

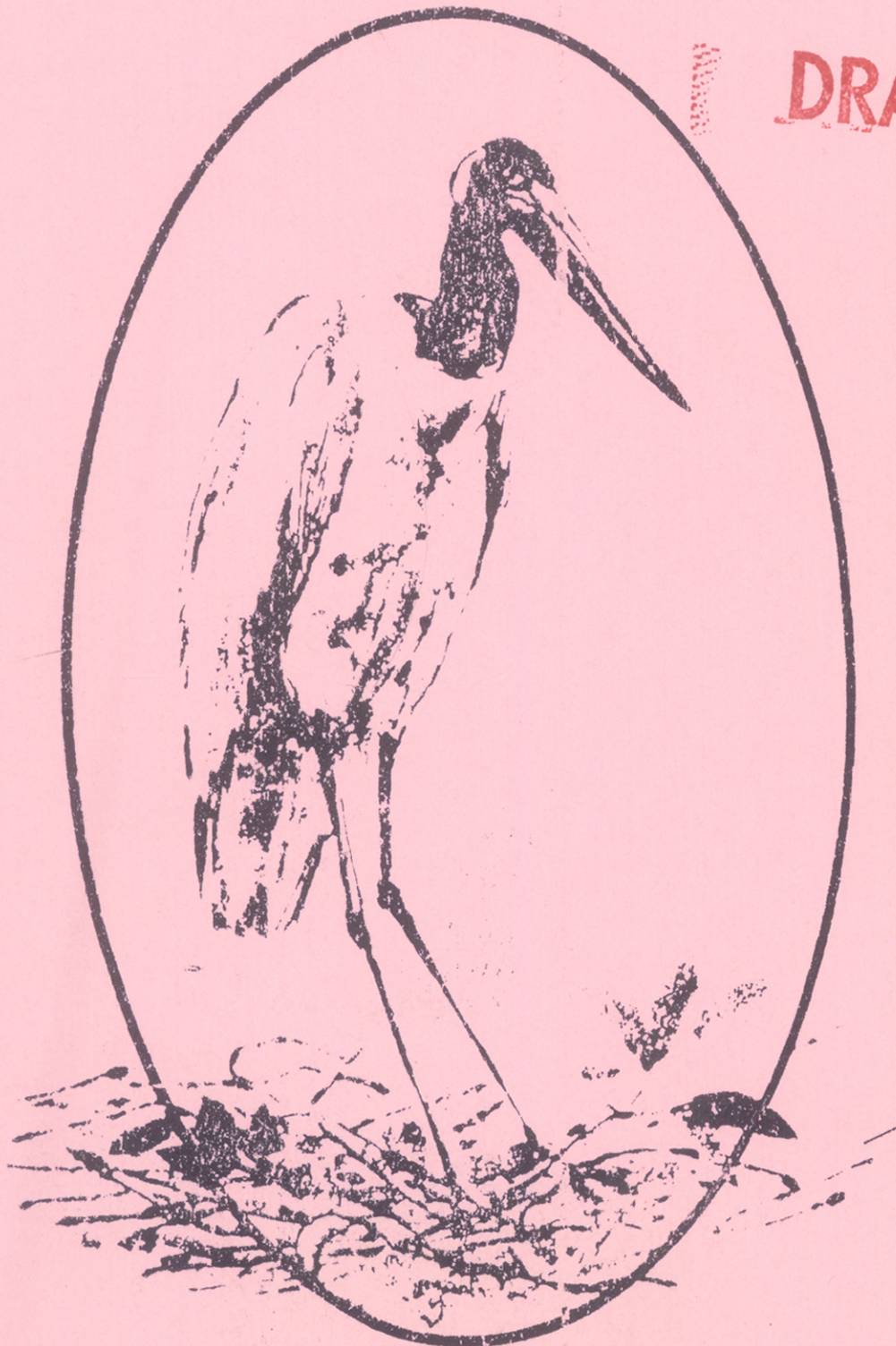
NOT TO BE QUOTED

# CENTRAL BANK OF BELIZE

---

Fifth Annual Report and Accounts 1988

**DRAFT**



3

C O N T E N T S

# CENTRAL BANK OF BELIZE

## Fifth Annual Report and Accounts 1988

Economic Review

Overview.....

International Economic Developments 1988.....

Fiscal Operations.....

Public Sector External Debt.....

Operations.....

Financial Statements.....

## Introduction

The overall performance of the Belizean economy during 1988 was very satisfactory. Real output increased by an estimated 7.6 percent and a substantial balance of payments surplus was recorded. The finances of the public sector continued to improve and the Central Government accumulated an overall budget surplus in fiscal year 1988-89. In addition there was a continuation of the strong growth of investment which had begun in the previous year.

## International Developments

The growth of the world economy was surprisingly strong in 1988. Most forecasters had expected output growth to slow following the 1987 stock market crash but under the stimulus of high levels of both investment and consumer demand in the industrial countries, world output expanded by 4 percent in 1988.

---

## **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 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.

---

## THE ECONOMY IN 1988: OVERVIEW

### Introduction

The overall performance of the Belizean economy during 1988 was very satisfactory. Real output increased by an estimated 7.6 percent and a substantial balance of payments surplus was recorded. The finances of the public sector continued to improve and the Central Government accumulated an overall budget surplus in fiscal year 1988-89. In addition there was a continuation of the strong growth of investment which had begun in the previous year.

### International Developments

The growth of the world economy was surprisingly strong in 1988. Most forecasters had expected output growth to slow following the 1987 stock market crash but under the stimulus of high levels of both investment and consumer demand in the industrial countries, world output expanded by 4 percent in 1988 as compared with 3.4 percent in the previous year. Accompanying the rise in output was an acceleration in the growth of world trade, which increased in volume terms by 7 percent in 1988. The performance of the developing countries was mixed, but those in Latin America on average experienced very low rates of growth in 1988 although many of the Caribbean countries did rather better.

The strength of domestic demand in the industrial countries combined with capacity and labour constraints caused inflation rates in these countries to rise during 1988, and this prompted a

tighter monetary stance from their Central Banks. As a result interest rates have increased during the latter half of 1988 in many countries.

World economic growth is expected to slow during 1989, partly because of the interest rate rises and capacity constraints mentioned above. The buoyancy of the world economy, to which the fortunes of many developing countries are inextricably linked, is also threatened by the continuing large trade imbalances among some of the industrial countries. The developing countries in the Western hemisphere in particular will be hoping that the necessary adjustments to the U.S. trade and fiscal deficits can be brought about without adversely affecting their export markets.

Little progress was made during 1988 to ease the burden of debt servicing which is stifling the growth of many developing countries and especially many of those in Latin America and the Caribbean. Although these countries have made great efforts to increase exports in recent years, their capacity to import has been severely curtailed by debt servicing requirements, and this has had a particularly heavy impact on investment.

## **The Domestic Economy**

### **Production**

The Belizean economy achieved an impressive rate of output growth in 1988 for the second year in succession. Preliminary

data indicate that GDP expanded by 7.6 percent in real terms in 1988 following the 12 percent growth recorded in 1987.

Manufacturing sector output is estimated to have increased by 40 percent in 1988 boosted by large increases in garment production and flour milling. Output of the utilities is estimated to have grown by 22 percent while construction activity expanded by 7 percent. Agriculture however, suffered a 3.3 percent decline in output caused partly by the unfavourable weather conditions and by the higher incidence of crop disease.

Sugar cane output, which was affected by both smut disease and a reduced acreage under cultivation, declined by 1.6 percent to 776,000 long tons in the 1987-88 crop season, although a small rise in the quality of cane reaped limited the fall in the output of raw sugar to a marginal 0.7 percent.

Citrus production was adversely affected by the weather in 1988. Output of oranges for delivery to the processors fell by 20 percent to 1.4 million 90-lb boxes while that of grapefruit declined by 5 percent to 0.8 million 80-lb boxes. Production of citrus concentrate was 18 percent lower at 1.6 million gallons.

The expansion of the banana industry continued in 1988 with output rising by 15 percent to 1.5 million boxes. Although output was lower than had been anticipated because of drought and the

black sagitoca disease prospects for future growth of the industry remain good. Investment in a deep water port to facilitate the export of bananas is being undertaken and farmers are expected to continue increasing the acreage under cultivation.

### External Trade and the Balance of Payments

An overall Balance of Payments surplus of \$37.6 million was recorded in 1988. This was the fourth successive Balance of Payments surplus and was by far the largest achieved in recent years. As a result the gross foreign exchange assets of the Central Bank had risen to \$103.3 million by the end of 1988.

Domestic exports increased by 9.8 percent to \$190.9 million. Earnings from bananas and garments rose substantially while higher average unit prices ensured that sugar and citrus revenues also increased despite the lower volumes exported.

Retained imports expanded by 21.8 percent to \$312.6 million with the trade deficit increasing by \$38.9 million to \$121.7 million. Provisional trade data however indicate that a substantial proportion of the increase in retained imports is due to a large rise in imported capital equipment needed for the high levels of investment being undertaken during 1988. As such this will contribute to the expansion of the country's capacity to earn foreign exchange in the future through the export of goods and services.

Belize's deficit in merchandise trade was matched by surplus in services and other 'invisible' trade. Substantial contributions to this surplus were made by tourism revenues, which expanded by 34 percent to \$55.1 million and private unrequited transfers, composed mainly of remittances from Belizeans working abroad, which totalled \$37 million.

An estimated \$55 million surplus was recorded in the capital account of the Balance of Payments. Net public capital inflows amounted to \$16.3 million, while private foreign investment totalled \$28 million and \$16 million was earned from the sale of Belize Telecommunications Limited shares to British Telecom.

### Fiscal Operations

The Central Government is estimated to have accumulated an overall surplus of \$7.1 million in fiscal year 1988/89. A deficit of \$9.6 million was recorded in the previous fiscal year.

Total revenues in fiscal year 1988/89 are estimated to have risen by \$35.4 million to \$177.4 million. The increase is due largely to the sale of \$34.8 million of Belize Telecommunications Limited shares which boosted capital revenues from \$3.1 million in fiscal year 1987/88 to \$39.1 million in fiscal year 1988/89. Recurrent revenues were \$2.9 million higher at \$135.2 million mainly as a result of enhanced receipts from taxes on income and profits and international trade and transactions. Because of the



improvement in revenues including the revenue from the Belize Telecommunication Limited share issue which was higher than had been anticipated the Government was able to issue a supplementary budget in September 1988 in order to allow for enhanced expenditures, in particular on wages and salaries and development projects.

Total expenditure is estimated at \$170.3 million in fiscal year 1988/89, an increase of \$18.8 million over the previous fiscal year. The increase is largely attributable to higher capital expenditures which are estimated to rise from \$19.9 million in fiscal year 1987/88 to \$37.4 million in 1988/89. Major areas of capital expenditure have included the construction and rehabilitation of transport infrastructure and agricultural development in the south of Belize.

Recurrent expenditure increased by \$1.2 million to a estimated \$132.9 million in fiscal year 1988/89. Wages, salaries and pensions amounted to \$69.7 million, an increase of \$5.2 million over the previous fiscal year. Spending on goods and services declined by \$1.1 million to \$33.2 million and payments for debt servicing fell by \$2.9 million to \$30.0 million. The current surplus amounted to \$2.4 million.

## External Debt

The disbursed and outstanding external debt increased by US\$3.6 million during 1988 to US\$120.9 million, of which US\$65.1 million was contracted by the Central Government and US\$54.9 million by other financial and non-financial public sector bodies. Disbursements during the year totalled US\$15.3 million while principal repayments amounting to US\$10.4 million and interest payments of US\$4.1 million were made. The debt service to exports ratio was therefore 15 percent in 1988 which by the current international standards is relatively modest.

## Financial Developments and Monetary Policy

Several important developments occurred in the monetary sector in 1988. As a result of the Balance of Payments surplus mentioned above the net foreign assets of the domestic banking system increased by \$34.4 million to \$71.9 million. Net domestic credit was virtually unchanged over the year because the \$56.4 million fall in net credit to the public sector brought about largely by the improved financial position of the Central Government was offset by a \$56.3 million or 36.1 percent growth in private sector credit. The latter reflected higher credit demand from virtually all of the major sectors of the economy.

The broad monetary aggregate M2, expanded by 9.9 percent during the year to \$285.3 million. Although quasi money (savings and time deposits) increased by 15.8 percent to \$199.3 million, the

narrow money aggregate M1, declined by 1.8 percent to \$86.0 million, largely because demand deposits fell by \$6.1 million as a consequence of the transfer of public sector deposits from the Central Bank to the commercial banks. Overall the growth of the money supply has decelerated in 1988 following the high rates of increase recorded in the previous two years.

The Central Bank implemented a downward adjustment in the structure of the commercial banks' minimum deposit and lending rates on August 1, 1988. The minimum lending rate was reduced by 2 percentage points to 10 percent while minimum deposit rates were lowered by between 0.5 and 2.5 percentage points.

During 1988 the commercial banks have been able to substantially reduce their excess holdings of approved liquid assets because credit demand expanded more rapidly than deposits in the final nine months of the year. In October \$10.3 million of Social Security Board funds were transferred from the Central Bank to the commercial banks in order to ensure that lending to the private sector would not be constrained by a shortage of liquidity.

### Prospects for the Belizean Economy

Any attempt to make accurate economic forecasts for a country such as Belize is fraught with difficulty for two reasons. Firstly the openness of the Belizean economy to international trade and capital flows means that the fortunes of the country are heavily

dependent upon international developments. Secondly the importance of agriculture to the Belizean economy adds a further degree of uncertainty because of the sector's vulnerability to adverse environmental conditions. There are nevertheless certain economic trends and developments which on balance might reasonably be expected to occur in the current year.

