

Quarterly Credit Conditions Survey Report



December 2016 Quarter

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

Contents

List of Figures & Tables	2
Background	3
Overview	4
Personal Lending	8
Micro Business Lending	11
Small Business Lending	13
Medium-Sized Business Lending	15
Large Corporations and Commercial Lending	18
Appendix A: Overall Credit Market Conditions	21
Appendix B: Glossary and Definitions	24

List of Figures & Tables

Figure 1: Index of Credit Market Conditions	4
Figure 2: Components of Credit Supply	5
Figure 3: Distribution of Private Sector Credit	6
Figure 4: Components of Credit Demand	6
Figure 5: Credit Conditions for Personal Lending	8
Figure 6: Availability of Credit for Personal Lending	9
Figure 7: Demand for Personal Loans	9
Figure 8: Interest Rates on Personal Loans	10
Figure 9: Credit Conditions for Micro-sized Businesses	11
Figure 10: Credit Conditions for Small Businesses	13
Figure 11: Credit Conditions for Medium-sized Businesses	15
Figure 12: Credit demanded by Medium-sized Businesses	16
Figure 13: Credit Conditions for Large Businesses	18
Figure 14: Availability of Credit to Large Businesses	19
Figure 15: Credit Demanded by Large Businesses	19
Figure 16: Credit Conditions for Secured Loans	21
Figure 17: Credit Conditions for Unsecured Loans	21
Figure 18: Drivers of the Supply of Credit	22
Figure 19: Drivers of the Demand of Credit	23
Table 1: Overall Weighted Average Lending Rates on Local and Foreign Currency Loans	7
Table 2: Interest Rates on Local and Foreign Currency Loans to Micro-sized Businesses	12
Table 3: Interest Rates on New Local and Foreign Currency Loans to Small Businesses	14
Table 4: Interest Rates on Local and Foreign Currency Loans to Medium-sized Businesses	16
Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses	20
Table 6: Components of Credit Demand and Supply Indices	22

Background

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

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

This report presents the results of the December 2016 survey which was conducted during the period 17 January and 07 February 2017.

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

Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	1	1	1	1	1	1
Credit Unions	9	9	9	9	9	9
Total	19	19	19	19	19	19



Overview

Jamaica’s macroeconomic conditions continued to improve during the December 2016 quarter. This improvement was evidenced by a reduction in the annual inflation rate at December 2016 to 1.7 per cent, from 3.7 per cent a year earlier. GDP growth of 1.1 per cent for the quarter represented the eighth consecutive quarter of economic expansion.

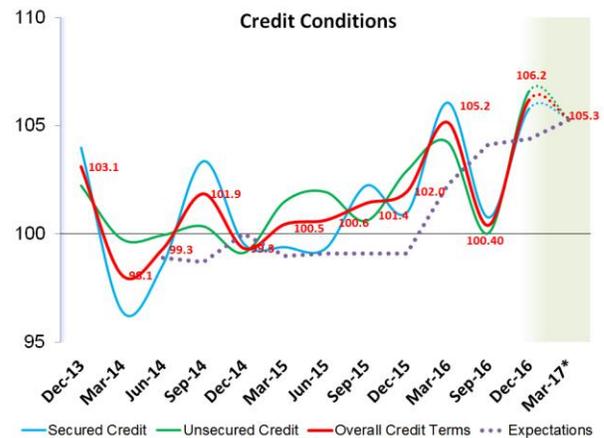
Bank of Jamaica (BOJ) maintained its signal interest rate, the rate on its 30-day Certificate of Deposit (CD), at 5.0 per cent during the review quarter. However, in the context of the growing trend in dollarization and to address nascent instability in the foreign exchange market which represented a threat to the inflation outlook and inflationary expectations, the Bank temporarily tightened liquidity at the short end of the money market during the quarter. This was evidenced by reduced loan amounts via BOJ’s weekly repurchase operations and lower placements on the Bank’s overnight CD. Liquidity however emanated from net maturities of BOJ’s longer term CDs and the Bank’s foreign currency operations, resulting in net injection of approximately \$4.0 billion into the system for the quarter.

The banking sector experienced increased competition during the December 2016 quarter in light of BOJ’s approval of another commercial banking licence in September 2016. In addition, in the context of the Banking Services Act (2014), the Bank facilitated a lowering of the capital risk-weighting for bank loans guaranteed by the Development Bank of Jamaica’s Credit Enhancement Facility.

In the context of the foregoing, credit conditions during the quarter eased to their highest level since the start of the survey in December 2013 (see **Figure 1**) and was higher than expected.

This noteworthy improvement in credit conditions was reflected in lenders instituting more relaxed lending policies in their attempts at preserving or increasing market share, even while maintaining the quality of their loan portfolios. The more relaxed lending stance was evident in both secured and unsecured loans for households and most business types during the review quarter (see **Appendix A: Figures 16 and 17**).

Figure 1: Index of Credit Market Conditions



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

The outlook for the March 2017 quarter is for continued easing in credit conditions, albeit at a slower pace, relative to the December quarter. Lenders reported optimism about the performance of Jamaica’s macroeconomic indicators while the more competitive financial



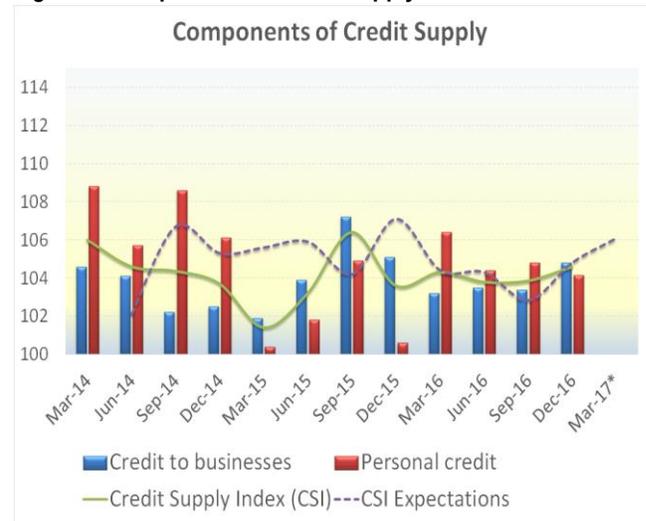
landscape is expected to continue influencing creditors’ loan strategies.

Credit Supply

Credit supply in the December 2016 quarter continued to expand when compared to the September 2016 quarter. The overall Credit Supply Index (CSI) was **104.6**, stronger than the CSI of **103.9** for the September 2016 quarter (see **Figure 2**). This result was consistent with the quarter-to-quarter growth of **4.1 per cent** in commercial bank credit extended to the private sector. Institutions’ willingness to provide credit was driven primarily by improved macroeconomic conditions and a more competitive market. As such, market share objectives remained a key factor influencing the expansion in credit supply during the quarter (see **Appendix A: Figure 20**).

