

# Quarterly Credit Conditions Survey Report



**March 2016  
Quarter**

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**Monetary Analysis & Programming  
Department**  
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## Contents

List of Figures & Tables .....	2
Background .....	3
Overview .....	4
Personal Lending .....	7
Micro Business Lending .....	9
Small Business Lending .....	11
Medium-Sized Business Lending .....	12
Large Corporations and Commercial Lending .....	14
Appendix A: Overall Credit Market Conditions .....	17
Glossary and Key Definitions .....	19

## List of Figures & Tables

Figure 1: Index of Credit Market Conditions	4
Figure 2: Credit Demand and Supply Indices	5
Figure 3: Distribution of Private Sector Credit	5
Figure 4: Components of Credit Demand	6
Figure 5: Credit Conditions for Personal Lending	7
Figure 6: Availability of Credit for Personal Lending	8
Figure 7: Demand for Personal Loans	8
Figure 8: Interest rates on Personal Loans	9
Figure 9: Credit Conditions for Micro Businesses	9
Figure 10: Credit Conditions for Small Businesses	11
Figure 11: Credit Conditions for Medium-sized Businesses	13
Figure 12: Credit demanded by Medium Businesses	13
Figure 13: Credit Conditions for Large Businesses	15
Figure 14: Availability of Credit to Large Businesses	15
Figure 15: Credit Conditions for Secured Loans	17
Figure 16: Credit Conditions for Unsecured Loans	17
Figure 17: Drivers of the Supply of Credit	18
Figure 18: Drivers of the Demand of Credit	18
Table 1: Overall Weighted Average Lending Rates on Local and Foreign Currency Loans	6
Table 2: Interest Rates on Local and Foreign Currency Loans to Micro Businesses	10
Table 3: Interest Rates on Local and Foreign Currency Loans to Small Businesses	12
Table 4: Interest Rates on Local and Foreign Currency Loans to Medium-sized Businesses	14
Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses	16
Table 6: Components of Credit Demand and Supply Indices	17

## 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 Quarterly Credit Conditions Survey (QCCS) 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 March 2016 survey which was conducted between 13 April 2016 and 04 May 2016.

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

### Surveys Completed by Each Institution

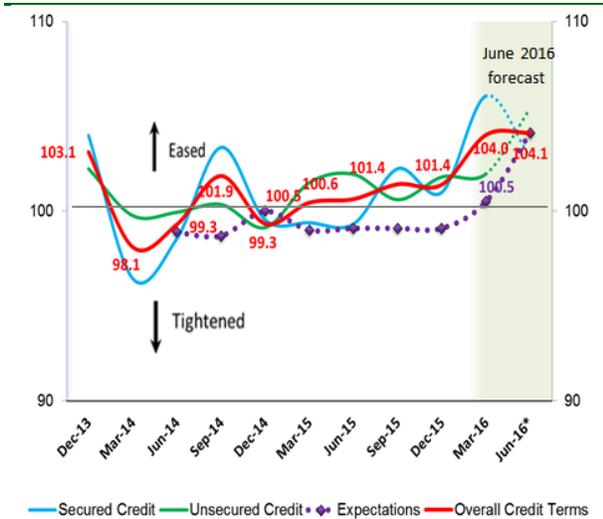
	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	1	1	1	1	1	1
Credit Unions	8	8	8	7	7	7
<b>Total</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>17</b>	<b>17</b>



## Overview

The results of the BOJ’s latest QCCS for the March 2016 quarter indicate that overall credit market conditions continued to ease with the index rising to the highest level since the start of the survey (see **Figure 1**).

**Figure 1: Index of Credit Market Conditions**



Notes: (i) The asterisk (\*) represents forward looking expectations provided by the respondents for the March 2016 quarter. (ii) The index is the average response for changes in eight credit terms reported in the Credit Conditions Survey.

Lenders reported that the continued easing in credit market conditions was driven primarily by improvements in policies for secured loans. In particular, respondents cited that low interest rates, increased competition, loan promotional activities and market share objectives continued to be the underlying factors for credit easing for the review quarter. As a result, lenders reduced the fees applicable to unsecured loans, lowered interest rates, primarily to large businesses,

increased the loan to value ratio and extended credit lines.

For the June 2016 quarter, lenders anticipated further easing in credit market conditions, albeit marginal, particularly for unsecured loans. This easing would reflect the impact of anticipated reductions in fees applicable to unsecured loans; an increase in the maximum debt service ratio, as well as the size of credit lines (see **Appendix A: Figure 15** and **Figure 16**). Policies associated with secured loans were also expected to ease, although at a slower pace than in the March 2016 quarter. Notwithstanding this, lenders noted that the level of business activities for the June 2016 quarter moving forward will be dependent on the outcome of possible policy changes emanating from the Government of Jamaica’s (GOJ’s) Budget presentation for FY2016/17.

### Credit Supply

For the March 2016 quarter, lenders reported a moderate increase in the supply of credit which was relatively in line with their expectations from the previous quarter (see **Figure 2**). The outturn for the review quarter reflected moderate increases for both local and foreign currency lending facilities, which were made accessible to both businesses and households. Although personal loans continued to account for a large proportion of the credit supplied, there was a noticeable increase in credit made available to businesses during the review quarter (see **Figure 3**). In comparison to the previous quarter, this re-

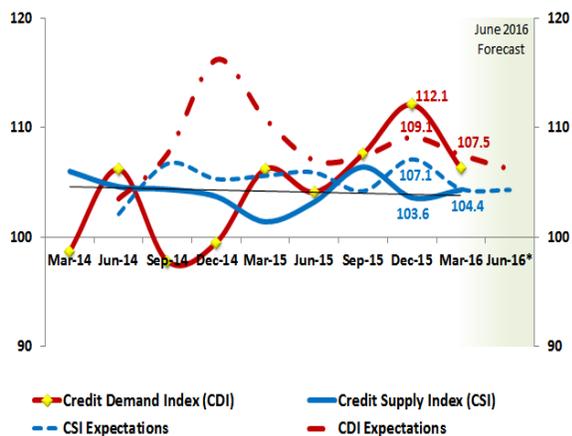


Bank of Jamaica Credit Conditions Survey

distribution of credit to businesses, relative to households, was associated with increased credit supply to large businesses in lieu of small and medium sized enterprises. Lenders also reported that interest rates for large corporates continue to trend downward due to the fact that the market place remains very competitive and bargaining power remains low.

