

CENTRAL BANK OF BELIZE

Fifth Annual Report and Accounts 1986



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Central Bank of Belize
Belize City

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 and Tobago
TT	Trinidad and 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 Government's fiscal year : 1 April to 31 March.



CENTRAL BANK OF BELIZE

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24th April, 1987

*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 of Belize for the period 1st January to 31st December, 1986, together with a copy of the annual statement of accounts of the Central Bank certified by the auditors.

Yours faithfully,

Governor

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Economic Review

International Economic Developments

The economic environment for Third World countries continued to worsen during 1986. The pace of economic activity in the developed countries slowed further, as was expected, and the major indicators pointed to continuing low growth in 1987. This slower growth in the major economies contributed to the continuing sluggishness in world trade and to a further weakening in commodity prices, which affected the earnings of developing countries, and, in consequence, their levels of domestic economic activity. The sharp downward movement in interest rates for major currencies offered some relief in the area of debt servicing costs; it also made for lower levels of earnings from the investment of official reserves.

The economies of the industrial countries as a group grew by about 2.5% in 1986 compared with growth of around 3.25% in 1985. While output growth remained relatively unchanged in Europe, the slowdown was evident in the US and in Japan. Output growth in the United States fell from about 2.8% in 1985 to around 2.5% in 1986, while the rate of growth in Japan fell from 4.5% in 1985 to 2.7% in 1986. Output growth in most of the major European countries remained more or less unchanged at about a 2.5% average (growth was highest in the UK at 3.3%) reflecting the low rate of growth in real output. The overall unemployment rate in the "Group of 7" industrial countries did not fall significantly, with declines in North America and Germany being offset by increases in Japan, France and Italy. Unemployment in the UK was highest at about 11.8%, with Japan's 2.8% being the lowest. Given continued growth in the labour force in most countries, even the relatively constant unemployment rate resulted in an increase in the number of unemployed persons, and provided support for increasingly protectionist action. The general situation was not helped by the fact that the volume of world trade is estimated to have increased only marginally from the 1985 level.

Slow economic growth in the industrial countries together with continuing protectionist activity (in some cases even against other industrial countries) adversely affected export volumes and prices of commodities from Third World countries. The traded prices of petroleum products continued to be affected, with non-oil exporting Third World countries benefitting from the comparatively low levels while the oil exporters continued to experience payments and fiscal difficulties. For commodities priced in US dollars,

price declines were observed in some cases in spite of the depreciation of the dollar. The irony of the situation was that some countries through great effort increased their output of agricultural commodities in order to raise earnings to service debt and slow the slide in living standards, only to find themselves contributing to oversupply conditions.

The low prices for petroleum products were particularly marked. During the second quarter of 1986, average oil export prices fell to around US\$13 per barrel, and some mid-year prices were as low as US\$10 per barrel. There was some reaction to the OPEC agreement after mid-year to limit production, and prices ranged between US\$15 and US\$18 per barrel through to year end.

The reduced demand for exports occasioned by lower growth rates, accompanied by the deterioration in the terms of trade of Third World countries, resulted in a widening in the estimated current account deficit of those countries from less than 3% of their exports of goods and services in 1985 to more than 9% in 1986. The widening was recorded largely in the accounts of the fuel exporters, with the non-fuel exporters recording a marginal narrowing of the gap. With regard to the financing of the deficits, it appeared that reserves accumulation came to a halt in capital-importing Third World countries and that there was some build up of arrears. The pace of official and private lending to developing countries slowed considerably during the year. Some difficulty was experienced in organising what was widely regarded as a test-case financial package for Mexico, arising from the Baker initiative, and concern was expressed over what appeared to be a net inflow of resources to the IMF and the World Bank.

Of interest to the international financial community was the continued decline in the general level of interest rates during the year. Countries with floating-rate debt experienced some relief on service payments, although the earnings difficulties faced by some of the larger debtor countries, particularly those in Latin America, as a result of the generally unfavourable world economic environment, made it impossible for them to meet even the reduced servicing requirements. There was substantial recourse to the international lending institutions for financing, and to the Paris Club arrangements for debt rescheduling. One consequence of the decline in rates was that those Third World countries having reserves to invest experienced a reduction in their foreign currency earnings from foreign funds placements.

The prospects for 1987 are not encouraging. Considerable pressure is being exercised in the US for reductions



in the trade, current account and fiscal deficits, and the response is likely to involve more protectionist action as well as budget restraint, both of which are likely to affect adversely the circumstances of those developing countries which produce mainly for the US market. Calls for fiscal stimulation in Germany and Japan have so far gone unheeded; both countries have continued to generate large trade surpluses, although it is becoming clear that economic performance in these two countries cannot continue to be sustained at current levels by export-led growth. The existing fiscal and export performance of these countries, vis-a-vis the US, together with the interest rate differentials between European currencies and the dollar have contributed to the dollar's decline against other currencies. The Germans and the Japanese do not appear willing to risk losing part of the export competitiveness, or the rise in prices, that will probably accompany domestic stimulation, even though such stimulation will contribute to overall economic growth. The debt problems of Third World countries are likely to worsen because of further reductions in their capacity to service existing debt, and the chances for unilateral declarations of moratoria on debt servicing will rise.

The Economy in 1986: Overview

The economy of Belize experienced low growth in 1986, in continuation of a trend evident since the late 1970s. There were some encouraging features in the economy's performance, however. These included a significant increase in foreign exchange reserves, accelerated growth in financial savings, and the maintenance of relatively stable consumer prices. The country's record in meeting its external obligations continued to be excellent.

Gross Domestic Product (GDP) growth remained sluggish during 1986. Preliminary estimates from the Central Statistical Office (CSO) indicated a rise in real GDP of about 1.5%. This compared with output growth of about 1% annually in 1985 and 1984. The bulk of the estimated increase in GDP in 1986 was concentrated in the services sector: activity in the tertiary sector expanded by 1.9% compared with a 1.5% rise in secondary activity. Growth in the primary sector was marginal. The 8.6% decline in sugar production in 1986 compared with 1985 (from 102,108 long tons in 1985 to 93,348 in 1986) was an important contributor to the low level of GDP

expansion. Within agriculture, some areas like corn, bananas, citrus and dairy production recorded impressive output gains. However, their total contribution to GDP was too small to offset the impact of the decline in sugar production.

Taken in the context of the restrictive measures introduced early in 1985 to halt and reverse the deterioration in the country's external accounts as part of the standby programme with the International Monetary Fund (IMF) which ran until May 1986, the level of output growth was perhaps not unexpected. The substantial increases in interest rates which were effected in January 1985 were maintained until mid-December of 1986, while the companion increases in commercial bank reserves requirements were still in effect at year end. During 1985 and the first half of 1986 these monetary measures were accompanied by substantial restraint on the fiscal side.

The standby programme prepared by the Government and agreed with the IMF, together with the Economic Stabilisation Agreement signed with the Government of the United States of America, contributed to the substantial rise in the country's external reserves which took place during 1985 and 1986. In addition, the reserves position was enhanced by services income from filming activity, from increased earnings from sugar as a result of rising prices during the first half of 1986, from increased earnings from other exports, from reductions in payments for imported petroleum following the downward slide in oil prices, and from aid inflows for project financing. The demand for imports generally appeared to be somewhat subdued, and the data showed a substantial decline in the trade deficit (from US\$41 million in 1985 to US\$33.8 million in 1986), with the decline largely reflecting the increase in export earnings and the fall in the oil import bill.

The restrictive monetary and fiscal measures together with the increase in reserves resulted in a sharp increase in deposits in the banking system. Total deposits rose by \$24.2 million in 1986 compared with a rise of \$7.6 million during 1985. The 16% rate of deposit growth was substantially higher than the 8.9% and 5.3% increases which occurred in 1984 and 1985, respectively. As in 1985, the increase in total deposits was concentrated in the "savings" and "time" categories while the effect of the external inflows, on deposits was expansionary there was a continuing decline, during the greater part of the year, in outstanding domestic credit. This sluggishness in total bank lending was in part responsible for the maintenance of high exchange reserves levels during the year. Credit to the private sector remained essentially stagnant during most of the year



while net credit to the public sector declined under the influence of the continued build up of funds in the social security system, and the improved financial performance of some statutory bodies. During the last three months of 1986 there were indications of a resumption in borrowing by the private sector. Unlike the pattern in former years in which increases in credit to the private sector at year end tended to be concentrated in the distribution sector, the rise in 1986 mainly reflected borrowing to finance manufacturing and processing activity.

Reflecting the foreign inflows and the accumulation of bank deposits, money supply growth in 1986 was substantially higher than during 1985. Broad money (M2), which comprises currency with the public plus bank deposits, rose by 16.9% in 1986 as compared with a rise of 8.3% during 1985. Narrowly defined money (M1), comprising currency with the public plus demand deposits, rose by 18.1% in 1986 compared with 8.6% in 1985. Currency with the public rose by 14.4% in 1986 in contrast to a decline of 0.5% in 1985. In keeping with the pattern observed in small open economies, growth in the money supply did not impact adversely on the exchange reserves or on prices: generally, it is growth in domestic credit which operates to deplete the foreign exchange reserves.

