

Quarterly Credit Conditions Survey Report



March 2014 Quarter

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Monetary Analysis & Programming
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 survey. 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.¹ 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 March 2014 survey which was conducted between 14 April 2014 and 13 May 2014.²

Other available survey reports:

Bank of Jamaica Credit Conditions Survey: December 2013 Quarter

Number of Surveys Completed by Each Institution

Surveys					
	Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Cooperate & Commercial Businesses
Institutions					
Commercial Banks	6	3	6	4	7
Building Societies	3	0	0	0	0
Near Banks	2	1	1	2	2
Credit Unions	8	3	1	0	0
Total	19	7	8	6	9

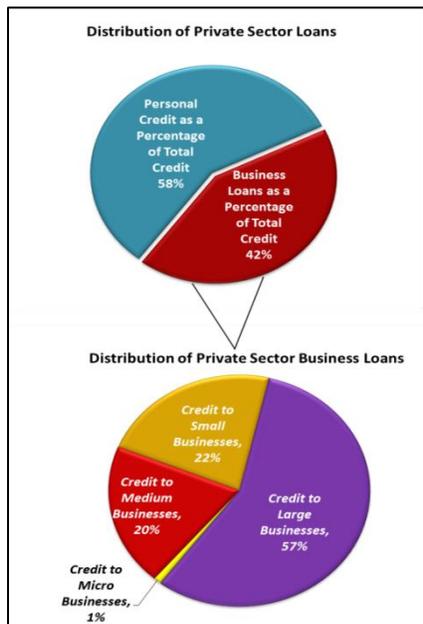
¹ See glossary and key definitions for further details on the construction of the credit conditions indices.

² The results presented in this report are based on lenders' responses to survey questions and do not necessarily reflect the Bank's views on credit conditions. See the glossary for the computation of aggregate results.

Overview

At end-March 2014, the stock of credit in the banking system was **\$473.61 billion**, an increase of **1.2%** relative to the stock at end-December 2013.³ The BOJ's Quarterly Credit Conditions Survey suggests that **58 per cent** of this stock of loans was distributed to households while **42 per cent** was distributed to businesses across all firm sizes (see Chart 1).⁴ This reflects a change in the distribution relative to the December 2013 quarter in which **63 per cent** of the stock of credit was allocated to households and **37 per cent** to businesses.

Chart 1



³ This represents the total loan portfolio of all institutions that participated in the survey excluding the stock of loans to overseas residents.

⁴ Chart 1 shows the distribution of credit between households and businesses. Credit to businesses was further disaggregated to show to total loans distributed firms of various sizes.

Credit Supply

For the review quarter, the credit supply index (CSI) indicated that there was an increase in the quantity of credit made available to the private sector, following a marginal increase in the December 2013 quarter (see **Table 1**). This increase reflected a moderate expansion in both local and foreign currency credit availability.

Table 1

Credit Conditions Indices	Dec-13	Mar-14*	Mar-14	June-14*
Credit Supply Index	100.4	103.5	106.0	102.1
Credit to businesses	102.3	103.9	104.6	102.1
Personal credit	92.9	101.7	108.8	112.3
Credit in Jamaica Dollar	n.a	n.a	108.9	103.4
Credit in U.S Dollar	n.a	n.a	100.3	100.7
Credit Demand Index	98.1	88.0	98.7	103.5
Demand by businesses	99.1	84.7	97.9	98.9
Demand by individual	93.9	101.1	100.1	112.7
Credit in Jamaica Dollar	108.6	107.8	107.0	104.0
Credit in U.S Dollar	76.9	92.0	88.9	93.9

<100: Decline, 100: No change, >100: Increase; * Expectations for the Quarter

Although the CSI increased in March 2014, lenders reported that the weak domestic economic environment coupled with tight liquidity conditions restrained their ability to respond to credit requests from the productive sector. For the June quarter, the CSI is expected



to increase further in the context of an anticipated improvement in both Jamaica Dollar and foreign currency liquidity.

Credit Demand

The Credit Demand Index (CDI) indicated that there was a reduction in the demand for loans during the review quarter, following a decline in the December quarter (see **Table 1**). This fall in the review quarter was reflected primarily in the demand for foreign currency loans, which was partially offset by a marginal increase in the amount of local currency loans demanded⁵. Notably, the CDI for individuals increased marginally while the CDI for businesses declined moderately for the quarter (see **Table 1**). The CDI was expected to increase for the June 2014 quarter, reflecting a stronger demand for local currency loans. However, this stronger demand for local currency loans was expected to be partially offset by a sharp decline in foreign currency loans.

For the March 2014 quarter, lenders attributed the fall in the demand for foreign currency loans to the pace of depreciation of the exchange rate. Stronger demand for local currency loans was largely attributed to increased business activities, greater levels of competition in the credit market and positive changes in Government policy.

⁵ Foreign currency loans are reflective of foreign currency denominated loans to domestic businesses.

Interest Rates

Interest rates on local currency loans broadly increased for the March 2014 quarter relative to the December 2013 quarter (see **Table 2**). This occurred in the context of strong demand for local currency loans. Despite net injection of liquidity into the system in the March quarter, lenders also attributed the increase in rates to liquidity conditions which have contributed to a reduction in quantity and increase in the cost of accessible funds.⁶ In this regard, rates on local currency loans to businesses were expected to rise from **15.39%** to **17.13%** for the June 2014 quarter. Similarly, rates on local currency personal loans are expected to increase from **20.69%** to **20.78%**. Notwithstanding the weak demand for foreign currency loans, lenders expected interest rates on these loans to increase from **7.94%** in the March 2014 quarter to **9.57%** in the June 2014 quarter.

Table 2

<i>Interest Rates on Local and Foreign Currency Loans (Per Cent)</i>				
Local Currency	Dec-13	Mar-14*	Mar-14	June-14*
Loans to businesses	13.20	15.40	15.39	17.13
Personal loans	20.60	20.60	20.69	20.78
Prime rate	18.60	18.10	16.90	16.93
Foreign Currency (USD)	Dec-13	Mar-14*	Mar-14	June-14*
Loans to businesses	8.50	9.30	7.94	9.57
Prime Rate	7.70	8.40	9.06	9.16

*:Expectations for the quarter

⁶ For the first two months of the March quarter, liquidity operations net absorbed **J\$11.0 billion** from the system, resulting in a significant increase in private money market rates. However, rates fell in March as liquidity conditions improved.



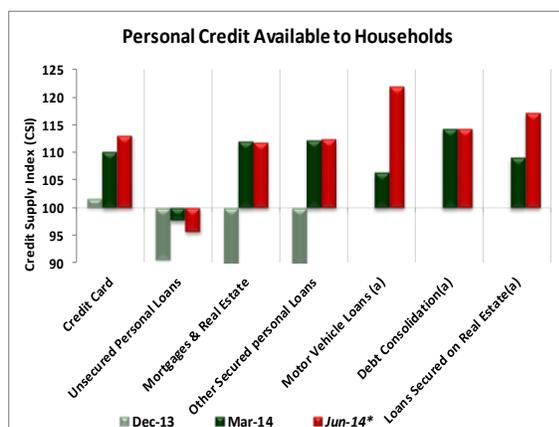
Personal Lending

Availability of Credit for Personal Lending

The CSI for individuals increased moderately in March 2014 at a relatively stronger pace than indicated in the December 2013 survey (see **Table 1**). This increased supply of credit for personal lending was reflected in all categories of lending except *unsecured personal loans* (see **Chart 2**). In particular, for the March 2014 quarter, a larger pool of funds was made available to consumers for *debt consolidation*, relative to the December 2013 quarter. The increased supply of personal loans was supported by higher approval rates on loan applications for *mortgages loans* and credit for *debt consolidation* (see **Chart 3**). For the June 2014 quarter, a stronger increase in supply of personal credit was expected primarily for *motor vehicle loans*. Greater supply of *motor vehicle loans* in the June 2014 quarter is expected to be facilitated by higher approval rates on *motor vehicle loans* applications.

Increased competition in the personal lending market was cited as the most significant factor that contributed to the expansion in the quantity of funds supplied to households. This may have resulted from new entrants into the personal credit market. In addition, it may have been due to changes in lenders' market share objectives or changes in lenders' loan portfolio mixes. Further, improvements in lenders' economic outlook and in the risks associated with lending to individuals were cited as other factors that supported lenders' decisions to increase the pool of funds available for personal loans.

Chart 2

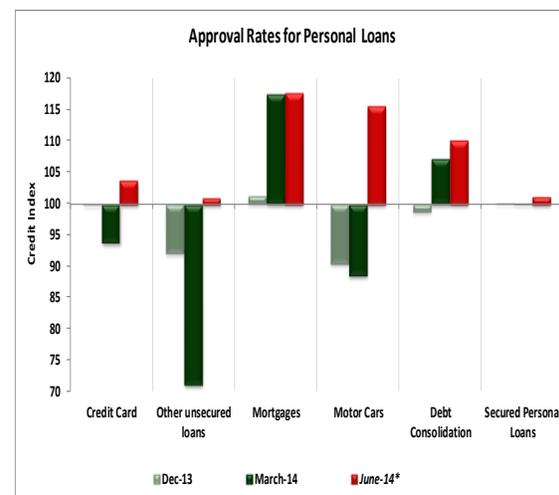


(<100) decline, (100) no change, (>100) increase, * Expectations

(a)-This question was introduced in 2014q1

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Chart 3



(<100) decline, (100) no change, (>100) increase, * Expectations

Despite the higher CSI for personal loans for the March 2014 quarter, lending conditions were relative more restrictive than in the December 2013 quarter. This was reflected primarily in



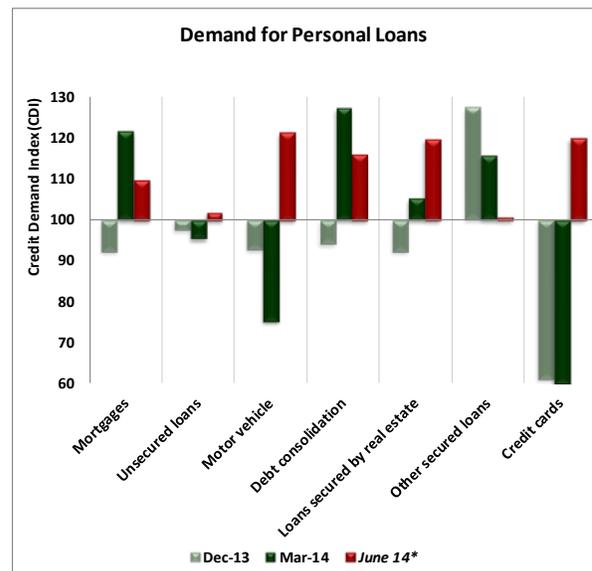
higher fees on secured and unsecured loans, higher interest rates on secured personal loans and an increase in the minimum repayment amount on unsecured loans (including credit cards). Lending conditions were however tempered by an increase in credit card limits, greater debt-service ratios and an extension of the repayment period on secured loans. In the June 2014 quarter, credit conditions on secured personal loans are expected to become even more restrictive, reflecting declines in the maximum loan-to-value (LTV) ratio, fees on secured and unsecured loans, interest rates on secured personal loans and greater minimum balance repayment requirement on credit cards and other unsecured loans⁷.

