



Ease of Lending Survey 2024 Q1

August 2024



CENTRALE BANK VAN ARUBA



Cover design:

Our turtles.

They choose Aruba's beaches as a safe haven;

They choose Aruba's beaches as their breeding ground;

They connect and communicate through vocalizations and body language.

Their slow and steady pace represents resilience and endurance.



Abstract

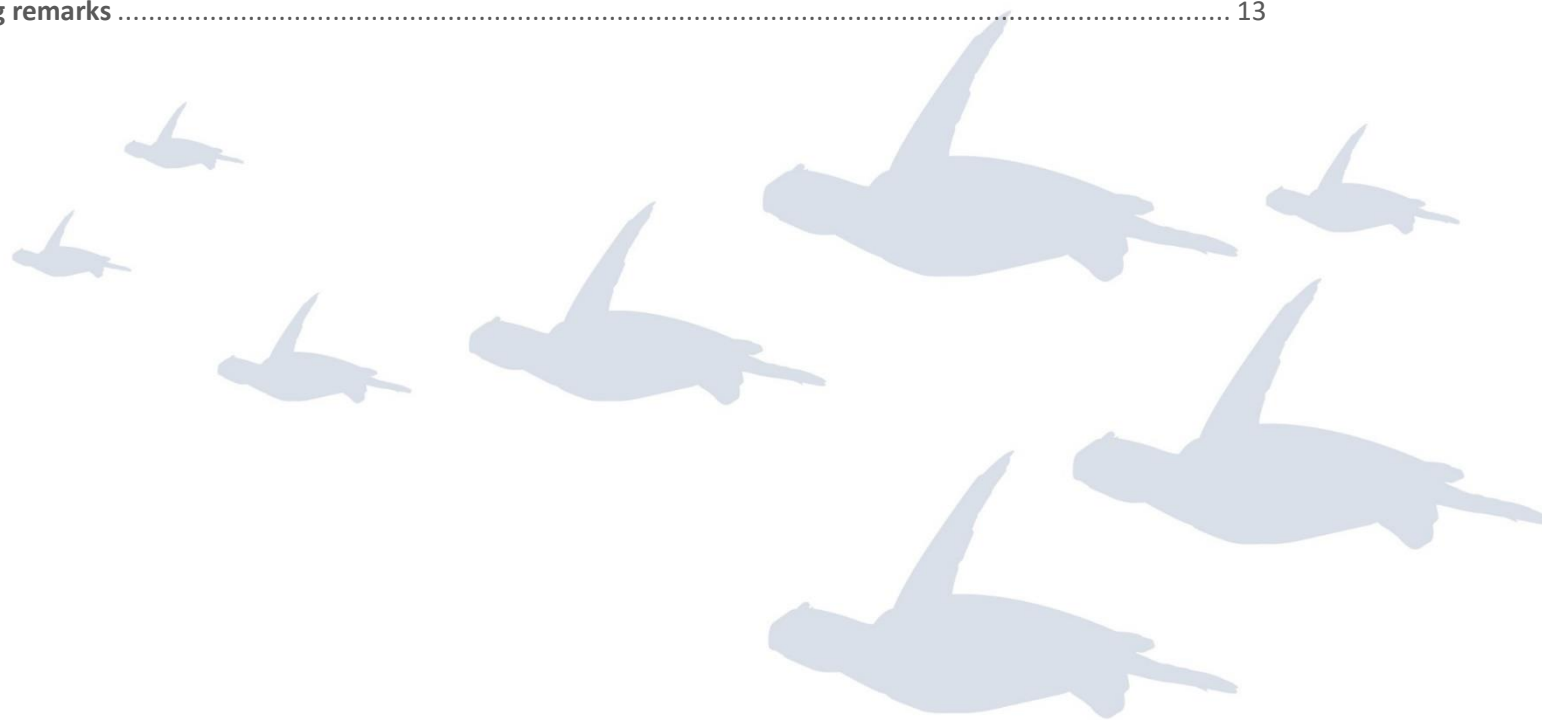
Commercial banks reported favorable credit conditions in the first quarter of 2024.

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the first quarter of 2024. 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 first quarter of 2024 compared to the end of 2023, the overall (unweighted) credit conditions index stood at 101.6 (2023 Q4: 102.4) indicating that commercial banks perceived slightly favorable credit conditions. The overall index consists of the current (index: 101.5) and the short-term credit conditions (index: 101.7). Hence, both components contributed to the moderately optimistic credit conditions.