Of note, the supply of credit for the review quarter indicated a decline in lenders' risk tolerance. This was depicted in increased pressures from capital markets which competed with lenders' ability to supply credit, particularly for small and medium sized businesses. Increased risk aversion was also observed in lending to households and individuals as the interest rates on new loans to micro enterprises increased during the review quarter (see Figure 17).

Figure 2: Credit Demand and Supply Indices

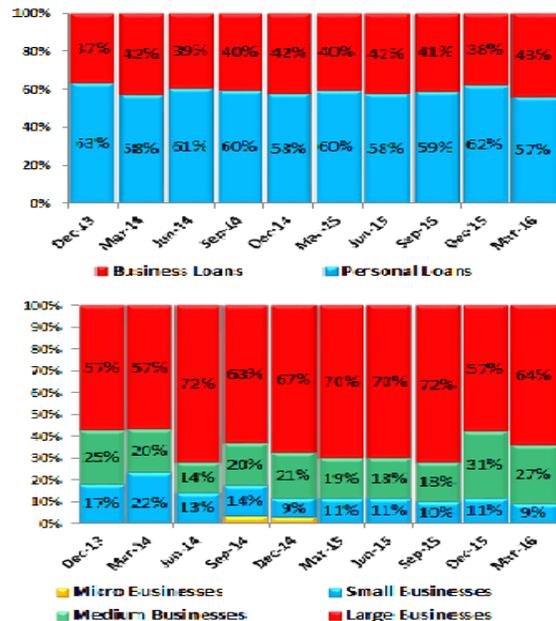


- \*-Expectations for the upcoming quarter from the current survey.
- Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

<sup>1</sup> Figure 3 shows the distribution of credit between households and businesses. Credit to businesses was further © Copyright 2016. Bank of Jamaica

March 2016 Quarter

Figure 3: Distribution of Private Sector Credit<sup>1</sup>



For the June 2016 quarter, lenders anticipated that the overall credit supply will remain unchanged when compared to the previous quarter. However, a slight increase in the availability of personal credit and the supply of local currency loans is expected, relative to the March 2016 quarter (see Figure 2 and Appendix A: Table 6). This expansion is influenced by the anticipation of continued improvements in the economic outlook, increased competition, and continued efforts to increase market share.

Credit Demand

Demand for credit in the March 2016 quarter expanded, but at a much slower pace than the previous quarter (see Figure 2). The moderation in credit demand, as reflected in the Credit Demand Index (CDI) of 106.3, mainly reflected a significant reduction in demand for business loans by small

disaggregated to show to total business loans distributed firms of various sizes.



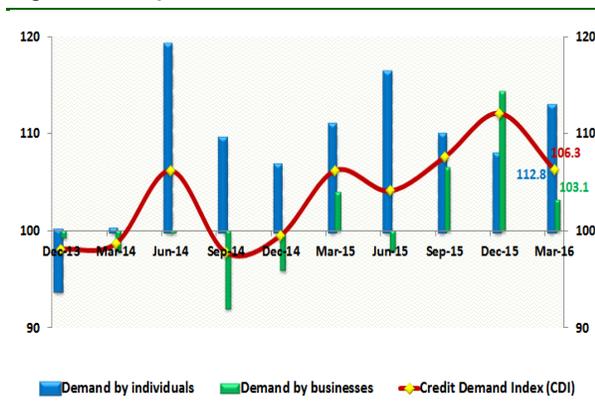
and medium sized enterprises (see **Figure 4**). This moderation was largely attributed to an increase in the price of credit and a deterioration in economic conditions. Lenders' also cited that borrowers were generally in a 'wait-and-see' mode with regards to the uncertainty surrounding possible policy changes stemming from the impending GOJ Budget presentation.

Notwithstanding the aforementioned, demand for credit was mainly driven by the reduction in interest rates on personal credit, which was reflected in increased demand for motor vehicle loans and mortgages. Further, loan promotion activities and increased business activity also positively contributed to an expansion in credit demand in the quarter.

For the June 2016 quarter, lenders are expecting a similar outlook for credit demand, with the exception of increased demand for personal credit stemming from a possible rise in households' disposable personal income.

Based on survey responses, average interest rates on local currency loans increased for the March 2016 quarter while average interest rates on foreign currency declined (see **Table 1**). Higher rates on local currency loans emanated from an increase in the interest margin on business loans, particularly to micro and medium sized firms. However, there was a slight reduction in the interest rates on secured personal loans, more specifically for motor vehicles and mortgages, which partly explains the increased demand for personal loans in the quarter. In addition, increased loan promotion activities in the quarter coupled with the fall in interest rates was consistent with lenders' efforts to increase market share amidst increased market competition.

**Figure 4: Components of Credit Demand**



1. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

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

	March 2015 Survey		December 2015 Survey		March 2016 Survey	
	Mar-15	Jun-15*	Dec-15	Mar-16*	Mar-16	Jun-16*
<b>Local Currency (LC) Loans</b>						
Business loans	14.61	15.63	14.68	15.04	15.33	15.04
Personal loans	20.02	20.30	18.51	23.73	18.19	23.73
Reference rate	16.47	16.31	11.64	13.66	13.34	14.93
<b>Average LC rates</b>	<b>17.32</b>	<b>17.97</b>	<b>16.60</b>	<b>19.39</b>	<b>16.76</b>	<b>19.39</b>
<b>Foreign Currency (FC) Loans</b>						
Business loans	8.31	8.81	9.62	9.01	8.71	9.01
Reference rate	10.60	8.96	9.54	8.27	8.53	8.04

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

## Price of Credit

Regarding the decline in interest rates on foreign currency loans, the reduction mainly reflected a sharp fall in interest rates on business loans. This decline for the quarter could be attributed to the improved liquidity conditions for US dollars in the



financial system that resulted from higher intervention sales by the BOJ. However, lenders also cited the depreciation in the exchange rate as the most significant factor that continued to impact the cost and availability of funds.

