Quarterly Credit Conditions Survey Report

March 2017 Quarter

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Background

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

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

This report presents the results of the March 2017 survey which was conducted during the period 18 April and 08 May 2017.

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

Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	2	2	2	2	2	2
Credit Unions	9	9	9	9	9	9
Public Entity	1	1	1	1	1	1
Total	21	21	21	21	21	21

Overview

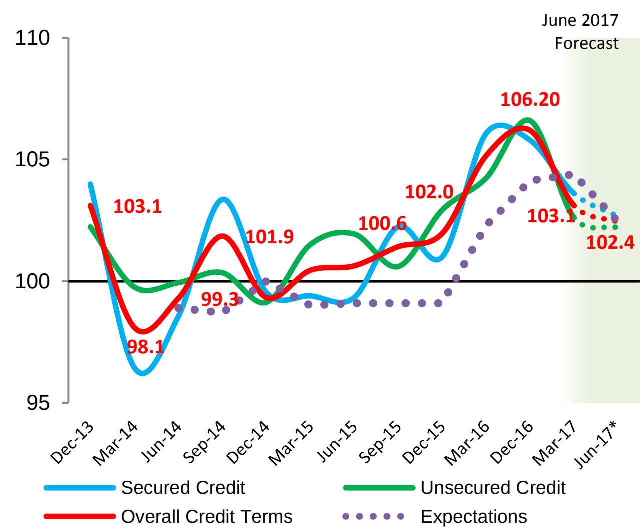
Growth in real output in the Jamaican economy is estimated to have been tepid for the March 2017 quarter. Notwithstanding, other main economic indicators showed continued improvements in the context of a strong reform programme and a favourable external environment. Inflation expectations remained firmly anchored in single digits and annual inflation at the end of the quarter was **4.1 per cent** relative to **3.0 per cent** for the corresponding period in 2016.

With respect to monetary policy developments, the Bank of Jamaica maintained its signal interest rate over the review quarter at **5.0 per cent** but narrowed the interest rate corridor by lowering the interest rate on the overnight Standing Liquidity Facility (SLF) by **25 bps** to **7.0 per cent** and increasing the rate on the overnight certificate of deposit (CD) by **100 bps** to **4.0 per cent**. These adjustments were aimed at strengthening the signalling effect of monetary policy actions. The Bank also reduced the frequency of its 30-day CD issue to once per week during the quarter from twice per week in the previous quarter.

There was increased competition in the banking sector during the review quarter, emanating from the entry of a new commercial bank. The increased competition had the effect of lowering the weighted average lending rate to **14.98 per cent** from **16.21 per cent** in the December 2016 quarter as lenders offered more competitive rates in an effort to maintain and possibly increase market share. [1]

In the context of the foregoing, credit conditions continued to ease during the March 2017 quarter, albeit at a more moderate pace than was anticipated and the outturn observed in the previous quarter (see **Figure 1**).

Figure 1: Index of Credit Market Conditions



Notes: (i) The asterisk (*) represents expectations provided by the respondents for the June 2017 quarter. (ii) The index was the average response for changes in eight credit terms reported in the Credit Conditions Survey.

This easing in lending conditions continued to reflect lenders' efforts to increase their market share while maintaining the quality of their loan portfolios in a more competitive market. Notwithstanding, weaker credit demand, particularly for secured credit, resulted in less relaxed credit terms for the quarter, when compared to the previous quarter. Weak demand conditions are generally characteristic of March

[1] With the exclusion of the new commercial bank, commercial bank lending rates would have averaged 16.14 per cent.

quarters when borrowers tend to exercise caution in undertaking additional credit as they await the annual Government of Jamaica (GOJ) budget presentation (see **Appendix A: Figures 16** and **17**).

For the June 2017 quarter, continued easing in credit conditions is expected, albeit at a slower pace, relative to the March 2017 quarter.

Credit Supply

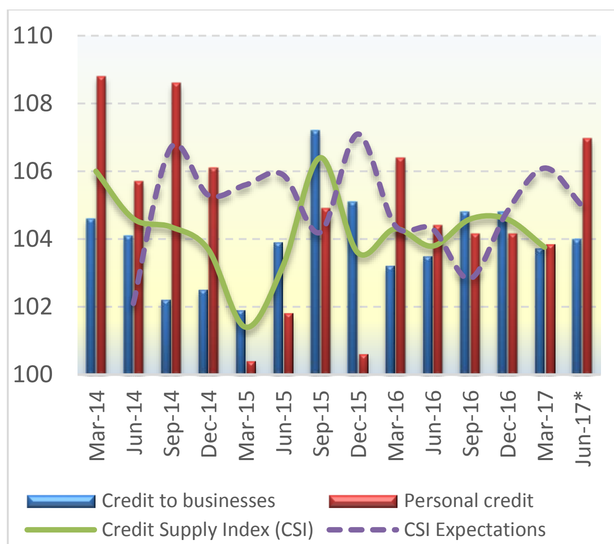
The overall Credit Supply Index (CSI) moderated to **103.8** for the March 2017 quarter from **104.6** in the previous quarter (see **Figure 2**). This moderation was primarily due to a slowdown in the rate of growth in credit made available to micro businesses, relative to the previous quarter. Notwithstanding the moderation, institutions' willingness to provide credit continued to be primarily driven by improved macroeconomic conditions and a more competitive market. As such, market share objectives remained a key factor influencing the expansion in credit supply during the quarter (see **Appendix A: Figure 20**).

The availability of local currency credit to both businesses and individuals remained fairly robust, although one institution indicated that tight liquidity conditions were a challenge during the quarter. Of note, the pace of expansion in foreign currency credit made available was similar to that reported in the previous quarter.

The proportion of credit allocated to businesses continued to increase in the review quarter, continuing a trend in evidence since the December 2015 quarter. This share rose to **48.0 per cent** in the March 2017 quarter from **45.0 per cent** in the previous survey (see **Figure 3**). Personal loans continued to account for the greater proportion of credit but moderated to **52.0 per cent** from **55.0 per cent** in the previous quarter (see **Figure 3**).

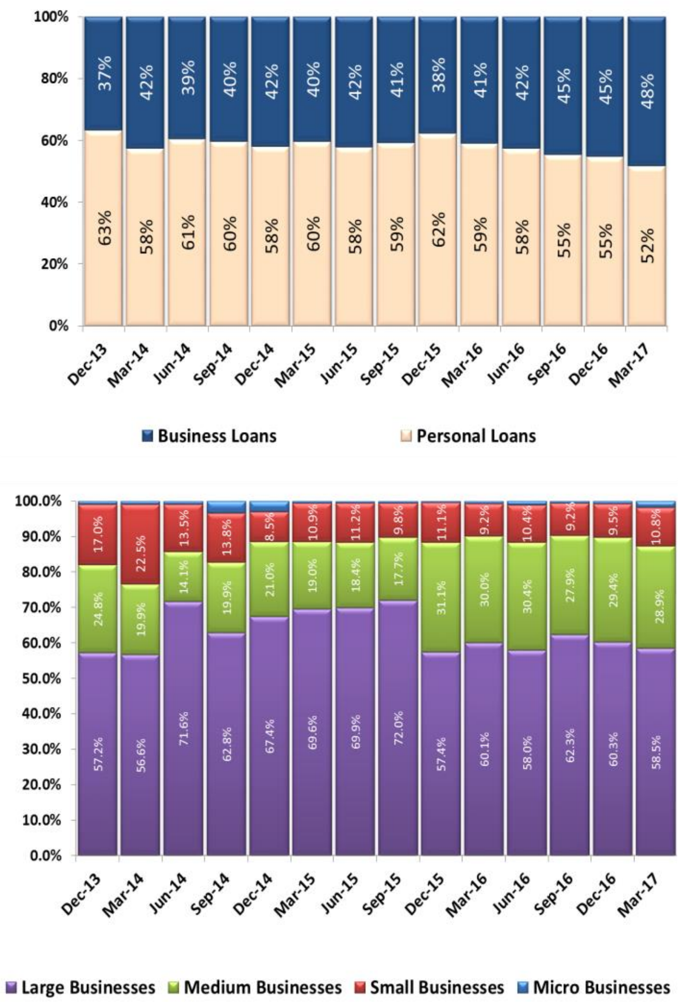
Consistent with the trend since the start of the survey, large businesses continued to account for the lion share of credit allocated to businesses, albeit moderating relative to the previous quarter. This moderation in credit allocated to large businesses largely reflected a re-distribution of credit to the Micro, Small and Medium enterprises (MSME) sector. Credit to that sector as a proportion of the total stock of loans outstanding for FY2016/17 increased to **40.0 per cent** from **35.0 per cent** for FY2015/16. However, some of this improvement was attributed to the inclusion of a new participant in the survey that lends a significant amount to medium-sized businesses.

