

THE MONETARY AUTHORITY OF BELIZE

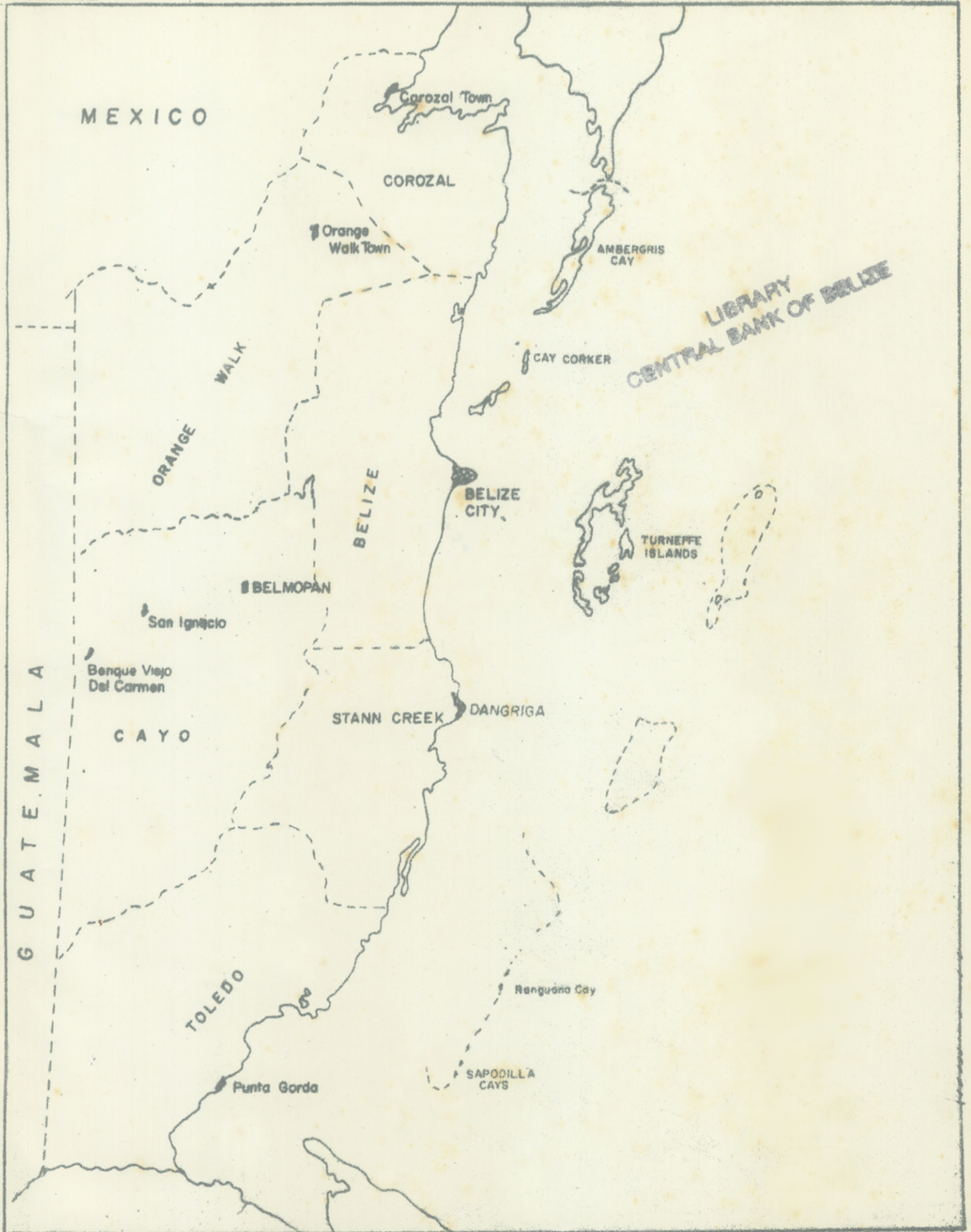


ANNUAL REPORT

AND

ACCOUNTS 1981

BELIZE





The Monetary Authority of Belize

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P.O. BOX 852
BELIZE CITY

10th March, 1982

The Honourable
The Minister of Finance
Ministry of Finance
BELMOPAN.

Dear Minister,

In accordance with the provisions of section 38(1) of The Monetary Authority of Belize Ordinance, 1976 (No. 9 of 1976), I have the honour to transmit herewith on behalf of the Board of Directors the report of the operations of the Authority for the period 1st January to 31st December 1981, together with a copy of the annual statement of accounts of the Authority certified by the auditors.

Yours faithfully,

(E.A. Marshalleck)
Chairman

MONETARY AUTHORITY OF BELIZE

Fifth
ANNUAL REPORT
AND ACCOUNTS
1981

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I ECONOMIC REVIEW

International Developments:

The world economic scene in 1981 was characterised by the continuance of recession in many industrial countries, rising interest rates in major international financial centres, volatile exchange rates, slowdown in international trade and high levels of unemployment. The non-oil producing countries, in particular had to face, in addition, problems of declining prices of major primary commodities, widening deficits on current account and slackening growth rate.

In the United States, following a brief upturn between mid-1980 and early 1981, economic activity weakened rapidly and unemployment rose in the second half of the year. By December unemployment had reached 8.9 percent, the highest level since the 1974/75 recession. The recession in Western Europe paused in the winter of 1980 but output again declined in 1981 and, as unemployment rates rose sharply, governments introduced selective measures to aid certain recession-hit industries and to create additional public sector jobs. Real GDP was flat in the first half of the year as business investment weakened and inventories declined rapidly in the United Kingdom. Although by summer the British economy showed signs of recovery, it ended the year with an unemployment rate of 11.5 percent on a seasonally adjusted basis. The West German economy went into deep recession in the second quarter as industrial production, business investment and consumer spending dropped; unemployment for the year reached a record level of 1.7 million.

Prolonged sluggishness in Europe and the United States' second dip into recession were blamed on the highly restrictive monetary and fiscal policies that are being pursued since 1979 in a bid to squeeze out inflationary pressures. In the industrial world, the rate of price increase accelerated until mid-1980 when it peaked at 12.6 percent. As the restrictive financial policies proved effective, the rate of inflation declined, fluctuating around 10.0 percent for most of 1981.

TABLE 1
CENTRAL BANK DISCOUNT RATE AND
COMMERCIAL BANK PRIME LENDING RATE
PERCENT (%)

Countries	DECEMBER 1980		DECEMBER 1981	
	Central Bank Discount Rate	Commercial Bank Prime Lending Rate	Central Bank Discount Rate	Commercial Bank Prime Lending Rate
United States	13.00	21.50	12.00	15.75
Japan	7.25	8.16	5.50	7.00
United Kingdom	14.00	15.00	14.37	14.50
Germany	7.50	11.50	7.50	13.00
Belize	14.00	15.00-17.00	14.50	18.00-19.00

The brunt of anti-inflation policies was borne by monetary policy. The emphasis on monetary restraint was most apparent in interest rates which reached record levels, first in the spring of 1980 and again in summer 1981.

Since the introduction of new operating procedures in October 1979, the Federal Reserve System has remained committed to maintaining

a tight rein on monetary growth. Interest rates climbed to historic heights in the summer, for most of which the prime rate remained above 20.0 percent. In response to rapid money growth, the discount rate rose to 14.0 percent with a 4.0 percent surcharge on frequent borrowings by large banks. By mid-year, however, the structure of interest rates began to change and, while the Federal Reserve did not abandon its money supply targets, there was a definite easing of its monetary policy. At year end, the prime rate stood at 15.75 percent, the discount rate had moved down to 12.0 percent, and the surcharge had been removed. The sharp decline in interest rates was linked to the onset of recession and the subsequent drop in credit demand.

High interest rates in Europe were partly in response to the surge in rates in the United States and the desire by the Europeans to limit the depreciation of their currencies. West Germany, heavily dependent on monetary restriction in the fight against inflation, signalled a major change in its operating procedures in February when the Bundesbank suspended the commercial banks' unlimited access to the Lombard credit facility at a fixed rate of interest (9.0 percent) and replaced it with a 'special' Lombard facility whose availability and interest rate may be varied daily. This had the immediate effect of raising interest rates and causing considerable uncertainty about the future availability and cost of loans from the central bank.

In a move towards greater interest rate flexibility, the Bank of England suspended the Minimum Lending Rate (MLR) in August. Commercial banks must now depend on the foreign exchange markets to determine the

direction in which lending rates should move. This was the Bank's first major policy measure to defend sterling since 1976 and was in response to mounting inflationary pressures.

Britain first launched deflationary monetary policies in the middle of 1979, but switched in March 1981 to restricting the budget deficit. Highlighted in the British budget for fiscal 1981/82 were tax increases designed to reduce the Government's Public Sector Borrowing Requirement (PSBR) from an estimated £13.5 billion (6.0 percent of GDP) in fiscal 1980/81 to £10.5 billion (4.25 percent of GDP) in the new fiscal year. By reducing PSBR, Britain hoped to reduce interest rates and the exchange rate while, at the same time, constraining the growth of sterling M3 to 6.0 - 10.0 percent. The Civil Service dispute this year, however, depressed tax receipts, swelling the deficit and money supply. Sterling M3 rose at an annual rate of 15.5 percent since the Government's latest target period began in February while public expenditure for 1981/82 may overshoot its target by £2.0 billion.

Within the last two years fluctuations in exchange rates vis-a-vis the United States dollar have become more pronounced. Much of the strength of the dollar this year was due, not only to the firmness of interest rates in the United States but also to the widening differential between interest rates in the United States and elsewhere. In August, for example, when the United States' dollar peaked, interest rate differentials favoring the dollar also reached their highest level, about 12.0 percent against the yen and 6.0 - 7.0 percent against the deutschemark. The decision by monetary authorities not to match fully the increases in the United States and Euro-

dollar interest rates was influenced largely by the weak level of domestic activity and, in some countries, already high levels of real interest rates.

The United States' strong current account position was a less potent factor in the dollar appreciation. From a record deficit of US\$14.0 billion three years ago, the current account of the Balance of Payments improved to an estimated surplus of US\$7.0 billion this year (This surplus occurred despite the doubling of net fuel imports since the oil price increase in 1979). The dollar began to slip against all major currencies in August, its appreciation over the past two years having precipitated a narrowing of the current account imbalances among industrial countries. West Germany's current account deficit on a seasonally adjusted basis showed signs of improvement moving down from DM29.8 billion in 1980 to an estimated DM17.5 billion in 1981 while Japan's moved decisively into surplus.

After strengthening considerably against European currencies in late 1980 and early 1981, the pound sterling weakened on an effective basis. While both a strong current account position and high interest rates had helped strengthen sterling, it began to weaken following oil price developments which sharply reduced the official selling price of North Sea Oil. In addition, strong demands for the United States dollar pushed sterling down to its lowest level in two-and-a-half years in June and rising interest rates in the United States further depressed sterling to almost a four-year low in August.

The United States dollar came under increasing pressure after August. Strains on the European Monetary System (EMS), for example, forced EMS central banks to sell large amounts of dollars to keep their currencies within the agreed limit. Such strains eventually resulted in the realignment of EMS currencies in early October. Following an agreement to adjust the central rates within the EMS, the deutschemark and the Dutch guilder were revalued by 5.5 percent and the French franc and the Italian lira were devalued by 3.0 percent vis-a-vis other EMS currencies.

Two important and related developments occurred in the oil industry this year, the first being the decline in oil prices during 1981 and the second being the decision by OPEC members to unify prices.

The decline in oil prices is linked to a reduction in energy consumption. After falling by 7.0 percent in 1980, consumption dropped by 5.0 - 6.0 percent this year in industrial countries. In addition, Saudi Arabia's high-production-and-low-price-policy also forced a number of high-priced exporters, OPEC and non-OPEC, to reduce their prices or absorb the decline in world demand.

