

Quarterly Credit Conditions Survey Report



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March 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 March 2015 survey which was conducted between 16 April 2015 and 13 May 2015.

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

Surveys Completed by Each Institution

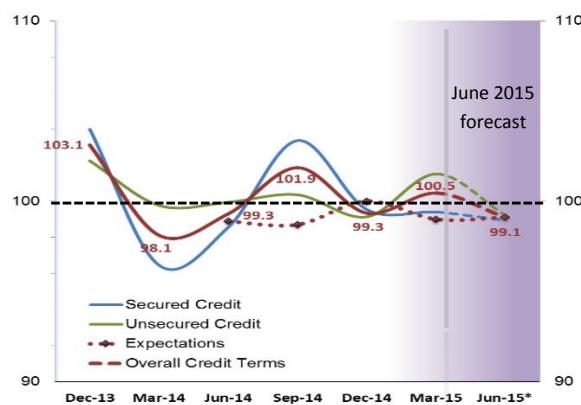
	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	4	6	4	6
Building Societies	3	3	0	0	0	0
Near Banks	2	2	1	1	2	2
Credit Unions	6	6	6	4	4	5
Total	17	17	11	11	10	13



Overview

The results of the BOJ's QCCS for the March 2015 quarter indicated that credit conditions improved marginally relative to the December 2014 quarter (see **Figure 1** and **Table 1**). This improvement was primarily due to less restrictive lending policies applied to unsecured loans. More specifically, interest rates on non-credit card and credit card lending fell sharply. Lenders reported that in order to meet market share objectives, credit card loans was a targeted growth area for the March 2015 quarter. However, for the June 2015 quarter, lenders anticipated a tightening in credit market conditions, which would reflect more stringent policies for secured and unsecured loans (see **Appendix A: Figure 18 and Figure 19**).

Figure 1: Index of Credit Market Conditions



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

Table 1: Credit Demand and Supply Indices

	March 2014 Survey		December 2014 Survey		March 2015 Survey	
	Mar-14	Jun-14*	Dec-14	Mar-15*	Mar-15	Jun-15*
Overall credit conditions Index						
<i>Credit Conditions Index (CCI)</i>	98.1	98.9	99.3	99.0	100.5	99.1
Credit Supply Indices						
<i>Credit Supply Index (CSI)</i>	106.0	102.1	103.7	105.6	101.4	105.9
Credit to businesses	104.6	102.1	102.5	105.7	101.9	107.3
Personal credit	108.8	112.3	106.1	102.6	100.4	103.3
Credit in Jamaica Dollar	108.9	103.4	103.2	106.1	101.8	111.1
Credit in U.S Dollar	100.3	100.7	101.9	105.3	104.9	103.5
Credit Demand Indices						
<i>Credit Demand Index (CDI)</i>	98.7	103.5	99.5	110.8	106.2	107.0
Demand by businesses	97.9	98.9	95.9	111.9	103.9	109.3
Demand by individuals	100.1	112.7	106.7	108.6	110.8	102.5
Credit in Jamaica Dollar	107.0	104	94.5	125.9	111.9	117.4
Credit in U.S dollar	88.9	93.9	97.4	97.9	95.9	101.2

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

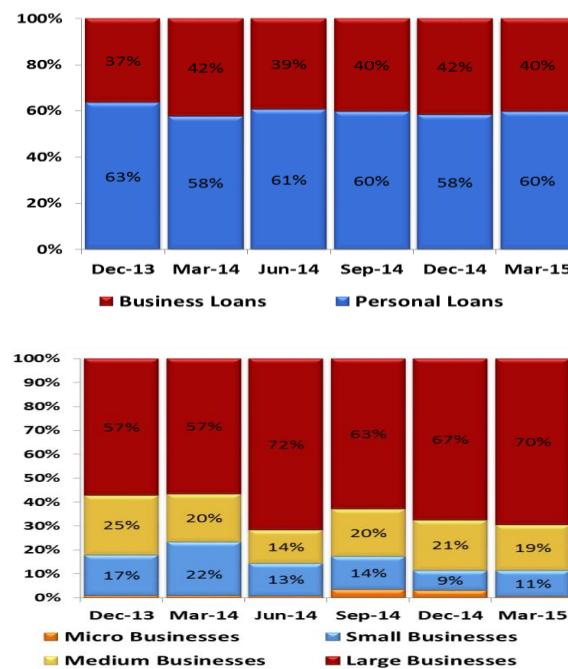
Credit Supply

For the March 2015 quarter, the supply of credit remained robust as reflected in the Credit Supply Index (CSI) of **101.4**. However, the increase in the CSI was lower than the **105.6** anticipated in the previous survey. The outturn for the review quarter reflected increases for both local and

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foreign currency lending facilities, accessible to both businesses and households (see **Table 1**). Personal loans continued to account for the greater proportion of the credit supplied, although its share has declined since the June 2014 survey (see **Figure 2**). Of the credit allocated to businesses, there was a redistribution of credit, mainly from medium businesses to large and small firms. Concurrently, the allocation of credit to micro firms declined to **1.0%**, in contrast to the increase recorded in the last two surveys. Lenders reported that while they have continued to explore initiatives to improve lending to micro-business markets, the inability of the business owners to provide credible financial information and satisfactory collateral continues to stymie lending to this segment.

Figure 2: Distribution of Private Sector Credit¹



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

Some lenders highlighted that the expansion in credit supply for the review quarter was largely influenced by aggressive competition among creditors. In addition, lenders noted that the activation of the credit bureau has had a positive impact on their risk appetite in the context of more reliable information being made available on prospective borrowers. Notwithstanding, lenders continue to report that the economic environment and the pace of depreciation of the exchange rate have affected their ability to respond to credit requests.