Figure 2: Components of Credit Supply



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

Figure 3: Distribution of Private Sector Credit[2]

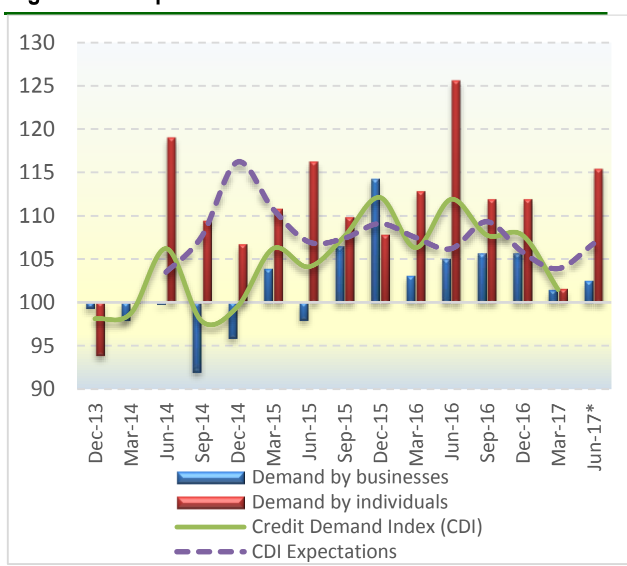


For the June 2017 quarter, lenders plan to augment the amount of credit made available to prospective borrowers for both business and personal purposes (see **Figure 2 and Appendix A: Table 6**). This outlook is premised on creditors' plans to maintain or increase market share, particularly in the context of new entrants in the banking sector. Much of this competition is expected to be observed among commercial banks in the provision of unsecured credit via credit cards with competitive rates to individuals.

Credit Demand

Growth in credit demand, as measured by the Credit Demand Index (CDI), was relatively mute in the March 2017 quarter (see **Figure 4**). This marginal expansion in credit demand was reflected in a significant moderation in the index to **101.5** from **107.7** in the previous quarter and was related to reduced paces of growth in demand for both personal and business loans (see **Appendix A: Table 6).** Lenders reported that this phenomenon is generally characteristic of March quarters, the period during which the GOJ tables its estimates of expenditure, and is more pronounced in the demand for business loans.

Figure 4: Components of Credit Demand



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

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

The tepid growth in the demand for local currency business loans was underpinned by a contraction in demand for credit from the Mining *& Quarrying, Distribution, Manufacturing and Entertainment* sectors. In contrast, there was strong demand for foreign currency loans from the *Construction, Tourism and Distribution* sectors. Lenders reported that the stability in the exchange rate during the review quarter made it feasible for businesses to borrow in foreign currency.

Credit demand continued to be driven by factors such as increased business activities, loan promotional activities, lower interest rates, and developments in various economic sectors (see **Appendix: Figure 18**).[3]

For the June 2017 quarter, lenders indicated that they are anticipating an uptick in the growth in credit demand from both individuals and businesses. The CDI is consequently projected to rise to **106.8** from **101.5**, with the expansion expected to emanate primarily from an increase in the demand for credit cards by individuals as well as for motor vehicle loans. With respect to businesses, increased demand is expected from large firms for both local and foreign currency loans. It is anticipated that this demand will emanate from *Distribution*, *Construction* and *Tourism* sectors.

Price of Credit

Based on the survey responses, average **indicative** interest rates on new local currency loans **fell** by approximately **183 basis points (bps)** to **13.8 per cent** during the review quarter, relative to the previous quarter. This reflected a reduction of **233 bps** in rates for businesses to **12.8 per cent**, partly offset by an increase of **16 bps** to **17.8 per cent** in the average rate on personal loans. Lower rates on loans to businesses were associated with reported changes in lenders' risk appetite as well as their economic outlook for specific sectors. Reference was also made to the trend improvement in domestic business confidence which has prompted lenders to offer better credit terms such as lower interest rates.

Similar to the price movements on new local currency credit, the **indicative** average interest rate on new foreign currency loans declined by **79 bps** to **7.7 per cent**.

It should be noted that the reported interest rates are partly influenced by the inclusion of a new participant who offered significantly lower rates relative to the other participating institutions. The exclusion of this institution would have yielded average rates of **15.4 per cent** and **8.7 per cent** on local currency and foreign currency loans for the quarter.

For the June 2017 quarter, lenders reported that they plan to increase the price of credit on new local and foreign currency loans to businesses by **162 bps** and **21 bps** to **14.38 per cent** and **7.94 per cent** respectively. However, they indicated that

[3] Developments in one or more economic sectors refers to the extent of credit demand associated with technological or market developments, foreign and/or local investments and/or other business activities in one or more economic sectors.

there is a planned reduction of **27 bps** in the interest rate on personal loans to **17.48 per cent**.[4]

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

	December 2016 Survey		March 2017 Survey	
	Dec-16	**Mar-17***	**Mar-17**	**Jun-17***
Local Currency (LC) Loans				
Business loans	15.10	15.81	12.76	14.38
Personal loans	17.59	17.34	17.75	17.48
Reference rate	14.82	15.46	8.02	7.82
Average LC rates	**15.59**	**16.12**	**13.76**	**15.00**
Foreign Currency (FC) Loans				
Business loans	8.52	8.49	7.73	7.94
Reference rate	7.82	8.91	7.81	8.11

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

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

Personal Lending

Credit Conditions

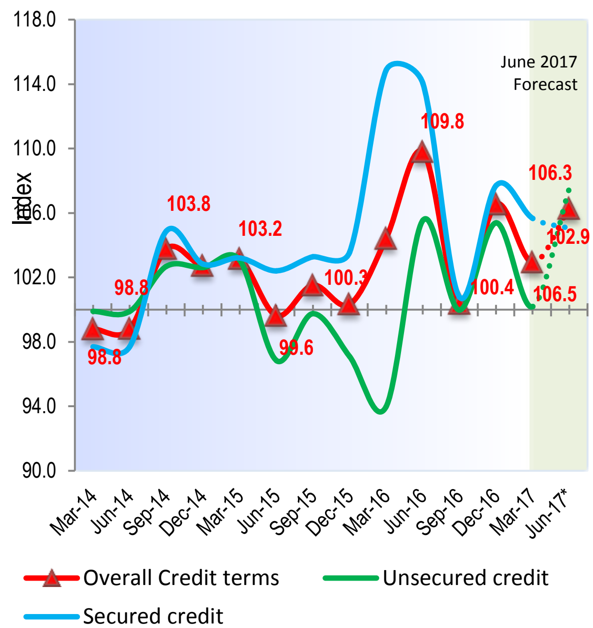
Credit conditions for households continued to ease for the March 2017 quarter, albeit at a slower pace than the previous quarter (see **Figure 5**). There was a moderation in both the growth in the demand for - and the supply of - personal loans in the quarter, which was reflected in a moderation in credit terms for both secured and unsecured loans. For unsecured lending, some institutions reported an increase in the minimum proportion of balances repaid, which implied less favourable credit terms for the quarter. However, this effect was largely offset by loan promotional activities, lower interest rates and a perceived moderation in macroeconomic risks, which positively influenced the demand for personal credit during the review period.

