CENTRAL BANK OF BELIZE

Fourth Annual Report and Accounts 1985

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Abbreviations:

CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
EEC	European Economic Community
EIB	European Investment Bank
IBRD	International Bank for Reconstruction and Development (also known as the World Bank)
IMF	International Monetary Fund
lb	pound (avoirdupois)
T&T	Trinidad & Tobago
TT	Trinidad & Tobago
UK	United Kingdom
US	United States of America
USA	United States of America
USAID	United States Agency for International Development

$ refers to the Belize dollar unless otherwise stated.

Since May 1976 the Belize dollar has been tied to the US dollar at the rate of US$1.00 = BZ$2.00.

Central Bank's fiscal year : 1 January to 31 December.
Central Government's fiscal year : 1 April to 31 March.

CENTRAL BANK OF BELIZE

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29th April, 1986

The Rt. Hon. Manuel Esquivel
Minister of Finance
Ministry of Finance
Belmopan.

Dear Sir,

In accordance with the provisions of section 56 of the Central Bank of Belize Act 1982 (No. 15 of 1982), I have the honour to transmit herewith on behalf of the Board of Directors, the report of the operations of the Central Bank for the period 1st January to 31st December, 1985, together with a copy of the annual statement of accounts of The Central Bank certified by the auditors.

Yours faithfully,

Governor

Contents

Economic Review

I Overview

The external environment for the developing countries in general, and Belize in particular, generally deteriorated in 1985. The real rate of growth of world trade slowed from 8.5% in 1984 to 3.5% in 1985, and is expected to fall further in 1986. The problems faced by debtor developing countries have been aggravated by the continued weakness in commodity prices which, relative to the price of manufactured goods, fell 15% in 1985, and by continued protectionist policies in the developed countries, all of which contributed to a widening of the combined balance of payments current account deficit of the non-oil developing countries from US$38.9 million in 1984 to an estimated US$41.6 million in 1985.

Preliminary estimates indicate that there was no significant change in real GDP in 1985, compared with a growth rate of 1.3 percent in 1984. The rate of consumer price inflation fell to 3.3 percent in 1985, compared with a rate of 3.9 percent in 1984. The output performance is explained partly by tighter monetary and fiscal policies, and partly by lower export earnings which may have been offset by the effects of higher capital inflows. Weaker export demand in the United States and a deterioration of Belize's merchandise terms of trade contributed to a widening of the trade deficit by US$2.6 million to US$27.2 million in 1985. Net earnings from invisibles such as tourism increased, however, resulting in a balance of payments current account surplus of US$6.2 million, compared with a deficit of US$0.2 million in 1984. The capital account of the balance of payments recorded a surplus of US$8.7 million in 1985 compared with a deficit of US$6.6 million in 1984. The higher level of net capital inflows was due to drawdowns on the UK independence loans and the USAID Economic Stabilisation Fund. One consequence of the improved balance of payments position has been a substantial increase of US$7.0 million in the net official foreign exchange reserves.

Tighter monetary policies introduced in early 1985 provide part of the explanation for the improvement in the official reserves. These measures were thought necessary to check unsustainably high borrowing levels and dampen import demand. The commercial banks' minimum lending rate was increased by two percentage points and their deposit rates by 3 percentage points on the existing minimums. These increases were accompanied by tighter commercial bank cash reserve and approved liquid asset requirements, and by an increase in the Treasury bill rate. The measures contributed to higher real financial savings in 1985 - despite a fall in real export earnings - and to a reduction in net domestic credit from the banking system of some $9.7 million to $186.6 million. Net credit to the public sector decreased by $0.3 million while loans and advances to the private sector fell $9.4 million to $121.1 million.

The overall cash deficit of the non-financial public sector in 1985/86 is estimated to have increased by $4.5 million to $18.6 million compared with 1984/85. The performance of the public enterprises improved significantly but at the same time there was a worsening of the Central Government fiscal position. The Central Government's overall cash deficit increased from $23.8 million in 1984/85 to an estimated $49.0 million in 1985/86. A large part of this increase is explained by higher recurrent expenditure which increased by $10.5 million to $103.7 million and by the reduction of arrears on external public debt from US$6.2 million at end 1984 to virtually zero at end 1985.

The outstanding external debt of the public sector increased from US$74.7 million at December 31, 1984 to US$98.4 million at December 31, 1985. Drawdowns on new and existing loans increased from US$9.5 million in 1984 to US$26.6 million in 1985, largely as a result of borrowings under the IMF Standby arrangement and the USAID Economic Stabilisation Fund. A further explanation of the increase in outstanding external debt, in US dollar equivalents, is provided by the appreciation of the pound sterling against the US dollar which increased the US dollar value of debt liability in sterling by over US$6.5 million. Although more than 80% of the new debt is on highly concessional terms, the increase in the level of outstanding debt will increase debt servicing requirements in the future. The level of private sector external debt is not known, but is believed to be substantial. There is, therefore, a growing need to increase export earnings and to generate adequate domestic public sector savings to meet external debt service payments, and to reduce dependence on external financing for developing the infrastructure for sustained growth.

II International Developments

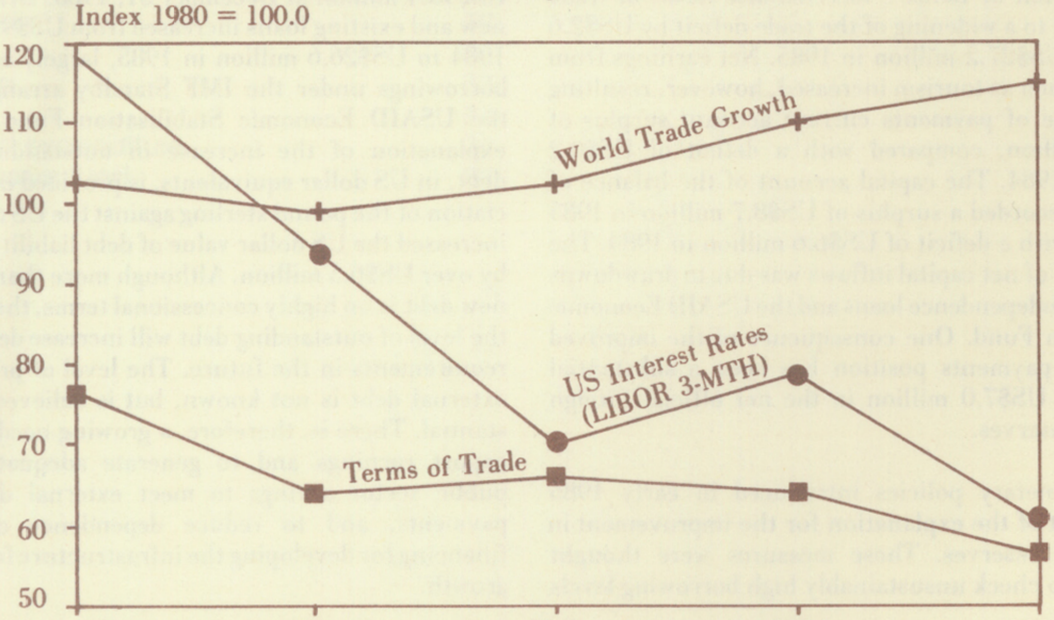
The rate of expansion of the world economy slowed in 1985. The industrial countries grew by 2.7 per cent in inflation adjusted terms, compared with 4.9 per cent in 1984. Nonetheless, the recovery has been making up in endurance what it has lacked in strength. Developing country debt and current account imbalances continued to be causes for concern, and prompted the United States into making preliminary proposals for international action to deal with the problems. On the currency markets, the US dollar underwent a sizable but orderly decline, falling by 9.3 per cent against a trade weighted basket of its major trading partners' currencies during the year. Interest rates in the industrial countries generally declined[1], bringing some ease to the debt repayment burden of floating-rate borrowers. For example, the US prime lending rate fell from 10.75 percent at the end of 1984 to 9.50 percent at the end of 1985, and the yield on US Government Treasury Bills slipped from 7.99 percent to 7.25 percent during the same period. Inflation rates, already much lower than during the past decade, declined further; and unemployment rates in the industrial countries either remained stable or declined. Looked at in this context, the prospects for the world economy appear slightly more favourable than they did a year ago.

This should not divert attention from the serious dangers that remain. In the United States the deficit of the federal government is estimated at US$226.6 billion in fiscal 1986 compared with US$211.9 billion in 1985. The US trade deficit has widened from US$123.2 billion in 1984 to US$131.8 billion in 1985. In the rest of the world, growth continues to hinge on demand from the United States, although there was some narrowing of growth differentials in the industrial countries in 1985. Policy measures should aim at redressing these imbalances. The need for urgent action to curb the US federal deficit is encapsulated in the Gramm-Rudman Act which seeks to eliminate the deficit by 1991. A fiscal tightening in the United States offset by fiscal relaxation in Western Europe and Japan, together with increased bilateral and multilateral financial flows from developed to developing countries and urgent and wide-ranging action to eliminate protectionism, would appear to hold out the best prospect for continued world economic expansion and for an improvement in the economies of the developing countries in the second half of the 1980s.

The balance of payments problems of debtor countries and, in particular, continued uncertainty over their ability to service existing external debt, is a major issue

Chart A / Influences on Developing Country Growth

Index 1980 = 100.0



[1]This occurred even in the United Kingdom, although UK rates tended to be higher at the end of 1985 compared with the year-earlier position.

which requires resolution. The movement towards concerted action on the part of debtor countries, particularly in Latin America, in the direction of a fundamental restructuring of existing debt repayment arrangements appears to be gaining ground. This development reflected a deterioration in the international economic environment for developing countries during 1985. The rate of expansion of world trade slowed to an estimated 3.5 percent in 1985 from 8.5 percent in 1984. This was accompanied by further deterioration (estimated at 15 percent) in the terms of trade of developing countries (Chart A). The terms of trade decline reflected a sharp reduction in oil and non-oil commodity prices. The fall in oil prices has further set back the economies of oil-exporting countries, and the short-term prospect is for further downward movement. Mexico and Trinidad & Tobago, two of Belize's important trading partners, have been particularly hard-hit by the oil price declines. The Trinidad & Tobago dollar was devalued from TT$ 2.40 to TT$ 3.60 per US dollar in December, and the Mexican peso continued its downward slide. These developments will have implications for the future ability of these countries to absorb Belize's exports at existing prices. Of equal concern for Belize was a sharp fall in citrus prices reflecting the flooding of the world market by Latin American producers.

The combination of weak export demand and worsening terms of trade contributed to a widening of the balance of payments current account deficit of the non-oil developing countries from US$38.9 million in 1984 to an estimated US$41.6 million in 1985. One of the consequences of weaker export performance has been an increase in the external debt servicing ratio of the non-oil developing countries as a group from 22.9 percent in 1984 to an estimated 24.8 percent in 1985. This occurred despite lower interest rates and a lower US dollar exchange rate.

III Domestic Developments

Production

Preliminary estimates suggest that there was no significant change in real GDP in 1985, compared with a 1.3% growth rate in 1984. Real output in the primary sector fell by 4.6% in 1985. Agricultural production fell 4.9%, in real terms, with an increase in citrus output being more than offset by a decline in sugarcane production. Real output also fell in the secondary sector, where activity declined by 4.6%. Construction activity dropped sharply, although output in the manufacturing sector increased by 6.5%. The share of the tertiary sector in real GDP continued to expand, with output increasing by 4.4% in 1985. Transportation and finance and insurance showed the highest growth rates, with output increasing by 7.0% and 19.6% respectively.

Bananas

Banana production for export has been fairly static over the last five years, averaging 540,000 boxes per annum (Table 1).

Revenue from banana exports has been increasing steadily, however, as a result of annual price increases following negotiations with Fyffes of the UK, the sole buyer, and as a result of changes in international currency values. Banana export proceeds, at $6.5 million in 1985, were $0.2 million or 3.7% above export proceeds in 1984 despite a fall of 2.3% in the export volume.

