OPERATIONS

Chart 9.1: Assets

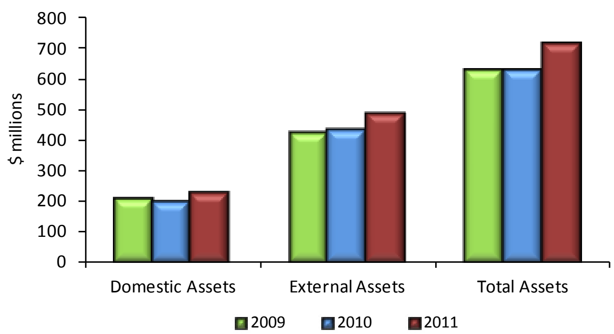
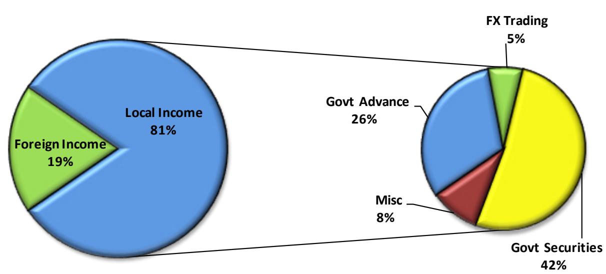


Chart 9.2: Foreign and Local Income



Financial Performance

Growth in the Central Bank's assets increased to 13.0% in 2011 with foreign and domestic assets up by $51.0mn and $29.0mn, respectively. Expenditures were held steady and the Central Bank's net operating surplus more than doubled to $3.3mn due to a $1.5mn increase in income from credit extended to Government. This occurred as receipts from increased holdings of Treasury notes more than offset a decline in interest income from financing extended through the Government's overdraft account. Commissions and other income also increased when compared to the previous year, albeit at a smaller pace.

Gross income totalled $18.7mn with $15.1mn coming from domestic sources and foreign investment earnings amounting to $3.6mn. Notwithstanding strong growth in the Central Bank's foreign assets, there was no commensurate increase in foreign income due to the continued fall in international interest rates. Consequently, domestic operations accounted for 81.0% of the Central Bank's income with 42.0% coming from investment in Government securities and 26.0% derived from direct lending to Central Government. Current expenditure amounted to $15.3mn with staff costs, interest payments and other operating costs representing 54.0%, 4.0% and 42.0%, respectively. As provided for under section 9(1) and section 50 of the Central Bank Act, $0.33mn (10.0% of the net operating surplus less any revaluation loss) will be paid into the Central Bank General Reserve Fund. The balance of $3.01mn will be transferred to the Accountant General for Government's consolidated revenue fund.

Foreign Exchange Operations

The Central Bank's foreign currency trade in dollars (US and Canadian) and Pound Sterling yielded net purchases of $52.1mn, which was nearly quadruple its net purchases in 2010. Among the largest receipts were US$44.0mn from Belize Natural Energy (BNE), US$23.4mn from Belize Sugar Industries and US$17.3mn from commercial banks. Other notable inflows included US$7.5mn, which was the second tranche of the Inter-American Development

