

Quarterly Credit Conditions Survey Report



**December 2018
Quarter**

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

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Background

In order to meet its core mandate to maintain monetary and financial stability, 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 industry 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 summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

This report represents the results of the December 2018 survey which was conducted between 10 January 2019 and 08 February 2019.

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 Businesses	Large Businesses
Commercial Banks	8	8	8	8	8	8
Building Societies	2	2	2	2	2	2
Merchant Banks	1	1	1	1	1	1
Credit Unions	8	8	8	8	8	8
Public Entities	1	1	1	1	1	1
Total	20	20	20	20	20	20



Overview

Context

STATIN indicated that the economy grew by 2.0 per cent for the December 2018 quarter, an acceleration relative to the September 2018 quarter. This growth was attributed to respective increases of 4.9 per cent and 1.0 per cent in the Goods Producing and the Services industries. With the exception of *Electricity & Water*, all the goods producing and the service industries recorded growth for the quarter.

The annual point-to-point inflation rate at December 2018 was 2.4 per cent, a deceleration relative to the 4.3 per cent recorded at end-September 2018 and the 5.2 per cent recorded at December 2017. The deceleration in inflation, relative to the preceding quarter, largely reflected the impact of lower prices for agricultural food crops, transport and energy.

With respect to monetary policy developments, Bank of Jamaica (BOJ) lowered the policy interest rate (the rate offered on overnight balances with Bank of Jamaica) by 25 basis points to 1.75 per cent on its policy decision date of 20 December 2018. The rate on the Bank's Standing Liquidity Facility (SLF) was also reduced to 4.75 per cent, thereby maintaining the width of the interest rate corridor (IRC) at 3.0 percentage points.¹ Bank of Jamaica's decision to lower its policy rate was aimed at stimulating a pick-up in the rate of expansion in private industry credit, which is expected to lead to higher economic activity that will support inflation returning to the target range of 4.0 per cent to 6.0 per cent in the medium-term.

There was net liquidity absorption of \$4.8 billion from the financial system during the December 2018 quarter. GOJ operations net absorbed \$31.6 billion, mainly due to tax receipts. Also, seasonal currency issue and other operations contributed to net absorption of \$29.3 billion. In the context of tightened liquidity conditions, the average placement on BOJ Overnight (O/N) deposits fell to \$48.2 billion over the December 2018 quarter, compared to \$76.0 billion for the preceding quarter.

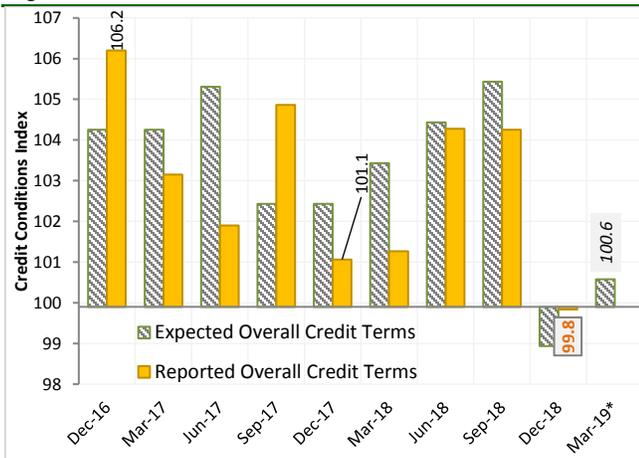
In relation to international developments, the US Federal Reserve raised interest rates in December 2018 in the context of sustained expansion of US economic activity, strong labour market conditions and inflation being near the Committee's symmetric 2.0 per cent objective. In light of the increase in the US Federal Funds target rate and a rise in Jamaica's sovereign risk premium, yields on GOJ global bonds increased over the quarter.

¹ The lower bound of the IRC is determined by the interest rate on the current account balance, while the upper bound is determined by the rate on overnight SLF.

Credit Conditions (Overall)²

In the context of the foregoing, overall credit conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) tightened marginally for loans to the private industry during the December 2018 quarter, relative to the previous quarter. This represented the first time in 16 quarters that lenders reflected a tightening of credit conditions. The tightening during the review quarter was due to more restrictive price and non-price lending policies applicable to both secured and unsecured loans relative to the previous quarter (see **Figure 1a and 1b** and **Appendix A: Figures 15 & 16**). More specifically, lenders increased fees on both secured and unsecured loans and reduced credit limits on unsecured lending.

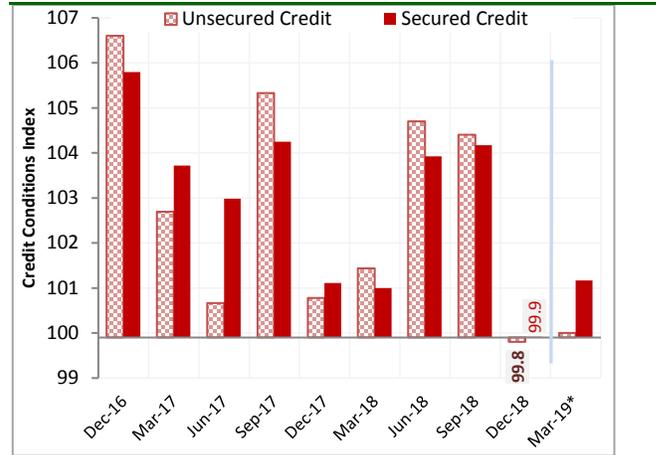
Figure 1a: Index of Overall Credit Market Conditions



1. *Expectations for the upcoming quarter from the current survey.
2. Relative to the previous quarter, indices greater than 100 indicate an easing in conditions while indices less than 100 indicate a tightening.

The tightening in credit conditions was evident in the market for personal loans, the impact of which was partly offset by further easing in credit conditions for large corporations. Credit conditions for micro, medium and small sized firms remained broadly unchanged for the review quarter.

Figure 1b: Index of Credit Market Conditions for Secured & Unsecured Loans



1. *Expectations for the upcoming quarter from the current survey.
2. Relative to the previous quarter, indices greater than 100 indicate an easing in conditions while indices less than 100 indicate a tightening.

Lenders reported that they expected credit conditions to ease in the March 2019 quarter. This outlook for lower interest rates primarily reflected the expectation for easier conditions for both secured and unsecured loans.

Credit Supply

Growth in credit availability during the December 2018 quarter, as measured by the Credit Supply Index (CSI), remained low when compared to the previous quarter (see **Figure 2**). The CSI moderated to **101.1** from **101.6** in the previous quarter and primarily reflected a decline in credit made available to businesses, relative to the previous quarter.

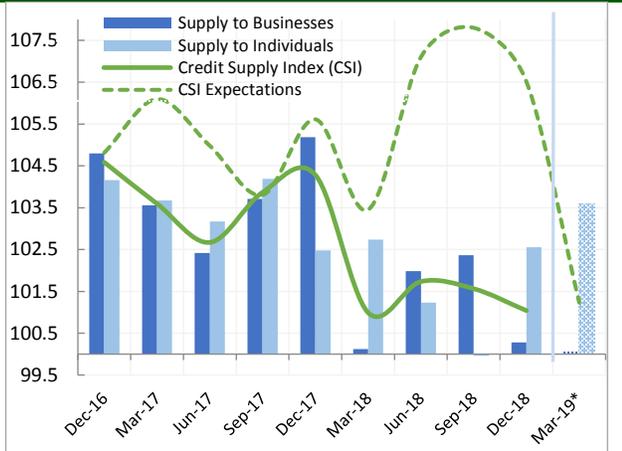
The deceleration in the growth in local currency credit made available reflected declines in available credit to all industries except *Transport* and *Construction*. In relation to foreign currency loans, there was also a deceleration in the pace of growth in credit supply,

² Previously published data points have been revised as our methodology and other review processes have been updated for consistency.



mainly reflected in the *Tourism* and *Distribution* industries.