For the June 2015 quarter, lenders anticipated a stronger increase in overall credit availability, reflecting expansions in all loan categories (see **Table 1**). This expansion should be underpinned by an improvement in economic outlook as well as positive changes in lenders' risk appetite. Of note, some creditors indicated that they plan to strategically diversify their loan portfolio in order to stimulate new loans. Additionally, lenders reported that they will continue to design specific products in order to expand credit to small businesses, which are less sensitive to interest rate changes than large corporations and given their perceived importance to the economy.

Credit Demand

The Credit Demand Index (CDI) indicated that there was an increase in the demand for loans for the March 2015 quarter. The CDI of **106.2** reflected the first reported increase in demand since the June 2014 survey (see **Table 1**). The upsurge in the overall demand for credit for the



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review quarter predominantly reflected strong requests for local currency loans, which was dominated by personal loans. Notably, the increase in personal loans was reflected in all categories covered by the survey. In particular, there was a strong demand for *credit cards* and *loans collateralized by real estate*. The reduction in interest rates on credit cards may have contributed to the uptick in demand for this loan type.

With regard to local currency business loans, the survey results indicated that the increase in demand was mainly driven by the *Distribution* and *Transport, Storage & Communication* sectors. Lenders stated that an improvement in businesses' outlook for the economy and reduced interest rates on business loans had a positive impact on demand for business loans. In this context, lenders noted that more businesses are opting to borrow instead of funding from cash flows. However, the demand for foreign currency business loans declined during the review quarter. Lenders indicated that the volatility in the exchange rates during the review quarter was the primary factor behind the decline in this facility. The decline in demand for foreign currency business loans was reflected in all sectors, with the exception of *Manufacturing* and *Distribution*.

For the June 2015 quarter, the demand for credit is anticipated to increase further as reflected in the CDI of **107.0** (see **Table 1**). It is anticipated that this uptick will emanate from both households' and businesses' demand for local and foreign 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 covered by the survey. In particular, strong demand is expected for *personal motor vehicle loans* as a result of improved lending terms associated with the approval of motor vehicle loans.

Price of Credit

Interest rates on local currency loans increased for the March 2015 quarter relative to the December 2014 quarter (see **Table 2**). The higher interest rates are consistent with the overall increase in demand for local currency loans.

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

Against this background, average rates on local currency loans rose by **1.18 percentage points (pps)** for the March 2015 quarter (see **Table 2**). Of note, rates on local currency personal loans rose by **0.43 pps** to **20.02%** while rates on local currency business loans declined to **14.61%** from **14.78%** during the review quarter. Despite the overall increase in interest rates on foreign currency denominated loans, lenders reported that interest rates on foreign currency business loans fell by **0.22 pps**.



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

	March 2014 Survey		December 2014 Survey		March 2015 Survey	
	Mar-14	Jun-14*	Dec-14	Mar-15*	Mar-15	Jun-15*
Local Currency (LC) Loans						
Business loans	15.39	17.13	14.78	14.58	14.61	15.63
Personal loans	20.69	20.78	19.59	19.67	20.02	20.30
Prime rate	16.90	16.93	13.20	13.67	16.47	16.31
Average LC rates	17.66	18.28	15.86	15.97	17.03	17.41
Foreign Currency (FC) Loans						
Business loans	7.94	9.57	8.53	9.29	8.31	8.81
Prime Rate	9.06	9.16	9.34	9.13	10.60	8.96
Average FC rates	8.50	9.37	8.94	9.21	9.46	8.89

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

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

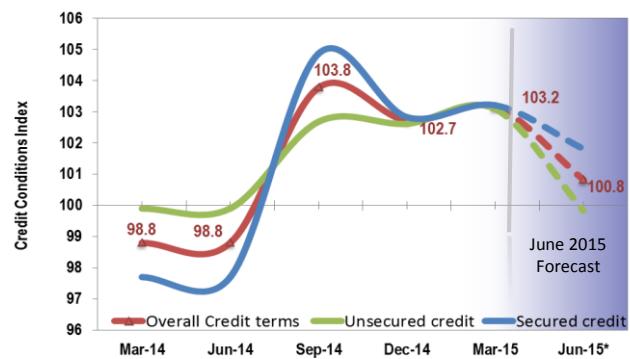
Personal Lending

Credit Conditions

Credit conditions for personal loans eased in the March 2015 quarter relative to the December 2014 quarter (see **Figure 3**). This improvement reflected easing in credit conditions for both secured and unsecured loans. In particular, the there were lower interest rates on non-credit card and lending for unsecured loans, lower interest rates on secured loans as well as increases to the maximum repayment period and the maximum debt service ratio for these loans.

Lending conditions are expected to ease slightly in the June 2015 quarter as loan terms as the only anticipated change was an improvement in the maximum loan-to-value ratio.

Figure 3: Credit Conditions for Personal Lending



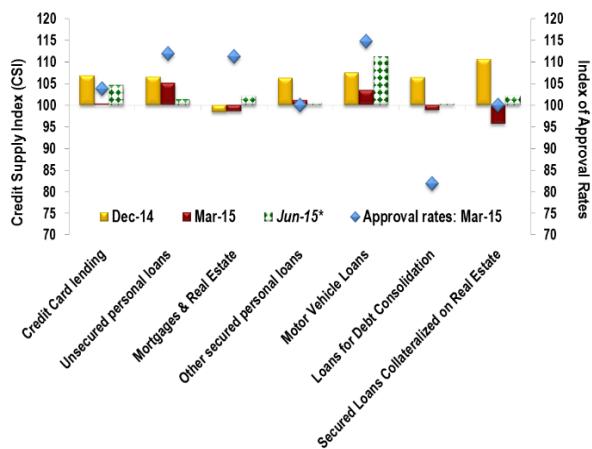
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions.



