

Quarterly Credit Conditions Survey Report



**March 2018
Quarter**

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**Monetary Analysis & Programming
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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.

Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium Businesses	Large Businesses
Commercial Banks	8	8	8	8	8	8
Building Societies	2	2	2	2	2	2
Merchant Banks	1	1	1	1	1	1
Credit Unions	8	8	8	7	7	7
Public Entities	1	1	1	1	1	1
Total	20	20	20	19	19	19



Overview

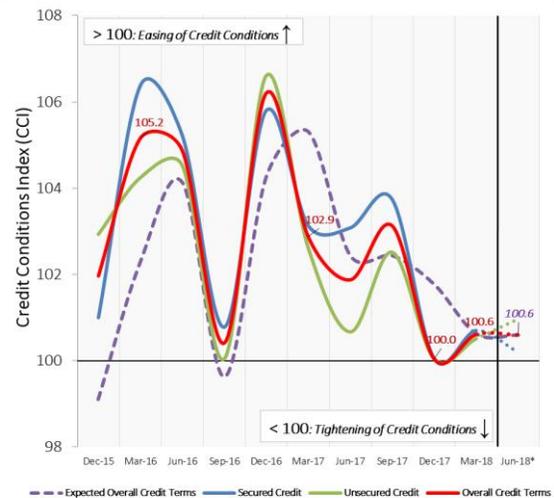
The Jamaican economy grew by 1.4 per cent for the March 2018 quarter, above the growth rate of 0.3 per cent for the March 2017 quarter. All industries are estimated to have grown for the quarter. Annual inflation at March 2018 decelerated to 3.9 per cent from 5.2 per cent at December 2017, mainly reflecting a decline in agricultural prices associated with an improvement in supplies following adverse weather conditions in the June and December 2017 quarters.

With respect to monetary policy developments, effective 18 January 2018 and 21 February 2018, BOJ reduced the interest rate paid on overnight placements by 25 bps on each occasion, lowering the policy rate from 3.25 per cent at the end of the December 2017 quarter to 2.75 per cent at the end of the March 2018 quarter. In keeping with the policy rate reduction, the rate on the Bank’s Standing Liquidity Facility (SLF) was reduced by 50 basis points (bps) over the period to 5.75 per cent, thereby maintaining the width of the interest rate corridor (IRC) at 3.0 percentage points.¹ The policy action was informed by the Bank’s assessment that inflation for the next four to eight quarters would be within BOJ’s target of 4.0 per cent to 6.0 per cent and was consistent with the Government’s continued commitment to fiscal consolidation. In the context of a continued strong demand for liquid assets, the average placement on Overnight (O/N) deposits increased to \$47.2 billion for the March 2018 quarter from \$40.3 billion in the previous quarter.

In the context of the foregoing, overall credit conditions eased marginally during the March 2018

quarter relative to the previous quarter where lending conditions were largely unchanged. Easing was evident in both secured and unsecured lending (see **Figure 1** and **Appendix A: Figures 15 & 16**).

Figure 1: Index of Credit Market Conditions



Lenders reported that similar to the March 2018 quarter, they expected a marginal easing in credit conditions for the June 2018 quarter. This outlook primarily reflected expected improvement for unsecured loans stemming from lower interest rates on non-credit card lending.

Credit Supply

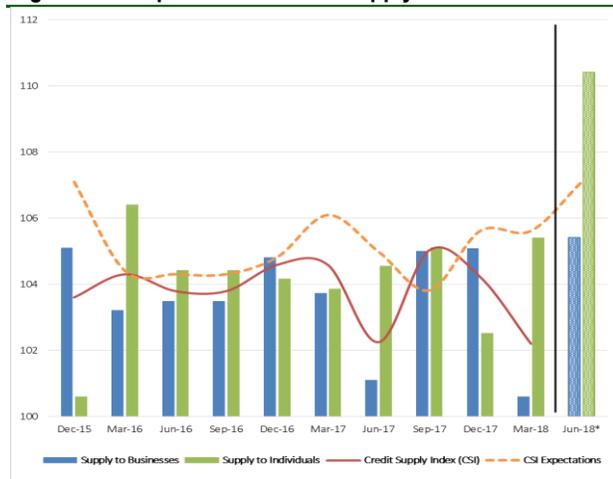
Growth in credit availability, as measured by the Credit Supply Index (CSI), moderated when compared to the previous quarter (see **Figure 2**). The CSI moderated to **102.2** from **104.2** and reflected a slowdown in the growth of credit supply to businesses relative to the previous quarter. Institutions’ willingness to provide credit during the quarter continued to be primarily driven by changes in economic sector specific risks, their economic outlook, market share objectives and competition. In addition, some lenders noted

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

increased appetite for risk as a factor affecting the changes in lending (see **Appendix A: Figure 17**).

The overall supply of local currency credit available remained relatively unchanged. Notwithstanding, the pace of growth in the supply of local currency credit available to the *Construction* industry accelerated. In relation to foreign currency loans, the growth rate in credit supply increased to the *Agriculture & Fishing*, and *Electricity, Gas & Water* sectors.

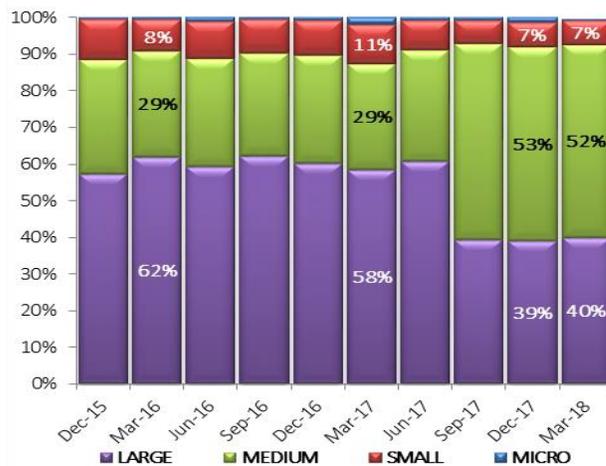
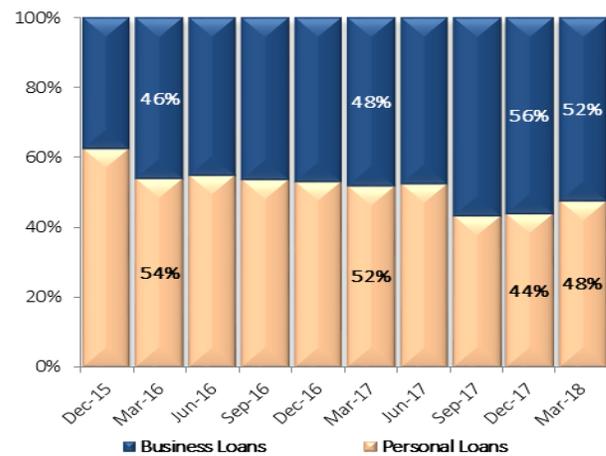
Figure 2: Components of Credit Supply