Given the high levels of investment which have been undertaken during the previous two years in industries as diverse as garments, bananas and tourism, real output is likely to continue to expand at a significant rate in 1989. Moreover the investment boom itself may well continue during the coming year stimulated by both external and domestic sources of demand. In our major export markets there are clearly important opportunities still available for a further expansion of the production of traded goods and services, given the country's prevailing comparative advantages and its existing preferential trading agreements with the U.S., UK and other countries. Domestic demand meanwhile is likely to remain buoyant as a result of both rising real incomes and the fiscal stance projected in the budget for the 1989/90 fiscal year, and this will give a further boost to the construction industry and to various domestic service industries.

Although the export of goods and services in volume terms should increase during the current year, it is unlikely that the gains in real export unit prices which several of our major

industries enjoyed in 1988 will be repeated in 1989. In value terms therefore export growth might be relatively modest in the current year.

The expected growth in both real output and in domestic demand is likely to stimulate a further significant rise in retained imports particularly if investment expenditures remain strong. This is inevitable in a small and rapidly growing economy which is dependent upon imports for most capital goods and for many intermediate and consumer items. The merchandised trade deficit may well therefore grow still wider in the current year although this should be at least partly offset by a further expansion of revenues earned from tourism and other traded services.

It should also be noted that a substantial proportion of the country's capital goods imports will be financed directly from external official and private capital inflows. Such a pattern of international resource flows, enabling investment in a developing country to be financed by capital transfers from richer nations is clearly economically rational and desirable. The sustainability of net capital inflows especially from the private sector is however likely to be dependent upon the ability of Belize to maintain both the macroeconomic stability and the liberal external trade and payments regime that have made the country an attractive location for foreign investment in recent years.

## INTERNATIONAL ECONOMIC DEVELOPMENTS 1988

The international economy which began 1988 with pessimistic forecasts as to the adverse effects of the world stock market crash of 1987, confounded all such views and grew at the fastest rate since 1984. World output grew at an average rate of 4 percent as compared with 3.4 percent in 1987. This expansion was propelled by a surge in investment and strong consumer demand in the industrial world and the notable increase in world trade, particularly in manufactures. Most developing countries, particularly those in Latin America and Africa continued to experience sluggish growth, low investment levels, increasing debt-service obligations and continued structural imbalances.

Output growth in the major industrial countries averaged 4.2 percent as compared with 3.3 percent in 1987. The growth in output was a result of high levels of both investment and consumer demand in these countries, the rise in demand being facilitated by the easing of liquidity by the major central banks in the first half of 1988 in response to the steep stock market decline of October 1987. Although inflation in the industrial countries remained modest, averaging 3.3 percent the growth in output coupled with high levels of capacity utilization and lower unemployment levels gave rise to fears of overheating and the resurgence of inflationary pressures. In moves against inflation the monetary authorities generally pursued tighter monetary policies during the

second half of the year causing interest rates to climb steadily. The highly indebted countries with sizeable exposures at variable interest rates were hardest hit by the higher rates. Growth in the industrialized world is expected to slow in 1989 as a result of continued high interest rates, fiscal tightening and bottlenecks in some sectors.

The U.S. economy remained strong in 1988 experiencing its seventh year of continuous growth, growing at a brisk 3.8 percent in 1988 as compared with 3.4 percent in 1987. As a result, the unemployment level reached a 15 year low of some 5.3 percent. Inflation remained relatively subdued. The rate of increase of real GNP in West Germany was 3.4 percent as compared with 1.7 percent in 1987. This high growth rate, the strongest since 1979, was the result of a strong global economy, surging exports as a result of a weak Deutsche Mark and buoyant domestic demand since the third quarter. Despite the strong economic growth, unemployment rose slightly from 8.5 percent in 1987 to 8.7 percent. Inflation remained low at 1.2 percent. Growth in the West German economy is expected to slow in 1989 to some 2.5 percent as deflationary monetary and fiscal policies are pursued.

The rate of increase of real GNP in Japan was 5.6 percent during 1988 with strong consumer spending being the principal driving force. The expansionary fiscal policy and rather accommodative monetary policy pursued during the year were

successful in increasing domestic demand without leading to a significant increase in the inflation rate. Strong consumer spending is anticipated to continue propelling the economy into 1989 with the stimulus coming from strong employment and real wage gains as well as income tax cuts implemented in summer.

The U.K. economy is estimated to have grown by some 4 percent in 1988 led by private consumption and business investment. As a result the continued buoyancy of the economy domestic demand expanded faster than domestic output and the balance of payments deficit worsened. However, inflationary pressures were offset by a strong sterling backed by high interest rates. The inflation rate, as measured by the retail price index, reached 6.4 percent in November after starting the year at 3.3 percent. Interest rates, at 13 percent, are expected to remain high as tighter monetary policies are expected to slow growth and combat inflation in 1989.

Despite the progress made during 1988 the international economy's growth prospects continued to be threatened by the persistent payment imbalances among the major industrial countries and the large fiscal deficit of the U.S. While the U.S. took steps to increase its exports and reduce imports during 1988 Japan was expanding domestic demand. This gradually led to a shift in the export market of Asian countries from the U.S. to Japan. The Japanese have therefore succeeded in reducing their trade surplus



with the U.S. but their surpluses with the European and Far Eastern countries has increased.

Continuing the trend which began in 1986, the volume of world trade accelerated in 1988 to over 7 percent from some 5 percent in 1987. The impetus came from manufactured goods although the world export of primary products improved significantly. Increases in export earnings reflected, in part, the increase in the dollar value increase of non-oil commodity prices which had stagnated since 1986, as well as the competitive gains of the newly industrialized countries. It also reflected efforts made by the developing world to deal with the external financing constraints that they faced.

Despite the strong performance by Latin America exporters the regions economies stagnated in 1988. The region's output rose by a mere 0.7 percent, well below the 2.3 percent increase in population growth experienced over the last 4 years, and per capita GDP fell back to the 1978 level. Inflation averaged some 470 percent in the region and unemployment continued to rise. Export earnings stood well over US\$100 billion for the first time but 85 percent of the US\$27,800 million trade surplus was absorbed in servicing the region's US\$400 billion debt. As a consequence, although the region's debt declined by US\$9 billion, there was a net transfer of capital to industrial countries for the seventh

consecutive year. This drain in foreign exchange imposed further constraints on the expansion process.

Growth in trade within the Caribbean Community (CARICOM) remained modest during 1988 and is estimated to have matched the 1987 figure of 8 percent. Significant advances were made however in the process of economic integration and cooperation among member countries. After some 10 years of uncertainty, intra-regional trade was consolidated with the dismantling of trade barriers. This meant that, except for a handful of goods, trade within the region will no longer be subjected to qualitative and quantitative restrictions. The sugar producing countries of the region got a boost in August when the U.S. revised upwards the 1988 sugar import quota as a result of drought in that country, and again later in that year when the 1989 import quota was increased by 17 percent.

#### PRODUCTION AND EXPORTS

During 1988 the Belizean economy experienced a second successive year of vigorous growth. Real GDP is provisionally estimated to have expanded by 7.6 percent (see Table 1). Growth of output was particularly rapid in the manufacturing, utilities and some of the service industries. There was however a small decline in agricultural output, largely because of adverse climatic conditions and the effects of crop disease, and as a result of this decline, the growth rate of GDP in 1988 was not as fast as the 12 percent recorded in 1987.

Agricultural output declined by an estimated 3.3 percent in 1988. Production of the major agricultural crops in Belize (sugar, citrus and bananas) is examined in more detail below. Of the domestic food crops, production of rice is estimated to have increased by 21 percent but output of red kidney beans fell by 7 percent. In the livestock sector output is estimated to have risen by 11.8 percent, with substantial increases in output of poultry, pork and milk.

In the other primary sectors of the economy, forestry production is estimated to have fallen in 1988 although exports of sawn wood increased in volume, and there was a small expansion of output by the fishing industry.

The manufacturing sector is estimated to have achieved a 40.2 percent real increase in output in 1988. This follows the 8.1 percent growth in manufacturing output recorded in 1987. The expansion of output in 1988 came about despite a marginal fall in sugar production (due to a decline in supplies of sugarcane) which is by far the largest industry in terms of gross value added in the manufacturing sector. Production of garments increased by 40 percent, batteries by 34 percent, beer by 13 percent and fertilizer by 9 percent, while output of flour increased by more than five times in 1988. There were declines however in output of citrus concentrate (14 percent), nails and roofing (27 percent), soft drinks (10 percent), and cigarettes (5 percent).

The two other components of the secondary sector of the economy, electricity and water, and the construction industry both recorded significant output growth in 1988. Electricity and water output increased by 21 percent and construction by 7 percent.

Output in the services sector is provisionally estimated to have risen by nearly 5 percent in 1988. The most rapidly expanding industries were trade, restaurants and hotels, and finance and insurance.

Sector/Industry	Weight in GDP (percent)	Growth in 1987 (percent)	Growth in 1988* (percent)
Primary Activities	21.74	16.1	-3.9
Agriculture	16.43	7.6	-3.3
Forestry and logging	2.20	102.9	-16.9
Fishing	2.88	7.0	2.4
Mining	0.24	0.0	0.0
Secondary Activities	21.49	14.4	29.7
Manufacturing	13.27	8.1	40.3
Electricity and Water	2.43	7.6	21.6
Construction	5.79	31.9	6.6
Services	60.43	10.5	4.7
Trade, restaurants and hotels	16.54	15.2	15.6
Transport and Communication	9.51	11.2	-9.6
Finance and Insurance	5.63	22.3	18.3
Real Estate and Business Services	5.73	4.7	6.6
Public Administration	12.29	7.1	1.0
Commercial and Other Services	10.73	2.2	1.8
Less imputed bank service charges	3.67	16.9	18.3
GDP	100.00	12.2	7.6

Source: Central Statistical Office

\* Preliminary estimate

## SUGAR

Following the closure of the factory at Libertad in 1985 estimated acreage under cultivation fell from 58,000 in 1984/85 to 50,000 in 1987/88. As a result of abandonment of fields by some farmers and the development of smut only 776,559 long tons of cane were available for processing at the Tower Hill factory which has a milling capacity of over 850,000 long tons. During the 1987/88 crop year 81,747 long tons of sugar were produced. In the previous crop year 1986/87, 788,899 long tons of cane yielded 82,320 long tons of sugar (Table 2).

	1984/85	1985/86	1986/87	1987/88
Sugarcane	961.6	853.6	788.9	776.6
Raw sugar	102.0	93.3	82.3	81.7
Molasses	28.1	29.5	24.3	23.2

Source: Belize Sugar Board

The amount of cane required to produce one long ton of sugar at 9.5 long tons was less than the previous year's requirements at 9.58 long tons, showing that the quality of cane reaped was better on the whole. Production of molasses was lower by 4.8 percent at 23,138 long tons as compared with 24,296 long tons for 1986/87. Farmers received \$53.55 per ton of cane delivered which was \$3.89 above the final price of \$49.66 they received for the previous crop. This increase in price is a reflection of the higher prices obtained from exports as a result of higher quota exports to the U.S., improved returns on sales to the EEC resulting from the

depreciation of the dollar against the pound sterling, and higher prices on the free market.

Table 3/Sugar Exports 1984		('000 long tons)			
	1985	1986	1987	1988	
USA (of which U.S. quota)	12.1 (12.1)	52.0 (16.2)	15.8 (8.5)	19.3 14.3)	
EEC (United Kingdom)	53.8	41.2	48.9	48.6	
Rest of World	23.4	5.3	14.3	11.8	
Total Volume	89.3	98.5	79.0	79.7	
Total Value (\$'000)	45,857	62,907	62,622	66,800	

Source: Belize Sugar Board  
Central Statistical Office

e/: Estimate

Belize's total volume of sugar exports rose by a modest 759 long tons over the 1987 volume of 78,981 long tons while earnings rose from \$62.6 million to an estimated \$66.8 million (Table 3). Belize sold an additional 2,850 long tons after its original shipment of 6,400 long tons to the U.S. when it increased its quota imports in August, 1988 due to the effect of drought on its local production. Some 5,042 long tons more were shipped in December when 12,050 short tons were made available to Caricom producers because Guyana could not meet its quota allocation, bringing the total volume of sugar exported under the U.S. quota during 1988 to 14,292 long tons as compared with 8,470 long tons for 1987. Exports under the European Economic Community quota amounted to 48,613 long tons and 16,835 long tons, while exported at world market prices. Spot prices ranged from a low of U.S. 7.61 cents per pound to a high of U.S. 15.83 cents per pound averaging around

U.S. 10.66 cents per pound during the year under review as against an average of U.S. 6.7 cents per pound during the preceding year.

The Extension and Technical Support Service programme initiated by the Belize Sugar Industries Limited provides farmers with managerial, technical, and credit facilities in an effort to improve ratoon production and replant smut affected fields. Some 5,000 acres were rehabilitated last year. It is estimated, therefore, that 825,000 long tons of cane will be delivered to the Tower Hill factory to produce 85,000 long tons of sugar and 24,600 long tons of molasses during the new 1988/89 crop year; this would include 6,700 long tons of sugar and 1,600 long tons of molasses for local consumption. The first cane price, which has been estimated at \$44.69 per long ton, was arrived at based on the expected earnings on exports. The quota to the U.S. for Belize has been set at 12,770 short tons raw value (about 11,070 long tons) for 1989, an increase of 2,760 short tons allowed during 1988 including the additional allocation in August. The E.E.C. is expected to import 42,000 long tons of sugar and the balance will be exported to the rest of the world.

The Jamaican petroleum company, Petrojam, which acquired the Libertad sugar mill for the production of ethanol, refurbished and converted the old factory with intentions to commence grinding in March of 1989. It is envisaged that Belizean cane farmers may not be able to supply Petrojam with surplus cane after meeting the

requirements of the Tower Hill factory to the extent of 850,000 tons as was previously agreed, until 1990. It has been planting its own sugarcane to augment sugarcane availability.

