



Ease of Lending Survey Q4 2023

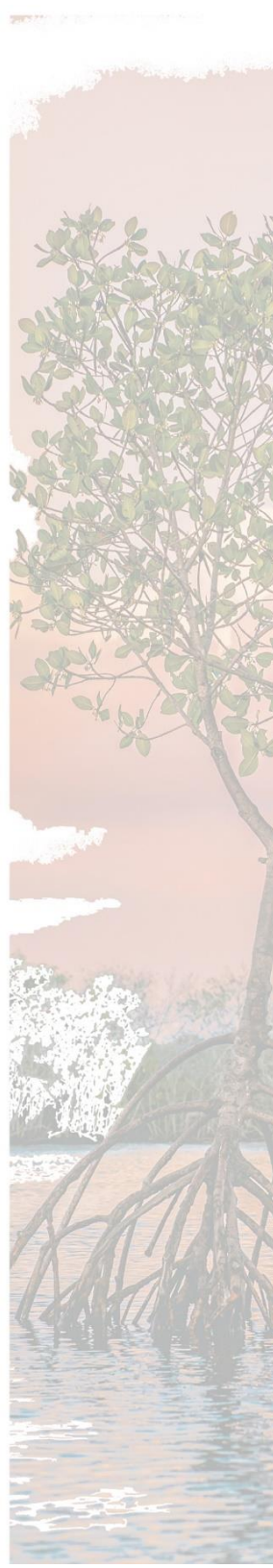
May 2024



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.

EASE OF LENDING SURVEY 2023 Q4





Abstract

Commercial banks report favorable credit conditions in the fourth quarter of 2023.

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the fourth 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 100 and 110 implies optimistic sentiments. Despite a decline in the fourth quarter of 2023 compared to the third quarter, the overall (unweighted) credit conditions index stood at 102.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 102.9) and, to a lesser degree, future short-term credit conditions (index: 101.8).



Contents

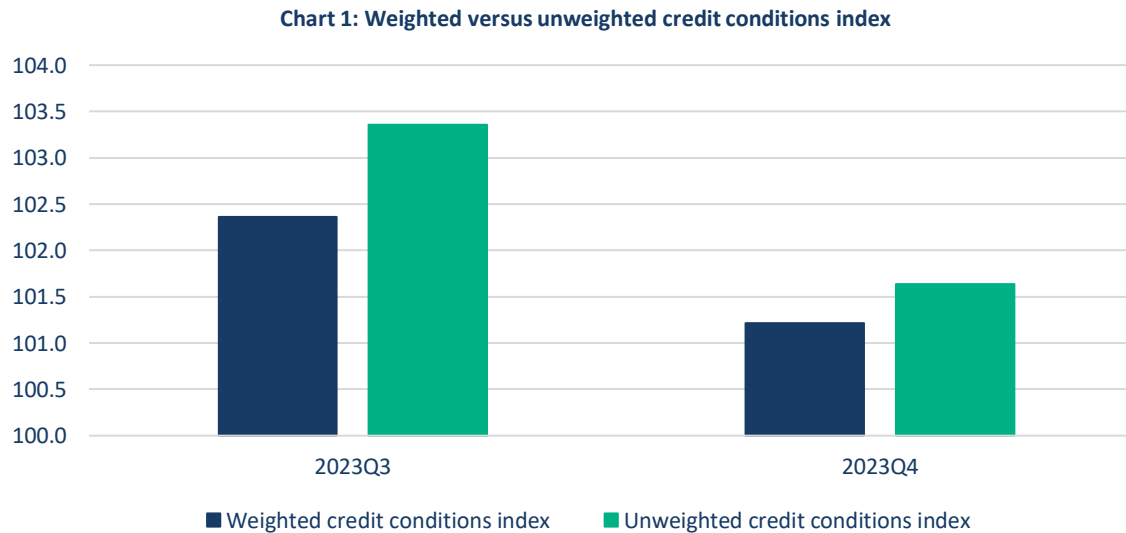
I. Developments in credit conditions	1
Credit conditions index.....	1
Current credit conditions index	2
Future credit conditions index.....	2
Comparison to previous quarter.....	2
II. Drivers of credit conditions	4
Drivers of current credit conditions	4
Drivers of future credit conditions.....	7
III. Effects of credit supply conditions	10
Effects of current credit supply conditions.....	10
Effects of future credit supply conditions	11
IV. Concluding remarks	13



I. Developments in credit conditions

Credit conditions index

In the fourth quarter of 2023, the overall (unweighted) credit conditions index reached 102.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 102.9) 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 101.2, which is below the unweighted figure (Chart 1). Hence, even though the weighted and unweighted indices highlight advantageous credit conditions, smaller banks were more optimistic about credit conditions.



