CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the First Half of 2025

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About the Survey

The Central Bank distributed the first of its semi-annual Credit Conditions Survey to deposit-taking institutions (DTIs) in March 2025. The DTIs consisted of domestic banks and credit unions, who provided insights on credit conditions during the second half of 2024 (H2-24), spanning July to December 2024, and their outlook for the first half of 2025 (H1-25), spanning January to June 2025.

Responses were converted into a diffusion index (DI), indicating relative changes in supply and demand conditions in the domestic credit market from lenders' perspective. Qualitative responses to questions were scored between -1 and 1, with -1 denoting the deepest negative sentiment on a symmetric five-point Likert scale and vice-versa.

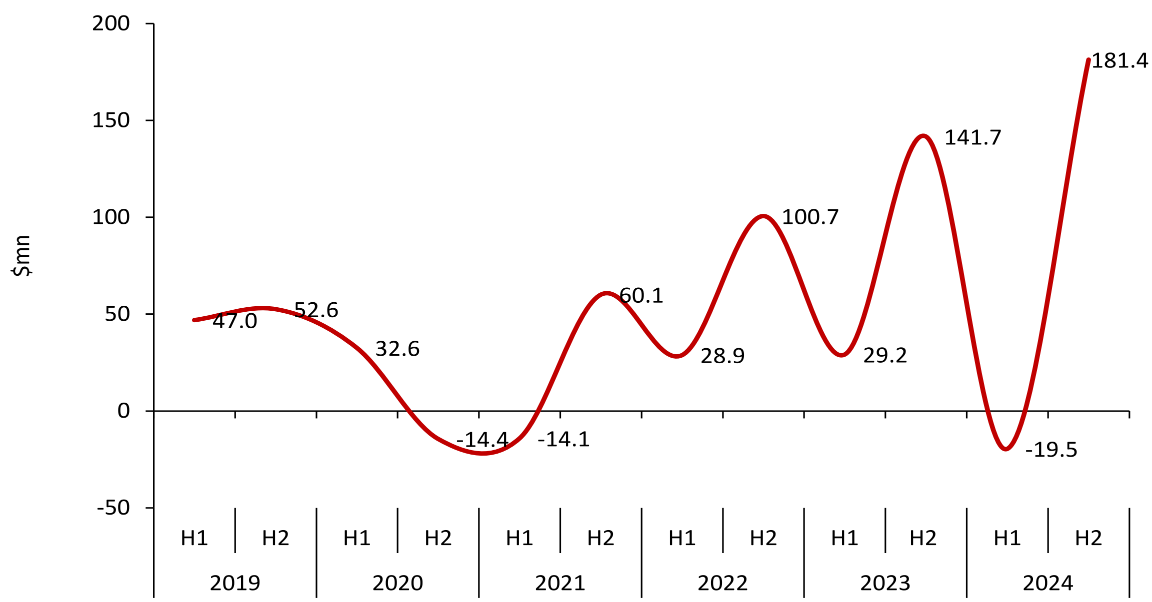
Executive Summary

Overall credit standards eased in H2-24 compared to the first half of 2024 and overall credit demand surged during the period ultimately resulting in a $181.4mn increase in aggregate lending to the private sector between July and December 2024. Interestingly, lending institutions shared that for residential loans, both their willingness to lend and customers' willingness to borrow dipped in the latter half of 2024. Looking ahead, all institutions anticipate expansions in their loan portfolios in H1-25. This growth is expected to be driven by a combination of eased credit policies and heightened demand, largely influenced by an anticipated improvement in economic conditions and stronger liquidity positions. Most of this projected uptick in lending activity is expected to stem from higher corporate and retail lending.

Overall Credit Conditions

Private sector lending by DTIs surged in the second half of 2024, increasing by $181.4mn to $3,385.0mn. Domestic banks were influential in propelling loan

Chart 1: Change in DTIs' Loans and Advances



growth, contributing 79.4% to the overall increase, while credit unions accounted for the remaining 20.6%. The majority of newly disbursed loans in the second half of 2024 were channelled towards consumer loans and real estate. Corresponding with the surge in lending was a decline in the weighted average lending rates from 8.84% at the end of June to 8.81% at the end of December.

