




# Ease of Lending Survey 2024 Q2

November 2024



CENTRALE BANK VAN ARUBA



Cover design:  
Our turtles.  
They choose Aruba's beaches as a safe haven;  
They choose Aruba's beaches are their breeding ground;  
They connect and communicate through vocalizations and body language.  
Their slow and steady pace represents resilience and endurance.

## Abstract

### Albeit to a lesser degree, commercial banks still reported favorable credit conditions in the second quarter of 2024

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the second quarter of 2024. The results show that despite a continued declining trend, the overall (unweighted) credit conditions index stood at 101.1 in the second quarter of 2024. This indicates that commercial banks perceived slightly favorable credit conditions (2024 Q1: 101.6). The overall index consists of the current (index: 101.7) and the short-term credit conditions (index: 100.5). Thus, while both components contributed to the moderately optimistic credit conditions, the current credit conditions index had a greater impact.

The ELS captures commercial banks' sentiments 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.



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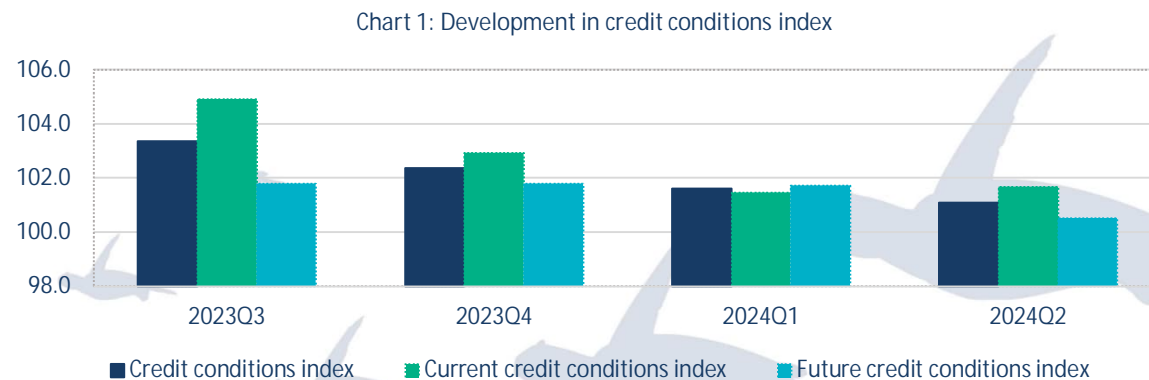


## I. Developments in credit conditions

### Credit conditions index

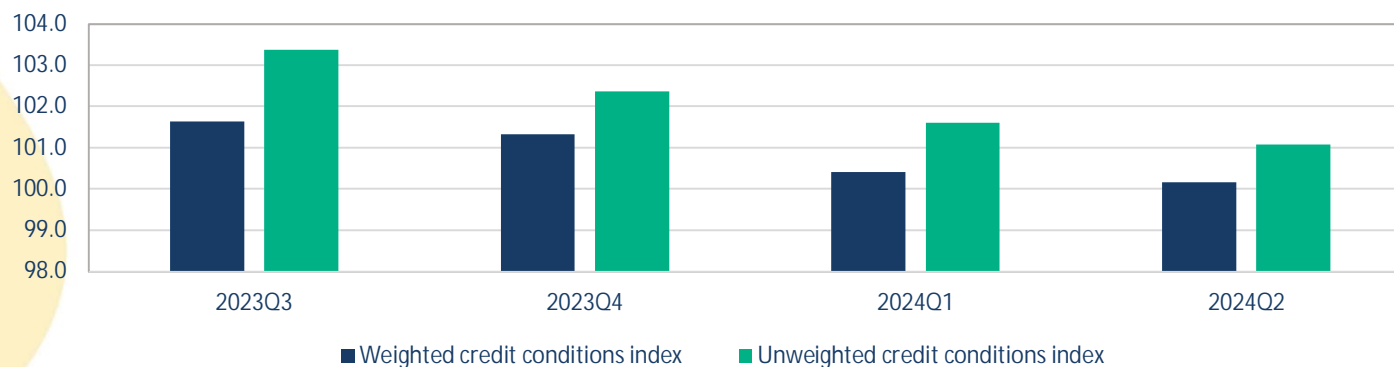
In the second quarter of 2024, the overall (unweighted) credit conditions index fell to 101.1, down from 101.6 in the previous quarter. This development indicates that commercial banks perceived less favorable credit conditions than in the preceding quarter (Chart 1). This development mirrored a contraction in the future credit conditions index, while the current credit conditions index edged up by 0.2 index point. On average, commercial banks reported less positive sentiments about future credit supply conditions related to businesses.

