

Quarterly Credit Conditions Survey Report



**December 2015
Quarter**

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

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Background

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

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

This report presents the results of the December 2015 survey which was conducted between 20 January 2016 and 18 February 2016.

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

Surveys Completed by Each Institution

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

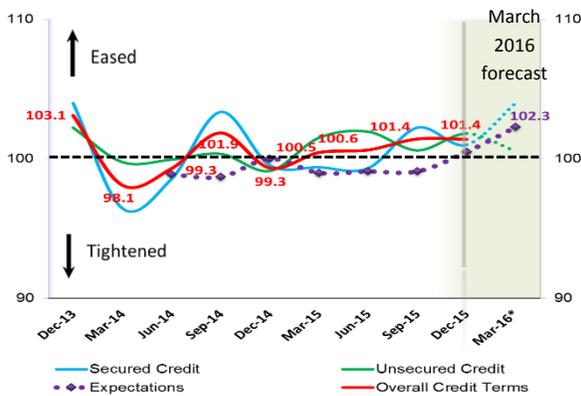


Overview

The results of the BOJ’s latest QCCS for the December 2015 quarter suggests that changes in lending policies continue to support a recovery in credit expansion (see **Figure 1**).

For the March 2016 quarter, lenders anticipate further easing in credit market conditions, particularly for secured loans. Policies associated with unsecured loans were also expected to ease, albeit at a slower pace than in the December 2015 quarter. This easing would reflect the impact of an anticipated increase in the minimum proportion of balances repaid and fees applicable to unsecured loans (see **Appendix A: Figure 15** and **Figure 16**). Notwithstanding this, lenders noted that the uncertainty created by the current political environment and possible associated changes in Government policies may temper the overall buoyancy in lending conditions for the March 2016 quarter.

Figure 1: Index of Credit Market Conditions



Notes: (i) The asterisk (*) represents forward looking expectations provided by the respondents for the March 2016 quarter. (ii) The index is the average response for changes in eight credit terms reported in the Credit Conditions Survey.

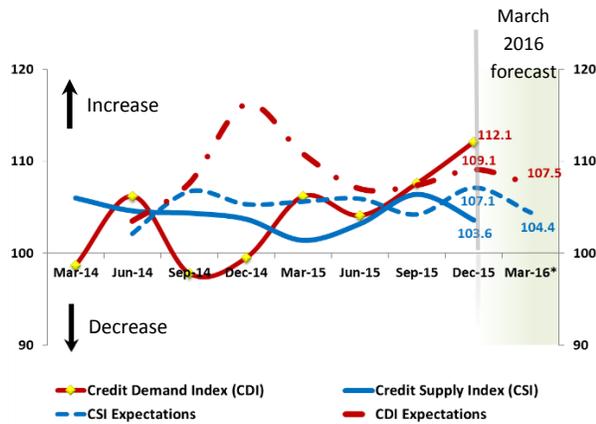
Banks reported that the continued easing in credit market conditions was driven primarily by improvements in lending policies for unsecured loans. In particular, lenders cited that increased competition, owing to a new entrant in the commercial banking space and favourable macroeconomic conditions encouraged them to increase their risk appetite in order to maintain their market share. As a result, lenders reduced interest rates on non-credit card loans and extended the maximum size of credit lines for unsecured loans during the review quarter.

Credit Supply

Lenders reported a continued expansion in the availability of credit during the fourth quarter of 2015, albeit at a slower pace than expected in the previous survey (see **Figure 2**). The outturn for the review quarter reflected increases for both local and foreign currency lending facilities, which were made accessible to both businesses and households (see **Figure 3**). Of note, there was a decline in the proportion of credit made available to businesses, with a notable redistribution from large corporations primarily to medium enterprises. Respondents indicated that given a saturation of the market for lending to large corporates, there was an increase in loan promotional activities among creditors targeted medium-sized firms during the quarter.



Figure 2: Credit Demand and Supply Indices

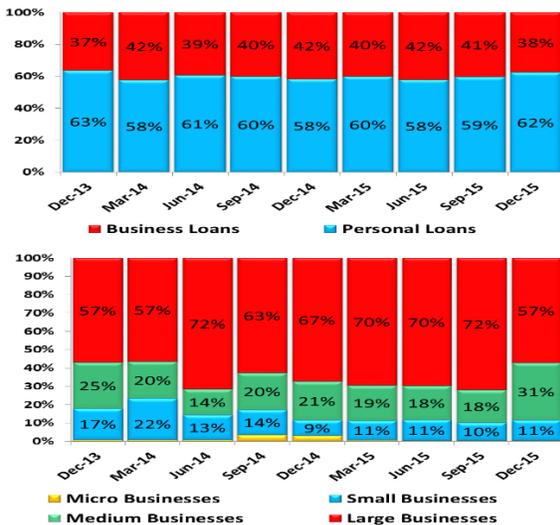


1. *-Expectations for the upcoming quarter from the current survey.
2. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

the main factors influencing the expansion in credit supply for the review quarter.

For the March 2016 quarter, lenders anticipated a further increase in overall credit availability, reflecting expansions in all loan categories (see **Figure 2** and **Appendix A: Table 6**). This expansion should be influenced by continued improvements in the economic outlook and positive changes in lenders' risk appetite. In addition, some banks indicated that the anticipated improvements in liquidity in the March 2016 quarter could result in a higher than anticipated expansion in credit supply.

