



CENTRAL BANK OF BELIZE

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PRESS RELEASE

Statement on Global Financial Developments and Implications for Belize

15th October 2008

There is broad acknowledgement that the upheaval in global financial markets stemming from the sub-prime mortgage meltdown in the United States is posing a clear threat to the world economy. Until the various rescue measures being implemented in the developed countries achieve restoration of market calm and investor confidence, the deceleration in world output growth will continue. Meanwhile, the risks to other countries would be proportional to the degree of their integration with the economies at the centre of the crisis as well as their ties to the institutions most exposed to the non-performing securities that triggered the storm and to those that have been adversely affected by it.

The question of how, and to what extent, Belize may be affected is obviously the one that is of most interest to Belizeans at this time. Globalization ensures that very few countries, if any, can be fully insulated from the contagion effects of the current turmoil. While Belize is not an exception, the Central Bank is in a position to allay most of the concerns that have been raised.

The Official Foreign Reserves

The status of the net official foreign reserve holdings is of primary importance to our fixed exchange rate system that has been in place since 1975. The records show that this has been on an upward trend and at \$310 million is at its highest level of the last 3 ½ years. The Central Bank's external asset ratio has risen to 63%, well above its legal threshold of 40% and 16% higher than its December 2007 position. Because of the conservative investment strategy that has been followed, there is minimum risk to Belize's official foreign reserves. In addition to not investing in equities due to legal restrictions, the Central Bank has no direct exposure to the investment banking institutions at the root of the sub-prime mortgage problem.



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The official reserves are held primarily in interest bearing deposits and short-term government backed instruments with foreign central banks and in the top ranked commercial banks that continue to hold their own. In view of the accentuated uncertainty caused by the current market situation, an even more conservative approach is being taken where the preservation of capital remains the primary goal and investment returns are of lessened importance. The Central Bank's investment committee conducts daily monitoring of market developments and all possible and reasonable steps have and will be taken to ensure that the foreign reserves remain secure.

The Domestic Banking System

The exposure of the domestic commercial banks is mostly limited to the security of their foreign currency deposits which are held with overseas correspondent banks. Unlike other countries that can be destabilized by the quick and erratic movements of short term portfolio flows in times of market instability, Belize is essentially immune to this phenomenon since the Banks and Financial Institutions Act and Exchange Control Regulations ensure that these speculative flows do not enter the domestic banking system. Local commercial banks rely largely on deposits from residents to fund their operations, and domestic liquidity has therefore not been affected by the international credit crisis. In the first half of the year, delinquent loans across the banking system rose from 6.0% to 7.4% but this is still at a manageable level and the Central Bank is working with the commercial banks to tighten their loan underwriting procedures. At 18.2%, the consolidated capital base ratio of the domestic banks is significantly above the BASLE benchmark of 8.0%. This means that domestic banks are relatively strong and we can assure depositors of the safety of their deposits.

Essentially, the banking system continues to meet the criteria for basic soundness with Central Bank oversight being intensified in order to ensure its continued safety and stability. Managers of the domestic and locally licensed international banks met with the Central Bank recently to discuss the situation; the general conclusion of the discussions was that the level of risk being faced is minimal, with domestic banks' business operations being substantially unaffected to date, except as mentioned below. As the



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lender of last resort, the Central Bank will continue its close monitoring of the situation and will work with the banks to ensure that prudent management of their foreign currency holdings and of their general operations is maintained.

The Macro economy

On the broader economic front, indications are that the Belizean economy has performed reasonably well in the first half of the year, with output from bananas, citrus, farmed shrimp, petroleum, distributive trades and telecommunications contributing to a 4.0% increase in GDP, although sugar and sugarcane production declined. A customary slackening of growth in the second half of the year may, however, be accentuated due to reduced global demand.

Where the immediate impact of the global financial crisis is most likely to be felt is in the tourism industry, since vacation travel by Americans, who comprise the major market for Belize, can be expected to decline. For January through August, stay-over tourist arrivals and cruise ship disembarkations were already down 0.7% and 9.5%, respectively, relative to the corresponding period of 2007. This trend is expected to hold for the remainder of the year with tourism activity remaining flat or possibly declining in 2009 depending on the speed of the recovery.

There is also a heightened probability of a fall-off in private remittances as Belizeans living in the United States lose income through job loss and deterioration in the value of personal retirement funds. Foreign direct investment, a significant portion of which has been going into the construction of vacation homes and condominiums, is also likely to decline as North Americans consolidate their personal finances. The Central Bank is aware that these foreign direct investment inflows were very instrumental in covering the external current account gap for the first half of the year and will be intervening if a fall off in inflows causes increased pressure on reserve holdings.



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Conclusion

Over the past week we have seen unprecedented global collaboration to help stem the tide. Massive bailout measures are being implemented in the major developed countries to help shore up confidence. These include the US\$700 billion bailout package in the United States and a US\$2.3 trillion package in guarantees and other measures by European governments. These collaborative efforts have, to date, led to some recovery of global stock markets. The overall outlook is still somewhat uncertain, however; although it is clearly understood by monetary authorities worldwide that the financial system crisis needs to be halted before the slowdown in growth turns into economic contraction. While, as noted earlier, no country that is part of the global economy will be unaffected, we wish to reiterate that the authorities in Belize have taken and are continuing to take steps to minimise any possible adverse effects.

Given the positive performance of our economy so far in 2008 the Central Bank of Belize is not proposing any immediate adjustment to monetary policy, and the Central Government will continue to practice the fiscal discipline that has characterised the management of the public finances since February of this year. As a necessary safeguard, the Central Bank is heightening its monitoring of commercial bank lending activities to ensure strict compliance with prudent lending practices, particularly as they relate to new ventures and to consumer lending.

In circumstances like these, it is wise for businesses and households to continue to be judicious in the management of their finances. For its part, the Central Bank will continue to maintain a state of alertness and preparedness to take whatever corrective action is required to preserve the stability of the domestic financial system.

Office of the Governor
Belize City
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