Figure 2: Components of Credit Supply



1. *Expectations for the upcoming quarter from the current survey.
2. Relative to the previous quarter, indices greater than 100 indicate an increase while indices less than 100 indicate a decline.

The allocation of credit between businesses and personal loans remained largely unchanged relative to the previous quarter, with personal loans accounting for the larger share of credit outstanding. Regarding credit distribution to businesses, credit to large businesses continued to account for the largest share of lenders business portfolio at end-December 2018, with the proportion (59%) being slightly less than that which obtained at the end of the previous quarter (see **Figure 3a** and **3b**). There was also a decline in the proportion of credit outstanding to micro and small firms to 8.1 per cent and 13.1 per cent from 8.9 per cent and 14.2 per cent, respectively. The proportion of credit allocated to medium-sized firms however increased to 20.0 per cent from 16.7 per cent during the previous period.

Figure 3a: Distribution of Private Industry Credit³

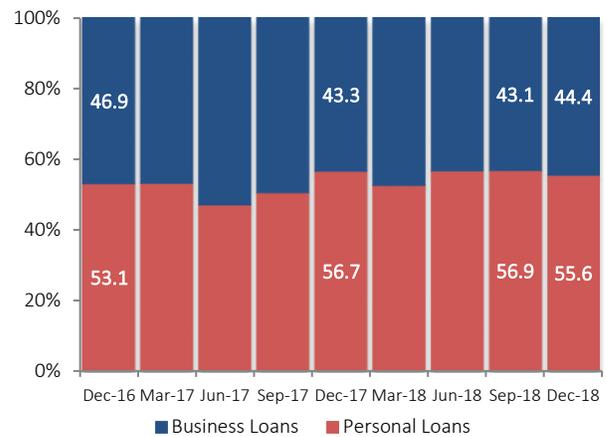
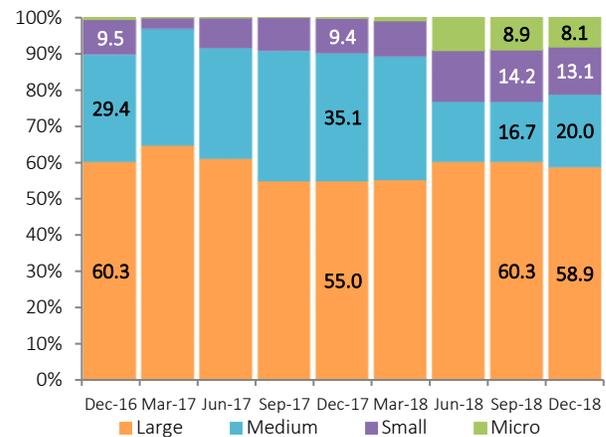


Figure 3b: Distribution of Private Industry Credit by Business Size



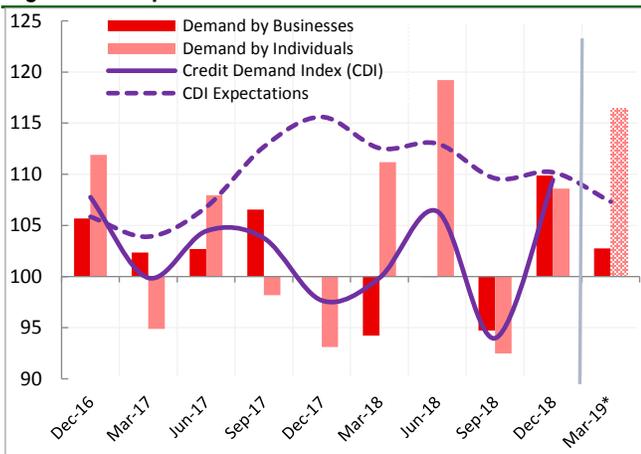
For the December 2018 quarter, lenders reported that they plan to increase the amount of credit made available to both businesses and individuals (see **Figure 2** and **Appendix A: Table 7**).

³ 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.

Credit Demand

Growth in credit demand, as measured by the Credit Demand Index (CDI), accelerated sharply for the December 2018 quarter relative to the September 2018 quarter (see **Figure 4**). The CDI for the quarter rose to **109.5** up from **94.0** in the previous quarter. This expansion stemmed from increases in demand for both personal and business loans (see **Appendix A: Table 7**). Lenders reported that the increase in the CDI was influenced by changes in business activities and interest rates.

Figure 4: Components of Credit Demand



1. Indices greater than 100 indicate an increase while indices less than 100 indicate a decline.
2. The asterisk (*) represents expectations provided by the respondents.

The increase in credit demand in the review quarter was reflected in both local and foreign currency loans. For local currency loans, the increase in demand was mostly evident in the *Distribution, Professional & Business Services, Transport, Construction and Mining* industries while increased demand for foreign currency loans stemmed from the *Professional & Business Services, Distribution, Tourism and Construction* industries. With respect to demand by

business size, the overall growth was reflected in the demand for credit by micro and small businesses.

For the March 2019 quarter, lenders indicated that they are anticipating a slight moderation in the overall demand for credit, particularly from businesses. This decline reflected respondents’ expectation of changes in business activities, loan promotion activities and interest rates.

Price of Credit⁴

Based on the survey responses, average indicative interest rates on new local currency loans **declined** by approximately **18 bps** to **14.58 per cent** during the review quarter, relative to the previous quarter. This reflected a decline of **51 bps** in rates for business loans, while there was an increase of **117 bps** in the rates for personal loans. Lower rates on business loans primarily reflected the impact of reduced interest rates on loans to medium sized firms (see **Table 1**).

Similarly, the average indicative interest rate on new foreign currency loans declined by **24 bps** to **7.28 per cent**, which reflected lower rates on foreign currency loans to all business sizes.

For the March 2019 quarter, lenders reported that they plan to increase the interest rates on new local and foreign currency loans by **64 bps** and **94 bps** to **15.22 per cent** and **7.99 per cent**, respectively.

⁴ The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

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

	September 2018 Survey		December 2018 Survey	
	Sep-18	Dec-18*	Dec-19	Mar-19*
Local Currency (LC)				
Business loans	14.16	15.31	13.65	14.43
Personal loans	17.14	17.30	18.31	18.39
Average LC rates	14.76	15.34	14.58	15.22
Foreign Currency (FC)				
Business loans	7.52	7.80	7.28	7.99
Reference rate	7.42	8.01	6.43	8.00

1. The asterisk (*) represents expectations provided by the respondents.



Personal Lending⁵

Credit Conditions

There was a tightening in overall credit conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) for personal loans in the December 2018 quarter, evidenced by the index of **97.4** for this industry (see **Figure 5a**). This tightening was reflected in price and non-price lending policies applicable to both unsecured and secured loans (see **Figure 5b**). For secured loans, the tightening of credit conditions mainly reflected increases in fees and collateral requirements. For unsecured loans, the tightening was attributed to increased fees and reduced credit card limits.

For the March 2019 quarter, lending conditions are expected to tighten for both secured and unsecured loans. This outlook reflects plans by some lenders to increase fees, collateral requirements and interest rates on credit cards.