Lenders reported an increase in local currency loan facilities to both businesses and individuals, while the availability of foreign currency loans remained relatively unchanged from the September 2016 quarter. Personal loans continued to account for the greater proportion of credit allocated but moderated to **55.0 per cent** from **62.0 per cent** a year earlier. Contrastingly, the proportion of credit allocated to businesses expanded to **45.0 per cent** from **38.0 per cent** at end-December 2015 (see **Figure 3**). The increment in business credit during the review quarter reflected the impact of increased activity and opportunities in a cross-section of economic sectors.

Figure 2: Components of Credit Supply



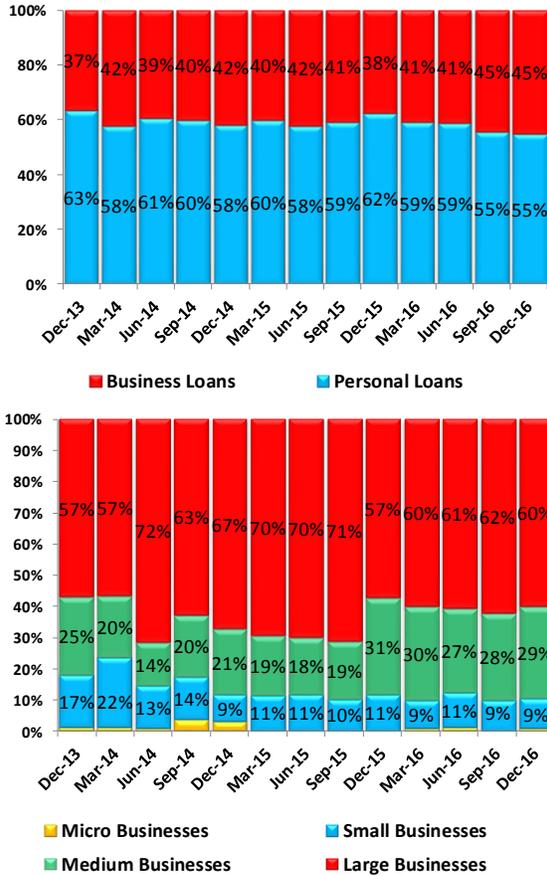
1. *Expectations for the upcoming quarter from the current survey.
2. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

The proportion of credit allocated to firms of different sizes (large, medium, small, and micro) reflected a similar pattern as in the previous quarter. Credit to large and medium-sized firms continued to account for the majority of total business loans at **60.0 per cent** and **29.0 per cent**, respectively. The share of credit allocated to small and micro-sized businesses constituted **9.0 per cent** and **1.0 per cent**, respectively.

Credit supply is expected to continue its trend increase in the March 2017 quarter. This projected increase is underpinned by lenders’ reported strategy of maintaining or increasing market share, given new entrants in the market. Other factors cited include a positive economic outlook which prompted creditors to augment supply to businesses. Against this background, respondents reported that they plan to increase credit availability for all loan categories and currency types during the March 2017 quarter (see **Figure 2 and Appendix A: Table 6**).



Figure 3: Distribution of Private Sector Credit¹



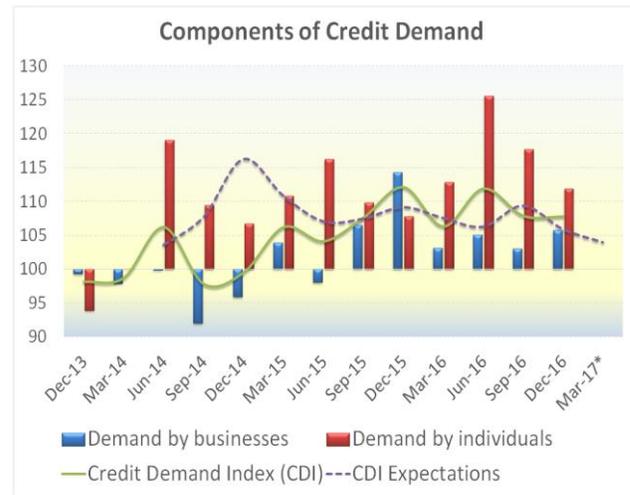
Credit Demand

Growth in credit demand, as measured by the Credit Demand Index (CDI), remained strong for the review quarter. The index, while holding relatively steady at **107.8** (see **Appendix A: Table 6**), was significantly higher than the anticipated pace of growth in the September 2016 survey. Sustaining this growth was stronger demand for credit by firms of all sizes, the impact of which was

partially offset by the weakening but positive growth in demand for personal loans.

The demand for business credit strengthened in the December quarter, as indicated by an index of **105.7** relative to **103.0** in the September 2016 quarter (see **Figure 4**). The sectors in which this increased demand was observed were mainly *Manufacturing, Distribution, Electricity Gas & Water, Entertainment, Tourism, and Transport, Storage & Communication* (see **Appendix: Figure 18**). Credit demand by individuals remained strong for *motor vehicle loans, debt consolidation, and lending secured on real estate*, while there was reduced demand for *credit cards*.

Figure 4: Components of Credit Demand



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

Credit demand continued to be driven by factors such as increased business activities, loan

¹ Figure 3 shows the distribution of credit between households and businesses. Credit to businesses is further disaggregated to show total business loans distributed to firms of various sizes.



promotional activities, lower interest rates, and developments in various economic sectors.²

Lenders indicated that they did not expect credit demand to further strengthen in the March 2017 quarter. This moderation is expected to be reflected in the demand for personal credit, particularly loans intended for debt consolidation, those secured by residential property and other non-credit card loans. Demand for foreign currency credit by medium-sized firms is also expected to contract marginally. In contrast, the expectation is for firms within the *Agriculture & Fishing, Tourism, Transportation* and the *Electricity, Gas and Water* sectors to demand more local currency credit.

Price of Credit

Based on the survey responses, average interest rates on new local currency loans **increased** by approximately **60 basis points (bps)** to **15.6 per cent** during the December 2016 quarter, relative to the previous quarter's outturn. This implied an increase of **85 bps** in business borrowing costs to **15.1 per cent**, while the average rate on personal loans fell to **17.6 per cent** from **18.2 per cent** in the September 2016 quarter.

In relation to the breakdown of interest rates by firm size, lenders noted a reduction in rates for large scale enterprises and relatively unchanged interest rates for loans to medium-sized firms. As such, the increase in the average interest rate stemmed from increases of 61 bps and 324 bps to

13.6 per cent and **25.5 per cent**, respectively, in lending rates applicable to small and micro-sized businesses. Higher rates on loans to these firms were associated with reported changes in lenders' risk appetite as well as their economic outlook for specific sectors.

Similar to the price movements on new local currency credit, the average interest rate on new foreign currency loans increased by **44 bps** to **8.5 per cent**. This expansion also reflected a reported increase in rates for small and micro-sized businesses. Conversely, lending rates for medium-sized firms remained constant at **7.6 per cent** and the reported rate for large enterprises fell to **7.1 per cent**.

