Money and Credit

Chart 4.1: Net Domestic Credit and Net Foreign Assets of the Banking System

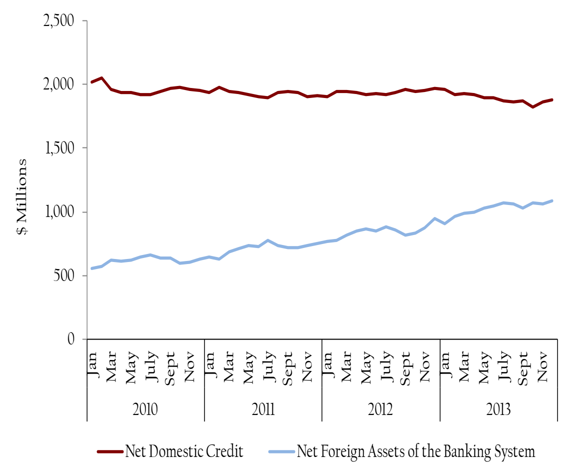
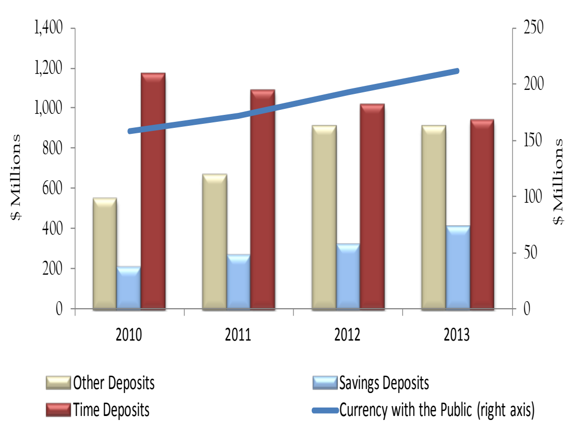


Chart 4.2: Annual Growth in Bank Deposits



The broad money supply (M2) expanded by a rather tepid 1.4% in 2013 reflecting downturns in Belize's principal commodity exports and consequent deceleration in GDP. Whereas the Central Bank's official reserves received a significant upward boost from foreign loan inflows to Central Government that also resulted in a sharp contraction in net domestic credit, the net foreign assets of the commercial banks declined partly due to an uptick in gross lending to the private sector and a larger external current account deficit.

The continuing efforts of the commercial banks to buttress balance sheets that had been weakened by NPL included reductions in interest rates offered on deposits and the share of time deposits held in their portfolio of liabilities. Consequently, in the three years since 2010, the share of time deposits in M2 declined from 56.2% to 38.1%, while those of savings and other deposits increased from 8.7% to 16.6% and from 26.3% to 36.8%, respectively. Adjustments by the banks included the writing off of some $52.7mn in NPL to the tourism, manufacturing and distribution subsectors. At year-end, just over half of the NPL were in the tertiary sector with the portion potentially linked to real estate speculation accounting for 19.2% of the total non-performing basket.

Loans to the private sector rose by $45.1mn, compared to $38.8mn in 2012, with most

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Chart 4.3: Credit Unions' Loans and Advances

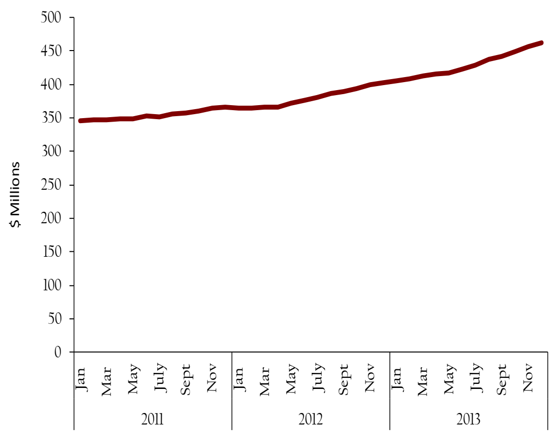
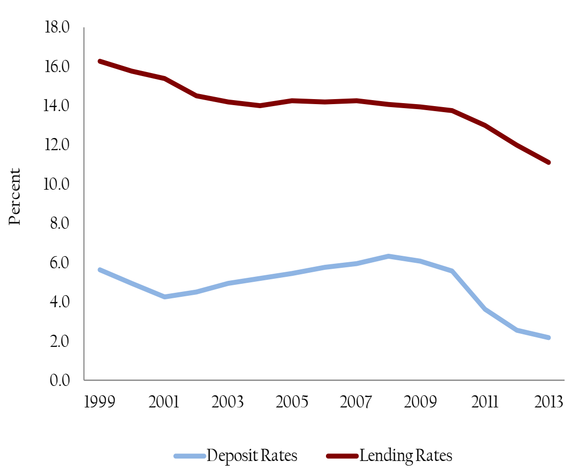


