

# Quarterly Credit Conditions Survey Report



**September 2015  
Quarter**

Prepared by the  
**Monetary Analysis & Programming  
Department**  
**Research & Economic Programming Division**

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## Background

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

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

This report presents the results of the September 2015 survey which was conducted between 14 October 2015 and 05 November 2015.

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

### Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	2	2	1	2	2	2
Credit Unions	5	5	5	5	5	5
<b>Total</b>	<b>16</b>	<b>16</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>16</b>



## Overview

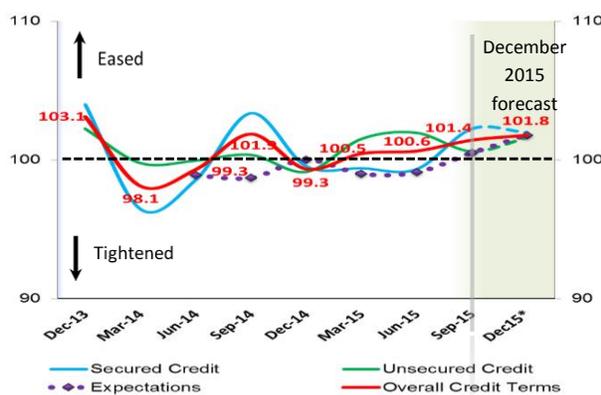
The BOJ’s QCCS, for the September 2015 quarter suggests that credit terms eased, continuing the trend observed since March 2015 (see **Figure 1**). This easing was largely underpinned by improvements in lending policies applied to secured loans. Notably, the improvement recorded for secured credit terms was the first since the September 2014 quarter and respondents indicated that this was reflective of the generally lower domestic interest rate environment. In fact, lenders reported that the recent consecutive policy rate reductions by the BOJ have improved their ability to expand their loan portfolio by allowing them to offer lower interest rates, increasing the maximum loan-to-value ratio and extending the maximum size of credit lines.

For the December 2015 quarter, lenders anticipate that credit market conditions will continue to improve, reflecting less stringent policies for secured and unsecured loans. However, policies associated with secured loans are expected to ease at a slower pace than in the September quarter due to an increase in loan monitoring requirements (see **Appendix A: Figure 18** and **Figure 19**).

### Credit Supply

Lenders reported an improvement in credit availability for the September 2015 quarter, reflected in the Credit Supply Index (CSI) of **106.4** (see **Figure 2**). This improvement was due to increases for both local and foreign currency lending facilities. Of the amounts made available, a greater proportion of lending was made accessible to households (see **Figure 3**). With regards to the credit allocated to businesses, there was a notable increase in the distribution of credit to large enterprises. This redistribution followed reports in the last two surveys where creditors indicated that generating new loans among large corporations was challenging. Lenders associated the increase borrowing by large corporates to the low interest rate environment as this business segment was very sensitive to interest rate adjustments. Consequently, there was heightened competition among creditors for this business segment during the quarter.

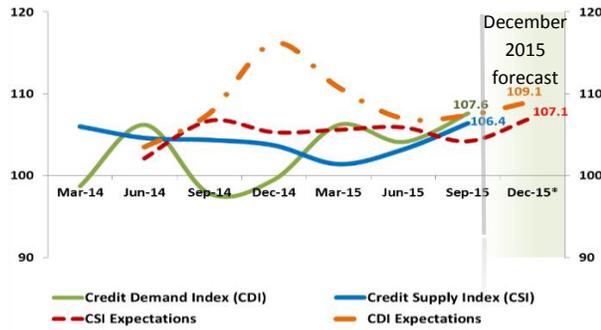
**Figure 1: Index of Credit Market Conditions**



Notes: (i) The asterisk (\*) represents forward looking expectations provided by the respondents for the June 2015 quarter. (ii) The index is the average response for changes in eight credit terms reported in the Credit Conditions Survey.

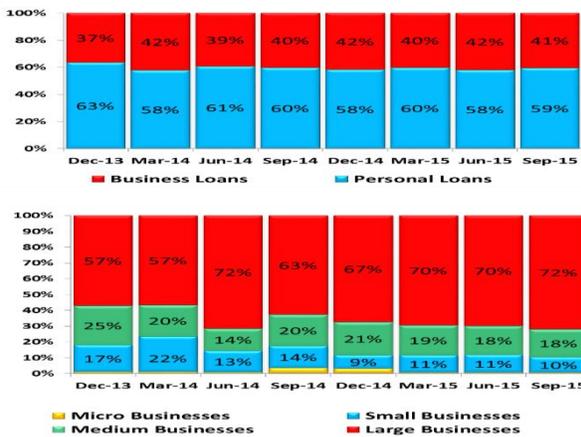


**Figure 2: Credit Demand and Supply Indices**



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<sup>1</sup>**



Lenders highlighted that September quarters were typically the highest period of demand for credit. Therefore, the increased credit supply for the review quarter was largely influenced by aggressive loan promotion activities in targeted areas, namely unsecured loans, mortgages, credit cards and motor vehicle loans. In addition, lenders cited that the strengthening of the macroeconomic factors in the economy had

<sup>1</sup> Figure 3 shows the distribution of credit between households and businesses. Credit to businesses was further © Copyright 2015. Bank of Jamaica

boosted investor confidence and their loan demands.

For the December 2015 quarter, lenders anticipate a further increase in overall credit availability, reflecting expansions in all loan categories (see **Figure 2** and **Appendix A: Table 6**). This expansion should be underpinned by an improvement in economic outlook as well as positive changes in sector-specific risks. Of note, some creditors indicated that they anticipated further reductions in interest rates based on the anticipated improvements in liquidity for the December 2015 and March 2016 quarters, which could increase the buoyancy in credit availability. However, some lenders cautioned that heightened political activity in the December 2015 quarter could temper credit supply.

