

Quarterly Credit Conditions Survey Report



June 2014 Quarter

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Department
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Background

In order to meet its core mandate to maintain monetary and financial stability, the Bank of Jamaica (BOJ) seeks to appraise a wide range of data on credit market conditions. In this regard, the BOJ's Credit Conditions Survey was designed to broaden 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 was designed to elicit primarily qualitative information on changes in the demand and supply of credit to businesses and individuals as well as the main factors underpinning these changes, including various price and non-price terms of lending 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. The interest rates presented in this report are based on the average interest rates reported by the respondents of the survey.

This report presents the results of the June 2014 survey which was conducted between 15 July 2014 and 14 August 2014.

Other available survey reports:

Bank of Jamaica Quarterly Credit Conditions Survey Report: December 2013 Quarter

Bank of Jamaica Quarterly Credit Conditions Survey Report: March 2014 Quarter

Surveys Completed by Each Institution

| | No. of survey recipients | Number of Surveys Completed by Each Institution | | | | |
|--------------------|--------------------------|---|------------------|------------------|-------------------------|--|
| | | Personal Loans | Micro Businesses | Small Businesses | Medium-sized Businesses | Large, Corporate & Commercial Businesses |
| Commercial Banks | 7 | 7 | 4 | 6 | 5 | 6 |
| Building Societies | 3 | 3 | 0 | 0 | 0 | 0 |
| Near Banks | 2 | 2 | 1 | 1 | 2 | 2 |
| Credit Unions | 9 | 8 | 5 | 2 | 3 | 1 |
| Total | 21 | 20 | 10 | 9 | 10 | 9 |



Overview

The results of the survey for the June 2014 quarter indicated an increase in credit supplied through various local and foreign currency lending facilities relative to the March 2014 quarter. Both businesses and households benefitted from the increase in credit supply. (see **Table 1**).

businesses, primarily from medium and small businesses to large businesses. Concurrently, the allocation of credit to micro firms has been constant at **1.0%** of total business loans since the December 2013 survey.

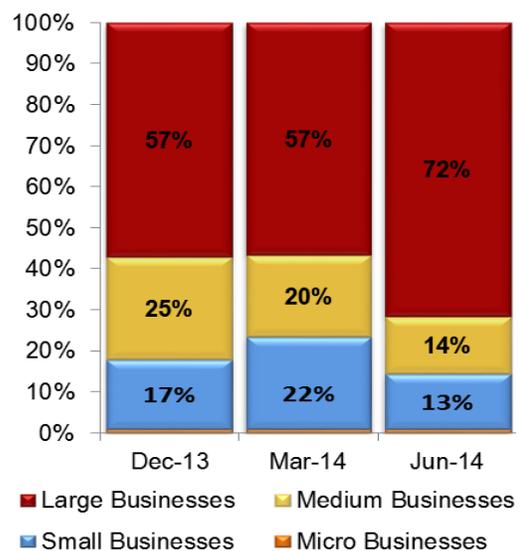
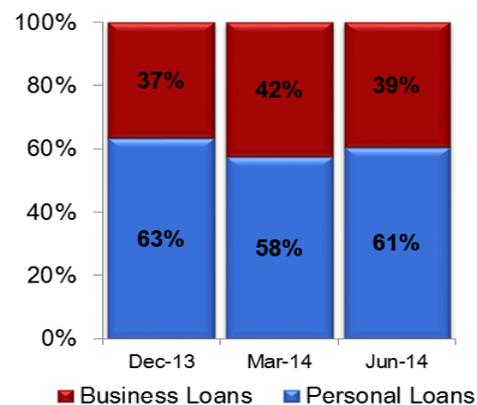
Table 1-Credit Demand and Supply Indices

| | December 2013 Survey | | March 2014 Survey | | June 2014 Survey | |
|----------------------------------|----------------------|-------------|-------------------|--------------|------------------|--|
| | Dec-14 | Mar-14 | June-14* | Jun-14 | Sep-14* | |
| Credit Supply Index (CSI) | 100.4 | 106 | 102.1 | 104.6 | 106.7 | |
| Credit to businesses | 102.3 | 104.6 | 102.1 | 104.1 | 107.4 | |
| Personal credit | 92.9 | 108.8 | 112.3 | 105.7 | 105.4 | |
| Credit in Jamaica Dollar | n.a | 108.9 | 103.4 | 105.7 | 111.7 | |
| Credit in U.S dollar | n.a | 100.3 | 100.7 | 102.5 | 103.0 | |
| Credit Demand Index (CDI) | 98.1 | 98.7 | 103.5 | 106.2 | 107.6 | |
| Demand by businesses | 99.1 | 97.9 | 98.9 | 99.8 | 101.9 | |
| Demand by individuals | 93.9 | 100.1 | 112.7 | 119.02 | 119.1 | |
| Credit in Jamaica Dollar | 108.6 | 107.0 | 104 | 104.4 | 104.2 | |
| Credit in U.S dollar | 76.9 | 88.9 | 93.9 | 95.2 | 99.5 | |

1. The asterisks (*) represent forward looking expectations provided by the respondents.
2. Indices above 100 indicate increases in demand or supply while indices below 100 indicate reductions in demand or supply.

However, in the review quarter, a larger proportion of the credit provision was allocated for personal lending relative to the previous quarter (see **Figure 1**). This represented a redistribution of credit supplied in the March quarter relative to the December quarter. There was also a redistribution of the credit allocated to

Figure 1-Distribution of Private Sector Credit¹



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



Overall Availability of Credit

For the review quarter, the credit supply index (CSI) indicated an increase in the quantity of credit made available to the private sector (see **Table 1**). Credit expansion for the review quarter reflected a greater pool of local and foreign currency loans for businesses and households to access.

Despite the expansion in credit supply for the review quarter, some lenders reported that liquidity challenges adversely affected interest rates as well as their ability to respond to credit requests. Additionally, some creditors reported that there were some specific risk factors associated with various market segments that inhibited their willingness to increase credit provision in those areas. Specifically, cash flow management issues facing small and medium-sized businesses increased the credit risks associated with these businesses. These issues occurred in a context where the firms have found it to be increasingly difficult to collect on their receivables.

Overall Demand for Credit

The Credit Demand Index (CDI) indicated that there was a stronger than anticipated increase in the demand for loans during the review quarter. This was the first reported increase in demand since the December 2013 survey (see **Table 1**). The upsurge in the overall demand for the quarter mainly reflected strong requests for local currency personal loans. In contrast, there was a decline in businesses loans, particularly those denominated in foreign currency.

Notably, the general increase in personal loans was reflected in all categories covered by the survey. In particular, there was a strong demand for *credit cards* and *loans for debt consolidation*.

The decline in demand for foreign currency loans was reflected in all sectors, except *Mining & Quarrying*. Lenders continued to cite movements in the exchange rates as the primary factor behind the decline in demand for this facility. The survey results indicated that the uptick in demand for local currency business loans emanated primarily from the *Distribution, Professional & Other services* and *Construction & Land Development* sectors. There was contraction in demand for loans from the *Manufacturing, Transport, Storage & Communication* and *Entertainment* sectors.

Loan Pricing

Interest rates on new local currency loans broadly increased for the June 2014 quarter relative to the March 2014 quarter (see **Table 2**). This increase occurred in the context of continued strong demand for local currency loans. Despite net injection of liquidity into the system in the review quarter, lenders continued to attribute the increase in rates to tight liquidity conditions which contributed to a reduction in the pool of funds available for lending. Additionally, despite a decline in the demand for refinancing of foreign currency loans relative to the previous quarter, the demand for local currency loans for this purpose remained strong and reportedly contributed to the increase in interest rates.

In this regard, average rates on local currency business loans increased by **1.13 percentage points (pps)** to **16.52%** for the June quarter. Rates on local currency personal loans declined



from **20.69%** to **19.25%** for the quarter. Notwithstanding the weak demand for foreign currency loans, lenders reported a rise of **1.08 pps** in the interest rates on foreign currency business loans.

Table 2- Weighted Average Lending Rates on Local and Foreign Currency Loans

| | Dec-13 | March 2014 Survey | | June 2014 Survey | |
|-------------------------------|--------|-------------------|----------|------------------|---------|
| | | Mar-14 | June-14* | Jun-14 | Sep-14* |
| Local Currency Loans | | | | | |
| Business loans | 13.20 | 15.39 | 17.13 | 16.52 | 16.66 |
| Personal loans | 20.60 | 20.69 | 20.78 | 19.25 | 18.86 |
| Prime rate | 18.60 | 16.90 | 16.93 | 17.03 | 17.22 |
| Foreign Currency Loans | | | | | |
| Business loans | 8.50 | 7.94 | 9.57 | 9.02 | 9.74 |
| Prime Rate | 7.70 | 9.06 | 9.16 | 9.42 | 9.45 |

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

Outlook for the September 2014 quarter

For the September 2014 quarter, lenders anticipated a stronger increase in the CSI for local and foreign currency business and personal loans (see **Table 1**). In the main, the expectation for a greater supply of credit was attributed to improvements in lenders' perceptions of economic conditions for the quarter and positive changes for some existing sector-specific risks. Additionally, some lenders indicated that they would be intensifying efforts to target some segments of the market based on perceived

opportunities in those areas. In particular, some lenders reported increased competition for loans from the *Large and Corporate businesses* market segment. This has contributed to lenders increasing efforts to solidify their positions in the market. Additionally, given the importance of small businesses within the economy, some lenders indicated expectations for increased credit provision for this segment.

With respect to the demand for credit, the CDI indicated expectations for an increase in demand for the September quarter (see **Table 1**). This should be reflected in both businesses' and households' demand for local currency credit. Increased demand for local currency business loans is expected to emanate from all sectors except *Mining & Quarrying* and *Electricity, Gas & Water*. On the other hand, the demand for foreign currency loans is expected to continue to decline in the quarter for all sectors except *Tourism* and *Distribution*.

Lenders anticipate an increase in personal loans across all loan categories covered by the survey. In particular, higher demand is expected for *credit cards, mortgages* and *other loans collateralized by real estate*. In addition, a high demand for education loan is expected to drive demand for personal loans in the September quarter.