Chart 9.3: Trade in Foreign Exchange

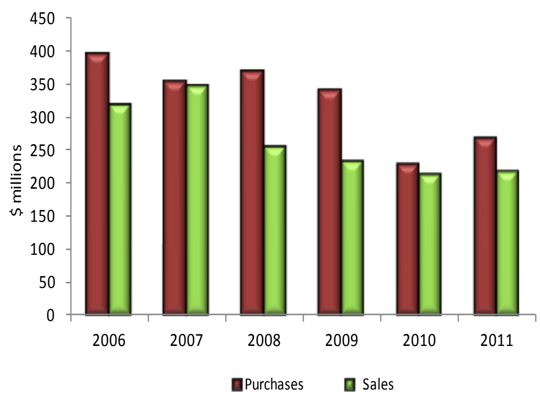


Chart 9.4: Monthly External Asset Ratio

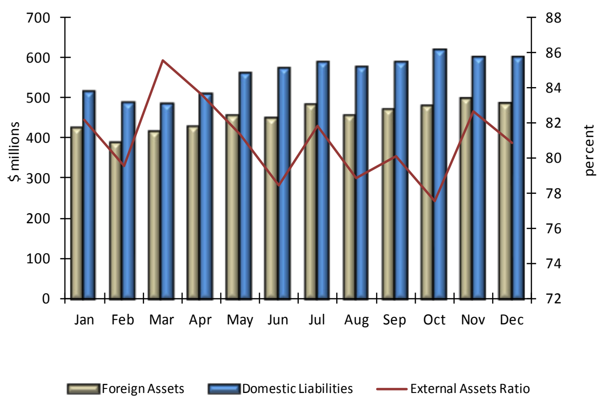


Chart 9.5: External Asset Ratio

Bank policy based loan and a US$10.0mn loan from the ROC/Taiwan. The largest external payments occurred in February and August to meet the semi-annual interest payments due to foreign holders of the super bond. As in previous years, trading in CARICOM currencies was mostly for settlement of official transactions and resulted in net sales of $2.5mn.

External Assets Ratio

The Central Bank was fully compliant with Section 25(2) of the Central Bank of Belize Act 1982, which stipulates that it should maintain external assets amounting to at least 40.0% of the currency notes and coins in circulation and its domestic deposit liabilities.

After surging above 90.0% in the first half of the previous year, its external asset ratio closely fluctuated around the 80.0% level. For two-thirds of the year, the ratio was more than twice the legal threshold with its movements being mainly influenced by changes in the level of the Central Bank's domestic liabilities, and to a lesser extent, by shifts in foreign assets. Downward movements were associated with interest payments on the super bond in February and August, the bumping up of government's escrow deposits with proceeds from the sale of BTL shares to the Central Bank in June, and the surge in October of commercial banks' excess cash reserves held at the Central Bank. It peaked at 85.5% in March due to the receipt from BNE of its taxes and the government's annual working interest, which are paid in foreign currency, and reached another high point in November when inflows from foreign loans and grants coincided with a decrease in commercial banks' deposits. While the

Chart 9.6: Required & Excess Cash Balances

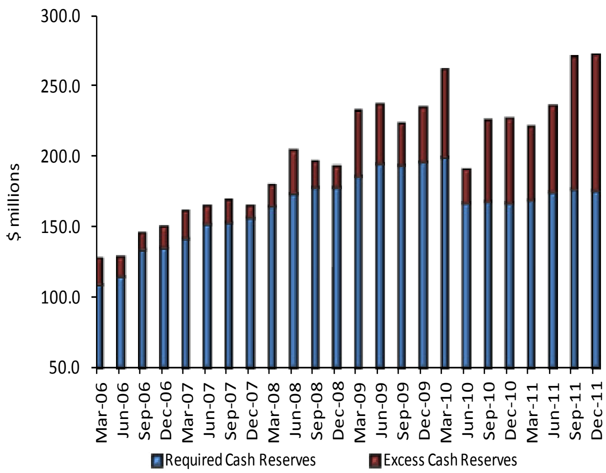
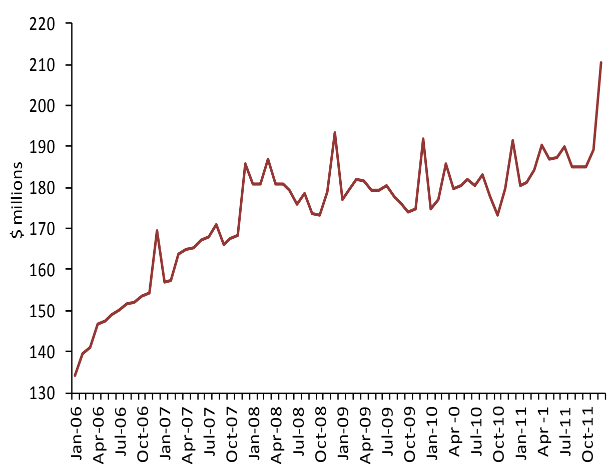


Chart 9.7: Currency in Circulation



unusually sharp increase of currency in circulation during the Christmas season and government's scheduled external debt payments exerted some downward pressure, the decline in the ratio was moderate as it closed the year at 80.9%. At year-end, the Central Bank's external assets amounted to $483.5mn that consisted of 72.1% in cash and fixed deposits, 12.5% in foreign securities and 15.4% in SDRs with the IMF.

