

***AN OVERVIEW OF FINANCIAL INSTRUMENTS  
AND CAPITAL MARKET OPERATIONS IN BELIZE***  
(Working Paper)

By

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## 1. INTRODUCTION

The development of economies is intimately associated with the mobilization and investment of financial savings. The mechanism through which these funds are allocated from savers to deficit spenders is embodied in the financial system/capital market. When this market is operating efficiently, the movement of financial resources from one sector to the next is enhanced, contributing to higher productivity in the overall economy.

The Government of Belize has, from time to time, expressed its interest in fostering the development of a viable domestic capital market through which funds could be mobilized to finance the expansion of the productive sector. In recent years, a number of financial securities have been introduced to the market, laying the groundwork within which market development could be realized.

To determine the extent to which capital market operations have grown in Belize, this paper will present an overview of financial institutions and instruments which currently exist in the domestic market. In particular, it will examine commercial banks' deposits; Government securities; equity/debt instruments which evolved through Government's privatization activities of the 1980's and early 1990's; and private sector instruments placed on the market to finance specific endeavors. Ultimately, the paper will assess these financial assets to determine the extent to which these activities constitute the basis for market development.

## 2. THE FINANCIAL SYSTEM

Belize's economy is generally underdeveloped, driven by the production of agricultural commodities destined for international markets. As such, the rise (or decline) of this sector has traditionally determined the direction of economic growth. More recently, contributions to economic output from tourism has grown while the services of the financial sector play a more reactive, rather than leading, role in economic activity.

Belize's financial system can be characterized as "shallow" with a small number of financial institutions and a similarly narrow range of financial instruments. The system comprises the Central Bank, four commercial banks, the Government Savings Bank, credit unions, insurance companies, the Development Finance Corporation (DFC), the Social Security Board (SSB), the National Development Foundation of Belize (NDFB) and the Belize National Building Society (BNBS).

The Central Bank is the regulatory<sup>1</sup> and policy making organ of the financial system. The Bank's primary objectives are to foster monetary stability and to promote credit and exchange conditions conducive to economic growth (CBB Act, 1982). More recently, the Central Bank has also taken on the role of "intermediary" in the initial stages of the development of a domestic capital market. In 1992, to facilitate the sale of the Belize

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<sup>1</sup>At this point in time, the Central Bank only supervises the commercial banks.

Electricity Limited's (BEL) shares and debentures, a Securities Desk was established at the Bank.

Four commercial banks (two locally incorporated and two foreign owned) with branches countrywide currently operate in Belize. The banks dominate the financial system, in terms of physical numbers, the services which they provide and the value of their assets. The Government Savings Bank serves a relatively small segment of the local population and is essentially a savings institution which cannot extend loans to its members. Credit unions operate on a smaller scale than the commercial banks, accepting savings/share deposits and offering primarily short-term consumer loans to their members. Lately, a few have started to offer mortgage and other long-term loans to eligible members. Of the insurance companies currently operating in Belize, most offer a combination of life and non-life insurance coverage while only one offered life insurance coverage only. More recently, some of the companies which offer life insurance have also extended mortgage loans to their clients who then use their life insurance policies as collateral.

The Development Finance Corporation and the Social Security Board make up the financial public sector. The DFC's raison d'être is the financing of economically viable projects within those sectors which foster the achievement of Government's macro-economic objectives. The Corporation provides long term loans primarily for agricultural and manufacturing ventures as well as for home construction and tertiary education. The Social Security Board is the administrator of the country's national insurance scheme and is one

of the major players in Belize's financial system, particularly in the area of investment in both financial and real assets.

The National Development Foundation of Belize is a non-government organization which provides loans and technical guidance towards the development of micro-scale enterprises. NDFB procures funds through grants as well as loans from both local and international institutions which it then on-lends to very small entrepreneurs.

Currently absent from the financial system is a mortgage finance institution to provide resources to meet the high demand for housing construction <sup>2</sup>. Presently, mortgage financing is provided by the DFC and the commercial banks while the GOB's Ministry of Housing provides low income housing.

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<sup>2</sup>The Belize National Building Society was established with funds provided by the SSB to provide mortgage financing at relatively affordable interest rates. Of late, however, the relationship between these two institutions has soured and the SSB, through its subsidiary the Belize Investment Management Company (BIMCO) is pursuing legal authority to take over the operations of the BNBS.