Interest rates on local currency business loans are expected to increase further, while rates on personal loans are expected to decline (see **Table 2**). Despite the outlook for lower demand for foreign currency loans, interest rates on these loans are expected to increase in the September quarter.

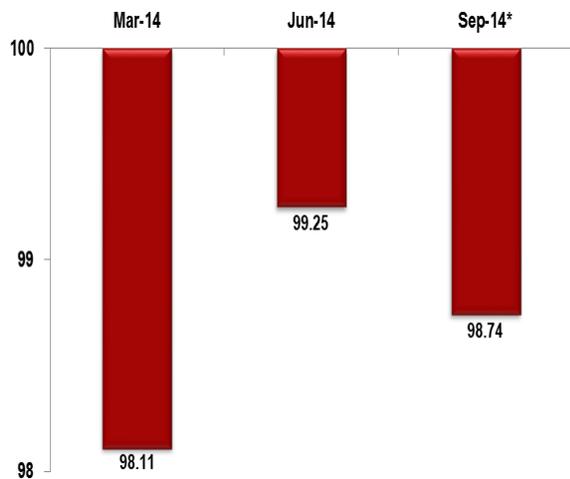


Credit Market Conditions

The composite index for credit market conditions further improved to **99.25** in the June 2014 quarter, from **98.11** for the March 2014 quarter (see **Figure 2**). The improvement in the index signals a slower pace of tightening in lending conditions. This was primarily due to an easing of credit policies applied to secured loans, particularly for the Micro and Small business segments of the market.

(LTV) and debt service coverage (DSC) ratios for secured loans (see **Figure 3**). Additionally, lenders reportedly increased credit card limits and the size of credit lines as well as extended repayment periods for secured loans (see **Figure 4**).

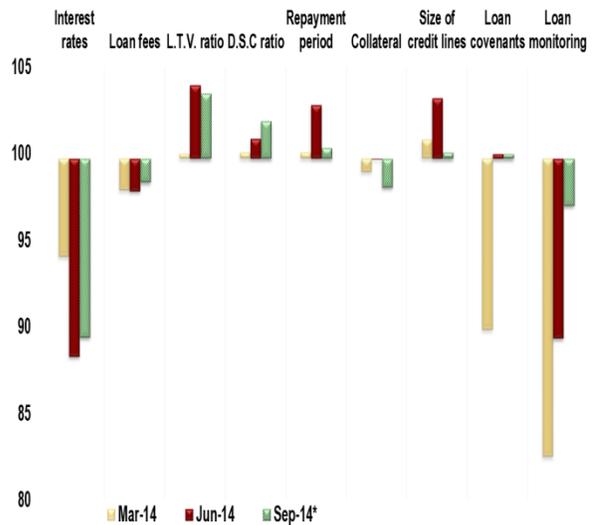
Figure 2-Credit Market Conditions Index



1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. Indices for the September quarter are computed based on forward looking expectations provided by respondents.

In particular, improved lending conditions for the review quarter were due to higher loan-to-value

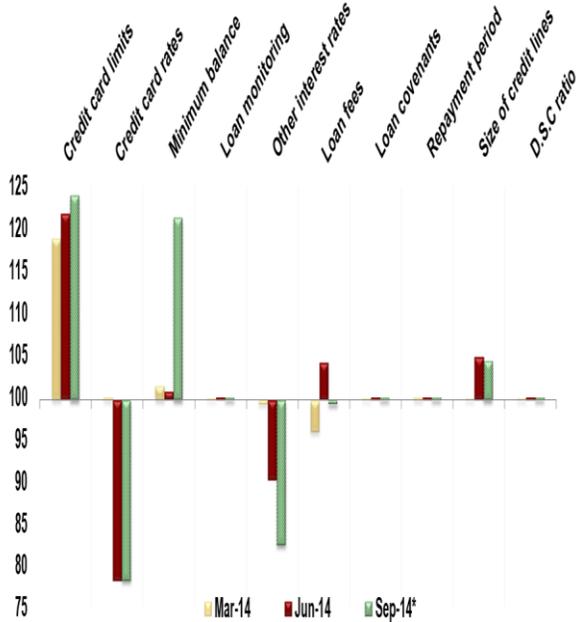
Figure 3-Credit Conditions for Secured Loans



1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. Indices for the September quarter are computed based on forward looking expectations provided by respondents.



Figure 4-Credit Conditions for Unsecured Loans



1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. Indices for the September quarter are computed based on forward looking expectations provided by respondents.

However, the impact of these improvements was offset by higher interest rates on secured loans, credit cards and other unsecured loans. Lenders also reported that they had increased fees on secured loans in addition to implementing stricter loan monitoring requirements for secured and unsecured loans. Some lenders have reported that tighter credit conditions for the review quarter was necessitated by increased instances of late payments and a stronger need for loan monitoring. Additionally, some borrowers in the personal loan market were adversely affected by reports from the credit bureaus.

Lenders anticipate a worsening of credit conditions for the September 2014 quarter, as

reflected in the index of **98.74** for the period (see **Figure 2**). This expected deterioration in credit conditions is driven by tighter credit policies for unsecured loans as lenders continue to anticipate higher interest rates on secured and unsecured loans as well as increases in the rates for credit cards. In addition, lenders reported that they expect to implement more stringent loan monitoring requirements. These conditions are expected to have an impact on all segments of the market. The impact of these tighter credit conditions in the September 2014 quarter are, however, expected to be tempered by higher LTV and DSC ratios, extended repayment periods and increases in the maximum size of credit lines accessible by businesses. Lenders have been reporting higher LTV and DSC ratios since the March 2014 survey, which signals a willingness to undertake riskier loans in order to drive credit demand.



Personal Lending

Credit Conditions in the Personal Market

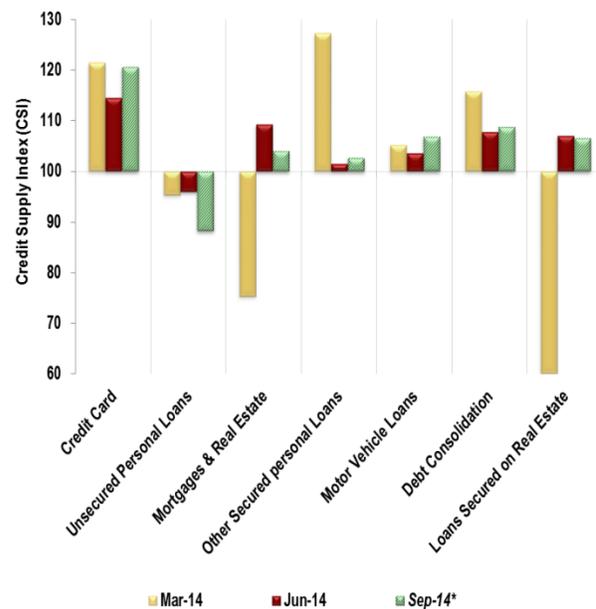
Credit conditions in the personal loan market deteriorated for the June 2014 quarter relative to the March 2014 quarter. Tighter credit conditions for personal loans were mainly due to higher interest rates and fees on secured and unsecured loans. The impact of these factors was, however, tempered by higher LTV and DSC ratios, extended loan repayment periods and higher credit card limits. Lending conditions are expected to deteriorate further in the September 2014 quarter due to an anticipated tightening of credit policy relating to unsecured loans. Specifically, lenders anticipate an increase in interest rates on credit cards and other unsecured lending. Higher interest rates on secured loans and an increase in the minimum balance required for credit card payments are also expected to contribute to the tightening of credit conditions in the personal lending market.

Availability of Credit for Personal Lending

The availability of credit to individuals increased moderately in the June 2014 quarter relative to the March 2014 quarter. However, this was a slower pace of increase relative to the preceding quarter (See **Table 1**). This increased supply of credit for personal lending was reflected in all categories covered by the survey, except *unsecured personal loans* (see **Figure 5**). In particular, lenders reported a strong increase in the pool of funds made available for *credit card lending*.

The increased supply of personal loans was supported by higher approval rates on loan applications for *mortgages loans, credit cards, debt consolidation* and *motor vehicles* (see **Figure 6**). Of note, despite the decline in credit supplied for unsecured personal loans, lenders reported a strong increase in the approval rate for these loans in the review quarter.

Figure 5-Availability of Credit for Personal Lending



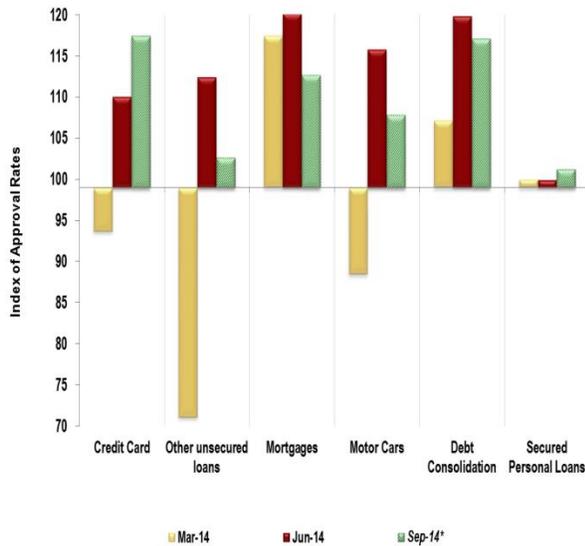
1. CSI less than 100 indicates a decline in credit supply while a CSI greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Lenders continued to cite changes in competition as well as the cost and availability of funds as the most significant drivers of the expansion in the quantity of funds supplied to households. Other relevant factors that contributed to the expansion in credit supply for the June quarter



were improvements in economic outlook and market share objectives.

Figure 6-Approval rates for Personal Loans



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

Outlook for Availability of Credit

For the September 2014 quarter, lenders anticipate further increases in the supply of personal loans (See **Table 1**). Similar to the June quarter, the expansion in credit supply is anticipated to be reflected in all categories of loans covered by the survey, with the exception of unsecured loans. The availability of credit for unsecured loans is expected to decline further in the September quarter (see **Figure 5**). The expectation for greater supply of credit in the September was supported by the outlook for increases approval rates on all categories of loans (see **Figure 6**).