Demand for Personal Lending

The CDI remained relatively flat in the March 2014 quarter, marginally lower than was anticipated in the December 2013 survey (see **Table 1**). The performance for the review quarter reflected an overall increase in demand for secured loans as there was a fall in the demand for unsecured personal loans. A marginal increase in the CDI was anticipated for the June 2014 quarter. This increase was expected in all loan categories (see **Chart 4**).

⁷ See appendix for total changes in price and non price credit market terms and conditions.

Chart 4



(<100) decline, (100) no change, (>100) increase, * Expectations

Lenders highlighted interest rate levels and changes in personal income as the most significant drivers of demand for secured personal loans. Demand for unsecured credit was most impacted by interest rate, changes in macroeconomic risk, personal income and loan promotion activities. For the June 2014 quarter, lenders expect interest rates to be the main factor that will determine the demand for both secured and unsecured loans.

Unsecured Personal Lending

Unsecured personal loans and funds made available through credit cards to households increased during the March 2014 quarter relative to the December 2013 quarter (see **Chart 2**). This increase reflected increased funds made available on credit cards and a less sharp fall in funds available for other unsecured loans. For the June 2014 quarter, lenders anticipate a further expansion in the pool of available unsecured funds.

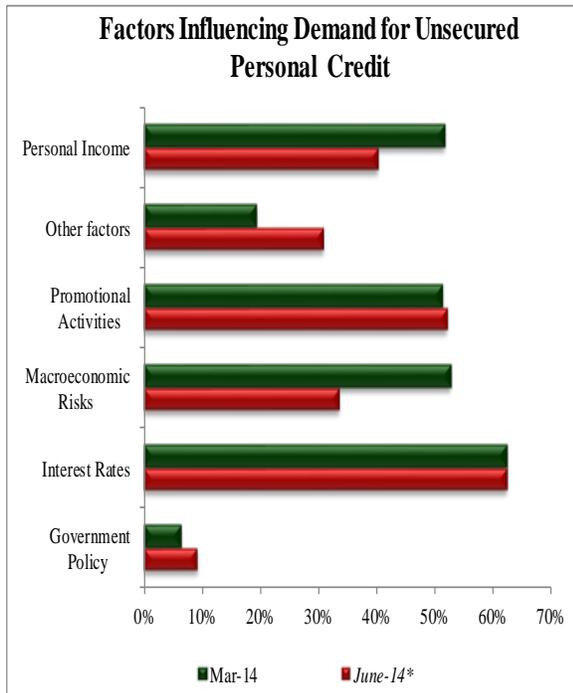


Despite the increased availability, there was a slight decline in the demand for unsecured credit during the review quarter. This primarily reflected contractions in the demand for personal credit cards and other unsecured personals loans. Lenders attributed this decline in demand to interest rate factors as well as growing macroeconomic risks (see **Chart 5**). For the June 2014 quarter, unsecured personal loans are expected to increase marginally, reflecting moderate increases in the demand for both credit cards and other unsecured loans.

Secured Personal Lending

The CSI for secured personal lending increased moderately for the March 2014 quarter, reflecting greater availability of loans for mortgages, real estate, other secured loans collateralized by real estate, personal motor vehicles and other secured loans. This increased availability was facilitated by higher approval rates on applications for mortgages and loans for debt consolidation (see **Chart 3**). However, the approval rate on other forms of secured credit was unchanged during the March 2014 quarter.

Chart 5⁸



(-) Insignificant Factors, (+) Significant Factors

⁸ Respondents were asked to identify the factors that were instrumental in driving credit demand. For each factor, responses ranged from “Very Important” to “Not Important”. Graphs represent these responses by displaying NBOPs ranging from -100% to 100%. A positive NBOP for a demand driver suggests that most respondents expressed that the driver was important.

For the June 2014 quarter, lenders anticipate a further increase in the availability of credit for secured lending, which will be supported by an increase in the approval rates on these loans (see **Chart 3**).

Similar to the higher CDI for secured lending, the CDI for secured loans increased during the March 2014 quarter. Lenders attributed this higher CDI primarily to changes in personal income. Demand was also facilitated by an increase in the debt-service ratio and the maximum repayment period on loans.

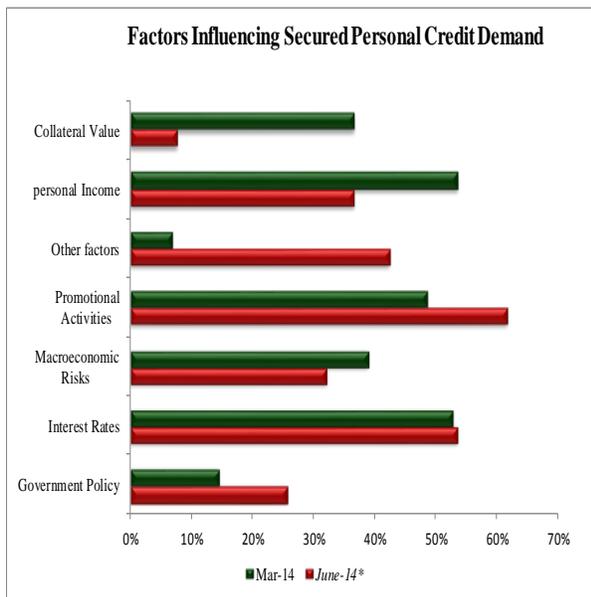
For the June 2014 quarter, the CDI for secured lending was expected to increase further. Interest rate changes and loan promotion activities are expected to drive the anticipated increase in credit demand.

Credit conditions in the market for secured and unsecured loans are expected to have a positive impact on credit demand in the June quarter.



Lenders anticipate an extension in the maximum repayment period on secured and unsecured loans and higher credit card limits. However, an anticipated increase in the required minimum repayment amount and the expectation for higher fees is expected to temper credit demand.

Chart 6



(-) Insignificant Factors, (+) Significant Factors

Interest Rates on Personal Loans

Lenders reported that the average rate on personal loans was **20.69%** for the March 2014 quarter, generally in line with the rate of **20.65%** projected in the December 2013 survey. For the June 2014 quarter, rates on personal loans are expected to increase marginally to **20.78%** due to an anticipated increase in the rates on unsecured personal loans, excluding credit cards and secured loans, excluding mortgages and motor vehicles (see **Table 3**).

Table 3

Interest Rates on Personal Loans				
Loan Category	Dec-13	Mar-14*	Mar-14	Jun-14*
	(%)	(%)	(%)	(%)
Mortgages	10.47	10.44	11.67	11.59
Other secured personal loans	13.11	13.11	20.48	20.69
Motor Vehicle (a)	n.a	n.a	11.97	11.90
Credit cards	40.38	40.38	47.33	47.33
Other unsecured personal loans	18.57	18.68	12.01	12.37
Average rates	20.63	20.65	20.69	20.78

The weighted average lending rate on new local currency credit cards averaged **47.33%** in March 2014 relative to **40.38%** at for December 2013. No change in this rate was anticipated for the June 2014 quarter. The weighted average lending rate on other local currency unsecured loans averaged **12.01%**. This rate was expected to increase to **12.37%** in the upcoming quarter.



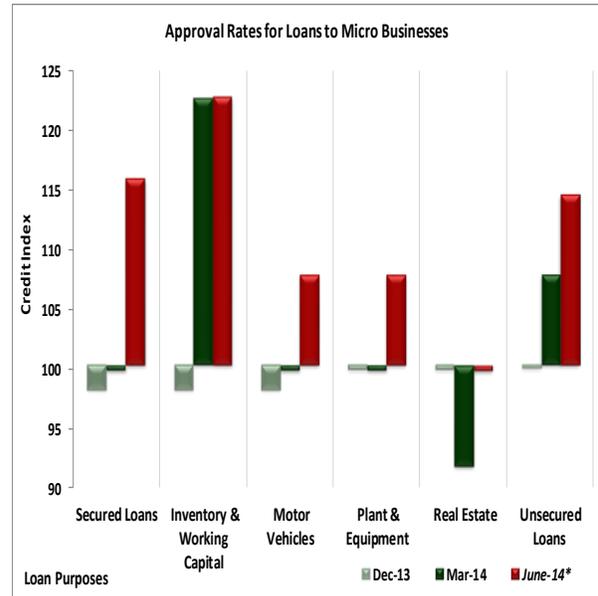
Micro Business Lending

Availability of Credit to Micro Businesses

There was a marginal increase in the CSI for micro enterprises for the March 2014 quarter relative to the December 2013 quarter. This reflected a greater supply of local currency loans as the amount of available foreign currency credit was unchanged (see **Chart 7**). The expansion in credit was supported by higher approval rates, particularly on credit applications for inventory and working capital financing and unsecured loans (see **Chart 8**).

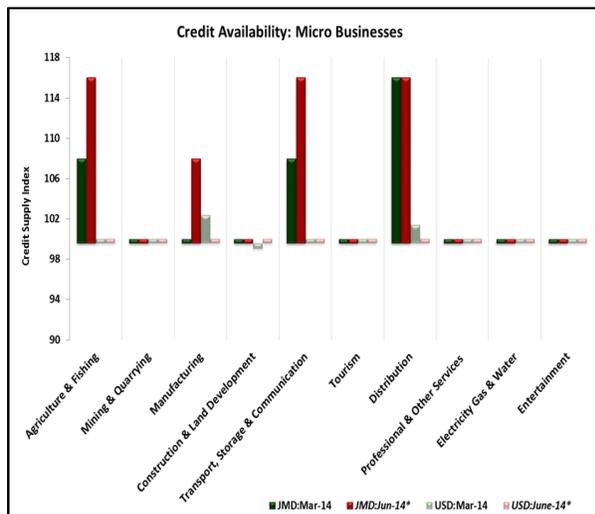
For the June 2014 quarter, a stronger increase in the amount of Jamaica Dollar credit made available to these firms was anticipated (see **Chart 7**). This was expected to be supported by higher approval rates on all categories of loans covered by the survey, except commercial real estate.

Chart 8



(<100) decline, (100) no change, (>100) increase, * Expectations

Chart 7

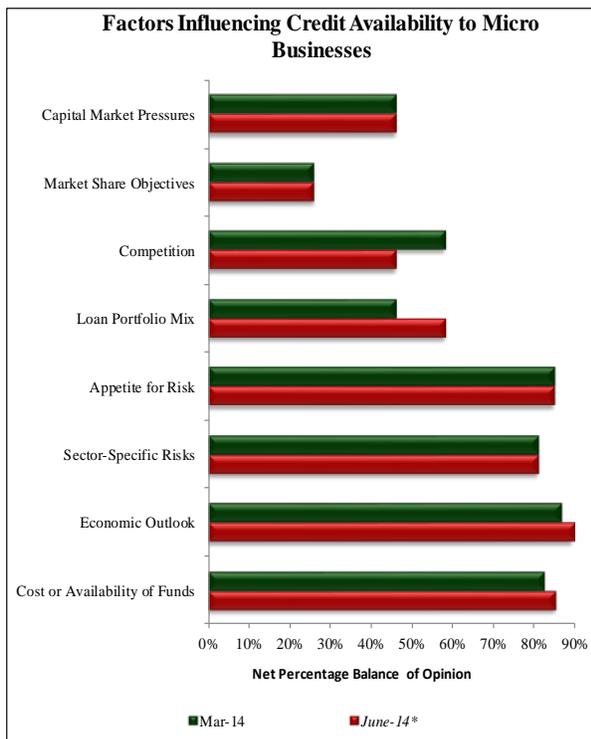


(<100) decline, (100) no change, (>100) increase, * Expectations

The main factors cited for the increased availability of credit for the March 2014 quarter included improvements in lenders' perception of current and future economic conditions; reductions in sector specific risks and increased appetite for risks on the part of the lenders (see **Chart 9**). However, respondents reported that lending continued to be constrained by the tight Jamaica Dollar liquidity environment. For the June 2014 quarter, the CSI for micro businesses was expected to increase, driven primarily by the expectation of further improvements in the domestic economic conditions and increased appetite for risk on the part of lenders.