Credit Supply

The availability of credit to individuals increased marginally in the March 2015 quarter relative to the December 2014 quarter (see **Table 1**). This increase was reflected in *Unsecured personal loans*, *Motor Vehicle Loans*, *Other secured personal loans* and *Credit Card lending* as credit tightened for *Mortgages & Real Estate*, *Loans for Debt Consolidation* and *Secured Loans Collateralized on Real Estate* (see **Figure 4**).

Figure 4: Availability of Credit for Personal Lending



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

The marginal increase in the supply of personal loans coincided with generally higher approval rates on all loan categories with the exception of *Loans for Debt consolidation*, which declined, and *Other secured personal loans* and *Secured personal loans*, which remained the same (see **Figure 4**). Changes in competition was cited as the

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most significant driver behind the expansion in the supply of funds to households. It was noted that competition was influencing the structure of loans, as demand is declining and as such the institutions are targeting the same persons.

For the June 2015 quarter, lenders anticipate a further increase in the supply of personal loans (See **Table 1**). It is expected that the expansion should be reflected in all categories of loans covered by the survey (see **Figure 4**). This outlook is consistent with lenders indicating that they will increase approval rates on all categories of loans. The lenders noted that the most important factors that will influence the supply of personal loans in the June 2015 quarter are competition, the economic outlook and changes in their risk appetite.

Credit Demand

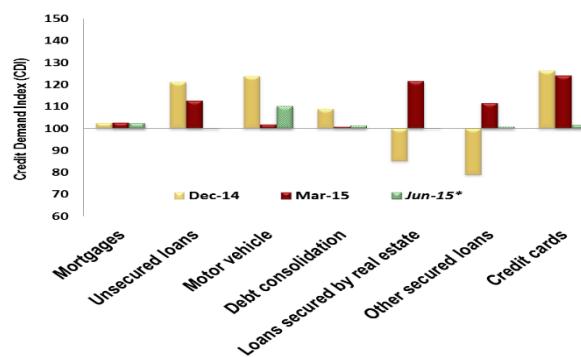
Lenders indicated that the demand for personal loans increased to **110.8** in the March 2015 quarter relative to **106.7** in the December 2014 quarter (see **Table 1**). This increase in demand for personal loans is consistent with the trend over the last four quarters. The increase in demand during the review quarter reflected across all categories of loans, with the lenders highlighting strong demand for *Credit cards* and *Other lending secured on real estate* (see **Figure 5**). The lenders cited changes in interest rates as the most significant driver of demand for both secured and unsecured personal loans during the review quarter. In addition, macroeconomic risk was cited as a significant driver of demand for unsecured credit.



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For the June 2015 quarter, credit demand was anticipated to increase marginally in all loan categories (see **Figure 5**). In particular, there is expected to be moderately strong demand for motor vehicle loans. Loan promotion activities and interest rates are expected to be the main drivers behind the demand for both secured and unsecured personal loans.

Figure 5: Demand for Personal Loans



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

Price of Credit

Lenders indicated that there was an overall increase in lending rates on personal loans to

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20.02% for the March 2015 quarter, which was higher than the average rate of **19.67%** expected in the previous survey, as well as the reported rate of **19.59%** for the December 2014 quarter. The higher average rate for the review quarter was reflected in *Mortgages*, *Other unsecured personal loans*, and *Other secured personal loans* (see **Table 3**). For the June 2015 quarter, average rates on personal loans are expected to increase to **20.3%** as increases are anticipated across all categories of personal loans.

Table 3: Interest Rates on Personal Loans

	March 2014 Survey		December 2014 Survey		March 2015 Survey	
	Mar-14	Jun-14*	Dec-14	Mar-15*	Mar-15	Jun-15*
Credit cards	47.33	47.33	46.30	46.30	46.10	46.30
Other unsecured personal loans	20.48	20.69	18.94	19.37	19.89	20.59
Motor Vehicle	11.97	11.90	11.21	11.19	10.78	10.90
Mortgages	11.67	11.59	10.16	10.16	11.67	11.83
Other secured personal loans	12.01	12.37	11.33	11.33	11.64	11.89
Average rates	20.69	20.78	19.59	19.67	20.02	20.30

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

Micro Business Lending

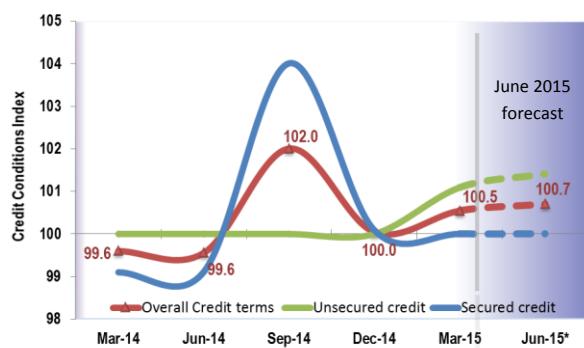
Credit Conditions

Lending conditions for micro-businesses eased marginally for the March 2015 quarter relative to the December 2014 quarter (see

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Figure 6). This was primarily driven by less stringent policies applied to unsecured credit, namely reduced interest rates on non-credit card lending. For the June 2015 quarter, credit conditions are again expected to ease due to loosening in loan monitoring requirements and loan covenant compliance requirements.

Figure 6: Credit Conditions for Micro Businesses



1. 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 decrease in the quantity of credit made available for lending to micro enterprises for the March 2015 quarter relative to the December 2014 quarter. This decline, reflected in a CSI of **94.4**, emanated from a fall in the supply of local currency loans, as the amount available for foreign currency credit remained unchanged at **100.0** since the March 2014 survey. The reduction in the supply of local currency credit was mainly reflected in the *Manufacturing*, *Mining* and *Agriculture* sectors (see

Figure 7).