Commercial Banks Cash Balances

The commercial banks' cash reserve requirement was unchanged at 8.5% of average deposit liabilities during the year. Given the continuing tepidity of loan demand, the banks' total holdings of cash reserves rose by $44.3mn (19.6%) with excess cash holdings increasing by $35.1mn (58.1%) over the year. The monthly excess averaged $72.2mn, which was $26.1mn above that of 2010. Somewhat atypically, the highest levels of excess liquidity were recorded in the second half of the year (a monthly average of $92.2mn) with October being the month in which the largest excess was posted.

Currency Operations

The Central Bank issued $105.8mn in new notes and removed $86.4mn in notes considered unfit for circulation. At year-end, the total value of banknotes was up by 10.5% to $190.2mn, while the value of coins in circulation increased by 6.0% to $20.9mn. The ratio of notes to coins remained relatively constant with notes accounting for 90.0% of the currency issued.

After minimal changes in 2009 and 2010, currency in circulation took an upward surge of 9.9% to end the year at $210.6mn. In line with the normal seasonal pattern, most of the expansion was in December, with the increase in that month being particularly noteworthy, $21.3mn as compared to $11.9mn in December 2010. The approximately $19.0mn rise in currency during 2011 included a $5.5mn (16.2%) rise in commercial banks' vault cash, as the banks built up balances to meet their customers' heightened demand for cash in contrast to the previous two years which were marked by consecutive declines.

Chart 9.8: Monthly Inter-bank Market Activity

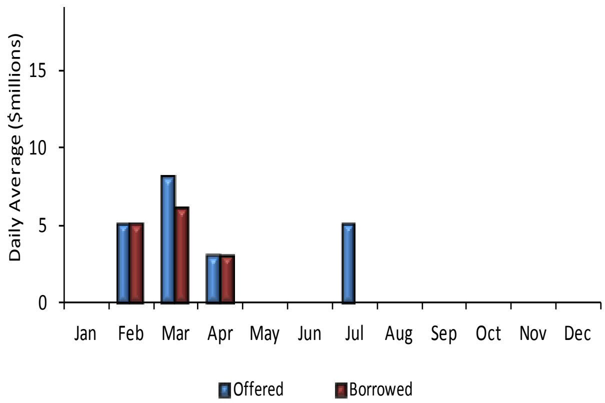


Chart 9.9: Inter-bank Market Activity

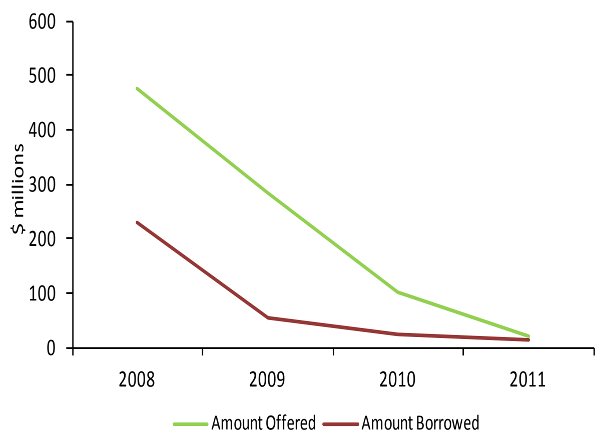
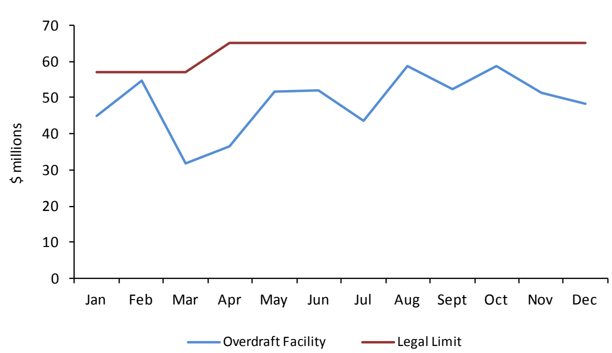


