

Quarterly Credit Conditions Survey Report



June 2015 Quarter

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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 June 2015 survey which was conducted between 14 July 2015 and 05 August 2015.

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

Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	5	4	5	4	6
Building Societies	3	3	0	0	0	0
Near Banks	2	2	1	1	2	2
Credit Unions	8	7	7	6	8	8
Total	19	17	12	12	14	16

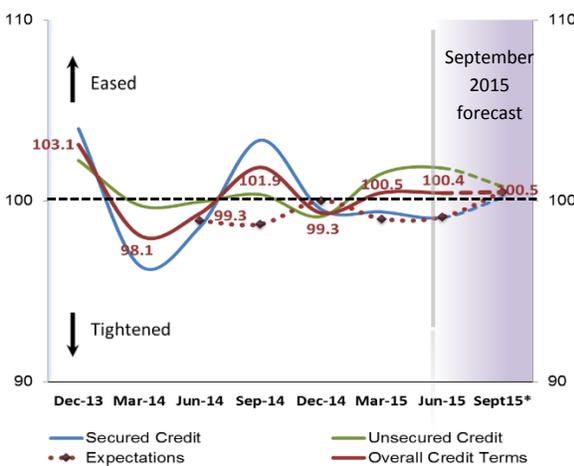


Overview

The results of the BOJ’s QCCS for the June 2015 quarter indicated that credit conditions eased marginally, similar to what was recorded in the March 2015 quarter (see **Figure 1**). This performance in June was relative to an expected tightening in credit conditions that was indicated by respondents in the March 2015 survey for the June quarter.

appetite. As a result, lenders extended the maximum size of credit lines and reduced the fees applicable to unsecured loans during the review quarter. For the September 2015 quarter, lenders anticipate credit market conditions will continue to ease marginally, reflecting less stringent policies for secured loans while policies associated with unsecured loans are expected to ease at a slower pace than in the June quarter (see **Appendix A: Figure 20 and Figure 21**).

Figure 1: Index of Credit Market Conditions



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

The marginal but steady easing in credit market conditions was underpinned by improvements in lending policies applied to unsecured loans. Lenders highlighted that the activation of the credit bureau and the current downward trend in market interest rates have increased their risk

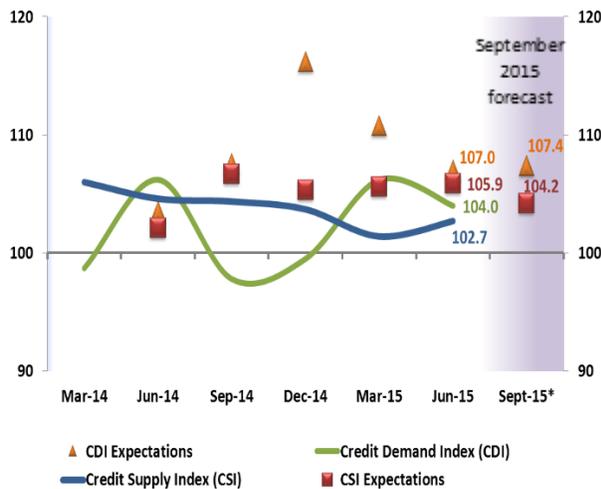
Credit Supply

For the June 2015 quarter, the supply of credit remained robust as reflected in the Credit Supply Index (CSI) of **102.7**, although lower than the **105.9** anticipated 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 **Appendix A: Table 6**). Although personal loans continued to account for the greater proportion of the credit supplied, there was an increase in credit made available to businesses during the review quarter (see **Figure 3**). Of the credit allocated to businesses, there was a marginal redistribution of credit from medium businesses to small firms while credit supplied to large and micro businesses remained unchanged relative to the March 2015 survey results. Lenders indicated that activity in the market was low but extremely competitive, which has made generating new loans difficult, particularly among large



Bank of Jamaica Credit Conditions Survey corporations. Consequently, there was a general thrust among creditors to explore initiatives to improve lending to micro-business markets. In addition, lenders suggested that public education on entrepreneurship could assist with attracting the public to consider business opportunities.

Figure 2: Credit Demand and Supply Indices

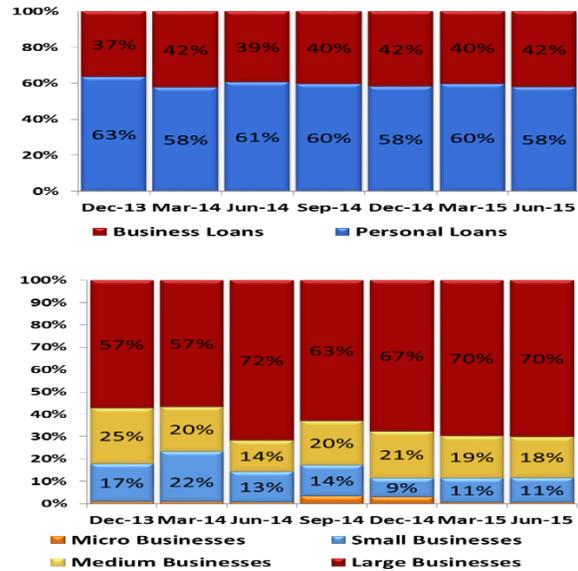


1. *-Expectations for the upcoming quarter from the current survey.
2. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

Some lenders highlighted that the expansion in credit supply for the review quarter was largely influenced by aggressive loan promotion activities as well as the perception of a stable macro-economic environment. Notwithstanding, lenders continued to report that the pace of depreciation of the exchange rate have affected their ability to respond to credit requests.

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

Figure 3: Distribution of Private Sector Credit¹



For the September 2015 quarter, lenders anticipate a stronger increase in overall credit availability, reflecting expansions in all loan categories (see **Figure 2** and **Appendix A: Table 6**). This expansion should be underpinned by an improvement in economic outlook as well as positive changes in sector-specific risks. Of note, some creditors indicated that they will continue to design specific products in order to expand credit to micro and small businesses, which are less sensitive to interest rate changes than large corporations.