Similar to the survey results for the June quarter, lenders anticipate that, for the September quarter, competition, the cost and availability of funds and changing market share objectives will be the most significant drivers of expansion in the quantity of funds supplied to households. To a lesser extent, improvements in the economic outlook and changes in lenders’ portfolio mixes were also mentioned as drivers of the expected increase in credit supply.

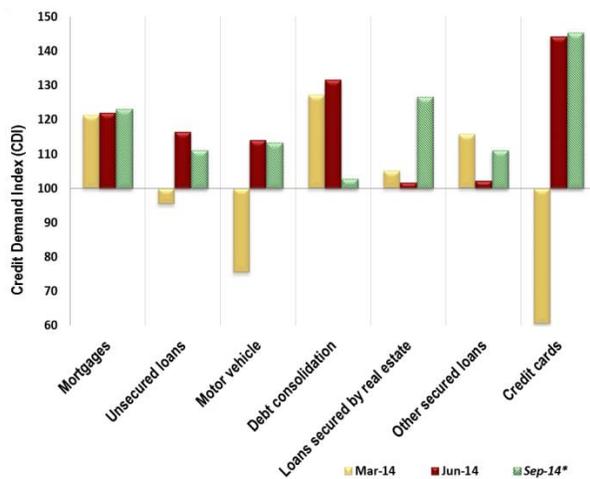
Demand for Personal Lending

There was a significant increase in the demand for personal loans in the June 2014 quarter relative to the March 2014 quarter. In this context, the CDI for the June quarter increased to **119.0** from **100.1** for the March 2014 quarter (see **Table 1**). This suggests a steady increase in the demand for personal credit, as the CDI surpassed lenders’ expectations for the quarter.

The performance of credit demand for the review quarter primarily reflected a strong increase in demand for *credit cards*, *debt consolidation loans* and *mortgages*. Notably, demand for personal credit in the June quarter increased across all loan categories (see **Figure 7**).



Figure 7-Demand for Personal Loans



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

Lenders highlighted changes in interest rates, loan promotion activities and personal income as the most significant drivers of demand for secured personal loans during the review quarter. Meanwhile, demand for unsecured credit was most affected by interest rate changes and improvements in macroeconomic risks. All other factors were deemed unimportant by respondents.

Outlook for Credit Demand

For the September 2014 quarter, a strong increase in credit demand is anticipated. In particular, the CDI is expected to increase to **119.19** (see **Table 1**). This increase is expected to be reflected in all loan categories (see **Figure 7**). In particular, lenders are anticipating strong demand for *credit cards, mortgages* and *loans for debt consolidation*, similar to the June 2014 quarter.

The anticipated increase in demand for secured loans is expected to be driven by changes in © Copyright 2013. Bank of Jamaica

interest rates, loan promotion activities and personal income. Of note, lenders expect interest rates to be the main factor that will determine the demand for unsecured loans. All other factors covered by the survey were reportedly unimportant.

Interest Rates on Personal Loans

The average lending rates on personal loans averaged **19.25%** for the June 2014 quarter, marginally lower than the expected average rate of **20.78%**, as well as the reported rates of **20.63%** and **20.69%** for the December 2013 and March 2014 quarters, respectively. The decline in rates for the quarter was reflected in all categories of loans covered by the survey, except unsecured loans (see **Table 3**). For the September 2014 quarter average rates on personal loans are expected to decline further to **18.86%**.

Table 3-Interest Rates on Personal Loans

| | Dec-13 | March 2014 Survey | | June 2014 Survey | |
|--------------------------------|--------|-------------------|---------|------------------|---------|
| | | Mar-14 | Jun-14* | Jun-14 | Sep-14* |
| Credit cards | 40.38 | 47.33 | 47.33 | 39.59 | 40.79 |
| Other unsecured personal loans | 18.57 | 20.48 | 20.69 | 23.33 | 19.77 |
| Motor Vehicle | n.a | 11.97 | 11.90 | 11.30 | 11.86 |
| Mortgages | 10.47 | 11.67 | 11.59 | 10.52 | 10.55 |
| Other secured personal loans | 13.11 | 12.01 | 12.37 | 11.49 | 11.32 |
| Average rates | 20.63 | 20.69 | 20.78 | 19.25 | 18.86 |

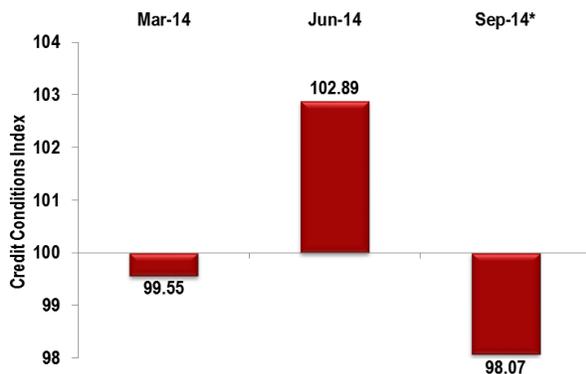
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Micro Business Lending

Credit Conditions for Micro Businesses

Lending conditions for micro businesses eased moderately for the June 2014 quarter relative to the March 2014 quarter (see **Figure 8**). This was primarily driven by a reduction in the fees applicable to micro business loans; increases in the size of unsecured credit lines accessible by micro businesses and extensions of the maximum repayment periods for loans. Micro businesses also benefited from an increase in the LTV ratio. Despite these improvements, lenders reportedly increased the loan monitoring requirements, which generally corresponds with increases in the LTV ratio given the higher risk level. For the September 2014 quarter, credit conditions are expected to tighten due to lenders increasing interest rates and loan monitoring requirements. However, micro businesses can expect to benefit from longer repayment periods on unsecured loans as well as an increase in the credit lines accessible to them.

Figure 8- Credit Conditions for Micro Businesses

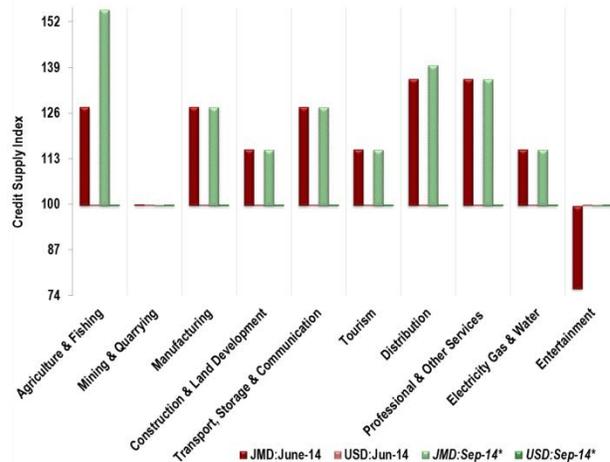


- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.
- The asterisks (*) represent forward looking expectations provided by the respondents.

Availability of Credit to Micro Businesses

There was a marginal increase in the CSI for micro enterprises for the June 2014 quarter relative to the March 2014 quarter. This suggests that there was a marginal increase in the quantity of credit made available for lending to these enterprises. The increase reflected a greater supply of local currency loans, as the amount available for foreign currency credit was unchanged. The increase in the supply of local currency credit was reflected in all sectors, except *Mining & Quarrying* and *Entertainment* (see **Figure 9**).

Figure 9-Availability of Credit to Micro Businesses



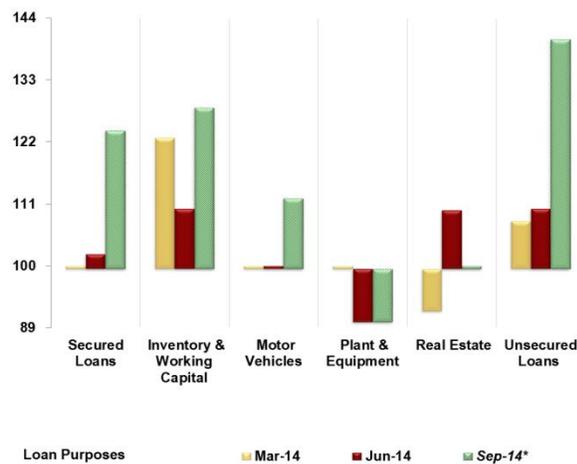
- An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
- The asterisks (*) represent forward looking expectations provided by the respondents.

The expansion in credit supplied to micro businesses was supported by higher approval rates, particularly on credit applications for *inventory and working capital financing, unsecured loans and commercial real estate.*



Notably, lenders reported a decline in the approval rate on loans for acquiring or repairing *plant & equipment* (see **Figure 10**). The expansion in credit availability for the June 2014 quarter was reported to be driven by improvements in economic outlook, changes in the risks associated with lending to micro businesses and lenders' appetite for risks, as well as in the cost and availability of loanable funds (see **Figure 11**)².

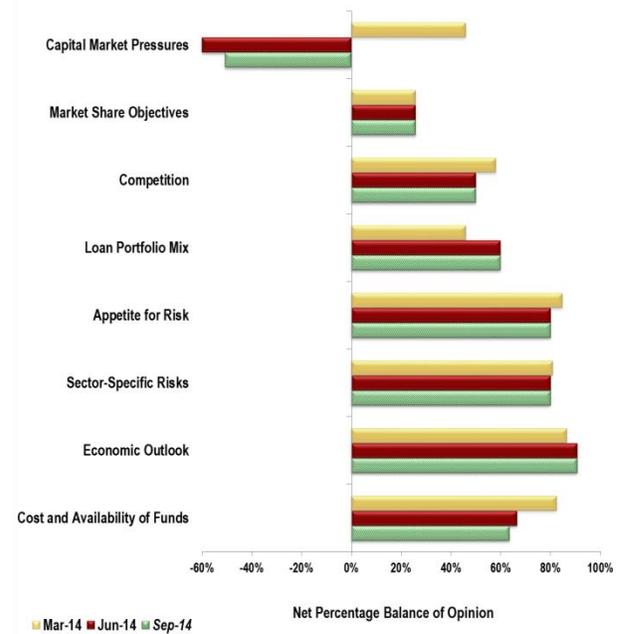
Figure 10-Approval Rates on Loan Applications



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

² Respondents were asked to identify the factors that were instrumental in driving credit supply. For each factor, responses ranged from "Very Important" to "Not Important". Graphical displays of these responses show NBOPs ranging from -100% to 100%. A positive NBOP for a supply or demand driver suggests that most respondents expressed that the driver was an important contributor to the performance of demand or supply of credit in the respective quarter.