#### BANANAS

Production of bananas for export during 1988 amounted to 1.5 million boxes, 13.0 percent below the 1.7 million boxes projected for the period. A drought in February resulted in the harvesting of undersized fruits later in the year, and the presence of black sigatoka in some of the banana plantations contributed to the lower than anticipated crop yield during the last four months of the year. Heavy rains and an interruption in aerial spraying which controls the disease, caused the temporary outbreak. Last year 1.2 million boxes were shipped at a value of \$14.9 million, while in 1988 shipments were valued at \$17.9 million (Table 4).

Exports of 40-pound boxes were up by 10.0 percent and 77.5 percent more 28-pound boxes were sold to the United Kingdom at \$13.40 and \$9.41, respectively, per box. Price re-negotiations early in the year with the marketing agency, Fyffes Group Limited, resulted in price rises from \$13.26 per 40-pound box and \$9.31 per 28-pound box as of the eight shipment in mid-April. At the moment, Belizean bananas are among the highest valued in the region over Surinam and Jamaica, and prices are not expected to be reduced when 1989 negotiations take place.



Table 4/Banana Exports					\$'000	
	1986		1987		1988 p/	
	VOLUME	VALUE	VOLUME	VALUE	VOLUME	VALUE
EXPORTS ('000 boxes)						
40-lb box (Net) First Class	632,070	7,233	858,921	11,337	944,404	12,621
28-lb box (Net) First Class	27,547	227	371,787	3,415	562,894	5,283
Second Class	51,940	359	-	-	-	-
TOTAL	711,557	9,048	1,230,208	14,851	1,507,298	17,904

Source: Banana Control Board  
p/ Provisional

The outlook for the industry is influenced by the prospective expiration in 1992 of the Lome Convention trade and aid pact between the European Community (EC) and the 66 African, Caribbean and Pacific (ACP) countries. EC member states have preferential arrangements with their banana-producing ACP nations (Jamaica, Windward Islands, Surinam, Cameroon, Ivory Coast, Somalia, and Belize) to protect their export market as they could not compete with the cheaper and better fruit produced by Central American countries. The EC move toward a single market after 1992 has precipitated concern over the future of the banana industry. However, for Belize, specifically, Fyffes Group is investing in a deep water port in the south, thereby demonstrating confidence in the scope for exports from Belize. Bananas have had to be barged to neighbouring Honduras to meet cargo ships which could not dock in Belizean waters because of inadequate port facilities. More local farmers are also investing in the banana industry so that the be able to supply Petrojam with surplus cane after meeting the

acres in bearing are expected to increase to more than 3,500 for 1989 as compared with 2,432 for 1988.

### CITRUS

Total production of citrus fruits for export declined by 14.8 percent to 2.2 million boxes during the 1987/88 crop year as against 2.6 million boxes during the previous crop year.

Twenty percent lower volume of oranges at 1.34 million 90-lb boxes and five percent less of grapefruit at 0.84 million 80-lb boxes were delivered for processing to the two main processors (Table 5). Lower crop production stemmed from the effects of unfavourable weather conditions on blossoms and young fruit. Although export volumes fell sharply by 18 percent the industry benefitted from higher prices on the export market, so that farmers were able to receive \$12.06 per box of oranges and \$7.98 per box of grapefruit as compared with \$8.53 and \$6.15 for 1986/87, respectively.

During the calendar year 1988, 1.6 million gallons of concentrate were exported at a value of \$36.3 million, 17.2 percent above the \$31.0 million received for a larger stock of 1.9 million gallons of concentrate shipped during the previous year. Prices on the future's market rose in response to increasingly tight supply and high demand. The production of oranges in Brazil, the region's largest producer, was well below industry estimates for

the 1987/88 season, and, because of the anti-dumping suits by the U.S., Brazil's ability to influence the market was reduced. Belizean concentrate was sold primarily to the U.S., Trinidad and Tobago, Jamaica, Barbados, and West Germany.

	1986	1987	1988
Production	1,915	2,555	2,179
Oranges ('000 90-lb boxes)	1,265	1,672	1,338
Grapefruit ('000 80-lb boxes)	650	883	841
Exports (Concentrate)			
Volume ('000 gallons)	1,593	1,929	1,575
Orange	1,087	1,592	1,021
Grapefruit	506	337	554
Value (BZ\$'000)	23,174	31,007	36,328
Orange	14,762	24,602	24,967
Grapefruit	8,412	6,405	11,361

Sources: Central Statistical Office  
Citrus Growers Association

Preliminary estimates indicate that 1.35 million boxes of oranges and 0.93 million boxes of grapefruit will be sold by citrus farmers who may receive about \$12.00 per box of oranges and \$7.80 per box of grapefruit. Prospects for the industry are promising as new investors enter the industry and existing farmers expand their cultivated acreage.

#### MARINE PRODUCTS

The production of marine products for export has been fluctuating in recent years. The levels of volume and value for 1987 were up by 18.8 percent and 19.0 percent, respectively, over 1986 as a result of larger exports of higher valued lobster, shrimp, and conch (Table 6). The corresponding figures for 1988 as against 1987 varied, however, as 1.7 million pounds of fish were sold for \$16.5 million. Average unit prices obtained for the most valued product, lobster, fell from \$24.75 to \$19.94 so that proceeds amounted to \$10.4 million as compared with \$11.6 million for 1987.

Table 6/Exports of Marine Products						\$'000
	1986		1987		1988	
'000 LBS	VOLUME	VALUE	VOLUME	VALUE	VOLUME	VALUE
Lobster	489	9,372	469	11,607	525	10,459
Conch	233	1,437	249	1,743	302	2,241
Shrimp	236	2,360	219	2,079	275	2,545
Crabs	2	11	7	59	5	48
Whole Fish	310	852	604	1,432	552	1,098
Fillet	69	273	44	180	21	93
Aquarium Fish	6	33	3	13	3	28
Other	6	46	6	11	-	-
TOTAL	1,345	14,384	1,598	17,124	1,680	16,512

Source: Department of Fisheries

Exploitation of coastal waters for fish products is being supplemented by land farming as a result of efforts to find alternatives to conserve depleting natural supplies. Shrimp farming, specifically, has attracted investments in recent years. Although some farms have been moderately successful in solving technical problems the outlook for a major expansion in shrimp farming is as yet uncertain. The exports of shrimps escalated by almost 30 percent as a result of bumper crop harvests and increased hauling by the presence of 10 shrimp boats at sea as compared with 5 for 1987. The export volume of conch rose by 22.1 percent and that for lobster rose by 11.9 percent.

Issues in the industry receiving considerable attention include conservation and illegal fishing. Stricter controls to curb the catching of undersized fish are being implemented, while working plans are being designed to deal with the problem of illegal raiding and fishing in Belizean waters. Prospects for 1989

regarding total exports are uncertain as production and price of lobster are expected to fall due to declining demand from the U.S. and high prices.

### GARMENTS

New investments into the garment industry contributed to the substantial rise in the exports of the product during 1988. The volume of garments shipped was 42.1 percent higher than the 2.5 million pieces for 1987, while export values were up by only 29.6 percent at \$40.5 million (Table 7).

	1986	1987	1988p/
Volume (million pieces)	2.52	2.59	3.68
Value (\$'000)	32,439	31,238	40,471

Source: Central Statistical Office  
p/: Provisional

Along with new investors, established manufacturers have been producing more of the better marketable, lesser-priced items such as sport shirts, shorts, slacks and children's wear instead of the higher priced workmen's clothing and denim jackets. It is, however, expected that the position for 1989 may change in this regard as the exportation of higher priced jeans and workmen's clothing might increase. In addition exports to England, which are currently around 5 percent, may increase.

## SAWN WOOD

The sawn wood industry expanded significantly during 1988 in terms of exports largely because of increased output and attractive prices. Some 3.4 million board feet of wood, of which most were cuts of mahogany, were shipped at a value of \$7.2 million (Table 8).

	1986	1987	1988p/
Volume ('000 bd. ft.)	359	2,687	3,436
Value (\$'000)	1,469	4,228	7,245

Source: Central Statistical Office  
p/: Provisional

During the previous year, exports amounted to 2.7 million board feet with earnings of \$4.2 million. The United States, Canada, Japan, Mexico and Jamaica are the chief importers of Belizean rosewood, mahogany and santa maria varieties of sawn, planed, rough and other forms of wood.

Exports of wood have been improving since late 1986 and are expected to continue as such. Over the short term, sales to Jamaica may rise as a result of the damage caused by Hurricane Gilbert in September 1988 to its local supplies. A factor which may influence the industry's growth in the long run, is the programme being designed by the Caribbean Community to develop the region's industry. Most of the region's reserves are concentrated in Belize and Guyana, and together with Dominica and Grenada, these countries

have been targeted to receive help to improve efficiency and delivery capacity and increase their participation in the export market.

Year	Value (\$'000)	Volume ('000 bd. ft.)
1988	1,482	329
1987	1,338	2,487
1986	1,243	2,430

Source: Central Statistical Office  
G/; Provisional

Year	Value (\$'000)	Volume ('000 bd. ft.)
1988	1,482	329
1987	1,338	2,487
1986	1,243	2,430

During the previous year, exports amounted to 2.7 million board feet with earnings of \$4.2 million. The United States, Canada, Japan, Mexico and Germany are the chief purchasers of Belizean rosewood, mahogany and sassafras.

Along with wood, lumber and other forms of wood products are also exported.

Exports of wood have been improving since late 1986 and are expected to continue as such. Over the short term, sales to the United States are expected to rise as a result of the damage caused by Hurricane Gilbert in September 1988 to its local supplies. A factor which may influence the industry's growth in the long run is the program being designed by the Caribbean Community to develop the region's timber resources. Most of the region's reserves are concentrated in Belize and Guyana, and together with Dominica and Grenada, these countries

## FISCAL OPERATIONS

### Budget Performance 1988/89

Projections for the budgetary performance of the Government of Belize for fiscal year 1988/89 indicate a significant improvement in operations to an overall surplus of \$7.1 million as compared with a \$9.6 million deficit for 1987/88 (Table 9).

A current surplus of \$2.4 million together with capital receipts of \$39.1 million and \$3.0 million in grants helped finance \$37.4 million incurred in development expenditure. As a result there was no net increase in borrowing by the Government. During the previous year the surplus on the current account was \$1.6 million less at \$0.8 million; however, capital revenues and grants amounted to only \$3.1 million and \$6.4 million, respectively and net drawdowns of \$9.6 million were necessary to enable \$19.9 million to be spent on capital projects.

Total revenues during fiscal year 1988/89 improved by \$35.4 million or 25.6 percent to \$177.4 million over 1987/88 largely because of \$34.8 million received from the sale of shares for Belize Telecommunications Limited since current revenues rose by a marginal 2.1 percent to \$135.2 million. The most significant increase was apparent in tax revenue from the vibrant trade and industry which were up by almost \$3.0 million (Table 10). Taxes on international trade and transactions represent 60.6 percent of the Government's current revenues, and the share is 67.8 percent



when non-tax sources are excluded. Taxes on income and profits increased by \$1.4 million to \$29.4 million, including \$6.7 million in arrears which were reduced from \$9.0 million for 1987/88. Stamp duties collected on services by Government Departments which fell by \$1.3 million to \$2.9 million may explain the decline in earnings from taxes on goods and services from \$9.6 million to \$8.0 million. Non-tax revenues remained constant for the most part between 1987/88 and 1988/89 except for repayments of old loans which have risen substantially because of stricter collecting procedures.

Table 9 Taxes on International Trade and Transactions		\$'000 p/	
	1987/88	1988/89	
Import duties	33,712	35,797	
Export duties	1,919	2,278	
Excise: spirits and beer	5,977	5,389	
Excise: Cigarettes	1,877	1,547	
Excise: soft drinks	2,359	2,253	
Revenue replacement duty	13,914	14,516	
Stamp duty (Imports)	16,575	17,956	
Administrative charges (Intransit goods)	2,749	2,253	
<b>Total Revenue</b>	<b>79,082</b>	<b>81,989</b>	

p/: Provisional

The \$34.8 million obtained from the sale of shares of BTL during the first quarter of the fiscal year contributed to the prominent expansion in capital revenue from \$3.1 million to \$39.1 million. Other capital revenues were earned from the economic citizenship and investment bonds programmes which brought in \$4.3 million as against \$3.1 for the previous year. Some \$3.0 million were received from the sale of donated wheat under the sugar quota offset programme with the United States while only \$1.9 million were realised during the 1987/88 fiscal year. Grants for the

preceding year however also included however, \$4.5 million from the Canadian Government as refund for expenditure on the water and sewerage project.

Table 10\Original and Revised Budgets 1988/89		\$'000	
	Original 1988/89	Supplement 1988/89	Revised 1988/89
Total Revenue	161,232	18,250	179,482
Recurrent Revenue	132,232	7,550	139,782
Tax revenue	114,272	6,350	120,622
Non-tax revenue	17,960	1,200	19,160
Capital Revenue	26,000	10,700	36,700
Citizenship programme	2,000	-	2,000
Sale of equity	24,000	-	34,700
Grants	3,000	-	3,000
Total Expenditure	178,717	17,841	196,558
Recurrent Expenditure	131,342	6,719	138,061
Wages and salaries	59,662	3,904	63,566
Pensions	5,695	332	6,027
Public debt servicing	33,897	384	34,281
Goods and services	32,088	2,099	34,187
Capital Expenditure	47,375	11,122	58,497
Capital II	22,374	11,122	33,496
Capital III	25,001	-	25,001
Overall Balance	-17,485	+409	-17,076

The Government of Belize found it necessary to revise the original budget for 1988/89 after six months of the fiscal year as a total of \$105.8 million had been received in revenue by that time and \$161.2 million were slated for the entire year. Greater than anticipated earnings from the sale of BTL shares in particular, precipitated the move to increase expenditure allocations focusing on adjustments to wages and salaries and development expenditure (Table 10).

