Quarterly Credit Conditions Survey Report

December 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 December 2017 survey which was conducted during the period 18 January and 12 February 2018.

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**

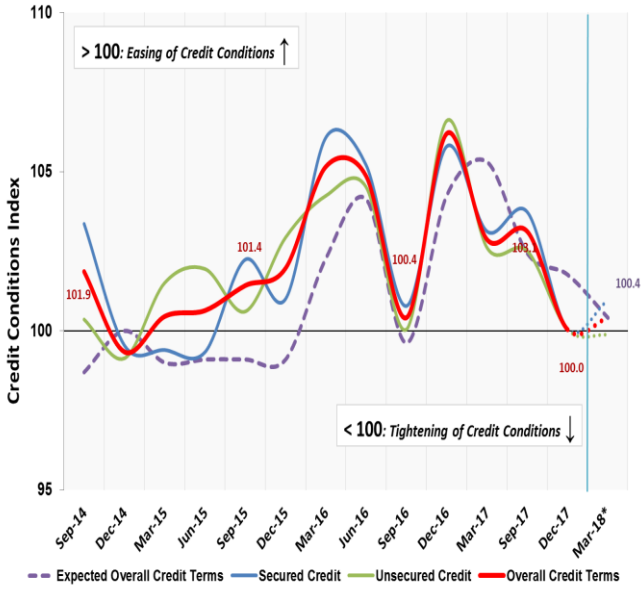
Overview

The Jamaican economy grew by 1.1 per cent for the December 2017 quarter, broadly in line with the growth rate for the December 2016 quarter. This growth represented an acceleration when compared to the expansion of 0.8 per cent for the September 2017 quarter. With the exception of *Agriculture Forestry and Fishing,* all industries are estimated to have grown for the quarter. *Annual inflation at December 2017 accelerated to 5.2 per cent from 4.6 per cent at September 2017, reflecting the temporary impact of agricultural and oil price shocks.*

With respect to monetary policy developments, Bank of Jamaica eased its monetary policy stance during the December 2017 quarter. The Bank reduced its signal rate, the interest rate payable on its Overnight deposit (O/N) by 25 bps to 3.25 per cent on 23 November 2017. In keeping with the policy rate reduction, the rate on the Bank's Standing Liquidity Facility (SLF) was reduced by 25 basis points (bps) to 6.25 per cent, thereby maintaining the width of the interest rate corridor (IRC) at 3.0 percentage points.[1] 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 of 4.0 per cent to 6.0 per cent and was consistent with the Government's strong commitment to fiscal consolidation. The introduction of fixed volume auctions for BOJ's 30-day CD in the preceding quarter resulted in increased demand for the Central Bank's O/N deposits by some institutions to meet liquidity requirements. Consequently, the average placement on O/N deposits increased to $40.3 billion for the December 2017 quarter from $35.8 billion in the previous quarter, an indicator of the buoyant liquidity conditions which characterized the review quarter.

In the context of the foregoing and following appreciable improvements in lending conditions over the past three quarters, overall credit conditions remained unchanged during the December 2017 quarter relative to the previous quarter. This outturn implies that lenders were comfortable with the overall lending policies applied to both secured and unsecured loans for the previous quarter (see **Figure 1** and **Appendix A: Figures 16** & **17**).

Figure 1: Index of Credit Market Conditions



Lenders reported that they expected a marginal easing in credit conditions for the March 2018 quarter. This improvement primarily reflected expected improvement for secured loans stemming from lower interest rates and an increase in the maximum loan to value ratio.

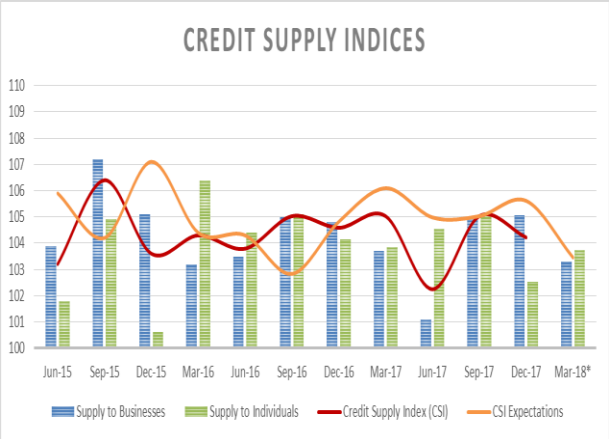
1 The lower bound of the IRC is determined by the interest rate on the overnight CD, while the upper bound is determined by the rate on overnight SLF.

Credit Supply

Growth in credit availability, as measured by the Credit Supply Index (CSI), moderated when compared to the previous quarter (see **Figure 2**). The CSI moderated to **104.2** from **105.1** and reflected a slowdown in the growth in credit supply to individuals relative to the previous quarter. Institutions' willingness to provide credit during the quarter continued to be driven by their economic outlook, market share objectives and competition. Some lenders indicated that factors such as *changes in risk appetite* are becoming less important drivers of credit supply in the quarter. (see **Appendix A: Figure 18**).

For the review quarter, the overall growth in the supply of local currency credit to both individuals and businesses moderated relative to the previous quarter. Notwithstanding this slowdown, there was an increase in the growth rate in the supply of local currency loans to the *Manufacturing, Tourism and Distribution* sectors. In relation to foreign currency loans, the growth rate in credit supply increased to the *Tourism, Distribution* and *Entertainment* sectors.