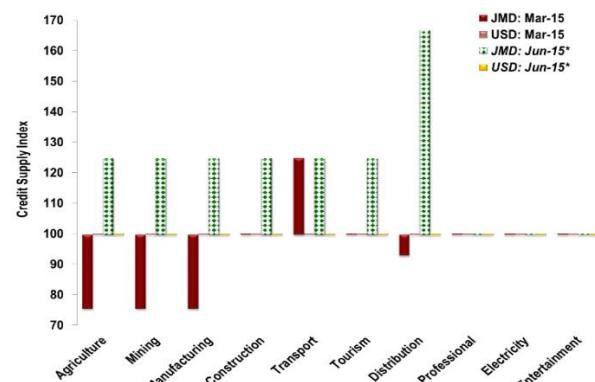
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The contraction in credit supplied to micro businesses was influenced by lower approval rates on all loan categories, with the exception of credit applications for *commercial real estate loans*. Lenders indicated that the decline in credit availability for the March 2015 quarter was mainly driven by changes in lenders' market share objectives. Of note, some lenders indicated that for the March 2015 quarter, they slightly shifted their focus to target larger corporations and personal lending given the heightened competition among creditors in these business segments.

Figure 7: Availability of Credit to Micro 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 June 2015 quarter, lenders anticipate an increase in the amount of Jamaica Dollar credit to be made available to micro businesses, particularly in the *Distribution* sector, while no change is expected for foreign currency loans (see

Figure 7). As a result, lenders expect an increase in approval rates for all categories of loans covered by the survey, excluding loans for acquiring or repairing plant & equipment. Furthermore, lenders expect that the expansion in credit availability will mainly result from changes in lenders' appetite for risks and the cost/availability of funds.

This demand is expected to emanate from all sectors. In particular, demand is expected to surge from the *Manufacturing, Agriculture & Fishing* sectors and *Professional & Other Services*, while no growth in demand for foreign currency loans is expected relative to the review quarter (see **Figure 8**). The projected increase in the CDI for the June 2015 quarter reflects the expected impact of greater loan promotional activities and a decline in interest rates on unsecured loans.

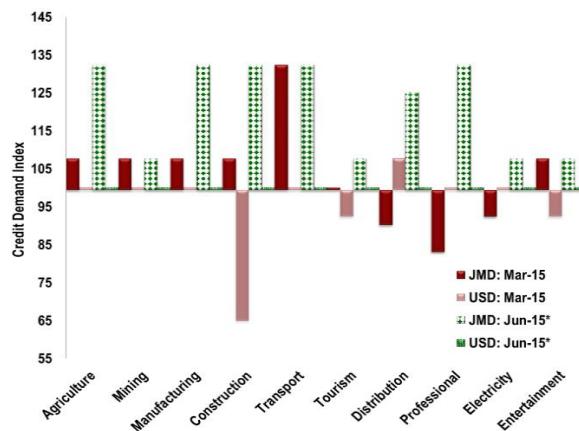
Credit Demand

The CDI for local currency loans to micro business increased for the March 2015 quarter relative to the December 2014 quarter, while the demand for foreign currency loans largely declined (see **Figure 8**). The higher CDI for local currency loans was reflected in a rise in demand from firms within most economic sectors, despite the generally higher interest rates across the sectors. Notwithstanding the overall increase in the CDI for various micro business sectors for the review quarter, lenders reported there was a decline in demand for most loan categories. However, there was strong demand for loans for *commercial motor vehicles*.

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

For the June 2015 quarter, lenders anticipate a significant increase in the CDI for micro enterprises, particularly for local currency loans.

Figure 8: 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.

Price of Credit

For the March 2015 quarter, lending rates on local currency loans to micro businesses increased relative to the December 2014 survey. In particular, interest rates averaged **21.12%** for the review quarter, **1.84 pps** higher than the lending rate reported for the December 2014 quarter.²

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



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The highest interest rates were recorded amongst *Agriculture & Fishing*, and *Manufacturing* (see **Table 4**).

Interest rates on foreign currency loans to the micro business sector averaged **8.88%** for the review quarter relative to the expectation for an average rate of **9.75%** for the quarter. The outturn for the quarter could be attributed to the overall contraction in demand for these loans. In this context, only firms in the *Electricity, Gas & Water* sector were offered foreign currency loans during the March 2015 quarter (see **Table 4**).

For the June 2015 quarter, local currency lending rates are expected to increase further by **1.16 pps** to **22.28%**. This increase will be reflected in higher interest rates on loans to all sectors, with the exception of *Entertainment*. In contrast, interest rate on foreign currency loans are expected to decline for the June 2015 quarter.

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Table 4: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	December 2014 Survey		March 2015 Survey		December 2014 Survey		March 2015 Survey	
	Dec-14	Mar-15*	Mar-15	Jun-15*	Dec-14	Mar-15*	Mar-15	Jun-15*
<i>Agriculture & Fishing</i>	12.67	13.68	24.53	25.50	n.a	9.75	n.a	8.50
<i>Construction & Land Development</i>	20.05	17.17	18.55	21.50	n.a	9.75	n.a	8.50
<i>Distribution</i>	25.94	25.26	24.93	25.33	n.a	9.75	n.a	8.50
<i>Electricity Gas & Water</i>	26.00	21.13	20.50	21.25	n.a	9.75	8.88	8.50
<i>Entertainment</i>	18.63	13.25	22.13	21.88	n.a	9.75	n.a	8.50
<i>Manufacturing</i>	12.78	13.75	21.53	21.88	n.a	9.75	n.a	8.50
<i>Mining & Quarrying</i>	26.50	17.92	18.75	21.50	n.a	9.75	n.a	8.50
<i>Professional & Other Services</i>	16.05	14.69	20.91	21.88	n.a	9.75	n.a	8.50
<i>Tourism</i>	18.00	17.50	19.75	21.25	n.a	9.75	n.a	8.50
<i>Transport, Storage & Communication</i>	16.14	14.88	19.63	20.88	n.a	9.75	n.a	8.50
Average Rate	19.28	16.92	21.12	22.28	n.a	9.75	8.88	8.50

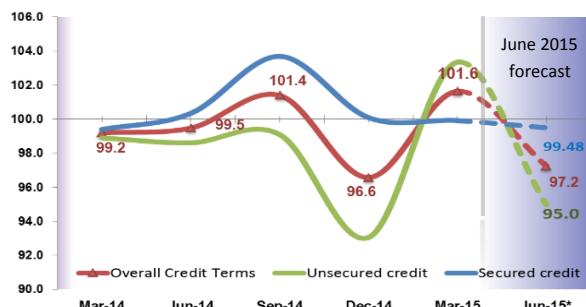
1. The asterisks (*) represent forward looking expectations provided by the respondents.