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

Regarding credit allocation, credit to medium-sized businesses continued to account for the lion share, though the proportion was slightly less than that which obtained in the previous quarter. The proportion of credit allocated to micro firms declined from **1.3 per cent** to **0.4 per cent** during the period. In this context, there was an increase in the proportion of credit made available to large and small firms. The proportion of credit allocated to large-sized businesses increased to **40.0 per cent** from **39.2 per cent** while credit allocated to small businesses increased to **6.8 per cent** from **6.7 per cent** in the previous quarter (see **Figure 3**).

Figure 3: Distribution of Private Sector Credit²



For the June 2018 quarter, lenders reported that they plan to increase the amount of credit made available to both businesses and individuals. (see **Figure 2 and Appendix A: Table 7**).

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.

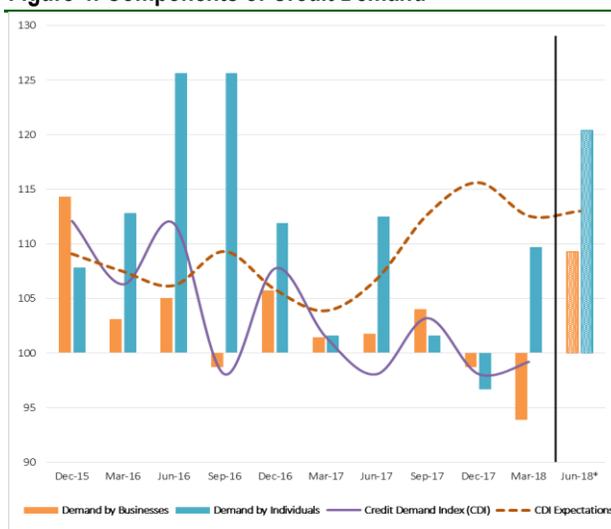


Credit Demand

Credit demand, as measured by the Credit Demand Index (CDI) for the March 2018 quarter, declined relative to the December 2017 quarter (see **Figure 4**). As such, the CDI for the quarter was **99.2**. This reduction primarily stemmed from reduced demand for local currency business loans (see **Appendix A: Table 7**). Lenders reported that the fall-off in the demand for foreign currency loans was mainly evident in the *Mining & Quarrying*, *Manufacturing* and *Distribution* sectors.

The fall-off in the demand for local currency loans, on the other hand, was mostly evident in the *Agriculture & Fishing*, *Entertainment* and *Electricity Gas & Water* sectors.

Figure 4: Components of Credit Demand



1. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.
2. The asterisk (*) represents expectations provided by the respondents.

The overall fall in local currency credit demand mainly reflected a decline in the demand for credit by micro and small businesses.

For the June 2018 quarter, lenders indicated that they are anticipating an uptick in the demand for

credit from both individuals and businesses. Loan promotion activities and changes in business activities were cited as the main drivers. The CDI is consequently projected to rise to **113.0**.

Price of Credit

Based on the survey responses, average **indicative** interest rates on new local currency loans **increased** by approximately **60 bps** to **15.30 per cent** during the review quarter, relative to the previous quarter. This reflected increases of **23 bps** and **70 bps** in rates for personal and business loans, respectively. Higher rates on business loans primarily reflected the impact of above average interest rates on loans to micro firms, particularly to businesses in the *Construction* and *Electricity, Gas & Water* industries (see **Table 1**).

In contrast, the **indicative** average interest rate on new foreign currency loans declined by **19 bps** to **6.72 per cent**, which reflected lower rates on foreign currency loans across all business sizes except large entities.

For the June 2018 quarter, lenders reported that they plan to decrease the interest rates on new local currency loans to businesses by **25 bps** to **14.49 per cent**, while they intend to increase the interest rates on new foreign currency loans by 50 bps to **7.22 per cent**.³

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

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

	December 2017 Survey		March 2018 Survey	
	Dec-17	Mar-18*	Mar-18	Jun-18*
Local Currency (LC) Loans				
Business loans	14.04	14.80	14.74	14.49
Personal loans	17.31	17.65	17.54	17.93
Reference rate	12.86	14.69	13.68	14.04
Average LC rates	14.70	15.37	15.30	15.18
Foreign Currency (FC) Loans				
Business loans	6.91	7.34	6.72	7.22
Reference rate	7.20	7.55	6.86	7.08

Personal Lending

Credit Conditions

Overall lending conditions for personal loans eased in the March 2018 quarter, evidenced by the index of **102.7** (see **Figure 5**). This easing was reflected in lending terms for both secured and unsecured loans. For unsecured loans, lenders reported that they have decreased interest rates and increased the Maximum Loan-to-Value ratio. For secured loans the overall easing of lending terms mainly reflected a relaxing in the minimum proportion of balance repaid and higher credit card limits.

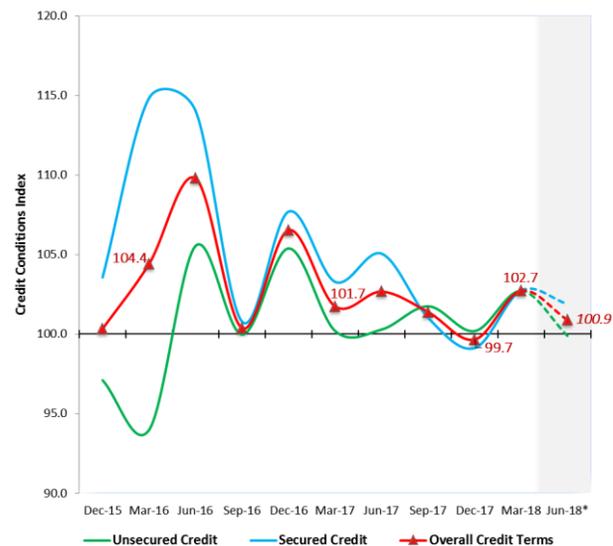
For the June 2018 quarter, an easing in lending conditions is expected for secured loans while there is expected to be a tightening in terms for unsecured personal loans. This outlook reflects plans by some lenders to reduce interest rates and minimum proportion of balances repaid for secured loans while some lenders plan to increase the fees applicable to unsecured loans.