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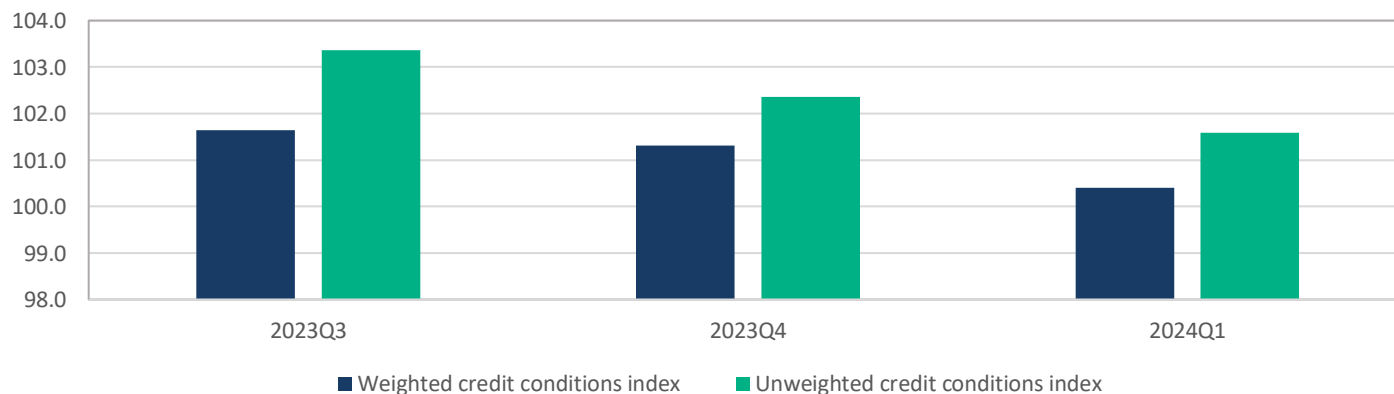
I. Developments in credit conditions

Credit conditions index

In the first quarter of 2024, the overall (unweighted) credit conditions index fell to 101.6, down from 102.4 indicating that commercial banks perceived less favorable credit conditions. The outcome of the reviewed quarter resulted from positive sentiments about short-term future credit conditions (index: 101.7), and the current credit conditions (index: 101.5). If the responses of the commercial banks are weighted according to their loan portfolio size, the overall credit conditions index amounts to 100.4, which is below the unweighted figure (Chart 1). As smaller banks protrude more in the unweighted measure, it appears they were more optimistic about credit conditions than larger banks.

The trend – both of the weighted and unweighted credit conditions index – portrays a gradual decrease in credit conditions over the past quarters, albeit still on the optimistic side. The downturn is chiefly caused by a contracting current credit supply to demand index. To be specific, banks reported less optimistic sentiments on both current supply and demand conditions for both loans to individuals and businesses. This development seems to be caused by lowered demand for loans, while at the same time banks appear to be less able or willing to extend credit. With regard to the latter, the higher cost of attracting funds (see also section II) might be a driver of this development.

Chart 1: Weighted versus unweighted credit conditions index



Current credit conditions index

Commercial banks noted decent current credit conditions, as the index stood at 101.5 in the first quarter of 2024. This outcome was primarily associated with commercial banks reporting an increase in the proportion of approved loan applications submitted by individuals (index: 102.5) and businesses (index: 102.5) in the first quarter of 2024. However, (almost) neutral sentiments about demand (index: 100.9) and supply (index: 100.0) partially offset the positive sentiments about approved loan applications.

Future credit conditions index

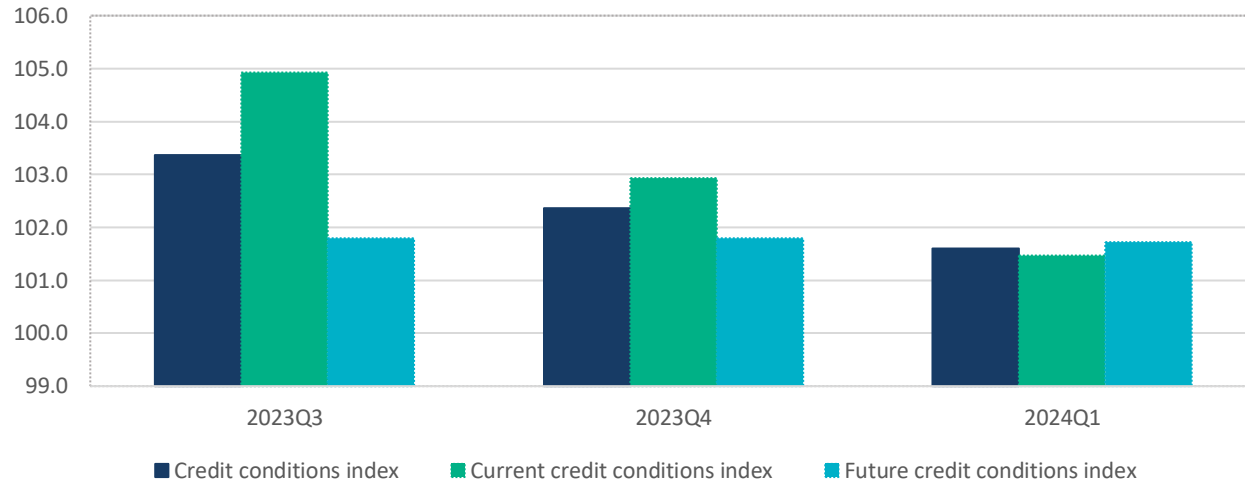
During the first quarter of 2024, the future conditions index registered 101.7, exhibiting slightly advantageous credit conditions. This turnout resulted from commercial banks foreseeing a higher share of approved loan applications by individuals (index: 105.0) in the next three months. However, commercial banks were generally less optimistic about the approval rate of business loan applications (index: 101.3)

