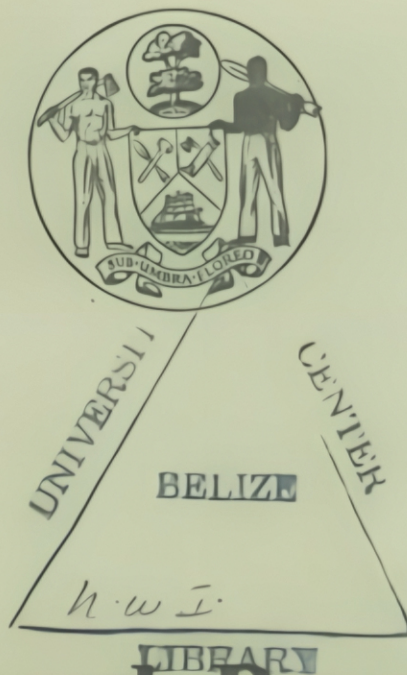


The Monetary Authority of Belize



Annual Report And Accounts 1977

THE MONETARY AUTHORITY OF BELIZE

P.O. Box 852
BELIZE CITY

27th April, 1978

The Honourable
The Minister of Finance
Ministry 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 November 1976 to 31st December 1977, together with a copy of the annual statement of account of the Authority certified by the auditors.

Yours faithfully,

R. A. FONSECA
Chairman

The Monetary Authority of Belize

Annual Report And Accounts 1977

ANNUAL REPORT

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STATEMENT OF ACCOUNTS

And Notes Thereon

References to \$ are to Bze \$ unless otherwise stated.

THE MONETARY AUTHORITY OF BELIZE

ANNUAL REPORT 1977

I 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 re-issue 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 The Currency Ordinance was accordingly repealed on the coming into operation of section 12 of the Monetary Authority of Belize Ordinance.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 organizations 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.

II 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 initial Board of Directors appointed by the Minister in accordance with the provisions of section 7 of the Ordinance were—

R.A. Fonseca Esq., C.M.G., O.B.E.

H.E.C. Cain Esq., O.B.E.

A.E. Cattouse Esq.

D.B. Courtenay Esq.

E.G.N. Gegg Esq., O.B.E., J.P.

H.I. Jex Esq.

Messrs. Fonseca, Cain and Cattouse were each appointed for three year terms, and Messrs. Courtenay, Gegg and Jex for two years each.

Mr. R.A. Fonseca and Mr. H.E.C. Cain were appointed Chairman and Managing Director, respectively, by the Governor under the provisions of sections 8 and 9 of the Ordinance.

The inaugural meeting of the Board was held on Thursday 4th November 1976 and fourteen meetings in all were held during the period under review.

Directors were excused attendance on the following occasions—

2 directors — 1 meeting (both August, 1977)

1 director — 2 meetings (June and July, 1977)

1 director — 3 meetings (January, March and November, 1977).

Staff. The principal officers of the Authority during the year 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)

Of the total staff of 21 in post at the end of the year, five, including the Chief Accountant and the Secretary, were on secondment from Government Service for an initial period of two years from November 1976. The Authority has also been fortunate in having the services of Mr. F. Kilby under the Fellowship Scheme sponsored by the Overseas Development Institute in London, under which scheme young economics graduates are recruited to work for two years in developing countries.

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

The Operations Department is responsible for the banking business 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 all 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.

During the year under review preliminary studies were undertaken by the Research Department with a view to providing guidance and information to the Board on—

- (a) interest rate policy
- (b) credit concentration in the banking sector.

Overseas visits. The Managing Director attended the meeting of Central Bank/Monetary Authority officials in Port of Spain, Trinidad, in February called to consider the draft Agreement for establishment of the CARICOM Multilateral Clearing Facility and the draft Rules of Procedure to be made under the provisions of the Agreement and signed the Agreement on behalf of the Authority at the signing ceremony at the Bank of Jamaica on the 4th of March, 1977. The Managing Director attended as representative of the Authority at the Monetary Studies Conference hosted by the Central Bank of the Bahamas in Nassau in October and a meeting of the Board of the Multilateral Facility held in Jamaica in November. The Managing Director also represented Belize at a seminar on Export Credit Insurance sponsored by the Commonwealth Secretariat and the East Caribbean Common Market Secretariat in Antigua in July 1977.

The Chief Research Officer attended the Central Banking seminar sponsored by the Federal Reserve Bank of New York during October and November and later participated in the visit in November to the Federal Reserve Bank of Atlanta for the final week of the CEMLA course in central banking which this year had been co-sponsored by the Bank of Jamaica.

Training. Four staff members are currently undertaking study courses with financial assistance from the Authority as follows—

- (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 A level examination in Economics—1.
- (c) Correspondence course leading to the preliminary examination of the Institute of Statisticians—1.