The moderation in the index of credit terms for personal lending is expected to be short-lived as creditors anticipate credit terms to be more favourable in the June 2017 quarter. The projected index of **106.3** is underpinned by lenders' plans to lower interest rates and the minimum proportion of balances repaid on unsecured loans while some institutions plan to increase the maximum repayment period.

Credit Supply

Credit made available for personal reasons continued to account for the larger portion of total credit supplied (**52.0 per cent**) in spite of its smaller share when compared to the previous quarter (see **Figure 3**). For the March 2017 quarter, the CSI of **103.8** indicated that additional credit was made available for the quarter. Supply to all categories of personal loans rose, when compared to the previous quarter, with the exception of credit cards (see **Figure 6**).

Figure 5: Credit Conditions for Personal Lending

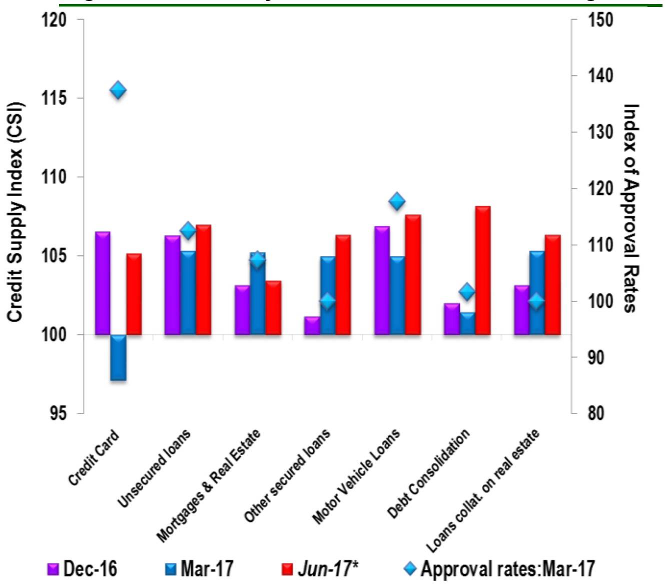


1. *Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.*

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

For the June 2017 quarter, lenders reported that they plan to increase credit availability substantially for all loan categories (see **Appendix A: Table 6 and Figure 6**). Much of this increase is expected in the offer of more credit cards and other unsecured loans as some lenders reported that there will be increased focus on higher yielding products.

Figure 6: Availability of Credit for Personal Lending



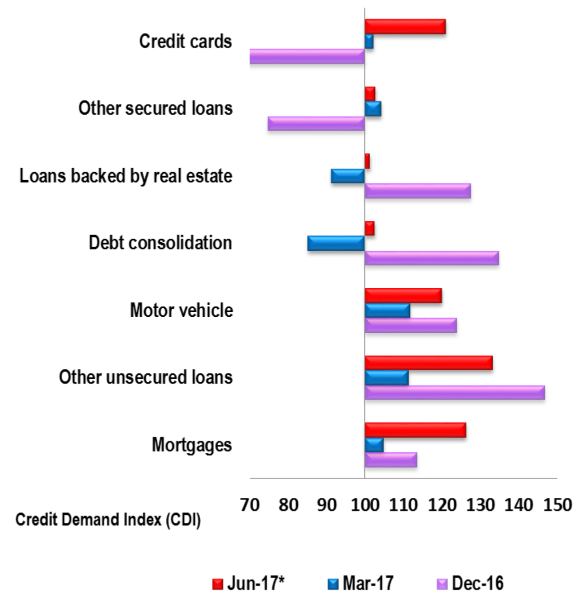
1. *CSI less than 100 indicates a decline in credit supply while a CSI greater than 100 indicates an increase.*
2. *An index less than 100 indicates a reduction in the approval rate while an index greater than 100 indicates an increase.*
3. *The asterisks (*) represent forward looking expectations provided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

Credit Demand

There was a noticeable moderation in the growth in demand for personal credit in the review quarter, relative to the previous quarter. The CDI fell to **101.6** from **111.9** recorded in the previous quarter, where reduced demand growth was observed across most loan types, except for *debt consolidation* and *loans backed by real estate*, which contracted (see **Figure 7** and **Appendix A: Table 6**). Lower demand also reflected the impact of higher lending rates on personal loans during the review quarter. Lenders also cited that the reduction in demand was associated with borrowers being in a 'wait-and-see' mode regarding possible policy changes that could have been announced in GOJ's Budget presentation.

Lenders highlighted that the important drivers of personal loan demand in the review quarter included their loan promotional activities and reduced macroeconomic risks. With respect to the latter, lenders indicated that borrowers expressed increased confidence in the macroeconomy and, as a consequence, their ability to service their debt obligations.

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.*

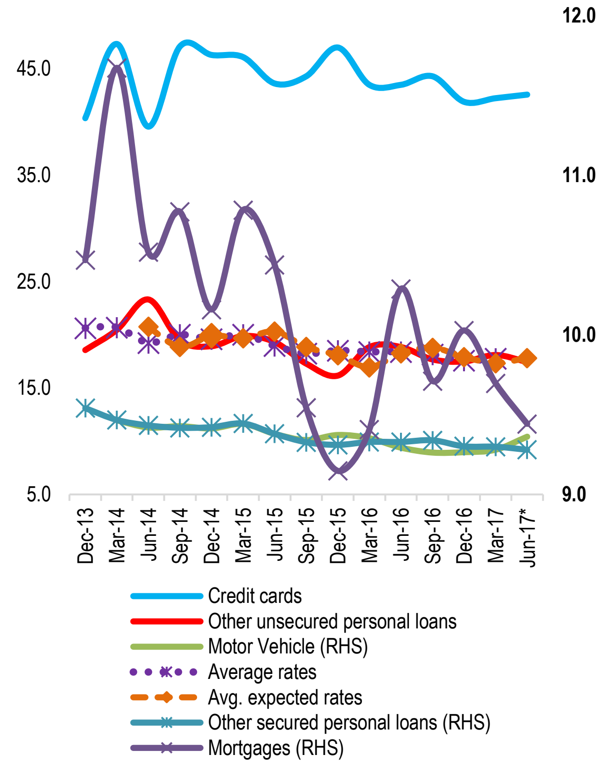
For the June 2017 quarter, the demand for personal loans is expected to increase substantially. This expansion is expected to be across most loan types, particularly credit cards, other non-credit card loans and mortgages, as lenders expect a favourable response to planned promotional activities.