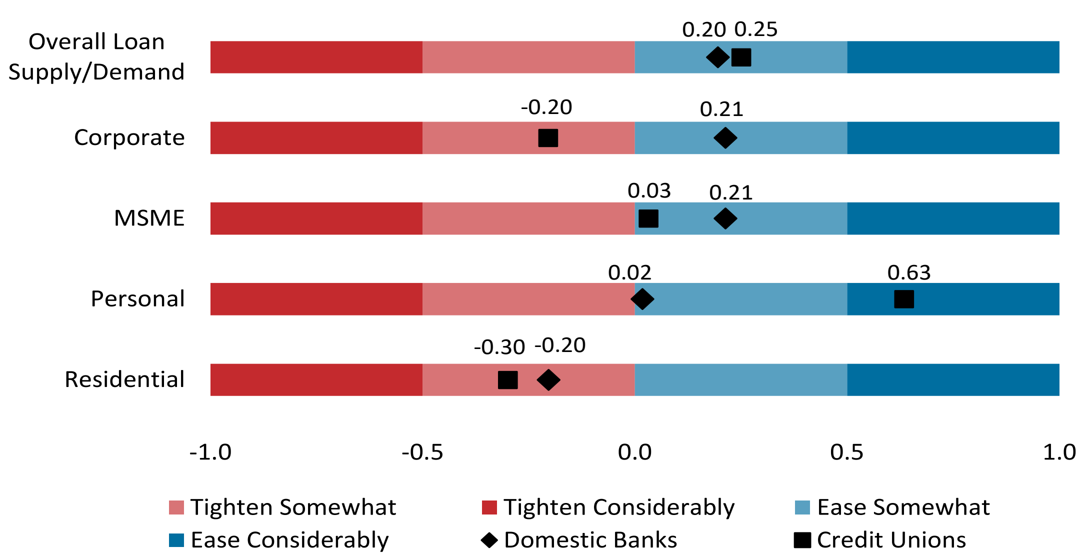
Loan Supply

Domestic Banks

Domestic banks' aggregate DI score for overall credit supply in H2-24 was 0.20, indicating a modest easing of credit standards compared to H1-24. At the sectoral level, domestic banks mostly eased standards for loans issued to Corporations and Medium, Small and Micro-Enterprises (MSMEs) as both sectors recorded DI scores of 0.21, suggesting that the appetite to lend for commercial purposes improved in the latter half of the year relative to the first half. Meanwhile, standards for consumer loans remained virtually unchanged illustrated by a DI score of 0.02. In contrast, domestic banks tightened standards for residential loans—which comprises loans for residential construction, residential real estate and home improvement—with that category recording a DI score of -0.20.
On the one hand, domestic banks highlighted general economic conditions and sufficient levels of foreign exchange as being the most positive influences on overall loan supply and credit standards in the second half of 2024. On the other hand, tighter liquidity positions and expected credit losses were as identified being the most impactful negative factors in the second half of 2024.

The positive factors outlined above contributed to 75.0% of respondent banks approving more than 80.0% of total loan applications that they individually received. Despite high loan approval rates, only half of respondent banks achieved more

Chart 2: Loan Supply Conditions by Sector, H2-24



than 60.0% of their respective loan growth targets for the second half of 2024. This could suggest that customers borrowed in smaller amounts than initially expected.

Other feedback received from banks included an observation of slightly higher delinquency in retail lending in the last six months of 2024.

Similarly, loan approval rates were skewed. Six respondents, of which five were credit unions, approved over 80.0% of their applications. Furthermore, four approved between 60.0% and 80.0%, while one approved between 40.0% and 60.0%.

Credit Unions

Credit Unions' aggregate DI score for credit supply in H2-24 was 0.25, marginally higher than the corresponding score for domestic banks. Relaxed standards for personal loans (0.63) was the main contributor to the outcome, while standards for MSMEs loans (0.03) marginally eased. However, credit standards for residential loans (-0.30) and corporations (-0.20) tightened in the second half of 2024 relative to the first half.