For the June 2016 quarter, lenders anticipate a moderate decline in interest rates for business loans but an uptick in the rate on personal credit (see **Table 1**). Notably, average rates on local and foreign currency loans were expected to increase by **2.6 percentage points (pps)** and **0.3 pps**, respectively.

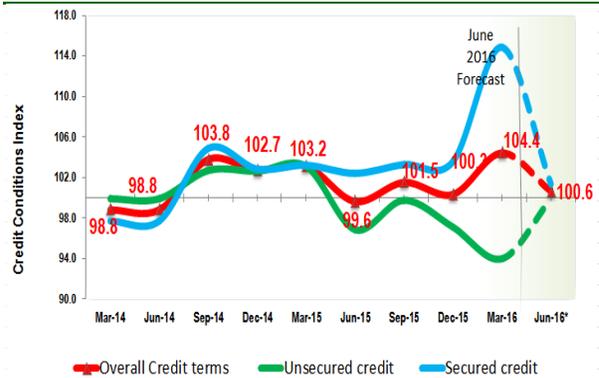
## Personal Lending

### Credit Conditions

Lenders reported an easing in credit conditions for personal loans for the March 2016 quarter relative to the December 2015 quarter (see **Figure 5**). This easing in credit conditions for personal loans mainly reflected a significant improvement in lending conditions for secured loans as creditors lowered interest rates on mortgages and motor vehicles as well as increased the maximum loan-to-value ratio. As such the index on secured credit rose to the highest level of **114.8** for the review quarter. However, the overall easing in personal credit conditions was partly offset by a continued increase in the minimum proportion of balances repaid on unsecured loans as was observed in the previous quarter.

For the June 2016 quarter, lending conditions are expected to tighten as creditors indicated their uncertainties regarding possible GOJ policy changes following the presentation of the Budget for FY2016/17 in May 2016. Notwithstanding this, respondents still expect a further reduction in interest rates and fees applicable to unsecured loans, as well as an increase in the maximum size of credit lines.

Figure 5: Credit Conditions for Personal Lending



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

### Credit Supply

The availability of credit to individuals was more robust in the March 2016 quarter relative to the December 2015 quarter (see **Appendix A: Table 6**). The increase in the index to **106.4** from **100.6** was reflected across all loan categories, more specifically in mortgages & real estate, motor vehicle loans, and debt consolidation, (see **Figure 6**). Lenders stated that increased competition, reduced risk appetite and market share objectives were the most significant factors driving the expansion in credit availability to households. It was noted that several creditors had to increase loan promotional activities in order to heighten

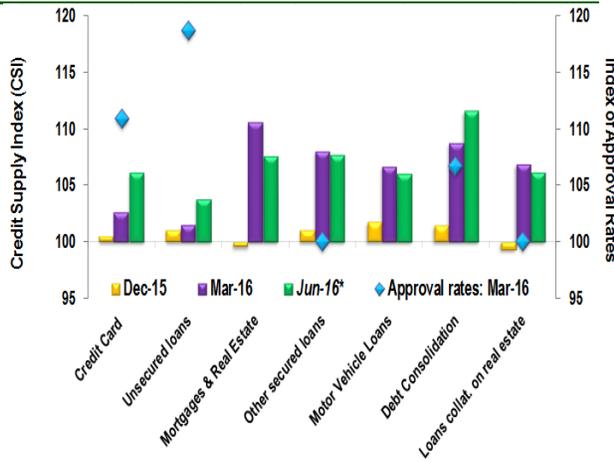


awareness and to stimulate demand for various products.

For the June 2016 quarter, lenders anticipate a further increase in the supply of personal loans across all categories, namely debt consolidation, mortgages & real estate and motor vehicle loans (see **Appendix A: Table 6 and Figure 5**). This outlook is consistent with Lenders indicating that they will increase approval rates on all categories of loans excluding unsecured debt given the expected changes in market share objectives and competition.

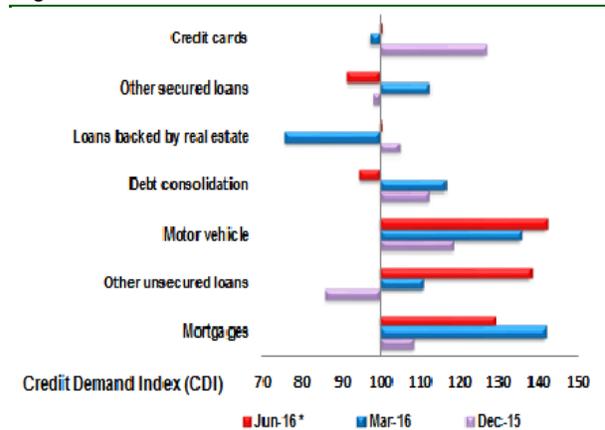
quarter (see **Appendix A: Table 6**). However, credit demand was mainly driven by the reduction in interest rates on motor vehicles and mortgages, as well as increased demand for debt consolidation. These factors favourably contributed towards the overall expansion in the CDI for the review quarter. In spite of the reduction in interest rates on credit cards, there was a notable decline in the demand for credit card loans. Nevertheless, there was an increase in demand for other unsecured loans (see **Figure 7**). Creditors highlighted the drive in demand for the review quarter was mainly attributed to an increase in loan promotional activities and a reduction in interest rates.

**Figure 6: Availability of Credit for Personal Lending**



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

**Figure 7: Demand for Personal Loans**



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

## Credit Demand

Lenders indicated that the demand for personal loans increased in the March 2016 quarter, albeit lower than the projections recorded in December 2015. The outturn, as revealed in the CDI of **112.8**, was below creditors' expectations for an increase in the CDI of **115.3**. The lower estimate could reflect the impact of higher lending rates on *Other unsecured personal loans* during the review

For the June 2016 quarter, credit demand is anticipated to increase mainly through continued demand for motor vehicle loans, and other unsecured loans (see **Figure 7**). Lenders also anticipate that demand will continue to be driven by promotional activities, reduction in interest rates as well as positive changes in personal income.

