

THE MONETARY AUTHORITY OF BELIZE

ANNUAL REPORT

AND

ACCOUNTS 1978

THE MONETARY AUTHORITY OF BELIZE

P. O. BOX 852

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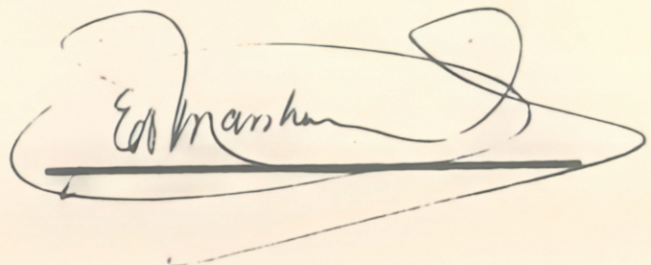
24th March, 1979

The Honourable  
The Minister of Finance  
BELMOPAN.

Dear Minister,

In accordance with the provisions of section 38(1) of The Monetary Authority of Belize Ordinance, 1976 (No. 9 of 1976), I have the honour to transmit herewith on behalf of the Board of Directors the report of the operations of the Authority for the period 1st January to 31st December 1978, together with a copy of the annual statement of accounts of the Authority certified by the auditors.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Ed Marshall', is written over a horizontal line. The signature is enclosed within a large, loopy, circular flourish that extends above and below the line.

(E. A. MARSHALLECK)  
Chairman

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# MONETARY AUTHORITY OF BELIZE

## Second ANNUAL REPORT AND ACCOUNTS 1978

### ANNUAL REPORT

- I ECONOMIC REVIEW
- II THE AUTHORITY
- III OPERATIONS
- IV ACCOUNTS
- V EXCHANGE CONTROL
- VI ADMINISTRATION

Perhaps the most striking evidence of the international monetary situation during 1977 involved the continuing weakness of the United States dollar on foreign exchange markets and the efforts which were made to bring it back to the level of the other major world currencies.

Many selling pressures against the US dollar developed during the latter part of 1977 following a series of international payments which reflected a large net outflow of US dollars from the rest of the world. In 1977, there had been little market reaction to the issue of the international as it was thought that the international situation was stable. However, the issue of the dollar as a reserve currency was brought to the fore in 1977 following a number of international payments which reflected a large net outflow of US dollars from the rest of the world. In 1977, there had been little market reaction to the issue of the international as it was thought that the international situation was stable. However, the issue of the dollar as a reserve currency was brought to the fore in 1977 following a number of international payments which reflected a large net outflow of US dollars from the rest of the world.

“\$” means Belize Dollars unless otherwise stated.

“the Ordinance” means the Monetary Authority of Belize Ordinance, 1976.

“Minister” means the Minister of Government responsible for finance.

## I ECONOMIC REVIEW

### International

Perhaps the area which attracted most international economic and monetary attention during 1978 involved the continuing weakness of the United States dollar on foreign exchange markets and the efforts which were made to halt or reduce the slide of the dollar against other major currencies.

Heavy selling pressure against the US dollar developed during the latter part of 1977 following a sharp turnaround in the US trade balance from a large surplus position in 1975 to a large deficit in early 1977. Initially, there had been little market reaction to the news of the turnaround as it was thought that the unfavourable trade position was a consequence of the effects of the oil crisis and of rapid US economic recovery from the 1974/75 recession compared with the speed of recovery in other major industrial countries. It was felt that in time, resumption of economic growth in these other economies together with the implementation of a realistic energy policy in the US would halt or moderate the extent of the deterioration in the US trade balance.

When the expected slowdown in trade balance deterioration did not materialize, further study and analysis of the situation revealed that the factors contributing to a large current account and trade imbalance could not be expected to be corrected in the short run. This, together with the opening of an adverse inflation gap between the US and other major currency areas led to the assessment that the US dollar was overvalued and selling pressures began to make themselves felt.

Analysis of the US trade balance and current account performance identified four major factors contributing to the existing situation: oil imports, the differential between economic growth in the United States and growth in other major industrial countries, a low level of competitiveness for US exports as against exports from other countries, and the prospects for inflation.

As regards oil, it had been contended that the \$18 billion current account deficit from the US in 1977 reflected in large measure the jump in the value of oil imports (from \$3 billion in 1970 to \$45 billion in 1977), and that a viable energy policy would go a long way towards eliminating the deficit. The analysis suggested that while the rise in the oil import level was a major factor contributing to the current account deficit and to dollar weakness, the rise in fact represented a major and adverse structural change in US trade balance, reflecting increasing consumption in the US as well as the fact that domestic oil production had already passed its peak and that further demand would have to be met through imports. In such a situation, an energy policy designed to hold or reduce the level of oil imports would have to focus very heavily on domestic oil production (assuming the existence of oil reserves domestically in large quantities) and/or on the development of non-oil sources of energy. In either event it could not be expected that the oil import bill could fall in the near future.

It was also noted that a reduction in US oil imports would reduce the oil exporting countries' demand for US goods and services.

On the question of economic growth differentials, it had been held that the higher level of US economic growth in comparison to growth rates in most other

western industrial countries played a major role in sustaining the US trade and current account deficit in allowing US residents to import from abroad while reducing the capacity for foreigners to import from the US. It was suggested that a better cyclical balance between the US on the one hand and Europe and Japan on the other might well wipe out the US deficit. The analysis did not indicate any fundamental error insofar as growth differentials could have contributed to the continuing deficit, but they did suggest that prospects for harmonization of growth rates at the US level (between 4 and 5 per cent) were not particularly good.

Apart from other considerations, Germany and Japan's adherence to an anti-inflation growth strategy (in which anti-inflation measures and policies were seen as important elements of the package) was in contrast to the adoption in the United States of a policy which put greater emphasis in reducing unemployment than on reducing inflation. Harmonization of growth rates would thus involve some sacrifice in policy objectives by one group or another, or both. In any case there would be a lag before any economy responded to measures taken one way or the other.

This situation was further complicated by the fact that inflation rates in the US were reaching levels which provoked public expression of concern, and thus had the effect of strengthening the bargaining position of those countries with lower inflation rates and different growth strategies.