Chart 4.4: Weighted Average Deposit and Lending Rates



of the expansion taking place in the fourth quarter. Since most of the bank write-offs were undertaken between January and September, credit to the private sector grew by only $8.7mn during that period. On an annual basis, new funds were channelled mainly into real estate acquisition, grain production, personal loans, residential mortgages and commercial developments. Meanwhile, entities engaged in distributive trade, marine production, transport and manufacturing made repayments resulting in reduced credit balances, and loans to public sector enterprises increased by $8.1mn with most of this being allocated to the BTB. Lending by the five largest credit unions accelerated during the year, increasing by $58.9mn (14.6%) with disbursements going mainly to agricultural production and agro-processing, personal loans, residential mortgages, home improvement and commercial real estate.

The composition of commercial banks' lending remained broadly unchanged with the portfolio heavily tilted toward sectors that do not earn foreign exchange. The more notable of these (construction, real estate, distribution and personal loans) jointly accounted for approximately 75.0% of total bank loans. Loans for productive and foreign exchange earning activities, such as agriculture, agro-manufacturing, marine products and tourism, represented only 15.8% of commercial banks' loan portfolio at the end of 2013.

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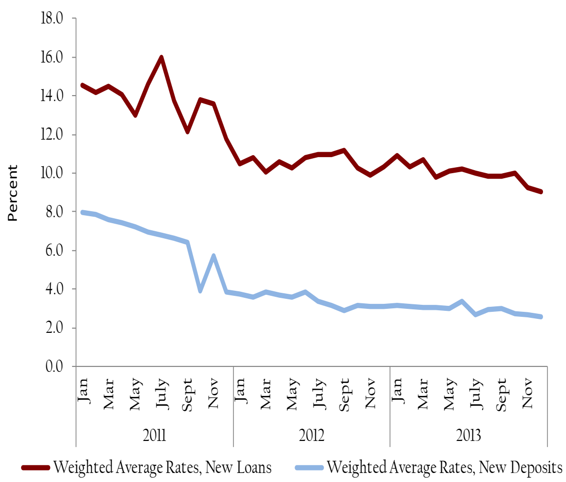
Chart 4.5: New Interest Rates



Continuing the trend of recent years, the statutory liquid assets of the banks, comprised mainly of short-term securities and foreign holdings, subsisted at high levels during the year with a slight dip occurring in the last quarter that was in tandem with the credit upturn. Excess cash reserves continued its uninterrupted upward climb with a $45.7mn expansion that matched the average growth of the previous two years. At the end of the year, holdings of statutory liquid assets were 56.3% higher than requirements and holdings of cash reserves were double the regulatory requirement.

Downward pressure on interest rates was therefore a continuing feature of the system. During the year, promotional rates on mortgages fell below 7.0% in some instances, and the state-owned bank began operations in September with mortgage rates starting at 5.5%. In December, the weighted average lending rate that the banks applied to new loans was 131 basis points lower than the rate twelve months earlier. Leading the decline was a 273 basis point plunge in rates on new commercial loans, while rates on residential construction loans plummeted by 251 basis points to 8.17%. Interest rate declines were also a factor on the liabilities side with rates applied on new deposit accounts falling by 55 basis points, pulled downward by a 76 basis points decrease on new time deposits that offset increases for savings and savings/chequing deposits of 100 and 5 basis points, respectively. The weighted average interest rate spread on new loans and deposits therefore fell to 6.47%, versus 7.23% in December 2012, and there was also a narrowing of the spread on banks' entire portfolio of loans and deposits from 9.31% to 8.95% during the same period.