Figure 3: Distribution of Private Sector Credit¹



In addition, some creditors highlighted that the continued improvement in the macroeconomic indicators had positively impacted their risk tolerance. Consequently, the improved economic outlook and increased risk tolerance were cited as

Credit Demand

Demand for credit in the December 2015 quarter rose to its highest level since the survey's inception in the December 2013 quarter (see **Figure 2**). The uptick in credit demand, as reflected in the Credit Demand Index (CDI) of **112.1**, mainly reflected significant requests for business loans, reversing the historic trend of the demand for personal loans outpacing that for commercial credit (see **Figure 4**). Notably, the increase in demand for business loans was underpinned by robust growth in the demand for local and foreign currency denominated loans. Regarding local currency loans, the survey results showed that demand emanated across all business segments, particularly from medium and micro sized firms in the *Distribution, Professional & Other Services* and *Electricity, Gas & Water* economic sectors. It was reported that the uptick in demand from these sectors emanated from increased requests for *unsecured loans* and loans for *inventory & other*

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

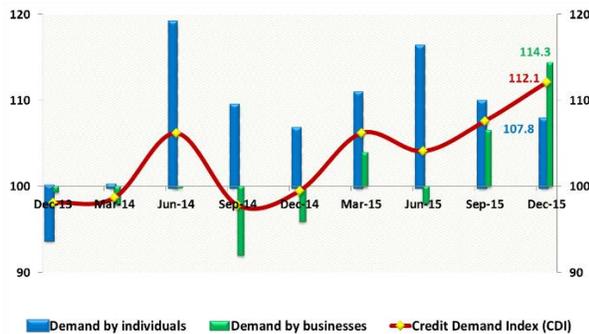
disaggregated to show to total business loans distributed firms of various sizes.



working capital financing. In addition, a few banks suggested that they opted to take advantage of the improved economic outlook by undertaking minor investments and designing new loan products to target clients with riskier profiles.

promotional activities during the review quarter, which may have contributed to the uptick in demand for this loan type.

Figure 4: Components of Credit Demand



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

For foreign currency business loans, the expansion in credit demand for the review quarter occurred despite the increase in lending rates applicable to this loan category, and was reflected across all business types, particularly within the *Entertainment, Distribution and Transport, Storage & Communication* sectors. Overall, the increase in business demand over the past two quarters may be suggestive of underlying improvements in the macro-economy and increased business activities.

With regard to personal loans, there were increased requests for *credit cards, personal motor vehicle loans* and loans for *debt consolidation*. Notably, lenders mentioned that they conducted several motor vehicle loan

Looking ahead to the first quarter of 2016, banks expected that the expansion in the demand for credit will moderate slightly as reflected in the CDI of **107.5** (see **Figure 2**). Similar to the December 2015 quarter, it was anticipated that this uptick will emanate from households' demand for local currency credit as well as businesses' demand for local and foreign currency credit. Specifically, the demand for local currency business loans was expected to emanate from all sectors across all business types, but particularly for micro and large businesses. The demand for foreign currency loans was also expected to emanate from micro and large enterprises but mainly within the *Entertainment and Tourism* sectors, respectively. Regarding personal loans, creditors anticipate an increase in all loan categories with the exception of loans for *debt consolidation*. Credit demand for *mortgages, personal motor vehicle loans, and credit cards is expected to expand* as a result of the anticipated improvement in lending terms associated with the approval of these loans.

Price of Credit

According to the survey, average interest rates on local currency loans declined for the December 2015 quarter while rates on foreign currency loans increased (see **Table 1***Error! Reference source not found.*). The reduction in lending rates on local currency loans emanated from a decline in the interest margin on business loans, which may have partially influenced the upsurge in the demand for these loans. Overall, the fall in lending rates may



have been facilitated by more buoyant Jamaica Dollar liquidity flows during the December 2015 quarter. However, some lenders specified that establishing the perception of financial strength by providing loans at competitive interest rates helps to stimulate credit demand and maintain lenders' market share in a context of changing market dynamics.

With regard to the rise in interest rates on foreign currency loans, some creditors cited the depreciation in the exchange rate as the most significant factor that has impacted the cost and availability of funds.

For the March 2016 quarter, lenders anticipated notable declines in lending rates across all loan categories, largely owing to the expected improvement in the liquidity (see **Table 1**).



Notably, average rates on local and foreign currency loans were expected to decline by **0.92 percentage point (pp)** and **1.27 pps**, respectively.

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

| | December 2014 Survey | | September 2015 Survey | | December 2015 Survey | |
|------------------------------------|----------------------|--------------|-----------------------|--------------|----------------------|--------------|
| | Dec-14 | Mar-15* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Local Currency (LC) Loans | | | | | | |
| Business loans | 14.78 | 14.58 | 15.86 | 15.22 | 14.68 | 14.39 |
| Personal loans | 19.59 | 19.67 | 18.23 | 18.07 | 18.51 | 16.97 |
| Reference rate | 13.20 | 13.67 | 14.63 | 15.71 | 11.64 | 13.66 |
| Average LC rates | 17.19 | 17.13 | 17.05 | 16.65 | 16.60 | 15.68 |
| Foreign Currency (FC) Loans | | | | | | |
| Business loans | 8.53 | 9.29 | 8.69 | 8.41 | 9.62 | 7.85 |
| Reference rate | 9.34 | 9.13 | 8.19 | 8.66 | 9.54 | 8.27 |

