CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the Second Half of 2023

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Table of Contents

About the Survey 1

Executive Summary 1

Overall Credit Conditions 1

Credit Supply 2

Credit Demand 3

Credit Outlook 4

List of Figures and Charts

Figures

Figure 1 Summary of Credit Conditions 1

Charts

Chart 1 Change in DTIs' Loans and Advances 2

Chart 2 Loan Supply Conditions by Sector, H1-23 3

Chart 3 Loan Demand Conditions by Sector, H1-23 3

Chart 4 Loan Supply and Demand Outlook for H2-23 4

About the Survey

The Central Bank disseminated the second of its bi-annual Credit Conditions Survey to deposit-taking institutions (DTIs) in August 2023. The DTIs, comprising domestic banks and credit unions, provided feedback on credit conditions during the first half of 2023 (H1-23) and their outlook for the second half of the year (H2-23). Nine of the 12 licensed DTIs participated, accounting for 94.6% of the total loan market.

Responses were converted into a diffusion index (DI), signalling relative changes in supply and demand conditions in credit markets from lenders' point of view. Qualitative responses 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

Compared to the second half of 2022, DTIs reported a slight uptick in demand for credit for H1-23, despite a mild tightening of credit standards, influenced mainly by the perceived state of the economy and credit risk concerns. Unsurprisingly, aggregate lending to the private sector slowed to $29.2mn between January to June. For the remainder of the year, all reporting institutions expect modest increases in their loan portfolios amid a slight easing of credit standards and further strengthening of demand. The most significant areas of increased loan growth are anticipated for construction, tourism, and personal activities.

Overall Credit Conditions

During the first six months of 2023, DTIs' credit to the private sector increased by $29.2mn to $3,081.4mn, a considerable slowdown from the $100.7mn growth recorded in H2-22 but on par with the $28.9mn outturn achieved in the same period last year, see Chart 1. This growth was driven by domestic banks, whose aggregate portfolio grew by $31.2mn, while credit unions registered a $2.0mn contraction. The bulk of new disbursements were extended for real estate, manufacturing, personal consumption, and residential construction. Lending was moderated by subdued

Figure 1: Summary of Credit Conditions

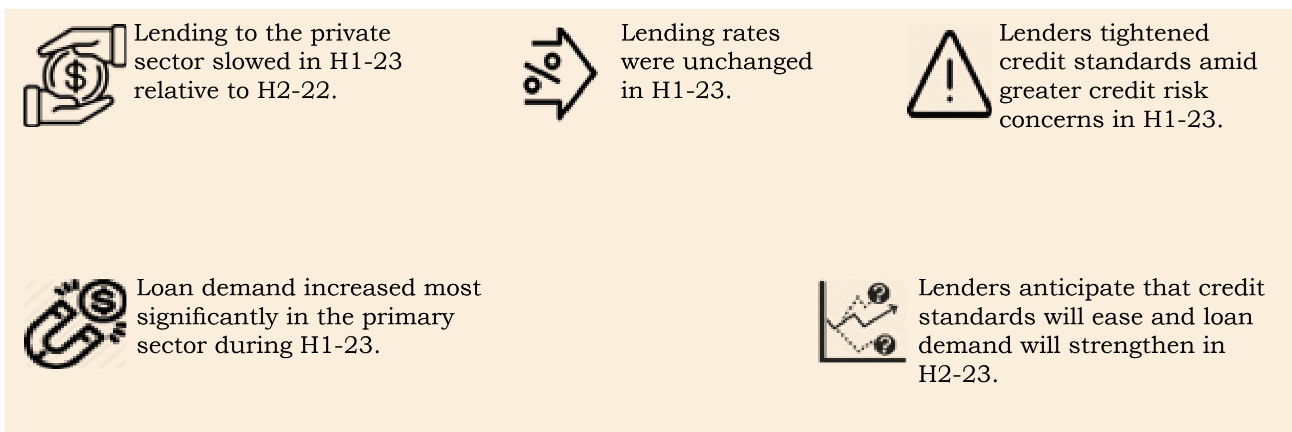
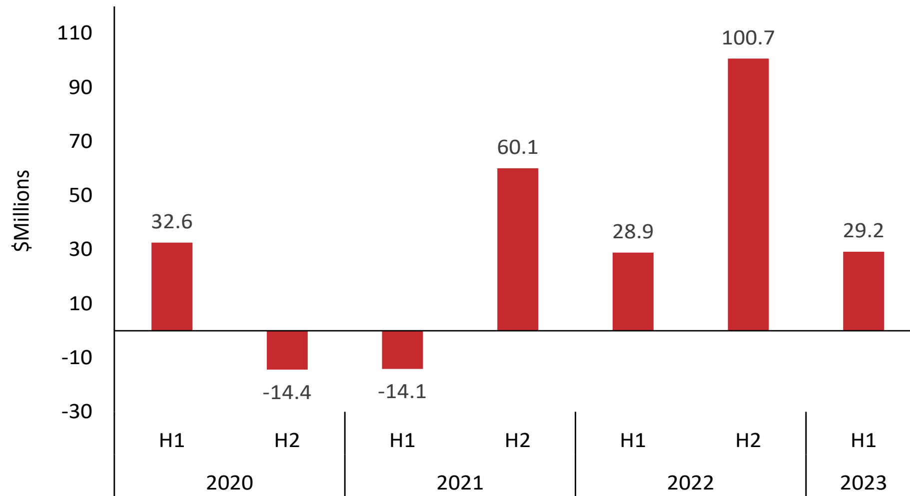


