Ease of Lending Survey 2024 Q4

April 2025

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

In the fourth quarter of 2024, the positive shift in credit conditions observed in the third quarter did not hold.

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the fourth quarter of 2024. 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.

Following a brief improvement in the third quarter, when the overall unweighted credit conditions index jumped to 102.2, the index for the fourth quarter decreased again to 101.7, reflecting a more cautious sentiment among commercial banks. This decline reflects a shift toward less optimistic sentiments, driven primarily by the current credit conditions index (101.0), which shows less favorable assessments compared to the previous quarter.

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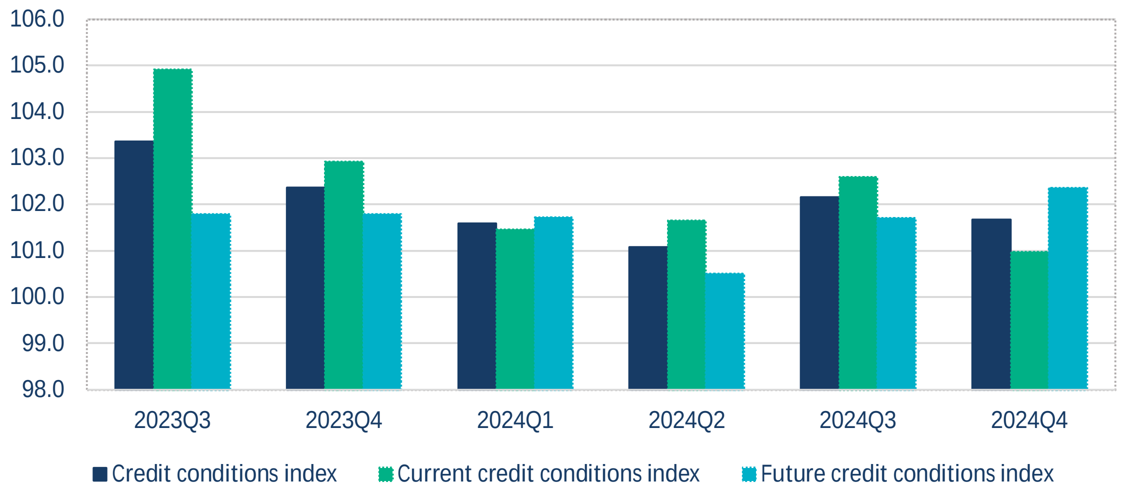
I. Developments in credit conditions

Credit conditions index

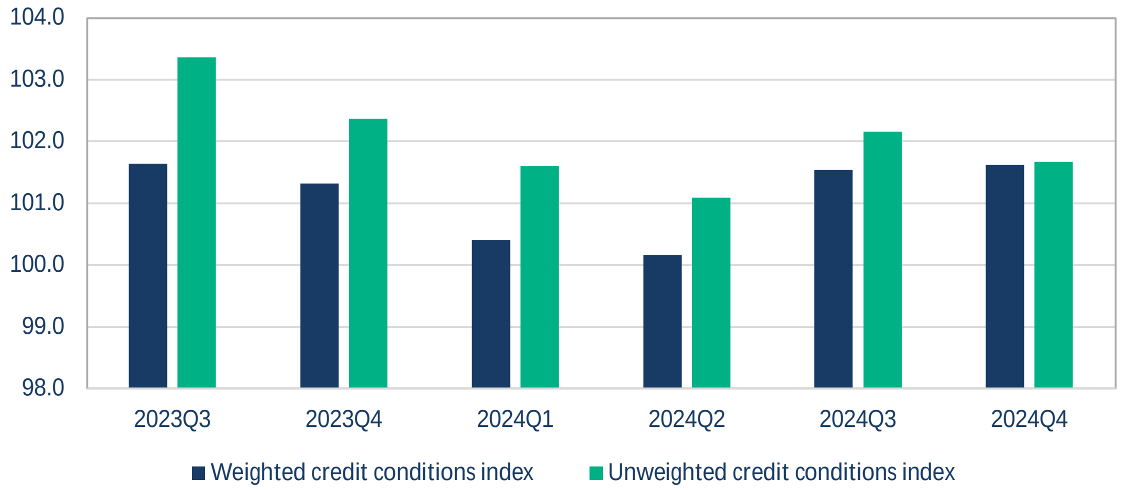
The overall (unweighted) credit conditions index dropped to 101.7 in the fourth quarter of 2024, down from 102.2 in the preceding quarter. This decrease indicates that commercial banks perceived credit conditions less favorably than in the previous charter (Chart 1). A decline in the current credit conditions (index: 101.0) drove the worsened perception, while the future credit conditions (index 102.4) improved. This means that while banks are more optimistic about future conditions, their diminished optimism about current conditions outweighs their positivity on the future conditions. Commercial banks were less optimistic about credit conditions for both individuals and businesses. The weakening in the credit conditions index signals a more cautious sentiment among commercial banks, following an increase in the third quarter that did not hold.