In addition two officers are engaged in "O" level studies in Economics and two others are studying Accounts on their own initiative.

External Audit. In accordance with the provisions of Section 37(1) of the Ordinance Mr. S.J.P., Ermeav, Chartered Accountant, was appointed external auditor by the Board with the approval of the Minister.

III Accounts

Capital and Reserves. The authorised capital of the Authority is four million dollars.

With the coming into force on the 1st January, 1977 of sections 12 and 13 of the Monetary Authority of Belize Ordinance 1976, No. 9 of 1976, the balance of \$640,110 standing to the credit of the Currency Fund established by section 12 of the Currency Ordinance, 1965, was transferred by the Government to the Authority, and in accordance with the provisions of section 12(1) constituted the initial paid up capital of the Authority.

The net profit of the Authority amounting to \$1,353,350 for the year ended on 31st December, 1977 has been credited to the capital account in accordance with the provisions of section 13(2) of the Ordinance. As a result of that transfer, the balance on the Capital Account at the end of the year was \$2,008,460.

Income and Expenditure. Net investment income from assets of the Authority amounted to \$1,181,431 during the year—65.74 per centum of total income of \$1,797,238 - and represented a yield of approximately 6 per cent on average total assets.

Total operating expenses including the costs of printing currency notes and minting of coins amounted to \$428,888, representing 23.86% of total income.

The annual statement of accounts of the Authority, certified by the auditors, is attached to this report.

IV Operations

Currency. The Authority is vested with the sole right of issuing, re-issuing and redeeming currency notes and coins in Belize 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 United States of America currency.

Belize (or British Honduras) currency notes and coins appear to have been first issued in 1895. The gold dollar of the United States of America was the standard coin and the holder of a currency note was entitled to obtain, on demand payment in current coin, either gold or silver of the amount expressed on the note. Silver coins were part of subsidiary coins "coined for British Honduras, under the directions of the Master of the Mint". A British Honduras currency note was "a promise on the part of the Government of British Honduras to pay to the bearer on demand the amount named therein". Currency notes were to be issued in the following denominations - \$1, \$2, \$5, \$10, \$50, \$100 and any multiple of \$100; but \$100 appears to have been the highest denomination actually issued. The issue of notes of \$50 and \$100 denomination was, however, probably discontinued by March 1916.

The gold coin received in exchange for currency notes formed a note guarantee fund to meet possible redemptions of notes. Direct convertibility into gold disappeared from the provisions of the Currency Notes Ordinance 1937 (No. 1 of 1937) which repealed existing legislation and which came into operation on 1 January 1939. Instead, currency notes were to be issued on a one for one basis in exchange for U.S. dollars lodged for account of the Currency Commissioners in New Orleans or New York or, alternatively after 1940, in exchange for sterling lodged in London.

The U.S. dollar link was severed on 31st December, 1949 after which date the issue and redemption of Belize (then British Honduras) currency notes could be effected only in exchange for sterling (at a new parity of four dollars for each pound sterling). This was the position until May 11th, 1976 when in the wake of persistent deterioration in the value of sterling, particularly against the United States dollar, the decision was taken to re-establish the parity of the Belize dollar in terms of the United States dollar instead of continuing its link with the pound sterling.

The designs and other specifications of Belize coins in circulation at the time of the establishment of the Authority have been adopted as its own by the Authority; and arrangements are presently in hand for the determination of new designs and other specifications of currency notes to be issued by the Authority late in 1979. Meanwhile, all notes and coins currently in circulation are deemed to have been issued under the provisions of the new legislation.

An interesting feature of the arrangements for new designs for currency notes is a proposal to re-introduce a currency note for one hundred dollars.

A further development in the system of currency management took effect on 1st February, 1977 with the coming into operation of the Banking Ordinance, 1976 (No. 13 of 1976). This Ordinance requires every person carrying on banking business to obtain a licence, and every licensed institution to maintain—

- (a) a minimum balance in an account with the Authority; and
- (b) a minimum aggregate holding of approved liquid assets.

The effect of the above has been to differentiate between transactions involving the issue and redemption of Belize currency notes and coins and those transactions representing dealings in foreign exchange.

Currency notes in circulation increased from an aggregate value of \$11,216,485 at the end of 1976 to \$12,613,157 at the end of 1977. Coins in circulation increased from \$2,427,412 to \$2,528,781.

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), which was brought into operation on the 1st February, 1977.

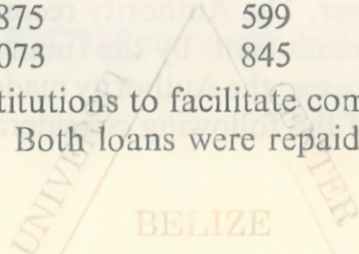
It became apparent during the protracted period of consultations with local managers of the banks which took place during the drafting of the legislation (the Monetary Authority of Belize Ordinance as well as the Banking Ordinance) that transitional difficulties were likely to arise in the early stages of implementation given the novelty in Belize of some of the proposed provisions. A spirit of understanding, cooperation and goodwill was seen as essential to a smooth transition, combined with recognition of the need for, and an acknowledgement of the desirability of, adjustment to improved banking practice in the general interest of the economy of the country. Progress has, on the whole, been satisfactory and the learning process continues.