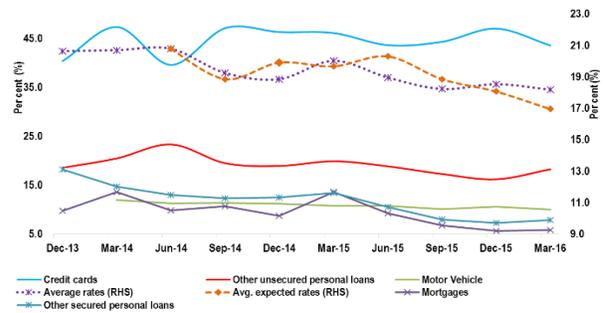


expected to continue its downward trend and fall by **2.7 pps** to **14.20%**.

### Price of Credit

Lenders continued to lower interest rates on personal loans for the March 2016 quarter. The lower average rate for the review quarter was mainly reflected in a reduction in credit card and motor vehicle loans (see **Figure 8**). Notably, there was a significant increase of **2.1 pps** in the interest rate on other unsecured loans, resulting from an increase in the minimum payment of balances required to be repaid by debtors. For the June 2016 quarter, average rates on personal loans are

**Figure 8: Interest rates on Personal Loans**



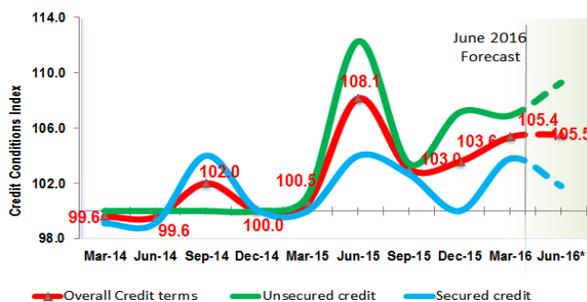
## Micro Business Lending

### Credit Conditions

For the March 2016 quarter, the overall terms and conditions that banks apply in offering loans to micro-businesses continued to improve despite reports of tepid credit demand in the quarter (see **Figure 9**). The continued easing in credit policies for the quarter was mainly influenced by improved credit conditions for secured loans as financial institutions reduced interest rates on secured credit and lowered the fees applicable to unsecured loans.

For the June 2016 quarter, credit conditions are expected to remain buoyant in anticipation of further easing in policies for unsecured credit. In this context, some lenders cited that they have consequently adjusted their risk appetite for loans to micro enterprises and have continued to explore new ways of satisfying credit demand. Tighter credit conditions for secured loans are expected as lenders anticipate higher interest rates on those loans.

**Figure 9: Credit Conditions for Micro Businesses**



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

### Credit Supply

There was a moderation in the supply of credit to micro-sized firms in the March 2016 quarter when compared to the previous quarter. Notably, the CSI fell to **102.7** from **106.8** in the previous quarter. This tempered expansion in credit supply was primarily influenced by increased market pressures from capital markets in the context of difficulties in sourcing funds given other capital market and business activities. Notwithstanding this, credit supply was augmented through



increased competition, changes in the economic outlook as well as market share objectives. The increase in credit supply continued to be channelled into the *Transport, Construction* and *Agriculture* sectors when compared to the previous quarter. For the June 2016 quarter, lenders anticipated that credit supply would increase as economic conditions are expected to improve.

### Credit Demand

A similar outturn was observed in the demand for credit from micro enterprises. While lenders anticipated an increase in loan demand, the CDI fell by **10.8** points to **103.3** from **114.1**, which is indicative of sluggish demand for loans in the quarter. Weak demand for credit denominated in local currency was reflected across the *Manufacturing, Transport, Professional* and *Tourism* sectors while the demand for foreign currency loans was primarily concentrated in *Tourism* and *Transport*.

For the review quarter the drivers of demand for credit from micro enterprises were mainly influenced by increased business activities and positive changes in government policies. For the June 2016 quarter, lenders anticipate a slight uptick in the demand for loans from micro enterprises particularly unsecured loans.

### Price of Credit

Even though credit conditions to micro firms eased for the quarter, lenders reported an increase in the price of credit relative to the previous quarter. In particular, the average interest rate on local currency loans increased to **22.58%** compared to **19.22%** from the previous quarter.

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

	Local Currency				Foreign Currency			
	December 2015 Survey		March 2016 Survey		December 2015 Survey		March 2016 Survey	
	Dec-15	Mar-16*	Mar-16	Jun-16*	Dec-15	Mar-16*	Mar-16	Jun-16*
Agriculture & Fishing	23.00	25.13	26.86	21.07	n.a.	8.50	n.a.	10.80
Construction & Land Development	12.50	16.75	23.47	24.85	n.a.	8.50	n.a.	n.a.
Distribution	24.18	25.13	19.81	24.85	n.a.	8.50	n.a.	n.a.
Electricity Gas & Water	11.98	16.75	19.10	24.85	10.00	8.50	n.a.	n.a.
Entertainment	16.51	16.75	27.36	25.35	11.52	8.50	9.81	n.a.
Manufacturing	24.95	25.13	19.16	25.25	n.a.	8.50	n.a.	n.a.
Mining & Quarrying	9.41	16.75	20.60	24.85	n.a.	8.50	n.a.	n.a.
Professional & Other Services	13.92	16.75	19.60	25.35	n.a.	8.50	n.a.	n.a.
Tourism	33.50	25.13	26.81	24.85	13.50	8.50	10.00	n.a.
Transport, Storage & Communication	22.25	25.13	23.10	24.15	n.a.	8.50	10.00	n.a.
Average Rate	19.22	20.94	22.58	24.54	11.67	8.50	9.94	10.80

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

Similarly, interest rates on foreign currency loans increased to **10.80%** compared to **9.90%** from the previous quarter. This increase indicates that there still remains relatively high levels of risk in lending to micro firms which could possibly be associated with pressures faced by institutions to adequately fund demand.