Price of Credit

Average **indicative** loan rates on new personal loans offered by participating institutions, increased for the review period to **17.8 per cent** relative to **17.6 per cent** in the previous survey. This was also higher than the expected average rate of **17.3 per cent**. Higher rates for the review period were evident across most loan categories, except for mortgages and other unsecured personal loans (see **Figure 8**). Lenders reported that liquidity challenges induced them to place more focus on credit cards and other unsecured loans which attracted higher rates.

Higher rates for personal loans are expected for the June 2017 quarter. Much of this increase is expected to be reflected in planned increases in the interest rates on motor vehicle loans and credit cards.

Figure 8: Interest Rates on Personal Loans



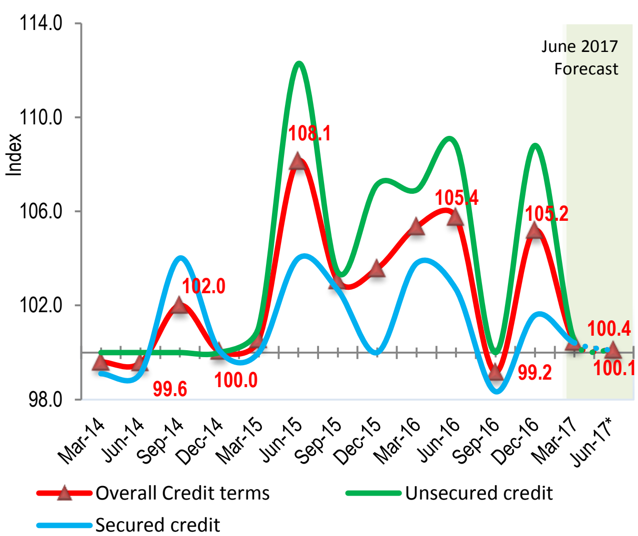
Micro Business Lending

Credit Conditions

For the March 2017 quarter, the overall credit terms faced by micro-businesses continued to improve, but at a sluggish pace relative to the previous quarter (see **Figure 9**). The overall index of **100.4** represented marginal easing in loan terms to micro businesses. For unsecured loans in particular, there were significant moderation in credit terms (interest rates on non-credit card lending, fees and maximum credit lines) relative to the previous quarter.

For the June quarter, slightly less relaxed credit terms are expected. This is associated with a projected increase in the fees and interest rates on loans to micro businesses.

Figure 9: Credit Conditions for Micro-sized Businesses



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

Credit Supply

Consistent with the sluggish easing in credit terms, the supply of credit made available to micro firms also moderated relative to the previous quarter. The CSI fell to **100.2** from **107.6** in the previous quarter. This tempered expansion in credit supply was mainly evident in local currency loans offered to all economic sectors. Some of the important factors that informed the amount of credit made available to micro business firms included changes in respondents' appetite for risk, competition, portfolio mix and market share objectives. Lenders indicated that changes in the outlook for output, employment and inflation were no longer important factors influencing credit supply to micro businesses in the June 2017 quarter.

Credit Demand

There was a contraction in the overall credit demanded by micro businesses over the review period. In particular, the demand for local currency loans from most economic sectors contracted, with only a marginal increase in credit demanded by micro firms in the *Tourism* and *Professional & Other Services* sectors. The demand for foreign currency loans by micro firms remained largely muted in the quarter.

Despite this significant reduction in demand, lenders quoted similar factors influencing the demand for micro-business loans for the review period when compared to the previous quarter. These factors included loan promotional activities, changes in interest rates, business activities and government policies, as well as developments in various economic sectors.

For the June 2017 quarter, the overall demand for credit by micro firms is expected to expand marginally relative to the previous quarter. Increased demand is expected to emanate from the *Transportation* and *Distribution* sectors.

Price of Credit

The average **indicative** interest rates on local and foreign currency loans declined during the quarter. In particular, the average interest rate on local currency loans declined by **477 bps** to **20.7 per cent**, which was partly influenced by lower rates offered by the new participant in the survey. In particular, it was cited that the reduction in interest rates on loans to micro firms was due to expected changes in the macroeconomic outlook for Jamaica.

There was also a reduction of **13 bps** to **10.0 per cent** in the average interest rate on foreign currency loans for the quarter. This reduction was also evident across all sectors.

For the June 2017 quarter, average interest rates on local currency loans are expected to increase for all economic sectors with the exception of *Distribution* and *Transportation*. However, average rates on foreign currency loans to micro businesses are expected to decrease, particularly for *Professional & Other Services* sector.

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

	Local Currency				Foreign Currency			
	December 2016 Survey		March 2017 Survey		December 2016 Survey		March 2017 Survey	
	Dec-16	Mar-17*	Mar-17	Jun-17*	Dec-16	Mar-17*	Mar-17	Jun-17*
Agriculture & Fishing	25.52	26.54	21.01	25.52	n.a	9.58	n.a	9.58
Construction & Land Development	22.65	26.42	18.13	25.15	n.a	9.58	n.a	9.58
Distribution	30.33	26.42	26.76	23.32	8.84	9.58	6.25	9.58
Electricity Gas & Water	23.55	26.42	17.52	25.15	n.a	9.58	n.a	9.58
Entertainment	24.06	26.54	19.39	24.06	n.a	9.58	n.a	9.58
Manufacturing	24.50	26.54	20.83	25.52	n.a	9.58	n.a	9.58
Mining & Quarrying	28.12	26.42	21.65	25.15	n.a	9.58	n.a	9.58
Professional & Other Services	23.04	26.42	15.27	23.32	n.a	9.58	15.75	9.58
Tourism	23.21	26.54	20.54	25.52	11.50	9.58	8.13	9.58
Transport, Storage & Communication	29.57	25.92	25.79	23.32	n.a	9.58	n.a	9.58
Average Rate	**25.46**	**26.42**	**20.69**	**24.60**	**10.17**	**9.58**	**10.04**	**9.58**

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

Small Business Lending

Credit Conditions

Lending conditions for small enterprises continued to ease during the March 2017 quarter as creditors diversified their risk profile. However, this easing was less than in the December 2016 quarter and was evident in both secured and unsecured loans (see **Figure 10**).

For the June 2017 quarter, credit terms for small businesses are expected to be maintained, relative to the March 2017 quarter. Of note, some institutions plan to increase collateral requirements and the maximum loan monitoring requirement while reducing the maximum loan to value ratio.

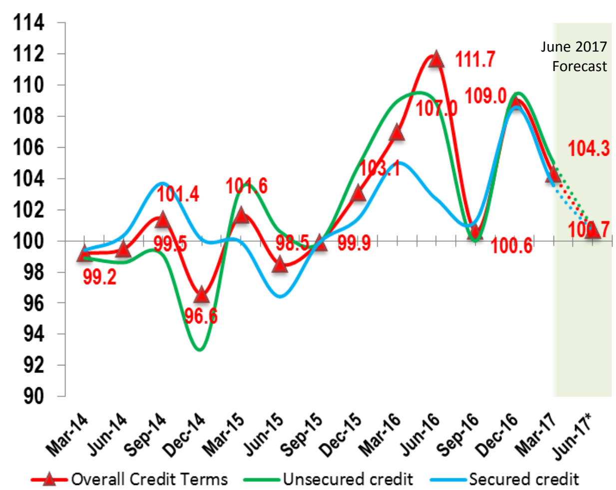
Credit Supply

With increased focus being placed on the MSME sector, credit to small businesses, as a share of total credit, increased to **10.8 per cent** for the March quarter, relative to **9.5 per cent** in the previous quarter.[5]

In this context there was a slight improvement in the CSI for the March 2017 quarter to **100.6** compared to **100.3** in the previous quarter. This was due to more credit been made available to the *Agriculture, Distribution, Construction* and *Manufacturing* sectors. Important factors that influenced the availability of credit for the review quarter were similar to those quoted by lenders for the previous three quarters and included changes in lenders' economic outlook, competition and market share objectives.