Figure 11-Drivers of Credit Availability



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

Outlook for Credit Availability

For the September 2014 quarter, lenders anticipate a stronger increase in the amount of Jamaica Dollar credit to be made available to micro businesses in all sectors, except *Entertainment* and *Mining & Quarrying*, while no change is expected for foreign currency loans (see **Figure 9**). Lenders reported that they expect an increase in approval rates for all categories of loans covered by the survey, except *plant & equipment* (see **Figure 10**). Similar to the June quarter, lenders reported that the anticipated expansion in credit availability will result from further improvements in the economic outlook; changes in the risks associated with lending to micro businesses, lenders' appetite for risks and



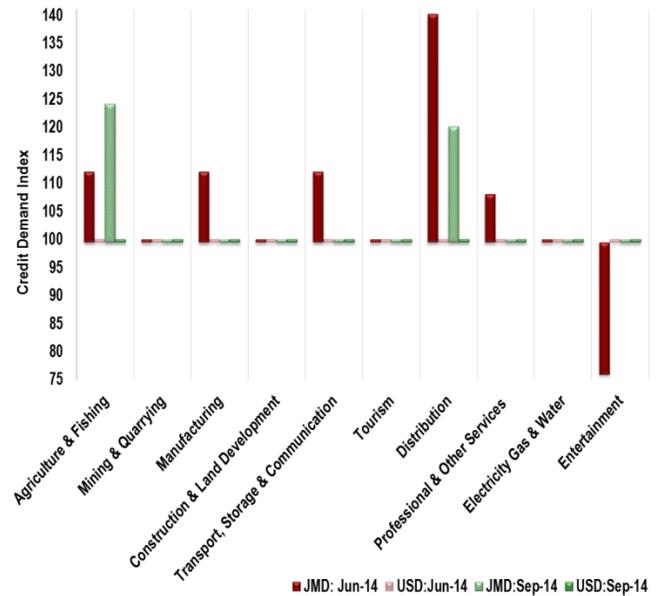
in the cost and availability of loanable funds (see **Figure 11**)³.

Demand for Credit from Micro Businesses

The CDI for micro business increased slightly for the June 2014 quarter relative to the March 2014 quarter. This reflected an increase in demand for local currency loans as the demand for foreign currency loans was unchanged.

Similar to the results of the March 2014 survey, strong demand for local currency loans emanated primarily from firms in the *Distribution, Transport, Storage & Communication, Agriculture & Fishing* and *Professional & Other Services* sectors (see **Figure 12**). However, there was a decline in the demand for loans from the *Entertainment* sector consistent with the reported reduction in credit supply. Lenders reported that during the quarter, the strong increase in demand for local currency loans was most evident for unsecured *loans, inventory and working capital financing, loan refinancing* and unsecured *credit lines*. Notably, there was a decline in loan guarantee requests from micro firms.

Figure 12-Credit Demanded by Micro Businesses



1. An index less than 100 indicates a reduction in the Credit demand while an index greater than 100 indicates an increase.

The higher CDI for the review quarter was largely attributable to changes in business activities within micro firms, which required credit financing as well as greater loan promotion activities. Demand was also boosted by the improvement in credit conditions for micro businesses during the review quarter (see **Figures 13 & 14**). The impact of these changes was partially offset by an increase in interest rates on *secured and unsecured business loans*. It was reported that increased macroeconomic risks have largely diminished the demand for foreign currency loans.

³Respondents were asked to identify the factors that were instrumental in driving credit supply. For each factor, responses ranged from “Very Important” to “Not Important”. Graphical displays of these responses show NBOPs ranging from **-100% to 100%**. A positive NBOP for a supply or demand driver suggests that most respondents expressed that the driver was an important contributor to the performance of demand or supply of credit in the respective quarter.



Figure 13-Drivers of Demand for Unsecured Credit

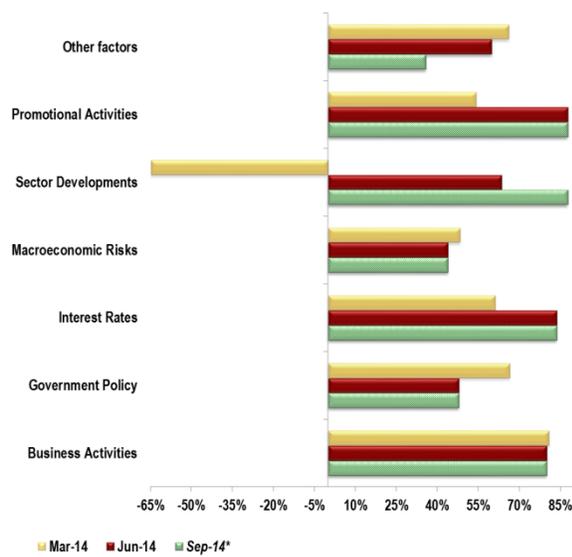
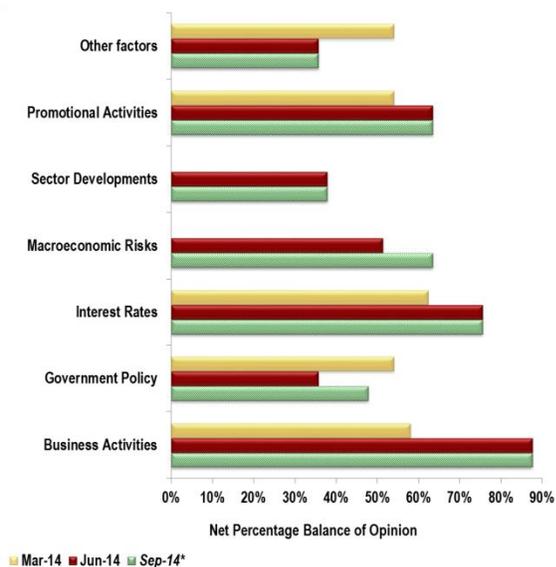


Figure 14-Drivers of Demand for Secured Credit



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

Outlook for Credit Demand

For the September 2014 quarter, lenders anticipate a slight increase in the CDI for micro

enterprises. This demand is expected to emanate from the *Agriculture & Fishing* and *Distribution* sectors. Demand for local and foreign currency loans from all other sectors is expected to be unchanged relative to the June 2014 quarter (see **Figure 12**). The projected increase in the CDI for the September 2014 quarter reflects the expected impact of changes in business activities and sector-specific factors, positive developments in government policies as well as greater loan promotion activities (see **Figures 13 & 14**). The impact of these changes is expected to be partially offset by a rise in interest rates on secured and unsecured business loans as well as increased macroeconomic risks which are expected to affect the demand for foreign currency loans. Additionally, the increase in the CDI is expected to be tempered by lenders' implementation of tighter credit policies.

Interest Rates on Micro Businesses Loans

Lending rates on local currency loans to micro businesses averaged **23.23%** for the June 2014 quarter, slightly lower than the expectation of **24.52%** for the quarter. However, the rates for the June 2014 quarter reflected an uptick relative to the previous two quarters (see **Table 4**). Amongst all the economic sectors, the *Manufacturing* sector has consistently benefitted from the lowest interest rate, whereas firms within the *Distribution* sector have been facing the highest lending rates.

For the September 2014 quarter, local currency lending rates are expected to decline by **2.65 pps** to **20.58%**. This is increase will mainly be reflected in higher interest rates on loans to the *Construction & Land Development*, *Distribution*, *Manufacturing* and *Transport, Storage & Communication* sectors. The prime rate on local



currency loans was reported at **20.2%** for the June 2014 quarter, largely in line with the reported rate of **20.21%** for the March 2014 quarter. This rate is expected to rise to **21.03%** in the September 2014 quarter.

the contraction in demand for these loans. In this context, only firms in two sectors, *Entertainment* and *Tourism*, were offered new foreign currency loans during the review period. For the September 2014 quarter, interest rates are expected to increase to **10.05%** as it is anticipated that firms across all sectors, except *Manufacturing* and *Electricity, Gas and Water*, will be charged this rate for accessing foreign currency loans. The reported prime rate of **10.38%** for the June 2014 quarter, is expected to remain for the September 2014 quarter.

