

# Quarterly Credit Conditions Survey Report



**September 2016  
Quarter**

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## Background

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

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

This report presents the results of the September 2016 survey which was conducted during the period 24 October 2016 and 11 November 2016.

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

### Surveys Completed by Each Institution

	No. of survey respondents	Number of Surveys Completed by Each Institution				
		Personal Loans	Micro Businesses	Small Businesses	Medium-sized Businesses	Large, Corporate & Commercial Businesses
Commercial Banks	6	6	6	6	6	6
Building Societies	3	3	3	3	3	3
Near Banks	1	1	1	1	1	1
Public Entities	1	1	1	1	1	1
Credit Unions	9	9	9	9	9	9
<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>



## Overview

Jamaica’s macroeconomic fundamentals continued to show improved performance for the September 2016 quarter. Annual inflation maintained its downward trend. Annual growth in real GDP for the quarter accelerated to 2.0 per cent from 1.4 per cent for the previous quarter in the context of strong growth in agriculture and tourism.

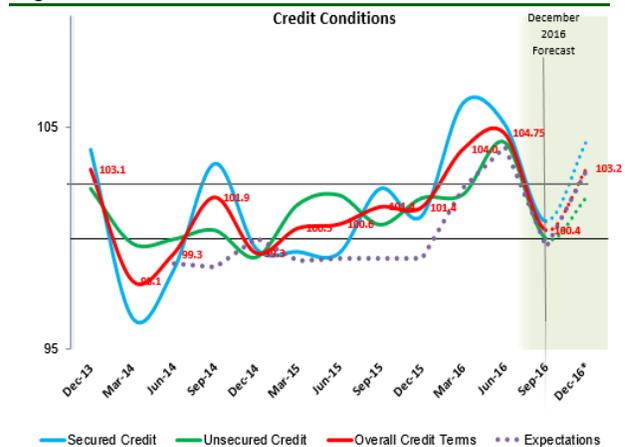
Against this background, the Bank of Jamaica (BOJ) maintained its signal interest rate, the rate on its 30-day Certificate of Deposit (CD), at 5.0 per cent during the review quarter, following a reduction in the rate in the preceding quarter.

The improved macroeconomic conditions as well as the BOJ’s accommodative monetary policy stance were generally conducive to improved credit conditions for the review quarter. Bank of Jamaica’s Quarterly Credit Conditions Survey (QCCS) for the September 2016 quarter indicated that overall credit market conditions eased marginally when compared to the significant easing of credit conditions in the June 2016 survey (see **Figure 1**). This easing was in contrast to an anticipated tightening indicated by respondents in the June 2016 survey.

The easing in credit conditions was primarily reflected in lending policies applied to secured loans as lenders reported that there was largely no change in the factors influencing the conditions of credit for unsecured loans.

For secured loans, reductions in interest rates, fees and collateral requirements contributed to the more relaxed credit conditions. However, the impact of these changes was moderated by reductions in the size of credit lines and limits on loan to value ratios.

**Figure 1: Index of Credit Market Conditions**



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

Credit conditions faced by households as well as small, medium-sized and large businesses eased marginally during the review quarter, while conditions faced by micro-sized firms were more restrictive. This tightening in conditions for micro firms was reflected in secured loans.

The financial systems outlook for credit conditions in the December 2016 quarter suggests further improvements. This outlook reflects plans by



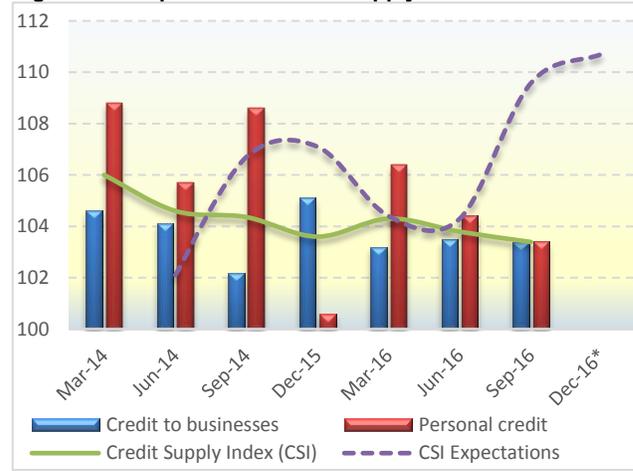
lenders to further reduce interest rates, increase credit lines for secured loans, and ease loan repayment conditions. Lenders however indicated plans to charge higher fees in some instances (see **Appendix A: Figures 16 and 17**).

### Credit Supply

Credit supply in the September 2016 quarter continued its trend increase when compared to the growth observed in the June 2016 quarter. The Credit Supply Index (CSI) for the review quarter was **103.9**, indicating an expansion in supply, while the CSI for the June 2016 quarter was **103.8** (see **Figure 2**). Lenders cited market share objectives, improvements in their economic outlook and competitive forces as the main factors influencing the expansion in credit supply during the review quarter (see **Appendix A: Figure 20**). This result was consistent the growth of **4.1 per cent** in commercial banks credit to the private sector for the September quarter.

Lenders reported a moderate increase in credit availability for local and foreign currency loan facilities to both businesses and individuals. Personal loans continued to account for the greater proportion of credit allocated, but there was an increase in the proportion of credit allocated to businesses to **45.0 per cent** during the review quarter from **41.0 per cent** during the preceding quarter (see **Figure 3**).

**Figure 2: Components of Credit Supply**



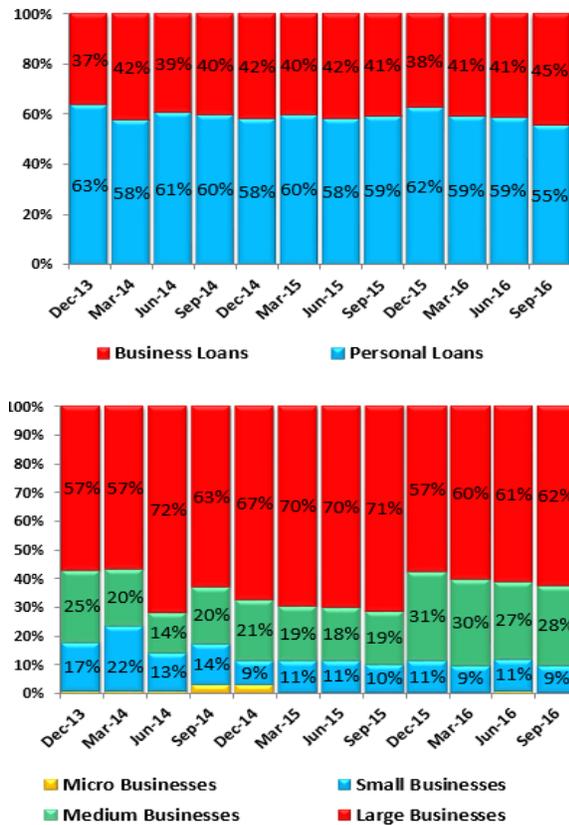
1. \*-Expectations for the upcoming quarter from the current survey.
2. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

Of the credit allocated to businesses, there was a marginal reduction in the proportion to small businesses to **9.0 per cent** from **11.0 per cent**, in favour of medium and large sized firms that accounted for shares of **28.0 per cent** and **62.0 per cent**, respectively. The share of credit allocated to micro businesses remained unchanged.