Current credit conditions index

Commercial banks noted buoyant current credit conditions, as the index stood at 102.9 in the fourth quarter of 2023. This outcome was primarily associated with optimistic credit supply conditions (index: 103.1). Specifically, various banks reported improved ability or willingness to extend credit to individuals (index: 101.3) and businesses (index: 105.0). The strong current credit conditions were also due to demand factors (index: 102.8). Specifically, various commercial banks recorded increased loan applications.

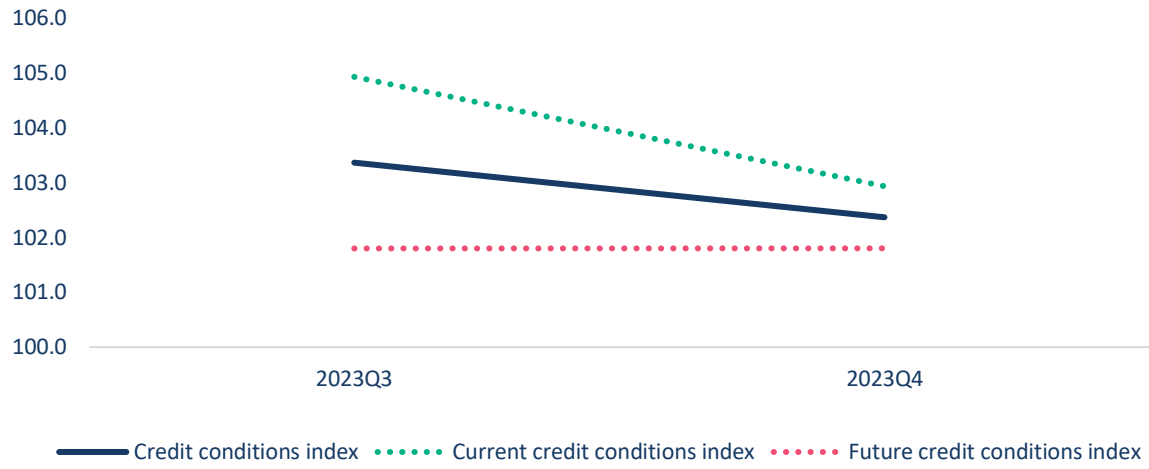
Future credit conditions index

During the fourth quarter of 2023, the future conditions index registered 101.9 exhibiting slightly advantageous credit conditions. This turnout resulted from favorable future credit demand conditions (index: 102.2), as commercial banks expect individuals and businesses to demand more credit in the first quarter of 2024. The future supply conditions (index: 102.2) also contributed to positive future credit conditions.

Comparison to previous quarter

Despite favorable credit conditions in the fourth quarter of 2023, the credit conditions index noted a decline from 103.4 in the third quarter to 102.4 in the fourth quarter of the year (Chart 2). This development mirrored a contraction in the current credit conditions index, as the future credit conditions index remained unchanged at 101.8. The current credit conditions index slipped to 102.9 in the fourth quarter of 2024 compared to 104.9 in the previous quarter. This outcome reflects that, on average, commercial banks reported less positive sentiments about current credit conditions related to both individual and business loans.

Chart 2: Development in the credit conditions index



II. Drivers of credit conditions

Drivers of current credit conditions

Various supply and demand factors influenced the current credit conditions in the fourth quarter of 2023. From the demand side, Chart 3 reveals that half of the commercial banks received significantly growing loan applications from individuals for the category “other” (such as acquisition of real estate for short term rental purposes and renovations). Individuals were also interested in consolidating debt to a housing mortgage. Furthermore, businesses frequently demanded more loans for capital investments, commercial real estate, and inventory (Chart 4).