Credit Supply

The share of credit made available for personal reasons increased to **48.0 per cent** from **44.0 per cent** in the previous quarter (see **Figure 3**). For the March 2018 quarter, there was increased financing for *motor vehicles, debt consolidation, loans with real estate as collateral* while and unsecured *personal* loans which also benefited from higher approval rates (see **Figure 6**).

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

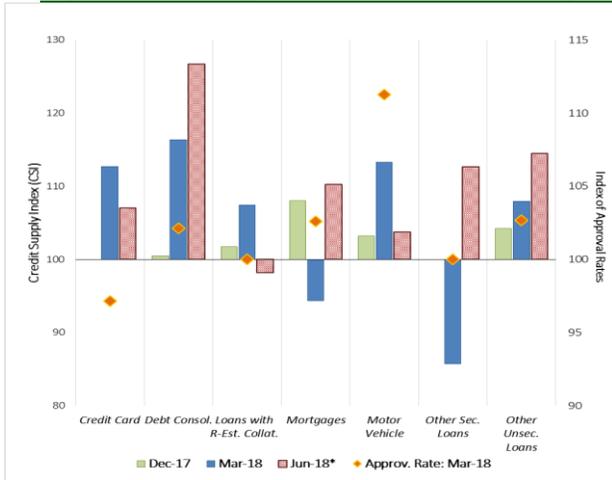
Figure 5: Credit Conditions for Personal Lending



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

For the June 2018 quarter, credit supply is expected to expand at a faster rate compared with the pace of expansion in the March 2018 quarter. This increase is expected to impact other *secured personal loans, mortgages and real estate and Loans for Debt Consolidation* (see **Figure 6**).

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 asterisk (*) represents forward looking expectations provided by the respondents.

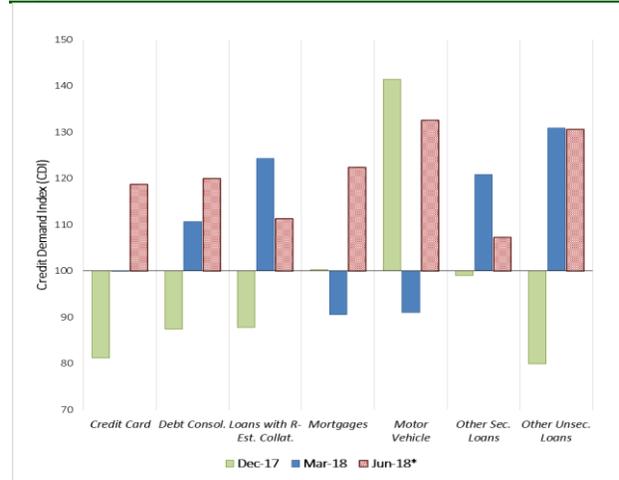
Credit Demand

In-line with the growth in the supply of personal loans, there was a noticeable increase in the demand for personal credit in the review quarter. The CDI rose to **109.7** from **96.7** in the previous quarter, with increased demand observed for other unsecured and secured loans, loans secured on real estate and debt consolidation loans. There was a fall in demand for all other loan types (see **Figure 7** and **Appendix A: Table 7**).

Creditors reported that the important drivers of demand for personal loans in the review quarter were *interest rates* and *loan promotional activities*.

For the June 2018 quarter, an uptick in demand is anticipated as the CDI is expected to increase to **120.4** reflecting increased demand for all categories of loans.

Figure 7: Demand for Personal Loans



Price of Credit

Average **indicative** loan rates on new personal loans offered by participating institutions increased for the review period to **17.54 per cent** from **17.31 per cent** in the previous survey. The higher average rate for the review quarter was predominantly underpinned by higher interest rates on *Credit Card Lending* and *other unsecured personal loans* as there were reductions in lending rates for the other loan categories (see **Table 2**).

For the June 2018 quarter, lenders reported a planned increase of approximately **39 bps** in the average interest rates.

Table 2: Interest Rates on Personal Loans

Local Currency (LC) Loans	December 2017 Survey		March 2018 Survey	
	Dec-17	Mar-18*	Mar-18	Jun-18*
Credit Cards	39.63	41.68	41.09	41.77
Other Unsec. Loans	18.04	19.49	19.02	20.16
Mortgages	10.15	8.73	9.76	8.62
Motor Vehicle	9.24	10.52	8.84	9.94
Other Sec. Loans	9.46	9.59	8.99	9.18
Average Rates	17.31	18.00	17.54	17.93

Micro Business Lending

Credit Conditions

For the March 2018 quarter, there continued to be a marginal tightening in overall credit terms faced by micro-businesses which was evidenced by the index of **99.9** (see **Figure 8**). This marginal tightening reflected the impact of tightened loan monitoring requirements applicable to unsecured loans. All other credit terms were unchanged for the review quarter.

For the June 2018 quarter, credit conditions are expected to remain the same for both secured and unsecured loans extended to micro-firms. This outlook suggests that lenders are comfortable with the loan terms for the review quarter.

evidenced in a CSI of **100.3**. Lenders reported an increase in credit supply to the *Distribution and Professional & Other Services* sectors.

For the June 2018 quarter, lenders reported that they expected to increase the supply of local currency credit to micro businesses. Lenders reported that additional credit will be made available to finance developments in the *Manufacturing, Construction & Land Development* and *Distribution* sectors.

Credit Demand

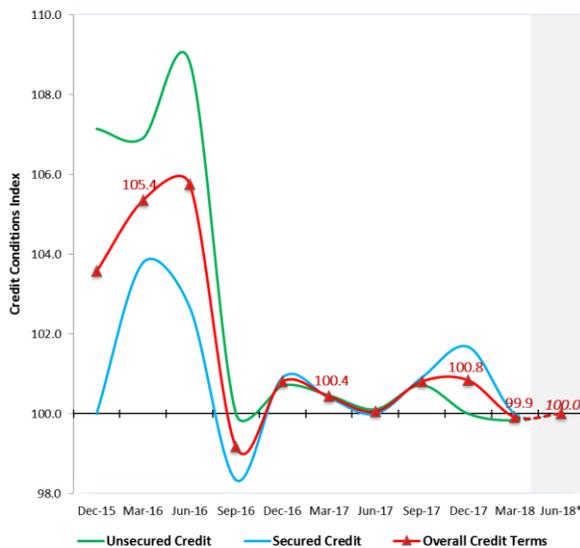
Credit demand by micro businesses decreased for the March 2018 quarter relative to the December 2017 quarter. The CDI declined to **92.9** from **101.8** in the previous quarter. This reduction reflected a fall-off in demand for local currency loans to *Agriculture & Fishing, Entertainment and Distribution*. There was also reduced demand for foreign currency loans for the review period.