The Government was able to spend a total of \$170.3 million during the year under review as compared with \$151.5 for 1987/88. Current expenditure changed minimally from \$131.6 million to \$132.9 million as a decline of \$2.9 million for debt servicing offset the rise in personal emoluments and pensions from \$64.5 million to \$69.7 million. The share of Government spending on wages and salaries in relation to total current expenditure grew by about 3.1 percent to 47.8 percent as a result of a 12 percent wage increase granted to open vote workers, salary restructuring for teachers, policemen, nurses and others. Amounts paid out to pensioners also increased as the monthly minimum payment was changed from an absolute low of \$6.75 to \$200.

Payments for debt servicing decreased to \$30.0 million where \$12.8 million were for interest payments, \$16.8 million for amortisation and \$0.4 million were deposited into the sinking fund. Of these, the Government made payments of \$1.3 million for interest and \$3.6 million for amortisation on behalf of the Statutory Boards. The Government is being reimbursed for most of its servicing of guaranteed debt, for example by the Electricity Board and the Port Authority, through special arrangements with these entities.

Some \$37.4 million were spent under the capital expenditure programme for 1988/89, of which \$27.4 million were from local sources and \$10.0 million from external sources. Most of these

funds went into building and repairing roads and bridges, and \$9.1 million were used for two agricultural projects in the southern part of the country. Other major expenditures were on hospital equipment, the international airport, housing development, the University College of Belize, and equity investment in the foreign owned Ramada Hotel currently under construction. During 1987/88, capital expenditure with local financing amounted to \$12.1 million and that from overseas aid was \$7.7 million.

Financing for the deficit of \$9.6 million accrued from operations during 1987/88 were supplied by approximately \$12.0 million in foreign disbursements offset by \$4.6 million in deposits with the banking system. For the year under review, proceeds from external sources amounted to about \$7.3 million while over \$14.0 million were deposited in the banking system. Credit from the banking system was reduced to a level of less than \$60.0 million. Outstanding loans and advances extended by the Central Bank were erased, a total of approximately \$11.5 million while commercial banks loans were reduced by over \$2.0 million to a balance of less than \$4.0 million. No new treasury bills were issued leaving the stock at \$62.2 million of which about \$50.0 million are held with the banking system. The Central Bank holdings of debentures increased by \$1.0 million to \$5.3 million out of a total of \$12.5 million outstanding. The funds from this new issue were earmarked for spending on the University College of Belize.

The budget for the fiscal year 1989/90 was developed on the premise that the economy will continue to grow with expansion in the agricultural, construction, manufacturing, and tourism industries. Emphasis will be placed on infra-structural development and improvement of human resources. Table 11 shows details of revenue and expenditure. It is expected that current revenues will amount to \$144.6 million where taxes on trade and transactions will total \$85.5 million as against \$82.0 million received during 1988/89. Taxes on income and

Existing		Proposed	
Chargeable Income	Tax	Chargeable Income	Tax
Less than \$1,000	5%		
Greater than -			
\$1,000	\$50 + 6% on next \$1,000	\$1-\$7,000	0%
\$2,000	\$110 + 8% on next \$1,000	\$7,001-\$14,000	15%
\$3,000	\$190 + 10% on next \$1,000	\$14,001-\$29,000	25%
\$4,000	\$290 + 15% on next \$2,000	\$29,001-\$60,000	35%
\$6,000	\$590 + 20% on next \$2,000	\$60,001 and above	45%
\$8,000	\$990 + 25% on next \$2,000		
\$10,000	\$1,490 + 30% on next \$4,000		
\$14,000	\$2,690 + 35% on next \$5,000		
\$19,000	\$4,440 + 40% on next \$10,000		
\$29,000	\$8,440 + 45% on next \$31,000		
\$60,000	\$22,390 + 50% on next remainder		
Personal allowance	\$1,400	\$3,000	
Allowance for spouse	\$900	\$1,200	
Child allowance	\$600-\$1,400	\$800-\$1,800	
Tax Credit	\$50	\$100	
Earned income allowance -			
10% of earned income or maximum of \$800		Discontinued	

profits have been estimated to decline slightly because of the tax relief measures proposed for the new fiscal year. The rate schedules proposed and existing are shown below. Legislation will also be introduced to exempt government contracted officers

from paying tax on their gratuities, and to reduce the tax on goods in transit from 3 percent to 2 percent.

	\$M	%
<b>GENERAL PUBLIC SERVICES</b>	<b>52.4</b>	<b>22.4</b>
Administration	34.5	14.7
Law and Order and Defence	17.9	7.7
<b>COMMUNITY AND SOCIAL SERVICES</b>	<b>64.0</b>	<b>27.4</b>
Education	29.6	12.6
Health	17.1	7.3
Housing and Community Development	5.8	2.5
Water and Sanitation	7.6	3.3
Other Social Services	3.9	1.7
<b>ECONOMIC SERVICES</b>	<b>82.7</b>	<b>35.3</b>
Agriculture, Lands, Forestry and Fisheries	26.8	11.5
Energy and Resource Development	.6	.3
Roads and Bridges	31.0	13.2
Other Transport and Communications	23.0	9.8
Other Economic Services	1.3	.5
<b>DEBT SERVICE</b>	<b>34.9</b>	<b>14.9</b>
<b>TOTAL</b>	<b>233.9</b>	<b>100.0</b>

Non-tax revenues are expected to total \$20.2 million, about \$6.0 million more than the out-turn for 1988/89 primarily because dividend returns from the Government's 55 percent holding of shares in BTL are to be received during the first half of the year. Capital revenue will be in the form of \$3.0 million from the citizenship program and \$0.1 million from other sources. No grant receipts are expected during the period.

Some \$233.9 million have been allocated for spending under the recurrent and capital accounts. Current expenditure was increased slightly by \$10.7 million or 8.1 percent to \$143.6

million. Over one-half of the increase will be required for personal emoluments and pensions as a result of the adjustments granted to Government employees, and the remaining \$4.9 million have been budgeted for debt servicing.

The Government intends to spend \$90.3 million on capital projects during the 1989/90 fiscal year. Plans include the continued renovations and construction of roads and bridges, completion of the international airport and improvement of the municipal airports. Table 13 shows the allocation of resources in the current and capital budgets by function.

The budgeted deficit of \$86.1 million is expected to be financed by \$53.2 million from external sources and \$32.9 million from other sources. Since there is no intention to increase taxation, the Government will draw down its deposits accumulated over the last few years.

Table 13/Government of Belize Budget Performance Report \$'000

	Prelim. 1987/88	Expected 1988/89	Budget Out-turn 1989/90
<b>TOTAL REVENUE</b>	<b>141,375</b>	<b>200,591</b>	<b>147,751</b>
Recurrent Revenue	136,057	158,393	144,601
Tax Revenue	117,524	140,042	124,42
Income and profits	28,302	33,033	28,500
Property	1,425	1,552	1,675
International trade and transactions	79,439	96,103	85,500
Goods and services	8,358	9,354	8,750
Non-tax Revenue	18,533	18,351	20,176
Licences	2,585	2,818	3,086
Rents and royalties	1,381	1,518	1,119
Government departments	9,217	10,899	6,696
Contributions from Public Enterprises	3,962	1,466	1,700
Dividends from BTL	0	0	5,000
Repayments of old loans	81	78	1,125
Oil-mining and property licences	911	1,090	1,000
Sale of crown lands	396	482	450
Capital Revenue	3,425	40,330	3,150
Citizenship programme	3,100	5,855	3,000
Sale of equity (BTL)	325	28,475	0
Redeemable preference shares (BTL)	0	6,000	0
Sports contributions	0	0	50
Ministry of Economic Development	0	0	100
Grants	1,893	1,868	0
Sugar quota offset	1,893	1,868	0
<b>TOTAL EXPENDITURE</b>	<b>144,855</b>	<b>162,848</b>	<b>233,891</b>
Recurrent Expenditure	127,070	131,999	143,581
Wages and salaries	56,652	62,589	68,389
Pensions	5,886	6,310	6,878
Public debt	30,173	30,358	34,935
Interest	5,563	13,431	13,442
of which: on behalf of Public Enterprises	3,166	2,587	1,205
Amortization	14,397	16,927	19,853
of which: on behalf of Private Enterprises	7,993	3,081	3,173
Sinking fund	213	0	1,640
Goods and services	34,359	32,742	33,379
Capital Expenditure	17,785	30,849	90,310
Capital II (from local sources)	9,325	26,828	37,123
Capital III (from external sources)	8,460	4,021	53,187
<b>CURRENT BALANCE</b>	<b>8,987</b>	<b>26,394</b>	<b>1,020</b>
<b>OVERALL BALANCE</b>	<b>-3,480</b>	<b>37,743</b>	<b>-86,140</b>
<b>FINANCING</b>	<b>3,480</b>	<b>-37,743</b>	<b>86,140</b>
Banking System	-3,382	-44,772	32,940
Change in deposits	-1,795	-34,260	n.a.
Change in credit	-1,587	-11,512	n.a.
Debenture	0	1,000	n.a.
Foreign Governments and International Institutions	7,810	4,600	53,200
Other (errors and omissions)	-948	2,429	0

Sources: Ministry of Finance  
Central Bank of Belize

n.a. Not available



## MONETARY AND FINANCIAL DEVELOPMENTS

### Introduction

The major developments in the monetary sector in 1988 have included the continuing strong growth in the net foreign assets of the banking system. Private sector credit demand accelerated with substantial increases in commercial bank lending to the agricultural, construction, distribution and personal sectors. Net domestic credit however, was virtually unchanged in 1988 because of the major decline in net credit to the public sector. Although deposits expanded in 1988, the growth rate was less than those achieved in the previous two years.

At the beginning of August the structure of minimum lending and deposit rates of interest was lowered, both to stimulate private, and in particular productive sector, credit demand and to ensure that the commercial banks were not inhibited from continuing to accept deposits from the public. The commercial banks experienced a substantial fall in their excess liquid assets during the second half of the year, and the Government transferred over \$10 million of Social Security Board funds to the commercial banks in October in order to ease their liquidity position.

### Movements in the Main Monetary Aggregates 1988

#### Assets of the Domestic Banking System

The net foreign assets of the domestic banking system increased in 1988 by \$34.4 million or 91.6 percent to \$71.9 million

(see Table 14). This was the fourth year in succession in which net foreign assets have registered a substantial increase and reflects the continuing health of the country's external account. At the end of the year the gross foreign assets of the Central Bank stood at \$103.3 million and its net foreign assets amounted to \$86.3 million.

Net domestic credit of the banking system declined by \$0.1 million in 1988 to \$201.9 million, as a result of countervailing movements in the two main components of this aggregate. Net credit to the non-financial public sector fell by \$56.4 million or 123.0 percent to negative \$10.5 million because of the substantial improvement in Central Government finances. Net credit to the Central Government fell by \$53.9 million to \$28.8 million in 1988 while net credit to the rest of the non-financial public sector fell by \$2.5 million to negative \$39.4 million.

The fall in net domestic credit to the public sector was almost entirely offset by the rise of \$56.3 million or 36.1 percent to \$212.5 million in credit to the private sector. Growth in credit to the private sector remained sluggish during the first quarter of 1988 but accelerated markedly thereafter and may well be indicative of a growing confidence among private investors about the country's future economic prospects. Commercial bank lending to the private sector, which accounts for

virtually all private sector borrowing from the domestic banking system, is examined below in more detail.

### Liabilities of the Domestic Banking System

Currency with the public increased in 1988 by \$4.5 million or 15.4 percent to \$34.1 million. This represents a small increase on the 14.1 percent rate of growth of this aggregate in the previous year. Demand deposits in 1988 decreased by \$6.1 million or 10.6 percent to \$52.0 million. The reason for this decline was the transfer of \$10.3 million of Social Security Board deposits from the Central Bank (where they are classified as demand deposits) to commercial bank time deposits. Narrow money (M1) which comprises currency with the public and demand deposits therefore declined by \$1.6 million or 1.8 percent to \$86.0 million in 1988. This aggregate is broadly representative of a transactions demand for money and is therefore an indicator of nominal consumer spending in the economy. If the effects of the Social Security Board transfer are disregarded, M1 would have increased by 10.0 percent in 1988, compared to the 19.6 percent increase recorded in 1987.

Savings deposits increased by \$16.7 million or 36.2 percent in 1988 to \$62.6 million, while time deposits rose by \$10.6 million or 8.4 percent to \$136.7 million. Movements in these aggregates are discussed in more detail below. Quasi-money, which consists of savings deposits and time deposits increased by \$27.3 million

or 15.8 percent to \$199.3 million. The increase would however, have been limited to 9.8 percent without the Social Security Board transfer, and compared with the 20.9 percent increase in quasi-money in 1987, this indicates a slowdown in the rate of growth of financial deposits by the Belizean public in 1988.

The broad money aggregate (M2), which comprises narrow money and quasi-money increased by \$25.6 million or 9.9 percent to \$285.3 million in 1988. This followed a 20.4 percent increase in broad money in 1987. The other items (net) figure for 1988 amounted to \$11.5 million.

### **The Commercial Banks: Loans, Deposits and Liquidity**

#### **Loans and Advances**

1988 was marked by the strong growth in commercial bank lending with the demand for credit being especially buoyant in the private sector. Total commercial bank loans and advances increased in 1988 by \$46.3 million or 28.3 percent to \$210.2 million (see Table 14). This followed the 21.4 percent rise in commercial bank credit in 1987. Loans and advances to the private sector in 1988 increased by \$51.7 million or 35.2 percent to \$198.7 million. The corresponding rate of increase in 1987 was 22.6 percent.

