CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the Second Half of 2021

Table of Contents

List of Figures and Charts

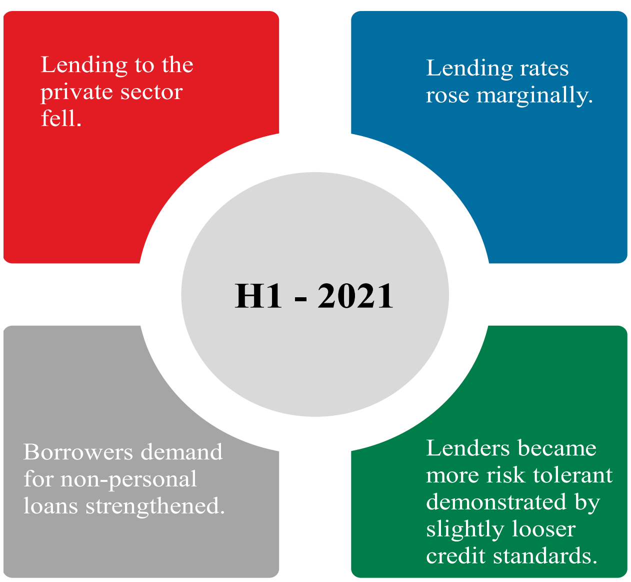
Figures

Charts

Executive Summary

According to the results of the second bi-annual Credit Conditions Survey[1] (CCS) for 2021, deposit-taking institutions (DTIs) credit standards eased somewhat in the first half of this year (January to June 2021, H1-2021) relative to the second half of the previous year (July to December 2020). Despite soft signals of a more relaxed credit environment, private sector credit (net of loan provisions) fell during the first six months of 2021 on account of an acute rise in non-performing loan write-offs, particularly in the first quarter of 2021. Looking ahead, credit conditions are expected to improve in the second half of the year, hinged on expectations of a gradual economic recovery from the pandemic.

Figure 1: Summary of Credit Conditions

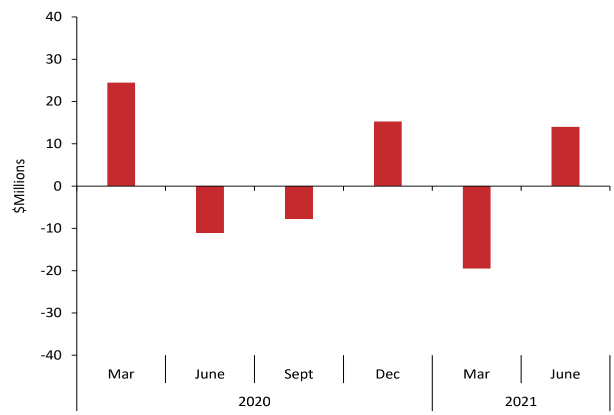


[1] The CCS is designed to directly obtain the views of banks and credit unions on the dynamics of the Belizean loan market. The CCS supplements the data that the Central Bank uses for its economic surveillance, macroeconomic forecasts, and formulation of monetary policy.

Overall Credit Conditions

DTIs' credit to the private sector fell marginally by $5.5mn over the first six months of 2021 to $2,893.1mn. This modest downturn was a reversal of the $13.4mn expansion registered in the first half of 2020, which was partially unaffected by the pandemic. Notably, credit to the private sector rebounded by $14.0mn in the second quarter, following a $19.5mn decline in the first quarter, see Chart 1.

Chart 1: Change in DTIs' Loans and Advances



Credit Supply

There was an aggregate diffusion index[2] (DI) score of 0.07 for overall credit supply in H1-2021, indicating that the credit standards of DTIs eased somewhat over the first semester. However, the response varied within loan sub-categories.

[2] Responses were compiled to create a diffusion index, which constitute supply and demand indices that signal market trends or turning points in credit markets. The DI converts qualitative responses to scores ranging from -1 to 1, with -1 representing the deepest negative sentiment on the symmetric five-point Likert scale and vice-versa.