Table 4-Interest Rates on Local Currency Loans

| | December 2013 Survey | | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|--------|-------------------|--------|------------------|--|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* | |
| Agriculture & Fishing | 22.09 | 23.65 | 22.11 | 28.07 | 23.62 | |
| Construction & Land Development | 20.50 | 27.00 | 26.49 | 16.75 | 20.05 | |
| Distribution | 34.10 | 30.67 | 29.37 | 29.20 | 30.62 | |
| Electricity Gas & Water | 26.00 | 26.00 | 26.29 | 26.00 | 19.93 | |
| Entertainment | 20.65 | 26.00 | 22.08 | 26.00 | 15.86 | |
| Manufacturing | 14.64 | 14.30 | 22.19 | 13.12 | 16.74 | |
| Mining & Quarrying | 26.00 | 26.00 | 26.29 | 26.50 | 19.93 | |
| Professional & Other Services | 23.02 | 16.98 | 21.52 | 24.53 | 21.96 | |
| Tourism | 19.35 | 21.98 | 26.29 | 26.00 | 19.80 | |
| Transport, Storage & Communication | 15.73 | 15.40 | 22.61 | 16.10 | 17.34 | |
| Average Rate | 22.21 | 22.80 | 24.52 | 23.23 | 20.58 | |

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

Interest rates on foreign currency loans to micro businesses averaged **6.75%** for the June 2014 quarter relative to expectation for an average rate of **9.92%** for the quarter and the average rate of **7.50%** for the March 2014 quarter (see **Table 5**). Of note, the continuous decline in rates on foreign currency loans is largely attributable to

Table 5-Interest Rates on Foreign Currency Loans

| | December 2013 Survey | | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|--------|-------------------|--------|------------------|--|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* | |
| Agriculture & Fishing | n.a | n.a | 9.92 | n.a | 10.08 | |
| Construction & Land Development | 9.95 | n.a | 9.92 | n.a | 10.08 | |
| Distribution | 13.25 | n.a | 9.92 | n.a | 10.08 | |
| Electricity Gas & Water | n.a | 7.50 | 9.92 | n.a | 9.92 | |
| Entertainment | 13.50 | n.a | 9.92 | 6.5 | 10.08 | |
| Manufacturing | n.a | n.a | 9.92 | n.a | 9.92 | |
| Mining & Quarrying | n.a | n.a | 9.92 | n.a | 10.08 | |
| Professional & Other Services | 11.25 | n.a | 9.92 | n.a | 10.08 | |
| Tourism | 12.00 | n.a | 9.92 | 7 | 10.08 | |
| Transport, Storage & Communication | 13.50 | n.a | 9.92 | n.a | 10.08 | |
| Average Rate | 12.24 | 7.50 | 9.92 | 6.75 | 10.05 | |

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



Small Business Lending

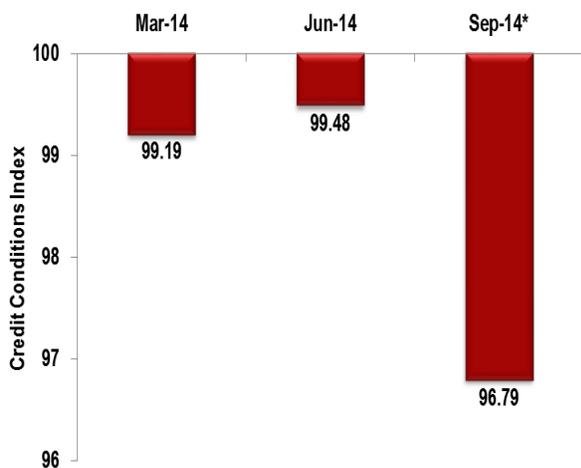
Credit Conditions for Small Businesses

There was a marginal deterioration in lending conditions for small businesses for the June 2014 quarter relative to the March 2014 quarter (see **Figure 15**). This was underpinned by increases in interest rates on secured loans and credit cards as well as the implementation of more restrictive loan monitoring requirements. However, lending conditions were tempered by extensions in repayment periods for secured loans and an increase in the size of accessible credit lines for small businesses. For the September 2014 quarter, credit conditions are expected to tighten further. This is expected to result from a stronger increase in interest rates and fees on secured and unsecured loans.

Availability of Credit to Small Businesses

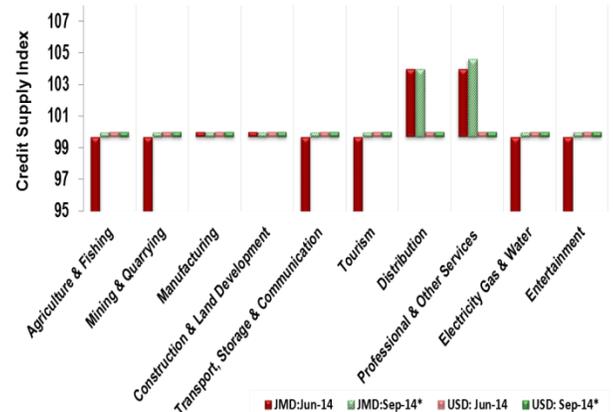
There was a marginal decline in credit made available to small businesses for the June quarter relative to the March 2014 quarter as indicated by the reduction in the CSI. This reflected a smaller supply of local currency loans as the amount of available foreign currency credit was unchanged. The decline in the supply of local currency credit was reflected in all sectors except *Manufacturing, Construction & Land Development, Distribution and Professional & Other Services* (see **Figure 16**). Despite the reduction in the CSI, lenders reported a higher rate of approval for small business loans applications. This increase was particularly reflected in loans for *commercial motor vehicles, plant & equipment and other secured loans* (see **Figure 17**).

Figure 15-Credit Conditions for Small Businesses



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

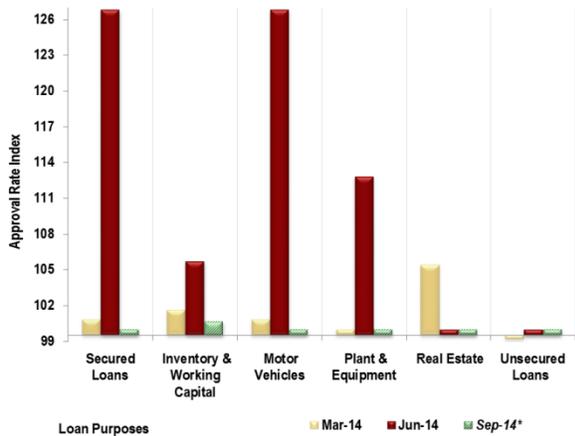
Figure 16-Availability of Credit to Small Businesses



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



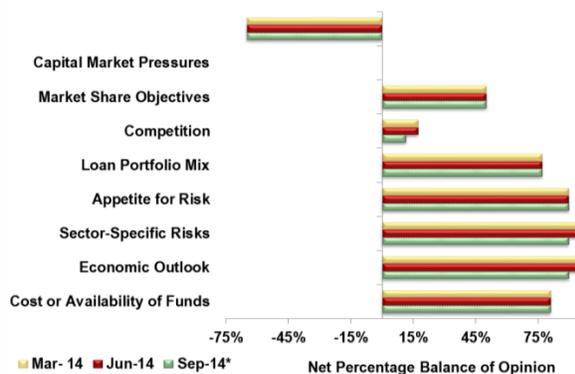
Figure 17-Approval Rates on Loan Applications



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

Lenders cited changes in the cost of funds and appetite for risks as the most significant inhibitors to the reduction in the CSI for the period (see **Figure 18**). Specifically, some creditors highlighted that the specific risk factors associated with lending to small businesses inhibited their willingness to increase credit provision to these areas. However, the impact of these risk factors was partly offset by improved economic outlook on the part of lenders.

Figure 18- Drivers of Credit Availability



Outlook for Credit Availability

For the September 2014 quarter, the CSI for small businesses is anticipated to increase marginally due solely to a rise in the CSI for local currency loans (See **Figure 16**). The expected increase in the CSI for local currency loans should be reflected in the *Professional & Other Services* and *Distribution* sectors. Similar to the June quarter, future economic conditions, changes in sector-specific risk and lender’s appetite for risk as well as loan portfolio mixes were cited as the most significant contributors to the anticipated increase in the CSI (see **Figure 18**).

Demand for Credit from Small Businesses

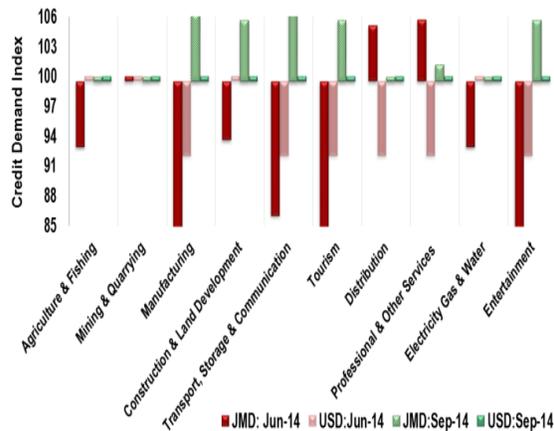
The CDI for both local and foreign currency loans for small businesses declined for the June 2014 quarter (see **Figure 19**). The lower CDI for foreign currency loans was reflected in the demand from firms within all economic sectors, except *Agriculture & Fishing, Mining & Quarrying, Construction & Land development* and *Electricity, Gas & Water* (see **Figure 19**). For local currency loans, the lower CDI was reflected in demand from firms within all economic sectors except *Mining & Quarrying, Distribution* and *Professional & Other Services*. Of note, the decline in the overall CDI for small businesses for the June 2014 quarter was reflected in most loan categories covered. However, there was strong demand for unsecured loans and credit for loan refinancing.

Loans demanded by small businesses over the quarter were highly affected by interest cost, existing macroeconomic risks faced by these businesses, changes in government policy and loan promotion activities (see **Figures 20 & 21**) The reduction in demand from small businesses



over the quarter was also attributed to the relatively tight lending conditions which existed.

Figure 19- Credit Demanded by Small Businesses



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

Figure 20-Drivers of Demand for Secured Credit

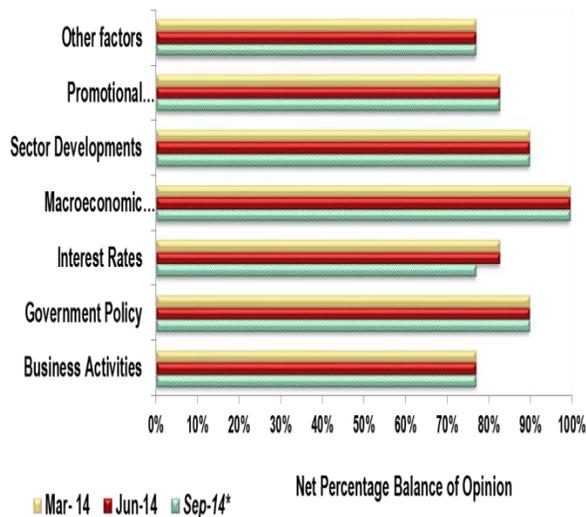
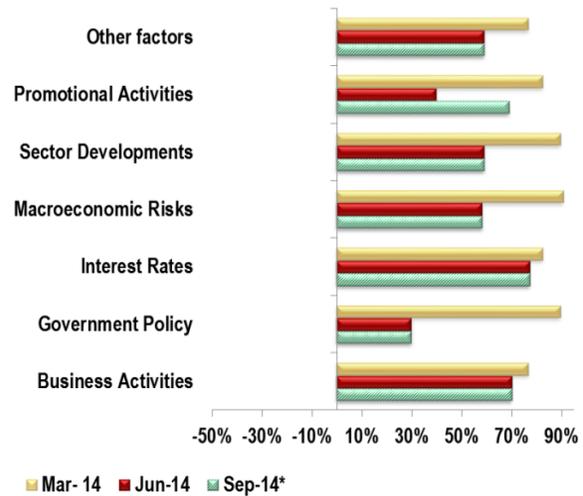


Figure 21-Drivers of Demand for Unsecured Credit



Outlook for Credit Demand

For the September 2014 quarter, the CDI for local currency loans is expected to increase while the CDI for foreign currency loans is expected to be unchanged. Respondents indicated that they were anticipating increased loan demand to emanate from firms within most sectors. In particular, lenders anticipate strong demand from *Transport, Storage & Communication, Manufacturing, Construction & Land Development* and *Entertainment*. Demand for the September quarter is expected to be influenced by the same factors as indicated for the June 2014 quarter.