Commercial bank loans and advances to the Central Government continued to decline in 1988 for the third successive year, falling

by \$3.6 million to \$4.2 million, while credit to the public sector decreased by \$1.8 million to \$7.3 million.

The sectoral composition of commercial bank lending is detailed in Table 15. Apart from the Central Government and the rest of the public sector, all major sectors of the economy experienced substantial increases in credit demand in 1988. In the primary sector, loans to agriculture from the commercial banks increased by \$7.3 million or 34.1 percent to \$28.8 million. This followed the \$8.7 million growth in loans to agriculture in 1987. Within the agricultural sector loans for sugar production rose by 62.7 percent, for citrus by 47.9 percent and for bananas by 60.9 percent in 1988. Loans for commercial fishing expanded by \$1.0 million to \$2.6 million and loans for mining and exploration grew by \$1.1 million to \$5.8 million in 1988, but loans for forestry fell by \$1.1 million to \$0.6 million.

In the secondary sector credit for manufacturing increased by \$3.3 million or 22.9 percent to \$17.5 million while credit for construction grew by \$10.5 million or 44.7 percent to \$33.9 million. In the services sector loans for tourism increased by \$1.7 million or 42.4 percent to \$5.9 million, loans for transport expanded by \$3.3 million or 77.5 percent to \$7.5 million while credit for distribution grew by \$10.5 million or 20.6 percent to \$61.5 million. Personal loans rose by \$9.7 million or 63.9 percent to \$24.9 million.

The growth in credit to the private sector has been fairly evenly distributed between loans for investment in direct production (agriculture, manufacturing, tourism, construction etc.) and loans which are more likely to directly facilitate consumption (distribution, personal loans). Loans to the productive sectors, which by December 1988, stood at \$95.1 million, increased during the year by \$23.8 million, which is 51.4 percent of the increase in total commercial bank lending.

### Deposits

Commercial bank deposits expanded by \$34.4 million or 16.3 percent to \$246.3 million in 1988. Deposit growth therefore decelerated in 1988 from the 21.9 percent recorded in 1987, and this is probably a reflection of both slower growth of exports and of output and incomes overall in 1988 as compared with the previous year.

Demand deposits increased by \$7.2 million or 18.2 percent to \$46.8 million in 1988; savings deposits expanded by \$16.6 million or 36.2 percent to \$62.6 million while time deposits grew by \$10.6 million or 8.4 percent to \$137.0 million. The latter actually declined by \$14.2 million during the second quarter of the year largely because of the commercial banks' reluctance to renew existing time deposits or to accept new time deposits. Instead depositors' funds were channelled into the lower yielding savings deposits and this contributed to the rapid growth in this type of

deposit which expanded by \$16.0 million in the second quarter. Following the reduction in minimum deposit rates effective from August 1 (see the section on interest rates below), time deposit growth resumed albeit at a rather modest pace. In October time deposits were boosted by the transfer of \$10.3 million of Social Security Board funds to the commercial banks from the Central Bank. Savings deposits meanwhile declined in the second half of the year from their peak of \$68.0 million in July. Of the total commercial bank deposit growth of \$34.4 million in 1988, \$15.5 million was accounted for by the rise in the deposits of the statutory bodies (including the Social Security Board mentioned above). Deposits of individuals grew by \$14.7 million (10.7 percent) while those of incorporated businesses rose by \$1.9 million (11.7 percent).

### Liquidity

The liquidity position of the commercial banks has undergone major changes in 1988. The excess liquidity of the commercial banks has fallen markedly during the year while the composition of their approved liquid assets has also changed (see Table 16).

During the first four months of 1988 commercial banks' approved liquid assets and excess liquidity both rose substantially, the former from \$82.5 million in December 1987 to \$94.8 million in April 1988 and the latter from \$22.1 million in December 1987 to \$28.9 million in April 1988. The reason for these rises lay in the much stronger growth of commercial bank deposits

than credit demand during the first quarter of the year, the former increasing by \$11.6 million and the latter by only \$6.2 million. These relative trends in deposit and credit growth were reversed in the remaining months of the year, when deposits increased by \$22.9 million and credit by \$40.1 million. As a result the commercial banks were able to divest some of their liquid assets in order to make funds available to meet the growing credit demand. Approved liquid assets declined to \$82.5 million in December while excess liquidity fell to \$13.2 million. Average monthly excess liquidity had actually fallen as low as \$8.6 million in October and this prompted the Government to authorise the transfer of the \$10.3 million of Social Security Board funds to the commercial banks so that lending to the private sector would not be curtailed by a shortage of liquidity.

Holdings of Treasury Bills by the commercial banks have decreased by \$5.1 million during the year to \$34.2 million, although, Treasury Bill holdings had risen as high as \$49.8 million in April. Commercial bank reserves at the Central Bank increased by \$4.7 million to \$24.1 million with excess reserves having risen from \$1.3 million in December 1987 to \$2.2 million in December 1988.

### Interest Rates

Effective August 1, 1988 the Central Bank implemented a downward revision in the structure of the commercial banks' minimum



deposit and lending rates of interest. The Central Bank also adjusted its own deposit and discount rates downwards along with the Treasury Bill rate. The structure of minimum interest rates over the 1985-1988 period is set out in Table 18.

Interest rate policy during the last four years has been used as a tool of monetary demand management. The Central Bank has stipulated a structure of minimum deposit and lending rates designed to promote saving and to control the growth of private credit demand, in order primarily to ensure the restoration of a viable balance of payments position. Interest rates were raised substantially in January 1985 after the gross foreign assets of the Central Bank had fallen to \$12.1 million. The improvement of the balance of payments in 1985 and 1986 allowed for a cautious easing of monetary policy, and minimum interest rates were therefore lowered in December 1986. With the continuing build-up of the country's net foreign assets during 1987 and 1988, combined with the steady reduction in the public sector's net credit demands on the domestic banking system, a further opportunity emerged in 1988 to allow the growth of commercial bank lending to the private sector to accelerate without jeopardising the country's major macroeconomic objectives.

The downward revision in the structure of minimum interest rates on August 1, 1988 was intended to encourage the commercial banks, which had accumulated a substantial volume of excess liquid

assets during the first half of the year, to utilise a part of this excess liquidity to expand and diversify their lending to the directly productive sectors of the economy. Concern had been raised that, without a downward adjustment in interest rates, the commercial banks would be unable to find further profitable outlets in which to invest their depositors' funds, and as a consequence might have to artificially curtail any further growth of deposits. As few other alternative domestic outlets for financial savings are available in Belize, the saving public would therefore have to either substitute direct consumption for their unplaced savings or seek alternative financial investments overseas. This would be particularly undesirable both because of the concern to restrain private consumption and capital outflows for balance of payments purposes and because of the need to encourage the long term growth of financial savings in domestic institutions in order to finance the investment necessary for economic development.

In lowering minimum deposit rates the Central Bank was aware of the need not to remove the incentive to save by too great a reduction in the returns available, particularly as monetary tightening in the U.S.A. was tending to raise deposit rates in that country. The Central Bank was also concerned to minimise any regressive impact of a lowering of returns on savings deposits, which, because of their relative liquidity and absence of a required minimum deposit, are particularly attractive to savers from poorer sections of society. The minimum ordinary passbook

savings rate was therefore lowered by only 0.5 percentage point to 4.5 percent. The premium savings rate was reduced by 2.0 percentage points to 6.0 percent. Minimum time deposit rates were reduced by between 1.0 and 2.5 percentage points.

The minimum lending rate was lowered from 12.0 percent to 10.0 percent. It was hoped that this reduction would stimulate credit demand from sectors such as agriculture, tourism and construction.

### The Impact of the Change in Minimum Interest Rates

Following the downward revision of minimum interest rates on August 1, 1988 the actual weighted average savings deposit rate paid by the commercial banks rate has declined from 5.9 percent in July to 4.9 percent in December, the weighted average time deposit rate has fallen from 8.7 percent in July to 7.2 percent in December while the weighted average of all deposit rates has fallen from 6.4 percent in July to 5.6 percent in December (see table 18).

The impact of the 0.8 percent reduction in the weighted average deposit rate is difficult to assess with any degree of certainty. The rate of growth of deposits by private individuals, which account for 75 percent of total private sector commercial bank deposits, did slow significantly following the interest rate reduction. These deposits increased at a monthly average rate of 1.1 percent during the first seven months of 1988 but at only 0.58 percent during the final five months. Although lower

deposit rates may have discouraged the growth of deposits to some extent; it is likely that two other factors also contributed to this slowdown. Firstly the rate of economic growth, and therefore growth of incomes, has slowed during 1988 from the historically very high rate achieved in the previous year, and this will clearly have had some impact on the accumulation of deposits. Secondly the Belize Telecommunications Limited share issue may have diverted some financial savings away from commercial bank deposits.

Private sector credit demand grew rapidly during the second half of 1988 (the increase on July 1988's total was 19.7 percent), but it does not seem likely that the reduction in the minimum lending rate was a major factor behind this. The actual fall in weighted average lending rates charged by the commercial banks was only 0.4 percentage points, from 13.7 percent in July 1988 to 13.3 percent in December (see Table 18). Moreover the acceleration in private sector credit demand was already underway before the reduction in lending rates. Loans to the private sector increased by \$5.8 million in the first quarter of 1988, by \$13.2 million in the second quarter, by \$16.5 million in the third quarter and by \$15.6 million in the final quarter. There is also a seasonal element contributing to the strengthening of private sector credit demand in the second half of the year.

The reduction in lending rates does not appear to have had a major impact on the distribution of loans between the directly

productive sectors and the service and personal sectors, even though the fall in weighted average lending rates for commercial purposes was slightly greater than that for lending rates as a whole. Loans to the productive sector amounted to 45.2 percent of total lending in December 1988 compared with 43.5 percent in December 1987 (a direct comparison between December and July 1988 would be inappropriate because of the seasonal element in agricultural lending).

Aided by the reduction in minimum interest rates the commercial banks have been able to increase the spread between the weighted average interest rate they earn on loans and advances and the weighted average interest rate they pay on deposits. This spread, which in December 1987 was 6.6 percentage points, had grown to 7.3 percentage points in July 1988, and increased further to 7.7 percentage points in December 1988.

### Credit Unions

Credit Unions provide valuable financial services especially for the less affluent sections of Belizean society. Savers who deposit their funds with a particular credit union automatically become members and shareholders of that union and are entitled to loans for a variety of purposes. These include house purchase, home improvement, the establishment or expansion of small businesses and farms, education, medical treatment and the purchase of consumer durables. Lending rates vary between 7.5 percent and

12 percent depending on the terms and conditions of repayment. Members who borrow from a credit union may also receive a 5 percent interest rebate, termed a patronage rebate, at the end of the year depending on the profits generated by that credit union.

The activities of credit unions in Belize are supervised by the Department of Co-operatives and Credit Unions. There are thirty-nine credit unions in Belize. Details of the assets and liabilities of the ten largest credit unions are presented in Table 20.

Total assets of the ten largest credit unions are estimated to have amounted to \$36.9 million at the end of December 1988, an increase of 18.9 percent during the year. Loans to members rose by 18.6 percent to \$31.4 million and loans under the Home Improvement Loan Plan grew by 133.5 percent to \$1.1 million during 1988.

Member shares, i.e. deposits, of the ten largest credit unions amounted to \$26.1 million in December 1988, a rise of 16.1 percent during the year.

Table 14\Ten Largest Credit Unions: Assets and Liabilities				\$'000s	
	1987 December	1988 December	Dec. 1987 - Dec. 1988		
			Absolute Change	Percentage Change	
<b>Assets</b>					
Loans to Members	26,534	31,459	4,925	18.6	
HILP Loans	460	1,074	614	133.5	
Current Account	356	178	-178	-50.0	
Fixed Deposits	2,698	2,729	31	1.1	
Other Assets	1,038	1,506	468	4.5	
<b>Total Assets</b>	<b>31,086</b>	<b>36,946</b>	<b>5,860</b>	<b>18.9</b>	
<b>Liabilities</b>					
Members' Shares	22,528	26,146	3,618	16.1	
Reserve Funds	2,533	2,843	310	12.2	
Other Liabilities	6,025	7,957	1,932	32.1	
<b>Total Liabilities</b>	<b>31,086</b>	<b>36,946</b>	<b>5,860</b>	<b>18.9</b>	

Sources: Department of Co-operative and Credit Unions  
Holy Redeemer Credit Union

## PUBLIC SECTOR EXTERNAL DEBT

At the end of December 1988, there were 97 active loans being covered by the External Debt Division of the Bank, 81 of which were fully disbursed, 13 were in the process of disbursement and a further 3 loans signed, with disbursements due to start in 1989. During the preceding year the IMF Compensatory Financing Facility loan of 3.6 million SDR's and a loan of US\$1.0 million from Trinidad and Tobago had been fully repaid. Seven loans were signed by the Government of Belize in 1988: two with the World Bank to provide funds for Road Maintenance and Agriculture related projects, two loans to finance the Airport project with the Caribbean Development Bank and OPEC, one each with the People's Republic of China for a new Swing Bridge, the EEC for the rehabilitation of the Hummingbird Highway, and Mexico for the provision of a line of credit. One loan was signed by a statutory body and was guaranteed by the Government of Belize and the Central Bank of Belize.

The disbursed outstanding debt on these loans, inclusive of valuation adjustments, was US\$120.9 million. This is an increase of US\$3.6 million over the revised figure of US\$117.3 million at the end of December 1987. The debt was shared among Central Government US\$65.1 million (54 percent), the Non-financial Public Sector, US\$32.2 million (27 percent), the Financial Public Sector,



US\$22.7 million (19 percent) and the Private Sector, US\$0.9 million (1 percent).