Following the downward trend in oil prices, OPEC members were able, for the first time to agree on a unified price for oil at their meeting in Geneva in October. A limit of US\$34.00 per barrel was set for 1982.

Mexico suffered severely from the slump in oil prices. The glut on

the oil market reduced Mexico's oil exports by an estimated US\$7.0 billion and compounded Mexico's other problems. The public sector debt rose by US\$14.9 billion to US\$48.7 billion, most of which was in the form of short-term-credit to alleviate its cash flow problem. In addition, the increase in interest rates in the United States raised the cost of servicing the public sector foreign debt by US\$3.0 billion to US\$7.0 billion. While Mexico's economic growth rate has been, for the past four years, about 8.0 percent annually, this spectacular rate of growth has added to the current account deficit which reached an estimated US\$11.0 billion this year (US\$6.6 billion in 1980), increased the overall foreign debt to US\$64.0 billion, raised inflation to about 28.0 percent and made the peso seriously overvalued. The Government's response has been to allow peso interest rates to rise at a level some twenty percentage points above the rates in the United States to compensate for the inflation differential between the United States and Mexico while enabling the continuation of the crawling depreciation of the peso. Another adjustment policy adopted by the Government removed excess money from the system through the compulsory purchasing by the commercial banks of US\$15.0 million in treasury bills.

Like Mexico, the trend in most countries in 1981 was towards larger gross borrowings. Funds raised on the international bond and credit market climbed from US\$120.0 billion in 1979 and 1980 to US\$186.0 billion in 1981 as both industrial and non-OPEC developing countries increased their borrowings. Companies in the United States raised US\$61.0 billion on the international credit market, about five times that raised last year. Borrowing by non-OPEC countries rose by US\$37.0 billion,

largely to finance growing current account deficits in the Balance of Payments.

The OECD anticipates that economic activity in the industrialised world will increase modestly in 1982, still constrained by tight monetary and fiscal policies. Interest rates in the United States should remain high as tight monetary policy conflicts with high budget deficits.

Review Of The Domestic Economy

Belize, like many other developing economies, was adversely affected by the impact of worldwide recession, high interest rates and high levels of inflation. Characterising the Belize economy in 1981 were the continuance of inflationary pressures, a relatively low rate of growth due to the poor performance of its major industry, the widening of the trade gap, increased deficits on the Government's budget, and falling foreign exchange reserves.

Inflation continued to exert its pressure on the economy during the year under review. Though official cost of living indices are not available, it is estimated that prices had risen about 15.0 percent, the bulk of the rise being in food, fuel and beverages. The impact of the high level of international inflation was felt on Belize's imports - the country depends, to a large extent, on imports for its consumption and production. This was further aggravated by the rising price of oil. The significant fall in the domestic production of sugar, bananas and beef also contributed

to the worsening of the price situation in the country.

Economic growth is estimated at around 3.0 percent for 1981. Despite improved performance in a number of agricultural industries, growth was restricted by developments in the sugar industry. Production in the citrus industry, Belize second largest export industry, rose from 1,420 thousand boxes in 1979/80 to 1,502 thousand boxes for the 1980/81 crop whilst earnings climbed from \$16.4 million to approximately \$20.0 million. Citrus production recovered sharply in 1980, climbing to its second highest level in 25 years. In the fishing industry, exports rose during 1981 from \$7.4 million to \$13.4 million as both the volume and the price of major fishery products rose sharply. The market for lobster was strong and the price of lobster tails ranged between \$14.00 - \$18.00 (compared with its peak of \$7.00 in 1980). Lobster exports in 1981 reached 674 thousand pounds valued at \$11.1 million from 390 thousand pounds valued at \$5.5 million. Production and earnings from conch and shrimps also expanded in 1981.

In contrast, the banana industry suffered a decline in production and export earnings. Production of bananas this year was affected by unfavourable weather conditions at the end of 1980. Exports of bananas, therefore, dropped from 765 thousand boxes to 550 thousand boxes. Export earnings, likewise, dropped from £1.5 million to £1.1 million. In addition, due to the depreciation of the pound sterling during 1981, earnings were significantly reduced in terms of the domestic currency.

The sugar industry was also affected by the depreciation of the pound sterling on the foreign exchange markets. More importantly, however, low prices were obtained on the international sugar markets as major buyers, affected by the recession, reduced their demand for sugar. The price per pound of sugar plummeted from a peak of US40 cents in November 1980 to US16 cents in 1981. Sugar production declined by over 5.0 percent to 97,724 tons, smut disease being largely responsible for the shortfall, and exports fell from 97,110 tons in 1980 to 90,319 tons in 1981. Low prices, the depreciation of sterling and smut disease were, therefore, major factors in the fall in earnings for exported sugar from \$95.5 million in 1980 to \$82.7 million in 1981.

TABLE 2

Year	Imports (Domestic Consumption) (\$million)	Domestic Exports (\$ million)	Trade Gap (\$million)	Sugar Exports		
				Volume (tons)	Value (\$million)	Change in Export Earnings (\$million)
1979 ^P	203.3	113.1	-90.2	91,142	57.2	+ 3.1
1980	246.0 ^P	147.5 ^P	-98.5 ^P	97,110	95.5	+38.3
1981	253.3 ^E	142.2 ^E	-111.1 ^E	90,600	82.7	-12.8

P - Provisional

E - Estimated

Sugar contributes more than 50.0 percent of Belize's domestic export earnings and, therefore, a decline in the value of sugar exports have important consequences for export earnings in any one year. Compared with an estimated \$147.5 million earned in 1980, domestic exports totalled \$142.2 million in 1981.

On the other hand, the value of imports for domestic consumption rose from an estimated \$246.0 million in 1980 to an estimated \$253.3 million in 1981.

Since 1974 the trade gap has widened considerably. From \$11.5 million in that year, the deficit widened to approximately \$111.1 million by 1981. The escalation in oil prices was one of the major factors linked with the growing deficit. In 1979, Belize imported some 524 thousand barrels valued at \$34.8 million. In 1980, for 532 thousand barrels, Belize paid \$39.8 million. For an estimated 447 thousand barrels, Belize's oil bill amounted to \$38.5 million in 1981. Oil imports accounted for approximately 15.2 percent of imports for domestic consumption and 27.1 percent of domestic earnings in 1981.

Also characterising the economy for the past three years is the widening deficit on Central Government's operations and the increased dependence on the domestic system to finance these deficits. From a level of \$1.6 million in fiscal 1978, the deficit more than doubled by the 1979/80 fiscal year to \$3.9 million. Although a surplus was projected for Central Government's operations in the 1981/82 financial year, shortfalls in sugar earnings this year and consequently, a reduction in the estimated revenue

collections from taxation, have reduced the possibility of this target being achieved. The banking sector was called upon to finance a large percentage of the planned increase in capital outlays this year and Government's net borrowings on the local credit market rose from \$20.0 million at the end of 1980 to \$29.2 million at the completion of 1981.

TABLE 3
CENTRAL GOVERNMENT
REVENUE AND EXPENDITURE
BZE \$000

	1979/80	1980/81	April-Sept. 1981/82P	Estimates 1981/82
Recurrent Revenue	77,737	77,829	32,672	86,687
Capital Revenue	15,455	7,849	876	73,274
Total Revenue	93,192	85,678	33,548	159,961
Recurrent Expenditure	67,921	62,811	31,752	71,052
Capital Expenditure	29,219	26,440	9,811	88,544
Total Expenditure	97,140	89,251	41,563	159,596
Deficit (-) or Surplus (+)	-3,948	-3,573	-8,015	+365

In December 1979, the financial year was changed to run from April 1 to March 31. The data for 1979/80 includes Government's operation between January 1979 and March 1980. Expenditure over the first three months of 1980 was provided for by supplementary appropriation by the Legislature.

P - Provisional

Both the widening trade deficit and the increase in the public sector's borrowings on the domestic market were manifested in a foreign exchange loss. The drain in reserves became particularly evident in the second half of 1981 and, although there was some recovery in December, foreign exchange reserves were down to \$7.9 million at year end, compared with \$13.8 million in 1980.

It must be emphasised that monetary policy by itself cannot curb inflationary pressures, stabilise the exchange rate of the currency, facilitate surpluses on current account of the Balance of Payments and accelerate economic growth, though it strives to achieve these objectives. To be effective, monetary policy has to be buttressed by a large measure of fiscal restraint and efficient economic management, the development of adequate infrastructure in the economy and the adoption of appropriate policies conducive to growth and development, all of which fall within the purview of public policy.

While the unanticipated and sharp decline in sugar prices was significant for the performance of the domestic economy in 1981, other noteworthy developments during the year were first, the introduction of a Social Security Scheme and second, the attainment by Belize of independence.

The Social Security Scheme came into effect on June 1 and, contributions by both employers and employees to a fund administered by the Social Security Board are to be used to protect insured persons and their dependents against loss of income from employment, invalidity, retirement

from work, sickness and maternity.

Belize became an independent nation on September 21 and with this, it became eligible to apply for membership in a number of international organisations. Notable amongst the group are the International Monetary Fund (IMF) and the World Bank to which Belize has already applied for membership. It is anticipated that during 1982 Belize will be admitted to these bodies and gain access to the various facilities offered by them.

A separate section is included as an appendix to this year's Annual Report presenting an analysis of trends and developments in money and banking during 1970 - 1979. The study provides the necessary background to understand the endeavours of the Monetary Authority (and its predecessor, the Board of Commissioners of Currency) in developing an appropriate financial infrastructure which is resilient and responsive to the growing needs of the economy.

Further, the study also enables one to appreciate the Authority's efforts to consolidate and regulate the banking system with a view to facilitating orderly economic growth and development during the last decade.

Public Finance

During the year there has been a phenomenal increase in the public sector's borrowing from the domestic system. This increase was

particularly marked in the second half of the year.

The expansion in public sector borrowing was associated with Central Government's growing deficit.

Estimates approved by the Legislature for the 1981/82 fiscal year project a surplus of \$0.4 million on Government's financial operations. Total expenditure for the year is estimated to reach \$160.0 million, \$71.1 million of which is to meet recurrent expenditure. Of the amount budgetted for recurrent expenditure, 44.7 percent is allocated for wages and salaries, and 7.4 percent for servicing of public debt. To meet the anticipated increase in expenditure for the 1981/82 fiscal year, measures introduced included an increase in customs and excise duties on fermented beverages and various fuels, stamp duties and motor vehicles licences. These measures are expected to contribute roughly \$5.6 million to revenue.

Despite the projected surplus on Government's fiscal operations for the year, the first six months of the fiscal year (for which data are available) revealed a sizeable deficit of about \$8.0 million. This overall deficit which was due to a lag in capital reimbursements was only about \$0.5 million below that experienced in the corresponding six months of the previous year.

During the past two years Central Government has been increasingly seeking support for its budgetary deficit on the domestic market. Following a rate of growth exceeding 40.0 percent in 1980, public sector borrowing

TABLE 4

CREDIT TO PUBLIC SECTOR

BZE \$000

Year	Treasury Bills*	Other Securities	Direct Advances (Net) From Authority	Direct Advances (Net) From Commercial Banks	Total	PERCENTAGE CHANGE OVER THE PREVIOUS YEAR				
						Treasury Bills	Other Securities	Direct Advances (Net) From Authority	Direct Advances (Net) From Commercial Banks	Total
1977	3650**	1918	2639	3972	12179	100.0	65.2	46.7	-15.4	60.2
1978	12100	1819	(492)	5160	18587	231.5	-5.2	-118.2	20.9	52.6
1979	7700	1688	2963	8672	21023	-36.4	-7.2	702.2	68.1	13.1
1980	15000	1598	4237	8633	29468	94.8	-5.3	43.0	-0.5	40.2
1981	16885	1659	7292	12761	38597	+12.6	+3.8	72.1	47.8	31.0

* Face Value

** In 1977 Treasury Bills were issued on a TAP and TENDER basis. Figures quoted are total outstanding to the commercial banks and Monetary Authority of Belize.

rose from \$29.5 million to \$38.6 million, an increase of 31.0 percent in 1981. The expansion in public sector borrowing this year accounted for 44.0 percent of the total increase in net domestic credit. Though somewhat below the previous year's 52.4 percent, large scale borrowings of this magnitude tend to blunt the efficacy of monetary policies in regulating bank credit and curbing inflationary pressures in the economy.