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 table below shows how the requirement was met during the period under review. In the absence of opportunities for short term investment of liquid assets the Authority paid interest on deposits in excess of the legal requirement until the first issue of Treasury Bills in August, 1977, after which the payment of interest on such deposits with the Authority was discontinued.

Licensed Financial Institutions Required Average Minimum Balance

		\$000	
	<i>Required</i>	<i>Actual</i>	<i>Excess</i>
1977			
Feb.	3,080	3,585	505
Mar.	3,144	5,828	2,684
Apr.	3,297	4,904	1,607
May	3,253	5,563	2,310
Jun.	3,221	5,986	2,765
Jul.	3,224	4,859	1,635
Aug.	3,161	4,249	1,088
Sep.	3,154	3,808	654
Oct.	3,311	4,727	1,416
Nov.	3,276	3,875	599
Dec.	3,228	4,073	845

Loans totalling \$1,522,000 were made to two financial institutions to facilitate compliance with minimum deposit requirements on 1st February, 1977. Both loans were repaid by due date on 1st May, 1977.



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 cent of average deposit liabilities. The required minimum level which may be increased to a maximum of thirty-five per cent of average deposit liabilities, remained unchanged at twenty per cent throughout the year.

On the 1st of February, 1977, the Authority with the approval of the Minister and in accordance with the provisions of Section 18 (3) (j) of the Banking Ordinance, 1976 declared that eighty per centum of loans to government and public sector bodies, together with ten per centum of other loans and advances were approved liquid assets for the purposes of the section. This arrangement enabled all licensed financial institutions to comply with the initial minimum requirement in respect of holdings of approved liquid assets.

The following table shows the position during 1977.

Licensed Financial Institutions Holdings Of Approved Liquid Assets

1977	<i>Required Holding</i>	\$000 <i>Actual*</i>	<i>Excess</i>
Feb.	12,319	21,859	9,540
Mar.	12,575	24,695	12,120
Apr.	13,189	24,284	11,095
May	13,010	24,120	11,110
Jun.	12,885	21,914	9,029
Jul.	12,894	23,348	10,454
Aug.	12,624	24,485	11,861
Sep.	12,615	27,561	14,946
Oct.	13,245	25,303	12,058
Nov.	13,106	21,900	8,794
Dec.	12,910	21,718	8,808

*The Authority's declaration of a special category of approved liquid assets under the provisions of section 18 (3) (j) of the Banking Ordinance, 1976, provided \$10,221,000 of actual holdings during the period shown.

The arrangement was reviewed in November, 1977, and the special declaration of 'approved liquid assets' modified, to take effect on the 1st January, 1978, to include—

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

The special arrangement will be discontinued as of 1st July, 1978.

The Authority received and dealt with 55 applications to the Minister under section 13 (a) of the Banking Ordinance, 1976, for the applicant financial institution to lend amounts equivalent to more than twenty-five per centum of its (assigned) capital and reserves to a single borrower. The Authority recommended unquestioning approval in all those instances in which the commitment by the financial institution had been made before the 1st February, 1977. In other cases, 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
- (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 institutions (in their capacity as Authorised Dealers) the rates at which stipulated foreign currencies may be traded—a minimum rate for buying and a maximum rate for selling; and the rates so notified are posted on notice boards at all banking premises, including the offices of the Authority.

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

The arrangements were formalised in directions issued under the provisions of regulation 32 of the Exchange Control Regulations, 1976, and became effective on June 16 1977.

The Authority is a signatory to the Agreement establishing the CARICOM Multilateral Clearing Facility. The Agreement which was signed in Kingston, Jamaica on the 4th March, 1977, replaced the several bilateral arrangements which previously constituted the inter regional system of payments. 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 \$519,517.

The following tables indicate the extent of dealings in CARICOM currencies and of other foreign exchange dealings during the year.

Authority Dealings In Foreign Exchange With Financial Institutions In Belize

1977	Purchases	Sales	Net Purchases
JAN.	1,809,735	—	1,809,735
FEB.	1,721,049	—	1,721,049
MAR.	1,720,443	—	1,720,443
APR.	988,303	—	988,303
MAY	298,875	—	298,875
JUNE	2,748,850	331,016	2,417,834
JULY	3,011,456	3,090,390	—78,934
AUG.	2,709,771	2,163,122	546,649
SEPT.	3,949,629	2,308,028	1,641,601
OCT.	5,827,420	7,286,133	—1,458,713
NOV.	1,203,085	5,562,549	—4,359,464
DEC.	2,704,642	5,322,944	—2,618,302

THE above represents tradings in the U.S. dollar, the Canadian dollar and the Pound sterling.