### Credit Demand

For the September 2015 quarter, demand for credit continued to rise, recording a Credit Demand Index (CDI) of **107.6**, the highest level since the survey's inception in the December 2013 quarter (see **Figure 2**). This robust demand for credit was reflected across all loan categories, that is local currency and foreign currency business loans as well as personal loans. The increased demand for local currency business loans was reflected across all business segments, especially among medium and small enterprises in Professional & Other Services, Distribution and Manufacturing sectors. It was reported that the uptick in demand from these sectors emanated from significant requests for loans for *inventory & other working capital financing*. Lenders

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



mentioned that some clients were preparing for the holiday season in terms of inventory build-up while others were undertaking minor investments.

With regard to personal loans, there were strong demand for *unsecured, motor vehicle and other secured personal loans*. Lenders indicated that the uptick in this demand may have resulted from their promotional activities.

The increased demand for foreign currency business loans was only reflected in large and medium enterprises, particularly those in the *Manufacturing and Distribution* sectors. Lenders attributed this increased demand to perceived improvements in macroeconomic conditions.

For the December 2015 quarter, it is anticipated that the demand for credit will further intensify as reflected in the CDI of **109.1** (see **Figure 2**). This will emanate from households' demand for local currency credit as well as businesses' demand for both local and foreign currency credit, similar to the September 2015 quarter. More specifically, the demand for local currency business loans is expected to emanate from all sectors across all business types, but significantly for small businesses, while demand for foreign currency loans is expected to emanate from large corporations in the *Tourism and Distribution* sectors. For personal loans, creditors anticipate an increase in all loan categories with the exception of *debt consolidation*.

## Price of Credit

The survey results indicated that the average interest rates on local and foreign currency loans declined for the September 2015 quarter, following a decline in the June 2015 quarter (see **Table 1**). The lower interest rates could reflect the impact of the BOJ's consecutive reduction in its policy rate and the rates on its lending facilities in the June and September 2015 quarters. In addition, the decline in local currency lending rates could also reflect the impact of improved Jamaica Dollar liquidity conditions during the quarter.

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

	September 2014 Survey		June 2015 Survey		September 2015 Survey	
	Sep-14	Dec-14*	Jun-15	Sept-15*	Sep-15	Dec-15*
<b>Local Currency (LC) Loans</b>						
Business loans	14.93	15.20	15.74	15.83	15.86	15.22
Personal loans	20.01	19.91	18.96	18.86	18.23	18.07
Prime rate	18.15	18.29	16.46	18.20	14.63	15.71
<b>Average LC rates</b>	<b>17.47</b>	<b>17.55</b>	<b>17.35</b>	<b>17.35</b>	<b>17.05</b>	<b>16.65</b>
<b>Foreign Currency (FC) Loans</b>						
Business loans	5.82	8.87	13.60	8.70	8.69	8.41
Prime Rate	9.36	10.28	9.39	8.84	8.19	8.66

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

Regarding interest rates on foreign currency loans, the decline emanated from a sharp fall in interest rates on business loans. This decline could be attributed to improved U.S. liquidity during the quarter as a result of higher intervention sales by the BOJ.



For the December 2015 quarter, lenders' anticipate a further decline in lending rates as some liquidity challenges are anticipated (see **Table 1**). However, the prime rates on local and foreign currency loans are expected to increase by

**1.08 percentage points (pps)** and **0.47 pps**, respectively.

## Personal Lending

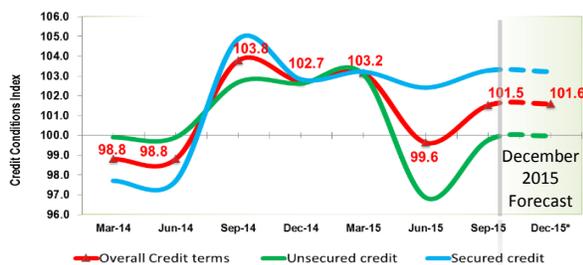
### Credit Conditions

Lenders reported an easing in credit conditions for personal loans in the September 2015 quarter, reflected in the overall credit conditions index of **101.5** (see **Figure 4**). This improvement reflected more lenient policies for secured loans, particularly there was an increase in the maximum loan-to-value ratio as well as an extension of the repayment period for these loans. For the December 2015 quarter, lending conditions are expected to remain favourable largely owing to anticipated declines in interest rates on secured loans.

### Credit Supply

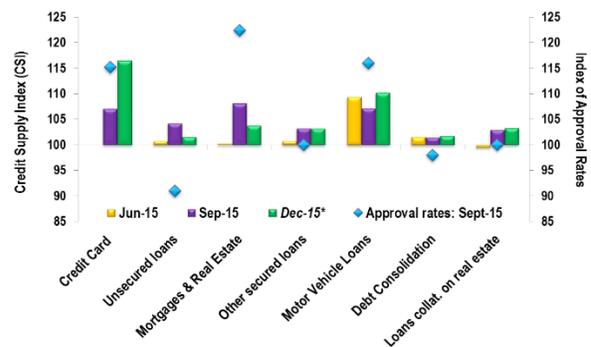
The availability of credit to individuals was more robust in the September 2015 quarter relative to the June 2015 quarter (see **Appendix A: Table 6**). The increase in the index to **104.9** from **101.8** was reflected across all loan categories, specifically *mortgages & real estate, motor vehicle loans and credit cards*, (see **Figure 5**).