Banana export receipts were favourably affected by the

Table 1 / Banana Exports 1981 — 1985

	1981	1982	1983	1984	1985
Volume ('000 42-lb boxes)	551	523	531	555	542
Value ($000)	4,311	4,205	4,818	6,286	6,518
Unit Value ($ per 42-lb box)	7.8	8.0	9.1	11.3	12.0

appreciation in the external value of the pound sterling during 1985, though there was a slight downward movement in its value in the latter part of the year.[2] The sterling appreciation in 1985 followed a substantial decline in its value against the US dollar (to which the Belize dollar is tied) during 1984 and earlier. While the rise in the external value of sterling has contributed to increased dollar earnings for Caribbean banana producers, these producers are facing a substantial threat to their livelihood. Central American banana producers are flooding world markets generally, and the UK market specifically, with large volumes of cheap bananas. Nicaragua, in particular, no longer able to earn hard currency by exporting to the United States as a result of the US trade embargo, has been exporting its production (an important component of which is bananas) to other hard currency areas. There is also pressure from African and Asian producers to enter the UK market. So far, Belize and other Caribbean producers have continued to enjoy preferential access to the UK market. The expansion of the acreage under cultivation together with the privatisation of the industry, both of which occurred in 1985, suggest domestic confidence in the future of banana production in Belize.

Sugar

During the crop year 1984/85, 102,108 long tons of sugar were produced from 961,599 long tons of sugarcane. Sugar produced in 1984/85 was only slightly down on that produced in 1983/84, although the level of sugarcane deliveries was 5.5% lower than the 1983/84 level. This resulted from an improvement in the extraction rate of processed sugar from sugarcane delivered. A high level of factory efficiency and improved sugarcane quality account for this development. The higher fructose content of the sugarcane processed during the crop reflected favourable weather conditions and the effects of the sugarcane rehabilitation programme.

Some 6,348 long tons of sugar (6% of total production) were sold on the domestic market. Exports totalled some 95,300 long tons, yielding $49.0 million. This compares with exports of 95,600 long tons in 1984 for which $69.8 million were received.

There was a major adverse development in the local sugar industry during the year: the closure of one of the two sugar factories by Belize Sugar Industries Ltd., acting under instructions from the then majority shareholder, the UK-based Tate & Lyle Group, reportedly because operations at that factory were becoming increasingly uneconomic. This resulted in a nominal reduction in the country's sugar processing capacity of 27% (from 110,000 to 80,000 long tons). The closure of the factory has had a substantial negative impact on the economy in the northern part of the country. Measures are underway to diversify agriculture in the north, and, in addition, the possibility of alternative uses for sugarcane were being actively explored at year end. The lack of sugar refining capacity in the remaining factory resulted in the need to import certain grades of processed sugar for domestic consumption.

At the end of 1985, the outlook for the sugar industry, not only in Belize, but in other Caricom countries as well, remained bleak. The further reduction in the US sugar quota in fiscal year 1985/86 not only decreased

Table 2 / Trends in Sugar Exports 1983 — 1985

	Exports ('000 long tons)				
Export Market	1983	1984	1985	Percent Change 1984/83	Percent Change 1985/84
USA	27.0	36.2	17.7	34.1	—51.1
(of which U.S. Quota)	(27.0)	(28.2)	(12.1)	(4.4)	(—57.1)
E.E.C.	42.4	43.0	42.1	1.4	—2.1
Rest of World	39.7	16.4	35.6	—58.7	117.1
Total Exports	109.1	95.6	95.3	—12.4	—0.3

[2] The price of bananas is denominated in pounds sterling so that an appreciation of sterling against the US dollar will increase export revenues in dollar terms.

the quota for the Caribbean by 25% to 98,000 tonnes, but spread it over a fourteen month period, instead of the previous twelve, depriving the region of a substantial amount in potential export earnings. Belize's present quota is 18,000 long tons over a fourteen month span, down by 6,000 tons from the previous level of 24,000 long tons. Using average 1985 prices, it is estimated that Belize could lose some $3.9 million as a result of the quota decline. If account is taken of the extended quota year, the total estimated revenue loss increases by $1.7 million to $5.6 million.

At the same time, the shorter-term prospects for world sugar prices look a little more encouraging, despite continuing competition from other sweeteners. A small upturn in US dollar world market sugar prices towards the latter part of 1985 appears to reflect the expectation that excess supplies of sugar will be reduced during 1986.

Garments

Garment production in 1985 at 2.1 million pieces was 10.5 percent higher than the 1.9 million pieces produced in 1984. The boost in garment production for export is attributed mainly to more favourable marketing conditions in the United States brought about by the continued expansion of the US economy. Earnings from garment exports were $31.3 million in 1985, up by $1.8 million or 6.0% on the 1984 figure of $29.6 million.

Citrus

There was substantial activity in the citrus industry during 1985. Production for export in 1985 was 1.2 million gallons, some 64% of which was orange concentrate. Proceeds from the export of citrus concentrates during 1985 amounted to $24.2 million. This compared with earnings of $19.5 million on sales of 1.1 million gallons in 1984. Although citrus prices fell during the course of the year, the average 1985 unit price of $18.6 per gallon was 5 percent higher than the average unit price of $17.7 for 1984.

Earnings in the industry are expected to decline in 1986 despite increased production, as average citrus prices are forecast to fall. By early 1986, US prices for frozen concentrate declined from US$1.75 per pound in early 1985 to US$1.00 per pound in early 1986. In addition to falling prices, the industry will have to cope with low consumer demand, apparently brought about by the high prices of 1984 and 1985. Further, Belize can expect a change in demand from Trinidad & Tobago, one of its main buyers, as a result of the substantial devaluation of the TT dollar in December. The shortrun impact will depend on whether the devaluation stimulates increased sales of the finished product in Trinidad & Tobago's export markets, and the extent to which the Trinidad processors are willing to absorb any reduction in profits resulting from the higher TT dollar cost of citrus concentrate imported from Belize. Over the longer term, however, exports from Belize to Trinidad & Tobago are likely to fall as a result of competition from increased local production. The preliminary indication is that there will be a substantial decline in exports from Belize to Trinidad & Tobago during 1986.

On a more positive note, the medium to long-term prospects for local citrus production have improved, following investment in Belize by the Coca Cola group. Coca Cola's entry on the domestic scene is taken to reflect their confidence that Belize will be able to retain its access to the US market during the lifespan of the CBI arrangements and beyond despite pressure from the citrus lobby in the United States to protect US production.

Marine Production

Export proceeds from marine products during 1985 were $14.7 million for 1.4 million pounds, an increase of just under 25% in revenue compared with the 1984 figure of $11.8 million for a marginally higher 1.5 million pounds (production actually declined in 1985 by 69,000 pounds when compared with 1984). Increased prices for conch and expanded shrimp sales boosted earnings (Table 3).

Lobster production expanded by 23%, with prices fluctuating around $16.60 per pound. The share of the other high value marine product, shrimp, rose in the export totals with the expansion of trawl-fishing activity. Both shrimp and lobster from Belize enjoy virtually guaranteed markets and prices in the USA. Exports of the former are expected to expand in the future as the shrimp farms come on stream.

The demand for conch has risen sharply in recent months, and this has been accompanied by price increases. The average price received for conch during 1984 was $4 per pound. In 1985, the average price was $5.50, and rising towards year end. The price increase served to limit the decline in export proceeds to 3% compared with 1984 earnings, even though the volume of conch exports fell by 28.3%. Demand, and consequently prices, have increased for Belizean conch as exports from traditional sources have contracted. The Bahamas and the Turks and Caicos Islands, the two largest suppliers to the US market, have been forced to reduce production as a direct result of over-fishing and disruption of the conch reproduction cycle. There is a danger of similar developments in Belize.

Table 3 / Export of Marine Products 1984 — 85

	1984		1985					
	Quantity	Value	Quantity	Value	Change in Quantity		Change in Value	
	'000 lbs	'000 BZ$	'000 lbs	'000 BZ$	'000 lbs	percent	'000 BZ$	percent
Crabs & Shrimp	35	14	115	722	80	229	708	5,057
Salted Fish	35	48	27	40	—8	—23	—8	—16
Other Fish	322	480	197	392	—125	—39	—88	—18
Conch	516	2,099	370	2,037	—146	—28	—63	—3
Lobster	565	9,185	695	11,533	130	23	2,348	25
Total	**1,473**	**11,826**	**1,404**	**14,724**	**—69**	**—5**	**2,898**	**24**

Consumer Prices

The rate of consumer price inflation fell in 1985 compared with 1984. At an average level for the year of 134.0 (1980 = 100.0), the national retail prices index rose by 3.3% compared with a rise of 3.9% during 1984. A sharp increase (6.8%) occurred in the category comprising miscellaneous and luxury items. Food prices, on the other hand, remained virtually unchanged. The slowdown in the rate of consumer price inflation reflected a combination of low inflation in the US and lower Belize dollar prices for goods imported from Mexico as a result of continued depreciation of the peso.

Fiscal Operations of the Non-financial Public Sector

The latest available information indicates that the overall cash deficit of the nonfinancial public sector in fiscal year 1985/86 will be $4.5 million higher than in the previous fiscal year, resulting in a deficit of $18.6 million. These provisional estimates show an improved performance for the public enterprises alongside a significant deterioration of Central Government finances from an overall deficit of $23.8 million in fiscal 1984/85 to $49.0 million in fiscal 1985/86 (Table 4). The widening of the Central Government's fiscal shortfall reflects higher debt service payments to meet outstanding arrears on external debt (see following section). This also helps explain the improved performance of the statutory bodies. Central Government transfers to the statutory bodies amounted to some $21.3 million in fiscal 1985/86 compared with $3.8 million in fiscal 1984/85. These transfers reflect in large part funds made available by Central Government to enable the statutory bodies to meet debt service obligations.

The Central Government's current account deficit widened from $2.3 million (or 0.6% of GDP) in 1984/85 to $4.3 million (or 1.1% of GDP) in 1985/86. Current revenues expanded by 7.5% to $99.4 million. Revenue from stamp duty on imports increased from $7.2 million to $9.1 million, and receipts from charges on goods in transit doubled from $1.4 million to $2.8 million. Excise on soft drinks is expected to have increased by about $1.0 million. Revenue from excise on beer is expected to have fallen somewhat despite an attempt to raise sales by recontrolling the price of beer in April

1985 (the price of beer had been decontrolled in October 1984) and by increasing the revenue replacement duty on imported beer. Income tax revenue fell from $20.5 million in fiscal 1984/85 to $18.5 million in 1985/86. However, receipts in 1984/85 were unusually high due to collection efforts which had led to a significant reduction in income tax arrears.

Central Government finances were also adversely affected by a sharp drop in grant receipts from $5.6 million in 1984/85 to $1.4 million in 1985/86. In addition, capital revenues fell $1.1 million to $0.4 million in 1985/86.

Table 4 / Non-financial Public Sector Operations

	$ million	
	1984/5	Estimate 1985/86
Central Government		
Total revenue and grants	**98.0**	**100.2**
Current revenue and grants	90.9	99.4
Capital revenue and grants	7.1	1.8
Total expenditure	**121.4**	**146.0**
Current	93.2	103.7
Capital and net lending	28.2	42.3
[of which: Development expenditure]	[23.6]	[24.0]
Current account balance	(2.3)	(4.3)
Overall balance, cash basis [1]	(23.8)	(49.0)
Public enterprises		
Operating surplus or deficit ( )	1.1	5.5
Non-operating surplus or deficit ( )	1.2	(0.4)
Transfers	**6.8**	**24.3**
Current	2.8	4.7
Capital	1.0	16.6
Grants	3.0	6.8
Other	—	(3.8)
Capital expenditure	8.0	7.4
Overall surplus or deficit ( ) [2]	1.1	22.0
Non-financial Public Sector		
Total revenue and grants	**112.5**	**120.0**
Revenue	102.4	111.4
Capital revenue and grants	10.1	8.6
Total expenditure	**126.2**	**134.4**
Current	90.8	101.3
Capital and net lending	35.4	33.1
Public sector savings	11.6	9.1
Overall deficit, cash basis [1]	(14.1)	(18.6)
External Financing	12.6	17.4
Domestic Financing	1.7	1.2

[1] Adjusted by changes in outstanding arrears.
[2] Including non-operating revenue and transfers to the Central Government.

Central Government current expenditure is estimated to have increased $10.5 million (or 11.2%) to $103.7 million in 1985/86. Interest payments on Central Government domestic and external debt accounted for by far the most significant increase — from $8.4 million in 1984/85 to $13.1 million in 1985/86. Current transfers to meet current and outstanding interest payments of the public enterprises increased by $1.9 million to $4.7 million. Part of the increase in current expenditure reflected increased contributions to the UWI and to other international organisations of which Belize is a member. Such contributions rose from $9.3 million in 1984 to $13 million in 1985. Transfers to the private sector, including grants to denominational schools, increased from $5.5 million to $7.4 million.

