The Development of the Financial System in Belize (1970 - 1995)

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INTRODUCTION

In this paper an attempt is made to chart the development of Belize's financial system as well as to take account of other domestic and international changes that have been influential in determining the path of its development. A brief historical background is presented in Chapter I highlighting key economic developments. Chapter II charts the developments of the various financial institutions from 1970 to 1995. The paper concludes that there has been both a widening and deepening of the financial system during the period under review and that while commercial banks still remain the dominant institutions in the system, new emerging institutions are playing a bigger and more important role in the system. Finally a financial diary is included in which important events relating to the financial system are documented.

The description of the financial system continues to be incomplete because of lack of basic early information related to the insurance industry, the informal sector, and the discontinuous nature of commercial bank, credit unions, balance of payments, and GDP data. There are particularly serious inadequacies in the financial and economic data prior to 1980.

CHAPTER I

Belize's Economic Setting and Developments

After 95 years of Crown Colony rule, Belize achieved full internal self-government status in 1964 with the establishment of a new constitution that substantially reduced the wide executive and legislative powers previously held by the colonial Governor. Thereafter, the Governor retained special powers only in matters of defence, external affairs, internal security and the terms and conditions of service of public officers. The new constitution provided for a bicameral legislature known as the National Assembly, comprised of an elected House of Representatives and an appointed Senate. The first general election under this Constitution was held on the 1st. March 1965 and the governing party, the People's United Party, emerged victorious over the National Independence Party.

In 1964, the Government embarked upon a seven-year Development Plan designed to lay the economic foundation required to sustain independence and raise the economic and social standards of the people. Up to that point, the economy had been largely dominated by timber exports (first logwood then mahogany) with the sugar and citrus industries beginning to gain importance during the 1950s. As part of the Plan, a Development Finance Corporation was established and provided with capital, (raised on the local market by public subscription) for investment in agriculture, housing, industry and other fields of enterprise. Technical assistance was obtained from the United Nations Technical Assistance Board for the implementation of the Plan in the medical field, in statistics, marketing, manpower, research, fisheries, education, public works and economic development.

Agriculture's contribution to the country's economy increased considerably during the 60s mainly through the expansion of citrus, sugar, and rice production. In the north of the country, considerable acreage of new land was brought under cane cultivation and construction work begun on a new sugar factory in Orange Walk. In the south, the acreage under citrus cultivation continued to rise and a second factory for the export of frozen concentrated juice was established. However, the timber industry, which had been the mainstay of the economy since the beginning of the colony, suffered a severe loss when the largest sawmill in the country was destroyed by fire.

The Development Incentives Legislation enacted in 1960 to provide development concessions by way of tax holidays and duty exemption, opened the way for foreign investors during this period. Development concessions were granted to a number of concerns to establish and carry on enterprises in agriculture, tourism, fisheries and manufacturing. Among these were a resin extraction plant, a garment manufacturing plant geared to the export market, a ready-mixed cement and block making plant, and a frozen concentrate citrus juice factory.

Economic growth in the 60s was also stimulated by the aid received from the UK and other countries to assist the country's recovery from the disastrous effects of Hurricane Hattie in the latter part of 1961. These inflows paid for the construction of the new capital city of Belmopan which was commenced in 1965 and completed in 1970. Other major infrastructure projects undertaken in the mid to late 60s included the upgrading and expansion of the electricity system in Stann Creek and the construction of a house-to-house water supply system and Airport expansion in Belize City.

During the 1970s, Belize's economic performance was moderately good as annual real GDP growth averaged 4.4% despite a two year period of stagnation experienced in 1975-76. Performance in the 1970s can be assessed in three distinct phases as depicted in Figure 1. During the first phase, 1970 - 1974, real GDP grew at the rate of 6.0% as all sectors of the economy recorded positive growth rates. The primary sector accounted for 25% of real GDP and continued to be the main source of foreign exchange earnings as production of both sugar and citrus expanded. The manufacturing industry also experienced increased production resulting from the establishment of an abattoir and meat packing plant, a brewery, a fertilizer plant and a paper conversion plant, along with expansion in existing industries.

