

# Quarterly Credit Conditions Survey Report



**June 2016  
Quarter**

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**Monetary Analysis & Programming  
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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) 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 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 2016 survey which conducted between 13 July 2016 and 03 August 2016.

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

### Surveys Completed by Each Institution

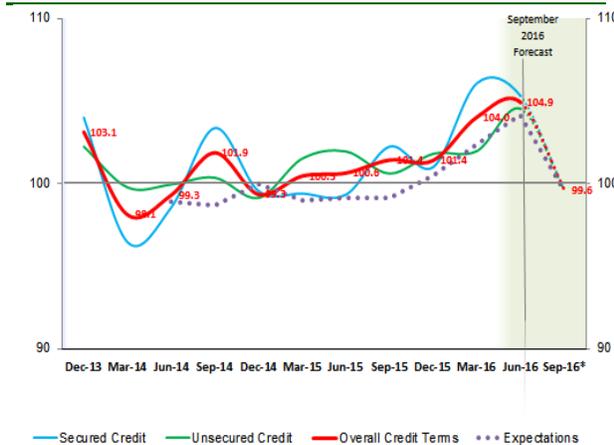
	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	1	1	1	1	1	1
Credit Unions	9	9	9	9	9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



## Overview

The results of the BOJ’s latest QCCS for the June 2016 quarter indicated that overall credit market conditions continued to expand, albeit at a slower pace than the record level observed in the previous survey (see **Figure 1**). This moderation in June was in line with lenders’ expectation in the March 2016 survey for the June 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 was the average response for changes in eight credit terms reported in the Credit Conditions Survey.

Lenders reported that the continued easing in credit market conditions was underpinned by improvements in lending policies applied to unsecured loans. In particular, there was an increase in the maximum debt service ratio and maximum credit lines as well as a reduction in the fees applicable to unsecured loans. For secured loans, the improvement in credit conditions was due largely to lower market interest rates, which was supported by an increase in loan to value

ratios. As a result lenders extended the maximum credit lines, reduced minimum proportion of balance and reduced the fees applicable to unsecured loans during the quarter.

In contrast, credit conditions for both secured and unsecured loans were expected to tighten for the September 2016 quarter. In particular, there was an anticipated increase in the minimum proportion of balance repaid, interest rates and the fees applicable to secured loans (see **Appendix A: Figure 15 and Figure 16**).

### Credit Supply

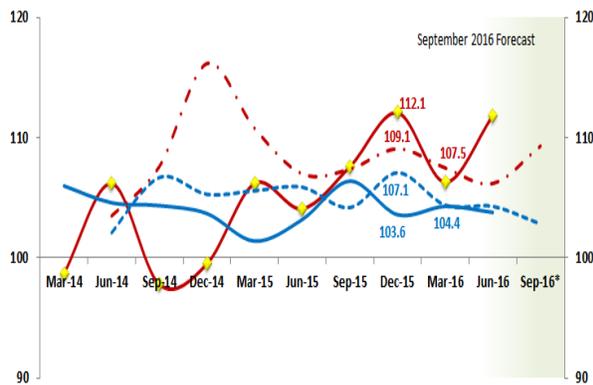
For the June 2016 quarter, lenders reported a relatively stable expansion in the supply of credit, which largely in line with their expectations from the previous quarter (see **Figure 2**). The expansion in credit supply primarily driven by an improvement in lenders’ perceptions of economic conditions, greater competition and increased appetite for risk. Personal loans continued to account for the greater proportion of the credit supplied, which marginally increased when compared to the previous quarter (see **Figure 3**). Of the credit allocated to businesses, there was a marginal re-distribution of credit from large to small and micro firms while credit supplied to medium businesses remained unchanged relative to March 2016 survey. Lenders also reported that subsequent to the change in Government in February 2016, the economy seemed relatively stable. As a result, businesses and individuals have returned to normal daily activities and will move



Bank of Jamaica Credit Conditions Survey forward with plans to expand credit supply, where necessary.

Of note, the supply of credit for the review quarter showed an increase in lenders' risk appetite. In addition, pressures from the capital markets remained an unimportant factor in credit supply, which consistent with the reduction in the BOJ's policy rate during the quarter (see **Appendix A: Figure 17**).

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

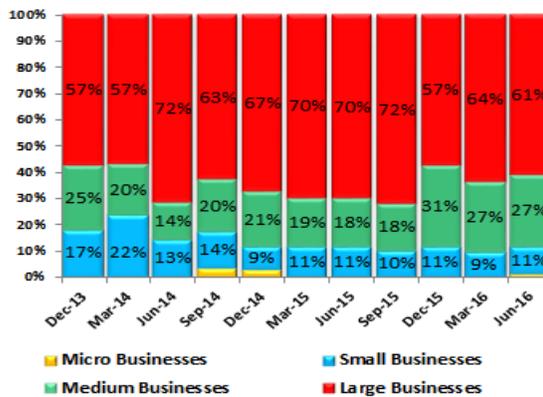
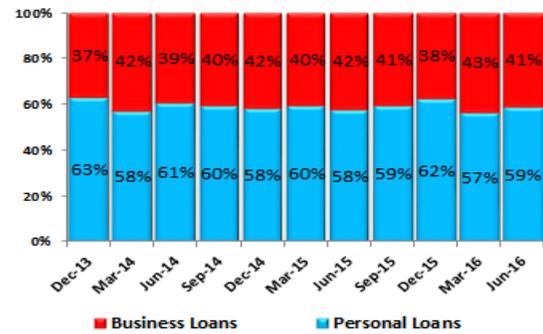


1. \*-Expectations for the upcoming quarter from the current survey.
2. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

For the September 2016 quarter, lenders expected a moderation in the overall loanable funds, reflected in a slower expansion in all the supply of credit to both businesses and individuals (see **Figure 2 and Appendix A: Table 6**). The projected moderation was expected to be underpinned by tightening lending conditions for both secured and unsecured loans.