Chart 1: Development in credit conditions index



The weighted credit conditions (index: 101.6), which adjusts the responses of commercial banks according to their loan portfolio size, remained virtually unchanged compared to the previous quarter (index. 101.5). In the unweighted credit conditions, smaller banks appear more prominently. Thus, the sentiment of deteriorated credit conditions was more pronounced among banks with smaller loan portfolios.

Chart 2: Weighted versus unweighted credit conditions index



Current credit conditions index

Commercial banks noted worsened current credit conditions, as the (unweighted) index fell from 102.6 in the third quarter of 2024 to 101.0 in the following quarter. A shift in the sentiment toward individual loans was the primary driver of this decline. This sentiment turned pessimistic in the fourth quarter of 2024 (index: 98.5) compared to the previous quarter (index: 101.6). In contrast, current credit conditions for business loans remained largely unchanged. For individual loans, banks noted a decline in current demand (97.7 vs. 102.7) while supply conditions remained stable. This development marks a significant contrast to the previous quarter, where the sentiment was optimistic, suggesting that individuals have become less inclined to seek loans from commercial banks. This change aligns with the decrease in the value of both new consumer credit and new housing mortgages at commercial banks when comparing the fourth quarter of 2024 to the third quarter. Specifically, new consumer credit saw an increase of Afl. 57.7 million in the third quarter of 2024, which then diminished to Afl. 48.2 million in the fourth quarter. Similarly, the value of new housing mortgages reached Afl. 93.3 million in the third quarter of 2024 but dropped to Afl. 87.1 million during the fourth quarter, highlighting a more modest growth in the latter period.

Future credit conditions index

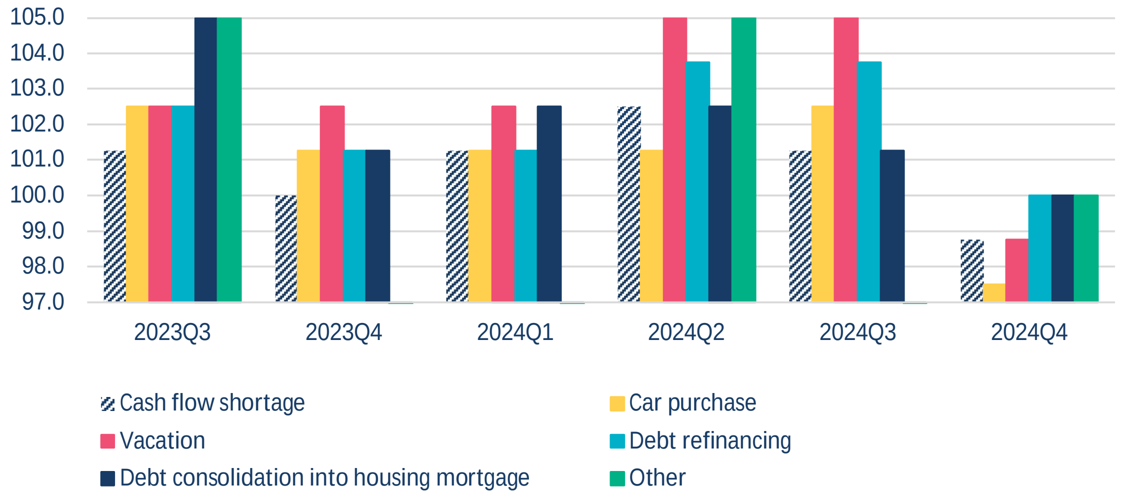
During the fourth quarter of 2024, the future conditions index rose to 102.4, up from 101.7 in the preceding quarter. Accordingly, commercial banks anticipated a more favorable outlook for credit conditions. Banks' expectations of better individual loan conditions (index: 101.8 vs. 100.0) were the main driver of the improved outlook. Meanwhile, enhanced credit supply conditions (101.3 vs. 97.5) were responsible for the commercial lifting banks' expectations. However, they forecast a slight deterioration in future credit conditions for business loans (index: 103.0 vs. 103.4).