On the question of trade competitiveness, the analysis showed that while there was no significant change in US export competitiveness vis-a-vis the EEC (the positive EEC trade balance with the US reflecting lower import demand within the EEC), there was a major worsening in US-Japan bilateral trade for the US, in the comparative performance of the US and Japan in third markets, and between the US and non-oil producing less developed countries.

Since it was clear that the effects of none of these four factors could be reversed in the short-run, the foreign exchange markets focussed increasingly on the measures taken by the US authorities to cope with the situation. The US announcement on January 4 1978 that the authorities would intervene more actively in the foreign exchange markets, President Carter's speech on April 11 in which he indicated a shift in priorities away from unemployment and towards inflation, the decisions taken at the Bonn economic summit conference in July, President Carter's announcement of his administration's wages and prices programme later in the year, were all discounted by the markets as not making any substantial contribution towards dealing with the fundamental problem of the US trade and current account deficit.

It was not until the November 1 announcement by the US treasury and the Federal Reserve System of substantial dollar support arrangements and significant tightening in US monetary policy that the foreign exchange markets responded in any positive way, and the dollar rallied. Substantial central bank intervention was required to sustain the dollar's initial gains, but between late November and mid-December central bank intervention to support the dollar was much reduced. Renewed exchange market pressures developed late in December which required further intervention, and this intervention continued into mid-January 1979.

One consequence of differential exchange rate movements has been the movement and levels of comparable interest rates in the industrial countries. The tables below show the level of some key interest rates during 1978 in selected western countries.

TABLE 1

## CENTRAL BANK DISCOUNT RATES (PER CENT)

	DEC 1977	MAR 1978	JUNE 1978	SEPT 1978	DEC 1978
United States	6.00	6.50	7.25	8.00	9.50
Canada	7.50	8.00	8.50	9.50	10.75
* Japan	4.25	3.50	3.50	3.50	3.50
United Kingdom	7.00	6.50	10.00	10.00	12.50
France	9.50	9.50	9.50	9.50	9.50
* Germany	3.00	3.00	3.00	3.00	3.00
* Switzerland	1.50	1.00	1.00	1.00	1.00
Belize	7.00	7.00	7.00	7.75	7.75

\* Countries with relatively strong currencies during 1978.

TABLE 2

## COMMERCIAL BANK DEPOSIT RATES (PER CENT)\*

	DEC 1977	MAR 1978	JUNE 1978	SEPT 1978	DEC 1978
United States	6.80	6.95	8.05	8.90	10.90
Canada	7.25	7.75	8.25	9.30	10.45
Japan	3.25	3.25	2.50	2.50	2.50
United Kingdom	6.37	6.50	10.00	9.68	12.25
France	9.00	8.25	7.50	7.32	6.50
Germany	3.40	3.20	3.25	3.50	3.50
Switzerland	1.12	0.50	1.00	0.50	0.12
Belize	6.70	6.70	6.70	6.80	6.80
Eurodollars	7.19	7.50	8.69	9.44	11.69

\* Mostly three month time deposits.

TABLE 3

## COMMERCIAL BANK PRIME LENDING RATES (PER CENT)

	DEC 1977	MAR 1978	JUNE 1978	SEPT 1978	DEC 1978
United States	7.75	8.00	9.00	9.75	11.75
Canada	8.25	8.75	9.25	10.25	11.50
Japan	6.34	6.20	5.75	5.61	5.51
United Kingdom	9.00	8.00	11.50	11.50	14.00
France	11.35	11.35	11.35	10.95	10.95
Germany	6.00	5.50	5.50	5.50	5.50
Switzerland	6.75	6.50	6.25	6.00	5.00
Belize	9.50	9.50	9.50	9.50	9.50
Eurodollars	7.56	7.87	9.06	9.81	12.06

In other foreign exchange developments in 1978, as a consequence of what were seen to be the adverse effects on investment, production and trade of continuing fluctuations in exchange rates, EEC leaders agreed to study methods to enhance exchange rate stability both within the Community and, hopefully, between EEC currencies and other major currencies. The study was also expected to contribute to the continuing effort to achieve eventual monetary union within the community.

The initial result of the study was a proposal for the creation of a European Monetary System (EMS) comprising most of the existing EEC member states. It was originally hoped that the system would be established on January 1, 1979, but last-minute complications forced the postponement of the date for commencement of operations.

Two other developments in 1978 could have repercussions on trade and exchange operations in the months ahead. In the first development, it became increasingly clear in late 1978 that the British Government was running into trouble in its attempt to hold wage increases to its 5 per cent guideline. Even though the Government made it clear that high wage settlement would lead inevitably to high rates of inflation to a depreciation in the value of sterling and to an increase in unemployment, there was little noticeable impact on wage demands and at the close of 1978 the stage appeared set for serious industrial unrest.

The other development involved the drastic cutback in oil production in Iran as the campaign to depose the Shah continued.

Iranian oil production of around 7 million barrels per day makes a significant contribution to total supplies and is of critical importance to South Africa and Israel. While the duration or effects of the cutback cannot be predicted, the absence of Iranian supplies will almost certainly aggravate the effects of the 14.5 per cent oil price increase over 1979 agreed to by OPEC in December.

## Domestic

In general terms, the overall level of economic activity in Belize during 1978 was probably as high as during 1977. Sugar production reached record levels, and the proceeds from sugar sales were boosted somewhat by some firming in world market prices. A number of infra-structural projects, financed from domestic and overseas sources, were well in hand or completed by the close of the year, including a deep-water port and a water and sewerage system for Belize City, the reconstruction of the Northern Highway, the construction of feeder roads for the sugar industry, the establishment of grain silos, and housing projects in Belize City, Belmopan and Ladyville. Serious damage was, however, done to the economy's productive capacity in the near- and medium-term, particularly in the non sugar agricultural sector, by the hurricane which struck on September 18. Preliminary estimates put damage in excess of \$50 million.

