2025 Q1

EASE OF LENDING SURVEY

SEPTEMBER 2025

Centrale Bank van Aruba

Cover design: The Great Blue Heron

Several Native American Tribes look at the heron as a symbol of patience and good luck. It is believed that if Native American fishermen spot a heron, it means good luck is with them, and they will have a successful fishing trip.

ABSTRACT

In the first quarter of 2025, commercial banks were more optimistic about credit conditions than in the last quarter of 2024.

The Central Bank of Aruba (CBA) recently concluded its Ease of Lending Survey (ELS) for the first quarter of 2025. 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.

After a brief deterioration of credit conditions in the last quarter of 2024 (index: 101.7), conditions improved again in the first quarter of 2025 (index: 102.6). The current credit conditions index (from 101.0 to 102.6), and, to a lesser extent, the future conditions index (from 102.4 to 102.6) were the primary drivers of the more optimistic stance of commercial banks.

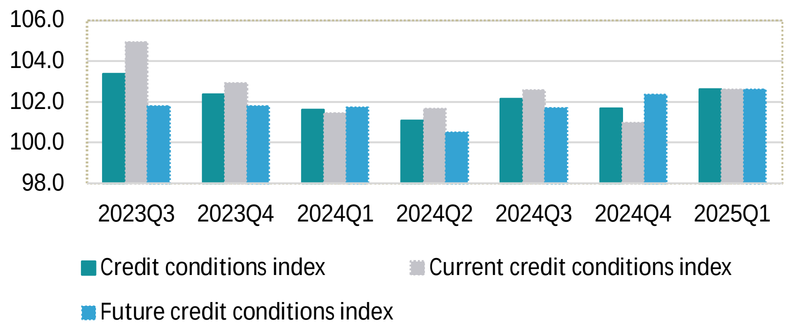
CONTENT

1. DEVELOPMENTS IN CREDIT CONDITIONS

1.1 Credit conditions index

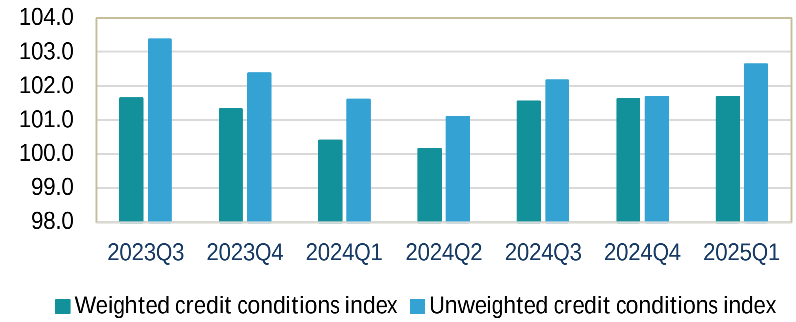
Commercial banks continue to report positive sentiments about credit conditions. The overall (unweighted) credit conditions index rose from 101.7 in the fourth quarter of 2024 to 102.6 in the first quarter of 2025. This increase indicates that commercial banks perceived more favorable credit conditions than in the previous quarter (Chart 1). An expansion in the current credit conditions index (from 101.0 to 102.6) was the main cause for the improved perception, and to a lesser extent the future credit conditions (from 102.4 to 102.6). In particular, commercial banks were pessimistic about conditions for individual credit (index: 98.5) in the fourth quarter of 2024, which turned around to a positive sentiment in the first quarter of 2025 (index: 101.4).

Chart 1: Development in credit conditions index



The weighted credit conditions (index: 101.7), which adjusts the responses of commercial banks according to their loan portfolio size, remained virtually unchanged compared to the previous quarter (index. 101.6). In the unweighted credit conditions, smaller banks appear more prominently. Thus, the more optimistic sentiment on credit conditions was more pronounced among banks with smaller loan portfolios (Chart 2).

Chart 2: Weighted versus unweighted credit conditions index



1.2 Current credit conditions index

Commercial banks noted improved current credit conditions, as the (unweighted) index grew from 101.0 in the last quarter of 2024 to 102.6 in the first quarter of 2025. A shift in perception of individual loans was the primary trigger of this increase, in which the pessimistic sentiments (index: 98.5) reverted to upbeat sentiments (index: 101.4). In contrast to individual loans, the current credit conditions index for businesses remained largely unchanged (2024Q4: 103.5; 2025Q1: 103.8).