Chart 9⁹



(-) Insignificant Factors, (+) Significant Factors

Demand for Credit from Micro Businesses

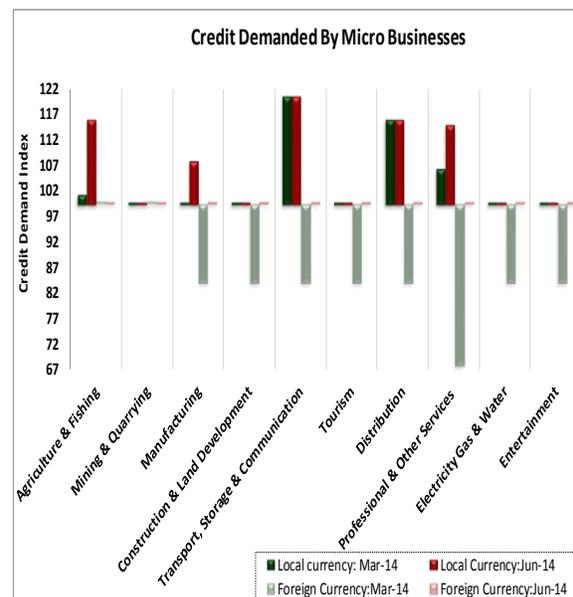
The CDI for local currency denominated loans from micro enterprises increased slightly for the March 2014 quarter. In contrast, the CDI for foreign currency denominated loans fell sharply. Stronger demand for local currency loans emanated primarily from firms in the *Transport, Storage & Communication, Distribution, Professional & Other Services* and *Agriculture & Fishing* (see **Chart 10**). The reported contraction in demand for foreign currency loans reflected

⁹ 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”. Graphs represent these responses by displaying NBOPs ranging from -100% to 100%. A positive NBOP for a supply driver suggests that most respondents expressed that the driver was an important contributor to the supply of credit in the respective quarter.

lower demand from firms in all economic sectors except *Agriculture & Fishing* and *Mining & Quarrying*.

For the review quarter, there was strong demand for *unsecured loans, credit lines* and loans for *inventory & working capital financing*. There was also strong demand for loan refinancing and motor vehicles loans. However, lenders reported a decline in demand for loans to acquire or repair *plant and equipment, to acquire commercial real estate* and for the purpose of *balance sheet restructuring*.

Chart 10



(<100) decline, (100) no change, (>100) increase, * Expectations

The higher CDI for the review quarter was largely attributable to greater loan promotion activities; changes in business activities within firms, which required credit financing and positive changes in Government policy (see **Charts 11 & 12**). The impact of these changes was partially offset by an

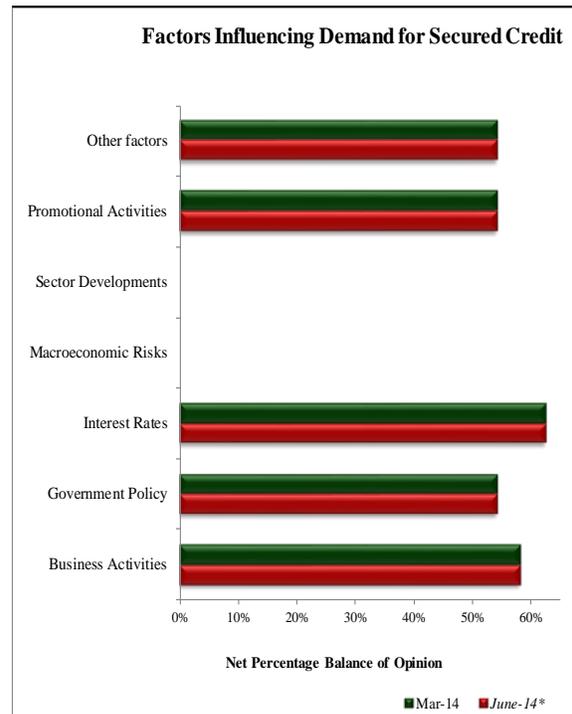


increase in interest rates on secured and unsecured business loans. Additionally, increased macroeconomic risks have largely affected the demand for foreign currency loans. Credit demand for the March 2014 quarter may have also been tempered by the restrictive conditions, which existed in the market as there were increased loan monitoring requirements for secured and unsecured loans.

For the June 2014 quarter, the CDI for micro enterprises was expected to increase. This was anticipated to result from demand for local currency loans. Meanwhile, the contraction in foreign currency loans observed in the March quarter was also expected to obtain in the June 2014 quarter. It was anticipated that demand for local currency loans will emanate from businesses across all sectors except *Mining & Quarrying, Electricity, Gas & Water, Construction & Land Development and Tourism* (See **Chart 10**).

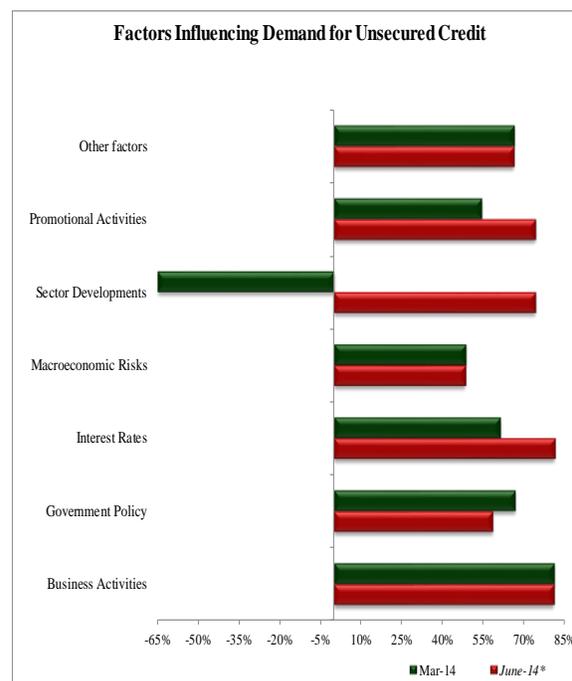
The projected increase in the CDI for the June 2014 quarter reflected the expected impact of greater loan promotion activities, changes in business activities and sector-specific developments (see **Charts 11 & 12**). The impact of these changes was expected to be partially offset by an increase in interest rates on secured and unsecured business loans as well as increased macroeconomic risks which are expected to affect the demand for foreign currency loans. The CDI for the June 2014 quarter was also expected to be tempered by lenders' implementation of more stringent collateral requirements.

Chart 11



(-) Insignificant Factors, (+) Significant Factors

Chart 12



(-) Insignificant Factors, (+) Significant Factors



Interest Rates on Loans to Micro Businesses

For the March 2014 quarter, lending rates on local currency loans to micro businesses averaged **22.80%** relative to **22.21%** for the December 2013 quarter (see **Table 4**). For June 2014, this rate was expected to rise by **1.72 percentage points (pps)** to **24.52%** mainly as a result of higher interest rates on loans to *Manufacturing, Transport, Storage & Communication, Professional & Other Services and Tourism*. Local currency loans to micro firms in *Distribution* were priced at the highest rate while firms in *Manufacturing* benefitted from the lowest lending rate. The prime rate on local currency loans was reported at **20.21%** for the March 2014 quarter and was expected to fall to **20.06%** in the June 2014 quarter.

Interest rates on foreign currency loans to micro businesses averaged **7.50%** for the March 2014 quarter (see **Table 5**). During this period, new loans were offered only to firms in *Electricity, Gas & Water*. For the June 2014 quarter, interest rates were expected to increase to **9.92%** due to the anticipation that firms across all sectors will be charged this rate for accessing foreign currency loans. The reported prime rate was **8.75%** for the March 2014 quarter and was expected to increase to **9.19%** in the June 2014 quarter.

Table 4

Weighted Average Lending Rates on Local Currency Loans (Per Cent)				
	Dec-13	Mar-14*	Mar-14	June-14*
Economic Sectors	(%)	(%)	(%)	(%)
Agriculture & Fishing	22.09	21.24	23.65	22.11
Construction & Land Development	20.50	24.79	27.00	26.49
Distribution	34.10	27.81	30.67	29.37
Electricity Gas & Water	26.00	27.49	26.00	26.29
Entertainment	20.65	21.04	26.00	22.08
Manufacturing	14.64	22.24	14.30	22.19
Mining & Quarrying	26.00	27.49	26.00	26.29
Professional & Other Services	23.02	20.15	16.98	21.52
Tourism	19.35	20.61	21.98	26.29
Transport, Storage & Communication	15.73	22.32	15.40	22.61
Average Rate	22.21	23.52	22.80	24.52

Table 5

Weighted Average Lending Rates on Foreign Currency Loans (%)				
	Dec-13	Mar-14*	Mar-14	June-14*
Economic Sector	(%)	(%)	(%)	(%)
Agriculture & Fishing	n.a	10.38	n.a	9.92
Construction & Land Development	9.95	10.23	n.a	9.92
Distribution	13.25	11.33	n.a	9.92
Electricity Gas & Water	n.a	10.38	7.50	9.92
Entertainment	13.50	11.42	n.a	9.92
Manufacturing	n.a	10.38	n.a	9.92
Mining & Quarrying	n.a	10.38	n.a	9.92
Professional & Other Services	11.25	10.81	n.a	9.92
Tourism	12.00	10.92	n.a	9.92
Transport, Storage & Communication	13.50	11.42	n.a	9.92
Average Rate	12.24	10.76	7.50	9.92

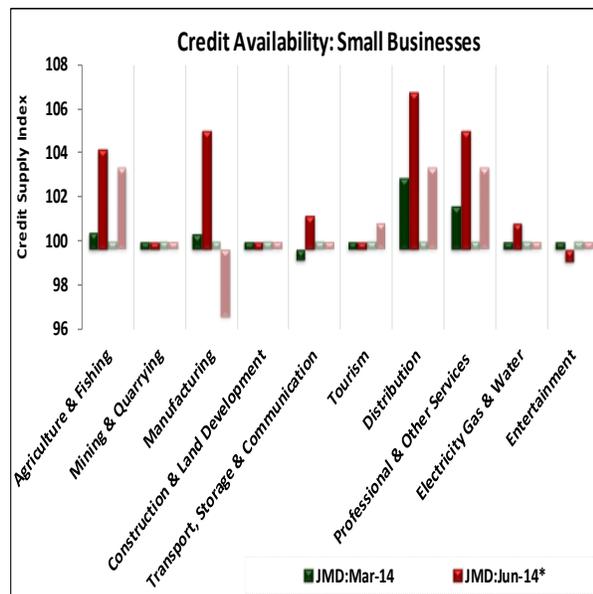
Small Business Lending

Availability of Credit to Small Businesses

The CSI for small businesses increased slightly in the March 2014 quarter relative to the December 2013 quarter. This was due to a marginal expansion in the pool of local currency funds made accessible to borrowers as there was no change in the supply of foreign currency credit (see **Chart 13**). The availability of foreign currency loans reportedly reflected limited supply and that most lenders only offered foreign currency loans to earners of foreign currency.

was a reduction in the approval rates on applications for *unsecured loans*, which also reflected a reduction in demand for these loans from small businesses.

