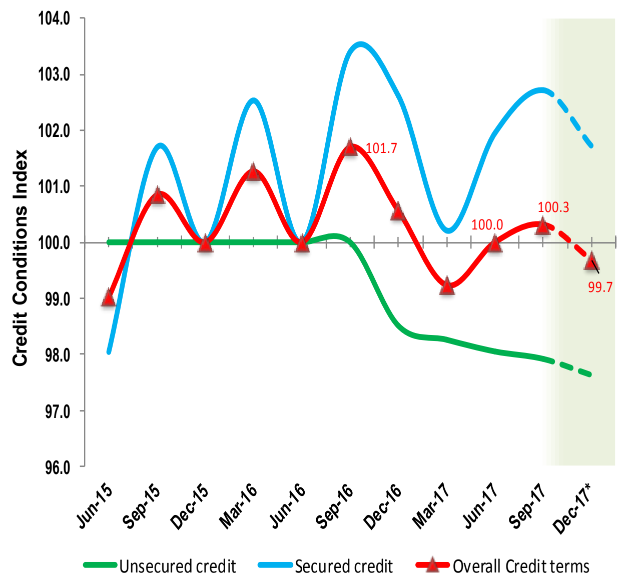
Lending conditions to large businesses remained broadly unchanged in the review quarter. The overall credit terms index marginally increased to **100.3** from **100.0** and was associated with a reduction in interest rates and fees, and an increase in maximum credit lines applied to secured loans (see **Figure 13**). However, tighter credit conditions were applied to unsecured loans to large businesses as lenders increased fees and imposed more restrictive loan covenants.

For the December 2017 quarter, credit conditions are expected to tighten, as the index is anticipated to fall to **99.7**, largely owing to an anticipated increase in *loan monitoring requirements*, *interest rates* and *loan covenants* on unsecured loans. Favourable credit conditions are expected to be applied to secured loans, albeit largely reflecting continued reductions in interest rates and fees with no change expected for other price and non-price terms.

Credit Supply

In the context of the maintenance of the price and non-price credit terms facing large businesses, the amount of credit made available to large businesses continued to expand, at a faster pace than the previous quarter. This was reflected in a CSI of **111.3** for the quarter, relative to **109.2** in the previous quarter (see **Figure 14**). The expansion emanated from growth in the supply of both local and foreign currency loans, largely concentrated in the *Manufacturing*, *Distribution* and *Tourism* sectors. The expansion continued to reflect positive changes in lenders' risk appetite as well as an improvement in lenders' economic outlook while maintaining the quality of their loan portfolios in a more competitive market.

Figure 13: Credit Conditions for Large Businesses



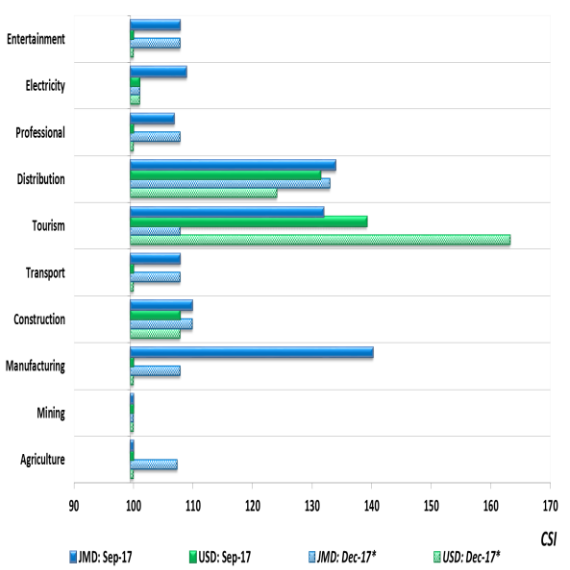
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisk (*) represents forward looking expectations provided by the respondents.

For the December 2017 quarter, lenders plan to augment credit availability to large businesses but at a slower pace than what was observed in the September 2017 quarter. A CSI of **109.3** is expected, which represents a moderation from **111.3** in the review quarter. This moderation in the index reflects an anticipated contraction in the supply of local currency loans to the *Manufacturing* and *Tourism* sectors.