Preliminary data from the CSO indicated that the retail prices index rose by 0.8% during 1986. This compared with a rise of 3.3% during 1985.

In the area of fiscal management, the persistent deficit on current account is a cause for some concern. The size of the deficit has been growing from an estimated \$7.6 million in 1985/86 to \$19 million in 1986/87, and to an estimated \$20.4 million in 1987/88. This trend needs to be corrected. The 1987 Budget Speech clearly shows recognition of the need for reducing the deficit. Achievement of the objective is being sought through improving the revenue collection machinery, restraining the growth in recurrent expenditure, improving the overall efficiency of administration, and requiring greater financial discipline from statutory bodies.

Production and Exports

Preliminary estimates from the CSO indicate that real GDP rose by about 1.5% during 1986 compared with output growth of around 1% in each of the years 1984 and 1985. The rise in output was concentrated in the services sector with community services and public administration being responsible for the greater part of the overall growth in output. Real output in the primary sector grew only marginally, while output in the secondary,

comprising manufacturing and processing activity, expanded by about 1.5%. The tertiary or services sector accounted for about 60% of total output in the country in 1986.

SUGAR

Sugarcane delivered for processing during the crop-year 1985/86 amounted to about 854,000 long tons which yielded 93,348 long tons of raw sugar, for a sugar recovery ratio of about 10.9 percent. This is to be compared with sugarcane deliveries totalling 961,599 long tons during the 1984/85 crop year, raw sugar production of 102,108 long tons, and a sugar recovery ratio of about 10.6 percent. The increase in the sugar recovery ratio in 1986 reflected mainly increases in factory efficiency. Sugarcane deliveries during 1985/86 were some 11.2 percent below the level in the previous crop-year, while raw sugar production was about 8.6% below the level in 1984/85. The decline in sugar production reflected the closure of the Libertad factory by the owners after the completion of the 1984/85 grinding season.

Sugar exports during 1986 totalled 98,480 long tons valued at \$62.9 million. This compared with exports of 95,300 long tons during 1985 valued at \$45.9 million. The increase in export values in 1986 over 1985 reflected an increase in the average world market price for sugar from around 4.7 US cents per pound to 6.4 US cents per pound during the year. As a result of the increase, the average price paid to farmers per long ton of sugarcane rose from \$31.92 in 1985 to \$40.30 in 1986. Local consumption of sugar during 1986 was estimated at 5,860 long tons, or about 7.6% below estimated consumption in 1985.

The volume of molasses exports in 1986, at 21,906 long tons, was some 11.1% below the level of exports during 1985. Reflecting increases in prices, however, the proceeds from molasses exports amounted to \$1.9 million in 1986 as against \$1.7 million in 1985.

The short-term prospects for sugar are not particularly bright. The estimate for sugar production during the 1986/87 crop-year is 85,000 long tons, about 9% below the actual 1985/86 level. In addition, with the further cut by the United States in its sugar import quota for the Caribbean region, Belize's quota has been reduced by nearly 50 percent. Export receipts are likely to reflect the quota reduction. On the other hand, there does not appear to be any substantial weakening of prices in the world market for sugar. The medium term prospects for the sugar industry appear to be somewhat more encouraging. Negotiations are underway for the



establishment of facilities to convert sugarcane grown in Belize into ethanol for export from Jamaica. It is contemplated that the closed Libertad factory will be reopened and used in the conversion process. The operation is expected to require a substantial increase in the production of sugarcane. In addition, the Tower Hill fac-

tory is expected to commence production of "plantation white" sugar from part of its raw sugar production. This grade of sugar, which was formerly produced by the Libertad factory, had had to be imported for domestic use following the closure of that factory.

Table 1 / Sugar Production

('000 long tons)

	1984/85	1985/86	1986/87 E
Sugarcane	961.6	854.0	824.2
Raw sugar	102.1	93.3	85.0

Notes: E—Estimate

Crop-year normally runs from December to June

Source: Belize Sugar Board Reports

Table 2 / Sugar Exports

('000 long tons)

	1984	1985	1986
USA	36.2	17.7	52.0
(of which US quota)	(28.2)	(12.1)	(16.2)
EEC (United Kingdom)	43.0	42.1	41.2
Rest of the World	16.4	35.5	5.3
Total	95.6	95.3	98.5

Source: Belize Sugar Board Reports

BANANAS

The volume of banana exports in 1986 totalled 688,000 boxes (42 lb), rising sharply above the levels for 1984 and 1985. The substantial increase in export volume reflected a sharp increase in production of fruit mostly as a result of improved efficiency in farm management following the transfer of the farms to private growers, although there was a small increase in the acreage under cultivation.

The value of banana exports in 1986, at \$8.8 million, was 33.9% above the value in 1985. As the table below shows, this largely reflected the increase in export volume as the average price per box of fruit rose only slightly. During 1985, the price received for bananas exported from Belize was quoted in sterling, so that the local industry benefitted from the appreciation of sterling against the US dollar. In 1986, however, the price was denominated in Belize dollars, so that the continued apprecia-



tion of sterling had no effect on the industry's export earnings.

Although the world market for bananas absorbed large volumes of cheap fruit produced by low-cost farms (mainly in Central America), Belize and other CARICOM producers continued to enjoy preferential prices in the United Kingdom market. Prospects for the local industry are conditioned on the continuation of this preferen-

tial access; on the expansion of the area under cultivation in order to raise production levels to the point where ships can load fruit directly in Belize and thereby eliminate the need for high-cost barging of fruit to the Republic of Honduras; on increasingly efficient production management, and on the maintenance of prices in the UK: the existing demand/supply relationship is reportedly threatened by substantial increases in the supply of fruit from Caribbean producers.

Table 3 / Banana Exports

	1984	1985	1986
Volume ('000 42 lb boxes)	555	542	688
Value (\$000)	6,286	6,605	8,842
Average box price (\$)	11.33	12.19	12.85
Cultivated area (acres)	1,700	1,645	1,725

Sources: Central Statistical Office
Department of Agriculture
Banana Control Board

CITRUS

Citrus production in 1986 was estimated at 1.265 million 90-lb boxes of oranges and 650,000 80-lb boxes of grapefruit, 25.7% above the level produced in 1985.

As the table below shows, the volume of citrus concentrate exported in 1986 was substantially above the level of exports in 1985. On the other hand, despite this 27.3% increase in volume, exports earnings actually declined by 4.4% reflecting the effect on market prices of substantial increases in supplies offered for sale, mainly by other

countries in the hemisphere. Even at the reduced unit prices (the average price per gallon of concentrate declined from \$19.38 in 1985 to \$14.55 in 1986) producers appear to be generating surpluses. Prospects for substantial increases in output in the medium to long term appear to hinge on the investment decisions of the Coca Cola group, although other producers in the traditional citrus growing areas of the country are continuing to expand output.

Table 4 / Citrus Production and Exports

	1984	1985	1986
Production			
Oranges ('000 90-lb boxes)	1,124	1,043	1,265
Grapefruit ('000 80-lb boxes)	316	476	650
Exports (concentrate)			
Value (\$'000)	19,547	24,240	23,173
Volume ('000 gallons)	1,066	1,251	1,593

Source: Central Statistical Office



MARINE PRODUCTS

The volume of marine products exported during 1986 totalled 1.367 million pounds, with a value of \$10.8 million. This represented a decline of 21% in value terms and a fall of 4% in volume terms from the 1985 performance. Total earnings were affected by the downward movement in product volumes; although there were some downward price movements, especially for conch and lobster, the effect of these was not as significant as that of the lower volumes, particularly in the case of

lobster, the largest earner. The substantial increase in the export of crab and shrimp did not compensate for the decline in conch and lobster export volumes.

Prospects for growth in the marine products industry appear to lie sustained in the direction of a shift from mainly extractive operations in inshore areas to more farm-type intensive operations on land or in shallow water, and in the development of deep-sea operations. Existing fishing operations inside the reef may need to be carefully monitored to prevent over-fishing.

Table 5 / Exports of Marine Products (\$ '000)

Items	Unit	1984		1985		1986 E	
		Volume	Value	Volume	Value	Volume	Value
Crab & Shrimp	'000 lb	4	14	123	629	238	1,197
Salted Fish	'000 lb	35	48	17	17	6	7
Conch	'000 lb	516	2,099	368	1,551	235	942
Lobster	'000 lb	565	9,185	697	11,123	510	8,076
Other Fish	'000 lb	322	480	219	294	378	533
Total	'000 lb	1,422	11,826	1,424	13,614	1,367	10,755

E — Estimate

Source: Central Statistical Office

GARMENTS

Garment production for export in 1986 totalled 2.52 million pieces, an increase of 16.1% on the 2.17 million pieces assembled in 1985. Reported export earnings from

garment exports amounted to \$32.4 million as against \$31.1 million in 1985. The lower rise in export receipts compared with the increase in volume reflected a shift in production towards lower-priced items.