Comparison to previous quarter

The credit conditions index fell from 102.4 in the fourth quarter of 2023 to 101.6 in the first quarter of 2024 (Chart 2). This development mirrored a contraction in the current credit conditions index, while the future credit conditions index remained virtually unchanged at 101.7. The current credit conditions index slipped to 101.5 in the first quarter of 2024, down from 102.9 in the previous quarter. This outcome reflects that, on average, commercial banks reported less positive sentiments about current credit conditions related to individuals and businesses.



Chart 2: Development in 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 first quarter of 2024. **From the demand side of individuals, half of the commercial banks received, to some extent, growing loan applications for vacation as well as debt consolidation into a housing mortgage (Chart 3).** Up to March 2024, the resident stock of housing mortgages indeed inched up by 0.5 percent, and personal loans advanced by 2.0 percent. **Most noteworthy on the business side, half of the commercial banks experienced a moderate expansion in commercial real estate loans (Chart 4).** Loans data are in line with this finding as the stock of resident commercial mortgages increased by 1.4 percent up until March 2024.

Chart 3: Reported demand drivers of current credit to individuals

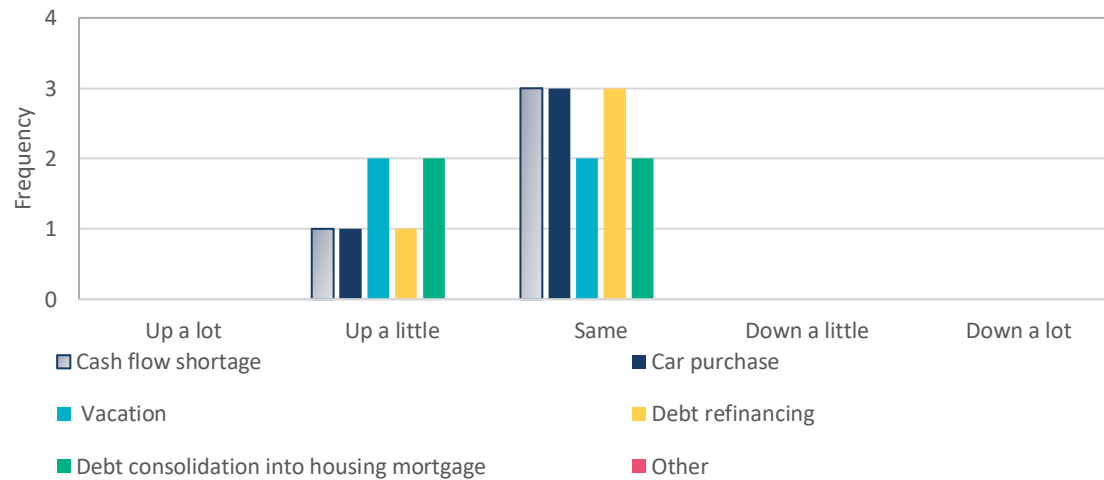
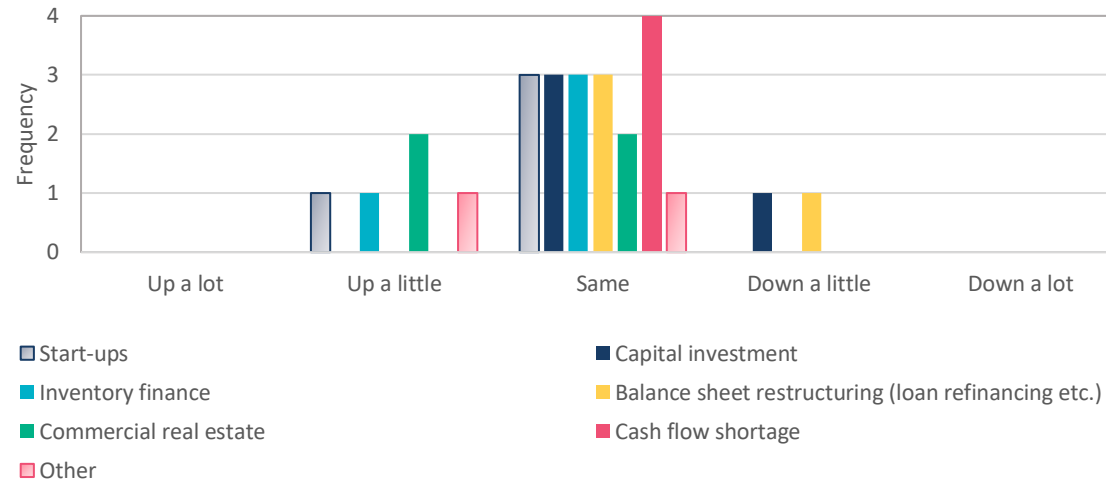