AUTHORITY DEALINGS IN FOREIGN EXCHANGE WITH FINANCIAL INSTITUTIONS IN BELIZE

Caricom Tradings.

1977	Purchases	Sales	Net Purchases
JUNE	137,332	24,481	112,851
JULY.	29,903	150,591	120,688
AUG.	221,348	127,420	93,928
SEPT.	—	239,445	—239,445
OCT.	307,528	161,986	145,542
NOV.	80,812	484,980	—404,168
DEC.	41,041	1,323,583	—1,282,542

Government. Advances outstanding to Government at 31st December, 1977 amounted to \$2,639,000 representing 5.7% of the estimated current revenues of the Government for 1977. Section 23 of the Monetary Authority of Belize Ordinance permits advances to the Government not exceeding fifteen per centum of the estimated current revenues for the financial year.

The Authority acted as agent for the Government in arrangements for the issue of Treasury Bills during the year, the initial issue of which took place on 5th August, 1977. The second issue was made on the 4th November and both were for maturities of 91 days. At 31st December total holdings amounted to \$3,650,000 of which \$900,000 was held by the Authority. These holdings by the Authority of Treasury Bills, together with \$1,466,500 in Belize Government Debentures, were within the limit of \$4,480,772 (7 times the Authority's paid up capital and reserves) imposed by section 24 of the Monetary Authority of Belize Ordinance, 1976 (No. 9).

AUTHORITY ADVANCES TO THE GOVERNMENT
AND
HOLDINGS OF BELIZE GOVERNMENT SECURITIES AND TREASURY BILLS
AT MONTH END DURING 1977

1977	\$000		Treasury Bills	Other Securities	(b)
	Advances	(a)			
JAN.	—		—	1,000	(1.56)
FEB.	—		—	1,000	(1.56)
MAR.	—		—	1,000	(1.56)
APR.	1,000	(2.1%)	—	1,500	(2.34)
MAY	1,250	(2.6%)	—	1,500	(2.34)
JUNE	1,725	(3.7%)	—	1,467	(2.29)
JULY	2,444	(5.2%)	—	1,467	(2.29)
AUG.	1,224	(2.6%)	213	1,467	(2.62)
SEP.	—		64	1,467	(2.39)
OCT.	1,199	(2.6%)	732	1,467	(3.44)
NOV.	2,052	(4.4%)	887	1,467	(3.68)
DEC.	2,639	(5.7%)	900	1,467	(3.70)

Notes

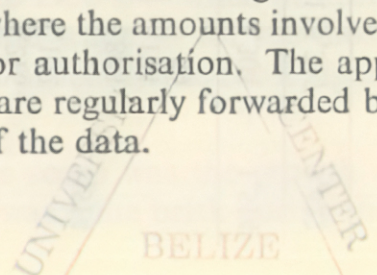
- (a) Advance outstanding as a percentage of estimated 1977 Central Government current revenue is shown in brackets.
- (b) Total holding of Treasury Bills and other securities as a multiple of the Authority's paid up capital is given in brackets.

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) thereby assuming responsibility 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 (No. 24 of 1972), and both the parent and its subsidiary legislation were brought into force on the 11th of May 1976.

The regulations cover every aspect of foreign exchange dealing and derive from model regulations promulgated during the Second World War applicable to the now disintegrated Sterling Area. Current policy aims at building up an administrative machinery capable of coping with any possible future emergency situation while at the same time causing minimum inconvenience 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 involved are substantial that reference needs to be made to the Authority for authorisation. The application forms completed by persons applying for foreign exchange are regularly forwarded by the Authorised Dealers to the Authority for audit and tabulation of the data.