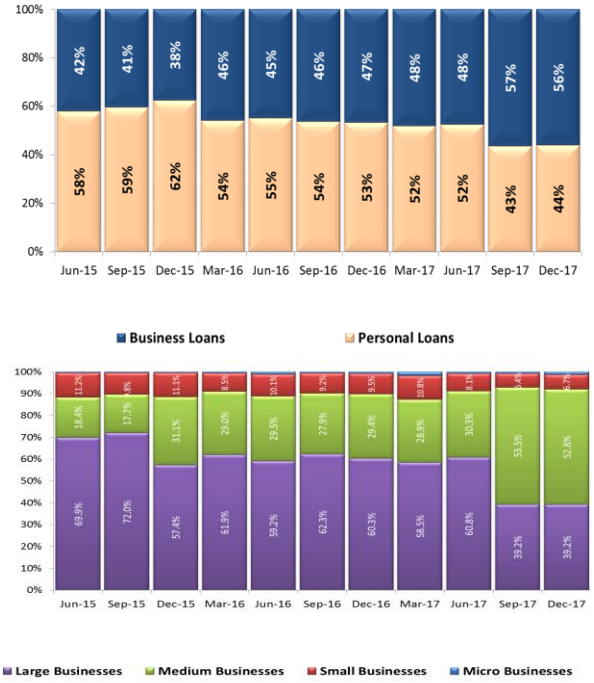
Figure 2: Components of Credit Supply



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, credit to medium-sized businesses continued to account for the lion share even though the proportion was slightly less than that which obtained in the previous quarter. In this context, there was an increase in the proportion of credit made available to micro and small firms. The proportion of credit allocated to micro-sized businesses increased to **1.3 per cent** from **0.8 per cent** while credit allocated to small businesses increased to **6.7 per cent** from **6.4 per cent** in the previous quarter (see **Figure 3**). Of note, this shift largely reflects changes in institutions appetite for risks.

Figure 3: Distribution of Private Sector Credit[2]



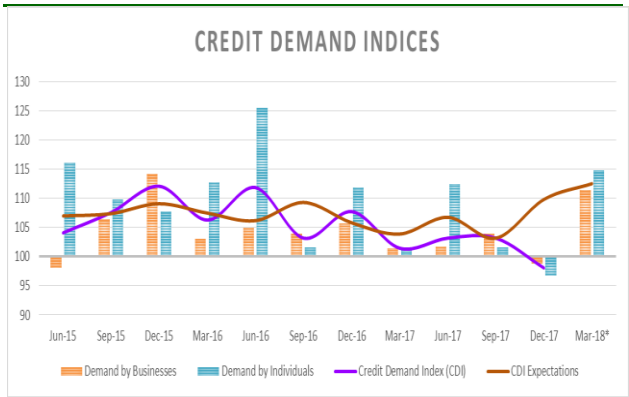
[2] Figure 3 shows the distribution of credit between households and businesses. Credit to businesses is further disaggregated to show total business loans distributed to firms of various sizes.

For the March 2018 quarter, lenders reported that they plan to moderate the amount of credit made available to businesses while it is anticipated that there will be an increase in the growth rate in the supply of loans to individuals (see **Figure 2 and Appendix A: Table 6**).

Credit Demand

Credit demand, as measured by the Credit Demand Index (CDI) for the December 2017 quarter, declined relative to the September 2017 quarter (see **Figure 4**). As such, the CDI contracted to **98.1** from **103.2** stemming from reduced demand for personal loans as well as a decline in the demand for foreign currency loans by businesses (see **Appendix A: Table 6**). Lenders reported that the fall-off in the demand for foreign currency loans mainly evident in the *Tourism, Distribution and Professional & Other Service* 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, however, an expansion in the demand for local currency loans by businesses, predominantly by large and micro firms. This demand emanated mainly from *Agriculture, Transportation* and *Professional & Other Services* sectors.

Credit demand continued to be driven by factors such as increased business activities, loan promotion activities and lower interest rates. Of note, some institutions indicated that *changes in macroeconomic risks* are now significant drivers of demand (see **Appendix: Figure 19**).

For the March 2018 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 macro-economic development as a main driver. They anticipated that this driver would be addressed in the budget presentation. The CDI is consequently projected to rise to **112.6.**

Price of Credit

Based on the survey responses, average **indicative** interest rates on new local currency loans **increased** by approximately **113 bps** to **14.70 per cent** during the review quarter, relative to the previous quarter. This reflected increases of **13 bps** and **137 bps** in rates for personal and business loans, respectively. Higher rates on business loans reflected the impact of above average interest rates on loans to micro firms by an institution which expanded its business operation during the December 2017 quarter to include this segment of the credit market. Excluding this institution, average indicative interest rate on new local currency loans declined by **40 bps** to **13.7 per cent** with the interest rate on business loans declining by **53 bps** (see **Table 1**).

In contrast, the **indicative** average interest rate on new foreign currency loans declined by **86 bps** to **6.91 per cent**, which largely reflected lower rates on foreign currency loans across all business types except small.

For the March 2018 quarter, lenders reported that they plan to increase the interest rates on new local and foreign currency loans to businesses by **67 bps** and **43 bps** to **15.37 per cent** and **7.34 per cent**, respectively. [3]

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

	September 2017 Survey		December 2017 Survey	
	Sep-17	Dec-17*	Dec-17	Mar-18*
Local Currency (LC) Loans				
Business loans	12.67	13.82	14.04	14.80
Personal loans	17.18	17.58	17.31	17.65
Reference rate	12.71	13.35	12.86	14.69
Average LC rates	**13.57**	**14.57**	**14.70**	**15.37**
Foreign Currency (FC) Loans				
Business loans	7.77	8.43	6.91	7.34
Reference rate	7.39	8.48	7.20	7.55

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

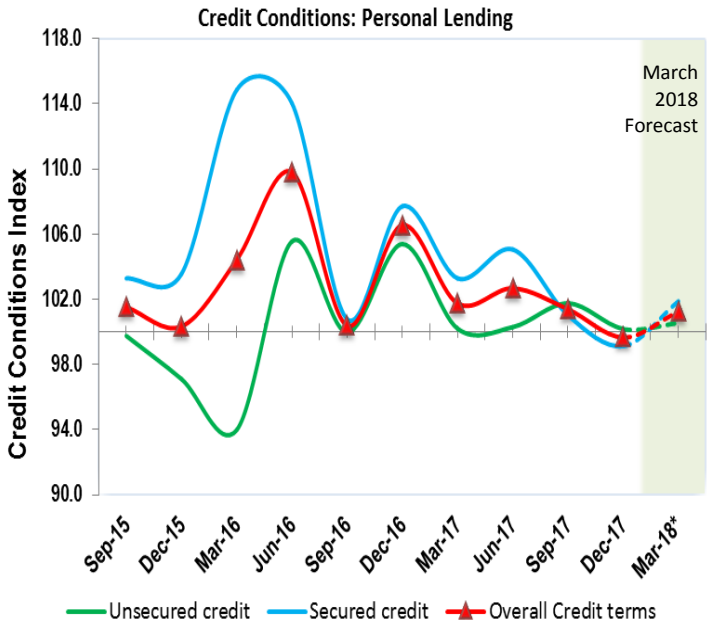
Personal Lending

Credit Conditions

Overall lending conditions for personal loans tighetened in the December 2017 quarter, evidenced by the index of **99.7** (see **Figure 5)**. This tightening was reflected in lending terms for secured loans as lenders reported that they have increased fees applicable to secured lending while the other lending terms remained muted. There was a slight easing of the overall lending terms for unsecured loans as lenders relaxed the minimum proportion of balances repaid.