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

Price of Credit

For the review period, the **indicative** average lending rate on new local currency loans to micro businesses increased by **208 bps** to **29.40 per cent** (see **Table 3**). Much of this increase reflected higher interest rates on loans to the *Agriculture, Tourism and Transport, Storage & Communication* sectors.

Figure 8: 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

The supply of credit to micro firms eased marginally for the review quarter when compared with the December 2017 quarter as



In contrast, interest rates on foreign currency loans to micro businesses, declined by **25 bps** to **7.50 per cent** for the quarter.

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

Table 3: Interest Rates on Local and Foreign Currency Loans to Micro-sized Businesses

Micro Firms	Local Currency				Foreign Currency			
	December 2017		March 2018		December 2017		March 2018	
	Dec-17	Mar-18*	Mar-18	Jun-18*	Dec-17	Mar-18*	Mar-18	Jun-18*
Agriculture & Fishing	25.93	26.46	35.25	30.61	n.a	7.50	n.a	7.31
Construction & Land Development	26.18	26.53	27.12	18.05	n.a	7.50	n.a	7.31
Distribution	30.76	30.82	30.45	30.67	n.a	7.50	n.a	7.31
Electricity Gas & Water	25.42	26.53	26.70	26.34	n.a	7.50	n.a	7.31
Entertainment	26.80	26.53	26.70	30.67	7.50	7.50	n.a	7.31
Manufacturing	31.10	30.82	30.86	30.67	n.a	7.50	n.a	7.31
Mining & Quarrying	31.10	26.53	25.33	26.34	n.a	7.50	n.a	7.31
Professional & Other Services	21.98	29.36	26.84	26.84	8.00	7.75	n.a	7.16
Tourism	25.42	26.53	31.10	26.34	n.a	7.50	n.a	7.31
Transport, Storage & Communication	28.47	29.36	33.64	29.32	n.a	7.50	7.50	7.31
Average Rate	27.32	27.95	29.40	27.58	7.75	7.53	7.50	7.29

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

Small Business Lending

Credit Conditions

For the March 2018 quarter, the overall credit terms faced by small businesses was unchanged in comparison to the previous quarter. The overall credit conditions index remained at **100.0** for the quarter (see **Figure 9**).

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

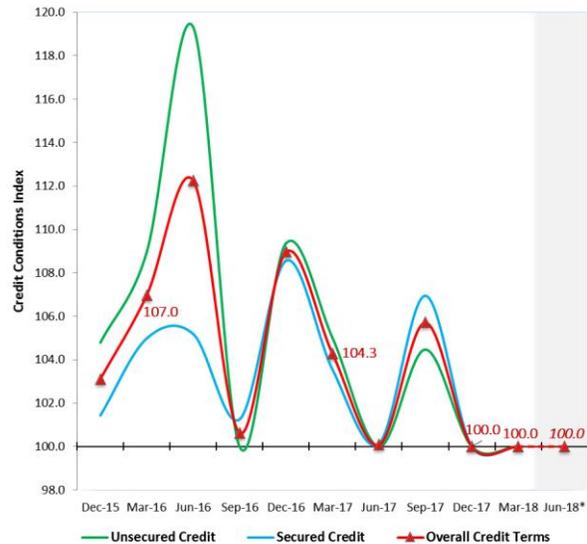
Credit Supply

Credit allocated to small businesses as a share of total credit increased to **6.8 per cent** for the March 2018 quarter, relative to **6.7 per cent** in the previous quarter.

The supply of credit made available to small firms contracted during the quarter. The CSI for the review quarter decreased to **98.8** from **101.6** in the previous quarter. This downturn in supply was evident in both local and foreign currency loans. The downturn in local currency loans was reflected in the *Manufacturing, Construction* and *Distribution* sectors.

For the June 2018 quarter, lenders reported that they planned to marginally increase credit supply to small businesses, as evidenced in the projected CSI of **100.8**.

Figure 9: 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

Overall demand for loans from small businesses, denominated in both local and foreign currency, contracted in the review quarter. In particular, the CDI for local currency loans declined to **70.7** from **96.1** in the previous quarter. However, there was increased demand for local currency loans from the *Manufacturing, Construction & Land Development* sectors. Foreign currency loan demand showed a slower rate of decline for the review quarter relative to last quarter. This is evidenced by the increase in the CDI for foreign currency loans to **93.9** from **83** last quarter. Reduced demand for foreign currency loans was evidenced in the *Distribution* sector.



For the June 2018 quarter, lenders reported that they expected an increase in the demand for local currency loans while foreign currency loan demand is expected to remain the same for small firms. This outlook for strong local currency credit demand is hinged on lenders offering various loan promotions to attract prospective borrowers. In addition, the low interest rate environment is also expected to contribute to increased demand. In this context, demand is expected to emanate from most economic sectors for local currency denominated loans. The demand for foreign currency loans by all sectors is expected to remain the same.

Price of Credit

For the review period, the **indicative** average lending rate on new local currency loans to small businesses increased to **12.38 per cent** from **11.16 per cent**. This was, lower than the expected rate of **12.92 per cent** reported in the December 2017 survey (see **Table 4**). The increase in the average local currency rates to small businesses mainly reflected higher borrowing costs across the *Agriculture & Fishing*, *Electricity, Gas & Water* and *Tourism* sectors. Conversely, the weighted average interest rate on foreign currency denominated loans was reduced by approximately **49 basis points** to **6.65 per cent**, which was observed in all economic

sectors except the *Transport, Storage & Communication* sector. For the June 2018 quarter, lenders reported planned increases in interest rates on both new local and foreign currency loans to small business enterprises.

