CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the First Half of 2022

Table of Contents

List of Figures and Charts

Figures

Charts

About the Survey

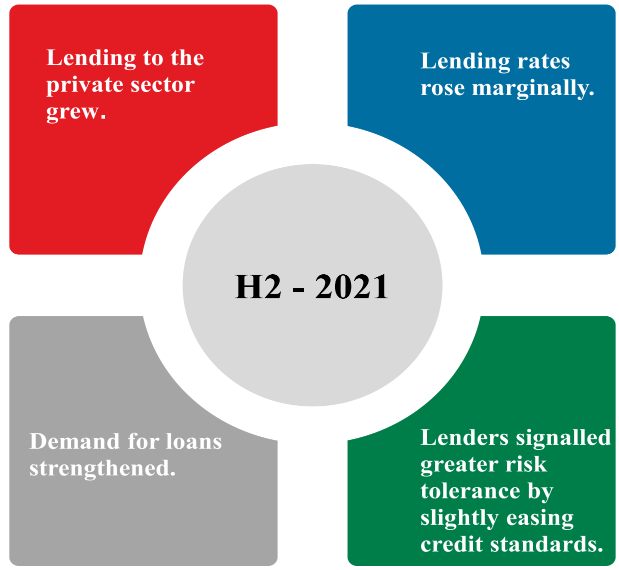
On 25 March 2022, the Central Bank of Belize (Central Bank) distributed the first of its semi-annual Credit Conditions Survey to deposit-taking institutions (DTIs). The DTIs, comprising banks and credit unions, provided feedback on actual credit conditions during the second half of 2021 (H2-21) and their outlook for the first half of 2022 (H1-22). Information collected from the survey supplements the Central Bank's data used for economic surveillance, macroeconomic forecasting, and formulation of monetary policy.

Seven of 13 licensed DTIs participated, representing 56.7% of the target audience. Responses were converted into a diffusion index (DI), signalling relative changes in supply and demand credit conditions from lenders' point of view. Qualitative responses to questions were scored between -1 and 1, with 1 representing a strong positive response on a symmetric five-point Likert scale and vice-versa.

Executive Summary

In H2-21, DTIs indicated that credit standards eased somewhat relative to H1-21. This signal aligned closely with observed increases in loan demand during the period. Actual loan data reflected an upsurge in lending, supporting the likelihood that standards eased whilst credit demand increased. From July to December 2021, credit to the private sector increased by $60.1mn, the largest cumulative increase among all DTIs since H2-2018.

Figure 1: Summary of Credit Conditions



The acceleration in loan disbursements was influenced by the solid economic rebound arising from the gradual removal of pandemic-related restrictions. Looking ahead, DTIs expect credit conditions to strengthen in H1-22 relative to the previous semester, based on expectations of a sustained economic rebound, which should, in turn, boost borrowers' creditworthiness.

Overall Credit Conditions

DTIs credit to the private sector grew by 2.1% in H2-21 relative to H1-21 to $2,922.7mn. This was the largest nominal increase for the second half of a calendar year since 2018, prior to the onset of the pandemic. This outturn reflected a marked turnaround from the $14.1mn decline registered in the preceding semester. Credit growth was most robust during the fourth quarter of 2021 (see Chart 1), supported by heightened seasonal demand and improved economic conditions as the country rebounds from the health crisis.

Chart 1: Change in DTIs' Loans and Advances

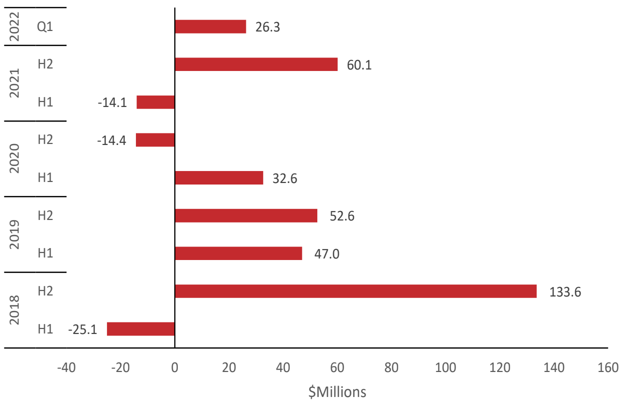
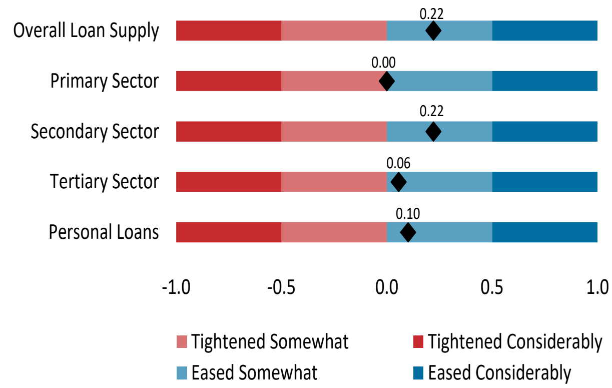


Chart 2: Loan Supply by Sector in H2-2021



Credit Supply

The DI score for credit supply in the H2-21 was 0.22, indicating that credit standards among respondents eased somewhat relative to H1-21. DI scores suggested that lenders relaxed conditions on loans extended to the secondary sector for manufacturing activities and, to a lesser extent, for personal consumption and service-based industries that comprise the tertiary sector. Accordingly, the former registered a score of 0.22, while the latter two were assigned 0.10 and 0.06, respectively. However, loan standards for the primary sector, which entails agricultural and fishing activities, were unchanged.