Chart 3: Reported demand drivers of current credit to individuals

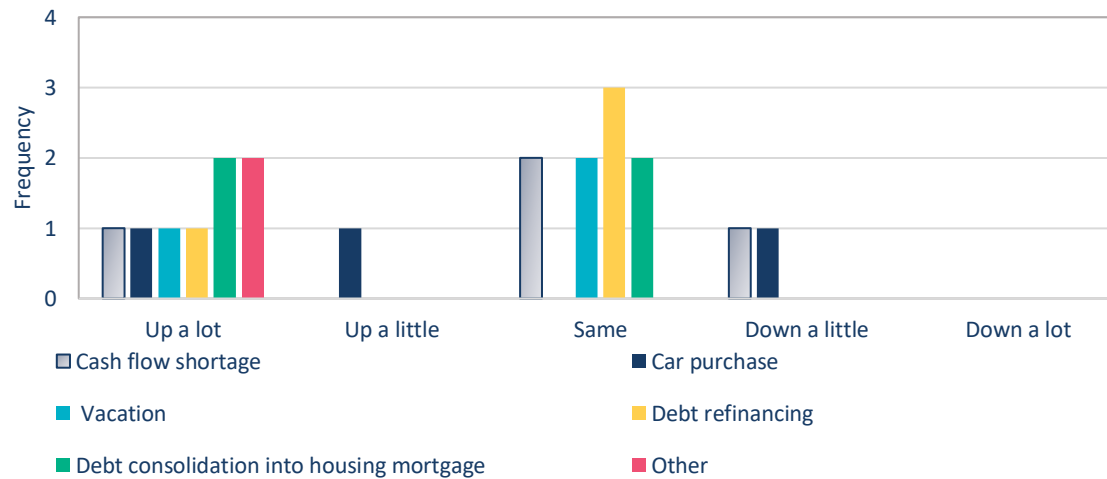
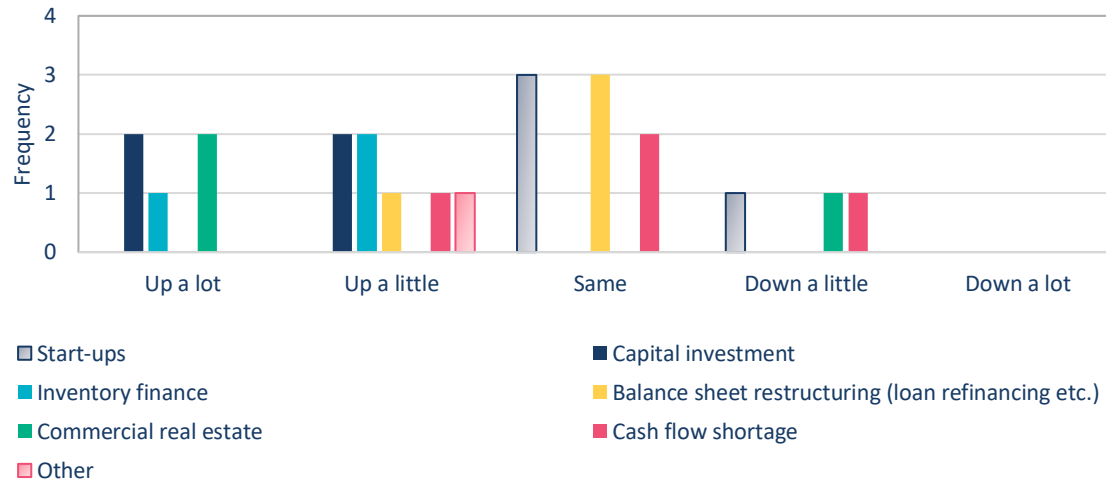


Chart 4: Reported demand drivers of current credit to businesses



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 5). For businesses loans, the changing cost of attracting funds again shaped commercial banks' supply conditions (Chart 6). Moreover, other factors such as the changing sector-specific risks, availability of funds, and economic outlook also had bearings on supply conditions.