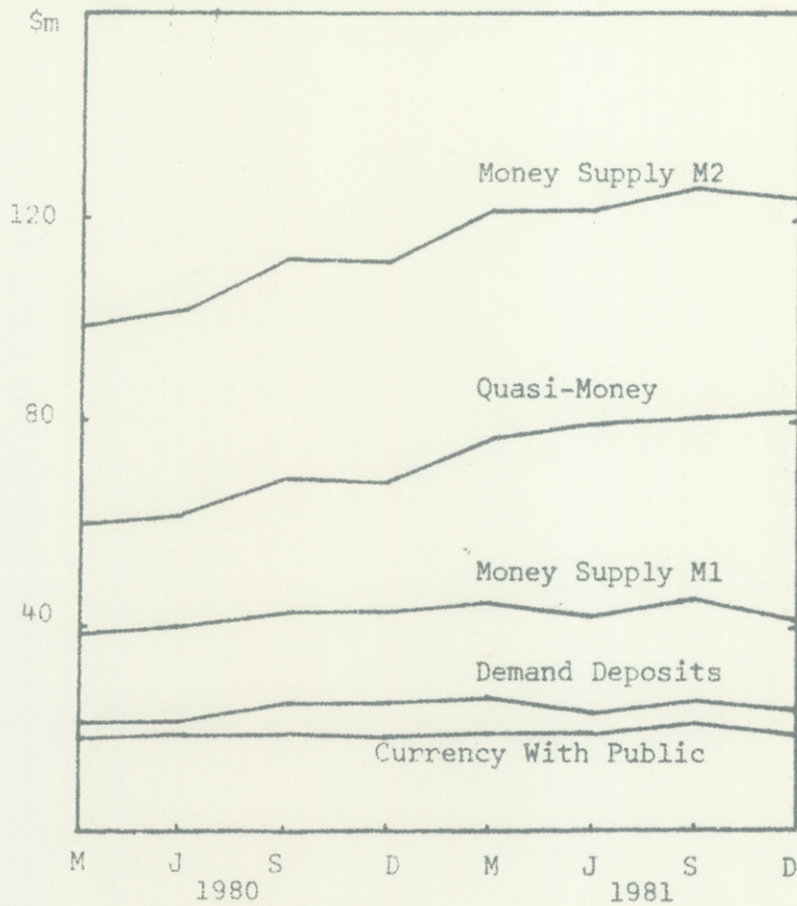
Although all types of lending to the public sector rose, it was Monetary Authority's direct lending that dominated the increase. Over the year, net advances to Central Government rose by 72.1 percent, climbing from \$4.2 million to \$7.3 million. The increase was particularly marked in the second half of the year when for the first time, these advances rose to fifteen percent of the Government's estimated current revenues.

Money and Banking

During the year, money supply M1 (defined as currency with the public plus demand deposits less Central Government's demand deposits) declined by a modest 1.6 percent, in contrast to the 11.5 percent growth in 1980. The public increased its cash holdings to \$19.0 million, that is, by about 8.6 percent, but this was more than offset by the decline in demand deposits. The downward trend in demand deposits became marked in the closing months of the year. By the end of the year, these deposits stood at \$23.1 million compared with \$25.3 million the previous year.

Savings deposits also fell over the year. An 11.8 percent reduction brought savings deposits down to \$27.8 million. This reversed the

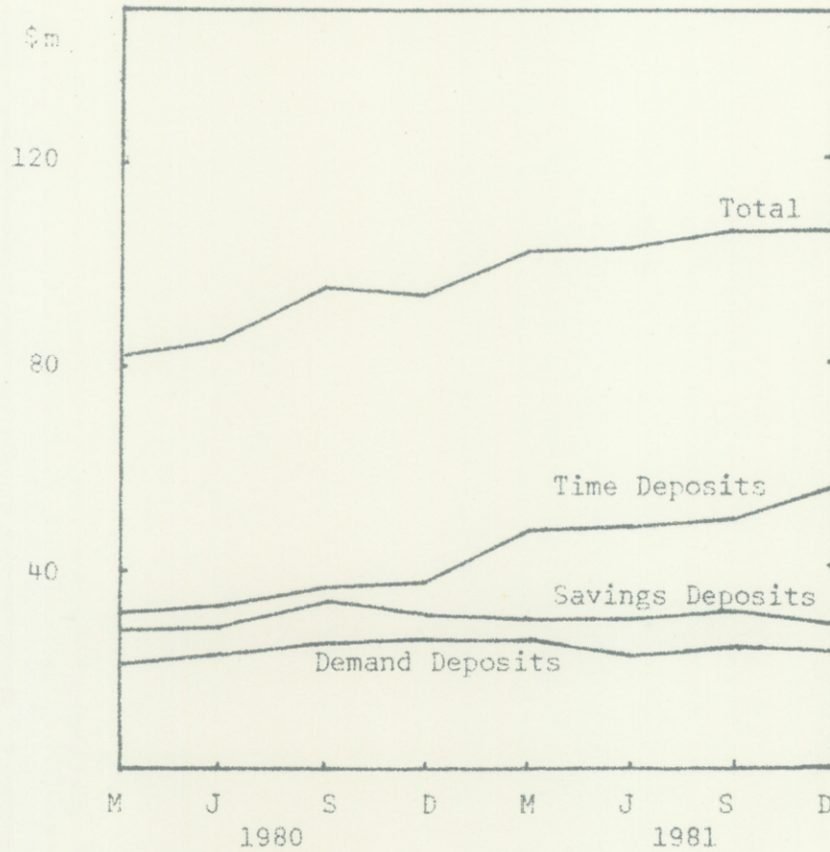
DIAGRAM 1
MONEY SUPPLY



upward trend in these deposits; in 1980 savings deposits had risen by 5.8 percent.

Of the three types of deposits, time deposits was the only one to increase over the year. The expansion in time deposits was sufficiently strong to offset the decline in the other deposits and the growth in total deposits exceeded 12.0 percent (13.0 percent in 1980). Time deposits showed a strong upward trend this year. It rose by over 47.0 percent, considerably exceeding the 21.0 percent growth rate achieved over the previous year.

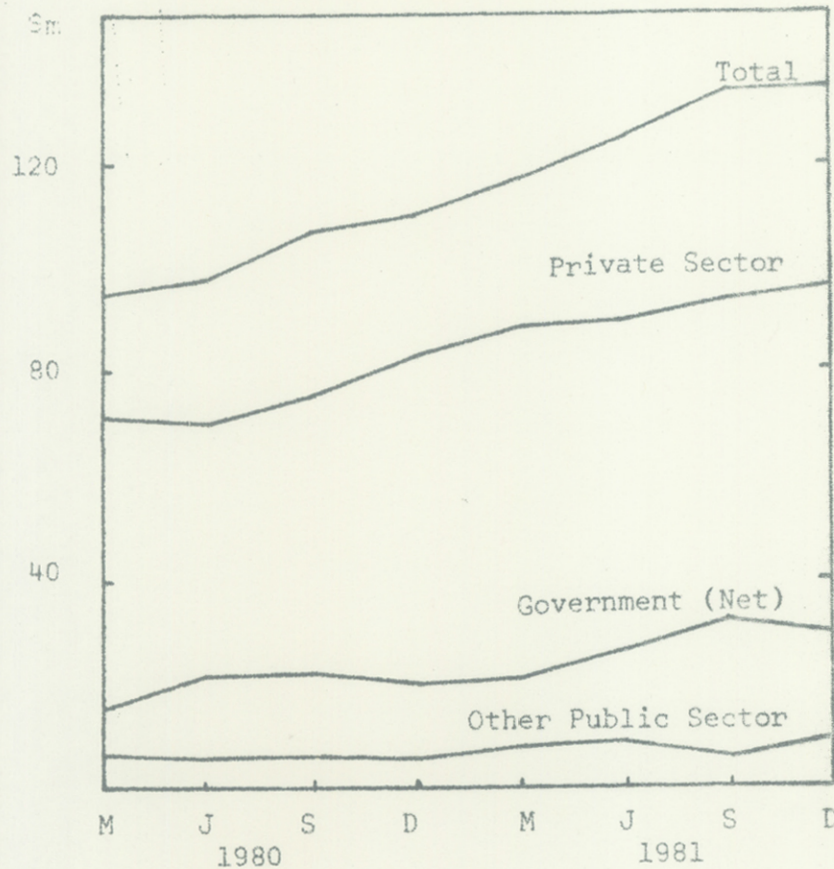
DIAGRAM 2
COMMERCIAL BANKS TOTAL DEPOSITS



The growth in money supply M2 was, therefore, linked foremost to the expansion in time deposits. M2 increased by 11.8 percent from \$111.3 million to \$124.5 million; M2 rose by 12.8 percent in 1980.

The growth in monetary liabilities during 1981 was linked closely to domestic credit expansion. For most of the year gross credit rose steadily upward. Following an increase of 14.0 percent in 1980 lending rose to \$134.0 million in 1981 - 24.1 percent above the 1980 level. Increased demands by both the public and private sectors were associated with credit expansion. The public sector, largely through the increased

DIAGRAM 3
DOMESTIC CREDIT



usage of its overdraft facilities at the Monetary Authority and the commercial banks, accounted for about 44.0 percent of the growth in domestic credit. An acceleration in the private sector borrowings pushed loans to this sector up by 16.0 percent (8.1 percent in 1980). Over the year, loans to the agricultural sector remained constant at \$24.0 million while loans to the manufacturing sector dropped from \$12.5 million to \$11.9 million. On the other hand, a large increase in the distributive sector's borrowings at the beginning of the year resulted in an overall growth of 44.0 percent. This rise, together with increases in loans to Building and Construction (28.5 percent), and in Personal loans (14.2 percent), was the primary factor in the expansion in

lending to the private sector. The rapid growth in credit to the distributive sector resulted in distribution becoming the bank's largest borrower. From 27.4 percent in 1980, the distributive sector's share of bank advances climbed to 33.3 percent. The building industry also increased its share, from 10.0 percent to 10.9 percent. Agriculture and manufacturing, on the other hand, reduced their shares from 26.2 percent to 22.1 percent and from 13.6 percent to 10.9 percent, respectively.

Interest Rates

The average deposit and lending rates rose significantly in 1981, continuing the upward trend begun in 1980. The average rate on deposits rose from 7.8 percent at the end of 1980 to 9.5 percent at the end of 1981. The average loan rate, on the other hand, rose from 16.5 percent to 19.5 percent. The spread between those two rates, therefore, widened in 1981.

II OPERATIONS

Banking Liquidity:

Section 17(1) of the Banking Ordinance 1976 requires every licensed financial institution to maintain on an account with the Authority a minimum balance which, on average, shall be equivalent to at least five per centum of its average deposit liabilities. Throughout the year, the banks maintained balances with the Authority in excess of the statutory stipulation.

For the first three months of the year, the banks held deposits with the Authority significantly above the legal requirement. During that period, commercial bank balances averaged about 7.1 percent of average deposit liabilities. This contrasted with the corresponding period in 1980 when, although the banks held balances averaging 5.8 percent, they were able to meet the statutory limit only through support from the Monetary Authority.

The high level of excess balances declined after the first quarter of 1981, recovering in July and December when the banks held on average 6.4 percent and 6.1 percent, respectively, of deposit liabilities with the Authority.