Chart 2: Loan Supply by Sector in H1-2021

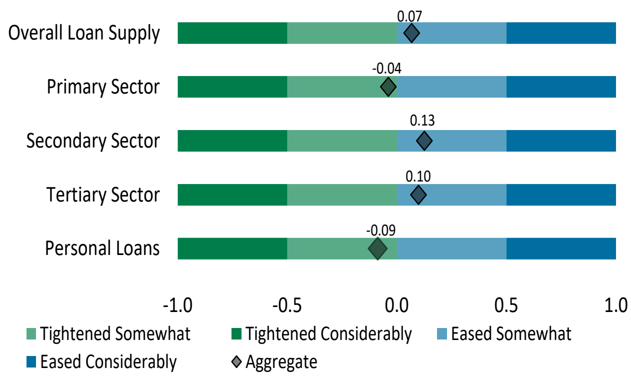
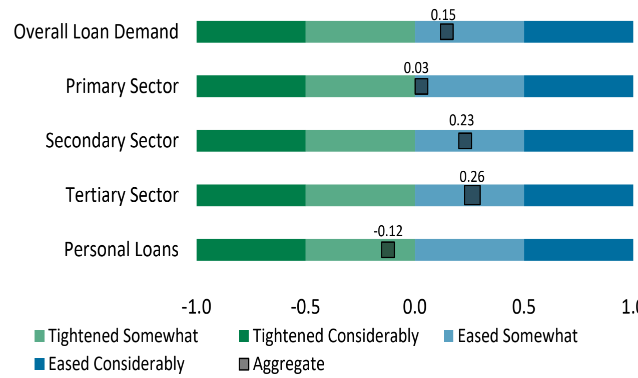


Chart 3: Loan Demand by Sector in H1-2021



Accordingly, the primary sector and personal loan categories recorded negative DI scores of -0.04 and -0.09, respectively, while the secondary and tertiary sectors recorded positive DI scores of 0.13 and 0.10, respectively. Actual data reflected these sentiments with stronger loan outturns recorded in the latter two categories.

Notwithstanding the perceived loosening in near-term lending stance, DTIs[3] indicated that the following factors will likely impact loan supply conditions:

- the weak state of the economy,
- the high level of coronavirus disease (COVID-19) forbearances in the banking system, and
- the elevated level of leveraged collateral.

Generally, lenders' credit goals did not materialise, with only two respondents indicating that they were able to achieve more than 80.0% of their loan growth estimates. Despite not meeting their targets, eight of ten respondents approved at least three of every five loan applications.

[3] Even though ten of the 14 licensed DTIs responded to the survey, these institutions accounted for only 47.8% of the target group's loan portfolio.

Credit Demand

The DI score for overall credit demand in H1-2021 was 0.15, indicating that the appetite for borrowing increased somewhat over the period. In fact, demand for credit across all loan categories had heightened, save for personal loans. When disaggregated, the DI scores across the primary, secondary, and tertiary sectors were 0.03, 0.23, and 0.26, respectively. However, personal loans registered a negative DI score of -0.12. DTIs identified the following factors as having the greatest impact on overall loan demand:

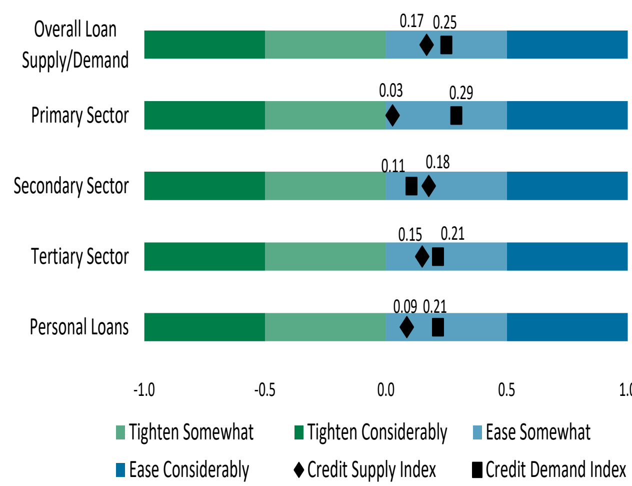
- joblessness,
- reduced income, and
- creditworthiness of borrowers.

DTIs revealed that the uncertainty surrounding the economic recovery from the COVID-19 pandemic, has increased their customers' reliance on loan restructuring programmes to provide relief from chronic cash shortfalls as business activities remain below pre-COVID-19 level in most industries. Meanwhile, high unemployment rates and reduced incomes weighed heavily on households' desire to take on additional debt.

Credit Prospects

Looking ahead to the second half of 2021 (July to December 2021, H2-2021), credit standards are expected to ease somewhat across each economic sector, inclusive of the personal loan category. DTIs are anticipating a pickup in economic activity in H2-2021 and, in turn, an increase in loan supply to the real economy, as health-related restrictions are rolled back. In an attempt to bolster lending, half of the respondents indicated an intention to lower lending rates, in most cases, by more than 1.0%. Meanwhile, the other half of respondents plan on keeping lending rates at the same level relative to the first half of the year. DTIs also expect a rise in loan demand in the second half of the year, as borrowers' repayment capacity strengthen in line with the rebound in economic activity.

Chart 4: Loan Supply and Demand Outlook for H2-2021



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