Table 6 / Garment Exports

	1984	1985	1986
Value (\$'000)	31,240	31,050	32,367
Volume (million pieces)	1.96	2.17	2.52

Source: Central Statistical Office

VEGETABLES

Production of vegetables for export to the United States continued to increase during 1986. As the table below

shows, volume and particularly earnings rose substantially over 1985 levels. There was substantial investment in the subsector during 1986, and there are strong indications of further expansion during 1987.



Table 7 / Exports of Vegetables

	1984	1985	1986
Value (\$'000)	—	28	718
Volume ('000 lb)	—	416	978

Source: Central Statistical Office

Money, Credit and Prices

During 1986, the banking system in Belize was characterised by substantial growth in deposits and relative stagnation in credit demand. These factors led to a build up of liquidity in the system and to high rates of money supply growth.

Total deposits with the commercial banks rose by \$24.2 million during the year, compared with an increase of \$7.6 million during 1985. The bulk of the increase was concentrated in time and savings deposits.

Deposit growth in real terms (the nominal rate of growth adjusted for inflation) was also quite impressive during 1986: 15.2% compared with 2.0% for the previous year. This reflected both the substantial rise in nominal deposits and the very low rate of increase in retail prices.

It is difficult to assess the impact of the real deposit rate, particularly in view of the fact that deposit growth depends on other factors in addition to the interest rate. The real deposit rate of 7.5% at the end of 1986 was higher than the 5.9% real rate at the end of 1985. Although empirical analysis did not indicate any strong relationship between the real deposit rate and changes in deposits (admittedly the number of available data

points was probably insufficient), the rise in the real deposit rate would most likely have facilitated the rise in deposits between 1984 and 1986.

The declining trend in domestic credit outstanding from the banking system observed since December 1984 persisted through 1986, with net domestic credit declining by \$5.9 million during the year, following a fall of \$11.1 million during 1985. The decline clearly reflected low rates of investment, particularly private sector investment, in the economy.

The decline in net domestic credit during 1986 was largely accounted for by developments in the public sector: net domestic credit to the public sector fell by \$5.4 million, while the fall in domestic credit to the private sector (\$0.5 million) was marginal. Within the public sector, however, net credit to Central Government rose by \$6.5 million, but this rise was more than offset by the decline of \$11.9 million in net credit to other public sector bodies. This decline in net credit reflected increasing deposits by public sector entities, including the social security system.

Banking system credit operations and Government fiscal activity resulted in a significant change in the composition of Central Government borrowing from the banking system. There was a substantial shift in Central Government credit sourcing from the Central Bank to the commercial banks. Net credit from the Central Bank declined by \$12.6 million. In addition, credit to Government from the commercial banks shifted from direct credits to hold-

Table 8 / Deposit Growth: 1984 – 1986 (change over previous year)

	1984	1985	1986
Total deposits (\$'000)	143,594	151,190	175,355
Change in total deposits (\$'000)	+11,767	+7,596	+24,165
(Change in total deposits %)	(8.9)	(5.3)	(16.0)
of which			
Savings and Time Deposits (\$'000)	+4,440	+9,281	+20,139
(Change %)	(4.1)	(8.2)	(16.4)



Table 9 / Domestic Credit by the Banking System

(\$m)

	1984	1985	1986	Change 1986/1985
A. By Source	206.4	195.3	187.0	- 8.3
Central Bank	55.9	48.7	33.7	-15.0
Loans and Advances (1)	17.7	29.3	31.6	+2.3
Govt Securities	42.8	34.7	24.0	-10.7
Less				
Govt Deposits	—	3.8	4.9	+ 1.1
Other Public Sector Deposits	4.6	11.5	15.5	+ 4.0
Commercial Banks	150.5	146.6	153.3	+ 6.7
Loans and Advances	153.0	141.4	135.0	- 6.4
Govt Securities	5.4	14.6	34.6	+20.0
Other (2)	5.4	5.9	6.6	+ 0.7
Less				
Govt Deposits	0.5	0.9	1.3	+ 0.4
Other Public Sector Deposits	12.8	14.4	21.6	+ 7.2
B. By End-User	206.4	195.3	187.0	- 8.3
Public Sector (net)	70.6	68.3	60.5	- 7.8
of which:				
Central Government	79.6	90.4	94.5	+ 4.1
Other Public Sector Entities	(9.0)	(22.1)	(34.0)	-11.9
Private Sector (gross)	135.8	127.0	126.5	- 0.5

Notes: (1) Includes Compensatory Financing Facility and drawings on the local currency counterpart of the external credits provided under the IMF standby facility.

(2) Outstanding letters of credit, bank guarantees and bank acceptances.



ings of securities, as the build up of liquidity in the banking system forced the banks to look for placement opportunities for their surplus funds.

In relation to private sector borrowing from the banking system, the table below indicates that the agricultural

a build up of excess liquidity in the banking system. During 1986 commercial bank holdings of liquid assets in excess of the required minimum rose by \$14.3 million, with the excess level standing at \$22.5 million at year end. The rise in excess liquidity was reflected in the substantial rise in commercial bank holdings of Treasury

**Table 10 / Sectoral Distribution of Loans and Advances
Commercial Banks**

Sector	1984	1985	1986	(\$m)
				change 1986/1985
Productive	61.9	60.0	57.4	-2.6
Agriculture	16.7	14.3	12.8	-1.5
Manufacturing	19.9	21.1	16.7	-4.4
Building and Construction	15.4	15.4	19.0	+3.6
Mining	6.0	5.8	5.0	-0.8
Transport, Storage and Communication	2.7	1.9	2.3	+0.4
Tourism	1.2	1.5	1.6	+0.1
Consumer Oriented	61.9	56.7	56.4	-0.3
Public Sector (1)	20.5	17.8	13.1	-4.7
Other	14.7	6.9	8.1	+1.2
Total	159.0	141.4	135.0	-6.4

Note: (1) Government services and utilities

and manufacturing sectors experienced noticeable declines in credit, whereas credit to the building and construction sector increased substantially. In the residual "Other" category, there were increases in credit to commercial fishing, real estate and financial institutions.

Two aspects of the behaviour of domestic credit in 1986 should be noted. Firstly, although the level of outstanding domestic credit continued to decline throughout the year, the rate of decline, at 3%, was perceptibly lower than the 5.4% rate of decline recorded in 1985. Credit to the private sector declined by 0.4% during 1986 compared with 6.5% in 1985. Secondly, during October and November 1986 net domestic credit rose by \$9.8 million, with the private sector claiming \$7.1 million of the total increase. The magnitude of the two month increase was the largest in any year since 1980, and perhaps provided an indication of a turnaround in the trend movement of borrowing. The expansion in credit was not confined to the distribution sector, used to finance the usual inventory build up in anticipation of Christmas sales, but was spread over secondary and primary activity as well.

One consequence of the sharp rise in deposits together with the overall stagnation in the demand for credit was

Bills. Excess liquid asset holdings peaked in June at \$27.8 million; the decline to the year end level reflected the slight rise in the demand for credit.

The growth of money supply in 1986 was significantly higher than that in 1985. M1 money supply (currency with the public plus demand deposits in the banking system) rose by 18.1% compared with 8.6% growth in 1985. M2 money supply (M1 plus time and savings deposits) rose by 16.9% in 1986 as against 8.3% in 1985. Currency with the public rose by 14.4% in contrast to a decline of half a percentage point during 1985. The growth in money supply in 1986 reflected the net inflow of funds from abroad together with the lack of growth in domestic credit. As a result of these developments the net foreign assets of the Central Bank rose by \$21.9 million, while the net foreign asset position of the commercial banks rose by \$9.8 million. The Central Bank's external assets ratio, which is required by law not to fall below 40%, rose from 47.5% at the end of December 1985 to 72% at the end of December 1986.

Notwithstanding the high rates of money supply growth during 1986, the retail prices index exhibited little change over the year. The rise in the index during 1986 was 0.8% compared with 3.3% in 1985.



Table 11 / Commercial Bank Liquidity

(\$m)

	1984	1985	1986	change 1986/1985
Approved Liquid Assets	41.9	52.5	73.4	+20.9
Vault Cash	3.7	4.1	4.8	+ 0.7
Balances with Central Bank	10.5	14.9	17.2	+ 2.3
Foreign and Call Balances	12.0	13.5	15.9	+ 2.4
Treasury Bills	5.5	14.4	30.3	+15.9
Other Approved Assets	10.2	5.6	5.2	- 0.4
Required Liquid Assets	28.2	44.3	50.9	+ 6.6
Daily Average Cash Reserves	10.5	14.9	17.2	+ 2.3
Required Cash Reserves	9.9	13.3	15.3	+ 2.0
Excess Liquid Assets	13.7	8.2	22.5	+14.3
Excess Cash Reserves	0.6	1.6	1.9	+ 0.3



Monetary Policy Developments

It may be recalled that the Government of Belize, faced with a deteriorating fiscal situation and a substantial balance of payments deficit, adopted in late 1984 an adjustment programme which was supported by a standby arrangement with the IMF. The main objectives of the programme were to strengthen the international reserves position, reduce the degree of dependence of the public sector on external commercial borrowing, and eliminate all external payments arrears.