Figure 5a: Index of Overall Credit Conditions for Personal Lending

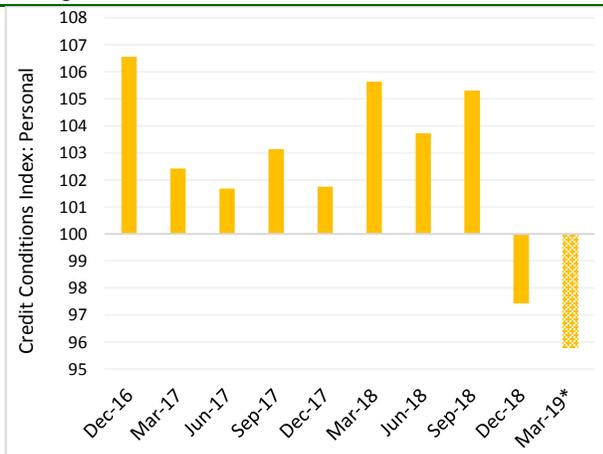
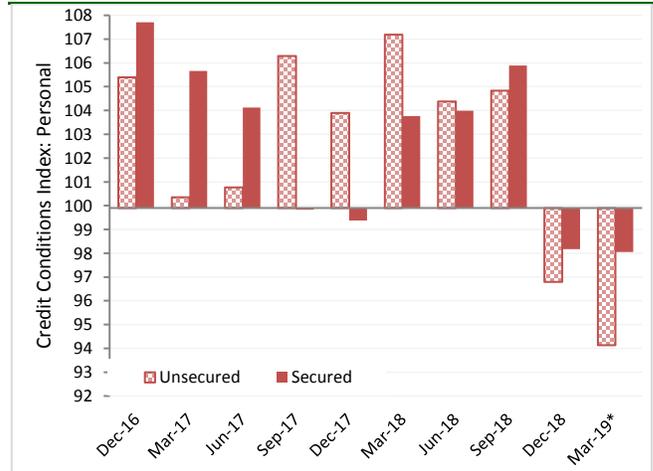


Figure 5b: Index of Credit Conditions for Secured and Unsecured Personal Lending



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

Credit Supply

For the December 2018 quarter, credit made available for overall personal loans expanded which was evidenced by a CSI of **102.5**. In particular, unsecured personal loans and motor vehicle loans increased. Mortgages, loans with real estate as collateral and other secured personal loans experienced a moderation. Relative to the previous quarter, less credit was made available for debt consolidation. Mortgages, credit cards, and motor vehicle loans however reflected higher approval rates (see **Figure 6**). There was a decline in approval rates for other secured loans relative to the previous quarter.

For the March 2019 quarter, growth in credit supply is expected to moderate relative to the pace of expansion in the December 2018 quarter. This

⁵ Previously published data points have been revised as our methodology and other review processes have been updated for consistency.

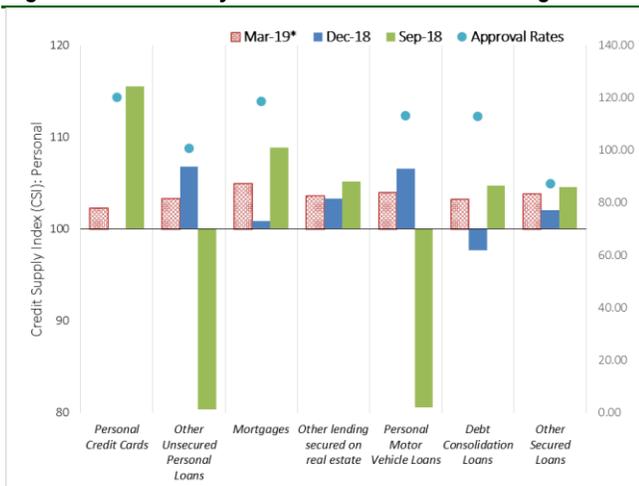


increase is expected to impact all categories of personal loans (see **Figure 6b**).

Figure 6a: Availability of Credit for Personal Lending



Figure 6b: 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. The asterisk (*) represents forward looking expectations provided by the respondents.

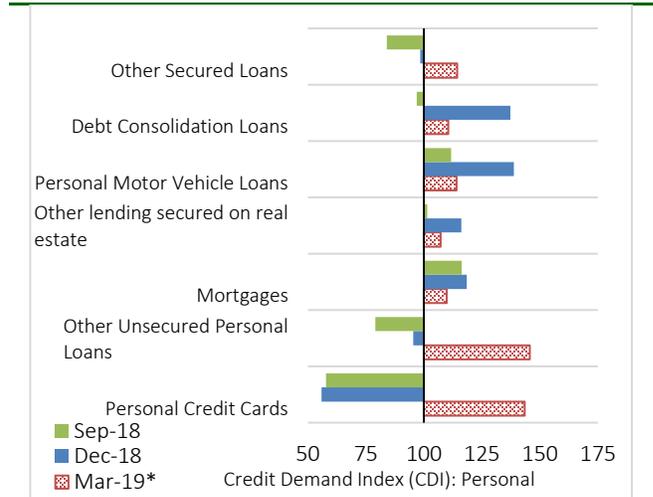
Credit Demand

The demand for personal credit increased in the review quarter. The CDI rose to **108.6** from **92.5** in the

previous quarter (see **Appendix A: Table 7**). The increase in demand was evident in motor vehicle and debt consolidation loans, mortgages, and loans secured by real estate. This was partially offset by a notable decline in demand for credit cards (see **Figure 7**).

For the March 2019 quarter, the CDI is expected to increase to **116.4** reflecting accelerated growth in demand for all categories of loans, relative to the growth in the December 2018 quarter.

Figure 7: Demand for Personal Loans



Price of Credit⁶

Average indicative loan rates on new personal loans offered by participating institutions **increased** for the review period to **18.31 per cent** from **17.14 per cent** in the previous survey. The higher rate for the review quarter was underpinned by higher interest rates on all categories except *mortgages* (see **Table 2**).

For the March 2019 quarter, lenders reported a planned increase of approximately **8 bps** in the average interest rates.

⁶ The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

**Table 2: Interest Rates on Personal Loans**

	September 2018 Survey		December 2018 survey	
	Sep-18	Dec-18*	Dec-18	Mar-19*
Credit Cards	39.60	39.77	40.24	40.24
Other Unsecured	18.22	19.18	21.07	22.43
Mortgages	8.90	8.67	8.64	8.72
Motor Vehicle	10.00	10.02	12.65	11.65
Other Secured	8.99	8.86	8.97	8.92
Average rates	17.14	17.30	18.31	18.39

1. The asterisk (*) represents forward looking expectations provided by the respondents.

Micro Business Lending⁷

Credit Conditions

For the December 2018 quarter, overall credit conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) faced by micro-businesses remained unchanged. This was reflected in price and non-price lending policies applicable to both unsecured and secured loans (see **Figure 8a**).

Credit conditions for both secured and unsecured lending are also expected to remain unchanged for the March 2019 quarter.

Figure 8a: Credit Conditions for Micro-sized Businesses

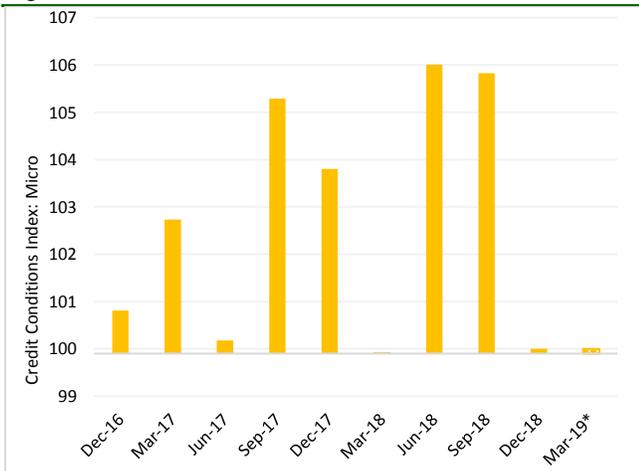


Figure 8b: Credit Conditions for Secured and Unsecured Loans to Micro-sized Businesses



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

Credit Supply

The credit made available to micro firms declined marginally as evidenced by a CSI of **99.9** for the quarter. There was a decline in local currency credit supply but foreign currency credit supply remained largely unchanged.