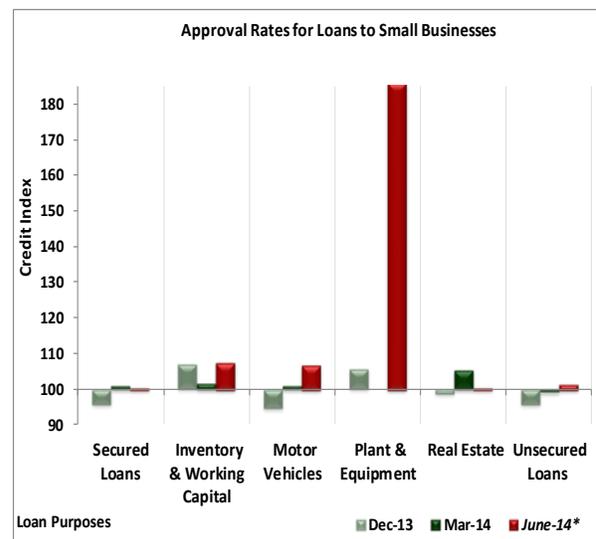
Chart 13



(<100) decline, (100) no change, (>100) increase, * Expectations

For the review quarter, the higher CSI for small business was supported by greater approval rates on loan applications. In particular, there was an increase in approval rates on applications for loans to *acquire commercial real estate* and to a lesser extent loans to *finance inventory and other working capital* (see **Chart 14**). However, there

Chart 14¹⁰



(<100) decline, (100) no change, (>100) increase, * Expectations

The higher CSI for small businesses in the March 2014 quarter was due to an improvement in the perception of future economic conditions and an increased appetite for risks on the part of lenders. Additionally, there were greater levels of competition, lower sector-specific risks, changes in lenders' market share objectives and loan portfolio mixes (see **Chart 15**).

¹⁰ The expectation of higher approval rates on loans for *Plant & Equipment* reflected the expectations of three institutions. All other institutions to which the question was applicable opined that they expected approval rates on loans for *Plant & Equipment* to be unchanged.

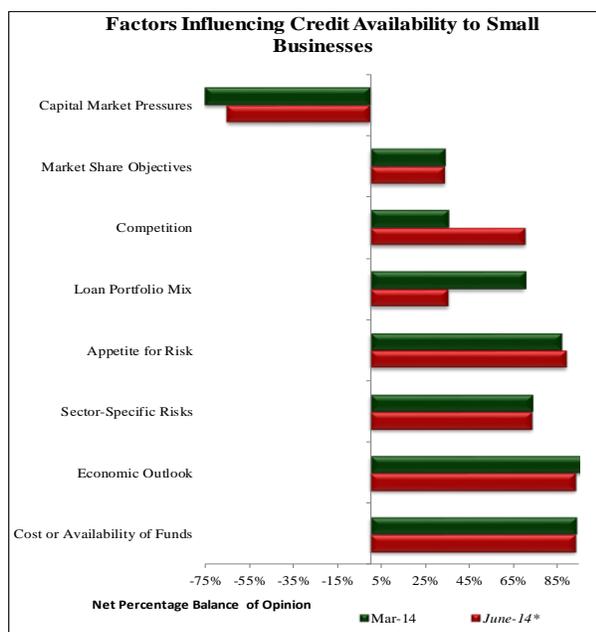


Higher CSIs for both foreign and local currency loans to small businesses was anticipated for the June 2014 quarter. This anticipation reflected further improvements in lenders' perception of future economic conditions; changes in lenders' appetite for risks and reduced risks in some specific sectors to which credit was granted (see **Chart 15**).

demand for local currency loans from firms in the other economic sectors.

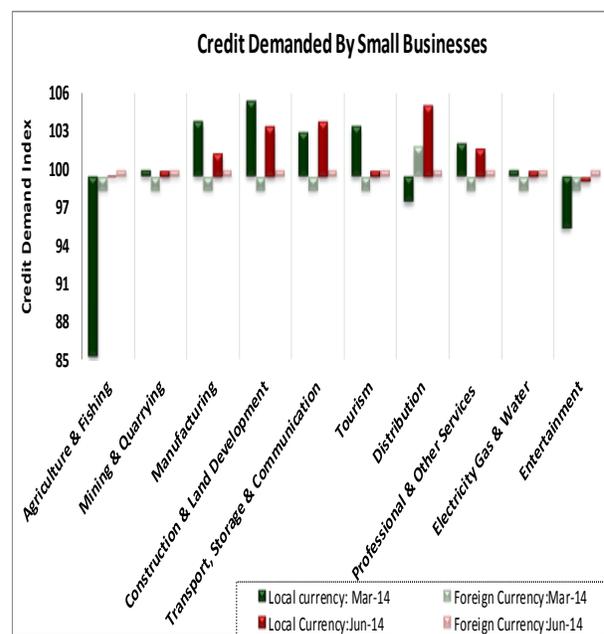
The decline overall CDI for small businesses for the March 2014 quarter was reflected in all loan categories covered by the survey. There was a notable contraction in credit demanded for balance sheet restructuring and acquiring commercial real estate.

Chart 15



(-) Insignificant Factors, (+) Significant Factors

Chart 16



(<100) decline, (100) no change, (>100) increase, * Expectations

Demand for Credit from Small Businesses

Despite the higher CSI, the CDI for both local and foreign currency loans for small businesses declined for March 2014 quarter. The lower CDI for foreign currency loans was reflected in the demand from firms within all economic sectors except *Distribution* (see **Chart 16**). Similarly, the lower CDI for local currency loans emanated primarily from firms in *Agriculture & Fishing*, *Distribution* and *Entertainment*. The impact of the reductions was partially offset by a higher

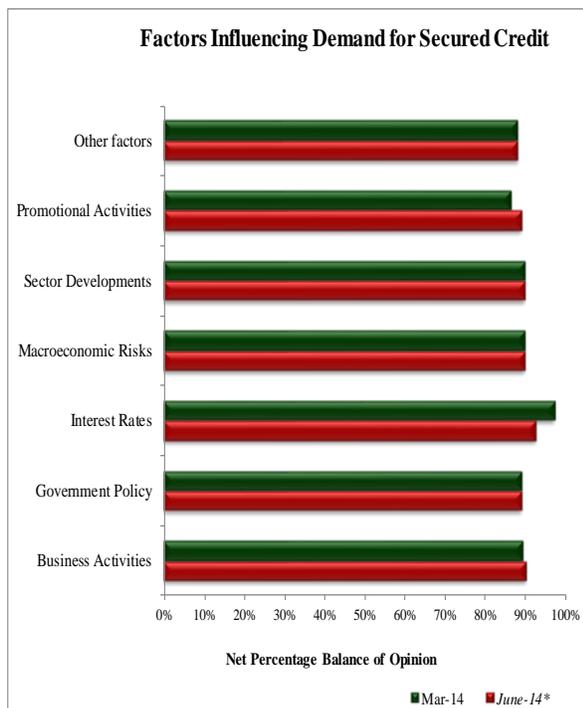
Loans demanded by small businesses over the quarter may have been adversely impacted by relatively higher interest cost on secured and unsecured loans; decline in business activities as well as the relatively higher macroeconomic risks faced by these businesses (see **Chart 17**). Notwithstanding, demand was buoyed by increased loan promotional activities (see **Chart 18**). The reduction in demand from small businesses over the quarter may have also been impacted by the relatively tight lending



conditions which existed. Tight credit conditions were primarily reflected in more stringent collateral requirements on secured loans and higher fees on non-credit card unsecured lending. Other indications of credit market conditions were broadly unchanged for the March 2014 quarter relative to the December 2013 quarter.

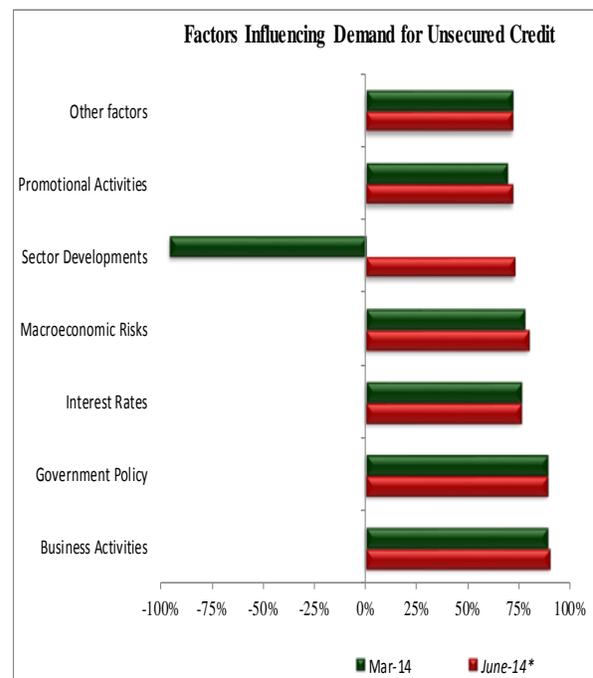
quarter. In addition, demand may be further stimulated by less restrictive credit conditions. This less restrictive environment is expected to be reflected mainly in lower fees on secured loans, less stringent collateral requirements and a general increase in the size of credit lines. However, higher interest costs, more restrictive loan covenants and increased loan monitoring requirements were expected to inhibit credit demand.

Chart 17



(-) Insignificant Factors, (+) Significant Factors

Chart 18



(-) Insignificant Factors, (+) Significant Factors

For the June 2014 quarter, the CDI for local currency loans was expected to increase while the CDI for foreign currency loans was expected to be unchanged. Increased loan demand was anticipated to emanate from firms within the *Distribution, Transport, Storage & Communication* and *Construction & Land Development*. Changes in business activities, Government policies, macroeconomic risks and increased loan promotion activities were expected to stimulate loan demand over the

Interest Rates on Loans to Small Businesses

For the review period, the weighted average lending rate on local currency loans to small businesses across all sectors averaged **12.94%** relative to **11.26%** for the December 2013 quarter (see **Table 7**). Firms in *Construction & Land Development, Distribution* and *Electricity, Gas & Water* were offered the highest lending rate while the lowest rate was offered to the



firms in *Entertainment*. Lenders reported that the rates at which new loans were approved in the quarter was based on the increased cost of funds due to the liquidity environment which existed. The prime rate was reported at **16.68%**.