For the March 2017 quarter, lenders reported an anticipated increase in the price of credit on new local currency loans to all firm sizes. On the other hand, they expected the price of credit on loans denominated in foreign currency to fall marginally.

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

	September 2016 Survey		December 2016 Survey	
	Sept-16	Dec-16*	Dec-16	Mar-17*
Local Currency (LC) Loans				
Business loans	14.25	15.51	15.10	15.81
Personal loans	18.15	17.91	17.59	17.34
Reference rate	14.55	15.31	14.82	15.46
Average LC rates	15.03	15.99	15.59	16.12
Foreign Currency Loans				
Business loans	8.09	8.71	8.52	8.49
Reference rate	6.74	8.77	7.81	8.91

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

² Developments in one or more economic sectors refers to the extent of credit demand associated with technological or

market developments, foreign and/or local investments and/or other business activities in one or more economic sectors.



Personal Lending

Credit Conditions

There was a substantial improvement in credit conditions for personal loans in the review quarter, relative to the previous quarter (see **Figure 5**). The overall index of **106.5** reflected improvements in credit conditions for both secured and unsecured loans as some creditors lowered interest rates and fees on new loans. In relation to secured lending, institutions reported higher loan disbursements based on higher collateral. Factors such as loan promotional activities and reduced macroeconomic risks influenced the demand for personal credit during the review period.

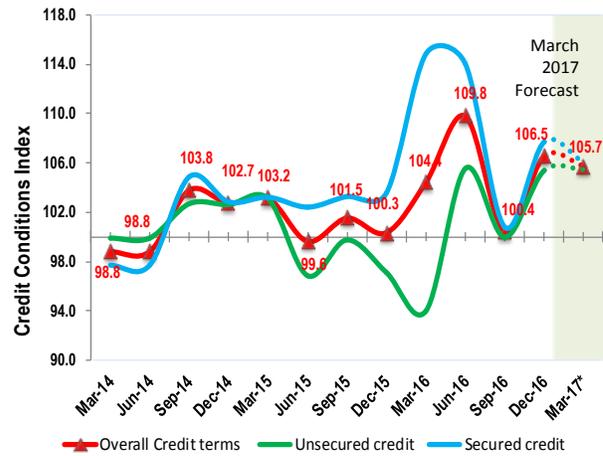
Improvements in personal credit conditions are expected to moderate slightly during the March 2017 quarter. The projected index of **105.7** is underpinned by creditor’s plans to maintain much of their loan policies, particularly with respect to interest rate and fees. However, in the context of the influence of a new player in the credit market, lenders planned to enhance loan promotional activities.

Credit Supply

The supply of loans to households continued to account for the larger portion of credit supplied (**55.0 per cent**) when compared to credit extended to the productive sector (see **Figure 3**).

In particular, growth in the availability of personal loans remained positive for the December 2016 quarter with an estimated CSI of **104.2**.

Figure 5: Credit Conditions for Personal Lending



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

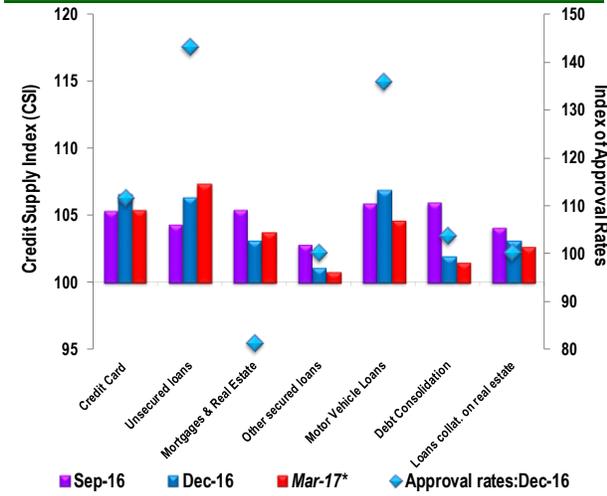
This was slightly lower than the previous quarter’s outturn of **104.8** (see **Appendix A: Table 6**). Increased credit supply was associated with greater availability of motor vehicle and unsecured loans (including credit card loans), in addition to higher approval rates for the two categories (see **Figure 6**).

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

For the March 2017 quarter, lenders reported that they plan to moderate credit availability marginally for all loan categories (see **Appendix A: Table 6 and Figure 5**).



Figure 6: Availability of Credit for Personal Lending



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

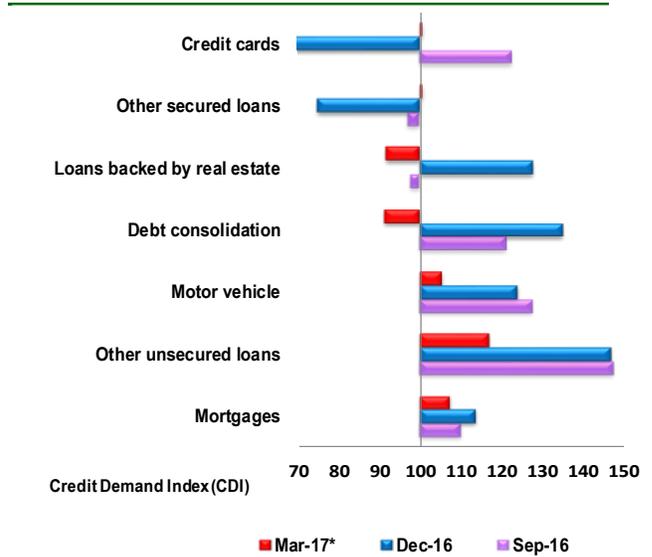
Credit Demand

Growth in the demand for personal credit continued to be strong during the December 2016 quarter. The CDI for the quarter was **111.9**, albeit lower than the index of **117.7** recorded in the previous quarter (see **Appendix A: Table 6**). The increase in the demand for personal loans was reflected across all loan types, except *other secured loans* (loans for household goods, hire-purchase, education) and *credit card loans* (see **Figure 7**).

Lenders highlighted that the important drivers of demand in the review quarter included an increase in their loan promotional activities, lower interest rates as well as improvements in macroeconomic risks as borrowers feel more

confident in their ability to adequately service their debt obligations.

Figure 7: Demand for Personal Loans



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

For the March 2017 quarter, lenders anticipate a moderate growth in demand for personal credit, given the expectation of continued easing in lending conditions for other unsecured personal loans, motor vehicles, mortgages, and credit cards (see **Figure 7**). Lenders also anticipate that credit demand will continue to be driven by loan promotional activities and lower interest rates.