Development expenditure increased from $23.6 million in 1984/85 to $24.0 million in 1985/86. Capital transfers to the public enterprises also expanded to meet principal payments on external and domestic debt — from $1.0 million to $16.6 million. The burden on Central Government from this source is expected to be reduced substantially in 1986/87 as outstanding arrears on debt, for which the statutory boards are the primary obligor, have been virtually eliminated.

The performance of the statutory boards improved substantially in fiscal 1985/86. It is estimated that these institutions will produce an operating surplus (before provisions for depreciation and for the payment of interest and related financial charges) of some $5.5 million in 1985/86 as against an operating surplus of $1.1 million in 1984/85 and an operating deficit of $4.4 million in 1983/84. The better than anticipated performance is due largely to an improvement in the finances of the Belize Electricity Board. This can be explained by increased operating revenues due to an increase in the electricity tariff from 38 cents to 43 cents in June 1984, intensified collection procedures and a reduction in load shedding.

The overall deficit of the nonfinancial public sector of $18.6 million was financed mainly from external sources. Drawings on external loan commitments are estimated to have exceeded repayments of principal by $17.4 million. The domestic financing estimate of $1.2 million reflected a $2.1 million increase in net domestic credit from the banking system, offset in part by a fall in loans and advances from the Development Finance Corporation to public sector entities.

Public Sector External Debt

Total outstanding external debt of the public sector increased by US$23.7 million from US$74.7 million at December 31, 1984 to US$98.4 million at December 31, 1985. Drawings on new and existing debt amounted to US$26.6 million, compared with drawings of US$9.5 million in 1984. Total debt service payments increased from US$5.3 million in 1984 (3.3 percent of total exports of goods) to US$15.5 million in 1985 (or 16% of total exports of goods). Principal repayments amounted to US$9.3 million and interest payments US$6.2 million. The higher debt service largely reflected higher current debt service and the reduction of external debt arrears which stood at US$6.2 million at end 1984. Outstanding payments on external debt had been mostly eliminated by September 30, 1985.

The table breaks down external debt by type of creditor or country of origin and shows that bilateral development assistance (at concessional interest rates) accounted for by far the largest proportion of drawings during 1985. Drawings on the USAID Economic Stabilisation Fund totalled US$7.5 million and drawings on the UK Independence loan US$4.9 million. On the other hand, principal and interest payments on suppliers' credits that carry a high rate of interest accounted for the highest share of debt service payments. Debt service payments on loans from the Caribbean Development Bank were also substantial, reflecting the effort to eliminate outstanding arrears to that institution.

The table also shows the impact of exchange rate movements on the total outstanding debt. The weakening of the US dollar against the major European currencies, and in particular sterling, increased the US dollar value of outstanding debt for which these are the currencies of liability. This was partly offset by a reduction in the US dollar value of debt liability in Canadian dollars reflecting the depreciation of the Canadian dollar against the US currency. In total, exchange rate valuation adjustments increased outstanding debt by US$6.3 million in 1985. This more than reversed the exchange gains experienced in 1984 due to the appreciation of the US dollar in that year.

USAID/Belize Cooperation

Economic Stabilization Agreement

A loan agreement between the Governments of Belize and the United States of America [the latter acting through its Agency for International Development] was signed on February 2, 1985. The agreement provides, among other things, for a US$13 million loan on concessional terms and a US$1 million grant. The purpose of the programme is to assist the Government in its fiscal stabilization efforts through the provision of funding for capital projects and through the provision of technical and other assistance. In particular, the programme provided for:

a) advisory services for the Belize Electricity Board;
b) a study for the reorganization of the Belize Marketing Board; and
c) an appraisal of the foreign trade regime and domestic pricing policy.

During the year ended December 1985, US$7.5 million was disbursed to the Government of Belize to be used primarily for capital expenditure with a small portion allotted for recurrent expenditure. The sectors of the economy receiving the financial aid included health, housing, education, natural resources, energy and infrastructure.

Since 1983, the two Governments have also been party to an agreement which provides for a credit facility known as the commercial bank discount fund.

Commercial Bank Discount Fund

This agreement between Governments of Belize and the United States of America [the latter acting through USAID] was signed in March, 1983. The purpose of the agreement was the provision of loan funding for private sector productive investment in qualifying (mainly export-oriented, but excluding some traditional export agricultural activites in Belize) project areas. The project involved a US$5 million loan facility to the Central Bank. This was to establish a Discount Fund against which the commercial banks could discount new loans for certain designated projects. The scheme remained substantially underdisbursed in 1984: total drawings amounting to only US$135,000. Interest in the programme increased significantly in 1985 following a number of changes in the design of the project. Drawings equivalent to US$220,000 were made during the year, bringing the total drawdown, at the end of 1985, to US$355,000. The increased interest in the scheme during 1985 was due largely to an amendment to the original agreement which increased the rediscountable proportion of qualifying loans to 100 percent, and to the introduction by the Central Bank of a facility to guarantee up to 75 percent, on a discretionary basis, of loans qualifying for rediscount under the scheme. Sectors which have received funding under the programme include tourism, agriculture and fishing.

Table 5 / External Debt By Creditor — 1985 US$ million

	Outstanding Balance Dec 84	Drawing	Principal Repaid	Interest Paid	Value Adj.	Outstanding Balance Dec 85
Official: *Multilateral:*						
CDB	25.5	1.1	2.1	2.0	0.4	25.0
IBRD	2.1	2.4	0.0	0.3	0.6	5.1
EEC/EIB	2.3	1.5	0.0	0.0	0.6	4.4
IMF	4.7	4.7	0.0	0.5	1.1	10.5
Bilateral:						
USAID	6.8	8.7	0.0	0.3	0.0	15.5
CIDA	9.2	0.0	0.2	0.0	—0.5	8.6
CDC	4.3	1.7	0.8	0.7	1.2	6.5
UK (non-CDC)	2.3	4.9	0.2	0.1	1.2	8.1
T&T	1.1	0.0	0.0	0.1	0.0	1.1
Private: Suppliers' Credits	12.3	1.6	5.1	1.6	1.7	10.6
Other	4.1	0.0	1.0	0.5	0.0	3.2
Total	**74.7**	**26.6**	**9.3**	**6.2**	**6.3**	**98.4**

IV Financial Developments

Monetary Policy

Monetary policy was tightened markedly in early 1985 to counter a deteriorating balance of payments situation. The overall deficit on the balance of payments had widened to 4.3 percent of GDP in 1984 and had resulted in a net international reserves loss of US$6.8 million. The monetary measures introduced in 1985 were consistent with the overall stabilisation programme which the authorities had undertaken as part of the stand-by arrangement worked out with the IMF in late 1984. The Fund programme involved a stand-by credit facility amounting to SDR 7.125 million available in tranches contingent on the satisfaction of specified performance criteria during the period to March 1986.

The main objective of the monetary measures introduced was to ensure that the growth of demand for credit was brought into line with the supply of domestic savings and sustainable capital inflows from abroad so as to halt the drain on the balance of payments, rebuild investor confidence in the economy and reduce inflationary pressures. Higher interest rates and the variation of the cash reserve and liquid assets requirements of the commercial banks and, more importantly, the direct control of the supply of these assets (including Central Bank credit to the commercial banks) were seen as necessary in achieving the objective and thus formed the key components of the policy programme.

The stabilisation measures introduced recognised the need to improve the public sector's fiscal performance. However, the initial emphasis was placed on monetary adjustment as monetary measures to curb excess credit creation and improve the balance of payments and official reserves could be implemented much more quickly than fiscal measures. The commercial banks' holdings of excess liquid assets were identified as a potential problem area. At December 1984, commercial banks' excess liquid asset holdings stood at $13.8 million, or nearly 50 percent above required levels. This pool of ready liquidity posed a potential threat to the country's foreign reserves as the banks could use the funds available from the sale of excess liquid assets to finance an increase in longer term lending. Such action would have the unavoidable effect of forcing a switch in the Central Bank's asset portfolio from foreign assets (i.e. foreign exchange reserves) to domestic assets (i.e. Treasury bill holdings and loans to the public sector) at a time when the Central Bank's external assets ratio had already fallen below the legally required minimum level.

The policy measures taken were as follows:

Effective January 28, 1985, commercial banks' minimum lending rate was increased by two percentage points to 14 percent, and commercial banks' savings and time deposit rates were increased by three percentage points on the existing minimum levels.

Treasury bill rates were increased by three percentage points from the December 1984 yield rate of 10 percent, subject to commercial bank bids.

Effective March 1, 1985, the required cash reserves ratio of commercial banks was increased by two percentage points to 9 percent.

Two increases in the required liquid assets ratio of commercial banks were mandated. The first increase of five percentage points came into effect on March 1, 1985, and moved the ratio from 20 percent to 25 percent. The second increase took effect on April 1, 1985, and moved the required ratio upwards another five percentage points to 30 percent.

The interest rate charged on loans from the Central Bank to the commercial banks was increased from 12 percent to 20 percent, and the banks were informed that the Central Bank would approve applications from them for loans only in those cases where the Board of Directors of the Central Bank was of the opinion that failure to approve such loans would seriously harm the banking system.

Domestic Credit

Credit availability was reduced noticeably during 1985. Net domestic credit fell by $9.7 million to $186.6 million — a 5 percent contraction. Net credit to the public sector from the banking system (which includes the commercial banks and the Central Bank) fell by $0.3 million to $65.4 million during the year. Net credit from the Central Bank to the public sector was reduced by $7.3 million (6.2 percent) to $48.7 million, with the year-end position consisting of net loans and advances to Central Government plus holdings of Government securities totalling $60.2 million and deposits by other public sector entities in the Central Bank amounting to $11.5 million. During the year Central Bank loans and advances to the Central Government rose by $11.6 million to $29.3 million. This increase included the effects of the use by the Central Government of $11.3 million of the local currency counterpart of the IMF stand-by drawings during the year[1], as well as the transfer to the Central Government of $4.7 million of the Central Bank's profit for the year as required by law. The Bank's holdings of Government securities fell by $8.1 million to $34.7 million, with the decline being fully reflected in reduced holdings of Treasury bills. Deposits by the public sector with the Central Bank during the year rose by $10.7 million to $15.3 million, with $3.8 million of this expansion representing Central Government deposits.

During 1985, net credit from the commercial banks to the public sector rose by $6.9 million or 70 percent to $16.8 million. Commercial bank holdings of Government securities were noticeably higher during 1985 than in previous years. At December 31, 1985, these institutions were holding $14.6 million in Government securities as against $5.4 million a year earlier (Chart B). Outstanding loans and advances fell by $2.2 million from $22.5 million at the end of 1984 to $20.3 million at the end of 1985. Public sector deposits rose by $0.1 million to $18.2 million.

Commercial bank loans and advances to the private sector contracted by $9.4 million or 7.2 percent to $121.1 million during the year, the first annual decline recorded since the central banking institution began keeping monetary statistics in 1977. Commercial bank lending to the primary and transport sectors were the two areas most seriously affected, with outstanding credit falling by 11.2 percent and 30.8 percent, respectively. On the other hand, bank credit outstanding to the manufacturing sector rose by 77.3 percent, taking that sector's share of total private sector bank credit from 9.1 percent at the end of 1984 to 17.4 percent at the end of 1985.

Liquidity

The excess liquidity that existed in the banking system at the end of 1984 was reduced by $5.5 million to $8.3 million at December 31, 1985. The increased liquidity requirements introduced in the first part of the year resulted in an increase of $16.1 million (57.1 percent) to $44.3 million in the required minimum holdings of liquid assets. The new cash reserve requirements pushed required holdings upwards by $3.4 million to $13.3 million. The commercial banks' response to the restrictive monetary measures is illustrated in Chart C.

Commercial bank holdings of approved liquid assets rose $10.6 million to $52.5 million or 25.3 percent. The assets that recorded significant increases included balances with the Central Bank ($4.4 million), money at call and foreign balances due within 90 days ($1.5 million) and Treasury bills maturing in not more than 90 days ($8.9 million). The average holding of cash reserves for December 1985 was $15.4 million — $5.0 million more than for December 1984.

[1]Drawings by the Government under the IMF stand-by facility are treated as liabilities of the Central Bank in the monetary statistics. Use of the local currency counterpart by the Government is treated as an extension of credit by the Bank.

