CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the Second Half of 2022

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About the Survey

In August 2022, the Central Bank distributed the second semi-annual Credit Conditions Survey for the year to deposit-taking institutions (DTIs). The DTIs, comprising domestic banks and credit unions, provided feedback on credit conditions during the first half of 2022 (H1-22) and their outlook for the second half of 2022 (H2-22). Ten of the 13 licensed DTIs participated, accounting for 97.1% of the loan market share.

Responses were converted into a diffusion index (DI), signalling relative changes in supply and demand conditions in credit markets from lenders' view. Qualitative answers to questions were scored between -1 and 1, with -1 representing the deepest negative sentiment on a symmetric five-point Likert scale and vice-versa.

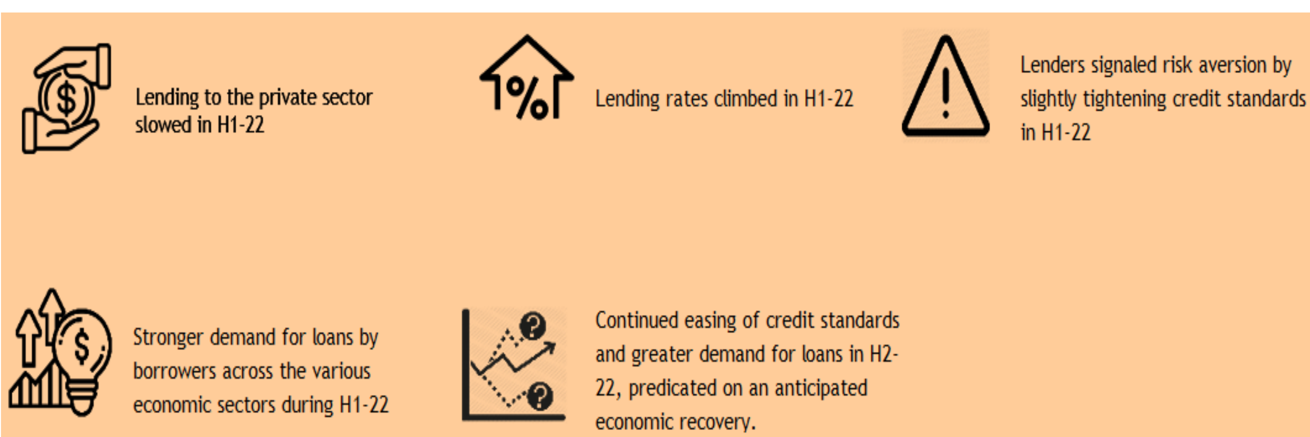
Executive Summary

In the first half of 2022, DTIs indicated that customers' loan demand strengthened amid tightening credit standards. Unsurprisingly, lending to the private sector cooled in H1-22 relative to H2-2021, influenced by the state of the economy, foreign exchange constraints, and credit risk concerns arising the expiration of COVID-19 forbearance programmes. Looking ahead, DTIs expect credit conditions to improve in H2-22, underpinned by the prospects of a sustained economic recovery against the adverse effects of soaring inflation.

Overall Credit Conditions

DTIs credit to the private sector rose by $28.9mn in H1-22 to $2,951.6mn. When disaggregated, the loan portfolio of domestic banks and credit unions grew by $23.2mn and $5.7mn, respectively. Notwithstanding, the credit expansion in H1-22 was less than half of the $60.1mn recorded in H2-21, see Chart 1. Furthermore, credit growth slowed significantly between April and June, rising by only $2.6mn during the quarter. The lacklustre performance was blamed partially on spiralling inflation, which raised costs for consumers and businesses, while eroding the purchasing power of prospective borrowers' income.

