CREDIBILITY, COMMITMENT, AND CONTINUITY:

Fifty Years of Belize’s Fixed Exchange Rate Peg

Lecture for the Central Bank of Belize Stakeholders’ Forum

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INTRODUCTION

In keeping with established protocol, I extend a warm good afternoon to our distinguished guests, the ladies and gentlemen in our audience, and those joining us online.

We gather today to commemorate not only the fiftieth anniversary of Belize's exchange-rate peg but also fifty years of national discipline, institutional learning, and public confidence in the Belize dollar.

The May 1976 decision to peg the Belize dollar at two Belize dollars to one U.S. dollar remains one of the most consequential economic policy decisions in Belize's history. Fifty years is a remarkable milestone for any public policy, and even more so for an exchange-rate regime. For Belizeans, that longevity is not an abstract achievement. It is the familiar assurance that the value of the Belize dollar today will continue to guide prices, contracts, savings, and payments tomorrow.

Exchange-rate arrangements have come and gone across the world, yet Belize has maintained the same parity for half a century. For many in this room, the two-to-one rate has remained constant throughout your working lives, enduring across generations, changes in government, natural disasters, economic cycles, and profound shifts in the global monetary system.

That continuity raises one central question: **Why?**

Why has Belize succeeded where many fixed-exchange-rate regimes ultimately failed? Why has the peg survived reserve and debt crises, hurricanes, recessions, sovereign restructurings, financial shocks, and a global pandemic? The peg did not endure because Belize avoided shocks. It endured because policymakers repeatedly responded through domestic adjustment without changing the parity.

This leads to my central argument this evening:

The Belize dollar peg endured because credibility was repeatedly defended, institutions continuously adapted, and policymakers consistently chose adjustment, rather than devaluation.

That is the story I would like to tell this evening. To understand why the peg endured, I will organize my remarks around three key questions.

1. Why was the peg adopted, and was it suited to Belize?
2. How did institutions and policy choices sustain the peg through repeated shocks?
3. What lessons should guide efforts to maintain the peg over the next fifty years?

1. THE ECONOMICS OF A PEG

Every fixed exchange-rate regime solves one problem—but creates another. The problem it solves is **credibility.** The challenge it creates is **adjustment.**

Under a **floating exchange-rate system**, the exchange rate itself absorbs part of the shock. When exports weaken, capital flows reverse, or reserves come under pressure, the currency may depreciate, helping to restore balance.

Under a **fixed exchange-rate system**, that option is unavailable. Adjustment must instead occur through fiscal and monetary measures, external financing, administrative controls, or changes in domestic economic activity.

Belize accepted that **constraint** fifty years ago. From then on, the history of the peg became a continuing effort to reconcile a credible external anchor with the domestic adjustments required to sustain it.

2. Why Most Pegs Eventually Fail

Fixed exchange rates are not rare. Successful fixed exchange rates are.

Most pegs do not fail because of a single event. They fail when policy drifts away from the commitment underpinning the exchange rate. When policy and the peg have come into conflict, Belize has repeatedly adjusted policy rather than the exchange rate. That distinction explains much of the peg's durability. Over time, the peg became more than a Central Bank commitment. It became a **national commitment**.

3. THE LONG ROOTS OF MONETARY CREDIBILITY

To begin answering the first question—why Belize adopted the peg and whether it was suited to the economy—we must first examine the monetary foundations that made a credible external anchor possible.

The story begins in 1894.

Belize's commitment to monetary order predates the Central Bank, our Independence, and even the Belize dollar. Before 1894, multiple foreign coins circulated at values that fluctuated with silver prices and exchange rates, creating uncertainty in pricing, accounting, taxation, and debt settlement. The reforms introduced that year replaced this fragmented arrangement with a unified monetary framework.

In October 1894, the Coinage Ordinance established the gold dollar of the United States as the monetary standard and created a common unit of account for the colony. At the same time, the Currency Note Ordinance established the Board of Commissioners of Currency and authorised it to issue reserve-backed notes. Together, these reforms established a one-to-one parity between the British

Honduras dollar and the U.S. dollar and ensured that notes could be exchanged for the assets backing them. The new system, therefore, embodied two principles that still matter today: an external anchor and credible, reserve-backed convertibility.