Section 18 of the Banking Ordinance 1976 requires every licensed financial institution to maintain a minimum aggregate holding of approved liquid assets amounting, on average, to twenty per centum of average deposit liabilities. The required minimum level (which may be increased to a maximum of thirty-five per centum) remained unchanged throughout the year.

TABLE 5

BALANCES HELD BY THE COMMERCIAL BANKS WITH THE AUTHORITY

(Average of Daily Balances)

(BZE \$000)

Months of 1981	Minimum Re- quired Balance	Actual Balance Held	Excess Balance
Jan	4,722	6,066	1,344
Feb	4,625	6,965	2,340
Mar	4,767	6,923	2,156
Apr	5,092	6,077	985
May	5,250	5,998	748
Jun	5,239	6,036	797
Jul	5,201	6,663	1,462
Aug	5,315	5,735	420
Sep	5,379	6,083	704
Oct	5,396	6,151	755
Nov	5,279	5,637	358
Dec	5,256	6,412	1,156

The banks' holdings of liquid assets were generally higher than they were in 1980. The level at which these balances were held largely reflected the seasonal nature of the economy. Liquid assets, for example, peaked in July when the banks held liquid assets equal to 35.3 percent of deposit liabilities. The high level of liquidity assets during this period was in response to the receipt of the second payment by sugarcane farmers.

TABLE 6

HOLDINGS OF APPROVED LIQUID ASSETS IN 1981

(Average of Liquidity Balances)

(BZE \$000)

Month	Required Holdings	Actual Holdings	Excess Holdings
Jan	18,889	25,240	6,351
Feb	18,499	26,201	7,702
Mar	19,068	29,218	10,150
Apr	20,378	34,381	14,003
May	20,997	30,583	9,586
Jun	20,956	29,872	8,916
Jul	20,806	36,670	15,864
Aug	21,265	36,787	15,522
Sep	21,516	32,561	11,045
Oct	21,586	28,228	6,642
Nov	21,119	26,665	5,546
Dec	21,043	27,293	6,250

Fluctuations in the bank liquid assets are generally reflected in movements in their holdings of treasury bills and in their deposits with the Authority. The banks were able to participate more actively in the treasury bills market this year than they did in 1980. In 1981, treasury bills held by the banks were on average equal to 7.4 percent of deposit liabilities; in 1980 they averaged 4.0 percent.

Authority's Lending To Commercial Banks

Under the provisions of Section 26 of the Monetary Authority of Belize Ordinance 1976, the Authority provides loans to licensed financial institutions.

TABLE 7

AUTHORITY'S LENDING TO COMMERCIAL BANKS

(Monthly averages compiled from Wednesday Banking Statistics)

(BZE \$000)

Month (1981)	Amount	Month (1981)	Amount
Jan	200	Jul	800
Feb	300	Aug	600
Mar	400	Sep	160
Apr	400	Oct	-
May	650	Nov	-
Jun	1,225	Dec	-

The Authority's lending to commercial banks rose slowly, peaking at \$1.2 million by June 1981. From October onwards, the banks did not require accommodation from the Authority. In 1980, except for the month of August, the banks borrowed throughout the year. Nevertheless, their borrowings showed a secular trend of decline, reaching a low of \$0.2 million by September.

Cheque Clearing

The clearing house agreement of October 1978 between the Authority and the commercial banks operated throughout the year. Cheque clearing activity rose over the year, amounting to \$340.2 million for 1981. This was approximately \$28.3 million or 9.1 percent in excess of the amount cleared in 1980.

TABLE 8
COMMERCIAL BANK CHEQUE CLEARINGS IN 1981
(BZE \$000)

Month	Cheques Cleared (Amount)	Month	Cheques Cleared (Amount.)
Jan	24,941	Jul	35,115
Feb	30,273	Aug	31,692
Mar	26,322	Sep	26,238
Apr	23,031	Oct	27,578
May	29,704	Nov	24,924
Jun	27,237	Dec	33,118

The amount of cheques cleared through the Authority peaked in July when a total of \$35.1 million was transacted through the clearing house. Similarly, in 1980 clearing activity peaked in July at a total of \$42.1 million. The higher level of activity during July of both years is an indicator of the larger volume of transactions that takes place following the receipt of payment for sugar exports. Sugar export is, by far, the largest foreign exchange earner and the receipt of funds by sugarcane farmers for their exports is associated with the seasonal upturn in economic activity mid-year.

Except in July, the amount of cheques cleared each month was higher than that in the corresponding month of 1980. The lower level of cheques in July in 1981 as compared with July 1980 was due to the shortfall in sugar earnings. The second sugar payment in 1981 amounted to \$21.3 million, substantially below the \$29.9 million received in 1980.

Currency

The Authority is vested with the sole right of issuing, re-issuing and redeeming Belize currency notes and of determining, with the approval of the Minister, the designs and other specifications of legal tender currency notes and coins.

TABLE 9
CURRENCY IN CIRCULATION
(BZE \$000)

End of Month 1981	Notes	Coins	Total
Jan	17,535	3,145	20,680
Feb	18,391	3,147	21,538
Mar	18,771	3,177	21,948
Apr	20,413	3,193	23,606
May	20,622	3,209	23,831
Jun	19,119	3,220	22,339
Jul	20,754	3,232	23,986
Aug	21,665	3,213	24,878
Sep	21,306	3,224	24,530
Oct	20,083	3,256	23,339
Nov	19,413	3,267	22,680
Dec	18,984	3,296	22,280

The currency unit of Belize is the Belize dollar which since May 1976 is equivalent to fifty cents in United States of America currency.

Since January currency in circulation (notes and coins) rose from \$20.7 million to \$22.3 million, an increase of 7.7 percent. In 1980 the growth in currency exceeded 18.0 percent. Most of the expansion was in the note issue. Whilst coins being circulated increased from \$3.1 million to \$3.3 million (less than 5.0 percent) notes in circulation rose from \$17.5 million to \$19.0 million (8.3 percent).

Currency in the banks rose from \$2.3 million in January to \$3.3 million in December, up 44.6 percent and the public's holdings were increased from \$18.4 million to \$19.0 million (3.2 percent). During the corresponding period in 1980, vault cash rose by 49.9 percent and the public's holdings by 13.1 percent.

Transactions With Government:

Section 23 of the Monetary Authority of Belize Ordinance, 1976 permits temporary advances to Government not exceeding fifteen per centum of estimated current revenues for the financial year. Government resorted to temporary borrowing from the Authority for most of the year. As Government made increasing use of this facility, its advances rose rapidly from \$3.8 million at the end of 1980 before peaking at \$13.0 million in October. Over the remaining months of the year, Government borrowings declined slightly and at the end of December, the account stood at \$12.6 million or approximately 14.6 percent of estimated current revenue for the 1981/82 financial year.

The Authority acts as agent for the Government in making arrangements for the issue of Treasury Bills. Bills are issued with maturities of 91 days at monthly intervals. Bills to a total of \$16,885,000 were outstanding at December 31, 1981 of which \$14,448,000 (Book Value \$14,059,861) was held by the Authority. During the year, too,

TABLE 10
GOVERNMENT OF BELIZE TREASURY BILLS
(BZE \$000)

Issue Number	Amount Tendered	Amount Allotted	Additional Allotment	Total Allotted	Average Discount Rate	Average Yield To Maturity
1/1981	10,000	9,000	-	9,000	11.5	11.8
2/1981	3,185	3,185	-	3,185	11.5	11.8
3/1981	2,815	2,815	-	2,815	11.25	11.5
4/1981	9,000	9,000	-	9,000	11.25	11.5
5/1981	3,185	3,185	-	3,185	11.25	11.5
6/1981	2,815	2,815	-	2,815	11.25	11.5
7/1981	9,000	9,000	1,500	10,500	11.75	12.1
8/1981	8,285	3,185	-	3,185	11.75	12.1
9/1981	3,000	3,000	200	3,200	12.12	12.5
10/1981	10,000	10,000	500	10,500	12.12	12.5
11/1981	3,185	3,185	-	3,185	12.12	12.5
12/1981	3,000	3,000	200	3,200	12.12	12.5

TABLE 11

ADVANCES TO GOVERNMENT AND HOLDINGS
OF TREASURY BILLS AND OTHER SECURITIES
BY THE MONETARY AUTHORITY OF BELIZE

(BZE \$000)

1981 Month End	Advances	(a)	Treasury Bills	Other Securities	(b)
Jan	3,180	4.3	11,168	1,308	1.3
Feb	3,025	4.1	5,755	1,308	0.7
Mar	4,379	6.0	5,662	1,308	0.7
Apr	2,844	3.3	2,597	1,308	0.4
May	2,802	3.2	8,603	1,308	1.0
Jun	8,326	9.6	6,641	1,308	0.8
Jul	9,898	11.4	1,715	1,308	0.3
Aug	12,720	14.7	4,805	1,308	0.6
Sep	12,684	14.6	8,473	1,308	1.0
Oct	12,981	15.0	12,313	1,408	1.4
Nov	12,919	14.9	12,221	1,408	1.4
Dec	12,631	14.6	14,060	1,408	1.5

Note: (a) Outstanding advances as a percentage of Government's Estimated Current Revenue. The period January through March is based on Estimated Revenue for fiscal 1980/81 and the subsequent months on Estimated Revenue for fiscal 1981/82.

(b) Total holdings of treasury bills and other securities as a multiple of the Authority's paid-up capital and reserves.

the Authority increased its holdings of Government of Belize debentures by \$100,000 to \$1,408,025. The total holdings of Belize Government securities which amounted to \$15,467,886 were well within the limit of \$73,221,520 (seven - times the Authority's paid-up capital and reserves) imposed by Section 24 of the Ordinance. The Authority's holdings of treasury bills and Government debentures totalled \$8,661,048 at the end of 1980.

Foreign Exchange Operations

The Authority undertakes to buy from and sell to Authorised Dealers the stipulated currencies by way of cover for authorised transactions at prescribed rates. The stipulated currencies are:

- a) the United States dollar;
- b) the Canadian dollar;
- c) the Pound Sterling;
- d) the currencies of member countries of the
Caribbean Community (CARICOM)

During 1981, the Authority made net sales of Sterling, Canadian dollars and United States dollars amounting to approximately \$7.3 million. In contrast, its tradings in those currencies in 1980 resulted in net purchases of \$9.4 million. Net sales involving CARICOM currencies totalled approximately \$0.2 million compared with \$1.8 million in 1980.

Most of the foreign exchange transactions undertaken by the Authority involved United States dollars. Of its total foreign assets of

\$20.6 million at the end of December 1981, the US dollar constituted 87.4 percent, Sterling accounted for 11.1 percent, and other stipulated currencies for 1.5 percent. The 1980, of the Authority's foreign assets which totalled \$24.8 million, the US dollar constituted 87.7 percent, Sterling constituted 11.1 percent, and other currencies 1.2 percent. The composition of the foreign exchange holdings remained, therefore, virtually unchanged.

TABLE 12

AUTHORITY DEALINGS IN FOREIGN EXCHANGE
WITH FINANCIAL INSTITUTIONS IN BELIZE
TRADINGS IN THE US DOLLAR, CANADIAN
DOLLAR AND POUND STERLING

(BZE \$000)

1981	Purchases	Sales	Net Purchases
Jan	11,071	10,520	551
Feb	16,496	12,269	4,227
Mar	6,715	6,665	50
Apr	9,919	5,974	3,945
May	5,992	11,182	(5,190)
Jun	6,587	11,186	(4,599)
Jul	13,383	9,346	4,037
Aug	10,229	12,216	(1,987)
Sep	5,015	10,593	(5,578)
Oct	4,379	8,418	(4,039)
Nov	3,230	6,176	(2,946)
Dec	11,620	7,401	4,219
Grand Total	104,636	111,946	(7,310)

Tables 12 and 13 show the purchases of and sales by the Authority of these stipulated currencies during the year. Transactions involving the currencies of CARICOM countries are effected through the CARICOM Multilateral Clearing Facility.