APPLICATIONS FOR FOREIGN EXCHANGE APPROVED BY AUTHORISED DEALERS

BZF. \$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	20,184		26,233		21,527		28,628		96,572	
Travel	561	264	1,126	266	1,275	428	1,007	455	3,969	1,413
Business	(215)	(17)	(241)	(31)	(280)	(52)	(393)	(72)	(1,129)	(172)
Medical	(101)	(11)	(166)	(3)	(133)	(17)	(169)	(9)	(569)	(40)
Vacation	(208)	(126)	(631)	(102)	(694)	(266)	(274)	(170)	(1,807)	(664)
Other	(37)	(110)	(88)	(130)	(168)	(93)	(171)	(204)	(464)	(551)
Family Maintenance	84	51	150	102	79	239	214	103	527	495
Education	183		101		319		138		741	
Insurance/Reinsurance	314		69		633		586		1,602	
Travel Fares and Freight Charges	944		594		1,439		1,876		4,853	
Medical Bills	59		59		77		90		285	
Professional Services/Head Office										
Expenses	334		598		172		576		1,680	
Royalty Payments	39		37		68		69		213	
Management Fees	20		21		28		30		99	
Subscriptions	39		31		79		57		206	
Sundries	218		523		179		282		1,202	
Other Current Account							64		64	
TOTAL, CURRENT ACCOUNT	22,979	315	29,542	368	25,875	667	33,617	558	112,013	1,908
Emigration	206		195		525		290		1,216	
Profits/Dividends	255		1		699		147		1,102	
Repatriation of Funds		346		192		407		569		1,514
Loan/Interest Payments	181		214		107		301		803	
Gifts	42		21		14		47		124	
Investment					59				59	
TOTAL, CAPITAL ACCOUNT	684	346	431	192	1,404	407	785	569	3,304	1,514
TOTAL	23,663	661	29,973	560	27,279	1,074	34,402	1,127	115,317	3,422

V. General Economic Review

International

During 1977 the world economy continued to climb slowly and hesitantly out of recession. Most countries were still adjusting to the problems generated by the 1974 oil price explosion. Inflation rates subsided, but governments were less successful in tackling unemployment. It was generally agreed that the momentum of world economic recovery slowed during the year. Unfortunately, the strong economies, notably West Germany and Japan, were unwilling to give a lead to world growth by boosting their demand for imports, for fear of starting a new bout of inflation in their own countries. Other countries, still grappling with balance of payments problems caused by oil price rises, were largely forced to pursue fairly restrictive monetary and fiscal policies. The U.S. economy achieved a fairly respectable growth rate, though its massive trade deficit, generated by oil imports, cast a shadow over world financial markets.

The major industrial economies largely pinned their hopes for economic expansion on a revival of investment. Investors, however, were even more cautious than government leaders. The reluctance of governments to pursue expansionary monetary and fiscal policies discouraged even the most sanguine of investors from increasing productive capacity. Fear of inflation further increased the climate of uncertainty facing investors. Sagging investment rates resulted in fewer new jobs being created and dampened world economic recovery.

Early in the year the leaders of the Organisation for Economic Co-operation and Development (OECD) countries met to discuss the problems besetting the world economy. The OECD member countries—the United States of America, Japan, West Germany, the United Kingdom, Canada, France and Italy—are the major industrial economies of the world, and as such agreed that they should provide the initiatives for stimulating world economic recovery. The members agreed to set an average target of 5.5 per cent growth for 1977. Naturally the strong economies, the U.S.A., West Germany and Japan, were expected to set the pace. It was thought that these strong countries should be able to expand their economies and increase their imports from the rest of the world without encountering balance of payments constraints.

Many critics thought that these growth targets would not be met unless the various governments followed more aggressively expansionary policies. West Germany and Japan in particular achieved only modest growth in 1977, and this by increasing their exports to other countries. Industrial production in both West Germany and Japan rose at an annual rate of only 2.5 per cent, (estimates based on October figures), whilst their trade surpluses soared to about U.S. \$15 billion. In the other weaker economies industrial production was virtually stagnant.

In fact, the large trade surplus of Japan led to mounting criticism that it was trying to go it alone by export-led growth. It was frequently claimed that its policies discouraged imports from other countries, and that its secure home market enabled it to dump its exports in other countries at artificially low prices. Domestic producers forced to compete with exports from Japan called on their governments to protect their industries from these products. But government leaders, who had reminded themselves of the lessons of the 1930's — when protectionist policies had led to a self-defeating downward spiralling of world trade — for the most part resisted these calls firmly. This reluctance to restrict trade was probably the most significant achievement of the OECD summit meeting.

One of the few bright spots on the international economic scene was the growth of the U.S. economy — estimated at 4.9 per cent for 1977. Recovery was quite brisk during the first

6 months of the year, but slowed somewhat during the last 6 months. Much of the expected new investment in the U.S. economy failed to materialise. In real terms gross investment probably rose by about 8 per cent in 1977. Investors were uncertain about the course of the future — in terms of fiscal policy as President Carter's tax reform proposals were delayed; in terms of Monetary policy because of uncertainty over whether Dr. Burns would be re-appointed Chairman of the Federal Reserve Board; and in terms of costs of energy which will be unclear until the energy bill proposals emerge from the Congress.

The U.S.A.'s current account deficit for 1977 will be in the order of \$18 billion. This is explained by the mounting dependence of the U.S. on oil imports to meet its energy needs. Oil imports for 1977 were projected at \$42 billion, about 18 per cent above the level for 1976. The huge trade deficit combined with the failure of the U.S. to tackle its energy problems led to a weakening of confidence in the dollar on the part of the international business community. Over the year the value of the U.S. dollar fell by approximately 18 per cent against the Yen, 17 per cent against the Swiss Franc, 11 per cent against the Deutchmark, and 10 per cent against Sterling. The trade-weighted depreciation of the dollar was, however, much smaller. It fell by only 4.3 per cent, because the currency of Canada, which is the U.S.'s largest trading partner, depreciated by 6.7 per cent against the dollar.