Price of Credit

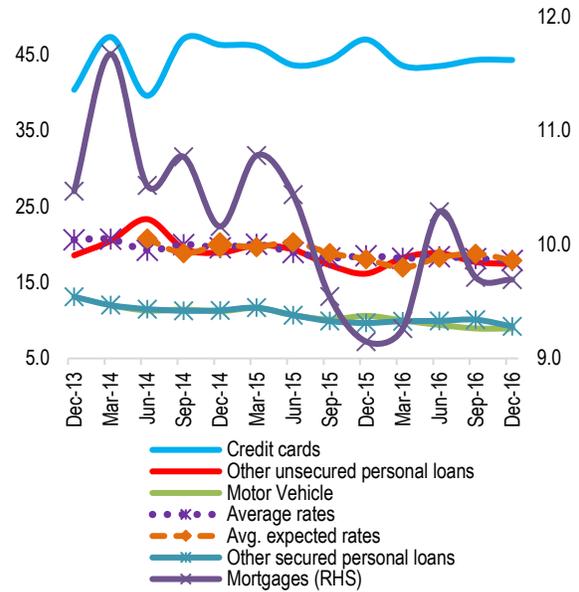
Creditors indicated that there was an overall decline in weighted average lending rates on new personal loans to **17.6 per cent** for the December 2016 quarter. This was lower than the expected average rate of **17.9 per cent** and the average of **18.2 per cent** for the September 2016 quarter. The lower rate for the review period was mainly



reflected in interest rates on mortgages, motor vehicle loans, non-credit card unsecured loans, and other secured loans (see **Figure 8**).

For the March 2017 quarter, lenders reported a planned reduction of approximately **60 bps** in interest rates on all categories of personal loans.

Figure 8: Interest Rates on Personal Loans





Micro Business Lending

Credit Conditions

Credit conditions faced by micro-businesses improved for the December 2016 quarter, relative to the September 2016 quarter (see **Figure 9**). The overall index of **105.2** was primarily driven by more relaxed loan policies through lower fees on unsecured loans, while the policies applicable to secured credit remained relatively unchanged. Nevertheless, some financial institutions imposed tighter credit conditions through increased loan monitoring requirements in order to preserve the quality of their loan portfolios.

The projected CCI of **102.1** for micro-firms during the March 2017 quarter reflects an expected improvement in credit conditions, albeit small. This stems from planned reductions in interest rates and fees on secured loans, partly offset by planned tighter credit terms for unsecured loans. In particular, lenders reported planned increases in interest rates on non-credit card loans.

Credit Supply

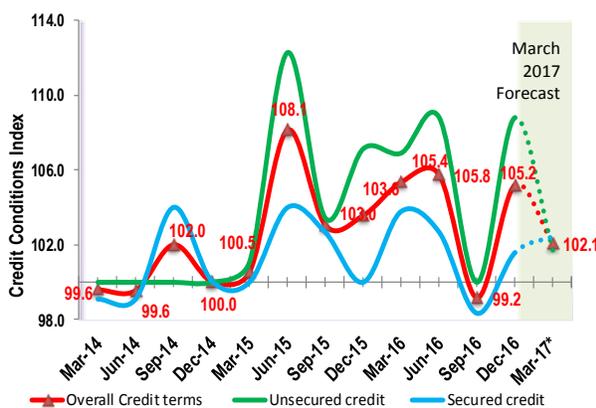
There was an expansion in the supply of credit to micro-sized firms in the December 2016 quarter, compared to the previous quarter. The CSI of **107.6** mainly reflected increased supply of local currency loans as the availability of foreign currency loans remained unchanged. For local currency loans, supply increased across all the economic sectors and was largely attributed to market share objectives in the context of increased competition, as well as lenders' perception of an improving economic outlook.

For the March 2017 quarter, creditors plan to augment credit supply in the context of their market share objectives.

Credit Demand

The overall CDI for micro businesses increased to **105.0** for the review quarter, indicating a stronger growth in credit demand. Much of this demand was reflected in local currency loans as demand for foreign currency denominated credit reported fell. For the review quarter, increased demand for local currency loans stemmed from *Agriculture & Fishing, Manufacturing, Transportation, Storage & Communication, Tourism, Distribution and Electricity, Gas & Water*. With respect to foreign currency loans, the slight contraction originated from tempered demand within the *Distribution and Professional & Other Services* sectors.

Figure 9: Credit Conditions for Micro-sized Businesses



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

The factors influencing the demand for micro-business loans for the review period included the impact of increased loan promotional activities. These promotions included the offer of better credit terms such as lower rates and fees, which



incentivized micro-enterprises to demand credit. Furthermore, some institutions reported that changes in government-related policies also contributed to loan demand.

For the March 2017 quarter, lenders anticipate that an increase in business activities and loan promotions should continue to spur demand from micro businesses.

Price of Credit

Notwithstanding the easing in overall lending conditions to micro-sized firms, average interest rates on local and foreign currency loans to the sector increased during the quarter. In particular, the average interest rate on local currency loans rose to **25.5 per cent** compared to **22.2 per cent** in the September 2016 quarter. The increase in the price of credit for micro businesses reflected higher rates at the start of the quarter that outweighed the effects of moderated rates towards the end. These higher rates were evident across all economic sectors with the exception of the *Entertainment* sector.

For foreign currency loans, the average lending rate increased to **10.2 per cent** from **8.3 per cent** in the previous quarter. Higher loan rates were reported on credit to the *Tourism* sector.

For the March 2017 quarter, average interest rates on local currency loans are expected to further

increase for all economic sectors with the exception of *Distribution, Mining & Quarrying*, and *Transportation*. Average rates on foreign currency loans to micro businesses are expected to increase with the exception of loans issued for *Tourism* based services.

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

	Local Currency				Foreign Currency			
	September 2016 Survey		December 2016 Survey		September 2016 Survey		December 2016 Survey	
	Sep-16	Dec-16*	Dec-16	Mar-17*	Sep-16	Dec-16*	Dec-16	Mar-17*
Agriculture & Fishing	20.56	23.19	25.52	26.54	n.a	10.96	n.a	9.58
Construction & Land Development	17.65	22.24	22.65	26.42	n.a	10.96	n.a	9.58
Distribution	29.04	22.24	30.33	26.42	11.26	10.96	8.84	9.58
Electricity Gas & Water	20.30	22.24	23.55	26.42	n.a	10.96	n.a	9.58
Entertainment	29.15	22.99	24.06	26.54	n.a	10.96	n.a	9.58
Manufacturing	20.77	23.19	24.50	26.54	n.a	10.96	n.a	9.58
Mining & Quarrying	17.00	22.24	28.12	26.42	n.a	10.96	n.a	9.58
Professional & Other Services	19.82	22.24	23.04	26.42	5.30	10.96	n.a	9.58
Tourism	20.66	23.19	23.21	26.54	n.a	10.96	11.50	9.58
Transport, Storage & Communication	27.21	22.24	29.57	25.92	n.a	10.96	n.a	9.58
Average Rate	22.22	22.60	25.46	26.42	8.28	10.96	10.17	9.58

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



Small Business Lending

Credit Conditions

For the December 2016 quarter, lending conditions for small enterprises improved considerably. The sector reflected a credit conditions index of **109.0**, which was associated with reportedly lower fees charged on new secured and unsecured credit (see **Figure 10**). Some lending institutions also highlighted their recent capacity building initiatives that helped to improve the credit worthiness of some small and medium-sized enterprises during the review period.