TABLE 13

AUTHORITY DEALINGS IN FOREIGN EXCHANGE
WITH FINANCIAL INSTITUTIONS IN BELIZE.
TRADINGS IN CARICOM CURRENCIES

BZE \$000

1981	Purchases	Sales	Net Purchases
Jan	111	548	(437)
Feb	41	217	(176)
Mar	693	543	150
Apr	580	177	403
May	509	286	223
Jun	125	276	(151)
Jul	62	397	(335)
Aug	435	521	(86)
Sep	28	433	(405)
Oct	687	410	277
Nov	680	396	284
Dec	762	693	69
Grand Total	4,713	4,897	(184)

Coin Programme

Since 1974 the Government of Belize has been participating along with the Franklin Mint of Pennsylvania in the United States of America, in the issue of numismatic coin sets in gold and in silver. In 1976, the Authority took over responsibility for the programme and, since then, has made yearly issues of gold coins and coin sets which carry 8 (eight) uncirculated coins, each representing a denomination of Belize currency up to \$10. All the coins issued have portrayed designs pertaining to Belizean culture and natural life. The gold content of all \$100 coins is 6.21 grams and that of the \$50 coin is 1.50 grams.

At the end of 1981 plans were being made to mint a \$100 gold coin to commemorate Belize's independence.

Exchange Control

The Authority is charged with ensuring "that the foreign exchange reserves of Belize are administered in the interest of the economy and in accordance with the economic policy of the Government."

The Authority was appointed Controller under the provisions of Section 5 of Foreign Exchange Ordinance of 1972 (No. 24 of 1972) and is, therefore, responsible for the administration of exchange controls in Belize.

The Exchange Control Regulations, 1976, were made by the Minister in exercise of powers conferred upon him by Section 3 of the Foreign Exchange Regulation Ordinance, 1972 and both the parent and subsidiary legislations were brought into force on May 11, 1976. The regulations cover every aspect of

TABLE 14

SALES OF FOREIGN EXCHANGE BY AUTHORISED DEALERS IN 1981

BZE \$000

CLASSIFICATION	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL	
	RESIDENT	NON-RESIDENT	RESIDENT	NON-RESIDENT	RESIDENT	NON-RESIDENT	RESIDENT	NON-RESIDENT	RESIDENT	NON-RESIDENT
IMPORTS	61,551		69,803		59,405		63,573		254,332	
TRAVEL	1,096	705	1,905	669	2,648	533	1,592	604	7,241	2,511
Business	(438)	(60)	(503)	(99)	(631)	(81)	(579)	(138)	(2,151)	(378)
Medical	(152)	(2)	(303)	(41)	(287)	(10)	(307)	(18)	(1,049)	(71)
Vacation	(373)	(268)	(1,018)	(180)	(1,487)	(155)	(466)	(136)	(3,344)	(739)
Other	(133)	(375)	(81)	(349)	(243)	(287)	(240)	(312)	(697)	(1,323)
FAMILY MAINTENANCE	221	150	277	161	219	155	252	186	969	652
EDUCATION	561		415		667		387		2,030	
INSURANCE/REINSURANCE	933		645		797		1,041		3,416	
TRAVEL FARES/FREIGHT CHARGES	1,566		2,775		3,144		2,134		9,619	
MEDICAL BILLS	183		220		462		375		1,240	
HEAD OFFICE EXPENSES	65		236		81		277		659	
ROYALTY PAYMENTS	103		128		198		223		652	
MANAGEMENT FEES	-		-		-		31		31	
PROFESSIONAL SERVICES	275		621		428		264		1,588	
SUBSCRIPTIONS	67		52		58		105		282	
SUNDRIES	-		-		83		104		187	
OTHER CURRENT ACCOUNT	405		249		121		330		1,105	
TOTAL CURRENT ACCOUNT	67,026	855	77,326	830	68,311	688	70,688	790	283,351	3,163
EMIGRATION	477		1,823		1,008		832		4,140	
PROFITS/DIVIDENDS	740		681		1,301		1,021		3,743	
REPATRIATION OF FUNDS	-	1,401	-	1,933	-	2,435	-	1,645	-	7,414
LOAN/INTEREST PAYMENTS	895		757		2,388		1,091		5,131	
GIFTS	46		26		22		63		157	
INVESTMENTS	7		223		109		-		339	
OTHER CAPITAL ACCOUNT	1,269		-		218		71		1,558	
TOTAL CAPITAL ACCOUNT	3,434	1,401	3,510	1,933	5,046	2,435	3,078	1,645	15,068	7,414
GRAND TOTAL	70,460	2,256	80,836	2,763	73,357	3,123	73,766	2,435	298,419	10,577

foreign exchange dealings and derive from legislation enacted during the Second World War. Current policy aims at building up administrative machinery capable of coping with any possible future emergency situation while at the same time causing as little inconvenience as possible to members of the public. The commercial banks have accordingly been appointed Authorised Dealers with delegated authority to deal with a wide range of routine applications. It is only in the more unusual circumstances and where the amounts are substantial that reference needs to be made to the Authority. The application forms completed by persons applying to Authorised Dealers for foreign exchange are regularly forwarded to the Authority for audit and tabulation of data. The Exchange Control Section was re-organised this year into a full-fledged department of the Monetary Authority.

Table 14 provides a breakdown of the purpose for which foreign exchange was used during 1981 and the relevant amount according to processed application forms.

Outflows during 1981 reached a total of \$309.0 million, falling short of the previous year's outflows by 1.3 percent, and registering an overall decline in the various categories of outflows. Belize's heavy reliance on imports is evidenced by the significant portion of outflows allotted for imports. The import bill, always the largest component of foreign exchange outflows, accounted for 82.3 percent of outflows during 1981. Of the \$254.3 million transferred for imports, approximately 13.2 percent were transfers for oil and petroleum products. Actual payments during 1981 for oil amounted to \$33.6 million. The second largest component

of the outflows of foreign exchange were "Travel Fares and Freight Charges" which accounted for 3.1 percent of the total. This was one of the few current account transactions to register an increase over the preceding year, rising by 11.8 percent. Total current account transactions fell by some 3.8 percent.

Capital account transactions, on the other hand, exhibited a sharp increase, rising by 46.8 percent. Most categories under this account showed sizeable increases. Funds transferred for "Emigration" rose by 60.4 percent while "Loan and Interest Payments" increased by \$2.2 million or 74.8 percent over the year. "Repatriation of Funds" nearly doubled, increasing from \$3.9 million to \$7.4 million.

III ACCOUNTS

The authorised and paid-up capital of the Monetary Authority of Belize is four million dollars.

The annual statement of accounts of the Authority for 1981, certified by the auditor, is attached to this Report.

The net profit from the operations of the Authority during 1981 amounted to \$6,247,445 compared with \$3,089,259 in 1980. This sharp increase was attributable, in large measure, to increased government borrowing (see page 28). Total assets which were \$38,274,034 in 1980 rose by 27.98 percent to \$48,984,431. Foreign assets as a proportion of total assets fell from 64.7 percent at the beginning of the year to 42.16 percent at the end of December 1981.

Income and Expenditure

Net investment income during 1981 totalled \$6,259,972 (\$4,252,638 in 1980) and represented a yield of approximately 14.68 percent (11.84 percent in 1980) on average assets. 90.9 percent (76.0 percent in 1980) of total income of \$6,885,249 (\$5,593,370 in 1980) was derived from this source.

Total operating expenses, including the cost of printing money and minting coins was \$637,804 (\$2,504,111 in 1980) representing 9.3 percent (44.7 percent) of total income. Excluding the cost of printing currency notes and minting coins, other operating expenses represented 8.48 percent of total income

compared with 7.51 percent in 1980.

General Reserve Account

In accordance with the provisions of Section 13(4) of the Monetary Authority of Belize Ordinance 1976, as the balance on the General Reserve Account exceeded ten but not fifteen per centum of gross demand liabilities, a sum of \$908,860 from the net profit was credited to the General Reserve Account. Gross demand liabilities of the Authority at the end of 1981 amounted to \$38,406,699 and the General Reserve Account before the transfer of net profit stood at \$4,051,357.

IV ADMINISTRATION

The Board of Directors

The Board of Directors of the Authority during the year consisted of -

E.A. Marshalleck Esq., Chairman

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

D.B. Courtenay Esq., Attorney-at-Law

H. Escalante Esq.

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

Mr. A.E. Cattouse, J.P., a member of the Board, died on July 6, 1981. Mr. Cattouse who was serving his second three-year term as a Director at the time of his death had been a Currency Commissioner before becoming a member of the Board of Directors of the Authority on its establishment in November 1976.

The Board held eleven meetings during the year.

Staff

The principal officers of the Authority at the end of 1981 were -

Mr. H.E.C. Cain, O.B.E., F.C.C.A., Managing Director

S.R.K. Rao, Ph.D., Chief Research Officer

F.J. Garbutt, Chief Accountant

D.L. Leslie, B.B.A.(Econ.), Foreign Exchange Controller

C.E. Reyes, B.A.(Library Studies) Acting Secretary.

Miss Rita Vernon, Secretary, commenced pre-retirement leave in December of this year. Miss Vernon who has been with the Authority since it commenced its operations has made a significant and valuable contribution to its development.

Miss Cecile Reyes was appointed to act as Secretary in December, 1981. She is on secondment from the Government Service, initially for a period of six months. Miss Reyes joins the Authority after serving as Principal Librarian in the National Library Service for a period of three years.

Ms. Dorla Leslie was appointed to the post of Foreign Exchange Controller in September. Ms. Leslie was previously attached to the Research Department.

Total staff employed by the Authority was twenty-nine at the end of 1981 (twenty-five at the end of 1980) of which six were on secondment from the Government Service.

Overseas Visits

In March 1981, the Managing Director, Mr. H.E.C. Cain, attended the Third International Banking Conference in Nassau, Bahamas. The following month he was in Venezuela attending a conference on the Financial Development of Latin America and the Caribbean. This conference explored the problems of developing countries in the face of chronic inflation, high interest rates, floating exchange rates and payments imbalances and the

experiences of Latin American countries in dealing with these problems.

In May he was present, as an observer, at the Eleventh Annual Meeting of the Caribbean Development Bank held in Antigua. Mr. Cain, in September, attended the Second International Conference of Banking Supervisors in Washington D.C. Following this conference was the Joint Annual Meeting of the IMF/World Bank.

The Managing Director attended the Tenth and Eleventh Meetings of the Board of Governors of the CARICOM Multilateral Clearing Facility held in Port-of-Spain, Trinidad in May, and in Bridgetown, Barbados in November. Representing the Authority at the Meetings of Technicians which preceded the Board of Governors' Meeting were the Chief Accountant, Mr. Frank Garbutt, and the Foreign Exchange Controller, Ms. Dorla Leslie. Following the Technicians' Meeting in Trinidad, Ms. Leslie represented the Monetary Authority at the Senior Officials of Finance Meeting in Antigua. Also, following the Board of Governors Meeting in Barbados, the Managing Director was present at the Fourth Meeting of the Co-ordination Committee on Multilateral Payments Arrangements which was held in Barbados.

Mr. Cain and Ms. Dorla Humes, Research Officer, were in Port-of-Spain, Trinidad in November participating in the Thirteenth Regional Programme of Monetary Studies. Ms. Humes presented a paper "Trading Patterns in Belize 1970 - 1979".

Training:

The Authority in its expansion programme, has placed much emphasis on staff training. In this connection, Research Officer, Ms. Dorla

Leslie attended a seminar Characteristics of Labour Force in Washington during the summer. The seminar which ran for six weeks was arranged in the United States' Bureau of Labour Statistics, U.S. Department of Labour under the auspices of OLAB/AID. Another officer, Ms. Dorla Humes, attended for six weeks the Central Banking Course 1981 at the Bank of England. In addition, Ms. Humes spent a week visiting various sections of the Bank discussing matters of mutual interest.