As part of the adjustment programme the Central Bank took the following monetary measures in January 1985 to limit credit expansion, reduce the pressure on the balance of payments and to encourage domestic savings:

commercial banks' minimum lending rate was raised by two percentage points to 14%;

commercial banks' savings and time deposit rates were raised by three percentage points from existing levels;

the Treasury Bill rate was raised from 10% to 13%, depending on bids;

the required minimum cash reserves of commercial banks was raised from 7% to 9% effective March 1;

the required minimum liquid assets ratio of banks was raised in two stages from 20% of deposit liabilities to 30%;

the interest rate charged on loans from the Central Bank to commercial banks was raised from 12% to 20% and the practice of automatic lending was stopped. Banks were informed that loans would be considered only in cases where failure to lend could seriously harm the banking system.

The monetary measures were designed as part of a macro policy package, and was accompanied by borrowing initiatives, expenditure restraint, new revenue measures, and a policy to liquidate arrears on debt service as part of the fiscal contribution.

Taken as a whole the adjustment programme was successful. The impact of the tight money policy was clearly reflected in the decline in domestic credit during 1985 and 1986. To some extent the programme was assisted by fortuitous developments (reduced oil prices and substantial services income), and these contributed to strong

growth in savings. The net result, as indicated earlier, was a build up of liquidity in the banking system, strong growth in reserves, and sluggish lending activity within the context of low GDP growth. The rate of growth of consumer prices remained stable.

While the demand management measures implemented during the period of the standby arrangement thus yielded the desired results (the arrangement came to an end in May 1986), the continued relevance of the high interest rate regime became increasingly doubtful. The persistent sluggishness in the economy appeared to indicate the need for some stimulative action, and the lowering of interest rates was a natural candidate. Two additional considerations, however, operated. The first was some uncertainty over the nature of the liquidity build up, whether there were structural factors involved. The second consideration involved a trend increase in Central Government borrowing. If the liquidity build up was merely temporary, there was some question whether the system could accommodate a resumption of private sector borrowing along with the increased levels of public sector borrowing without running back into reserves difficulties. A third consideration (really one of the possible structural factors in the first consideration, but so important that it required special attention) was discussed at length: whether the continued low growth and the associated low rates of private sector investment reflected more deep-seated entrepreneurial supply problems, as a counterpart to the widely observed shortages of skilled manpower in many areas of activity.

In the event, the downward adjustment in interest rates announced in mid-December attempted to provide some relief to borrowers without discouraging savers, and without seeking to give the impression of monetary laxity. The new rates were as follows:

Deposit Rates		
Deposit Category	Minimum Annual Rate	
	Old Rate	New Rate
Passbook Savings	7	5
Premium Savings	9	8
One-month Fixed	10	8
Three-month Fixed	12	10
One-year Fixed	12.5	11
Two-year Fixed	—	12
Prime Lending Rate	14	12
Central Bank Rates:		
Deposits	10	8
Loans	20	12



Further, as part of the restructuring of interest rates, two changes in Treasury Bill rate arrangements were announced. First, the Government indicated that it would expect a reduction in the three month Treasury Bill yield rate to 9%. Secondly, as part of the normal tender, the Government would issue a new one-year Treasury Bill on which it would expect to pay 10.5%.

In the case of the commercial bank deposit rates, the reduction in rates contained an element of selectivity. The approach was adopted with the twin objective of protecting the small saver and at the same time encouraging savers to move into longer maturities. It was felt

that longer maturities would also prove attractive to banks by providing a larger stable component of the resource base.

Over the years two sectors "distribution" and "personal loans" had claimed a substantial share of the total loans and advances of commercial banks. The combined share rose from about 34% of the total in 1977 to about 43% in 1986. While recognising the importance of the two sectors, the Central Bank, in its letter announcing the change in interest rates, requested banks to pay greater attention than in the past to directly productive sectors.

The Central Bank's policy of selective control over the credit expansion of the banking system was based on the principle of the "credit ceiling". This was a measure to control the growth of the banking system and to ensure that the credit expansion was in line with the national development plan. The credit ceiling was set at a level that was consistent with the national development plan and was reviewed periodically. The Central Bank also used other measures to control the credit expansion, such as the requirement that banks must maintain a certain level of liquid assets and the requirement that banks must maintain a certain level of reserves. These measures were designed to ensure that the credit expansion was in line with the national development plan and to ensure that the banking system was able to meet the needs of the economy.

Category	Old Rate	New Rate
Two-year Fixed	12.5	10.5
One-year Fixed	12.5	9.0
Three-month Fixed	10.0	9.0
Current Savings	8.0	7.0
Fixed Savings	7.0	7.0
Central Bank Rate	14	14
Loans	20	20
Deposits	16	16

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Fiscal Operations

Central Government: Performance in 1986/87

Provisional data on the fiscal outturn for the budget year 1986/87 for the Central Government indicated an overall fiscal deficit (the difference between revenues and grants on the one hand, and total expenditure on the other) of \$23.3 million. Total revenue and grants amounted to \$116.1 million, while total expenditure was estimated at \$139.4 million, of which \$27.5 million represented development spending. Of the estimated cash deficit of \$20.6 million (\$2.7 million were accounted for in float adjustments), \$15.4 million were financed from abroad, with the remaining \$5.2 million being obtained from domestic non-bank sources.

The table shows substantial growth in total revenue compared with the rise in expenditure and net lending, and a corresponding reduction in the fiscal deficit and in the Central Government's borrowing requirement between 1985/86 and 1986/87. The growth in revenue partly reflected the impact of fiscal measures introduced early in 1986. The fiscal package included an increase in stamp duty on imports from 10% to 12%, and an increase in revenue replacement duties in petroleum products following the sharp fall in the price of petroleum imports.

Table 12 / Central Government Financial Operations 1985/86 and 1986/87

(\$m)	Actual 1985/86	Provisional 1986/87
Total Revenue	100.1	116.1
Tax Revenue	83.2	98.1
Non-tax Revenue	15.5	15.3
Capital & Grants	1.4	2.7
Expenditure and Net Lending	137.2	139.4
Current Spending	97.7	105.6
Capital & Net Lending	39.5	33.8
Fiscal Deficit	37.1	23.3
External Financing	26.0	15.4
Domestic Financing	15.3	5.2

Source: Ministry of Finance

The table below shows the main areas of increase in tax collections between 1985/86 and 1986/87.

Table 13 / Main Areas of Tax Collection Increases

	(\$m)		
	Actual 1985/86	Provisional 1986/87	Change
Excise on Spirits and Beer			
Import Duties	25.9	29.0	+3.1
Export Duties	1.6	1.9	+0.3
Excise on Spirits & Beer	5.1	5.5	+0.4
Excise on Cigarettes	1.2	2.2	+1.0
Revenue Replacement Duty	7.7	10.6	+2.9
Stamp Duties (Customs)	9.5	12.6	+3.1
Licences	1.5	2.5	+1.0
Income Tax	19.3	21.1	+1.8
Total	71.8	85.4	+13.6

Source: Ministry of Finance

To some extent Table 12 understates the actual spending by Central Government since it partly offsets debt amortisation payments against new borrowing. This treatment does no damage to the presentation, however, since in any fiscal year the Central Government as a net borrower or lender would only have available from creditors the difference between amortisation payments and new loan disbursements.

BUDGET 1987/88

Revenue and expenditure estimates for the Central Government for fiscal year 1987/88 show a deficit on recurrent account of \$20.4 million. Table 14 on the next page shows the budget data.

Recurrent expenditure in the new financial year is estimated to increase by 8.7% (\$10.8 million) over the revised 1986/87 figure of \$123.8 million. The major part of the increase arises from salary adjustments, aimed at improving working conditions for teachers, nurses, policemen, and senior management in the public service, and for the provision of improved social, education and health care services for the general population.

Recurrent revenue is expected to increase by \$9.4 million (9%) over the 1985/86 level. New revenue measures include increased taxes on fuel (\$0.25 per US gallon on gasoline and diesel, and \$0.10 on kerosene), fees on vehicles and persons crossing international land borders,



and a charge for exit certificates issued by the Income Tax Department. One previously exempt statutory body, the Belize Electricity Board, is now being required to pay stamp duty on its imported material and equipment. The deficit on recurrent and capital operations is expected to be closed via capital inflows and through recourse to the capital markets.

The continuing deficit on recurrent account is a matter for some concern. Orthodox fiscal management requires

the generation of a surplus on recurrent account to help finance the capital budget. The need for reducing and eliminating the recurrent account deficit has been recognised in the 1987 budget speech, and machinery is expected to be put in motion to improve the efficiency of revenue collection, to restrain the growth of recurrent expenditure, and to impose greater fiscal discipline on statutory bodies. The Central Government has had to continue to transfer funds to some statutory bodies to enable them to meet debt service obligations.