Credit supply is expected to continue its trend increase in the December quarter. This projected increase is underpinned by lenders' reports of the need to remain competitive and maintain or increase market share given the possibility of new entrants in the market. Other factors cited include a positive economic outlook which would prompt them to increase credit to businesses. Against this background, respondents reported that they plan to increase credit availability for all loan categories and currency types during the December 2016 quarter (see **Figure 2 and Appendix A: Table 6**).



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



### Credit Demand

Overall credit demand for the review quarter, as measured by the Credit Demand Index (CDI), increased at a slower pace in comparison to the CDI for the previous quarter but was in line with the expectations in the June 2016 quarter. There was an increase in the demand for both local and foreign currency denominated loans for the review quarter (see **Appendix A: Table 6**).

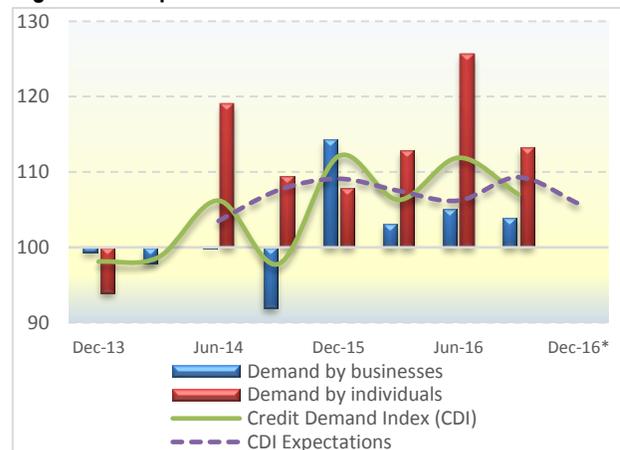
The expansion in credit demand was mainly reflected in the demand for personal credit which,

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

in turn, was reflected in all loan types.<sup>2</sup> For business loans, the index of **104.4** for the review period, which indicated growth in demand, was slightly lower than the CDI of **105.0** in the June 2016 quarter (see **Figure 4**). The sectors in which this increased demand was observed were mainly *Distribution, Manufacturing and Transport, Storage & Communication* (see **Appendix: Figure 18**).

Credit demand continued to be driven by factors such as higher business activities, loan promotional activities and reductions in interest rates. In the June 2016 survey, lenders had anticipated that the increase in the income tax threshold would have had a positive impact on loan demand. However, they reported in the current survey that changes in personal income, macroeconomic risks and government policies, were not important drivers of loan demand. This suggested that the impact of the change in the income tax threshold effected 01 July 2016 may not have, as yet, affected the credit market.

**Figure 4: Components of Credit Demand**



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

<sup>2</sup> Types of personal credit include credit card loans, mortgages, motor vehicle loans, other secured loans and other unsecured loans or non-credit card loans.



Lenders indicated an anticipated moderation in the growth in credit demand for the December 2016 quarter. This moderation is expected to be observed in local currency credit, particularly from the *Transportation, Tourism and Agriculture* sectors. Notwithstanding, credit demand is expected to continue to emanate from the *Distribution, Professional & Other Services* and *Electricity* sectors. Demand for foreign currency credit is expected to moderate in the context of a reduction in demand from medium-sized firms particularly in the *Professional & Other Services* sector.

### Price of Credit

Based on the survey responses, the weighted average interest rates on new local currency loans declined to the lowest level since the start of the survey. Relative to the June 2016 quarter, these loan rates fell by approximately **200 basis points (bps) to 13.6 per cent** for the September 2016 quarter. This reflected rate declines on business loans of **242 bps to 12.5 per cent**, while the average rate on personal loans fell marginally to **18.2 per cent** during the review quarter from **18.4 per cent** during the previous period. There was a reduction in rates across all business loan types. The average interest rate on loans to medium-sized firms reflected the sharpest decline to **9.9 per cent** from **11.6 per cent**. Lenders cited their support of the growth initiatives for the Micro, Small and Medium Enterprises (MSME) sector as the main factor driving this decline.

The price of foreign currency credit also declined to the lowest level since the start of the survey. The interest rates on business loans decreased by **202 bps to 7.3 per cent** for the quarter and was evident across all business categories, with the largest declines being evident in loans to medium and large enterprises.

Lenders reported an anticipated increase in the price of credit for both local and foreign currency loans for the December 2016 quarter. In particular, higher interest rates are expected on loans to Small, Medium and Micro sized firms.

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

	September 2015 Survey		June 2016 Survey		September 2016 Survey	
	Sep-15	Dec-15*	Jun-16	Sep-16*	Sep-16	Dec-16*
<b>Local Currency (LC) Loans</b>						
Business loans	15.86	15.22	14.90	14.92	12.48	13.89
Personal loans	18.23	18.07	18.40	18.78	18.15	17.91
Reference rate	14.63	15.71	16.24	18.15	13.07	13.85
<b>Average LC rates</b>	<b>16.34</b>	<b>16.65</b>	<b>15.60</b>	<b>16.85</b>	<b>13.62</b>	<b>14.69</b>
<b>Foreign Currency Loans</b>						
Business loans	8.69	8.41	9.27	9.17	7.25	8.32
Reference rate	8.19	8.66	10.29	9.74	6.28	8.33