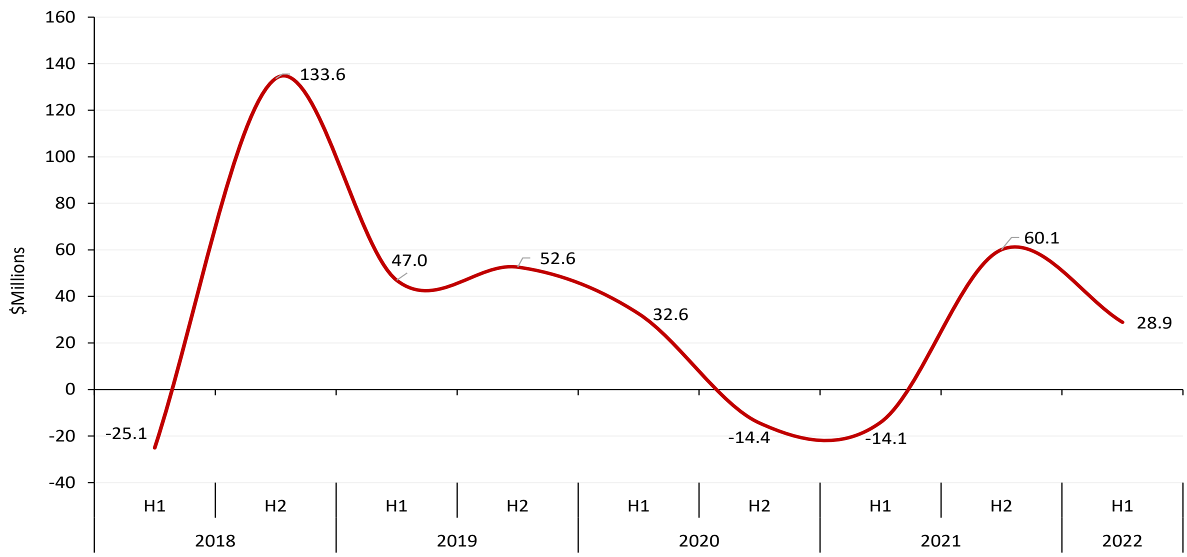
Figure 1: Summary of Credit Conditions



Credit Supply

The DI score for credit supply in H1-22 was -0.10, indicating that overall credit standards among respondents tightened somewhat relative to H2-2021. All four major loan categories, representing the various sectors of the economy, recorded negative DI scores. This outcome suggests that the tightening was broad based, though uneven across sectors. Firms in the primary and secondary sectors, consisting of agricultural and manufacturing entities, were perceived to present higher credit risks than service-based enterprises and households.

Chart 1: Six-Month Change in DTI's Loans and Advances



DTIs identified the following factors as having influenced lending outcomes:

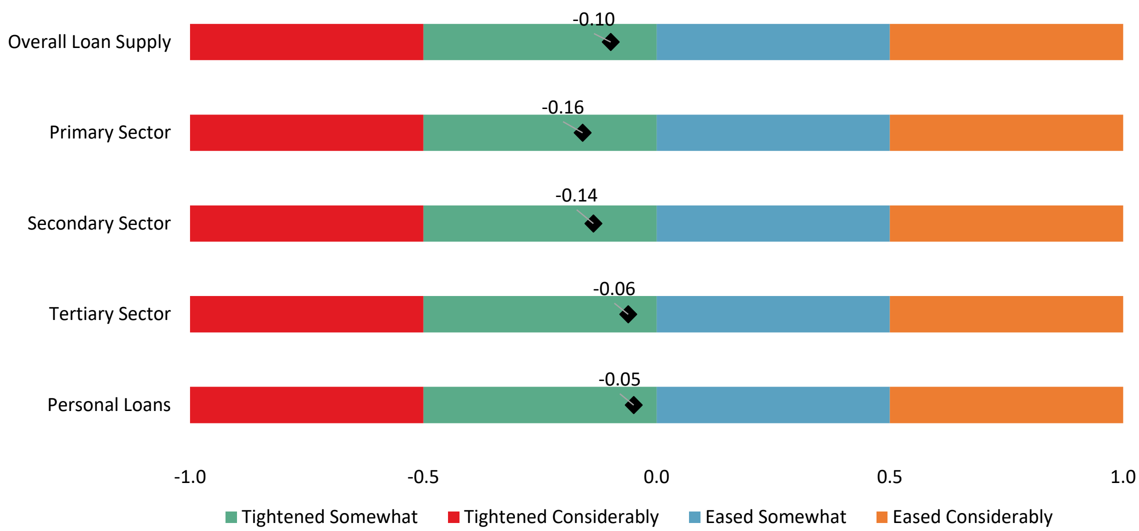
- state of the economy,
- foreign exchange constraints,
- level of COVID-19 forbearances, and
- competition from other financial institutions.