### 3. COMMERCIAL BANKS' DEPOSITS

Commercial banks' deposits are the most commonly held savings instruments in Belize. Between 1980 and 1994, the nominal value of total commercial banks' local currency deposits grew more than five times from \$93.3 mn to \$466.8 mn, estimated at 49.4% of GDP in 1994<sup>3</sup>. With the introduction of the International Business Companies Act (IBC) in 1990<sup>4</sup>, commercial bank deposits held by non-residents have increased significantly. In 1991, deposits of non-residents more than doubled, rising from \$4.2 mn at the end of 1990 to \$10.5 mn one year later and reaching \$48.4 mn by the end of 1994. Most of the funds are held as time and demand deposits.

#### 3.1 Time Deposits

Time deposits have experienced dramatic growth over the last 15 years, rising (in real terms) from \$15.3 mn in 1980 to \$100.5 mn by the end of 1994. Individuals (a number of whom may also be sole proprietors) were holding 68.5% of the total time deposits while business enterprises, cooperatives and private financial institutions accounted for 26.3%. At the same time public sector time deposits, at \$42.8 mn, accounted for 16.0% of the total

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<sup>3</sup>While credit unions play an important role in the mobilization of deposits in the financial system, these funds ultimately end up in the commercial banks. In fact, when loans are extended by the credit unions, they are given in the form of checks drawn on commercial banks.

<sup>4</sup>The IBC Act exempts PIC companies from all forms of taxes and duties in Belize for 30 years (a time period which can be extended by the Government), as well as from exchange control regulations, among other incentives. Companies which are granted IBC status are classified as non-residents and are allowed to hold foreign currency deposits with local banks.

outstanding. Of this amount, Central Government held 47.4%<sup>5</sup> and the Social Security Board accounted for another 36.4%.

Time deposits have been the fastest growing component of local currency deposits in the domestic commercial banking system. This indicates a paucity of alternative investment opportunities as well as the relatively high rates of return on these instruments<sup>6</sup>. In 1980, time deposits accounted for 39.4% of total local currency deposits; but by the end of 1994, this proportion had jumped to 56.0%. Savings deposits accounted for 23.3% and demand deposits made up the remaining 20.7%.

### 3.2 Savings Deposits

Between 1980 and 1994, total savings deposits (real) in the commercial banking system more than tripled, rising from \$13.0 mn to \$41.8 mn. Private sector savings account for almost all of the total, 90.0% of which is held by individuals. The rate of growth of real private sector savings accelerated significantly in the first three years of the 1990's when real savings rose from \$25.4 mn at the end of 1990 to \$70.4 mn by the end of 1992. This rapid escalation in growth was largely facilitated by increased export receipts which, between 1990 and 1992, rose by 11.2 percent, and in 1992 alone rose by 22.0% over 1991's earnings.

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<sup>5</sup>At the start of 1995, Central Government's deposits with the commercial banks were transferred to the Central Bank. This move was aimed at reducing Government's cost of funds since the interest charged on the overdraft facility at the Central Bank exceeded the interest earned on deposits held with the commercial banks.

<sup>6</sup>Over the 15 year review period, weighted average interest rates (real) on time deposits averaged 7.8%, compared to the savings deposit rates which averaged 3.6% between 1980 and 1995, while Treasury Bills rates averaged 5.9%.



Furthermore, this was complemented by inflows from commercial banks' head offices abroad.

The last two years have seen somewhat of a slow down in the rate of growth of private sector loans extended by the banks as the Central Bank increased the cash and liquid assets requirements by one and two percentage points, respectively in October of 1992. These reductions were aimed at curbing the decline in the country's foreign assets position. Subsequently, there was a slow down in the rate of growth of private sector credit and a concomitant fall in private savings. Nevertheless, real private sector deposits in 1993 and 1994 stood above levels achieved in the earlier years.

The public sector's marginal share of savings deposits was dominated by holdings in favor of the Belize Telecommunications Limited, up to 1991<sup>7</sup>, the Social Security Board, and to a lesser extent, the DFC. In 1990, increased holdings by the SSB reflected the transfer of its deposits from the Central Bank to the commercial banks in an effort to ensure the availability of loanable funds to the private sector.

### **3.3 Demand Deposits**

Between 1980 and 1994, total real demand deposits rose from \$10.5 mn to \$37.3 mn, most of which was held by the private sector. At the end of 1994, real private sector demand deposits accounted for 93.3% of the total.

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<sup>7</sup>In 1992, BTL was reclassified as a private sector entity following Government's sale of its remaining share-holdings in that company.

In real terms, private sector demand deposits expanded at an annual average rate of 15.1% between 1986 and 1994. During the "boom" years of 1986 through 1990, when real GDP rose at an annual average rate of 8.9% per year, private sector demand deposits experienced an average rate of growth of 3.6% per year rising from \$14.6 mn at the end of 1986 to \$17.8 mn by December 1990. On the other hand, the public sector's share of total demand deposits actually declined, falling by 3.9% over the 15 year period. This decline was mainly attributed to the reclassification of the telephone company's deposits to private sector deposits following the complete privatization of that enterprise in 1992.