Interest Rates on Loans to Small Businesses

For the review period, the weighted average lending rate on local currency loans to small businesses averaged **14.67%** relative to the expected rate of **15.16%** (see **Table 6**). Small businesses firms in *Transport, Storage &*



Communication, Tourism and Manufacturing were offered the highest lending rates while the lowest rate was offered to the firms in *Agriculture & Fishing*. For the September quarter, interest rates on local currency loans are expected to average **16.03%**. This increase should reflect higher rates on loans to all sectors, except *Tourism and Manufacturing*. The average prime rate for small businesses is expected to remain at **15.97%**.

Table 6- Interest Rates on Local Currency Loans

| | December 2013 Survey | | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|--------|-------------------|--------|------------------|--|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* | |
| Agriculture & Fishing | 10.03 | 10.46 | 13.16 | 13.27 | 15.72 | |
| Construction & Land Development | 9.24 | 16.21 | 17.76 | 14.79 | 16.30 | |
| Distribution | 13.60 | 15.15 | 15.88 | 14.51 | 16.44 | |
| Electricity Gas & Water | 8.34 | 14.25 | 16.16 | 13.50 | 16.68 | |
| Entertainment | 11.21 | 10.04 | 14.45 | 14.50 | 16.24 | |
| Manufacturing | 12.64 | 13.31 | 13.59 | 15.60 | 14.87 | |
| Mining & Quarrying | 13.25 | 11.63 | 17.16 | 14.75 | 16.82 | |
| Professional & Other Services | 10.92 | 12.11 | 14.35 | 14.36 | 15.57 | |
| Tourism | 13.24 | 12.92 | 14.66 | 15.68 | 15.19 | |
| Transport, Storage & Communication | 10.10 | 13.32 | 14.38 | 15.75 | 16.44 | |
| Average Rate | 11.26 | 12.94 | 15.16 | 14.67 | 16.03 | |

rates are expected to increase to **9.98%** reflecting lenders' anticipation for higher lending rates across all sectors.

Table 7-Interest Rates on Foreign Currency Loans

| | December 2013 Survey | | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|--------|-------------------|--------|------------------|--|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* | |
| Agriculture & Fishing | 8.75 | n.a | 9.88 | n.a | 10.00 | |
| Construction & Land Development | n.a | n.a | 9.92 | n.a | 10.08 | |
| Distribution | 9.70 | n.a | 9.88 | n.a | 10.00 | |
| Electricity Gas & Water | 9.50 | n.a | 9.81 | n.a | 9.94 | |
| Entertainment | n.a | 9.85 | 9.81 | 13.50 | 9.94 | |
| Manufacturing | 7.69 | 9.50 | 9.92 | n.a | 10.08 | |
| Mining & Quarrying | 8.75 | 9.50 | 9.81 | n.a | 9.94 | |
| Professional & Other Services | 8.06 | 10.42 | 9.81 | 13.90 | 9.94 | |
| Tourism | 9.44 | 10.25 | 10.05 | 11.20 | 9.94 | |
| Transport, Storage & Communication | 7.88 | 10.75 | 9.81 | n.a | 9.94 | |
| Average Rate | 8.72 | 10.04 | 9.87 | 12.87 | 9.98 | |

Lending rates on foreign currency loans averaged **12.87%** for the June 2014 quarter, continuing the increase observed since the December 2013 quarter (See **Table 7**). This rate reflected average lending rates to firms within *Tourism, Entertainment and Professional & Other Services* sectors. For the September 2014 quarter, interest



Medium-Sized Business Lending

Credit Conditions for Medium-Sized Businesses

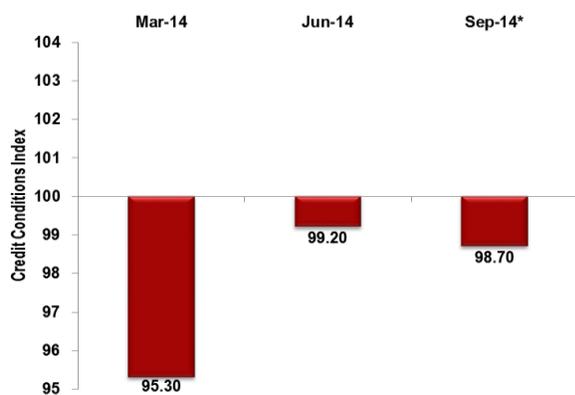
Lending conditions for medium-sized businesses deteriorated for the June 2014 quarter, albeit at a slower pace than that which was recorded for the March 2014 quarter. The outcome for the review quarter was underpinned primarily by tightening of loan monitoring and collateral requirements. However, medium-sized businesses would have benefited from increased LTV ratio. For the September 2014 quarter, credit conditions are expected to deteriorate further as lenders increase collateral requirements and the fees applicable to both secured and unsecured loans.

Availability of Credit to Medium-sized Businesses

There was a marginal increase in the CSI for medium-sized businesses for the June 2014 quarter relative to the March 2014 quarter. This suggests that the quantity of available credit grew relative to the March 2014 quarter and reflected growth in supplies for both local and foreign currency loans. Growth in the supply of local currency credit was reflected in the *Tourism, Construction & Land Development, Distribution and Manufacturing* sectors (see **Figure 23**). In comparison, growth in the supply of foreign currency credit was only reflected in *Tourism*. The higher CSI for medium-sized businesses in the June 2014 quarter was also due to perceptions of changes in sector-specific risks, appetite for risks on the part of lenders and competition.

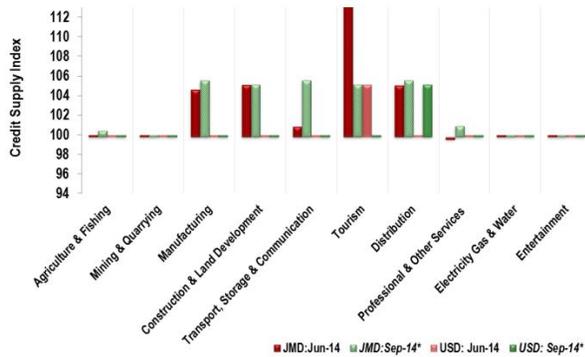
The increased supply of loans to medium-sized businesses was despite lenders reporting a lower rate of approval for loan applications. This decline was reflected in all loan categories except motor vehicle and real estate (see **Figure 24**).

Figure 22 - 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 asterisks (*) represent forward looking expectations provided by the respondents.

Figure 23 - Availability of Credit to 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 asterisks (*) represent forward looking expectations provided by the respondents.

Figure 24 - Approval Rates on Loan Applications



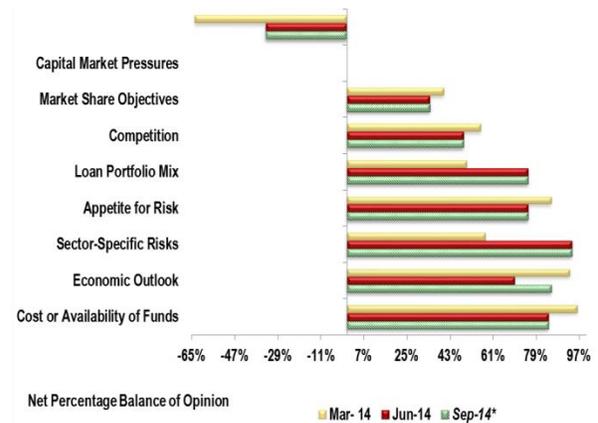
1. An index less than 100 indicates a reduction in the approval rates while an index greater than 100 indicates an increase .
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Outlook for Credit Availability

For the September 2014 quarter, the CSI for local currency loans to medium-sized businesses is anticipated to decline marginally while the CSI for foreign currency loans is expected to remain flat. The decline in the CSI for local currency loans is expected to be influenced mainly by future © Copyright 2013. Bank of Jamaica

economic conditions as well as changes in sector sector-specific risk, lenders’ appetite for risk, market share objectives and loan portfolio mix (see **Figure 25**).

Figure 25 - Drivers of Credit Availability to Medium-sized Businesses



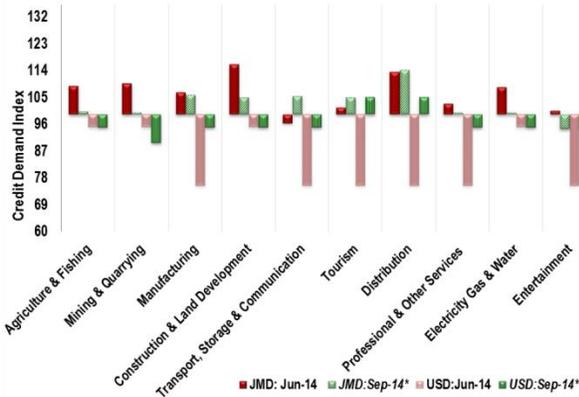
1. The asterisks (*) represent forward looking expectations provided by the respondents.