Chart 4: Reported demand drivers of current credit to businesses



From the supply side, all four commercial banks informed that (1) the availability of funds and (2) the changing cost of attracting funds impacted credit extension to individuals, of which three reported a significant effect (Chart 5). For business loans, these two factors shaped commercial banks' supply conditions (Chart 6). Specifically, half of the commercial banks reported that the two aforementioned factors were much more important for credit supply decisions than three months prior. Meanwhile, the other half conveyed that they were a little more important. **There is evidence that the cost of attracting funds is increasing, as the weighted average interest rate on new deposits rose from 2.3 percent in the fourth quarter of 2023 to 2.7 percent in the first quarter of 2024.**

Chart 5: Reported supply drivers of current credit to individuals

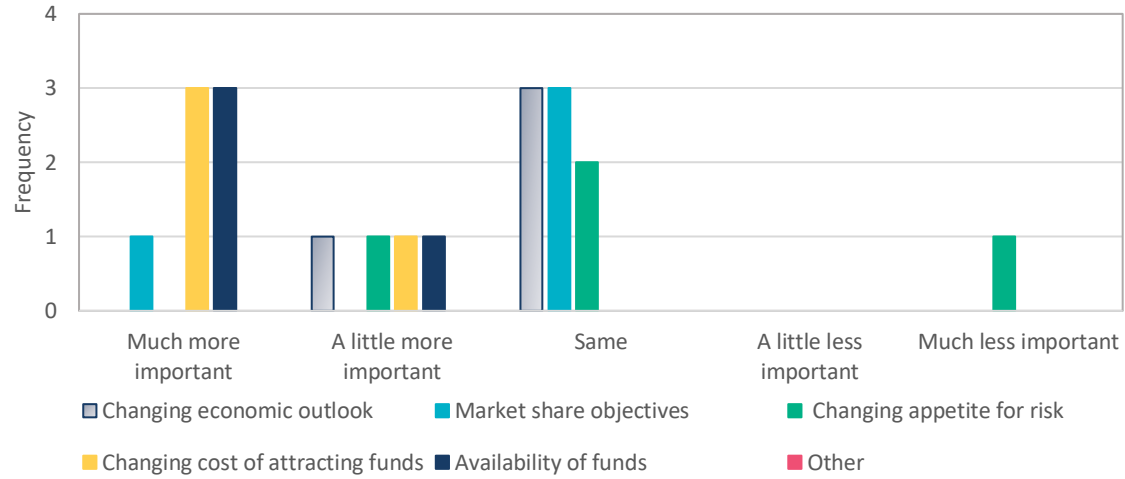
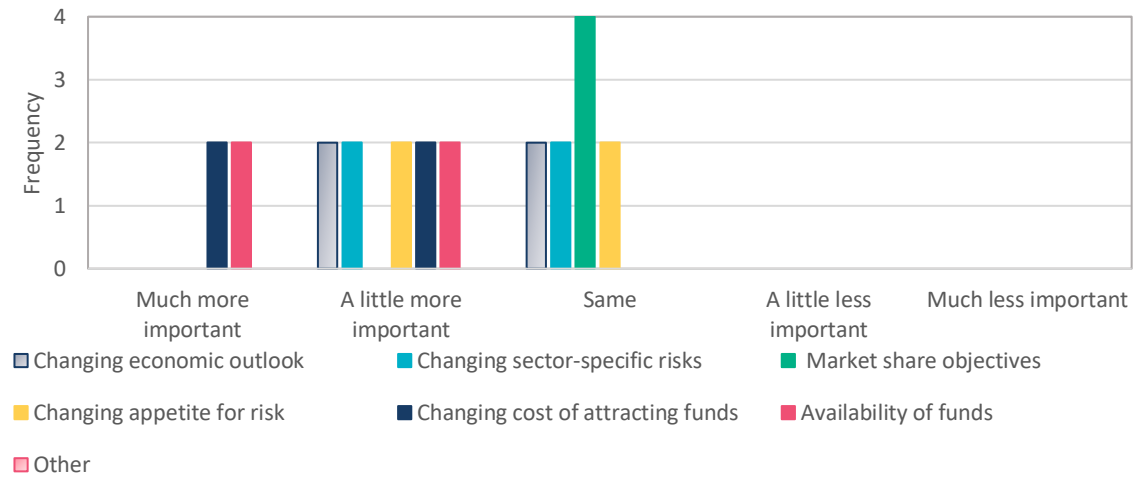