II. Drivers of credit conditions

Drivers of current credit conditions

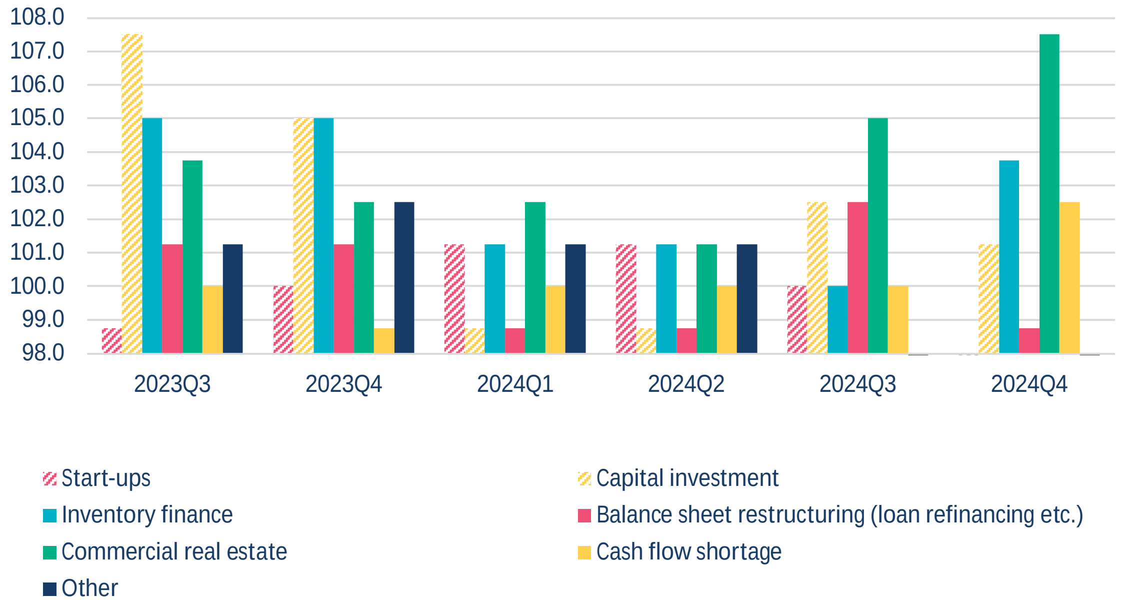
Various supply and demand factors influenced the current credit conditions in the fourth quarter of 2024. On the demand side of individuals, there was a change in interest for loans related to vacation, cash flow shortages, and car purchases (Chart 3). Car loans recorded the largest movement, followed by loans for vacation and cash flow shortages. The development in car loans is likely linked to car sales campaigns ran by commercial banks in the third quarter of 2024, which likely boosted demand in that period, resulting in a smaller impact in the fourth quarter. The change in vacation loans in the fourth quarter may be attributed to the heightened demand during the summer months.

Chart 3: Contributors to changes in current individual loan demand, index



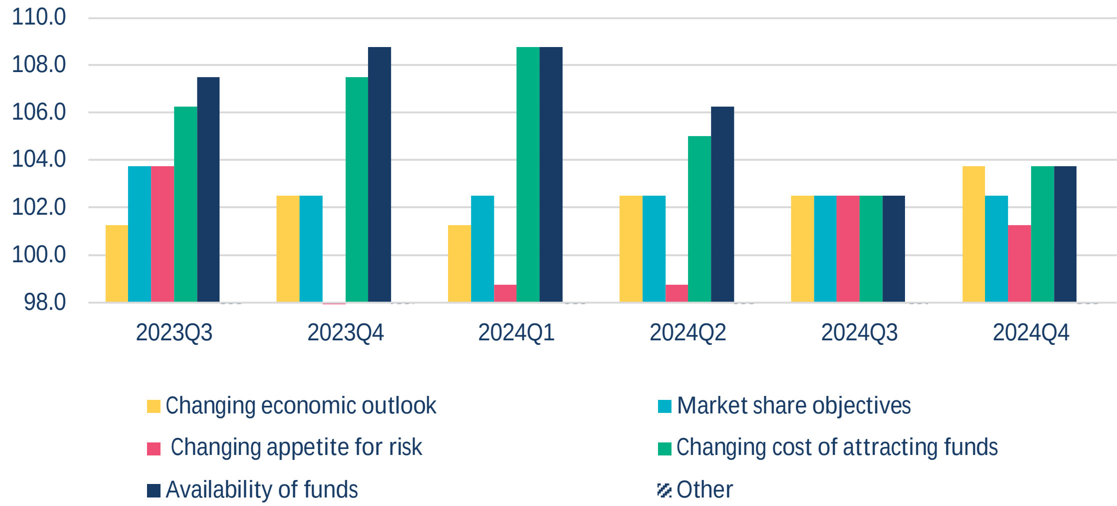
On the business side, commercial banks reported significant demand for commercial real estate (Chart 4). Specifically, all four commercial banks reported that commercial real estate went up “a little” or “a lot.” The demand in commercial real estate represents a peak compared to the previous quarters. To a lesser extent, inventory financing and cash flow shortage financing also influenced business loan demand, marking a shift from their smaller role in earlier quarters.