Credit Demand

The overall demand for credit remained robust in the June 2015 quarter as reflected in the Credit Demand Index (CDI) of **104.0** (see **Figure 2**). The demand for credit during the review quarter

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



predominantly reflected strong requests for personal loans. Notably, the increase in demand for personal loans was reflected in all loan categories with the exception of loans for *debt consolidation* and *credit cards*. In particular, there were strong requests for *unsecured personal loans* and *personal motor vehicle loans*. The reduction in fees applicable to unsecured loans may have contributed to the uptick in demand for this loan type.

With regard to business loans, the survey results indicated that overall demand for local currency loans declined (see **Appendix A: Table 6**). This outturn primarily reflected tightness in demand across most economic sectors, particularly *Manufacturing* and *Transport, Storage & Communication* in medium, small and micro businesses while demand for local currency loans from large firms increased across all economic sectors with the exception of *Electricity, Gas & Water*. Lenders reported that during the review quarter large corporations took advantage of the relatively stable market interest rates to fund business expansions and restructure their business activity. On the other hand, overall demand for foreign currency business loans increased during the review quarter. This expansion was predominantly reflected in the *Distribution, Agriculture & Fishing* and *Professional & Other Services* sectors. The increase in demand for foreign currency business loans may have been influenced by the slower pace of exchange rate depreciation for the quarter. Notably, for the June 2015 quarter, the value of the Jamaica Dollar vis-à-vis the US dollar depreciated by **1.69%** relative to depreciation of **2.40%** for the corresponding quarter in 2014.

For the September 2015 quarter, it is anticipated that the demand for credit will increase further as reflected in the CDI of **107.4** (see **Figure 2**). It is anticipated that this uptick will emanate from both households' and businesses' demand for local currency credit. More specifically, the demand for local currency business loans is expected to emanate from all sectors. For personal loans, creditors anticipate an increase in all loan categories with the exception of *mortgages*. In particular, strong demand is expected for *personal motor vehicle loans* and *other secured loans* as a result of improved lending terms associated with the approval of these loans.

Price of Credit

Based on the survey responses, average interest rates on local currency loans decreased for the June 2015 quarter relative to the March 2015 quarter, largely reflecting a decline in lending rates on personal loans (see **Table 1**).

With respect to interest rates on foreign currency loans, the survey results indicate an overall increase, consistent with the rise in demand for these loans. The higher interest rates were due to a significant increase in lending rates applied to business loans, which could reflect the impact of tight US dollar liquidity on the cost of these funds.

Against this background, average rates on local currency loans fell by **0.20 percentage points (pps)** for the June 2015 quarter (see **Table 1**). Notably, rates on personal loans declined by **1.06 pps** to **18.96%** while rates on local currency business loans increased to **15.03%** from **14.61%** during the



review quarter. With respect to foreign currency denominated loans, lenders reported that interest rates on foreign currency business loans increased by **4.84 pps** to **13.15%**.

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

	June 2014 Survey		March 2015 Survey		June 2015 Survey	
	Jun-14	Sep-14*	Mar-15	Jun-15*	Jun-15	Sept-15*
Local Currency (LC) Loans						
Business loans	16.52	16.66	14.61	15.63	15.03	15.83
Personal loans	19.25	18.86	20.02	20.30	18.96	18.86
Prime rate	17.03	17.22	16.47	16.31	16.50	18.20
Average LC rates	17.60	17.58	17.03	17.41	16.83	17.63
Foreign Currency (FC) Loans						
Business loans	9.02	9.74	8.31	8.81	13.15	8.70
Prime Rate	9.42	9.45	10.60	8.96	9.25	8.84
Average FC rates	9.22	9.60	9.46	8.89	11.20	8.77

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

Lenders' expect a general increase in local currency interest rates in the September 2015 quarter. More specifically, interest rates on local currency personal loans and the prime rate are expected to increase (see **Table 1**). Lenders indicated that they expect interest rates to increase for Jamaica Dollar facilities as liquidity challenges persist. Consistent with anticipated slowdown in demand for foreign currency loans, interest rates on these loans are expected to fall in the September 2015 quarter.

Personal Lending

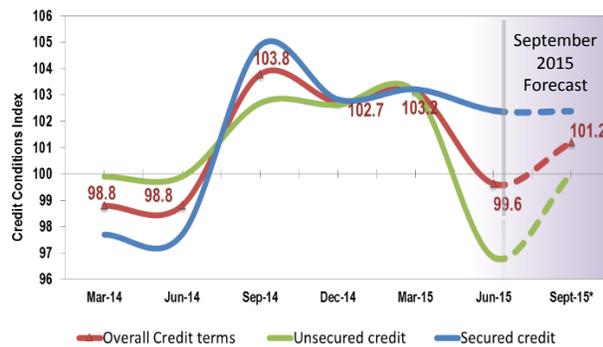
Credit Conditions

Credit conditions for personal loans tightened in the June 2015 quarter relative to the March 2015 quarter. The overall credit index of **99.6** reflected the first reported decline since the June 2014 survey (see **Figure 4**). The outturn reflected a significant tightening in policies for unsecured loans. In particular, there were higher interest rates on non-credit card lending and an increase in fees applicable to unsecured loans.

Lending conditions are expected to ease in the September 2015 quarter as a result of anticipated improvements in the maximum loan-to-value ratio for secured loans.



Bank of Jamaica Credit Conditions Survey
Figure 4: Credit Conditions for Personal Lending



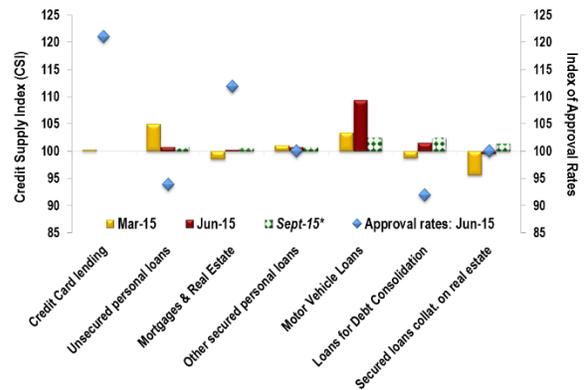
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.

Credit Supply

The availability of credit to individuals increased in the June 2015 quarter relative to the March 2015 quarter (see **Appendix A: Table 6**). This increase was mainly reflected in *motor vehicle loans* and *loans for debt consolidation* (see **Figure 5**).