Chart 5: Reported supply drivers of current credit to individuals

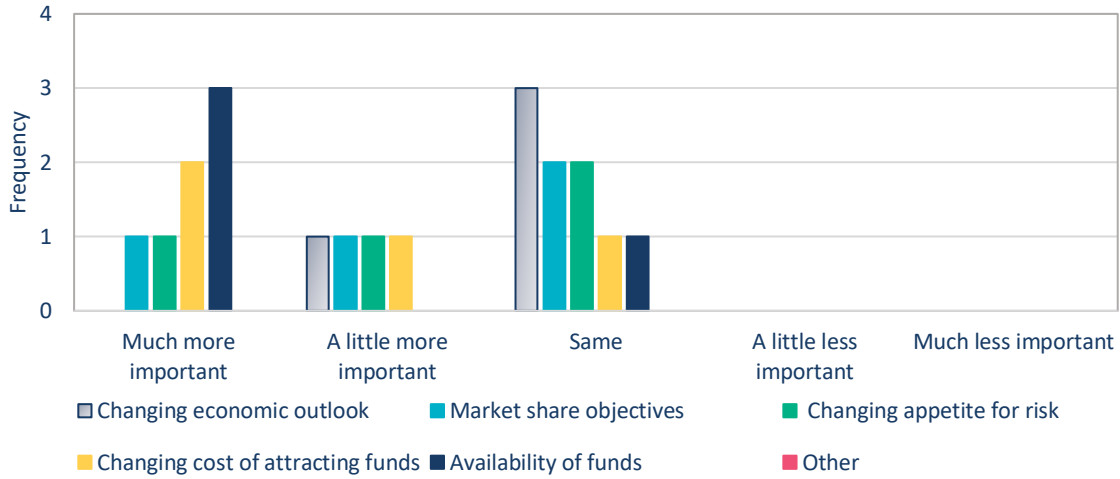
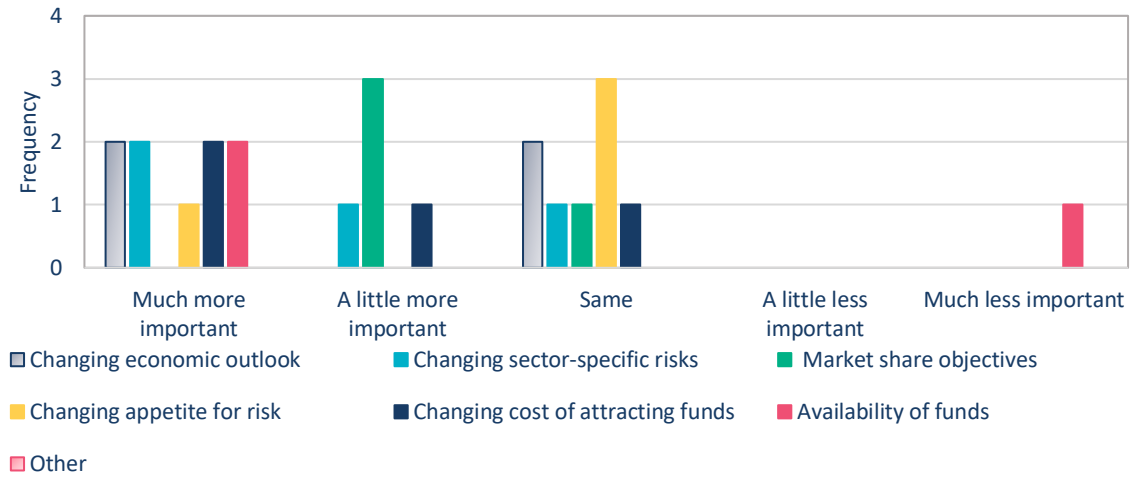


Chart 6: Reported supply drivers of current credit to businesses



Drivers of future credit conditions

Several supply and demand factors may shape the credit conditions in the first quarter of 2024. From the demand side, one commercial bank expects significant debt consolidation into housing mortgages (Chart 7). In addition, another commercial bank foresees a small increase in demand for vacations loans, car loans, and other. As for business demand, commercial banks anticipate growth from commercial real estate, inventory finance, and capital investments (Chart 8).