The trend – both of the weighted and unweighted credit conditions index – portrays a gradual decrease in credit conditions over the past quarters, although remaining optimistic. The downturn is chiefly caused by a contracting current credit supply to demand index for loans to individuals. This development stems from both lowered demand for loans to individuals as well as less willingness to extend credit by commercial banks.



If the responses of the commercial banks are weighted according to their loan portfolio size, the overall credit conditions index amounts to 100.2, which is lower than the unweighted index (Chart 2). As smaller banks protrude more in the unweighted measure, it appears they were more optimistic about credit conditions than larger banks.

Chart 2: Weighted versus unweighted credit conditions index



### Current credit conditions index

Commercial banks noted relatively favorable current credit conditions, as the index stood at 101.7 in the second quarter of 2024. This outcome was primarily associated with optimistic current demand and supply conditions for loans to individuals. Specifically, banks reported an increase in the number (index: 102.8) and average size of loan applications (index: 102.5) submitted by individuals. In addition, commercial banks' ability or willingness to extend credit to individuals (index: 102.5) inched up.

### Future credit conditions index

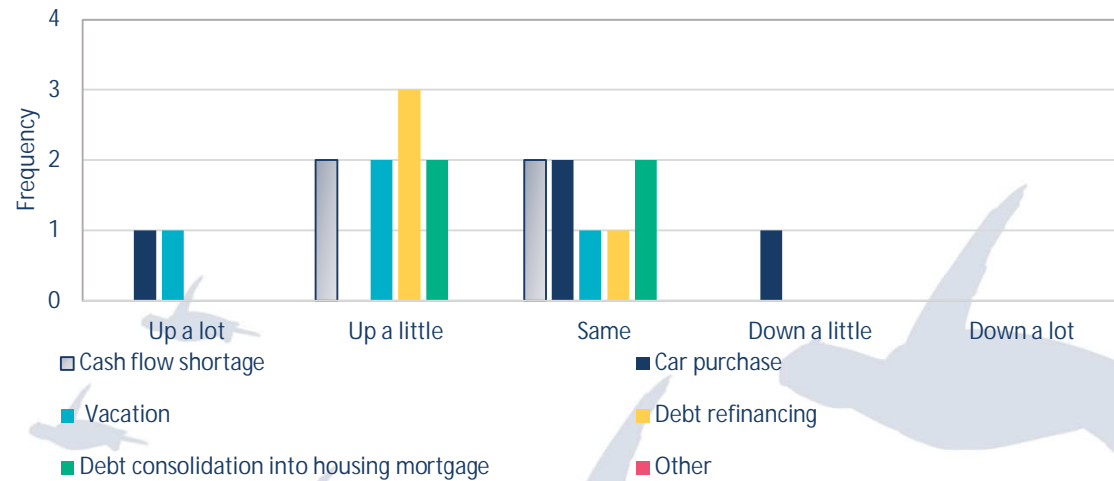
During the first quarter of 2024, the future conditions index registered 100.5, exhibiting a slightly advantageous outlook for credit conditions. This turnout resulted from commercial banks foreseeing greater loan applications submitted by individuals in the next three months in terms of both frequency (index: 102.5) and average size (index: 101.0). Moreover, commercial banks' ability or willingness to extend credit to individuals in the next three months were also on the optimistic side (index: 102.5). Nevertheless, commercial banks were generally less optimistic about the number (index: 100.9) and average size (index: 100.0) of future loan applications by businesses. At the same time, they were pessimistic about their ability or willingness to extend credit to businesses (index: 98.8) in the next three months.

