Ease of Lending Survey Q3 2023

March 2024

Centrale Bank van Aruba

Cover design: Mangroves are hotspots of biodiversity, connecting life on land with life below the water. These ‘forests of the sea’ are essential to the health and vibrancy of our coastal ecosystems, including our community livelihoods. They provide a vital habitat for marine life, help to protect against coastal erosion and storm surges, as well as filter pollutants from the sea. Mangroves are one of nature’s most effective tools in the fight against climate change and are integral to nature.

Abstract

Commercial banks report improvements in credit supply and demand in the third quarter of 2023.

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the third quarter of 2023. The ELS captures commercial banks' sentiment about loan supply and demand. From the 16 questions, the CBA generates and aggregates indices (between 90 and 110) for business and individual loans. An index between 90 and 100 suggests pessimistic sentiments and an index between a 100 and 110 implies optimistic sentiments. In the third quarter of 2023, the overall (unweighted) credit conditions index reached 103.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 104.9) and to a lesser degree, future short-term credit conditions (index: 101.8). In summary, commercial banks had optimistic current and future sentiments about credit supply and demand in the third quarter of 2023.

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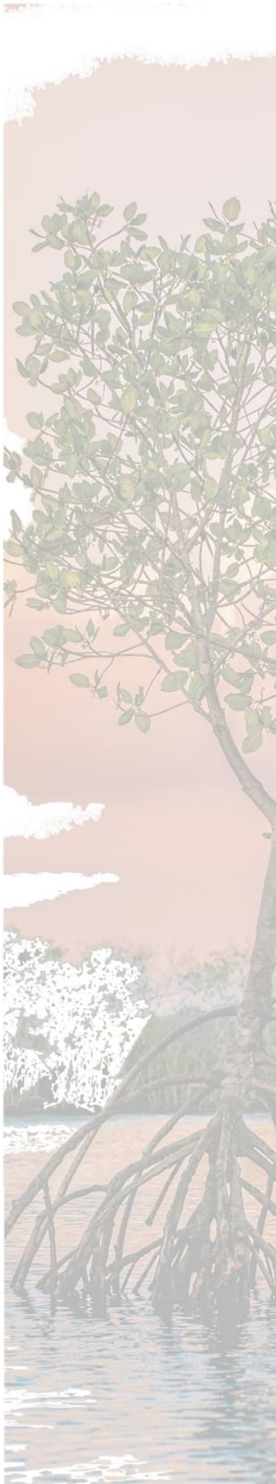
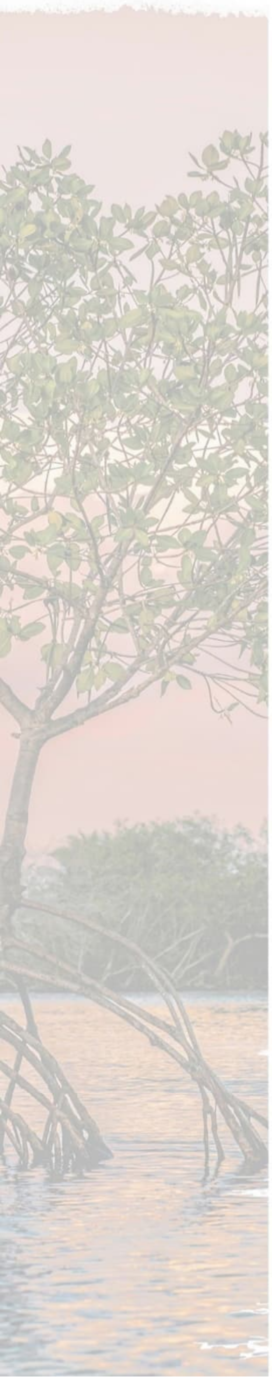




I. Developments in credit conditions

Credit conditions index

In the third quarter of 2023, the overall (unweighted) credit conditions index reached 103.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 104.9) and to a lesser degree, future short-term credit conditions (index: 101.8). If the responses of the commercial banks are weighted according to their loan portfolio size, the overall credit conditions index amounts to 101.6, which is below the unweighted index. Hence, even though the weighted and unweighted indices highlight advantageous credit conditions, it appears smaller banks reported better credit conditions.