1.3 Future credit conditions index

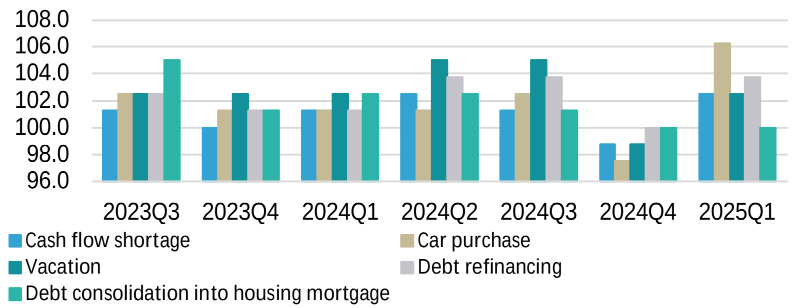
The future conditions index held steady (2024Q4: 102.4; 2025Q1 102.6). Accordingly, commercial banks anticipated once more an advantageous outlook for credit conditions. Banks' expectations of more suitable conditions for business loans (2024Q4: 103.0; 2025Q1: 103.8) occasioned the steady outlook. Meanwhile, worsened future expectations for individuals loans (2024Q4: 101.8; 2025Q1: 101.4) were responsible for dragging down the overall future conditions index.

2. DRIVERS OF CREDIT CONDITIONS

2.1 Drivers of current conditions index

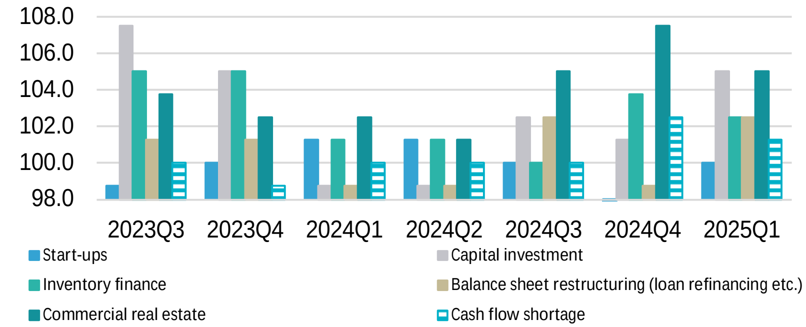
Various supply and demand factors influenced the current credit conditions in the first quarter of 2025. Car loans and debt refinancing were the main reason for demand changes to individual loans (Chart 3). In particular, three commercial banks reported that the demand for car loans and debt refinancing "went up a little". The stock of resident car loans corroborates this finding, where it rose from Afl. 179.7 million end-December 2024 to Afl. 188.2 million end-March 2025 (+4.7 percent).

Chart 3: Factors relevant to individual loan demand, index (current quarter)



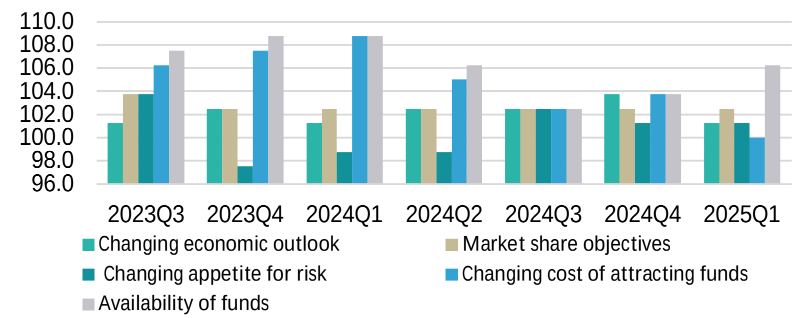
On the business side, commercial banks reported some demand for capital investment and commercial real estate (Chart 4). Specifically, half of the commercial banks reported that these categories "went up a little". Although not one-to-one, momentum in commercial real estate is evident, as the loans stock related to real estate, renting and business activities increased from Afl. 869.8 million to Afl. 895.9 million between December 2024 and March 2025 (+3.0 percent).