**Figure 4: Credit Conditions for Personal Lending**



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

**Figure 5: Availability of Credit for Personal Lending**



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



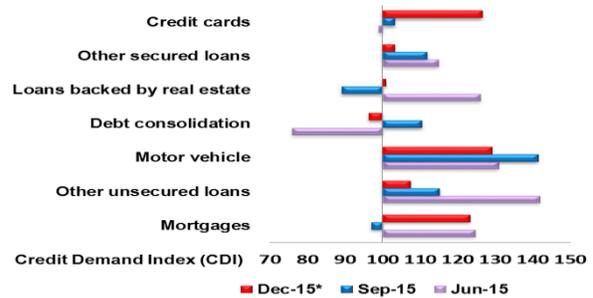
The expansion in credit available for personal loans reflected generally higher approval rates on all loan categories with the exception of *other unsecured personal loans* and *loans for debt consolidation* (see **Figure 5**). Lenders cited changes in their market share objectives and competition as the most significant drivers behind the expansion in the supply of funds to households. It was noted that several creditors launched various campaigns in order to increase their ability to compete in the traditional personal loan areas. It was noted that the credit bureau provided valuable information in improving their confidence in decision making.

For the December 2015 quarter, lenders anticipate increases in the supply of personal loans across all categories, particularly *credit card lending* and *motor vehicle loans* (see **Appendix A: Table 6** and **Figure 5**). This outlook was consistent with lenders indicating that they will increase approval rates on all categories of loans, excluding *unsecured loans*, given the anticipated changes in market share objectives and competition.

### Credit Demand

Lenders indicated that the demand for personal loans increased in the September 2015 quarter, albeit at a slower pace relative to in the June 2015 quarter (see **Appendix A: Table 6**). This increase for the review quarter was reflected across all categories of loans with the exception of *mortgages* and *loans collateralized by real estate* (see **Figure 6**). More specifically, lenders indicated strong requests for *personal motor vehicle loans*, which may be driven by the reduction in the interest rate applicable to this loan category.

**Figure 6: 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 December 2015 quarter, credit demand is anticipated to increase in all loan categories excluding *debt consolidation* as lenders anticipate that the increase in disposable income of public sector workers should boost demand (see **Figure 6**). In addition, it is expected that further declines in interest rates and more targeted loan campaigns should help drive demand for both secured and unsecured credit.

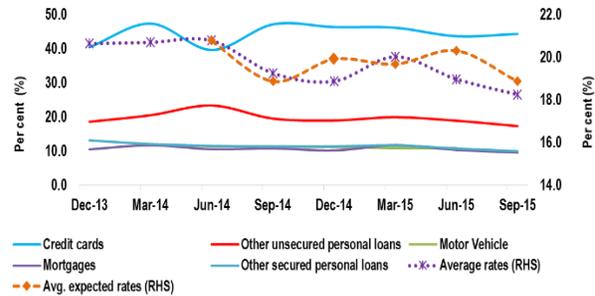
### Price of Credit

Lenders continued to lower lending rates on personal loans in the September 2015 quarter (see **Figure 7**). The lower average rate for the review quarter was reflected in all loan categories covered by the survey with the exception of credit card lending. Notably, there was a significant decline of **2.04 pps** in interest rates on unsecured loans, which could be a result of targeted plans by creditors to expand their loan portfolio in this area in order to facilitate strong requests for educational and other unsecured loans during the quarter. For the December 2015 quarter, average



Bank of Jamaica Credit Conditions Survey  
 rates on personal loans are expected to fall further to **18.07%** from **18.23%**.

September 2015 Quarter  
**Figure 7: Interest rates on Personal Loans**



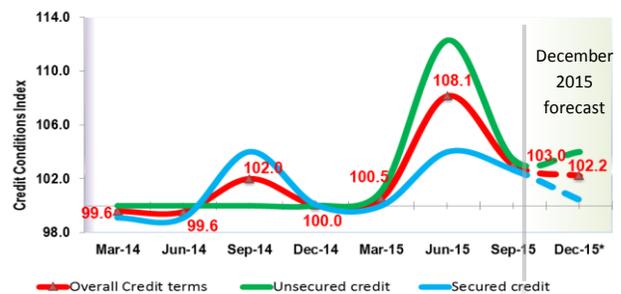
## Micro Business Lending

### Credit Conditions

Lenders continued to ease credit terms for micro-businesses during the September 2015 quarter (see **Figure 8**). This improvement was solely driven by the reduction in interest rates on unsecured and secured credit. Some lenders highlighted that they introduced newly packaged services with attractive interest rates to cater to this business segment in order to maintain their market share given the impending increase in competition that should emanate from an additional creditor in the market. For the December 2015 quarter, credit conditions are expected to remain buoyant influenced by lower interest rates on secured loans and non-credit card lending.

revealed in the CSI of **112.0**. This increase, emanated from a notable rise in the supply of local currency loans, reflected across all sectors. There was no change in the supply of foreign currency loans.

**Figure 8: Credit Conditions for Micro Businesses**



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

### Credit Supply

Consistent with the improvement in credit terms to micro-businesses, lenders expanded the quantity of credit made available to these businesses for the September 2015 quarter as

Despite the increase in credit made available to micro enterprises, there was a general decline in approval rates across all loan categories with the



exception of *other secured* and *unsecured loans*. This was consistent with the lenders' claim that the reduction in interest rates was the primary source behind the improvement in financing conditions for loans to micro businesses.