## II. Drivers of credit conditions<sup>1</sup>

### Drivers of current credit conditions

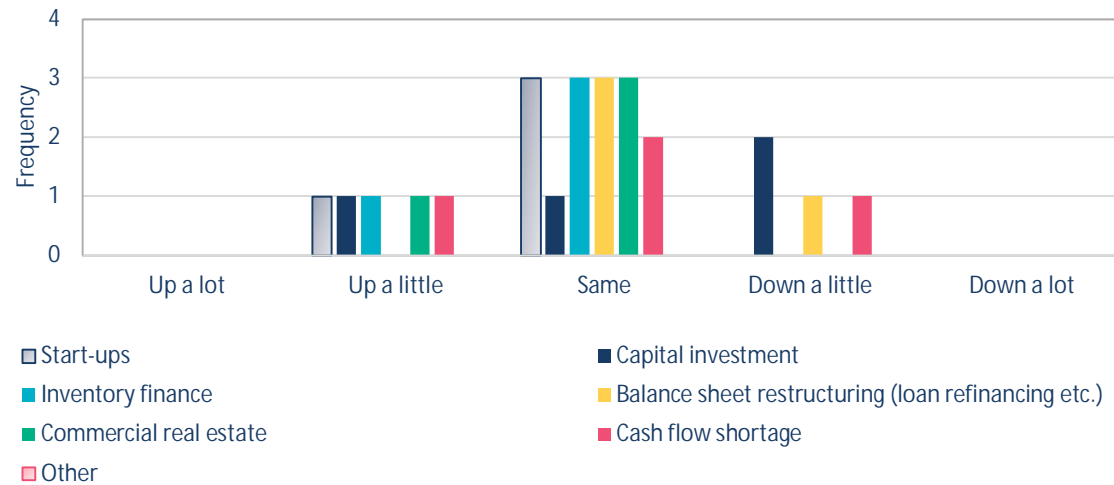
Various supply and demand factors influenced the current credit conditions in the second quarter of 2024. From the demand side of individuals, the majority of commercial banks received growing loan applications for vacation as well as debt refinancing (Chart 3). In the second quarter of 2024, the resident stock of personal loans indeed inched up by 0.9 percent compared to the previous quarter. Noteworthy on the business side, most banks reported no change in the demand drivers of credit. At the same time, business loans data show that the stock of resident commercial loans increased by 2.8 percent in the second quarter of 2024 vis-à-vis the previous quarter.

Chart 3: Reported demand drivers of current credit to individuals



<sup>1</sup> The reported supply drivers of credit to businesses are based on responses from three commercial banks.

Chart 4: Reported demand drivers of current credit to businesses



From the supply side, all four commercial banks informed that the availability of funds impacted credit extension to individuals (Chart 5) and businesses (Chart 6). However, data on the excess liquidity of commercial banks indicated that liquidity rose by Afl. 121.1 million in the second quarter of 2024 compared to the first quarter of the year. Moreover, most of the commercial banks reported that the changing cost of attracting funds affected current supply conditions. There is evidence that the cost of attracting funds is increasing, as the weighted average interest rate on new deposits rose from 3.5 percent in the first quarter of 2024 to 3.9 percent in the second quarter of 2024.