Credit Demand

The demand for credit from large businesses continued to expand in the September 2017 quarter as indicated by a CDI of **106.3**. This increased demand stemmed from most economic sectors and was partly offset by a contraction in demand from the *Professional & Other Services* sector (see **Figure 15**). Lenders highlighted that important factors that influence credit demand from large businesses continued to be *changes in business activities, lower interest rates* and reductions in *macroeconomic risks*, as well as *developments in one or more economic sectors.*

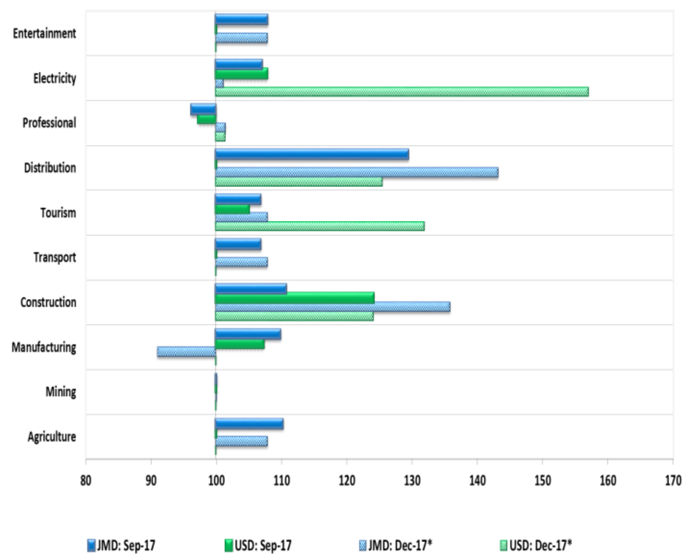
Figure 14: Availability of Credit to Large Businesses



1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

For the December 2017 quarter, faster growth in the demand for credit by large firms is expected relative to the September 2017 quarter. This expansion is underpinned by the anticipated growth in both local and foreign currency demand, most notably from the *Electricity*, *Tourism, Distribution* and *Construction* sectors.

Figure 15: Credit Demanded by Large Businesses



1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisk (*) represents forward looking expectations provided by the respondents.

Price of Credit

For the review quarter, **indicative** lending rates on new local currency loans to large corporations declined by **37 bps** to **8.38 per cent**. However, foreign currency rates were held at **6.36 per cent** (see **Table 5**). The lower rates on local and foreign currency loans were evident across most economic sectors.

For the December 2017 quarter, interest rates for local currency new loans are expected to further decrease to **8.13 per cent**, while rates on new foreign currency loans are expected to increase to **7.14 per cent**. The anticipated rate increase is expected across most sectors.

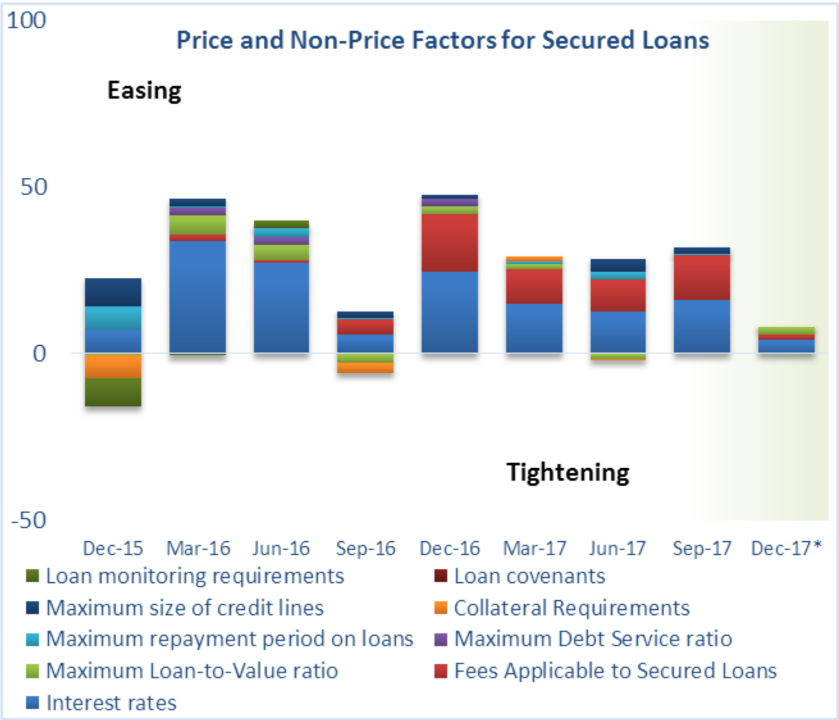
Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses