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

Personal Lending

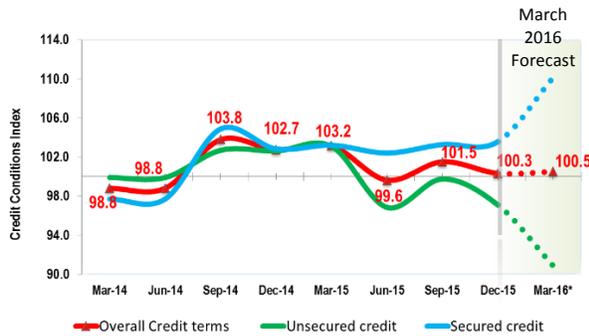
Credit Conditions

Overall lending terms and conditions for personal loans moderated in the December 2015 quarter relative to the previous quarter (see **Figure 5**). The slight ease in credit standards, as shown in the index of **100.3**, reflected an improvement in policies for secured loans, which was tempered by a deterioration in credit policies for unsecured loans. More specifically, creditors lowered the interest rates on secured loans but raised the minimum proportion of balances repaid on unsecured loans.

For the March 2016 quarter, lending conditions are expected to remain stable, largely owing to increased loan promotional activities, which should positively influence the lending rates on secured loans. Notwithstanding this, further increases in the minimum proportion of balance repaid and fees applicable on unsecured loans are expected to temper the anticipated improvements in secured credit terms.



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.

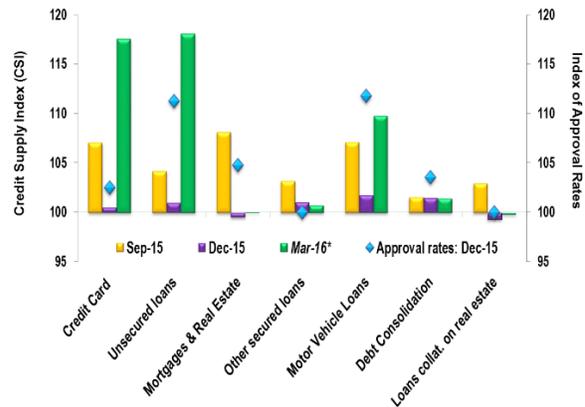
Credit Supply

There was a marginal expansion in credit availability to individuals in the December 2015 quarter relative to the September 2015 quarter (see **Appendix A: Table 6**). This expansion was reflected across all loan categories with the exception of *mortgages & real estate* loans and *secured loans collateralized on real estate* (see **Figure 6**). Lenders stated that competition and the improved economic outlook were the most significant drivers fuelling the expansion in credit availability to households. Notably, a few creditors emphasized that they had to revamp their loan suites and find more innovative ways to attract customers. As a result, there were notable increases in the approval rates of most of the loan types being promoted (see **Figure 6**).

For the March 2016 quarter, lenders anticipate a sharper increase in the supply of personal loans across all categories, with the exception of *secured loans collateralized on real estate* (see **Appendix A: Table 6** and **Figure 6**). This outlook is consistent with lenders indicating that they will increase the

approval rates on all categories of loans, excluding *credit cards*, which will remain unchanged. Similar to the December 2015 quarter, the overall robust growth in credit supply should be mainly influenced by heightened competition and improved macroeconomic outlook.

Figure 6: Availability of Credit for Personal Lending



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

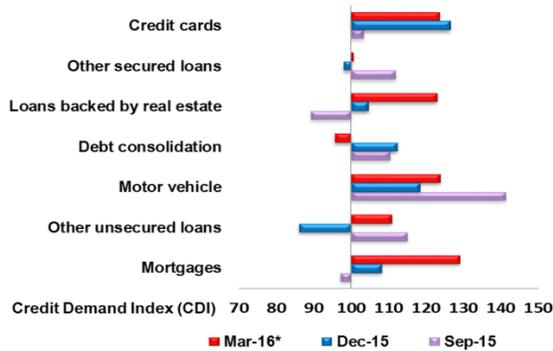
Credit Demand

The demand for personal loans increased in the December 2015 quarter (see **Appendix A: Table 6**). The outturn, as revealed in the CDI of **107.8**, was below lenders' expectations for an increase in the CDI of **112.4**, which could reflect the impact of higher lending rates on personal loans during the review quarter. The increase in demand was reflected across all categories of loans with the exception of *other unsecured personal loans* and *other secured loans* (see **Figure 7**). Notably, there were increased requests for *credit cards* and



personal motor vehicle loans despite the increase in interest rates applicable to these loans. Creditors highlighted that a number of their clients would have received end-of-year employment incentives which were used as collateral to finance loans for new vehicles.

Figure 7: Demand for Personal Loans



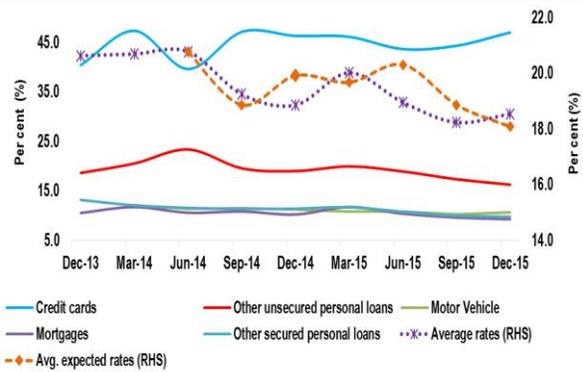
1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

For the March 2016 quarter, increased credit demand was anticipated across all loan categories excluding *debt consolidation*, as lenders expect that vibrant loan promotion campaigns and lower interest rates should boost demand (see **Figure 7**).