Notwithstanding the modest improvements in standards in three of the four loan categories, loan supply conditions were still being adversely influenced by:

- Uncertainty surrounding the state of the economy,
- Foreign exchange constraints,
- Low appetite for risks, and
- Competition from other financial institutions.

Loan disbursements by DTIs in H2-21 fell well below targets. Half of the respondents (mostly credit unions) met only 1.0% to 20.0% of their loan growth estimates. However, two institutions indicated that they had achieved 80.0% to 100.0% of their credit goals. Even though most respondents didn't meet their target, the majority approved at least 60.0% of loan applications.

Credit Demand

The DI score for overall credit demand from July to December 2021 was 0.38, indicating that lenders viewed that borrowers' loan appetite increased somewhat over the period. In consonance, the face value of outstanding credit across all four loan categories had increased, led by the secondary sector and then personal loans. Corollary, DI scores for the secondary sector and personal loans were significantly larger at 0.43 and 0.42, respectively, than 0.31 and 0.24 for the primary and tertiary sectors. DTIs identified the following factors as having some impact on overall loan demand:

- Joblessness,

Chart 3: Loan Demand by Sector in H2-2021

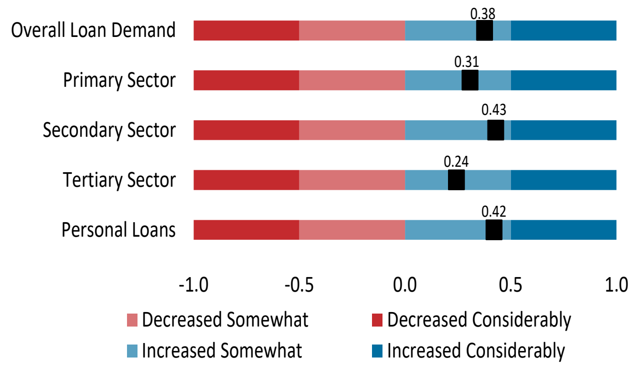
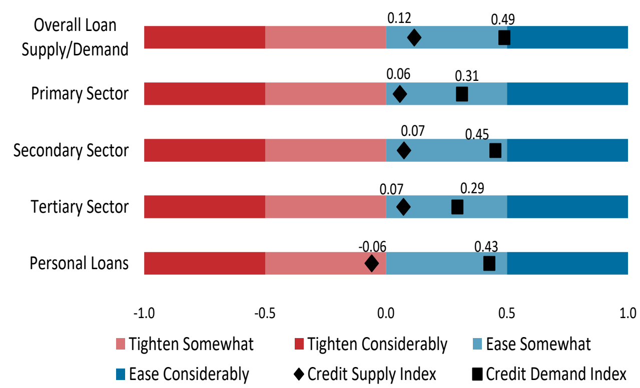


Chart 4: Loan Supply and Demand Outlook for H1-2022



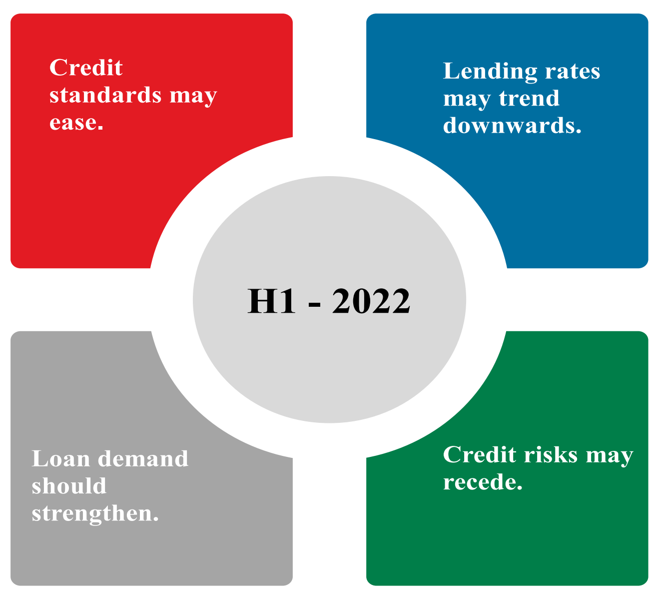
- Creditworthiness of borrowers, and
- Reduced income.

DTIs revealed that while the nascent economic recovery positively impacted credit demand, customers' ability to make loan repayments was still concerning. Furthermore, lenders noted that inadequate collateral and additional financial strain from loans at other financial institutions affected borrowers' creditworthiness.

Credit Prospects

Looking ahead to H1-22, credit standards are expected to ease marginally across each economic sector but tighten somewhat for personal loans. While DTIs anticipate a boost from the pickup in economic activity in H1-22, stiffer competition, tighter liquidity conditions (particularly for some credit unions), and increased capital costs may adversely affect their ability to supply loanable funds to customers. Despite these potential challenges, only one institution indicated that they may raise lending rates between 10 and 100 basis points. All others plan to maintain lending rates at current levels or reduce them by at least 10 basis points. On the demand side, DTIs expect a marked increase in loan demand during H1-22 among the three sectors of the economy. Lenders projected that the most significant request for loans would stem from clients who aim to finance investments in tourism and other service-based industries and to purchase vehicles.

Figure 2: Summary of Credit Prospects



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