Chart 1: Change in DTIs' Loans and Advances



optimism around the state of the economy and write-offs of non-performing loans, as lenders hinted at a lower risk tolerance. As such, the average lending rates on new loans for domestic banks were unchanged over the semester at 8.62%.

Credit Supply

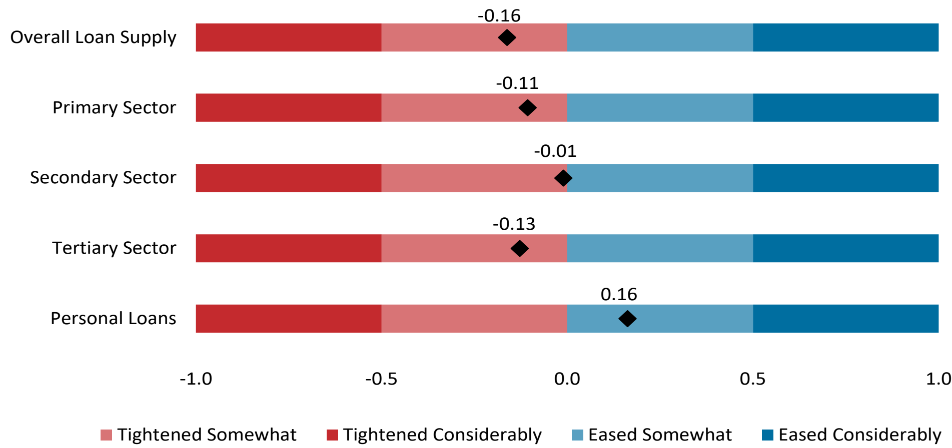
The DI score for credit supply in H1-23 was **-0.16**, indicating that credit standards among DTIs had tightened somewhat relative to H2-22, see Chart 2. Many institutions opted to maintain their credit posture relative to the previous semester, but a larger share of the loan market implemented tighter standards. Stricter standards were applied against loans issued to the primary, secondary, and tertiary sectors, with scores of -0.11, -0.01, and -0.13, respectively. These were most pronounced in the agriculture, manufacturing, tourism, and real estate loan categories. In contrast, respondents reported a slight relaxation of conditions on personal loans, which received a score of 0.16.