Financial assistance is also offered to members of staff wishing to pursue training in related subjects, for example, banking, statistics and accounting. During the year under review, two of the Authority's staff members continued to pursue training as registered students of the Association of Accounting Technicians in the United Kingdom.

(Signed) S.J.P. ERMEAV SR
Chartered Accountant

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

We have audited the accounts on pages 2 to 8 in accordance with Approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Authority at 31 December 1981 and of the results of its operations for the year ended on that date.

(signed) S.J.P. ERMEAV SR
Chartered Accountant

Belize City, Belize
5 March 1982

THE MONETARY AUTHORITY OF BELIZE
BALANCE SHEET
31 December 1981

(continued)

	Note	1981 \$	1980 \$
<u>ASSETS</u>			
APPROVED EXTERNAL ASSETS	3		
Balances and deposits with foreign bankers and the Crown Agents maturing within 180 days		13,018,184	16,951,981
Marketable securities issued or guaranteed by foreign governments and international financial institutions		3,496,732	4,029,818
Other foreign credit instruments maturing within 180 days		4,000,000	3,300,000
Accrued interest and cash in transit		150,916	1,020,696
		<u>20,665,832</u>	<u>25,302,495</u>
DEFERRED INCOME			
Unrealised gain from appreciation in value of external assets		(2,021)	(2,247)
Unrealised gain from changes in foreign exchange rates		(10,060)	(529,190)
		<u>20,653,751</u>	<u>24,771,058</u>
ADVANCES TO BELIZE GOVERNMENT		12,629,340	3,828,906
BELIZE GOVERNMENT DEBENTURES, at cost		1,408,025	1,308,025
BELIZE GOVERNMENT TREASURY BILLS	4	14,059,861	7,353,023
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		25,934	34,541
OTHER ASSETS	5	76,908	866,916
FIXED ASSETS	6	130,612	111,565
		<u>48,984,431</u>	<u>38,274,034</u>
Total Assets			

(signed) P.J. Corbett

The notes on pages 5 to 8 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE
 BALANCE SHEET
 31 December 1981
 (continued)

	Note	1981 \$	1980 \$
<u>LIABILITIES, CAPITAL AND RESERVES</u>			
DEMAND LIABILITIES			
Notes and coins in circulation		22,279,662	21,242,330
Deposits by licensed financial institutions	7	9,264,397	4,755,601
Deposits by Belize Government and Public Sector Entities in Belize	8	5,372,192	1,633,611
Unredeemed demonitised issue	9	1,103,344	-
		<u>38,019,595</u>	<u>27,631,542</u>
CARICOM MULTILATERAL CLEARING FACILITY		387,104	900,148
OTHER LIABILITIES		<u>117,515</u>	<u>190,987</u>
Total Liabilities		38,524,214	28,722,677
CAPITAL ACCOUNT			
Paid up Capital (Authorized Capital \$4,000,000)		4,000,000	4,000,000
GENERAL RESERVE ACCOUNT	10	4,960,217	4,051,357
BUILDING FUND		<u>1,500,000</u>	<u>1,500,000</u>
Total Liabilities and Capital		<u>48,984,431</u>	<u>38,274,034</u>
(signed) E.A. Marshalleck } Chairman (signed) H.E.C. Cain } Managing Director (signed) F.J. Garbutt } Chief Accountant			

The notes on pages 5 to 8 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE
STATEMENT OF OPERATIONS
Year ended 31 December 1981

THE MONETARY AUTHORITY OF BELIZE
NOTES TO THE ACCOUNTS
31 December 1981

	1981 B	1980 B
INCOME		
Net interest on investments	4,208,352	3,018,877
Discounts and other investment income	2,051,620	1,233,761
Net realized gains (losses) from changes in foreign exchange rates and appreciation in value of securities	(146,774)	353,246
Commissions and other income	<u>772,051</u>	<u>987,486</u>
Total Income	<u>6,885,249</u>	<u>5,593,370</u>
EXPENDITURE		
Printing of notes and minting of coins	54,061	2,084,275
Salaries and wages, including super- annuation contributions, and gratuities	320,083	234,885
Other expenses, including depreciation	<u>263,660</u>	<u>184,951</u>
Total Expenditure	<u>637,804</u>	<u>2,504,111</u>
NET PROFIT	6,247,445	3,089,259
Less:- Amount transferred to General Reserve in accordance with Section 13(4) (b) of the Ordinance	<u>908,860</u>	<u>66,614</u>
Balance due to Government of Belize	5,338,585	3,022,645
Less:- Amount retained in a Building Fund with the approval of the Minister	-	1,500,000
Balance credited to deposit account in the name of Government of Belize	<u>5,338,585</u>	<u>1,522,645</u>

The notes on pages 5 to 8 form an integral part of these accounts.

THE MONETARY AUTHORITY OF BELIZE
NOTES TO THE ACCOUNTS
31 December 1981

1. The Monetary Authority of Belize was established by the Monetary Authority of Belize Ordinance 1976 (the Ordinance).

2. ACCOUNTING POLICIES

a. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method over the estimated life of the asset.

b. Notes and coins in circulation

Up to 31 December 1976 when the Belize Board of Commissioners of Currency was wound up and its assets transferred to the Authority, liability was recognised in the accounts in respect of coins specially minted or packaged and issued as collectors' items. Included in the accounts for the year under review is a liability of \$1,161,059 in respect of the sale of such coins up to that date.

As of that date, however, no further liability is recognised in connection with the sale of special coins, and proceeds from such sales are included in income in the year of sale. The coins are not issued for monetary purposes and in the opinion of the directors no liability will arise in respect of them.

c. Translation of foreign currencies

Foreign currency balances at 31 December 1981 are translated at the rates of exchange ruling at that date. Income and expenses in foreign currencies are translated at the rates of exchange ruling on the date of the transaction.

d. Valuation of securities

Securities are stated at market. Realised securities gains are included in income while unrealised gains are deferred. Securities losses, whether or not realised, are charged against income.

THE MONETARY AUTHORITY OF BELIZE
NOTES TO THE ACCOUNTS
31 December 1981

2. ACCOUNTING POLICIES (Continued)

e. Foreign exchange gains and losses

Realised gains from changes in foreign exchange rates are included in income while unrealised gains are deferred. Losses, whether or not realised are charged against income.

f. Accrued interest and cash intransit

Accrued interest and cash intransit 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 written off against earnings in the year of delivery of such notes and coins.

3. APPROVED EXTERNAL ASSETS

Assets shown under the heading are those defined as such by Section 28(2) of this Ordinance.

Section 28(1) requires that the Authority shall at all times hold approved external assets of an aggregate market value equivalent to at least 50 per cent of the aggregate amount of notes and coins in circulation and of the Authority's liabilities to customers in respect of its sight and time deposits.

At 31 December 1981, total approved external assets approximated 53.78 per cent (1980 - 86.82) of such liabilities.

4. BELIZE GOVERNMENT TREASURY BILLS INSTITUTIONS

Section 24(2) of the Ordinance stipulates that the Authority shall not at any time hold Belize Government Treasury Bills and Securities in an aggregate amount exceeding 7 times the aggregate amount at that time of the paid up capital and general reserves of the Authority. At 31 December 1981 the Authority's aggregate holding of Belize Government Treasury Bills and Securities approximated 1.73 times (1980 - 1.08 times) the amount of paid up capital and general reserves of the Authority.

THE MONETARY AUTHORITY OF BELIZE
 NOTES TO THE ACCOUNTS
 31 December 1981

5. OTHER ASSETS

Other assets include:

	1981	1980
	\$	\$
Accrued interest	12,269	10,857
Other	<u>64,639</u>	<u>856,059</u>
	<u>76,908</u>	<u>866,916</u>

6. FIXED ASSETS

	1981	1980
	\$	\$
Building improvements	17,064	17,064
Furniture	30,004	28,937
Equipment	87,629	79,642
Vehicle	<u>21,438</u>	<u>-</u>
	156,135	125,643
Less: accumulated depreciation	<u>25,523</u>	<u>14,078</u>
	<u>130,612</u>	<u>111,565</u>

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

7. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

The total under this heading consists of balances maintained with the Authority by licensed financial institutions each of which under the provisions of Section 17 of the Banking Ordinance 1976 is required to keep on deposit an amount equivalent to at least 5% of its average deposit liabilities. No interest is paid on these deposits.

<u>4,960,217</u>	<u>4,051,357</u>
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CONTINGENT LIABILITIES

There is a contingent liability in respect of a guarantee of \$15,000 for letters of credit in favour of the Government of Belize and Public Sector Entities.

THE MONETARY AUTHORITY OF BELIZE
NOTES TO THE ACCOUNTS
31 December 1981

Banking Developments 1970 - 1979

8. DEPOSITS BY BELIZE GOVERNMENT AND PUBLIC SECTOR ENTITIES

The total under this heading includes:-

	1981	1980
	\$	\$
Belize Government	5,338,585	1,522,645
Public Sector Entities	33,607	110,966
	<u>5,372,192</u>	<u>1,633,611</u>

9. UNREDEEMED DEMONETISED ISSUE

With effect from 1 January 1981 currency notes which had been issued by the Belize Commissioners of Currency ceased to be legal tender in Belize. As at 31 December 1981, notes amounting to \$1,103,344 had not been surrendered for redemption. The Authority is obliged to redeem at face value.

10. GENERAL RESERVE ACCOUNT

Section 13 of the Ordinance provides for the establishment and maintenance of a General Reserve Account which shall be credited with any net profit after the Capital Account is fully paid and until the balance on the General Reserve Account reaches 15 per cent of the aggregate demand liabilities of the Authority including notes and coins issued by the Authority. The balance in the General Reserve Account is made up as follows:

	1981	1980
	\$	\$
Balance 1 January	4,051,357	3,984,743
Transfer from net profit	908,860	66,614
	<u>4,960,217</u>	<u>4,051,357</u>

11. CONTINGENT LIABILITIES

There is a contingent liability in respect of a guarantee of \$36,000 for letters of credit in favour of the Government of Belize and Public Sector Entities.

APPENDIX

Banking Developments 1970 - 1979

Overview:

For the financial system of Belize, the decade of the seventies was significant not only because it was during this period that the Belize Board of Commissioners of Currency was replaced by the Monetary Authority of Belize in 1976, but also because of the passage of the Banking Ordinance in that year. Both events had important implications for the operations and practices of the banking system in Belize.

In 1971, the first locally incorporated bank began to operate in Belize. This brought the total number of commercial banks in Belize to four. In that same year, three bank branches were opened. The banks continued throughout the decade to expand their branch network and by the end of 1981 there were sixteen branches throughout the country.

Whilst the expansion in monetary aggregates seems to be strongly correlated with an increase in foreign reserves, the change in bank credit appears to vary inversely with movement in foreign reserves. Such a relationship is linked to the nature of the Belizean economy which has as its major production and export industry sugarcane. Given the skewed nature of the production and export base, economic activity in Belize tends to reflect the successes (or failures) of this industry. Hence, money supply growth is strongest in those periods when exporters receive payment for their sugar shipped abroad. On the other hand, the consumption needs of the Belizean people are met largely through imports. Faced with rapidly rising import prices, particularly energy prices, and shortfalls in their export

earnings consumers have increasingly sought accommodation from the commercial banks - hence, the association between credit expansion and reserve loss (More recently, growing deficits on the Government's fiscal operations have also been closely linked to the reduction in foreign reserves).

DEPOSITS

Total deposits increased from \$20.3 million to \$83.3 million between 1970 and 1979. In general, deposit growth was strongest during the first half of the decade when the rate of expansion averaged over 25.0 percent compared with an average of less than 11.0 percent between 1975 and 1979 this was especially the case in 1974 when all types of deposits showed a phenomenal increase, demand deposits rising by 36.9 percent that year, savings deposits by 45.4 percent and time deposits by 28.0 percent.

