CENTRAL BANK of BELIZE

# Central Bank of Belize's Credit Conditions Survey Results for H1-2021

# Content




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# Overview

The Central Bank launched its first bi-annual credit conditions survey (CCS) in the first quarter of 2021. The CCS was designed to deepen the Central Bank's understanding of credit market conditions to inform macroeconomic projections and monetary policy decisions. This survey collected deposit-taking institutions' (DTIs')—domestic banks and credit unions—views of loan supply and demand conditions in the second half of 2020 (H2-2020) and the credit outlook for the first half of 2021 (H1-2021). Lenders, representing 61.4% of the targeted credit market, responded to the inaugural survey. Their responses were weighted and aggregated into a diffusion index (DI) to produce supply and demand indices that signal market trends or turning points of credit conditions. The DI converts qualitative responses to scores ranging from -1 to 1, with -1 representing the deepest negative sentiment and 1 the most positive sentiment on the symmetric five-point Likert scale.

# Overall Credit Conditions

**Figure 1: Summary of Credit Conditions**

Credit growth decelerated in 2020.

Interest rates rose marginally in H2-2020.

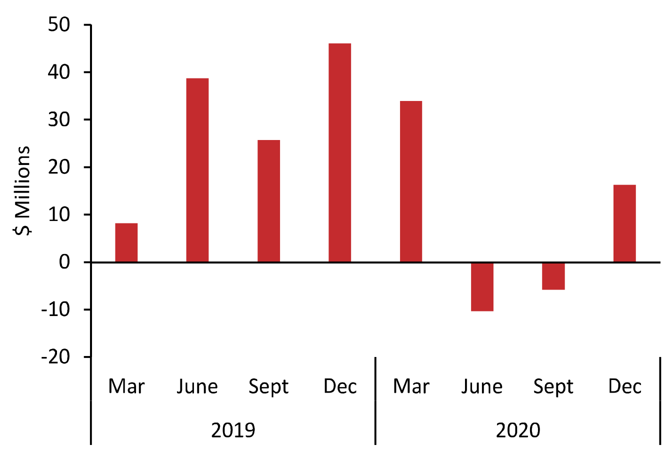
Lenders became more risk averse with slightly tighter credit standards in H2-2020.

Borrowers' demand for non-personal loans strengthened in H2-2020.

Lenders' risk aversion is expected to wane in H1-2021 owing to a positive economic outlook.

DTIs' credit to the private sector rose by a modest $33.9mn to $2,911.7mn in 2020, reflecting a marked slowdown from the $118.8mn growth registered in 2019. Majority of the credit growth occurred in the first quarter, since lending contracted in the next two quarters, then rebounded slightly in the fourth quarter, see Figure 2.

**Figure 2: Change in DTIs' Loans and Advances**



# Credit Supply

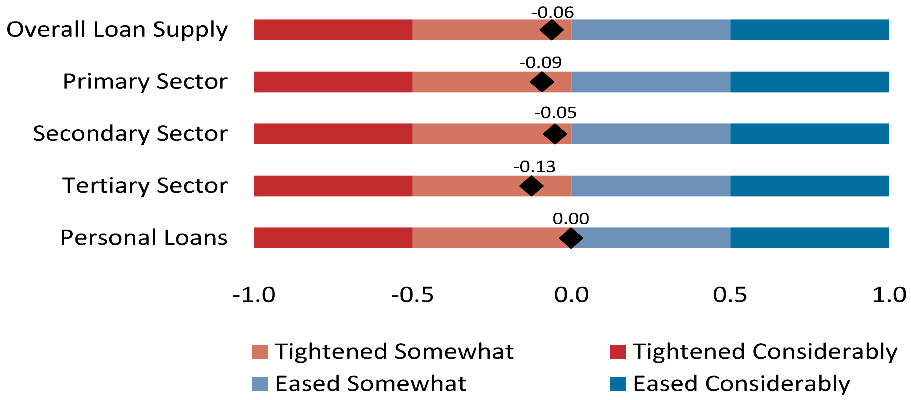
The survey produced an aggregate DI score of -0.06 for credit supply in H2-2020. This result indicates that overall credit standards tightened somewhat across the three major sectors of the economy. The primary sector recorded a DI score of -0.09; the secondary sector, -0.05; and tertiary sector, -0.13, see Figure 3. Respondents cited several factors that contributed to tightened loan supply conditions. These comprised:

- Deteriorating economic prospects,
- Higher capital-related costs, and
- Lower risk appetites.

Credit standards for personal loans remained broadly unchanged in H2-2020, even though outstanding personal loan balances trended downward in the previous year.

Lenders' credit goals were largely unmet. Most respondents indicated that less than half of their projected credit growth was realised in H2-2020. More than half of DTIs had approved around three of every five loan applications, while the remainder approved around two of every five.

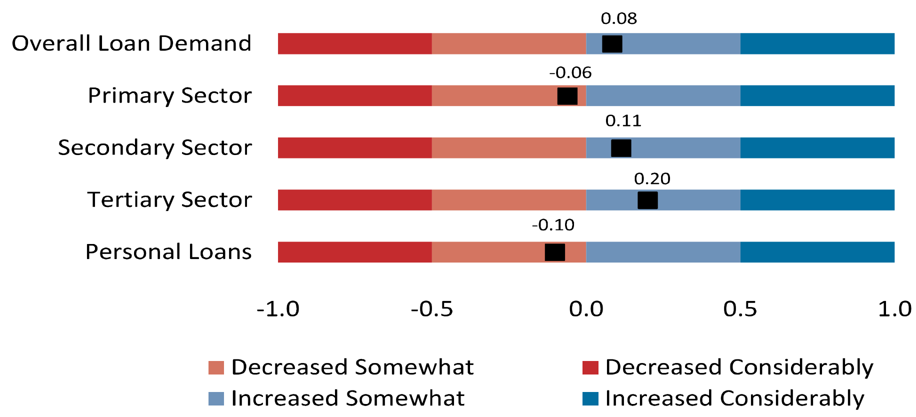
**Figure 3: Loan Supply by Sector in H2-2020**




# Credit Demand

The credit demand DI score for H2-2020 was 0.08, signalling a marginal pick up in loan demand. The results were mixed as enterprises in the secondary and tertiary sectors demanded more credit, while households and primary sector firms demanded less, see Figure 4. All DTIs acknowledge that the prevailing economic conditions influenced the overall increase in credit demand, particularly by those who were adversely affected by the COVID-19 pandemic. Distressed borrowers relied on loan refinancing schemes to cover their immediate cash needs. Conversely, high unemployment coupled with reduced household income, subdued demand for personal loans. The weak increase in credit demand alongside somewhat tighter credit standards on non-personal loans contributed to a six-basis-point rise in the 12-month weighted average lending rate on new loans between June and December.

**Figure 4: Loan Demand by Sector in H2-2020**




## Credit Prospects

In H1-2021, credit standards are expected to ease somewhat across the three economic sectors as well as for personal loans. DTIs are poised to take a less risk averse stance based on expectations of a mild economic rebound as lockdown measures ease and international travel regains momentum. In addition, respondents indicated that interest rates would remain steady or decrease by 0.1% to 2.0% as a consequence of the liquidity build-up in 2020. DTIs also expect loan demand to rise as the economy rebounds and borrowers' ability to repay loans improves. The positive sentiments expressed by lenders on near-term credit conditions indicate that there is some likelihood of stronger credit growth in H1-2021 relative to H2-2020.

**Figure 5: Loan Supply and Demand Outlook for H1-2021**