	Local Currency				Foreign Currency			
	June 2017 Survey		September 2017 Survey		June 2017 Survey		September 2017 Survey	
	Jun-17	Sep-17*	Sep-17	Dec-17*	Jun-17	Sep-17*	Sep-17	Dec-17*
Agriculture & Fishing	8.50	9.15	7.83	7.80	5.55	7.03	6.20	6.78
Construction & Land Development	9.25	9.61	9.15	8.96	6.20	7.64	6.37	7.42
Distribution	9.22	9.54	8.83	8.67	6.52	7.22	6.02	7.32
Electricity Gas & Water	8.50	9.38	8.25	7.81	7.55	7.66	7.32	7.41
Entertainment	8.83	9.38	8.50	8.38	6.37	7.28	6.37	7.53
Manufacturing	8.71	9.46	8.75	7.90	5.91	5.88	5.82	6.63
Mining & Quarrying	8.50	9.38	7.83	7.50	6.37	7.03	6.37	6.90
Professional & Other Services	8.94	8.80	8.53	7.88	6.40	7.02	6.70	7.32
Tourism	8.59	8.80	7.94	8.00	6.33	6.43	6.24	6.62
Transport, Storage & Communication	8.50	9.20	8.19	8.40	6.37	7.12	6.37	7.52
Average Rate	**8.75**	**9.27**	**8.38**	**8.13**	**6.36**	**7.03**	**6.38**	**7.14**

1. The asterisks (*) represent expectations provided by the respondents.

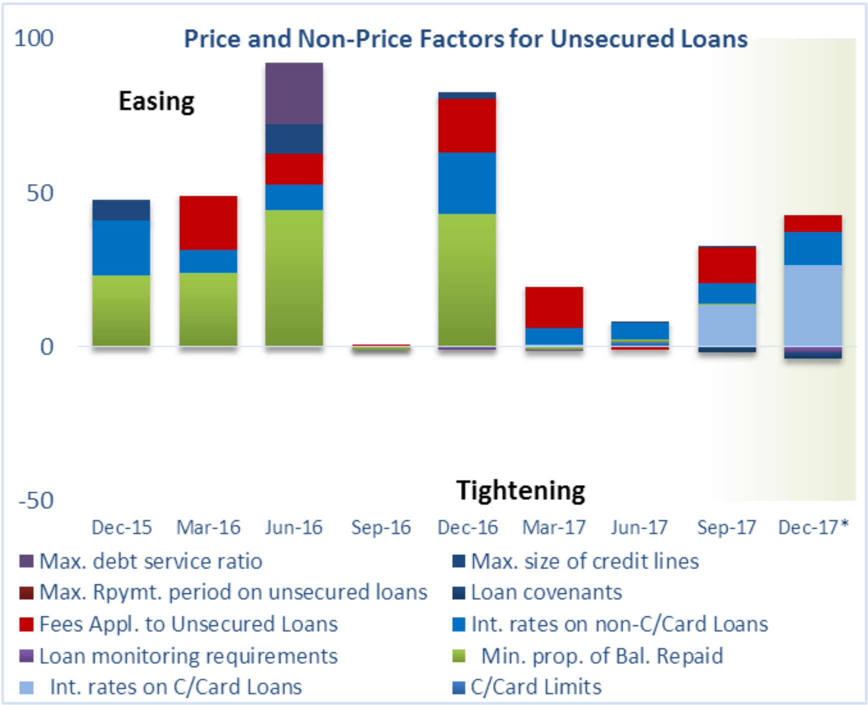
Appendix A: Overall Credit Market Conditions

Figure 16: Credit Conditions for Secured Loans



1. *Bars above the zero line represent factors that would have contributed to an easing in credit conditions while bars below the line would have contributed to a tightening in credit conditions for the quarter.*
2. *Indices for the September quarter are computed based on forward looking expectations provided by respondents.*