But the monetary framework established in 1894 was soon tested. Just over twenty years later, in 1914, wartime concerns prompted the authorities to move the colony's gold reserves to the United States for safekeeping, temporarily suspending the local redemption of notes in gold. After Britain left the gold standard in 1931, sterling depreciated, reducing the U.S. dollar value of reserves held in that currency. In response to this growing reliance on overseas financial assets, the 1937 reforms formally removed gold from the note-backing framework, replaced the Note Guarantee Fund with the Note Security Fund, and placed greater reliance on foreign securities. Together, these episodes revealed a fundamental lesson: **a legal promise of convertibility was not enough.** Credibility also depended on where reserves were held, the currencies in which they were invested, the quality of those assets, and how readily they could be used.

These reforms strengthened the legal and institutional foundations of the currency, but they did not eliminate its exposure to external monetary shocks. Issuance remained constrained by law, and reserve assets remained dedicated to backing the note issue. Yet confidence increasingly depended on the value and liquidity of assets held abroad.

4. WHY THE 1976 RE-PEG BECAME NECESSARY

That dependence proved consequential when sterling was sharply devalued in 1949. Although the currency-board system continued until 1976, sterling's devaluation on 18 September 1949 exposed a structural mismatch: the currency was pegged one-to-one to the U.S. dollar, but its reserves were held largely in sterling.

British Honduras initially chose not to follow the devaluation of the sterling. That decision temporarily preserved the one-to-one U.S. dollar peg, but it also created an exchange-rate distortion that encouraged speculative conversion into sterling, intensifying pressure on the reserve system. On 31 December 1949, the British Honduras dollar was devalued by 30 percent—from one U.S. dollar to seventy U.S. cents—and linked to sterling at four British Honduras dollars to one pound sterling. This realignment ended the direct U.S. dollar peg and brought the currency's external value closer to its sterling reserve base. It also reduced purchasing power, increased the cost of imports from the United States, and demonstrated that devaluation carried both monetary and political consequences.

By the early 1970s, the international monetary order had changed again. Between 1971 and 1973, the Bretton Woods system of fixed exchange rates collapsed, ushering in an era of floating rates. As sterling began to fluctuate more freely against the U.S. dollar, the Belize dollar, linked to sterling, moved in tandem, indirectly exposing Belize to those adverse exchange-rate movements.

From the 1949 devaluation to the end of 1975, sterling lost approximately 28 percent of its value against the U.S. dollar. Because the Belize dollar moved with sterling, its implied value against the U.S. dollar also weakened. Belize therefore faced a defining policy choice: **remain tied to an increasingly unstable sterling anchor or link directly to the U.S. dollar.**

By 1976, the U.S. dollar had become increasingly important to Belize's external economy: it was central to the payment of imports, the management of reserves, external financing and debt obligations, and other international transactions. Although exports to sterling-linked markets remained significant, the broader pattern of Belize's trade and payments increasingly favoured a direct U.S.-dollar anchor.

Belize made that choice on 11 May 1976. The local currency was devalued by approximately 29 percent—from seventy U.S. cents to fifty U.S. cents per Belize dollar—thereby establishing a parity of two Belize dollars to one U.S. dollar. The decision replaced the sterling link with a direct U.S.-dollar anchor, returning the monetary system to the currency first used as its external reference in 1894, but at a new parity. It also aligned the currency more closely with Belize's evolving trade, reserve, financing, and payment relationships.

Nearly four months later, on 9 September 1976, the Monetary Authority of Belize Ordinance was enacted. Together with the Banking Ordinance, enacted during the same reform period and brought into operation in 1977, it established the principal legal framework for the transition from currency-board administration to central banking.

The next question, then, is whether this new arrangement was well suited to Belize's economy.

5. WAS THE PEG THE RIGHT CHOICE?

Looking back over fifty years of evidence, the conclusion is clear: the fixed exchange rate was well suited to Belize's economy in 1976. Belize was small, highly open, and import-dependent, with a shallow financial system and limited scope for effective independent monetary policy.

The evidence supports that assessment. Between 1975 and 1985, trade in goods averaged 107.0 percent of GDP, confirming Belize's high degree of trade openness, while private-sector credit averaged only 21.0 percent of GDP, reflecting a shallow financial system. In 1976, the Government's external debt stood at just 9.0 percent of GDP, giving the new parity a sound fiscal starting point.

The high degree of openness also limited the likely benefits of devaluation. Because Belize depended heavily on essential imports, a weaker currency would have quickly raised domestic prices, while import demand and export production would have taken longer to adjust. Devaluation was therefore more likely to generate inflation in the short run than to produce an immediate improvement in the trade balance.