## 4. GOVERNMENT SECURITIES

### 4.1 Treasury Bills

Treasury Bills were first issued by the Government of Belize in 1972 following the passage of the "Treasury Bills Ordinance". This authorized the Minister of Finance, on behalf of the Government, to issue Treasury Bills up to a maximum not to exceed 15% of the projected revenues for the current fiscal year (Treasury Bill Act, 1972). In 1986, the Treasury Bills Act was amended and a \$65.0 mn limit was put on the amount of outstanding Treasury Bills. The Act was again modified in November 1993, when outstanding Treasury Bills had climbed to \$64.2 mn, less than \$1.0 mn short of its statutory ceiling. This time, the maximum limit on outstanding Treasury Bills was raised, from \$65.0 mn to \$70.0 mn, an amount which was attained by the end of 1994.

Treasury Bill operations are managed by the Central Bank which acts as an agent on behalf of the Government, at both the primary and secondary market levels. Under the provisions of the Central Bank Act of 1982, the Bank is allowed to hold a maximum amount of Government securities equivalent to five times the value of the Bank's paid up capital and reserves<sup>8</sup>.

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<sup>8</sup>In 1994, the Central Bank's holdings of Government of Belize securities averaged \$18.0 mn per month. This was equivalent to an average of 1.1 times the Bank's paid up capital and reserves.

Over the 15 year review period, the amount of outstanding Treasury Bills rose from \$15.0 mn in 1980 to \$70.0 mn at the end of 1994. Up to the end of 1991, the Central Bank, the commercial banks and the Social Security Board were the major holders of Treasury Bills. However, in 1991, the SSB relinquished most of its Treasury Bills holdings to the Central Bank as the Board embraced alternative investment opportunities.

#### 4.2 Treasury Notes

In November 1993, at the same time that the maximum of outstanding Treasury Bills was raised to \$70.0 mn, an additional amendment was made to the Treasury Bills Act. This Amendment provided for the issue of Treasury Notes, up to a maximum of \$25.0 mn, to finance capital projects. The first issue of Treasury Notes was made in January 1994 for \$5.0 mn at 8.0% per annum and was almost entirely taken up by the commercial banks who were offered the option to purchase the Notes with foreign currency which would make them eligible for inclusion in their approved liquid assets holdings.

In December 1994, an additional \$10.0 mn in Treasury Notes was issued by the Government. This second issue carries a 9.0% interest rate. The commercial banks continue to be the major holders of GOB Treasury Notes with the Central Bank, the buyer of last resort, and private individuals accounting for less than one percent of the total outstanding.

### **4.3 Debentures**

Outstanding GOB debentures total \$11.8 mn with maturity periods ranging from five to 20 years and interest rates between 8.0% and 10.0%. A major portion of these debentures are held by the Central Bank and the Social Security Board which together account for almost 75.0% of the outstanding debentures. Other debenture holders include private sector enterprises, primarily insurance companies, which hold 3.7% of the outstanding, while other public and private sector organizations account for 22.6%.

### **4.4 Belize Defense Bonds**

With the departure of the British Garrison starting in January 1994, the Government was faced with the task of financing the country's defense operations. To confront this problem, \$5.0 mn in Belize Defense Bonds were floated by the Government in July 1994. The 9.0%, tax free Defense Bonds have a maturity period of 15 years. Almost 70.0% of the bonds' first issue was purchased by the Social Security Board, the buyer of last resort, while the remaining 30.0% was taken up by the public which included one commercial bank (2.0%), a foreign insurance company (3.8%), and individuals (10.0%) (Mendoza, 1994). In September 1995, a \$10.0 mn Defense Bond was sold to the Central Bank of Belize as a deficit financing measure. This Bond has a 10 year maturity period, with an interest rate of 8.5%.

## **5. OTHER INSTRUMENTS**

Beginning in 1988 with the public offering of the Belize Telecommunications Limited shares, a number of debt and equity instruments have been issued by both public and private sector institutions. This section takes a look at these instruments.

### **5.1 Belize Telecommunications Limited Shares**

In 1987, the Government decided to divest some of its assets in order to alleviate its tight fiscal position. It took the opportunity to use this as the start of a privatization process aimed at earning badly needed revenues for fiscal projects while leaving the operations of these entities in the supposedly more able hands of the private sector. The result was the merger of the local and newly acquired international divisions of telephone services in Belize to form the BTL.