Chart 4: Contributors to changes in current business loan demand, index



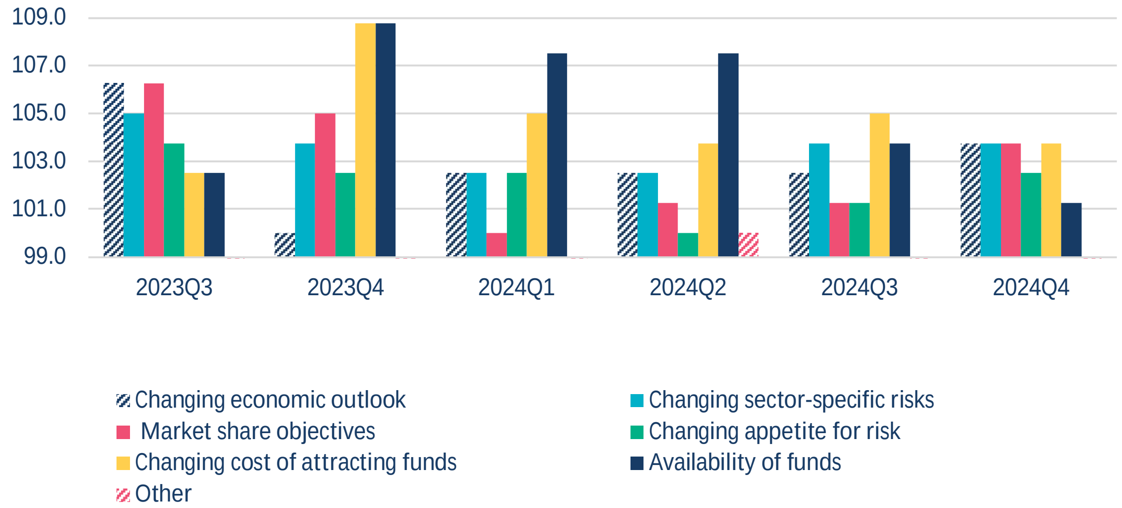
On the supply side, the changing cost of attracting funds, economic outlook, and fund availability were the main contributors to credit to individuals (Chart 5). While the availability of funds was once a key factor in changes to individual loan supply, its impact has diminished since the second quarter of 2024, with a slight uptick observed in the quarter under review. Although the survey does not specifically quantify the impact of fund availability on the provision of credit, excess liquidity at commercial banks serves as a useful proxy. Notably, excess liquidity increased by Afl. 197.8 million at the end of December 2024 compared to the end of September 2024. This rise in liquidity suggests that commercial banks are better positioned to extend credit, as they have more funds available for lending.

Chart 5: Contributors to changes in current individual loan supply, index



Changing economic outlook, sector-specific risks, market share objectives, and cost of attracting funds were the most prominent drivers of business loan supply (Chart 6). Similar to the factors influencing individual loan supply, the availability of funds played a less significant role compared to previous quarters.

Chart 6: Contributors to changes in current business loan supply, index



Drivers of future credit conditions

Several supply and demand factors may shape the credit conditions in the first quarter of 2025. For individual loans, commercial banks foresee higher demand due to vacation and debt consolidations into housing mortgages (Chart 7). As for business demand, all commercial banks anticipate demand growth from commercial real estate (Chart 8).