The increase in credit available for personal loans coincided with generally higher approval rates on all loan categories with the exception of *other unsecured personal loans* and *loans for debt consolidation* (see **Figure 5**). Lenders cited improvements in their economic outlook as the most significant driver behind the expansion in the supply of funds to households. It was noted that the perception of relatively stable macro-economic environment, including lower levels of inflation, was influencing the type of loans supplied. For instance, a few institutions highlighted that they have adjusted their loan portfolio mix to include more unsecured personal loans.

June 2015 Quarter
Figure 5: Availability of Credit for Personal Lending



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

For the September 2015 quarter, lenders anticipate an increase in the supply of personal loans (see **Appendix A: Table 6**). It is expected that the expansion should be reflected in all categories of loans with the exception of *credit card lending*, which is expected to remain unchanged (see **Figure 5**). This outlook is consistent with lenders indicating that they will increase approval rates on all categories of loans excluding unsecured loans. The lenders noted that the most important factor that will influence the supply of personal loans in the September 2015 quarter is the expectation for continued stability in the macroeconomic environment.

Credit Demand

Lenders indicated that the demand for personal loans increased considerably to **116.2** in the June 2015 quarter relative to **110.8** in the March 2015



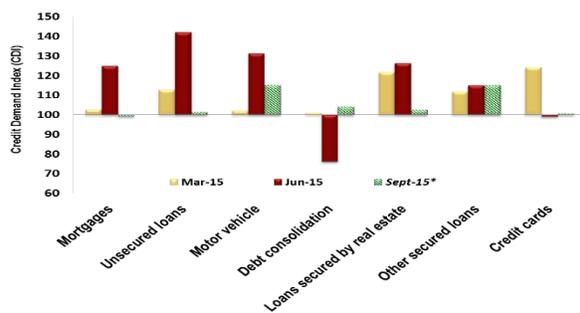
Bank of Jamaica Credit Conditions Survey quarter (see **Appendix A: Table 6**). The outturn for June was the highest increase in demand since the June 2014 survey. The increase in demand during the review quarter was reflected across all categories of loans with the exception of loans for *debt consolidation* and *credit cards*. Notably, lenders indicated strong requests for *other unsecured personal loans* and *personal motor vehicle loans* (see **Figure 6**). The lenders cited changes in interest rates and household income as the most significant drivers of demand for both secured and unsecured personal loans during the review quarter.

school year. Changes in interest rates and personal income are expected to be the main drivers behind the demand for both secured and unsecured personal loans. In addition, loan promotional activities was cited as another significant driver of demand for unsecured credit.

Price of Credit

Lenders indicated that there was an overall decline in lending rates on personal loans to **18.96%** for the June 2015 quarter, which was lower than the average rate of **20.03%** expected in the previous survey, as well as the reported rate of **20.02%** for the March 2015 quarter. The lower average rate for the review quarter was reflected in all loan categories covered by the survey. This may explain the significant surge in demand for most loan types (see **Figure 7**). For the September 2015 quarter, average rates on personal loans are expected to increase to **20.3%**.

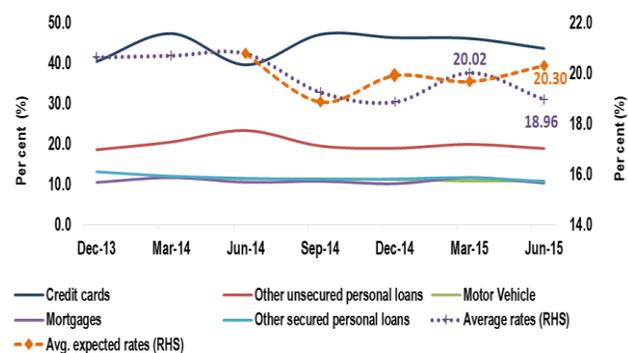
Figure 6: Demand for Personal Loans



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

For the September 2015 quarter, credit demand is anticipated to increase in all loan categories excluding *mortgages* (see **Figure 6**). In particular, there is expected to be strong demand for *motor vehicle loans* and *other secured loans*. They highlighted that the demand for *other secured loans* could be influenced by the need to finance educational expenses for the start of the new

Figure 7: Interest rates on Personal Loans



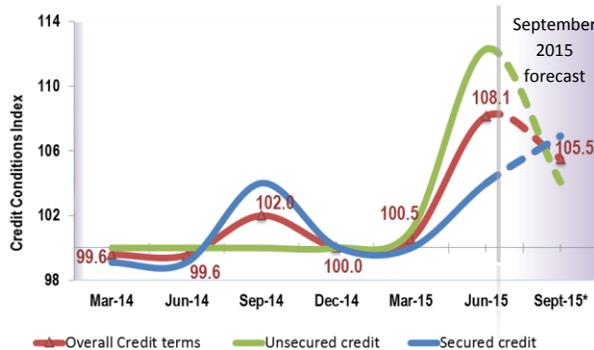


Micro Business Lending

Credit Conditions

Lending conditions for micro-businesses eased for the June 2015 quarter relative to the March 2015 quarter (see **Figure 8**). This was primarily driven by less stringent policies applied to unsecured and secured credit. Notably, lenders increased the maximum debt service for secured loans and reduced interest rates on non-credit card lending for unsecured loans. In addition, lenders also increased the maximum size of credit lines and reduced the fees applicable to unsecured loans. For the September 2015 quarter, credit conditions are expected to remain buoyant due to lower interest rates on secured loans and non-credit card lending.

Figure 8: Credit Conditions for Micro Businesses

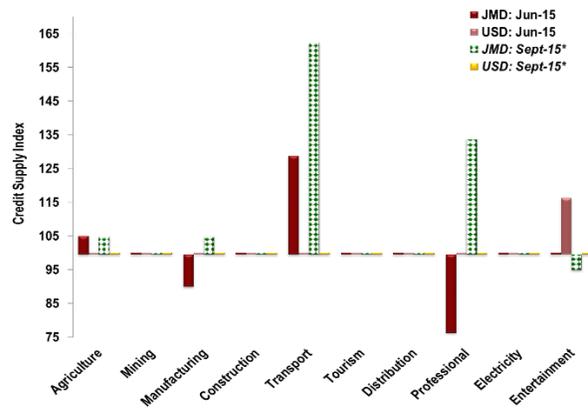


- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.