<sup>1</sup> Figure 3 shows the distribution of credit between households and businesses. Credit to businesses further © Copyright 2016. Bank of Jamaica

**Figure 3: Distribution of Private Sector Credit<sup>1</sup>**



**Credit Demand**

The Credit Demand Index (CDI) indicated a stronger than anticipated increase in the demand for loans during the quarter (see **Figure 2**). The upsurge in the index to **111.8** from **106.3** reflected stronger demand for both business and personal loans denominated in local currency (see **Figure 4**). Of note, credit demand for personal loans surged to the highest since the start of the survey. This uptick mainly reflected increased demand for unsecured personal loans, motor vehicles and mortgages. For businesses, the expansion in demand emanated from the *Construction & Land Development, Distribution and Professional and Other Services* sectors.

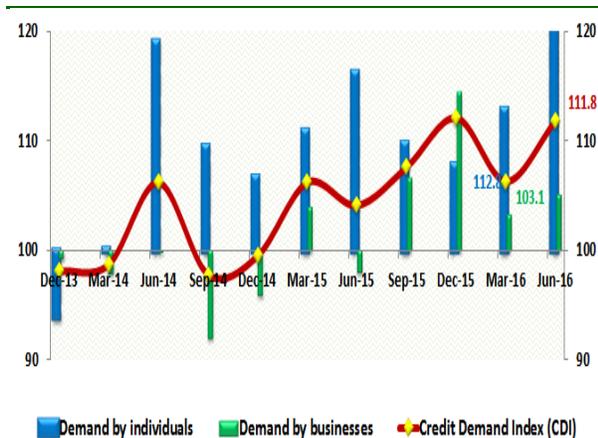
disaggregated to show total business loans distributed to firms of various sizes.



In contrast, there was a moderation in the demand for foreign currency loans, which was attributed to costs associated with the depreciation of the Jamaica Dollar. Notably, for the June 2016 quarter, the value of the Jamaica Dollar vis-à-vis the US dollar depreciated by **3.6%** relative to depreciation of **1.7%** for the corresponding quarter in 2015.

In terms of the factors affecting credit demand throughout the review quarter, lenders cited increased business activities, loan promotional activities as well as a reduction interest rates as important factors. It was also reported that due to a more stable economic environment, macroeconomic risks and changes in Government policies were no longer important factors in affecting loan demand.

**Figure 4: Components of Credit Demand**



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

For the September 2016 quarter, demand for credit was expected to increase. This positive outlook was informed by lenders' expectation of increased demand from both households and businesses. In particular, credit demand was expected to be positively influenced by an increase in the income tax threshold in the

September quarter as individuals should be better able to service debt obligations.

### Price of Credit

Average interest rates on local currency loans were reported to have decreased for the June 2016 quarter relative to the March 2016 quarter. This performance was primarily due to lower interest rates on business loans, reflecting lower interest margins on loans to large and medium sized firms. To a lesser extent, the lower price of credit denominated in local currency was due to a slight reduction in the interest rates on unsecured personal loans, more specifically for credit cards.

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

	June 2015 Survey		March 2016 Survey		June 2016 Survey	
	Jun-15	Sept-15*	Mar-16	Jun-16*	Jun-16	Sep-16*
<b>Local Currency (LC) Loans</b>						
Business loans	15.74	15.83	15.33	15.04	14.90	14.92
Personal loans	18.96	18.86	18.40	18.27	18.40	18.78
Reference rate	16.46	18.20	13.34	14.93	16.24	18.15
<b>Average LC rates</b>	<b>17.35</b>	<b>17.35</b>	<b>16.87</b>	<b>16.65</b>	<b>16.65</b>	<b>16.85</b>
<b>Foreign Currency (FC) Loans</b>						
Business loans	13.60	8.70	8.71	9.01	9.27	9.17
Reference rate	9.39	8.84	8.53	8.04	10.29	9.74

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

With respect to interest rates on foreign currency loans, the survey results indicated an overall increase in the price of credit. This was consistent with the reduction in demand that was observed for these loans in the quarter. Lenders cited the depreciation in the exchange rate as the most



significant factor that impacted the cost and availability of foreign currency loanable funds during the quarter (see **Table 1**).

Against this background, the average interest rate on local currency loans fell by **0.3 percentage point (pp) to 16.7 per cent** for the June 2016 quarter (see **Table 1**). Notably, rates on local currency business loans declined by **0.4 pp to 14.9 per cent** while the average rate on personal loans increased to **18.4 per cent** from **18.2 per cent** during the review quarter. With respect to foreign currency denominated loans, lenders reported that the interest rates on business loans increased by **0.6 pp to 9.3 per cent**.

For the September 2016 quarter, lenders anticipated an increase in the price of credit. This was consistent with the expected tightening in credit conditions that was expected for September 2016 quarter. More specifically, interest rates on local currency personal loans and the prime rate were expected to increase (see **Table 1**). In contrast, there was a projected decline in the average interest rate on foreign currency loans. This reduction may possibly reflect efforts to boost the demand for such loans, which has exhibited a trend decline since September 2015 quarter.

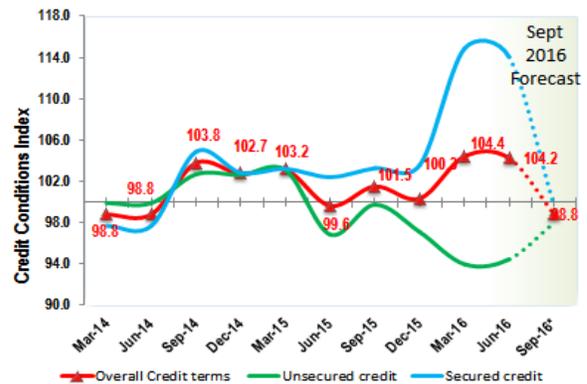
## Personal Lending

### Credit Conditions

Overall lending conditions for personal loans improved in the June 2016 quarter, albeit at a tempered pace relative to the previous quarter (see **Figure 5**). This improvement, which was primarily for secured personal credit stemmed from lower overall interest rates, higher the maximum loan to value ratios and increased maximum repayment periods on loans. These factors kept the index at **104.2**. Creditors remained confident about the overall economy and indicated that the risks associated with lending to households had declined.