The monetary sector of the economy continued to be dominated by financial flows reflecting the operations of the sugar industry, Belize's largest foreign exchange earner. Deposits in the commercial banking system rose very slowly during the first seven months of the year and then accelerated in August as the greater part of the proceeds of sugar sales abroad were brought in. During this seven month period, credit to the private sector remained virtually stagnant, while credit to Central Government rose sharply as revenue collections failed to keep pace with a high rate of Government spending — due mainly to the lag in the reimbursement of expenditure on aid projects financed from overseas.

The rise in banking system deposits after July as a result of sugar proceeds inflows was further boosted beginning in late September by further inflows in respect of insurance claim settlements following the hurricane. Given continued low demand for credit from the private sector, the commercial banks purchased large quantities of Government securities, relieving the pressure on the Monetary Authority to finance the Government's revenue expenditure gap. (Authority credit to Central Government, including direct advances as well as securities holdings, rose from \$5 million at the end of 1977 to over \$11 million in August.) Between the end of September and the end of the year, commercial bank liquidity remained at a high level as there were no further increases in credit to Central Government or to the public sector after September, and there was only a small increase in private sector borrowing.

Over the year as a whole, there was noticeable improvement in the budgetary performance of Central Government, with the overall outturn likely to show a small surplus in contrast to the deficit of \$10.1 million for 1977. The budget estimates presented by the Premier and Minister of Finance in the House of Representatives in January of 1978 provided for total expenditure of \$94.7 million, of which \$51.9 million or 54.8 per cent were allocated to capital projects. With no deficit financing operations contemplated, and with projected revenue falling short of planned expenditure, the budget presentation included announcements of increases in customs and excise duties on alcoholic beverages, cigarettes motor vehicles and fuel, and a notice of intention to amend the Stamp Duties Ordinance to increase revenue from that source. The Premier also indicated that the Income Tax Ordinance would be amended to provide a greater measure of tax relief on earned incomes.

Actual financial operations by the Government produced deficits for the first three quarters of the year and the Government relied increasingly on Monetary Authority accommodation in the period to mid August given the seasonally tight position of the commercial banks up to that time. There was a surplus in revenue collections over expenditure in the fourth quarter, and this was sufficient

to offset the deficits for the first three quarters of the year and to bring budgetary operations for the year as a whole into rough balance. Revenue collections in respect of customs and excise duties and general taxation for 1978 as a whole exceeded budget estimates by well over \$3 million and this contributed substantially to the improvement in 1978 budget performance compared with 1977.

During the year the Monetary Authority of Belize continued to expand the scope and coverage of its operations. Early in the year it introduced a commission charge on its own account dealings in local Treasury Bills where transactions were initiated by third parties partly to encourage the development of private trading; and in May it moved to monthly issues from the previous practice of quarterly issues in order to increase flexibility in dealings. It also began accepting non-competitive tenders for Treasury Bills.

Later on in the year it concluded arrangements with a commercial bank in Mexico for the on going conversion of excess holdings of Mexican pesos by residents of Belize, arising out of trade between Belize and Mexico, into Belize and US dollars. Conversions between November (when the operation commenced) and the end of the year amounted to the equivalent of \$300,000.

Belize dollar cheques issued by the Mexican bank were cleared in part through a local Bankers' Clearing House the establishment of which was spearheaded by the Authority. The commencement of Clearing House operations in October represented the culmination of efforts begun in 1977 to encourage local commercial banks to clear local documentary credits and to settle local inter-bank balances in Belize.

## II THE AUTHORITY

The Authority was established by the Monetary Authority of Belize Ordinance 1976 (No. 9 of 1976), the main provisions of which were brought into operation on 1st November 1976 by Statutory Instrument No. 60 of 1976. The remaining provisions — sections 12 and 13 — were brought into operation on the 1st January 1977 by Statutory Instrument No. 67 of 1976.

The Authority replaces the Board of Commissioners of Currency established by the Currency Ordinance, 1965, the principal function of which was "to provide, issue and reissue currency notes and coins of the Country". The Currency Ordinance was accordingly repealed on the coming into operation of section 12 of the Monetary Authority of Belize Ordinance.

The objectives of the Authority are:

- (a) to manage the currency of Belize;
- (b) to perform banking services for the Government, for the banks and other financial institutions operating in Belize, and for foreign central banks and international organisations and financial institutions;
- (c) to assure monetary stability in Belize and to promote monetary conditions which are conducive to the balanced growth of the economy of Belize and which are compatible with the policy of the Government;
- (d) to maximise and mobilise savings and to optimise the distribution of credit in Belize;
- (e) to ensure that the foreign exchange reserves of Belize are administered in the interest of the economy and in accordance with the economic policy of the Government;

- (f) to ensure that the business of the banks and other financial institutions operating in Belize is conducted in the interest of their customers and of the general public and consistent with the economic policy of the Government.

### III OPERATIONS

The Authority is empowered to act as bank to the Government and to any public sector entity in Belize, as well as to financial institutions.

*Banking.* Four commercial banks — one locally incorporated and three foreign banks — are licensed to carry on banking business in Belize in accordance with the provisions of the Banking Ordinance, 1976 (No. 13 of 1976).

Section 17(1) of the Banking Ordinance, 1976, requires every licensed financial institution to maintain on an account in its name with the Authority a minimum balance which, on average, shall be equivalent to at least five per centum of its average deposit liabilities. The following table shows how the requirement was met during the year —

BZE \$ 000

1978	Required	Actual	Excess  (Deficit)
Jan.	3,162	3,666	504
Feb.	3,188	4,722	1,534
Mar.	3,226	5,885	2,659
Apr.	3,325	4,185	860
May	3,481	3,655	174
June	3,476	3,820	344
July	3,464	4,412	948
Aug.	3,416	5,722	2,306
Sept.	3,500	5,525	2,025
Oct.	3,760	6,983	3,223
Nov.	4,044	4,946	902
Dec.	4,096	5,257	1,161

Notwithstanding the fact that the banking system as a whole met the minimum balance requirements in every month during 1978, one institution failed to meet the requirement on one occasion. In accordance with Section 17 of the Banking Ordinance, 1976, the institution was called upon to pay a penalty for the deficiency.

