CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the First Half of 2024

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About the Survey

The Central Bank of Belize distributed the first of its semi-annual Credit Conditions Survey to deposit-taking institutions (DTIs) in February 2023. The DTIs, consisting of domestic banks and credit unions, provided insights on credit conditions during the second half of 2023 and their outlook for the first half of 2024. Eleven of 12 licensed DTIs responded to the survey, accounting for 98.3% of the loan market.

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

Executive Summary

Compared to the first six months of 2023, credit standards eased during the next six months of the year. Between July and December 2023, DTIs observed a surge in credit demand, resulting in a $141.7mn increase in aggregate lending to the private sector. Looking ahead to the first half of 2024, almost all institutions expect their loan portfolios to expand. Loan growth should be supported by a slight loosening in credit policies, positively influenced by growing risk tolerance, increased competition, and stable economic conditions. Loan demand is also expected to increase, with new financing for tourism, construction, real estate, and personal activities.

Overall Credit Conditions

DTIs' lending to the private sector surged in the second half of 2023, increasing by $141.7mn to $3,223.1mn. This marked the highest growth rate observed for the second half of the year since 2018, as depicted in Chart 1. Domestic banks played a predominant role in achieving this performance, accounting for 75.1%, or $106.4mn, of the overall increase. Credit unions also fared well, as their aggregate loan portfolios increased by $35.3mn, representing 24.9% of the overall outturn. Most of the newly disbursed loans were

Figure 1: Summary of Credit Conditions

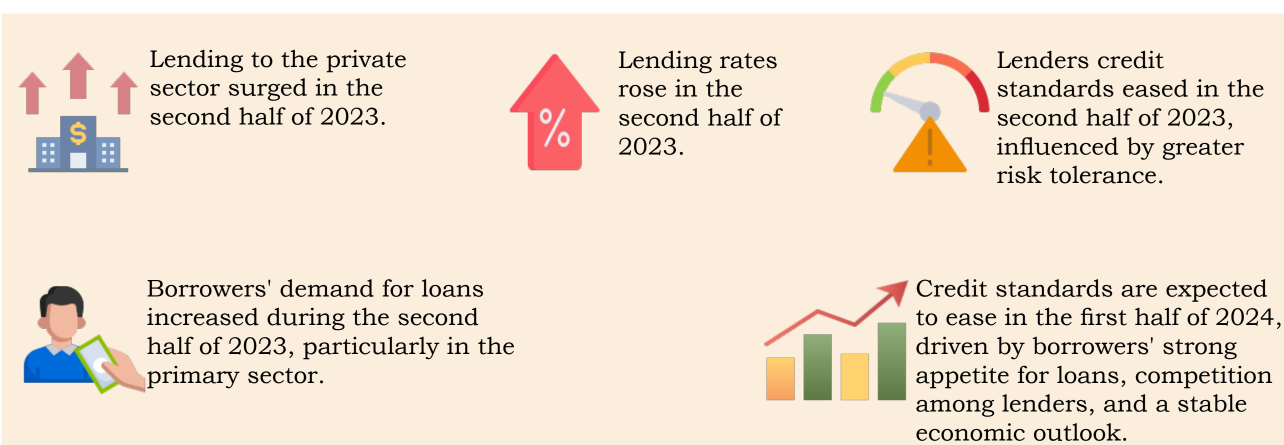
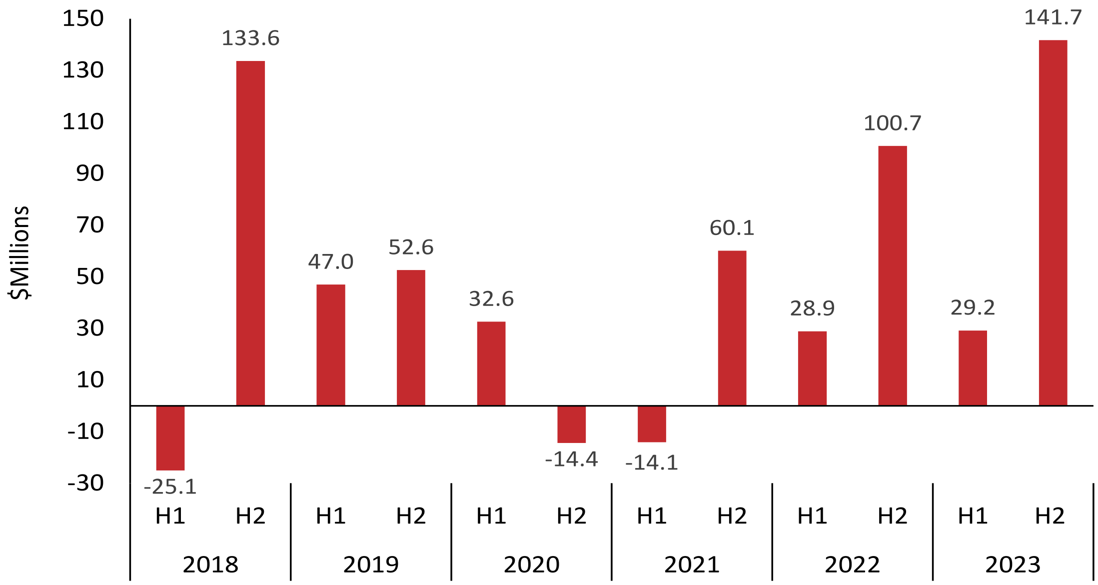