Current credit conditions index

Commercial banks noted buoyant current credit conditions, as the index stood at 104.9 in the third quarter of 2023. This outcome was primarily associated with optimistic credit supply conditions (index: 105.6). Specifically, various banks reported improved ability or willingness to extend credit to individuals (index: 103.8) and businesses (index: 107.5). The strong current credit conditions were also due to demand factors (index: 104.1). Specifically, various commercial banks recorded increased loan applications and average loan size.

Future credit conditions index

During the third quarter of 2023, the future conditions index registered 101.8, exhibiting moderately benign credit conditions. This turnout resulted chiefly from favorable future credit demand conditions (index: 102.8) as commercial banks expect individuals and businesses to demand more credit in the fourth quarter of 2023. To a minor extent, the future supply conditions (index: 100.6) contributed to positive future credit conditions, reflecting optimism with regard to the short term supply of business loans. The future supply conditions index was dragged down by negative sentiments about the supply of individual loans in the short term (index: 98.8).

II. Drivers of credit conditions

Drivers of current credit conditions

Various supply and demand factors influenced the credit conditions in the third quarter of 2023. On the demand side, half of the commercial banks experienced a significant growth in loan applications received from individuals in the category "other", including, e.g., acquisition of real estate for short term rental purposes and renovations (See Chart 1)). Individuals were also interested in consolidating existing debt into a housing mortgage. Furthermore, businesses frequently demanded more loans for capital investments, commercial real estate, and inventory (Chart 2).

Chart 1: Reported demand drivers of current credit to individuals

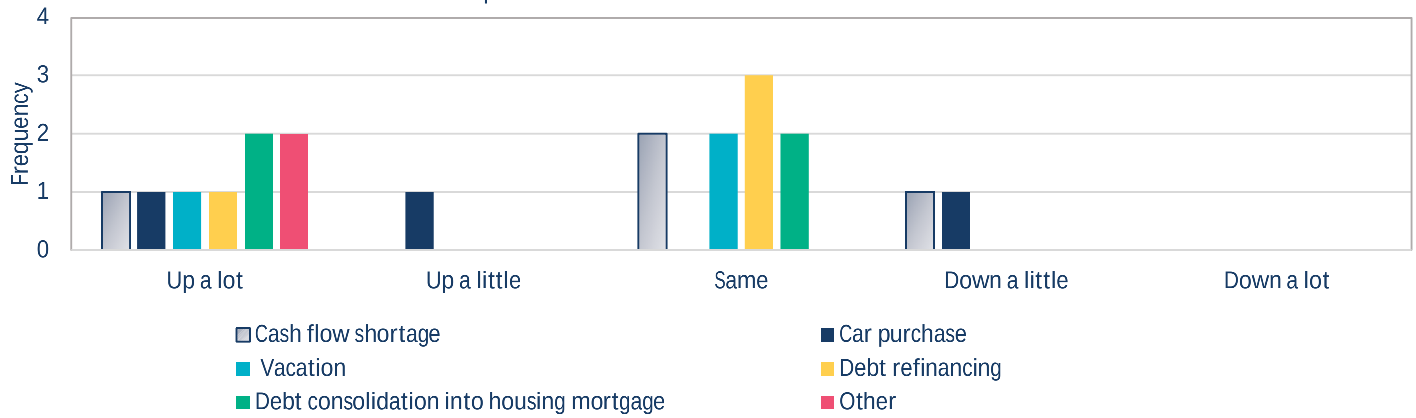
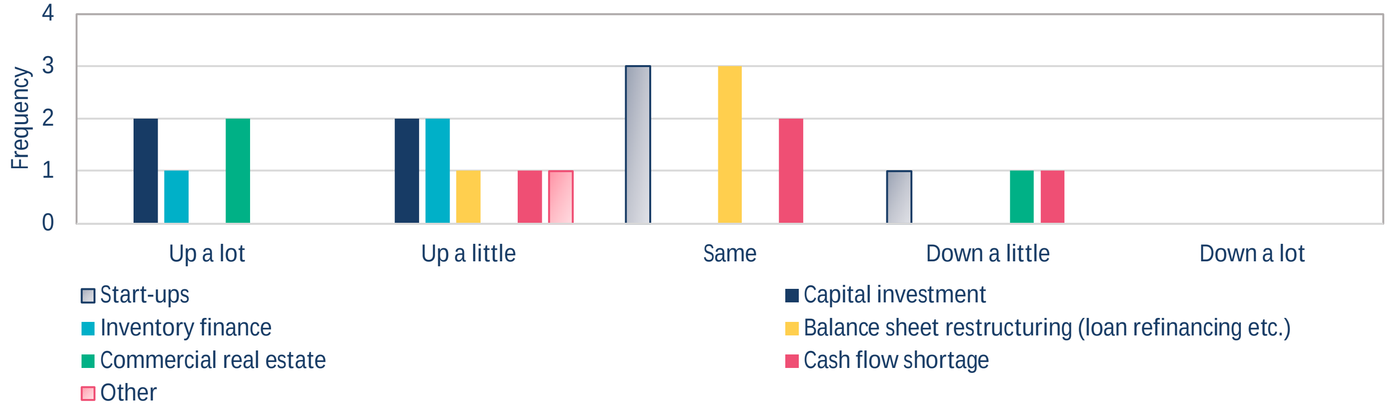