For the September 2016 quarter, lending conditions were expected to tighten for both secured and unsecured personal loans. Particularly, lenders were anticipating an increase in the rates for credit cards and other personal secured and unsecured loans.

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

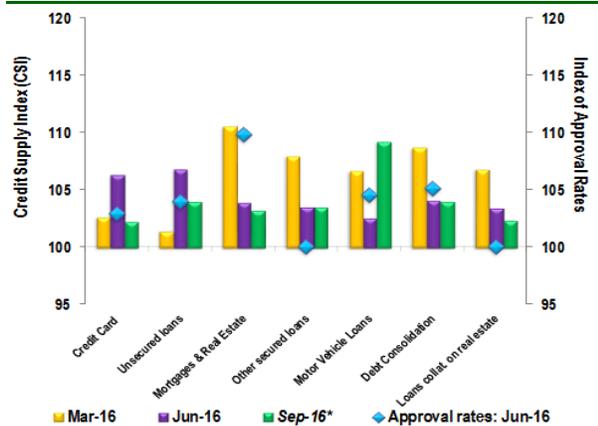
The overall availability of credit to individuals continued to expand for the June 2016 quarter, albeit lower than the March 2016 quarter (see **Appendix A: Table 6**). The fall in the index to **104.4** from **106.4** was reflected across all local currency



loan categories (see **Figure 6**). Lenders stated that increased competition, market share objectives and a further reduction in risk appetite were important factors fuelling the availability of loans.

For the September 2016 quarter, lenders anticipated the supply of credit to remain relatively unchanged and this was evident across all categories, namely debt consolidation, mortgages & real estate motor vehicle loans (see **Appendix A: Table 6 and Figure 5**). This outlook was consistent with lenders' expectation of a reduction in the approval rates on most categories of loans excluding motor vehicles.

**Figure 6: Availability of Credit for Personal Lending**



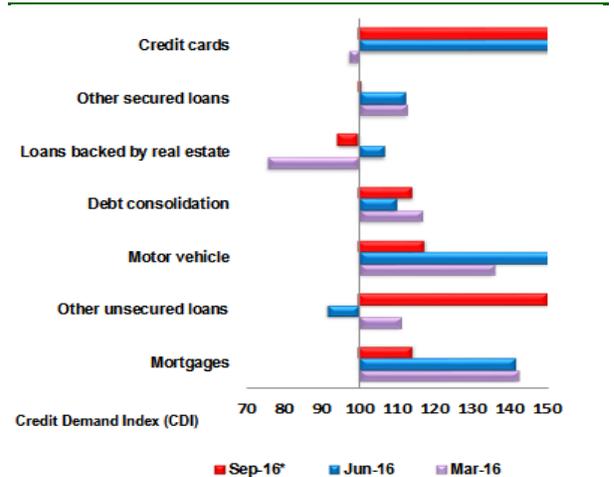
1. CSI less than 100 indicates a decline in credit supply while a CSI greater than 100 indicates an increase.
2. An index less than 100 indicates a reduction in the approval rate while an index greater than 100 indicates an increase.
3. The asterisks (\*) represent forward looking expectations provided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

### Credit Demand

There was a significant increase in the demand for personal credit for the June 2016 quarter which was significantly higher than anticipated in the March 2016 survey. In particular, the index rose to **125.6** when compared to an anticipated increase in the index to **113.8** from the March 2016 survey

(see **Appendix A: Table 6**). The increase in the index was attributed to higher demand for motor vehicles, mortgages and credit cards (see **Figure 7**). Creditors highlighted that important drivers of demand in the review quarter included an increase in loan promotional activities and a reduction in interest rates.

**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 September 2016 quarter, credit demand was anticipated to remain robust mainly through continued easing in lending conditions on other personal unsecured loans and credit cards (see **Figure 7**). Lenders also anticipated that demand would continue to be driven by promotional activities, lower interest rates, as well as positive changes in personal income.

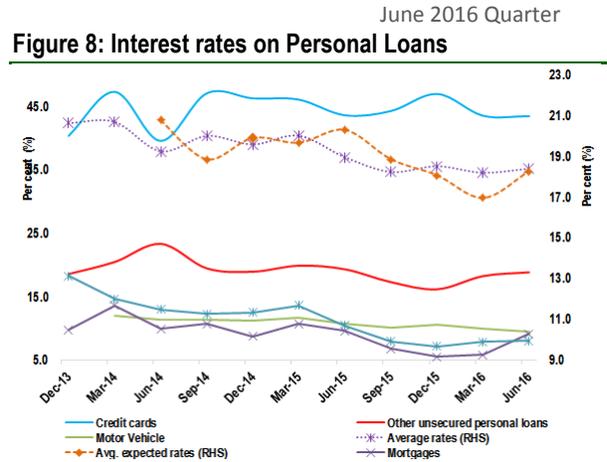
### Price of Credit

Lending rates on personal loans averaged **18.4 per cent** during the quarter, which was higher than the average rate for the previous quarter. The increase in the price of credit on personal loans



was predominantly underpinned by a widening in the interest margin in most loan categories except for motor vehicles (see **Figure 8**).

For the September 2016 quarter, a further increase in the average interest rate to **18.8 per cent** was anticipated. Notably, lenders were anticipating an increase in the interest rates on credit cards, other secured and unsecured personal loans.