Similar to the September 2015 quarter, lenders anticipate increasing the amount of Jamaica Dollar credit made available to micro-businesses for the December 2015 quarter, while no change is being contemplated for foreign currency loans. The increase in Jamaica Dollar credit should be reflected in all sectors as approval rates are expected to improve in the context of lenders' being more confident about the economy.

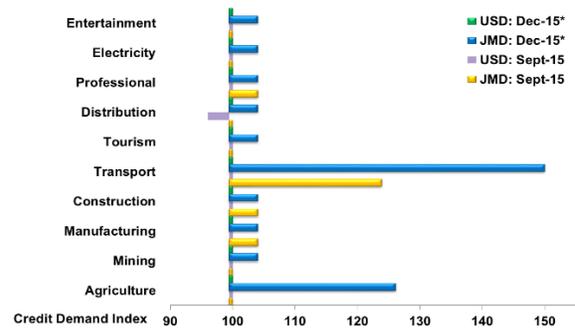
### Credit Demand

The CDI for local currency loans to micro business rose for the September 2015 quarter relative to the June 2015 quarter, while the demand for foreign currency loans. The higher CDI for local currency loans primarily emanated from a sharp increase in demand from firms in the *Transportation, Storage & Communication* sector and was reflected across most loan categories, particularly *unsecured loans*, *other loans* and *commercial motor vehicle loans*. The demand for foreign currency loans fell as a result of a notable decline in demand from the *Distribution* sector (see **Figure 9**).

Both secured and unsecured loans demanded by micro businesses over the review quarter were influenced by changes in loan promotion activities. In addition, changes in macroeconomic

risks had a positive influence on the demand for unsecured loans.

**Figure 9: Credit Demanded by Micro Businesses**



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

For the December 2015 quarter, lenders anticipate a significant increase in the demand for loans for micro enterprises, particularly for local currency loans, as the demand for foreign currency loans should remain unchanged. The increase in demand is expected to emanate from all sectors as a result of greater loan promotion and business activities (see **Figure 9**).

### Price of Credit

Despite suggesting that there were reductions in interest rates on *unsecured* and *secured credit* during the period, lending rates on local currency loans to micro-businesses generally increased in the September 2015 survey relative to the June 2015 survey (see **Table 2**). In particular, interest rates averaged **26.0%** for the review quarter, **3.95 pps** higher than the lending rate reported for the



June 2015 quarter.<sup>2</sup> This increase occurred in the face of less stringent credit policies applied to micro firms during the quarter and could suggest that the risk perception of creditors towards this business segment was still relatively high. Further, given the limited pool of funds available for borrowing and the improvement in lending conditions to large corporations (see **Large Corporations and Commercial Lending**), creditors could be more inclined to grant loans to this business segment in light of their strong collateral base, therefore any funds available to small businesses would be accessed at higher interest rates. On the other hand, interest rates on foreign currency loans declined significantly to **12.17%** for the review quarter from **26.84%** in to the previous quarter. This sharp decline could reflect the impact of improved U.S. dollar liquidity on the cost of these funds.

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

	Local Currency				Foreign Currency			
	June 2015 Survey		September 2015 Survey		June 2015 Survey		September 2015 Survey	
	Jun-15	Sept-15*	Sep-15	Dec-15*	Jun-15	Sept-15*	Sep-15	Dec-15*
Agriculture & Fishing	28.91	30.25	26.51	23.03	48.00	8.50	-	8.30
Construction & Land Development	18.98	21.43	26.46	23.00	-	8.50	-	8.30
Distribution	21.00	20.22	24.27	22.90	-	8.50	12.00	8.30
Electricity Gas & Water	26.00	21.28	26.36	22.93	-	8.50	-	8.30
Entertainment	27.10	21.88	26.91	23.30	15.54	8.50	-	8.30
Manufacturing	22.55	20.58	26.91	23.30	-	8.50	-	8.30
Mining & Quarrying	18.70	21.38	26.51	23.07	48.00	8.50	-	8.30
Professional & Other Services	20.70	30.58	23.88	23.27	18.00	8.50	12.00	8.30
Tourism	17.25	21.33	26.41	22.90	13.50	8.50	12.50	8.30
Transport, Storage & Communication	19.27	29.88	25.76	22.50	18.00	8.50	-	8.30
<b>Average Rate</b>	<b>22.05</b>	<b>23.88</b>	<b>26.00</b>	<b>23.02</b>	<b>26.84</b>	<b>8.50</b>	<b>12.17</b>	<b>8.30</b>

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

For the December 2015 quarter, local and foreign currency lending rates are expected to decline as a result of anticipated improvements in both Jamaica Dollar and U.S. dollar liquidity conditions.

## Small Business Lending

### Credit Conditions

Lending conditions generally tightened for small businesses in the September 2015 quarter, albeit not as tight as the June 2015 quarter (see **Figure 10**). The outturn was primarily attributed to a

reduction of the maximum repayment period for secured loans and an increase in fees applicable to unsecured loans. For the December 2015 quarter, lending conditions are expected to ease, largely as

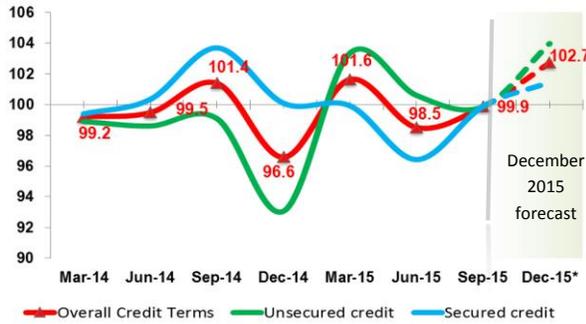
<sup>2</sup> See *Bank of Jamaica Quarterly Credit Conditions Survey Report: September 2014 Quarter* for a more detailed view of local currency interest rates.