Chart 2: Reported demand drivers of current business credit



From the supply side, commercial banks informed that the availability of funds and the changing cost of attracting funds mostly impacted their willingness or ability to provide credit to individuals (Chart 3). For businesses loans, the changing cost of attracting funds again shaped commercial banks' supply conditions (Chart 4). Moreover, other factors such as the changing sector-specific risks, availability of funds, and economic outlook had bearings on supply conditions.

Chart 3: Reported supply drivers of current credit to individuals

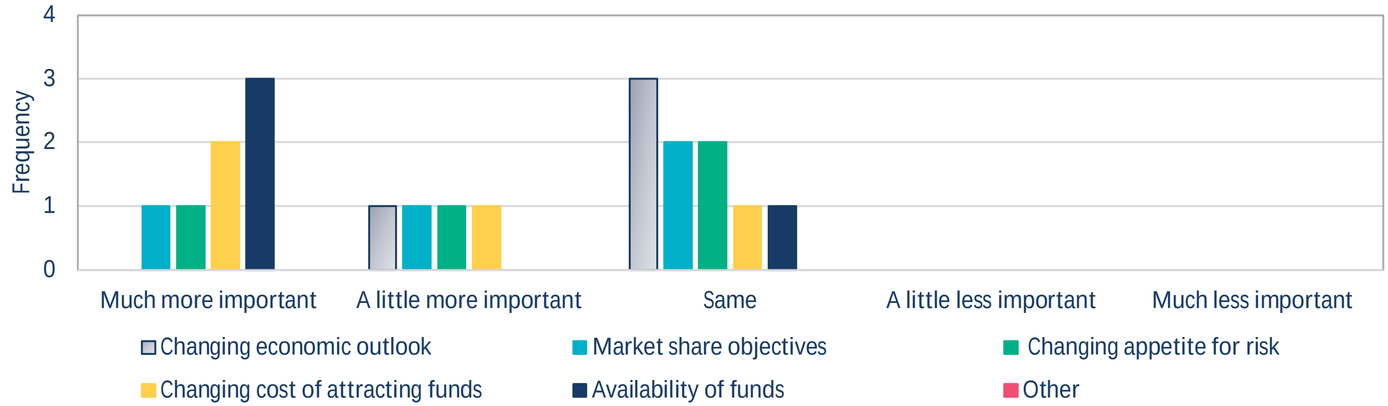
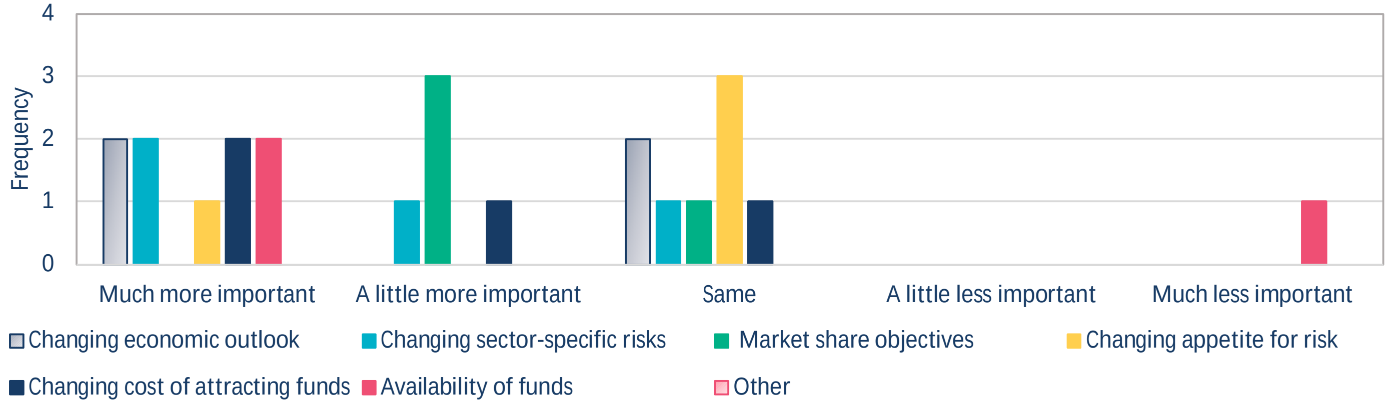