Overall, the evidence shows that Belize had limited scope to benefit from monetary independence or exchange-rate flexibility. Furthermore, a credible external anchor offered a practical basis for stability and confidence.

But suitability at adoption does not guarantee durability. Many countries adopted exchange-rate arrangements that appeared sensible at the outset, **only to abandon them later.** Belize's experience therefore raises the second question: what institutions and policy choices enabled the peg to endure? The peg's durability depended largely on the evolution of institutions capable of preserving credibility.

6. INSTITUTIONAL ADAPTATION AND THE PEG

This institutional evolution is most clearly reflected in the changing requirements for external assets. Under the currency board, reserve assets were intended to provide approximately 100 percent backing for currency in circulation. The statutory minimum fell to 50 percent under the 1976 Monetary Authority Ordinance and to 40 percent when the Central Bank commenced operations in 1982. Because the later ratios covered broader liability bases, the percentages are not strictly comparable, but they clearly mark the transition to a broader framework of monetary management.

At first glance, the move from near-full currency backing to lower statutory external-asset floors might appear to weaken discipline. But it did not make reserves less important. Instead, the institutional framework broadened the tools used to maintain reserve adequacy. These included active reserve and liquidity management, credit policy, financial supervision, efficient payment systems, and macroeconomic coordination, **all supported** by disciplined public finances and a sustainable debt burden. The framework became more flexible and policy-active, but the exchange-rate anchor, and the continuing need to maintain adequate reserves, remained central.

7. WHAT DID BELIZE GAIN?

What did Belize gain from the 1976 realignment of the peg? Above all, nominal stability. The peg gave households and businesses a predictable external value for the Belize dollar and helped keep inflation low and stable.

Between 1980 and 2024, Belize recorded an average inflation rate of approximately 2.7 percent, significantly below the hard-peg peer average and far below the averages of the more flexible Caribbean comparison groups. This comparison does not prove that the peg alone caused low inflation. It does show, however, that Belize achieved the nominal stability expected of a credible fixed exchange rate.

The evidence also does not indicate a persistent loss of competitiveness under the peg. External imbalances arose at particular moments, often alongside fiscal, credit, or cyclical pressures, rather than from a sustained misalignment of the exchange rate itself.

However, those benefits came with trade-offs. Because the exchange rate could not move, shocks had to be absorbed through other channels. These included reserve losses, tighter fiscal and credit conditions, additional borrowing or debt restructuring, reduced imports, and weaker economic activity.

8. THE REAL TEST: SURVIVING CRISES

The trade-offs became clearest when the peg faced its greatest tests. Three episodes stand out, each exposing a different source of pressure and calling for a different set of policy responses:

- the balance-of-payments and reserve crisis of 1984;
- the sovereign financing and debt-restructuring cycle from 2002 to 2017; and
- the economic collapse triggered by the pandemic in 2020.

Together, these episodes show that pressure on the peg took different forms and required different responses. The 1984 crisis demanded monetary and fiscal restraint and the rebuilding of reserves. The debt-restructuring cycle required external financing and debt-management measures. The pandemic required exceptional debt-service relief, followed by the 2021 Blue Loan operation, which reduced external debt and strengthened external liquidity and reserve resilience. These contrasting responses provide the context for examining the distinct channels through which pressure reached the peg.

9. A NEW UNDERSTANDING OF PRESSURE ON THE PEG

Pressure on the peg reached the foreign-exchange system through two distinct channels. Through the commercial channel, authorised dealers met private-sector demand for foreign exchange to pay for imports of goods and services, profits and interest, and other external transactions. Through the sovereign channel, external debt service and other large official obligations, including arbitral awards and nationalisation compensation, placed substantial demands directly on the Central Bank's reserves. Importantly, pressure in the two channels rarely peaked at the same time. Authorised dealers initially met private-sector demand from their own foreign-currency liquidity. This first line of defence could delay or reduce pressure on official reserves, but it could not eliminate it.

Although analytically distinct, the two channels form part of a single national foreign-exchange system. If pressure absorbed initially by authorised dealers persists or intensifies, it can eventually impact official reserves.

10.THE NEXT FIFTY YEARS

The first fifty years show why Belize adopted the peg and how institutions and policy choices sustained it through repeated shocks. The challenge for the next fifty years is to preserve that credibility by strengthening three pillars:

1. disciplined public finances,
2. adequate external buffers, and
3. a more productive, resilient, and diversified economy.