Chart 9.10: Overdraft Financing to Central Governemnt



Inter-Bank Market

Partly as a result of the continuing build up of liquidity in the banking system, inter-bank lending activity contracted for the third consecutive year with offered funds plummeting by 79.5% (from $102.5mn to $21.0mn) and amounts taken up shrinking by 44.0% (from $25.0mn to $14.0mn). Offers were made in four months (February, March, April and July) at interest rates that ranged from 6.0% to 7.0%, compared to a range of 6.5% to 9.0% in 2010. Loans were contracted in February, March and April and were for an average duration of twelve days at 6.0% interest.

Transactions with Central Government

At 8.5% of current revenue collected during the preceding fiscal year, the ceiling on advances which the Central Bank can legally extend to Central Government rose from $57.3mn to $65.1mn for the 2011/2012 fiscal year. The growth in revenues and relatively stable level of expenditure helped to keep the monthly overdraft facility comfortably below its legislated ceiling for much of the year. There were spikes in the overdraft in February and August when the interest on the super bond was paid. The facility reached its lowest point for the year ($31.8mn) in March due to the receipt of taxes and working interest from domestic oil production. The highest point ($58.7mn) was registered in October which was due to the coinciding of a fall in non-oil revenues with a modest increase in external debt payments. In the last two months of the year, the overdraft balance progressively declined to close the year at $48.1mn (6.3% of the current revenue of the previous fiscal year).

Chart 9.11: Treasury Bills Allocation

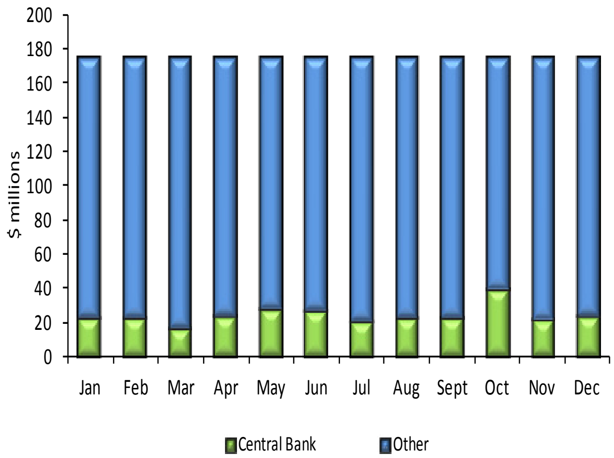


Chart 9.12: Treasury Bill Yield

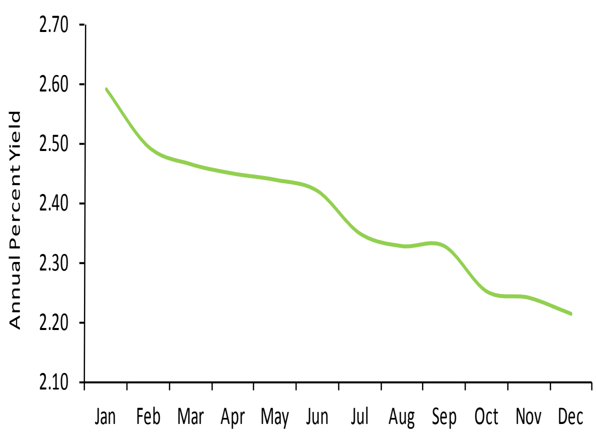
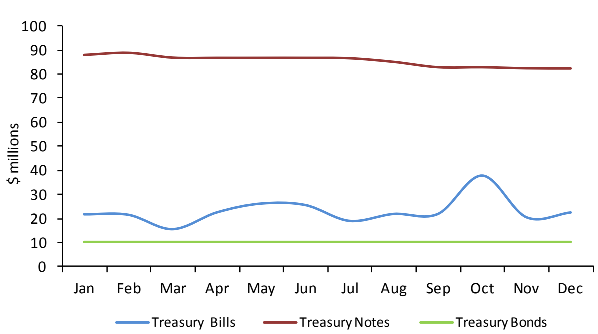


