

Quarterly Credit Conditions Survey Report



**December 2014
Quarter**

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

Contents

List of Figures & Tables	2
Background	3
Overview	4
Personal Lending	7
Micro Business Lending	9
Small Business Lending	13
Medium-Sized Business Lending	16
Large Corporate and Commercial Lending	19
Appendix A: Overall Credit Market Conditions	22
Glossary and Key Definitions	23

List of Figures & Tables

Figure 1: Index of Credit Market Conditions	4
Figure 2: Distribution of Private Sector Credit	5
Figure 3: Credit Conditions for Personal Lending	7
Figure 4: Availability of Credit for Personal Lending	8
Figure 5: Demand for Personal Loans	9
Figure 6: Credit Conditions for Micro Businesses	10
Figure 7: Availability of Credit to Micro Businesses	10
Figure 8: Approval Rates on Loan Applications	11
Figure 9: Credit Demanded by Micro Businesses	12
Figure 10: Drivers of Demand Credit	12
Figure 11: Credit Conditions for Small Businesses	14
Figure 12: Availability of Credit to Small Businesses	14
Figure 13: Credit Demanded by Small Businesses	15
Figure 14: Credit Conditions for Medium-sized Businesses	17
Figure 15: Availability of Credit to Medium-sized Businesses	17
Figure 16: Credit Demanded by Medium-sized Businesses	18
Figure 17: Credit Conditions for Large Businesses	19
Figure 18: Availability of Credit to Large Businesses	20
Figure 19: Credit demanded by Large Businesses	20
Figure 20: Credit Conditions for Secured Loans	22
Figure 21: Credit Conditions for Unsecured Loans	22
 Table 1: Credit Demand and Supply Indices	 4
Table 2: Weighted Average Lending Rates on Local and Foreign Currency Loans	6
Table 3: Interest Rates on Personal Loans	9
Table 4: Interest Rates on Local and Foreign Currency Loans	13
Table 5: Interest Rates on Local Currency Loans	16
Table 6: Interest Rates on Local and Foreign Currency Loans	18
Table 7: Interest Rates on Local and Foreign Currency Loans	21

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 December 2014 survey which was conducted between 15 January 2015 and 16 February 2015.

Other available survey reports: *December 2013 Quarter, March 2014 Quarter, June 2014 Quarter and September 2014 Quarter.*

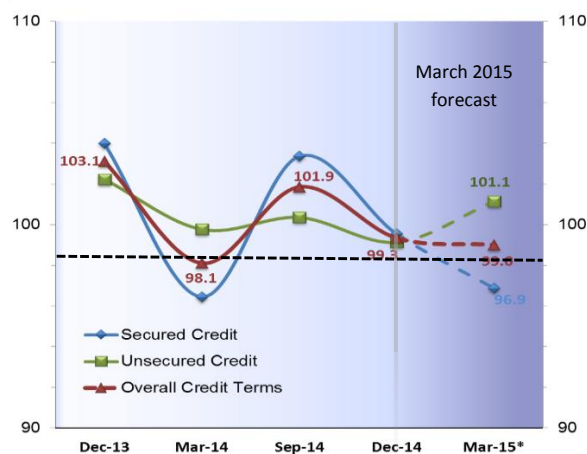
Surveys Completed by Each Institution

	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	4	5	4	6
Building Societies	3	3	0	0	0	0
Near Banks	3	3	2	2	3	3
Credit Unions	6	6	5	4	4	4
Total	18	18	11	11	11	13

Overview

The results of the BOJ's QCCS for the December 2014 quarter indicated that credit conditions tightened relative to the September 2014 quarter (see **Figure 1** and **Table 1**). This tightening was due to more restrictive lending policies applied to unsecured and secured loans. More specifically, lenders increased the interest rates and loan monitoring requirements for these loan types as well as enforced loan covenant compliance for secured loans. For the March 2015 quarter, lenders generally anticipate further tightening in credit market conditions, which would largely reflect more stringent policies for secured loans (see **Appendix A: Figure 20** and **Figure 21**).

Figure 1: Index of Credit Market Conditions



Notes: (i) The asterisk (*) represents forward looking expectations provided by the respondents for the March 2015 quarter. (ii) The index is the average response for changes in eight credit terms reported in the Credit Conditions Survey. (iii) An index greater than 100 indicates an easing of credit market conditions while an index below 100 indicates a tightening of market conditions.

Table 1: Credit Demand and Supply Indices

	March 2014 Survey		June 2014 Survey		September 2014 Survey		December 2014 Survey	
	Mar-14	Jun-14*	Jun-14	Sep-14*	Sep-14	Dec-14*	Dec-14	Mar-15*
Overall credit conditions Index								
Credit Conditions Index (CCI)	98.11	98.9	99.3	98.7	101.9	100.0	99.3	99.0
Credit Supply Indices								
Credit Supply Index (CSI)	106	102.1	104.6	106.7	104.4	105.3	103.7	105.6
Credit to businesses	104.6	102.1	104.1	107.4	102.2	105.3	102.5	105.7
Personal credit	108.8	112.3	105.7	105.4	108.6	103.2	106.1	102.6
Credit in Jamaica Dollar	108.9	103.4	105.7	111.7	102.5	107.2	103.2	106.1
Credit in U.S Dollar	100.3	100.7	102.5	103.0	101.9	103.4	101.9	105.3
Credit Demand Indices								
Credit Demand Index (CDI)	98.7	103.5	106.2	107.6	97.8	116.2	99.5	110.8
Demand by businesses	97.9	98.9	99.8	101.9	92.0	111.6	95.9	111.9
Demand by individuals	100.1	112.7	119.02	119.1	109.4	125.3	106.7	108.6
Credit in Jamaica Dollar	107.0	104	104.4	104.2	85.1	122.8	94.5	125.9
Credit in U.S dollar	88.9	93.9	95.2	99.5	99.0	100.4	97.4	97.9

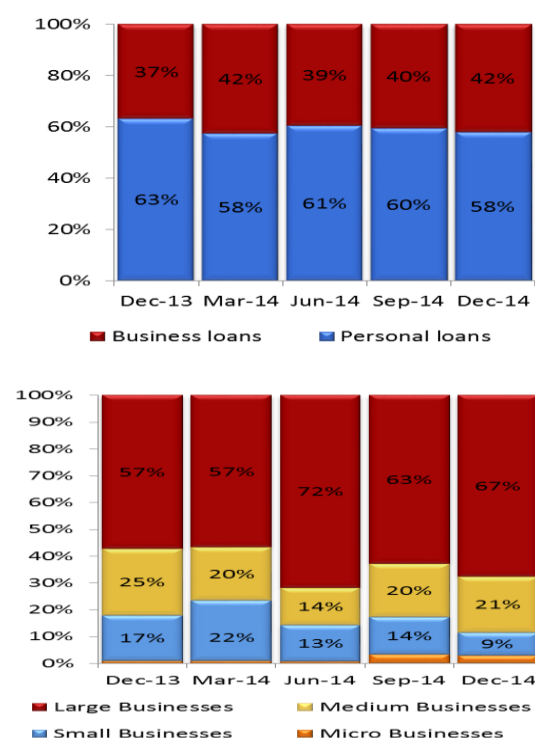
1. *-Expectations for the upcoming quarter from the current survey.
2. n.a. suggests that no data was collected for the variable in question.
3. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