Credit Supply

Lenders indicated that there was a marginal increase in the quantity of credit made available to micro enterprises for the June 2015 quarter relative to the March 2015 quarter. This increase, reflected in a CSI of **100.6**, mainly emanated from a rise in the supply of foreign currency loans. The increase in the supply of foreign currency loans represents the first increase since the March 2014 survey but was solely reflected in the *Entertainment* sector as credit supplied to the other sectors remained unchanged (see **Figure 9**).

Figure 9: Availability of Credit to Micro Businesses



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

The CSI for local currency credit to micro-businesses for the June 2015 quarter was unchanged relative to the March 2015 survey as indicated by the index of **100.0**. However, notable

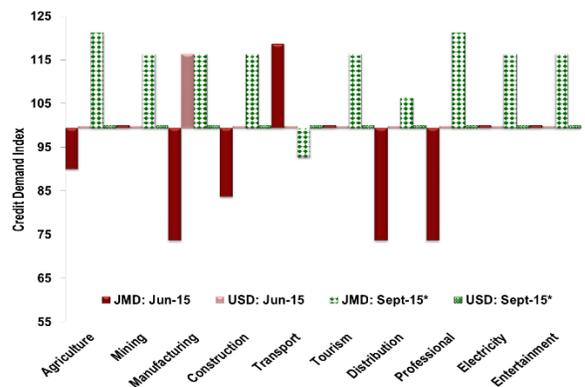


increases were recorded in the *Transport, Storage & Communication* and *Agriculture & Fishing* sectors (see **Figure 9**). The credit supplied to micro businesses for the quarter was influenced by substantial increases in approval rates for all loan categories covered by the survey. Lenders noted that the increase in credit availability for the June 2015 quarter was mainly driven by favourable changes in lenders' economic outlook and heightened competition among creditors to target this business segment in order to stimulate new loans.

the fall in demand for local currency loans could be due to the complacency among micro businesses, as they do not appear to take advantage of credit opportunities. For instance, a few creditors indicated that this business segment is yet to utilize the Security Interests in Personal Property Act 2013 (SIPPA). Notwithstanding the overall reduction in the CDI for various micro business sectors for the review quarter, lenders reported there was an increase in demand for most loan categories, particularly *loan refinancing*.

For the September 2015 quarter, lenders anticipate an increase in the amount of Jamaica Dollar credit to be made available to micro businesses, particularly in the *Transport, Storage & Communication* and *Professional & Other Services* sectors, while no change is expected for foreign currency loans (see **Figure 9**). In addition, lenders expect an increase in approval rates for all categories of loans covered by the survey. Further, lenders expect that the expansion in credit availability will continue to be influenced by changes in lenders' perception of the economy.

Figure 10: Credit Demanded by Micro Businesses



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

Credit Demand

The CDI for local currency loans to micro business fell for the June 2015 quarter relative to the March 2015 quarter, while the demand for foreign currency loans increased as a result of an upsurge in demand from the *Manufacturing* sector (see **Figure 10**). The lower CDI for local currency loans emanated from sharp declines in demand from firms within most economic sectors, which could be a result of the generally higher interest rates across most sectors. Some lenders suggested that

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

For the September 2015 quarter, lenders anticipate a significant increase in the CDI for micro enterprises, particularly for local currency loans. This demand is expected to emanate from all sectors with the exception of *Transport*,



Storage & Communication, while growth in demand for foreign currency loans is expected to decelerate relative to the review quarter (see **Figure 10**). The projected increase in the CDI for the September 2015 quarter reflects the expected impact of greater loan promotional and business activities.

Price of Credit

For the June 2015 quarter, lending rates on local currency loans to micro businesses generally increased relative to the March 2015 survey. In particular, interest rates averaged **22.05%** for the review quarter, **0.93 pps** higher than the lending rate reported for the March 2015 quarter.² The highest interest rates were recorded amongst *Electricity Gas & Water, Agriculture & Fishing*, and *Entertainment* (see **Table 2**).

Interest rates on foreign currency loans to the micro business sector averaged **26.84%** for the review quarter relative to the expectation for an average rate of **8.50%** for the quarter. The outturn for the June 2015 quarter reflects the rates indicated by one institution that typically does not make these types of loans. Notably, the institution only reported rates for economic sectors that are net earners of foreign exchange (see **Table 2**).

For the September 2015 quarter, local currency lending rates are expected to increase further by **1.83 pps** to **23.88%**. This increase will be reflected

in higher interest rates on loans to all sectors, with the exception of *Entertainment, Electricity Gas & Water, Manufacturing*, and *Distribution*. In contrast, interest rates on foreign currency loans are expected to normalize for the September 2015 quarter.

Table 2: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	March 2015 Survey		June 2015 Survey		March 2015 Survey		June 2015 Survey	
	Mar-15	Jun-15*	Jun-15	Sept-15*	Mar-15	Jun-15*	Jun-15	Sept-15*
Agriculture & Fishing	24.53	25.50	28.91	30.25	n.a	8.50	48.00	8.50
Construction & Land Development	18.55	21.50	18.98	21.43	n.a	8.50	n.a	8.50
Distribution	24.93	25.33	21.00	20.22	n.a	8.50	n.a	8.50
Electricity Gas & Water	20.50	21.25	26.00	21.28	8.88	8.50	n.a	8.50
Entertainment	22.13	21.88	27.10	21.88	n.a	8.50	15.54	8.50
Manufacturing	21.53	21.88	22.55	20.58	n.a	8.50	n.a	8.50
Mining & Quarrying	18.75	21.50	18.70	21.38	n.a	8.50	48.00	8.50
Professional & Other Services	20.91	21.88	20.70	30.58	n.a	8.50	18.00	8.50
Tourism	19.75	21.25	17.25	21.33	n.a	8.50	13.50	8.50
Transport, Storage & Communication	19.63	20.88	19.27	29.88	n.a	8.50	18.00	8.50
Average Rate	21.12	22.28	22.05	23.88	8.88	8.50	26.84	8.50

