Money and Credit

Chart 4.1: Net Foreign Assets

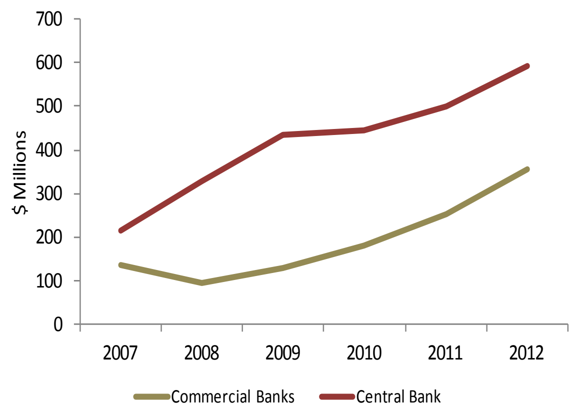
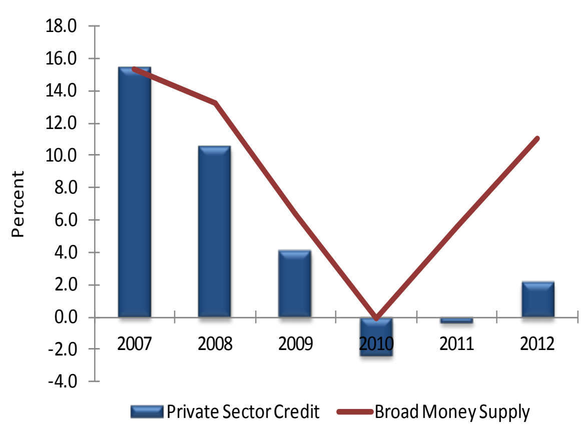


Chart 4.2: Private Sector Credit and Money Supply



Annual monetary growth accelerated from 5.6% to 11.0%, fueled largely by a 26.0% expansion in the net foreign assets of the banking system. Much of this occurred in the first and fourth quarters of the year when heightened economic activity was augmented by increased inflows from tourism, foreign direct investment and external loan disbursements. Even with a widening external current account deficit, these receipts enabled a 40.1% expansion in the net foreign assets of the commercial banks. The Central Bank's net foreign asset position also improved by 18.9% as foreign exchange purchases outweighed sales by $94.0mn. Almost half of the Bank's foreign exchange receipts were derived from sugar exports and the taxes and royalties levied on local petroleum production. Inflows from loan disbursements accounted for 19.3% of the total and foreign exchange purchases from commercial banks for 13.9%. While the Central Bank’s foreign exchange purchases rose by 11.4% in 2012, its outflows declined by 4.2% to $223.8mn. Sales to facilitate Central Government’s external debt obligations accounted for 80.0% of the latter, notwithstanding the fact that only half of the interest due on the 2029 superbond in August was paid.

Two consecutive years of lending reductions was followed by a 3.0% increase in net domestic credit that

Chart 4.3: Net Domestic Credit

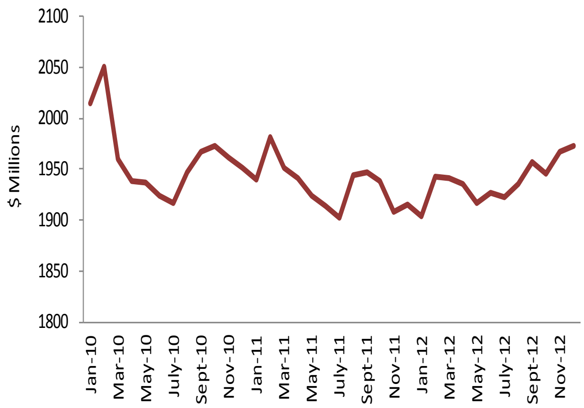


Chart 4.4: Commercial Banks' Loan Distribution

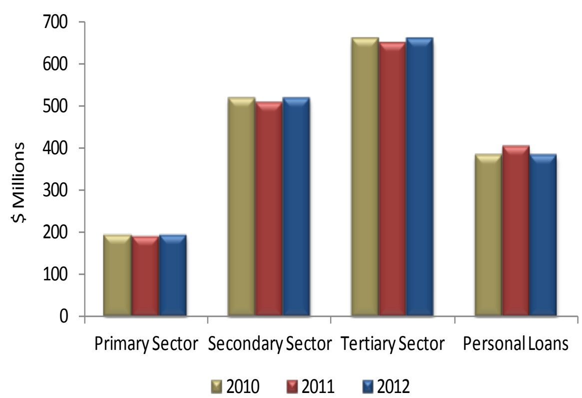
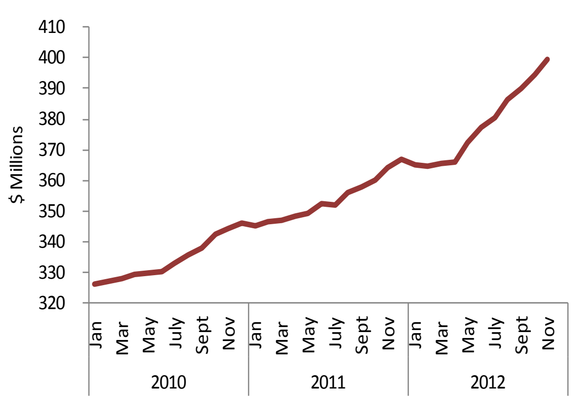


Chart 4.5: Credit Unions' Loans and Advances



included a 2.2% rise in private sector loans. The latter occurred even with commercial bank write-offs of some $37.3mn in non-performing facilities that had been extended to the tourism, transport, commercial real estate and commercial construction subsectors, and combined net repayments of $18.5mn from merchandise distributors and agricultural producers (mainly of banana). Consumer type credit dominated in 2012 with disbursements focusing on personal loans, residential mortgages and funding for home improvements, while loans to the business sector were channelled into infrastructural projects and telecommunications. Meanwhile, lending by the five largest credit unions almost doubled to $36.2mn, compared to the $46.2mn net increase recorded by the commercial banks. As in the case of the latter, most of this was concentrated in consumer financing with lesser amounts being funnelled into agricultural and commercial real estate activities.