Chart 1: Change in DTIs' Loans and Advances



channelled towards real estate, personal use, transportation, construction, and agricultural activities. However, lenders faced headwinds from many factors, such as a $7.0mn rise in write-offs of non-performing loans in the second half of 2023 relative to the first half of the same year. Against this backdrop, the weighted average interest rate on new loans from domestic banks rose by six basis points to 8.68% from July to December 2023.

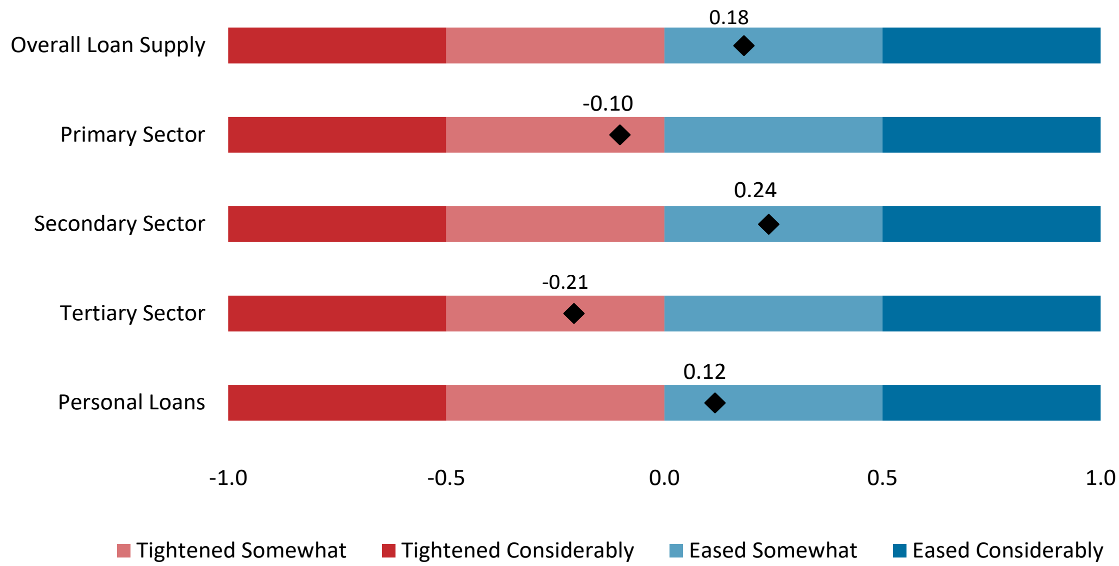
Credit Supply

The DI score for credit supply in the second half of 2023 was 0.18, indicating a moderate easing of credit standards among DTIs compared to the first half of the year. This outcome partly explains the surge in lending observed during the period. Interestingly, the share of institutions opting to maintain or tighten their credit stance versus those relaxing their standards was mixed. At the sectoral level, standards eased for loans issued to the secondary sector and for personal use with scores of 0.24 and 0.12, respectively. Reflecting this sentiment, loans for construction in the secondary sector, as well as for personal use, rose by $9.7mn and $41.9mn, respectively, over the six-month period. Conversely, standards tightened somewhat for loans issued to the tertiary and primary sectors, with scores of -0.21 and -0.10, respectively. This perception also partly explained the decline in outstanding loans for agriculture production, which contracted by $1.0mn from July to December 2023.