Chart 5: Reported supply drivers of current credit to individuals

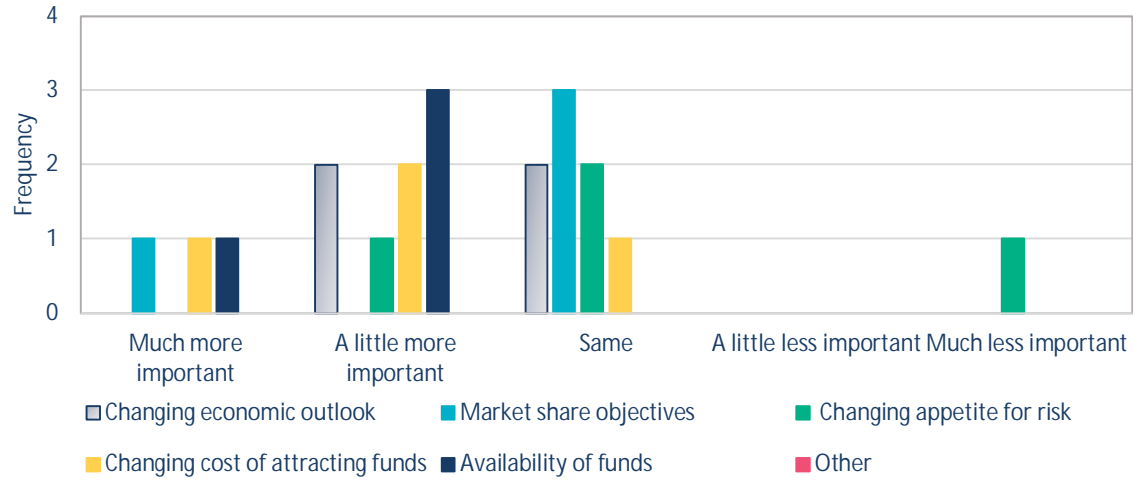
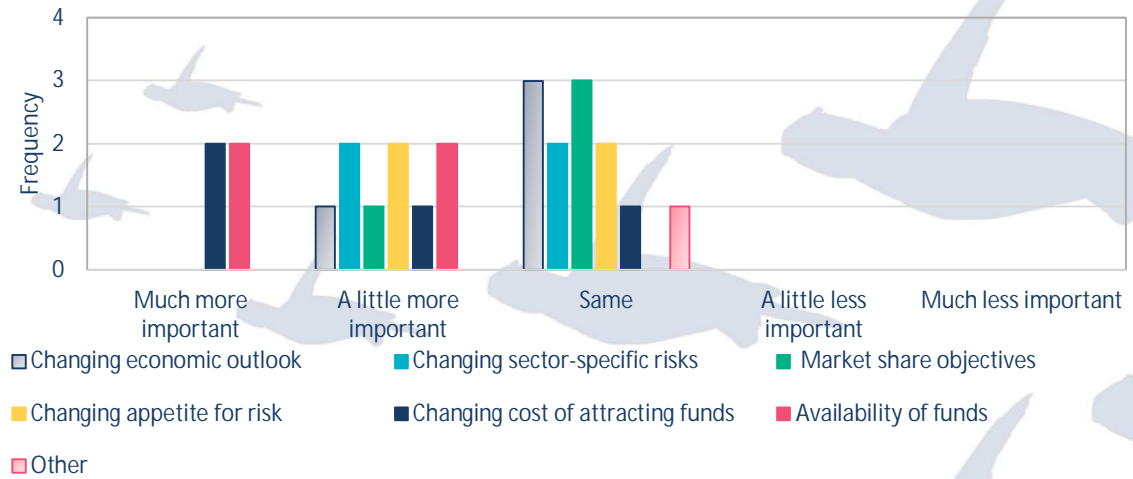


Chart 6: Reported supply drivers of current credit to businesses



### Drivers of future credit conditions

Several supply and demand factors may shape the credit conditions in the third quarter of 2024. From the demand side of individuals, two commercial banks foresee a minor increase in debt refinancing, debt consolidation into housing mortgages, and loans related to cash flow shortages (Chart 7). As for business demand, two commercial banks anticipate modest demand growth in commercial real estate and capital investments (Chart 8).