In January 1988, BTL was incorporated as a public limited liability company, with Government maintaining 51.0% of the company's equity. The new company initially offered 8.0 million "B" Ordinary shares; 24.0 million "C" Ordinary shares; 3.0 million, 11.0% Redeemable Preference Shares and, a Special Rights Redeemable Preference share. In March 1988, the first public offering of shares comprising the 8.0 mn "B" Ordinary shares and 7.68 mn "C" Ordinary shares were issued. As this was the first time in Belizean history that shares in a company were offered for public subscription, the shares guaranteed, initially, a 15.0% (tax-free) rate of return. This incentive was attached to the sale of the

shares primarily to garner public support so that the venture could be successful. At the closure of the first offer, revenues amounting to \$14.4 mn<sup>9</sup> were generated.

The 8.0 million "B" shares were earmarked for sale to British Telecom in an effort to maintain a high level of technical expertise within the company, particularly in the areas of marketing and technological development. In February 1995, British Telecom sold 94.0% of its share holdings to MCI Telecommunications Corporation of the United States. The remainder was passed on to the Government of Belize in lieu of outstanding taxes. The \$1.00 Special Rights Redeemable Preference share is held by the Minister of Finance on behalf of the Government.

A second public offering of BTL shares was made in December 1991 at which time the Government almost completely divested itself of its holdings in the company. The shares were offered for sale, by tender, and an additional 12,632,377 shares were sold at \$2.31 each. Government currently retains only 2.5% of the company's "C" ordinary shares and 1.5% of the "B" ordinary shares, thus making BTL a fully private institution. Most of the remaining "C" shares were sold to Belize Holdings Inc. which now controls almost 25.0% of the Company's share capital. The other major shareholders are the Social Security Board which owns 27.4% of the company and MCI which accounts for 23.5%. The remainder is held by employees of BTL and the general public.

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<sup>9</sup>The Ordinary "B" and "C" shares were sold at \$2.00 each while the 6,250 shares purchased by BTL shares were sold at a discount price of \$1.80.

### BREAKDOWN OF BTL SHAREHOLDINGS

Shareholder	Share Type	No. of Shares	Percentage
Gov't of Belize	B	480,000	1.5
MCI	B	7,520,000	23.5
Gov't of Belize	C	807,345	2.5
Private Investment Ltd	C	7,848,794	24.5
Social Security Board	C	8,752,900	27.4
Commercial Banks	C	1,216,861	3.8
DFC	C	354,329	1.1
Others	C	5,019,771	15.7
<b>Total</b>		<b>32,000,000</b>	<b>100.0</b>

Source: Belize Telecommunications Limited

### 5.2 Belize Electricity Limited Shares and Debentures

The process of privatization of the Belize Electricity Board started with the establishment of the Belize Electricity Limited toward the end of 1992 (retroactive to April), along with the offer for sale of 49.0% of Government's ownership of the new company. BEL securities were sold in \$100.00 "packages" containing one \$76.00 debenture along with 12 ordinary shares, each valuing \$2.00. At the end of the first issue, 3.4 mn shares and 0.3 mn debentures had been sold. One commercial bank took up 20.0% of the issue while the Social Security Board bought 11.5%. The public (which includes four non-resident companies) took up almost 17.0% of the issued shares and debentures while the remainder (0.8%) were purchased by employees of the company. The 20 year debentures carry an interest rate of 12.0% per annum and are convertible into ordinary shares at the holders' option at the rate of 38 ordinary shares for each debenture. Government holds the Golden Share which authorizes the Minister of Finance, on behalf of the GOB, to appoint two directors to BEL's Board, one of which may be the Chairman of the Board so long as Government holds at least 25.0% of the company's issued capital.



## ALLOCATION OF BEL SHARES AND DEBENTURES

Shareholder	No. of Shares	% of Ordinary Shares	No. of Debentures
Initial Subscribers	7	0.00	
BEL Employees	52,824	0.76	4,402
General Public	1,156,620	16.69	96,385
Social Security Board	800,256	11.55	66,688
Belize Bank	1,386,000	20.00	115,500
Government of Belize	3,534,293	51.00	
<b>Total</b>	<b>6,930,000</b>	<b>100.00</b>	<b>282,975</b>

Source: Central Bank of Belize Securities Desk.

The dividends received from BEL's ordinary shares carry a tax credit of 10.0% as of 1994. This rate increases gradually and could reach a maximum of 35.0% by the start of the fiscal year, 2000. Over the first two fiscal years of its operations, BEL share earnings averaged \$0.26 per share. So far however, while dividends have been declared by the company, none have actually been paid out to shareholders since BEL has chosen to retain its earnings for reinvestment into infrastructure development.