Figure 17: Credit Conditions for Unsecured Loans



1. *Bars above the zero line represent factors that would have contributed to an easing in credit conditions while bars below the line would have contributed to a tightening in credit conditions for the quarter.*
2. *Indices for the September quarter are computed based on forward looking expectations provided by respondents*

Table 6: Components of Credit Demand and Supply Indices

	Sept. 2016 Survey		June 2017 Survey		Sept. 2017 Survey	
Credit Supply Indices	**Sep-16**	**Dec-16***	**Jun-17**	**Sep-17***	**Sep-17**	**Dec-17***
Credit Supply Index (CSI)	**102.2**	**104.8**	**102.2**	**103.8**	**105.1**	**105.6**
Credit to Businesses	101.1	104.5	101.1	104.5	105.0	105.6
Credit to Individuals	104.5	105.4	104.5	102.4	105.1	105.7
Local Currency Credit	100.1	113.5	102.3	106.8	106.1	105.4
Foreign Currency Credit	102.1	110.7	102.1	109.0	103.1	106.1
Credit Demand Indices	**Sep-16**	**Dec-16***	**Jun-17**	**Sep-17***	**Sep-17**	**Dec-17***
Credit Demand Index (CDI)	**105.3**	**105.8**	**105.3**	**112.7**	**103.2**	**115.6**
Demand by Businesses	101.8	100.8	101.8	106.8	104.0	112.7
Demand by Individuals	112.5	115.9	112.5	124.4	101.6	121.5
Local Currency Credit	107.4	110.1	106.6	111.8	102.2	118.5
Foreign Currency Credit	110.8	106.3	102.8	101.9	105.1	110.0

1. **Expectations for the upcoming quarter from the current survey.*
2. *Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.*