Credit Supply

For the December 2014 quarter, the supply of credit remained robust as reflected in the Credit Supply Index (CSI) of **103.7**. However, the increase in the CSI was below the **105.3** anticipated in the previous survey. The outturn for the quarter reflected increases for both local and foreign currency lending facilities, which were made accessible to both businesses and

households (see **Table 1**). Personal loans continued to account for the greater proportion of the credit supplied, continuing the trend observed since the March 2014 survey (see **Figure 2**). Of the credit allocated to businesses, there was a redistribution of credit, mainly from small businesses to large firms. Concurrently, the allocation of credit to micro firms was unchanged at **3.0%** relative to the September 2014 survey, when the first increase was recorded. Lenders reported that they have continued to explore initiatives to improve lending to micro- business markets.

Figure 2: Distribution of Private Sector Credit¹



Despite the expansion in credit supply for the review quarter, some lenders highlighted that

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

continued Jamaica Dollar liquidity constraints, the slow pace of economic recovery and the movement in the exchange rate affected interest rates charged for loans as well as their ability to respond to credit requests. Furthermore, in the recent IMF mission meeting on financial sector developments, a few creditors indicated that they are more cautious in responding to credit requests as a result of the uncertainty surrounding the impact of the retail repo phase-out on the financial system.

For the March 2015 quarter, lenders anticipate a stronger increase in overall credit availability, reflecting expansions in all loan categories (see **Table 1**). This expansion should be underpinned by changes in market-share objectives and sector-specific risks. Of note, some creditors indicated that given the importance of small businesses to the economy, they will utilize alternative sources of funding and design specific products in order to expand credit to this business segment.

Credit Demand

The overall demand for credit remained tight in the December 2014 quarter as reflected in the Credit Demand Index (CDI) of **99.5** (see **Table 1**). This outturn primarily reflected tightness in the demand for business loans, in both local and foreign currency. With respect to foreign currency business loans, lenders indicated that the faster pace of adjustment in the exchange rates during the review quarter was the primary factor behind the decline in this facility. Consequently, demand for foreign currency business loans fell in all sectors, with the exception of *Entertainment* and *Tourism*. Notwithstanding the continued weak demand for



business loans, there was strong interest in local currency personal loans in most categories, particularly *Credit cards*, *Motor vehicle loans* and *Unsecured loans*.

For the March 2015 quarter, demand for credit is anticipated to increase as reflected in the CDI of **110.8** (see **Table 1**). This stronger demand is anticipated from both households' and businesses' for local currency credit. The demand for local currency business loans is expected to emanate from all sectors. For personal loans, creditors anticipate an increase in all loan categories covered by the survey. In particular, strong demand is expected for *Credit cards*.

Price of Credit

Interest rates on local currency loans declined for the December 2014 quarter relative to the September 2014 quarter (see **Table 2**). The lower interest rates is consistent with the overall weakness in demand for local currency business loans. Further, the lower interest rates could have been influenced by more buoyant Jamaica Dollar liquidity conditions during the review quarter as a result of the Bank's net injection of **\$10.5 billion** in the December 2014 quarter relative to the net injection of **\$3.3 billion** in the previous quarter.

With respect to interest rates on foreign currency loans, the survey results indicate an overall increase, despite the decline in demand for these loans. The higher interest rates could reflect the impact of the acceleration in depreciation of the exchange rate on the cost of these funds.

Table 2: Weighted Average Lending Rates on Local and Foreign Currency Loans

	December 2013 Survey	March 2014 Survey	June 2014 Survey	September 2014 Survey	December 2014 Survey
	Dec-13	Mar-14 Jun-14*	Jun-14 Sep-14*	Sep-14 Dec-14*	Dec-14 Mar-15*
Local Currency Loans					
Business loans	13.20	15.39 17.13	16.52 16.66	14.93 15.20	14.78 14.58
Personal loans	20.60	20.69 20.78	19.25 18.86	20.01 19.91	19.59 19.67
Prime rate	18.60	16.90 16.93	17.03 17.22	18.15 18.29	13.20 13.67
Foreign Currency Loans					
Business loans	8.50	7.94 9.57	9.02 9.74	5.82 8.87	8.53 9.29
Prime Rate	7.70	9.06 9.16	9.42 9.45	9.36 10.28	9.34 9.13

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

Average rates on local currency personal loans fell by **0.42 percentage points (pps)** to **19.59%** for the December 2014 quarter. Rates on local currency business loans declined from **14.93%** to **14.78%** for the review quarter. Notwithstanding the decline in demand for foreign currency loans, lenders reported a significant increase of **2.71 pps** in the interest rates on foreign currency business loans.

Lenders' expect a general increase in interest rates in the March 2015 quarter. More specifically, interest rates on local currency personal loans are expected to increase, while rates on business loans are expected to decline marginally (see **Table 2**). Lenders indicated that they expect interest rates to increase for Jamaica Dollar facilities as Jamaica Dollar liquidity challenges persist. Despite the anticipated fall in demand for foreign currency loans, interest rates

on these loans are broadly expected to increase in the March 2015 quarter.

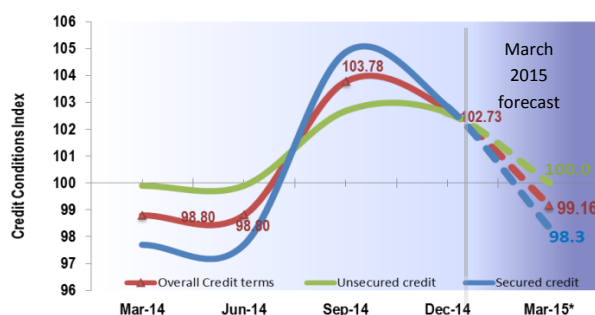
Personal Lending

Credit Conditions

Credit conditions for personal loans eased in the December 2014 quarter relative to the September 2014 quarter (see **Figure 3**). This improvement was due mainly to a reduction in interest rates and fees applicable to secured loans as well as higher loan-to-value (LTV) ratios for these loans. Households also benefitted from lower interest rates on non-credit card lending for unsecured loans.

Lending conditions are expected to tighten in the March 2015 quarter due to anticipated tightening of credit policy for secured loans. Specifically, lenders anticipate an increase in interest rates and fees applicable to secured loans.