Table 14 / Budget Estimates 1987/88 (\$m)

	Revised 1986/87	Estimates 1987/88
Total Revenue	152.8	226.4
Recurrent	104.8	114.2
Capital II	23.5	36.7
Capital III	24.5	75.5
Total Expenditure	152.8	226.4
Recurrent	123.8	134.6
Capital II	6.8	16.3
Capital III	22.2	75.5
Overall Balances		
Recurrent	(19.0)	(20.4)
Capital	19.0	20.4



Balance of Payments

The turnaround in the country's balance of payments outturn which was a feature of 1985 continued into 1986, reflecting the continuing impact of the stabilisation measures and the results of the country's trading activities. Net official reserves rose by US\$10.8 million during 1986, following a rise of similar magnitude during 1985. However, while the positive payments outturn in 1985 reflected developments on the capital account, mainly in the form of institutional and other assistance, the payments outturn in 1986 was equally divided between the current and capital accounts: the country managed to run a small surplus on current account during the year. This surplus reflected a larger surplus on invisibles during 1986 than in 1985 together with a reduction in the deficit on visible trade. Official and private transfers to Belize remained at about the same levels as during 1985.

CURRENT ACCOUNT

The surplus on current account in 1986 is estimated at US\$3.4 million. The trade deficit contracted noticeably from US\$41 million in 1985 to US\$33.8 million in 1986. The value of exports rose from US\$64.4 million to US\$74.5 million, substantially in excess of the rise in the value of imports; at the same time, the value of the sale of invisible items also rose faster than the value of purchases of similar items, resulting in a net increase on invisibles from US\$4.3 million to US\$9.9 million. Included in the invisibles category were services inflows in respect of movie-making activity, and an estimated increase from US\$6.8 million in 1985 to US\$8.9 million in 1986 in net earnings from tourism.

CAPITAL ACCOUNT

The sharp reduction in net inflows on capital account (US\$3.9 million in 1986 as against US\$18.9 million in 1985) resulted from a substantial slowing in the volume of both official and private capital inflows. The fall-off in official inflows reflected the end of the emergency assistance phase of the IMF and USAID programmes, as well as a lower level of funding under the UK economic cooperation programmes as on-going projects were completed. Disbursements under the World Bank road rehabilitation project were also substantially lower than dur-

ing 1985. The balance of payments estimates indicate that private net capital flows turned negative in 1986 (a net outflow of US\$6.9 million) compared with 1985 (a net inflow of US\$2 million). These movements on private account included changes in the net foreign asset position of the commercial banks as well as of private businesses in the country. The net private flow position tends to support the indication of a fall-off in the rate of private sector investment in the domestic economy.

Public Sector External Debt

The growth of the public sector external debt slowed sharply during 1986. At year end, outstanding public sector external debt stood at US\$106.3 million, US\$8 million (8.1%) above the level a year earlier. This contrasted sharply with the 31.6% growth during 1985 on the end-1984 level of US\$74.7 million.

During 1986, drawings on loans amounted to US\$12.1 million, largely offset by principal repayments of US\$9.2; the additional rise of US\$5.1 million represented valuation adjustments. Drawings were substantially below the 1985 level of US\$26.6 million as a number of large projects neared completion. Drawings in 1986 included the final drawdown on the standby credit provided by the IMF under the adjustment programme which commenced in 1984. The programme was successfully completed. Interest payments on external debt during 1986 totalled US\$4.6 million compared with US\$6.2 million during 1985.

The volume of transactions on public sector external debt was substantially lower during 1986 compared with 1985. This was due to two factors. Firstly, payments arrears were being liquidated during the course of 1985; secondly, some high-cost suppliers credits were rescheduled during 1985, reducing the debt service obligation during 1986.

Prospects

In the immediate future, the balance of payments outlook for 1987 does not appear to be as good as it was in 1986. Firstly, the sharp cut in Belize's sugar export quota to the US will affect earnings and output. Secondly, although the oil market continues to exhibit instability, prices are unlikely to return to the low levels which ruled during most of 1986, so that the country will need to make larger payments for petroleum imports in 1987 than in 1986. The third element relates to the inflows on the services account arising out of movie filming activity.



While there may be more filming activity in the country, it is unlikely that there will soon be activity on the scale that obtained in 1986. Fourthly, any meaningful recovery in the rate of growth of output will result in a substantial increase in imports. These elements, taken together, should underline the fact that the rate of reserves growth during 1986 and the reserves levels in early 1987 should not produce a sense of complacency. A cautious approach to both monetary and fiscal policy is indicated. On the fiscal side, this caution should be reinforced by the increasingly restrictive domestic financing environment facing the Central Government.

The medium term prospects are more encouraging. Given the small size of the domestic market and the high import content of both domestic consumption and investment,

the economy must necessarily be export led. From the point of view of the need to develop the export sector, investment in infrastructure development becomes as important as investment in directly productive activity. Infrastructure development, however, must be carefully planned if resources are not to be wasted. A number of projects, both in infrastructure and in directly productive activity, are currently either in the advanced planning or implementation stages, and the next two to five years should see the results of present activity.

The country currently faces serious trained manpower problems, and it is likely that the major obstacle to growth and development in the medium term will be the inability to slot the right people into key operating positions.

Table 15 / Estimated Balance of Payments: 1985—1986

(US\$m)

	1985			1986		
	Debit	Credit	Net	Debit	Credit	Net
CURRENT ACCOUNT	144.6	136.2	-8.4	148.6	152.0	3.4
Visible Trade	105.4	64.4	-41.0	108.3	74.5	-33.8
Invisibles	33.8	38.1	4.3	34.1	44.0	9.9
Shipping	2.3	—	-2.3	2.1	—	-2.1
Other Transport	0.1	2.5	2.4	0.1	2.9	2.8
Travel	5.9	12.7	6.8	6.9	15.8	8.9
Investment Income	11.0	1.1	-9.9	10.4	1.7	-8.7
Direct Investment	(1.7)	(-0.7)	(-2.4)	(2.2)	(-0.6)	(-2.8)
Interest Income	(9.3)	(1.8)	(-7.5)	(8.2)	(2.2)	(-6.0)
Other Goods & Services	14.5	21.8	7.3	14.6	23.6	9.0
Official (nie)	(2.0)	(16.9)	(14.9)	(2.1)	(17.4)	(15.3)
Private	(12.5)	(4.9)	(-7.6)	(12.5)	(6.2)	(-6.3)
Unrequited Transfers	5.4	33.7	28.4	6.2	33.6	27.4
Official	(3.6)	(13.0)	(9.4)	(3.4)	(13.0)	(9.6)
Private	(1.8)	(20.8)	(19.0)	(2.8)	(20.6)	(17.8)
CAPITAL ACCOUNT	15.0	32.3	18.9	18.3	22.2	3.9
Direct Investment	4.0	6.0	2.0	3.8	8.0	4.2
Other	11.0	26.3	16.9	14.5	14.2	-0.3
Official	(9.1)	(24.0)	(14.9)	(7.0)	(13.6)	(6.5)
Private	(1.9)	(3.9)	(2.0)	(7.5)	(0.6)	(-6.9)
Commercial banks	[0.4]	[—]	[-0.4]	[5.0]	[—]	[-5.0]
Other private	[1.5]	[3.9]	[2.4]	[2.5]	[0.6]	[-1.9]
Net Errors & Omissions			-0.5			3.5
Overall Balance			10.0			10.8
Changes in net Official Reserves (increase=)	12.6	2.6	-10.0	12.0	1.2	-10.8



Table 16 / External Debt by Creditor, 1986

(US\$m)

	1985 Balance	Drawn	Amortisation	Interest	Valuation	1986 Balance
OFFICIAL Multilateral:						
CDB	25.0	0.2	1.7	1.4	0.4	23.9
IMF	10.5	1.2	1.2	0.6	1.2	11.7
IBRD	4.7	0.4	0.0	0.3	2.0	7.1
EEC/EIB	4.3	0.3	—	0.2	0.7	5.3
Bilateral:						
USAID	15.5	6.8	0.0	0.5	0.0	22.3
CIDA	8.5	0.0	0.1	0.0	0.1	8.5
UK	8.1	2.6	0.2	0.1	0.6	11.1
CDC	6.5	—	0.8	0.4	0.1	5.8
T&T	1.1	0.0	0.0	—	0.0	1.1
PRIVATE						
Suppliers'	10.9	0.6	4.4	0.8	0.1	7.1
Other	3.2	0.0	0.8	0.3	0.0	2.4
TOTAL	98.3	12.1	9.2	4.6	5.1	106.3

Operations

Foreign Exchange Operations

The Central Bank buys and sells certain stipulated currencies from Authorised Dealers at daily specified rates and for authorised transactions. The main currencies in which transactions occur are:

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

During 1986, the Central Bank's net purchases of the currencies listed at (a) to (c) above totalled the equivalent of \$15.3 million. This represented an increase of \$14.7 million over net purchases of \$651,000 during 1985. On a gross basis, the Central Bank's foreign exchange purchases totalled \$80.5 million in 1986, the highest level recorded so far in the organisation's history.