The slow growth of the advanced industrial economies exacerbated the problems of the world's developing countries, who have been less successful in dealing with their own inflation, unemployment, and balance of payments problems.

Demand for primary commodities, the major exports of developing countries, has been weak, and prices, with the notable exception of coffee, declined steadily. Sugar prices, which are of special interest to Belize, fell on world markets during 1977. However, a new International Sugar Agreement was successfully concluded, and will come into force at the beginning of 1978. It contains a programme of production for member countries and proposes to stabilise prices by operating a buffer stock. The high current levels of sugar stocks remaining to be sold are not likely to be exhausted this year, however, and it is unlikely that the target price of 22 cents a pound will be reached before 1979.

Non-oil producing countries were squeezed between the burden of higher prices for oil and manufactured products and the falling prices of their commodity exports. This has forced many of these countries to raise their commercial borrowing from developed countries. In this way the surplus foreign exchange earnings of the Oil Producing Exporting countries have been re-cycled by the banks of the advanced industrial countries. But there is growing concern over the rising debt burden of developing countries. Many observers question the ability of some large borrowers to repay their debts to the commercial banks, and predict that debt defaults will throw the world financial system into disarray.

These problems lay at the heart of the North-South dialogue. The dialogue between 27 industrialised and developing countries ended in June, after an 18-month session held in Paris. The outcome of the talks did not meet the expectations of some of the poorer participants who had emphasised the widening gap between the world's rich and poor countries, and who were looking for a substantial transfer of resources from rich to poor countries. But the developed countries, many of whom were themselves suffering declines in their own living standards for the first time since the war, were reluctant to make any substantially increased aid commitments.

Nevertheless, the growing realisation of the interdependence of the world economy which emerged in 1977, offers the brightest hope for the future. This realisation of the link-

age between the prospects of the developed and less-developed countries may prompt a more urgent search for a global solution to the world's economic problems. It is only by surrendering narrow definitions of national self interest and by responding to this broader vision, that political leaders can assure the future continued growth and prosperity of the world economy.

Domestic

The Authority commenced full operations on 1st January, 1977 with the transfer to it of the assets and liabilities of the Board of Commissioners of Currency, and the abolition of that body. This followed the establishment of the Authority on 1st November, 1976 and its appointment with effect from that same date as Foreign Exchange Controller, with responsibility of administering the exchange control regulations on behalf of the Government.

In February, new banking legislation was brought into effect, establishing cash reserves and liquid asset requirements for licensed financial institutions, and providing for a more comprehensive framework for the regulation of banking than had existed previously.

Both the Monetary Authority of Belize Ordinance, 1976 and the Banking Ordinance, 1976 were products of intensive consultation between the commercial banks already operating in Belize and the Government, and the latter was assisted with expert advice provided by the Bank of England and the Bank of Jamaica. The new financial arrangements make for a significant increase in the capacity for monetary and fiscal management in the interests of the local economy.

During the first quarter of 1977, the Government published its development plan covering the period 1977 to 1979. Under the plan the development strategy over the three-year period, and during the next twenty-five years, will be directed towards:

- (a) increasing the rate of growth of real output primarily through expansion of agricultural and industrial production for export and for import substitution;
- (b) increasing the volume of national savings, especially public sector savings, and through this means increasing employment opportunities and the participation of nationals in the key sectors of the economy;
- (c) reducing the current account deficit in the balance of payments;
- (d) reducing the monocrop dependence situation of the economy through diversification of the structure of production; and
- (e) raising the general standard of living through self-help and through greater participation by nationals in the process of economic and social development.

The plan document lists the projects through which the objectives over the 1977-79 period are to be attained.

Also during the first quarter, the Government announced the issue of \$5 million worth of 8 1/2 per cent 1992/1997 debentures with the object of raising funds:

- (i) to refinance existing short and medium-term debt of the Belize Electricity Board;
- (ii) to provide local counterpart funds for the Belize City Water and Sewerage Project;
- (iii) for industrial, agricultural and housing credits via the Development Finance Corporation; and

- (iv) for housing credits via the Reconstruction and Development Corporation and the Government Housing Loans Board.

The Development Finance Corporation launched the D.F.C. Investment Company with an offer of 500,000 \$1.00 shares to the public. It is intended that the Company will invest in new and existing operations in Belize, and by so doing provide nationals with an opportunity to own a stake in productive enterprises in the country.

During the second quarter the Authority increased its activities substantially, with the most important developments taking place in the area of foreign exchange transactions. In March, representatives of Central Banks and Monetary Authorities within the Caricom region signed an agreement establishing the Caricom Multilateral Clearing Facility, an arrangement for clearing payments from one participating country to another via the central banks. The Facility commenced operation on June 16, and the first general settlement between participants took place in September.