Respondents also identified several factors influencing overall loan supply, including:

- risk aversion,
- competition from other financial institutions,
- inflationary pressures,
- state of the economy, and
- expected credit losses.

Chart 2: Loan Supply Conditions by Sector for July to December 2023



DTI's performance in reaching their credit goals varied for the second half of 2023. Five respondents achieved less than 40.0% of their target, one reached between 40.0% and 60.0%, and four attained more than 80.0%.

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 Demand

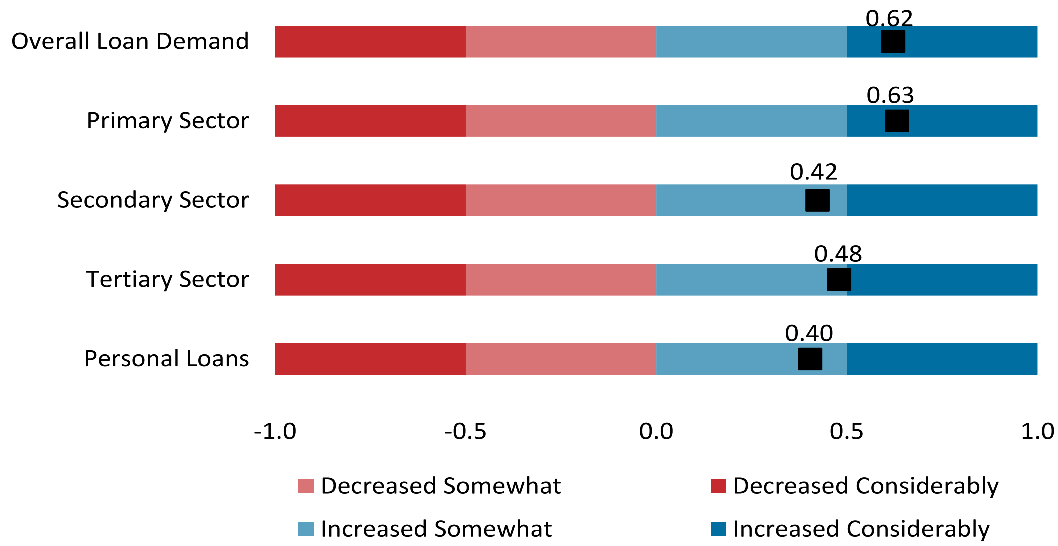
The DI score for overall credit demand in the second half of 2023 was 0.62, indicating a considerable increase in credit demand from borrowers. DI scores across all sectors rose robustly. Loan demand in the primary sector was strongest, resulting in a DI score of 0.63. The tertiary and secondary sectors followed with DI scores of 0.48 and 0.42, respectively. The personal loan category was closely behind, with a DI score of 0.40. In the primary sector, the demand for agricultural loans stood out prominently. Furthermore, loan demand in the tertiary and secondary sectors was driven by agents in the tourism and construction industries, respectively. Meanwhile, heightened demand for motor vehicle loans underpinned the demand for personal loans.