For the March 2018 quarter, an easing in lending conditions is expected for both secured and unsecured personal loans. This outlook reflects plans by some lenders to reduce interest rates and minimum proportion of balances repaid while increasing the maximum loan to value ratio.

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.*

Credit Supply

The share of credit made available for personal reasons increased slightly to **44.0 per cent** from **43.0 per cent** in the previous quarter (see **Figure 3**). For the December 2017 quarter, there was increased financing for *motor vehicles, mortgage & real estate* and *unsecured personal* loans which also benefited from higher approval rates (see **Figure 6**).

Lenders stated that changes in competition, market share objectives and changes in their risk tolerance for this sector were important factors fuelling the increased availability of loans.

For the March 2018 quarter, credit supply is expected to expand at a faster rate compared with the pace of expansion in the December 2017 quarter. This increase is expected to impact *credit cards, unsecured personal* loans and *mortgages* (see **Appendix A: Table 6 and Figure 6**).

Figure 6: Availability of Credit for Personal Lending

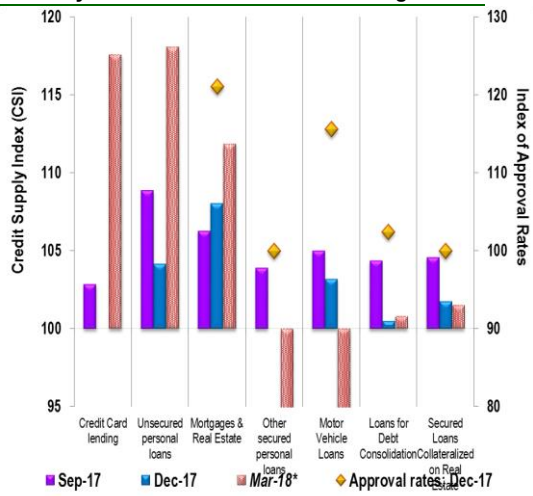


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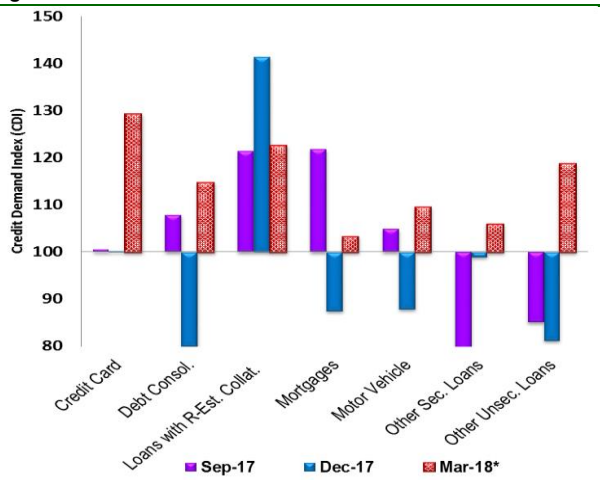
Figure 7: Demand for Personal Loans



Credit Demand

Despite growth in the supply of personal loans, there was a noticeable decline in the demand for personal credit in the review quarter. The CDI fell to **96.7** from **101.6** in the previous quarter, with reduced demand observed across all loan types, with the exception of *motor vehicles* (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* and *loan promotional activities*.

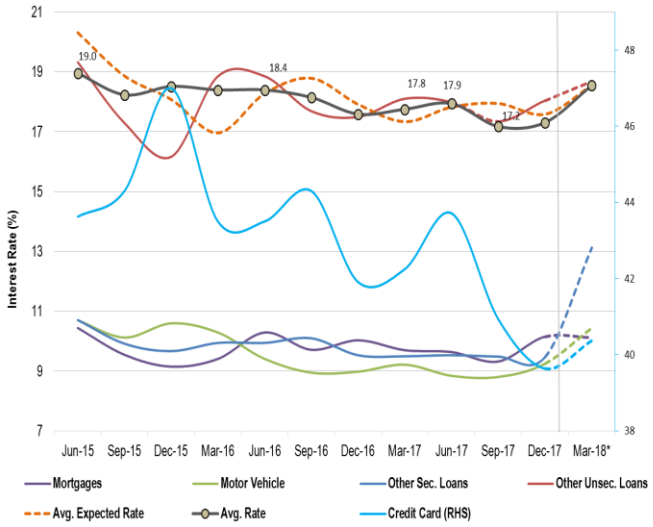
For the March 2018 quarter, an uptick in demand is anticipated as the CDI is expected to increase to **114.9** reflecting increase demand across all categories.

Price of Credit

Average **indicative** loan rates on new personal loans offered by participating institutions increased for the review period to **17.31 per cent** from **17.18 per cent** in the previous survey. The higher average rate for the review quarter was predominantly underpinned by a widening in the interest margin on *motor vehicle* loans and *mortgages* as lending rates in most of the other loan categories declined (see **Figure 8**).

For the March 2018 quarter, lenders reported a planned increase of approximately **34 bps** in the average interest rates.

