

**RESULTS OF ECCU CREDIT MARKET CONDITIONS SURVEY
JANUARY TO JUNE 2008**



**EASTERN CARIBBEAN CENTRAL BANK
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Results of ECCU Credit Market Conditions Survey January to June 2008

In July 2008, the Eastern Caribbean Central Bank (ECCB) conducted a survey on credit market conditions for the period January to June 2008. The survey captures the non-price factors affecting credit and offers information on supply and demand conditions and the lending policies of banks in the Eastern Caribbean Currency Union (ECCU). The questions cover both the business and household sectors. The results are reported using the net percentage indicator. The indicator is calculated as the difference between the percentage of banks reporting responses of “eased considerably” or “eased somewhat” and the percentage of banks reporting responses of “tightened considerably” or “tightened somewhat”. This result is then weighted, with the weights being determined for each of the three major categories of loan according to the banks’ contribution to the total value of loans made in that category for the ECCU. Declines in the net percentage indicate worsening conditions in the environment while increases denote an improvement. Thirty-eight (38) of the then thirty-nine (39) banks targeted by the survey responded.

The results of the survey revealed that there was continued tightening in lending terms and conditions for business loans. A high net percentage of respondents stated that they had more stringent policies on the maximum “loan-to-value” ratio as well as on their credit underwriting practices. The banks reported that the main factors which contributed to the tightening in their lending policies were the risk related to the expected general economic situation and, in the case of the foreign branch banks, directives from their head offices. The tightening, in terms and conditions of lending is broadly in line with what the banks had anticipated for the January to June 2008 period, when they were surveyed about their expectations in the July to December 2007 survey. Demand for business loans also performed poorly as demand was reported to have decreased, on net. The banks opined that waning business confidence and the use of loans from other financial institutions contributed to the decrease in demand for business loans. The result for demand for business loans is in contrast to the result from the previous period, July to December 2007, when demand for business loans was reported to

have increased. The decrease in demand for the current review period also runs contrary to the projections made in the previous survey for an increase in demand for the January to June 2008 period.

The results for the household sector were similar, with the terms and conditions of lending continuing to tighten, on net. With regard to mortgage loans, banks reported a net increase in demand, while demand for other consumer loans is reported to have decreased, on net. Favourable prospects for the real estate market were cited as the main factor contributing to the net increase in demand for mortgage loans.

Overall the forecast for the period July to December 2008, in respect of lending policies, is not favourable for either the business sector or the household sector. Despite this expectation of tightening lending terms and conditions, some banks expect demand to increase for both business and household loans over the next six months. The banks' outlook is mainly influenced by the continued slowdown and uncertainty in the global economy, liquidity constraints, reduction of disposable income due to rising food and energy prices, and concerns about their possible impact on the domestic economies.

Current Global Financial Turmoil

In this instalment of the Senior Loans Officers Survey, respondents were asked to give their opinions on how the current global financial turmoil has affected their specific bank. The majority of banks have indicated that there has been no significant impact on their specific bank. Some banks have suggested that they are more prudent with their lending especially for real estate loans, thus resulting in a significant tightening of credit policies.

Most of the banks further indicated that the criteria for granting total unsecured loans remained unchanged. For those banks that changed their criteria, the main reasons were the global financial crises and its accompanying uncertainty and increased level of delinquency due to higher unemployment levels and reduced disposal income.