Money Supply

Money supply (M2) expanded by $14.2 million or 8.3 percent to $184.4 million during 1985. This compares with a rise of 5.8 percent during 1984. Significant increases were recorded in time and demand deposits. Time deposits increased by $9.8 million or 12.1 percent to $90.6 million. Demand deposits rose by $5.1 million or 14.9 percent to $39.4 million. The other two components of this economic indicator recorded decreases: savings deposits ($0.6 million to $31.8 million) and currency with the public ($0.1 million to $22.6 million) (Chart D).

The net foreign assets of the banking system rose by $13.2 million to $13.8 million during the year. The increase in the net international reserves position of the banking system was due to a $17.8 million or 57.2 percent (to $48.9 million) expansion in the gross foreign assets of the system. The Central Bank of Belize received SDR 4.74 million from the IMF under the Standby arrangement during the year; in addition, US$7.5 million were disbursed by USAID under the Economic Stabilisation Agreement signed between the Government of Belize and the Government of the United States of America.

Chart B / Central Bank of Belize and Commercial Bank Holdings of Treasury Bills

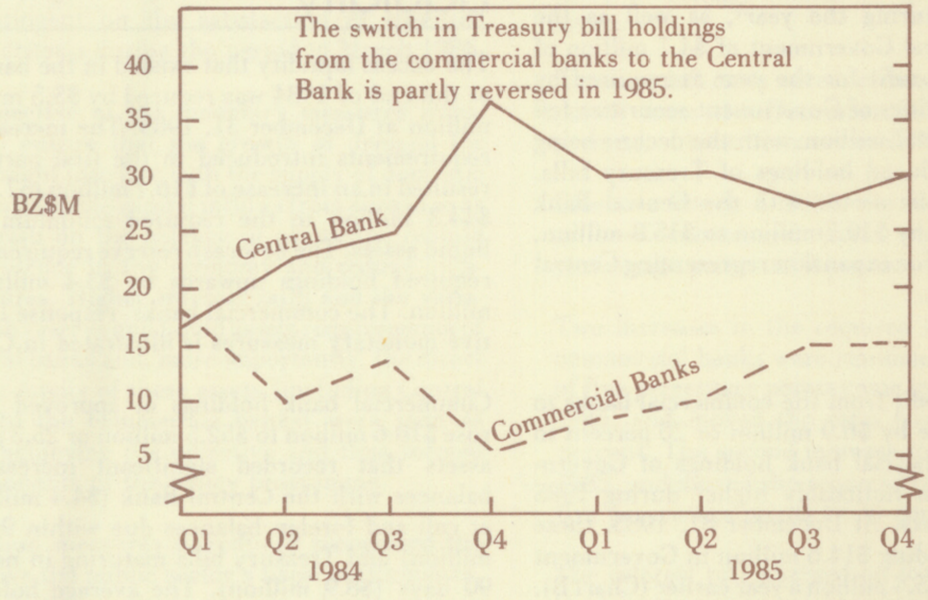


Chart C / Liquidity Position of the Commercial Banks

1984 — 1985

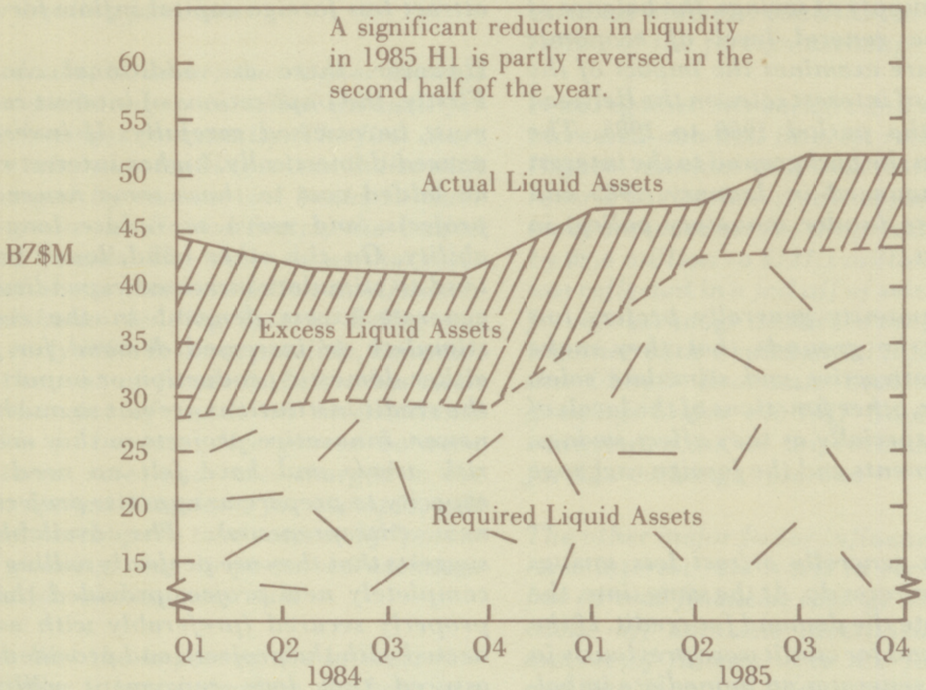
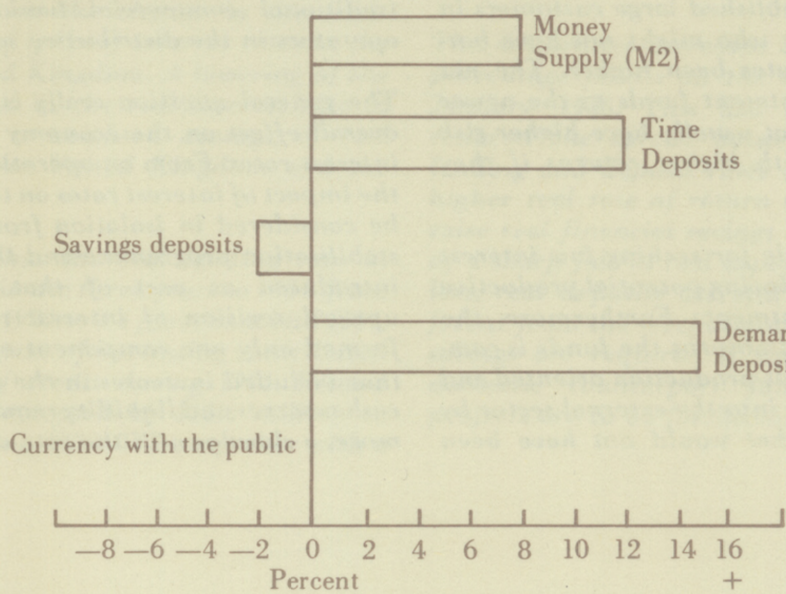


Chart D / Percent Change in Money Supply (M2)

1984 — 1985



Interest Rate Developments and Policy

Interest rates can have a significant impact on the demand for loanable funds and investment incentives, on the supply of savings, the balance of payments and the general level of economic activity. This feature examines the impact of the level and structure of interest rates on the Belizean economy during the period 1980 to 1985. The principal focus is on the background to the interest rate increases announced in January 1985 and described elsewhere (under monetary policy) in this Annual Report.

The business community generally prefers low interest rates on the grounds that they make investment more attractive and stimulate sales. There are, however, other functions of the levels of the interest rate especially as they affect savings, the balance of payments and the foreign exchange reserves.

Low interest rates generally attract less savings than higher interest rates do. At the same time, the lower rates stimulate the demand for credit. If the supply of and demand for credit were previously in balance, then this generates an immediate imbalance in the market for loanble funds. Excess demand for loanable funds would enable lending institutions to raise lending rates and to exercise greater selectivity in their choice of credit applicants and projects seeking financing. When this arises, there is a strong tendency for the banks to lend to their well established large customers in the distributive sector who might not have borrowed had interest rates been higher. The net effect is to deny investment funds to the newer innovative projects that usually have higher risk but are associated with higher returns if they succeed.

Thus the very rationale for seeking low interest rates is thwarted by reducing potential productive growth-inducing investment. Furthermore the distributive sector that absorbs the funds is commerce rather than goods-production oriented and extends the imbalance into the external sector by stimulating imports that would not have been financed at higher rates. This external balance is worsened by the fact that lower interest rates attract less foreign capital inflow for investment.

However, there are additional considerations. Firstly, the implications of interest rates for costs must be assessed carefully. If investment is financed domestically, higher interest rates impose an added cost to those same newer, innovative projects, and serve to reduce long-run profitability. On the other hand, lower interest rates tend to stimulate increased expenditure and thus generate excess demand in the economy and stimulate an increased demand for goods from either domestic production or imports. Secondly, the credit institutions are not so much against the newer, innovative projects as they are essentially risk averse and have felt no need to develop capacity to prepare or appraise projects and assess new entrepreneurs[1]. The available evidence suggests that they are perfectly willing to finance a completely new project provided that loans are properly secured (preferably with assets unconnected with the project), and provided they can be assured that loan repayment will take place regardless of the outturn of the project. This usually means that distributive trades operators are generally better placed to obtain financing for new projects than are new borrowers. In fact, quite a few productive projects have grown out of the commerce-oriented relationship between the traditional commercial banks and traditional operators in the distributive sector.

The general question really is what is the likely overall effect on the economy of a movement in interest rates. From an operational point of view, the impact of interest rates on the economy cannot be considered in isolation from the goverment's stabilisation programme and the policy measures introduced as part of that programme. The upward revision of interest rates in early 1985 formed only one component of a policy package that included increases in the commercial banks' cash reserves and liquidity requirements. Furthermore, a slowdown in the rate of expansion of the

[1]This explains the existence of so many Government-owned project financing institutions (commonly called Development Banks or Development Finance Corporations) in Third World Countries, as well as that of the international institutions (like the World Bank, the Inter-American Development Bank and the Asian Development Bank) which have been set up to perform the same function on a larger scale.

economy accompanying a sharp fall in sugar revenues contributed to a reduction in the funds available for lending purposes.

There is no doubt, however, that higher interest rates have contributed to curtailed demand for credit in the business community. The first chart compares the minimum lending rate in Belize with the rates charged by commercial banks to their best customers in the United States, the United Kingdom and Canada. The chart shows that rates on international markets have fallen significantly since the minimum lending rate in Belize was increased in early 1985. It is not possible, however, to say that the cost of funds in Belize has risen relative to the cost of funds on international markets. This is bacause divergences between domestic interest rates and rates charged in the USA and the United Kingdom, for example, will tend to reflect markups to take account of "potential" loss of earnings due to perceived exchange rate depreciation and country risk.

This suggests that the impact of the interest rate increase in Belize is best judged on the basis of a comparison of real interest rates. That is, the nominal interest rate adjusted for the expected rate of inflation. Chart 2 compares the average real lending rate in Belize with the lending rate before adjusting for inflation (the "nominal rate). The chart also shows the change in the real interest rate in Belize, relative to the change in the trade weighted average of (prime) interest rates in the USA and the United Kingdom. A lowering of the index implies a fall in the real interest rate in Belize relative to a weighted average of real lending rates in the United Kingdom and the USA[1].

The chart shows that the real lending rate in Belize fell steadily in the three years to 1984 from 10.9 percent at end 1981 to 9.6 percent at end 1984. The fall in the real cost of borrowing contributed to an expansion of credit during 1984. Private sector borrowing increased by $11.6 million to $130.5 million during 1984. This, together with a net outflow of capital abroad stimulated by the fall in interest earnings in Belize relative to potential earnings averseas, contributed to a rapid deterioration of the foreign exchange reserves.

It was against this background that the authorities increased nominal interest rates in January 1985. Higher nominal and real interest rates helped reverse the earlier credit expansion. Outstanding loans and advances to the private sector contracted by $9.4 million to $121.1 million during 1985. This was reflected in a fall off of sales by the authorised foreign exchange dealers to the general public and, together with a substantial inflow of funds under the USAID Economic Stabilisation Fund and drawings under the IMF Standby Arrangement, contributed to an improvement in the official foreign exchange reserves.

The other major factor influencing the decision to raise interest rate levels in early 1985 was a sharp fall in real financial savings which threatened to choke off domestic investment if new external sources of finance were not found. The average real rate of return on savings in Belize was actually negative in 1983 (negative 0.3 percent) and zero in 1984. Chart 3 shows that the cumulative effect of two years of low interest rates contributed to a decline in real financial savings in 1984. This was despite the expansionary effect of higher real export growth.