Figure 3: Credit Conditions for Personal Lending



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

Credit Supply

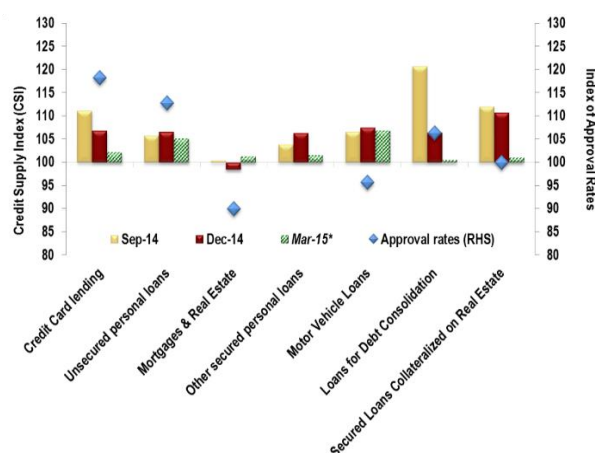
The availability of credit to individuals increased in the December 2014 quarter relative to the September 2014 quarter (see **Table 1**). This increase was reflected in all categories covered by the survey, except *Mortgages & Real Estate* (see **Figure 4**). In particular, lenders reported a strong increase in the pool of funds made available for *Secured loans collateralized on Real Estate* and *Motor Vehicle loans*.

The increased supply of personal loans was supported by higher approval rates on loan applications for *credit cards*, *unsecured loans* and *debt consolidation* (see **Figure 4**). Of note, despite the increase in credit supplied for *motor vehicle loans*, lenders indicated a decline in the approval rate for these loans in the review quarter.

Lenders cited changes in market share objectives and loan portfolio diversification as the most significant drivers behind the expansion in the quantity of funds supplied to households. Another relevant factor that contributed to the expansion in credit supply for the December 2014 quarter was a change in competition. In particular, some creditors cited that they had

improved their personal loan packages due to the increasing level of competition.

Figure 4: 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.

For the March 2015 quarter, lenders anticipate a further increase in the supply of personal loans (See **Table 1**). Similar to the December 2014 quarter, the expansion should be in all categories of loans covered by the survey (see **Figure 4**). The expectation for the March quarter is supported by the anticipated increase in the approval rates on all categories of loans. In line with the survey results for the December quarter, lenders anticipated that, for the March quarter, changing market share objectives, increased loan portfolio mix and changes in competition will be the most significant drivers of expansion in the quantity of funds supplied to households.

Credit Demand

There was an increase in the demand for personal loans in the December 2014 quarter, continuing the trend over the last three quarters. Specifically, the CDI for personal loans was **106.7** for the December quarter following the **109.4** recorded for the September 2014 quarter (see **Table 1**). However, the increase in the December quarter fell below lenders' expectations for the quarter.

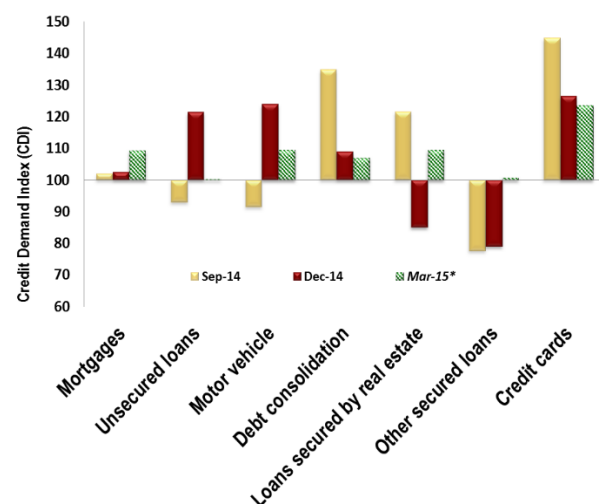
The performance of credit demand for the review quarter mainly reflected strong increases in demand for some loan categories; particularly, *credit cards*, *motor vehicles* and *unsecured loans*. However, lenders reported that there was a decline in credit demand for *loans collateralized by real estate*, and *other secured loans* for the December quarter (see **Figure 5**).

Lenders highlighted increased loan promotion activities, changes in interest rates and personal income as the most significant drivers of demand for secured personal loans during the review quarter. Meanwhile, demand for unsecured credit was most affected by changes in personal income.

For the March 2015 quarter, a stronger increase in credit demand is anticipated as the CDI is expected to increase to **108.6** (see **Table 1**). This anticipated rise is reflected in all loan categories (see **Figure 5**). In particular, lenders are anticipating strong demand for *credit cards* and *debt consolidation*. Similar to the December 2014 quarter, lenders expect promotional activities to be the main driver behind the

demand for secured loans while changes in personal income is expected to be the main factor that will determine the demand for unsecured loans.

Figure 5: Demand for Personal Loans



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

Price of Credit

The lending rates on personal loans averaged **19.59%** for the December 2014 quarter, which was lower than the expected average rate of **19.91%** indicated in the previous survey, as well

as the reported rate of **20.01%** for the September 2014 quarter. The lower average rate for the review quarter was reflected in all categories of loans covered by the survey, except *other secured personal loans* (see **Table 3**). Notably, the lower lending rates on *credit cards* and *unsecured personal loans* may have contributed to the increase in demand for these loans in the quarter. For the March 2015 quarter, average rates on personal loans are expected to increase marginally to **19.67%**.

Table 3: Interest Rates on Personal Loans

	March 2014 Survey		June 2014 Survey		September 2014 Survey		December 2014 Survey	
	Mar-14	Jun-14*	Jun-14	Sep-14*	Sep-14	Dec-14*	Dec-14	Mar-15*
Credit cards	47.33	47.33	39.59	40.79	47.10	46.10	46.30	46.30
Other unsecured personal loans	20.48	20.69	23.33	19.77	19.50	19.60	18.94	19.37
Motor Vehicle	11.97	11.90	11.30	11.86	11.42	11.52	11.21	11.19
Mortgages	11.67	11.59	10.52	10.55	10.77	10.61	10.16	10.16
Other secured personal loans	12.01	12.37	11.49	11.32	11.27	11.72	11.33	11.33
Average rates	20.69	20.78	19.25	18.86	20.01	19.91	19.59	19.67

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

Micro Business Lending

Credit Conditions

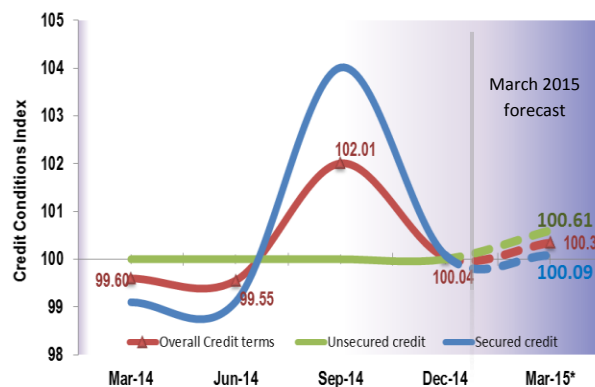
Lending conditions for micro-businesses were largely unchanged for the December 2014

© Copyright 2013. Bank of Jamaica

quarter relative to the September 2014 quarter, (see **Figure 6**). There was a tightening of credit policies applied to secured credit reflecting

increased loan monitoring requirements for secured loans to micro businesses given perceived increased risk associated with this sector. For the March 2015 quarter, credit conditions are expected to ease slightly due to reductions in interest rates for both secured and unsecured loans.