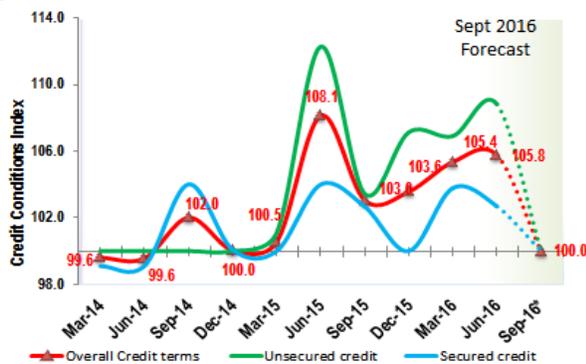
## Micro Business Lending

### Credit Conditions

Lending conditions for micro-businesses eased for the June 2016 quarter relative to the March 2016 quarter (see **Figure 9**). This outturn was primarily driven by less stringent policies applied to secured and unsecured loans. Notably lenders reduced loan monitoring requirements, and lowered interest rates on secured loans and reduced fees. This was supported by an increased in the maximum credit lines as well as the maximum debt service ratio for unsecured loans.

For the September 2016 quarter, credit conditions for micro-sized firms were expected to deteriorate as the price of credit on both secured and unsecured loans was projected to increase in the quarter. As a result, demand for loans by micro business was expected to temper in the next quarter.

**Figure 9: Credit Conditions for Micro-sized Businesses**



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

### Credit Supply

Consistent with the improvement in credit terms, there was an uptick in the supply of credit to micro-sized firms in the June 2016 quarter when compared to the previous quarter. Notably, the CSI surged to **108.3** from **102.7** in the previous quarter. The increase largely reflected a greater supply of local currency loans while the available supply foreign currency was unchanged. The increase in credit supply for local currency was reflected across all economic sectors. This was largely attributed to increased competition, market share objectives and a more positive economic outlook.

For the September 2016 quarter, lenders anticipated continued expansion in the supply of



local credit across most economic sectors. The supply for both *Tourism* and *Distribution* was expected to tighten.

compared to **22.6 per cent** from the previous quarter.

### Credit Demand

The CDI for micro businesses remained relatively to the previous quarter. There was an increase in demand for local currency loans which was partially tempered by a fall in demand for foreign currency loans. The strong demand for local currency loans emanated primarily from *Distribution, Tourism, Transport, Storage & Communication, and Professional & Other Services*. However, there was a decline in the demand for loans from *Agriculture & Fishing* and *Mining & Quarrying*. Lenders reported that during the quarter, the strong increase in demand for local currency loans was most evident for unsecured loans, commercial motor vehicles as well as inventory and working capital financing. For the review quarter, respondents indicated that some important factors that influenced the demand for credit from micro enterprises were mainly increased business activities and competition.

For the September 2016 quarter, lenders anticipated a slight uptick in the demand for loans from micro enterprises. This demand was expected to emanate from the *Transport* and *Manufacturing* sectors. Demand for local currency loans was expected to moderate while foreign currency was expected to improve.

### Price of Credit

For the June 2016 quarter, average lending rates increased for both local and foreign currency loans. In particular, the average interest rate on local currency loans increased to **23.8 per cent**

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

	Local Currency				Foreign Currency			
	March 2016 Survey		June 2016 Survey		March 2016 Survey		June 2016 Survey	
	Mar-16	Jun-16*	Jun-16	Sep-16*	Mar-16	Jun-16*	Jun-16	Sep-16*
Agriculture & Fishing	26.86	21.07	28.82	24.42	n.a	10.80	n.a	11.50
Construction & Land Development	23.47	24.85	18.16	19.03	n.a	n.a	n.a	11.50
Distribution	19.81	24.85	29.65	30.14	n.a	n.a	n.a	11.50
Electricity Gas & Water	19.10	24.85	20.35	19.03	n.a	n.a	n.a	11.50
Entertainment	27.36	25.35	22.34	21.69	9.81	n.a	11.50	11.50
Manufacturing	19.16	25.25	24.12	24.39	n.a	n.a	n.a	11.50
Mining & Quarrying	20.60	24.85	25.70	19.03	n.a	n.a	n.a	11.50
Professional & Other Services	19.60	25.35	19.96	19.03	n.a	n.a	n.a	11.50
Tourism	26.81	24.85	25.02	24.39	10.00	n.a	11.50	11.50
Transport, Storage & Communication	23.10	24.15	23.42	23.42	10.00	n.a	11.50	11.50
<b>Average Rate</b>	<b>22.58</b>	<b>24.54</b>	<b>23.75</b>	<b>22.46</b>	<b>9.94</b>	<b>10.80</b>	<b>11.5</b>	<b>11.5</b>

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

The increase in the lending rates for local currency loans was evident across most economic sectors with the exception of *Construction and Entertainment* sectors. For foreign currency loans, the average lending interest rate increased to **11.2 per cent** for the June 2016 quarter from **9.9 per cent** a quarter earlier. In relation to foreign currency loans, higher rates were observed in all applicable sectors. Though lenders cited that they were more risk tolerant, an increase in the price of credit for this business category would suggest some risk aversion by lenders.

For the September 2016 quarter, the average interest rate on local currency loans was expected to decline as lenders anticipated some diversification in their risk portfolio. However, the



## Small Business Lending

### Credit Conditions

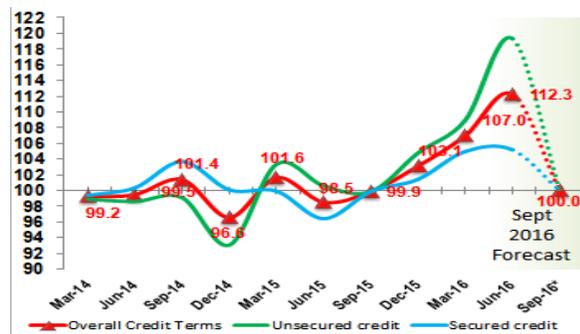
For the June 2016 quarter, lending conditions for small enterprises continued to ease as creditors diversified their risk profile. The outturn recorded an index of **112.3**, which was the highest since the start of the survey and was reflected in improved lending policies for both secured and unsecured loans (see **Figure 10**). Changes in economic outlook, increased competition, market share objective, increased promotional activities, and lower interest rates continued to be important factors influencing the favourable expansion in secured and unsecured credit conditions to small businesses.

a lenders charging a higher price on credit and fees for secured and unsecured loans.