The authorities increased deposit rates by three percentage points on the existing minimums in January 1985. This had two effects. First, it reduced the spread between commercial bank lending and deposit rates (chart 4). Second, the higher real rate of return on deposits helped to raise real financial savings and offset the impact of a sharp fall in real export earnings. Nevertheless, real deposits are still not significantly different from the level attained in 1983, and higher savings are required if the funds required for domestic counterpart funding of investment projects are to be forthcoming.

[1]Both the UK and the US rates have been adjusted for the expected rate of exchange rate depreciation (appreciation) of that country's currency against the Belize dollar (for the US this is proxied by the rate of change in the official foreign exchange reserves).

Chart 1 / Comparative Nominal Lending Rates Sep. 1984 — Dec. 1985

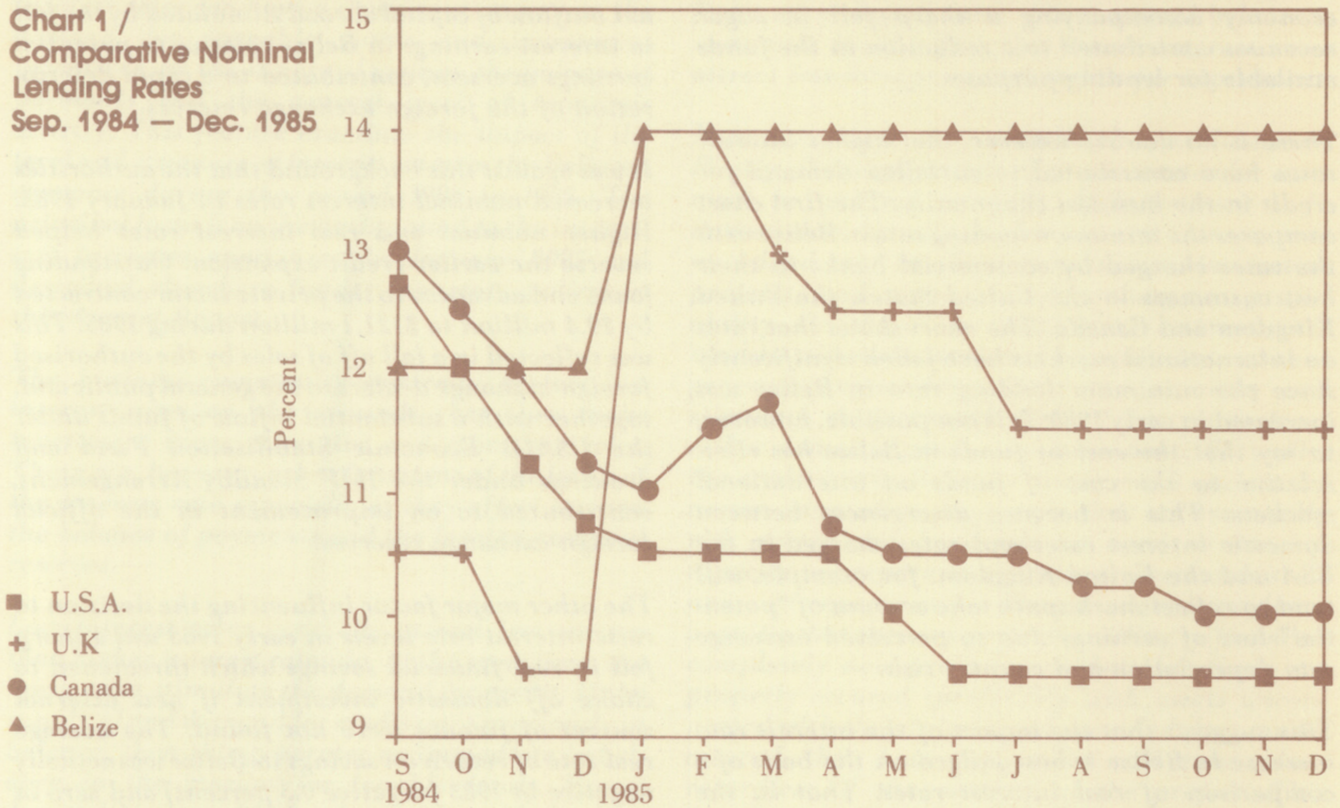


Chart 2 / Nominal, Real and Relative Lending Rates in Belize 1981 — 1985

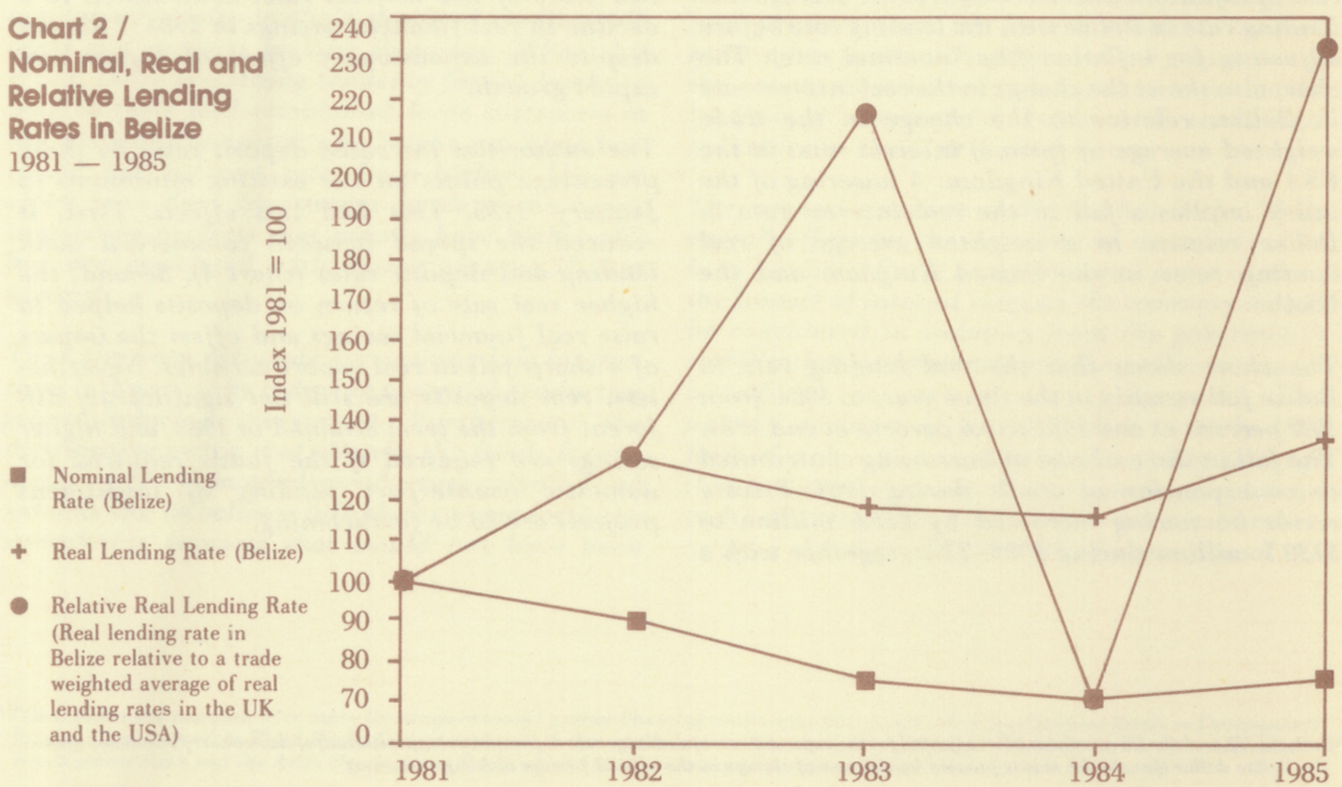
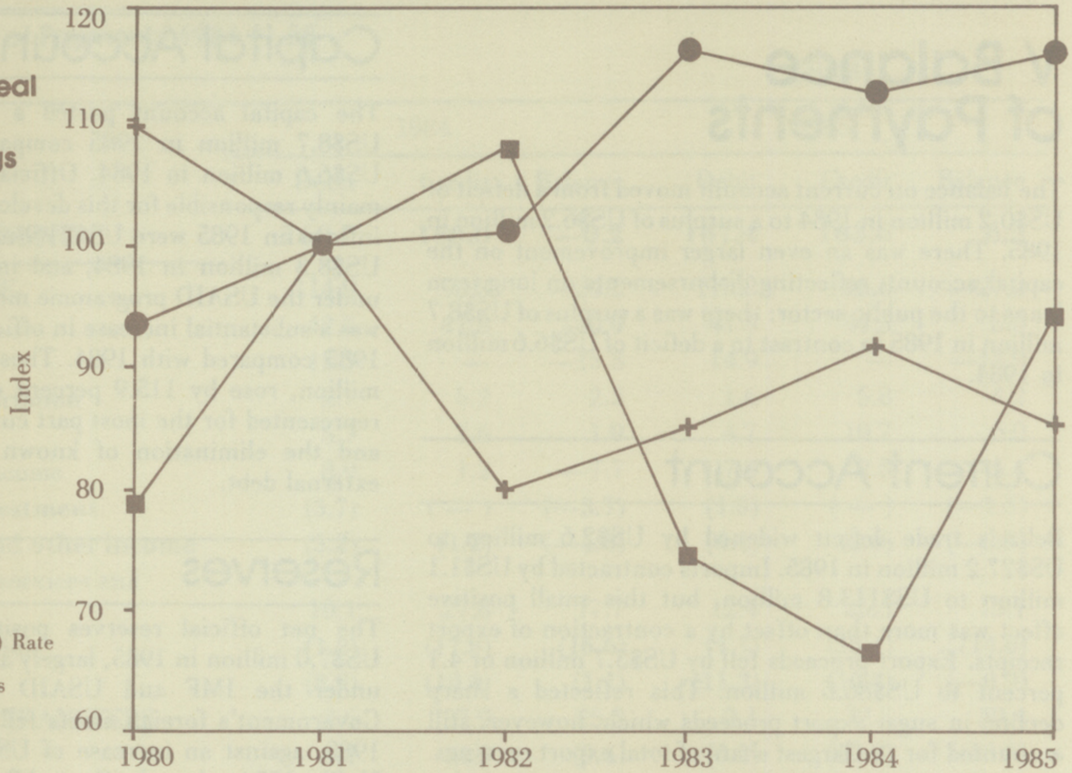
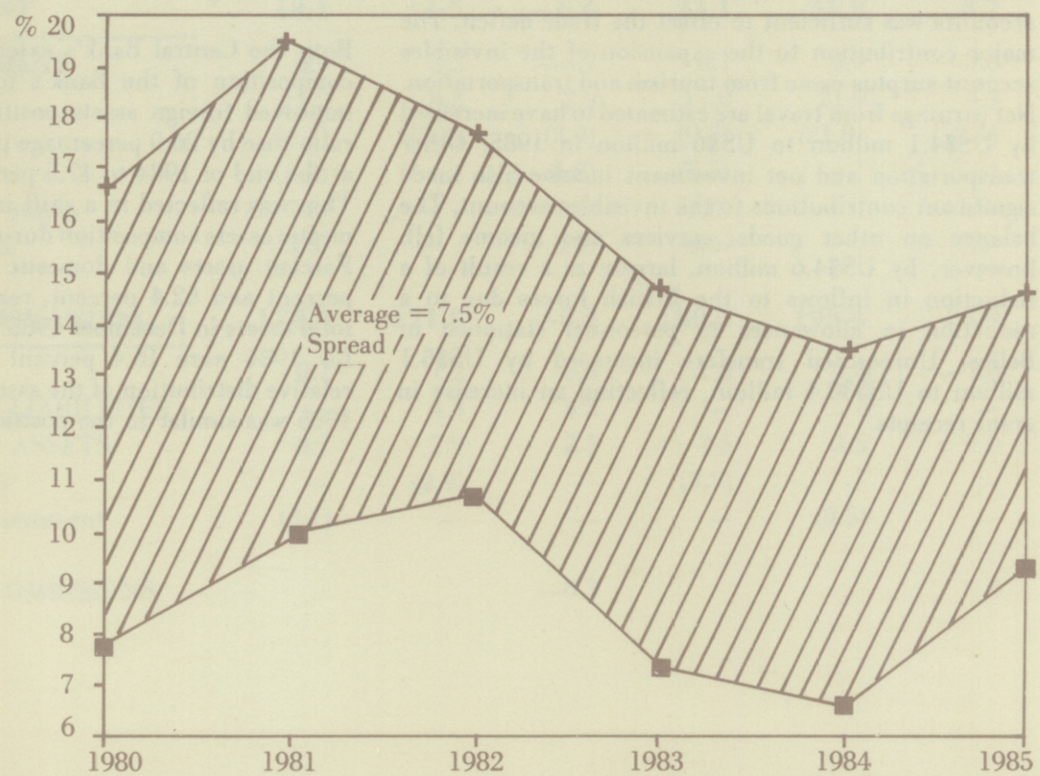


Chart 3 /
Real Interest Rate; Growth of (Total) Real Deposits; and Real Export Earnings 1980 — 1985



1/ All three variables are expresed as indices with 1981 = 100

Chart 4 /
Commercial Banks Weighted Average Lending and Deposit Rates and the Spread 1980 — 1985



V Balance of Payments

The balance on current account moved from a deficit of US$0.2 million in 1984 to a surplus of US$6.2 million in 1985. There was an even larger improvement on the capital account, reflecting disbursements on long term loans to the public sector: there was a surplus of US$8.7 million in 1985 in contrast to a deficit of US$6.6 million in 1984.