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

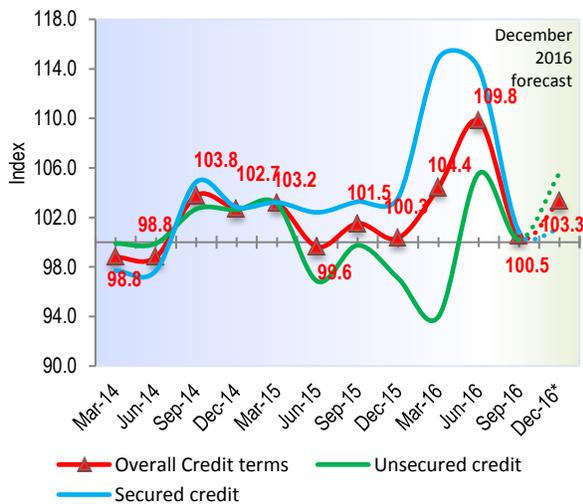


# Personal Lending

## Credit Conditions

A marginal improvement in credit conditions for personal loans in the review quarter was reported, relative to the previous quarter (see **Figure 5**). The overall index of **100.8** reflected marginal improvements in credit conditions for both secured and unsecured loans as a few creditors lowered interest rates on credit cards and extended the maximum repayment period on secured loans. However, the majority of respondents indicated that the factors affecting the demand and supply of personal credit were relatively unchanged when compared to the previous quarter. This stance explains the significant moderation in the indices when compared to the previous quarter.

**Figure 5: Credit Conditions for Personal Lending**



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

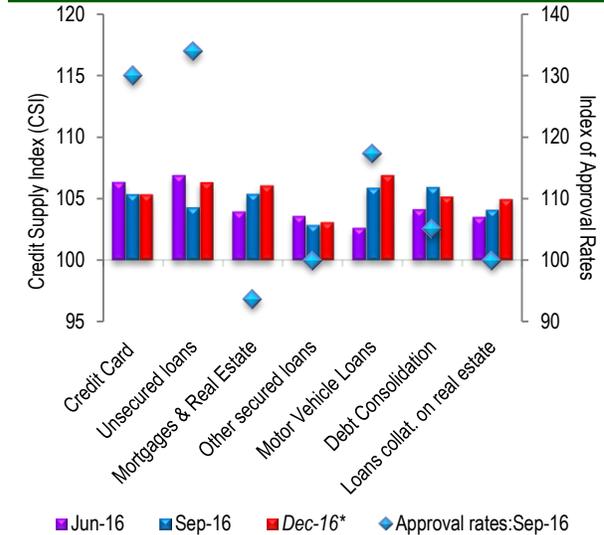
For the December 2016 quarter, credit conditions are expected to expand at a similar pace as in the September quarter. The projected index of **100.5** is underpinned by projected improvements in

conditions for both secured and unsecured loans. For secured loans, most creditors plan to maintain much of their loan policies, with a few institutions reporting a planned reduction in interest rates and fees. With respect to unsecured loans, more relaxed credit conditions are anticipated as some institutions plan to lower interest rates and the minimum proportion of balances repaid as part of their efforts to retain market share amid increased competition.

## Credit Supply

Growth in the availability of personal loans increased when compared to the previous quarter (see **Appendix A: Table 6**). This increase in the CSI to **104.8** from **104.4** in the previous quarter was reflected in more credit being made available for mortgages, motor vehicle loans and debt consolidation purposes (see **Figure 6**).

**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.



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

For the December 2016 quarter, lenders reported that they plan to increase credit availability for both secured and unsecured loans across all loan categories (see **Appendix A: Table 6 and Figure 5**).

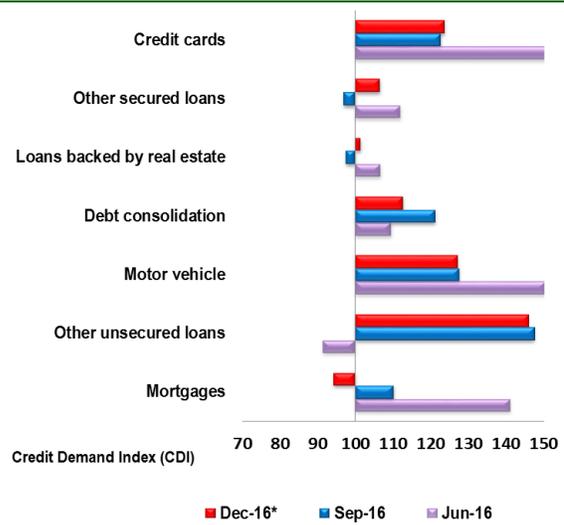
### Credit Demand

Growth in the demand for personal credit continued to be robust during the September 2016 quarter. In particular, the CDI for the quarter was **117.7**, albeit lower than the index of **125.6** recorded in the previous quarter (see **Appendix A: Table 6**). The increase in the demand for personal loans was reflected across all loan types, except for *other secured loans* and *loans backed by real estate* (see **Figure 7**). The demand for non-credit card loans rebounded significantly following a contraction in the previous quarter.

Lenders highlighted that the important drivers of demand in the review quarter included an increase in loan promotional activities, a reduction in interest rates as well as further relaxation in the requirements for asset types used to secure loans.

For the December 2016 quarter, lenders anticipate continued robust growth in the demand for personal credit, given the expectation of continued easing in lending conditions on other unsecured personal loans, motor vehicles and credit cards (see **Figure 7**). Lenders also anticipate that demand will continue to be driven by promotional activities, lower interest rates as well as growth in personal income.

**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.

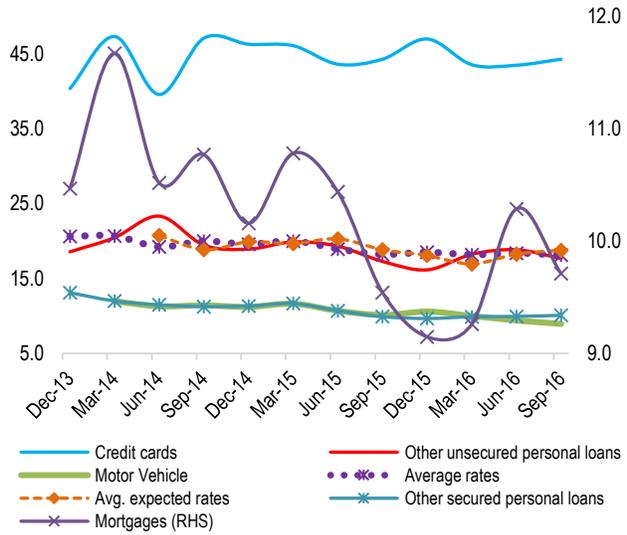
### Price of Credit

Lenders indicated that there was an overall decline in average lending rates on new personal loans to **18.2 per cent** for the September 2016 quarter. This outturn was lower than the expected average rate of **18.8 per cent** and the average of **18.4 per cent** for the June 2016 quarter. The lower rate for the review period was mainly reflected in mortgages, motor vehicle loans and non-credit card personal loans (see **Figure 8**).