Chart 9.13: Central Bank's Holdings of Government Securities



Treasury Bills

The Central Bank continued to act on the Government's behalf in conducting Treasury bill operations. The amount outstanding remained at $175.0mn, the level to which it had been raised in the previous year. Having secured commercial banks' active participation in the securities market and with demand for government paper at elevated levels, the Central Bank progressively reduced the mandatory holdings of commercial banks to zero. In the context of a thin domestic financial market, continued sluggishness in private sector credit and low international interest rates, the commercial banks maintained their average holdings of Treasury bills at $153.0mn during the year. As the other key player, the Central Bank held the bulk of the remainder with its monthly holdings averaging $22.9mn. Mounting excess liquidity in the banking system stoked competition for the limited supply of Treasury bills, so the yield, which started the year at 2.67%, drifted gradually down to 2.21% by year-end.

Treasury Notes

The stock of Treasury notes stood at $136.5mn in 2011, as there were no new issuances during the year. Upon their maturation in July, $31.5mn worth of five-year notes were rolled over for the same maturity with the interest rate falling from 9.0% to 7.5%, in line with the yield on more recently issued notes of similar duration. The Central Bank ended the year with holdings valued at $82.2mn, having sold some $5.7mn worth to institutional investors and thus decreasing its share of the total from 64.0% to 60.0%. As a result of their purchases, the share of notes held by institutional investors increased from 26.0% to 31.0%.

Chart 9.14: Treasury Notes Distribution 2011

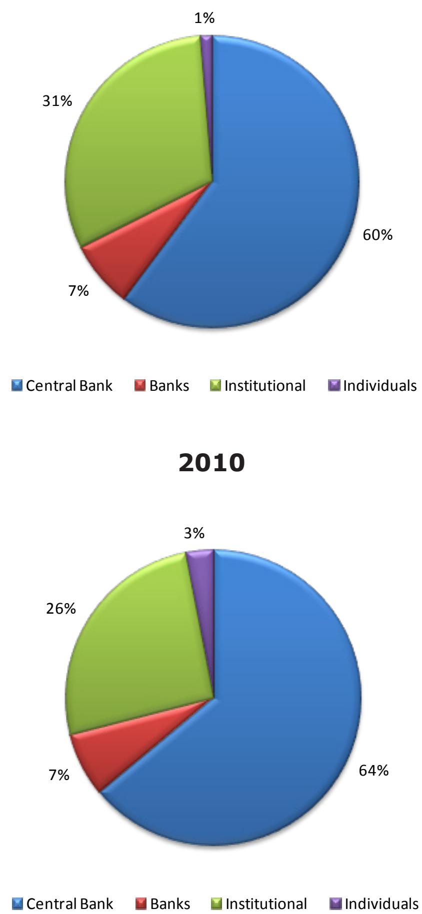
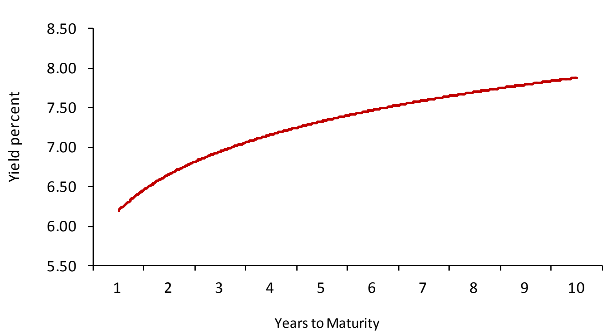


Chart 9.15: Treasury Notes Yield on Issues for 2011



At year-end, the outstanding Treasury notes consisted of $25.0mn in one-year notes at 6.0%, $15.0mn in two-year notes at 7.0%, $66.5mn in five-year notes at 7.5% and $30.0mn in ten-year notes at 8.25%.