Current Account

Belize's trade deficit widened by US$2.6 million to US$27.2 million in 1985. Imports contracted by US$1.1 million to US$113.8 million, but this small positive effect was more than offset by a contraction of export receipts. Export proceeds fell by US$3.7 million or 4.1 percent to US$86.6 million. This reflected a sharp decline in sugar export proceeds which, however, still accounted for the largest share of total export earnings.

An overall surplus of US$33.4 million (US$9.0 million above the 1984 estimate) on the invisibles and transfers accounts was sufficient to offset the trade deficit. The major contribution to the expansion of the invisibles account surplus came from tourism and transportation. Net earnings from travel are estimated to have increased by US$4.1 million to US$6 million in 1985. Other transportation and net investment income also made significant contributions to the invisibles account. The balance on other goods, services and income fell, however, by US$4.6 million, largely as a result of a reduction in inflows to the British forces due to a reduction in allowances to personnel stationed in Belize. Unrequited transfers increased by US$5.1 million to US$30.4 million, reflecting an increase in grant receipts.

Capital Account

The capital account posted a surplus estimated at US$8.7 million in 1985 compared with a deficit of US$6.6 million in 1984. Official capital inflows were mainly responsible for this development. Official capital inflows in 1985 were US$21.9 million, compared with US$8.3 million in 1984, and included credit inflows under the USAID programme mentioned earlier. There was a substantial increase in official capital outflows in 1985 compared with 1984. These outflows, at US$9.9 million, rose by 115.9 percent over 1984 levels, and represented for the most part current loan repayments and the elimination of known principal arrears on external debt.

Reserves

The net official reserves position strengthened by US$7.0 million in 1985, largely as a result of borrowing under the IMF and USAID programmes. Central Government's foreign assets fell by US$0.5 million in 1985, against an increase of US$1.4 million in 1984. Unlike 1984, when the Central Bank's foreign liabilities rose by US$8.6 million, there was no significant change in the foreign liabilities of the Central Bank in 1985.

Both the Central Bank's external assets ratio and the composition of the Bank's total assets mirrored the improved foreign assets position. The external assets ratio rose by 26.0 percentage points, from 21.5 percent at the end of 1984 to 47.5 percent at the end of 1985. This was reflected in a shift in the Bank's foreign/domestic assets composition during the course of the year. Foreign assets and domestic assets constituted 37.6 percent and 62.4 percent, respectively, of the Bank's total assets in December 1985. The comparative figures for 1984 were 16.4 percent and 83.6 percent. The relative distribution of the asset categories at the end of 1985 was similar to the position at the end of 1983.

Table 6 / Balance of Payments 1984 — 85

	1984			1985		
US$M	Debit	Credit	Balance	Debit	Credit	Balance
CURRENT ACCOUNT	**160.2**	**160.0**	**—0.2**	**157.4**	**163.6**	**6.2**
VISIBLE TRADE	114.9	90.3	—24.6	113.8	86.6	—27.2
INVISIBLES	42.7	41.8	—0.9	41.5	44.5	3.0
Shipment	15.3	—	—15.3	14.9	—	—14.9
Other transportation	2.7	5.2	2.5	1.6	5.8	4.2
Travel	5.7	7.6	1.9	4.7	10.7	6.0
Investment income	8.9	1.2	—7.7	7.9	2.5	—5.4
Direct investment	(3.7)	(—)	(—3.7)	(1.5)	(—)	(—1.5)
Interest and other income	(5.2)	(1.2)	(—4.0)	(6.4)	(2.5)	(—3.9)
Other goods, services and income	10.1	27.8	17.7	12.4	25.5	13.1
Official (nie)	(1.2)	(17.8)	(16.6)	(1.1)	(15.1)	(14.0)
Private	(8.9)	(10.0)	(1.1)	(11.3)	(10.4)	(—0.9)
UNREQUITED TRANSFERS	2.6	27.9	25.3	2.1	32.5	30.4
Official	0.1	4.5	(9.4)	(0.1)	(10.9)	(10.8)
Private	2.5	18.4	(15.9)	(2.0)	(21.6)	(19.6)
CAPITAL ACCOUNT	**18.1**	**11.5**	**—6.6**	**23.1**	**31.8**	**8.7**
DIRECT INVESTMENT	6.9	3.2	—3.7	6.1	9.9	3.8
OTHER	11.2	8.3	2.9	17.0	21.9	4.9
Official	(4.4)	(8.3)	(3.9)	(9.5)	(21.9)	(12.4)
Private	(6.8)	(—)	(—6.8)	(7.5)	(—)	(—7.5)
Commercial banks	/3.8/	/ — /	/—3.8/	/1.0/	/ — /	/—1.0/
Other private	/3.0/	/ — /	/—3.0/	/6.5/	/ — /	/—6.5/
TOTAL BEFORE FINANCING	**178.3**	**171.5**	**—6.8**	**180.5**	**195.4**	**14.9**
FINANCING	0.7	7.2	6.5	7.5	0.5	—7.0
GROSS FOREIGN LIABILITIES	—	4.3	4.3	—	—	—
GROSS FOREIGN ASSETS	0.7	2.9	2.2	7.5	0.5	7.0
Central Bank	—	(2.9)	—	(7.5)	—	—
Central Government	(0.7)	—	—	—	(0.5)	—
NET ERRORS AND OMISSIONS			—0.3			7.9

Exchange Control

In 1985 sales of foreign exchange through authorised dealers totalled $239.4 million compared with $249.7 million in 1984. This represents a decline of 4.1 percent during the year, most of which is explained by a reduced level of activity on the capital account. The total value of current account transactions was relatively unchanged from the 1984 level.

Foreign exchange inflows through the banking system amounted to $239.8 million in 1985 as against $207.0 million in 1984. This was an increase of $32.8 million or 15.8 percent. Increased services credits and investment income were responsible for a substantial portion of the increased level of foreign exchange inflows (Table 7).

Table 7 / Sales of Foreign Exchange by Authorized Dealers 1985

BZ$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
CURRENT TRANSACTIONS										
1) Travel - Vacation	280	46	746	67	1,024	51	413	93	2,463	257
Business	234	38	363	30	402	22	275	38	1,274	128
Medical	40	6	52	6	33	1	48	6	173	19
Other	220	286	373	264	317	205	358	200	1,268	955
2) Family Maintenance	335	79	324	57	378	50	311	83	1,348	269
3) Education	339	—	225	—	367	—	242	—	1,173	
4) Insurance	248	—	251	—	288	—	343	—	1,130	
5) Reinsurance	641	—	702	—	827	—	799	—	2,969	—
6) Travel Fares	985	—	924	—	1,734	—	1,093	—	4,736	—
7) Freight Charges	1,059	—	1,020	—	896	—	946	—	3,921	—
8) Medical Expenses	208	—	172	—	192	—	167	—	739	—
9) Head Office Expenses	112	—	387	—	87	—	519	—	1,105	—
10) Royalty Payments	70	—	73	—	47	—	162	—	352	—
11) Professional Services	407	—	742	—	397	—	349	—	1,895	—
12) Management Fees	8	—	11	—	12	—	8	—	39	—
13) Subscriptions	70	—	45	—	159	—	85	—	359	—
14) Port Disbursements	136	—	51	—	20	—	63	—	270	—
15) Commissions	30	—	85	—	170	—	3	—	288	—
16) Sundries	25	—	23	—	21	—	111	—	180	—
17) Other Current Account	17	19	32	26	55	29	149	20	253	94
18) Profits	386	—	350	—	1,974	—	8	—	2,718	—
19) Interest Payments Pri.	230	—	357	—	979	—	581	—	2,147	—
Pub.	267	—	213	—	66	—	40	—	586	—
20) Imports - Oil Payments	9,056	—	9,281	—	7,757	—	8,644	—	34,738	—
Other	33,243	—	33,392	—	34,258	—	31,447	—	132,340	—
Prepayments	3,516	—	4,741	—	4,042	—	3,409	—	15,708	—
TOTAL CURRENT	52,162	474	54,935	450	56,502	358	50,573	440	214,172	722
CAPITAL TRANSACTIONS										
1) Emigration	619	—	531	—	541	—	515	—	2,206	—
2) Dividends	103	—	1	—	630	—	—	—	734	—
3) Repatriation of Funds	—	3,123	—	3,332	—	3,182	—	2,429	—	12,066
4) Loan Payments-Priv. Sec.	702	—	1,282	—	497	—	607	—	3,088	—
-Pub. Sec.	2,590	—	726	—	1,156	—	449	—	4,921	—
5) Gifts	19	—	21	—	19	—	100	—	159	—
6) Investments	—	—	—	—	11	—	—	—	11	—
7) Other Capital Account	61	—	94	—	105	—	69	—	329	—
TOTAL CAPITAL	4,094	3,123	2,655	3,332	2,959	3,182	1,740	2,429	11,448	12,066
GRAND TOTAL	56,256	3,597	57,590	3,782	59,461	3,540	52,313	2,869	225,620	13,788
	59,853		61,372		63,001		55,182		239,408	

Operations

Currency

The seasonal pattern displayed by currency in circulation in 1983 and 1984 was again evident in 1985. Currency in circulation, which consists of cash in commercial bank vaults and currency with the public, rose to peak at $26.9 million in May, then declined during the third quarter before increasing again to $27.0 million to meet the higher demand for cash during the Christmas season (Table 8).

Currency with the public fluctuated between $20.6 million and $24.1 million during the year, while the average monthly level of cash in bank vaults was $3.2 million.

Relations With Commercial Banks

(a) Reserve and liquidity requirements

The commercial banks are required to hold a specified proportion of their deposit liabilities in the form of cash balances with the Central Bank. In January 1985, this reserve requirement was increased by two percentage points: from 7 percent of their average deposit liabilities to 9 percent. The commercial banks had difficulty adjusting to the higher requirement and, in May and June, the actual balances of the banks fell below the minimum required balance by $0.1 million and $0.5 million, respectively (Table 9). The average monthly balances held were 61.6 percent higher in 1985 compared with 1984.

The commercial banks are also required to maintain a specified proportion of their deposit liabilities in the form of holdings of approved liquid assets (generally, assets maturing in not more than 90 days). In March 1985 this reserve requirement was raised from 20 percent of average deposit liabilities to 25 percent, and was further increased in April to 30 percent. Bank holdings of liquid assets remained comfortably above the requirement despite the 67.0 percent contraction in excess liquidity that was evident between March and April (Table 10). The monthly average of excess holdings of liquid assets was $8.3 million compared with $14.4 million in 1984.

Table 8 / Currency in circulation, 1985

$000

Month	Currency in Circulation Notes	Coins	Total	Cash in Banks	Currency With the Public
January	22,308	3,544	25,852	3,655	22,197
February	22,860	3,549	26,409	3,579	22,830
March	23,223	3,567	26,790	2,707	24,083
April	22,728	3,570	26,298	2,889	23,409
May	23,346	3,579	26,925	3,286	23,639
June	22,952	3,597	26,549	3,248	23,301
July	21,030	3,596	24,626	3,200	21,426
August	20,691	3,580	24,271	2,299	21,972
September	20,321	3,579	23,900	3,206	20,694
October	20,611	3,590	24,201	3,350	20,851
November	21,225	3,597	24,822	2,366	22,457
December	23,386	3,621	27,007	4,365	22,642

Table 9 / Commercial Bank Deposits with Central Bank
(Monthly Average of Daily Balances, 1985)

$000

Month	Average Deposit Liabilities	Minimum Required Balance	Actual Balances Held	Excess/Deficiency (—)
January	143,024	10,012	10,959	947
February	140,672	9,847	11,456	1,609
March*	140,684	12,662	15,020	2,358
April	142,582	12,832	13,893	1,061
May	146,042	13,144	13,017	−127
June	146,133	13,152	12,636	−516
July	145,611	13,105	15,378	2,273
August	146,213	13,159	14,915	1,756
September	146,205	13,158	14,758	1,600
October	146,749	13,207	14,527	1,320
November	148,184	13,337	15,101	1,764
December	147,504	13,275	15,435	2,160

*Minimum required balance changed from 7 percent to 9 percent of average deposit liabilities.