For the December 2016 quarter, lenders reported an anticipated, further reduction of approximately **25 bps** in interest rates on personal loans. In particular, further reductions in the interest rates on mortgages, motor vehicles and other secured and unsecured personal loans were anticipated.



**Figure 8: Interest Rates on Personal Loans**



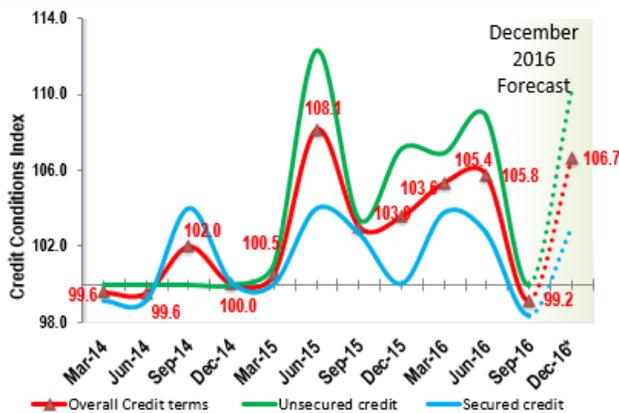


## Micro Business Lending

### Credit Conditions

Overall credit conditions faced by the micro-businesses sector tightened for the September 2016 quarter, relative to the June 2016 quarter (see **Figure 9**). The overall index of **99.2** was primarily driven by more stringent policies applied to some types of secured loans, while the policies applicable to unsecured loans remained unchanged. The tightening in credit conditions was evidenced by a reduction in the maximum loan-to-value ratio and an increase in collateral requirements by some institutions, the impact of which was partly offset by a reduction in fees applicable to secured loans.

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



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

For the December 2016 quarter, the projected CCI of **106.7** for micro-firms reflects expected easing for both secured and unsecured loans as more lenders plan to reduce interest rates and fees.

### Credit Supply

There was an expansion in the supply of credit to micro-sized firms in the September 2016 quarter compared to the previous quarter. The CSI of **105.7** mainly reflected increased supply of local

currency loans as the availability of foreign currency loans remained unchanged. For local currency loans, supply increased across all the economic sectors and was largely attributed to factors such as increased competition and market share objectives.

For the December 2016 quarter, lenders were expecting an increase in credit supply at a similar pace to that in the September 2016 quarter. Lenders anticipated that supply will be influenced by similar factors as in the September 2016 quarter.

### Credit Demand

The overall CDI for micro businesses fell below 100 for the review quarter, indicating a fall in credit demand. This mainly reflected reduced demand for local currency loans while demand for foreign currency loans expanded slightly. The lower CDI for local currency loans emanated from sharp declines in demand from the *Manufacturing, Tourism, Electricity and Entertainment* sectors. There was, however, an increase in the demand for loans from the *Agriculture & Fishing, Mining & Quarrying, Construction and Transportation* sectors. The fall in demand also reflected the impact of an increase in loan requirements by some institutions as they sought to improve their loan quality in the quarter.

For the December 2016 quarter, lenders anticipate an increase in business activities which should spur increased demand by micro businesses in the December quarter.



## Price of Credit

Notwithstanding the tightening in overall lending conditions to micro-sized firms, average interest rates on both local and foreign currency new loans declined relative to the previous quarter. In particular, the average interest rate on local currency loans decreased to **19.0 per cent** compared to **23.8 per cent** in the previous quarter. The reduction in the lending rates for local currency loans was evident across all economic sectors with the exception of the *Entertainment* sector.

For foreign currency loans, the average lending rate declined to **8.3 per cent** from **11.5 per cent** in the previous quarter. Lower loan rates were reported on credit to the *Entertainment* and *Professional & Other Services* sectors.

For the December 2016 quarter, average interest rates on local and foreign currency loans to micro

businesses are expected to increase across all loan categories.

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

	Local Currency				Foreign Currency			
	June 2016 Survey		September 2016 Survey		June 2016 Survey		September 2016 Survey	
	Jun-16	Sep-16*	Sep-16	Dec-16*	Jun-16	Sep-16*	Sep-16	Dec-16*
Agriculture & Fishing	28.82	24.42	17.92	23.19	n.a	11.50	n.a	10.96
Construction & Land Development	18.16	19.03	15.10	22.24	n.a	11.50	n.a	10.96
Distribution	29.65	30.14	24.28	22.24	n.a	11.50	n.a	10.96
Electricity Gas & Water	20.35	19.03	16.87	22.24	n.a	11.50	n.a	10.96
Entertainment	22.34	21.69	25.32	22.99	11.50	11.50	11.26	10.96
Manufacturing	24.12	24.39	18.08	23.19	n.a	11.50	n.a	10.96
Mining & Quarrying	25.70	19.03	14.66	22.24	n.a	11.50	n.a	10.96
Professional & Other Services	19.96	19.03	16.55	22.24	n.a	11.50	5.30	10.96
Tourism	25.02	24.39	17.99	23.19	11.50	11.50	n.a	10.96
Transport, Storage & Communication	23.42	23.42	22.91	22.24	11.50	11.50	n.a	10.96
<b>Average Rate</b>	<b>23.75</b>	<b>22.46</b>	<b>18.97</b>	<b>22.60</b>	<b>11.50</b>	<b>11.50</b>	<b>8.28</b>	<b>10.96</b>

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



## Small Business Lending

### Credit Conditions

For the September 2016 quarter, lending conditions for small enterprises marginally improved. The sector reflected a credit conditions index of **100.6**, which was associated with lower interest rates on loans to small businesses as the factors affecting credit conditions for unsecured loans remained largely unchanged (see **Figure 10**).

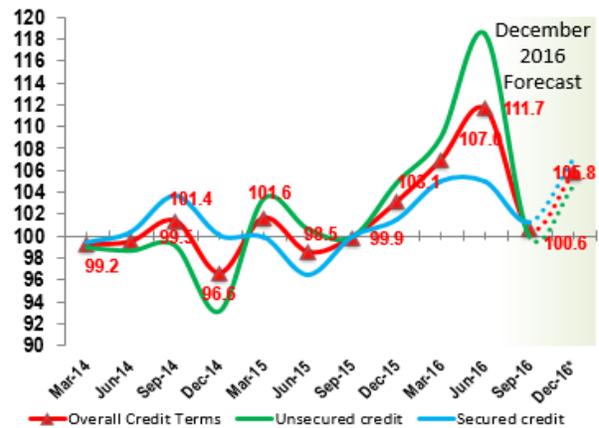
For the December 2016 quarter, lenders reported an anticipation of further easing in credit conditions, due to additional creditors' plans to lower interest rates and fees on secured loans, while increasing the maximum debt service ratio. Lower rates and fees on unsecured loans are also projected for the December 2016 quarter, which would further result in overall improved credit conditions for small businesses.