Chart 7: Reported demand drivers of future credit to individuals

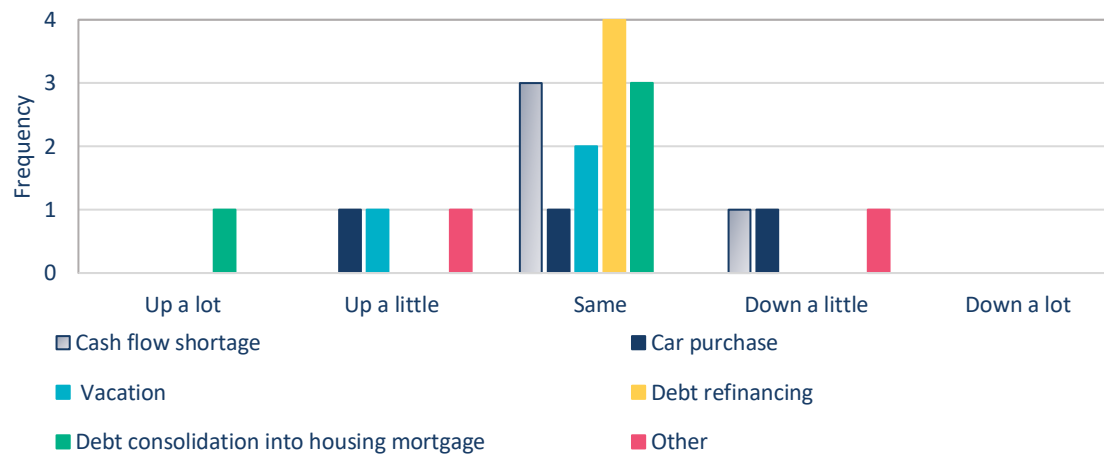
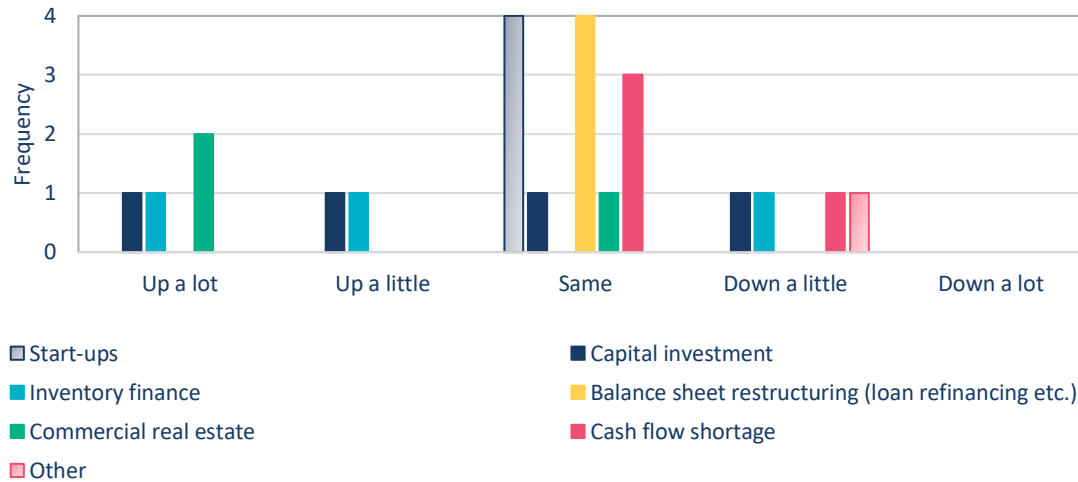


Chart 8: Reported demand drivers of future credit to businesses



Regarding the supply side, two commercial banks envisage the cost of attracting funds and the availability of funds to primarily drive short-term willingness or ability to extend individual credit (Chart 9). To a smaller extent, commercial banks expect 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 will co-determine the supply of business loans (Chart 10). Furthermore, changing sector-specific risks, market share objectives, and availability of funds will mostly influence how willing or able commercial banks are to extend business loans.