For the June 2016 quarter, average interest rate on both local and foreign currency are expected to increase by **1.96 pps** and **0.86 pps** respectively.



## Small Business Lending

### Credit Conditions

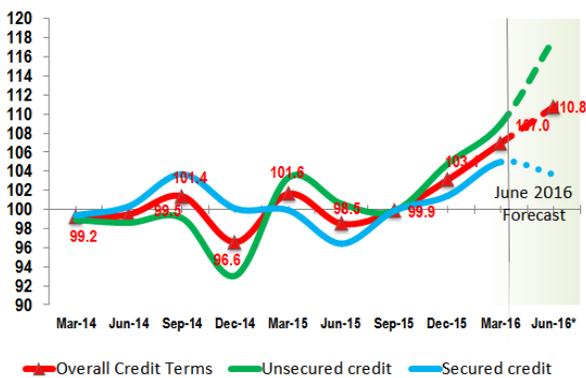
Lending conditions for small enterprises for the March 2016 quarter continued to ease as creditors diversified their risk profile. The outturn recorded an index of **107.0**, which is the highest since the start of the survey and was reflected in improved lending policies for both secured and unsecured loans (see **Figure 10**). Increased promotional activities and lower interest rates were some of the factors influencing the favourable expansion in secured and unsecured credit conditions to small businesses. Going forward, lenders anticipate that further reduction in interest rates coupled with continued promotional activities and increased business activity will lead to easing in credit conditions in the June 2016 quarter. However, lenders cited that businesses are usually cautious prior to the presentation of a government’s budget debate and as such the level of business activity going forward would be dependent on the outcome of the GOJ budget debate.

### Credit Supply

Consistent with expectations, lenders indicated a moderation in the amount of local credit made available to small enterprises for the review quarter. Much of this moderation in available credit was underpinned by concerns surrounding a changing economic risks and market pressures from capital markets. Notwithstanding, changes in competition favourably contributed to credit supply and explained much of the expansion in the supply for the quarter. In terms of its distribution, the supply of local currency credit was circulated among most economic sectors except for *Agriculture* and *Electricity*. Regarding foreign currency loans, lenders reported that supply remained restricted to earners of foreign currency. Consequently, there was no disbursement of foreign currency loans during the quarter.

For the June 2016 quarter, the CSI for small businesses is expected to moderate as lenders are still in a “wait-and-see” posture associated with the impending GOJ budget debate.

**Figure 10: Credit Conditions for Small Businesses**



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

### Credit Demand

Demand for loans from small businesses, denominated in both local and foreign currency, expanded at a slower pace in the review quarter. In particular, the CDI for local currency loans was **111.5** from **119.3** in the previous quarter while foreign currency loans fell to **99.8** from **106.7**. This moderation mainly reflected reduced demand for foreign currency loans from the *Entertainment* and *Distribution* sectors despite the low interest rate environment. However, the fall in interest



rates for loans to *Professional & Other Services*, *Manufacturing* and *Tourism* sectors lead to an increase in the demand for local currency credit from these sectors. Lenders cited that changes in interest rates, business activities, loan promotional activities and developments in economic sectors had a positive effect on loans demanded for the review quarter. For the June 2016 quarter, the CDI for local currency loans was expected to decline considerably as a result of an anticipated adverse change in the economic environment.

### Price of Credit

Consistent with the easing in credit conditions observed during the review quarter, the weighted average rate on both local and foreign currency lending rates trended downwards (see **Table 3**). For the June 2016 quarter, interest rates on both local and foreign currency loans are expected to marginally increase. For local currency loans, the expected increase in the interest rate is projected to be reflected in increased borrowing costs to the Electricity Gas & Water sector while the higher average rate on foreign currency loans mainly reflects an anticipated increase in funding costs to the Agriculture & Fishing sector.

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

	Local Currency				Foreign Currency			
	December 2015 Survey		March 2016 Survey		December 2015 Survey		March 2016 Survey	
	Dec-15	Mar-16*	Mar-16	Jun-16*	Dec-15	Mar-16*	Mar-16	Jun-16*
Agriculture & Fishing	14.11	13.60	13.96	12.13	n.a.	10.08	9.00	9.64
Construction & Land Development	14.11	14.50	14.44	14.30	n.a.	9.83	9.00	9.00
Distribution	13.90	14.33	13.67	12.63	n.a.	10.25	9.00	9.63
Electricity Gas & Water	12.14	13.80	12.45	12.50	n.a.	10.25	n.a.	9.42
Entertainment	15.12	14.70	13.96	12.95	11.76	10.25	9.52	9.42
Manufacturing	14.47	14.08	13.21	12.38	10.00	10.25	9.00	9.63
Mining & Quarrying	12.79	14.70	13.48	12.95	n.a.	10.08	9.17	9.25
Professional & Other Services	13.57	14.44	13.79	12.53	n.a.	10.25	9.75	9.42
Tourism	14.48	14.50	13.96	12.65	13.50	10.25	9.33	9.42
Transport, Storage & Communication	12.39	12.71	13.55	11.85	12.00	9.83	9.33	9.00
<b>Average Rate</b>	<b>13.71</b>	<b>14.14</b>	<b>13.65</b>	<b>13.82</b>	<b>11.82</b>	<b>10.13</b>	<b>9.23</b>	<b>9.38</b>

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

## Medium-Sized Business Lending

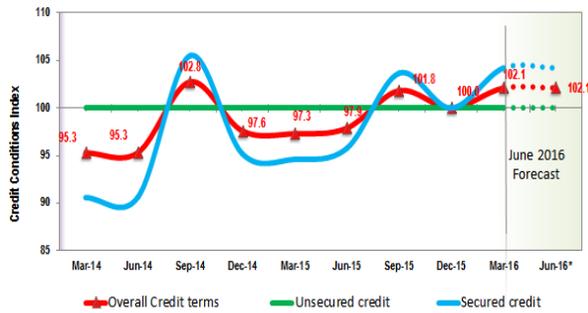
### Credit Conditions

Lending to medium-sized enterprises improved in the March 2016 quarter as both credit supply and demand increased when compared to the previous quarter. The easing in credit conditions for the quarter was mainly reflected in an increase in secured loans, particularly through a reduction in lending rates on foreign currency loans (see **Figure 11**). Of note, respondents cited that demand for

foreign currency loans remained soft due to the significant exchange depreciation while supply of local currency loans were being hampered by ongoing tight Jamaica Dollar liquidity conditions. However, the outlook for credit conditions in the June quarter is favourable amid the expectation of increased loan approvals supported by a more positive economic outlook.