For the March 2019 quarter, lenders reported that they expect to further reduce the supply of local currency credit to micro businesses.

Credit Demand

Credit demand by micro businesses expanded for the December 2018 quarter. This was reflected by the CDI of **120.4** for the quarter in comparison to **86.2** in the previous quarter. This increase reflected greater demand for local currency loans by the *Mining &*

⁷ Previously published data points have been revised as our methodology and other review processes have been updated for consistency.



Quarrying, Construction & Land Development, Distribution and Transportation, Storage & Communication industries. The demand for foreign currency loans also increased and reflected an expansion in demand by the *Distribution* and *Professional & Business* industries.

For the March 2019 quarter, lenders reported that they expected demand for both local and foreign currency loans to remain largely unchanged relative to the December 2018 quarter.

Price of Credit⁸

For the review period, the indicative average lending rate on new local currency loans to micro businesses increased by **36 bps** to **26.02 per cent** (see **Table 3**). This increase was predominantly reflected in higher interest rates on loans to the *Agriculture & Fishing, Manufacturing, Tourism, and Professional & Other services* industries.

Interest rates on foreign currency loans to micro businesses also increased to **8.13 per cent** for the review quarter from **7.93** in the previous quarter.

For the March 2018 quarter, lenders reported that they expected to further increase interest rates on local and foreign currency loans to micro businesses.

Table 3: Interest Rates on New Local Currency Loans to Micro Businesses

MICRO	September 2018 Survey		December 2018 Survey	
	Sep-18	Dec-18*	Dec-18	Mar-19*
Agriculture & Fishing	28.75	28.90	39.08	28.06
Construction & Land Development	20.66	30.53	20.00	28.06
Distribution	30.61	30.53	29.57	28.06
Electricity Gas & Water	33.50	30.53	28.16	28.06
Entertainment	33.50	30.53	28.16	28.06
Manufacturing	20.96	30.53	21.08	28.06
Mining & Quarrying	20.75	30.53	17.69	28.06
Professional & Other Services	17.77	30.53	19.21	28.06
Tourism	22.25	30.53	28.16	28.06
Transport, Storage & Communication	27.83	28.78	29.06	28.06
Average	25.66	30.20	26.02	28.06

1. The asterisks (*) represent expectations provided by the respondents.
2. Note that "n.a" indicates that creditors did not lend to businesses within those industries for the review quarter.

⁸ The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

Small Business Lending⁹

Credit Conditions

For the December 2018 quarter, overall credit conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) faced by small businesses remained unchanged, relative to the previous quarter. This was evidenced by an overall credit conditions index of **100.0** for the quarter relative to **105.3** in the previous quarter, reflecting no changes in price and non-price lending policies applicable to both unsecured and secured loans (see **Figure 9a and 9b**).

For the March 2019 quarter, lenders reported that they plan to improve credit terms for secured loans offered to small businesses. They however indicated an intention to maintain credit conditions unchanged for unsecured loans.

Credit Supply

Credit made available to small firms remained unchanged in comparison to the previous quarter. Lenders reported no changes in credit terms for local currency loans across most industries, except for *Construction and Land Development* which saw a marginal tightening. The supply of foreign currency credit was also unchanged.

For the March 2019 quarter, lenders reported that they had no plans to change the level of credit made available to small businesses, as evidenced in the projected CSI of **100.0**.

Figure 9a: Credit Conditions for Small Businesses

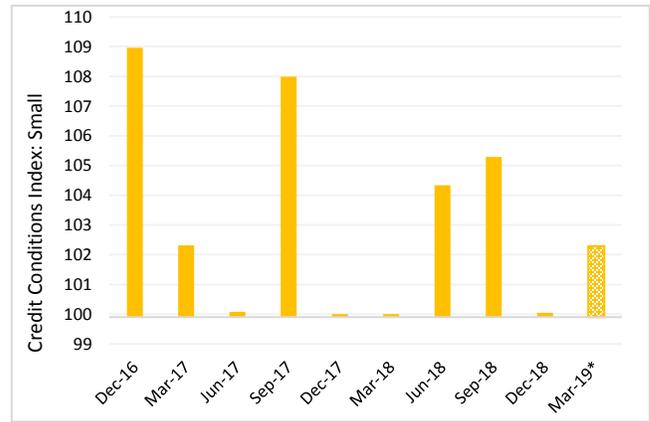
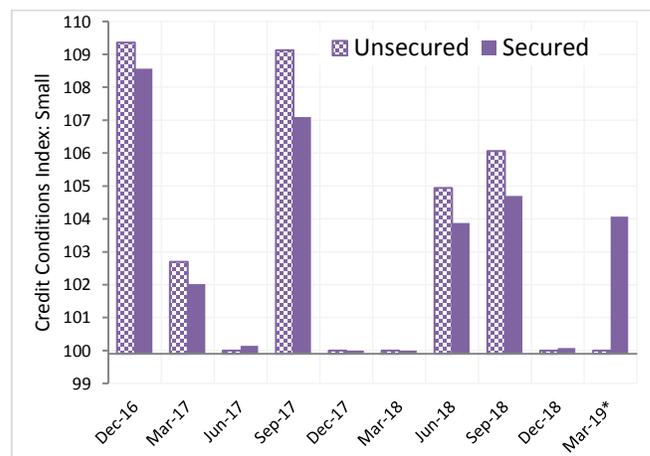


Figure 9b: Credit Conditions for Secured and Unsecured Loans to Small Businesses



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

Credit Demand

Demand for loans by small businesses increased dramatically in the review quarter and was reflected in the CDI for local currency loans of **117.4** relative to **90.2** in the previous quarter. This increase was reflected in both local and foreign currency demand. There was greater demand for local currency loans by

⁹ Previously published data points have been revised as our methodology and other review processes have been updated for consistency.



the *Mining & Quarrying, Construction, Transport, and Distribution* industries. Foreign currency loan demand showed a similar increase for the review quarter, relative to the previous quarter, reflected in the *Distribution, Professional* and *Entertainment* industries.

For the March 2019 quarter, lenders reported that they expect a marginal increase in the demand for local currency loans by small firms, while demand for foreign currency loans is expected to remain unchanged.

Price of Credit¹⁰

For the review period, the indicative average lending rate on new local currency loans to small businesses declined to **10.80 per cent** from **11.29 per cent**. The reduction in local currency rates to small businesses mainly reflected lower borrowing costs for the *Entertainment, Manufacturing, Mining & Quarrying, and Distribution* industries. Similarly, the weighted average interest rate on foreign currency loans declined by approximately **58 basis points** to **8.05 per cent**, which was observed in all economic industries except *Distribution*.

For the March 2019 quarter, lenders reported planned increases in interest rates on both new local and foreign currency loans to small business enterprises.