Chart 9: Reported supply drivers of future credit to individuals

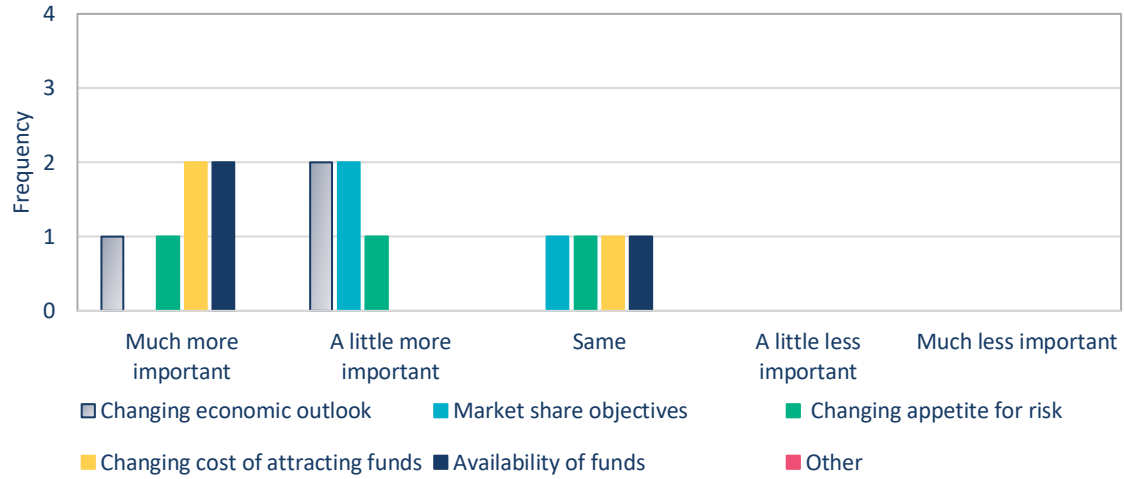
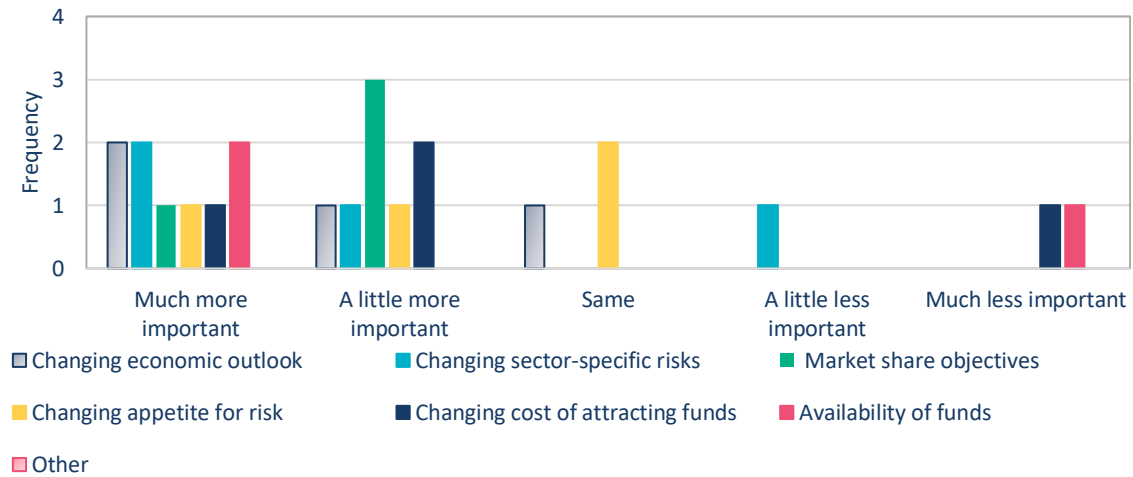