Figure 6: Credit Conditions for Micro Businesses



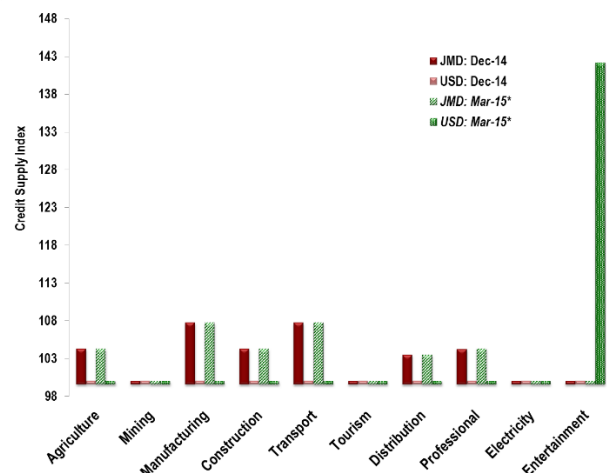
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.

Credit Supply

Lenders indicated an increase in the quantity of credit made available for lending to micro enterprises for the December 2014 quarter relative to the September 2014 quarter. This increase is reflected in a CSI of **103.2**. The increase reflected a greater supply of local currency loans, as the amount available for foreign currency credit remained unchanged at **100.0** since the March 2014 survey the increase in the supply of local currency credit was reflected in all sectors; particularly, *Manufacturing* and *Transport, Storage Communication* (see **Figure 7**).

The expansion in credit supplied to micro businesses was supported by higher approval rates on some loan categories, particularly on credit applications for *inventory & working capital*, and *commercial motor vehicle loans*. Partially tempering the increase in credit supply were declines in the approval rates on loans for real estate and acquiring or repairing plant & equipment (see **Figure 8**). The expansion in credit availability for the December 2014 quarter was reported to be driven by several factors; particularly, changes in lenders' appetite for risks and the diversification of loan portfolios. In addition, changes in the risks associated with market share objectives as well as capital market pressures are other critical factors that influenced credit availability during the review quarter.

Figure 7: Availability of Credit to Micro Businesses



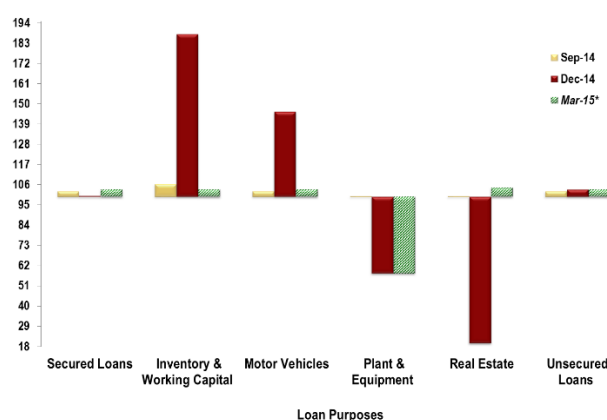
- An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
- The asterisks (*) represent forward looking expectations provided by the respondents.

For the March 2015 quarter, lenders anticipate an increase in the amount of foreign currency loans to be made available to micro businesses, particularly in the *Entertainment* sector, while no change is expected for Jamaica Dollar credit (see **Figure 7**). As a result, lenders expected an increase in approval rates for all categories of loans covered by the survey, excluding loans for acquiring or repairing plant & equipment (see **Figure 8**). Furthermore, lenders expect that the expansion in credit availability will mainly result from changes in lenders' appetite for risks; and capital market pressures.

currency loans was reflected in a reduction in demand from firms within all economic sectors, despite the increase in credit availability and generally lower interest rates across the sectors. Notwithstanding the overall decline in the CDI for micro businesses for the review quarter, lenders reported there was an increase in demand for most loan categories. In particular, there was strong demand for loans for *inventory & working capital refinancing* as well as *plant & equipment*.

Both secured and unsecured loans demanded by micro businesses over the review quarter were significantly affected by changes within the micro business sector, and interest costs (see **Figure 10**).

Figure 8: Approval Rates on Loan Applications



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

Credit Demand

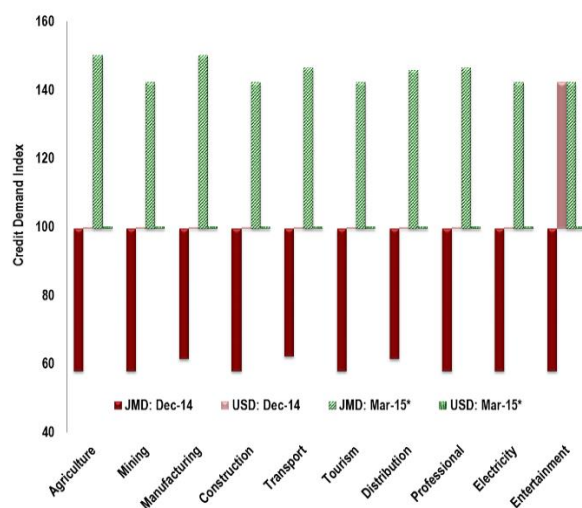
The CDI for local currency loans to micro business declined for the December 2014 quarter relative to the September 2014 quarter, while there was no change in demand for foreign currency loans, except for the increase in the entertainment sector (see **Figure 9**). The lower CDI for local

For the March 2015 quarter, lenders anticipate a significant increase in the CDI for micro enterprises, particularly for local currency loans. This demand is expected to emanate from all sectors, in particular, demand is expected to surge from the *Distribution, Manufacturing and Agriculture & Fishing* sectors, while no growth in demand for foreign currency loans is expected relative to the September 2014 quarter (see **Figure 9**). The projected increase in the CDI for the March 2015 quarter reflects the expected impact of changes in business activities, greater loan promotional activities and positive sector-specific developments.

The impact of these changes is expected to be partially offset by changes in Government policy as well as firm-specific factors. Moreover, given the expected implementation of tighter credit policies, particularly for secured loans, in the March 2015 quarter, the negative impact of these

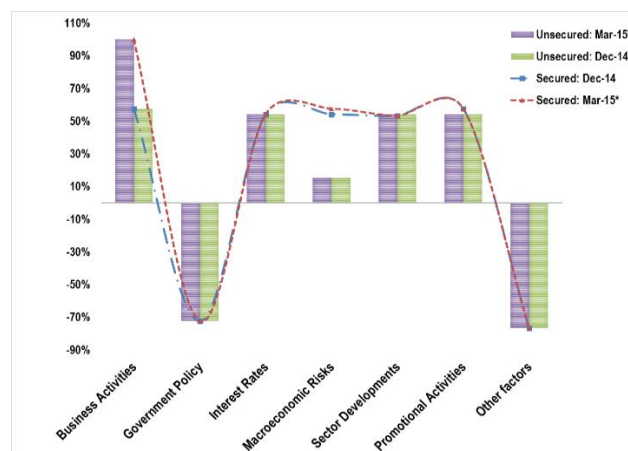
changes could be more significant than anticipated.