Figure 8: Interest Rates on Personal Loans



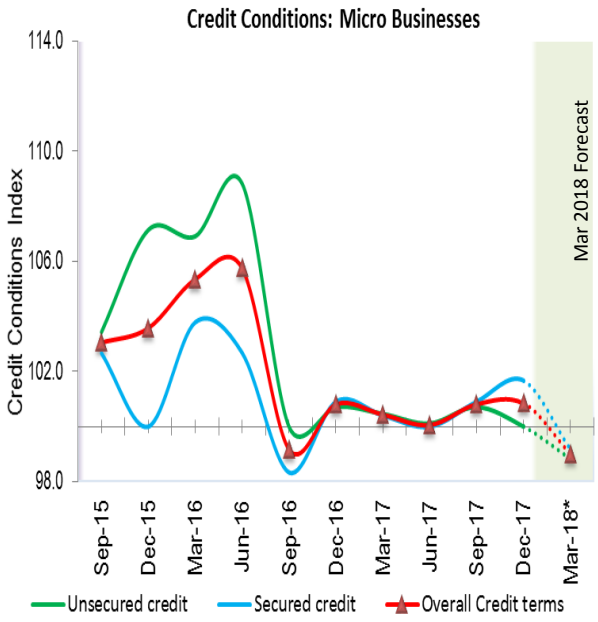
Micro Business Lending

Credit Conditions

For the December 2017 quarter, there continued to a marginal easing in overall credit terms faced by micro-businesses which was evidenced by the index of **100.8** (see **Figure 9**). This marginal easing reflected the impact of reductions in interest rates and fees applicable to secured loans. All other credit terms were unchanged for the review quarter.

For the March 2018 quarter, credit conditions are expected to tighten for both secured and unsecured loans extended to micro-firms. This tightening reflects plans by some lenders to enhance loan monitoring requirements.

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 when compared with the September 2017 quarter as evidenced in a CSI of **100.2**. Lenders reported an increase in credit supply solely to the *Transport, Storage & Communication* sector.

For the March 2018 quarter, lenders reported that they expected to increase the supply of local currency credit to micro businesses. Lenders reported that additional credit will be made available to finance developments in the *Electricity, Gas & Water, Tourism* and *Distribution* sectors.

Credit Demand

Credit demand by micro businesses increased for the December 2017 quarter relative to the September 2017 quarter. The CDI increased to **101.8** from **98.2** in the previous quarter. This increase reflected strong demand for local currency loans from *Agriculture & Fishing, Manufacturing and Transport, Storage & Communication.* There was reduced demand for foreign currency loans for the review period.

For the March 2018 quarter, lenders reported that they expected an acceleration in the pace of demand for local currency loans relative to the September 2017 quarter. The demand for foreign currency credit by micro firms is expected to be muted.

Price of Credit

For the review period, the **indicative** average lending rate on new local currency loans to micro businesses increased by **750 bps** to **27.32 per**

cent (see **Table 2**). However, much of this increase reflected the impact of a new entrant in this segment of the loan market during the December 2017 quarter. Excluding the impact of this entrant, the weighted average lending rate on new local currency loans was largely unchanged.

In contrast, interest rates on foreign currency loans to micro businesses, declined by **322 bps** to **7.75 per cent** for the quarter. This reduction was observed in interest rates on loans to the *Entertainment* sector.

For the March 2018 quarter, lenders reported that they expected to increase the average interest rates on local currency loans and reduce the average rates on foreign currency loans to micro businesses.

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

Micro Firms	Local Currency				Foreign Currency			
	September 2017 Survey		December 2017 Survey		September 2017 Survey		December 2017 Survey	
	Sep-17	Dec-17*	Dec-17	Mar-18*	Sep-17	Dec-17*	Dec-17	Mar-18*
Agriculture & Fishing	17.69	25.01	25.93	26.46	n.a	10.52	n.a	7.50
Construction & Land Development	16.93	25.09	26.18	26.53	n.a	10.52	n.a	7.50
Distribution	25.88	25.09	30.76	30.82	n.a	10.52	n.a	7.50
Electricity Gas & Water	19.43	25.09	25.42	26.53	n.a	10.52	n.a	7.50
Entertainment	17.41	25.09	26.80	26.53	10.43	10.52	7.50	7.50
Manufacturing	19.05	25.09	31.10	30.82	n.a	10.52	n.a	7.50
Mining & Quarrying	21.65	25.09	31.10	26.53	n.a	10.52	n.a	7.50
Professional & Other Services	16.27	23.26	21.98	29.36	n.a	10.52	8.00	7.75
Tourism	19.43	25.09	25.42	26.53	11.50	10.52	n.a	7.50
Transport, Storage & Communication	24.49	23.26	28.47	29.36	n.a	10.52	n.a	7.50
Average Rate	**19.82**	**24.71**	**27.32**	**27.95**	**10.97**	**10.52**	**7.75**	**7.53**

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.*

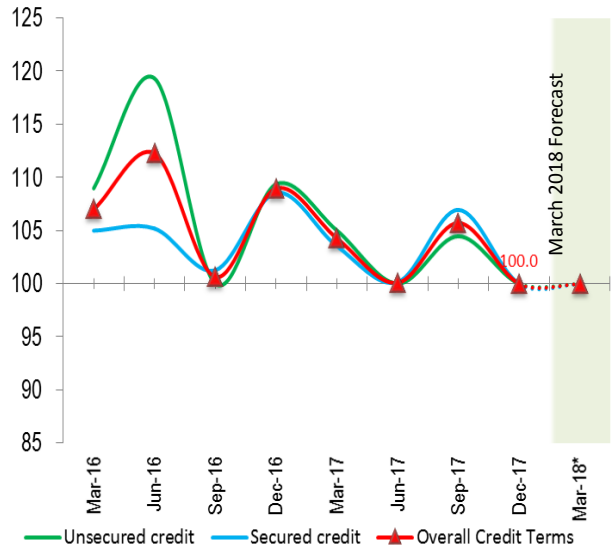
Small Business Lending

Credit Conditions

For the December 2017 quarter, the overall credit terms faced by small businesses was relatively unchanged in comparison to the previous quarter. The overall credit conditions index moderated to **100.0** from **105.7** in the previous quarter (see **Figure 10**).

For the March 2018 quarter, lenders reported that they do not plan to change credit terms offered to small businesses.

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 Supply

Credit allocated to small businesses as a share of total credit increased to **6.7 per cent** for the December 2017 quarter, relative to **6.4 per cent** in the previous quarter.

Consistent with the increase in the share, the supply of credit made available to small firms expanded during the quarter. The CSI for the review quarter increased to **101.6** from **99.9** in the previous quarter. This uptick in supply was evident in local currency loans for the Distribution sector and Professional & Other Services. In contrast, there was a reduction in foreign currency credit made available to the small firms during the review quarter.

For the March 2018 quarter, lenders reported that they do not plan to adjust credit supply to small businesses, as evidenced in the projected CSI of **100.0**.