Chart 4: Reported supply drivers of current credit to businesses



Drivers of future credit conditions

During the third quarter of 2023, several supply and demand factors shaped the future credit conditions. From the demand side, one commercial bank expected significant debt consolidation into housing mortgages (Chart 5). In addition, one commercial bank foresaw a small increase in demand for vacations loans and car loans. As for business demand, commercial banks anticipated growth from commercial real estate, inventory finance, and capital investments (Chart 6).

Chart 5: Reported demand drivers of future credit to individuals

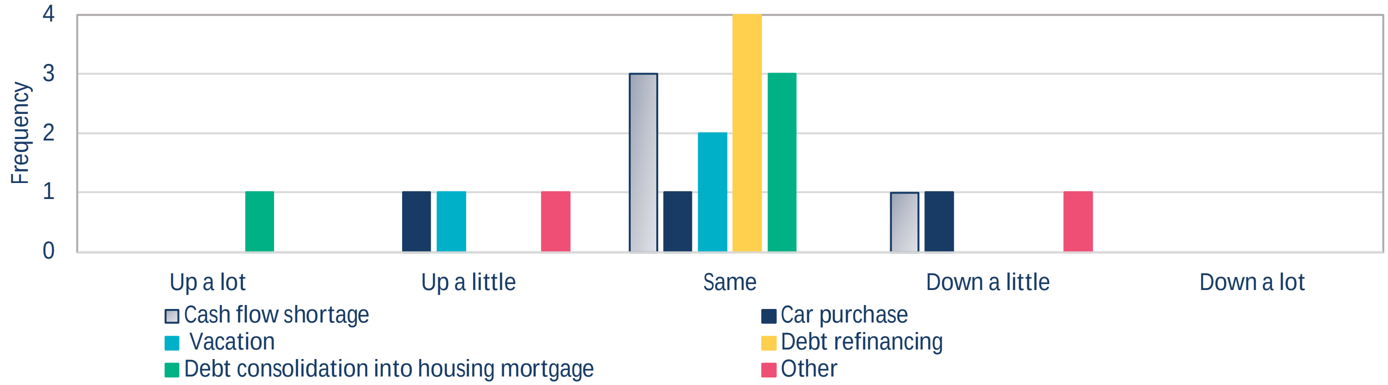
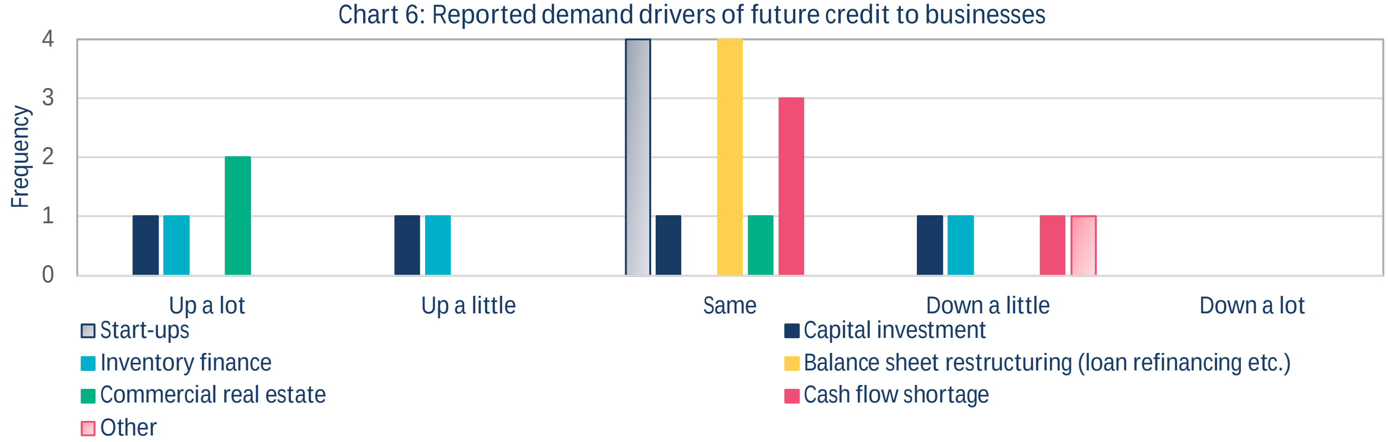


Chart 6: Reported demand drivers of future credit to businesses



Regarding the supply side, two commercial banks envisaged the cost of attracting funds and the availability of funds to primarily drive short-term willingness or ability to extend individual credit (Chart 7). To a smaller extent, commercial banks expected the changing economic outlook and appetite for risk to impact the supply of individual loans in the short term. Akin to individual loans, the changing economic outlook would co-determine the supply of business loans (Chart 8). Furthermore, changing sector-specific risks, market share objectives and availability of funds will influence how willing or able commercial banks are to extend business loans.