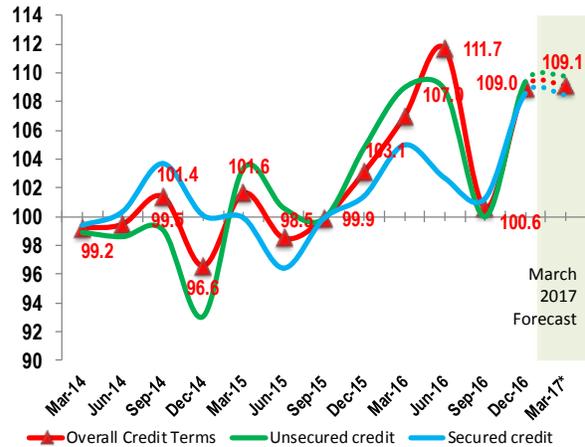
For the March 2017 quarter, lenders expect a similar degree of easing in the credit environment as indicated by a projected CCI of **109.1**. This outlook is underpinned by creditors' plans to further relax credit terms through lower interest rates and fees on both secured and unsecured loans.

Credit Supply

Credit to small businesses, as a share of total credit, remained at **9.0 per cent** for the December 2016 quarter. However, this allocation facilitated a slight improvement in the CSI of **100.1** when compared to the previous quarter.

For the March 2017 quarter, the CSI for small businesses is expected to increase, albeit marginally. The expected availability of credit for these types of firms was influenced by changes in lenders' economic outlook, competition and market share objectives.

Figure 10: Credit Conditions for Small Businesses



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

Credit Demand

Lenders reported that the demand for loans by small businesses contracted during the review period. This contraction, as indicated by a CDI of **98.5**, reflected a reduction in the demand for foreign currency loans, particularly from the *Distribution* and *Professional & Other services* sectors. However, the contraction masked a reported expansion in demand for local currency loans, as indicated by a CDI of **103.6**. This reported expansion in the demand for local currency credit reversed the significant contraction reported in the September 2016 survey and was reflected mainly in the *Manufacturing, Distribution* and *Electricity, Gas and Water* sectors. There were, however, reportedly significant declines in demand from the *Mining & Quarrying* and *Professional & Other Services* sectors.



For the March 2017 quarter, the demand for local and foreign currency loans by small businesses is expected to marginally increase as respondents expect demand to emanate mainly from the *Transport, Storage and Communication* sector due to the anticipation of increased business activities.

Price of Credit

For the review period, lenders indicated that the weighted average lending rate on new local currency loans to small businesses increased to **13.6 per cent** from **12.9 per cent**. Nevertheless, the reported rate for quarter was lower than the *expected* rate of **14.1 per cent** reported in the September 2016 survey (see **Table 3**). Furthermore, the weighted average interest rate on foreign currency denominated loans increased by approximately **20 basis points** to **9.2 per cent**.

For the March 2017 quarter, lenders reported a planned increase in interest rates on new local currency loans (**14.9 per cent**) but reported a planned reduction in their rates on foreign currency loans to **9.1 per cent**. For local currency loans, the higher rates are expected to be applied to all sectors except *Entertainment*. *Tourism*, *Manufacturing* and *Distribution*, *Professional & Other Services* should benefit from lower rates on foreign currency loans.

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

	Local Currency				Foreign Currency			
	September 2016 Survey		December 2016 Survey		September 2016 Survey		December 2016 Survey	
	Sep-16	Dec-16*	Dec-16	Mar-17*	Sep-16	Dec-16*	Dec-16	Mar-17*
Agriculture & Fishing	11.78	13.03	13.19	14.25	9.00	8.50	9.00	9.07
Construction & Land Development	12.81	14.62	13.23	15.31	9.75	8.63	9.00	9.12
Mining & Quarrying	14.19	14.20	14.99	15.71	9.00	8.60	9.00	9.17
Entertainment	12.50	13.13	17.20	16.18	n.a	8.67	n.a	9.17
Distribution	13.31	14.57	14.58	14.97	10.17	8.67	9.57	9.17
Electricity Gas & Water	12.86	14.09	11.67	14.60	9.00	8.60	9.00	9.17
Manufacturing	14.59	14.31	13.51	14.22	8.50	8.63	9.00	8.92
Professional & Other Services	13.05	14.41	11.58	14.43	7.54	8.67	10.13	9.42
Tourism	11.03	14.38	11.92	15.03	9.00	8.67	10.50	9.17
Transport, Storage & Communication	13.27	13.88	13.61	14.00	9.00	8.46	7.88	8.92
Average rate	12.94	14.06	13.55	14.87	9.00	8.61	9.23	9.13

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



Medium-Sized Business Lending

Credit Conditions

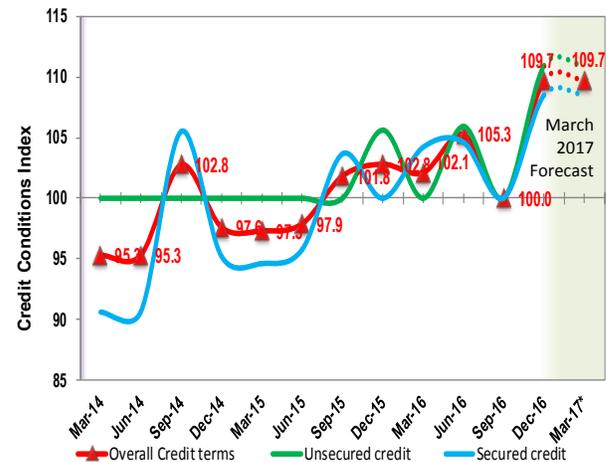
Lenders reported a significant easing in credit conditions for medium sized businesses in the review quarter. This improvement for the quarter was reflected in a credit conditions index of **109.7** relative to **100.0** in the previous quarter (see Error! Reference source not found.). In fact, this is the highest CCI recorded for medium-sized enterprises since the start of the survey in December 2013. This considerable improvement arose from, *inter-alia*, lower fees.

For the March 2017 quarter, a similar improvement in credit conditions faced by medium sized firms is expected. Lenders reported planned reductions in interest rates and fees on both secured and unsecured loans. All other price and non-price loan terms are expected to remain unchanged.

Credit Supply

Credit allocated to medium sized firms marginally increased during the quarter to **29.0 per cent** of total credit, compared with **28.0 per cent** in the previous quarter. This increased provision of credit resulted in a CSI of **100.2**, reflecting an expansion in the supply of foreign currency credit to the *Manufacturing, Mining & Quarrying* and *Agriculture & Fishing* sectors. This was in contrast to a contraction in the supply of local currency loans to *Construction & Land Development*.

Figure 11: Credit Conditions for Medium-sized Businesses



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

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

For the March 2017 quarter, the CSI for medium-sized businesses is expected to remain stable at **100.0**. Lenders reported that similar factors as in the December 2016 quarter are expected to influence the supply of credit.