Table 4: Interest Rates on New Local and Foreign Currency Loans to Small Businesses

Micro Firms	Local Currency				Foreign Currency			
	December 2017 Survey		March 2018 Survey		December 2017 Survey		March 2018 Survey	
	Dec-17	Mar-18*	Mar-18	Jun-18*	Dec-17	Mar-18*	Mar-18	Jun-18*
Agriculture & Fishing	10.01	13.00	12.58	12.75	6.63	7.73	6.63	7.53
Construction & Land Development	12.04	13.14	11.79	12.68	7.59	7.81	6.63	7.45
Distribution	12.76	12.72	11.51	12.61	6.63	7.65	6.29	7.70
Electricity Gas & Water	9.18	12.86	12.77	12.82	n.a	7.81	6.63	7.36
Entertainment	12.42	13.14	12.77	12.75	7.68	7.73	n.a	7.53
Manufacturing	9.71	12.63	12.09	12.42	6.63	8.06	6.63	7.61
Mining & Quarrying	12.40	13.18	11.67	12.75	6.63	7.90	6.63	7.53
Professional & Other Services	11.55	12.75	12.22	13.09	8.16	7.85	6.90	7.60
Tourism	9.18	12.93	12.58	12.60	7.72	7.90	6.69	7.45
Transport, Storage & Communication	12.34	12.86	13.87	12.75	6.63	7.81	6.84	7.53
Average Rate	11.16	12.92	12.38	12.72	7.14	7.83	6.65	7.53

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

Medium-Sized Business Lending

Credit Conditions

Lending conditions faced by medium-sized enterprises in the March 2018 quarter was unchanged relative to the previous quarter. The overall index of credit conditions to medium-sized businesses increased to **100.0** for the quarter from **99.8** in the previous quarter (see **Figure 10**).

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

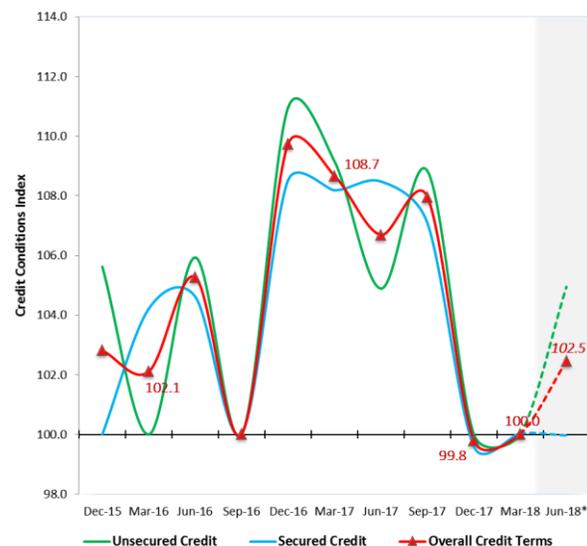
Credit Supply

Growth in credit supply to medium-sized firms expanded at a faster rate in the March 2018 quarter compared with the pace of expansion in the December 2017 quarter. The CSI increased to **104.0** for the review quarter from **103.7** in the previous quarter. This increase in the growth rate in supply reflected an expansion in the supply of local currency loans, particularly to the *Manufacturing, Construction & Land Development* sector. However, the impact of this expansion was partly offset by a decrease in the supply of foreign currency loans to the *Construction* sector. In this context, there was a slight reduction in the proportion of credit allocated to medium-sized businesses to **52.4 per cent** from **52.8 per cent** in the previous quarter. Lenders cited *changes* in the economic outlook, market share objectives, changes in competition, as well as changes in risk appetite, as important

factors that continued to influence the supply of credit in the quarter.

For the June 2018 quarter, the CSI for medium-sized businesses is expected to accelerate to **102.5**.

Figure 10: 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 asterisk (*) represents expectations provided by the respondents.

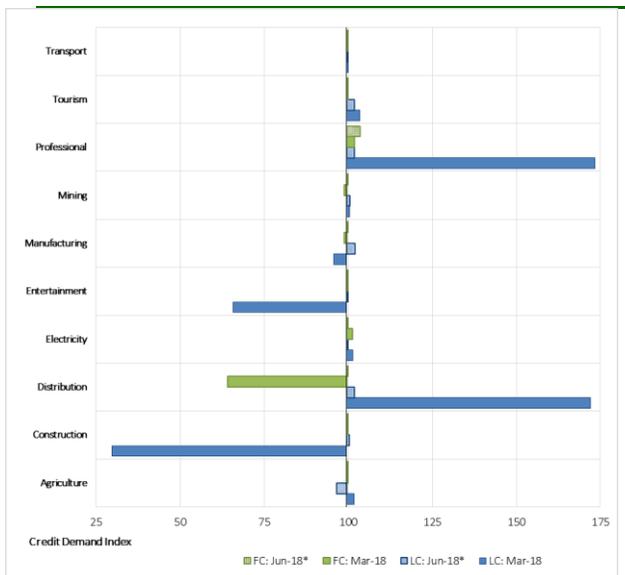
Credit Demand

There was a marginal increase in the demand for loans by medium-sized firms in the review quarter. The CDI rose to **100.4** from **96.3** in the previous quarter as there was increased demand for local currency loans. This higher demand for local currency loans was largely evidenced in the *Distribution, and Professional & Other Services* sectors. Of note, there was a fall in the demand

for foreign currency loans which was evidenced in the *Distribution, Manufacturing and Mining & Quarrying* sectors while loan demand by most other sectors was relatively unchanged (see **Figure 11**).

For the June 2018 quarter, lenders reported that they expect the demand for both local and foreign currency loans from medium sized firms to increase marginally.

Figure 11: 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 asterisk (*) represents forward looking expectations provided by the respondents.

Price of Credit

There was a reduction in the indicative average lending rate on new local and foreign currency loans to medium-sized businesses for the review period. The average rate on local currency loans declined to **9.21 per cent** from **9.45 per cent** in

the previous quarter. The reduction in the average rate was evidenced across all economic sectors except *Distribution and Electricity, Gas & Water*. Similarly, there was a reduction of **7 bps** to **6.63 per cent** in the average rate on foreign currency loans for the review quarter. Lower rates were evidenced across most economic sectors (see **Table 5**).