Credit unions identified the following factors as having a positive influence on overall loan supply and credit standards:

- Risk appetite
- Liquidity Position
- Competition from other credit unions
- General Economic Situation and Outlook
- Competition from banks

In contrast, credit unions listed the following factors as having the most negative impact on credit supply in the second half of 2024:

- Expected Credit Losses
- Foreign Exchange Constraint
- Risks related to collateral demanded

Additionally, 83.33% of respondent credit unions indicated that they had a loan approval ratio (approved loan applications to total loan applications) above 80.0%, however the remaining credit union respondents expressed a loan approval ratio below 20.0%. All credit unions expressed that they expected loan growth between \$1.0mn and \$5.0mn in the second half of 2024, however 66.6% of respondent credit unions stated that they failed to meet that target.

Notably, a few credit unions also shared that regulatory changes impacted credit standards in the second half of 2024.

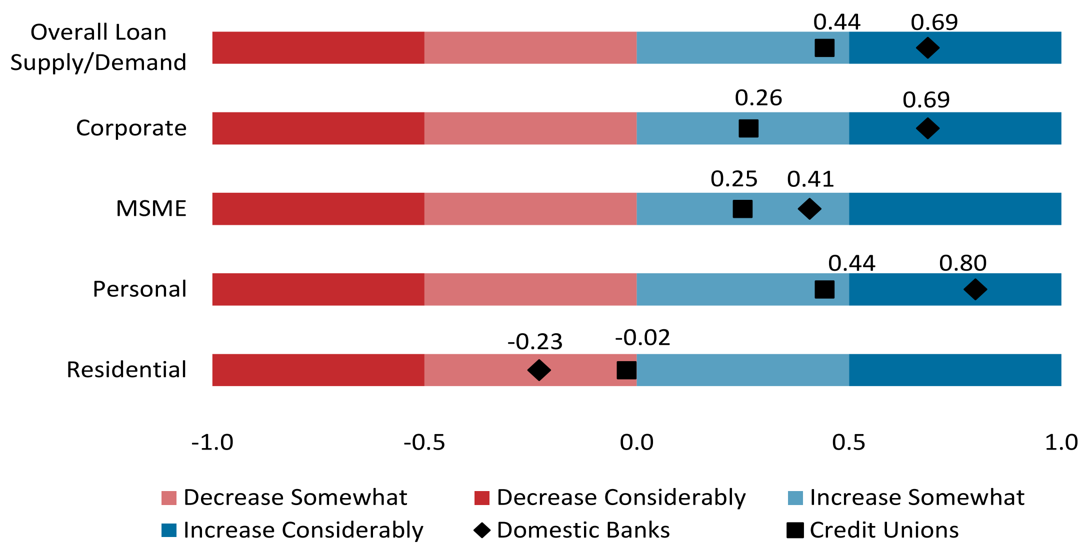
d loan losses.

Loan Demand

Domestic Banks

Domestic banks' aggregate DI score for overall credit demand was 0.69, indicating a considerable increase in demand for loans in the second half of 2024 relative to the first half of 2024. This corresponded to the sizeable increase in lending that actually occurred during the period. Banks reported that they experienced the strongest demand for loans for personal consumption (0.80), Corporate (0.69) and MSMEs (0.41). However, demand for residential loans dipped (-0.23).

Chart 3: Loan Demand Conditions by Sector, H2-24



Domestic banks highlighted that different factors drove demand for the various loan types. For personal loans, banks reported that the strong demand stemmed from improved consumer confidence and favourable interest rates. For Corporate Loans, financing needs related to purchasing or maintaining fixed assets and expanding operations were the main drivers of loan demand. Demand for loans by MSMEs was mostly for working capital. Meanwhile, banks reported that the decline in demand for residential loans was due to interest rates and debt refinancing, indicating that the costs of homeownership was a major hurdle for current and prospective homeowners.

Banks indicated that the introduction of online loan applications had a positive impact on loan demand in the second half of 2024.