Small Business Lending

Credit Conditions

Lending conditions generally eased for small businesses in the March 2015 quarter relative to the December 2014 quarter (see **Figure 9**). This was primarily attributed to looser conditions for unsecured lending due in particular to moderate declines in interest rates on non-credit card loans. However, the easing in overall lending conditions was tempered by the tightening of loan monitoring requirements and covenants, as well as greater restrictions to the maximum size of credit lines for unsecured loans. In addition, there were tighter credit conditions for secured loans.

For the June 2015 quarter, credit conditions were expected to tighten, reflected in both secured and unsecured loans.

Figure 9: 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 March 2015 quarter relative to the December 2014 quarter, reflected in a CSI of **101.6**. There was also an increase in the supply of foreign currency loans relative to the December 2014 quarter. The increase in the supply of local currency credit was to *Manufacturing*, *Tourism* and *Professional & Other Services* while there was increased availability of foreign currency credit to *Transport*, *Storage & communication* and *Entertainment* (see **Figure 10**).

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

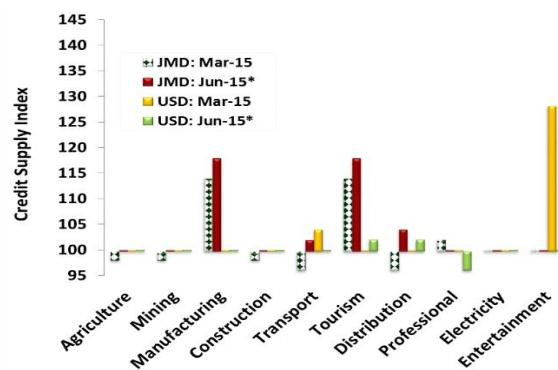
The lenders cited their economic outlook, changes in economic sector-specific risks and changes in

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appetite for risk as the most important factors influencing credit availability to small businesses. It was also noted there are increased efforts to designing credit packages suitable for this market segment.

Figure 10: Availability of Credit to Small Businesses


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

For the June 2015 quarter, the CSI for small businesses is anticipated to increase due mainly to the increased availability of local currency loans, as the supply of foreign currency loans is expected to be consistent with the March 2015 quarter (see **Figure 10**). The expected increase in the CSI for local currency loans should predominantly be in *Construction & Land Development* and *Tourism*. The main drivers of credit supply to small businesses in the June 2015 quarter are expected to be the economic outlook, economic sector-specific risks and changes in lenders' risk appetite. It was noted that the inability of small businesses to demonstrate equity and provide credible financial information have constrained lending to this grouping.



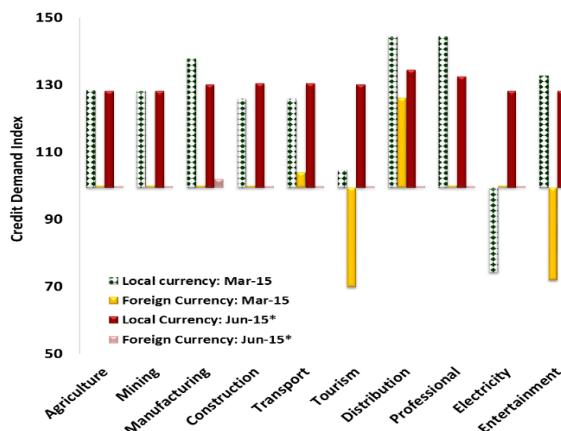
Credit Demand

The CDI for local currency loans for small businesses increased for the March 2015 quarter relative to the December 2014 quarter. This increase was reflected in all sectors with the exception of *Electricity, Gas & Water*. However, there was weaker demand for foreign currency loans, as demand from the economic sectors either declined or was largely unchanged, with the exception of *Distribution* (see **Figure 11**).

Despite an overall increase in the CDI for small businesses for the March 2015 quarter, there was weaker demand for most of the loan categories. However, there was moderately stronger demand for *loan refinancing, loan guarantees, unsecured loans and other loans* relative to the December 2014 quarter.

For the June 2015 quarter, the CDI for local currency loans is expected to increase moderately, while demand for foreign currency loans is anticipated to increase slightly relative to the March 2015 quarter. Lenders continue to anticipate stronger demand for local currency loans from all economic sectors. However, the slight uptick in demand for foreign currency loans is expected to mainly emanate from *Manufacturing*. Demand for secured loans is expected to be influenced by changes in business activity, interest rates, macroeconomic risks and loan promotion activities. Demand for unsecured credit by small businesses is expected to be significantly influenced by loan promotion activity.

Figure 11: 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 increased to **14.22%** on average, which was higher than the rate of **13.9%** anticipated in the previous survey and the average rate of **12.85%** for the December 2014 quarter (see **Table 5**). The largest increases in rates were applied to small business firms in *Professional & Other Services, Mining & Quarrying* and *Agriculture & Fishing* while the lenders indicated that rates were cut for small firms in *Electricity, Gas & Water, Distribution, Entertainment* and *Transport, Storage & Communication*. For the June 2015 quarter, interest rates on local currency loans are expected to increase to average **14.64%** for the quarter. This increase should reflect higher rates on loans to firms in *Construction & Land Development, Electricity, Gas & Water, Entertainment, Transport, Storage & Communication* and *Mining & Quarrying*.