For the June quarter, interest rates on local currency loans were expected to increase by an average of **2.2 pp** to **15.16%**. This reflected increased rates on local currency loans to all sectors. The average prime rate on small business loans was also expected to remain at **16.68%**.

Lending rates on foreign currency loans averaged **10.04%** for the March 2014 quarter and are expected to decline to **9.87%** for the June 2014 quarter (see **Table 8**). The expected fall in rates in June reflects an anticipation of lower demand for foreign currency loans. The prime rate on foreign currency loans to small businesses was **9.54%** in the March quarter and was expected to remain at this rate for the June 2014 quarter.

Table 6

Weighted Average Lending Rates on Local Currency Loans (%)				
Economic Sector	Dec-13 (%)	Mar-14* (%)	Mar-14 (%)	June-14* (%)
Agriculture & Fishing	10.03	11.78	10.46	13.16
Construction & Land Development	9.24	14.92	16.21	17.76
Distribution	13.60	14.71	15.15	15.88
Electricity Gas & Water	8.34	11.50	14.25	16.16
Entertainment	11.21	12.76	10.04	14.45
Manufacturing	12.64	11.97	13.31	13.59
Mining & Quarrying	13.25	14.02	11.63	17.16
Professional & Other Services	10.92	12.67	12.11	14.35
Tourism	13.24	13.65	12.92	14.66
Transport, Storage & Communication	10.10	12.87	13.32	14.38
Average Rate	11.26	13.08	12.94	15.16

Table 7

Weighted Average Lending Rates on Foreign Currency Loans				
Economic Sector	Dec-13 (%)	Mar-14* (%)	Mar-14 (%)	June-14* (%)
Agriculture & Fishing	8.75	9.81	n.a	9.88
Construction & Land Development	n.a	10.38	n.a	9.92
Mining & Quarrying	9.70	9.96	n.a	9.88
Entertainment	9.50	10.38	n.a	9.81
Distribution	n.a	10.08	9.85	9.81
Electricity Gas & Water	7.69	9.07	9.50	9.92
Manufacturing	8.75	9.81	9.50	9.81
Professional & Other Services	8.06	10.15	10.42	9.81
Tourism	9.44	9.75	10.25	10.05
Transport, Storage & Communication	7.88	10.08	10.75	9.81
Average Rate	8.72	9.95	10.04	9.87



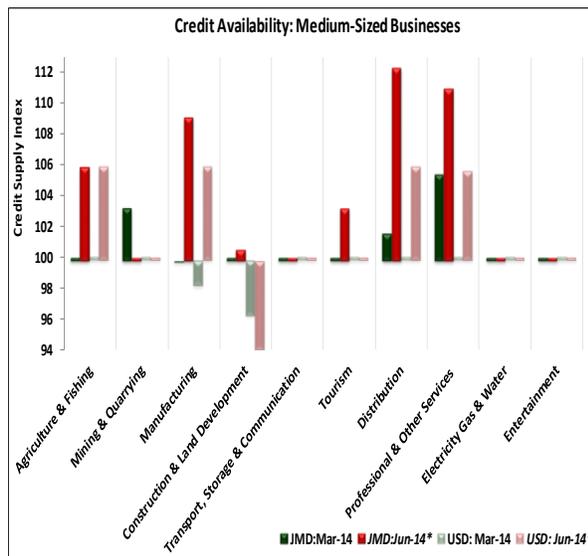
Medium-Sized Business Lending

Availability of Credit to Medium Businesses

There was a marginal increase in the CSI for medium-sized businesses for the March 2014 quarter. This increase reflected a slight expansion in the supply of local currency funds, as there was a decline in the supply of foreign currency credit (see **Chart 19**). The increase in the CSI to medium sized firms was supported by greater approval rates on applications for loans to finance *inventory & other working capital*; for *other secured loans* and to acquire or repair *Plant & Equipment* (see **Chart 20**).

Additionally, changes in sector-specific risks, changes in lenders' loan-portfolio mixes, competition and changes in lenders' market share objectives were considered by creditors to be other important factors that impacted lending to medium-sized companies during the review quarter (see **Chart 21**). However, despite the increased willingness to lend to medium-sized businesses, lenders reported continued deterioration in the financial health of these firms given the challenges they had been facing collecting receivables. In addition, they reported that these firms had been showing a decline in their working capital.

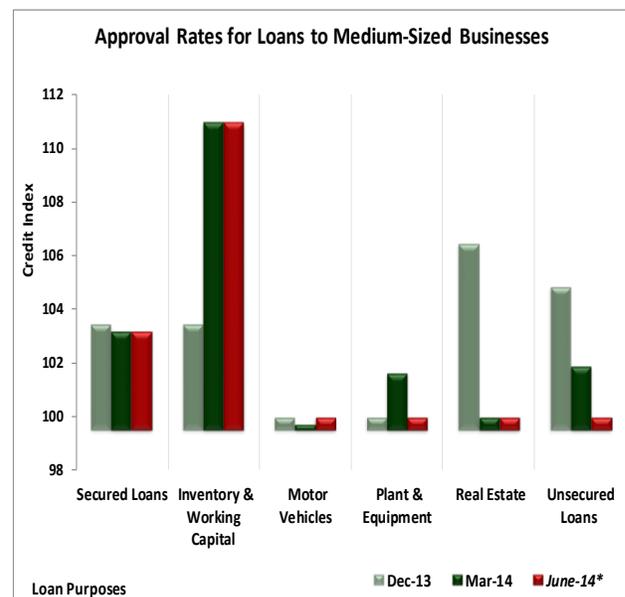
Chart 19



(<100) decline, (100) no change, (>100) increase, * Expectations

Lenders' willingness to supply credit in the March 2014 quarter was largely attributed to improvement in domestic economic conditions and shifts in lenders' appetite for risks.

Chart 20



(<100) decline, (100) no change, (>100) increase, * Expectations

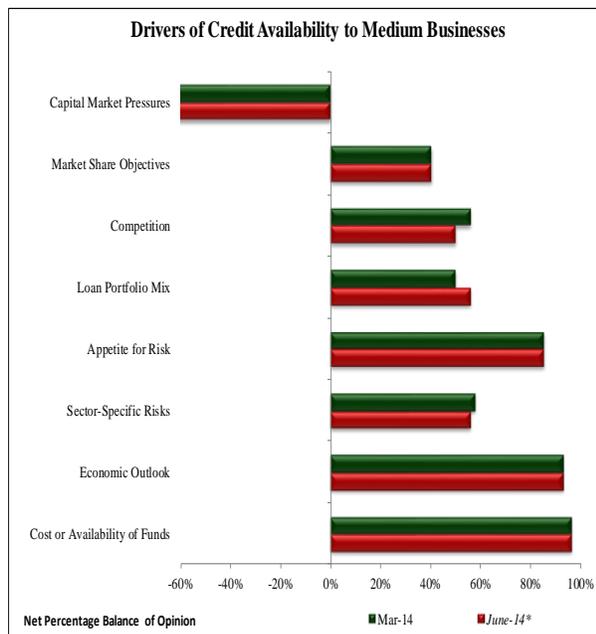
For the June 2014 quarter, the CSI for medium-sized firms suggested increased funds for both foreign and local currency loans (see **Chart 19**).



The expansion of local currency credit was expected for *Distribution, Professional & Other Services* and *Manufacturing* sectors. With regards to foreign currency credit, increased supplies were expected to go to *Agriculture & Fishing, Manufacturing, Distribution and Professional & Other Services*. Similar to the March 2014 quarter, greater credit supply was expected to be supported higher approval rates on applications for loans to *finance inventory & other working capital* and for *other secured loans* (see **Chart 20**).

Expansion in credit supply for the June 2014 quarter was expected to result from further improvements in lenders' perception of economic conditions; changes in lenders' appetite for risk, reduced risks in some specific sectors to which credit was granted and changes in lenders' loan portfolio-mixes (see **Chart 21**).

Chart 21



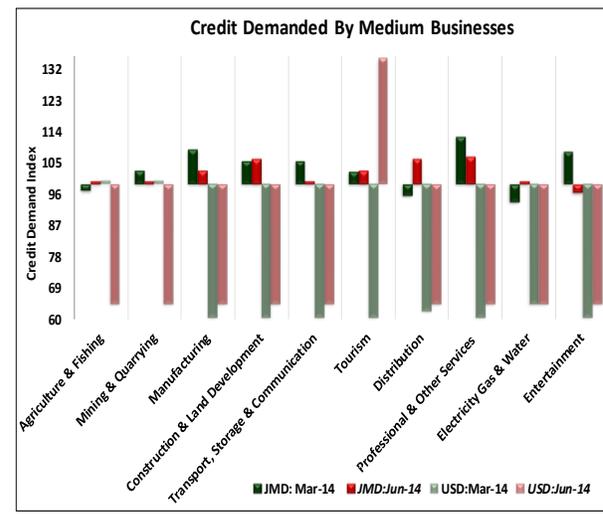
(-) Insignificant Factors, (+) Significant Factors

Demand for Credit from Medium Businesses

The CDI for medium sized firms declined in the March 2014 quarter. This decline was primarily reflected in a fall in the demand for foreign currency loans as the demand for local currency loans remained strong (see **Chart 22**). Firms in all economic sectors except, *Agriculture & Fishing, Distribution* and *Electricity, Gas & Water* generated a stronger demand for local currency loans for the March 2014 quarter relative to the December 2013 quarter. Contrastingly, a significant reduction in demand for foreign currency loans emanated from all economic sectors except *Agriculture & Fishing* and *Mining & Quarrying* for the quarter.

The CDI for medium-sized firms for the March 2014 quarter was primarily driven by loans for the purposes of financing *inventory & working capital; acquiring and repairing plant & equipment; loan refinancing* and *loan guarantees*. Additionally, there was a marginal increase in demand for *unsecured business loans*.

Chart 22



(<100) decline, (100) no change, (>100) increase, * Expectations



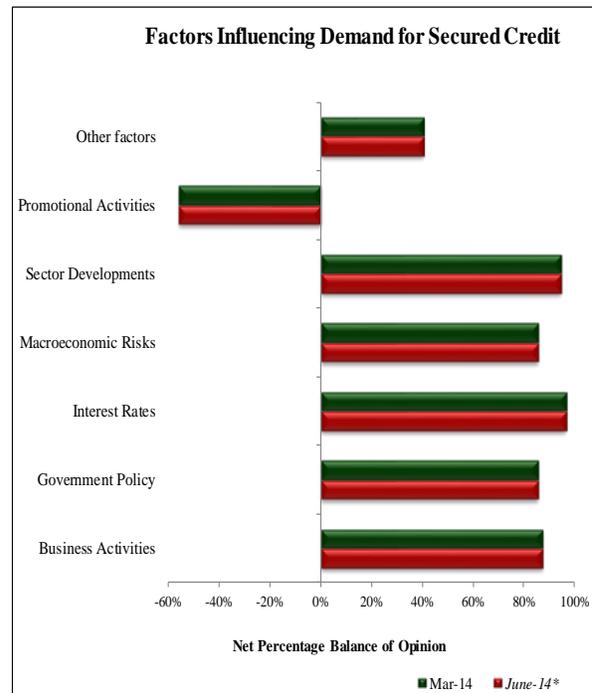
Lenders cited changes in interest rates, sector specific developments, Government policies, changes in macroeconomic risks and business activities as the most important factors that contributed to the demand for secured loan from medium-sized businesses over the quarter (see **Chart 23**).