Section 18 of the Banking Ordinance, 1976, requires every licensed financial institution to maintain a minimum aggregate holding of approved liquid assets amounting on average to twenty per centum of average deposit liabilities. The required minimum level (which may be increased to a maximum of thirty five per centum of average deposit liabilities) remained unchanged at twenty per centum throughout the year.

The Authority with the approval of the Minister and in accordance with provisions of section 18(3) (j) of the Banking Ordinance, 1976, declared in November, 1977, that with effect from January 1, 1978, approved liquid assets for the purposes of the section would include —

- (a) one hundred per centum of loans and advances to government and other public sector entities; and
- (b) five per centum of other loans and advances.

The declaration was later reviewed and with effect from 1 July "five per centum of other loans and advances" was excluded, so that as the declaration stood at the end of 1978 only loans to government and other public sector entities are included in the definition of approved liquid assets allowed under section 18(3) (j).

The following table shows the position during 1978.

LICENSED FINANCIAL INSTITUTIONS  
HOLDINGS OF APPROVED LIQUID ASSETS

	Required	Bze \$ 000	
1978	Holding	Actual	Excess (Deficit)
Jan.	12,647	21,418	8,771
Feb.	12,750	20,210	7,460
Mar.	12,903	23,569	10,666
Apr.	13,309	25,158	11,849
May	13,925	24,651	10,726
June	13,902	23,780	9,878
July	13,855	20,527	6,672
Aug.	13,666	23,981	10,315
Sept.	14,002	25,542	11,540
Oct.	15,040	31,589	16,549
Nov.	16,164	31,071	14,907
Dec.	16,382	27,430	11,048

The Authority received and dealt with 50 applications to the Minister under section 13(a) of the Banking Ordinance, 1976, for the applicant financial institution to lend to a single borrower more than twenty five per centum of its (assigned) capital and reserves. The Authority made recommendations to the Minister based on its findings in the light of the following considerations viz.

- (a) The nature and operation of the borrower's business;
- (b) the number of persons employed by the borrower;
- (c) the use to which the proposed credit would be put and the adequacy of the security offered;

- (d) whether the business generated or saved, or had the potential to generate or save, foreign exchange for Belize;
- (e) any other benefits which were expected to accrue to the Belize economy as a result of the proposed credit.

The Authority fixes and notifies daily to licensed financial institutions (in their capacity as Authorised Dealers) the rate at which stipulated currencies may be traded with the public — a minimum rate for buying and a maximum rate for selling; and the rates so notified are posted on public notice boards at all banking premises, including the offices of the Authority.

The Authority undertakes for its part to buy from and sell to Authorised Dealers the stipulated foreign currencies by way of cover for authorised transactions at prescribed rates, which rates provide a reasonable margin taking into account the relative absence of risk of exchange loss.

The stipulated currencies are —

- (a) the pound sterling;
- (b) the United States dollar;
- (c) the Canadian dollar; and
- (d) currencies of member countries of the Caribbean Community (CARICOM).

In October the Authority established correspondent relationship with a commercial bank in Ciudad Chetumal, Quintana Roo, Mexico to facilitate the exchange for Belize dollars for Mexican pesos received by Belizean traders selling merchandise (mainly by way of re-export) to buyers in Ciudad Chetumal and other parts of the United States of Mexico.

The Authority is a signatory to the Agreement establishing the CARICOM Multilateral Clearing Facility. The declared aims of the Facility are to facilitate settlement on a multilateral basis of payments for eligible transactions, to promote the use of participants' currencies in settling eligible transactions thereby effecting economies in the use of foreign exchange reserves, and to promote monetary cooperation among participants and closer relations among the banking systems with a view to expansion of trade and economic activity in the CARICOM region. At the end of the year the Authority was debtor to the Facility to the extent of \$2,158,000.

AUTHORITY DEALINGS IN FOREIGN EXCHANGE  
WITH FINANCIAL INSTITUTIONS IN BELIZE

Tradings in the U. S. dollar, the Canadian dollar  
and the Pound Sterling.

			BZE \$
1978	Purchases	Sales	Net Purchases
Jan.	4,487,839	5,417,138	-929,299
Feb.	9,223,823	5,932,513	3,071,310
Mar.	3,378,928	5,333,838	-1,954,910
Apr.	6,748,986	5,975,408	773,578
May	4,554,805	9,392,082	-4,837,277
June	5,700,155	5,891,701	-191,546
July	5,121,507	3,864,232	1,257,275
Aug.	16,962,824	6,341,659	10,621,165
Sept.	3,447,268	4,694,332	-1,247,064
Oct.	15,013,204	8,521,422	6,491,782
Nov.	2,558,124	7,273,271	-4,715,147
Dec.	5,712,540	8,902,524	-3,189,984

AUTHORITY DEALINGS IN FOREIGN EXCHANGE  
WITH FINANCIAL INSTITUTIONS IN BELIZE

Caricom Tradings

			BZE \$
1978	Purchases	Sales	Net Purchases
Jan.	83,816	121,183	-37,367
Feb.	122,915	386,067	-263,152
Mar.	891,415	257,096	634,319
Apr.	47,751	488,275	-440,524
May	419,634	315,839	103,795
June	43,278	263,541	-220,263
July	19,804	327,509	-307,705
Aug.	321,030	273,390	47,640
Sept.	12,303	232,554	-220,251
Oct.	63,922	395,551	-331,629
Nov.	111,142	362,568	-251,426
Dec.	46,398	431,804	-385,406

The foreign exchange holdings of the Authority stood at \$24,722,000 at the end of 1978 compared with \$16,144,000 at the end of 1977. US dollar holdings represented 81.2 per cent of the total, whereas holdings of sterling were 17.4 per cent and Canadian dollars 1.4 per cent. The proportions at the end of 1977 were 71.9 per cent, 27.5 per cent and 0.6 per cent respectively.

An agreement between the Authority and the four commercial banks was signed in October setting up a bankers' clearing house in Belize City. Representatives of each bank meet every business day except Monday to deliver cheques drawn on other banks and to receive cheques issued by its customers. The Agreement also provides for ad hoc clearing between two banks. The table below shows the level of business transacted in this way since inception of the arrangement.