### Credit Supply

The supply of credit to small businesses fell relative to the previous quarter, which was evident in local currency credit. The CSI of **99.9** compares to **100.2** in the previous quarter where the moderation in supply was particularly evident in the *Manufacturing* and *Distribution* sectors.

For the December 2016 quarter, the CSI for small businesses is expected to remain stable across all sectors. Lenders expect that credit availability for this sector will be influenced by changes in the economic outlook, competition and market share objectives.

Figure 10: Credit Conditions for Small Businesses



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

### Credit Demand

The demand for loans by small businesses declined significantly for the review period. The CDI for the quarter was **88.5**, relative to **112.3** for the June 2016 quarter. This contraction was due to a reduction in demand for local currency loans as there was increased demand for foreign currency loans. For local currency loans, the fall in credit demand was reflected across all economic sectors with the exception of the *Agriculture & Fishing*, *Mining & Quarrying* and *Transportation* sectors. With regards to foreign currency loans, lenders reported that demand predominantly emanated from the *Distribution* and *Professional & Other Services* sectors.

For the December 2016 quarter, the CDI for local currency loans is expected to expand marginally, due to an anticipated increase in business activities. This may possibly be associated with the positive growth outlook and trend increase in



business confidence that has been observed in recent quarters. Demand for foreign currency loans is, however, expected to remain unchanged.

**Price of Credit**

For the review period, lenders indicated that the weighted average lending rate on new local currency loans to small enterprises decreased to **11.7 per cent** from **13.8 per cent**, which was lower than anticipated in the previous survey (see **Table 3**). The weighted average interest rate on foreign currency denominated loans to small businesses also declined to **7.3 per cent** from **10.3 per cent** in the review quarter.

For the December 2016 quarter, lenders reported a planned increase in the interest rates on local and foreign currency loans to averages of **14.1 per cent** and **8.6 per cent**, respectively.

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

	Local Currency				Foreign Currency			
	June 2016 Survey		September 2016 Survey		June 2016 Survey		September 2016 Survey	
	Jun-16	Sep-16*	Sep-16	Dec-16*	Jun-16	Sep-16*	Sep-16	Dec-16*
Agriculture & Fishing	13.60	13.86	10.24	13.03	9.00	9.81	6.90	8.50
Construction & Land Development	13.83	14.25	11.61	14.62	9.88	9.63	8.10	8.63
Mining & Quarrying	17.04	18.58	13.12	14.20	13.88	9.94	6.90	8.60
Entertainment	12.63	12.71	10.78	13.13	n.a	9.94	n.a	8.67
Distribution	13.73	14.78	11.77	14.57	11.31	9.94	8.83	8.67
Electricity Gas & Water	12.10	14.17	11.96	14.09	9.00	9.94	6.90	8.60
Manufacturing	15.86	14.78	12.79	14.31	9.13	9.81	7.27	8.63
Professional & Other Services	12.84	14.48	12.22	14.41	10.58	9.94	6.85	8.67
Tourism	13.88	14.53	10.12	14.38	10.25	9.94	6.90	8.67
Transport, Storage & Communication	12.58	13.86	12.17	13.88	9.75	9.63	6.90	8.46
<b>Average rate</b>	<b>13.81</b>	<b>14.60</b>	<b>11.68</b>	<b>14.06</b>	<b>10.31</b>	<b>9.85</b>	<b>7.28</b>	<b>8.61</b>

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



# Medium-Sized Business Lending

## Credit Conditions

Lenders reported an overall credit conditions index of **100.0** faced by medium-sized enterprises, indicating generally no change to the factors influencing loans to medium sized firms during the review quarter (see **Figure 11**).

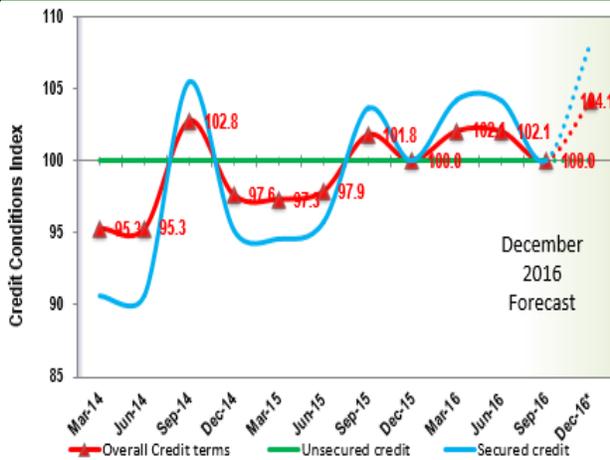
Lending conditions faced by medium sized firms are expected to improve for the December 2016 quarter, largely owing to planned reductions in interest rates and fees on both secured and unsecured loans. All other price and non-price terms are expected to remain unchanged.

*Manufacturing* sectors as the supply of local currency loans remained unchanged.

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

For the December 2016 quarter, the CSI for medium sized businesses is expected to remain relatively stable. Lenders reported that similar factors as in the September 2016 quarter are expected to influence credit supply.

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



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

## Credit Supply

Credit supply to medium sized enterprises continued to expand in the review period, albeit marginally. The CSI of **100.6** for the September quarter was in line with the outturn for the previous quarter. This expansion was mainly evident in the availability of foreign currency loans to the *Agriculture, Mining* and

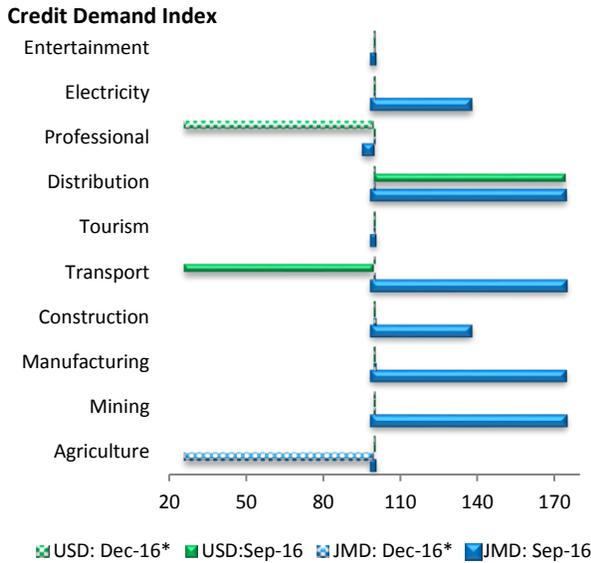
## Credit Demand

For the review period, there was an upsurge in the overall demand for loans by medium-sized firms. The CDI of **118.3** from **97.7** reflected an uptick in demand for local currency loans across all sectors, except for *Professional & Other Services*. The CDI for foreign currency loans of **100.0** masked a significant increase in loans extended to the *Distribution* sector which was offset by a contraction in loans to the *Transport, Storage and Communication* sector (see **Figure 12**).