Chart 7: Contributors to changes in future individual loan demand, index

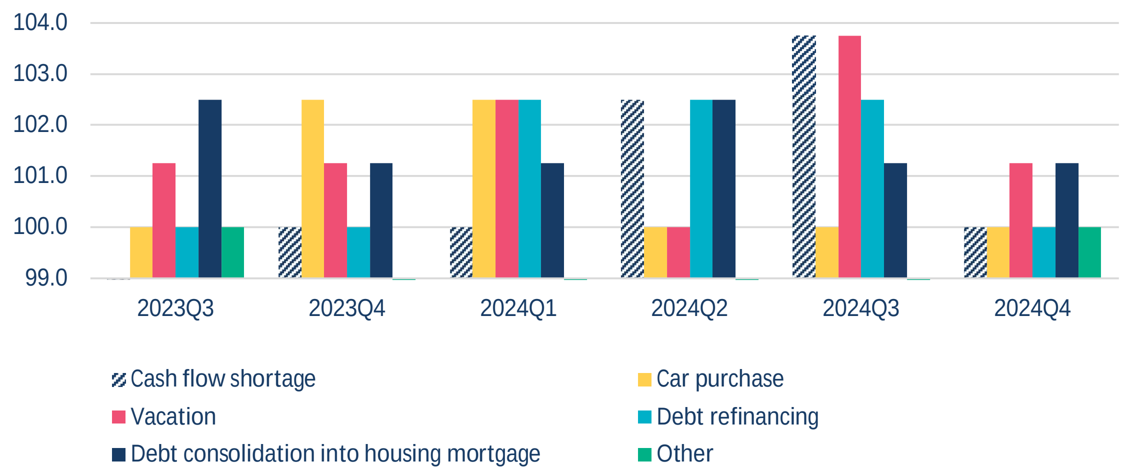
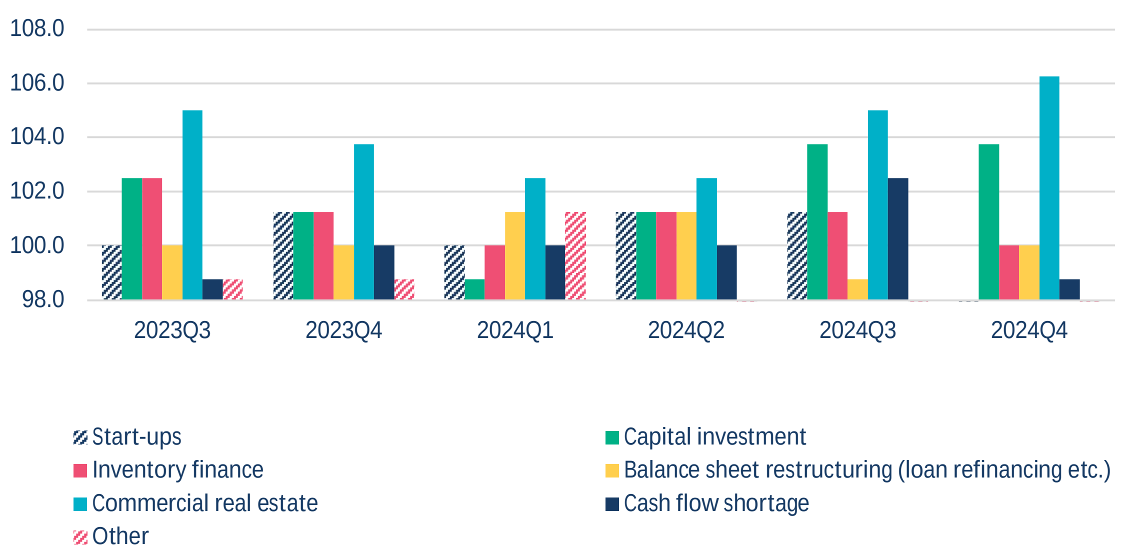


Chart 8: Contributors to changes in future business loan demand, index



Concerning the supply side, the contribution of the availability of funds index was the highest among the six components in the fourth quarter of 2024 (Chart 9). For business loan supply, the availability of funds will likely play a less prominent role (Chart 10).