Respondents indicated that lending outcomes were most heavily influenced by:

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

Accordingly, most respondents struggled to attain their projected loan growth. Five of the nine participants fulfilled less than 40.0% of their loan growth target, while only three achieved more than 80.0%. Even so, loan approval ratios were high, with seven institutions approving over 60.0% of applications. Approval ratios were higher among credit unions than domestic banks, as all but one credit union reported approving more than 80.0% of all applications. Notwithstanding, the aggregate loan portfolio for credit unions declined, dragged down mainly by sizable repayments on loans to individuals and distributors of goods.

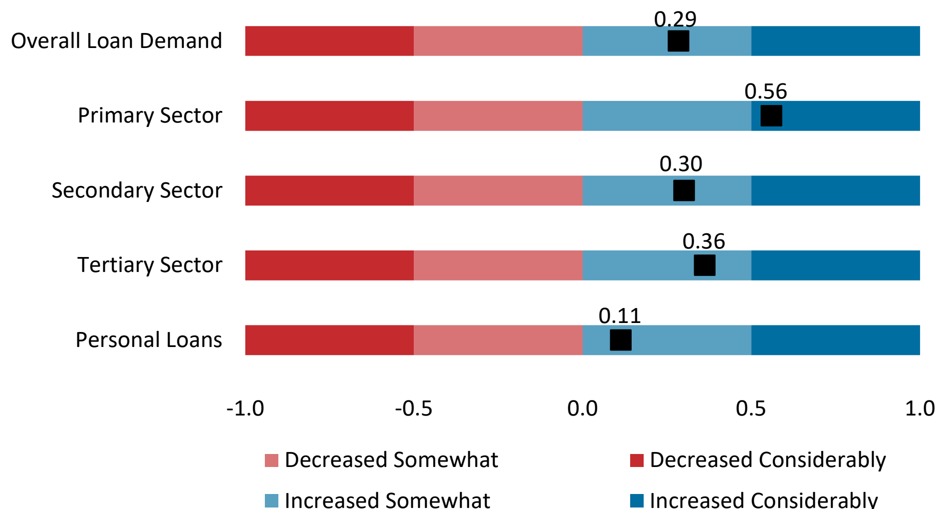
Chart 2: Loan Supply Conditions by Sector for H1-23



Credit Demand

The DI score for overall credit demand in H1-23 was **0.29**, suggesting that demand for credit appeared to have increased from lenders' perspectives. See Chart 3. Though interest varied by sector, the increase was broad-based. The appetite from the primary sector grew considerably, especially among domestic banks, resulting in a DI score of 0.56. The tertiary and secondary sectors recorded scores of 0.36 and 0.30, respectively, while personal loans registered the smallest uptick of 0.11. Among tertiary industries, the main impetus for demand stemmed from transactions in real estate firms, while manufacturing and construction firms drove the result for the secondary sector. Notably, domestic banks reported a considerable increase in demand for credit cards.

Chart 3: Loan Demand Conditions by Sector for H1-23



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

- interest rates,
- joblessness,
- competition from other financial institutions, and
- inflation.

Some credit unions voiced concern that members were financially strained, echoing sentiments from prior surveys surrounding the over-indebtedness of households. Additionally, these institutions believed that inflationary pressures and the accompanying economic uncertainty were causing members to be more financially conservative and reducing their demand for credit.

Credit Outlook

Looking ahead to H2-23, credit standards are expected to ease somewhat for all economic sectors except the primary sector. This relaxed stance will be more pronounced among credit unions, who reported intentions to loosen standards across all major sectors, while standards for banks will remain mostly unchanged. Notwithstanding, four credit unions indicated that they would keep interest rates at the same level, while most other DTIs expressed intentions to lower interest rates slightly compared to the first half of 2023. These credit postures were primarily informed by institutions' risk appetites, liquidity positions, and expectations of economic performance. For the latter half of 2023, DTIs expect a slight increase in overall demand, with considerable increases for loans supporting personal consumption, tourism, utilities, and distribution. Accordingly, all respondents projected increases in their loan portfolios between July to December, with a focus on lending for household consumption, tourism, construction, agriculture, and utilities.

Chart 4: Loan Supply and Demand Outlook for H2-23