Table 4: Interest Rates on New Local Currency Loans to Small Businesses

SMALL	September 2018 Survey		December 2018 Survey	
	Sep-18	Dec-18*	Dec-18	Mar-19*
Agriculture & Fishing	10.25	11.02	10.27	12.31
Construction & Land Development	10.21	11.42	10.48	12.85
Distribution	12.08	10.85	11.61	12.25
Electricity Gas & Water	11.50	11.32	11.28	12.85
Entertainment	11.95	11.72	9.02	12.59
Manufacturing	12.57	11.60	11.71	12.68
Mining & Quarrying	11.10	12.17	10.58	12.57
Professional & Other Services	11.26	12.06	11.27	12.82
Tourism	9.63	10.64	9.27	11.68
Transport, Storage & Communication	12.35	11.32	12.52	12.82
Average	11.29	11.41	10.80	12.54

1. The asterisks (*) represent expectations provided by the respondents.
2. Note that "n.a" indicates that creditors did not lend to businesses within those industries for the review quarter

¹⁰ The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

Medium-Sized Business Lending¹¹

Credit Conditions

Lending conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) faced by medium-sized enterprises in the December 2018 quarter showed a slower rate of easing relative to the previous quarter. This was reflected in a credit conditions index of **100.5** for the quarter relative to the CSI of **102.9** in the previous quarter (see **Figure 10a**). Easing was reflected in price and non-price lending policies applicable to both unsecured and secured loans (see **Figure 10b**).

For the March 2019 quarter, lenders reported that they expected to ease credit terms applied to both secured and unsecured loans. This projected easing would be reflected in lower interest rates on secured loans.

Credit Supply

Credit made available to medium-sized firms remained unchanged for the December 2018 quarter compared with an expansion in the September 2018 quarter.

For the March 2019 quarter, the CSI for medium-sized businesses is expected to accelerate at a marginally slower rate, with an index of **100.2**.

Figure 10a: Credit Conditions for Medium-sized Businesses

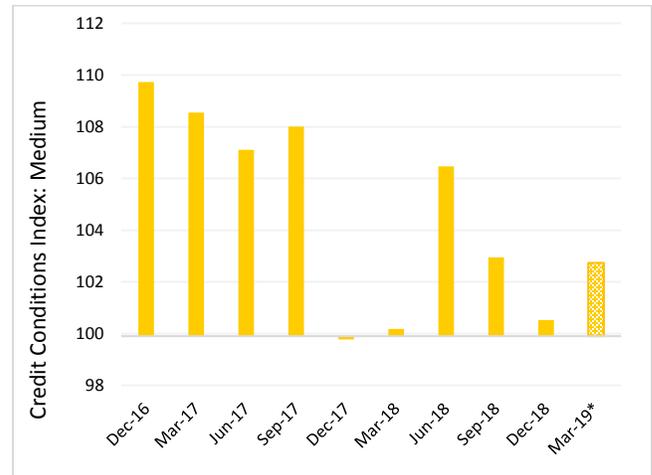
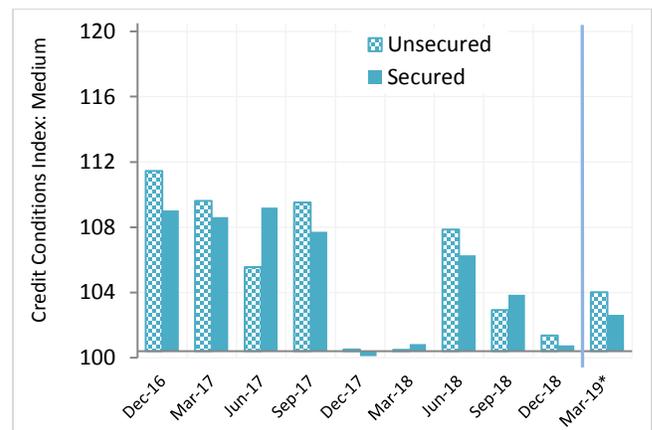


Figure 10b: Credit Conditions for Medium-sized Businesses



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

Credit Demand

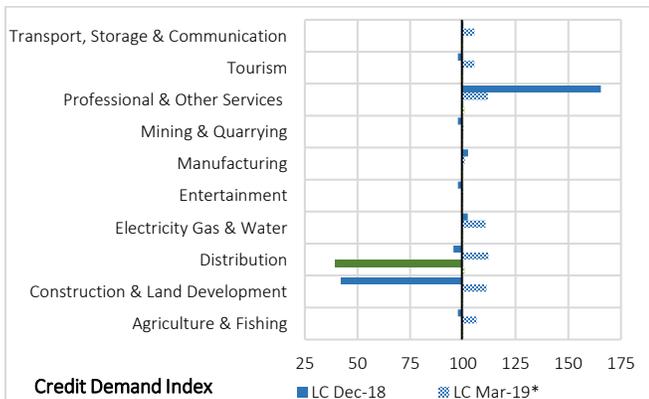
Demand for loans by medium-sized firms experienced continued contraction in the review quarter. This was

¹¹ Previously published data points have been revised as our methodology and other review processes have been updated for consistency.

reflected in a CDI of **96.9** compared to **94.7** in the previous quarter. There was a decline in demand for local currency loans, largely evidenced in the *Construction* industries, this was partially offset by an increase in demand by the *Profession & Other Services* industry. Of note, there was a decline in the demand for foreign currency loans which was evidenced in the *Distribution* industry while loan demand by most other industries was relatively unchanged (see **Figure 11**).

For the March 2019 quarter, lenders reported that they expected the demand for both local and foreign currency loans from medium-sized firms to increase.

Figure 11: 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 asterisk (*) represents forward looking expectations provided by the respondents.

Price of Credit¹²

There was a decline in the indicative average lending rate on new local and foreign currency loans to medium-sized businesses for the review period. The average rate on local currency loans declined to **9.39 per cent** from **10.88 per cent** in the previous quarter. This was evidenced across all economic industries. Interest rates on loans to the *Tourism, Mining &*

Quarrying and Electricity Gas & Water industries reflected the largest declines of **222 bps, 195 bps** and **194 bps**, respectively. Similarly, there was a decline of **48 bps** to **7.19 per cent** in the average rate on foreign currency loans for the review quarter. Lower rates were evidenced in *Construction, Distribution, Electricity, Mining, Tourism* and *Transport* industries (see **Table 5**).

Table 5: Interest Rates on Local and Foreign Currency Loans to Medium-sized Businesses

MEDIUM	Local Currency			Foreign Currency		
	Sep-18	Dec-18	Mar-19*	Sep-18	Dec-18	Mar-19*
Agriculture & Fishing	11.00	9.35	8.91	6.88	7.17	7.13
Construction & Land Development	9.91	9.16	10.28	7.75	6.41	7.33
Distribution	9.78	9.66	9.36	8.00	7.44	7.95
Electricity Gas & Water	11.50	9.56	8.99	8.08	7.25	7.83
Entertainment	11.00	9.78	9.89	7.75	7.75	8.17
Manufacturing	11.43	10.01	9.35	0.00	n.a	n.a
Mining & Quarrying	12.80	10.85	9.69	7.75	7.25	7.83
Professional & Other Services	11.25	9.47	8.66	7.75	8.17	7.83
Tourism	9.25	7.03	8.24	7.33	6.54	6.88
Transport, Storage & Communication	10.83	9.01	8.66	7.75	6.75	8.19
Average	10.88	9.39	9.20	7.67	7.19	7.68

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

Lenders expect to reduce the interest rate to medium sized firm by **19 bps** to **9.20 per cent** for the March 2019 quarter. Lower rates are expected across most industries with the exception of *Construction, Entertainment* and *Tourism* which are expected to increase. On the other hand, interest rate on foreign currency credit is expected to increase by **49 bps** to **7.68 per cent** with higher rates expected on loans to all industries except *Agriculture*.