Bank of Jamaica Credit Conditions Survey  
 a result of lower interest rates on secured and unsecured credit.

in the Development Bank of Jamaica (DBJ) credit enhancement fund to **\$15 million** for loans accessed through DBJ or an approved financial institution would have increased the availability of resources to this business segment.

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



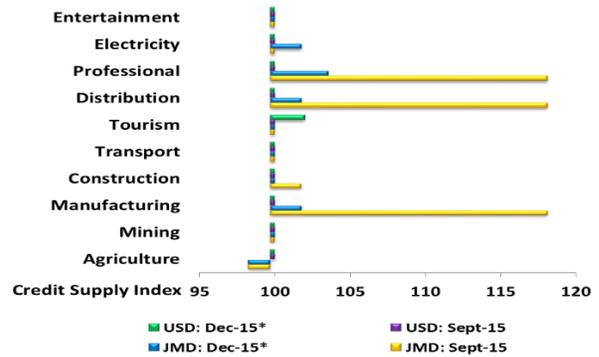
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions

## Credit Supply

Lenders indicated an increase in local currency credit made available to small businesses for the September 2015 quarter relative to the June 2015 quarter while there was no disbursement of foreign currency during the quarter. With the exception of *Agriculture & Fishing*, the increase in the supply of local currency credit was made available to all economic sectors despite a general decline in approval rates for loans applications from small businesses (see **Figure 11**). Notwithstanding, there were notable increases in approval rates for *other secured* and *unsecured loans* as well as *commercial motor vehicle loans*.

The lenders cited changes in their economic outlook and cost of funds as the most important factors influencing credit availability to small businesses. It was also reported that the increase

**Figure 11: Availability of Credit to Small Businesses**



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

For the December 2015 quarter, the CSI for small businesses is anticipated to moderate slightly as small reductions are expected in the availability of local and foreign currency loans (see **Figure 11**). The availability of credit to small businesses in the December 2015 quarter should continue to be influenced by changes in lenders' economic outlook and cost and availability of funds.

## Credit Demand

There was a notable increase in the CDI for local currency loans for small businesses for the September 2015 quarter relative to the June 2015



quarter (see **Figure 12**). The increase in demand was predominantly reflected in the *Professional & Other Services* and *Construction & Land* sectors, despite higher interest rate offered to firms in these sectors. However, the demand for foreign currency loans declined during the quarter mainly as a result of a contraction in demand from the *Distribution* sector. The increase in the CDI for small businesses reflected strong requests for loans for *inventory and other working capital* financing. However, there was generally weaker demand for the remaining loan categories during the quarter. .

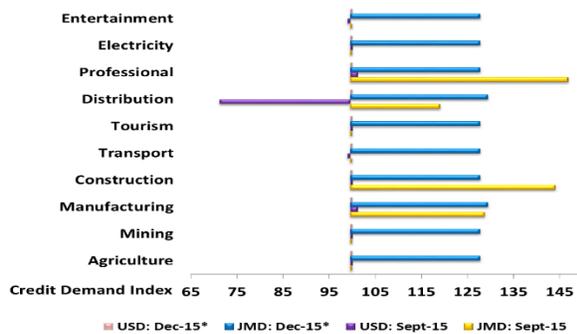
### Price of Credit

Consistent with the increase in demand for local currency loans, weighted average lending rates on local currency loans to small businesses increased for the review quarter relative to the previous quarter while lending rates on foreign currency loans declined, which could be attributed to the fall in demand for these loans as well as an improvement in the U.S. liquidity flows during the quarter. For the December 2015 quarter, interest rates on local currency loans are expected to decline in the context of more favourable lending terms applied to small businesses.

For the December 2015 quarter, the CDI for local currency loans is expected to increase considerably, reflecting increases from all economic sectors. The demand for both secured and unsecured loans is expected to be mainly influenced by loan promotion activities.

**Table 3: Interest Rates on Loans**

**Figure 12: Credit Demanded by Small Businesses**



	Local Currency				Foreign Currency			
	June 2015 Survey		September 2015 Survey		June 2015 Survey		September 2015 Survey	
	Jun-15	Sept-15*	Sept-15	Dec-15*	Jun-15	Sept-15*	Sept-15	Dec-15*
Agriculture & Fishing	13.86	13.50	14.24	12.54	11.04	9.08	9.00	9.00
Construction & Land Development	14.41	15.49	14.77	15.68	12.75	8.83	9.00	8.75
Distribution	15.82	14.50	16.02	14.66	12.75	9.25	9.00	9.17
Electricity Gas & Water	13.55	13.69	13.98	15.10	12.00	9.25	0.00	9.17
Entertainment	13.98	14.88	13.98	15.27	10.91	9.25	9.63	9.17
Manufacturing	12.99	14.50	12.83	13.04	11.92	9.25	9.00	9.17
Mining & Quarrying	14.23	14.88	15.30	13.46	10.33	9.08	8.50	9.00
Professional & Other Services	15.64	13.69	16.31	14.88	11.50	9.25	10.13	9.17
Tourism	12.09	14.50	12.99	13.21	12.00	9.25	9.00	9.17
Transport, Storage & Communication	14.24	13.50	13.98	14.35	9.50	8.83	9.00	8.75
<b>Average Rate</b>	<b>14.08</b>	<b>14.31</b>	<b>14.44</b>	<b>14.22</b>	<b>11.41</b>	<b>9.13</b>	<b>9.14</b>	<b>9.05</b>