Price of Credit

Lending rates on personal loans rose in the December 2015 quarter following declines in the two preceding quarters (see **Figure 8**). The higher average rate for the review quarter was predominantly underpinned by a widening in the interest margin on *credit card loans* as lending rates in most of the other loan categories declined. Notably, interest rates on *credit cards* increased by **2.70 pps**, possibly reflecting the impact of increased funding costs as some lenders reportedly cancelled the offering of credit cards from their loan suites. For the March 2016 quarter, average rates on personal loans were expected to fall by **1.58 pps** to **16.96%**.

Figure 8: Interest rates on Personal Loans



Micro Business Lending

Credit Conditions

The overall terms and conditions that banks apply when granting loans for micro-businesses

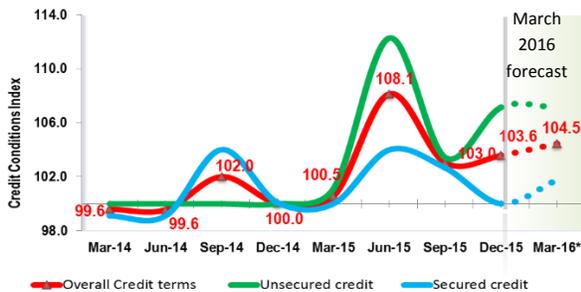
continued to improve in the December 2015 quarter (see **Figure 9**). The easing in credit policies during the quarter was influenced by an increase in the maximum size of credit lines and reductions



in interest rates on non-credit card lending for unsecured credit. Some lenders pointed out that they had renewed their focus on expanding lending opportunities to micro firms given their importance in wealth creation and employment.

Overall, the credit supplied to micro businesses for the quarter was influenced by substantial increases in approval rates for all loan categories covered by the survey with the exception of *commercial real estate*. Lenders reported that increased risk appetite and the improved economic environment were the strongest contributing factors influencing the improvement in financing conditions to micro businesses.

Figure 9: Credit Conditions for Micro Businesses



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

For the March 2016 quarter, credit conditions were anticipated to further improve given expectations of extensions in the maximum size of credit lines for both secured and unsecured loans.

Credit Supply

Consistent with the improvement in credit terms to micro firms, lenders expanded the quantity of credit made available to these enterprises for the fourth quarter of 2015. However, the increase, as revealed in the CSI of **106.8**, was solely observed in local currency credit to firms in the *Manufacturing, Transport, Storage & Communication, Tourism and Distribution* sectors. The supply of foreign currency loans was unchanged during the review quarter.

For the March 2016 quarter, lenders anticipated an increase in the amount of Jamaica Dollar credit made available to micro businesses while no change is being contemplated for foreign currency loans. The increase in Jamaica Dollar credit should be influenced by lenders' increased risk tolerance in a context of heightened competition among banks as well as improved liquidity conditions.

Credit Demand

The CDI for local and foreign currency loans to micro business rose for the December 2015 quarter relative to the September 2015 quarter. The higher CDI for local currency loans was reflected across all economic sectors with the exception of *Construction* while the demand for foreign currency loans was primarily concentrated in the *Distribution and Entertainment* sectors. Loan demand by micro firms was solely used for *inventory and other working capital financing* purposes. Lenders cited changes in loan promotional activities and lower interest rates as the most important factors that strengthened credit demand during the quarter.



For the March 2016 quarter, lenders expected continued increase in the demand for local and foreign currency loans from micro enterprises as a result more targeted promotional activities and further reductions in lending rates.

Price of Credit

Lenders reportedly lowered the interest rates on local and foreign currency loans to micro businesses in the December 2015 quarter relative to the September 2015 quarter (see **Table 2**). In particular, interest rates on local currency loans, which averaged **19.22%** for the review quarter, declined to the lowest level since the survey's inception.² Such a drastic fall in interest rates could imply that the risk tolerance of banks towards this business segment had improved significantly, which could be as a result of changing market dynamics as well as the strengthening in the macroeconomic environment. Similarly, interest rates on foreign currency loans declined to **11.67%** for the review quarter from **12.17%** in to the previous quarter. The continued decline in lending rates on foreign currency loans could reflect the impact of improved U.S. dollar liquidity on the cost of these funds.

For the March 2016 quarter, foreign currency lending rates are expected to decline further while rates on local currency loans are expected to increase.