Chart 7: Reported supply drivers of future credit to individuals

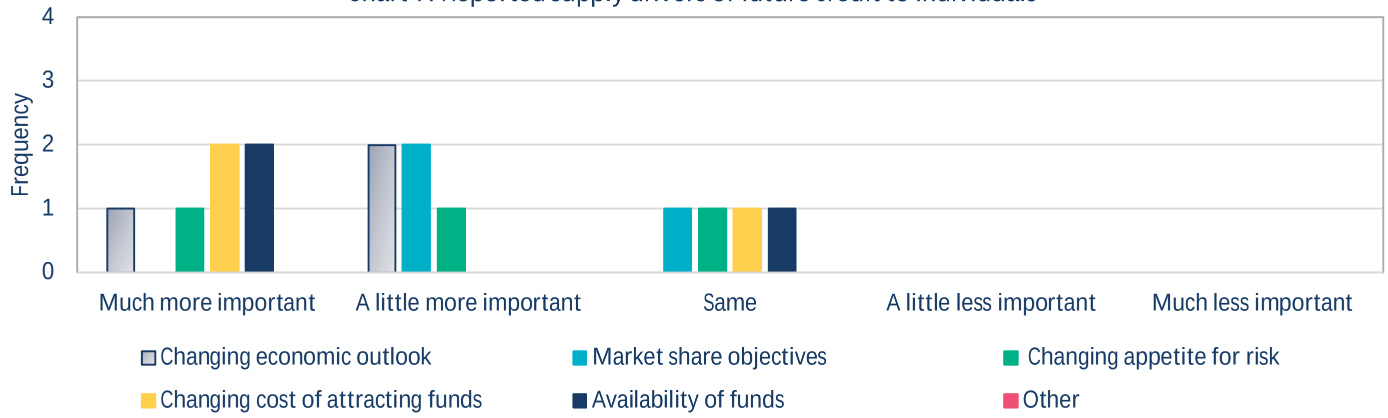
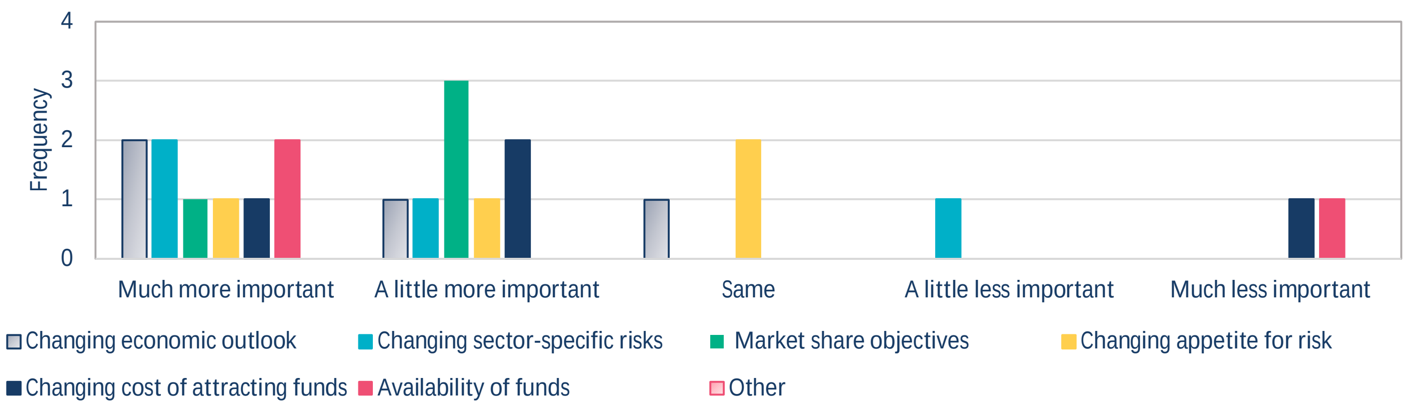


Chart 8: Reported supply drivers of future credit to businesses



III. Effects of credit supply conditions

Effects of current credit supply conditions

Commercial banks' willingness and ability to extend individual credit (index: 103.8) was mainly associated with changes in the price of credit in the third quarter of 2023 (Chart 9). The interest rate on new loans narrowed from 6.2 percent in the second quarter to 6.0 percent in the third quarter, which is consistent with looser supply conditions. Moreover, the improved supply conditions manifested through changes in collateral and covenants and the like, premiums for riskier loans, and interest rate floors. In line with individual loans, half of commercial banks (somewhat) steered their supply of business loans (index: 107.5) with changes in the price of credit (Chart 10). For one commercial bank, premiums for riskier loans were more relevant in guiding the supply of business loans.