### **5.3 Central Bank of Belize Building Bonds**

In its efforts to promote the development of a capital market, the Central Bank, given its need to finance the construction of its proposed new headquarters, issued \$5.0 mn in Building Construction Bonds in September, 1992. The bonds have a maturity of five years and an annual interest rate of 9.0%. The Bond issue was totally subscribed to by a large cross section of the public which included private and public sector enterprises as well as a number of individuals.

#### **5.4 Belize Holdings Incorporated (BHI) Shares and Commercial Paper Program**

In 1990, the Belize Holdings Inc. was established, having been conferred with the status of International Business Company (IBC) and Public Investment Company (PIC). BHI is the holding company of a number of subsidiaries primarily engaged in banking and financial services<sup>10</sup> and maintains significant interests in telecommunications and electricity services, as well as company and ship registration in Belize. BHI has also invested in the domestic broadcasting, agriculture and tourist industries, as well as regional companies. In 1992, to satisfy the requirements which accompany the attainment of IBC/PIC status, BHI made a public offering for sale of the company's shares through its registration on the NASDAQ capital market in the United States.

While only a few Belizeans have invested in BHI shares, a number of American companies and individuals have purchased shares on the NASDAQ stock exchange. Nevertheless, ownership of the company remains concentrated in the hands of a few Belizeans.

In early 1995, the Belize Holdings Inc., with the Belize Bank as its agent, embarked on a Commercial Paper Program, aimed at mobilizing funds from the general public to expand its operations. The Program operates through the sale of preference shares of \$100 each. Dividends will be paid quarterly at a rate equal to the Belize Bank's prime rate, less 2.5%, per annum.

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<sup>10</sup>The companies within the BHI Group include the Belize Bank Ltd., the Belize Corporate Advisory Services Ltd., and Bearwood Corporate Services Ltd.

## **6. CAPITAL MARKET OPERATIONS IN BELIZE**

The initial thrust towards capital market development in Belize came in 1988 when the Government, because of its tight fiscal position, decided to divest some of its public assets, starting with the public offering of equity in the telephone company. Since that time, the Government has publicly stated its interest to foster the development of a domestic capital market and has followed through with the complete privatization of the telephone company, the sale of 49.0% of the equity in the electricity company, and the introduction to the financial system of various other Government securities. As a supporting partner in this endeavor, the Central Bank's role was broadened to encourage market development with the establishment of a Securities Desk to facilitate the floating of public sector securities.

Even though the number of additional securities on the market has grown, this in itself is only one indication of capital market expansion. Other elements such as the level of public participation in market activities, (as both purchasers and suppliers of securities), ownership concentration, and the existence of secondary trading facilities are also important. This section uses these factors as measures through which the present operations of the domestic capital market can be analyzed, with a view towards determining the extent to which the market has developed.

The issue of BTL's shares was well accepted by the general public. Even if there was limited understanding of capital market operations on the part of the public, the knowledge of the company's profitable history, along with the incentives offered by the Government were sufficient to attract public participation in this program. The result was that the proportion of the company's equity offered to the public was fully subscribed to, representing holdings by a number of public and private sector institutions, and individuals.

The situation with BEL was somewhat different in the sense that the public was aware that the company had experienced financial difficulties in previous years and had relied heavily on subsidies from the Central Government to maintain its operations. Nevertheless, the 20 years, 12.0% debentures which constituted the major portion of the package was able to attract sufficient attention to render the offer a success. The general public's participation in this privatization scheme was not as impressive as in the case of BTL as its share, along with the share of BEL employees accounted for less than 8.0% of the securities offered. The remainder of the issue was taken up by the Social Security Board and a number of non-resident companies. It is quite possible that without the participation of the latter, the issue might not have been as successful.

Since their introduction, secondary trading of the securities issued by the two utility companies has been limited. In 1992, the Government completely divested its share of the telephone company by selling almost all of its remaining Ordinary "C" shares to the Belize Holdings Inc. which now owns almost 25.0% of the company's equity. And, in 1995, British

Telecom sold most of its Ordinary "B" shares to MCI. Prior to these, limited secondary trading occurred whereby relatively large blocs of shares were transferred between major companies. Nevertheless, despite BTL's willingness to find buyers for parties who wish to sell, and vice versa, the nature of the telephone company, which is a local monopoly, along with the guarantee on dividends, may be one reason why shareowners generally feel no urgency to part with their holdings. Furthermore, the concentration of share ownership may also explain the low level of secondary trading of BTL shares (Mendoza, 1994). This may also be true in the case of the electricity company where almost 65.0% of the shares and debentures sold by the Government is shared between the Social Security Board and one private entity. The only secondary trading of BEL securities occurred earlier in 1995 when \$44.8 mn worth of shares and debentures were transferred from one subsidiary to its parent company (CBB Securities Desk).