Credit Unions

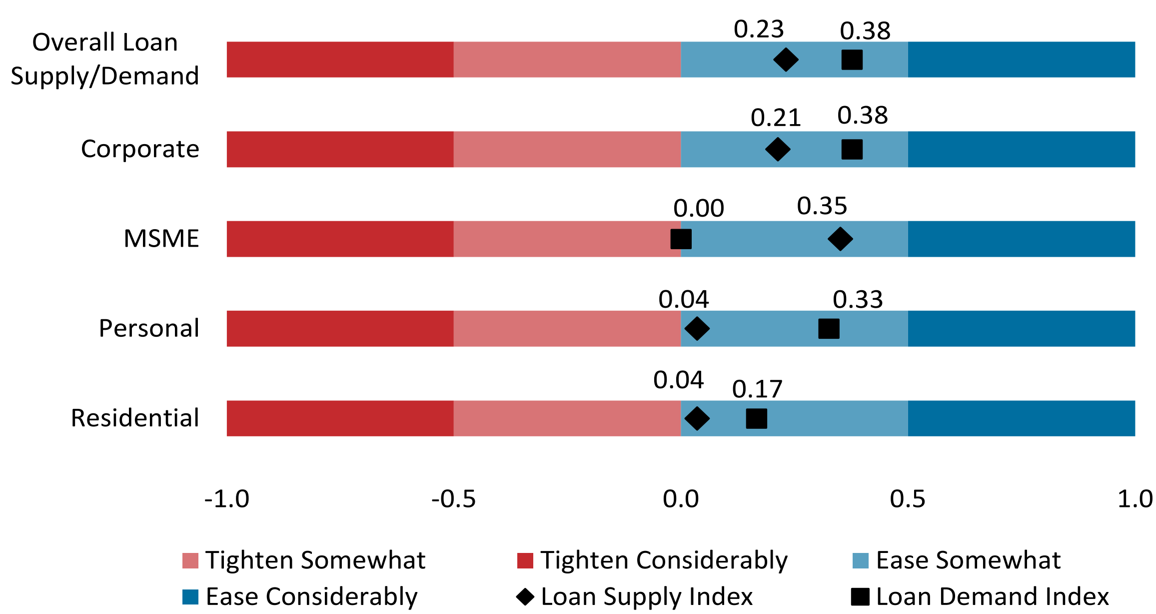
Credit unions' aggregate DI score for overall credit demand was 0.45, lower than domestic banks' score but still signalling a marked rise in demand for loans. Credit Unions indicated that there was heightened demand for corporate, MSMEs and personal loans as they recorded positive DI scores of 0.44, 0.26 and 0.26, respectively. However, demand for residential loans marginally declined, supported by a DI score of -0.02. For Corporate and MSME loans, credit unions pointed out that the higher demand was linked to greater financing needs for business expansion, working capital and purchasing of fixed assets. Furthermore, favourable interest rates also contributed to the rising demand for loans by Corporate borrowers. Meanwhile, for Personal Loans, greater consumer confidence and interest rates were the main demand drivers. However, demand for Residential Loans fell due to interest rates and debt refinancing.

Loan Outlook

Domestic Banks

Relative to H2-24, it is expected that domestic banks will ease credit standards across all loan categories in H1-25. The easing is expected to be most prominent for Corporate and MSME loans, underpinned by an improved economic outlook, a perceived improvement in borrowers' creditworthiness, and buoyant liquidity conditions. Notwithstanding, 50.0% of banks expressed intentions to raise interest rates between 10 and 100 basis points, while the other 50.0% expect to keep interest rates at the same level. Regarding demand in the first half of 2025, DTIs foresee a rise in loan applications mainly for corporations, consumer, and residential loans but expect demand for MSME loans to stay flat. Accordingly, all banks anticipate expansions in their loan portfolios from January to June, driven by new disbursements for corporate, personal and residential loans.

Chart 4: Loan Supply and Demand Outlook for H1-25



Credit Unions

Meanwhile, credit unions reported that they intend to ease credit standards in H1-25 relative to H2-24. The easing of credit standards is expected to occur across all categories spurred by a more positive outlook on economic conditions, stronger liquidity, and a more risk-tolerant posture. Notwithstanding, 66.7% of respondent credit unions indicated that they expect to raise interest rates, in some cases by more than 100 basis points. Concurrently, credit unions expect demand for loans to increase across all categories but especially for residential-related loans underpinned by greater consumer confidence. Regarding loan growth projections, all credit unions forecast a growth in their loan portfolios, 66.7% project loan growth to fall between \$1.0mn and \$5.0mn, while the remaining 33.33% expect loan growth to be under \$1.0mn.

Chart 5: Credit Unions' Loan Supply and Demand Outlook for H1-25