Table 17 / Central Bank Dealings in Foreign Exchange with Financial Institutions in Belize/ 1986/ (Non-CARICOM Currencies)

Month	Purchases	Sales	Net Purchases
January	7,788	2,615	5,173
February	7,126	4,320	2,806
March	7,355	3,716	3,639
April	12,845	3,815	9,030
May	7,284	4,322	2,962
June	4,326	5,198	-872
July	10,668	5,633	5,035
August	1,850	7,169	-5,319
September	931	4,752	-3,821
October	2,291	9,042	-6,751
November	3,956	7,321	-3,365
December	14,068	7,240	6,828
Total	80,488	65,143	15,345

Dealings in Caricom currencies during 1986 were below the 1985 levels both in respect of purchases and sales. Purchases of Caricom currencies amounted to \$9.7 million in 1985; in 1986 the level was \$1.8 million. This was primarily a result of reduced exports of citrus concentrate to Trinidad and Tobago. Sales of Caricom currencies amounted to \$5.5 million in 1986, \$0.9 million below the 1985 level.

Table 18 / Central Bank Dealings in Foreign Exchange with Financial Institutions in Belize/ 1986/ (CARICOM Currencies)

Month	Purchases	Sales	Net Purchases
January	23	492	-469
February	46	193	-147
March	69	555	-486
April	205	207	- 2
May	253	1,135	-882
June	75	266	-191
July	230	644	-414
August	229	327	- 98
September	182	445	-263
October	130	461	-331
November	126	246	-120
December	274	538	-264
Total	1,842	5,509	-3,667

EXTERNAL ASSETS RATIO

Under its governing legislation, the Central Bank is required to maintain at all times approved external assets equal to not less than 40% of the total value of its notes and coins in circulation plus its liabilities in respect of sight and time deposits. This ratio remained consistently above the minimum during 1986, reaching a peak of 82.92% in July. The table below shows the month end levels.

Table 19 / Central Bank External Assets Ratio/ 1986/ Month End Levels

Month	Approved External Assets	Currency & Demand Liabilities	Ratio
January	33,951	60,027	56.6
February	37,957	65,099	58.3
March	43,268	61,744	70.1
April	52,975	70,285	75.4
May	56,202	68,839	81.6
June	56,397	69,317	81.4
July	61,622	74,314	82.9
August	56,952	69,690	81.7
September	53,504	72,930	73.4
October	47,223	67,892	69.6
November	44,888	72,965	61.5
December	52,227	72,524	72.0



Table 20 / Sales of Foreign Exchange by Authorized Dealers

CLASSIFICATION	1984		1985		1986		Difference 1986/1985	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
CURRENT TRANSACTIONS								
1) Travel - Vacation	2256	245	2463	257	3819	901	1356	644
- Business	1191	102	1274	128	1723	131	449	3
- Medical	215	13	173	19	325	18	152	-1
- Other	1717	799	1268	955	750	1438	-518	483
2) Family Maintenance	1290	434	1348	269	1625	227	277	-42
3) Education	1412		1173		1041		-132	
4) Insurance	2168		1130		1278		148	
5) Reinsurance	2264		2969		2839		-130	
6) Travel Fares	5019		4736		4943		207	
7) Freight Charges	4248		3921		3606		-315	
8) Medical Expenses	1344		739		1265		526	
9) Head Office Expenses	791		1105		621		-484	
10) Royalty Payments	325		352		118		-234	
11) Communications	-		-		20		20	
12) Professional Services	981		1895		1701		-194	
13) Management Fees	60		39		26		-13	
14) Subscriptions	358		359		296		-63	
15) Port Disbursements	359		270		109		-161	
16) Commissions	445		288		224		-64	
17) Sundries	162		180		81		-99	
18) Embassy Transfers		92		94		99		
19) Profits / Dividends	9158		3452		4380		928	
20) Interest Payments								
- Private	892		2147		1549		-598	
- Public	661		586		836		250	
21) Other Current Account			253				-253	
- Private					92		92	
- Public	621				319		319	
22) Imports								
- Prepayments	19,353		15,708		18,783		3075	
- Oil Payments	32,158		34,738		23,017		-11721	
- Other	145,806		132,340		128,664		-3676	
TOTAL CURRENT	233,677	1685	214,906	1722	204,050	2814	-10856	109
CAPITAL TRANSACTIONS								
1) Emigration	3157		2206		3968		1762	
2) Repatriation of Funds		13,795		12,066		10,076		-199
3) Loan Payments								
Private (Long Term)	6046		3088		3568		480	
Public (Long-Term)	3028		4921		2576		-2345	
Private (Short-Term)	-	-	-	-	82	-	82	-
Public (Short-Term)								
4) Gifts	96		159		121		-38	
5) Investments	-	-	11	-	-	-	-11	
6) Other Capital Account	5887		329		1293		964	
TOTAL CAPITAL	18,214	13,795	10,714	12,066	11,608	10,076	894	-199
GRAND TOTAL	251,891	15,480	225,620	13,788	215,658	12,890	-9962	-89

Exchange Control

SALES

Total sales of foreign exchange by Authorised Dealers to the public amounted to \$228.5 million in 1986, 5% and 15% below the 1985 and 1984 levels, respectively. Current transactions accounted for 90% of total sales in 1986 with payments for imports continuing to be the major use for foreign exchange: 75% of major use for foreign exchange: 75% of foreign exchange purchased from Authorised Dealers was used to pay for imports in 1986. Capital account transactions accounted for 10% of total foreign exchange sales, with the category being dominated by repatriation of funds by non-residents. Emigration allowances and loan repayments accounted for the bulk of the remainder.

Stamp duty on sales of foreign exchange produced \$2.4 million in revenue to the Government in 1986 compared with \$2.3 million in 1985 and \$2.2 million in 1984.

In January 1986 withholding tax legislation was passed requiring a withholding by the payer of 25% of payments to non-residents in respect of

- management fees
- rental of equipment
- rental of plant and machinery.

Since the enactment of the legislation, sales of foreign exchange for these classes of transactions declined.

PURCHASES

Purchases of foreign exchange by Authorised Dealers from the public totalled \$243.5 million in 1986, result-

ing in a net inflow of foreign exchange into the institutions during the year. This was in contrast to the situation in 1985 when Dealers sold more to the public than they purchased. Incorporated businesses continued to be the main source of foreign exchange to the Dealers.

Tables 20 and 21 below show details of sales and purchases of foreign exchange by Authorised Dealers.

Table 21 / Purchases of Foreign Exchange by Authorised Dealers

	(\$'000)		
	1984	1985	1986
Central Government	1,986	1,892	2,024
Local Government	66	117	213
Statutory Bodies	9	58	62
Religious Organisations	1,481	1,931	2,942
Financial Institutions	608	510	2,467
Incorporated Businesses	88,347	116,051	125,344
Shipping Organisations	1,147	1,405	1,250
Insurance Companies	259	212	136
Travel Agencies	1,679	988	1,247
Embassies & Consulates			4,269
Hotels	6,083	3,431	3,476
Cooperatives	15,192	12,540	9,716
Individuals	40,881	60,293	56,681
Other	46,938	34,883	33,677
Transfer	2,294		
Total	206,970	234,311	243,504



Currency and Bank Clearings

CURRENCY

Currency in circulation, comprising cash in bank vaults and currency with the public, averaged \$29.0 million during 1986. Following a seasonal pattern, currency in circulation tended to rise during the first half of the year,

reflecting the impact of inflows of export proceeds. During the second half of the year currency in circulation fell slowly; from a high of \$31.0 million in May, currency in circulation fell to \$27.2 million in October. Between October and year-end, currency in circulation rose again reflecting the normal increase in end-of-year spending.

The average monthly holdings of cash by the commercial banks during 1986 changed little from the average level of holdings during 1985. In contrast, the average monthly cash holdings by the public stood at \$25.8 million during 1986, compared with \$24.5 million during 1985.

Table 22 / Currency in Circulation

(\$'000)

Month	Currency in Circulation			Cash in Banks	Currency with Public
	Notes	Coins	Total		
January	22,843	3,613	26,456	2,492	23,964
February	24,580	3,613	28,193	2,757	25,436
March	26,095	3,631	29,726	2,849	26,877
April	25,596	3,651	29,247	3,620	25,627
May	27,178	3,678	30,856	2,535	28,321
June	27,333	3,700	31,033	3,519	27,514
July	26,792	3,709	30,501	3,940	26,561
August	24,772	3,716	28,488	2,787	25,701
September	23,692	3,749	27,441	3,429	24,012
October	23,425	3,756	27,181	2,654	24,527
November	24,238	3,727	27,965	2,649	25,316
December	27,260	3,755	31,015	5,113	25,902

Relations with Commercial Banks

(i) RESERVES AND LIQUIDITY REQUIREMENTS

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 the specified proportion was raised from 7% to 9%, and remained unchanged throughout 1986. The average monthly balances held by the four banks taken together totalled \$16.9 million, as against a required holding of \$14.6 million.