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.

Figure 10: Drivers of Demand Credit



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

Price of Credit

For the December 2014 quarter, lending rates on local currency loans to micro businesses fell to the lowest level since the inception of the survey. In particular, interest rates averaged **19.28%** for the review quarter, **2.93 pps** lower than the lending rate reported for the December 2013 quarter.² Amongst the sectors, *Agriculture & Fishing*, *Distribution* and *Tourism* attracted the lowest interest rates, whereas interest rate adjustments for *Mining & Quarrying* and *Professional & Other Services* sectors appear to be sticky (see **Table 4**).

For the March 2015 quarter, local currency lending rates are expected to decline further by **2.35 pps** to **16.92%**. This decline will mainly be reflected in lower interest rates on loans to the *Mining & Quarrying*, *Entertainment*, and *Electricity, Gas & Water* sectors.

No interest rates for foreign currency loans to the micro business sector was indicated for the review quarter. This may be due to lenders' decisions to restrict foreign currency loans to business sectors that earn foreign currency and also to the decline in demand for foreign currency loans for micro businesses (see **Table 4**).

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

For the March 2015 quarter, only one institution provided an interest rate for firms across all sectors that access foreign currency loans.

Table 4: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	September 2014 Survey		December 2014 Survey		September 2014 Survey		December 2014 Survey	
	Sep-14	Dec-14*	Dec-14	Mar-15*	Sep-14	Dec-14*	Dec-14	Mar-15*
Agriculture & Fishing	27.50	23.78	12.67	13.68	n.a	10.00	n.a	9.75
Construction & Land Development	23.25	20.23	20.05	17.17	n.a	10.00	n.a	9.75
Distribution	34.33	32.80	25.94	25.26	n.a	10.00	n.a	9.75
Electricity Gas & Water	26.00	20.07	26.00	21.13	n.a	10.00	n.a	9.75
Entertainment	26.00	15.05	18.63	13.25	n.a	10.00	n.a	9.75
Manufacturing	14.18	15.55	12.78	13.75	n.a	10.00	n.a	9.75
Mining & Quarrying	26.50	20.07	26.50	17.92	n.a	10.00	n.a	9.75
Professional & Other Services	15.72	16.43	16.05	14.69	n.a	10.00	n.a	9.75
Tourism	26.00	19.90	18.00	17.50	n.a	10.00	n.a	9.75
Transport, Storage & Communication	17.27	16.68	16.14	14.88	n.a	10.00	n.a	9.75
Average Rate	23.67	20.05	19.28	16.92	n.a	10.00	n.a	9.75

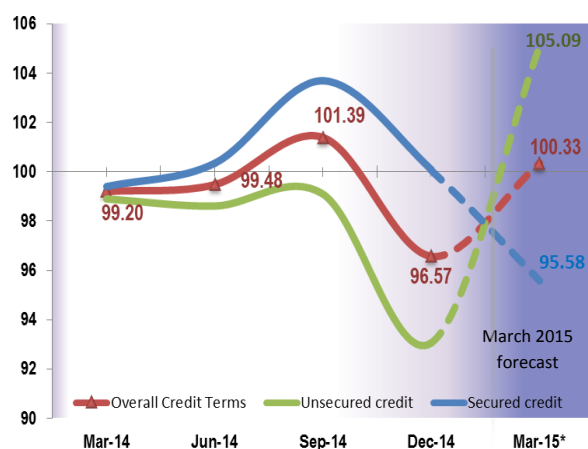
1. The asterisks (*) represent forward looking expectations provided by the respondents.

Small Business Lending

Credit Conditions

Lending conditions for small businesses tightened in the December 2014 quarter relative to the September 2014 quarter (see **Figure 11**). This was primarily attributed to a rise in interest rates on non-credit card lending and loan monitoring

requirements for unsecured loans. However, the tightening of lending conditions was tempered by a loosening in loan covenant compliance for secured loans. For the March 2015, credit conditions are expected to improve as lenders anticipate a decline in interest rates on non-credit card lending for unsecured loans.

Figure 11: Credit Conditions for Small Businesses


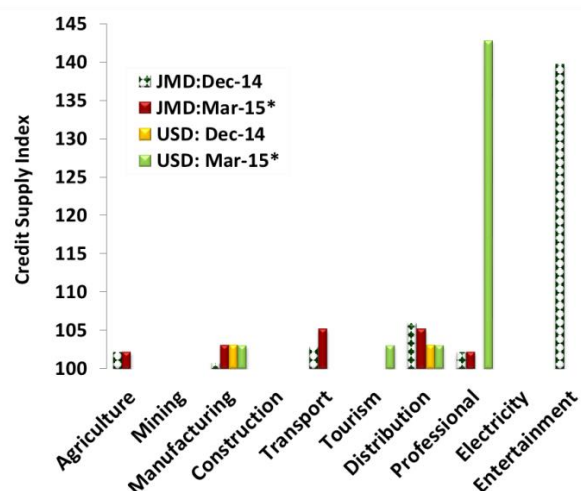
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions

Credit Supply

There was an increase in credit made available to small businesses for the December 2014 quarter relative to the September 2014 quarter, reflected in a CSI of **105.4**. The increase was generally influenced by a greater supply of local currency loans as there was only a slight increase in credit availability for foreign currency loans relative to the September 2014 quarter. The increase in the supply of local currency credit was reflected in all sectors; particularly in the *Entertainment* industry (see **Figure 12**).

Lenders reported that the increase in the CSI for the review quarter was supported by a higher rate of approval for some small business loans applications. Specifically, higher approval rates were noted for *inventory & working capital* and *motor vehicles* loans.

With regard to the factors influencing credit availability to small businesses, lenders cited an expansion in their market share objectives and improvements in their economic outlook as two significant factors that contributed to the increase in the CSI for the review quarter. Also, credit risks from the small business sector may have lessened given creditors increased efforts to create credit packages suitable for this market.

Figure 12: 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 March 2015 quarter, the CSI for small businesses is anticipated to increase due to the greater availability of both local and foreign currency loans, with foreign currency loans reflecting the sharper increase (See **Figure 12**). The expected increase in the CSI for foreign currency loans should predominantly be reflected in the *Professional & Other services* sector.

Lenders indicate an intention to increase the share of credit supplied to small businesses and cited expected improvements in future economic conditions as the most significant contributors to the anticipated increase in the CSI for the March 2015 quarter.