Chart 6: Reported supply drivers of current credit to businesses



Drivers of future credit conditions

Several supply and demand factors may shape the credit conditions in the second quarter of 2024. **From the demand side of individuals, two commercial banks foresee a minor increase in vacation loans, car loans, and debt refinancing.** Nevertheless, available data up to April 2024 points to an inching down of 0.1 percent in loans to individuals (excluding housing mortgages). **As for business demand, two commercial banks anticipate modest demand growth in commercial real estate (Chart 8).**

Chart 7: Reported demand drivers of future credit to individuals

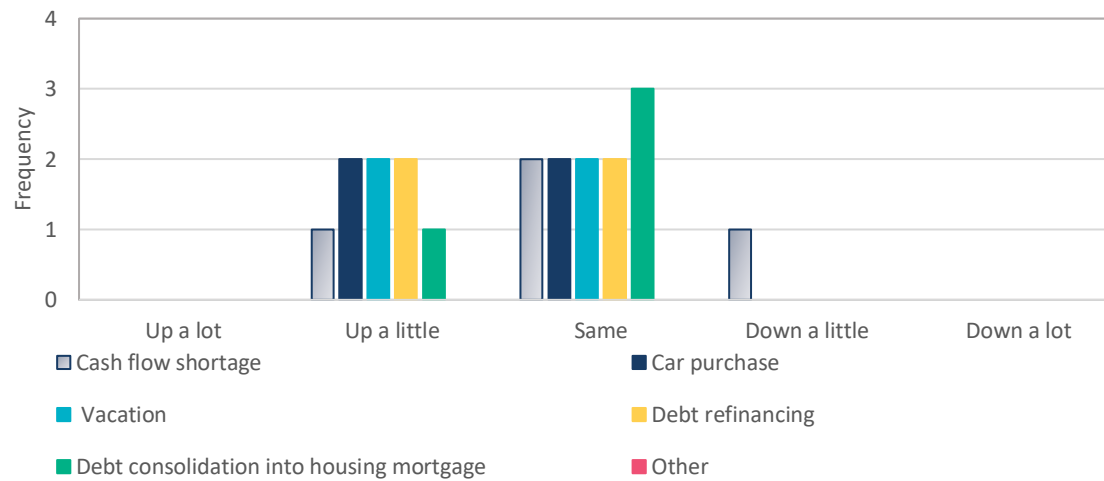
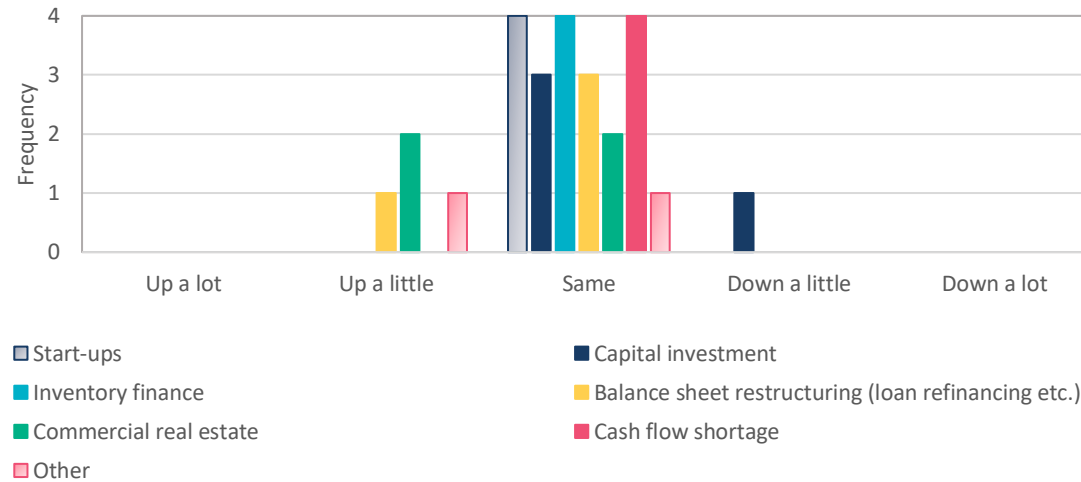


Chart 8: Reported demand drivers of future credit to businesses



Concerning the supply side, three commercial banks envisage (1) the cost of attracting funds and (2) the availability of funds to influence short-term future willingness or ability to extend credit to individuals (Chart 9). To a lesser extent, commercial banks expect the changing economic outlook to affect the supply of individual loans in the short term. **Akin to individual loans, liquidity cost and availability will likely co-determine business loan supply (Chart 10).** Furthermore, changing sector-specific risks, economic outlook, and appetite for risks will likely weigh on how willing or able commercial banks are to extend business loans.