Table 5: Interest Rates on Local and Foreign Currency Loans to Medium-sized Businesses

Medium Firms	Local Currency				Foreign Currency			
	December 2017 Survey		March 2018 Survey		December 2017 Survey		March 2018 Survey	
	Dec-17	Mar-18*	Mar-18	Jun-18*	Dec-17	Mar-18*	Mar-18	Jun-18*
Agriculture & Fishing	9.33	9.51	9.11	9.24	6.63	7.02	6.63	7.12
Construction & Land Development	9.53	9.61	8.92	8.87	6.70	7.02	6.46	6.97
Distribution	9.53	10.15	10.44	9.95	7.87	7.51	6.72	6.87
Electricity Gas & Water	9.11	9.51	9.11	9.09	7.21	6.92	7.16	7.18
Entertainment	8.96	9.61	8.96	9.09	6.70	7.12	6.63	6.87
Manufacturing	9.17	9.51	9.25	9.31	6.70	6.92	6.28	6.97
Mining & Quarrying	10.24	10.19	9.11	9.29	6.70	7.07	6.63	7.17
Professional & Other Services	9.58	9.51	9.17	8.77	6.63	7.22	6.59	6.87
Tourism	9.33	9.51	9.15	9.09	6.70	7.43	6.63	6.97
Transport, Storage & Communication	9.77	9.41	8.90	9.03	6.71	6.52	6.63	7.07
Average Rate	9.45	9.66	9.21	9.17	6.86	7.07	6.63	7.01

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

For the June 2018 quarter, the average interest rate on new local currency credit to medium-sized firms is expected to decrease by **4 bps** to **9.17 per cent**. Lower rates are expected across most sectors. Conversely, the average interest rate on foreign currency credit is expected to increase by **38 bps** to **7.01 per cent** with higher rates expected on loans to all sectors.

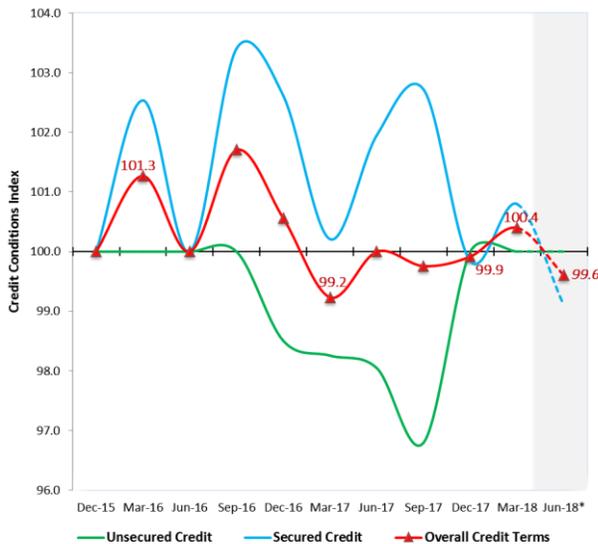
Large Corporations and Commercial Lending

Credit Conditions

Lending conditions to large businesses eased marginally in the review quarter. The overall credit terms index increased to **100.4** from **100.0** and was associated with a decline in fees applicable to secured loans (see **Figure 12**). Credit terms applied to unsecured loans to large businesses were unchanged.

For the June 2018 quarter, lenders reported that they plan to slightly tighten credit conditions. As such the index is anticipated to be at **99.6**.

Figure 12: Credit Conditions for Large Businesses



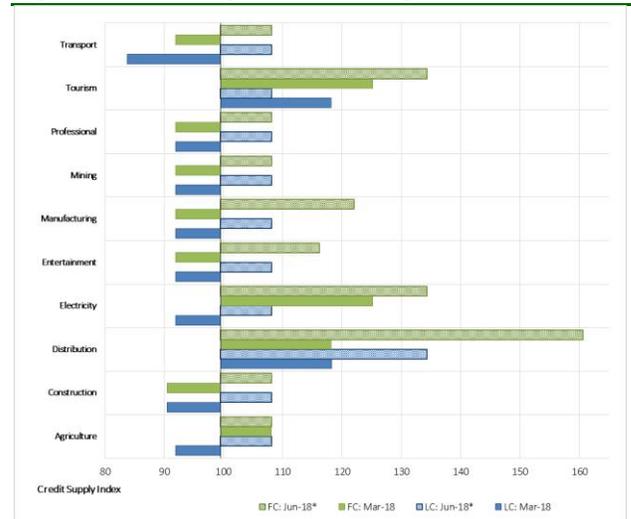
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
- The asterisk (*) represents forward looking expectations provided by the respondents.

Credit Supply

Despite the overall easing in credit terms faced by large businesses, credit made available to large businesses was reduced during the quarter compared with the expansion in the previous quarter. This was reflected in a CSI of **99.4** for the quarter, relative to **114.8** in the previous quarter (see **Figure 13**). The reduction reflected a decline in the supply of both local and foreign currency loans, to most sectors. The reduction continued to reflect changes in lenders' risk appetite as well as changes in the cost of funds and market share objectives.

For the June 2018 quarter, lenders plan to augment credit availability to large businesses at a faster pace than in the March 2018 quarter. This is evidenced in an increase in the CSI to **115.8** from **99.4** in the review quarter which reflects an anticipated upturn in the pace of growth in the supply of both local and foreign currency loans.

Figure 13: Availability of Credit to Large Businesses



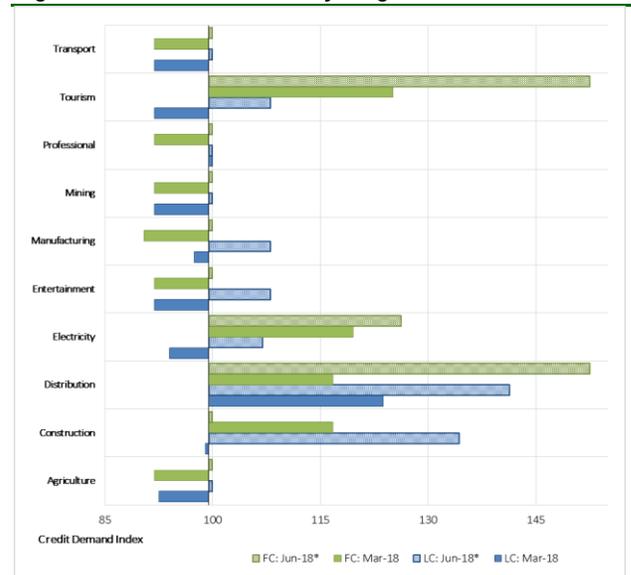
- An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
- The asterisks (*) represent forward looking expectations provided by the respondents.