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

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

Small Business Lending

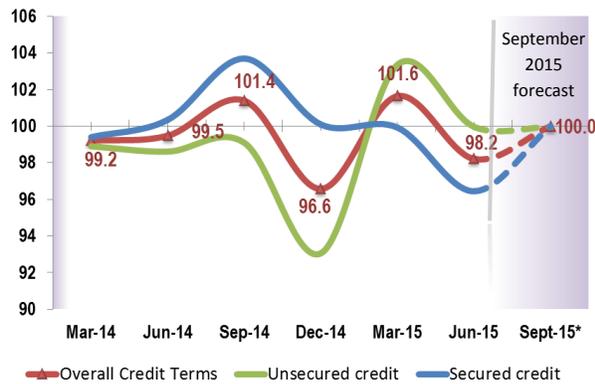


Credit Conditions

Lending conditions generally tightened for small businesses in the June 2015 quarter relative to the March 2015 quarter (see

Figure 11). This was primarily attributed to greater restrictions for secured loans, due in particular to higher interest rates on these loans. For the September 2015 quarter, lending conditions are expected to be similar to the review quarter for both secured and unsecured loans.

Figure 11: Credit Conditions for Small Businesses



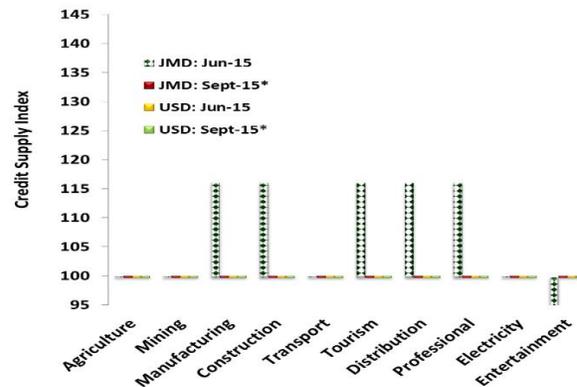
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions

Credit Supply

Lenders indicated an increase in local currency credit made available to small businesses for the June 2015 quarter relative to the March 2015 quarter while there was no disbursement of foreign currency during the quarter. The increase in the supply of local currency credit was made

available to most economic sectors with the exception of *Entertainment* (see Figure 12).

Figure 12: Availability of Credit to Small Businesses



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

Lenders reported that the increase in the CSI for the review quarter was supported by a higher rate of approval for all small business loans excluding *unsecured loans*. Specifically, there were notable increases in approval rates for loans for *inventory & working capital* and *commercial real estate*.

The lenders cited changes in their economic outlook and cost of funds as the most important factors influencing credit availability to small businesses. It was also noted there are continued efforts to design credit packages suitable for this market segment.



For the September 2015 quarter, the CSI for small businesses is anticipated to be stable as no change is expected in the availability of local and foreign currency loans (see **Figure 12**). The stability of credit available to small businesses in the September 2015 quarter is expected to be influenced by changes in lenders' economic outlook and cost and availability of funds. Moreover, lenders expressed the view that the inability of small businesses to demonstrate equity and provide credible financial information have constrained lending to this grouping.

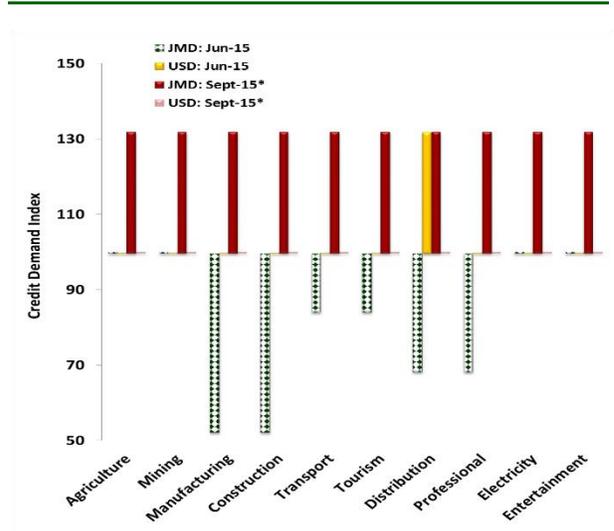
Credit Demand

There was a significant decline in the CDI for local currency loans for small businesses for the June 2015 quarter relative to the March 2015 quarter. Despite the lower interest rates offered to firms across all economic sectors, the decline in demand was reflected in several sectors with the exception of *Electricity, Gas & Water, Agriculture & Fishing, Mining & Quarrying* and *Entertainment*, for which the demand was unchanged. However, there was stronger demand for foreign currency loans, which emanated solely from the *Distribution* sector as demand from the other economic sectors declined (see **Figure 13**).

Consistent with the overall reduction in the CDI for small businesses for the June 2015 quarter, there was weaker demand for most of the loan categories. However, there was stronger demand for *commercial real estate loans* and *inventory and other working capital* financing relative to the March 2015 quarter.

For the September 2015 quarter, the CDI for local currency loans is expected to increase considerably, while no change is anticipated in the demand for foreign currency loans (see **Figure 13**). The stronger demand for local currency loans is expected to emanate from all economic sectors. Demand for secured and unsecured loans is expected to be mainly influenced by loan promotion activities.

Figure 13: Credit Demanded by Small Businesses



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

Price of Credit

For the review period, lenders indicated that the weighted average lending rate on local currency loans to small businesses declined to **13.69%**, which was lower than the rate of **14.64%**



anticipated in the previous survey and the average rate of **14.22%** for the March 2015 quarter (see

With respect to foreign currency denominated loans, the average interest rate to small businesses rose by **0.59 pps** to **10.07%** in the review quarter, despite the decline in demand for these loans across all economic sectors excluding *Distribution*. For the September 2015 quarter, lenders indicate that they will reduce rates on several categories of foreign currency loans, consequently an average rate of **9.13%** is anticipated.

Table 3). Lenders indicated that rates were cut significantly for small firms in *Professional & Other Services* and *Entertainment*. For the June 2015 quarter, interest rates on local currency loans are expected to increase to average **14.31%** for the quarter, largely reflecting increase across most economic sectors.

With respect to foreign currency denominated loans, the average interest rate to small businesses rose by **0.59 pps** to **10.07%** in the review quarter, despite the decline in demand for these loans across all economic sectors excluding *Distribution*. For the September 2015 quarter,

lenders indicate that they will reduce rates on several categories of foreign currency loans, consequently an average rate of **9.13%** is anticipated.