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

| | Local Currency | | | | Foreign Currency | | | |
|------------------------------------|-----------------------|--------------|----------------------|--------------|-----------------------|-------------|----------------------|-------------|
| | September 2015 Survey | | December 2015 Survey | | September 2015 Survey | | December 2015 Survey | |
| | Sep-15 | Dec-15* | Dec-15 | Mar-16* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Agriculture & Fishing | 26.51 | 23.03 | 23.00 | 25.13 | n.a. | 8.30 | n.a. | 8.50 |
| Construction & Land Development | 26.46 | 23.00 | 12.50 | 16.75 | n.a. | 8.30 | n.a. | 8.50 |
| Distribution | 24.27 | 22.90 | 24.18 | 25.13 | 12.00 | 8.30 | n.a. | 8.50 |
| Electricity Gas & Water | 26.36 | 22.93 | 11.98 | 16.75 | n.a. | 8.30 | 10.00 | 8.50 |
| Entertainment | 26.91 | 23.30 | 16.51 | 16.75 | n.a. | 8.30 | 11.52 | 8.50 |
| Manufacturing | 26.91 | 23.30 | 24.95 | 25.13 | n.a. | 8.30 | n.a. | 8.50 |
| Mining & Quarrying | 26.51 | 23.07 | 9.41 | 16.75 | n.a. | 8.30 | n.a. | 8.50 |
| Professional & Other Services | 23.88 | 23.27 | 13.92 | 16.75 | 12.00 | 8.30 | n.a. | 8.50 |
| Tourism | 26.41 | 22.90 | 33.50 | 25.13 | 12.50 | 8.30 | 13.50 | 8.50 |
| Transport, Storage & Communication | 25.76 | 22.50 | 22.25 | 25.13 | n.a. | 8.30 | n.a. | 8.50 |
| Average Rate | 26.00 | 23.02 | 19.22 | 20.94 | 12.17 | 8.30 | 11.67 | 8.50 |

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

Small Business Lending

Credit Conditions

In line with the general thrust to diversify the risk profile of their loan portfolio, lenders made a significant adjustment to overall credit conditions

for small businesses in the December 2015 quarter (see **Figure 10**). The outturn primarily reflected lower interest rates for secured loans and a decline in the interest rate margin on non-credit card lending for unsecured loans. Looking ahead,

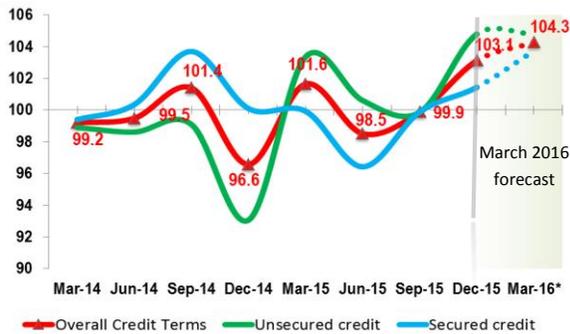
² See *Bank of Jamaica Quarterly Credit Conditions Survey Report: September 2014 Quarter* for a more detailed view of interest rates.



lenders anticipated further easing in lending terms for the March 2016 quarter, largely from declines in interest rates on secured and unsecured credit.

In terms of the factors that influenced credit availability to small businesses, lenders cited improvements in their economic outlook as the most significant factor followed by increased risk tolerance and changes in the cost of funds.

Figure 10: Credit Conditions for Small Businesses



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

Credit Supply

The amount of local currency credit made available to small businesses remained elevated for the fourth quarter of 2015. The increase in the supply of local currency credit was concentrated in four economic sectors: *Entertainment, Professional & Other Services, Distribution* and *Transport, Storage & Communication* and was supported by higher approval rates for loans applications across all loan categories, with the exception of *commercial real estate*. Regarding foreign currency loans, lenders reported that supply remained restricted to earners of foreign currency. Consequently, there was no disbursement of foreign currency during the quarter.

Credit Demand

There was a notable increase in the CDI for local and foreign currency loans for small businesses for the December 2015 quarter relative to the September 2015 quarter. The increase in demand for local currency loans was reflected across most economic sectors, particularly *Professional & Other Services* and *Distribution*, which could be attributed to the significant decline in lending rates offered to firms in these sectors. The demand for foreign currency loans was mainly concentrated in the *Distribution* sector. The overall increase in the CDI for small businesses reflected increased requests for loans for *inventory & other working capital financing* as well as for *loan refinancing*.

For the March 2016 quarter, the CDI for local currency loans was expected to moderate



Bank of Jamaica Credit Conditions Survey considerably as a result of a reduction in loan demand across all loan categories covered by the survey.

Price of Credit

For the review quarter, the weighted average lending rates on local currency loans to small businesses fell relative to the previous quarter while lending rates on foreign currency loans rose (see Table 3). For the March 2016 quarter, interest rates on local currency loans are expected to increase despite the anticipated improvement in lending terms applied to small businesses.

December 2015 Quarter

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

| | Local Currency | | | | Foreign Currency | | | |
|------------------------------------|-----------------------|--------------|----------------------|--------------|-----------------------|-------------|----------------------|--------------|
| | September 2015 Survey | | December 2015 Survey | | September 2015 Survey | | December 2015 Survey | |
| | Sep-15 | Dec-15* | Dec-15 | Mar-16* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Agriculture & Fishing | 14.24 | 12.54 | 14.11 | 13.60 | 9.00 | 9.00 | n.a. | 10.08 |
| Construction & Land Development | 14.77 | 15.68 | 14.11 | 14.50 | 9.00 | 8.75 | n.a. | 9.83 |
| Distribution | 16.02 | 14.66 | 13.90 | 14.33 | 9.00 | 9.17 | n.a. | 10.25 |
| Electricity Gas & Water | 13.98 | 15.10 | 12.14 | 13.80 | n.a. | 9.17 | n.a. | 10.25 |
| Entertainment | 13.98 | 15.27 | 15.12 | 14.70 | 9.63 | 9.17 | 11.76 | 10.25 |
| Manufacturing | 12.83 | 13.04 | 14.47 | 14.08 | 9.00 | 9.17 | 10.00 | 10.25 |
| Mining & Quarrying | 15.30 | 13.46 | 12.79 | 14.70 | 8.50 | 9.00 | n.a. | 10.08 |
| Professional & Other Services | 16.31 | 14.88 | 13.57 | 14.44 | 10.13 | 9.17 | n.a. | 10.25 |
| Tourism | 12.99 | 13.21 | 14.48 | 14.50 | 9.00 | 9.17 | 13.50 | 10.25 |
| Transport, Storage & Communication | 13.98 | 14.35 | 12.39 | 12.71 | 9.00 | 8.75 | 12.00 | 9.83 |
| Average Rate | 14.44 | 14.22 | 13.71 | 14.14 | 9.14 | 9.05 | 11.82 | 10.13 |