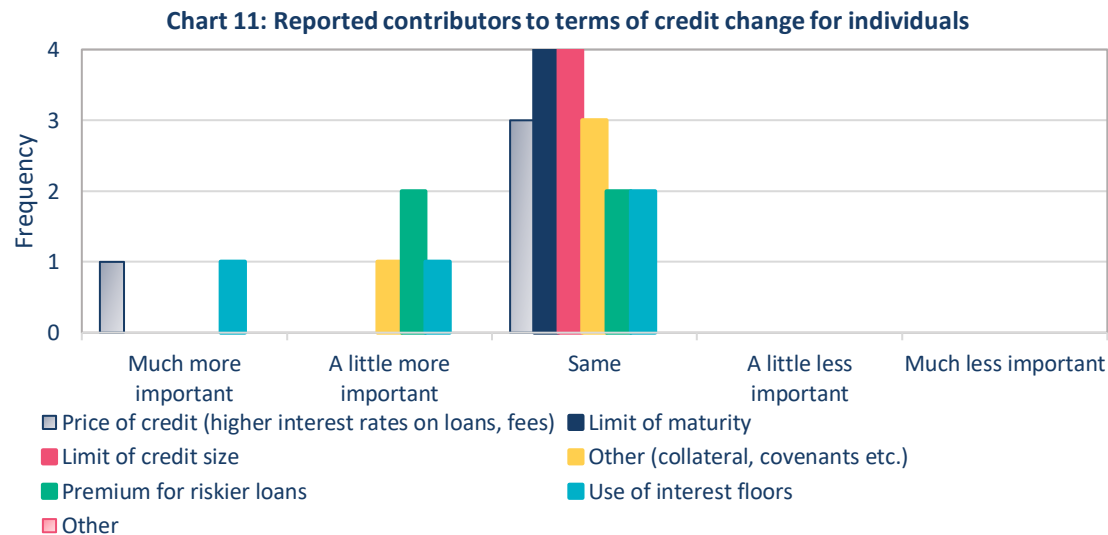
Chart 10: Reported supply drivers of future credit to businesses

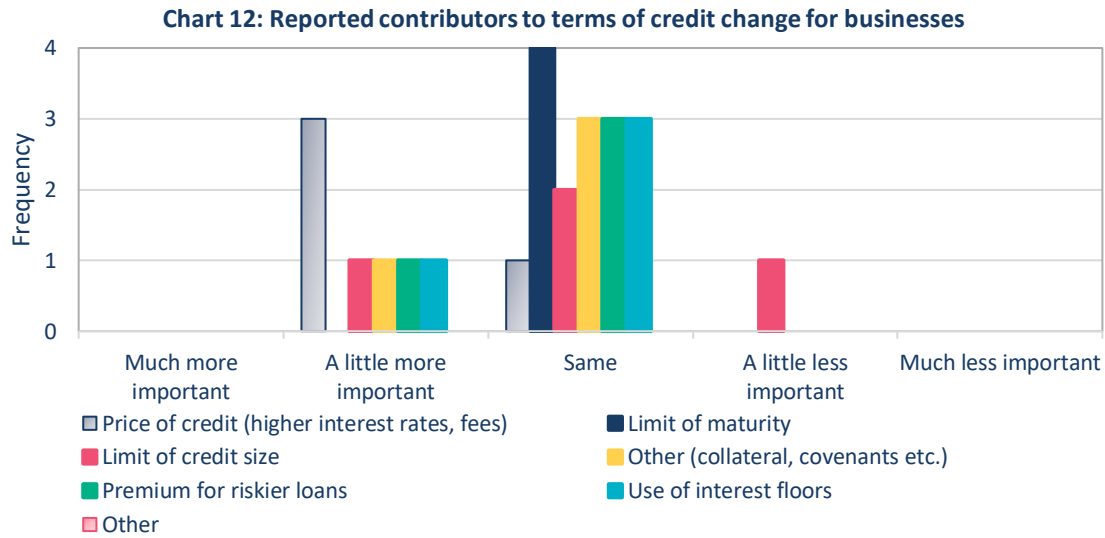


III. Effects of credit supply conditions

Effects of current credit supply conditions

Commercial banks' willingness to extend individual credit (index: 101.3) was mainly associated with changes in the use of interest floors, the price of credit, and the premium for riskier loans in the fourth quarter of 2023 (Chart 11). In line with individual loans, commercial banks reported that changes in the price of credit determined their supply of business loans (index: 105.0) (Chart 12). Namely, three of the four commercial banks reported that the credit price was a little more influential on business credit term changes. Other factors playing a role were the limit on credit size, collateral and covenants, premium on riskier loans, and the usage of interest floors.





Effects of future credit supply conditions

Commercial banks intend to enact marginally looser supply conditions in the short term (index 101.3) resulting from changes in multiple levers of credit terms in first quarter of 2024. For individual credit, these levers include the price of credit and the usage of interest floors (Chart 13). Terms of credit and premium for riskier loans are also expected to play a role. For credit to businesses, the price of credit and limit on credit size will likely play a positive role in loosening credit supply conditions in the short term (Chart 14).