### Credit Supply

There was a marginal decline in credit made available to small businesses for the June quarter relative to the March 2016 quarter as indicated by the reduction in the CSI. This outturn was reflected in a smaller supply for both local and foreign currency loans. The decline in the supply of local and foreign currency credit was reflected in all sectors particularly *Distribution, Manufacturing and Agriculture & Fishing*. Relative to the March 2016 quarter, changes in the economic outlook was now an important factor in determining the availability of loans to small enterprises. Despite an increase in their appetite for risk lenders were still hesitant in their supply of loan to this business size.

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

However, lending conditions going forward were expected to tighten for both secured and unsecured loans. This was expected to result from

For the September 2016 quarter, the CSI for small businesses was expected to be stable. Credit made available in the September 2016 quarter to small businesses was expected to be influenced by changes in economic outlook, competition and market share objectives. Lenders also expressed that the special rate offer to SMEs will be expire and the normal lending rate would be applied in July 2016.

### Credit Demand

Credit demand for local currency loans surged to the highest since the start of the survey. The



expansion in the CDI to **112.3** from **105.7** reflected an increase in demand from all sectors except for *Mining & Quarrying*. However, for foreign loans the CDI reflected further tightening in loan demand where the CDI fell to **86.2** from **99.8**. This tightening reflected across all economic sectors particularly *Tourism* and *Distribution*. Lenders cited that changes in interest rates, business activities and loan promotional activities were very important factors in determining loan demanded for the review quarter.

For the September 2016 quarter, the CDI for local currency loans was expected to decline considerably as a result of an anticipated increase in the price of credit.

**Price of Credit**

For the review period, lenders indicated that the weighted average lending rate on local currency loans to small enterprises increased to **13.8 per cent** from **13.7 per cent**, which was higher than anticipated in the previous survey (see **Table 3**). With respect to foreign currency denominated loans, the average interest rate to small businesses rose by **1.1 pps** to **10.3 per cent** in the review quarter.

For the September 2016 quarter, interest rates on local currency loans were expected to increase to an average of **14.60%** while the price of credit on foreign currency loans was expected to fall by **0.5 pp** to **9.9 per cent**.

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

	Local Currency				Foreign Currency			
	March 2016 Survey		June 2016 Survey		March 2016 Survey		June 2016 Survey	
	Mar-16	Jun-16*	Jun-16	Sep-16*	Mar-16	Jun-16*	Jun-16	Sep-16*
Agriculture & Fishing	13.96	12.13	13.60	13.86	9.00	9.64	9.00	9.81
Construction & Land	14.44	14.30	13.83	14.25	9.00	9.00	9.88	9.63
Development	13.67	12.63	17.04	18.58	9.00	9.63	13.88	9.94
Distribution	12.45	12.50	12.63	12.71	n.a	9.42	0.00	9.94
Electricity Gas & Water	13.96	12.95	13.73	14.78	9.52	9.42	11.31	9.94
Entertainment	13.21	12.38	12.10	14.17	9.00	9.63	9.00	9.94
Manufacturing	13.48	12.95	15.86	14.78	9.17	9.25	9.13	9.81
Mining & Quarrying	13.79	12.53	12.84	14.48	9.75	9.42	10.58	9.94
Professional & Other Services	13.96	12.65	13.88	14.53	9.33	9.42	10.25	9.94
Tourism	13.55	11.85	12.58	13.86	9.33	9.00	9.75	9.63
Transport, Storage & Communication	13.65	12.69	13.81	14.60	9.23	9.38	9.28	9.85
Average Rate	13.65	12.69	13.81	14.60	9.23	9.38	9.28	9.85

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

**Medium-Sized Business Lending**

**Credit Conditions**

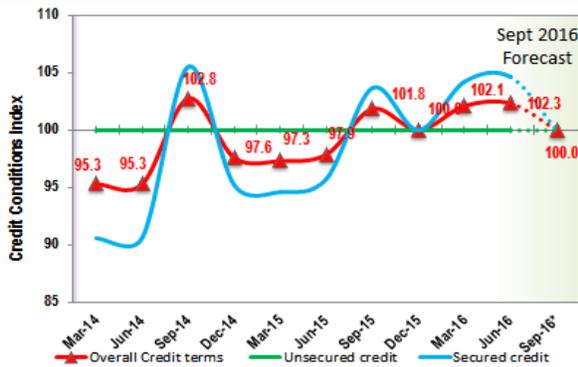
Lending conditions to medium-sized enterprises continued to experience favourable conditions in the June 2016 quarter as both credit supply and demand increased when compared to the previous quarter. The easing in credit conditions for the quarter was mainly reflected in secured credit particularly through a reduction in lending rates on local and

foreign currency loans (see **Figure 11**). For the September 2016 quarter, overall credit conditions were expected to temper, largely owing to an anticipated increase in interest rates.



Bank of Jamaica Credit Conditions Survey

**Figure 11: Credit Conditions for Medium-sized Businesses**



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

### Credit Supply

The supply of credit to medium-sized firms for the June 2016 quarter remained stable relative to the March 2016 quarter with the index of **100.6** indicative of a mild expansion. This expansion was mainly evident in the availability of foreign currency loans to the *Agriculture, Mining and Manufacturing* sectors as the supply of local currency loans declined. In addition, the growth in the CSI was supported by higher approval rates for unsecured loans, commercial motor vehicles as well as inventory and other working capital.

Lenders cited that market share objectives, changes in competition as well as changes in the economic outlook continued to be important factors that influenced the supply of credit in the quarter. Pressures from capital market coupled with changes in economic sector-specific risks and changes in portfolio mix continue to be in line with the BOJ’s policy action in reducing pressures to supply credit.