¹² The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.

Large Corporations and Commercial Lending¹³

Credit Conditions

Lending conditions (i.e. lending institutions’ actual price and non-price loan terms agreed in loan contracts) faced by large businesses continued to ease in the review quarter, albeit at a slightly slower rate than in the previous quarter. In this context, the overall credit condition index was **101.2** compared with **101.9** in the previous quarter (see **Figure 12a**). Easing was reflected in price and non-price lending policies applicable to both unsecured and secured loans (see **Figure 12b**). The improvement in credit conditions was associated with lower interest rates and fees applicable to secured loans. Interest rates offered on non-credit card lending and fees applied to unsecured loans were also lower for the review period.

For the March 2019 quarter, lenders reported that they plan to continue to ease credit conditions. As such the index is anticipated to be at **101.9**.

Figure 12a: Credit Conditions for Large Businesses

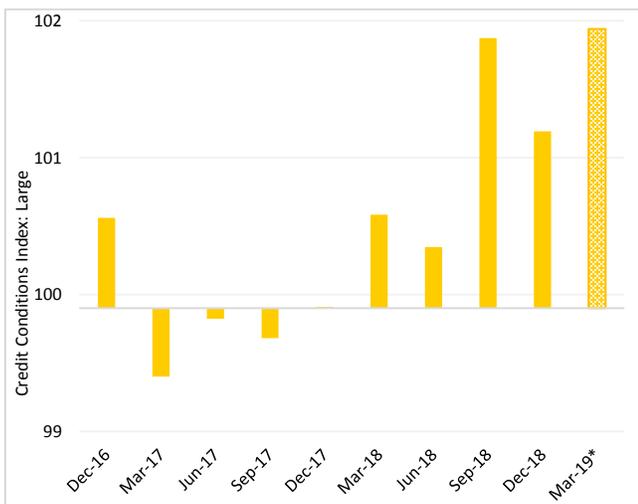
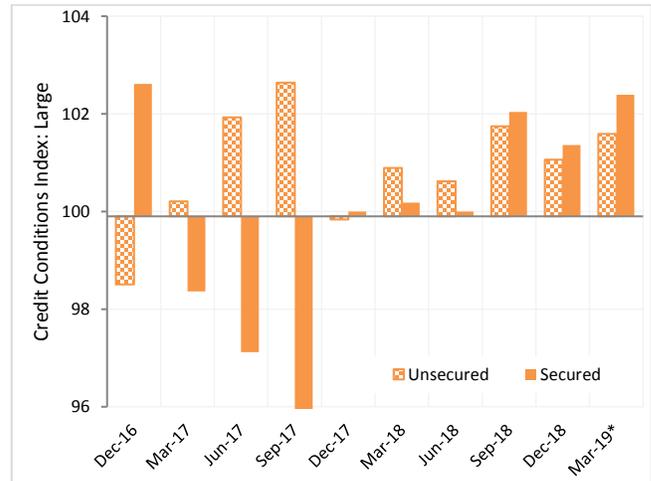


Figure 12b: Credit Conditions for Secured and Unsecured Loans to Large Businesses



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

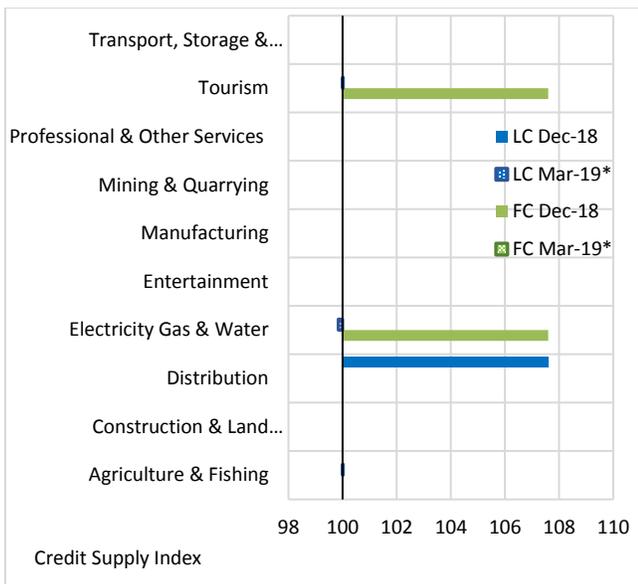
Credit Supply

Growth in the credit made available to large businesses during the quarter decelerated relative to the previous quarter. This was reflected in a CSI of **101.1** for the quarter, relative to **107.2** in the previous quarter. The CSI reflected declines in the growth in the credit available to both local and foreign currency loans. For local currency loans, this increase was predominantly channelled to the *Tourism* and *Distribution* industries and also to the *Tourism*, *Distribution* and *Electricity* industries for the foreign currency loans (see **Figure 13**). The growth continued to reflect changes in lenders’ risk appetite, market share objectives and economic outlook of lenders.

¹³ Previously published data points have been revised as our methodology and other review processes have been updated for consistency.

For the March 2019 quarter, lenders plan to reduce credit availability to large businesses. This was evidenced in a decline in the CSI to **99.9** which reflected an anticipated downturn in the pace of growth in the supply of both local and foreign currency loans.

Figure 13: Availability of Credit to Large Businesses



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

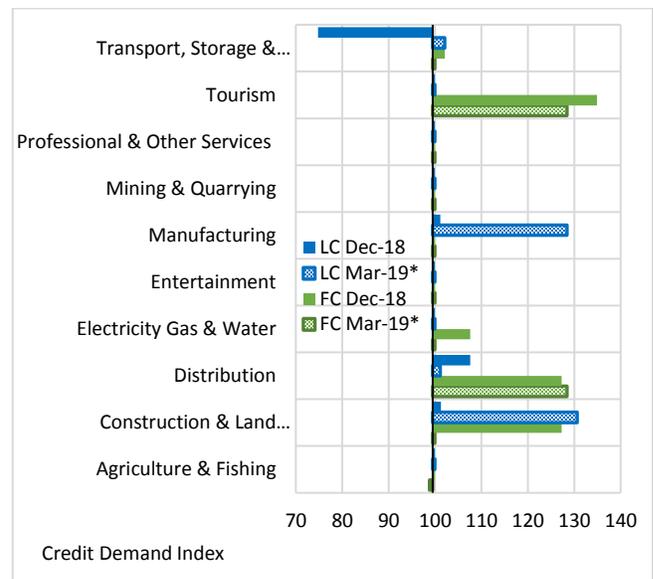
Credit Demand

There was a slow-down in the growth rate of demand for credit from large businesses in the December 2018 quarter as indicated by lower CDI of **104.4** compared with **107.8** in the previous quarter. This moderation was reflected in a lower rate of growth for both local and foreign currency loans. The slowdown in demand for local currency loans in the review quarter stemmed mainly from the *Distribution* and *Transport* industries (see **Figure 14**). The decline in demand for foreign currency loan stemmed from the *Electricity and Construction* industries. Lenders highlighted that important factors that influenced credit demand from

large businesses were changes in business activities, Interest rates and macroeconomic risks, as well as developments in one or more economic industries.

For the March 2019 quarter, lenders reported that they expected faster growth in the demand for credit by large firms relative to the expansion which occurred in the December 2018 quarter. This expectation was underpinned by the anticipated growth in both local currency demand, most notably from the *Manufacturing and Construction* industries as well as foreign currency demand in the *Tourism, Distribution and Construction* industries.