Chart 13: Reported contributors to terms of credit change for individuals in the short term

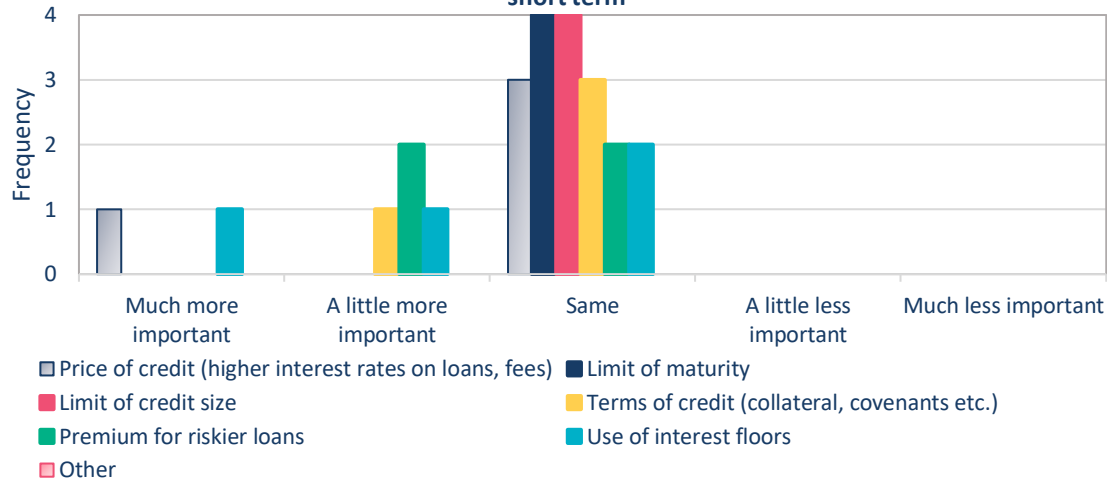
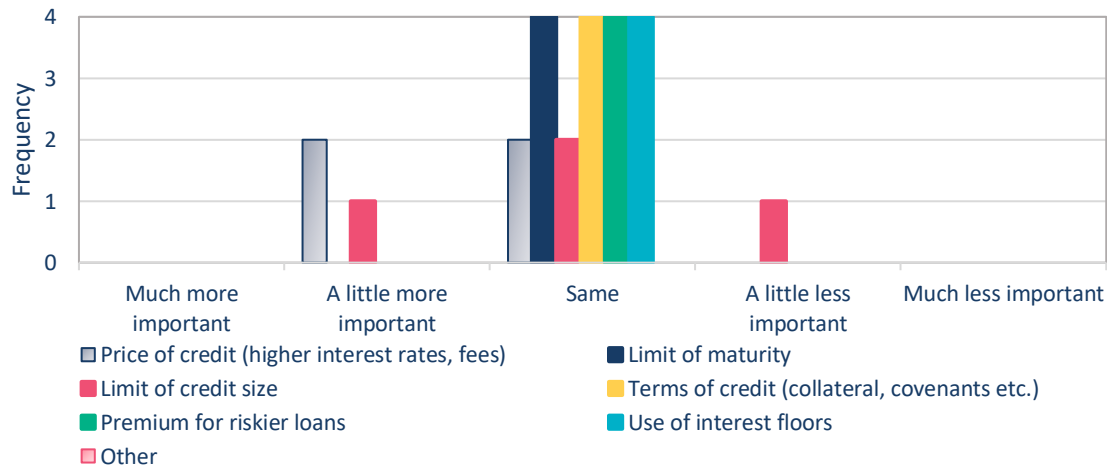


Chart 14: Reported contributors to terms of credit change for businesses in the short term



IV. Concluding remarks

In the fourth quarter of 2023, the overall (unweighted) credit conditions index reached 102.4, indicating that commercial banks perceived favorable credit conditions. This outcome resulted from positive sentiments about current credit conditions (index: 102.9), which owed to favorable demand and supply conditions. On the demand side, commercial banks noted increasing demand for loan applications from individuals and businesses throughout various loan categories. Moreover, supply conditions improved primarily due to the changing cost of attracting funds, as well as the availability of funds, reflected in shifts in the price of credit. To a lesser degree, the future short-term conditions (index 101.9) also contributed to the overall optimistic credit conditions.



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