In H1-22, loan disbursements fell significantly below targets. Only three out of 10 respondents achieved more than half of their loan growth target during this period. In addition, half of respondent credit unions reported that they disbursed at most 20.0% of their loan targets. Still, all participants said they had approved more than 60.0% of the loan applications received.

Credit Demand

The DI score for overall credit demand in H1-22 was 0.40, revealing that lenders believed customers' appetite for new borrowing increased across sectors over the period. The perceived uptick in loan demand was more prominent for service-oriented businesses, with the tertiary sector receiving a strong DI score of 0.50. The primary sector followed closely behind at 0.41. The secondary sector and households also received upbeat scores of 0.34 and 0.23, respectively.

Chart 2: Loan Supply by Sector in H2-2022

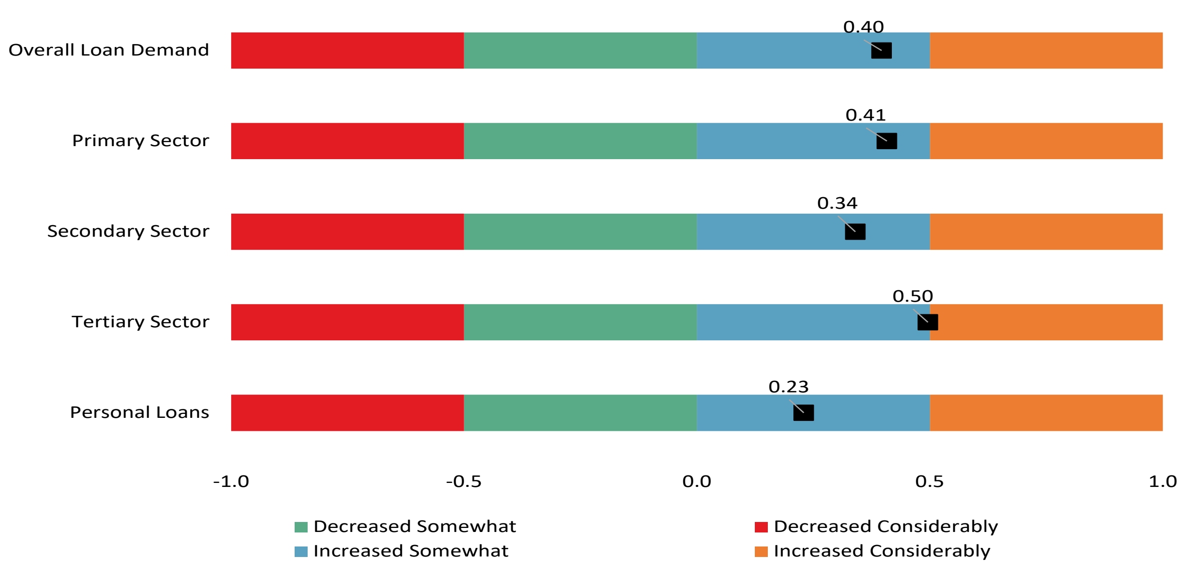


DTIs identified the following factors as having a marked impact on overall loan demand:

- creditworthiness of borrowers,
- competition from other financial institutions, and
- joblessness.

DTIs revealed that while the robust economic rebound has positively impacted credit demand, customers' ability to repay loans was threatened by high inflationary pressures, which raises costs for businesses and creates hardships for households, especially when wages are rising at a slower pace. Additionally, increased operation costs tied to the implementation of anti-money laundering control measures and external audits alongside customers' high indebtedness were listed as issues affecting loan supply and demand conditions.

Chart 3: Loan Demand by Sector in H2-2022



Credit Outlook

Looking ahead, overall credit standards are expected to loosen somewhat in H2-22. The scores reflect somewhat easier conditions for households and service-based industries and, to a lesser degree, the primary sector in the near term. In contrast, conditions should tighten further for the secondary sector. However, DTIs expect stiffer competition, increased costs to strengthen capital positions, and heightened collateral requirements to adversely affect loan supply. Amid these headwinds, all but two institutions have indicated that they will keep interest rates at the same level or reduce them by at least 10 basis points. On the demand side, DTIs expect considerably higher loan demand in H2-2022 due to the ongoing economic rebound and seasonal factors, especially toward the end of the year.

Chart 4: Loan Supply and Demand Outlook for H2-2022