Table 3: Interest Rates on Loans

	Local Currency				Foreign Currency			
	March 2015 Survey		June 2015 Survey		March 2015 Survey		June 2015 Survey	
	Mar-15	Jun-15*	Jun-15	Sept-15*	Mar-15	Jun-15*	Jun-15	Sept-15*
Agriculture & Fishing	13.61	12.80	13.19	13.50	9.00	9.31	9.00	9.08
Construction & Land Development	13.97	16.36	14.32	15.49	9.00	9.88	9.00	8.83
Distribution	15.06	14.98	14.85	14.50	9.00	9.44	9.00	9.25
Electricity Gas & Water	14.08	15.87	13.17	13.69	0.00	10.19	0.00	9.25
Entertainment	14.75	16.07	13.63	14.88	9.00	10.19	11.04	9.25
Manufacturing	13.41	12.33	13.63	14.50	8.94	10.19	9.00	9.25
Mining & Quarrying	14.06	14.89	14.07	14.88	9.00	9.31	9.00	9.08
Professional & Other Services	16.15	15.31	14.07	13.69	9.00	10.19	9.00	9.25
Tourism	12.69	12.20	11.92	14.50	11.00	9.44	11.25	9.25
Transport, Storage & Communication	14.42	15.57	14.08	13.50	11.50	9.88	9.00	8.83
Average Rate	14.22	14.64	13.69	14.31	9.49	9.80	10.07	9.13

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

Medium-Sized Business Lending

Credit Conditions

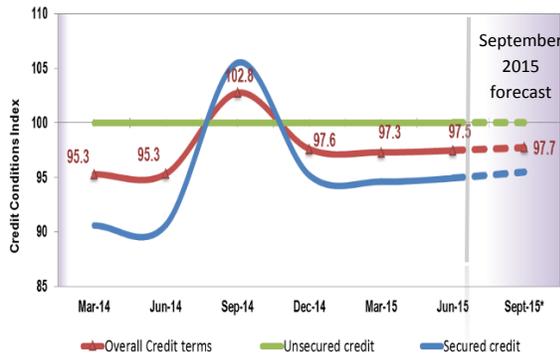
Medium-sized businesses continued to experience unfavourable credit conditions during the June

2015 quarter, a trend observed since the inception of the survey, excluding the September 2014 quarter when lending conditions eased for this category of business (see **Figure 14**). The results



for the June 2015 quarter were underpinned by higher interest rates on secured loans as well as greater loan covenant compliance and loan monitoring requirements. For the September 2015 quarter, credit conditions are expected to slightly deteriorate relative to the June 2015 quarter, largely owing to anticipated increases in interest rates and loan monitoring requirements for secured loans.

Figure 14: 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.

Credit Supply

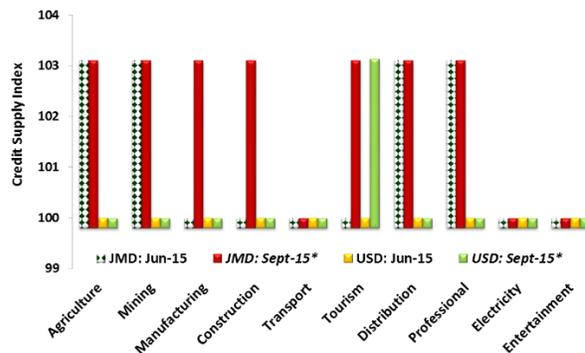
The supply of credit to medium-sized businesses for the June 2015 quarter increased slightly relative to the March 2015 quarter, reflecting an expansion in the supply of local currency loans, as no growth was recorded in foreign currency loans (see **Figure 15**). Some lenders reported that this business segment is not adequately targeted and have subsequently extended credit and designed specific credit packages to cater to this segment. The increase in the CSI was supported by higher

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approval rates all loan applications, with the exception of applications for *plant & equipment*.

For the September 2015 quarter, the CSI for local and foreign currency loans to medium-sized businesses is anticipated to increase as a result lenders' perception of the economy.

Figure 15: Availability of Credit to Medium-sized Businesses



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

Credit Demand

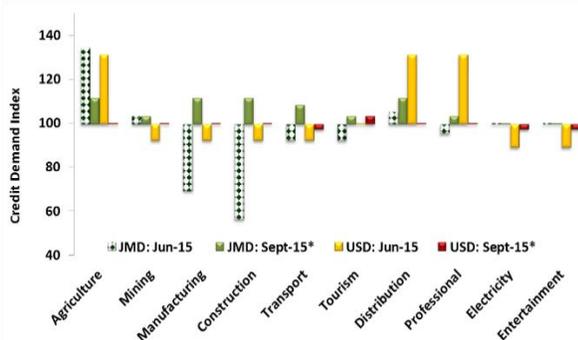
The CDI for local currency loans for medium-sized businesses fell for the June 2015 quarter, relative to the March 2015 quarter despite the substantial increase in demand from *Agriculture*. In contrast, the CDI for foreign currency loans increased for the review quarter. The increase in the CDI for foreign currency loans was mainly reflected in the *Agriculture*, *Distribution* and *Professional & Other Services* sectors as demand from the other economic sectors either declined or was largely unchanged (see **Figure 16**).



Demand for secured and unsecured credit by medium-sized businesses over the review quarter was influenced by increased targeting of this business segment through various loan promotion activities.

For the review period, the weighted average lending rate on local currency loans to medium-sized businesses across all sectors averaged **13.10%**, which was higher than the **12.89%** reported in the March 2015 quarter (see **Table 4**). Firms in *Entertainment* and *Manufacturing* were offered the highest lending rates while the lowest rate was offered to the firms in *Electricity, Gas & Water*. For the September 2015 quarter, interest rates on local currency loans are expected to increase further by **0.70 pps** to average **13.80%**. This increase reflects higher anticipated lending rates on local currency loans to most economic sectors, particularly *Manufacturing*.