Chart 9: Contributors to changes in future individual loan supply, index

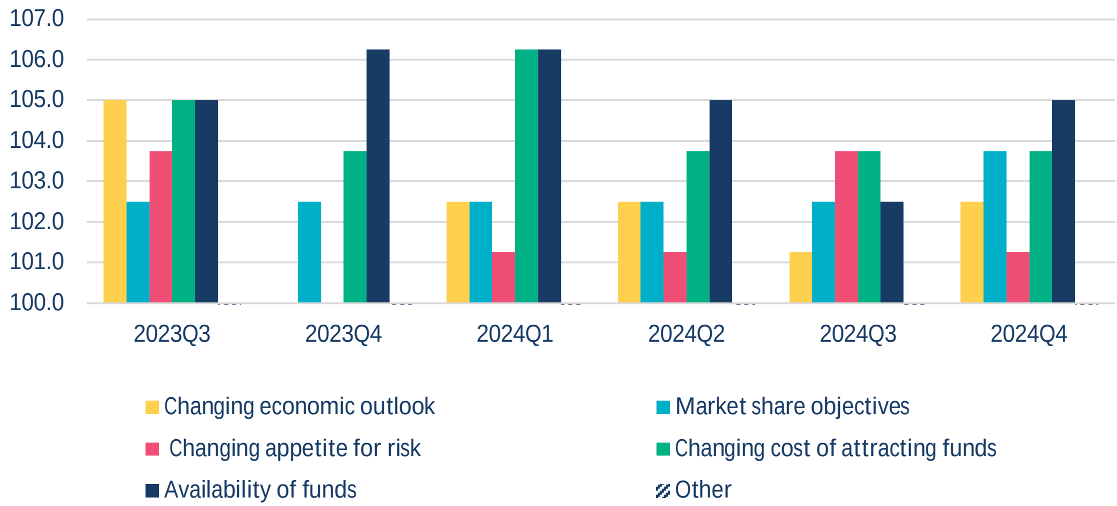
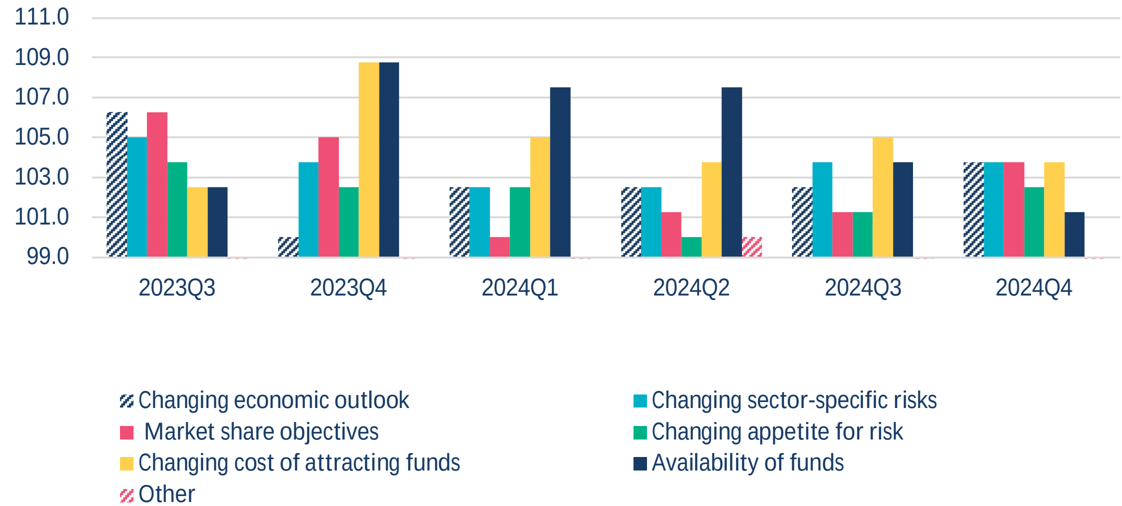