For the September 2016 quarter, the CSI was expected to moderate slightly to **100.4**, due to the impact of an expected increase in the price of credit on loans to medium sized enterprises. The

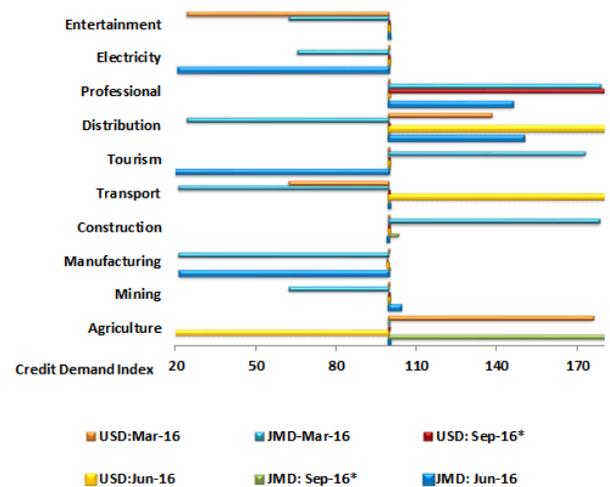
June 2016 Quarter

moderation in the CSI also reflected a moderation in the supply of foreign currency loans as lenders were expecting narrowing conditions.

### Credit Demand

Demand for business loans by medium sized firms increased, albeit at a slower pace, during the quarter and was driven by a reduction in interest rates as well as an increase in maximum credit lines for secured loans. The moderation in credit demand was predominantly evident among loans denominated in local currency and was reflected across most economic sectors except *Construction, Tourism and Professional & Other Services* (see **Figure 12**). Interestingly, the CDI for foreign currency loans surged to the highest level since the start of the survey. This expansion predominantly visible across the *Transport and Distribution* sectors.

**Figure 12: Credit demanded by Medium-sized Businesses**



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

For the September 2016 quarter, an increase in the CDI was expected for both local and foreign currency loans. The anticipated expansion in local currency



loans was expected to emanate specifically from the *Agriculture & Fishing* and *Construction* sectors while demand for foreign currency loans was anticipated to emanate primarily from the *Professional & Other Services* sector.

### Price of Credit

For the review period the weighted average lending rate on local currency loans to medium-sized businesses declined across most economic sectors to average **11.6 per cent**, which was lower than the rate of **13.2 per cent** reported in the March 2016 quarter (see **Table 4**). This, however, was inconsistent with the fall in credit demand by medium sized firms in the review period. With respect to foreign currency loans, lending rates to medium-sized firms averaged **7.8 per cent** for the review quarter which was also lower than the interest rate of **9.9 per cent** that was anticipated in the previous survey.

For the September 2016 quarter, average interest rates on local currency debt expected to increase by **0.53 pps** to average **12.2 per cent**. In particular higher rates were projected on local currency loans to most economic sectors, specifically *Distribution*, *Electricity* and *Professional & Other Services*. In

contrast, the average interest rate on foreign currency credit was expected to moderate by **0.95 pp** despite the sharp rate of depreciation observed in the quarter.

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

	Local Currency				Foreign Currency			
	March 2016 Survey		June 2016 Survey		March 2016 Survey		June 2016 Survey	
	Mar-16	Jun-16*	Jun-16	Sep-16*	Mar-16	Jun-16*	Jun-16	Sep-16*
Agriculture & Fishing	13.23	12.52	10.25	11.01	8.22	9.55	7.50	8.38
Construction & Land Development	13.79	14.39	12.22	12.59	8.75	n.a	8.25	0.00
Distribution	12.05	13.04	12.97	13.23	8.50	9.88	8.25	8.75
Electricity Gas & Water	13.23	13.50	11.67	12.41	7.75	n.a	7.50	8.38
Entertainment	13.23	13.70	11.50	12.21	9.19	9.50	8.15	8.50
Manufacturing	11.93	11.63	10.80	11.23	7.75	9.25	7.50	8.38
Mining & Quarrying	14.55	14.69	13.48	13.20	6.80	n.a	7.50	0.00
Professional & Other Services	12.83	13.00	11.20	12.41	7.75	9.50	7.47	8.90
Tourism	12.18	12.40	11.50	11.31	7.75	9.50	7.50	8.38
Transport, Storage & Communication	13.23	13.50	10.70	12.01	7.25	9.25	7.88	8.38
<b>Average Rate</b>	<b>13.03</b>	<b>13.24</b>	<b>11.63</b>	<b>12.16</b>	<b>7.97</b>	<b>9.49</b>	<b>7.75</b>	<b>6.80</b>

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

## Large Corporations and Commercial Lending

### Credit Conditions

Lending conditions to large businesses remained relatively unchanged to the March 2016 quarter as the overall credit terms index fell to **100.0** from **101.3** (see **Figure 13**). The outturn for the quarter reflected a moderation across all economic

sectors as well as a deterioration in the approval rates across all loan categories.

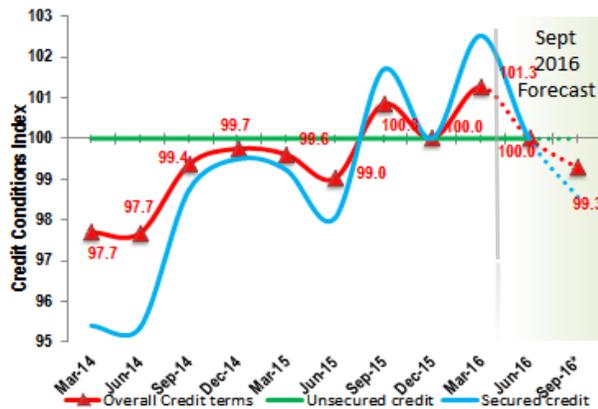
For the September 2016 quarter, credit conditions were expected to tighten for secured loans mainly due to an expected increase in the price of credit



while unsecured loans were forecast to remain unchanged.

institutions may exercise caution in offering additional credit.