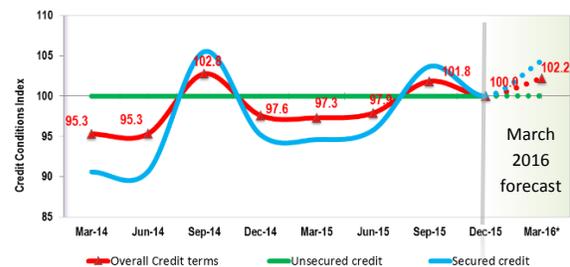
1. The asterisks (*) represent forward looking expectations provided by the respondents.

Medium-Sized Business Lending

Credit Conditions

Despite the perceived improvements in the macroeconomy, which was reported to have had a positive impact on credit conditions for medium-sized enterprises, banks reported that there was a moderation in credit terms to this market segment during the December 2015 quarter relative to the September 2015 quarter (see Figure 11). The outturn for the review quarter was broadly as a result of unchanged credit terms in lenders' price and non-price loan policies on both secured and unsecured loans.

Figure 11: Credit Conditions for Medium-sized 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.



For the March 2016 quarter, lower interest rates on secured loans are expected to ease overall credit conditions as credit policies for unsecured loans are expected to remain broadly unchanged.

Credit Supply

There was a slight increase in the CSI for medium-sized businesses for the December 2015 quarter relative to the September 2015 quarter. This increase, as reflected in an index of **100.2**, emanated from growth in the supply of local currency loans and was mainly influenced by narrower interest rate margins and lenders' perception of reduced macroeconomic risks. In addition, the growth in the CSI was supported by higher approval rates on all loan applications, with the exception of applications for *commercial real estate* and *plant & equipment*.

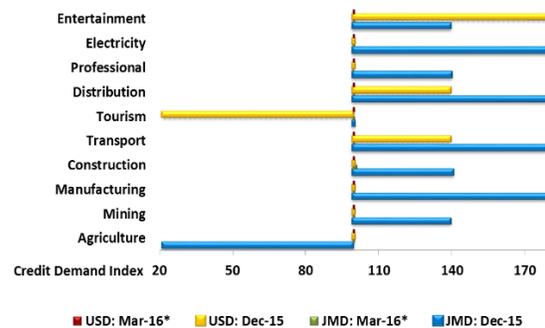
For the March 2016 quarter, the CSI is expected to remain at **100.2**, as changing macroeconomic risks are expected to temper the anticipated reductions in lending rates. Notably, lenders mentioned that they were observing the outcome of the general elections to gauge the possible changes in the economic environment as this will ultimately affect their risk profile as well as the borrowers' capacity to repay.

Credit Demand

There were notable increases in the CDI for local and foreign currency loans for medium-sized businesses in the December 2015 quarter relative to the September 2015 quarter (see **Figure 12**). The increase in the CDI for local currency loans

was observed across all economic sectors with the exception *Agriculture* while the CDI for foreign currency loans was mainly concentrated in the *Entertainment, Distribution* and *Transport, Storage & Communication* sectors. More targeted loan campaigns and reductions in lending rates were cited as the most significant drivers fuelling credit demand among medium-sized firms.

Figure 12: Credit demanded by Medium 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 2016 quarter, the demand for local currency loans from medium-sized businesses was expected to moderate significantly to **100.1**, while the demand for foreign currency loans was expected to decrease relative to the December 2015 quarter. The expected increase in the CDI for local currency loans should be reflected in the *Construction & Land Development* sector only. Notwithstanding the moderation in the CDI, positive changes in business activity and greater loan promotional activities were the main drivers underpinning the local currency credit demand.



Price of Credit

Consistent with the sharp increase in credit demand, there was a decline in the weighted average lending rate on local currency loans to medium-sized businesses across most economic sectors (see **Table 4**). This decline was most notable in firms in the *Mining, Entertainment, and Electricity, Gas & Water* sectors. Similarly, interest rates on foreign currency loans also declined

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Despite the anticipated improvements in credit terms for medium-sized firms in the March 2016 quarter, interest rates on local currency loans are expected to increase while interest margins on foreign currency loans are expected to narrow further.