Chart 10: Contributors to changes in future business loan supply, index

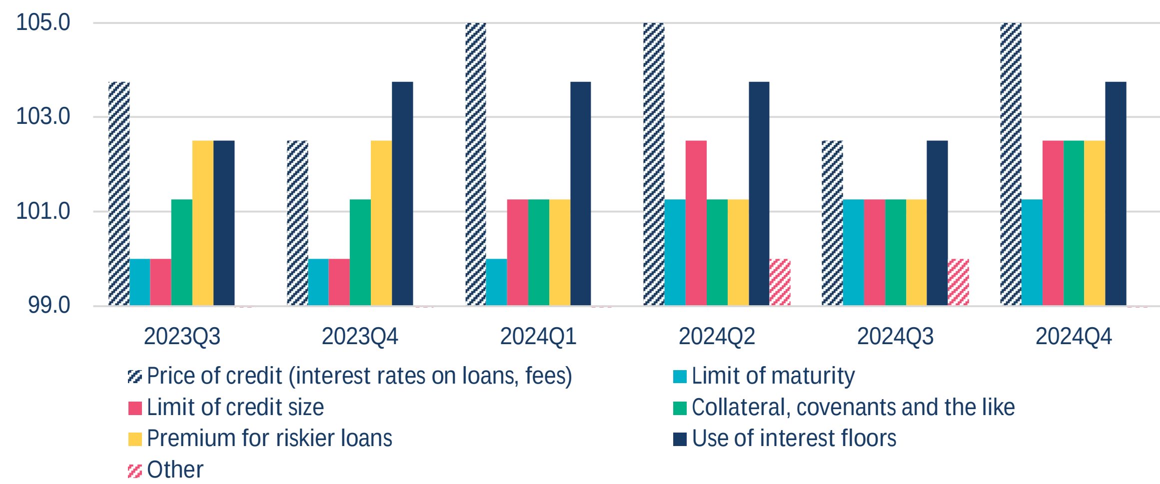


III. Effects of credit supply conditions

Effects of current credit supply conditions

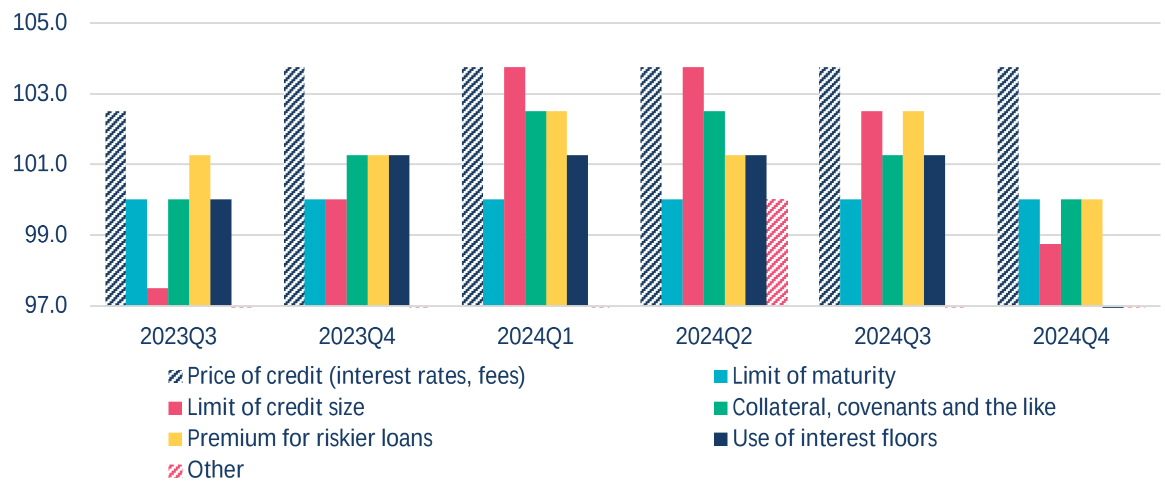
Similar to previous quarters, changes in credit pricing and interest rate floors were the main factors associated with commercial banks' willingness to extend individual credit in the fourth quarter of 2024 (Chart 11). Although the survey does not specify whether credit prices increased or decreased, supplementary data provide further insights. Specifically, the weighted average interest rate on new consumer credit rose slightly from 8.0 percent in the third quarter 2024 to 8.1 percent in the fourth quarter of 2024, while the weighted average interest rate on new housing mortgages also increased by 0.1 percentage point to 5.3 percent. It is important to note that these changes are relatively minor and do not necessarily correspond with the observed large contribution in Chart 11 or with the growing excess liquidity at commercial banks.

Chart 11: Contributors to current terms of credit changes for individuals, index



Similar to the previous quarter and in line with the observations for loans to individuals, price changes in businesses loans were linked to the willingness to supply credit (Chart 12). Supplementary data show that the weighted average interest rate on new commercial mortgages decreased by 0.1 percentage point to 5.9 percent in the fourth quarter of 2024, compared to the preceding quarter, while the weighted average interest rate on other new business loans remained unchanged at 6.0 percent. The change in the weighted average interest rate on new commercial mortgages is relatively minor and does not necessarily align with the observed contribution of credit pricing in Chart 12 or with the higher level of excess liquidity.

Chart 12: Contributors to current terms of credit change for businesses, index



Effects of future credit supply conditions

Various factors reflect commercial banks' eagerness to supply credit in the short term . For individual credit, these factors primarily include credit price, premiums for riskier loans, and requirements such as collateral and covenants (Chart 13). For business loans, the price of credit is expected to be the main factor driving changes in credit terms (Chart 14).