Table 10 / Commercial Bank Holdings of Approved Liquid Assets
(Monthly Averages of Liquid Balances, 1985)

$000

Month	Average Deposit Liabilities	Required Holdings	Actual Holdings	Excess
January	143,024	28,605	38,599	9,994
February	140,672	28,134	40,690	12,556
March*	140,684	35,171	48,137	12,966
April**	142,582	42,775	47,054	4,279
May	146,042	43,813	48,103	4,290
June	146,133	43,840	48,593	4,753
July	145,611	43,683	53,069	9,386
August	146,213	43,864	52,224	8,360
September	146,205	43,861	53,195	9,334
October	146,749	44,025	52,130	8,105
November	148,184	44,455	51,227	6,772
December	147,504	44,251	52,526	8,275

* Required holdings changed from 20 percent to 25 percent of average deposit liabilities.
**Required holdings changed from 25 percent to 30 percent of average deposit liabilities.

(b) Clearing house operations

The clearing house agreement of October 1978 between the Central Bank and the commercial banks remains in operation. The movement in cheque clearings during the year is shown in Table 11.

Table 11 / Cheque Clearings 1985

$000

Month	Amount Cleared
January	45,060
February	45,098
March	58,706
April	83,595
May	49,099
June	59,475
July	61,850
August	51,131
September	40,080
October	42,721
November	40,411
December	53,498

Transactions with Central Government

The Central Bank of Belize Act allows the Bank to make temporary advances to the Central Government, not exceeding 15 percent of the Government's estimated current revenues for the financial year. Advances to Central Government increased from a monthly average of $11.9 million in the first half of 1985 to an average of $14.0 million in the second half of the year (Table 12). In October and November the level of advances was close to the maximum allowable 15 percent. The $5.5 million fall in advances which occurred between November and December reflects the transfer of $4.7 million of the Bank's profits to the Government of Belize.

The Central Bank Act allows the Bank to hold up to five times its capital and reserves in Government securities. During 1985, Bank holdings of Government securities on a monthly basis averaged 2.6 times capital and reserves (Table 12).

Table 12 / Central Bank Advances to Government and Holdings of Government Securities, 1985

$000

Month	Advances	(a)	Treasury Bills	Other Securities	(b)
January	9,916	10.05	40,952	4,798	3.74
February	10,327	10.47	42,285	4,797	3.85
March	12,400	12.57	31,192	4,797	2.78
April	13,185	12.75	30,437	4,797	2.72
May	14,656	14.17	31,555	4,797	2.81
June	10,896	10.54	31,303	4,797	2.79
July	13,768	13.32	29,789	4,797	2.67
August	14,799	14.31	27,855	4,797	2.52
September	14,585	14.11	28,313	4,797	2.56
October	15,426	14.92	27,616	4,797	2.50
November	15,377	14.87	31,372	4,797	2.79
December	9,914	9.59	29,901	4,797	2.68

(a) Outstanding advances as a percentage of Government's estimated current revenue. The period through March is based on estimated revenue for fiscal 1984/85 and the subsequent months on estimated revenue for fiscal 1985/86. The estimates used are the Estimates of Revenue and Expenditure as approved by the legislature.

(b) Total holdings of Treasury bills and other securities issued by the Government of Belize as a multiple of the Central Bank's paid up capital and reserves.

The Treasury bill yield rate for regular issues was increased in January 1985 by three percentage points from the December 1984 yield of 10 percent, subject to commercial bank bids. The table below shows the details of Treasury bill issues during 1985.

Table 13 / Government of Belize Treasury Bill Issues, 1985

$000

Issue Number	Amount Tendered	Amount Allotted	Additional Allotment	Total Allotted	Average Discount Rate %	Average Yield to Maturity %
1/85	—	—	2,501	2,501	11.42	12.00
2/85	10,700	10,700	—	10,700	12.59	13.00
3/85	—	—	1,136	1,136	13.53	14.00
4/85	8,550	8,550	—	8,550	14.46	15.00
5/85	—	—	2,105	2,105	13.53	14.00
6/85	13,800	13,800	—	13,800	12.59	13.00
7/85	—	—	3,075	3,075	12.59	13.00
8/85	—	—	1,505	1,505	12.59	13.00
9/85	—	—	300	300	12.59	13.00
10/85	—	—	900	900	12.59	13.00
11/85	—	—	428	428	13.53	14.00
12/85	10,700	10,700	—	10,700	12.59	13.00
13/85	—	—	7,918	7,918	13.53	14.00
14/85	8,550	8,550	—	8,550	12.59	13.00
15/85	13,800	13,800	—	13,800	12.59	13.00
16/85	—	—	3,075	3,705	12.59	13.00
17/85	—	—	1,505	1,505	12.59	13.00
18/85	—	—	300	300	12.59	13.00
19/85	—	—	900	900	12.59	13.00
20/85	10,700	10,700	—	10,700	12.59	13.00
21/85	—	—	9,631	9,631	13.53	14.00
22/85	8,550	8,550	—	8,550	12.59	13.00
23/85	—	—	4,580	4,580	12.59	13.00
24/85	13,800	13,800	—	13,800	12.59	13.00
25/85	—	—	1,200	1,200	12.59	13.00
26/85	—	—	11,276	11,276	13.53	14.00
27/85	10,700	10,700	—	10,700	12.59	13.00
28/85	8,550	8,550	—	8,550	12.59	13.00
29/85	—	—	4,580	4,580	12.59	13.00
30/85	13,800	13,800	—	13,800	12.59	13.00
31/85	—	—	1,200	1,200	12.59	13.00

Central Bank External Assets Ratio

The Central Bank Act requires the Bank to maintain at all times a holding of approved external assets equal to not less than 40 percent of the total of its notes and coins in circulation plus its liabilities with respect to sight and time deposits. This ratio was below the stipulated minimum throughout the first half of 1985, but rose above it during the second half of the year (Table 14).

Foreign Exchange Operations

The Central Bank buys and sells certain stipulated currencies from authorised dealers at daily specified rates and for authorised transactions. These currencies are:

a) United States dollar
b) Pound sterling
c) Canadian dollar
d) Currencies of CARICOM member countries.

During 1985, net purchases of US dollars, Canadian dollars and sterling were $0.7 million compared with net sales of $9.3 million in 1984 (Table 15). Trading in CARICOM currencies for 1985 is shown in Table 16. Net purchases were $3.3 million in 1985 compared with $10.9 million in 1984.

Table 14 / Central Bank External Assets Ratio, 1985

$000

Month	(a) External Assets	(b) Demand Liabilities 1 /	(a) as % of (b)
January	8,590	44,834	19.16
February	15,399	53,315	28.88
March	13,855	53,001	26.14
April	16,708	52,494	31.83
May	19,058	57,250	33.29
June	19,033	52,697	36.12
July	27,002	61,074	44.21
August	26,460	59,193	44.70
September	25,026	57,972	43.17
October	29,196	61,522	47.46
November	25,688	60,942	42.15
December	28,616	60,234	47.51

1 / Demand liabilities comprise notes and coins in circulation, including unredeemed demonetised notes, plus the Bank's liabilities to customers in respect of its sight and time deposits.

Table 15 / Central Bank Dealings in Foreign Exchange with Financial Institutions in Belize Trading in US Dollars, Canadian Dollars and Pound Sterling, 1985

$000

Month	Purchases	Sales	Net Purchases
January	1,198	3,170	—1,972
February	5,672	4,457	1,215
March	5,737	11,991	—6,254
April	4,786	3,108	1,678
May	10,526	8,550	1,976
June	4,035	4,626	—591
July	12,484	3,471	9,013
August	2,309	5,270	—2,961
September	3,824	5,524	—1,700
October	9,093	6,104	2,989
November	2,093	6,126	—4,033
December	6,483	5,192	1,291
Total	**68,240**	**67,589**	**651**

Table 16 / Central Bank Dealings in Foreign Exchange with Financial Institutions in Belize (Caricom Currencies) 1985

$000

Month	Purchases	Sales	Net Purchases
January	366	476	—110
February	2,924	489	2,435
March	3,004	378	2,626
April	798	828	—30
May	1,112	513	599
June	326	1,266	—940
July	90	486	—396
August	364	483	—119
September	63	647	—584
October	604	214	390
November	9	239	—230
December	39	365	—326
Total	**9,699**	**6,384**	**3,315**

Administration

The Board of Directors

During the period 1 January, 1985 to 20 January, 1985, the Central Bank's Board of Directors consisted of the following persons:

R. C. Swift - Governor and Chairman of the Board
F. J. Garbutt - Deputy Governor and Vice-Chairman
D. B. Courtenay Esq.]
H. A. Escalante Esq.] Directors
E. G. N. Gegg Esq., O.B.E, J.P.]
Non-voting Ministry of Finance representative:
Financial Secretary

With effect from 21 January, 1985 a new Board of Directors was appointed by the Minister, consisting of the following persons:

R. C. Swift - Governor and Chairman of the Board
F. J. Garbutt - Deputy Governor and Vice-Chairman
M. N. Arguelles Esq.]
A. I. Burgos Esq.] Directors
N. A. Vasquez Esq.]
Non-voting Ministry of Finance representative:
Financial Secretary

The Board of Directors held twelve regular meetings during the year.

Staffing

The principal officers of the Central Bank at the end of 1985 were:

R. C. Swift - Governor
F. J. Garbutt - Deputy Governor
C. E. Reyes - Bank Secretary and Head of Administration
D. L. Leslie - Foreign Exchange Controller
G. Justice - Research Director
H. Premaratne - Inspector of Banks & Financial Institutions

The assignments of both IMF Advisors, Mr. H. Premaratne on Banking Supervision and Mr. Rupert Mullings on Research, were extended during the year, the former for one year and the latter for six months.

The total number of persons employed by the Bank at 31st December, 1985 was fifty-four compared with fifty-two at the end of 1984.

During the course of the year Mr. Dwain Davis and Mr. Sydney Campbell rejoined the Bank after having successfully completed first degree courses in Accounting and Economics, respectively, on Bank scholarships. Foreign Exchange Controller, Ms. Dorla Leslie, also resumed duties at the Bank in 1985 after successful completion of an MBA course in accounting.

On February 1, 1986, Mr. Alan Slusher was appointed Governor, replacing Mr. R. C. Swift.

Overseas Visits

In March 1985, Governor Swift, accompanied by Mr. Manuel Vasquez, attended a meeting of Caribbean Banks' Supervisory Authorities in Port-au-Prince, Haiti.

In April, the Governor, accompanied by Bank Secretary, Ms. Reyes and Foreign Exchange Controller, Ms. Leslie, attended the XXII Meeting of Governors of Central Banks of the American Continent and the XL Meeting of Governors of Central Banks of Latin America and Spain, which were held in Guadalajara, Mexico.

Also in April, Mr. Frank Garbutt, the Deputy Governor, participated in a meeting of the Technical Training Committee of the Commission of Bank Supervision Organizations of Latin America and the Caribbean, which was held in Ecuador. Mr. Garbutt participated in a subsequent meeting of the same Commission in May, this time in Barbados.

In May the Governor represented the Bank at the 15th Annual Meeting of the Board of Governors of the Caribbean Development Bank in Bridgetown, Barbados.

In June the Governor attended the Bank of England's annual Governors' meeting in London and then travelled to Basle, Switzerland, for the annual meeting of the Bank for International Settlements.

In October the Governor attended the XLI Meeting of Governors of Central Banks of Latin America and Spain in Manila, Philippines, from where he travelled to Seoul, South Korea, for the joint Annual Meetings of the International Monetary Fund and the World Bank.