**Figure 11: Credit Conditions for Medium-sized 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.

### Credit Supply

Consistent with the improvement in credit conditions, there was a slight increase in the CSI for medium-sized businesses for the March 2016 quarter relative to the December 2015 quarter. This increase, as reflected in an index of **100.6**, was a reflection of an expansion in the availability of both local and foreign currency loans. This was mainly concentrated in the *Agriculture, Mining and Manufacturing*. In addition, the growth in the CSI was supported by higher approval rates on all loan applications, with the exception of applications for *commercial real estate*.

Lenders cited that the drivers of credit supply for the quarter included a more optimistic economic outlook and the impact of changes in competition, which were partly offset by the impact of tight liquidity conditions, which also contributed to market pressures from capital markets. Various factors of credit supply also indicated increased concern regarding the economic outlook, which also influenced their risk appetite in the quarter.

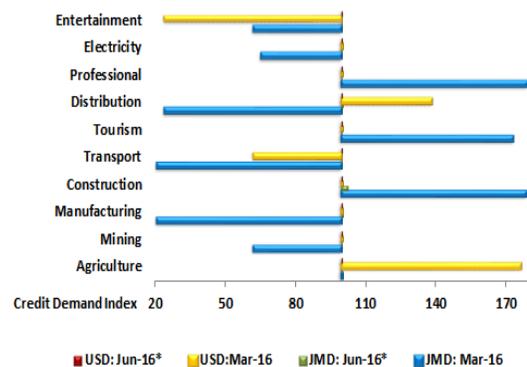
For the June 2016 quarter, the CSI is expected to remain at **100.6**, as heightened risks associated

with the macroeconomic risks are expected to offset the anticipated reductions in lending rates. Notably, lenders mentioned that they were cautious throughout the quarter regarding the outcome of the GOJ Budget presentation which could significantly change the domestic economic environment.

### Credit Demand

In contrast to the CSI for medium sized enterprises, the CDI indicated a moderation in credit demand conditions. This moderation was predominantly evident among local currency loans and was reflected across most economic sectors except *Construction, Tourism and Professional & Other Services* (see **Figure 12**). Reduced demand for foreign currency loans was reflected across most sectors except for a sharper increase in loans to the *Agriculture and Distribution* sectors. The demand for loans by medium-sized businesses was mainly driven by the impact of increased promotional activities, but more so the reduction in interest rates on secured loans during the quarter.

**Figure 12: Credit demanded by Medium 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.



For the June 2016 quarter, the demand for both local and foreign currency loans from medium-sized enterprises, is expected to moderate relative to the March 2016 quarter. The expected increase in the CDI for both currency loans should reflect increased demand from sectors of the domestic economy.

### Price of Credit

The weighted average lending rate on local currency loans to medium-sized businesses across most economic sectors increased during the review quarter, albeit remaining below expectations (see Table 4). This was consistent with the fall in credit demand by medium sized firms in the review period. However, the interest rates on foreign currency loans declined for the quarter, which was evident across most economic sectors except *Entertainment, Agriculture & Fishing* and *Construction & Land Development*.

Despite the anticipated improvements in credit conditions for medium-sized firms in the June 2016 quarter, interest rates on both local and foreign

currency are expected to increase, with a sharp increase expected for foreign currency loans, possibly reflecting the impact of exchange rate depreciation.

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

	Local Currency				Foreign Currency			
	December 2015 Survey		March 2016 Survey		December 2015 Survey		March 2016 Survey	
	Dec-15	Mar-16*	Mar-16	Jun-16*	Dec-15	Mar-16*	Mar-16	Jun-16*
Agriculture & Fishing	12.43	13.44	13.23	12.52	7.75	8.00	8.22	9.55
Construction & Land Development	14.03	14.43	13.79	14.39	8.50	8.50	8.75	n.a
Distribution	12.48	13.44	12.05	13.04	8.50	8.50	8.50	9.88
Electricity Gas & Water	12.68	13.44	13.23	13.50	8.50	8.00	7.75	n.a
Entertainment	12.68	13.44	13.23	13.70	8.50	8.00	9.19	9.50
Manufacturing	12.22	13.44	11.93	11.63	7.75	8.00	7.75	9.25
Mining & Quarrying	13.66	14.43	14.55	14.69	7.75	8.00	6.80	n.a
Professional & Other Services	12.21	12.75	12.83	13.00	7.75	8.00	7.75	9.50
Tourism	13.23	13.44	12.18	12.40	7.75	8.00	7.75	9.50
Transport, Storage & Communication	12.43	13.44	13.23	13.50	8.83	8.00	7.25	9.25
<b>Average Rate</b>	<b>12.80</b>	<b>13.57</b>	<b>13.03</b>	<b>13.24</b>	<b>8.16</b>	<b>8.10</b>	<b>7.97</b>	<b>9.49</b>

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

## Large Corporations and Commercial Lending

### Credit Conditions

Credit conditions continued to ease for large enterprises in the March 2016 quarter. In particular, the overall credit terms index rose to **101.3** from **100.0** (see Figure 13). The outturn for the quarter mainly reflected further easing in lending policies for secured loans, which is largely associated with the decline in the interest rates and fees applicable to secured loans. Institutions

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also lowered the maximum repayment period and extended the size of credit lines for secured loans for the quarter. Improved business activities were cited as the main drivers of both secured and unsecured credit to large businesses.