Credit Demand

There was a slow-down in the growth rate of demand for credit from large businesses in the March 2018 quarter as indicated by a moderation in the CDI to **100.1** from **107.3**. This moderation was reflected in a slower rate of growth for both foreign and local currency loans. The slowdown in demand for foreign currency loans in the review quarter stemmed mainly from the *Agriculture & Fishing, Entertainment, Manufacturing, Mining & Quarrying, Professional & Other, Tourism and Transport* sectors (see **Figure 14**). Lenders highlighted that important factors that influence credit demand from large businesses continued to be *changes in business activities, lower interest rates and reductions in macroeconomic risks, as well as developments in one or more economic sectors*.

For the June 2018 quarter, lenders reported that they expected faster growth in the demand for credit by large firms relative to the expansion which occurred in the March 2018 quarter. This expectation is underpinned by the anticipated growth in both local and foreign currency demand, most notably from the *Tourism, Distribution and Electricity, Gas & Water* sectors.

Figure 14: Credit Demanded by Large Businesses



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

Price of Credit

For the review quarter, **indicative** lending rates on new local currency loans to large corporations declined by **25 bps** to **7.99 per cent**. Conversely, foreign currency rates were increased by **2 bps** to **6.09 per cent** (see **Table 6**). The lower rates on local currency loans were evident across most economic sectors, while the higher rates on foreign currency loans was evident across the *Construction and Electricity, Gas & Water* sectors.

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



Table 6: Interest Rates on Local and Foreign Currency Loans to Large Businesses

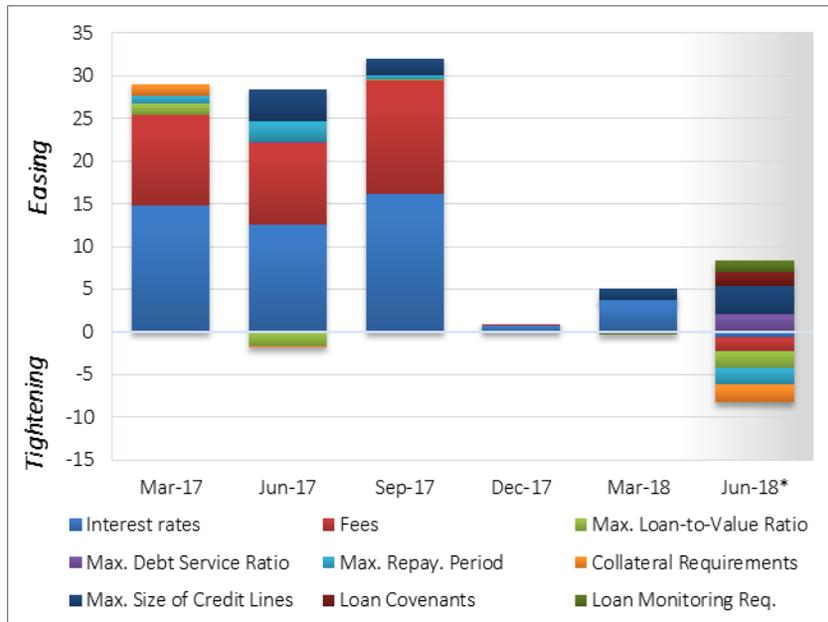
Large Firms	Local Currency				Foreign Currency			
	December 2017		March 2018 Survey		December 2017		March 2018 Survey	
	Dec-17	Mar-18*	Mar-18	Jun-18*	Dec-17	Mar-18*	Mar-18	Jun-18*
Agriculture & Fishing	8.11	8.33	7.57	8.21	6.13	6.84	5.46	6.59
Construction & Land Development	8.71	9.27	8.46	8.99	6.13	6.88	8.00	9.00
Distribution	7.67	8.47	7.74	8.83	6.07	6.83	5.93	7.18
Electricity Gas & Water	8.96	8.33	7.78	8.32	5.59	6.99	6.80	6.98
Entertainment	8.11	9.08	8.11	8.83	6.13	7.09	5.79	6.84
Manufacturing	7.78	8.56	7.86	8.24	5.70	6.84	5.44	6.56
Mining & Quarrying	8.11	8.58	8.11	8.58	6.13	6.84	5.46	6.59
Professional & Other Services	8.78	8.58	8.11	8.46	6.13	7.28	6.13	7.22
Tourism	8.02	8.57	8.02	8.17	6.52	6.83	6.16	6.58
Transport, Storage & Communication	8.15	8.92	8.11	8.14	6.13	7.08	5.79	7.09
Average Rate	8.24	8.67	7.99	8.48	6.07	6.95	6.09	7.06

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



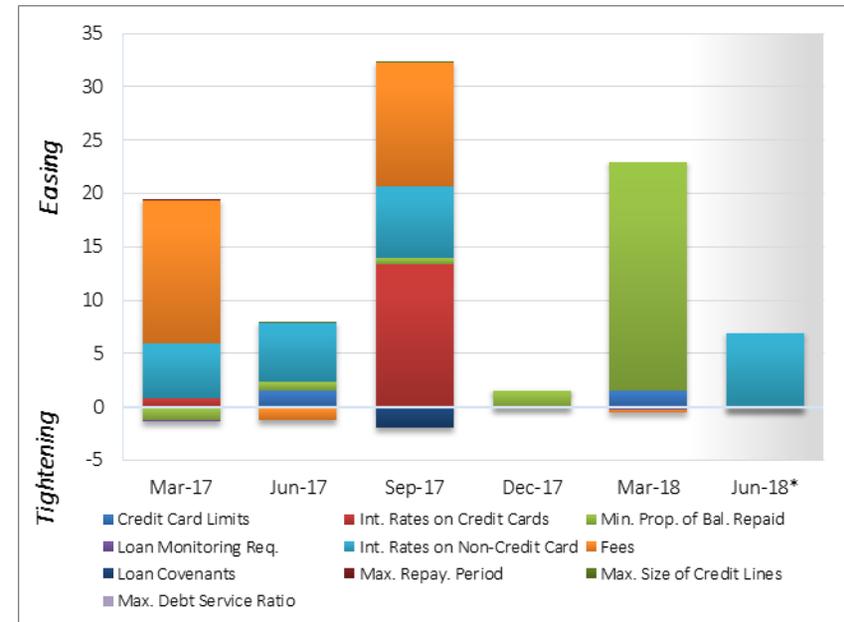
Appendix A: Overall Credit Market Conditions

Figure 15: 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 June quarter are computed based on forward looking expectations provided by respondents.