#### COMMERCIAL BANKS' CLEARINGS

1978	BZE\$ 000
*October	20,829
November	21,093
December	25,357

\*Clearing operations commenced on 10 October, 1978.

*Currency* The Authority is vested with the sole right of issuing, re-issuing and redeeming Belize currency notes and coins, and of determining with the approval of the Minister the designs and other specifications of legal tender currency notes and coins.

The currency unit in Belize is the Belize dollar which, since May 1976, is equivalent to fifty cents in United States of America currency.

The designs and other specifications of Belize coins in circulation as legal tender at the time of the establishment of the Authority have been adopted as its own by the Authority. Meanwhile all notes and coins currently in circulation are deemed to have been issued by the Authority. Work is proceeding on new designs for currency notes to be issued by the Authority. Unforeseen delays have however, put back the projected date of introduction of the new currency notes to mid 1980.

Currency notes in circulation increased from an aggregate value of \$12,613,157 at the end of 1977 to \$16,387,670 at the end of 1978 an increase of just under 30 per cent. The value of coins in circulation increased from \$2,528,781 to \$2,814,571 — just over 11.3 per cent.

The following table gives a breakdown of currency in circulation during 1978 —

# DOMESTIC CURRENCY CIRCULATION

BZE \$ 000

End of Period	Notes	Coins	Total
1978			
JAN.	11,521	2,535	14,056
FEB.	11,937	2,547	14,484
MAR.	12,888	2,553	15,441
APR.	12,959	2,582	15,541
MAY	12,739	2,624	15,363
JUNE	13,257	2,653	15,910
JULY	13,644	2,671	16,315
AUG.	15,321	2,684	18,005
SEPT.	14,498	2,688	17,186
OCT.	14,966	2,718	17,684
NOV.	15,204	2,809	18,013
DEC.	16,388	2,814	19,202

*Relations with Government* Section 23 of the Ordinance permits temporary advances to Government not exceeding fifteen per centum of estimated current revenues for the financial year. Mainly as a result of the inflow of funds representing proceeds of insurance claims arising out of hurricane GRETA, and heavy investment by the commercial banks in Treasury bills in order to utilize these funds profitably, the Government had no outstanding advances from the Authority at the end of 1978, compared with \$2,639,146 at the end of 1977.

The Authority acts as agent for the Government in arrangements for the issue of Treasury Bills. Bills are issued with maturities of 91 days — since May at monthly intervals with a view to providing a wider range of maturities within the 91 day period. The total sum outstanding at December 31 was \$12,052,000 of which \$6,139,474 was held by the Authority. These holdings by the Authority together with \$623,100 held in Belize Government debentures were within the limit of \$14,014,000 (7 times the Authority's paid up capital and reserves) imposed by section 24 of the Ordinance. The Authority's holding of Treasury Bills and Government debentures totalled \$2,361,744 at the end of 1977.

In order to regulate trading in Treasury Bills with the Authority a scale of charges ranging from 1/16 per cent to 3/16 per cent has been prescribed by which the current average tender discount rate is adjusted in order to determine the transaction price during the period to maturity of a bill. The objective is to encourage early purchase of bills, and to discourage redemption of bills before maturity, by progressively reducing the applicable discount rate during the period to maturity.

The following table illustrates the arrangement:

For Treasury Bill with a maturity of —	Buying Rate	Selling Rate
30 days or less	ATR plus 0.0625	ATR — 0.1875
31 days to 60 days	ATR plus 0.125	ATR — 0.125
61 days to 90 days	ATR plus 0.1875	ATR — 0.0625

N. B. ATR Equals average treasury bill discount rate.

# GOVERNMENT OF BELIZE TREASURY BILLS

Bze \$000

Issue No.	Amt. Tendered	Amt. Allotted	Add'l Allotment	Total Allotted	Avg. Discount	Avg. Yield To Maturity
1 1978	4600	3900	3500	7400	5.91	6.00
2 1978	9200	7400	—	7400	5.91	6.00
3 1978	1000	1000	—	1000	6.08	6.18
4 1978	250	250	—	250	6.50	6.61
5 1978	8100	7400	—	7400	6.50	6.61
6 1978	4500	4500	—	4500	6.56	6.67
7 1978	2000	2000	—	2000	6.56	6.61
8 1978	8800	5900	1500	7400	6.40	6.50
9 1978	2700	2700	—	2700	6.40	6.50

## THE MONETARY AUTHORITY OF BELIZE

Advances to Government and holdings of Belize Government Securities and Treasury Bills during 1978.

BZE \$000

1978 Month End	Advances	(a)	Treasury Bills	Other Securities	(b)
Jan.	1,886	(3.5)	1,140	1,467	(1.30)
Feb.	3,789	(7.1)	2,563	1,467	(2.01)
Mar.	3,740	(7.0)	3,175	1,467	(2.32)
Apr.	2,070	(3.9)	1,391	1,467	(1.43)
May	2,692	(5.0)	4,738	1,466	(3.10)
June	2,462	(4.6)	4,930	1,423	(3.17)
July	2,528	(4.7)	6,575	1,423	(4.00)
Aug.	2,555	(4.8)	3,973	1,423	(2.70)
Sept.	—	( - )	4,691	1,423	(3.05)
Oct.	—	( - )	87	1,423	(0.75)
Nov.	—	( - )	3,977	623	(2.30)
*Dec.	—	( - )	6,161	623	(3.39)

*Notes* (a) Outstanding advance as a percentage of estimated Government current revenues for 1978.

(b) Total holding of Treasury Bills and other securities as a multiple of the Authority's paid up capital and reserves.

\*Provisional

## IV ACCOUNTS

The authorised capital of the Authority is four million dollars.

The annual statement of accounts of the Authority for 1978, certified by the auditor, is attached to this Report.

The net profit from the operations of the Authority during 1978 amounted to \$2,703,014 compared with \$1,362,350 during 1977. Total assets grew from \$21,166,908 at the end of 1977 to \$32,856,105 at the end of 1978 — an increase of 55.2 per cent.