Chart 9: Reported contributors to terms of credit change for individuals

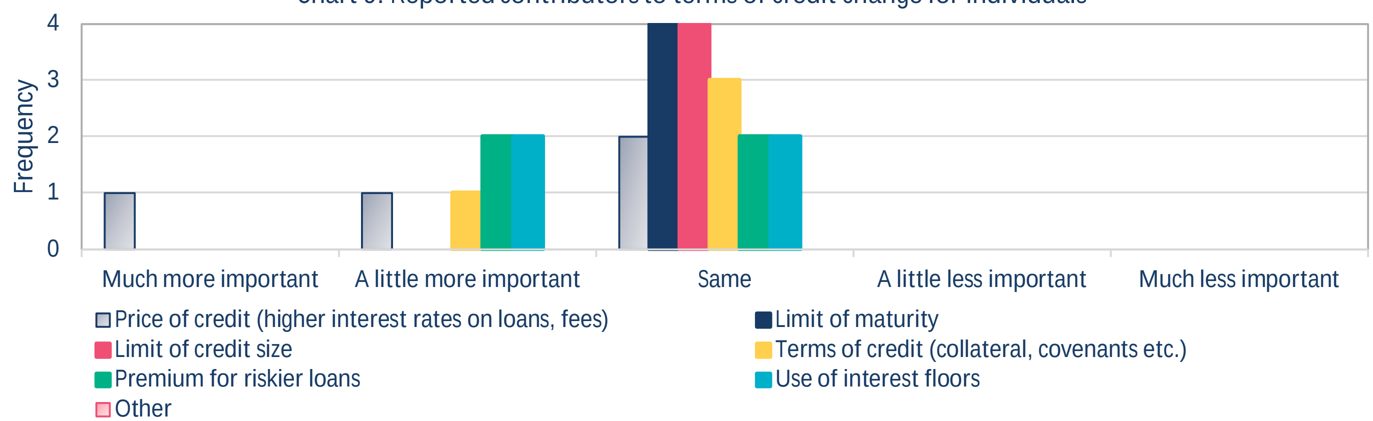
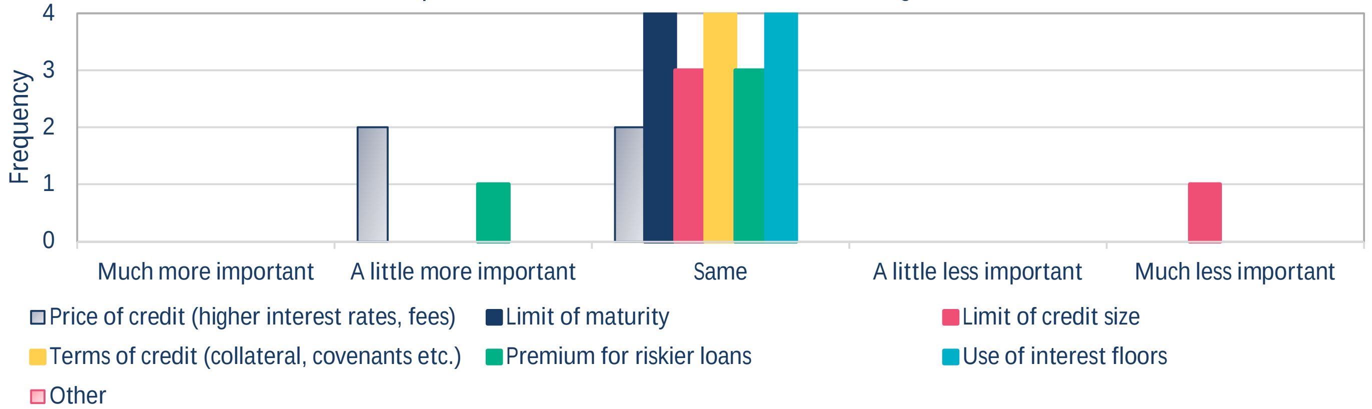


Chart 10: Reported contributors to terms of credit change for businesses



Effects of future credit supply conditions

Commercial banks intended to enact on marginally looser supply conditions in the short term (index 100.6) by altering multiple levers of credit terms for individuals in the third quarter of 2023 (Chart 11). These levers include the price of credit, limits on credit size, premium for riskier loans, collateral, covenants and so forth, premiums for riskier loans, and interest floors. The expected looser supply conditions are consistent with the rising excess liquidity in the fourth quarter compared to the third quarter of 2023. In keeping with current quarter developments, during the next quarter two commercial banks planned to manage business loan supply through changes in the price of credit (Chart 12). Nevertheless, the interest rate on new loans edged up by 0.1 percent in the fourth quarter compared to the third quarter of 2023.