Chart 4: Factors relevant to business loan demand, index (current quarter)



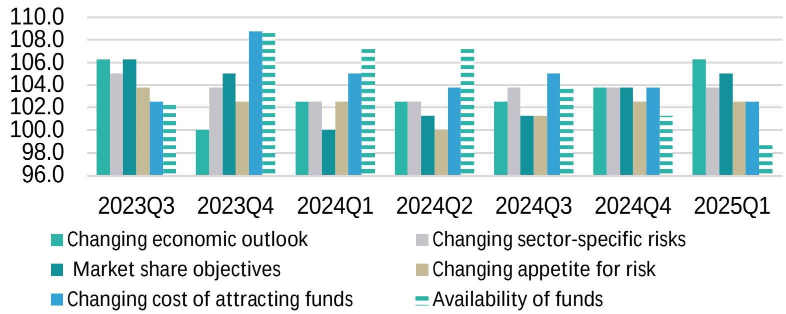
On the supply side, fund availability was the main contributor to credit to individuals (Chart 5). Although this factor was decreasingly mentioned in the first three quarters of 2024, it has rebounded since then. While the ELS survey does not quantify the impact of fund availability on credit extension, excess liquidity at commercial banks serves as a useful proxy. Notably, excess liquidity expanded by Afl. 224.9 million between December 2024 and March 2025. This rise in liquidity suggests that commercial banks are better positioned to extend credit, as they have more funds available for lending.

Chart 5: Factors relevant to individual loan supply, index (current quarter)



Changing economic outlook and market share objectives were the most prominent drivers of business loan supply (Chart 6). In contrast to the factors influencing individual loan supply, the availability of funds is playing a less significant role for business loan supply compared to previous quarters.

Chart 6: Factors relevant to business loan supply, index (current quarter)



2.2 Drivers of future conditions index

Several supply and demand factors potentially shape the credit conditions in the second quarter of 2025. For individual loans, commercial banks foresee higher demand due to vacation, cash flow shortage, and car purchases (Chart 7). As for business demand, all commercial banks anticipate demand growth from capital investment, cash flow shortage, and commercial real estate (Chart 8).

Chart 7: Factors relevant to individual loan demand, index (next quarter)

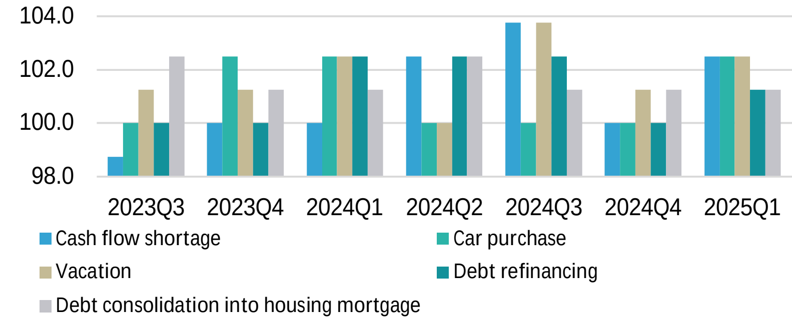
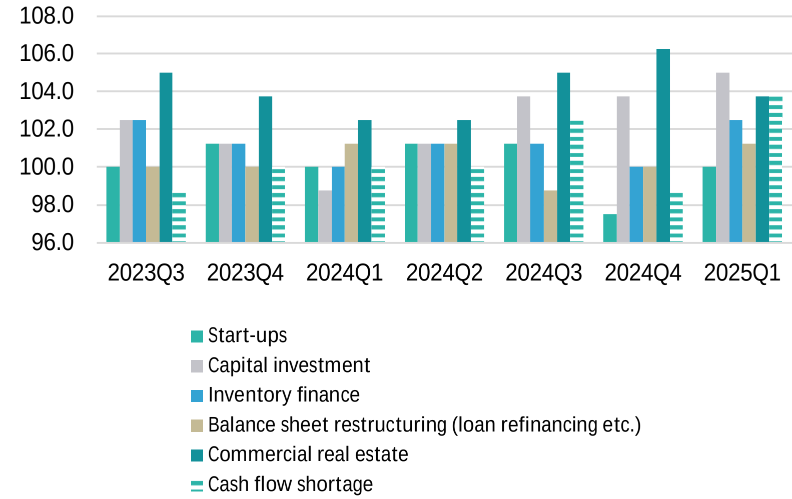