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

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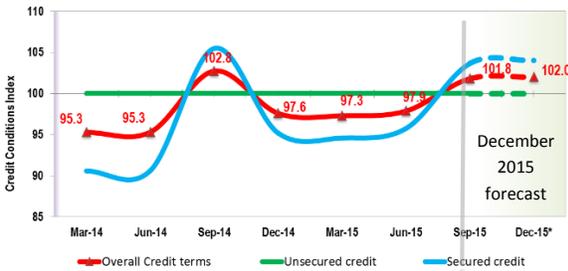


# Medium-Sized Business Lending

## Credit Conditions

Medium-sized businesses experienced an easing of financing conditions during the September 2015 quarter, the first improvement since the September 2014 quarter (see **Figure 13**). The results for the September 2015 quarter were underpinned by lower interest rates on secured loans. Moreover, the improvement in the macroeconomic indicators, such as inflation and GDP growth over the review quarter would have positively influenced credit market conditions for medium enterprises.

**Figure 13: Credit Conditions for Medium-sized Businesses**



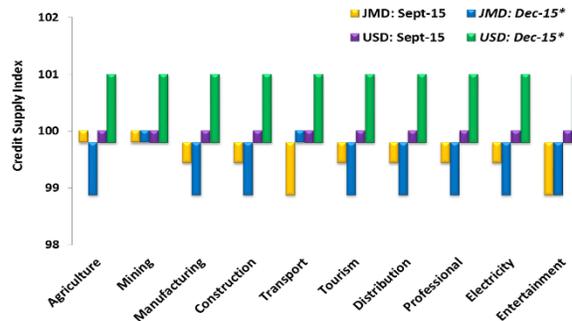
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.
2. The asterisks (\*) represent forward looking expectations provided by the respondents.

For the December 2015 quarter, credit conditions are expected to remain favourable, largely owing to continued declines in interest rates on secured loans.

## Credit Supply

In line with the improvement in credit terms for medium-sized businesses, the supply of credit to these firms increased for the September 2015 quarter, reflecting an expansion in the supply of local and foreign currency loans (see **Figure 14**). The increase in the CSI was mainly influenced by lenders' perception of improved economic conditions and was supported by higher approval rates all loan applications, with the exception of applications for *commercial real estate*.

**Figure 14: Availability of Credit to Medium-sized Businesses**



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

For the December 2015 quarter, the CSI for local currency loans are expected to fall while supply of foreign currency loans to medium-sized businesses is anticipated to increase as a result of greater confidence in the economic conditions.



## Credit Demand

The CDI for local and foreign currency loans for medium-sized businesses increased for the September 2015 quarter, relative to the June 2015 quarter, which could be attributed to the substantial declines in interest rates across all economic sectors for both loan facilities. The increase in the CDI was reflected across most loan categories, notably *inventory & working capital*, *loan guarantees* and *lines of credit*, as a result positive changes in business activity. In fact, lenders are of the view that medium-sized businesses are looking to take advantage of the favourable market conditions to undergo expansions and upgrades.

For the December 2015 quarter, the demand for local currency loans for medium-sized businesses is expected to moderate, while the demand for foreign currency loans is expected to decrease relative to the September 2015 quarter. The moderation in demand for local currency loan demand is anticipated to emanate from all economic sectors.

## Price of Credit

For the review period, the weighted average lending rate on local currency loans to medium-sized businesses across all sectors declined (see **Table 4**). This decline was most notable in firms in the *Entertainment*, *Tourism* and *Professional & Other Services* sectors. With respect to foreign currency loans, lending rates to medium-sized

businesses also declined, which further corroborates the notion that favourable macroeconomic conditions improved lending terms and the cost of funds for medium-sized businesses.

Despite the anticipated improvements in credit terms for medium firms in the December 2015 quarter, interest rates on local and foreign currency loans are expected to increase. This increase reflects higher anticipated lending rates on local and foreign loans to most economic sectors, particularly *Manufacturing*.

**Table 4: Interest Rates on Local and Foreign Currency Loans**

	Local Currency				Foreign Currency			
	June 2015 Survey		September 2015 Survey		June 2015 Survey		September 2015 Survey	
	Jun-15	Sept-15*	Sep-15	Dec-15*	Jun-15	Sept-15*	Sep-15	Dec-15*
Agriculture & Fishing	14.86	0.00	12.42	12.82	11.04	13.44	9.00	10.00
Construction & Land Development	16.46	12.54	14.37	14.67	12.75	9.00	10.50	10.38
Distribution	13.34	12.49	12.84	13.96	12.75	9.00	10.50	10.38
Electricity Gas & Water	14.23	14.14	13.85	13.96	12.00	9.00	9.00	10.25
Entertainment	16.57	14.19	13.85	14.23	10.91	9.18	9.06	10.00
Manufacturing	13.30	14.95	11.75	12.36	11.92	9.00	8.25	9.75
Mining & Quarrying	16.11	12.69	15.83	14.80	10.33	9.50	7.88	9.25
Professional & Other Services	14.86	14.19	12.41	13.44	11.50	9.00	9.00	9.90
Tourism	16.57	14.24	13.85	12.83	12.00	9.00	9.50	9.94
Transport, Storage & Communication	13.27	14.75	12.68	13.99	9.50	9.50	8.00	9.75
<b>Average Rate</b>	<b>14.96</b>	<b>12.42</b>	<b>13.38</b>	<b>13.70</b>	<b>11.47</b>	<b>9.56</b>	<b>9.07</b>	<b>9.96</b>