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

| | Local Currency | | | | Foreign Currency | | | |
|------------------------------------|-----------------------|--------------|----------------------|--------------|-----------------------|-------------|----------------------|-------------|
| | September 2015 Survey | | December 2015 Survey | | September 2015 Survey | | December 2015 Survey | |
| | Sep-15 | Dec-15* | Dec-15 | Mar-16* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Agriculture & Fishing | 12.42 | 12.82 | 12.43 | 13.44 | 9.00 | 10.00 | 7.75 | 8.00 |
| Construction & Land Development | 14.37 | 14.67 | 14.03 | 14.43 | 10.50 | 10.38 | 8.50 | 8.50 |
| Distribution | 12.84 | 13.96 | 12.48 | 13.44 | 10.50 | 10.38 | 8.50 | 8.50 |
| Electricity Gas & Water | 13.85 | 13.96 | 12.68 | 13.44 | 9.00 | 10.25 | 8.50 | 8.00 |
| Entertainment | 13.85 | 14.23 | 12.68 | 13.44 | 9.06 | 10.00 | 8.50 | 8.00 |
| Manufacturing | 11.75 | 12.36 | 12.22 | 13.44 | 8.25 | 9.75 | 7.75 | 8.00 |
| Mining & Quarrying | 15.83 | 14.80 | 13.66 | 14.43 | 7.88 | 9.25 | 7.75 | 8.00 |
| Professional & Other Services | 12.41 | 13.44 | 12.21 | 12.75 | 9.00 | 9.90 | 7.75 | 8.00 |
| Tourism | 13.85 | 12.83 | 13.23 | 13.44 | 9.50 | 9.94 | 7.75 | 8.00 |
| Transport, Storage & Communication | 12.68 | 13.99 | 12.43 | 13.44 | 8.00 | 9.75 | 8.83 | 8.00 |
| Average Rate | 13.38 | 13.70 | 12.80 | 13.57 | 9.07 | 9.96 | 8.16 | 8.10 |

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

Large Corporations and Commercial Lending

Credit Conditions

For the December 2015 quarter, financing conditions for large businesses moderated relative

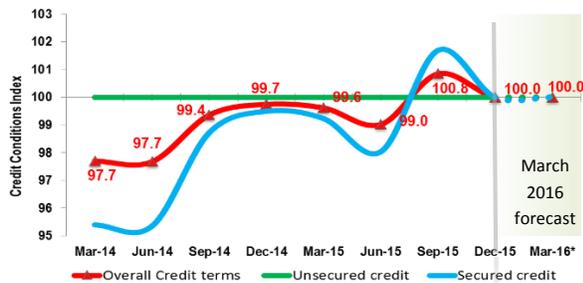
to the September 2015 quarter (see **Figure 13**). The outturn mainly reflected more stringent credit policies applied to secured loans. Specifically, lenders reportedly increased the interest rates



and fees applicable to secured loans as well as lowered the maximum repayment period and the size of credit lines for secured loans. In addition, the weakening in credit terms may have been facilitated by a deterioration in approval rates across all loan categories.

For the March 2016 quarter, credit conditions are expected to remain unchanged as lenders expressed that uncertainty surrounding the possible macroeconomic risks that may emerge following the general elections could dampen overall credit conditions for large corporations.

Figure 13: Credit Conditions for Large Businesses



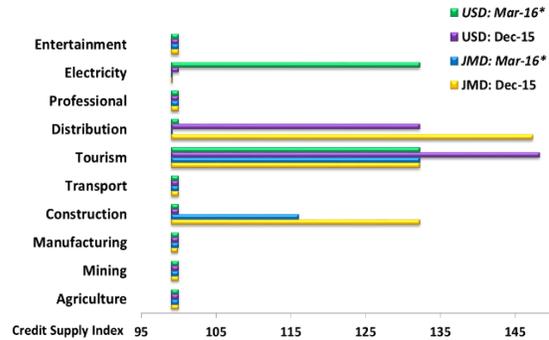
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Credit Supply

Despite the moderation in credit conditions, the availability of credit to large businesses remained elevated during the fourth quarter of 2015. The increase in the CSI emanated from growth in local and foreign currency loans, which was largely concentrated in the *Tourism* and *Distribution* (see **Figure 14**). The higher CSI for large businesses in

the December 2015 quarter was due to positive changes in lenders' risk appetite as well as an improvement in lenders' economic outlook.

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.

The CSIs for local and foreign currency loans to large businesses are anticipated to increase in the March 2016 quarter. Similar to the September 2015 quarter, the major factors which are expected to influence the increase in the CSI mainly relate to an improvement in the economic outlook and increased risk tolerance.

Credit Demand

The demand for credit remained robust in the December 2015 quarter and was reflected in local and foreign currency loans, particularly in the *Tourism* sector. The increase in the overall CDI for large businesses for the review quarter was underpinned by robust demand for *inventory & working capital financing* and *unsecured loans*.



Additionally, demand for both secured and unsecured loans by large businesses was boosted by changes in business activities and a reduction in macroeconomic risks.

For the March 2016 quarter, demand for credit by large firms is expected to remain robust as reduced macroeconomic risks and further changes in business activities are expected to stimulate the demand for loans.

Price of Credit

For the review quarter, the average lending rate on local and foreign currency loans to large businesses declined (see **Table 5**). Lenders reported that they adjusted their interest margin to align with the perceived change in the market dynamics during the review quarter. Notably, local currency lending rates averaged **13.00%**, reflecting an increase of **3.37 pps** relative to the September 2015 quarter, and was observed across all economic sectors. However, interest rates are expected to decline on local currency loans in the March 2016 quarter.