Credit Demand

There was a tempered growth in loan demand by medium-sized firms during the review quarter. The CDI of **111.5** for the quarter, relative to **118.3**



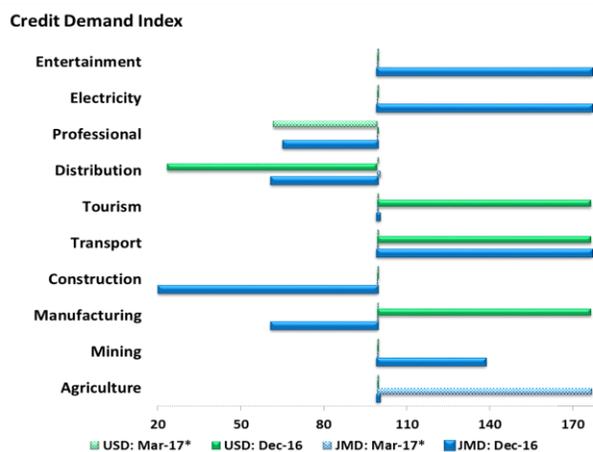
for the previous quarter reflected lower demand growth for local currency loans across *Manufacturing, Construction & Land Development, Distribution, and Professional & Other Services*. In contrast, there was an increase in the CDI for foreign currency loans to **115.3** from **100.0** which reflected a significant increase in loans to the *Tourism, Manufacturing, and Transportation, Storage & Communication* sectors, the impact of which was offset by a contraction in loans to the *Distribution* sector (see **Figure 12**).

loans is expected to come from the *Agriculture & Fishing* sector.

Price of Credit

The weighted average lending rate on new local currency loans to medium-sized businesses increased slightly to **11.2 per cent** during the review period from **11.1 per cent** in the September 2016 quarter and was higher than expected. Higher rates were applied to local currency loans extended to all sectors except *Construction & Land Development* and *Transport, Storage and Communication* (see **Table 4**). With respect to foreign currency loans, the average lending rate remained at **7.6 per cent** for the review quarter and was slightly lower than projected.

Figure 12: Credit demanded by Medium-sized Businesses



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

For the March 2017 quarter, the overall CDI is expected to moderate to **101.9** stemming from an anticipated fall-off in demand for foreign currency loans. The demand for local currency loans by medium-sized firms is expected to grow at around the same rate as for the December 2016 quarter. Much of the growth in demand for local currency

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

	Local Currency				Foreign Currency			
	September 2016 Survey		December 2016 Survey		September 2016 Survey		December 2016 Survey	
	Sep-16	Dec-16*	Dec-16	Mar-17*	Sep-16	Dec-16*	Dec-16	Mar-17*
Agriculture & Fishing	10.77	10.07	11.75	10.71	7.50	7.63	7.50	7.76
Construction & Land Development	13.78	11.48	12.05	12.14	7.50	7.63	8.25	8.06
Distribution	10.53	10.91	10.55	11.57	7.50	7.82	7.72	7.66
Electricity Gas & Water	10.17	10.99	10.96	11.95	7.50	7.63	7.50	7.76
Entertainment	11.50	10.99	10.72	11.95	8.69	7.63	7.50	7.76
Manufacturing	10.73	10.19	11.25	11.75	7.50	7.63	7.00	7.76
Mining & Quarrying	11.65	11.73	11.65	12.84	7.50	7.63	8.25	8.06
Professional & Other Services	10.63	10.95	10.76	11.71	7.67	8.11	7.50	7.76
Tourism	10.51	10.16	11.50	10.95	7.50	7.63	7.33	7.76
Transport, Storage & Communication	11.00	11.07	10.38	10.95	7.25	7.63	7.56	7.26
Average Rate	11.13	10.85	11.16	11.65	7.61	7.69	7.61	7.76

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

The average interest rate on new local currency credit is expected to further increase by **50 bps** to **11.7 per cent** for the March 2017 quarter. With



the exception of *Tourism* and *Agriculture & Fishing*, interest rates on loans to all the other economic sectors are expected to rise. Similarly, the average interest rate on foreign currency credit is expected to increase by **15 bps** to **7.76 per**

cent where higher rates are expected on loans to all sectors except *Construction & Land Development*, *Mining & Quarrying*, and *Transport, Storage & Communication*.



Large Corporations and Commercial Lending

Credit Conditions

Credit conditions for large enterprises improved at a slower pace in the December 2016 quarter. The index of credit terms moderated to **100.6** in the review quarter from **101.7** in the September 2016 quarter (see **Figure 13**). This moderation stemmed from increases in fees applicable to credit cards and other unsecured loans, which partly offset the improvements in credit terms on secured loans. The latter improvement reflected lower interest rates and fees as well as an extension in the maximum size of credit lines.

For the March 2017 quarter, credit conditions are expected to tighten as some institutions plan to increase interest rates on non-credit card loans as well as fees on unsecured loans while reducing the restrictions in their loan covenants³. This impact is expected to be partly offset by continued relaxed conditions on secured loans as lenders weigh the increasing amount of business opportunities within the marketplace and the level of liquidity.

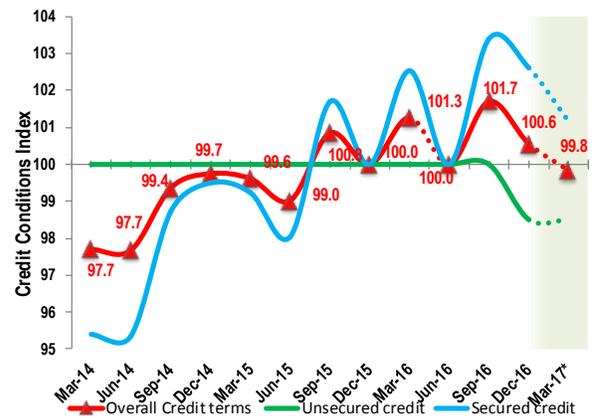
Credit Supply

Despite the moderation in the overall index for credit conditions for large businesses, credit supply to this business enterprise remained robust. The CSI increased to **111.4** for the review quarter from **107.3** in the previous quarter, reflecting increased availability of local and foreign currency denominated loans. Credit supply was augmented to all sectors except the

Construction & Land Development sector (see **Figure 14**).

For the March 2017 quarter, the supply of both local and foreign currency loans to large enterprises is expected to remain buoyant.