Disciplined public finances require sustainable deficits, a manageable debt burden, and sufficient fiscal space to respond to shocks. Adequate external buffers require strong official reserves, reliable foreign-exchange earnings, sound financial institutions, secure payment systems, and effective oversight of emerging digital-finance risks. A more productive and resilient economy requires higher productivity, climate adaptation, stronger domestic linkages, and a broader export base. Tourism will remain central, but the peg will be stronger if Belize produces more, exports more, retains more value at home, and reduces the import intensity of growth.

A related challenge is ensuring that domestic transactions, savings, and foreign-exchange flows remain within the regulated financial system. The legitimate use of the U.S. dollar in external trade and finance is consistent with Belize's exchange-rate peg. The risk arises when activity moves outside the Belize dollar system or beyond effective regulatory oversight. Such activity can weaken demand for the domestic currency, reduce the foreign exchange available through regulated channels, and limit the authorities' ability to detect and respond to emerging pressures.

Strengthening the Belize dollar system and keeping foreign-exchange flows within regulated channels is, therefore, a shared national responsibility. Every stakeholder must do more: businesses must earn and retain more foreign exchange; workers and enterprises must raise their productivity; financial institutions must safeguard legitimate payment channels; regulators must respond to emerging risks; and public policy must reinforce the economy's resilience.

11.CONCLUSION

After reviewing more than a century of Belize’s monetary history and fifty years of the modern peg, **three conclusions emerge:**

- First, Belize adopted the peg because a credible U.S. dollar anchor suited its small, open, and import-dependent economy;
- Second, the peg endured because institutions adapted, and policymakers repeatedly chose to absorb shocks rather than changing the parity;
- Third, efforts to maintain the peg over the next fifty years will require disciplined public finances, adequate external buffers, stronger foreign-exchange earnings, effective oversight of digital-finance risks, and continued public confidence in the Belize dollar.

The Belize dollar peg has endured because credibility was repeatedly demonstrated, not inherited. Its institutional framework evolved from a largely passive, rule-bound currency board to a monetary authority and then to a central bank. At each stage of pressure, policymakers protected the parity through fiscal and monetary adjustments, reserve and liquidity management, foreign-exchange administration, external financing, and debt restructuring. During the pandemic, this response included extraordinary debt-service relief and the 2021 Blue Loan operation.

The central lesson is not that a fixed exchange rate eliminates adjustment. **Adjustment remains unavoidable.** <u>Durability</u> depends on four principles:

1. recognising pressure early;
2. coordinating monetary, fiscal, reserve-management, debt-management, and foreign-exchange policies;

3. sharing the costs of adjustment fairly across economic sectors and social groups; and
4. acting before reserve losses, rising debt-service obligations, or weakening public confidence erode the authorities' capacity to maintain the parity.

The number we commemorate this afternoon—two Belize dollars to one United States dollar—is therefore more than an exchange rate. It is the visible expression of three enduring commitments:

- A commitment to **monetary stability.**
- A commitment to **external responsibility.**
- A commitment to **institutional credibility.**

Fifty years ago, Belize established those commitments.

Our responsibility now is not merely to celebrate those commitments. It is to renew them <u>in policy</u>, <u>in institutions</u>, and <u>in the choices</u> that determine whether Belize earns, protects, and wisely uses its foreign exchange.

If we <u>defend</u> credibility before it is tested, <u>strengthen</u> resilience before it is strained, and <u>choose</u> discipline before crisis chooses for us, then fifty years from now Belize will do more than remember the peg.

Belize will <u>still</u> trust it.

Thank you.

And may God continue to bless Belize.

CENTRAL BANK of BELIZE

2:1

50TH ANNIVERSARY

SAFE AND SECURE
THE PEG AT 50

CENTRAL BANK of BELIZE

CREDIBILITY, COMMITMENT, AND CONTINUITY

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CREDIBILITY
DEFENDED

INSTITUTIONS
ADAPTED

POLICYMAKERS
ADJUSTED

THE ECONOMICS OF A PEG

CREDIBILITY comes with ADJUSTMENT.

Floating

The exchange rate itself absorbs part of the shock.

Fixed

Adjustment occurs through changes in economic activity.

Same Shock. Different Tools.

WHY MOST PEGS EVENTUALLY FAIL

When **DISCIPLINE** fades, **PEGS BREAK.**

Fiscal discipline weakens

Debt accumulates

Reserves decline

External imbalances widen

Confidence erodes

BELIZE ADJUSTED **POLICY** – NOT THE **EXCHANGE RATE**

A NATIONAL COMMITMENT

THE LONG ROOTS OF MONETARY CREDIBILITY

An Era of Currency Fragmentation

1873
Silver crisis prompts monetary reform

Pre-1894
Multiple currencies in circulation

1894
Coinage and Currency Note Ordinances establish parity with the US dollar **(BH$1 = US$1)**

Before 1894, Belize's monetary system relied on multiple foreign currencies, creating uncertainty in prices, payments, and trade.