For the December 2016 quarter, the CDI is expected to contract for both local and foreign currency loans. The anticipated contraction in local currency loans is expected to emanate from the *Agriculture & Fishing* sector, while demand for foreign currency loans is anticipated to largely emanate from the *Professional & Other Services* sector.



**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.

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

	Local Currency				Foreign Currency			
	June 2016 Survey		September 2016 Survey		June 2016 Survey		September 2016 Survey	
	Jun-16	Sep-16*	Sep-16	Dec-16*	Jun-16	Sep-16*	Sep-16	Dec-16*
Agriculture & Fishing	10.25	11.01	9.48	10.07	7.50	8.38	6.60	7.63
Construction & Land Development	12.22	12.59	12.41	11.48	8.25	8.75	6.60	7.63
Distribution	12.97	13.23	9.71	10.91	8.15	8.50	7.91	7.82
Electricity Gas & Water	11.67	12.41	9.03	10.99	7.50	8.38	6.60	7.63
Entertainment	11.50	12.21	9.53	10.99	7.50	8.38	6.60	7.63
Manufacturing	10.80	11.23	9.88	10.19	7.50	8.38	6.60	7.63
Mining & Quarrying	13.48	13.20	10.14	11.73	8.25	8.75	6.60	7.63
Professional & Other Services	11.20	12.41	9.62	10.95	7.47	8.90	6.95	8.11
Tourism	11.50	11.31	9.53	10.16	7.50	11.50	6.60	7.63
Transport, Storage & Communication	10.70	12.01	9.65	11.07	7.88	11.50	6.64	7.63
<b>Average Rate</b>	<b>11.63</b>	<b>12.16</b>	<b>9.90</b>	<b>10.85</b>	<b>7.75</b>	<b>9.14</b>	<b>6.77</b>	<b>7.69</b>

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

**Price of Credit**

The weighted average lending rate on local currency loans to medium-sized businesses declined to **9.9 per cent** during the review period from **11.6 per cent** in the June 2016 quarter and was reflected across most economic sectors (see **Table 4**). With respect to foreign currency loans, lending rates averaged **6.8 per cent** for the review quarter, in line with expectations but lower than the **7.8 per cent** in the previous quarter.

For the December quarter, the average interest rate on new local currency credit is expected to increase by **105 bps** to **10.9 per cent**. With the exception of the *Construction* sector that is projected to enjoy lower interest rates, loans rates for all sectors are expected to rise. Similarly, the average interest rate on foreign currency credit is expected to increase by **92 bps** where higher rates are expected on loans to all sectors, except *Professional & Other Services*.



## Large Corporations and Commercial Lending

### Credit Conditions

Credit conditions for large enterprises eased at a faster pace in the September 2016 quarter. The overall index of credit terms rose to **101.7** in the review quarter from **100.3** in the June 2016 quarter (see **Figure 13**). This was mainly due to further easing in lending policies for secured loans, which was largely associated with a decline in interest rates, fees and an increase in the maximum credit lines for this sub-sector.

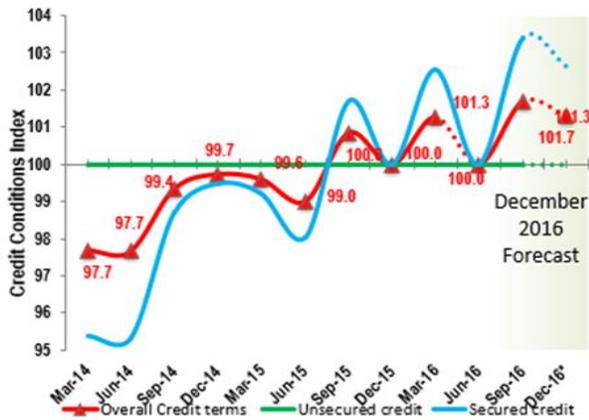
For the December 2016 quarter, further easing is anticipated as some institutions plan to reduce interest rates and fees on secured loans to large corporations while also extending credit lines.

### Credit Supply

The improvement in credit conditions to large business enterprises induced an increase in credit supply to these enterprises during the review quarter. The CSI increased to **107.3** for the quarter from **104.8** for the June 2016 quarter, reflecting increased local and foreign currency credit availability to large borrowers (see **Figure 14**). The sectors benefitting from this higher credit availability were *Tourism* and *Distribution*.

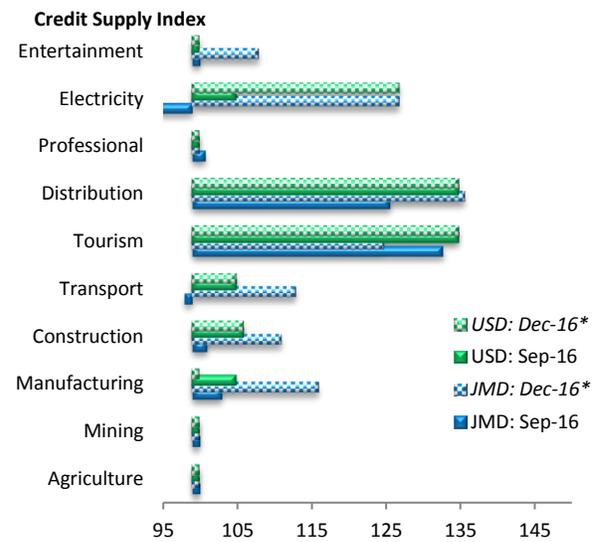
For the December 2016 quarter, the supply of credit to large enterprises is expected to remain buoyant for both local and foreign currency loans.