Figure 16: Credit Conditions for Unsecured Loans



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



Table 7: Components of Credit Demand and Supply Indices

	March 2017 Survey		December 2017 Survey		March 2018 Survey	
	Mar-17	Jun-17*	Dec-17	Mar-18*	Mar-18	Jun-18*
SUPPLY						
Credit Supply Index (CSI)	103.8	105.0	104.2	103.5	102.2	107.1
Credit to Businesses	103.7	104.0	105.1	103.3	100.6	105.4
Credit to Individuals	103.8	107.0	102.5	103.7	105.4	110.4
Local Currency Credit	104.2	104.2	103.8	102.8	100.6	105.4
Foreign Currency Credit	102.8	103.8	105.0	103.8	100.6	105.4
DEMAND						
Credit Demand Index (CDI)	101.5	106.8	98.1	112.6	99.2	113.0
Demand by Businesses	101.4	102.5	98.7	111.4	93.9	109.3
Demand by Individuals	101.6	115.4	96.7	114.9	109.7	120.4
Local Currency Credit	101.7	102.2	99.4	115.6	89.8	115.3
Foreign Currency Credit	101.0	102.8	95.4	107.2	98.1	103.4

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 17: Drivers of the Supply of Credit

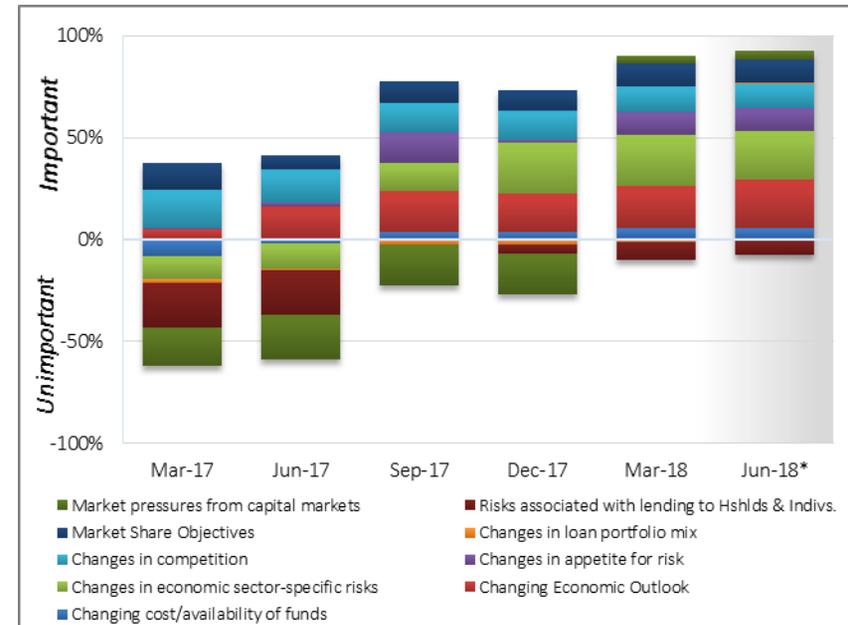




Figure 18: Drivers of the Demand of Secured Credit

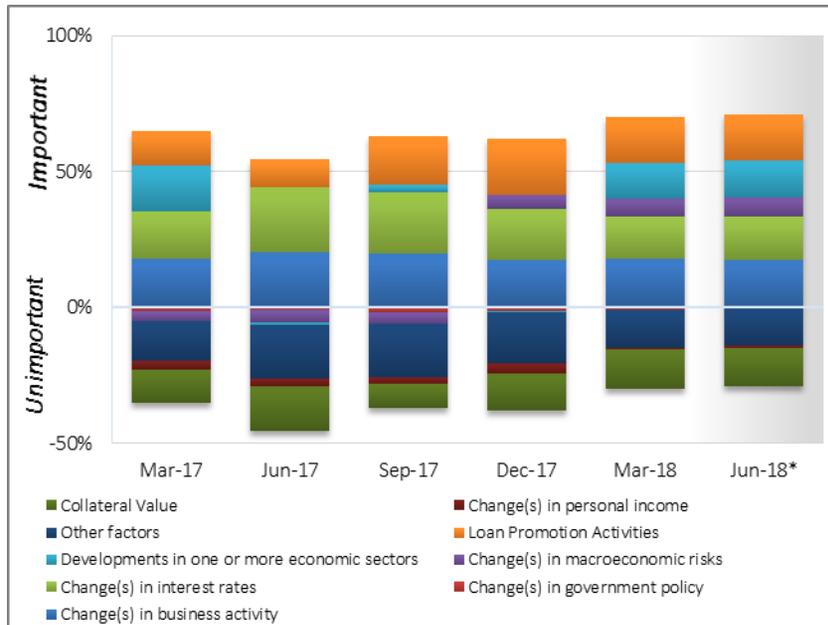
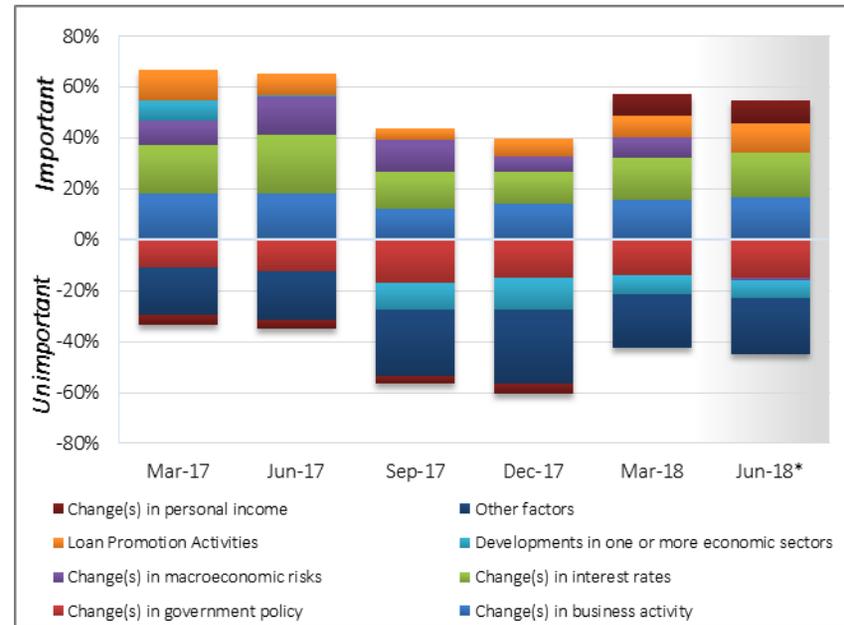


Figure 19: Drivers of the Demand of Unsecured Credit





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.

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

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.



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

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
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).