Demand for Credit from Medium-sized Businesses

The CDI for local currency loans for medium-sized businesses increased for the June 2014 quarter, albeit at a slower pace relative to the March 2014 quarter. In contrast, the CDI for foreign currency loans declined but also at a slower rate than that in the March 2014 quarter. The growth in the CDI for local currency loans was mainly reflected in *Entertainment* and *Transport, Storage & Communication*. With respect to foreign currency loans, the slower decline in the CDI was reflected in the demand from firms within *Agriculture & Fishing, Mining & Quarrying, Construction & Land Development* and *Electricity, Gas & Water* (see **Figure 26**). The decline in the overall CDI for medium-sized businesses for the June 2014 quarter was reflected mainly in loan guarantees.



Figure 26 - Credit Demanded by Medium-sized Businesses



1. An index less than 100 indicates a reduction in the Credit demand while an index greater than 100 indicates an increase.

Loans demanded by medium-sized businesses over the quarter may have been affected by interest costs on secured and unsecured loans, macroeconomic risks faced by these businesses, changes in government policy and developments within specific sub-sectors (see **Figure 27 & Figure 28**).

Figure 27 - Drivers of Demand for Secured Credit by Medium-sized Businesses

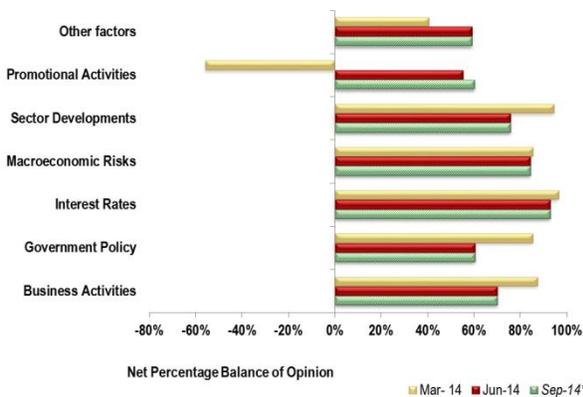
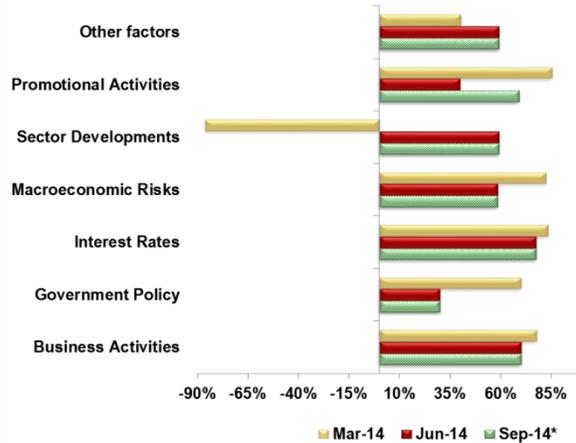


Figure 28 - Drivers of Demand for Unsecured Loans by Medium-sized Businesses



Outlook for Credit Demand

For the September 2014 quarter, the CDI for local currency loans for medium-sized businesses is expected to increase while the CDI for foreign currency loans is expected to decline. Increased loan demand for local currency is anticipated to emanate mainly from firms within *Distribution*. Changes in business activities, macroeconomic risks, interest rates and sector specific developments are expected to stimulate demand for local currency loans over the quarter.

Interest Rates on Loans to Medium-sized Businesses

For the review period, the weighted average lending rate on local currency loans to medium-sized businesses across all sectors averaged **13.86%** relative to **12.11%** for the March 2014 quarter (see **Table 8**). Firms in *Agriculture & Fishing*, *Distribution* and *Electricity Gas & Water* were offered the highest lending rates while the lowest rate was offered to the firms in *Tourism* and *Manufacturing*. The prime rate was reported at **16.67%**.



For the September 2014 quarter, interest rates on local currency loans are expected to average **15.61%**. This reflects increased rates on local currency loans to all sectors, except *Agriculture & Fishing*. The average prime rate on medium-sized business loans is expected to decrease to **16.56%**.

Lending rates on foreign currency loans averaged **9.26%** for the June 2014 quarter and are expected to increase to **9.81%** for the September 2014 quarter (see **Table 9**).

Table 8 - Interest Rates on Local Currency Loans

| | December 2013 Survey | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|-------------------|--------------|------------------|--------------|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* |
| Agriculture & Fishing | 12.25 | 11.75 | 16.09 | 16.75 | 15.47 |
| Construction & Land Development | 12.51 | 11.57 | 15.46 | 13.36 | 15.44 |
| Distribution | 11.98 | 12.30 | 15.23 | 15.12 | 16.60 |
| Electricity Gas & Water | 11.84 | n.a | 16.96 | 15.00 | 16.02 |
| Entertainment | 12.00 | 10.50 | 15.34 | 0.00 | 15.89 |
| Manufacturing | 11.05 | 13.33 | 14.76 | 11.78 | 14.79 |
| Mining & Quarrying | 10.75 | 11.90 | 16.19 | 0.00 | 16.02 |
| Professional & Other Services | 13.52 | 12.40 | 15.99 | 13.25 | 15.03 |
| Tourism | 13.50 | 11.50 | 14.91 | 11.75 | 14.85 |
| Transport, Storage & Communication | 12.41 | 13.75 | 16.01 | 0.00 | 15.94 |
| Average Rate | 12.18 | 12.11 | 15.69 | 13.86 | 15.61 |

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

Table 9 - Interest Rates on Foreign Currency Loans

| | December 2013 Survey | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|-------------------|-------------|------------------|-------------|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* |
| Agriculture & Fishing | 11.00 | n.a | 9.81 | 11.00 | 9.94 |
| Construction & Land Development | 7.63 | 9.50 | 9.81 | 0.00 | 9.99 |
| Distribution | 9.20 | n.a | 9.81 | 0.00 | 9.94 |
| Electricity Gas & Water | n.a | 9.50 | 9.80 | 0.00 | 9.69 |
| Entertainment | 9.50 | 8.39 | 9.70 | 8.55 | 9.59 |
| Manufacturing | 6.50 | n.a | 9.80 | 0.00 | 9.94 |
| Mining & Quarrying | n.a | n.a | 9.81 | 0.00 | 9.79 |
| Professional & Other Services | 9.57 | 9.75 | 9.81 | 9.50 | 9.90 |
| Tourism | 9.53 | 9.50 | 9.70 | 8.00 | 9.54 |
| Transport, Storage & Communication | 10.94 | 9.50 | 9.80 | 0.00 | 9.79 |
| Average Rate | 9.23 | 9.36 | 9.79 | 9.26 | 9.81 |

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

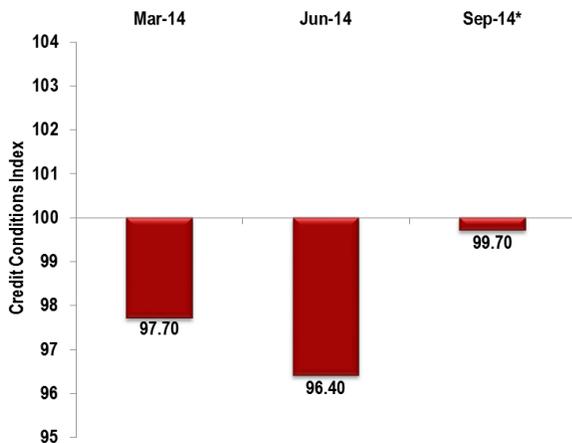
Large Corporate and Commercial Lending

Credit Conditions for Large Businesses

Lending conditions for large businesses tightened marginally for the June 2014 quarter relative to the March 2014 quarter (see **Figure 29**). This was underpinned by an increase in interest rates on secured loans and higher fees on both secured and unsecured loans. However, lenders reportedly loosened loan monitoring requirements. For the September 2014 quarter, credit conditions are expected to remain tight, though marginally improved, as lenders anticipate increases in interest rates on secured loans.

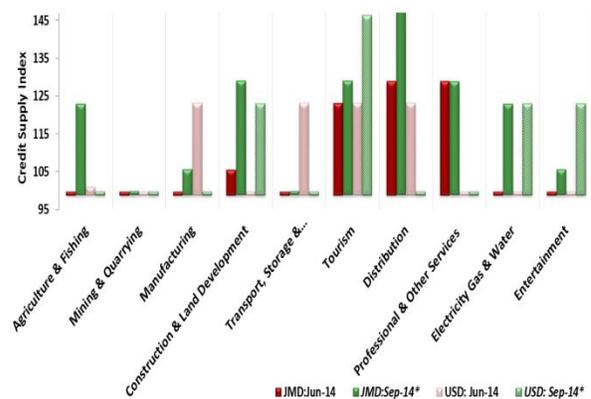
the March 2014 quarter. This outcome reflected a slower growth in local currency loans while there was stronger expansion in the amount of available foreign currency credit. Growth in the supply of local currency credit was reflected in the *Tourism, Construction & Land Development, Distribution* and *Professional & Other Services* sectors (see **Figure 30**). In comparison, growth in the supply of foreign currency credit was reflected in *Tourism, Manufacturing, Transport, Storage & Communication* and *Agriculture & Fishing*. The higher CSI for large businesses in the June 2014 quarter was also due to perceptions of changes in sector-specific risks and the appetite for risk on the part of lenders.

Figure 29 - 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 asterisks (*) represent forward looking expectations provided by the respondents.

Figure 30-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.

Availability of Credit to Large Businesses

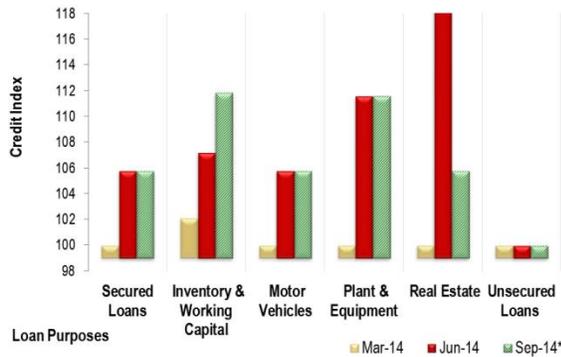
There was a marginal increase in the CSI for large businesses for the June 2014 quarter relative to

The expansion in credit supplied to large businesses was supported by higher approval rates, particularly on credit applications for *inventory & working capital financing, motor*



vehicles, plant & equipment and commercial real estate (see Figure 31).