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



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

**Figure 14: Availability of Credit to Large Businesses**



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

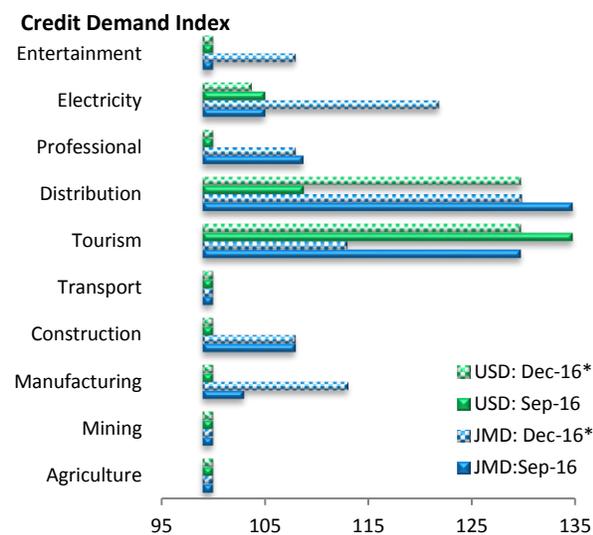


### Credit Demand

Growth in credit demand from large businesses remained robust in the September 2016 quarter and was reflected in demand for both local and foreign currency credit. The CDI increased to **106.9** from **106.3**, reflecting an uptick in the demand from the *Tourism* and *Distribution* sectors. Lenders reported that credit demand by this sector continued to be influenced by factors such as increased business activities, lower interest rates and changes in macroeconomic risks.

The CDI is expected to increase to **108.2** for the December 2016 quarter. This acceleration in demand growth is expected to be driven by reductions in interest rates. Demand for local currency loans is expected to emanate from most economic sectors while, for foreign currency loans, demand is expected to stem from the *Tourism* and *Distribution* sectors (see **Figure 15**).

**Figure 15: Credit Demanded by Large Businesses**



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

### Price of Credit

For the review quarter, lending rates on new local and foreign currency loans to large businesses declined (see **Table 5**). The average interest rate on local currency loans declined by **103 bps** to **9.4 per cent** and was evident across all economic sectors. Similarly, the average interest rate on foreign currency loans declined by **84 bps** to **6.7 per cent**.

For the December 2016 quarter, a further reduction in the average interest rate on local and foreign currency loans to large businesses is anticipated. Interest rates on local and foreign currency loans are projected to moderate to **8.04 per cent** and **5.99 per cent**, respectively.

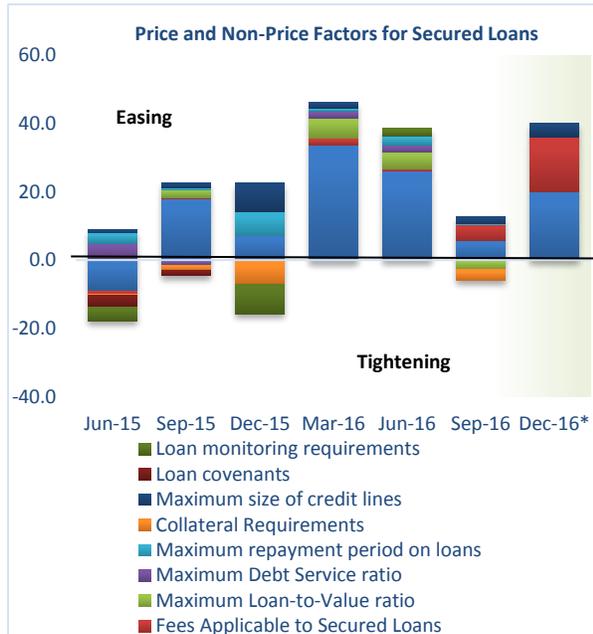
**Table 5: Interest Rates on Local and Foreign Currency Loans to Large Businesses**

	Local Currency				Foreign Currency			
	June 2016 Survey		September 2016 Survey		June 2016 Survey		September 2016 Survey	
	Jun-16	Sep-16*	Sep-16	Dec-16*	Jun-16	Sep-16*	Sep-16	Dec-16*
Agriculture & Fishing	12.00	10.63	9.20	8.60	7.58	6.86	6.77	5.86
Construction & Land	10.50	10.70	10.78	8.37	8.23	6.86	6.60	6.05
Development	9.80	10.26	9.38	8.43	7.58	6.86	6.77	5.86
Distribution	10.60	10.57	9.20	7.94	7.58	6.86	6.60	6.05
Electricity Gas & Water	10.00	10.57	9.20	7.52	7.68	6.86	6.81	6.04
Entertainment	10.50	9.99	9.27	8.24	5.77	6.93	6.77	6.45
Manufacturing	10.00	10.99	9.20	7.67	7.58	6.74	6.33	5.64
Mining & Quarrying	9.83	10.57	9.84	7.94	7.58	6.86	6.77	6.14
Professional & Other Services	10.43	9.99	9.03	7.60	7.80	6.61	6.57	5.89
Tourism	10.50	10.49	8.79	8.09	7.72	6.86	6.77	6.12
Transport, Storage & Communication								
<b>Average Rate</b>	<b>10.42</b>	<b>10.47</b>	<b>9.39</b>	<b>8.04</b>	<b>7.51</b>	<b>6.83</b>	<b>6.67</b>	<b>5.99</b>

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

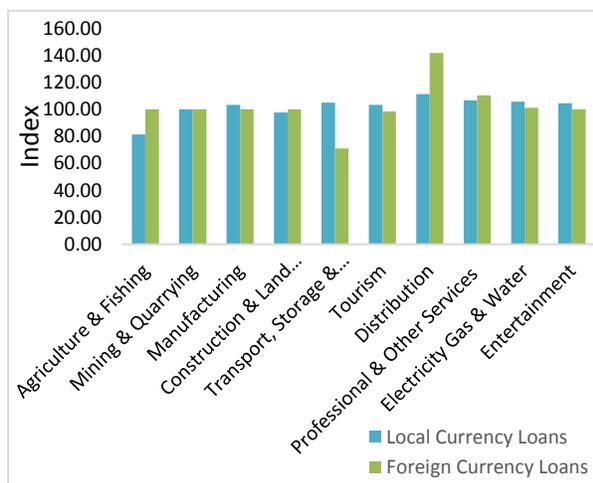
## Appendix A: Overall Credit Market Conditions