**Figure 13: Credit Conditions for Large Businesses**



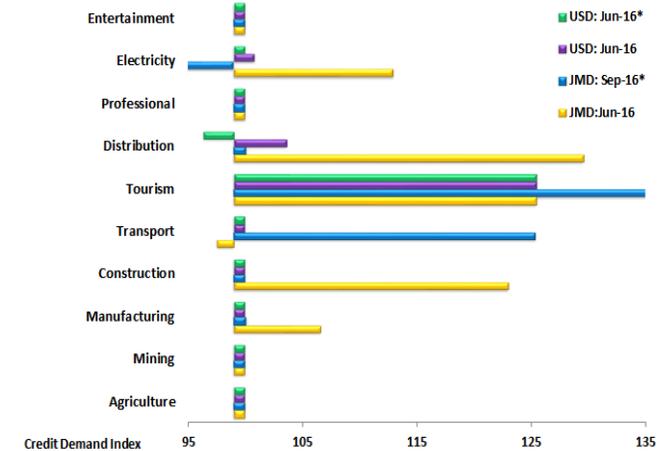
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisks (\*) represent forward looking expectations provided by the respondents.

### Credit Supply

Despite the stable credit conditions, the supply of credit to large businesses continued to expand for the June 2016 quarter. The expansion in the CSI emanated from growth in local and foreign currency loans, which was largely concentrated in the *Distribution* and *Tourism* sectors (see **Figure 14**). Of note, the expansion was due to positive changes in lenders' risk appetite as well as an improvement in lenders' economic outlook.

Credit supply to large businesses, denominated in local currency, was expected to increase in the September quarter while the supply of foreign currency loans was expected to moderate. For local currency loans, the estimated stability in the economy should positively influence credit supply conditions. However, creditors have cited that Government policies and the competitive nature of the business environment guided the direction of their interest rates and as such some

**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.

### Credit Demand

The demand for credit remained robust in the June 2016 quarter and was reflected in both local and foreign currency credit. Even though the CDI moderated to **106.3** from **113.8**, this outturn mainly reflected reduced demand for credit from the *Transport* sector as all other sectors registered stronger credit demand. Additionally, demand for both secured and unsecured loans by large businesses continued to be influenced by important factors such as changes in business activities, lower interest rates and further reductions in macroeconomic risks.

For the September 2016 quarter, demand for credit by large firms was expected to moderate relative to the June 2016 quarter. The demand for both secured and unsecured loans by large businesses was expected to tighten due to an anticipated increase in the price of credit since



lenders were expecting to charge a higher price on credit.

**Price of Credit**

For the review quarter, average lending rates on local and foreign currency loans to large businesses declined (see **Table 5**). The average interest rate on local currency loans reduced by **1.7 pps to 10.4 per cent** and was evident across most economic sectors with the exception of *Agriculture*, while the average interest rate on foreign currency loans was reduced by **0.2 pp to 7.5 per cent** and reflected particularly in *Manufacturing, Transport and Distribution*.

For the September 2016 quarter, the average interest rate on local currency loans to large businesses was expected to increase marginally to **10.47 per cent** while the average interest rate on foreign currency credit was expected to trend downwards to **6.83 per cent**.

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

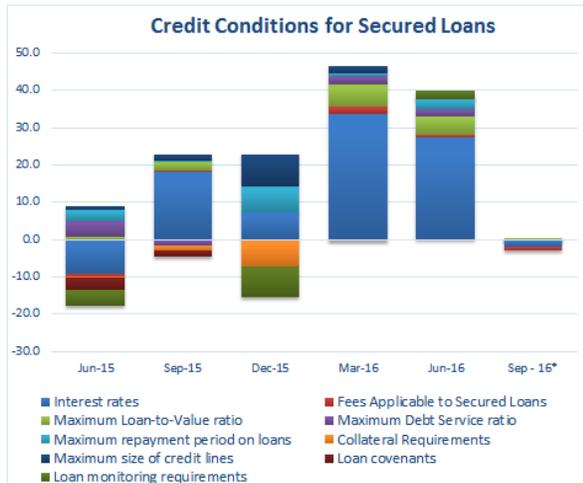
	Local Currency		Foreign Currency					
	March 2016 Survey		June 2016 Survey		March 2016 Survey		June 2016 Survey	
	Mar-16	Jun-16*	Jun-16	Sep-16*	Mar-16	Jun-16*	Jun-16	Sep-16*
Agriculture & Fishing	11.66	9.14	12.00	10.63	8.00	6.34	7.58	6.86
Construction & Land Development	13.31	10.00	10.50	10.70	8.00	6.40	8.23	6.86
Distribution	11.22	9.78	9.80	10.26	8.00	6.40	7.58	6.86
Electricity Gas & Water	11.63	9.84	10.60	10.57	7.75	6.40	7.58	6.86
Entertainment	12.90	9.84	10.00	10.57	7.25	6.40	7.68	6.86
Manufacturing	11.03	9.22	10.50	9.99	7.83	6.40	5.77	6.93
Mining & Quarrying	12.90	10.25	10.00	10.99	6.96	6.40	7.58	6.74
Professional & Other Services	12.43	9.84	9.83	10.57	8.00	6.40	7.58	6.86
Tourism	11.93	9.09	10.43	9.99	7.09	6.02	7.80	6.61
Transport, Storage & Distribution	11.76	9.84	10.50	10.49	8.00	6.40	7.72	6.86
<b>Average Rate</b>	<b>12.08</b>	<b>9.68</b>	<b>10.42</b>	<b>10.47</b>	<b>7.69</b>	<b>6.36</b>	<b>7.51</b>	<b>6.83</b>