Figure 13: Credit Conditions for Large Businesses



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

Credit Demand

Growth in the demand for credit from large businesses remained robust in the December 2016 quarter. The CDI increased to **107.7** for the quarter from **106.1** in the previous quarter, mainly reflecting an uptick in the demand from the *Distribution* sector. Lenders reported that demand for both secured and unsecured loans by large firms continued to be influenced by factors such as

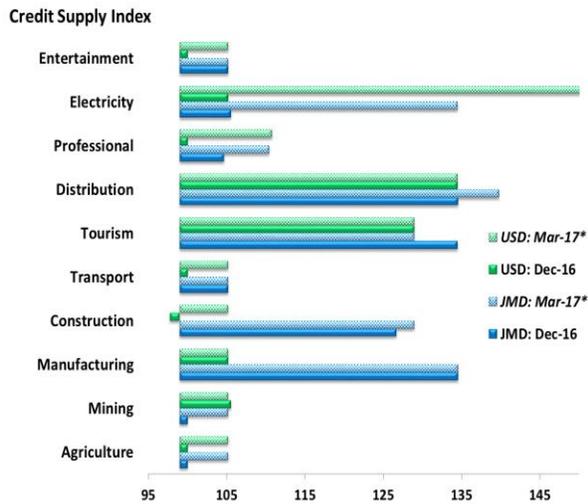
³ See Appendix B for definitions of credit terms discussed in this Report.



increased business activities, lower interest rates and a less risky macroeconomic environment.

For the review quarter, lending rates on new local currency loans to large corporations declined by **48 bps** to **10.23 per cent** while foreign currency rates increased by **32 bps** to **7.09 per cent** (see **Table 5**). The lower rates on local currency loans were enjoyed by most economic sectors. For foreign currency loans, the increase in interest rates also affected most sectors.

Figure 14: Availability of Credit to Large Businesses

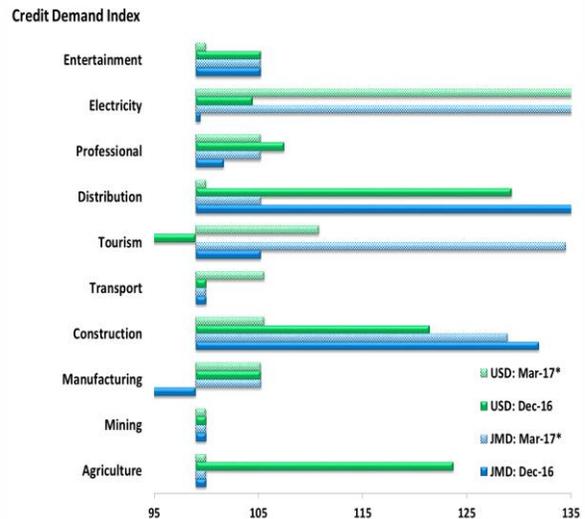


1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

For the March 2017 quarter, credit demand is anticipated to remain robust. The CDI is expected to increase to **110.9** for the quarter, driven by lower interest rates for both secured and unsecured loans and the anticipation of a moderation in macroeconomic risks. Demand for local currency loans is expected to emanate from most economic sectors except for *Manufacturing* and *Electricity*. Similarly, demand for foreign currency loans is expected to stem from all economic sectors with the exception of the *Tourism* sector (see **Figure 15**).

For the March 2017 quarter, interest rates for both local and foreign currency new loans are expected to increase by **8 bps** and **39 bps** respectively.

Figure 15: Credit Demanded by Large Businesses



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

Price of Credit



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

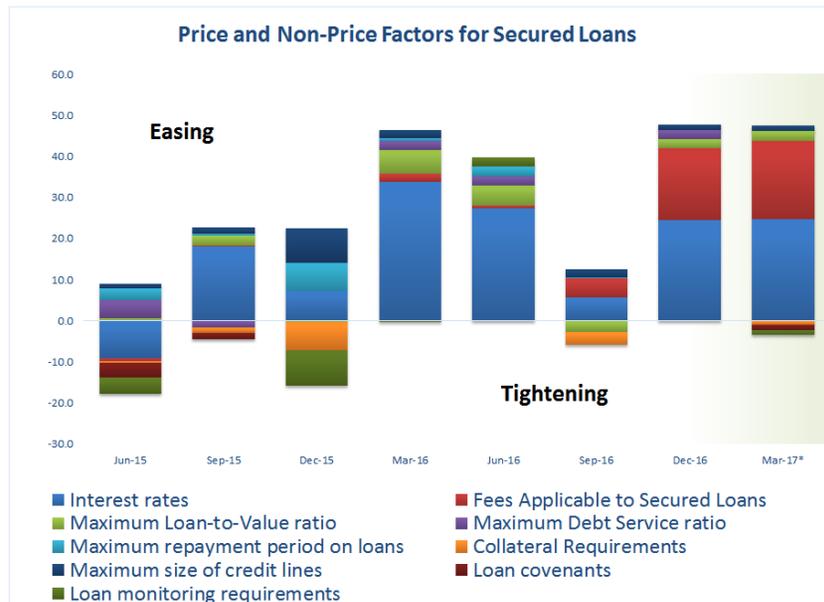
	Local Currency				Foreign Currency			
	September 2016 Survey		December 2016 Survey		September 2016 Survey		December 2016 Survey	
	Sep-16	Dec-16*	Dec-16	Mar-17*	Sep-16	Dec-16*	Dec-16	Mar-17*
Agriculture & Fishing	11.00	10.07	10.00	10.33	6.60	7.63	7.50	7.67
Construction & Land Development	11.82	11.48	10.17	10.50	6.60	7.63	7.25	7.70
Distribution	10.01	10.91	10.24	10.50	7.91	7.82	6.83	7.30
Electricity Gas & Water	11.00	10.99	10.28	10.00	6.60	7.63	7.00	7.13
Entertainment	11.00	10.99	10.50	10.33	6.60	7.63	7.50	7.63
Manufacturing	10.00	10.19	10.50	10.65	6.60	7.63	6.80	7.33
Mining & Quarrying	11.00	11.73	10.00	10.33	6.60	7.63	7.50	7.67
Professional & Other Services	11.25	10.95	10.50	10.67	6.95	8.11	7.01	7.63
Tourism	10.17	10.16	9.58	9.88	6.60	7.63	6.76	7.13
Transport, Storage & Communication	9.85	11.07	10.50	9.90	6.64	7.63	6.73	7.63
Average Rate	10.71	10.85	10.23	10.31	6.77	7.69	7.09	7.48

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



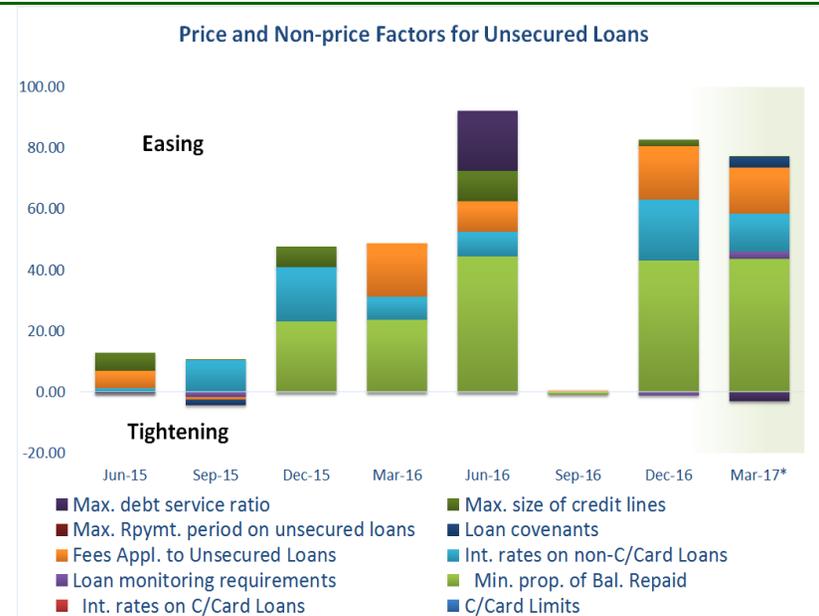
Appendix A: Overall Credit Market Conditions