Lending conditions faced by medium-sized businesses were relatively restrictive in the March 2014 quarter. This was evidenced by higher interest rates on secured and unsecured loans, more restrictive loan covenants on secured loans and increased loan monitoring requirements. These conditions may have moderated demand from medium-sized businesses. Despite this demand may have been encourage by an increase in the maximum size of credit lines. All other indications of credit market conditions faced by medium-sized firms were unchanged for the quarter.

For the June 2014 quarter, lenders anticipate a stronger demand for local currency loans (see **Chart 22**). This was due particularly to the expectation of increased demand from firms in *Construction & Land Development, Distribution and professional & Other Services*. In contrast, Demand for foreign currency loans was expected to decline sharply. This expectation reflects the anticipation for lower demand to emanate from within all economic sectors except *Tourism*. Lenders anticipate that credit demanded in the June 2014 quarter will be primarily for the purpose of financing inventory and working capital, refinancing existing loans and restructuring businesses balance sheets.

Demand was also expected to be constrained by more restrictive credit conditions in the June 2014 quarter. The expectation of more restrictive credit conditions was due to the expectation for higher interest rates to be applied to secured and unsecured loans; more stringent loan covenants and loan monitoring requirements; and increased collateral requirements. However, borrowers can expect an increase in the size of credit lines.

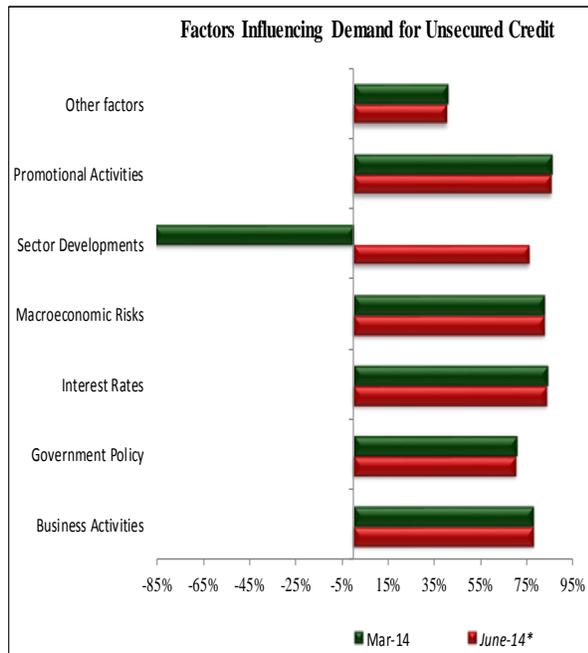
Chart 23



(-) Insignificant Factors, (+) Significant Factors



Chart 24



(-) Insignificant Factors, (+) Significant Factors

Interest Rates on Loans to Medium-Sized Businesses

For the March 2014 quarter, medium sized businesses across all economic sectors were charged an average interest rate of **12.11%** on local currency loans (see **Table 8**). This reflects a reduction of **7 bps** relative to the reported rate of **12.18%** charged on loans in the December 2013 quarter. The overall decline in interest rates was reflected in lower rates charged on loans accessed by firms in all sectors with the exception of *Distribution, Manufacturing, Mining & Quarrying* and *Transport, Storage & Communication*. No loans were offered to medium sized firms in *Electricity, Gas & Water*. Rates on local currency loans are expected to increase by **3.58 pp** to **15.69%** for the June quarter. Lenders anticipated this increase will be faced by firms in all sectors. For the March 2014 quarter, a prime rate of **15.33%** was offered to medium-sized firms. This rate was expected to

increase marginally to **15.57%** in the June 2014 quarter.

Foreign currency loans were offered to medium-sized businesses at an average rate of **9.36%**. Loans were offered to firms in all sectors except *Agriculture & Fishing, Electricity, Gas & Water, Manufacturing and Mining & Quarrying* (see **Table 9**). For the June 2014 quarter, lenders anticipate an increase in the average rate to **9.79%**. This increase primarily reflected expected rates ranging from **9.70%** to **9.81%** to be charged to firms in all sectors. Prime rate on foreign currency loans for the March quarter was **8.94%** which is expected to decline to **8.90%** for the June 2013 quarter.

Table 8

Weighted Average Lending Rates on Local Currency Loans (%)				
	Dec-13 (%)	Mar-14* (%)	Mar-14 (%)	June-14* (%)
Economic Sector				
Agriculture & Fishing	12.25	13.73	11.75	16.09
Construction & Land Development	12.51	14.27	11.57	15.46
Distribution	11.98	13.74	12.30	15.23
Electricity Gas & Water	11.84	14.34	n.a	16.96
Entertainment	12.00	13.70	10.50	15.34
Manufacturing	11.05	13.58	13.33	14.76
Mining & Quarrying	10.75	14.02	11.90	16.19
Professional & Other Services	13.52	14.52	12.40	15.99
Tourism	13.50	13.34	11.50	14.91
Transport, Storage & Communication	12.41	13.65	13.75	16.01
Average Rate	12.18	13.89	12.11	15.69



Table 9

Weighted Average Lending Rates on Foreign Currency Loans				
	Dec-13	Mar-14*	Mar-14	June-14*
Economic Sector	(%)	(%)	(%)	(%)
Agriculture & Fishing	11.00	9.67	n.a	9.81
Construction & Land Development	7.63	8.94	9.50	9.81
Mining & Quarrying	9.20	10.05	n.a	9.81
Entertainment	n.a	10.08	9.50	9.80
Distribution	9.50	10.08	8.39	9.70
Electricity Gas & Water	6.50	8.88	n.a	9.80
Manufacturing	n.a	10.08	n.a	9.81
Professional & Other Services	9.57	9.91	9.75	9.81
Tourism	9.53	9.63	9.50	9.70
Transport, Storage & Communication	10.94	10.66	9.50	9.80
Average Rate	9.23	9.80	9.36	9.79

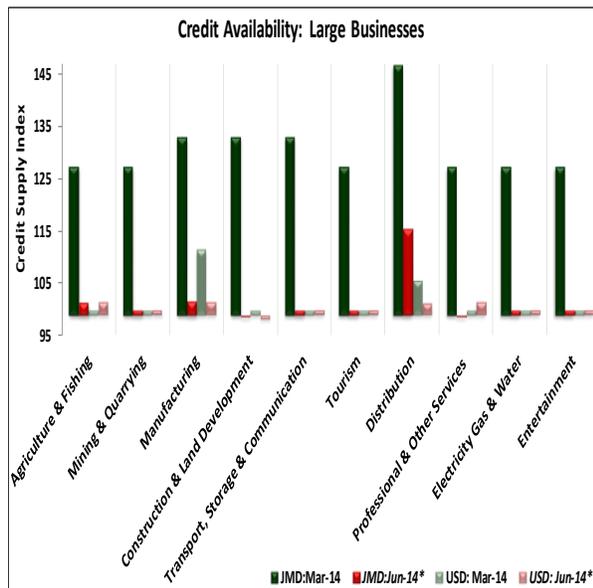
Large Corporate and Commercial Lending

Availability of Credit to Large Businesses

For the March 2014 quarter, the CSI for large companies increased moderately, reflecting increases for both local and foreign currency loans. The expansion in foreign and local currency credit supply mainly went to firms in *Manufacturing* and *Distribution* (see **Chart 25**).

For the June 2014 quarter, a moderate increase in the CSIs for both local and foreign currency loans was anticipated. These increases were mainly reflected in local currency loans to *Distribution, Agriculture & Fishing, and Manufacturing*. The increase in the CSI for the June 2014 quarter was expected to be facilitated by greater approval rates, particularly on applications for *secured and unsecured credit, loans to purchase or repair plant & equipment and credit to acquire commercial real estate as well as to finance inventory and other working capital*.

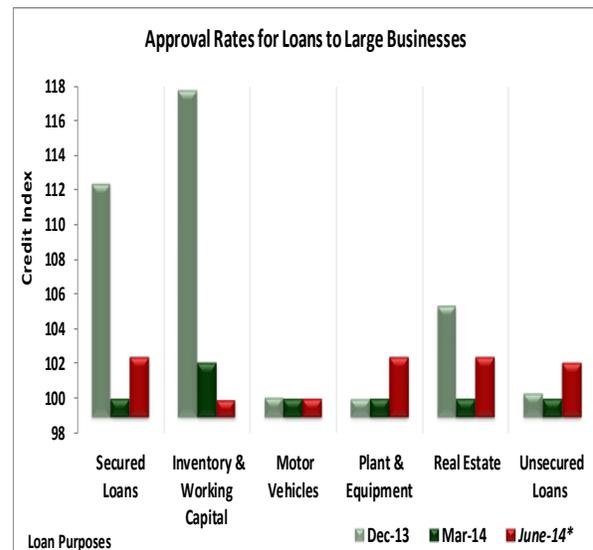
Chart 25



(<100) decline, (100) no change, (>100) increase, * Expectations

Despite the overall increase in the CSI, lenders reported a marginal decline in the loan approval rate. In particular, a lower approval rate was reflected in applications for most categories of loans, reflecting an increase in the number of unsuitable loan applications for the March 2014 quarter (see **Chart 26**).

Chart 26



(<100) decline, (100) no change, (>100) increase, * Expectations

Changes in lending institutions' outlook on economic conditions and increased appetite for risk on the part of lenders were cited as the most significant contributing factors to the expansion in the CSI for large companies in the review

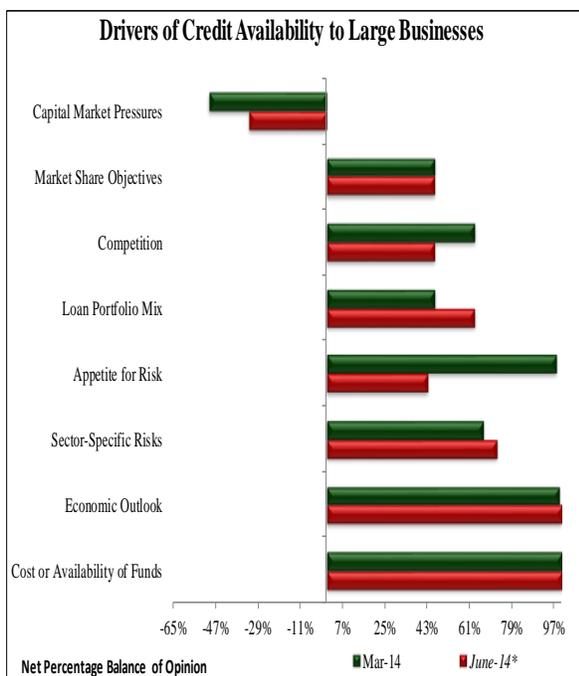


quarter (see **Chart 27**). Other factors such as reduced sector specific risks, loan portfolio-mix and market share objectives were also cited. However, lenders noted that higher cost and reduced availability of funds constrained their ability to effectively respond to requests for loans. These factors are also anticipated to be the main contributing factors to the expansion in the CSI for the June 2014 quarter.

currency loans. This was driven by demand from firms in *Tourism* and *Distribution*.