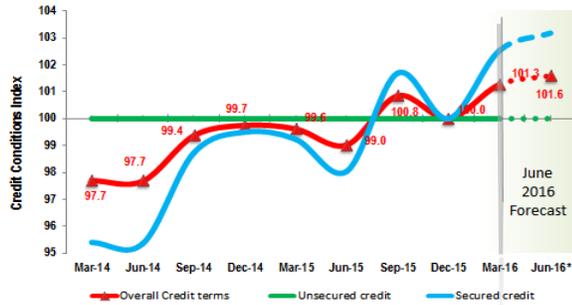
For the June 2016 quarter, credit conditions are expected to ease further, in spite of lenders' cautious stance associated with the possible



Bank of Jamaica Credit Conditions Survey  
 macroeconomic risks that may emerge following  
 the Government of Jamaica Budget presentation.

their interest rates as such some institutions were  
 exercising caution in offering additional credit.

**Figure 13: Credit Conditions for Large Businesses**



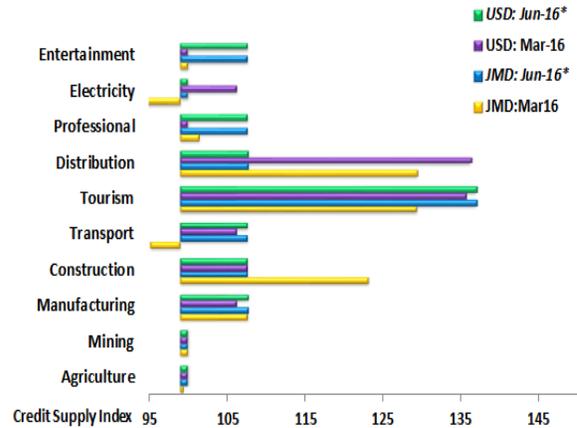
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
- The asterisks (\*) represent forward looking expectations provided by the respondents.

### Credit Supply

In line with the easing in the overall credit conditions for the quarter, the supply of both local and foreign currency loans increased. The increase in the CSI to **108.9** from **106.4** emanated from increased availability of funds and a minimization in economic sector specific risks. Credit supply was mainly channelled towards the *Distribution*, *Tourism* and *Construction* sectors (see **Figure 14**). Of note, the increase in the CSI was supported by higher approval rates on all loan applications, particularly for *commercial real estate* and *inventory & working capital*, when compared to the previous quarter.

A similar outlook is anticipated for the supply of credit to large businesses in the June 2016 quarter which is partly reflecting the cautious posture of lending institutions. Creditors also cited that government policies and the competitive nature of the business environment guide the direction of

**Figure 14: Availability of Credit to Large 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.

### Credit Demand

For the March 2016 quarter there was an increase in the demand for credit by large businesses. Additionally, demand for both secured and unsecured loans by large businesses was boosted by changes in business activities, lower interest rates and a reduction in macroeconomic risks. The CDI increased to **113.8** from **111.1** in the previous quarter and demand emanated from most economic sectors, particularly *Construction*.

For the June 2016 quarter, demand for credit by large firms is expected to remain robust as the drivers of demand are expected to emanate from reduced macroeconomic risks and further changes in business activities which should stimulate the demand for credit.



### Price of Credit

Consistent with an expansion in credit demand for the review quarter, the average lending rate on local currency loans to large businesses declined (see **Table 5**). The reduction in interest rates for local currency loans was reflected across most economic sectors except *Construction & Land Development*. However, the average interest rate on foreign currency loans increased when compared to the previous quarter.

◆ lending rates for both local and foreign currency will decline.

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

	Local Currency				Foreign Currency			
	December 2015 Survey		March 2016 Survey		December 2015 Survey		March 2016 Survey	
	Dec-15	Mar-16*	Mar-16	Jun-16*	Dec-15	Mar-16*	Mar-16	Jun-16*
Agriculture & Fishing	13.35	8.88	11.66	9.14	6.50	4.67	8.00	6.34
Construction & Land Development	12.90	8.88	13.31	10.00	7.50	4.67	8.00	6.40
Distribution	12.80	9.10	11.22	9.78	6.50	4.67	8.00	6.40
Electricity Gas & Water	12.73	8.88	11.63	9.84	6.50	4.67	7.75	6.40
Entertainment	13.35	8.88	12.90	9.84	7.50	4.67	7.25	6.40
Manufacturing	12.55	9.10	11.03	9.22	7.00	4.67	7.83	6.40
Mining & Quarrying	13.35	8.88	12.90	10.25	6.50	4.67	6.96	6.40
Professional & Other Services	12.73	8.88	12.43	9.84	6.50	4.67	8.00	6.40
Tourism	12.90	8.88	11.93	9.09	7.50	4.67	7.09	6.02
Transport, Storage & Communication	13.35	8.88	11.76	9.84	6.50	4.67	8.00	6.40
<b>Average Rate</b>	<b>13.00</b>	<b>8.92</b>	<b>12.08</b>	<b>9.68</b>	<b>6.85</b>	<b>4.67</b>	<b>7.69</b>	<b>6.36</b>

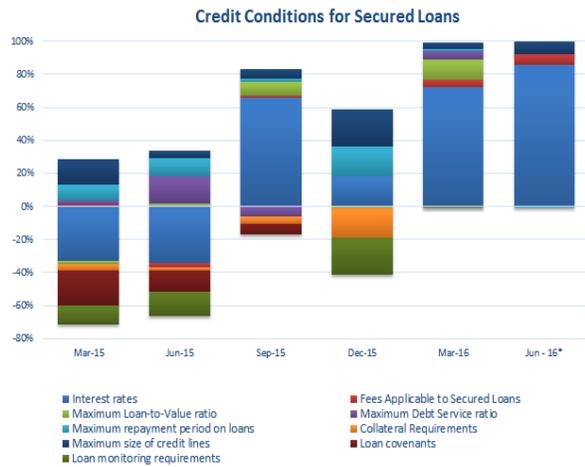
1. The asterisks (\*) represent forward looking expectations provided by the respondents.