In addition to participating in the Caricom clearing arrangements, the Authority, also with effect from June 16, began to cover foreign exchange transactions for commercial banks and the exchange rate risks arising from dealings with the public at exchange rates set by the Authority. The sterling /US dollar exchange rate had been fluctuating widely during the latter part of 1976, and the banks had widened the margins between their buying and selling rates for sterling in order to protect themselves from possible losses. Following stabilization of the rate in January the banks continued to maintain their wide spreads; and after receiving complaints from the business community and after discussions with the banks, the Authority decided to fix minimum buying and maximum selling rates for commercial banks dealings with the public, and at the same time to fix rates at which the Authority would enter into transactions with commercial banks, effectively covering commercial bank exchange rate risks.

Sugar Cane deliveries to the Tower Hill factory during the second quarter were interrupted by a delivery dispute during May/June between the Orange Walk and Corozal Divisions of the Cane Farmers Association. With sugar being the country's most important export crop and with the second quarter being probably the busiest period for cane farmers, great efforts were made to resolve the issues. Regular deliveries to the Tower Hill factory resumed on June 14 but the onset of heavy rains made cutting and transportation difficult, and a considerable quantity of cane was left uncut at the end of the grinding season.

Total sugar and molasses production for 1976/77 amounted to 91,853 (long) tons of sugar and 26,695 tons of molasses of which 46,325 tons of sugar were exported to Europe (mainly the United Kingdom) under the Lome convention. Exports to the United States totalled 35,650 tons of sugar and 26,695 tons of molasses. Proceeds from production amounted to \$49,837,260 with \$32,394,219 going to cane farmers.

In the meantime the price of sugar fluctuated on the world market as hopes of achieving agreement on supplies and prices rose and fell. Given the large stocks available, the prevailing mood was pessimistic, and prices were generally agreed to be below production costs for all but the most efficient of the world's producers.

Developments during the third and fourth quarters of the year emphasised the seasonal pattern of the Belize economy, reflecting the dominating influence of the sugar industry. Receipt of the second payment for 1976/77 sugar production caused a build-up in banking system liquidity as the foreign inflows were used to reduce the level of banking lending and to increase bank deposits. The net foreign assets position of the banks rose from a seasonal low of minus

\$9.7 million at the end of December 1976 to a surplus of \$4.5 million at the end of August, with deposit liabilities over the same period moving from \$61.3 million to \$67.8 million.

Loans and advances moved in the opposite direction, from \$65.2 million at the end of December 1976 to \$55.3 million at the end of August 1977.

In anticipation of the rise in commercial bank liquidity, the Government of Belize made the first in a quarterly series of Treasury Bill offerings early in August with the issue of \$5 million worth of 91-day bearer Bills on a combination tap-and-tender basis. The main objectives of the issues were to provide an instrument for short-term liquid investments for the commercial banks in order to facilitate their observance of the liquid asset requirements of the Banking Ordinance, to provide a new instrument for monetary control by the Monetary Authority, and to provide a means for financing cash-flow shortfalls by the Government without its having to make recourse to the more expensive direct borrowing from the banks and the Authority. Of the \$5 million worth of Bills offered at the first issue commercial banks tendered initially for \$980,000 and the Authority purchased a further \$65,000 worth in order to fix the average tender rate at 5 per cent. The commercial banks took advantage of the tap arrangements and purchased additional quantities of Bills before the November 4 maturity date. The Authority stood willing to sell or purchase Bills at any time before maturity, and the commercial banks availed themselves of the opportunity to vary their holdings as their positions required.

The fourth quarter saw the seasonal decline in banking system liquidity as deposits were drawn down as customers increased their borrowings to finance imports for the high expenditure Christmas period. Exchange control data showed a steady increase in foreign payments over the quarter, with just under \$13 million being paid out during the month of December. An additional source of credit demand during the quarter was the sugar industry, with the funds being used to finance the 1977/78 sugar crop.

Over the quarter, commercial bank deposit liabilities declined by \$3 million, while loans and advances rose by \$5.5 million, leading to a rise in the advances/deposits ratio from 86.9 per cent to 100 per cent. The net foreign asset position of the banks went back into the negative, normal for this period, with the end-of-year level being minus \$6.4 million.

However, the cash/deposits ratio rose as the banks drew down on their balances with the Authority in order to meet the expected high demand for transactions balances by the public during the Christmas and pre-Christmas periods.

Another important development in the banking system during the quarter was a switch at the request of the Authority, effective October 1, from the clearing of local interbank balances abroad through accounts at head offices and correspondents to local clearings. Full clearing house facilities, however, have not yet been established and clearings were done on a bilateral basis between banks through their accounts at the Authority.