THE LONG ROOTS OF MONETARY CREDIBILITY

1914
Wartime measures transfer gold reserves abroad

1931
Britain leaves the Gold Standard; sterling depreciates

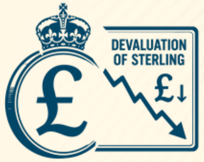
1937
Gold backing removed; reserves shifted to foreign financial assets

ONGOING
Adaptation with continuity

Clear rules. Credible backing. Lasting confidence.

WHY THE 1976 RE-PEG BECAME NECESSARY

1949
Devaluation after sterling crisis



1971-1973
Bretton Woods collapse

1976
Re-peg to the US dollar

11 May 1976

BZ$2 = US$1

BELIZE CHOSE THE US DOLLAR ANCHOR

WAS THE PEG THE RIGHT CHOICE?

In 1976, Belize's economic structure made a fixed exchange rate a suitable choice.

Small

Highly open

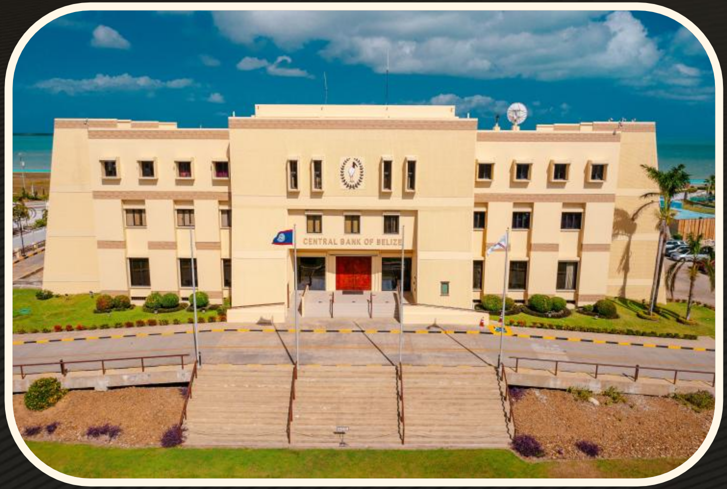
Import-dependent

Shallow financial system

21.0% Private Credit (% of GDP)	**107.0%** Trade in goods (% of GDP)	**9.0%** External Debt (% of GDP)

"Belize's durability depended on institutions capable of preserving credibility."

FROM CURRENCY BOARD TO CENTRAL BANK



Currency Board

100%
Statutory Reserve Requirement

Monetary Authority

50%
Statutory Reserve Requirement

Central Bank of Belize

40%
Statutory Reserve Requirement

DIFFERENT INSTITUTIONS. THE SAME ANCHOR.

WHAT DID BELIZE GAIN?

2.7%

AVERAGE INFLATION
1980-2024

The peg provided nominal stability.

THE TRADE-OFF

- Reserves
- Fiscal Policy
- Credit Conditions
- External Financing
- Debt Operations
- Economic Activity

The peg did not eliminate adjustment. It determined how adjustment occurred.

THE REAL TEST: SURVIVING CRISES

Different Shocks. Different Adjustments.

1984
BOP and Reserve Crisis

2002-2017
Sovereign Financing and Debt Restructuring Cycle

2020
COVID-19 Pandemic

SAME COMMITMENT

A NEW UNDERSTANDING OF PRESSURE ON THE PEG

Two Channels. A Series of Buffers.

COMMERCIAL CHANNEL

- Imports
- Profit repatriation
- Private payments

SOVEREIGN CHANNEL

- External debt service
- Large official payments
- Other government obligations

THE NEXT FIFTY YEARS

Future challenges will test resilience.

FOUNDATIONS FOR THE FUTURE

Disciplined Public Finances

- Manageable debt service

Adequate External Buffers

- Strong reserves
- Secure payments system

Stronger Foreign Exchange Earnings

- Increased productivity, remittances, and investments

CLOSING COMMITMENT

BZ$2 = US$1

More than an exchange rate – a national commitment

- ☑ Monetary Stability
- ☑ External Responsibility
- ☑ Institutional Credibility

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THANK YOU

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THE PEG AT 50