Lenders cited that with a change in Government, they anticipated some uncertainty with respect to the implementation of new policies that could impact business activities. However, for the June 2016 quarter, lenders anticipated that the average



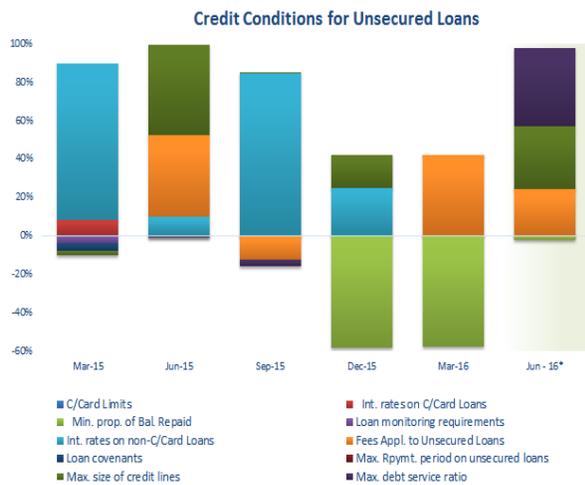
## Appendix A: Overall Credit Market Conditions

**Figure 15: Credit Conditions for Secured Loans**



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

**Figure 16: Credit Conditions for Unsecured Loans**



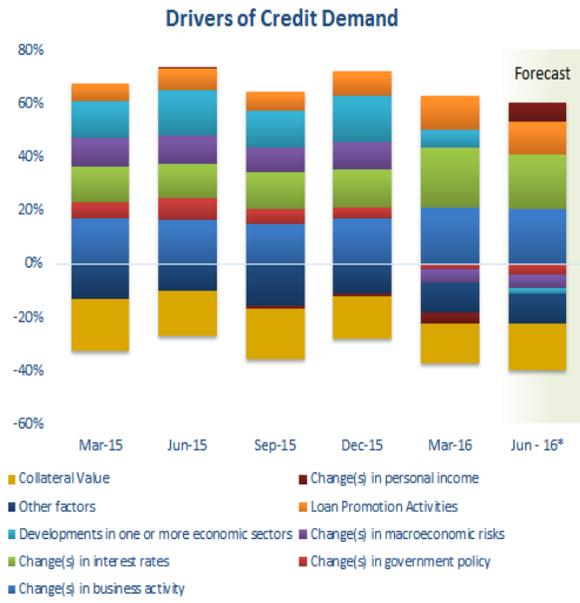
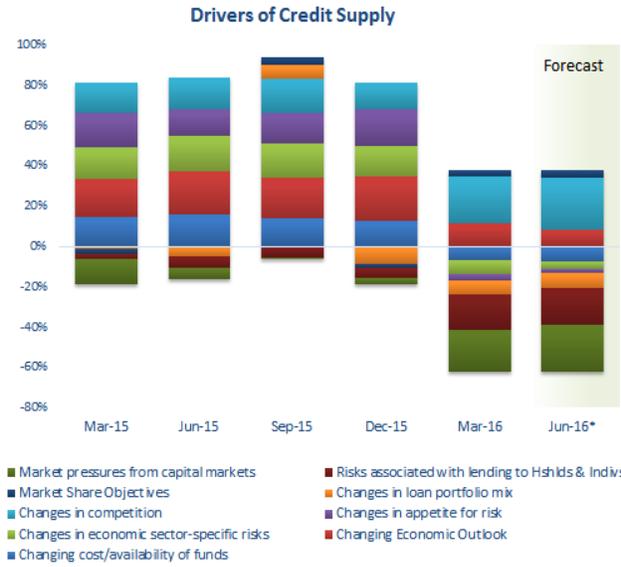
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
- Indices for the September quarter are computed based on forward looking expectations provided by respondents.

**Table 6: Components of Credit Demand and Supply Indices**

	March 2015 Survey		December 2015 Survey		March 2016 Survey	
	Mar-15	Jun-15*	Dec-15	Mar-16*	Mar-16	Jun-16*
<b>Credit Supply Indices</b>						
<b>Credit Supply Index (CSI)</b>	<b>101.4</b>	<b>105.9</b>	<b>103.6</b>	<b>104.4</b>	<b>104.3</b>	<b>104.3</b>
Credit to businesses	101.9	107.3	105.1	103.1	103.2	103
Personal credit	100.4	103.3	100.6	106.8	106.4	107
Credit in Jamaica Dollar	101.8	111.1	108.1	104.7	103.6	103.7
Credit in U.S Dollar	104.9	103.5	102.0	101.6	102.7	102.3
<b>Credit Demand Indices</b>						
	Mar-15	Jun-15*	Dec-15	Mar-16*	Mar-16	Jun-16*
<b>Credit Demand Index (CDI)</b>	<b>106.2</b>	<b>107.0</b>	<b>112.1</b>	<b>107.5</b>	<b>106.3</b>	<b>106.2</b>
Demand by businesses	103.9	109.3	114.3	103.6	103.1	102.5
Demand by individuals	110.8	102.5	107.8	115.3	112.8	113.8
Credit in Jamaica Dollar	111.9	117.4	123.4	105.9	104.9	103.8
Credit in U.S dollar	95.9	101.2	105.2	101.2	101.2	101.1

- \*-Expectations for the
- n.a suggests that no data
- indices greater than 100

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





## 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:

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^2$$

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

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

<sup>2</sup>  $ss$  = 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.

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

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
<b>Micro Businesses</b>	Less than US\$10,000.00	Less than US\$100,000.00
<b>Small Businesses</b>	US\$10,000 < Loan Size < \$US100,000	US\$100,000.00 < Sales < US\$5.0 million
<b>Medium-sized Businesses</b>	US\$100,000 < Loan Size < US\$1.0 million	US\$5.0 million < Sales < US\$25.0 million
<b>Large, Corporate &amp; Commercial Businesses</b>	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).