Figure 18: Drivers of the Supply of Credit

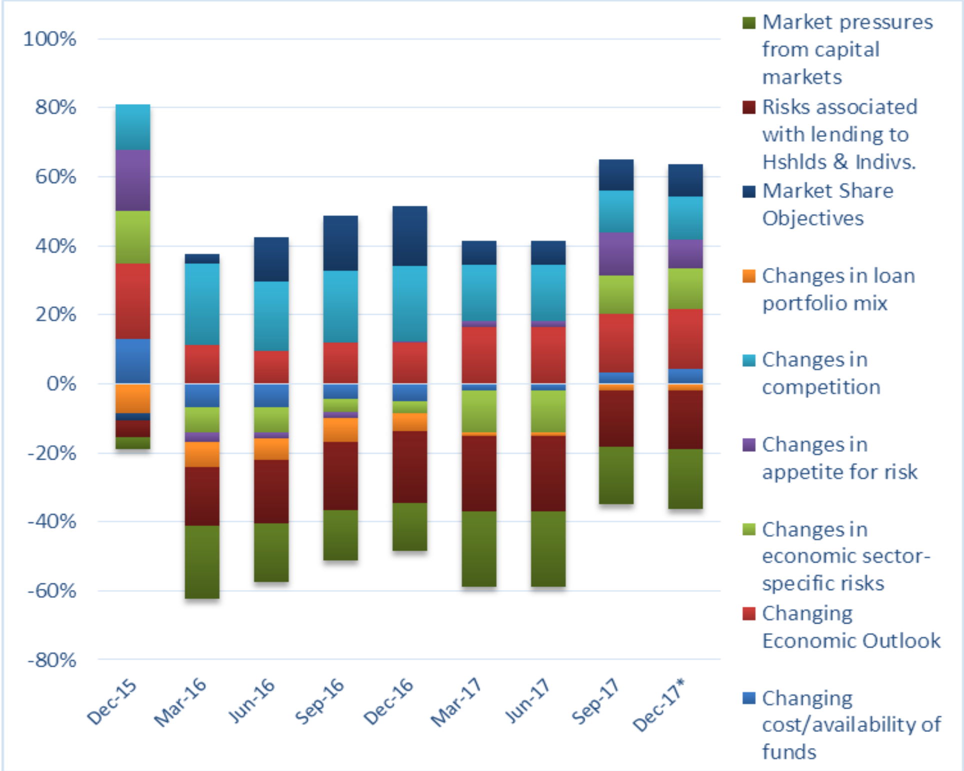
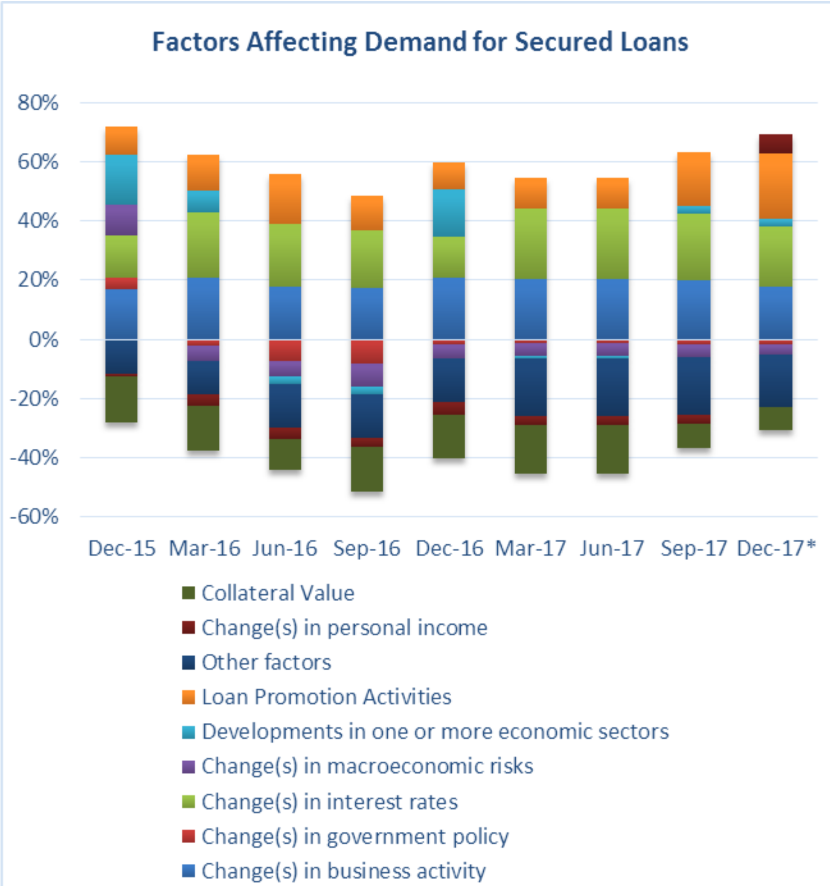
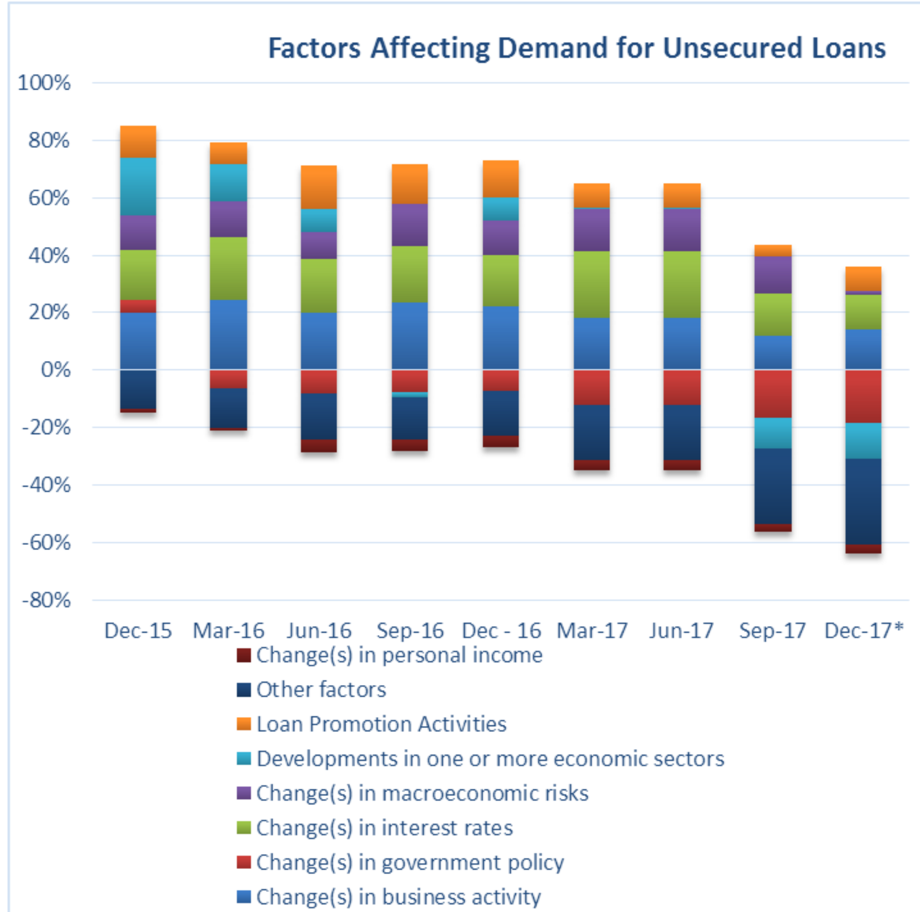