The public issue of Central Bank Building Bonds constituted the only concrete effort to promote capital market development in Belize. The Bonds were subscribed to by a large cross section of the public with the highest bid being \$450,000. Besides the relatively attractive rate of return on these Bonds (9.0%), this served to indicate that the public's interest in securities seems to be influenced by its perception of the issuing entity. As in the case of BTL shares, public interest in the Central Bank's Building Bonds may have come from a sense of financial security on the part of both of these institutions while the opposite may have been true in the case of entities such as the BEL where public participation was

less significant. The first issue of Belize Defense Bonds experienced a similar fate whereby the buyer of last resort purchased 70.0% of the issue.

The issue of shares in the Belize Holdings Inc. has garnered participation from a cross section of companies and individuals, primarily because of its listing on an international stock market. While a number of residents (individuals and companies) in the United States have invested in these shares, the participation of Belizean residents has been limited to Company employees and/or Board members. Information on the success of the BHI's Commercial Paper Program is not yet available. However, it is known that preference shares are still available for interested investors.

Widespread public participation in the market for GOB securities has been even less than in the market for instruments issued by quasi-government and private sector entities. Despite the fact that there are no restrictions regarding the purchase and sale of Treasury Bills, the commercial banks, the Central Bank and, to a lesser extent, the Social Security Board have traditionally dominated the market while purchases by other establishments and individuals have been insignificant. Small amounts are held by insurance companies and the Government Savings Bank to satisfy legal requirements.

The banks constitute a "captured market" for Treasury Bills since this is one of only

three interest bearing securities <sup>11</sup> that they are allowed to hold as approved liquid assets. Because of this, there exists no incentive for the Government to offer higher rates on these securities. The banks are willing to receive interest income from their liquid assets holdings while the Government is satisfied that it has a sure market for its securities. So, even though a bidding mechanism is in place, the Government chooses the tendered price which minimizes its debt servicing requirements - a rate which has consistently fallen below the commercial banks' weighted average time deposit rates. The relatively low returns on Treasury Bills has been the primary factor behind marginal public participation in this market. In addition, the perceived complexity of the bidding process may have deterred potential investors as well.

Realizing this situation, in the early 1990's the Central Bank attempted to broaden the tender system by reserving \$1.5 mn in Bills for sale to the public, and by opening a window each Tuesday to facilitate trading. However, this endeavor was largely unsuccessful in its efforts to attract public participation especially since the yield on the Bills actually declined shortly after this scheme was implemented.

The market for Treasury Notes is a similarly captive one whereby, for the most part, the commercial banks are the primary holders of these instruments. The only other party which holds Treasury Notes is the Central Bank, also the buyer of last resort, and this is

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<sup>11</sup>The other two interest bearing assets that can be held by the banks as a part of their liquid assets are the GOB's Treasury Notes and short term foreign balances.

only a very small amount. As in the case of Treasury Bills, secondary trading is restricted to the commercial banks and the Central Bank.

GOB debentures are held mainly by insurance companies, the Central Bank and the Social Security Board. Again these entities form a captive market in which the insurance companies hold debentures to fulfill legal obligations while the Central Bank and the Social Security Board often play the role of lenders of last resort to the Government. Consequently, secondary trading of GOB debentures is non-existent and indeed, practically irrelevant under these conditions.

All this indicates that the process through which the market has developed has been largely dependent on the financing needs of the Government while private sector involvement, both as suppliers and buyers of securities, has been limited. The result is that the majority of existing instruments were issued by the Government or quasi-government enterprises and are shared among a few entities, namely the commercial banks, the Social Security Board, the Central Bank and one private sector institution.



MONEY MARKET			
Instruments	Typical Maturities	Principal Borrowers	Secondary Market
T. Bills	3 Months	Government	Active (between banks and CBB)
T. Notes	12 Months	Government	Limited
CAPITAL MARKET			
Instruments	Typical Maturities	Principal Borrowers	Secondary Market
BTL Shares		Government/BTL	Limited
BEL Shares		Government/BEL	Limited
BHI Shares		BHI	Active
BHI Commercial Paper		BHI	-
CBB Building Bonds	5 Years	Central Bank	Inactive
BDF Bonds	5 Years	Government	Inactive
GOB Debentures	5 - 20 Years	Government	Inactive
BEL Debentures	20 Years	Government/BEL	Inactive

The limited involvement of the private sector as suppliers of securities may also be linked to the predominance of family owned businesses in Belize where the owners are reluctant to dilute control of their enterprises. Furthermore, the public's knowledge, at the household and business levels, of capital market operations is still under-developed so that the drive toward financial risk taking is restricted. It is difficult to say at this point if the level of domestic savings is a constraining factor in the public's participation in the market. The extent to which the level of domestic savings can support further capital market development warrants further investigation since that will determine the future path for market growth in terms of the kinds of securities offered, the timing of these issues and the target market to absorb them.