Figure 31 -Approval Rates on Loan Applications

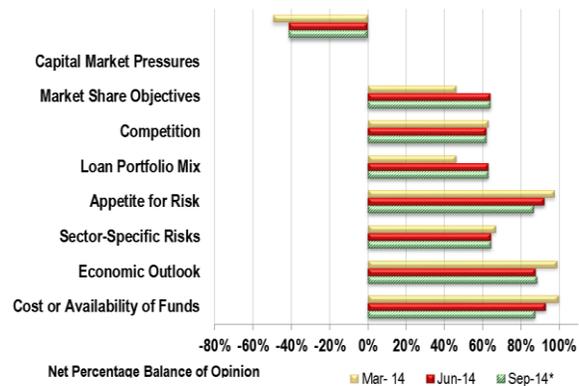


1. An index less than 100 indicates a reduction in the approval rates while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Outlook on Credit Availability

The CSI for local currency loans to large businesses is anticipated to increase marginally in the September 2014 quarter while the CSI for foreign currency loans is expected to decline. Major factors which are expected to influence the increase in the CSI for local currency loans mainly relate to future economic conditions, changes in sector-specific risk and lenders' appetite for risk as well as market share objectives and loan portfolio mix (see Figure 32).

Figure 32 -Drivers of credit availability to large businesses



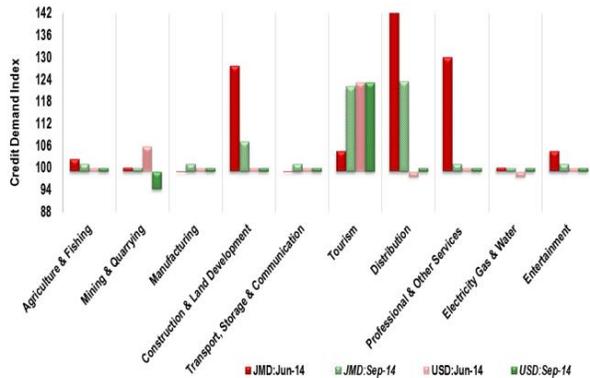
1. The asterisks (*) represent forward looking expectations provided by the respondents.

Demand for Credit from Large Businesses

For the June 2014 quarter, the CDI for local currency loans for large businesses grew, but at a slower pace, relative to the March 2014 quarter. There was also a stronger increase in the CDI for foreign currency loans for the review quarter. The slower growth in the CDI for local currency was reflected in all sectors, except for *Mining & Quarrying*. With regard to the CDI for foreign currency loans, the stronger growth was reflected in the demand from firms within *Mining & Quarrying* and *Tourism* (see Figure 33).

The increase in the overall CDI for large businesses for the June 2014 quarter was reflected in all loan categories covered by the survey except *balance sheet restructuring* and *mergers & acquisitions*. Notably, there was a marked increase in credit demanded for *Inventory & Other Working Capital Financing*.

Figure 33 - Credit demanded by Large Businesses



1. An index less than 100 indicates a reduction in the Credit demand while an index greater than 100 indicates an increase.

Loans demanded by large businesses over the quarter were affected by interest costs on secured and unsecured loans, macroeconomic risks faced by these businesses, changes in government policy and various developments in the specific sectors. Lenders indicated that loan demand was negatively affected by reduced loan promotional activities for secured credit (see **Figure 34 & Figure 35**).

Figure 34 - Drivers of demand for secured credit by Large Businesses

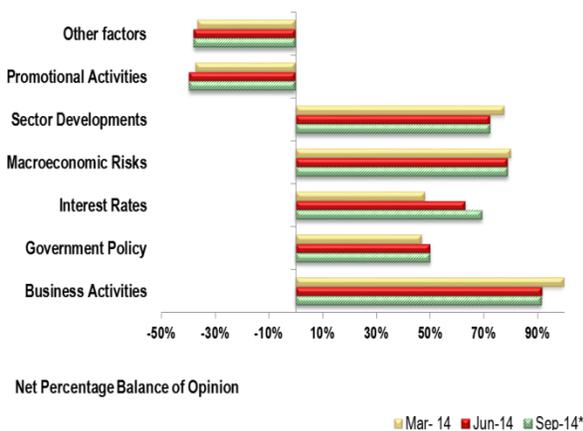
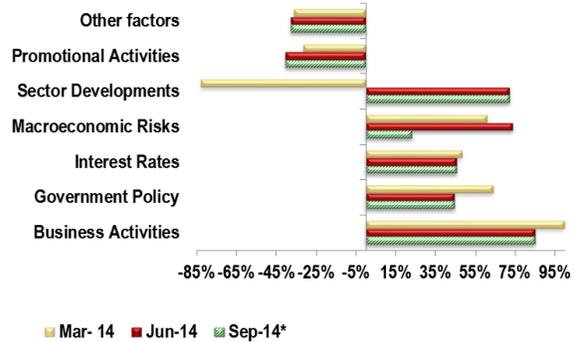


Figure 35 - Drivers of demand for unsecured loans by Large Businesses



Outlook for Credit Demand

For the September 2014 quarter, the CDI for both local and foreign currency loans by large businesses are expected to increase, but at a slower pace. Increased loan demand is anticipated from firms within the *Tourism* and *Distribution* sectors. Changes in business activities, macroeconomic risks and sector-specific developments are expected to stimulate demand over the quarter.

Interest Rates on Loans to Large Businesses

For the review period, the weighted average lending rate on local currency loans to large businesses across all sectors averaged **14.34%** relative to **13.70%** for the March 2014 quarter (see **Table 10**). Firms in the *Tourism*, *Transport, Storage & Communication*, *Mining & Quarrying* and *Electricity Gas & Water* sectors were offered the highest lending rates while the lowest rates were offered to the firms in the *Distribution* and *Construction & Land Development* sectors. The prime rate was reported at **15.28%**.



For the September quarter, interest rates on local currency loans are expected to average **14.41%**. This reflects higher rates on local currency loans to all sectors, except *Manufacturing, Mining & Quarrying* and *Tourism*. The average prime rate on large business loans is also expected to increase marginally to **15.30%**.

Table 10 - Interest Rates on Local Currency Loans

| | December 2013 Survey | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|-------------------|--------------|------------------|--------------|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* |
| Agriculture & Fishing | 10.00 | 13.50 | 13.13 | 14.00 | 14.49 |
| Construction & Land Development | 20.21 | 14.00 | 13.50 | 13.33 | 13.81 |
| Distribution | 9.98 | 12.90 | 12.80 | 12.58 | 13.95 |
| Electricity Gas & Water | 2.29 | 15.00 | 12.68 | 15.00 | 15.24 |
| Entertainment | 3.43 | 15.00 | 13.20 | 13.88 | 15.14 |
| Manufacturing | 6.69 | 11.63 | 12.93 | 13.80 | 13.33 |
| Mining & Quarrying | 4.77 | 18.50 | 13.13 | 15.00 | 14.19 |
| Professional & Other Services | 4.60 | 13.00 | 13.60 | 14.18 | 15.14 |
| Tourism | 4.71 | 11.50 | 13.40 | 16.63 | 13.59 |
| Transport, Storage & Communication | 4.57 | 12.00 | 13.13 | 15.00 | 15.24 |
| Average Rate | 7.12 | 13.70 | 13.15 | 14.34 | 14.41 |

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

Lending rates on foreign currency loans averaged **7.19%** for the June 2014 quarter and are expected to increase to **9.11%** for the September 2014 quarter (see **Table 11**).

Table 11 - Interest Rates on Foreign Currency Loans

| | December 2013 Survey | March 2014 Survey | | June 2014 Survey | |
|------------------------------------|----------------------|-------------------|-------------|------------------|-------------|
| | Dec-13 | Mar-14 | June-14* | Jun-14 | Sep-14* |
| Agriculture & Fishing | 3.79 | 3.80 | 8.69 | 7.50 | 8.50 |
| Construction & Land Development | 4.46 | 8.80 | 8.91 | 7.50 | 9.38 |
| Distribution | 2.57 | 3.80 | 8.23 | 7.50 | 9.38 |
| Electricity Gas & Water | 2.57 | 3.80 | 8.61 | 7.50 | 9.38 |
| Entertainment | 5.87 | 7.00 | 8.69 | 6.18 | 8.41 |
| Manufacturing | 3.76 | 5.22 | 8.69 | 6.00 | 8.50 |
| Mining & Quarrying | 3.52 | 3.80 | 8.69 | 7.50 | 9.38 |
| Professional & Other Services | 3.66 | 4.80 | 8.69 | 7.50 | 9.38 |
| Tourism | 2.83 | 3.80 | 8.69 | 7.25 | 9.40 |
| Transport, Storage & Communication | 3.57 | 3.80 | 8.69 | 7.50 | 9.38 |
| Average Rate | 3.66 | 4.86 | 8.66 | 7.19 | 9.11 |

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



Glossary and Key Definitions

Diffusion Index (DI) – This is a method of summarizing the common tendency of a group of statistical series. The DI value is calculated as:

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^4$$

By construction, lenders who report that credit conditions have “changed a lot” are assigned twice the score as those who report that the index has “changed a little.” 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.

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

where s = economic sector and i = firm size

⁴ 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”

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 weight makes the views of those claiming substantial changes twice as important to the direction of the overall change in the index, relative to those claiming moderate changes.



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

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

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 |
|---|---|--|
| Firm Size | | |
| Micro Businesses | Less than US\$10,000.00 | Less than US\$100,000.00 |
| Small Businesses | US\$10,000 < Loan Size < US\$10,000 | 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 key credit terms as 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 on 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 is 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 is 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).