Chart 7: Reported demand drivers of future credit to individuals

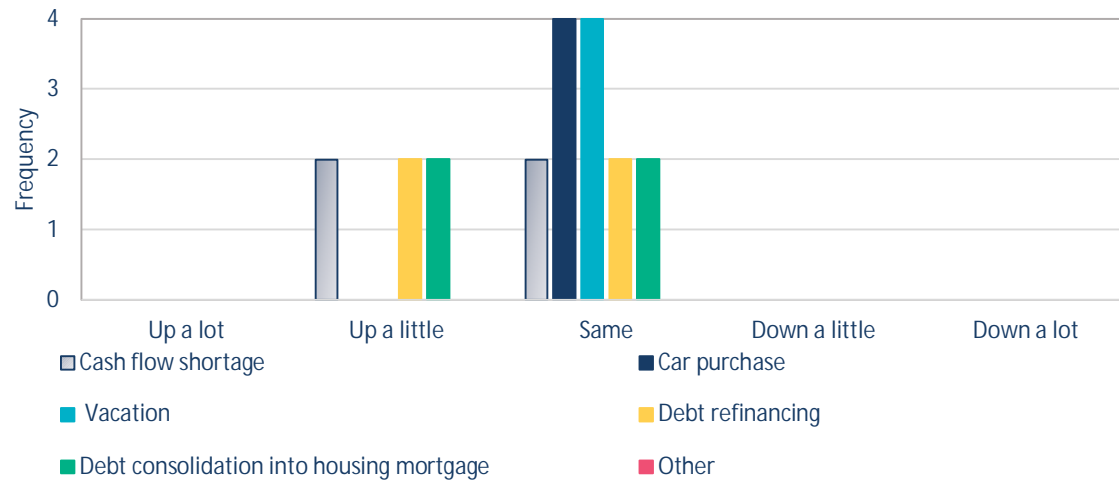
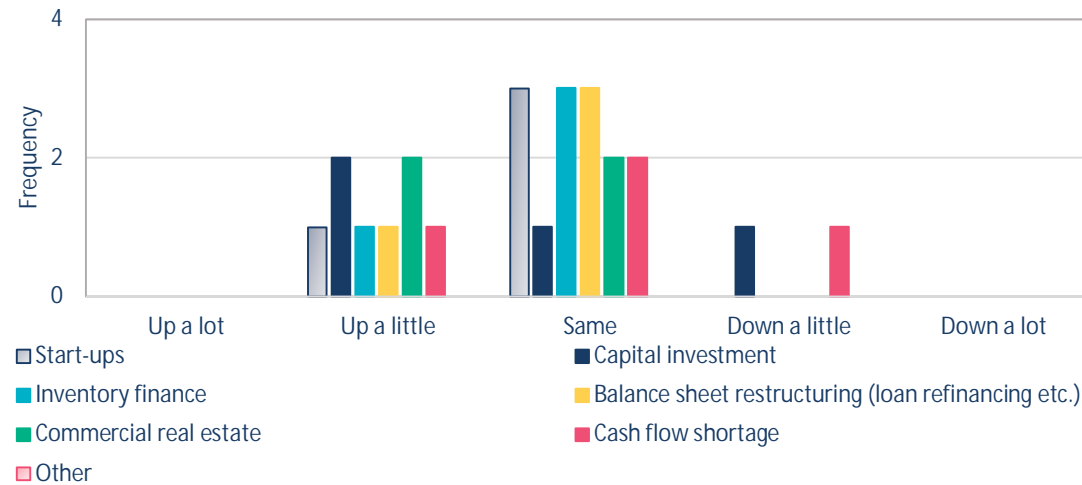


Chart 8: Reported demand drivers of future credit to businesses



Concerning the supply side, three commercial banks envisage 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, cost of attracting funds, and market share objectives 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 and economic outlook 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