Loans demanded by large and corporate firms over the March 2014 quarter were primarily unsecured loans, credit for the purposes of *financing inventory and working capital*, purchasing and *repairing plant & equipment* and *loan guarantees*.

Chart 27.



(-) Insignificant Factors, (+) Significant Factors

Demand for Credit from Large Businesses

There was a moderate increase in the CDI for local currency loans from all sectors except *Agriculture & Fishing* for the March quarter. In particular, lenders observed a significant increase in demand from businesses within the *Distribution, Construction & Land Development* and *Manufacturing* (see **Chart 28**). Lenders also reported a slight increase in the CDI for foreign

Lenders reported that credit was primarily buoyed by increased business activities within large and corporate firms, positive sector specific developments and reduced macroeconomic risks. However, demand may have been adversely affected by relatively higher interest cost on secured and unsecured loans (see **Chart 29 & 30**).

Demand from large and corporate businesses may have also been constrained by the relatively restrictive lending conditions which existed in the March 2014 quarter. Lending conditions were tightened due to increased loan monitoring requirements on secured loans, higher interest rates on secured loans and non-credit card unsecured loans, more restrictive collateral requirements, higher non-interest fees on unsecured loans and more stringent loan covenants governing secured loans. Other indications of credit market conditions were broadly unchanged for the March 2014 quarter relative to the December 2013 quarter.

For the June 2014 quarter, the CDIs for both local and foreign currency loans from large businesses should increase. Strong demand for local currency loans was expected from *Manufacturing* and *Electricity, Gas & Water*. With regards to



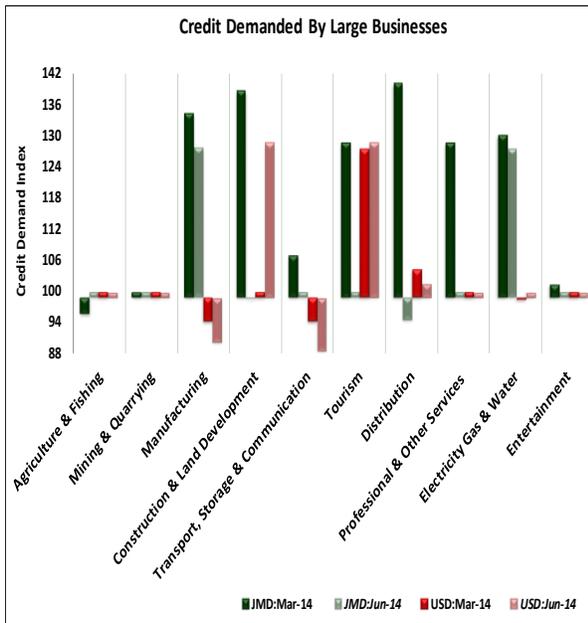
foreign currency loans, strong demand was anticipated from *Construction & Land Development, Tourism and Distribution* (see **Chart 28**).

Lenders opined that the credit demanded in the June quarter will be used primarily to finance mergers and acquisitions, to refinance existing loans and to finance inventory and working capital.

interest cost that was expected to be charged on secured and unsecured loans (see **Chart 29 & 30**).

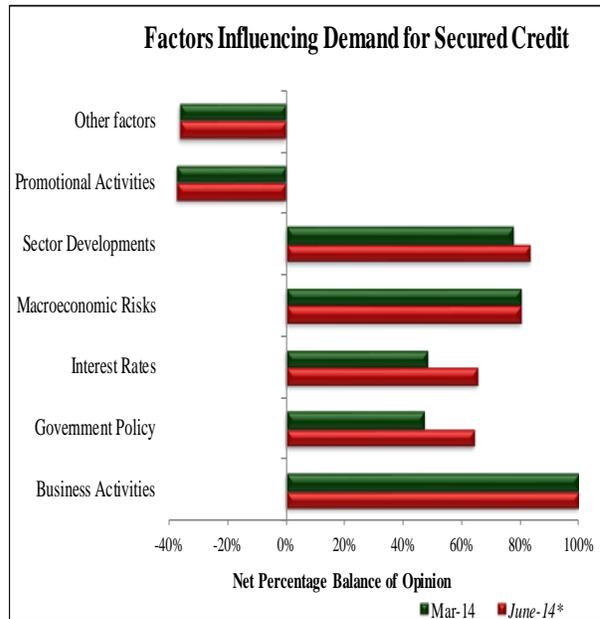
Demand from large and corporate businesses was expected to be constrained by the restrictive lending conditions in the June quarter. This mainly reflected anticipated increases in interest cost and fees charged to access loans as well as more restrictive collateral requirements. Despite this, borrowers can expect to benefit from higher loan-to-value ratios (LTV), an increase in the size of secured credit lines and reduced loan monitoring requirements for unsecured loans.

Chart 28



(<100) decline, (100) no change, (>100) increase, * Expectations

Chart 29

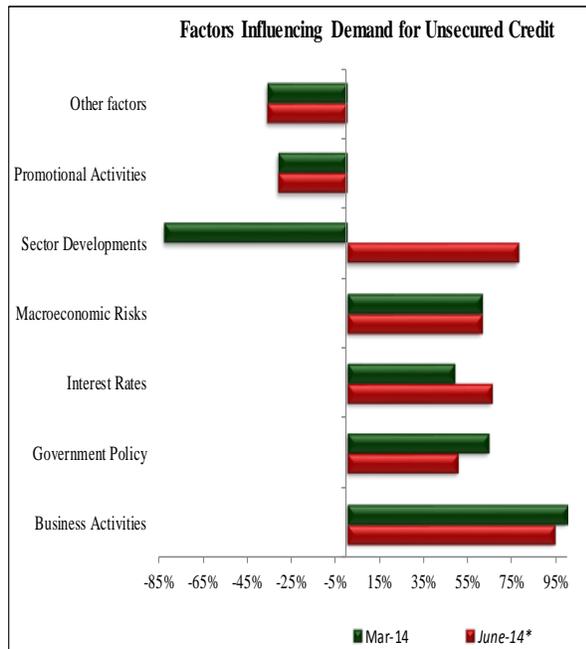


(-) Insignificant Factors, (+) Significant Factors

Lenders cited increased business activities in large and corporate firms, positive sector specific developments, reduced macroeconomic risks and positive changes in Government policies as the most important factors that will impact the willingness of large firms to seek credit in the June quarter. However, they project that demand may be adversely affected by relatively higher



Chart 30



(-) Insignificant Factors, (+) Significant Factors

Interest Rates on Loans to Large Businesses

The reported rate on local currency loans to large and corporate businesses across all economic sectors averaged **13.70%** for the March quarter relative to **7.12%** reported for the December 2013 quarter (see **Table 10**). This increase was reflected in higher rates charged on loans accessed by firms within all economic sectors. Firms in *Mining & Quarrying, Entertainment and Electricity, Gas & Water* were offered the highest lending rate.

Rates are expected to decline by **0.55 pp** to **13.15%** for the June quarter. Lenders anticipated this increase to be reflected in loans offered to firms in all sectors except *Manufacturing, Tourism, Professional & Other Services and Transport, Storage & Communication*. For the quarter, a prime rate of **15.40%** was offered to

large & corporate firms. This rate was expected to remain over the June quarter.

Foreign currency loans were offered to large & corporate businesses at a rate of **4.86%**. For this quarter, foreign currency loans were offered to firms in all economic sectors (see **Table 11**). Lenders anticipate that this rate will increase by **3.85pp** to **8.71%** in the June quarter. This expectation was due to a projected rate increase on loans to all economic sectors. Prime rate on foreign currency loans for the March quarter was **9.02%** and was expected to be unchanged for the June quarter.

Table 10

Weighted Average Lending Rates on Local Currency Loans				
	Dec-13	Mar-14*	Mar-14	June-14*
Economic Sector	(%)	(%)	(%)	(%)
Agriculture & Fishing	10.00	9.18	13.50	13.13
Construction & Land Development	20.21	22.13	14.00	13.50
Distribution	9.98	11.19	12.90	12.80
Electricity Gas & Water	2.29	9.39	15.00	12.68
Entertainment	3.43	9.00	15.00	13.20
Manufacturing	6.69	9.07	11.63	12.93
Mining & Quarrying	4.77	8.63	18.50	13.13
Professional & Other Services	4.60	8.57	13.00	13.60
Tourism	4.71	8.14	11.50	13.40
Transport, Storage & Communication	4.57	8.21	12.00	13.13
Average Rate	7.12	10.35	13.70	13.15



Table 11

Weighted Average Lending Rates on Foreign Currency Loans				
	Dec-13	Mar-14*	Mar-14	June-14*
Economic Sector	(%)	(%)	(%)	(%)
Agriculture & Fishing	3.79	7.13	3.80	8.69
Construction & Land Development	4.46	6.43	8.80	9.00
Mining & Quarrying	5.87	8.31	3.80	8.69
Entertainment	3.76	6.95	3.80	8.69
Distribution	2.57	6.43	7.00	8.30
Electricity Gas & Water	3.52	7.46	5.22	8.61
Manufacturing	2.57	6.46	3.80	8.69
Professional & Other Services	3.66	6.39	4.80	8.69
Tourism	2.83	5.54	3.80	8.90
Transport, Storage & Communication	3.57	5.68	3.80	8.90
Average Rate	3.66	6.68	4.86	8.71