DTIs identified the following factors as having the largest impact on overall loan demand:

- inflation,
- interest rates,
- competition from other financial institutions,
- creditworthiness of borrowers, and
- unemployment.

Credit unions elaborated on the various challenges affecting loan supply and demand during the period. They shared

Chart 3: Loan Demand Conditions by Sector for July to December 2023



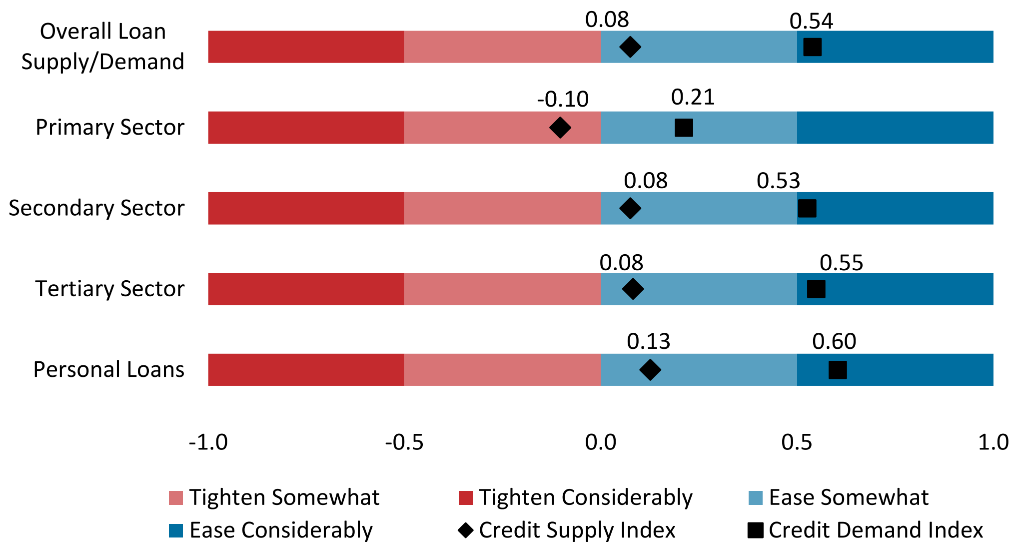
that members' salaries were largely stagnant, leading to a decline in real disposable incomes due to rising cost-of-living pressures. This development reduced their capacity to make loan repayments. Furthermore, small businesses' investment returns often underperformed, impeding members' ability to meet loan obligations. Another factor was that members had high debt levels, some with debt service ratios exceeding 45.0%. Additionally, many faced financial strain after acquiring loans from other financial institutions. Credit unions observed a steady increase in loan duration as members regularly sought to extend the time to pay off their loans due to inflationary pressures. This situation could potentially adversely impact credit unions' liquidity. In response, credit unions have adjusted their risk appetites, while exploring alternative capital sources to meet loan demand. Moreover, issues related to communal land holdings in southern Belize raised the value of unsecured loans in their portfolios, resulting in increased provisioning for expected loan losses.

Credit Outlook

Looking ahead to the first half of 2024, credit standards are expected to ease to some extent in all economic sectors, except for the primary sector. While standards across domestic banks are projected to remain unchanged, most credit unions will adopt a more lenient stance. DTIs' risk appetite, competition from other financial institutions, and the economic outlook are expected to influence the relaxation of standards in the first half of 2024.

Interest rate movements among DTIs should vary. Five expressed intentions to raise interest rates, another five indicated they would maintain rates at current levels, and one planned to reduce interest rates compared to the second half of 2023.

Chart 4: Loan Supply and Demand Outlook for January to June 2024



As for loan demand, DTIs foresee a rise in loan applications. Loan requests are expected to rise for personal consumption, as well as for investment in tertiary (tourism and real estate) and secondary (construction) activities. Accordingly, 10 out of 11 DTIs anticipate an increase in their loan portfolios over the first six months of 2024.