As a result of the slight widening of the fiscal deficit, net domestic credit to Central Government rose by $13.0mn during the year, compared to a $23.6mn contraction in 2011. Most of the financing came from the Central Bank in the form of funds extended through the overdraft facility and deposit withdrawals.

Chart 4.6: Excess Liquidity

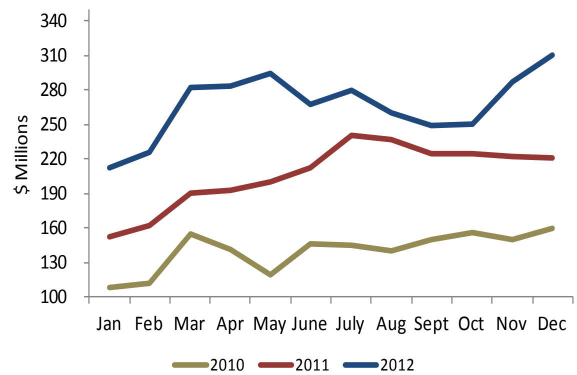
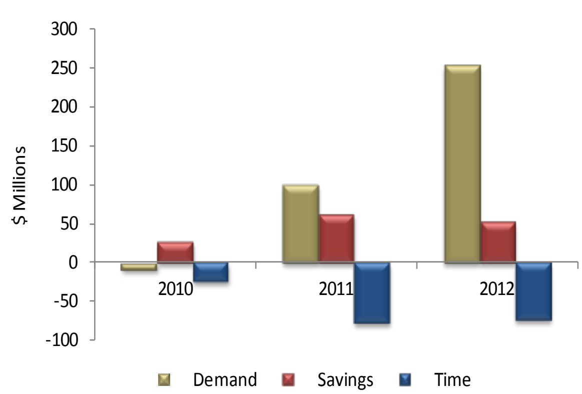


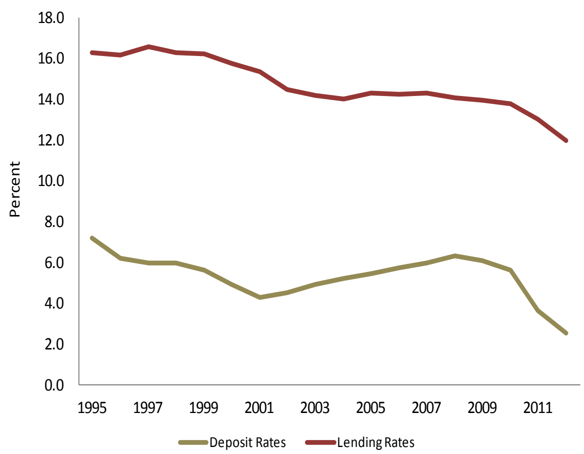
Chart 4.7: Annual Growth in Bank Deposits



Whilst positive, credit growth was still rather subdued, and when combined with robust foreign inflows, the result was a 40.2% upsurge in excess statutory liquidity to a record high of $310.1mn. Excess cash holdings also soared to $152.6mn, which was 81.6% above requirements. In view of the insufficient supply of government short term securities, the Central Bank was unable to undertake effective mopping up operations. The Central Bank opened the year holding Treasury bills valued at $22.3mn and pursued a policy of divestment upon their maturation. By August, its holdings had fallen to zero, while on the other hand, the commercial banks increased their Treasury bill holdings by an almost identical amount in bouts of intensely competitive biddings that drove the average yield down by 31 basis points to 1.90302% over the year.

In response to the ratcheting upward of liquidity, the commercial banks continued to reconfigure the structure of their liabilities by reducing their portfolio of time deposits whilst slashing the interest rates being offered. During the year, the weighted average rate on time deposits fell by 142 basis points to 3.95%, and with rates for savings and demand deposits holding steady, this was the key contributor to the 110 basis points decline in the weighted average deposit rate. At 2.55%, the latter was well below the 5.61% recorded at the

Chart 4.8: Weighted Average Deposit and Lending Rates



end of 2010 when the Central Bank embarked on a number of initiatives aimed at lowering commercial banks' cost of funds to bring both lending and deposit rates more in line with macroeconomic conditions. Since then, the weighted average lending rate has drifted downward by a slower 179 basis points to 11.99% with more than half of this decline (103 basis points) occurring in 2012. The two-tier speed of adjustment reflected structural re-pricing rigidities of existing loan contracts, the unwillingness of customers to seek refinancing alternatives across banks and operational inefficiencies. Moreover, high levels of NPL and necessary adjustments made by banks to clean up their balance sheets and meet the new loan loss provisions have contributed to two consecutive years of banking system losses and hence, the more cautious, less precipitous decline in lending rates. More positively, rates applied on new loans have fallen by a steeper 403 basis points to 10.33% over the two year period with marked reductions across all categories of loans. Notably, rates applied on personal loans were reduced by 545 basis points to 10.12%, while rates on commercial loans fell from 14.20% to 10.81%. Rates applied on new mortgages were 247 basis points lower (to 10.68%) with promotional rates during the latter part of the year falling to as low as 8.5% in some instances.