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

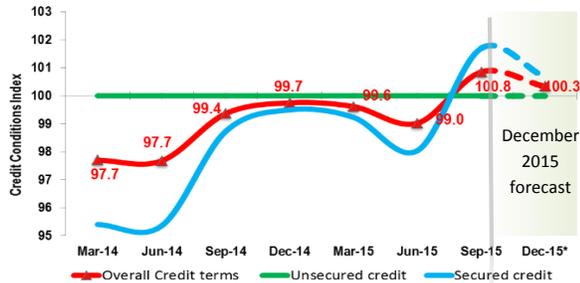


## Large Corporations and Commercial Lending

### Credit Conditions

For the September 2015 quarter, lending conditions for large businesses eased for the first time since the inception of the survey. This outturn mainly reflected declines in interest rates and fees applicable to secured loans. In addition, there were increases in the maximum repayment period and the size of credit lines for secured loans (see **Figure 15**). Lenders also reported that the favourable interest rate environment had significantly impacted these credit terms.

**Figure 15: Credit Conditions for Large Businesses**



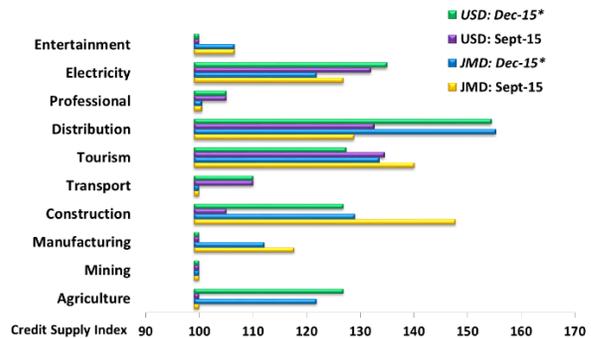
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisks (\*) represent forward looking expectations provided by the respondents.

For the December 2015 quarter, credit conditions are expected to moderate due to an anticipated increase in interest rates on secured loans.

### Credit Supply

There was an increase in the CSI for large businesses for the September 2015 quarter relative to the June 2015 quarter. This outcome reflected growth in local and foreign currency loans, which was reflected in most economic sectors, notably *Tourism* and *Distribution* (see **Figure 16**). The higher CSI for large businesses in the September 2015 quarter was due to changes in the cost of funds to this business segment as well as an improvement in lenders' economic outlook. In addition, the expansion in credit supplied to large businesses was facilitated by higher approval rates across all loan categories.

**Figure 16: 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.

The CSIs for local and foreign currency loans to large businesses are anticipated to increase significantly in the December 2015 quarter.



Similar to the September 2015 quarter, the major factors which are expected to influence the increase in the CSI mainly relate to a change in economic outlook and the cost and availability of funds.

For the December 2015 quarter, a faster pace of increase in the CDI for local and foreign currency loans is anticipated as a result of reduced macroeconomic risks and further changes in business activities.

### Credit Demand

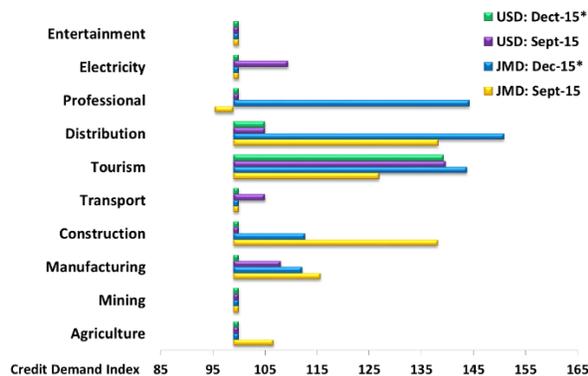
The demand for credit remained robust in the September 2015 quarter and was reflected in local and foreign currency loans, particularly in the *Distribution* and *Construction* sectors (see **Figure 17**). The increase in the overall CDI for large businesses for the review quarter was reflected in all loan categories covered by the survey except for *commercial motor vehicles* loans. Notably, there was a marked increase in credit demanded for *inventory & working capital* financing. Demand for both secured and unsecured loans by large businesses over the review quarter was boosted by changes in business activities and a reduction in macroeconomic risk.

### Price of Credit

For the review quarter, the average lending rate on local currency loans to large businesses declined as a result of improvements in the domestic economy (see **Table 5**). The fall in the lending rate was reflected cross all economic sectors, with firms in the *Agriculture & Fishing* and *Mining & Quarrying* sectors being offered the lowest rates. Interest rates on local currency loans to large businesses are expected to increase in the December 2015 quarter as a result of heightened political activity, which may destabilize market conditions.

Lending rates on foreign currency loans also declined for the review quarter despite the increase in demand for these loans. For the December 2015 quarter, lending rates on foreign currency loans are expected to increase due to changes in business activity, which may negatively impact the cost of these funds (see **Table 5**).