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Table 5: Interest Rates on Loans

	Local Currency			Foreign Currency				
	December 2014 Survey		March 2015 Survey		December 2014 Survey		March 2015 Survey	
	Dec-14	Mar-15*	Mar-15	Jun-15*	Dec-14	Mar-15*	Mar-15	Jun-15*
Agriculture & Fishing	10.00	11.69	13.61	12.80	n.a	8.70	9.00	9.31
Construction & Land Development	13.19	16.89	13.97	16.36	n.a	9.30	9.00	9.88
Distribution	16.48	14.84	15.06	14.98	n.a	8.95	9.00	9.44
Electricity Gas & Water	15.95	17.26	14.08	15.87	n.a	9.55	0.00	10.19
Entertainment	15.18	15.11	14.75	16.07	12.00	9.55	9.00	10.19
Manufacturing	10.89	12.12	13.41	12.33	9.75	10.88	8.94	10.19
Mining & Quarrying	10.00	12.94	14.06	14.89	n.a	8.70	9.00	9.31
Professional & Other Services	11.80	12.43	16.15	15.31	6.00	9.55	9.00	10.19
Tourism	10.00	11.84	12.69	12.20	11.50	8.70	11.00	9.44
Transport, Storage & Communication	14.99	13.97	14.42	15.57	n.a	9.30	11.50	9.88
Average Rate	12.85	13.91	14.22	14.64	9.81	9.32	9.49	9.80

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

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March 2015 Quarter

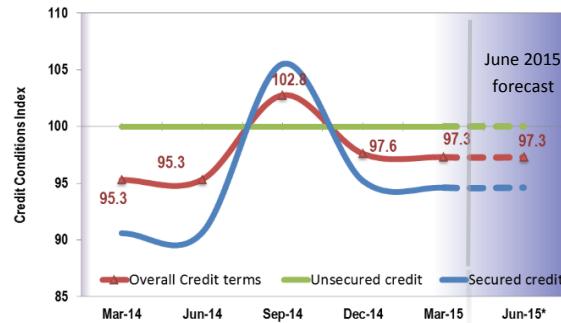
The average rate on foreign currency credit to small businesses fell to **9.49%** in the review quarter from **9.81%** in the December 2014 quarter. The lenders also indicated that foreign currency loans were made available to more sectors than in the December 2014 quarter, consistent with their expectations in the December quarter. For the June 2015 quarter, lenders indicate that they will largely increase rates on foreign currency loans, consequently an average rate of **9.80%** is anticipated.

Medium-Sized Business Lending

Credit Conditions

Lending conditions for medium-sized businesses tightened further during the March 2015 quarter, relative to the December 2014 quarter (see Figure 12). This outcome was underpinned by higher interest rates on secured loans as well as greater loan covenant compliance and loan monitoring requirements. For the June 2015 quarter, credit conditions are expected to remain unchanged relative to the March 2015 quarter, despite anticipated increases in interest rates and loan monitoring requirements for secured loans.

Figure 12: 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.

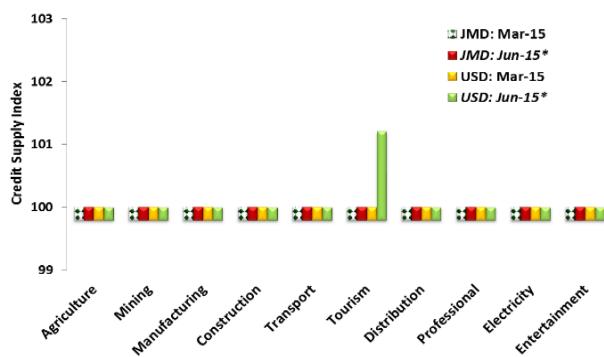


Credit Supply

The supply of credit to medium-sized businesses for the March 2015 quarter was generally unchanged relative to the December 2014 quarter reflecting no growth in the supply of local and foreign currency loans (see **Figure 13**). Some lenders reported that they have not changed their policy regarding the availability of credit to this business segment. Consequently, this would have contributed to the stability in the CSI for medium-sized businesses in the review quarter. In spite of the unchanged CSI, higher approval rates were recorded for a few loan applications, particularly for *inventory & working capital*.

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

Figure 13: Availability of Credit to Medium-sized Businesses



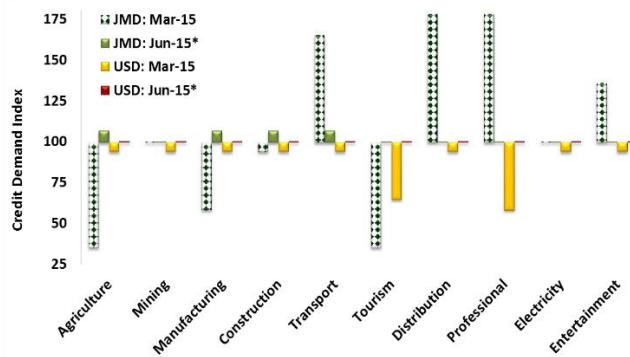
1. An index less than 100 indicates a reduction in the Credit availability while an index greater than 100 indicates an increase.
2. The asterisks (*) represent forward looking expectations provided by the respondents.

Credit Demand

The CDI for local currency loans for medium-sized businesses increased for the March 2015 quarter, relative to the December 2014 quarter. In contrast, the CDI for foreign currency loans declined significantly. The increase in the CDI for local currency loans was reflected in most economic sectors, with the *Distribution* and *Professional & Other Services* sectors being the main drivers behind the increase. With respect to foreign currency loans, the decline in the CDI was reflected in all economic sectors (see **Figure 14**).