Chart 9: Reported supply drivers of future credit to individuals

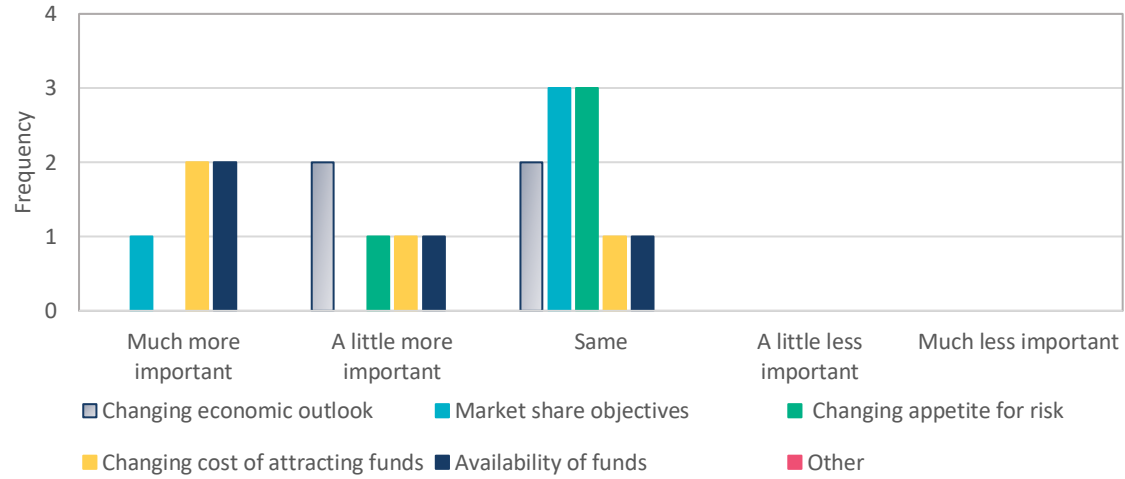
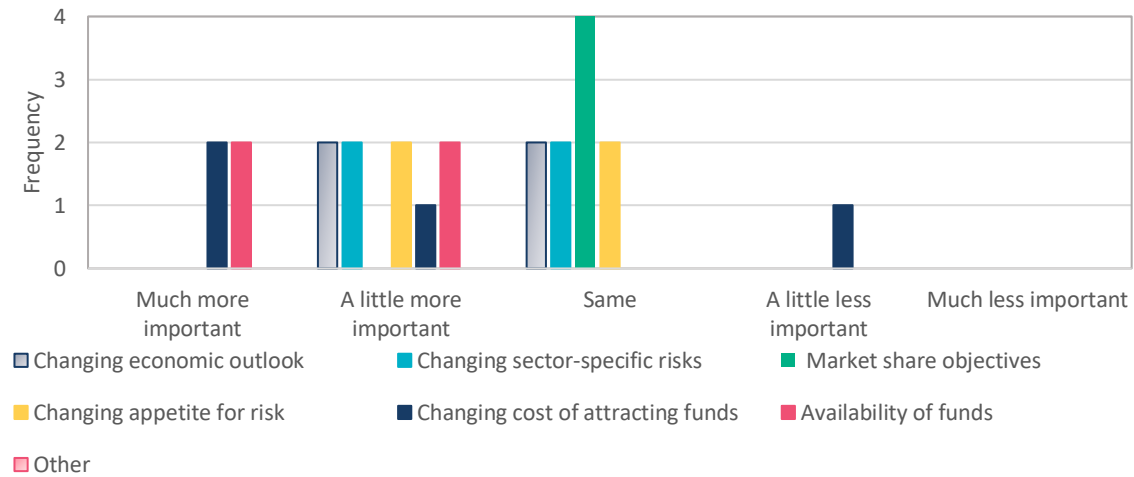