For the June 2017 quarter, the CSI for small businesses is expected to increase to **101.7**, which would reflect the impact of more local currency credit being made available to the *Tourism* and *Professional & Other Services* sectors.

Figure 10: Credit Conditions for Small Businesses



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

[5] The DBJ through the Jamaica Foundations for Competitiveness and Growth Project, is mandated to facilitate Small Business Development. This has been funded with US$4.5 million, and is designed to drive economic development by increasing the impact of businesses on the economy. The goal is to increase the productivity within businesses which cause an increase in exports and, or reduce imports through import substitution. During 2016 and 2017, grants will be offered to upgrade and support enterprises' competencies, knowledge and skills within successful supply chains/sectors such as, but not limited to agro-processing and services.
Source: http://dbankjm.com/jamaica-foundations-for-competitiveness-and-growth-project/

Credit Demand

There was a significant reduction in the demand for loans by small businesses in the review period. This contraction was reflected in both local and foreign currency denominated loans. In particular, the CDI for local currency loans was **85.5** from **103.6** in the previous quarter while that for foreign currency loans increased to **99.6** from **98.6**.

For local currency loans, the major contraction in demand emanated from most economic sectors. There was, however, strong demand from the *Tourism* and *Professional & Other Services* sectors. For foreign currency loans, demand was relatively muted across most sectors, with the exception of the *Tourism* and *Distribution* sectors which contracted.

For the June 2017 quarter, the demand for local and foreign currency loans by small businesses is expected to improve across all economic sectors except for demand from the *Professional & Other Services* sector for foreign currency loans.

Price of Credit

For the review period, lenders indicated that the **indicative** weighted average lending rate on new local currency loans to small businesses declined to **11.7 per cent** from **13.6 per cent**. This was also lower than the *expected* rate of **14.9 per cent** reported in the December 2016 survey (see **Table 3**). The weighted average interest rate on foreign currency denominated loans also fell by approximately **198 basis points** to **7.25 per cent**. Lower rates on local currency loans was evident across most economic sectors except the *Professional & Other Services* sector, while for foreign currency loans, lower rates were observed across all sectors.

It should be noted that overall interest rates on credit to small businesses were influenced by the inclusion of a new participant with lower rates. The exclusion of this institution would have yielded indicative rates of **13.1 per cent** and **9.2 per cent** on local and foreign currency credit, respectively.

For the June 2017 quarter, lenders reported a planned increase in interest rates on new local and foreign currency loans to **13.7 per cent** and **8.1 per cent,** respectively.

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

	Local Currency				Foreign Currency			
	December 2016 Survey		March 2017 Survey		December 2016 Survey		March 2017 Survey	
	Dec-16	Mar-17*	Mar-17	Jun-17*	Dec-16	Mar-17*	Mar-17	Jun-17*
Agriculture & Fishing	13.19	14.25	10.65	13.28	9.00	9.07	6.90	8.11
Construction & Land Development	13.23	15.31	11.48	11.25	9.00	9.12	6.90	7.98
Mining & Quarrying	14.99	15.71	12.83	14.85	9.00	9.17	6.90	8.19
Entertainment	17.20	16.18	11.27	14.35	n.a	9.17	n.a	8.19
Distribution	14.58	14.97	12.70	13.98	9.57	9.17	6.68	8.34
Electricity Gas & Water	11.67	14.60	9.46	13.98	9.00	9.17	6.90	8.15
Manufacturing	13.51	14.22	12.86	13.26	9.00	8.92	6.90	7.98
Professional & Other Services	11.58	14.43	11.81	13.59	10.13	9.42	9.85	8.15
Tourism	11.92	15.03	10.18	14.35	10.50	9.17	7.31	8.19
Transport, Storage & Communication	13.61	14.00	13.43	13.26	7.88	8.92	6.90	7.98
Average rate	**13.55**	**14.87**	**11.67**	**13.61**	**9.23**	**9.13**	**7.25**	**8.12**

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

Medium-Sized Business Lending

Credit Conditions

Credit conditions for medium-sized businesses continued to improvement materially during the review quarter, albeit reflecting a lower gain than the previous quarter. This was reflected in a CDI of **108.7** relative to **109.7** in the previous quarter (see Error! Reference source not found. **11**). Much of this easing stemmed from a reduction in interest rates and fees on secured loans by a few institutions, as most lenders reported that these terms remained unchanged relative to the previous quarter. However, less relaxed terms on unsecured loans to medium- sized firms, mainly reflecting the impact of higher rates and fees, led to a moderation in the overall credit terms towards medium-sized enterprises in the review quarter.

For the June 2017 quarter, less favourable credit terms for medium-sized businesses are anticipated as most institutions reported that there are no planned changes to the fees applied to unsecured loans.

Credit Supply

For the March 2017 quarter, credit made available to medium-sized firms increased relative to the previous quarter. The CSI increased to **102.0** from **100.2** ***in*** the previous quarter. This expansion in supply, was reflected in both local and foreign currency loans.

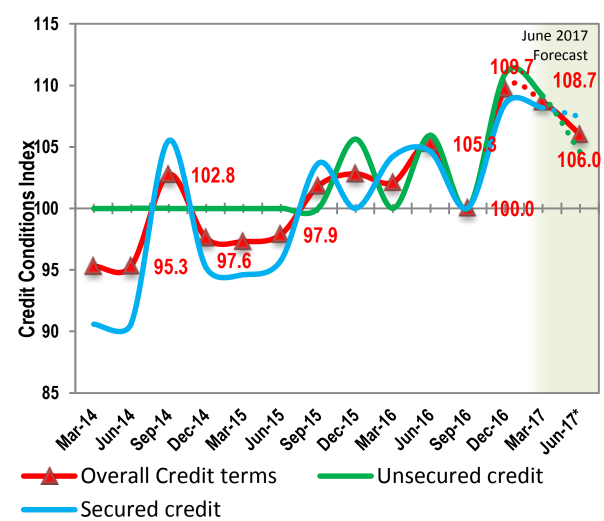
For local currency loans, there was increased supply to the *Manufacturing, Distribution, and Tourism* and *Agriculture & Fishing* sectors while supply to the other sectors remained unchanged.

Foreign currency loans targeted for the *Agriculture & Fishing, Mining & Quarrying* and *Manufacturing* sectors also increased relative to the previous quarter.

Lenders cited market share objectives, changes in competition as well as improvements in the outlook for growth, employment and inflation as important factors influencing the supply of credit in the quarter.

For the June 2017 quarter, the CSI for medium-sized businesses is expected to increase marginally to **102.4**. This increase is expected to emanate from loans available in local currency for most economic sectors.