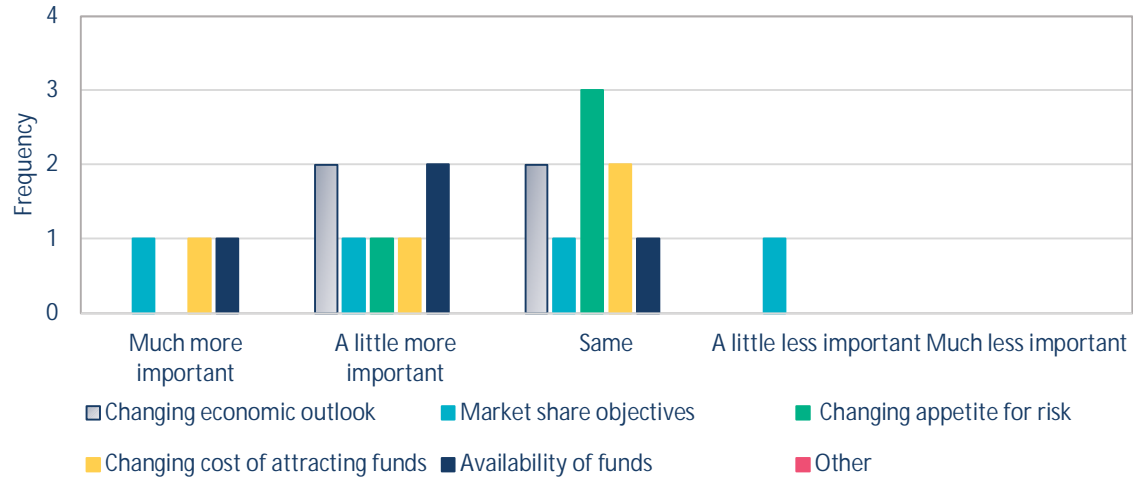
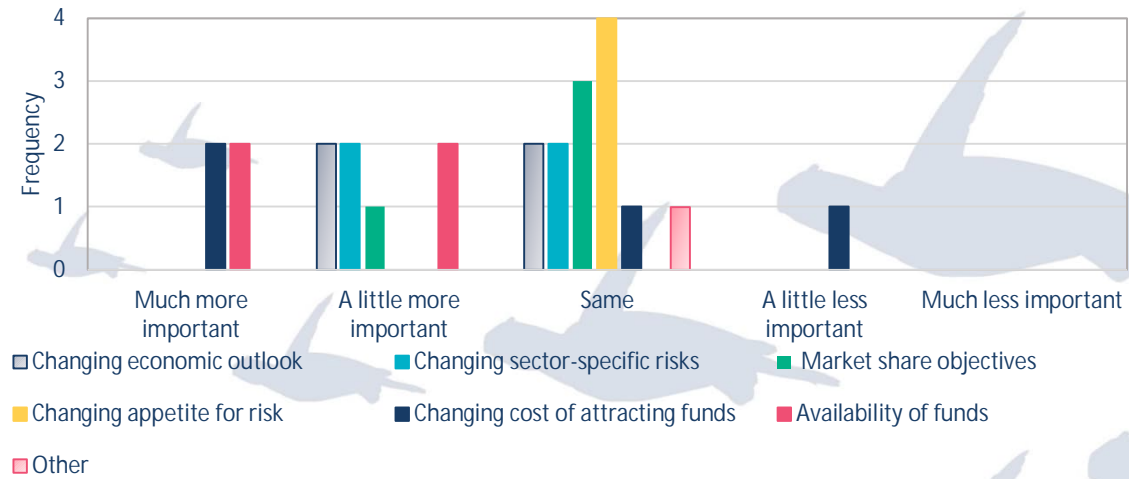