*Income and Expenditures* Net investment income during 1978 totalled \$1,955,161 (\$1,181,431 in 1977) and represented a yield of approximately 7 per cent (1977 6 per cent) on average total assets. 56.79 per cent (65.74 per cent in 1977) of total income of \$3,442,823 (\$1,797,238) was derived from this source.

Total operating expenses including the costs of printing currency notes and minting coins was \$708,017 (\$428,888) representing 21.49 per cent (23.86 per cent) of total income.

\$1,997,540 of net profit of \$2,703,014 was credited to the Capital Account in accordance with the provisions of section 13(2) of the Ordinance bringing the total paid up capital to \$4,000,000, as authorised. The balance of \$705,474 net profit together with \$33,408 representing receipts in respect of 1977, was credited to the General Reserve Account in accordance with the provisions of section 13(3) of the Ordinance.

## V EXCHANGE CONTROL

The Authority is charged with ensuring "that the foreign exchange reserves of Belize are administered in the interest of the economy and in accordance with the economic policy of the Government".

The Authority was appointed Controller under the provisions of section 5 of the Foreign Exchange Regulations Ordinance, 1972 (No. 24 of 1972) and is therefore responsible for the administration of exchange control in Belize.

The Exchange Control Regulations, 1976, were made by the Minister in exercise of powers conferred upon him by section 3 of the Foreign Exchange Regulations Ordinance, 1972, and both the parent and subsidiary legislation were brought into force on May 11, 1976. The regulations cover every aspect of foreign exchange dealing and derive from legislation enacted during the Second World War. Current policy aims at building up administrative machinery capable of coping with any possible future emergency situation while at the same time causing as little inconvenience as possible to members of the public. The commercial banks have accordingly been appointed Authorised Dealers with delegated authority to deal with a wide range of routine applications. It is only in the more unusual circumstances and where the amounts are substantial that reference needs to be made to the Authority. The application forms completed by persons applying to Authorised Dealers for foreign exchange are regularly forwarded to the Authority for audit and tabulation of the data.

The table which follows provides a breakdown of the purposes for which foreign exchange was used during 1978 and the relevant amounts according to processed application forms —

# SALES OF FOREIGN EXCHANGE BY AUTHORISED DEALERS

BZE \$000

Classification	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Imports	33,683		52,422		48,747		53,697		188,549	
Travel	675	516	1,540	871	1,949	784	1,739	723	5,903	2,894
Business	(137)	(68)	(430)	(99)	(404)	(88)	(689)	(102)	(1,660)	(357)
Medical	(146)	(14)	(254)	(14)	(291)	(23)	(312)	(70)	(1,003)	(121)
Vacation	(186)	(166)	(636)	(298)	(1,037)	(304)	(660)	(261)	(2,519)	(1,029)
Other	(206)	(268)	(220)	(460)	(217)	(369)	(78)	(290)	(721)	(1,387)
Family Maintenance	127	346	215	146	288	83	232	125	862	700
Education	146		142		461		275		1,024	
Insurance/Reinsurance	324		292		516		484		1,616	
Travel Fares And Freight Charges	1,498		1,519		1,288		2,214		6,519	
Medical Bills	170		86		199		80		535	
Head Office Expenses	406		967		965		1,173		3,511	
Royalty Payments	59		148		122		278		607	
Management Fees	85		143		296		220		744	
Subscriptions	23		40		47		219		329	
Sundries	232		146		265		195		838	
Other Current Account	114		320		622		877		1,933	
TOTAL CURRENT ACCOUNT	37,542	862	57,980	1,017	55,765	867	61,683	848	212,970	3,594
Emigration	228		467		487		717		1,899	
Profits/Dividends	—		1,833		296		1,082		3,211	
Repatriation of Funds		173		1,474		641		2,071		4,359
Loan/Interest Payments	288		239		272		243		1,042	
Gifts	14		39		33		96		182	
Investments	86		37		458		2		583	
Capital Account (Other)	—		—		128		261		389	
TOTAL CAPITAL ACCOUNT	616	173	2,615	1,474	1,674	641	2,401	2,071	7,306	4,359
TOTAL	38,158	1,035	60,595	2,491	57,439	1,508	64,084	2,919	220,276	7,953

## VI ADMINISTRATION

Subject to the provisions of the Ordinance the policies of the Authority are determined by and its administration is the responsibility of a Board of six Directors.

*The Board* The Board of Directors of the Authority during the year consisted of —

R. A. Fonseca Esq. C. M. G., O. B. E., Chairman  
H. E. C. Cain Esq. O. B. E., Managing Director  
A. E. Cattouse Esq., J. P.  
D. B. Courtenay Esq.,  
E. G. N. Gegg Esq., O. B. E., J. P.  
H. I. Jex Esq.

The initial terms of office of Messrs. Courtenay, Gegg and Jex expired on 31st October and they were reappointed by the Minister for a further period of two years from 1st November, 1978.

The Board held eleven meetings during the year, and Directors were excused attendance at meetings as follows —

1 Director	—	four meetings
1 Director	—	two meetings
1 Director	—	one meeting

The death in a car accident on December 21st, 1978, of the Chairman Mr. R. A. Fonseca, is recorded with profound regret, and the Directors and staff of the Authority extend sincerest condolences to his widow and other members of his family. His leadership and wise counsel will be greatly missed.

*Staff* The principal officers of the Authority during 1978 were —

Mr. H. E. C. Cain O.B.E., F.C.C.A., Managing Director  
Mr. A. D. Slusher B. Sc. (Econ.), Chief Research Officer  
(Research Department)  
Mr. F. J. Garbutt, Chief Accountant  
(Operations Department)  
Miss R. M. Vernon, Secretary (Secretariat)

The Research Department is the intelligence arm of the Authority dedicated to the collection, compilation and analysis of economic data to facilitate its advisory function and otherwise for use in furtherance of the objectives of the Authority. The department also administers exchange control.

The Operations Department is responsible for the banking and other financial relations of the Authority with Government and financial institutions in Belize and abroad, as well as for the issue, exchange and redemption of Belize currency notes and coins, and for the Authority's book keeping and accounting.

The Secretariat services the meetings of the Board of Directors and looks after the general administrative needs of the Authority.