Figure 11: Credit Conditions for Medium-sized Businesses

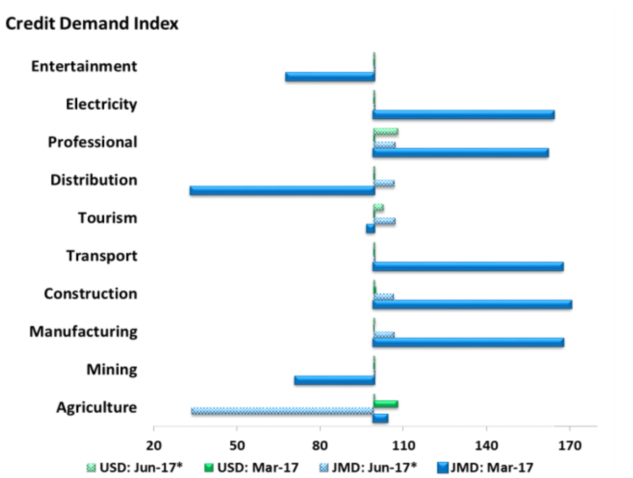


1. *Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.*
2. *The asterisks (*) represent expectations provided by the respondents.*

Credit Demand

There was continued strong growth in loan demand from medium-sized firms during the review quarter, reflected in a CDI of **110.6** for the quarter, relative to **111.5** in the previous quarter. This reflected in strong growth in demand for local currency loans, particularly from the *Manufacturing, Transport, Construction & Land Development, Distribution,* and *Electricity* sectors, the impact of which was partly offset by reductions in credit demand from the Distribution, Entertainment and Mining sectors (see **Figure 12**).

Figure 12: Credit Demanded by Medium-sized Businesses



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

For the June 2017 quarter, the overall CDI is anticipated to contract emanating from an anticipated fall in demand for local currency loans specifically from the *Agriculture & Fishing* sector.

Price of Credit

Consistent with the improvement in credit terms for medium-sized firms, the **indicative** weighted average lending rate on new local currency loans to medium-sized businesses declined by **129 bps** to **9.9 per cent** during the review period. This outturn was lower than expected. Lower rates for local currency loans was evident across all sectors (see **Table 4**). Similarly, the average lending rate on foreign currency loans to medium-sized firms declined for the period. Rates fell by **78 bps** to **6.8 per cent** for the review quarter and was also evident across all sectors.

Lenders indicated that the average interest rate on new local currency credit is expected to increase by **49 bps** to **10.4 per cent** for the June 2017 quarter. With the exception of the *Construction* sector, increases in interest rates on loans to all the other economic sectors are planned. However, lenders plan to charge lower rates on foreign currency loans to all sectors, which should average **6.56 per cent**, representing a decline of **28 bps** relative to the March 2017 quarter.

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

	Local Currency				Foreign Currency			
	December 2016 Survey		March 2017 Survey		December 2016 Survey		March 2017 Survey	
	Dec-16	Mar-17*	Mar-17	Jun-17*	Dec-16	Mar-17*	Mar-17	Jun-17*
Agriculture & Fishing	11.75	10.71	9.65	10.23	7.50	7.76	6.77	6.52
Construction & Land Development	12.05	12.14	11.91	10.87	8.25	8.06	6.77	6.52
Distribution	10.55	11.57	9.95	10.79	7.72	7.66	7.16	6.52
Electricity Gas & Water	10.96	11.95	9.09	10.15	7.50	7.76	6.77	6.52
Entertainment	10.72	11.95	9.34	10.01	7.50	7.76	6.77	6.52
Manufacturing	11.25	11.75	9.45	10.26	7.00	7.76	6.77	6.52
Mining & Quarrying	11.65	12.84	10.14	10.80	8.25	8.06	6.77	6.52
Professional & Other Services	10.76	11.71	10.16	10.17	7.50	7.76	6.77	6.52
Tourism	11.50	10.95	9.53	10.13	7.33	7.76	7.08	6.90
Transport, Storage & Communication	10.38	10.95	9.47	10.20	7.56	7.26	6.77	6.52
Average Rate	**11.16**	**11.65**	**9.87**	**10.36**	**7.61**	**7.76**	**6.84**	**6.56**

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

Large Corporations and Commercial Lending

Credit Conditions

There was a tightening in credit conditions for large enterprises for the review period. The index of credit terms fell to **99.2** in the review quarter from **100.6** in the previous quarter (see **Figure 13)**. The outturn for the review period emanated from stricter lending policies applied to unsecured loans via the imposition of higher fees to non-credit card loans.

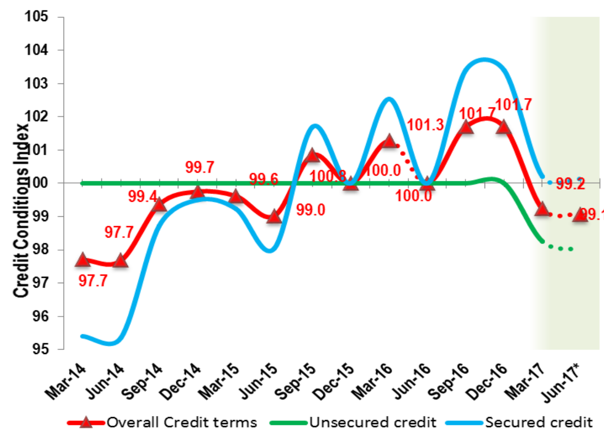
For the June 2017 quarter, credit conditions are expected to worsen as some institutions plan to increase interest rates on non-credit card loans as well as impose higher fees on unsecured loans.

Credit Supply

Despite the observed tightening in the price and non-price credit terms to large businesses, lenders reported that they increased the amount of credit, in both domestic and foreign currency, made available to large firms in the quarter. This was reflected in a CSI of **112.0** for the quarter, relative to **111.4** in the previous quarter (see **Figure 14**). Important factors underpinning the improvement in credit supply to large businesses included positive changes in macroeconomic risks, risk appetite, market share objectives, competition, as well as changes in business activities. Lenders denied that pressures from capital markets was an important factor affecting the credit they make available to large-sized firms.

For the June 2017 quarter, the supply of both local and foreign currency loans to large enterprises is expected to remain robust with an anticipated CSI of **111.7.**

Figure 13: Credit Conditions for Large Businesses

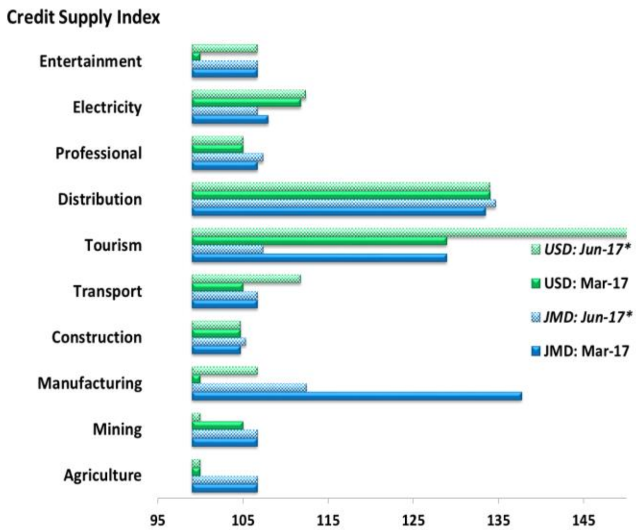


1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Credit Demand

Growth in the demand for credit from large businesses moderated in the review quarter as the CDI fell to **103.5** for the quarter from **107.7** in the previous quarter. This moderation reflected reduced demand growth for foreign currency loans in most economic sectors, offset by increased demand for local currency loans from most sectors, with the exception of *Manufacturing* and *Distribution.* Demand for secured and unsecured loans by large businesses was boosted by changes in business activities, reductions in interest rates and a reduction in macroeconomic risks.