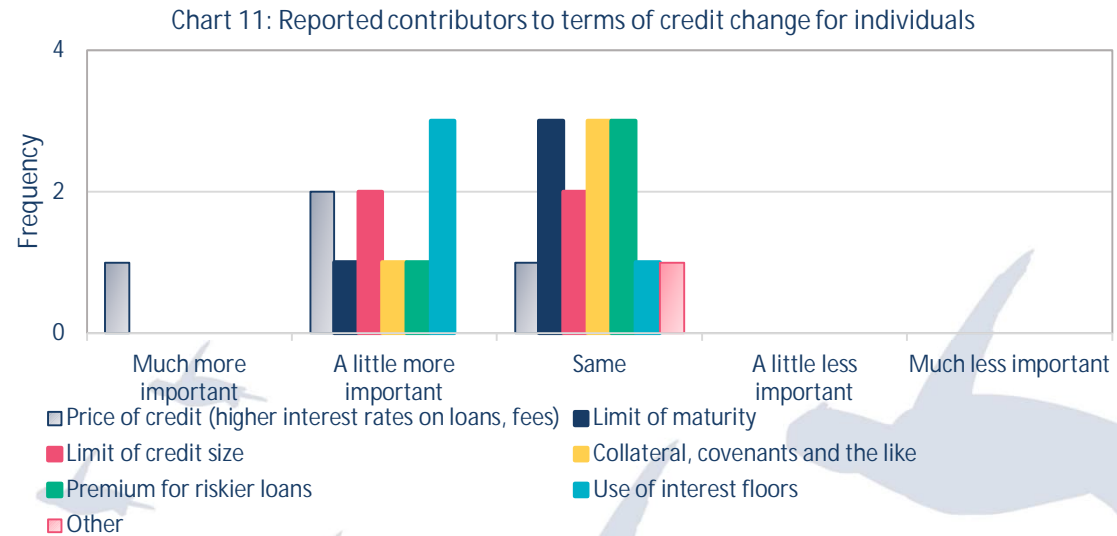
Chart 10: Reported supply drivers of future credit to businesses

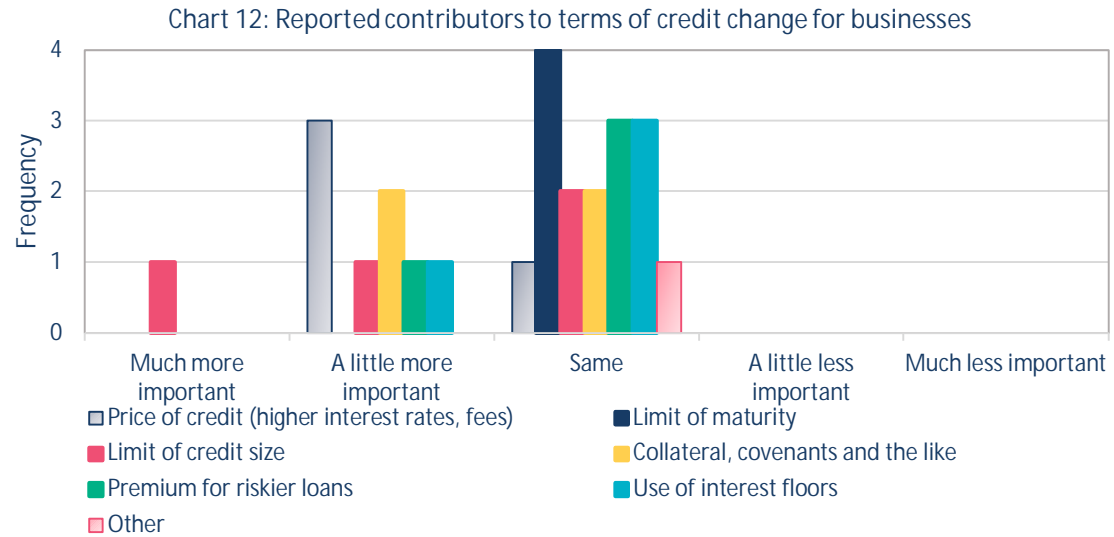


### III. Effects of credit supply conditions

#### Effects of current credit supply conditions

Commercial banks' willingness to extend individual credit (index: 102.5) was mainly associated with changes in the interest rate floors and the price of credit (Chart 11). Similar 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 slightly more influential on business credit term changes. Whereas the ELS does not cover questions about the direction of credit price movements, analysis indicates that the weighted average interest rate on overall new loans inched up from 6.4 percent in first quarter of 2024 to 6.5 percent in the second quarter of 2024.





## Effects of future credit supply conditions

Commercial banks intend to enact marginally stricter supply conditions in the short term (index 100.6) through different levers. For individual credit, these levers primarily include the usage of interest floors (Chart 13). For credit to businesses, most of the commercial banks mentioned that the price of credit will likely play a role in tightening credit supply conditions. Half of the commercial banks reported that limits on credit size will also play a role (Chart 14).