**Figure 17: Credit demanded by Large Businesses**



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



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

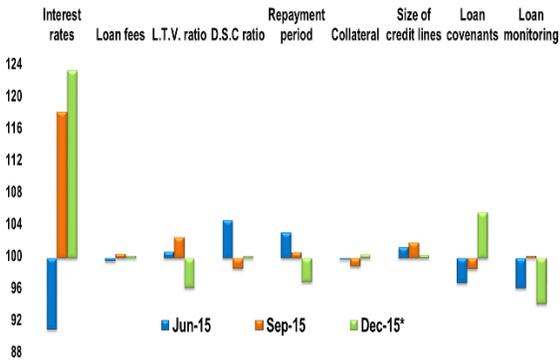
	Local Currency				Foreign Currency			
	June 2015 Survey		September 2015 Survey		June 2015 Survey		September 2015 Survey	
	Jun-15	Sept-15*	Sep-15	Dec-15*	Jun-15	Sept-15*	Sep-15	Dec-15*
Agriculture & Fishing	13.88	12.70	8.93	12.70	9.46	7.62	3.26	5.75
Construction & Land Development	12.05	11.69	9.80	11.69	10.07	7.93	6.00	6.40
Distribution	12.50	11.94	10.58	11.94	10.55	7.62	2.17	6.50
Electricity Gas & Water	10.97	10.43	9.55	10.43	10.00	7.62	3.88	6.50
Entertainment	12.16	11.77	9.68	11.77	10.00	8.72	6.52	7.21
Manufacturing	10.47	9.73	10.27	9.73	9.93	6.82	4.99	5.75
Mining & Quarrying	12.16	12.18	8.90	12.18	10.38	6.93	4.45	6.50
Professional & Other Services	12.36	11.77	9.89	11.77	10.00	7.60	3.88	6.50
Tourism	12.16	11.27	9.94	11.27	9.34	7.94	6.39	6.42
Transport, Storage & Communication	9.96	9.93	8.78	9.93	9.78	7.27	2.17	5.75
<b>Average Rate</b>	<b>11.87</b>	<b>11.34</b>	<b>9.63</b>	<b>11.34</b>	<b>9.95</b>	<b>7.61</b>	<b>4.37</b>	<b>6.33</b>

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



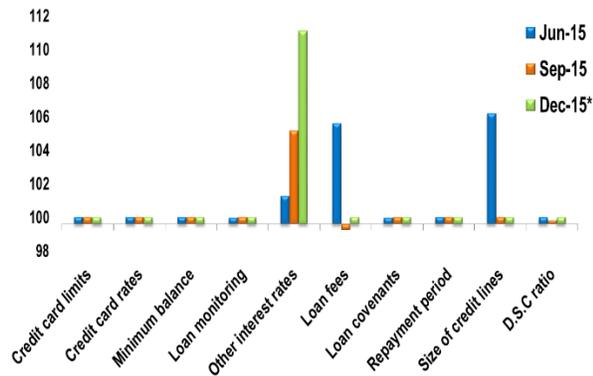
## Appendix A: Overall Credit Market Conditions

**Figure 18: Credit Conditions for Secured Loans**



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

**Figure 19: Credit Conditions for Unsecured Loans**



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

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

	September 2014 Survey		June 2015 Survey		September 2015 Survey	
	Sep-14	Dec-14*	Jun-15	Sept-15*	Sep-15	Dec-15*
<b>Credit Supply Indices</b>						
<b>Credit Supply Index (CSI)</b>	<b>104.4</b>	<b>105.3</b>	<b>103.2</b>	<b>104.2</b>	<b>106.4</b>	<b>107.1</b>
Credit to businesses	102.2	105.3	103.9	105.7	107.2	107.7
Personal credit	108.6	103.2	101.8	101.2	104.9	105.8
Credit in Jamaica Dollar	102.5	107.2	106.1	107.9	111.4	110.5
Credit in U.S Dollar	101.9	103.4	101.8	103.5	103.0	104.9
<b>Credit Demand Indices</b>						
<b>Credit Demand Index (CDI)</b>	<b>97.8</b>	<b>116.2</b>	<b>104.1</b>	<b>107.4</b>	<b>107.6</b>	<b>109.1</b>
Demand by businesses	92.0	111.6	98	108.4	106.5	107.5
Demand by individuals	109.4	125.3	116.2	105.5	109.8	112.4
Credit in Jamaica Dollar	85.1	122.8	95.5	117.1	111.9	113.9
Credit in U.S dollar	99.0	100.4	100.6	99.6	101.2	101.05

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



## Glossary and Key Definitions

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

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^3$$

By construction, lenders who report that credit conditions have “changed a lot” are assigned twice the score as those who report that the index has “changed a little.” The scores are then weighted by the market share of the respondents. The diffusion index (DI) is therefore the net percentage balance of opinion, computed as the difference between the weighted balance of lenders reporting an increase in the index and those reporting a decline.

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

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

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

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

<sup>3</sup>  $ss$  = percentage of respondents selecting “substantially stronger” or “substantially tightened”

$ms$  = percentage of respondents selecting “moderately stronger” or “moderately tightened”

$sw$  = percentage of respondents selecting “substantially weaker” or “substantially eased”

$mw$  = percentage of respondents selecting “moderately weaker” or “moderately eased”

The use of the fixed weight (0.5) relating to the proportion of respondents selecting either moderately stronger or moderately weaker distinguishes between the level of conviction in the respondents answers. The weight makes the views of those claiming substantial changes twice as important to the direction of the overall change in the index, relative to those claiming moderate changes.



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

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

where  $s = \text{economic sector}$  and  $i = \text{firm size}$

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

Classification	Loan Size (at origination)	Annual Sales/Turnover
<b>Micro Businesses</b>	Less than US\$10,000.00	Less than US\$100,000.00
<b>Small Businesses</b>	US\$10,000 < Loan Size < \$US10,000	US\$100,000.00 < Sales < US\$5.0 million
<b>Medium-sized Businesses</b>	US\$100,000 < Loan Size US\$1.0 million	US\$5.0 million < Sales < US\$25.0 million
<b>Large, Corporate &amp; Commercial Businesses</b>	Greater than US\$1.0 million	Greater than US\$25.0 million

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

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