Chart 13: Contributors to future terms of credit change for individuals, index

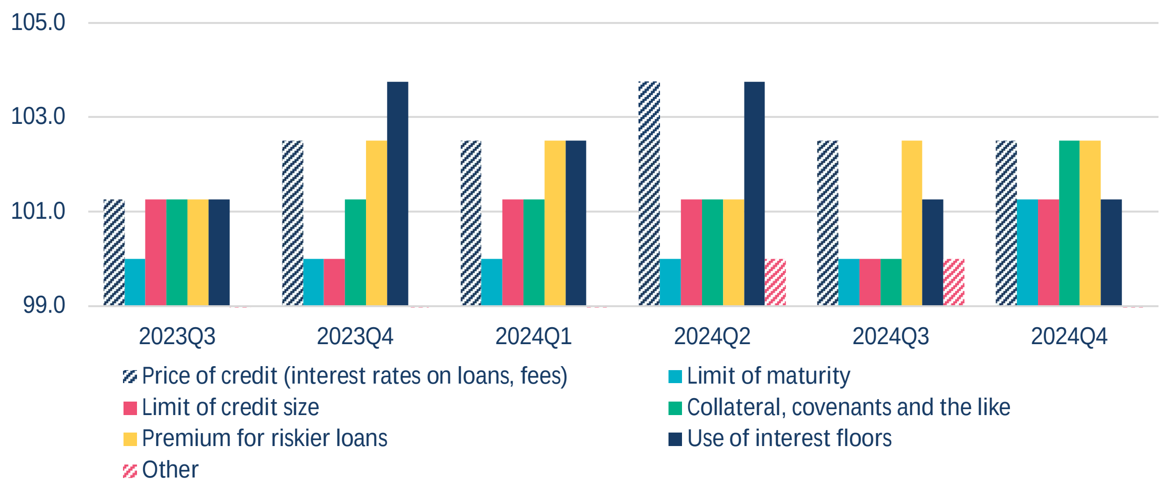
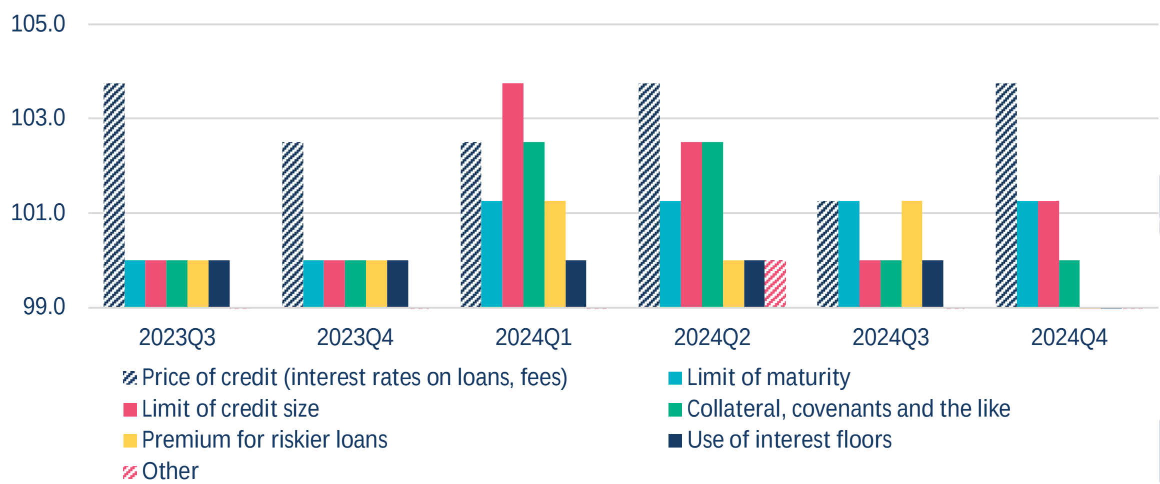


Chart 14: Contributors to future terms of credit change for businesses, index



IV. Concluding remarks

After a brief improvement in the third quarter, when the overall (unweighted) credit conditions index rose to 102.2, it decreased again in the fourth quarter to 101.7, signaling a more cautious sentiment among commercial banks. This decline was largely driven by the current credit conditions index (101.0), which showed less favorable results compared to the previous quarter. Nevertheless, commercial banks remain optimistic about future credit conditions.

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