Total staff employed by the Authority was 28 at the end of 1978 (1977 — 21) of which 6 were on secondment from Government Service. Government has

agreed to extend for up to one year the initial period of secondment pending the establishment in 1979 of a pension scheme for Authority employees and the conclusion of satisfactory arrangements for securing the benefits for which staff transferred from Government to the Authority and vice versa may be eligible.

Mr. Fred Kilby completed his contract of service with Government and the Authority under the fellowship scheme sponsored by the Overseas Development Institute in the United Kingdom. Under the scheme young British economics graduates are recruited to work, usually for public sector bodies, in developing countries for two years. Mr. David Andrews has since been recruited as a replacement.

*Overseas visits* The Managing Director attended the meeting of Trade Officials and representatives of Central Banks/Monetary Authorities convened by the Caribbean Community Secretariat in Georgetown Guyana in September to consider ways of arresting the decline in intra regional trade. The Managing Director also attended the fourth meeting of the Board of Governors of the CARICOM Multilateral Clearing Facility held in Port of Spain, Trinidad, in October.

### **Training**

The Authority promotes the training of its personnel in Economics and other related subjects e. g. banking, statistics, accounting. During the year under review four members of staff undertook courses with financial assistance from the Authority —

- a) At the Extra Mural Department of the University of the West Indies leading to the examinations of the Institute of Accounting Staff — 2
- b) Correspondence course leading to the Foundation examination of the Association of International Accountants (London) — 1
- c) At the Extra Mural Department of the University of the West Indies "A" level studies in Economics — 1

The Chief Accountant participated in the Third Central Banking Seminar sponsored by the Federal Reserve Bank of New York during October, and attended a one week course of specialised instruction on the structure and functions of the New York Foreign Exchange Market, after the conclusion of the seminar.

A Research Officer attended an 8-week Training Programme for the Caribbean Region jointly sponsored by the Central Bank of Guyana and the Centre for Latin-american Monetary Studies (CEMLA) which began on the 16th October 1978. Participants spent the final two weeks of this course in Atlanta, Georgia on a study visit.

*Scholarship Scheme* The Board of Directors has approved the endowment by the Authority of two scholarships to enable selected qualified candidates to read for a Bachelor's degree in Economics, the candidate undertaking to serve the Authority for a specified number of years. It is expected that the first scholar will be able to embark on the course of studies in the academic year commencing in October, 1979.

**AUDITORS' REPORT  
TO THE BOARD OF DIRECTORS OF  
THE MONETARY AUTHORITY OF BELIZE**

We have examined the accounts on pages 2 to 8 with the books of the Authority and have obtained all the information and explanations which we considered necessary.

In our opinion, these accounts give a true and fair view of the state of affairs of the Authority at 31 December 1978 and of the results of its operations for the year ended on that date.

S. J. P. ERMEAV SR.  
Chartered Accountant

Belize City, Belize  
27th February, 1979

**THE MONETARY AUTHORITY OF BELIZE**  
**BALANCE SHEET**  
**31ST DECEMBER, 1978**

	Note	1978 \$	1977 \$
<b>ASSETS</b>			
<b>APPROVED EXTERNAL ASSETS</b>	<b>3</b>		
Balances and deposits with foreign bankers and the Crown Agents ma- turing within 180 days		15,682,010	8,698,003
Marketable Securities issued or guaranteed by foreign govern- ments and international finan- cial institutions		4,440,818	6,465,226
Other foreign credit instruments maturing within 180 days		2,599,998	980,433
		<hr/> 22,722,826	<hr/> 16,143,662
<b>OTHER EXTERNAL ASSETS</b>			
Deposits with foreign bankers and the Crown Agents with maturities exceeding 180 days		3,000,000	—
<b>ADVANCES TO BELIZE GOVERNMENT</b>		—	2,639,146
<b>BELIZE GOVERNMENT DEBENTURES, at cost</b>		623,100	1,466,500
<b>BELIZE GOVERNMENT TREASURY BILLS</b>	<b>4</b>	6,161,325	895,244
<b>BALANCES WITH LOCAL BANKERS AND CASH ON HAND</b>		10,664	419,183
<b>OTHER ASSETS</b>	<b>5</b>	610,450	504,230
<b>FIXED ASSETS</b>	<b>6</b>	42,082	20,925
<b>DEFERRED INCOME</b>			
Unrealized gain from appreciation in value of external assets		(21,738)	(554,427)
Unrealized gain from changes in foreign exchange rates		(292,604)	(367,555)
<b>TOTAL ASSETS</b>	<b>BZE\$</b>	<hr/> 32,856,105	<hr/> 21,166,908

The notes on pages 5 to 8 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE  
BALANCE SHEET  
31ST DECEMBER, 1978  
(Continued)

PAGE 3

	Note	1978 \$	1977 \$
LIABILITIES, CAPITAL AND RESERVES			
DEMAND LIABILITIES			
Notes and coins in circulation		19,202,241	15,141,938
Deposits by licensed financial institutions	7	6,221,913	3,433,551
Deposits by Belize Government and Public Sector Entities in Belize	8	517,200	—
		<u>25,941,354</u>	<u>18,575,489</u>
CARICOM MULTILATERAL CLEARING FACILITY		2,157,679	519,517
OTHER LIABILITIES		<u>18,190</u>	<u>69,442</u>
Total Liabilities		28,117,223	19,164,448
CAPITAL ACCOUNT			
Paid up Capital (Authorized Capital \$4,000,000)		4,000,000	2,002,460
GENERAL RESERVE ACCOUNT	9	<u>738,882</u>	<u>—</u>
Total Liabilities and Capital	BZE\$	<u><u>32,856,105</u></u>	<u><u>21,166,908</u></u>

E. A. MARSHALLECK

) Chairman

H. E. C. CAIN

) Managing Director

F. J. GARBUTT

) Chief Accountant

The notes on pages 5 to 8 form an integral part of these accounts.