Since the beginning of 1984 the external debt of Belize has increased by US\$20.4 million due to the depreciation of the US dollar against other major currencies in which the debt is denominated. This year has been the first time in the five year period that the valuation adjustment has been negative, reflecting the strengthening of the dollar over the past few months. Total disbursements during 1988 were US\$15.3 million with Central Government receiving US\$4.0 million (26 percent), the Non-financial Public Sector US\$9.8 million (64 percent), and the Financial Public Sector US\$1.6 million (10 percent).

Principal repayments were US\$10.4 million. The repayments on debt incurred by the Central Government were US\$5.1 million (49 percent), of which US\$3.0 million was paid to the IMF. Payments by and on behalf of the Non-financial Public Sector were US\$3.7 million (36 percent), and payments by the Financial Public Sector amounted to US\$1.6 million (15 percent).

Interest payments were US\$4.1 million. These included interest of US\$2.1 (51 percent) on funds used by the Central Government, US\$0.8 million (20 percent) on those used by the Non-financial Public Sector and US\$1.1 million (27 percent) paid by the Financial Public Sector.

Net inflows for the year were US\$4.9 million and net transfers were US\$0.8 million. Debt servicing amounted to US\$14.5 million or 15 percent of domestic exports.

Our major creditors remain the Caribbean Development Bank, the United States and the United Kingdom with 21, 18, and 17 percent of the debt, respectively. The IMF's share has been reduced to 7 percent while the commercial banks' share has risen from 3 percent in 1987 to 9 percent in 1988.

	1987	1988	Change	Percentage Change
EXPORTS				
Domestic Exports	173,843	190,866	17,023	9.8
Re-Exports	31,832	48,496	16,664	52.4
GRAND EXPORTS	205,675	239,362	33,687	16.4
Imports				
Retained Imports	156,431	172,581	16,150	10.3
Imports from Abroad	149,244	161,771	12,527	8.4
GRAND IMPORTS	305,675	334,352	28,677	9.4
TRADE BALANCE	-100,000	-95,000	5,000	5.0

Table 15\Belize External Debt Operations					US\$'000
	Disbursed Outstanding Debt				Disbursed Outstanding Debt
	31/12/87	Disbursement	Amortisation	Interest	31/12/88
I CENTRAL GOVERNMENT	56,277	3,951	2,077	1,518	57,210
CDB	2,851	121	208	174	2,776
EDF	3,243	-	-	30	2,838
IBRD	8,302	247	618	592	7,694
IFAD	-	432	-	-	441
CIDA	1,418	-	40	-	1,512
T & T	68	-	6	6	54
UK	18,210	2,519	234	87	20,105
USA	19,405	-	-	329	19,405
RBC	800	-	200	76	600
PEMEX	1,196	-	478	145	717
FFE	671	-	168	60	503
SUPPLIERS' CREDIT	113	632	125	19	565
II REST OF NON-FINANCIAL PUBLIC SECTOR	25,713	9,798	3,681	799	32,241
CDB	11,738	554	742	476	11,401
IBRD	759	526	-	29	1,260
CIDA	7,310	-	209	-	7,791
T & T	1,000	-	1,000	43	-
CDC	1,019	189	200	75	970
BNS	2,325	-	166	105	2,159
BARCLAYS	0	* 8,529	-	-	8,529
SUPPLIERS' CREDIT	1,562	-	1,486	93	131
III FINANCIAL SECTOR	22,774	1,592	1,592	1,143	22,71
CDB TO DFC	9,335	1,066	648	449	9,739
NON CDB TO DFC	9,880	526	881	557	9,413
EDF	428	-	0	6	469
EEC/EIB	2,732	326	74	90	2,829
CDC	5,154	-	807	314	4,340
PWRS	1,575	200	-	147	1,775
OTHER FINANCIAL PUBLIC SECTOR	3,559	-	-	137	3,559
I + II + III	104,764	15,341	7,287	3,460	
IV PRIVATE	966	-	74	43	878
I + II + III + IV	105,730	15,341	7,361	3,503	
V IMF	11,600 ✓	-	3,028	607	7,877
TOTAL	117,330	15,341	10,389	4,110	120,917

	Disbursed Outstanding Debt 31/12/87					Disbursed Outstanding Debt 31/12/88
		Disbursement	Principal	Interest	Valuation	
MULTILATERAL	52,154	3,275	5,392	2,519	-1,635	48,402
CDB	24,890	1,741	1,672	1,142	-165	24,794
IMF	11,600	-	3,028	607	-695	7,877
IBRD	9,061	776	618	621	-265	8,954
EEC/EIB	6,403	326	74	126	-519	6,136
OTHER	200	432	-	23	+9	641
BILATERAL	58,810	2,708	3,142	1,166	+282	58,657
USAID	22,264	-	-	387	-	22,264
CIDA	8,728	-	249	-	+824	9,303
UK	18,210	2,519	234	87	-390	20,105
CDC	6,173	189	1,007	380	-144	5,211
T & T	1,068	-	1,006	49	-8	54
OTHER	2,367	-	646	263	0	1,720
SUPPLIERS CREDIT	1,675	632	1,489	90	-119	699
OTHER	4,700	8,729	366	328	-	13,063
TOTAL	117,339	15,344	10,389	4,103	-1,472	120,821

### INTERNATIONAL TRADE

Preliminary indications are that the trade deficit stood at \$121.7 million in 1988, 47 percent higher than the 1987 level (Table 17). While domestic exports increased by 9.8 percent, there was a 21.8 percent rise in retained imports.

	1987	1988	Absolute Change	Percentage Change
	January - December	January - December		
EXPORTS	205,665	239,362	33,697	16.4
Domestic Exports	173,843	190,866	17,023	9.8
Re-Exports	31,822	48,496	16,674	52.4
GROSS IMPORTS	285,885	352,214	66,329	23.2
Retained Imports	256,631	312,581	55,950	21.8
TRADE BALANCE	-82,788	-121,715	-38,927	-47.0

Domestic exports at \$190.9 million were \$17.0 million higher than the 1987 level. The main contributors to this increase were bananas (which rose by 19.9 percent), sugar (11.8 percent), citrus concentrate (10.5 percent) and garments (30.4 percent). The volume of sugar exported increased a mere 1 percent but the earnings benefitted from increased exports under the U.S. import quota, higher world market prices and the depreciation of the U.S. dollar in relation to the pound sterling. 1988 saw a substantial 52.4 percent increase in the re-exportation of goods following a 12 percent decline in 1987. The increase was mainly in the trade with Mexico.

Gross imports grew by 23.2 percent during 1988 to reach a level of \$352.2 million, the highest since 1981 when the figure stood at \$323.9 million. Retained imports amounted to for \$312.6 million as compared with \$256.6 million in 1987. An examination of the data reveals that capital goods continued to claim a significant share of retained imports. For the first nine months of the year the relative share of Machinery and Transport Equipment to retained imports rose to 28.4 percent from 22.8 percent for 1987 as a whole. There was also a moderate rise in the relative share of manufactured goods mainly construction materials. Expenditure on food imports for the first nine months of 1988 accounted for 18.4 percent of imports and had a relative share of 20.4 percent in 1987.

5.25	952.80	413.32	289.285	270949.2000
8.15	929.22	182.572	128.925	retained imports
0.72	759.82	217.151	897.58	TRADE BALANCE

The U.S. remained Belize's number one trading partner accounting for some 54 percent of gross imports and over 40 percent of domestic exports during the first six months of the year. During 1987 the trade with the U.S. represented 58 percent of gross imports and 50 percent of domestic exports. Indications are that during the first half of 1988 domestic exports to the U.K. rose by 25.1 percent over the corresponding period of 1987 while imports from that country rose by 31 percent. Exports to the U.K. represented 35.8 percent of domestic exports during 1987 and 40.2 percent in the first half of 1988. Trade with the CARICOM region continued to improve with Trinidad and Tobago, Jamaica and Barbados being the main destinations.

Table 18\Retained Imports by S.I.T.C. 1987/88

	1987		January-September '88	
	Retained Imports	Percentage Share	Retained Imports	Percentage Share
Food and Live Animals	52,439	20.4	41,309	18.4
Beverages and Tobacco	3,800	1.5	3,056	1.4
Crude Materials	894	0.3	527	0.2
Fuel and Lubricant	29,989	11.7	22,766	10.1
Animal and Vegetable Oils	495	0.2	618	0.3
Chemicals	28,915	11.3	21,007	9.3
Manufactured goods	39,881	15.5	38,421	17.1
Machinery and Transport Equipment	58,401	22.8	63,896	28.4
Miscellaneous Manufactured Goods	40,189	15.7	32,360	14.4
Commodities N.E.C.	1,627	0.6	851	0.4
<b>TOTAL</b>	<b>256,630</b>	<b>100.0</b>	<b>224,811</b>	<b>100.0</b>

### BALANCE OF PAYMENTS

A significant overall surplus was recorded in the balance of payments for 1988 continuing the favourable trend observed over the

previous three years. Net foreign exchange reserves of the Central Bank rose by \$37.6 million in 1988, a marked improvement over the previous year which witnessed an increase of \$19.6 million. While the current account showed a very small nominal deficit a substantial surplus on the capital account contributed to the sizeable increase in net foreign exchange reserves.

### Current Account

The current account showed an estimated nominal deficit of \$0.2 million as against a revised surplus of \$28.9 million for 1987. There was an increase of \$25.3 million in the deficit on visible trade as compared with the position in 1987 which largely accounted for the emergence of a current account deficit. On a f.o.b. basis imports rose by 19.1 percent to \$264.4 million in 1988. Exports increased by \$17.1 million or 9.8 percent to reach \$190.9 million in 1988. Earnings from tourism have been estimated at \$55.1 million, a rise of \$14.1 million over 1987, and a reflection of the significant increase in tourist visitors in 1988. Foreign exchange released for travel rose to \$12.9 million from \$9.9 million in 1987. There was only a marginal increase in net outflows in respect of investment income with the higher interest income of the public sector including the Bank being more than offset by the increase in the payment of interest and repatriation of profits by the private sector. Unrequited transfers continue to be an important component of the current account although such transfers by official donors declined to \$22.5 million from \$35.1

million in 1987. There was a slight increase in the inward remittances, of the private sector composed mostly of remittances from Belizeans working abroad. Private unrequited transfers are estimated at \$37.0 million for 1988.

The capital account recorded a surplus of \$55.3 million. The disbursements of external debt amounted to \$30.6 million as against \$19.2 million in 1987. After providing for repayments of \$14.7 million against loans other than the IMF Standby Credit the net credit on the public sector capital account amounted to \$16.3 million for 1988. Direct investment mostly in projects which enjoy development concessions has been estimated at \$28 million for 1988, an increase of \$10.3 million over 1987. The purchase of BTL shares valued at \$16.0 million by British Telecom contributed to the increase in the inflow of foreign exchange under the 'Private - Other' category as did a higher volume of short term capital inflows compared to 1987. The net credit on the private sector capital account is estimated at \$39.0 million.

Together with errors and omissions of negative \$17.5 million, the marginal deficit on the current account and the sizeable surplus on the capital account resulted in a net increase in the foreign exchange reserves of the Central Bank by \$37.6 million.



Table 19\Balance of Payments (Preliminary Estimates)				Million BZ\$		
	1987			1988		
	Credit	Debit	Net	Credit	Debit	Net
Current Account	371.1	342.2	+28.9	408.5	408.7	-0.2
TRADE	<u>173.8</u>	<u>222.0</u>	<u>-48.2</u>	<u>190.9</u>	<u>264.4</u>	<u>-73.5</u>
SHIPMENT	0.0	32.0	-32.0	0.0	39.3	-39.3
OTHER TRANSPORTATION	17.8	9.6	8.2	20.3	11.4	8.9
TRAVEL	41.0	9.9	31.1	55.1	12.9	42.2
INVESTMENT INCOME	5.1	17.4	-12.3	7.2	20.2	-13.0
Public	4.9	8.6	-3.7	7.0	8.2	-1.2
Private	0.2	8.8	-8.6	0.2	12.0	-11.8
OTHER GOODS, SERVICES AND INCOME	62.8	35.9	26.9	75.5	47.0	28.5
Official	41.9	11.4	30.5	44.7	15.4	29.3
Private	20.9	24.5	-3.6	30.8	31.6	-0.8
UNREQUITED TRANSFERS	<u>70.6</u>	<u>15.4</u>	<u>55.2</u>	<u>59.5</u>	<u>13.5</u>	<u>46.0</u>
Public	35.1	10.6	24.5	22.5	8.6	13.9
Private	35.5	4.8	30.7	37.0	4.9	32.1
CAPITAL ACCOUNT	65.3	58.7	6.6	114.7	59.4	55.3
PUBLIC	19.6	18.5	1.1	31.0	14.7	16.3
PRIVATE	45.7	40.2	5.5			
Direct Investment	17.7	12.3	5.4	28.0	11.5	16.5
Other	28.0	27.9	0.1	55.7	33.2	22.5
NET ERRORS AND OMISSIONS			-15.9			-17.5
OVERALL BALANCE			19.6			37.6
CENTRAL BANK RESERVES (NET)			-19.6			-37.6
NOTES:						
<u>Main Elements</u>						
DOMESTIC EXPORTS	173.8			190.9		
RETAINED IMPORTS	256.6			312.6		
TRADE DEFICIT	82.8			121.7		
TOURISM EARNINGS	41.0			55.1		
FREIGHT	30.3			37.3		
WORKERS' REMITTANCES	29.2			31.0		
INTEREST PAYMENTS	5.0	11.0		7.2	10.6	
EXTERNAL DEBT (PUBLIC)	19.6	18.5		30.7	14.7	
FOREIGN INVESTMENT(PRIVATE)	16.0			28.0		
GARRISON	34.5	7.6		39.2	7.6	

## FOREIGN EXCHANGE OPERATIONS

During 1988, the Central Bank's net purchases of United States dollars, Canadian dollars and sterling amounted to \$14.5 million. This contrasts with net sales of \$0.7 million in 1987. Gross purchases and sales amounted to \$112.2 million and \$97.7 million, respectively during 1988 (Table 20).