Figure 14: Availability of Credit to Large Businesses



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

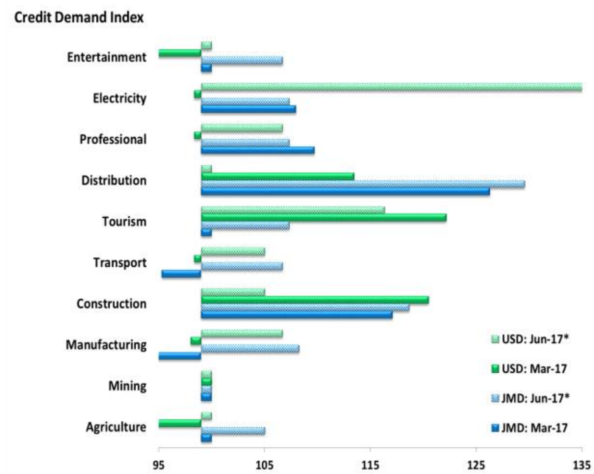
For the June 2017 quarter, the CDI is expected to increase to **109.7**. This largely reflects an anticipated increase in demand by creditors from all economic sectors for both local and foreign currency loans (see **Figure 15**). Strong demand is expected from the Electricity sector with moderately stronger demand anticipated from the Distribution and Tourism sectors.

Price of Credit

For the review quarter, **indicative** lending rates on new local currency loans to large corporations declined by **139 bps** to **8.8 per cent**. Similarly, foreign currency rates also declined by **28 bps** to **6.8 per cent** (see **Table 5**). The lower rates on local and foreign currency loans were evident across all economic sectors.

For the June 2017 quarter, interest rates for both local and foreign currency new loans are expected to increase by **8 bps** and **70 bps** respectively.

Figure 15: Credit Demanded by Large Businesses



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

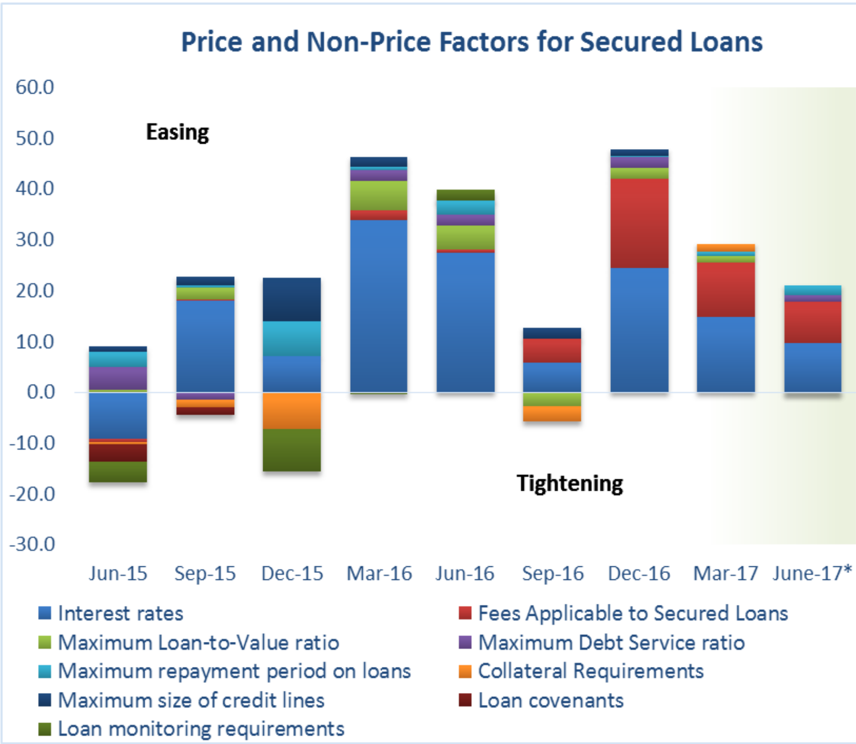
Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses

	Local Currency				Foreign Currency			
	December 2016 Survey		March 2017 Survey		December 2016 Survey		March 2017 Survey	
	Dec-16	Mar-17*	Mar-17	Jun-17*	Dec-16	Mar-17*	Mar-17	Jun-17*
Agriculture & Fishing	10.00	10.33	9.28	8.90	7.50	7.67	7.23	7.45
Construction & Land Development	10.17	10.50	9.20	9.08	7.25	7.70	6.77	7.66
Distribution	10.24	10.50	9.14	9.29	6.83	7.30	6.82	7.17
Electricity Gas & Water	10.28	10.00	8.71	8.28	7.00	7.13	6.60	7.68
Entertainment	10.50	10.33	8.53	9.15	7.50	7.63	6.93	7.83
Manufacturing	10.50	10.65	8.77	9.36	6.80	7.33	6.60	7.45
Mining & Quarrying	10.00	10.33	8.53	8.90	7.50	7.67	6.60	7.58
Professional & Other Services	10.50	10.67	8.70	8.40	7.01	7.63	6.99	7.46
Tourism	9.58	9.88	8.59	9.14	6.76	7.13	6.45	6.87
Transport, Storage & Communication	10.50	9.90	8.90	8.85	6.73	7.63	7.10	7.96
Average Rate	**10.23**	**10.31**	**8.83**	**8.94**	**7.09**	**7.48**	**6.81**	**7.51**

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

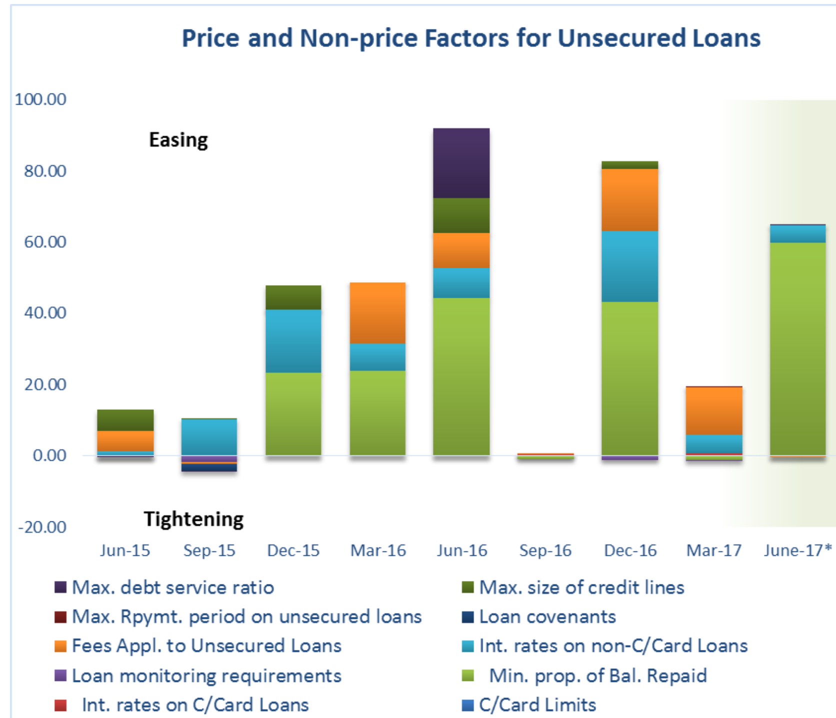
Appendix A: Overall Credit Market Conditions