Credit Demand

Overall demand for loans from small businesses, denominated in both local and foreign currency, contracted in the review quarter. In particular, the CDI for local currency loans declined to **96.2** from **106.3** in the previous quarter. However, there was increased demand for local currency loans from the *Agriculture, Transport, Storage & Communication,* and *Professional & Other Services* sectors. Similar to local currency loans, the CDI for foreign currency loans declined to **86.0** from **106.3**. Reduced demand in foreign currency loans emanated from the *Construction*, *Tourism, Distribution and Professional & Other* Services sectors.

Lenders cited *changes in government policies* as important factors that underpinned a fall-off in demand for the review quarter.

For the March 2018 quarter, lenders reported that they expected a considerable increase in demand for both local and foreign currency loans from small firms. This outlook for strong credit demand is hinged on lenders offering 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** average lending rate on new local currency loans to small businesses declined to **11.16 per cent** from **13.16 per cent**. This was, lower than the expected rate of **12.88 per cent** reported in the September 2017 survey (see **Table 3**). The reduction in the average local currency rates to small businesses reflected lower borrowing costs across all economic sectors except for the *Distribution* sector. Conversely, the weighted average interest rate on foreign currency denominated loans was increased by approximately **25 basis points** to **7.14 per cent,** which was observed in the Construction, Entertainment and Professional & Other sectors.

For the March 2018 quarter, lenders reported planned increases in interest rates on both new local and 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			
	September 2017 Survey		December 2017 Survey		September 2017 Survey		December 2017 Survey	
	Sep-17	Dec-17*	Dec-17	Mar-18*	Sep-17	Dec-17*	Dec-17	Mar-18*
Agriculture & Fishing	13.40	12.60	10.01	13.00	6.70	7.94	6.63	7.73
Construction & Land Development	12.58	13.52	12.04	13.14	6.70	8.10	7.59	7.81
Distribution	12.51	13.09	12.76	12.72	6.70	8.27	6.63	7.65
Electricity Gas & Water	13.10	12.60	9.18	12.86	n.a	8.27	n.a	7.81
Entertainment	13.05	12.89	12.42	13.14	7.63	8.27	7.68	7.73
Manufacturing	14.04	12.60	9.71	12.63	6.70	8.27	6.63	8.06
Mining & Quarrying	13.61	13.16	12.40	13.18	6.70	7.94	6.63	7.90
Professional & Other Services	12.96	13.17	11.55	12.75	6.26	8.44	8.16	7.85
Tourism	13.10	12.53	9.18	12.93	7.90	8.10	7.72	7.90
Transport, Storage & Communication	13.30	12.60	12.34	12.86	6.70	8.27	6.63	7.81
Average Rate	**13.16**	**12.88**	**11.16**	**12.92**	**6.89**	**8.19**	**7.14**	**7.83**

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 December 2017 quarter tightened. This tightening was reflected in increases in interest rates and fees applied to secured loans. Credit terms for unsecured loans was unchanged during the review period. In this context, the overall index of credit conditions to medium-sized businesses declined to **99.8 for** the quarter from **108.0** in the previous quarter (see **Figure 11**).

For the March 2018 quarter, lenders reported that they expect to ease credit terms applied to secured loans. This projected easing would be reflected in reduced interest rates applicable to secured loans. However, with respect to unsecured loans, lenders reported that they plan to maintain credit terms.

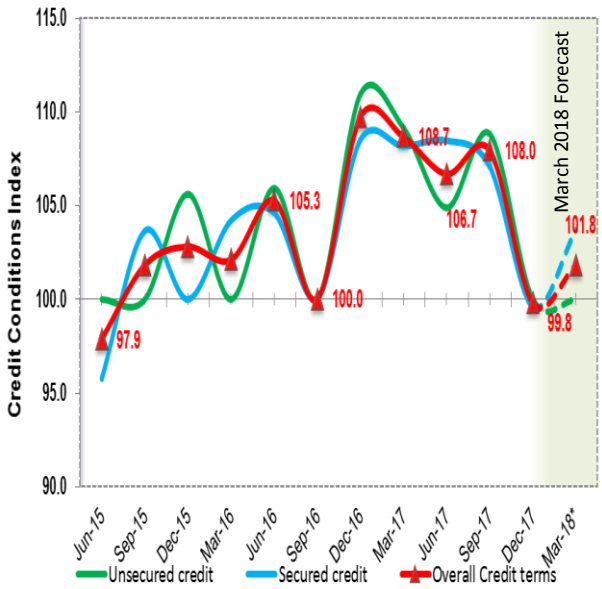
Credit Supply

Growth in credit supply to medium-sized firms expanded at a slower rate in the December 2017 quarter compared with the pace of expansion in the September 2017 quarter. The CSI fell to **103.7** for the review quarter compared with 108.7 in the previous quarter. This slowdown in the growth rate in supply reflected a contraction supply of local currency loans, particularly to the *Construction & Land Development* sector. However, the impact of this contraction was partly offset by an increase in the supply of foreign currency loans to *Entertainment* and *Distribution* sectors. In this context, there was a slight reduction in the proportion of credit allocated to medium-sized businesses to **52.8 per cent** from **53.4 per cent** in the previous quarter.

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.

For the March 2018 quarter, the CSI for medium-sized businesses is expected to be broadly unchanged.

Figure 11: Credit Conditions for Medium-sized Businesses



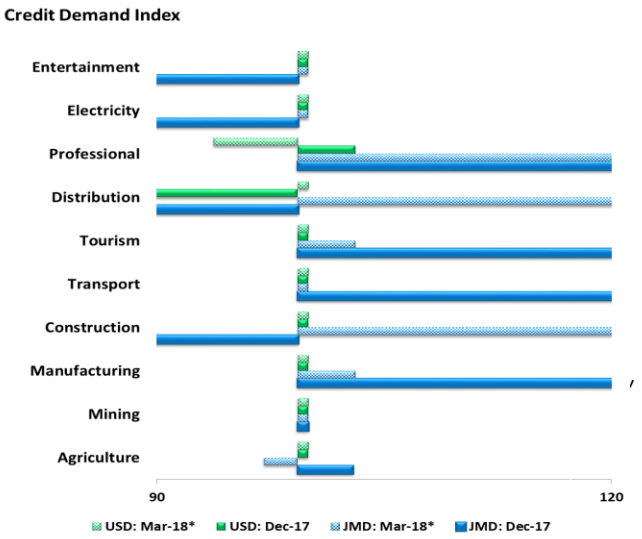
Credit Demand

There was a reduction in the demand for loans by medium-sized firms in the review quarter. The CDI declined to **96.27** from **105.3** in the previous quarter as there was reduced demand for both local and foreign currency loans. This lower demand for local currency loans was largely evidenced in the *Construction, Distribution, Electricity and Entertainment* sectors. Of note, the fall in the demand for foreign currency loans

was evidenced in the *Distribution* sector while loan demand for most other sectors was unchanged (see **Figure 12**).