Figure 16: Credit Demanded by Medium-sized Businesses



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

For the September 2015 quarter, the demand for local currency loans for medium-sized businesses is expected to increase, while the demand for foreign currency loans is expected to decrease relative to the June 2015 quarter. The increased local currency loan demand is anticipated to emanate from most economic sectors as a result of increased loan promotional activities over the September 2015 quarter.

Table 4: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	March 2015 Survey		June 2015 Survey		March 2015 Survey		June 2015 Survey	
	Mar-15	Jun-15*	Jun-15	Sept-15*	Mar-15	Jun-15*	Jun-15	Sept-15*
Agriculture & Fishing	11.38	12.19	11.38	0.00	9.00	9.00	9.07	13.44
Construction & Land Development	14.62	14.71	14.58	12.54	9.88	9.50	10.50	9.00
Distribution	11.97	13.80	12.59	12.49	10.50	9.50	10.50	9.00
Electricity Gas & Water	14.88	14.19	13.00	14.14	9.00	9.00	9.00	9.00
Entertainment	11.35	14.09	13.00	14.19	9.63	9.06	10.21	9.18
Manufacturing	12.13	12.60	13.25	14.95	9.00	9.00	10.38	9.00
Mining & Quarrying	13.81	14.98	13.88	12.69	10.00	9.00	10.00	9.50
Professional & Other Services	12.78	13.40	13.11	14.19	9.00	9.00	9.00	9.00
Tourism	13.00	12.63	13.00	14.24	9.00	9.03	9.00	9.00
Transport, Storage & Communication	13.00	14.06	13.19	14.75	8.50	9.00	9.00	9.50
Average Rate	12.89	13.66	13.10	13.80	9.35	9.11	9.67	9.56

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

Price of Credit

With respect to foreign currency loans, lending rates to medium-sized businesses averaged **9.67%**



Bank of Jamaica Credit Conditions Survey for the review quarter, relative to **9.35%** in the previous quarter (see **Table 4**). Notable increases were observed across most economic sectors. For the September 2015 quarter, a reduction of **0.10 pps** is expected in lending rates on foreign currency loans.

Large Corporations and Commercial Lending

Credit Conditions

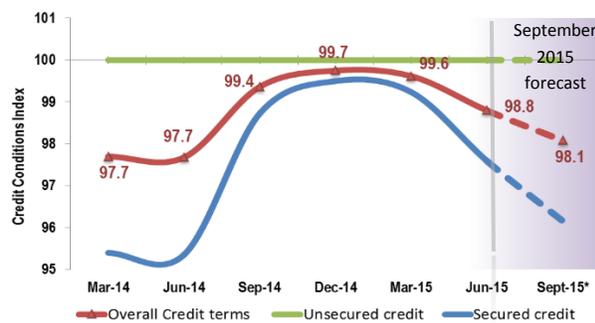
Despite having the least credit default risk among the business segments, lending conditions for large businesses continued to remain tight for the June 2015 quarter relative to the March 2015 quarter. The outturn mainly reflected an increase in loan covenant compliance and loan monitoring requirements for secured loans (see **Figure 17**).

shift in lending policies will have a significant impact on credit conditions for commercial lending. For the September 2015 quarter, credit conditions are expected to further deteriorate, as lenders anticipate further increases in loan monitoring requirements and interest rates for secured loans.

Credit Supply

There was an increase in the CSI for large businesses for the June 2015 quarter relative to the March 2015 quarter. This outcome reflected growth in foreign currency loans as the pace of increase in local currency loans moderated. Growth in the supply of local currency credit was reflected in all sectors (see **Figure 18**). In comparison, growth in the supply of foreign currency credit was reflected across most economic sectors with the exception of *Construction & Land Development*, which declined while the supply to other economic sectors remained unchanged.

Figure 17: Credit Conditions for Large Businesses

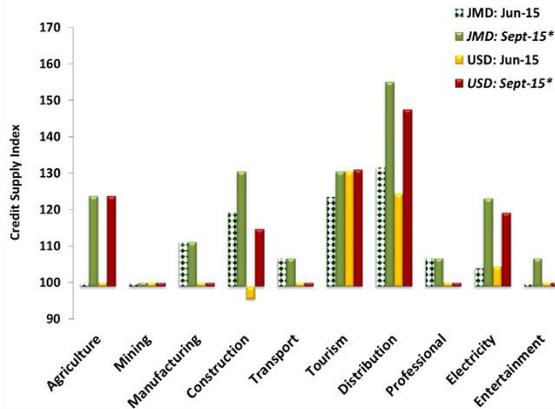


- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
- The asterisks (*) represent forward looking expectations provided by the respondents.

Lenders cited that this business segment is highly competitive and sensitive to movements in market interest rates. Consequently, any marginal © Copyright 2015. Bank of Jamaica



Figure 18: Availability of Credit to Large Businesses



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

The higher CSI for large businesses in the June 2015 quarter was due to changes in the cost of funds to this business segment as well as an improvement in lenders' economic outlook. In addition, the expansion in credit supplied to large businesses was facilitated by higher approval rates across all loan categories.

The CSIs for local and foreign currency loans to large businesses are anticipated to increase significantly in the September 2015 quarter. Similar to the June 2015 quarter, major factors which are expected to influence the increase in the CSI mainly relate to a change in economic outlook and the cost and availability of funds.

Credit Demand

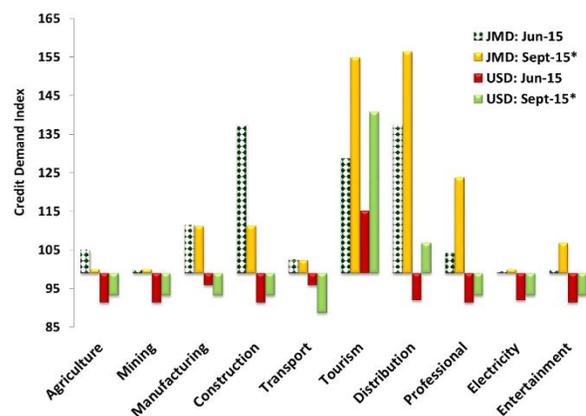
There was a faster pace of increase in the CDI for local currency loans for the June 2015 quarter relative to the March 2015 quarter. In contrast, © Copyright 2015. Bank of Jamaica

the CDI for foreign currency loans declined relative to the March 2015 quarter. The growth in the CDI for local currency loans was reflected in all sectors except for *Electricity, Gas & Water*. The lower CDI for foreign currency loans was reflected in a reduction in demand across all economic sectors, with the exception of *Tourism*, which reflected a particularly strong increase (see **Figure 19**).