While average actual cash balances on a monthly basis exceeded average monthly requirements by \$2.3 million, there was substantial fluctuation during the year in the absolute excess balances; in March, commercial banks'

cash balances with the Central Bank fell below required balances by \$0.2 million.

In addition to cash balances with the Central Bank, commercial banks are also required to maintain minimum levels of liquid assets. Since April 1985, commercial banks have been required to maintain 30% of their deposit liabilities in the form of liquid assets as defined in the Banking Ordinance. These are generally assets maturing in not longer than 90 days. Prior to policy action taken during early 1985 to raise the liquid asset holdings requirement, the level had remained unchanged at 20% since the establishment of the Bank.

Throughout 1986, commercial bank holdings of approved liquid assets remained well in excess of requirements.

During 1986, the required average monthly liquid asset holdings were \$48.7 million, while actual holdings averaged \$71.3 million. The average monthly excess holdings were \$22.5 million in 1986 compared with \$8.3 million in 1985.



**Table 23 / Commercial Bank Deposits with Central Bank/
Monthly Average of Daily Balances, 1986**

(\$'000)

Month	Average Deposit Liabilities	Minimum Balance	Actual Holdings	Excess (Deficiency)
January	149,803	13,482	15,059	11,577
February	151,959	13,676	18,176	4,500
March	156,862	14,118	13,903	(215)
April	159,230	14,331	16,704	2,373
May	161,138	14,502	16,433	1,931
June	162,265	14,604	17,233	2,629
July	165,119	14,861	17,731	2,870
August	167,472	15,072	15,362	290
September	168,248	15,142	19,898	4,756
October	168,914	15,202	15,433	231
November	169,051	15,215	19,721	4,506
December	169,721	15,275	17,630	2,355

**Table 24 / Commercial Bank Holdings of Approved Liquid Assets
Monthly Averages, 1986**

(\$'000)

Month	Average Deposit Liabilities	Required Holdings	Actual Holdings	Excess
January	149,803	44,941	58,369	13,428
February	151,959	45,588	63,879	18,291
March	156,862	47,059	66,597	19,538
April	159,230	47,769	71,648	23,879
May	161,138	48,342	74,943	26,601
June	162,265	48,680	76,460	27,780
July	165,119	49,536	74,501	24,965
August	167,472	50,242	77,719	27,477
September	168,248	50,474	75,000	24,526
October	168,914	50,674	72,769	22,095
November	169,051	50,715	69,889	19,174
December	169,721	50,916	73,402	22,486

(ii) CLEARING HOUSE OPERATIONS

The Clearing House Agreement of October 1978 involving the Central Bank and the four commercial banks continued in operation during 1986, with clearing house operations (involving the exchange of cheques and similar negotiable instruments) being conducted at the Central Bank daily. Data on the value of cheque clearings are shown in Table 25. The average monthly clearing value in 1986 was \$55.4 million, with a peak of \$68.6 million in December 1986. This compares with a monthly average of \$52.6 million in 1985.

Table 25 / Cheque Clearings 1986

(\$'000)

Month	Amount Cleared
January	53,917
February	51,095
March	53,159
April	57,920
May	54,785
June	52,810
July	56,690
August	49,806
September	50,053
October	60,130
November	55,585
December	68,555



Transactions with the Central Government

The Central Bank of Belize Act empowers the Bank to make temporary advances to the Central Government, such advances not to exceed 15% of the Government's estimated current revenues for the fiscal year. Advances from the Bank to the Central Government averaged \$14.1 million during 1986, compared with an average level of \$12.9 million during 1985. For most of the second half of 1986 the level of advances extended to the Central Government was close to the legal limit of \$16.1 million.

Apart from direct advances, the Central Bank may also provide credit indirectly to the Government via the purchase of Government securities. The Central Bank Act permits the Bank to hold Government securities of a total value of up to five times the Bank's paid-up capital

and reserves. The actual holdings were well below the legal limit during 1986. Table 26 below shows the levels of advances to Central Government by the Bank, together with Bank holdings of Government securities during the year.

Bank's holdings of Government debentures were constant at \$4.8 million throughout 1986, while Treasury Bill holdings ranged from a high of \$25.5 million in November to a low of \$9.1 million in August. The Bank's Treasury Bill holdings in 1986 were substantially below the levels in 1985 and in the recent past. The average monthly holdings of 16.1 million in 1986 were a little more than a half of the 1985 average of \$31.9 million. The excess liquidity situation in the banking system together with the flow of funds into the social security system created strong demand for low risk paper during the year.

During the first half of the year, the Treasury Bill rate for regular issues was 13%, with the rate for special issues being 14%. In June the rate fell to 10%, and in December it fell further to 9%. Table 27 below shows Treasury Bill activity during 1986.

Table 26 / Central Bank Direct and Indirect Credit to Government, 1986 (\$'000)

Month	Advances	(a) %	Treasury Bills	Other Securities	(b)
January	12,457	12.05	22,365	4,797	1.9
February	14,447	13.97	21,781	4,797	1.9
March	11,872	11.48	16,391	4,797	1.5
April	13,778	12.85	13,817	4,797	1.3
May	12,594	11.74	10,345	4,797	1.1
June	12,162	11.34	11,762	4,797	1.2
July	14,743	13.75	10,293	4,797	1.1
August	15,923	14.85	9,121	4,797	1.0
September	15,207	14.18	16,510	4,797	1.5
October	15,748	14.69	16,610	4,797	1.5
November	15,909	14.83	25,465	4,797	2.1
December	14,694	13.70	19,215	4,797	1.7

(a) Outstanding advances as a percentage of Central Government's estimated current revenue. The period through March is based on estimated revenue for fiscal 1985/86, with the subsequent months being based on the estimate for fiscal 1986/87. 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.



Table 27 / Government of Belize Treasury Bill Issues, 1986

Issue Number	Tender \$m	Allotment \$m	Additional Allotment \$m	Total Allotment \$m	Average Discount %	Average Yield %
1/86	10.7	10.7		10.7	12.59	13.00
2/86	11.3	11.3	2.0	13.3	13.53	14.00
3/86	8.6	8.6	8	8.6	12.59	13.00
4/86	13.8	13.8		13.8	12.59	13.00
5/86	4.6	4.6		4.6	12.59	13.00
6/86	1.2	1.2		1.2	12.59	13.00
7/86	10.7	10.7		10.7	12.59	13.00
8/86	13.3	13.3	1.6	14.9	13.53	14.00
9/86	8.6	8.6		8.6	12.59	13.00
10/86	13.8	13.8		13.8	9.76	10.00
11/86	4.6	4.6		4.6	9.76	10.00
12/86	1.2	1.2	15.9	17.1	9.76	10.00
13/86	10.7	10.7		10.7	9.76	10.00
14/86	8.6	8.6		8.6	9.76	10.00
15/86	4.6	4.6		4.6	9.76	10.00
16/86	13.8	13.8		13.8	9.76	10.00
17/86	17.1	17.1	0.1	17.2	9.76	10.00
18/86	10.7	10.7	0.6	11.3	9.76	10.00
19/86	8.6	8.6	3.8	12.4	9.76	10.00
20/86	4.6	4.6		4.6	8.80	9.00
21/86	13.8	13.8		13.8	8.80	9.00
22/86	17.2	17.2		17.2	8.80	9.00

Administration

Board of Directors

During the period 1 February to 31 December 1986, the Board of Directors of the Central Bank of Belize consisted of the following persons:

Alan Slusher	— Governor and Chairman of the Board
Frank J. Garbutt	— Deputy Governor and Vice-Chairman
Mario N. Arguelles	— Director
Arsenio I. Burgos	— Director
Nestor A. Vasquez	— Director
Sir Edney Cain OBE	— Ministry of Finance Representative

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

Staffing

The principal officers of the Bank at the end of 1986 were:

Alan Slusher	— Governor
Frank J. Garbutt	— Deputy Governor

Cecile Reyes	— Bank Secretary
Dwain A. Davis	— Manager, Accounts and Budget
Barbara Locke	— Manager, Banking and Currency
Sydney Campbell	— Acting Head, Exchange Control Department
Manuel G. Vasquez	— Acting Head, Bank Inspection Department
Dr. N.A. Mujumdar	— Research Director/Adviser

During 1986 the assignments of Mr. Hector Premaratne, IMF Adviser on Banking Supervision, and Mr. F.A.R. Mullings, IMF Research Adviser, came to an end. Mr. Graeme Justice, Research Director, attached to the UK-based Overseas Development Institute fellowship scheme, and Ms Dorla Leslie, Foreign Exchange Controller, both terminated their appointments with the Bank during the year.

During the year Ms Barbara Locke completed a course of training abroad and resumed duty with the Bank.