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

Figure 14: 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 June 2015 quarter, the demand for local currency loans for medium-sized businesses is expected to moderate slightly while the demand



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for foreign currency loans is expected to increase relative to the March 2015 quarter. The increased local currency loan demand is anticipated to emanate from all economic sectors. Changes in business and promotional activities are expected to stimulate demand for local currency loans over the June 2015 quarter.

Price of Credit

For the review period, the weighted average lending rate on local currency loans to medium-sized businesses across all sectors averaged **12.89%**, which was higher than the **10.45%** reported in the December 2014 quarter (see **Table 6**). Firms in *Entertainment* and *Mining & Quarrying* were offered the highest lending rates while the lowest rate was offered to the firms in *Tourism*. For the June 2015 quarter, interest rates on local currency loans are expected to increase by **0.77 pps** to average **13.66%**. This increase reflects higher anticipated lending rates on local currency loans to all sectors except *Tourism* and *Electricity, Gas & Water*.

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Table 6: Interest Rates on Local and Foreign Currency Loans

	Local Currency				Foreign Currency			
	December 2014 Survey		March 2015 Survey		December 2014 Survey		March 2015 Survey	
	Dec-14	Mar-15*	Mar-15	Jun-15*	Dec-14	Mar-15*	Mar-15	Jun-15*
Agriculture & Fishing	11.25	12.32	11.38	12.19	n.a	8.50	9.00	9.00
Construction & Land Development	12.60	13.22	14.62	14.71	n.a	8.50	9.88	9.50
Distribution	15.33	15.43	11.97	13.80	n.a	8.50	10.50	9.50
Electricity Gas & Water	13.00	15.26	14.88	14.19	n.a	8.50	9.00	9.00
Entertainment	0.00	13.32	11.35	14.09	9.50	8.50	9.63	9.06
Manufacturing	10.25	12.13	12.13	12.60	0.00	9.92	9.00	9.00
Mining & Quarrying	0.00	13.46	13.81	14.98	9.50	8.50	10.00	9.00
Professional & Other Services	11.37	12.97	12.78	13.40	8.80	8.50	9.00	9.00
Tourism	16.75	12.16	13.00	12.63	5.50	8.63	9.00	9.03
Transport, Storage & Communication	14.00	13.32	13.00	14.06	7.00	8.50	8.50	9.00
Average Rate	10.45	13.36	12.89	13.66	6.72	8.65	9.35	9.11

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

With respect to foreign currency loans, lending rates to medium-sized businesses averaged **9.35%** for the review quarter, relative to **6.72%** in the previous quarter. The interest rate for the March 2015 quarter reflected the average rate of loans disbursed across all economic sectors, in contrast to in the previous survey when the average foreign currency lending rate reflected loans disbursed across only a few economic sectors (see **Table 6**). For the June 2015 quarter, lending rates on foreign currency loans are expected to increase to **9.11%**.

Large Corporate and Commercial Lending

Credit Conditions

Lending conditions for large businesses remained tight for the March 2015 quarter relative to the

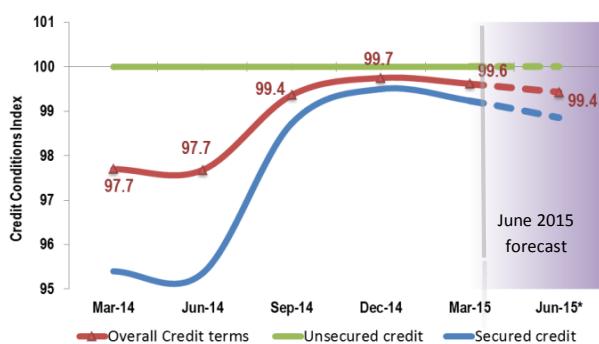
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December 2014 quarter, reflecting an increase in the interest rates and loan covenant compliance for secured loans (see

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Figure 15. For the June 2015 quarter, credit conditions are expected to tighten further, as lenders anticipate further increases in interest rates and collateral requirements for secured loans.

Figure 15: Credit Conditions for Large Businesses



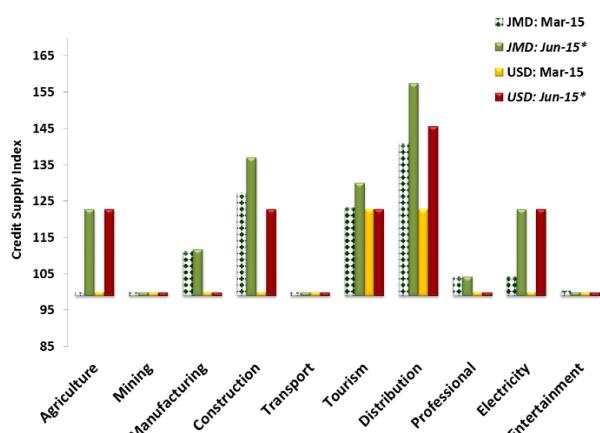
1. Indices above 100 indicate easing of credit market conditions while indices below 100 indicate tightening of market conditions
2. The asterisks (*) represent forward looking expectations provided by the respondents.

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March 2015 Quarter

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.

Figure 16: 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 Supply

There was an increase in the CSI for large businesses for the March 2015 quarter relative to the December 2014 quarter. This outcome reflected growth in local currency loans as the pace of increase in foreign currency loans moderated. Growth in the supply of local currency credit was reflected in all sectors (see **Figure 16**). In comparison, growth in the supply of foreign currency credit was predominantly reflected in *Tourism* and *Distribution*.