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



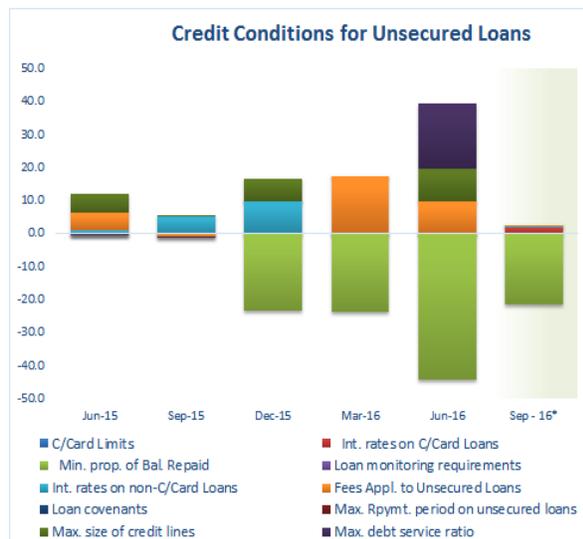
## Appendix A: Overall Credit Market Conditions

**Figure 15: Credit Conditions for Secured Loans**



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

**Figure 16: Credit Conditions for Unsecured Loans**



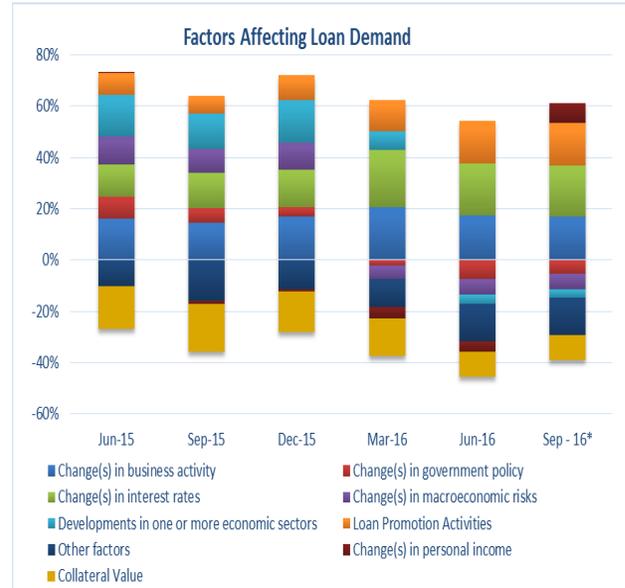
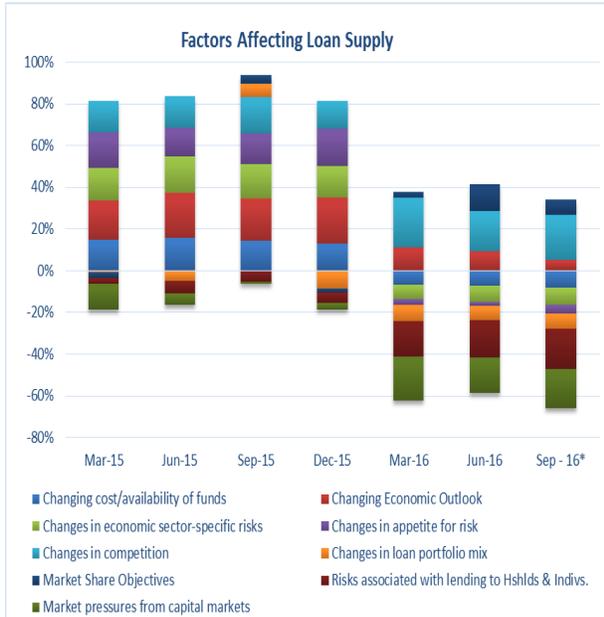
- Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
- Indices for the September quarter are computed based on forward looking expectations provided by respondents.

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

	June 2015 Survey		March 2016 Survey		June 2016 Survey	
	Jun-15	Sept-15*	Mar-16	Jun-16*	Jun-16	Sep-16*
<b>Credit Supply Indices</b>						
<b>Credit Supply Index (CSI)</b>	103.2	104.2	104.3	104.3	103.8	102.8
Credit to businesses	103.9	105.7	103.2	103	103.5	102.2
Personal credit	101.8	101.2	106.4	107	104.4	104.1
Credit in Jamaica Dollar	106.1	107.9	103.6	103.7	104.4	98.5
Credit in U.S Dollar	101.8	103.5	102.7	102.3	105.2	109.6
<b>Credit Demand Indices</b>						
<b>Credit Demand Index (CDI)</b>	104.1	107.4	106.3	106.2	111.8	109.3
Demand by businesses	98.0	108.4	103.1	102.5	105.0	102.6
Demand by individuals	116.2	105.5	112.8	113.8	125.6	122.7
Credit in Jamaica Dollar	95.5	117.1	104.96	103.8	109.5	107.7
Credit in U.S dollar	100.6	99.6	101.17	101.09	103.0	102.2

1. \*Expectations for the upcoming  
2. n.a suggests that no data was  
3. indices greater than 100

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





## Appendix B: Glossary and Key Definitions

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

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^2$$

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) was therefore the net percentage balance of opinion, computed as the difference between the weighted balance of lenders reporting an increase in the index and those reporting a decline.

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

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

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

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

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

<sup>2</sup>  $ss$  = percentage of respondents selecting “substantially stronger” or “substantially tightened”

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

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

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

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

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

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
<b>Micro Businesses</b>	Less than US\$10,000.00	Less than US\$100,000.00
<b>Small Businesses</b>	US\$10,000 < Loan Size < \$US100,000	US\$100,000.00 < Sales < US\$5.0 million
<b>Medium-sized Businesses</b>	US\$100,000 < Loan Size < US\$1.0 million	US\$5.0 million < Sales < US\$25.0 million
<b>Large, Corporate &amp; Commercial Businesses</b>	Greater than US\$1.0 million	Greater than US\$25.0 million

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

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