Credit Demand

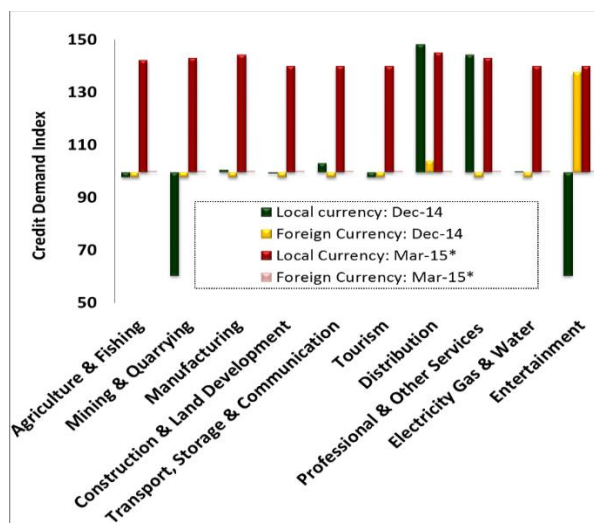
The CDI for both local and foreign currency loans for small businesses increased for the December 2014 quarter relative to the September 2014 quarter. The increase for local currency loans was mainly reflected in the demand from *Distribution* and *Professional & Other services*, while for foreign currency loans, demand emanated from *Entertainment* and *Distribution* as demand from the other economics sectors declined (see **Figure 13**).

The increase in the overall CDI for small businesses for the December 2014 quarter was reflected in the majority of the loan categories covered by the survey. In particular, there was strong demand for *inventory & other working capital financing* and *commercial motor vehicle* loans. Competitive interest rates and increased loan promotion activities would have facilitated the increase in loan demand by small businesses over the review quarter

For the March 2015 quarter, the CDI for local currency loans is expected to increase significantly, while demand for foreign currency loans is anticipated to decline slightly relative to the December 2014 quarter. Respondents are anticipating robust demand for local currency loans from all economic sectors, notably from

Manufacturing and *Distribution*. This demand is expected to be propelled by increased promotional and business activities as lenders seek to expand their market reach to small businesses.

Figure 13: Credit Demanded by Small Businesses



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.

Price of Credit

For the review period, the weighted average lending rate on local currency loans to small businesses averaged **12.85%**, which was lower than the rate of **14.85%** anticipated in the previous survey and the average rate of **12.99%** for the September 2014 quarter (see **Table 5**). Small businesses firms in *Tourism*, *Agriculture & Fishing*, and *Manufacturing* were offered the lowest lending rates while the highest rate was offered to firms in the *Entertainment* and *Electricity, Gas & Water* industries. For the March 2015 quarter, interest rates on local

currency loans are expected to increase to average **13.91%** for the quarter. This increase should reflect higher rates on loans to all sectors, with the exception of *Distribution, Transport, Storage & Communication* and *Entertainment*.

Table 5: Interest Rates on Local Currency Loans

	Local Currency				Foreign Currency			
	September 2014 Survey		December 2014 Survey		September 2014 Survey		December 2014 Survey	
	Sep-14	Dec-14*	Dec-14	Mar-15*	Sep-14	Dec-14*	Dec-14	Mar-15*
Agriculture & Fishing	13.67	13.20	10.00	11.69	n.a	9.67	n.a	8.70
Construction & Land Development	15.06	15.97	13.19	16.89	n.a	9.67	n.a	9.30
Distribution	16.01	15.41	16.48	14.84	n.a	9.67	n.a	8.95
Electricity Gas & Water	13.00	16.07	15.95	17.26	n.a	9.67	n.a	9.55
Entertainment	0.00	16.07	15.18	15.11	n.a	9.67	12.00	9.55
Manufacturing	14.32	14.39	10.89	12.12	n.a	9.67	9.75	10.88
Mining & Quarrying	11.63	16.07	10.00	12.94	n.a	9.67	n.a	8.70
Professional & Other Services	14.37	13.41	11.80	12.43	n.a	9.67	6.00	9.55
Tourism	14.88	13.20	10.00	11.84	n.a	10.00	11.50	8.70
Transport, Storage & Communication	16.96	14.68	14.99	13.97	n.a	10.13	n.a	9.30
Average Rate	12.99	14.85	12.85	13.91	n.a	9.75	9.81	9.32

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

Medium-Sized Business Lending

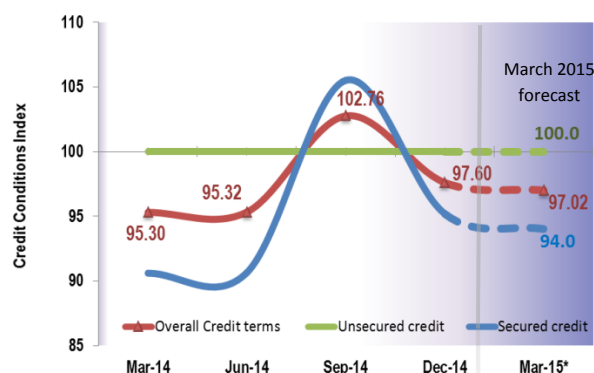
Credit Conditions

Lending conditions for medium-sized businesses tightened for the December 2014 quarter, relative to the September 2014 quarter (see **Figure 14**). The outcome for the review quarter was underpinned primarily by a notable increase in interest rates on secured loans as well as increased loan covenant compliance and loan

monitoring requirement. For the March 2015 quarter, credit conditions are expected to tighten further as lenders anticipate an increase in interest rates and loan monitoring requirements for secured loans.

Unlike micro businesses, there was provision of foreign currency credit to small businesses as loans were extended to firms in the *Entertainment* and *Tourism* sectors. Consequently, lending rates for foreign currency loans averaged **9.81%** for the review quarter. The lenders anticipate an average rate of **9.32%** for the March 2015 quarter.

Figure 14: Credit Conditions for Medium-sized Businesses



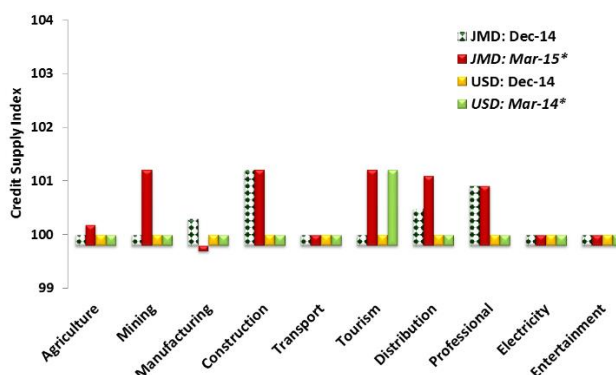
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Credit Supply

There was a marginal increase in the CSI for medium-sized businesses for the December 2014 quarter relative to the September 2014 quarter as reflected in an index of **100.3**. Overall, the change in the CSI reflected marginal growth in the supply of local currency loans as there was no growth in foreign currency loans for the review quarter. Growth in the supply of local currency credit was largely reflected in the *Construction & land development* and *Professional & Other services* sectors (see **Figure 15**). The CSI for medium-sized businesses in the December 2014 quarter was also influenced by creditors' market share motives as they seek to increase the supply of credit to these businesses.

The increased supply of loans to medium-sized businesses was supported by higher approval rates for all loan applications, except *Other secured* loans.