The higher CSI for large businesses in the March 2015 quarter was due to changes in the cost of funds to this business segment as well as an

The CSIs for local and foreign currency loans to large businesses are anticipated to increase significantly in the June 2015 quarter. Similar to the March 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 slower pace of increase in the CDI for local currency loans for the March 2015 quarter relative to the December 2014 quarter. In contrast, the CDI for foreign currency loans increased significantly relative to the December



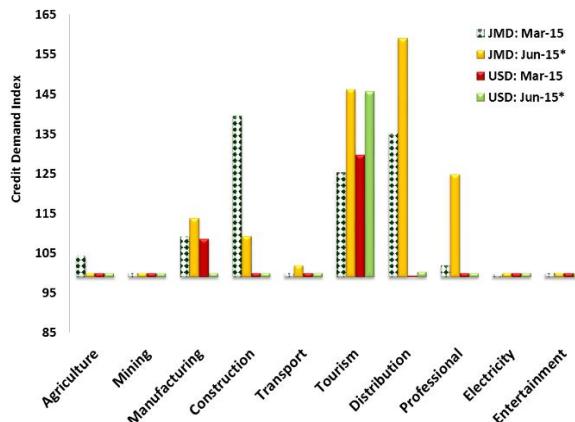
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2014 quarter. The growth in the CDI for local currency loans was reflected in all sectors except for *Electricity, Gas & Water*. The higher CDI for foreign currency loans was reflected in increased demand across several economic sectors, with *Tourism* reflecting a particularly strong increase (see **Figure 17**).

The increase in the overall CDI for large businesses for the March 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 *Inventory & Other working capital financing* and *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. In addition, lenders indicated that this business segment continued to be highly responsive to interest rate changes. As a result, there was aggressive competition among lenders to target this market segment through lower interest rates, which may have contributed to the increase in loan demand for the review quarter.

March 2015 Quarter
Figure 17: 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 June 2015 quarter, a faster pace of increase in the CDI for local and foreign currency loans is anticipated. 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. Likewise, firms in the *Tourism* sector are expected to drive the demand for foreign currency loans. Changes in business activities and macroeconomic risks are expected to stimulate demand for unsecured and secured loans in the June 2015 quarter.

Price of Credit

For the review quarter, the average lending rate on local currency loans to large businesses fell to the lowest level since the March 2014 survey. In particular, interest rates averaged **10.22%** for the review quarter, **3.48 pps** lower than the lending rate reported for the March 2014 quarter (see



Table 7)³. The fall in the lending rate reflected lower interest rates applied to firms across all economic sectors, with firms in the *Tourism, Agriculture & Fishing* and *Entertainment* sectors receiving the lowest interest rates. Interest rates on local currency loans to large businesses are expected to increase to average **11.95%** for the June 2015 quarter. This reflects higher rates on local currency loans to all economic sectors.

Lending rates on foreign currency loans averaged **5.50%** for the March 2015 quarter and are expected to increase by **2.32 pps** for the June 2015 quarter (see

Table 7).

Table 7: Interest Rates on Local and Foreign Currency Loans

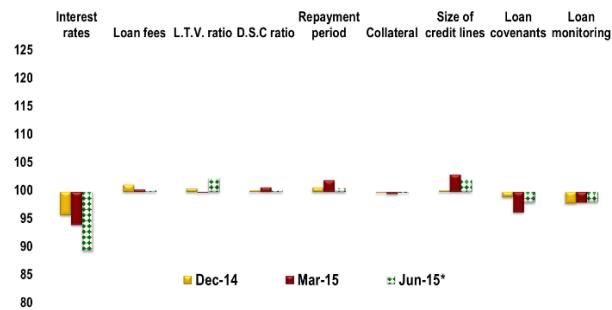
	Local Currency				Foreign Currency			
	December 2014 Survey		March 2015 Survey		December 2014 Survey		March 2015 Survey	
	Dec-14	Mar-15*	Mar-15	Jun-15*	Dec-14	Mar-15*	Mar-15	Jun-15*
Agriculture & Fishing	16.00	13.98	10.67	12.08	9.00	8.55	6.67	8.04
Construction & Land Development	14.75	14.53	11.03	12.24	7.63	9.95	5.01	8.04
Distribution	11.97	13.20	11.89	12.67	7.00	9.95	5.01	8.04
Electricity Gas & Water	12.75	13.56	9.25	11.24	8.00	10.55	5.01	8.04
Entertainment	16.00	15.39	10.67	12.58	7.81	8.72	7.46	8.54
Manufacturing	11.00	12.21	9.20	10.65	8.17	8.38	5.88	7.38
Mining & Quarrying	16.00	15.59	10.67	12.99	6.63	9.15	3.51	7.04
Professional & Other Services	14.44	15.59	11.38	12.58	7.00	9.95	4.51	7.71
Tourism	16.00	13.74	10.45	11.74	10.13	10.15	7.10	8.04
Transport, Storage & Communication	10.50	13.39	7.00	10.74	5.67	9.15	4.90	7.38
Average Rate	13.94	14.12	10.22	11.95	7.70	9.45	5.50	7.83

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

³ See *Bank of Jamaica Quarterly Credit Conditions Survey Report: September 2014 Quarter* for a more detailed view of local currency interest rates.

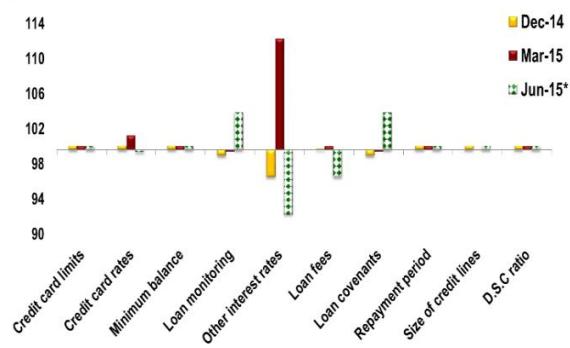
Appendix A: Overall Credit Market Conditions

Figure 18: 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 19: Credit Conditions for Unsecured Loans



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



Glossary and Key Definitions

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

$$DI = (ss + 0.5 \times ms) - (sw + 0.5 \times mw) * 100^4$$

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

⁴ 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).