The increase in the overall CDI for large businesses for the June 2015 quarter was reflected in all loan categories covered by the survey except *mergers & acquisitions*. Notably, there was a marked increase in credit demanded for *Commercial real estate* financing.

Demand for both secured and unsecured loans by large businesses over the review quarter was affected by changes in business activities and a reduction in macroeconomic risk.

Figure 19: Credit demanded by Large Businesses



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



For the September 2015 quarter, a faster pace of increase in the CDI for local currency loans is anticipated while demand for foreign currency loans is expected to decrease overall. Of note, increased local currency loan demand is anticipated from all sectors, with a significant uptick anticipated for firms in the *Distribution* and *Tourism* sectors. Firms in these sectors are also expected to reflect increased demand for foreign currency loans, in contrast to the overall anticipated decline in demand for foreign currency loans. Changes in business activities are expected to stimulate demand for unsecured and secured loans in the September 2015 quarter.

Price of Credit

For the review quarter, the average lending rate on local currency loans to large businesses increased to **11.29%** for the review quarter, **1.07 pps** higher than the lending rate reported for the March 2015 quarter (see **Table 5**). The rise in the lending rate reflected higher interest rates applied to firms across all economic sectors, with firms in the *Agriculture & Fishing* and *Transport, Storage & Communication* sectors recording the highest interest rates. Interest rates on local currency loans to large businesses are expected to increase to average **11.34%** for the September 2015 quarter.

Lending rates on foreign currency loans averaged **6.63%** for the June 2015 quarter and are expected to increase by **0.98 pps** for the September 2015 quarter (see **Table 5**).

Table 5: Interest Rates on Local and Foreign Currency Loans

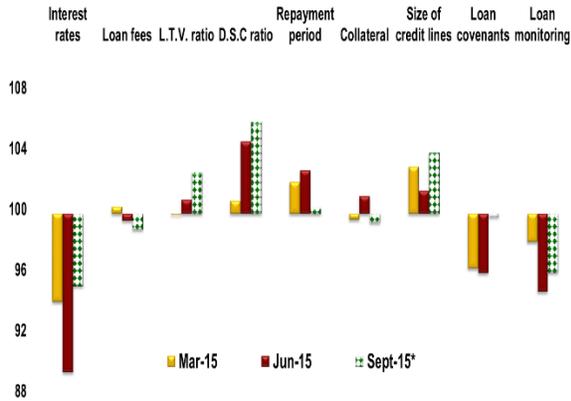
	Local Currency				Foreign Currency			
	March 2015 Survey		June 2015 Survey		March 2015 Survey		June 2015 Survey	
	Mar-15	Jun-15*	Jun-15	Sept-15*	Mar-15	Jun-15*	Jun-15	Sept-15*
Agriculture & Fishing	10.67	12.08	13.68	12.70	6.67	8.04	7.65	7.62
Construction & Land Development	11.03	12.24	11.67	11.69	5.01	8.04	6.52	7.93
Distribution	11.89	12.67	12.22	11.94	5.01	8.04	6.12	7.62
Electricity Gas & Water	9.25	11.24	10.22	10.43	5.01	8.04	6.12	7.62
Entertainment	10.67	12.58	11.53	11.77	7.46	8.54	8.59	8.72
Manufacturing	9.20	10.65	9.77	9.73	5.88	7.38	6.93	6.82
Mining & Quarrying	10.67	12.99	11.53	12.18	3.51	7.04	4.92	6.93
Professional & Other Services	11.38	12.58	11.98	11.77	4.51	7.71	5.72	7.60
Tourism	10.45	11.74	11.53	11.27	7.10	8.04	7.92	7.94
Transport, Storage & Communication	7.00	10.74	8.78	9.93	4.90	7.38	5.77	7.27
Average Rate	10.22	11.95	11.29	11.34	5.50	7.83	6.63	7.61

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



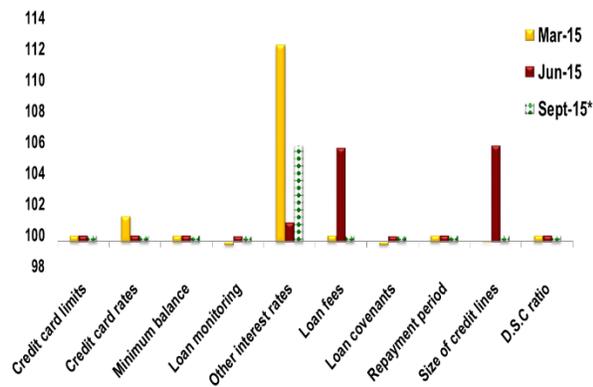
Appendix A: Overall Credit Market Conditions

Figure 20: Credit Conditions for Secured Loans



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

Figure 21: Credit Conditions for Unsecured Loans



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

Table 6: Components of Credit Demand and Supply Indices

	June 2014 Survey		March 2015 Survey		June 2015 Survey	
	Jun-14	Sep-14*	Mar-15	Jun-15*	Jun-15	Sept-15*
Credit Supply Indices						
Credit Supply Index (CSI)	104.6	106.7	101.4	105.9	102.7	104.2
Credit to businesses	104.1	107.4	101.9	107.3	103.1	105.7
Personal credit	105.7	105.4	100.4	103.3	101.8	101.2
Credit in Jamaica Dollar	105.7	111.7	101.8	111.1	104.5	107.9
Credit in U.S Dollar	102.5	103.0	104.9	103.5	101.8	103.5
Credit Demand Indices						
Credit Demand Index (CDI)	106.2	107.6	106.2	107.0	104.0	107.4
Demand by businesses	99.8	101.9	103.9	109.3	97.8	108.4
Demand by individuals	119	119.1	110.8	102.5	116.2	105.5
Credit in Jamaica Dollar	104.4	104.2	111.9	117.4	94.8	117.1
Credit in U.S dollar	95.2	99.5	95.9	101.2	100.8	99.6

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.



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 < \$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).