In November, Ms. Yvette Alvarez attended the Seventeenth Annual Conference of the Regional Programme of Monetary Studies, which was held in Nassau, Bahamas. During that same month, Ms. Alvarez also attended the 22nd Annual Meeting of Central Bank Technicians of the American Continent, which was held in Guatemala City. Ms. Alvarez presented research papers at both meetings. They were, respectively, "Foreign exchange reserve cover and statutory limits on central bank credit to central government" and "The use of liquidity requirements".

Training

As part of the continuing effort to establish and strengthen the Bank Supervision Department of the Central Bank, Mr. Manuel Vasquez, Ms. Allison Gillett, Ms. Neri Matus, and Mr. Frank Lopez attended training courses at the US Federal Deposit Insurance Corporation's Training Center in Arlington, Virginia.

Ms. Maydia Luben attended a course in balance of payments methodology at the IMF in Washington, and Ms. Yvette Alvarez attended an economic policy analysis course at CDB's headquarters in Barbados. Mr. Glenford Ysaguirre spent a week at the Miami offices of the Bank of Credit and Commerce International observing trade documentation procedures.

A 12-hour training course in supervisory management, spanning a three-week period, was organised specifically for middle-level supervisory personnel in the Bank. The course was organised and conducted by the Belize Institute of Management.

Study Leave

In 1985, the Bank granted study leave to four of its staff members in order to allow them to pursue first degree courses in Economics, Accounting, and Business Administration in the United States of America.

Accounts

At the end of 1985, the authorised and paid-up capital of the Central Bank of Belize was $10,000,000.

The annual statement of accounts of the Central Bank for 1985, certified by the Bank's auditors, is attached to this report.

The net profit from the operations of the Bank during 1985 amounted to $5,857,831 compared with $3,733,665 in 1984. Total assets, which were $70,857,655 at the end of 1984, increased by 5.2 percent to $74,507,002.

Income and Expenditure

Investment income during 1985 totalled $7,685,594 ($5,203,979 in 1984) and represented a yield of approximately 10.8 percent (9.8 percent in 1984) on average assets.

The Bank's holdings of Government of Belize Treasury bills decreased from $38.0 million at the end of 1984 to $29.9 million at the end of 1985. The average yield on these bills was 13 percent during 1985.

Average holdings of assets were $70,944,000 compared with $53,244,000 in 1984.

Total operating expenses, including the cost of printing currency notes and minting coins, was $2,634,952 ($1,545,191 in 1984), representing 31 percent (26.4 percent in 1984) of total income. Excluding the cost of printing notes and minting coins, other operating expenses represented 28.1 percent of total income compared with 25.5 percent in 1984.

General Reserve Fund

Section 9 of the Central Bank of Belize Act provides for the establishment and maintenance of a General Reserve Fund which shall be credited with twenty percent of the net profit made by the Bank during each financial year until the Fund is equal to or exceeds the amount of the paid-up capital of the Bank. After this, ten percent of the net profit shall be paid into the Fund. In accordance with the Act, $1,171,566, amounting to 20 percent of the net profit for 1985, were transferred to the General Reserve Fund. The balance in the Fund after transfer stood at $4,126,870.

Auditors' Report and Financial Statements

SJP Ermeav Sr

chartered accountant

92 North Front Street
PO Box 756
Belize City Belize

telephone 44929 & 45109

in association with
Coopers & Lybrand (international)

Auditors' Report to the Board of Directors of Central Bank of Belize

We have audited the financial statements on pages 2 to 9 in accordance with approved Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank at 31 December 1985 and of the results of its operations for the year then ended.

S.J.P. Ermeav Sr.
Chartered Accountant
in association with
COOPERS & LYBRAND (International)

Belize City, Belize
7 March 1986

Assets

	Note	1985 $	1984 $
Approved External Assets	3		
Balances and deposits with foreign bankers and the Crown Agents maturing within 180 days		2,734,532	2,244,810
Reserve Tranche and balances with the International Monetary Fund	4	4,173,194	3,726,568
Marketable securities issued or guaranteed by foreign governments and international financial institutions		19,878,408	4,987,811
Other foreign credit instruments maturing within 180 days		1,599,999	—
Accrued interest and cash intransit		265,336	198,948
		28,651,469	11,158,137
Deferred Income			
Revaluation account	2(c)	(1,121,195)	—
Unrealized gain from appreciation in value of investments	2(d)	(312,557)	(322,780)
		27,217,717	10,835,357
Caricom Multilateral Clearing Facility		1,008,733	1,008,733
Advances to Belize Government		9,867,239	5,641,164
Belize Government Debentures, at face value		5,078,025	5,078,025
Belize Government Treasury Bills	5	29,900,809	38,023,321
Balances with Local Bankers and Cash on hand		82,418	43,991
Other Assets	6	857,331	9,718,998
Fixed Assets	7	494,730	508,066
		74,507,002	70,857,655

Notes on pages 5 to 9 form part of, and should be read in conjunction with, these financial statements.

Liabilities, Capital and Reserves

	Note	1985 $	1984 $
Demand Liabilities			
Notes and coins in circulation		27,007,078	27,092,148
Deposits by licensed financial institutions	8	15,554,600	15,479,935
Deposits by Government and Public Sector Entities in Belize		15,295,038	4,565,312
Unredeemed demonitized issue	9	1,018,384	1,024,532
Deposits by international agencies	10	1,013,778	2,704,455
		59,888,878	50,866,382
Balances due to Caricom Central Banks		337,557	828,182
Other Liabilities		39,877	6,147,787
Commercial Bank Discount Fund	11	113,820	60,000
Total liabilities		60,380,132	57,902,351
Capital Account			
Paid up capital (Authorized capital $10,000,000)		10,000,000	10,000,000
General Reserve Fund	12	4,126,870	2,955,304
		74,507,002	70,857,655

Director

Governor **Deputy Governor**

Notes on pages 5 to 9 form part of, and should be real in conjunction with, these financial statements.

	Note	1985 $	1984 $
Income			
Interest on investments		1,307,591	1,369,957
Discounts and other investment income		6,378,003	3,834,022
Net realized gains from appreciation in market value of securities		8,304	—
Commissions and other income		798,885	645,855
Total income		8,492,783	5,849,834
Expenditure			
Printing of notes and minting of coins		249,462	52,468
Salaries and wages, including superannuation contributions and gratuities		689,355	598,139
Interest expense		1,161,099	367,377
Other expenses, including depreciation		535,036	527,207
Total expenditure		2,634,952	1,545,191
		5,857,831	4,304,643
Transfer to cover the loss on Revaluation Account in accordance with Section 49 of the Act	2(c)	—	570,978
Net Profit		5,857,831	3,733,665
Transfer to General Reserve Fund in accordance with Section 9 (1) of the Act		1,171,566	746,733
Balance credited to the Accountant General for the Consolidated Revenue Fund		4,686,265	2,986,932

Notes on pages 5 to 9 form part of, and should be read in conjunction with, these financial statements.

1. The Central Bank of Belize was established by the Central Bank of Belize Act 1982 (the Act).

2. Accounting Policies

a. *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation. Depreciation is based on the anticipated useful life of the asset using the straight line method.

b. *Notes and 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 Monetary Authority of Belize, a liability was recorded in respect of the sale of coins specially minted or packaged as collectors' items. Included in the financial statements is a liability of $1,161,059 recorded in respect of sales to that date.

As of 1 January 1977, liability is no longer recognised in relation to the sale of special coins, and sale proceeds 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. *Foreign currency translation and exchange gains and losses*

Foreign currency balances at 31 December 1985 are translated at the rates of exchange ruling at that date. Income and expenses in foreign currencies are translated at the rate of exchange ruling on the transaction date.

In accordance with Section 49 of the Act, gains and losses arising from changes in foreign exchange rates are excluded from the computation of net profit and carried to a Revaluation Account, with the provision that if the Revaluation Account shows a net loss for the year, profits are credited to the Revaluation Account in an amount sufficient to cover the loss.

d. *Valuation of securities*

Securities are stated at market value.

Unrealised losses arising from changes in the market value of securities are charged against income while unrealised gains are deferred. Realised gains and losses are included in income.

e. *Accrued interest and cash intransit*

Accrued interest and cash intransit in respect of foreign assets are shown as part of External Assets.

f. *Printing and minting expenses*

The cost of printing notes and minting coins is charged against earnings in the year of delivery of the notes and coins.

3. Approved External Assets

Section 25(2) of the Act states that the Bank shall maintain at all times a reserve of external assets of not less than 40 percent of the aggregate amount of notes and coins in circulation and of the Bank's liabilities to customers in respect of its sight and time deposits.

At 31 December 1985, total approved external assets approximated 47.84 percent percent (1984-21.94 percent) of such liabilities.

4. International Monetary Fund

The Government of Belize became a member of the International Monetary Fund in 1982 with a subscription of SDR 7,200,00 of which SDR 1,320,600 was paid in foreign currency (the Reserve Tranche) and the remainder in Belize dollars made up of currency and non-interest bearing promissory notes. In 1982, the Reserve Tranche was purchased by the Central Bank from the Government of Belize. At 31 December 1985 the Bank's subscription to the International Monetary Fund increased to SDR 9,500,000, and the Reserve Tranche amounted to SDR 1,895,600. The Tranche which earns interest is included in Approved External Assets in the financial statements.

5. Belize Government Treasury Bills

Section 35(2) of the Act stipulates that the Bank shall not at any time hold Belize Government Treasury Bills or Securities in an aggregate amount exceeding 5 times the aggregate amount at that time of the paid up capital and general reserves of the Bank. At 31 December 1985 the Bank's aggregate holding of Belize Government Treasury Bills and Securities approximated 2.48 times (1984 — 3.32 times) the amount of paid up capital and general reserves of the Bank.

6. Other Assets

	1985 $	1984 $
Loan to commercial banks	— —	7,800,000
Accrued interest and cash intransit	163,739	1,183,070
Other	693,592	735,928
	857,331	9,718,998

7. Fixed Assets

	1985 $	1984 $
Buildings and improvements	357,652	354,236
Furniture	69,404	65,326
Equipment	239,241	187,439
Vehicles	56,471	56,471
	722,768	663,472
Less: accumulated depreciation	228,038	155,406
	494,730	508,066

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

8. Deposits by Licensed Financial Institutions

The total under this heading consists of balances maintained with the Bank 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% of its average deposit liabilities. Interest is not paid on these deposits.

9. Unredeemed Demonetised Issue

With effect from 1 January 1981, currency notes which had been issued by the Belize Commissioners of Currency ceased to be legal tender in Belize. At 31 December 1985, notes amounting to $1,018,384 which the Bank is obliged to redeem at face value, had not yet been surrendered for redemption.

10. Deposits by International Agencies

The Central Bank of Belize is designated the fiscal agency for Belize and included in $1,013,778 shown under this heading is an amount of $362,236 deposited in Belize currency by the International Monetary Fund. The balance represents deposits by the Commission for European Communities and The World Bank.

11. Commercial Bank Discount Fund

This relates to a facility which was established by an Agreement signed in March 1983 by the Government of Belize and the Government of the United States of America and which provides for a discount fund, operated through the Central Bank of Belize, against which commerical banks in Belize are able to rediscount up to 100% of loans made to final borrowers for qualifying subprojects. In respect of subprojects approved by the Central Bank and the US Government (the latter acting through USAID), commerical bank disbursements are reimbursed by the Central Bank,which in turn seeks reimbursement from USAID. All transactions are passed through the Commercial Bank Discount Fund account. US$5 million in loan funds were made available by USAID to finance the facility. The project Assistance Completion Date for the facility was extended from the original 31 December 1985 and is now 31 December 1986. At 31 December 1985, gross disbursements to commerical banks from the facility for on-lending to qualified subprojects amounted to Bz$710,000; total drawings by the Central Bank on the USAID facility at the same date amounted to Bz$710,000.

12. General Reserve Fund

Section 9(1) of the Act provides for the establishment of a General Reserve Fund into which shall be paid 20 percent of the net profit of the Bank in each financial year until the fund is equal to the amount of the Bank's paid up capital, after which 10 percent of net profit is to be paid into the fund.

The balance of the General Reserve Fund is made up as follows:

	1985	1984
	$	$
At 1 January	2,955,304	2,208,571
Transfer from net profit in accordance with Section 9(1) of the Act	1,171,566	746,733
At 31 December	4,126,870	2,955,304

13. Contingent Liabilities

	1985	1984
	$	$
Outstanding letters of credit at 31 December 1985 in favor of Government of Belize	110,296	208,659

CENTRAL BANK OF BELIZE

Fourth Annual Report and Accounts 1985