Figure 15: Availability of Credit to Medium-sized Businesses



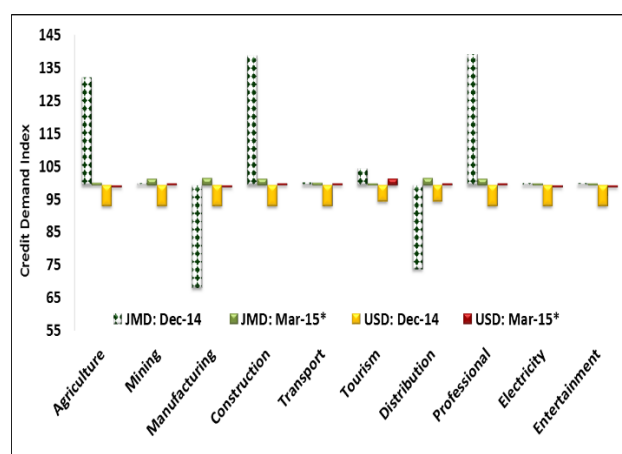
1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

For the March 2015 quarter, the CSI for local currency and foreign currency loans to medium-sized businesses is anticipated to increase marginally. Of note, the increase in the CSI for the March quarter is expected to be influenced mainly by lenders' desire to gain a greater share of the medium size business market.

Credit Demand

The CDI for local currency loans for medium-sized businesses increased for the December 2014 quarter, relative to the September 2014 quarter. In contrast, the CDI for foreign currency loans decreased. The increase in the CDI for local currency loans was reflected in all economic sectors, with the exception of *Manufacturing*, *Distribution* and *Entertainment*. With respect to foreign currency loans, the decline in the CDI was reflected in all economic sectors (see **Figure 16**).

Figure 16: Credit Demanded by Medium-sized Businesses



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

Demand for unsecured credit by medium-sized businesses over the review quarter may have been affected by changes in business activities while government policy changes may have been favourable for secured loans.

For the March 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 decline. The Increased local currency loan demand is anticipated to emanate from all economic sectors, except the *Entertainment*. Changes in business and promotional activities are expected to stimulate demand for local currency loans over the March 2015 quarter.

Price of Credit

For the review period, the weighted average lending rate on local currency loans to medium-sized businesses across all sectors averaged

10.45%, which was lower than the **10.75%** reported in the September 2014 quarter (see **Table 6**). Firms in *Entertainment* and *Mining & Quarrying* were offered the lowest lending rates while the highest rate was offered to the firms in *Tourism*. For the March 2015 quarter, interest rates on local currency loans are expected to increase by **2.90 pps** to average **13.36%**. This increase reflects higher anticipated lending rates on local currency loans to all sectors except *Tourism* and *Transport, Storage & Communication*.

Table 6: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	September 2014 Survey		December 2014 Survey		September 2014 Survey		December 2014 Survey	
	Sep-14	Dec-14*	Dec-14	Mar-15*	Sep-14	Dec-14*	Dec-14	Mar-15*
Agriculture & Fishing	6.75	13.25	11.25	12.32	n.a	7.63	n.a	8.50
Construction & Land Development	11.81	13.91	12.60	13.22	n.a	7.63	n.a	8.50
Distribution	16.96	16.80	15.33	15.43	n.a	7.63	n.a	8.50
Electricity Gas & Water	7.76	14.94	13.00	15.26	n.a	7.63	n.a	8.50
Entertainment	7.26	14.50	0.00	13.32	n.a	7.63	9.50	8.50
Manufacturing	10.25	13.25	10.25	12.13	n.a	7.63	0.00	9.92
Mining & Quarrying	7.76	14.60	0.00	13.46	n.a	7.63	9.50	8.50
Professional & Other Services	14.12	14.40	11.37	12.97	3.71	7.58	8.80	8.50
Tourism	10.86	13.00	16.75	12.16	n.a	9.44	5.50	8.63
Transport, Storage & Communication	13.50	14.81	14.00	13.32	n.a	7.63	7.00	8.50
Average Rate	10.70	14.35	10.45	13.36	3.71	7.80	6.72	8.65

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

With respect to foreign currency loans, lending rates for these loans averaged **6.72%** for the review quarter, relative to **3.71%** in the previous quarter. The interest rate for the December 2014 quarter reflected the average rate of loans disbursed across most economic sectors, while in

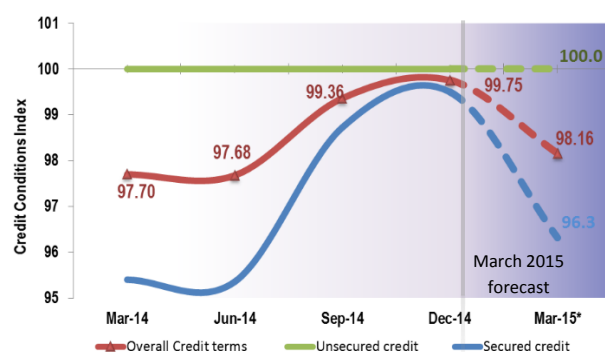
the previous survey, foreign currency lending rates reflected the rate of loans disbursed solely to the *Professional & Other Services* sector (see **Table 6**). For the March 2015 quarter, lending rates on foreign currency loans are expected to increase to **8.65%**.

Large Corporate and Commercial Lending

Credit Conditions

Lending conditions for large businesses remained tight for the December 2014 quarter relative to the September 2014 quarter, reflecting an increase in the interest rates on these loans (see **Figure 17**). For the March 2015 quarter, credit conditions are expected to tighten further, as lenders anticipate further increases in interest rates and stricter policies on secured loans.

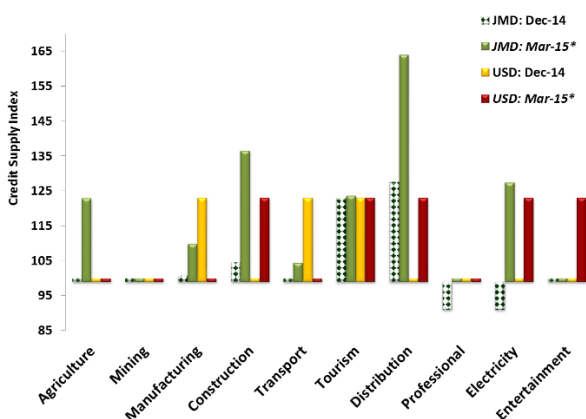
Figure 17: Credit Conditions for Large Businesses



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

Credit Supply

There was an increase in the CSI for large businesses for the December 2014 quarter relative to the September 2014 quarter. This outcome reflected growth in local currency loans as the pace of increase in foreign currency loans moderated. Growth in the supply of local currency credit was reflected in all sectors except *Electricity, Water & Gas* and *Professional & Other Services* (see **Figure 18**). In comparison, growth in the supply of foreign currency credit was predominantly reflected in *Tourism, Manufacturing, Transport, Storage & Communication* and *Manufacturing*. The higher CSI for large businesses in the December 2014 quarter was also due to changes in the cost of funds to this business segment as well as an increase in lenders' risk appetite.