For the March 2018 quarter, lenders reported that they expect the demand for local currency loans from medium sized firms to increase appreciably while the demand for foreign currency loans is expected to decline.

Figure 12: Credit Demanded by Medium-sized Businesses



There was an increase in the indicative average lending rate on new local and foreign currency loans to medium-sized businesses for the review period. The average rate on local currency loans increased to **9.45 per cent** from **9.32 per cent** in the previous quarter. The increase in the average rate was evidenced across most economic sectors. Conversely, the average rate on foreign currency loans declined by **16 bps** to **6.70 per cent** for the review quarter. Lower rates were evidenced across most economic sectors (see **Table 4**).

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

Medium Firms	Local Currency				Foreign Currency			
	September2017 Survey		December2017 Survey		September2017 Survey		December2017 Survey	
	Sep-17	Dec-17*	Dec-17	Mar-18*	Sep-17	Dec-17*	Dec-17	Mar-18*
Agriculture & Fishing	8.63	9.75	9.33	9.51	6.70	7.82	6.63	7.02
Construction & Land Development	10.00	9.92	9.53	9.61	6.70	7.62	6.97	7.02
Distribution	9.37	9.31	9.53	10.15	7.87	8.27	7.03	7.51
Electricity Gas & Water	9.00	9.30	9.11	9.51	7.21	7.98	6.63	6.92
Entertainment	8.83	9.30	8.96	9.61	6.70	8.02	6.63	7.12
Manufacturing	9.43	9.38	9.17	9.51	6.70	7.62	6.63	6.92
Mining & Quarrying	10.15	10.24	10.24	10.19	6.70	7.82	6.63	7.07
Professional & Other Services	9.58	9.75	9.58	9.51	6.63	8.02	6.63	7.22
Tourism	9.13	9.23	9.33	9.51	6.70	8.02	6.63	7.43
Transport, Storage & Communication	9.06	9.30	9.77	9.41	6.71	7.67	6.66	6.52
Average Rate	**9.32**	**9.55**	**9.45**	**9.66**	**6.86**	**7.89**	**6.70**	**7.07**

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

For the March 2018 quarter, the average interest rate on new local currency credit to medium-sized firms is expected to increase by **21 bps** to **9.66 per cent**. Higher rates are expected across most sectors. Similarly, the average interest rate on foreign currency credit is expected to increase by **37 bps** to **7.07 per cent** with higher rates expected on loans to all sectors with the exception of Transport, Storage & Communication.

Large Corporations and Commercial Lending

Credit Conditions

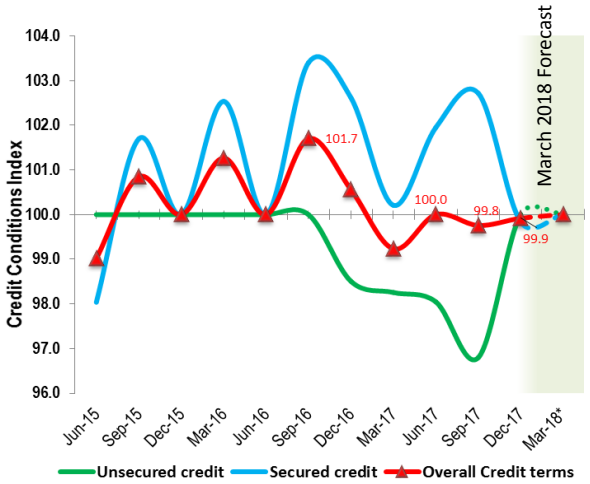
Lending conditions to large businesses tightened in the review quarter. The overall credit terms index declined to **99.9** from **100.3** and was associated with an increase in interest rates applied to secured loans (see **Figure 13**). Credit terms applied to unsecured loans to large businesses were unchanged.

For the March 2018 quarter, lenders reported that they do not plan to change credit conditions. As such the index is anticipated to be at **100.0**.

Credit Supply

Despite the overall tightening in credit terms faced by large businesses, credit made available to large businesses expanded at a faster pace when compared with the pace of expansion in the previous quarter. This was reflected in a CSI of **114.8** for the quarter, relative to **111.3** in the previous quarter (see **Figure 14**). The expansion reflected growth in the supply of both local and foreign currency loans, to most 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.

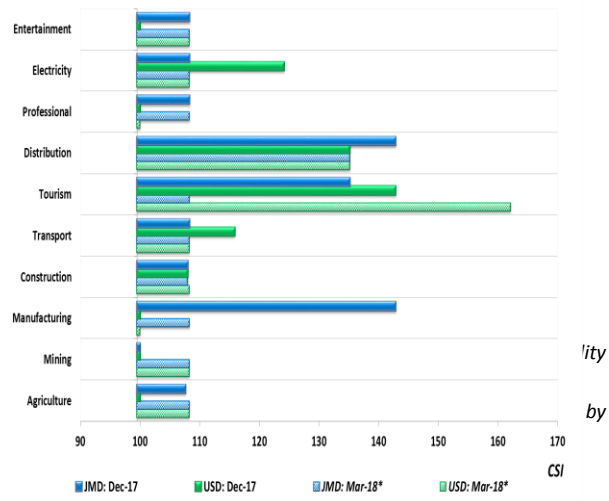
For the March 2018 quarter, lenders plan to augment credit availability to large businesses but at a slower pace than in the December 2017 quarter. This is evidenced in a moderation in the CSI to **112.8 from 114.8** in the review quarter which reflects an anticipated slowdown in the pace of growth in the supply of local currency loans as a pick-up in the pace of expansion in foreign currency loans is anticipated.