DIAGRAM 4

COMMERCIAL BANKS' TOTAL DEPOSITS 1970 - 1979

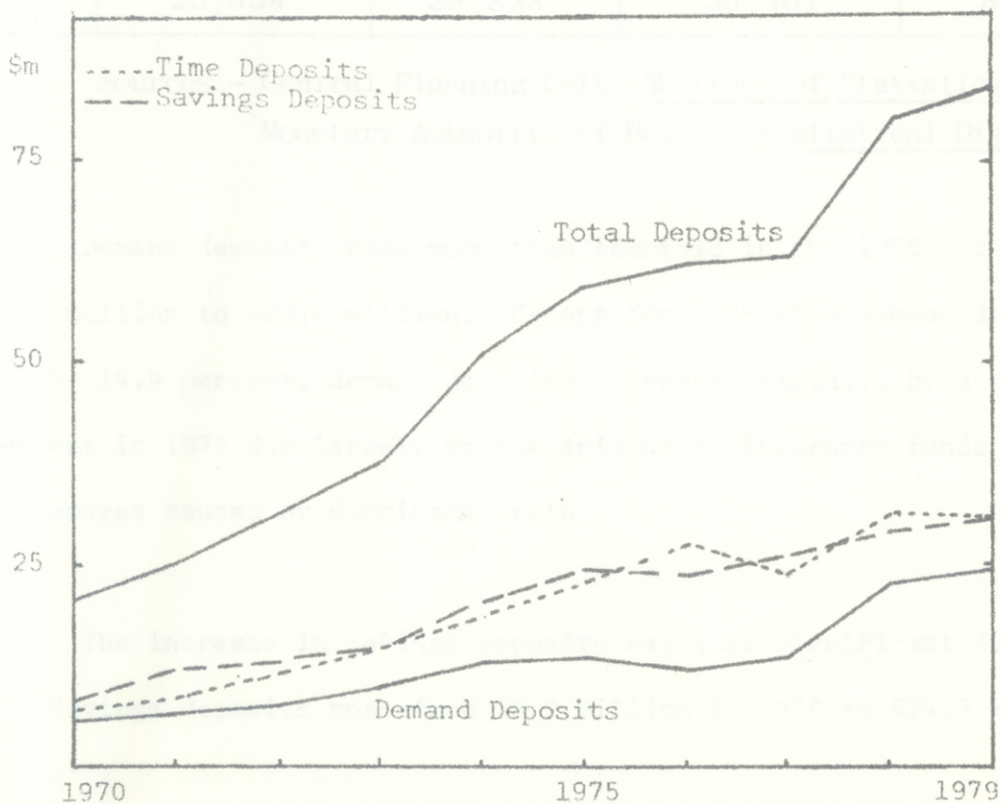


TABLE 15
COMMERCIAL BANK DEPOSITS 1970 - 1979
BZE \$000

Year	Demand Deposits	Savings Deposits	Time Deposits	Total Deposits
1970	5,339	8,166	6,830	20,335
1971	6,073	10,690	7,852	24,615
1972	7,511	12,146	11,463	31,120
1973	8,961	13,674	14,407	37,042
1974	12,266	19,881	18,439	50,586
1975	13,056	24,308	21,773	59,137
1976	11,174	23,371	26,745	61,290
1977	13,158	25,854	23,266	62,278
1978	21,525	28,059	29,732	79,316
1979	23,054	29,838	30,401	83,293

Sources:- Central Planning Unit, Abstract of Statistics
Monetary Authority of Belize, Statistical Digest.

Demand deposits rose more than fourfold in the 1970's climbing from \$5.3 million to \$23.0 million. Except for 1976 when demand deposits declined by 14.4 percent, demand deposits increased rapidly, by a phenomenal 63.6 percent in 1978 due largely to the inflows of insurance funds in settlement of damages caused by Hurricane Greta.

The increase in savings deposits was also significant during this period. Savings deposits rose from \$8.2 million in 1970 to \$24.3 million in 1979.

1975 before falling by 3.9 percent in 1976. Thereafter savings deposits again climbed, reaching \$29.8 million in 1979.

Except for 1979 when growth was less than 3.0 percent and 1977 when they declined by 13.0 percent, the rate of increase in time deposits exceeded 15.0 percent per annum. From \$6.8 million in 1970 time deposits quadrupled, reaching \$30.4 million in 1979.

Over the decade there was a noticeable shift in the composition of bank deposits, particularly between savings and time deposits. Initially, savings deposits accounted for as much as 43.4 percent (1971) of total deposits. There was a gradual reduction in the share, and by the end of the decade only 35.8 percent of total deposits was being held as savings deposits. Time deposits, on the other hand, increased its share from 33.6 percent in 1970 to 36.5 percent in 1979. Over the decade, there was a one percentage point increase in demand deposits' share. From 26.2 percent in 1970, demand deposits' share of total deposits fell, bottoming out at 18.2 percent in 1976. A quick recovery in the remaining years of the decade, however, brought the share up to 27.7 percent.

Monetary Liabilities

There are three basic components in the measures of money supply recorded by the Monetary Authority: the level of currency with the public (which is equal to the currency issue of the Authority minus currency held by the commercial banks), the level of commercial bank deposits less deposits by Central Government, and the level of deposits with the Monetary Authority other than deposits by the commercial banks and Central Government.

TABLE 16

MONEY SUPPLY 1970 - 1979

BZE \$000

Year	Currency In Circulation	Bank Holdings	Currency With The Public	Demand* Deposits	M1	Quasi Money	M2
1970	5,789	1,508	4,281	5,339	9,620	14,996	24,616
1971	6,193	1,612	4,581	6,073	10,654	18,542	29,196
1972	7,386	1,702	5,684	7,511	13,195	23,609	36,804
1973	8,435	2,069	6,366	8,961	15,327	28,081	43,408
1974	10,773	2,294	8,479	12,266	20,745	38,320	59,065
1975	13,448	3,002	10,446	13,056	23,502	46,081	69,583
1976	13,644	2,370	11,274	10,519	21,793	50,116	71,909
1977	15,142	2,594	12,548	12,513	25,061	49,120	74,181
1978	19,202	2,478	16,724	20,561	37,285	57,791	95,076
1979	19,931	3,256	16,675	21,771	38,446	60,239	98,685

SOURCES:- Central Planning Unit, Abstract of Statistics

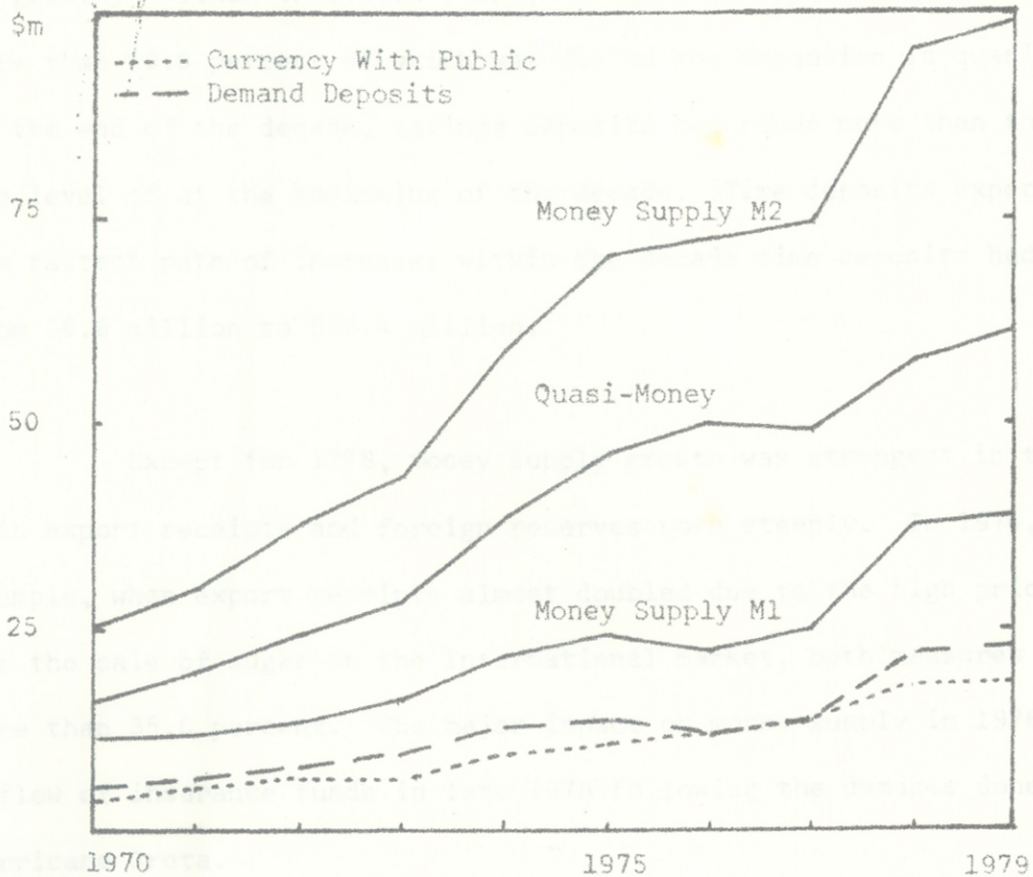
Monetary Authority of Belize, Statistical Digest

*From 1976 onward, demand deposits, for money supply purposes, exclude deposits by Central Government with the commercial banks and Monetary Authority.

M1 is a narrow definition of money supply, comprising currency with the public plus demand deposit liabilities of the commercial banks and the Monetary Authority. M2 is defined more broadly and includes M1 plus savings and time deposits in the commercial banks.

DIAGRAM 5

MONEY SUPPLY 1970 - 1979



Both measures of money supply more than tripled over the decade with M2 tending to rise more rapidly than M1.

Money Supply M1 rose from \$9.6 million in 1970 to \$38.4 million in 1979. Except for 1976 when it declined by 7.3 percent, M1 exhibited a strong upward trend, its fastest rate of increase occurring in 1978. Both components of the measure, in general, moved in a similar fashion. In 1978

alone, demand deposit growth was more than 6.4 percent whilst the public increased its currency holdings by more than 33.0 percent.

Quasi-money (savings and time deposits) dominated money supply M2 growth. Within these ten years, M2 had risen by about \$74.0 million, more than 60.0 percent of which was due to the expansion in quasi-money. By the end of the decade, savings deposits had risen more than three times the level of at the beginning of the decade. Time deposits experienced the fastest rate of increase; within the decade time deposits had climbed from \$6.8 million to \$30.4 million.

Except for 1978, money supply growth was strongest in those years when export receipts and foreign reserves rose steeply. In 1974, for example, when export receipts almost doubled due to the high prices obtained for the sale of sugar on the international market, both measures rose by more than 35.0 percent. The major impact on money supply in 1978 was the inflow of insurance funds in late 1978 following the damages done by Hurricane Greta.

Loans and Advances

Direct lending by the commercial banks rose from \$28.1 million to \$86.5 million during the 1970's. The growth in bank lending was dominated by the expansion in private sector demands. Private sector borrowings from the banking system rose rapidly for most of the decade, declining only in 1971 and 1977. The 6.5 percent reduction in 1977 was in response to portfolio adjustments by the commercial banks following the passage of the Banking Ordinance and the imposition of reserve and liquidity requirements

on the banks. Altogether, credit to the private sector almost tripled, rising from \$26.2 million to \$76.5 million over the decade.

Bank lending to the public sector also showed a strong upward trend during the decade. From less than \$2.0 million, credit to the public sector rose to more than \$10.0 million by 1979, largely a reflection of the growth in borrowing by statutory bodies. As its credit rose, so did the public sector's share in bank advances. From 7.0 percent in 1970, the public sector gradually increased its share until, by the end of the decade, it accounted for almost 12.0 percent of bank loans.