Figure 19: Drivers of the Demand of Credit





Appendix B: Glossary and Definitions

Diffusion Index (DI) – This is used to compute the various indices used in the report and is a method of summarizing the common tendency of a group of statistical series. The DI value is calculated as:

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100$$

Where
ss = percentage of respondents selecting “substantially stronger” or “substantially tightened”
ms = percentage of respondents selecting “moderately stronger” or “moderately tightened”
sw = percentage of respondents selecting “substantially weaker” or “substantially eased”
mw = percentage of respondents selecting “moderately weaker” or “moderately eased

By construction, lenders who report that credit conditions have “changed substantially” are assigned twice the score as those who report that the index has “changed moderately ”. The use of the fixed weight (0.5) relating to the proportion of respondents selecting either moderately stronger or moderately weaker distinguishes between the level of conviction in the respondents’ answers. The scores are then weighted by the market share of the respondents. The diffusion index (DI) is therefore the net percentage balance of opinion, computed as the difference between the weighted balance of lenders reporting an increase in the index and those reporting a decline.

The metric always ranges between -100 and +100. A negative DI indicates that the majority of the respondents view the variable in question as declining/ easing, while a positive DI indicates that the majority of the respondents view the variable in question as increasing/ tightening. An index of 100 indicates no change in the variable.

Credit Demand Index (CDI)-The average net balance of opinion of credit demand across firm sizes and economic sectors.

$$CDI = \left(\frac{\sum_{i=1}^{n} \left(\frac{\sum_{p=1}^{n} net\ balance\ of\ opinion * 100 + 100}{n} \right)}{n} \right)$$

$$where\ s = economic\ sector\ and\ i = firm\ size$$

Credit Supply Index (CSI)-The average net balance of opinion of credit availability across economic sectors and firm sizes.

$$CSI = \left(\frac{\sum_{i=1}^{n} \left(\frac{\sum_{s=1}^{n} net\ balance\ of\ opinion \cdot 100 + 100}{n} \right)}{n} \right)$$

$$where\ s = economic\ sector\ and\ i = firm\ size$$

Firms can either be classified by their loan size at origination or their annual turnover:

Classification	Loan Size (at origination)	Annual Sales/Turnover
Micro Businesses	Less than US$10,000.00	Less than US$100,000.00
Small Businesses	US$10,000 < Loan Size < $US100,000	US$100,000.00 < Sales < US$5.0 million
Medium-sized Businesses	US$100,000 < Loan Size < US$1.0 million	US$5.0 million < Sales < US$25.0 million
Large, Corporate & Commercial Businesses	Greater than US$1.0 million	Greater than US$25.0 million

The following are definitions of some of the credit terms discussed in the report:

1. **Loan-to-value (LTV) ratio** - the ratio of the amount borrowed to the appraisal or market value of the underlying collateral, for loans secured by real estate or other collateral.
2. **Debt service coverage (DSC) ratio** - the ratio of the amount borrowed to the reported income of the borrower.
3. **Credit lines** - credit line refers to a facility with a stated maximum amount, which an entity was entitled to borrow from an institution at any given time.
4. **Loan covenants** - an agreement or stipulation, expressed in loan contracts, in which the borrower pledges to take certain action (an affirmative covenant) or to refrain from taking a certain action (a negative covenant), and was consequently part of the terms and conditions of the loan.
5. **Loan monitoring requirements** - additional reporting required of the borrower as part of the conditions of the loan agreement (for example, regular reporting of inventory margins).