Figure 14: Credit Demanded by Large Businesses



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



Price of Credit¹⁴

For the review quarter, indicative lending rates on new local currency loans to large corporations declined by **44 bps to 8.38 per cent**. Foreign currency rates also declined by **18 bps to 5.76 per cent** (see **Table 6**). Rates on local currency loans in the *Manufacturing, Construction and Professional* industries showed the largest declines of **192 bps, 158 bps** and **96 bps**, respectively. The lower rates on foreign currency loans were evident for the *Mining and Professional & Other* industries. These declines were slightly offset by higher rates for the *Construction & Land Development* industry.

For the March 2019 quarter, the average interest rate on new local currency credit to large firms is expected to fall by **46 bps to 7.92 per cent**. Lower rates are expected across all industries expect *Tourism*. On the other hand, the average interest rate on foreign currency credit is anticipated to increase by **79 bps to 6.55 per cent** with higher rates expected for, *Agriculture and Distribution*.

Table 6: Interest Rates on Local and Foreign Currency Loans to Large Businesses

Large	Local Currency		Foreign Currency	
	Dec-18	Mar-19*	Dec-18	Mar-19*
Agriculture & Fishing	9.00	n.a	5.16	6.50
Construction & Land Development	8.50	n.a	6.25	n.a
Distribution	7.59	n.a	6.23	6.60
Electricity Gas & Water	7.94	n.a	6.69	n.a
Entertainment	6.25	n.a	5.00	n.a
Manufacturing	8.75	n.a	0.00	n.a
Mining & Quarrying	10.00	n.a	5.00	n.a
Professional & Other Services	9.67	n.a	5.13	n.a
Tourism	7.06	7.92	6.47	n.a
Transport, Storage & Communication	9.04	n.a	5.88	n.a
Average	8.38	7.92	5.76	6.55

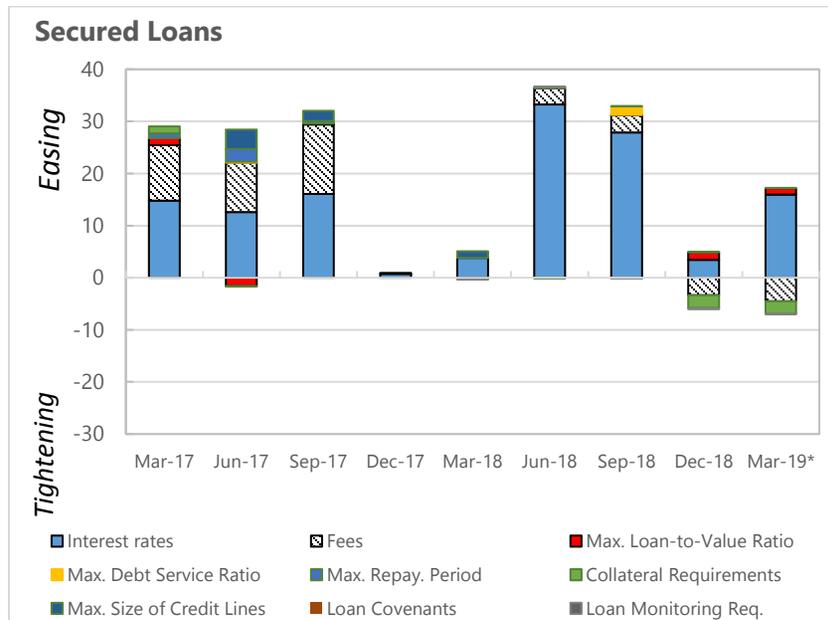
1) The asterisks (*) represent expectations provided by the respondents.

¹⁴ The summary of interest rates presented in this report are the simple averages of the weighted average interest rates reported by the respondents of the survey.



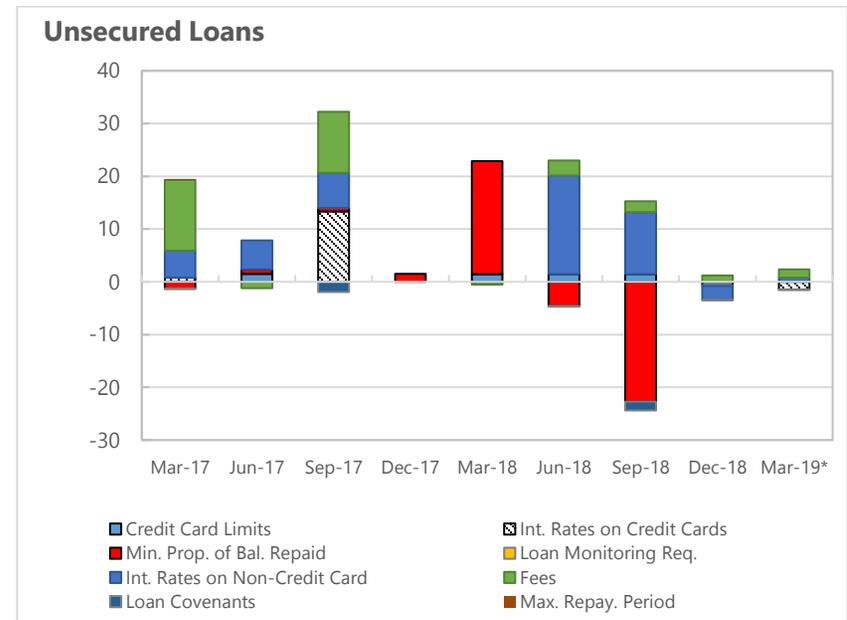
Appendix A: Overall Credit Market Conditions

Figure 15: 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. The asterisks (*) represent expectations provided by the respondents.

Figure 16: 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. The asterisks (*) represent expectations provided by the respondents.



Table 7: Components of Credit Demand and Supply Indices

	December 2017 Survey		September 2018 Survey		December 2018 Survey	
	Dec-17	Mar-18*	Sep-18	Dec-18*	Dec-18	Mar-19*
SUPPLY						
Credit Supply Index (CSI)	104.2	103.2	101.6	106.5	101.0	101.2
Credit to Businesses	105.1	103.4	102.4	102.1	100.3	100.4
Credit to Individuals	102.4	102.8	100.0	115.2	102.5	103.5
Local Currency Credit	104.0	103.2	101.4	101.0	100.2	100.0
Foreign Currency Credit	104.8	103.7	103.3	103.2	100.4	100.1
DEMAND						
Credit Demand Index (CDI)	97.7	113.1	94.0	110.2	109.5	107.0
Demand by Businesses	99.9	109.4	94.7	104.9	108.8	102.5
Demand by Individuals	93.1	120.5	92.5	120.7	109.9	116.0
Local Currency Credit	105.9	115.6	90.3	104.3	110.1	103.0
Foreign Currency Credit	94.0	103.3	99.2	105.5	107.5	101.5

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.