The agricultural sector traditionally has been the banks' largest borrower and at the beginning of the 1970's, accounted for more than 45.0 percent of the credit. Despite the fact that loans to this sector almost doubled by the end of the decade, there was a marked decline in its share of total loans. By 1979, approximately 27.0 percent of bank loans outstanding had been made to the agricultural industry. Within the agricultural sector, there was a significant shift in the credit composition. Between 1970 and 1979, credit to the sugar industry, the largest borrower within this sector, had fallen from almost 75.0 percent to just over 50.0 percent of agricultural loans. The shift occurred as the citrus, rice and banana industries increasingly sought accommodation from the banks.

Competing strongly for bank credit during the 1970's was the distributive sector. From less than \$5.0 million, this sector's borrowings rose to over \$23.0 million by the end of the decade. Likewise, its share of bank credit rose from 17.4 percent in 1970 to 27.2 percent in 1979. The

TABLE 17
COMMERCIAL BANK LOANS AND ADVANCES
SECTORAL DISTRIBUTION 1970 - 1979

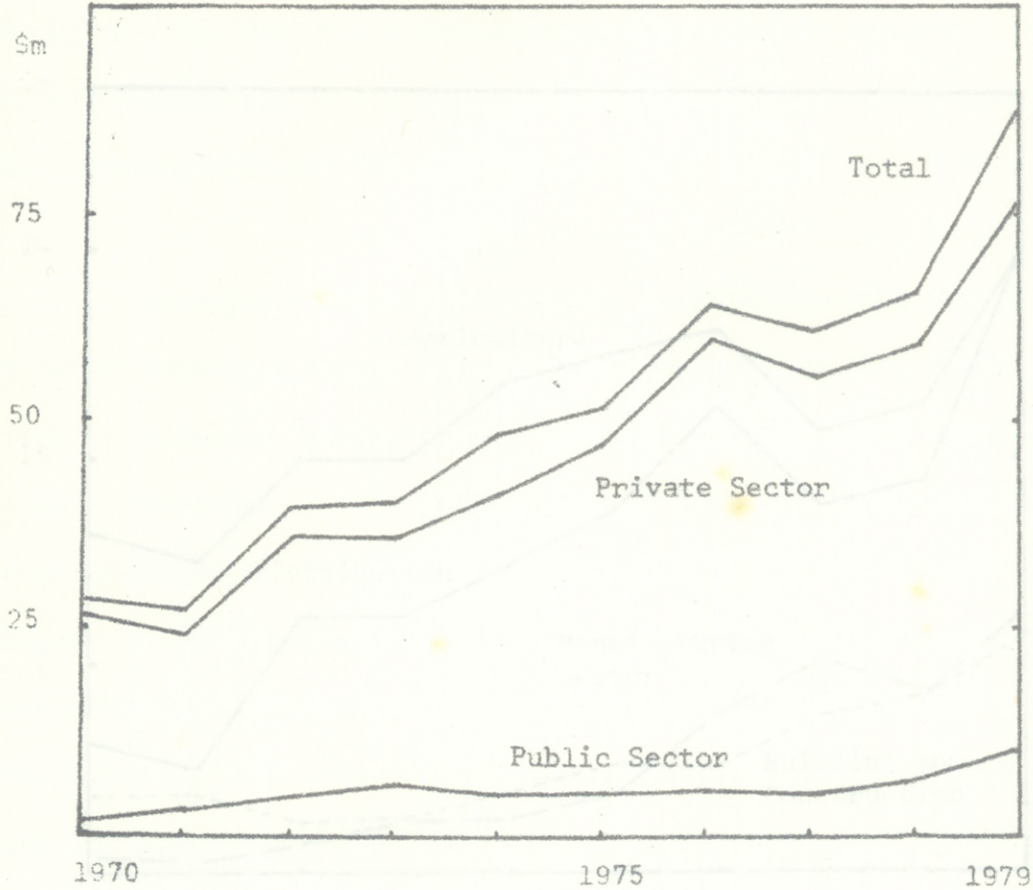
	BZE \$000									
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Government Services	835	1,988	2,908	2,887	2,127	1,633	3,259	332	5	1,955
Public Utilities	1,121	1,294	2,032	2,728	3,140	3,101	1,230	1,093	1,010	775
Agriculture	12,821	12,490	15,643	16,218	19,109	19,993	21,356	16,680	18,139	23,444
Commercial Fishing	190	117	161	168	318	127	95	303	312	328
Forestry	1,327	308	346	140	312	440	185	1,991	3,965	1,424
Manufacturing	696	430	1,308	1,727	1,727	2,893	5,542	8,032	7,191	10,272
Tourism	1,092	1,099	1,228	537	599	756	622	540	543	739
Building & Construction	2,824	2,594	2,118	2,332	3,302	3,769	4,357	5,969	7,228	9,379
Real Estate	-	-	-	-	-	-	601	1,022	1,046	1,222
Financial Institutions	-	-	-	-	-	-	724	644	850	650
Distribution	4,904	4,117	9,601	9,783	11,651	14,270	18,150	13,595	14,879	23,563
Professional Services	-	-	-	-	-	-	191	509	532	667
Transport	451	529	906	1,043	1,043	1,264	1,925	1,733	1,484	2,449
Entertainment	-	-	-	-	-	-	117	349	271	307
Mining & Exploration	-	-	-	-	-	-	-	-	-	15
Personal Loans	1,879	2,306	3,638	2,969	3,275	3,313	5,447	6,723	7,541	9,361
Other	-	-	-	295	-	-	127	-	-	-
Total	28,140	27,272	39,889	40,827	46,603	51,559	63,928	59,515	64,996	86,550

DIAGRAM 6

COMMERCIAL BANKS'

LOANS AND ADVANCES 1970 - 1979

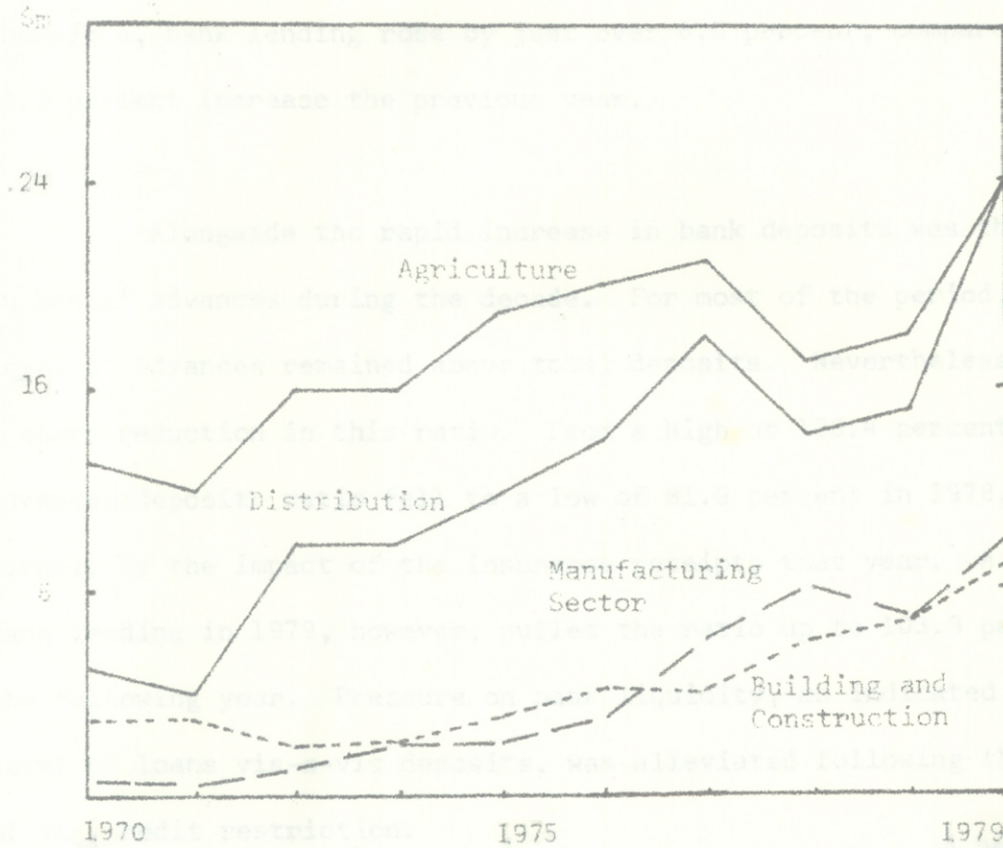
SECTORAL DISTRIBUTION



distributive sector had, therefore, become one of the banks' largest borrowers by the end of the decade.

Credit to the building and manufacturing industries and the personal sector also rose sharply in the 1970's. From \$2.8 million, bank credit to the building industry rose continuously to reach \$9.4 million by 1979. Initially one of the banks' least important borrowers, the manufacturing sector in-

DIAGRAM 7
COMMERCIAL BANKS'
LOANS AND ADVANCES
SECTORAL DISTRIBUTION



increased its loans from the banks from \$0.7 million to \$10.3 million to become the third largest borrower. Credit to the personal sector climbed from \$1.9 million to \$9.4 million whilst its share rose from 6.7 percent to 10.8 percent.

The upsurge in the credit demands of these various sectors precipitated in 1979 liquidity strains on the banking system and the subsequent

imposition of a five percent restriction on bank credit. At the end of 1979, foreign reserves stood at \$11.8 million, less than three weeks' worth of imports. Having linked the reserve loss to a rapid growth in credit, the Monetary Authority requested the banks to reduce by March 1980, the level of the credit outstanding. The reduction was successfully achieved and throughout the year the banks continued to remain cautious. In 1980, therefore, bank lending rose by just over 6.0 percent, compared with a 33.0 percent increase the previous year.

Alongside the rapid increase in bank deposits was the expansion in banks' advances during the decade. For most of the period, too, the level of advances remained above total deposits. Nevertheless, there was a sharp reduction in this ratio. From a high of 138.4 percent, the advances/deposits ratio fell to a low of 81.9 percent in 1978, influenced largely by the impact of the insurance receipts that year. A surge in bank lending in 1979, however, pulled the ratio up to 103.9 percent by the following year. Pressure on bank liquidity, as indicated by the high level of loans vis-a-vis deposits, was alleviated following the imposition of the credit restriction.

Prior to the imposition of the credit restriction, interest rates remained fairly stable. Since the Authority commenced its operations, for example, the prime lending rate was maintained at 9.5 percent. In response largely to liquidity strains in the domestic economy, the prime rate moved first to 11.5 percent in January 1980 and then to 15.0 percent in March. Deposit rates showed similar increases during that time, leaving the spread between deposit rates and lending rates virtually unchanged.

Conclusion:

The decade ending 1979 witnessed the laying-down of a strong base for the growth and development of banking in Belize. During this period the four commercial banks expanded their branch network into the hitherto unbanked centres in the districts. The marked rise in deposits indicates the efficiency of banks in attracting the savings in the country, the increase in the volume of cheque clearances points out the rising tempo of business and trade activities in the economy facilitated by the banking system, while the expansion in the volume and direction of flow of bank credit reveals how, over the years, the banking system could assist the growth and development of different sectors of the economy.

The period also witnessed the passage of three important laws aimed at controlling and regulating money and banking, including foreign exchange resources. Another significant development was the establishment of the Monetary Authority of Belize in 1976 to perform central banking functions. The efficacy of its monetary policy and the assertive role played by it are evidenced by the success it could achieve in reducing bank credit by 7.0 percent between 1979 and March 1980 (against the target of 5.0 percent), maintaining a steady interest rate structure and holding a stable exchange rate of the currency at BZE\$2.00 for US\$1.00.

The Authority was also successful in building-up sound central banking traditions through regular exchange of views with the financial institutions, discussions, persuasion and advice. With a view to collecting information on the economy which would help the Authority in the performance of its functions, a Research Section was set up in 1976. Over the years the

Research Department has collected, compiled and analysed economic data, all with a view to contributing to the formulation of economic policies.