To promote further development of the market, particularly the equities segment, some of the larger companies in Belize could expand their operations by raising funds through the public offering of debt instruments in the local market. In addition, other public sector enterprises such as the Development Finance Corporation and the Water and

Sewerage Authority could consider this option as an alternative to sourcing funds from the commercial banking system and the Government.

However, for other enterprises to become key players in capital market activities, facilities to accommodate their participation will have to be implemented. As a start, the role of the Securities Desk currently administered by the Central Bank could be expanded to serve public sector as well as private sector entities which may wish to enter the market to float their debt/equity securities. The Desk may also need to provide trading facilities so that those who may wish to liquidate their securities may do so with a minimum of inconvenience. In the future, these services could be taken over by a private entity.

Finally, the success of market development hinges on the enactment of a range of legislation to guide market activities as well as to protect participants. This would include companies' disclosure requirements so that potential investors may be adequately informed prior to making any financial commitments, while bankruptcy laws will be needed to protect investors from possible losses in the event that companies should have to liquidate. Furthermore, as the market develops, legislation to direct the trading of securities will become more important in order to avoid unfair manipulation of shares and share prices. Concomitantly, services provided by the accounting and legal professions will have to be expanded to make sure that enacted regulations are adhered to by their clients.

## 7. CONCLUSIONS

From the preceding discussion, it is clear that efforts aimed at market development have made limited progress and capital market activities in Belize can best be described as rudimentary. So far, only a few players (mainly the commercial banks, the Central Bank, the Social Security Board and to a lesser extent insurance companies) have voluntarily, and at times even involuntarily, participated in the buying and selling of public as well as private securities in Belize. Those establishments which have gone public have done so at the behest of the Government's attempt to fulfill its financing requirements, or in an effort to fulfill some legal obligation. In effect, elements of market development have occurred sporadically, not necessarily in accordance with any prevailing policy framework. So, despite the current existence of a relatively larger number of financial instruments in the market, commercial banks' deposits are still the most dominant savings instruments available in Belize, attracting funds from a wide cross section of the public.

Capital market development is a long run process which necessitates public education and widespread participation, secondary trading facilities and an appropriate regulatory framework which protects investors, but at the same time encourages productive enterprises to expand their operations through the offer of public securities. At present, these elements are largely absent from capital market activities in Belize.

The future of capital market growth in Belize therefore, hinges on public support for new instruments while encouraging productive enterprises to enter the market. This will entail the education of the public on market operations, from the standpoint of buyers as well as sellers of securities. Where market participation grows to the extent that secondary

trading becomes important, the need for relevant legislation to safeguard against market inefficiencies will become necessary.

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## Appendix I

### DEMAND DEPOSITS (BY DEPOSITORS) 1980 - 1994

Dec.	CPI	Public Sector (Nominal)	Public Sector (Real)	Private Sector (Nominal)	Private Sector (Real)	Total Demand (Nominal)	Total Demand (Real)
1980	2.4	2.4	1.0	22.9	9.5	25.3	10.5
1981	2.4	1.6	0.7	21.3	8.9	22.9	9.5
1982	2.4	2.1	0.9	18.5	7.7	20.6	8.6
1983	2.4	1.9	0.8	20.5	8.5	22.4	9.3
1984	3.6	1.3	0.4	27.3	7.6	28.6	7.9
1985	1.4	2.3	1.6	25.0	17.9	27.3	19.5
1986	1.9	3.1	1.6	27.8	14.6	30.9	16.3
1987	3.1	3.7	1.2	35.9	11.6	39.6	12.8
1988	2.3	4.9	2.1	41.9	18.2	46.8	20.3
1989	3.5	4.1	1.2	54.3	15.5	58.4	16.7
1990	3.1	8.4	2.7	55.2	17.8	63.6	20.5
1991	2.4	10.6	4.4	64.8	27.0	75.4	31.4
1992	1.4	10.4	7.4	77.7	55.5	88.1	62.9
1993	2.3	7.5	3.3	85.5	37.2	93.0	40.4
1994	2.6	6.4	2.5	90.5	34.8	96.9	37.3