**THE MONETARY AUTHORITY OF BELIZE**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED 31 DECEMBER 1978**

	1978 \$	1977 \$
<b>INCOME</b>		
Net interest on investments	1,429,077	914,886
Discounts and other investment income	526,083	266,545
Net realized gains from changes in foreign exchange rates and apprecia- tion in value of securities	484,490	53,340
Commissions and other income	954,800	562,467
	<hr/>	<hr/>
Total Income	3,394,450	1,797,238
	<hr/>	<hr/>
<b>EXPENDITURE</b>		
Printing of notes and minting of coins	418,017	230,576
Salaries and wages, including super- annuation contributions and gratuities	155,879	115,686
Other expenses, including depreciation	117,540	88,526
	<hr/>	<hr/>
Total Expenditure	691,436	434,888
	<hr/>	<hr/>
<b>NET PROFIT</b>	2,703,014	1,362,350
Less:- Amount transferred to Capital Account in accordance with Section 13 of the Ordinance	1,997,540	1,362,350
		<hr/>
Balance transferred to General Reserve Account in accordance with Section 13 (4) (a) of the Ordinance	BZE\$ 705,474	
	<hr/>	

The notes on pages 5 to 8 form an integral part of these accounts.

**MONETARY AUTHORITY OF BELIZE**  
**NOTES TO THE ACCOUNTS**  
**31ST DECEMBER, 1978**

1. The Monetary Authority of Belize was established by the Monetary Authority of Belize Ordinance 1976 (the Ordinance).
2. ACCOUNTING POLICIES
  - a) Fixed assets and depreciation  
 Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method over the estimated life of the asset.
  - b) Coins in circulation  
 Up to 31 December 1976 when the Belize Board of Commissioners of Currency was wound up and its assets transferred to the Authority, liability was recognized in the accounts in respect of coins specially minted or packaged and issued as collectors' items. Included in the accounts for the year under review is a liability of \$1,161,059 in respect of the sale of such coins up to that date.  
 However, as of that date, no further liability is recognized in connection with the sale of special coins, and proceeds from such sales are included in income in the year of sale. The coins are not issued for monetary purposes and in the opinion of the directors no liability will arise in respect of them.
  - c) Translation of foreign currencies  
 Foreign currency balances at 31 December 1978 have been translated at the rates of exchange ruling at that date. Income and expenses in foreign currencies are translated at the rates of exchange ruling on the date of the transaction.
  - d) Valuation of securities  
 Securities are stated at market. Realised securities gains are included in income while unrealised gains are deferred. Securities losses, whether or not realised are charged against income.
  - e) Printing and minting expenses  
 The cost of printing notes and minting coins is written off against earnings in the year of receipt of such notes and coins.

**MONETARY AUTHORITY OF BELIZE**  
**NOTES TO THE ACCOUNTS**  
**31ST DECEMBER, 1978**

**3. APPROVED EXTERNAL ASSETS**

Assets shown under this heading are those defined as such by section 28 (2) of the Ordinance.

Section 28 (1) requires that the Authority shall at all times hold approved external assets of an aggregate market value equivalent to at least 50 per cent of the aggregate amount of notes and coins in circulation and of the Authority's liabilities to customers in respect of its sight and time deposits.

At 31 December 1978, total approved external assets approximated 87.59 per cent (1977 — 86.91 per cent) of such liabilities.

The total under this heading includes an intransit item of \$ 1,000,000 as part of other foreign credit instruments maturing within 180 days.

**4. BELIZE GOVERNMENT TREASURY BILLS**

Section 24 (2) of the Ordinance stipulates that the Authority shall not at any time hold Belize Government Treasury Bills and Securities in an aggregate amount exceeding 7 times the aggregate amount at that time of the paid up capital and general reserves of the Authority. At 31 December 1978 the Authority's aggregate holding of Belize Government Treasury Bills and Securities approximated 3.39 times (1977 — 3.69 times) the amount of paid up capital of the Authority.

**5. OTHER ASSETS**

Other assets include:-

	1978 \$	1977 \$
Items intransit	—	245,181
Accrued interest	496,917	244,819
A promissory Note from Caribbean Development Bank dated 19 October 1978 for a 92 days loan of BZE \$ 52,278 at 8.5 per cent per annum, maturing 13 January, 1979	53,239	—
Other	60,294	14,230
	<u>610,450</u>	<u>504,230</u>

PAGE 7

**MONETARY AUTHORITY OF BELIZE**  
**NOTES TO THE ACCOUNTS**  
**31ST DECEMBER, 1978**

6. FIXED ASSETS	1978 \$	1977 \$
Building improvements	14,751	8,319
Furniture	11,063	6,272
Equipment	21,262	7,864
	<u>47,076</u>	<u>22,455</u>
Less: accumulated depreciation	4,994	1,530
	<u>42,082</u>	<u>20,925</u>

The Authority is housed in premises provided rent free by the Government.

**7. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS**

The total under this heading consists of balances maintained with the Authority by licensed financial institutions each of which under the provisions of Section 17 of the Banking Ordinance 1976 is required to keep on deposit an amount equivalent to at least 5 per cent of its average deposit liabilities. No interest is paid on these deposits.

**8. DEPOSITS BY BELIZE GOVERNMENT AND PUBLIC SECTOR ENTITIES**

The total under this heading includes :-	\$
Belize Government	492,200
Public Sector Entities	25,000
	<u>517,200</u>

**9. GENERAL RESERVE ACCOUNT**

Section 13 of the Ordinance provides for the establishment and maintenance of a General Reserve Account which shall be credited with any net profit after the Capital Account is fully paid and until the balance on the General Reserve Account reaches 10 per cent of the aggregate demand liabilities of the Authority including notes and coins issued by the Authority. The balance in the General Reserve Account is made up as follows :-

	\$
Transfer from net profit	705,474
Prior year credit	33,408
	<u>738,882</u>

PAGE 2

MONETARY AUTHORITY OF BELIZE

**THE MONETARY AUTHORITY OF BELIZE**  
**NOTES TO THE ACCOUNTS**  
**31ST DECEMBER, 1978**

**10. CONTINGENT LIABILITIES**

There are contingent liabilities in respect of:-

- a) a guarantee of \$100,000 for letters of credit in favour of the Government of Belize and
- b) a contract for the design and manufacture of Belize Currency notes currently valued at \$1,111,200.

**Central Bank of Belize  
Annual Report.  
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