Figure 16: Credit Conditions for Secured Loans



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

Figure 17: Credit Conditions for Unsecured Loans



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

Table 6: Components of Credit Demand and Supply Indices

	March 2016 Survey		December 2016 Survey		March 2017 Survey	
	Mar-16	**Jun-16***	**Dec-16**	**Mar-17***	**Mar-17**	**Jun-17***
Credit Supply Indices						
Credit Supply Index (CSI)	**104.3**	**104.3**	**104.6**	**106.1**	**103.8**	**105.0**
Credit to businesses	103.2	103	104.8	107.3	103.7	104.0
Personal credit	106.4	107	104.2	103.7	103.8	107.0
Credit in Jamaica Dollar	103.6	103.7	107.5	110.5	104.6	104.2
Credit in U.S Dollar	102.7	102.3	102.1	104.1	102.8	103.8
Credit Demand Indices						
	Mar-16	**Jun-16***	**Dec-16**	**Mar-17***	**Mar-17**	**Jun-17***
Credit Demand Index (CDI)	**106.3**	**106.2**	**107.8**	**103.9**	**101.5**	**106.8**
Demand by businesses	103.1	102.5	105.7	104.9	101.4	102.5
Demand by individuals	112.8	113.8	111.9	101.9	101.6	115.4
Credit in Jamaica Dollar	104.96	103.8	107.4	108.8	101.8	102.2
Credit in U.S dollar	101.17	101.09	103.9	101.0	101.0	102.8

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

Figure 18: Drivers of the Supply of Credit

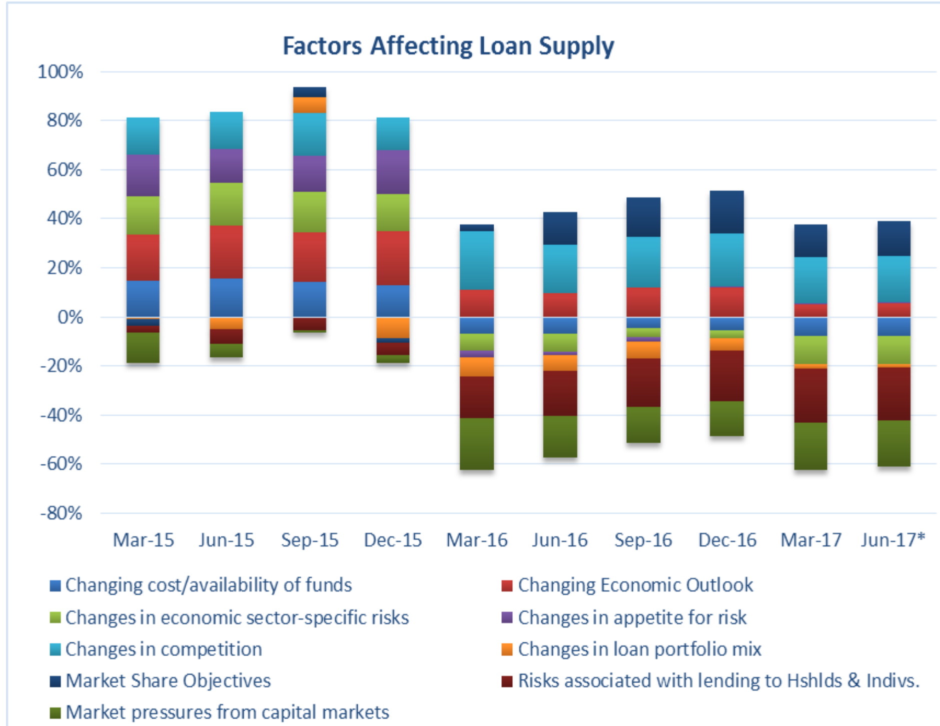
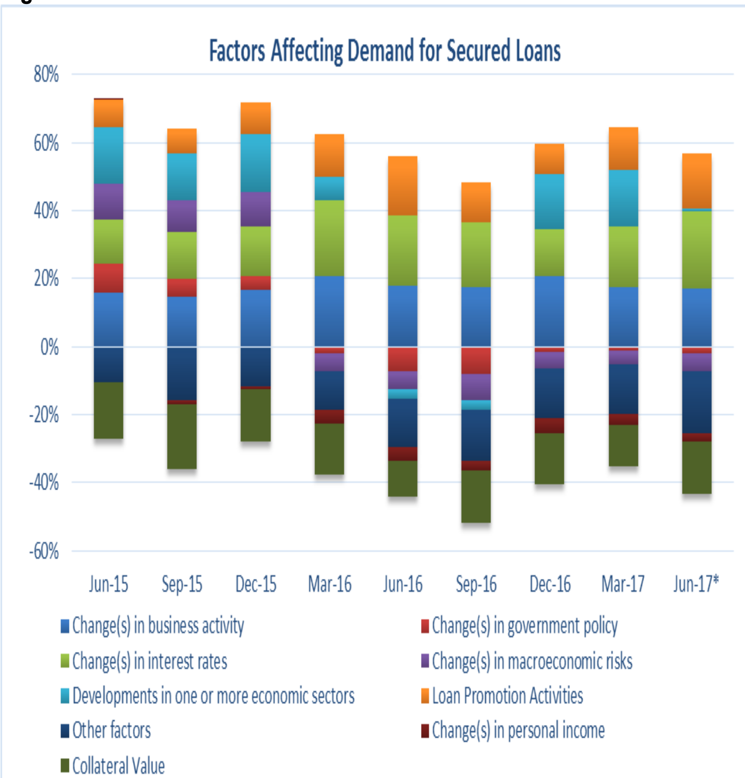
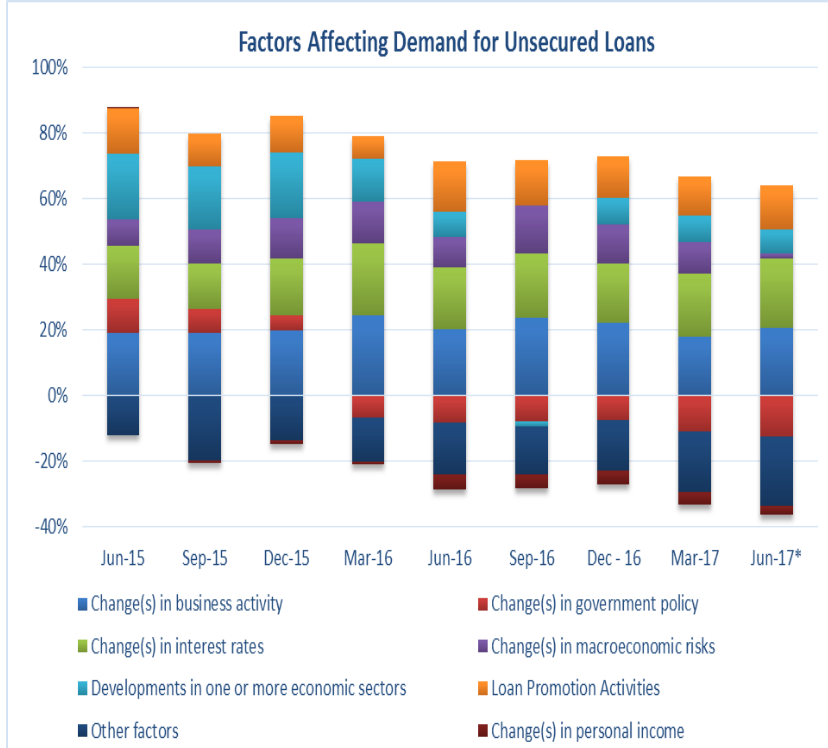


Figure 19: Drivers of the Demand of Credit





Appendix B: Glossary and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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