The total number of persons employed by the Bank at the end of 1986 was 61, 5 of whom were away from the country on study leave. At the end of 1985, the Bank had had 54 employees.

Auditors' Report and Financial Statements

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Price Waterhouse



Page 1

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

In our opinion, the accompanying balance sheets and the related statements of operations present fairly the financial position of Central Bank of Belize at December 31, 1986 and 1985, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

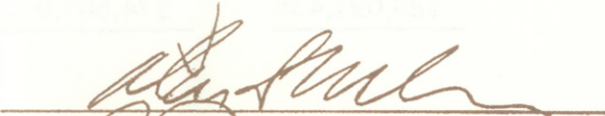
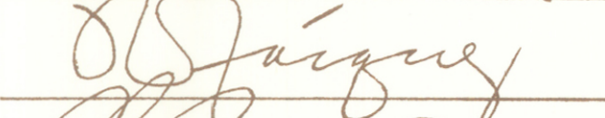
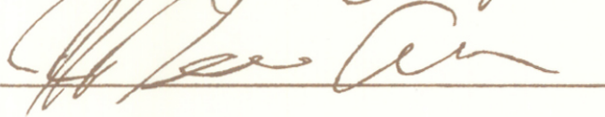
Price Waterhouse

Price Waterhouse
Chartered Accountants

Belize City, Belize
25 March 1987

	1986	1985
Assets		
Approved External Assets (Note 3)		
Balances and deposits with foreign bankers and the Crown agents	\$26,666,277	\$ 2,734,532
Reserve Tranche and balances with the International Monetary Fund (Note 4)	4,631,925	4,173,194
Marketable securities issued or guaranteed by foreign governments and international financial institutions	1,987,316	19,878,408
Other foreign credit instruments	18,592,875	1,599,999
Accrued interest and cash intransit	302,324	265,336
	<u>52,180,717</u>	<u>28,651,469</u>
Deferred Income		
Revaluation account (Note 2d)	(1,535,590)	(1,121,195)
Unrealized gain from appreciation in value of investments (Note 2e)	(276,633)	(312,557)
	<u>50,368,494</u>	<u>27,217,717</u>
Deferred Costs (Note 13)	53,171	
Caricom Multilateral Clearing Facility (Note 14)	988,627	1,008,733
Advances to Belize Government	12,221,126	9,867,239
Belize Government Debentures, at face value	5,078,025	5,078,025
Belize Government Treasury Bills (Note 5)	19,214,954	29,900,809
Balances with Local Bankers and		
Cash on hand	42,818	82,418
Other Assets (Note 6)	579,994	857,331
Property and Equipment (Note 7 and 2b)	544,226	494,730
	<u>\$89,091,435</u>	<u>\$74,507,002</u>

	1986	1985
Liabilities, Capital and Reserves		
Demand Liabilities		
Notes and coins in circulation	\$31,015,227	\$27,007,078
Deposits by licensed financial institutions (Note 8)	17,395,456	15,554,600
Deposits by Government and Public Sector Entities in Belize	21,997,639	15,295,038
Unredeemed demonetized issue (Note 9)	1,016,062	1,018,384
Deposits by international agencies (Note 10)	767,381	1,013,778
	<u>72,191,765</u>	<u>59,888,878</u>
Balances due to CARICOM Central Banks	392,369	337,557
Other Liabilities	150,581	39,877
Commercial Bank Discount Fund (Note 11)	1,512,483	113,820
	<u>74,247,198</u>	<u>60,380,132</u>
Capital Account		
Paid up capital (Authorized capital \$10,000,000)	10,000,000	10,000,000
General Reserve Fund (Note 12)	4,844,237	4,126,870
	<u>\$89,091,435</u>	<u>\$74,507,002</u>


 _____) Governor

 _____) Director

 _____) Deputy Governor

Central Bank of Belize
Statement of Operations
Year ended 31 December 1986

	1986	1985
Income		
Interest on investments	\$ 3,134,620	\$ 1,307,591
Discounts and other investment income	3,357,065	6,378,003
Net realized gains from appreciation in market value of securities	45,707	8,304
Commissions and other income	646,400	798,885
Total income	<u>7,183,792</u>	<u>8,492,783</u>
Expenditure		
Printing of notes and minting of coins	506,347	249,462
Salaries and wages, including superannuation contributions and gratuities	821,426	689,355
Interest expense	1,573,787	1,161,099
Other expenses, including depreciation	695,395	535,036
Total expenditure	<u>3,596,955</u>	<u>2,634,952</u>
Net Profit	3,586,837	5,857,831
Transfer to General Reserve Fund in accordance with Section 9 (1) of the Act	<u>717,367</u>	<u>1,171,566</u>
Balance credited to the Accountant General for the Consolidated Revenue Fund	<u>\$ 2,869,470</u>	<u>\$ 4,686,265</u>

1. Organization

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

2. Summary of Accounting Policies

A summary of the more significant accounting policies adopted by the Bank in preparing its financial statements, in accordance with accounting principles generally accepted in Belize, follows:—

- a. The accounts are presented in Belize dollars.
- b. Property and equipment—Fixed assets are carried at cost and, except in the case of land, are depreciated on a straight line basis over their estimated useful lives which, for the more important classes of assets, are as follows:

Buildings	5%
Office furniture	10%
Equipment	20%
Vehicles	20%

- c. Notes and coins in circulation—Up to December 31, 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.

- d. Foreign currency translation and exchange gains and losses—Foreign currency balances at 31 December 1986 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.

- e. 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.
- f. Accrued interest and cash in transit—Accrued interest and cash in transit in respect of foreign assets are shown as part of External Assets.
- g. 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 1986, total approved external assets approximated 72.77 percent (1985-47.84 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 7,200,000 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 December 31, 1986 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 December 31, 1986 the Bank's aggregate holding of Belize Government Treasury Bills and Securities approximated 1.63 times (1985-2.48 times) the amount of paid up capital and general reserves of the Bank.

6. Other Assets

At December 31, 1986 other assets are made up as follows:

	1986	1985
Accrued interest	163,739	163,739
Other	416,255	693,592
	<u>\$579,994</u>	<u>\$857,331</u>

7. Property and Equipment at Cost

Buildings and improvements	\$358,252	\$357,652
Furniture	123,980	69,404
Equipment	220,837	239,241
Vehicles	35,033	56,471
	<u>738,102</u>	<u>722,768</u>
Less: accumulated depreciation	193,876	228,038
	<u>\$544,226</u>	<u>\$494,730</u>

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 January 1, 1981, currency notes which had been issued by the Belize Commissioners of Currency ceased to be legal tender in Belize. At December 31, 1986, notes amounting to \$1,016,062 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 \$767,381 shown under this heading is an amount of \$419,030 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 commercial 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), commercial 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 December 31, 1985 and is now December 31, 1986. At December 31, 1986, gross disbursements to commercial banks from the facility for on-lending to qualified subprojects amounted to BZ \$2,270,000. (1985—\$710,000); total drawings by the Central Bank on the USAID facility at the same date amounted to BZ \$3,554,000 (1985—\$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:

	1986	1985
At January 1,	\$4,126,870	\$2,955,304
Transfer from net profit in accordance with Section 9(1) of the Act	<u>717,367</u>	<u>1,171,566</u>
At December 31,	<u><u>\$4,844,237</u></u>	<u><u>\$4,126,870</u></u>

13. Deferred Costs

Deferred costs represent the design and implementation cost of computerizing the Bank's operations as of December 31, 1986 and will be amortized over a reasonable number of years to be determined on completion of the project.

14. Caricom Multilateral Clearing Facility

The CARICOM Multilateral Clearing Facility (CMCF) grew out of the previously existing bilateral clearing systems and was formally established by Caribbean Heads of Government in March 1977 as a vehicle for settling trade obligations on a multilateral basis between participating CARICOM Central Banks. Initially, settlements were required in US dollars on a quarterly basis covering 100% of net amounts due; this arrangement was changed with effect from February 1978 to provide an option to settle on the basis of 50% of net amounts due. The arrangements provided for interest to be paid to net creditor institutions. Since 1983 the CMCF has been inactive mainly as a result of difficulties experienced by one participant in meeting settlement commitments, and the amount due to the Bank dates back to that period. Efforts are currently underway to stimulate activity and trade in the CARICOM region in such a way as to contribute to the liquidation of the clearing debt.

In the opinion of the Bank's management, there is reasonable doubt as to the ultimate collectibility of the interest on the outstanding obligation from the CMCF. As a result, interest accrued but uncollected up to the end of fiscal year 1985 has been reversed against income for 1986, and no interest is now being accrued on the obligation. Management continues to regard the outstanding principal as collectible because of the sovereign nature of the debt.

15. Commitments and Contingent Liabilities

At December 31, 1986, the Bank was committed under a \$350,000 contract to computerize its operations.

Outstanding letters of credit at December 31, 1986 amounted to \$21,000 (1985—\$110,000).

CENTRAL BANK OF BELIZE

Fifth Annual Report and Accounts 1986

Central Bank of Belize
Annual Report.
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