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

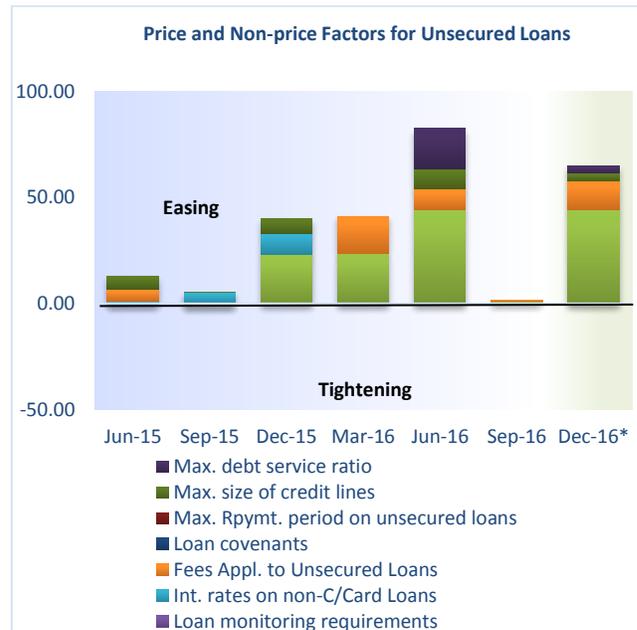


1. Bars above the zero line represent factors that would have contributed to an easing in credit conditions while bars below the line would have contributed to a tightening in credit conditions for the quarter.
2. Indices for the September quarter are computed based on forward looking expectations provided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

**Figure 17: Credit Demand by Sector for the September 2016 Quarter**

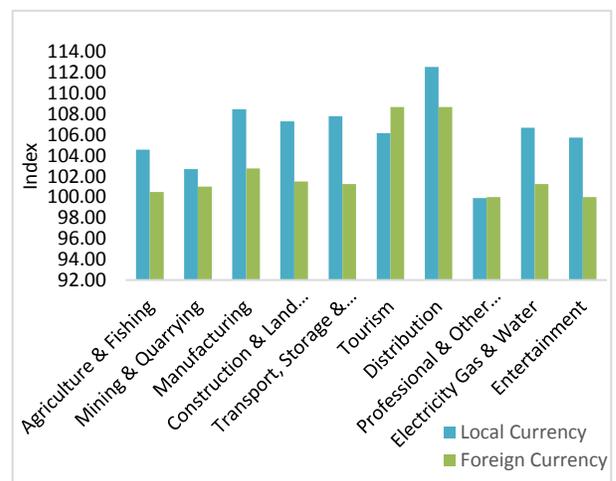


**Figure 18: Credit Conditions for Unsecured Loans**



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

**Figure 19: Availability of Credit to Economic Sectors for the September 2016 Quarter**



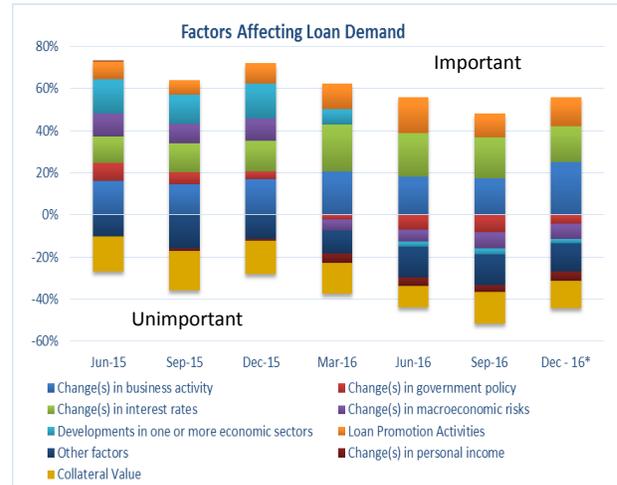


**Table 6: Components of Credit Demand and Supply Indices**

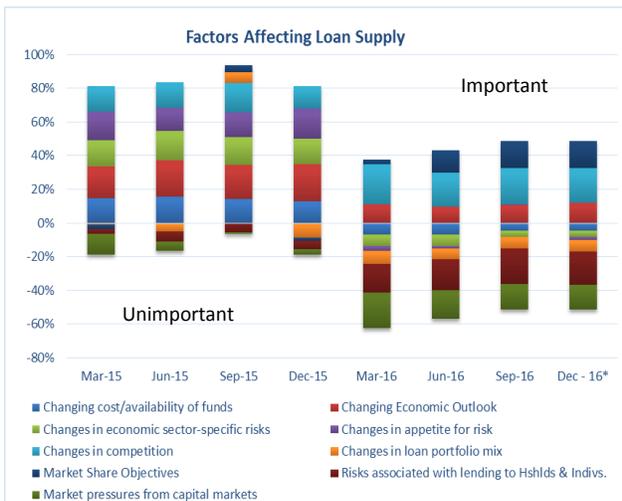
	September 2015 Survey		June 2016 Survey		September 2016 Survey	
	Sep-15	Dec-15*	Jun-16	Sep-16*	Sep-16	Dec-16*
<b>Credit Supply Indices</b>						
<b>Credit Supply Index (CSI)</b>	<b>106.4</b>	<b>107.1</b>	<b>103.8</b>	<b>102.8</b>	<b>103.9</b>	<b>104.8</b>
Credit to businesses	107.2	107.7	103.5	102.2	103.4	104.5
Personal credit	104.9	105.8	104.4	104.1	104.8	105.4
Credit in Jamaica Dollar	111.4	110.5	104.4	98.5	104.2	113.5
Credit in U.S Dollar	103.0	104.9	105.2	109.6	102.6	110.7
<b>Credit Demand Indices</b>						
	Sep-15	Dec-15*	Jun-16	Sep-16*	Sep-16	Dec-16*
<b>Credit Demand Index (CDI)</b>	<b>107.6</b>	<b>109.1</b>	<b>111.9</b>	<b>109.3</b>	<b>108.8</b>	<b>105.8</b>
Demand by businesses	106.5	107.5	105	102.6	104.4	100.8
Demand by individuals	109.8	112.4	125.6	122.7	117.7	115.9
Credit in Jamaica Dollar	111.9	113.9	109.5	107.7	106.5	110.1
Credit in U.S dollar	101.2	101.05	103.0	102.2	102.3	106.3

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

**Figure 21: Drivers of the Demand of Credit**



**Figure 20: Drivers of the Supply of Credit**





## Appendix B: Glossary and Definitions

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

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

Where

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

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

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

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

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

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

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

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

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

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



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

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

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

Classification	Loan Size (at origination)	Annual Sales/Turnover
<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 of the credit terms discussed in the report:

- 1. Loan-to-value (LTV) ratio** - the ratio of the amount borrowed to the appraisal or market value of the underlying collateral, for loans secured 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).