MONTH	PURCHASES	SALES	NET PURCHASES
JANUARY	8,150	5,927	2,223
FEBRUARY	7,734	5,271	2,463
MARCH	10,715	9,805	910
APRIL	27,083	3,489	23,594
MAY	9,065	10,991	-1,926
JUNE	8,740	7,353	1,387
JULY	9,972	5,314	4,658
AUGUST	6,178	13,732	-7,554
SEPTEMBER	5,903	6,988	-1,085
OCTOBER	7,866	7,172	694
NOVEMBER	3,071	12,407	-9,336
DECEMBER	7,700	9,255	-1,555

The Bank's net purchases of CARICOM currencies during 1988 was \$6.4 million, the same level recorded for 1987. During 1988 gross purchases amounted to \$16.1 million and gross sales totalled \$9.7 million (Table 20). In 1987 these totals were \$13.4 million and \$7.0 million, respectively.

MONTH	PURCHASES	SALES	NET PURCHASES
JANUARY	1189	870	319
FEBRUARY	1002	410	592
MARCH	4513	524	3989
APRIL	1320	911	409
MAY	2050	573	1477
JUNE	1788	1021	767
JULY	458	916	-458
AUGUST	207	908	-701
SEPTEMBER	1256	1015	241
OCTOBER	1067	930	137
NOVEMBER	444	738	-294
DECEMBER	808	847	-39

### External Assets Ratio

The Central Bank is required by law to maintain at all times a reserve of approved external assets equal to not less than 40 percent of notes and coins in circulation plus its liabilities with respect to sight and time deposits.

In 1988 the Bank met the legal requirements at all times. The external assets ratio rose to a high of 103.26 percent in April and reached a low of 90.88 percent in February. The Bank's approved external assets reached their highest level at \$113.5 million in June, falling to \$103.0 million at end December. Demand liabilities reached a high of \$114.7 million in August, falling to \$109.7 million at year's end (Table 21).

MONTH	APPROVED EXTERNAL ASSETS	CURRENCY	RATIO (%)
JANUARY	72036	79033	91.15
FEBRUARY	74321	81780	90.88
MARCH	79325	80468	98.58
APRIL	107.898	104491	103.26
MAY	105600	110.650	95.44
JUNE	113.515	111.813	101.52
JULY	113450	108069	104.98
AUGUST	105.942	114.730	92.34
SEPTEMBER	104076	102785	101.26
OCTOBER	103744	105064	98.74
NOVEMBER	95219	100743	94.52
DECEMBER	103011	109713	93.89

**Currency and Bank Clearings**

**Currency**

During 1988 growth in total money in circulation was more than twice the growth realised in 1987, somewhat reflective of the increased economic activity experienced during the year.

Currency expansion in 1988 was \$6.0 million or 17.6 percent compared to \$4.0 million in 1987. Notes in circulation increased by \$5.7 million along with a small increase in coins circulated (Table 24).

MONTH	AVERAGE DEPOSIT LIABILITIES	MINIMUM RESERVE BALANCE	CLEARING HOUSE OPERATIONS	ACTING BALANCE HELD
JANUARY	206,140	18,333	2,595	2,543
FEBRUARY	232,353	19,152	2,732	2,480
MARCH	218,757	19,333	2,707	2,962
APRIL	219,826	19,784	2,712	2,782
MAY	227,209	20,447	2,820	2,480
JUNE	222,788	20,512	2,722	2,480
JULY	219,727	20,800	2,780	2,480
SEPTEMBER	231,712	21,000	2,800	2,480
OCTOBER	233,334	21,000	2,777	2,480
NOVEMBER	231,148	21,000	2,788	2,480
DECEMBER	231,148	21,000	2,788	2,480

Table 24\Currency in Circulation 1988					\$'000
MONTH	CURRENCY IN CIRCULATION		TOTAL	CASH IN BANK	CURRENCY WITH THE PUBLIC
	NOTES	COINS			
DECEMBER 87	29,955	3,969	33,924	4,362	29,562
JANUARY	28,327	3,976	32,303	3,270	29,033
FEBRUARY	29,977	3,989	33,966	4,036	29,930
MARCH	32,183	4,002	36,185	4,813	31,372
APRIL	33,531	4,022	37,553	3,969	33,584
MAY	33,687	4,049	37,736	5,444	32,291
JUNE	34,991	4,077	39,383	5,653	33,414
JULY	34,174	4,107	38,281	4,000	34,281
AUGUST	33,009	4,144	37,153	5,054	32,098
SEPTEMBER	31,054	4,178	35,232	3,662	31,570
OCTOBER	31,759	4,160	34,704	3,353	31,351
NOVEMBER	31,760	4,159	35,919	4,363	31,556
DECEMBER	35,700	4,207	39,908	5,798	34,109

The monthly holdings of cash by the commercial banks grew from \$3.3 million in January to \$5.8 million at end December, as against holdings of \$4.4 million in December 1987. Currency with the public grew more rapidly, rising from \$29.0 million in January to a peak level of \$34.3 million in July, then declining marginally to \$34.1 million in December as against \$29.6 million in December 1987.

### Clearing House Operations

Under the clearinghouse agreement of October 1978, clearing operations were conducted daily at the Central Bank. Data on the amount of cheques cleared during 1988 are shown in Table 25. The average monthly clearing value in 1988 was \$55.5 million with a peak of \$65.8 million in December. This compares with clearings of \$48.1 million in 1987, also with a peak in December.

MONTH	AMOUNT CLEARED
JANUARY	46,869
FEBRUARY	49,553
MARCH	57,050
APRIL	52,704
MAY	60,284
JUNE	52,216
JULY	54,619
AUGUST	60,436
SEPTEMBER	53,963
OCTOBER	55,221
NOVEMBER	57,669
DECEMBER	65,781

### Reserves and Liquidity Requirements

The commercial banks are required to maintain a specified percentage of their average deposit liabilities as cash balances with the Central Bank. This cash reserve ratio was raised from 7 percent to 9 percent in March 1985, and was still in effect at the end of 1988. During 1988 the average monthly balances held by the four commercial banks totalled \$22.4 million as against required holdings of \$20.3 million (Table 26).

MONTH	AVERAGE DEPOSIT LIABILITIES	MINIMUM REQUIRED BALANCE	ACTUAL BALANCES HELD	DEFICIENCY (-)
JANUARY	206,140	18,553	21,098	2,545
FEBRUARY	212,252	19,103	20,298	1,195
MARCH	214,757	19,328	22,291	2,963
APRIL	219,826	19,784	22,312	2,984
MAY	226,736	20,406	20,854	448
JUNE	227,209	20,449	23,929	3,480
JULY	223,770	20,139	22,391	2,252
AUGUST	229,811	20,683	21,163	480
SEPTEMBER	231,212	20,809	24,508	3,699
OCTOBER	234,140	21,073	23,020	1,947
NOVEMBER	233,834	21,045	23,177	2,132
DECEMBER	244,168	21,975	23,428	1,453

The commercial banks are also required to maintain minimum holdings of approved liquid assets amounting, on average, to at least 30 percent of average deposit liabilities. This required liquid asset ratio has been effective since March 1985 and was still in effect at end December 1988.

During 1988 the commercial banks' holdings of approved liquid assets remained well in excess of the required holdings. The required average monthly liquid asset holdings were \$20.3 million while actual holdings averaged \$22.4 million.

#### Transactions with Central Government

Under the provisions of the Central Bank Act 1976, the Bank can extend temporary advances to Central Government, not exceeding 15 percent of estimated current revenues for the financial year. Advances to Government stood at \$12.2 million in January and gradually declined to zero by August. In December advances resumed and stood at \$2.1 million at month-end. In January 1987 advances were \$15.7 million, falling to \$13.5 million by December.

The ratio of advances to estimated revenue was 10.7 percent in January, declined by approximately 7 percentage points in February, then rose to 10.1 percent in March. The ratio declined by 5.5 percentage points to 4.5 percent in April, then gradually fell to zero by August. At the end of 1988, the ratio was 1.6 percent, 9.1 percentage points lower than at the beginning of the

year. In 1987 the ratio was 14.6 percent in January, falling to 11.9 percent by December.

The Central Bank Act also provides for the Bank to hold Government securities to a maximum of five times the Bank's paid-up capital and reserves. The Bank's holdings of Treasury bills and debentures were comfortable within the legal limits during 1988 (Table 27).

MONTH	ADVANCES	(a) %	TREASURY BILL	OTHER SECURITIES	(b)
JANUARY	12,248	10.72	8,648	4,300	.82
FEBRUARY	11,406	9.99	10,044	4,300	0.93
MARCH	11,512	10.08	2,010	4,300	0.41
APRIL	6,007	4.54	995	3,300	0.28
MAY	2,129	1.61	18,836	3,300	1.43
JUNE	2,119	1.60	6,052	9,300	0.99
JULY	1,282	0.97	562	11,300	0.77
AUGUST	-	0.00	14,944	11,300	1.69
SEPTEMBER	-	0.00	5,182	11,300	1.06
OCTOBER	-	0.00	6,700	11,300	1.16
NOVEMBER	-	0.00	11,847	11,300	1.49
DECEMBER	2,089	1.58	12,951	11,300	1.57

(a) Outstanding advances as a percentage of Central Government's estimated current revenue. The period through March is base on estimated revenue for fiscal 1986/87, with the subsequent months being based on the estimated for fiscal 1987/88. The estimated used are 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 Central Bank's holdings of Government debentures was constant at \$4.3 million during the first quarter of 1988, falling by \$1.0 million during April and May, then rose to \$9.3 million in



June. In July the level rose to \$11.3 million and remained constant at the level up to end December, 1988.

The Bank's holdings of Treasury bills fluctuated widely during the year. From a level of \$8.6 million in January, holdings reached a peak of \$18.8 million in May and a low of \$0.6 million in July. At year end, total holdings of Treasury bills were \$13.0 million as compared to \$10.1 million at the end of 1987. The Bank's ratio of holdings of Government of Belize securities to the Bank's paid-up capital and reserves remained well within the legal requirements as in 1987.

ISSUE NO.	AMOUNT TENDERED	AMOUNT ALLOTTED	ADD ALLOTMENT	TOTAL ALLOTTED	AVERAGE DISCOUNT RATE	AVERAGE YIELD TO MATURITY
1/1988	13,400	13,400	-	13,400	8.80302	9%
2/1988	13,150	13,150	-	13,150	8.80302	9%
3/1988	4,580	4,580	-	4,580	8.80302	9%
4/1988	17,229	17,229	-	17,229	8.80302	9%
5/1988	13,800	13,800	-	13,800	8.80302	9%
6/1988	13,400	13,400	-	13,400	8.80302	9%
7/1988	13,150	13,150	-	13,150	8.80302	9%
8/1988	4,580	4,580	-	4,580	8.80302	9%
9/1988	13,800	13,800	-	13,800	8.80302	9%
10/1988	17,229	17,229	-	17,229	8.80302	9%
11/1988	13,400	13,400	-	13,400	8.80302	9%
12/1988	13,150	13,150	-	13,150	7.36270	7.5%
13/1988	4,580	4,580	-	4,580	7.47250	7.5%
14/1988	17,229	17,229	-	17,229	7.48165	7.5%
15/1988	35,608	35,608	-	35,608	7.35975	7.5%
16/1988	13,400	13,400	-	13,400	7.36271	7.5%
17/1988	13,150	13,150	-	13,150	7.36271	7.5%
18/1988	35,608	35,608	-	35,608	7.36271	7.5%

## EXCHANGE CONTROL

### Sales

Sales of foreign exchange by authorised dealers to the public was \$330.3 million in 1988. This represents an increase of \$53.2 million from the 1987 figure. Current transactions amounted to \$281.4 million in 1988, an increase of \$42.4 million from the previous year. Imports including prepayment for imports totalled \$232.1 million or 70 percent of total sales to the public over the year. Sales of foreign exchange to facilitate travel amounted to \$18.3 million, an increase of \$2.7 million from the 1987 figure. Profits sent abroad by companies operating in Belize to their Head Offices was \$4.7 million; this shows an increase of \$1.8 million from the 1987 level. Dividends remitted to foreign shareholders of companies operating in Belize increased by \$0.3 million over the 1987 figure to \$2.1 million in 1988. Disbursement for Professional Services performed by non-residents abroad rose from \$2.2 million to \$2.8 million during 1988. Interest payments by both the Private and Public sector entities amounted to \$1.6 million in 1988. Capital Account transactions were responsible for 15 percent of total foreign exchange sales. Repatriation of funds by non-residents amounted to \$12.4 million in 1988. Other Capital Account transactions accounted for \$23.6 million in 1988; an increase of \$5.3 million from the 1987 figure. Emigration allowances and loan payments of private long-term loans accounted for \$4.0 million and \$7.6 million respectively.

### Stamp Duty

Stamp Duty on sales of foreign exchange brought in \$3.2 million in revenue income to the Government during 1988. This shows an increase of \$0.4 million from the previous year's figure of \$2.8 million. A little less than \$1.0 million was exempted from stamp duty in 1988. Stamp duty waived on Foreign Currency Accounts Transactions accounted for most of the \$1.0 million that was exempted.

### Purchases

Purchases of foreign exchange from the public amounted to \$338 million in 1988 which represents an increase of \$43.3 million over the previous year. Nevertheless, this increase of \$43.3 million between 1987 and 1988 is smaller than the increase of \$51.2 million between 1986 and 1987. Also, net inflows of foreign exchange in 1988 amounted to \$7.7 million, a decrease when compared to the 1987 figure of \$17.6 million. As was the case over the past three years, Incorporated Businesses account for more than half of total inflows registering \$174.6 million or 52 percent. This represents an increase of \$17.9 million over the 1987 level. Individuals brought in \$72.9 million during 1988, an increase of \$12.2 million from the 1987 figure. Inflows from Garrison Paymaster was \$33.7 million, again an increase from the 1987 figure of \$30.0 million. Embassies recorded an increase of \$4.2 million to \$13.8 million during 1988.