THE MONETARY AUTHORITY OF BELIZE

31 DECEMBER 1977

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

We have examined the accounts on pages 2 to 7 with the books of the Authority and have obtained all the informaton 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 1977 and of the profit for the period ended on that date.

S.J.P. ERMEAV SR.
Chartered Accountant

Belize City, Belize
27th April 1978

THE MONETARY AUTHORITY OF BELIZE

BALANCE SHEET

31 DECEMBER 1977

	<i>Note</i>	1977 \$
<i>Assets</i>		
APPROVED EXTERNAL ASSETS	3	
Balances with foreign bankers and the Crown Agents		8,698,003
Marketable Securities issued or guaranteed by foreign governments		6,465,226
Other foreign credit instruments maturing within 180 days		980,433
		<hr/> 16,143,662 <hr/>
ADVANCES TO BELIZE GOVERNMENT	4	2,639,146
BELIZE GOVERNMENT DEBENTURES, at cost		1,466,500
BELIZE GOVERNMENT TREASURY BILLS	5	895,244
BALANCES WITH LOCAL BANKERS		419,183
OTHER ASSETS	6	504,230
FIXED ASSETS	7	20,925
DEFERRED INCOME		
Unrealized gain from appreciation in value of external assets		(554,427)
Unrealized gain from changes in foreign exchange rates		(367,555)
<i>Total Assets</i>	BZES	<hr/> 21,166,908 <hr/>

The notes on pages 5 to 7 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE

BALANCE SHEET

31 DECEMBER 1977 (Continued)

	Note	1977 \$
<u>LIABILITIES AND CAPITAL</u>		
DEMAND LIABILITIES		
Notes and coins in circulation		15,141,938
Deposits by licensed financial institutions	8	3,433,551
		<hr/> 18,575,489
CARICOM MULTILATERAL CLEARING FACILITY		519,517
OTHER LIABILITIES	9	69,442
		<hr/> 19,164,448
CAPITAL		
Paid Up Capital (Authorized Capital \$4,000,000)	10	2,002,460
		<hr/> 21,166,908
<i>Total Liabilities and Capital</i>	BZES	<hr/> 21,166,908

R. A. FONSECA)

Chairman

H. E. C. CAIN)

Managing Director

F. J. GARBUTT)

Chief Accountant

The notes on pages 5 to 7 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE
STATEMENT OF INCOME AND EXPENDITURE
PERIOD ENDED 31 DECEMBER 1977

	1977 \$
INCOME	
Net interest on investments	914,886
Discounts and other investment income	266,545
Net realized gains from changes in foreign exchange rates	53,340
Commissions and other income	562,467
<i>Total Income</i>	1,797,238
 EXPENDITURE	
Printing of notes and minting of coins	230,676
Salaries and Wages	115,686
Other expenses, including depreciation	88,526
<i>Total Expenditure</i>	434,888
 NET PROFIT transferred to CAPITAL ACCOUNT in accordance with Section 13 of the Ordinance BZES	 1,362,350

The notes on pages 5 to 7 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE

NOTES TO THE ACCOUNTS

31 DECEMBER 1977

1. The Monetary Authority of Belize was established by the Monetary Authority of Belize Ordinance 1976 (the Ordinance). Expenses totalling \$18,369 were incurred and income amounting to \$60 received during the period 1 November 1976 to 31 December 1976 after the Authority was established but before the Belize Board of Commissioners of Currency was wound up and its assets transferred in accordance with Section 12 of 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*

The total under this heading does not include coins which are specially minted or packaged as collectors items. Such coins are not issued for monetary purposes and it is considered that no liability will arise in respect of them. Proceeds from the sale of such coins are recognized as income in the year of receipt.

c) *Translation of foreign currencies*

Foreign currency balances at 31 December 1977 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 the lower of cost and market value. Treasury bills and other foreign credit instruments are shown at cost plus accrued discount.

e) *Printing and minting expenses*

The cost of printing notes and minting coins is written off against profit in the year of receipt of such notes and coins.

THE MONETARY AUTHORITY OF BELIZE

NOTES TO THE ACCOUNTS

31 DECEMBER 1977

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% 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 1977, total approved external assets approximated 86.91% of such liabilities.

4. ADVANCES TO BELIZE GOVERNMENT

Section 23 of the Ordinance stipulates that advances to the Government shall not exceed in aggregate 15% of estimated current revenues of the Government for the financial year. At 31 December 1977 advances to the Government approximated 5.7% of the estimated current revenues of the Government for 1977.

5. 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 Reserve Account of the Authority, At 31 December 1977 the Authority's aggregate holding of Belize Government Treasury Bills and Securities approximated 3.69 times the amount of paid up capital of the Authority.

6. OTHER ASSETS

Other assets include:—

Items intransit	245,181
Accrued interest	244,819
Other	14,230
	<hr/>
	504,230
	<hr/>