Credit Demand

There was a pick-up in the growth rate of demand for credit from large businesses in the December 2017 quarter as indicated by an increase in the CDI to **107.3** from **106.3**. This increased demand was reflected in a faster rate of growth for foreign currency loans as the demand for local currency loans was relatively unchanged. The pick-up in demand for foreign currency loans stemmed mainly from the *Construction and Tourism* sectors (see

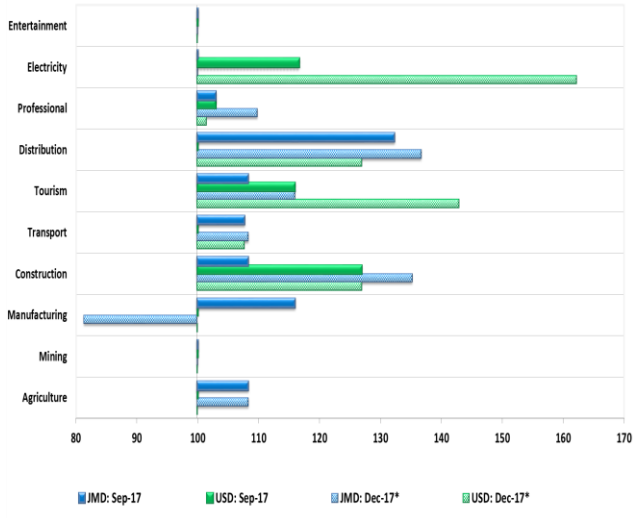
Figure 15). Lenders highlighted that important factors that influence credit demand from large businesses continued to be *changes in business activities, lower interest rates* and reductions in *macroeconomic risks*, as well as *developments in one or more economic sectors.*

Figure 14: Availability of Credit to Large Businesses



For the March 2018 quarter, lenders reported that they expect faster growth in the demand for credit by large firms relative to the expansion which occurred in the December 2017 quarter. This expectation is underpinned by the anticipated growth in both local and foreign currency demand, most notably from the *Tourism, Transport, Storage & Communication, 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 **14 bps** to **8.24 per cent**. Similarly, foreign currency rates were reduced by **32 bps** to **6.06 per cent** (see **Table 5**). The lower rates on local and foreign currency loans were evident across most economic sectors.

For the March 2018 quarter, lenders reported that they plan to effect increases in interest rates for both local and foreign currency new loans. The anticipated rate increases are expected across most sectors.

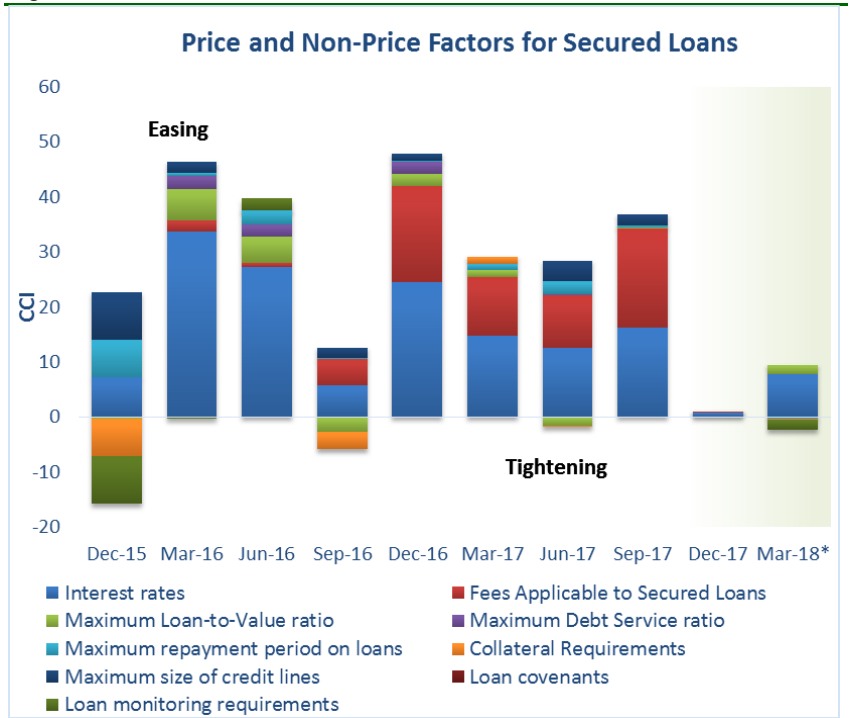
Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses

Large Firms	Local Currency				Foreign Currency			
	September 2017 Survey		December 2017 Survey		September 2017 Survey		December 2017 Survey	
	Sep-17	Dec-17*	Dec-17	Mar-18*	Sep-17	Dec-17*	Dec-17	Mar-18*
Agriculture & Fishing	7.83	7.80	8.11	8.33	6.20	6.78	6.13	6.84
Construction & Land Development	9.15	8.96	8.71	9.27	6.37	7.42	6.13	6.88
Distribution	8.83	8.67	7.67	8.47	6.02	7.32	6.07	6.83
Electricity Gas & Water	8.25	7.81	8.96	8.33	7.32	7.41	5.59	6.99
Entertainment	8.50	8.38	8.11	9.08	6.37	7.53	6.13	7.09
Manufacturing	8.75	7.90	7.78	8.56	5.82	6.63	5.70	6.84
Mining & Quarrying	7.83	7.50	8.11	8.58	6.37	6.90	6.13	6.84
Professional & Other Services	8.53	7.88	8.78	8.58	6.70	7.32	6.13	7.28
Tourism	7.94	8.00	8.02	8.57	6.24	6.62	6.52	6.83
Transport, Storage & Communication	8.19	8.40	8.15	8.92	6.37	7.52	6.13	7.08
Average Rate	**8.38**	**8.13**	**8.24**	**8.67**	**6.38**	**7.14**	**6.06**	**6.95**