Sources: Central Bank of Belize  
Central Statistical Office

### SAVINGS DEPOSITS (BY DEPOSITORS) 1980 - 1994

Dec.	CPI	Public Sector (Nominal)	Public Sector (Real)	Private Sector (Nominal)	Private Sector (Real)	Total Savings (Nominal)	Total Savings (Real)
1980	2.4	0.1	0.0	31.1	13.0	31.2	13.0
1981	2.4	0.2	0.1	27.6	11.5	27.8	11.6
1982	2.4	0.1	0.1	26.4	11.0	26.5	11.1
1983	2.4	0.5	0.2	30.4	12.7	30.9	12.9
1984	3.6	0.8	0.2	31.4	8.7	32.2	9.0
1985	1.4	0.4	0.3	31.3	22.4	31.7	22.7
1986	1.9	1.7	0.9	36.1	19.0	37.8	19.9
1987	3.1	2.6	0.8	43.4	14.0	46.0	14.8
1988	2.3	3.0	1.3	59.6	25.9	62.6	27.2
1989	3.5	0.9	0.3	68.4	19.5	69.3	19.8
1990	3.1	4.7	1.5	78.6	25.4	83.3	26.9
1991	2.4	5.3	2.2	84.8	35.3	90.1	37.5
1992	1.4	3.4	2.4	98.6	70.4	102.0	72.9
1993	2.3	5.0	2.2	96.9	42.1	101.9	44.3
1994	2.6	2.6	1.0	106.0	40.8	108.6	41.8

Sources: Central Bank of Belize  
Central Statistical Office

## Appendix 2

### TIME DEPOSITS (BY DEPOSITORS) 1980 - 1994

Dec.	CPI	Public Sector (Nominal)	Public Sector (Real)	Private Sector (Nominal)	Private Sector (Real)	Total Time Deps. (Nominal)	Total Time Deps. (Real)
1980	2.4	1.1	0.5	35.7	14.9	36.8	15.3
1981	2.4	4.2	1.8	51.1	21.3	55.3	23.0
1982	2.4	8.1	3.4	58.7	24.5	66.8	27.8
1983	2.4	13.0	5.4	72.1	30.0	85.1	35.5
1984	3.6	17.5	4.9	63.6	17.7	81.1	22.5
1985	1.4	15.5	11.1	75.4	53.9	90.9	64.9
1986	1.9	19.9	10.5	85.2	44.8	105.1	55.3
1987	3.1	24.4	7.9	101.9	32.9	126.3	40.8
1988	2.3	39.1	17.0	97.9	42.6	137.0	59.6
1989	3.5	68.6	19.6	106.4	30.4	175.0	50.0
1990	3.1	85.5	27.6	128.7	41.5	214.2	69.1
1991	2.4	98.5	41.0	146.9	61.2	245.4	102.3
1992	1.4	75.5	53.9	176.8	126.3	252.3	180.2
1993	2.3	48.8	21.2	201.6	87.7	250.4	108.9
1994	2.6	42.7	16.4	218.5	84.0	261.2	100.5

Sources: Central Bank of Belize  
Central Statistical Office

		WEIGHTED AVERAGE DEPOSIT RATES					
		SAVINGS		TIME		TREASURY BILLS	
Dec.	CPI	Nominal	Real	Nominal	Real	Nominal	Real
1980	2.4	7.3	4.9	12.4	10.0	11.5	9.1
1981	2.4	7.4	5.0	14.9	12.5	12.1	9.7
1982	2.4	7.4	5.0	14.9	12.5	11.2	8.8
1983	2.4	5.0	2.6	10.0	7.6	9.3	6.9
1984	3.6	5.0	1.4	9.0	5.4	9.5	5.9
1985	1.4	7.8	6.4	12.0	10.6	12.8	11.4
1986	1.9	6.6	4.7	11.0	9.1	9.2	7.3
1987	3.1	7.8	4.7	9.4	6.3	8.8	5.7
1988	2.3	4.9	2.6	7.6	5.3	7.4	5.1
1989	3.5	5.3	1.8	8.0	4.5	7.4	3.9
1990	3.1	5.4	2.3	8.3	5.2	7.4	4.3
1991	2.4	5.4	3.0	8.3	5.9	5.9	3.5
1992	1.4	5.4	4.0	8.1	6.7	4.9	3.5
1993	2.3	5.4	3.1	8.3	6.0	4.4	2.1
1994	2.6	5.3	2.7	8.7	6.1	4.2	1.6

Source: Central Bank of Belize  
Central Statistical Office