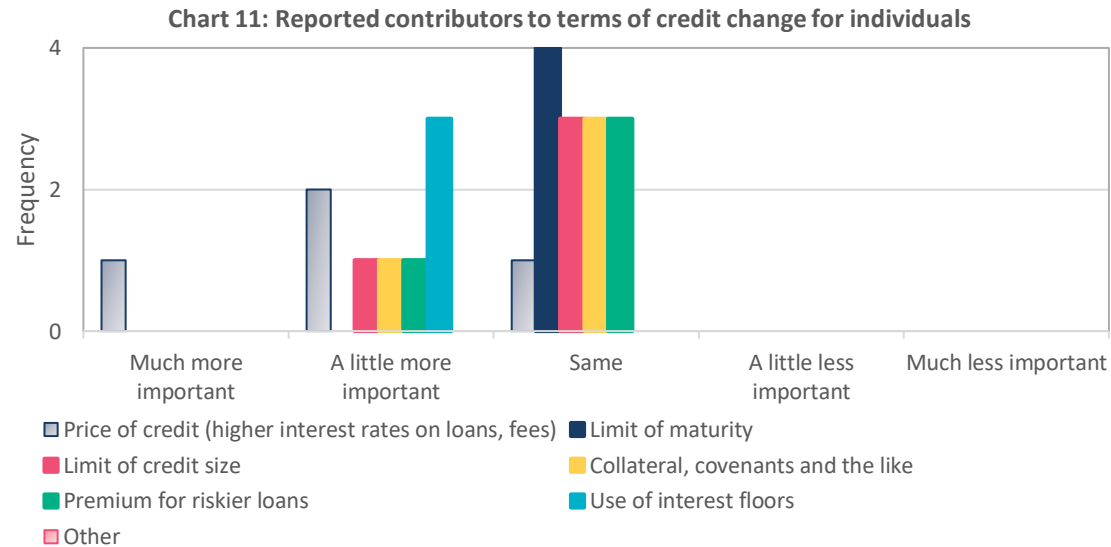
Chart 10: Reported supply drivers of future credit to businesses

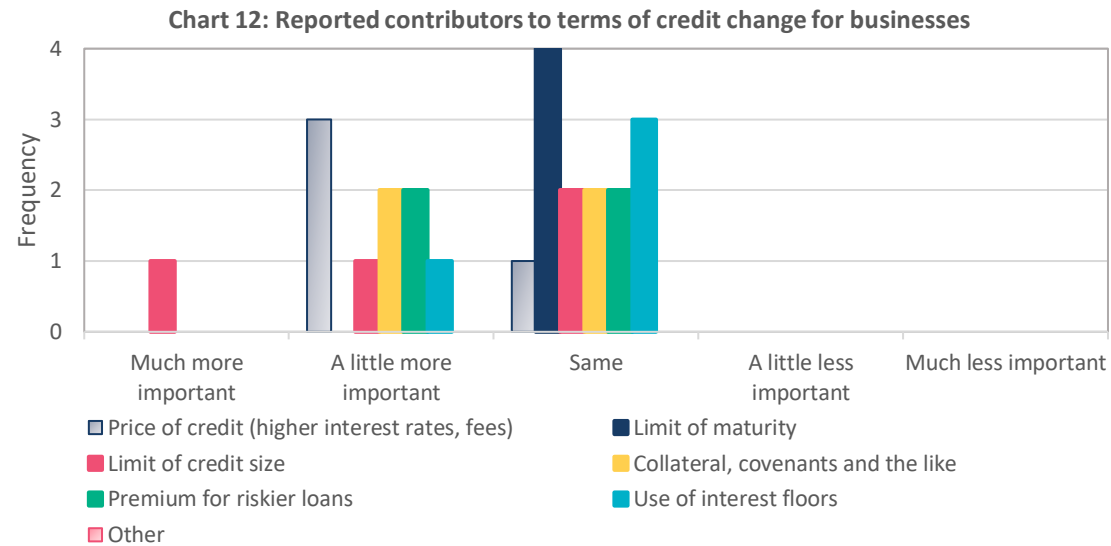


III. Effects of credit supply conditions

Effects of current credit supply conditions

Commercial banks' willingness to extend individual credit (index: 100.0) was mainly associated with changes in the interest rate floors and the price of credit (Chart 11). Akin to individuals' loans, price changes in businesses loans were intertwined with the willingness to supply credit (index: 100.0) (Chart 12). Namely, three of the four commercial banks reported that the credit price was a little more influential on business credit term changes. Although the ELS does not cover questions about the direction of credit price movements, the weighted average interest rate on overall new loans accelerated from 6.1 percent in fourth quarter of 2023 to 6.6 percent in the first quarter of 2024. In contrast to individual credit, credit size limit was relevant in echoing willingness to extend business credit.





Effects of future credit supply conditions

Commercial banks intend to enact marginally stricter supply conditions in the short term (index 99.4) through different levers. For individual credit, these levers include the price of credit, the usage of interest floors, and premiums for riskier loans (Chart 13). For credit to businesses, once again half of the commercial banks mentioned that the price of credit will likely play a role in tightening credit supply conditions, as well as limits on credit size (Chart 14).