## Exports and Re-Exports

Actual value of domestic exports in 1988 amounted to US\$53.3 million, BZ\$9.6 million and UK 9.3 million. Proceeds reported through the XCH2 from these goods exported abroad were US\$9.3 million and BZ\$4.8 million. Export proceeds fell when compared to the 1987 figures of US\$28.3 million and BZ\$8.1 million. Goods re-exported abroad in 1988 were valued at US\$16.1 million. Proceeds reported through the XCH2 from goods re-exported in 1988 amounted to US\$13.5 million and BZ\$0.30 million. This represents an increase of US\$4.9 million from the 1987 level.

## BANKING SUPERVISION

The primary function of the Banking Supervision Department is to maintain a general surveillance over financial institutions and over the performance of banking business in or from within Belize. The Department was established in 1983 with assistance from the International Monetary Fund. During 1988, surveillance of financial institutions was done through a two-pronged approach - a) computer-based analysis and review of financial information reported by commercial banks and b) on-site inspection of banks. Two on-site inspections were concluded in 1988, one in February and another in June. In the latter part of 1988, the Department also began to produce a monthly report on the activities of commercial banks in Belize. This report includes a review of credit, deposits, capital and liquidity of the commercial banks.

The Banking Supervision Department is also responsible for the following functions:

- a) Processing of applications by commercial banks under Section 13(1)(a) of the Banking Act.
- b) Internal Audit.
- c) Commercial Bank Discount Fund.

#### **Applications by Commercial Banks under Section 13(1)(a) of the Banking Act**

Under the Banking Act, commercial banks are required to apply, through the Central Bank of Belize, for the permission of the Minister of Finance before granting credit facilities in excess of 25 percent of their capital and reserves (or assigned capital and reserves in the case of foreign financial institutions) to any borrower or group of related borrowers. During 1988, fifty-one applications were processed by the Banking Supervision Department. Total credit facilities approved during the year amounted to \$104.3 million, or approximately 50 percent of total loans and advances of the banking system. This was up from \$85.5 million in 1987 when only 38 applications were processed.

#### **Internal Audit**

The Banking Supervision Department conducts regular audit checks on the accounting operations of the Central Bank. This review has been limited in scope but plans are under way to hire additional staff and to up-grade and expand this function.

**Commercial Bank Discount Fund**

Since the expiration of the Project Assistance Completion Date (PACD) on 30 June 1987, there have not been any new applications for loans under this project. Subsequent to this date, loans could be granted from reflows of advances outstanding with the banks. As at 31 December 1988, there were 8 loans outstanding with the commercial banks totalling \$5.474 million. Reflows from these loan amounted to \$1.270 million.

**ADMINISTRATION**

**The Board of Directors**

During the period 1 January 1988 to 31 December 1988 the Board of Directors of the Central Bank consisted of the following persons:

- |                  |                                    |
|------------------|------------------------------------|
| Alan Slusher     | Governor and Chairman of the Board |
| Frank J. Garbutt | Deputy Governor and Vice Chairman  |
| Mario Arguelles  | Director                           |
| Kathlyn Tillett  | Director                           |
| Nestor Vasquez   | Director                           |
| Keith Arnold     | Ministry of Finance Representative |

The Board held 10 regular meetings during 1988.

## Staffing

The principal officers of the Bank at the end of 1988 were:

Alan Slusher	Governor
Frank J. Garbutt	Deputy Governor
Cecile Reyes	Bank Secretary/Head of Administration
Dwain Davis	Manager, Accounts & Budget
Barbara Locke	Manager, Banking & Currency
Sydney Campbell	Acting Foreign Exchange Controller
Dr. J. C. Rao	Research Advisor/Director
Adrian Bryan	Advisor/in charge of Banking Supervision Department

The total number of persons employed by the Bank at the end of 1988 was 93, five of whom were on study leave. In comparison, at the end of 1987 the Bank had 74 employees.

31 DECEMBER, 1988

ASSETS	1988	1987
Approved External Assets (Note 3)		
Balances and deposits with foreign bankers and the Crown agents	87,982,008	53,941,530
Reserve Tranche and balances with the International Monetary Fund (Note 4)	5,094,576	5,542,404
Marketable securities issues or guaranteed by foreign governments and international financial institutions	1,775,466	1,916,452
Other foreign credit instruments	7,799,999	8,599,998
Pound Sterling Treasury Bills	--	1,869,582
Accrued interest and cash intransit	380,399	318,663
	<u>103,032,448</u>	<u>72,188,629</u>
Deferred Income		
Revaluation account (Note 2d)	(2,282,515)	(3,081,349)
Unrealized gain from appreciation in value of investments (Note 2e)	(21,330)	(2,672)
	<u>100,728,603</u>	<u>69,104,608</u>
Deferred Costs (Note 13)	477,412	214,030
Caricom Multilateral Clearing Facility (Note 14)	964,027	988,627
Advances to Belize Government	--	10,488,557
Belize Government Debentures, at face value	5,300,000	4,300,000
Inv. In BTL Redeemable Preferred Shares	6,000,000	--
Belize Government Treasury Bills (Note 5)	12,950,892	10,065,873



CENTRAL BANK OF BELIZE  
BALANCE SHEET  
31 DECEMBER 1988 (continued)

	1988	1987
Balances with Local Bankers and Cash on hand	27,217	30,710
Other Assets	3,001,288	1,618,167
Property and Equipment (Note 7 and 2b)	1,204,621	829,476
	<u>30,654,060</u>	<u>97,640,048</u>
<b>LIABILITIES, CAPITAL AND RESERVES</b>		
Demand Liabilities		
Notes and coins in circulation	39,907,929	33,923,686
Deposits by licensed financial institutions (Note 8)	23,728,374	19,577,118
Deposits by Government and Public Sector Entities in Belize	46,169,969	25,577,031
Unredeemed demonetized issue (Note 9)	1,004,693	1,012,572
Deposits by international agencies (Note 10)	1,074,627	1,390,293
	<u>111,885,592</u>	<u>81,480,700</u>
Balances due from CARICOM Central Banks	(39,402)	(46,438)
Other Liabilities	991,127	204,161
Commercial Bank Discount Fund (Note 11)	1,715,130	510,897
Total Liabilities	<u>114,631,251</u>	<u>82,149,320</u>

CENTRAL BANK OF BELIZE  
 BALANCE SHEET  
 31 DECEMBER, 1988 (continued)

GOVERNOR  
 DIRECTOR  
 DEPUTY DIRECTOR

	1988	1987
Capital Account		
Paid up capital		
(Authorized capital \$10,000,000)	10,000,000	10,000,000
General Reserve Fund (Note 12)	6,022,809	5,490,728
	130,654,060	97,640,048

1. Organization

The Central Bank of Belize was established by the Central Bank of Belize Act 1986 (the ACT)

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. The more important classes of assets are as follows:

	1988	1987
Buildings	1,234,567	1,234,567
Office furniture	101	101
Equipment	202	202
Vehicles	303	303

c. Notes and coins in circulation - Up to December 31, 1986, the balance credited to the account General for the consolidated Revenue Fund when the Belize Board of Commissioners of Currency was wound up and its assets transferred to the Monetary Authority of Belize.

GOVERNOR  
 DIRECTOR  
 DEPUTY GOVERNOR

CENTRAL BANK OF BELIZE  
 BALANCE SHEET  
 31 DECEMBER, 1988 (continued)

CENTRAL BANK OF BELIZE  
 STATEMENT OF OPERATIONS  
 YEAR ENDED 31 DECEMBER, 1988

	1988	1987
<b>INCOME</b>		
Interest on investments	7,795,035	4,893,224
Discounts and other investment income	1,101,980	1,574,485
Net realized gains from appreciation in market value of securities	155,800	478,236
Commissions and other income	892,369	725,241
<b>Total income</b>	<b>9,945,184</b>	<b>7,671,186</b>
<b>Expenditure</b>		
Printing of notes and minting of coins	608,646	533,810
Salaries and wages, including superannuation contributions and gratuities	1,436,505	1,125,679
Interest expense	2,744,457	1,574,293
Other expenses, including depreciation	2,236,013	1,007,492
Unrealized loss from depreciation in value on investment (note 2e)	259,160	197,456
<b>Total expenditure</b>	<b>7,284,781</b>	<b>4,438,730</b>
<b>Net Profit</b>	<b>2,660,403</b>	<b>3,232,456</b>
Transfer to General Reserve Fund in accordance with Section 9 (1) of the Act	532,081	646,491
Balance credited to the Accountant General for the consolidated Revenue Fund	2,128,322	2,585,965

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 1988 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.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 1988 (continues)

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 1988, total approved external assets approximated 93.89 percent (1986-72.77 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, 1987 the Bank's subscription to the International Monetary Fund increased to SDR 9,500,000 and the Reserve Tranche amounted to SDR 1,892,600. The Tranche which earns interest is included in Approved External Assets in the financial statements.

CENTRAL BANK OF BELIZE  
 NOTES TO FINANCIAL STATEMENTS  
 31 DECEMBER 1988 (continues)

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, 1988 the Bank's aggregate holding of Belize Government Treasury Bills and Securities approximated 0.71 times (1986-1.63 times) the amount of paid up capital and general reserves of the Bank.

6. Other Assets

At December 31, 1988 other assets are made up as follows:

	1988	1987
Prepayments	513,409	1,114,277
Accrued Interest	198,211	94,661
Other	2,289,668	409,229
	<u>3,001,288</u>	<u>1,618,167</u>
7. Property and Equipment at Cost		
Building and improvements	516,958	479,796
Furniture	263,813	159,781
Equipment	730,106	380,540
Vehicles	140,751	84,197
	<u>1,651,628</u>	<u>1,104,314</u>
Less: accumulated depreciation	447,007	274,838
	<u>1,204,621</u>	<u>829,476</u>

CENTRAL BANK OF BELIZE  
 NOTES TO FINANCIAL STATEMENTS  
 31 DECEMBER 1988 (continues)

The Bank, except for the Research Department, 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 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, 1988 notes amounting to \$1,004,693 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.



Deposits by international agencies include a deposit of \$1,041,211 in Belize dollars made by the International Bank for Reconstruction and Development and other deposits by the Commission for European Communities, International Monetary Fund and the Caribbean Development Bank.

#### 11. Commercial Bank Discount Fund

Commercial Bank Discount Fund is a facility which was established by an Agreement signed in March 1983 by the Governments of Belize and the United States of America, providing for a discount fund, to be operated through the Central Bank of Belize. The facility enables commercial banks in Belize to discount with the Central Bank up to 100% of loans made to sub-borrowers for projects approved by the Central Bank and the US Government acting through United States Agency for International Development (USAID). The Central Bank in turn is reimbursed by USAID which earmarked US \$5 million in loan funds up to December 31, 1987, to finance the facility. At December 31, 1988, total loans discounted by commercial banks through the facility amounted to BZ \$5,718,948, (1987-\$5,433,724).

CENTRAL BANK OF BELIZE  
 NOTES TO FINANCIAL STATEMENTS  
 31 DECEMBER 1988 (continues)

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:

	1988	1987
At January 1,	5,490,728	4,844,237
Transfer from net profit in accordance with Section 9(1) of the Act	532,081	646,491
At December 31,	<u>\$6,022,809</u>	<u>\$5,490,428</u>

13. Deferred Costs

Deferred costs represent the design and implementation cost of computerizing the Bank's operations as of December 31, 1988 (1987-214,030) and will be amortized over a reasonable period 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 countries through their central banks.

Initially, settlements on net amounts due were required in US dollars on a quarterly basis; this arrangement was modified in February 1978 to provide an option to settle 50% of net amounts due, subject to ceilings for individual countries. The arrangements provided for interest to be paid to net creditor countries. In 1983 the CMCF ceased CENTRAL BANK OF BELIZE STATEMENT OF OPERATIONS YEAR ENDED 31 DECEMBER, 1988 to function as a clearing mechanism as a result of difficulties experienced by one participating country 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. Intra-CARICOM trade currently involves bilateral settlement arrangements, with net obligations being cleared fully in US dollars on a monthly basis.

In the opinion of the Bank's management, there is uncertainty over when the outstanding obligation will be settled, and the balance of payments circumstances of the particular CMCF participant currently precludes any attempt to establish repayment

schedule. No interest is being accrued on the obligation, and interest accrued but not collected up to the end of fiscal year 1985 was reversed against income for fiscal year 1986. The Bank's management remains convinced, however, that the obligation will be honoured because of the sovereign nature of the debt.

Initially, settlements on net accounts due were requested in dollars on a quarterly basis. This management arrangement was established in February 1983 to provide an orderly settlement of net accounts due. In the latter part of 1983, the Bank's management provided for a revised net settlement arrangement. In 1983 the CMCP ceased CENTRAL BANK OF BELIZE

STATEMENT OF OPERATIONS YEAR ENDING 31 DECEMBER 1988 (in thousands of Belize dollars)

	1987	1988
Net income	1,444,237	1,499,728
Net amount due to the Bank at year end	1,444,237	1,499,728

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. Intra-CARICOM trade currently involves bilateral settlement arrangements with net obligations being cleared fully in US dollars on a monthly basis. (030,412-7821)

In the opinion of the Bank's management, there is uncertainty over when the outstanding obligation will be settled, and the balance of payments of the particular CMCP participant currently precludes any attempt to establish repayment.

0221988419  
Central Bank of Belize  
Annual Report.  
SRL HG2728 C45a 1988 1



CRR10880400