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

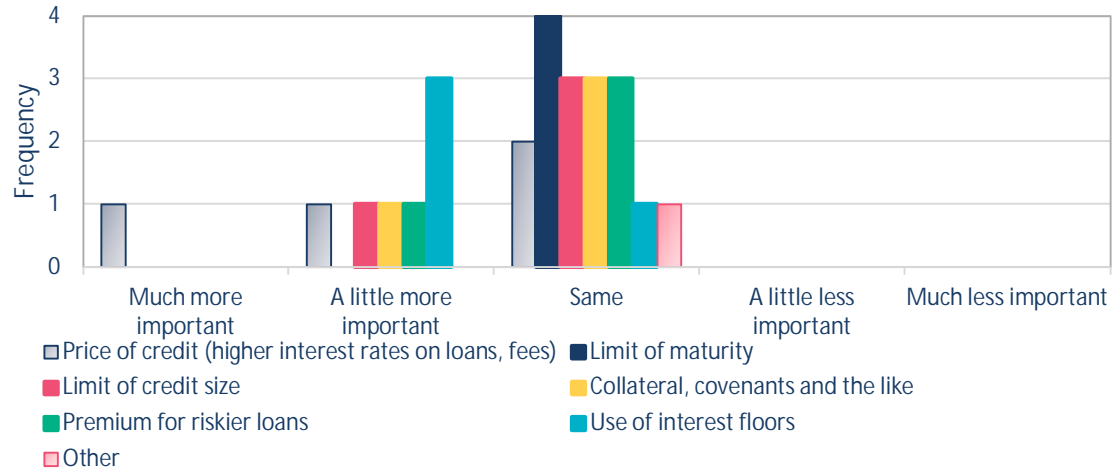
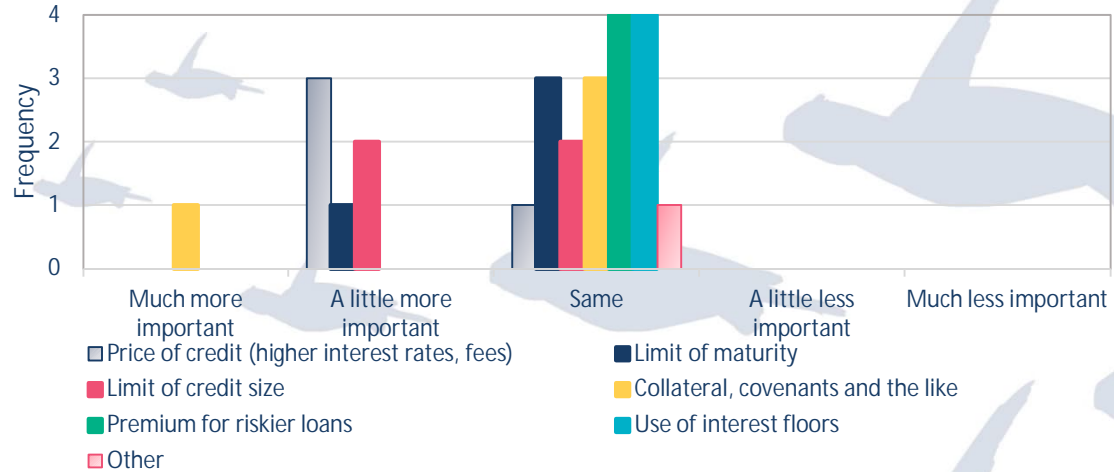


Chart 14: Reported contributors to terms of credit change for businesses in the short term



#### IV. Concluding remarks

Despite the credit conditions index falling from 101.6 in the first quarter of 2024 to 101.6 in the second quarter of 2024, commercial banks still perceived favorable credit conditions. This relatively optimistic outcome resulted from positive sentiments about current credit conditions (index: 101.7), and to a lesser extent about future credit conditions (index: 100.5).





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 background is a light blue gradient. On the right side, there are silhouettes of sea turtles swimming. The bottom right corner features a pattern of horizontal lines.

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