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

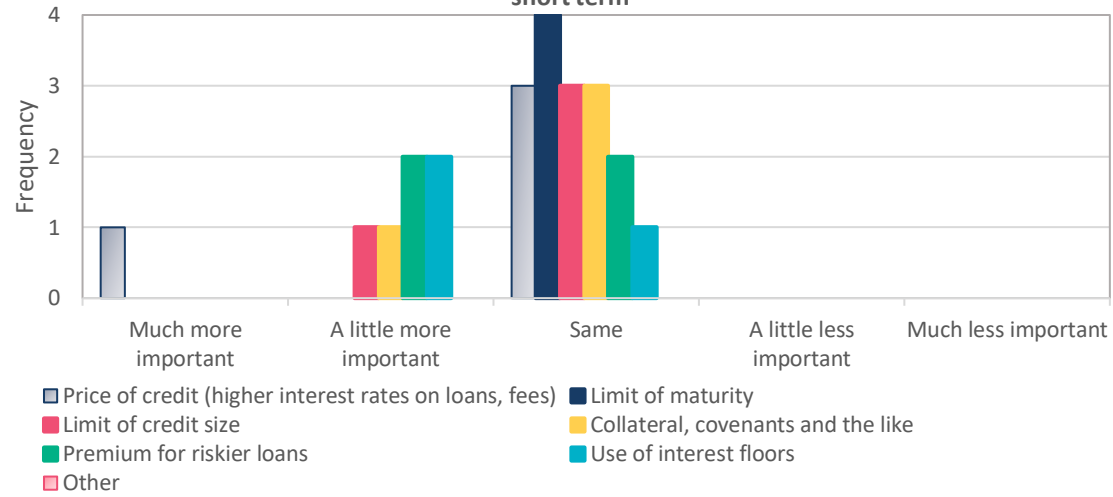
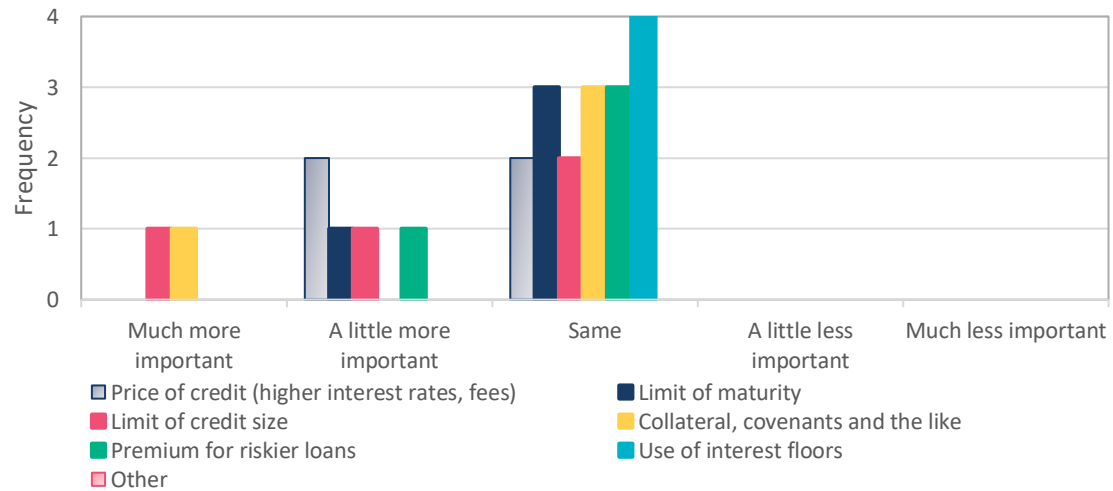


Chart 14: Reported contributors to terms of credit change for businesses in the short term



IV. Concluding remarks

Despite the credit conditions index falling from 102.4 in the fourth quarter of 2023 to 101.6 in the first quarter of 2024, commercial banks still perceived favorable credit conditions. This relatively optimistic outcome resulted from positive sentiments about short-term future credit conditions (index: 101.7), as commercial banks foresee a higher share of approved loan applications by individuals (index: 105.0) in the next three months. However, the overall credit conditions index was slightly held down by the current credit conditions, as the index stood at 101.5 in the first quarter of 2024, against 102.9 in the last quarter of 2023. This result was primarily associated with a current loan demand index of 100.9 and a neutral loan supply index despite an increase in approved loan applications (index: 102.5) in the first quarter of 2024 compared to the last quarter of 2023. Accordingly, loan application quality may have improved during the period under review.



A stylized map of Aruba is shown in dark blue on the left side of the page. A thick yellow line follows the coastline of the island. The rest of the page is a light blue background. Several dark blue silhouettes of sea turtles are scattered across the page, swimming in various directions. On the right side, there are horizontal lines representing water ripples or a window blind effect.

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