Chart 11: Reported contributors to terms of credit change for individuals in the short term

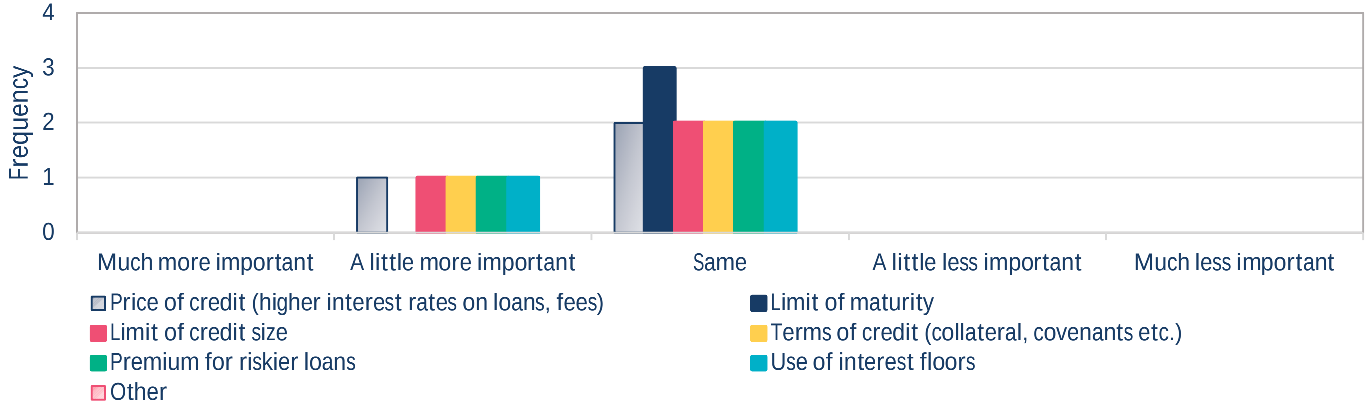
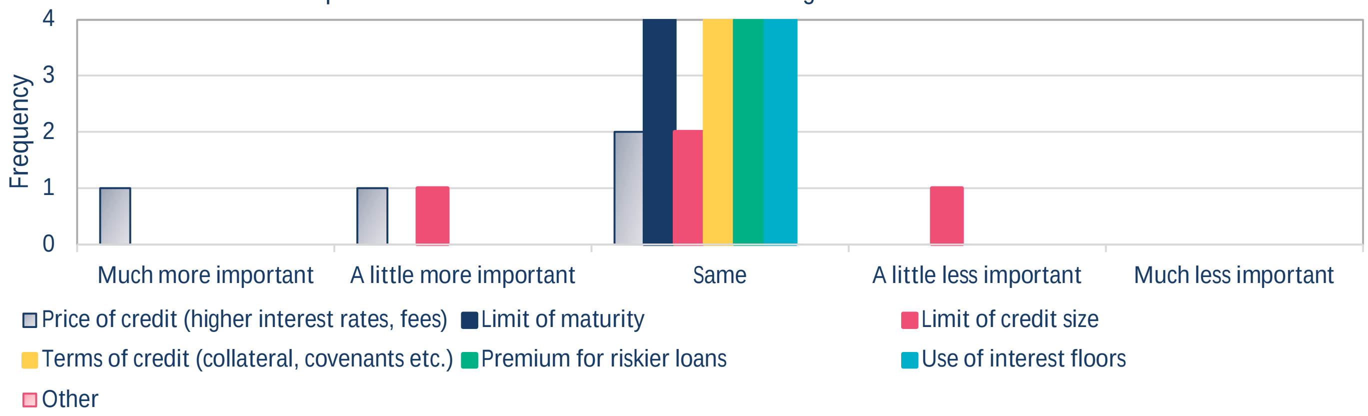


Chart 12: Reported contributors to terms of credit change for businesses in the short term



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IV. Concluding remarks

In the third quarter of 2023, the overall (unweighted) credit conditions index reached 103.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 104.9), which owed to favorable demand and supply conditions. On the one hand, commercial banks noted increasing demand for loan applications from individuals and businesses throughout various loan categories. On the other hand, supply conditions improved primarily due to the changing cost of attracting funds and availability of funds, which were met by shifts in the price of credit. To a lesser degree, the future short-term conditions (index 101.8) contributed as well to the overall optimistic credit conditions.

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