Appendix: Additional Results

Appendix 1: Dissagration of loans Demanded by Businesses

Chart 31

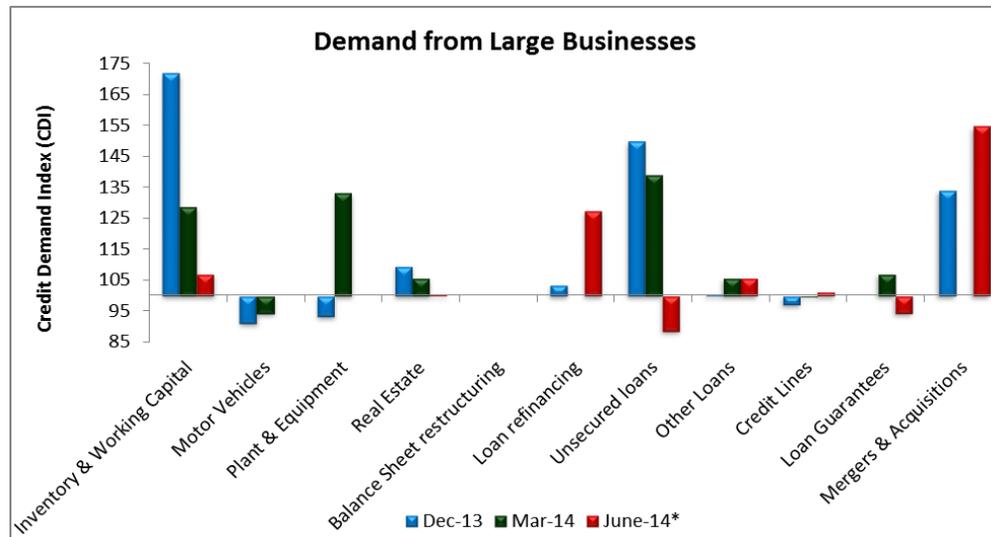


Chart 32

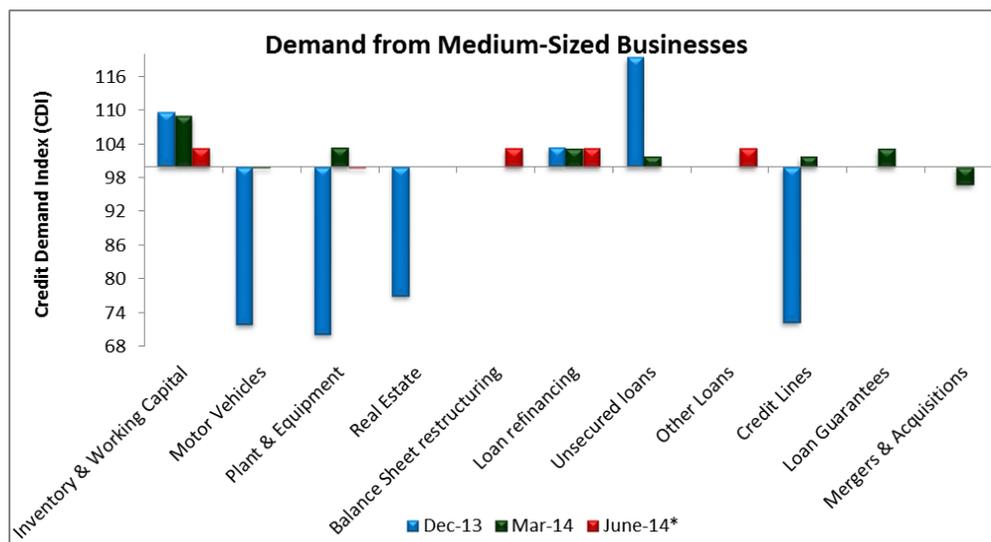




Chart 33

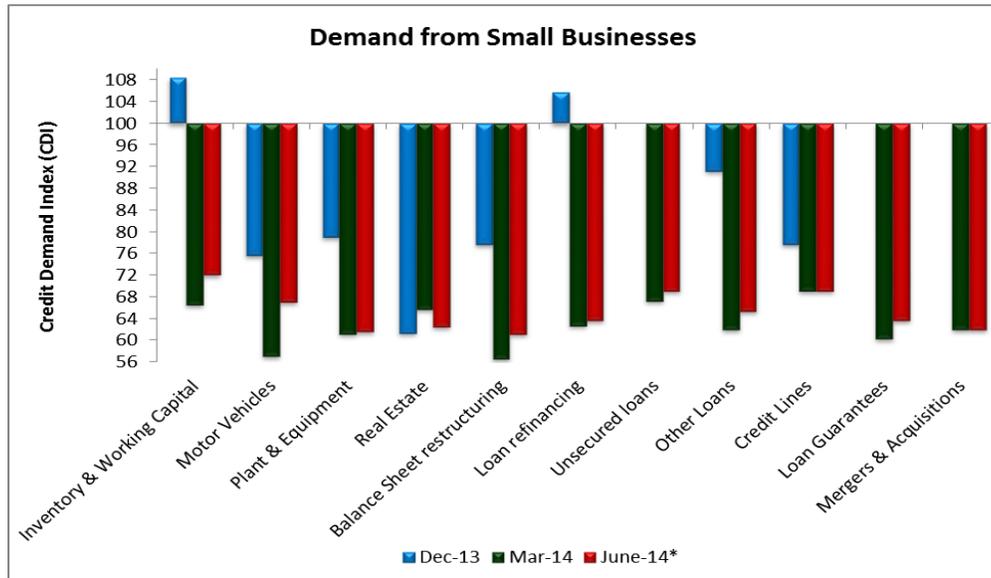
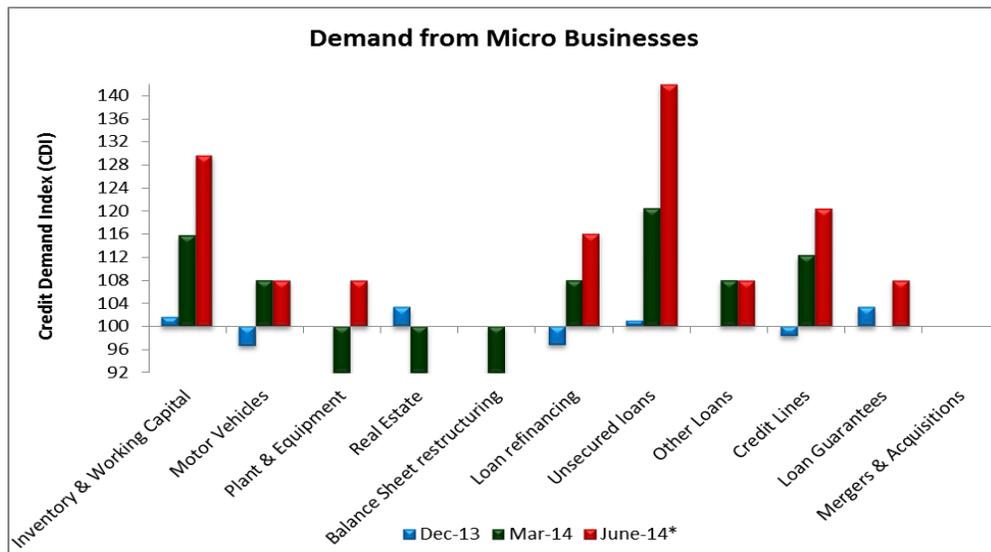


Chart 34





Appendix 2: Index of Credit Market Conditions

Lending institutions were asked to highlight changes in selected credit market terms and conditions. Responses were aggregated and presented in charts 35 and 36 below. Changes in credit market terms reflect either easing or tightening of credit market conditions. Indices associated with credit terms range from 0 to 200. An index greater than 100 indicates that lenders changed the respective credit term to restrict credit access. For example, an index of 99 for the *maximum loan to value ratio* for the March 2014 quarter suggests that lending institutions eased that credit term, or increased the *maximum loan to value* ratio for secured loans (see Chart 35).

Chart 35

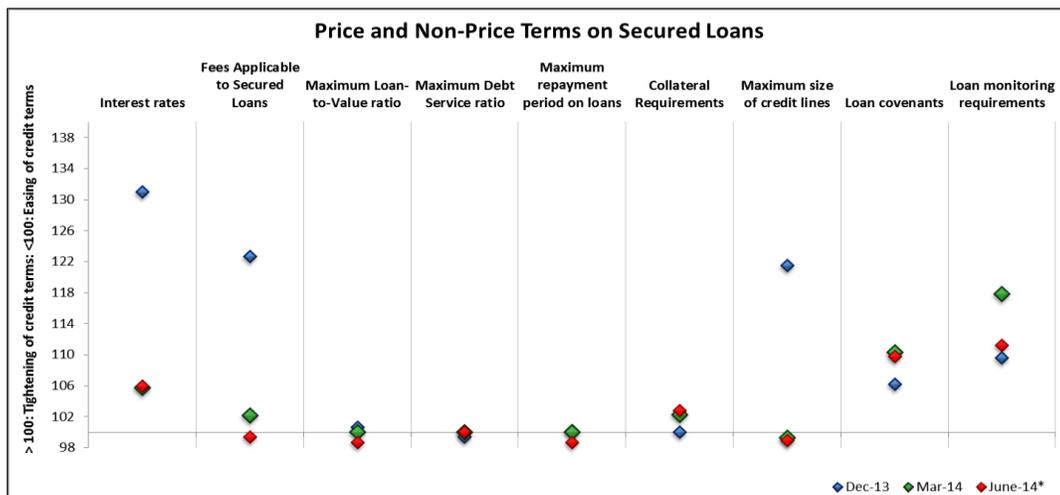
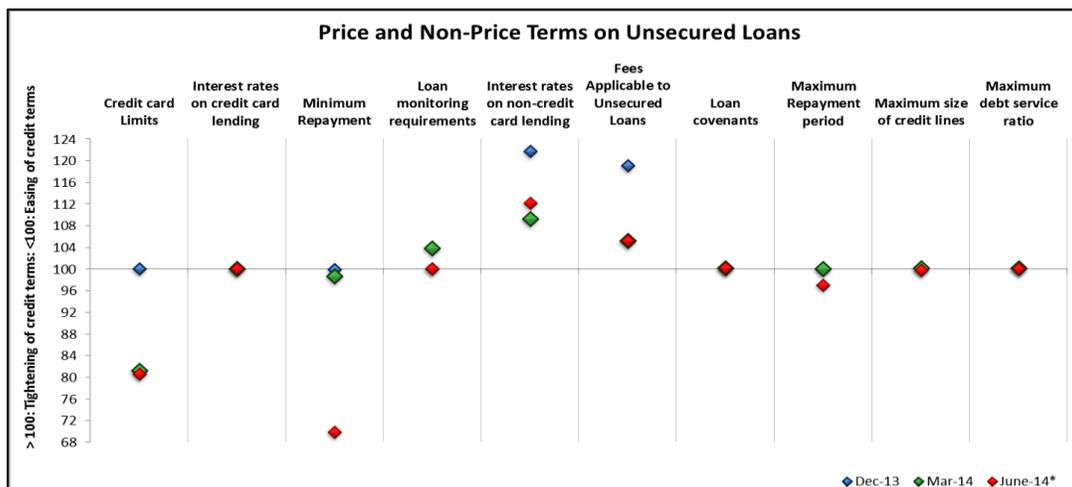


Chart 36





Glossary and Key Definitions

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

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^{11}$$

By construction, lenders who report that credit conditions have changed a lot are assigned twice the score as those who reported that the index has changed a little. The scores are then weighted by the market share of the respondents. The diffusion index (DI) was 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 being declining/ easing, while a positive DI indicates that the majority of the respondents view the variable in question as being increasing/ tightening. An index of 100 indicates no change in the variable.

Credit Demand Index (CDI)-The average net balance of opinion 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

¹¹ 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

Micro business firm may be classified by loan size or annual turnover:

1. Classification by loan size: if the loan was less than the equivalent of US\$10 000 at origination,
2. Classification by turnover: if firm annual sales/turnover was less than the equivalent of US\$100 000.

Small business firm may be classified by loan size or annual turnover:

1. Classification by loan size: if the loan was more than the equivalent of US\$10 000 and less than the equivalent of US\$100 000 at origination,
2. Classification by turnover: if firm annual sales/turnover was more than the equivalent of US\$100 000 and less than the equivalent of US\$5.0 million.

Medium-sized business firm may be classified by loan size or annual turnover:

1. Classification by loan size: if the loan was more than the equivalent of US\$100 000 and less than the equivalent of US\$1.0 million at origination,
2. Classification by turnover: if firm annual sales/turnover was more than the equivalent of US\$5.0 million and less than the equivalent of US\$25.0 million.

Large corporate and commercial business firm may be classified by loan size or annual turnover:

1. Classification by loan size: if the loan was more than the equivalent of US\$1.0 million at origination,
2. Classification by turnover: if firm annual sales/turnover was more than the equivalent of US\$25.0 million.