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

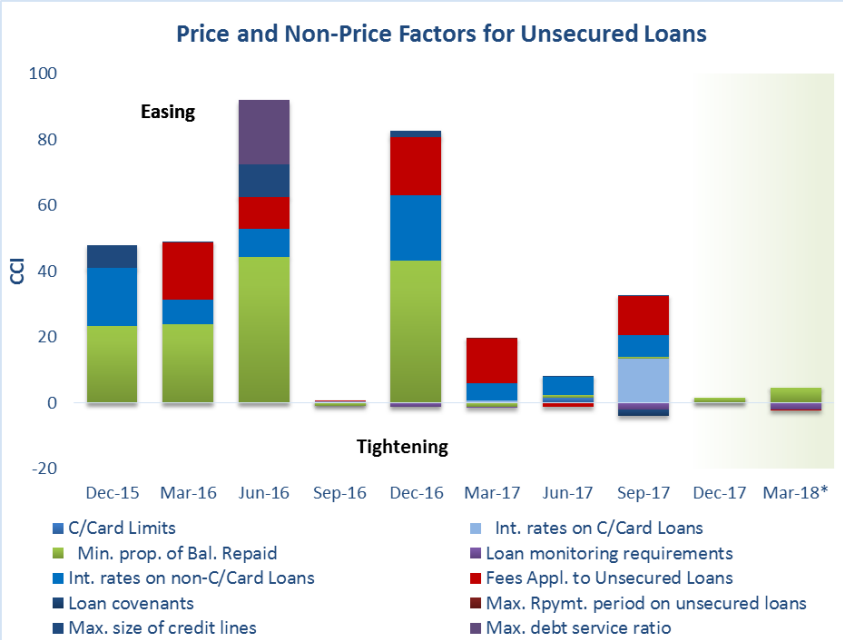
Appendix A: Overall Credit Market Conditions

Figure 17: 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 16: 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.*

Figure 18: Drivers of the Supply of Credit

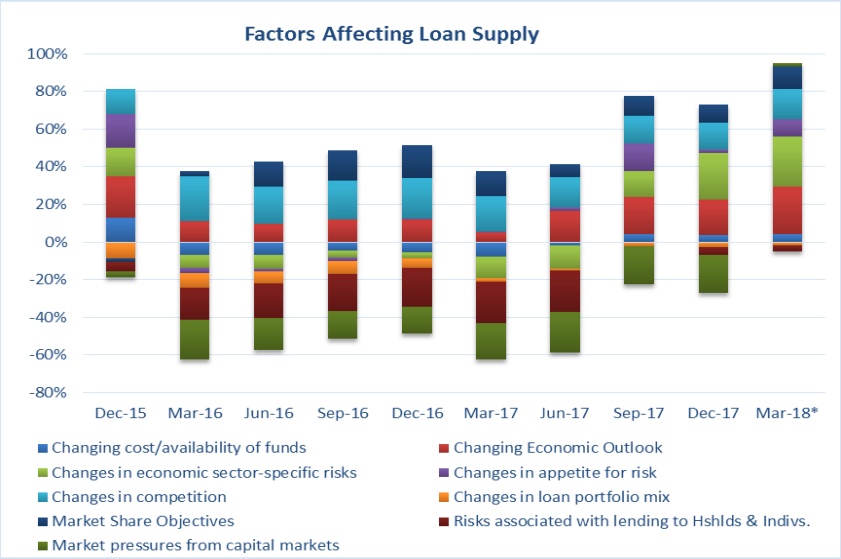
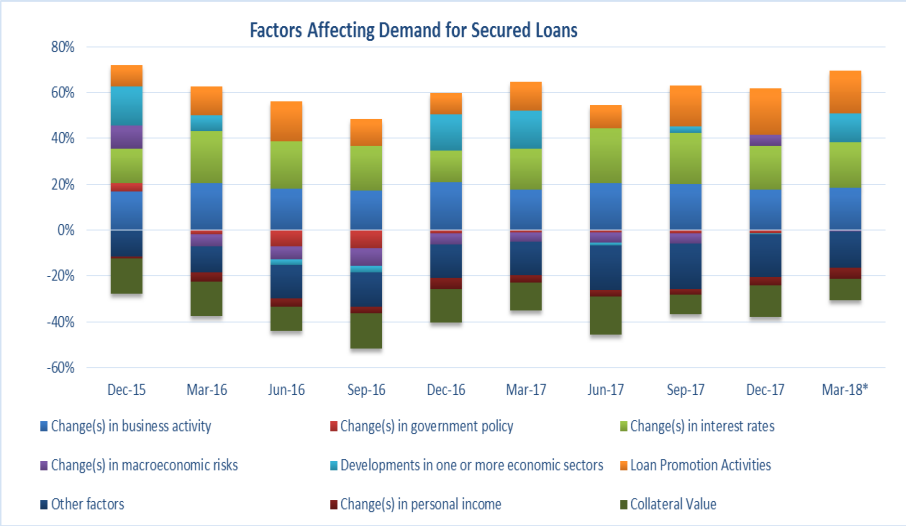
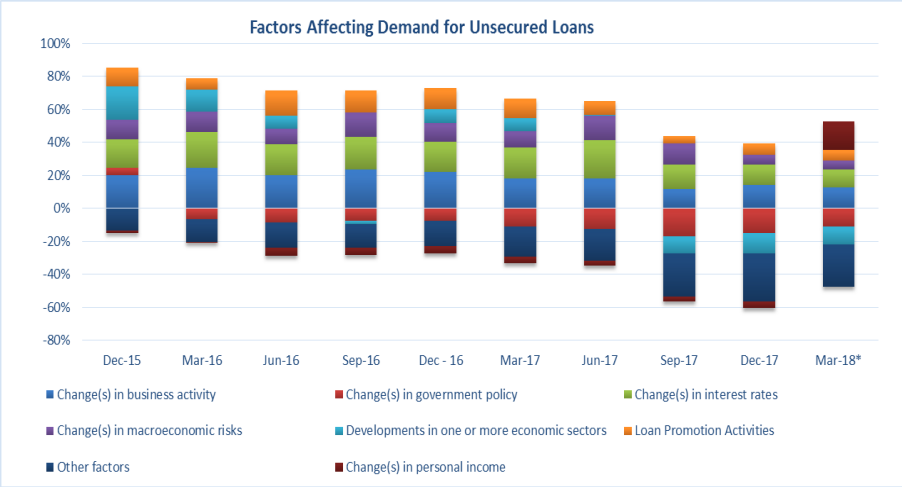


Figure 19: Drivers of the Demand of Credit





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.

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

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

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

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

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

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).