Figure 18: 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.

Despite the expansion in credit supplied to large businesses, lenders reportedly reduced the approval rates of all loan categories with the exception of credit applications for *commercial real estate* and *commercial motor vehicle* purchases.

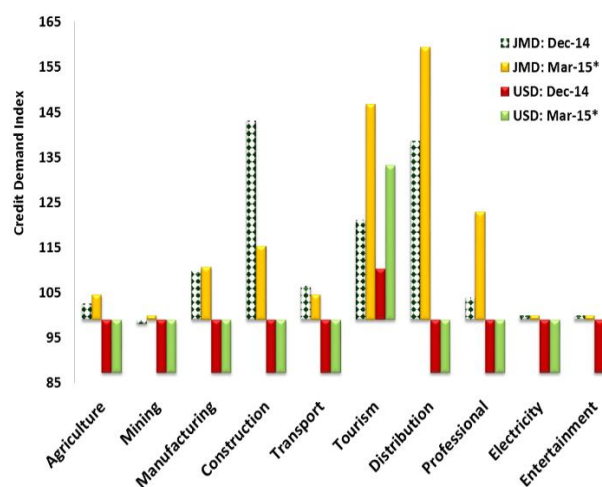
The CSIs for local and foreign currency loans to large businesses are anticipated to increase significantly in the March 2015 quarter. Similar to the December 2014 quarter, major factors which are expected to influence the increase in the CSI mainly relate to an increase in lenders' appetite for risk and changes in the cost and availability of funds.

Credit Demand

There was a slower pace of increase in the CDI for local currency loans for the December 2014 quarter, relative to the September 2014 quarter. In contrast, the CDI for foreign currency loans

declined relative to the September quarter. The growth in the CDI for local currency was reflected in all sectors, except for *Mining & Quarrying*. With regard to the CDI for foreign currency loans, the decline was reflected in a reduction in demand across all economic sectors excluding *Tourism* (see **Figure 19**).

The increase in the overall CDI for large businesses for the December 2014 quarter was reflected in all loan categories covered by the survey. Notably, there was a marked increase in credit demanded for *Inventory & Other working capital financing* and *Commercial real estate* financing.

Figure 19: 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.

Demand for both secured and unsecured loans by large businesses over the review quarter was affected by business activities and a reduction in macroeconomic risk. In addition, lenders indicated that loan demand was negatively



affected by reduced loan promotional activities for secured and unsecured credit with these businesses.

For the March 2015 quarter, a faster pace of increase in the CDI for local currency loans is expected, while the CDI for foreign currency loans is anticipated to decline. Of note, increased local currency loan demand is anticipated from all sectors, with a significant uptick anticipated for firms in the *Distribution* and *Tourism* sectors. Changes in business activities, macroeconomic risks and developments in other economic sectors are expected to stimulate demand for unsecured and secured loans in the March 2015 quarter.

Price of Credit

For the review quarter, the weighted average lending rate on local currency loans to large businesses across all sectors averaged **13.94%**, relative to **10.92%** for the September 2014 quarter (see **Table 7**). The increase in the lending rate reflected higher interest rates applied to firms across all economic sectors, with firms in the *Agriculture & Fishing* and *Tourism* sectors receiving the highest interest rates.

Interest rates on local currency loans to large businesses are expected to increase to average **14.12%** for the March 2015 quarter. This reflects higher rates on local currency loans to most economic sectors.

Lending rates on foreign currency loans averaged **7.70%** for the December 2014 quarter and are

expected to increase by **1.75 pps** for the March 2015 quarter (see **Table 7**).

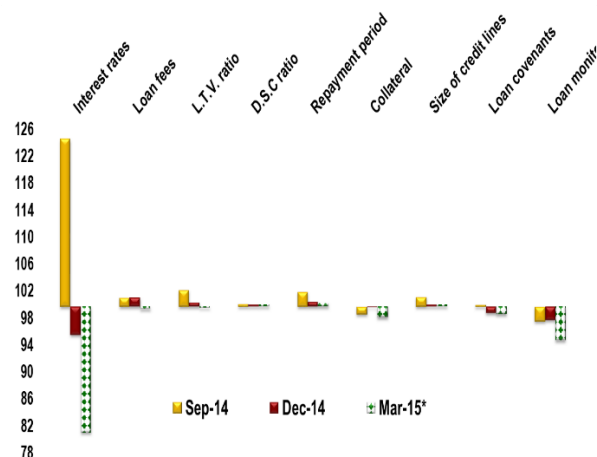
Table 7: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	September 2014 Survey		December 2014 Survey		September 2014 Survey		December 2014 Survey	
	Sep-14	Dec-14*	Dec-14	Mar-15*	Sep-14	Dec-14*	Dec-14	Mar-15*
Agriculture & Fishing	8.40	10.92	16.00	13.98	6.63	7.75	9.00	8.55
Construction & Land Development	11.97	11.46	14.75	14.53	4.76	7.25	7.63	9.95
Distribution	12.41	13.06	11.97	13.20	5.26	8.09	7.00	9.95
Electricity Gas & Water	11.88	11.84	12.75	13.56	6.01	8.09	8.00	10.55
Entertainment	11.63	12.16	16.00	15.39	6.25	8.84	7.81	8.72
Manufacturing	8.79	10.31	11.00	12.21	6.13	7.75	8.17	8.38
Mining & Quarrying	11.88	11.84	16.00	15.59	4.26	7.75	6.63	9.15
Professional & Other Services	11.88	11.84	14.44	15.59	5.26	8.09	7.00	9.95
Tourism	11.21	10.92	16.00	13.74	5.51	8.59	10.13	10.15
Transport, Storage & Communication	9.13	11.00	10.50	13.39	2.51	7.09	5.67	9.15
Average Rate	10.92	11.54	13.94	14.12	5.25	7.93	7.70	9.45

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

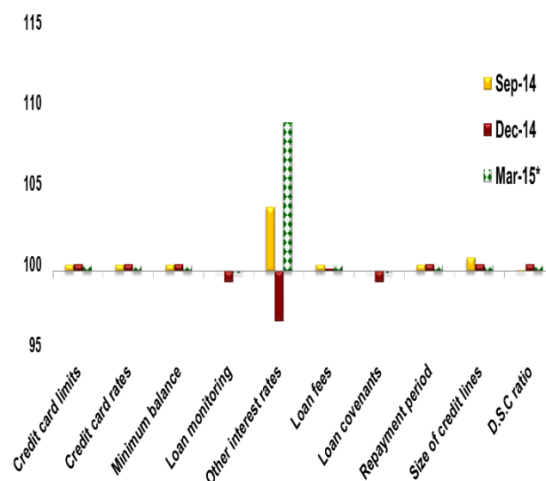
Appendix A: Overall Credit Market Conditions

Figure 20: Credit Conditions for Secured Loans



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

Figure 21: Credit Conditions for Unsecured Loans



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

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

³ 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.

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

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< \$US10,000	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 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).