Figure 16: Credit Conditions for Secured Loans



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

Figure 17: Credit Conditions for Unsecured Loans



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



Table 6: Components of Credit Demand and Supply Indices

	December 2015 Survey		September 2016 Survey		December 2016 Survey	
	Dec-15	Mar-16*	Sep-16	Dec-16*	Dec-16	Mar-17*
Credit Supply Indices						
Credit Supply Index (CSI)	103.6	104.4	103.9	104.8	104.6	106.1
Credit to businesses	105.1	103.1	103.4	104.5	104.8	107.3
Personal credit	100.6	106.8	104.8	105.4	104.2	103.7
Credit in Jamaica Dollar	108.1	104.7	104.2	113.5	107.5	110.5
Credit in U.S Dollar	102.0	101.6	102.6	110.7	102.1	104.1
Credit Demand Indices						
	Dec-15	Mar-16*	Sep-16	Dec-16*	Dec-16	Mar-17*
Credit Demand Index (CDI)	112.1	107.5	107.9	105.8	107.8	103.9
Demand by businesses	114.3	103.6	103.0	100.8	105.7	104.9
Demand by individuals	107.8	115.3	117.7	115.9	111.9	101.9
Credit in Jamaica Dollar	123.4	105.9	108.9	110.1	107.4	108.8
Credit in U.S dollar	105.2	101.2	104.8	106.3	103.9	101.0

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

Figure 18: Drivers of the Supply of Credit

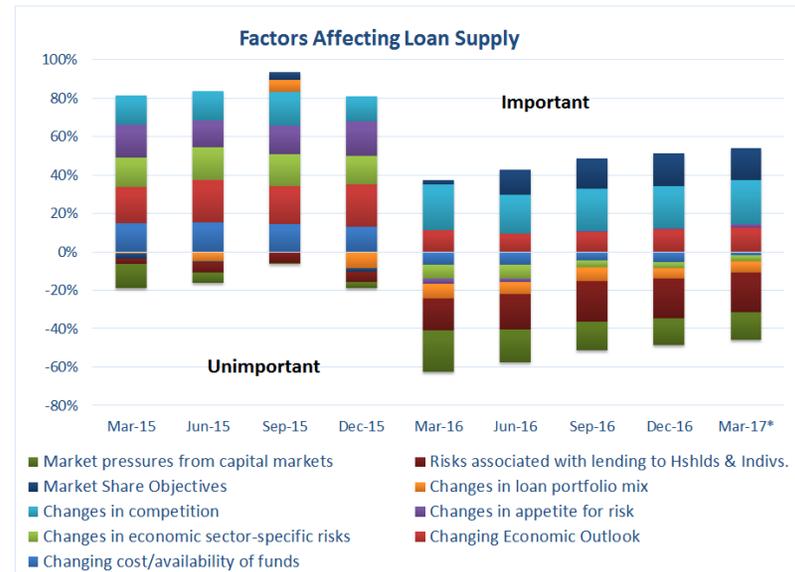
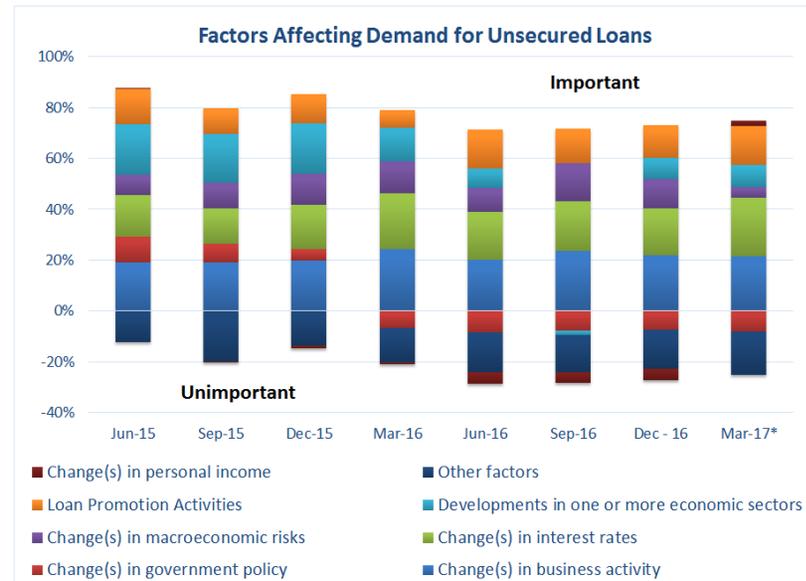
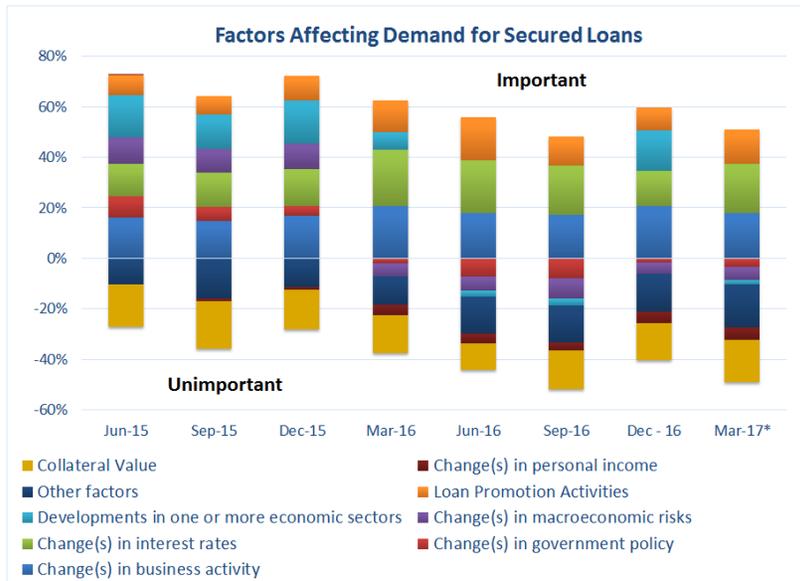




Figure 19: Drivers of the Demand of Credit





Appendix B: Glossary and Definitions

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

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

Where

ss = percentage of respondents selecting “substantially stronger” or “substantially tightened”

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

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

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

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

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

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

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

where s = economic sector and i = firm size

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



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

where s = economic sector and i = firm size

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

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

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

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