December 2018 Quarter
Figure 17: Drivers of the Supply of Credit

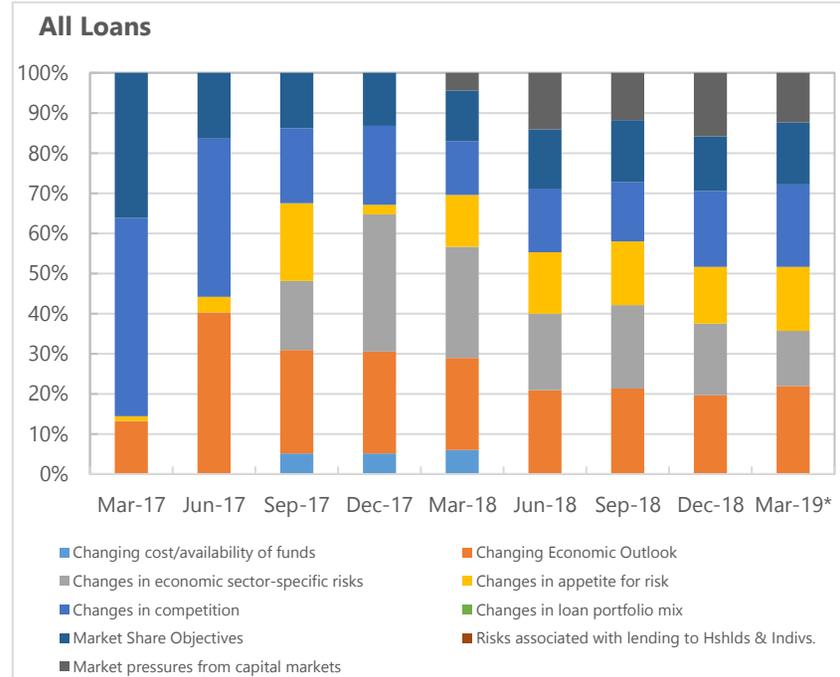




Figure 18: Drivers of the Demand of Secured Credit

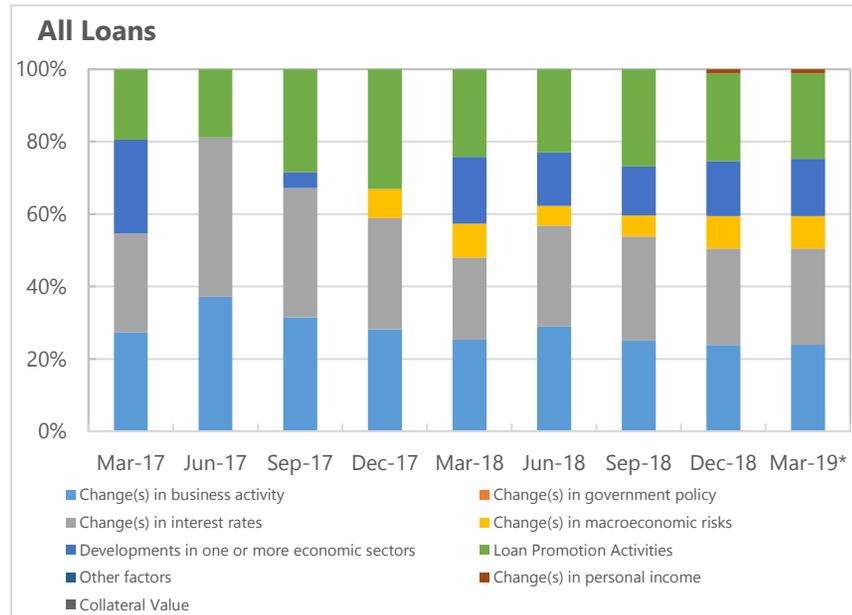
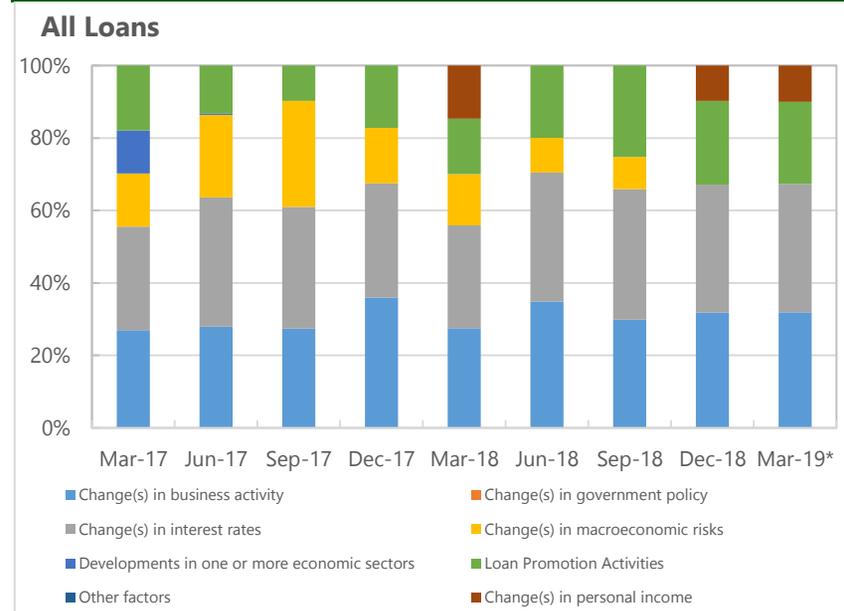


Figure 19: Drivers of the Demand of Unsecured Credit





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 Conditions Index of Price and Non-Price Loan Terms

CCI = Average (DI for Secured Loans, DI for Unsecured Loans)

Relative to the previous quarter,

Unchanged Credit Conditions: CCI = 100

Easing of Credit Conditions: CCI > 100

Tightening of Credit Conditions: CCI < 100



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

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

where s = economic industry and i = firm size

CDI = Average (Local Currency Demand by Firm Size, Foreign Currency Demand by Firm Size, Demand for Personal Credit)

Relative to the previous quarter,

Unchanged Credit Demand: CDI = 100

Increase in Credit Demand: CDI > 100

Reduction in Credit Demand: CDI < 100

Credit Supply Index (CSI) - The average net balance of opinion of credit availability across economic industries 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 industry and i = firm size

CSI = Average (Local Currency Supply by Firm Size, Foreign Currency Supply by Firm Size, Supply of Personal Credit)

Relative to the previous quarter,

Unchanged Credit Made Available: CSI = 100

Increase in Credit Made Available: CSI > 100

Reduction in Credit Made Available: CSI < 100

The following are definitions of the price and non-price credit conditions discussed in the report:

1. **Interest rates** - changes in the annual percentage interest rates on loans.
2. **Fees applicable to loans** - fixed fees charged when a new loan is being taken out.
3. **Repayment period** - refers to the maximum duration of credit that is extended to the customer.



4. **Debt service ratio** - the ratio of the amount borrowed to the estimated or reported income of the customer, usually taken into consideration in relation to loans secured on dwellings. It is considered as a more general concept of 'affordability'.
5. **Size of credit lines** - assesses changes in total credit lines (drawn or not) offered to *businesses*. The term "credit line" refers to a facility with a stated maximum amount, which a corporate is entitled to borrow from an institution at any given time.
6. **Loan monitoring requirements** - additional reporting required of the *business* borrower as part of the conditions of the loan agreement (e.g. regular reporting of inventory margins).
7. **Loan covenants** - an agreement or stipulation expressed in loan contracts by which the *business* 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.
8. **Collateral requirements** – changes in the requirements for the types of assets used to secure loans, for example, receivables, property, plant & equipment.
9. **Loan to value (LTV) ratio** — the ratio of the amount borrowed to the appraisal or market value of the underlying collateral, usually taken into consideration in relation to loans secured on dwellings.
10. **Credit card limits** - changes in the limits applicable to an institution's main credit card products offered to individuals
11. **Minimum proportion of balance paid** – the minimum proportion of the outstanding balance on a credit card which must be repaid by the individual borrower.
12. **Interest rates on non- credit card lending** – changes in interest rates on non-credit card unsecured loan products offered to individuals
13. **Interest rates on credit card lending** - changes in the annual percentage interest rates on credit card products offered to individuals.