Chart 8: Factors relevant to business loan demand, index (next quarter)



Concerning the supply side, commercial banks foresee funds availability being the most important factor in individuals loans (Chart 9). To a lesser extent, commercial banks also regarded risk appetite as a relevant factor. For business loan supply, the changing economic outlook – possibly related to the U.S. trade policy uncertainty – and market share objectives will likely play a prominent role (Chart 10).

Chart 9: Factors relevant to individual loan supply, index (next quarter)

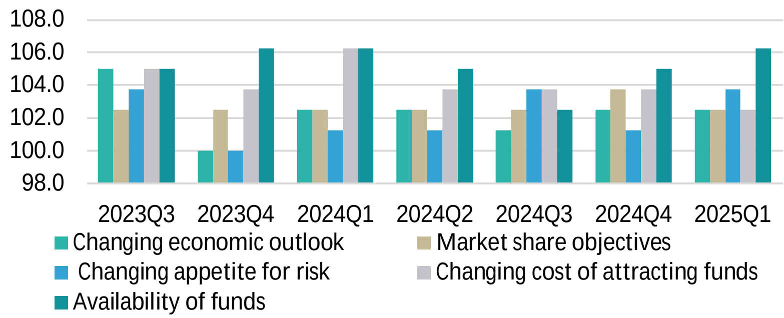
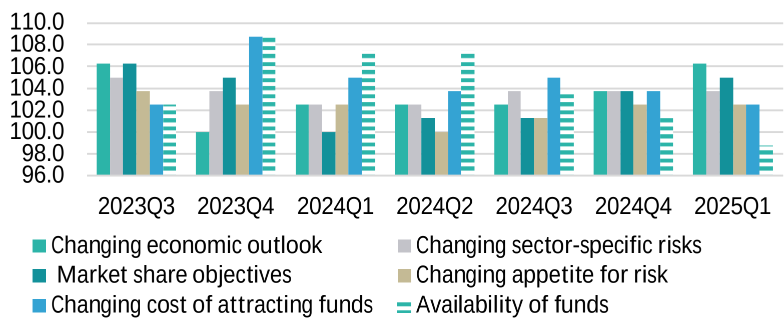


Chart 10: Factors relevant to business loan supply, index (next quarter)

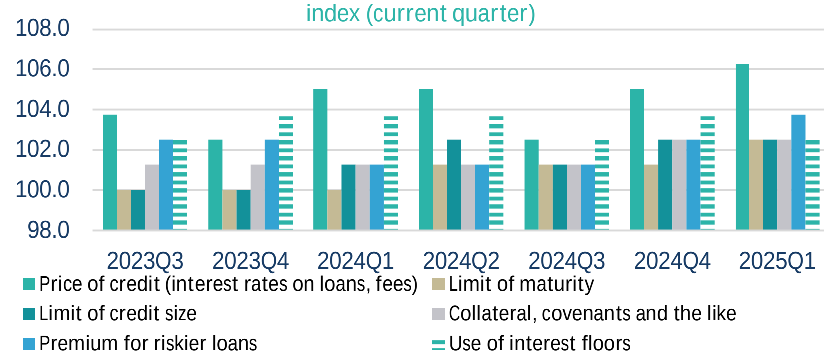


3. EFFECTS OF CREDIT SUPPLY CONDITIONS

3.1 Effects of current supply conditions

Credit pricing was the primary factor associated with commercial banks' willingness to extend individual credit in the first quarter 2025 (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 individual loans remained practically unchanged (2024Q4: 6.3 percent; 2025Q1: 6.5 percent). Hence, the almost stationary interest rate is in line with the commercial banks' neutral willingness to extend individual loans (index: 100.0) but misaligns with the substantial expansion of their excess liquidity.