With regard to lending rates on foreign currency loans, the increase was also reflected across all economic sectors, with *Distribution* and *Transport, Storage & Communication* recording the highest rate of increases for the review quarter. Looking ahead, lenders anticipated that interest rates will decline in the March 2016 quarter, as lending rates on foreign currency loans are expected to increase due to changes in business activity, which may positively impact the cost of these funds (see **Table 5**).

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

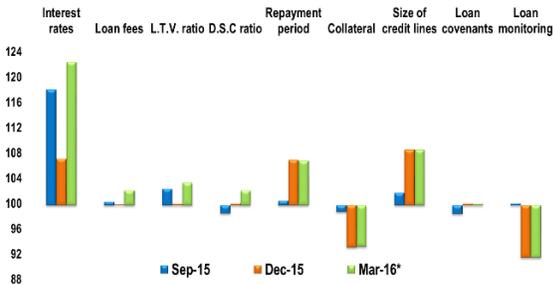
| | Local Currency | | | | Foreign Currency | | | |
|------------------------------------|-----------------------|--------------|----------------------|-------------|-----------------------|-------------|----------------------|-------------|
| | September 2015 Survey | | December 2015 Survey | | September 2015 Survey | | December 2015 Survey | |
| | Sep-15 | Dec-15* | Dec-15 | Mar-16* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Agriculture & Fishing | 8.93 | 12.70 | 13.35 | 8.88 | 3.26 | 5.75 | 6.50 | 4.67 |
| Construction & Land Development | 9.80 | 11.69 | 12.90 | 8.88 | 6.00 | 6.40 | 7.50 | 4.67 |
| Distribution | 10.58 | 11.94 | 12.80 | 9.10 | 2.17 | 6.50 | 6.50 | 4.67 |
| Electricity Gas & Water | 9.55 | 10.43 | 12.73 | 8.88 | 3.88 | 6.50 | 6.50 | 4.67 |
| Entertainment | 9.68 | 11.77 | 13.35 | 8.88 | 6.52 | 7.21 | 7.50 | 4.67 |
| Manufacturing | 10.27 | 9.73 | 12.55 | 9.10 | 4.99 | 5.75 | 7.00 | 4.67 |
| Mining & Quarrying | 8.90 | 12.18 | 13.35 | 8.88 | 4.45 | 6.50 | 6.50 | 4.67 |
| Professional & Other Services | 9.89 | 11.77 | 12.73 | 8.88 | 3.88 | 6.50 | 6.50 | 4.67 |
| Tourism | 9.94 | 11.27 | 12.90 | 8.88 | 6.39 | 6.42 | 7.50 | 4.67 |
| Transport, Storage & Communication | 8.78 | 9.93 | 13.35 | 8.88 | 2.17 | 5.75 | 6.50 | 4.67 |
| Average Rate | 9.63 | 11.34 | 13.00 | 8.92 | 4.37 | 6.33 | 6.85 | 4.67 |

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



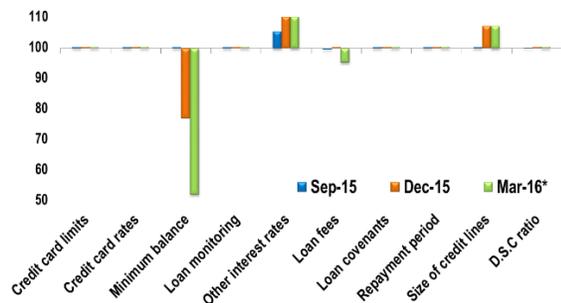
Appendix A: Overall Credit Market Conditions

Figure 15: 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 16: 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.

Table 6: Components of Credit Demand and Supply Indices

| | December 2014 Survey | | September 2015 Survey | | December 2015 Survey | |
|----------------------------------|----------------------|--------------|-----------------------|--------------|----------------------|--------------|
| | Dec-14 | Mar-15* | Sep-15 | Dec-15* | Dec-15 | Mar-16* |
| Credit Supply Indices | | | | | | |
| Credit Supply Index (CSI) | 103.7 | 105.6 | 106.4 | 107.1 | 103.6 | 104.4 |
| Credit to businesses | 102.5 | 105.7 | 107.2 | 107.7 | 105.1 | 103.1 |
| Personal credit | 106.1 | 102.6 | 104.9 | 105.8 | 100.6 | 106.8 |
| Credit in Jamaica Dollar | 103.2 | 106.1 | 111.4 | 110.5 | 108.1 | 104.7 |
| Credit in U.S Dollar | 101.9 | 105.3 | 103.0 | 104.9 | 102.0 | 101.6 |
| Credit Demand Indices | | | | | | |
| Credit Demand Index (CDI) | 99.5 | 110.8 | 107.6 | 109.1 | 112.1 | 107.5 |
| Demand by businesses | 95.9 | 111.9 | 106.5 | 107.5 | 114.3 | 103.6 |
| Demand by individuals | 106.7 | 108.6 | 109.8 | 112.4 | 107.8 | 115.3 |
| Credit in Jamaica Dollar | 94.5 | 125.9 | 111.9 | 113.9 | 123.4 | 105.9 |
| Credit in U.S dollar | 97.4 | 97.9 | 101.2 | 101.05 | 105.2 | 101.2 |

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.



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.

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

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

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

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

| Classification | Loan Size (at origination) | Annual Sales/Turnover |
|---|---|--|
| 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).