Chart 11: Factors reelvant to terms of credit for individuals, index (current quarter)



Limit on credit sizes was a primary factor affecting willingness to extend business credit. Furthermore, similar to the two previous quarters and in line with the observations for loans to individuals, credit pricing influenced commercial banks' willingness to supply business credit (Chart 12). Premium for riskier loans also stood out as one of the main factors relevant for terms of credit for businesses.

Chart 12: Factors relevant to terms of credit for businesses, index (current quarter)

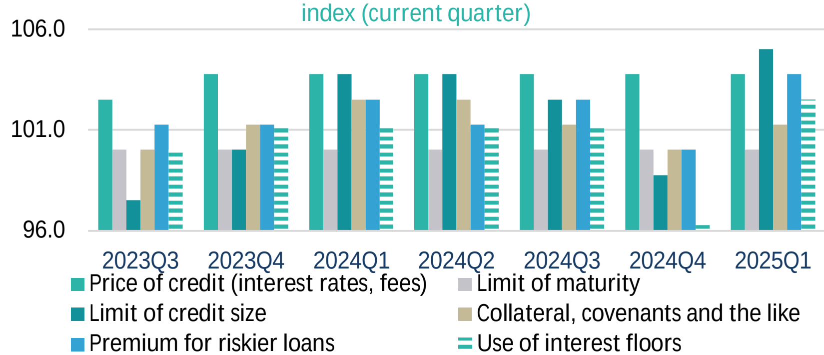
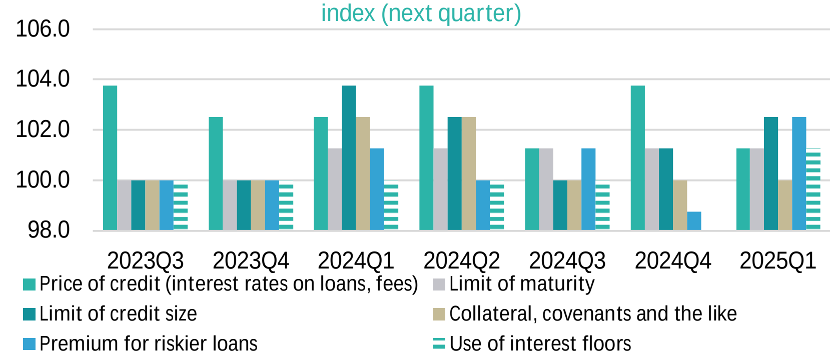


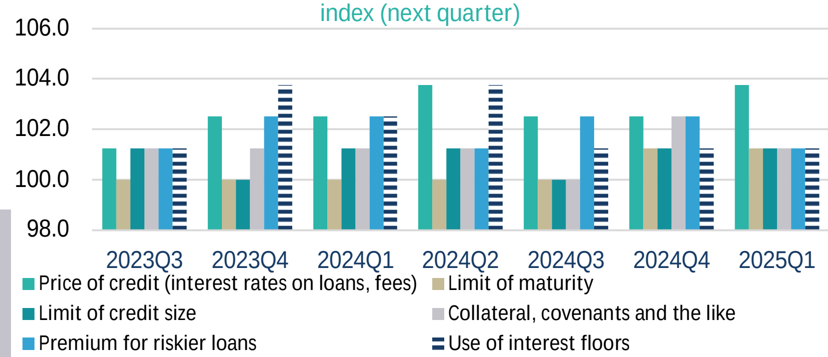
Chart 14: Factors relevant to terms of credit for businesses, index (next quarter)



3.2 Effects of future supply conditions

Various factors reflect commercial banks' eagerness to supply credit in the short term. For individual loans, credit pricing stood out as the main factor (Chart 13). Meanwhile, credit size limits and premium for riskier loans were the chief factors for business loans (Chart 14).

Chart 13: Factors relevant to terms of credit for individuals, index (next quarter)



3.3 Concluding remarks

Commercial banks maintained positive sentiment about credit conditions. The overall (unweighted) credit conditions index increased from 101.7 in 2024Q4 to 102.6 in 2025Q1. A rise in the current credit conditions index (from 101.0 to 102.6) was the principal driver of this improvement, with a smaller contribution from the future conditions index (from 102.4 to 102.6).

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