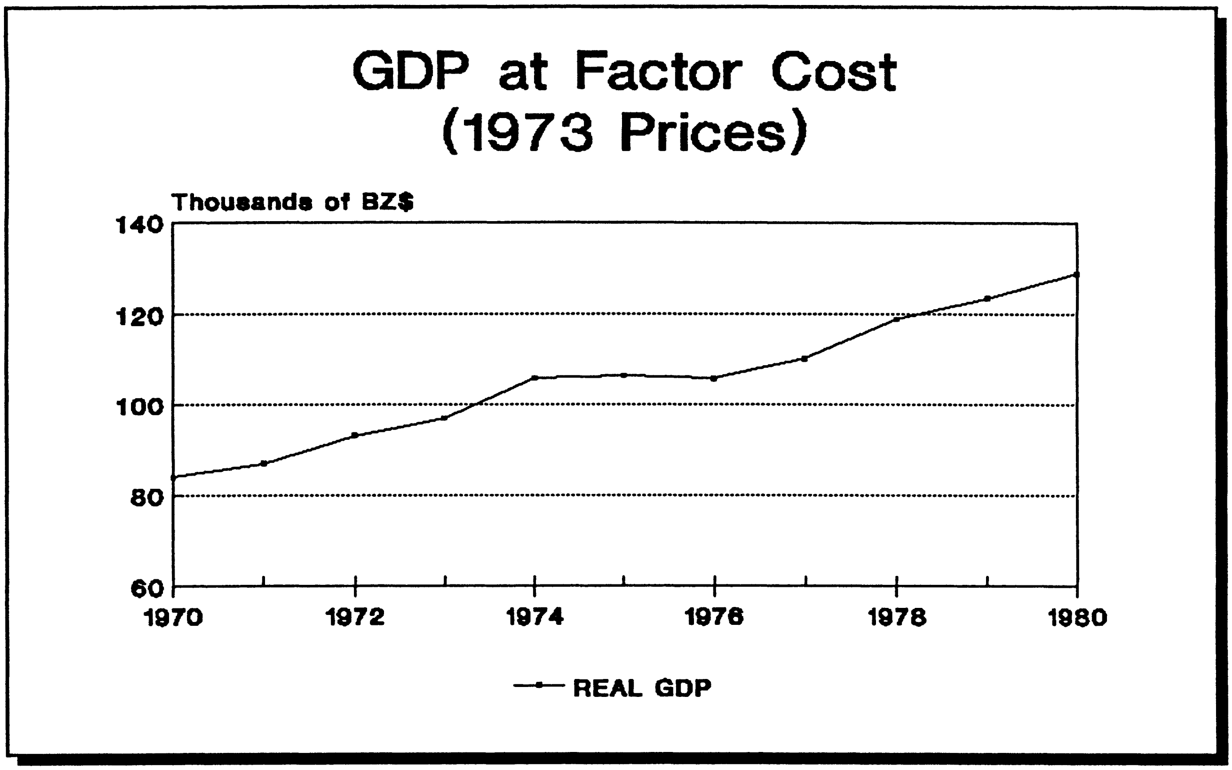

FIGURE 1

The second phase (1975 - 1976) was a period of stagnation as real GDP averaged negative .03%. Heavy rains resulting from hurricanes in the latter part of 1974 compounded by a prolonged drought in 1975, affected most agricultural crops while high inflation in the country's major trading partners contributed to a reduction in the production of those goods requiring a high import content. Production in the primary sector consequently fell by 5.3% during this period while the secondary and tertiary sectors registered increases of 4.2% and 1.1%, respectively. This growth was largely due to increased activity in the construction sector as 3 housing projects were implemented.

In the third phase (1977 - 1979), real GDP averaged 5.3% as all sectors of the economy, except fishing, expanded. The performance of the agricultural sector continued to improve as acreage under sugar cultivation increased and the road infrastructure improved. Banana production also increased despite the damages caused by Hurricane Greta in 1978.

However, a steady decline in the production of timber was noted in the latter part of the 1970s due to the increased difficulty of accessing trees and consequent higher cost of extraction. During this period, Government undertook an ambitious investment program to improve the infrastructure for public utilities such as water & sewerage, electricity and communications. Most of this was financed by substantial external grants and increased external borrowing on concessional terms.

Although economic performance deteriorated in the first half of the 1980s there was significant improvement thereafter. Between 1980 - 1985, the economy largely stagnated as real GDP grew at an annual average of 0.4%. Expansionary fiscal and monetary policies during these years contributed to persistent current account deficits which were compounded by external factors such as depressed sugar prices and increased oil prices. With the economy stagnating and foreign reserves falling, Belizean authorities asked for assistance from the International Monetary Fund in early 1983. In view of the crisis in sugar exports, the Fund responded by providing SDR 3.6 mn under its Compensatory Financing Facility. Since the fiscal position and foreign reserves continued to decline, the Government decided to enter into a Standby Arrangement in December of 1984. A range of tax and monetary measures were subsequently implemented that were aimed at improving public sector finances, reducing the growth of aggregate demand and restoring the balance of payments to a sustainable position.

Growth in real GDP in the second half of the 1980s amounted to a record average of 8.6%. By 1986, the system had recovered from the balance of payments crisis aided by increased foreign exchange inflows mainly from the filming of the movie "Mosquito Coast", the USAID Stabilization Fund, final IMF drawdowns and increases in export values of sugar, banana and citrus. Monetary policy was thus relaxed in order to stimulate private investment which had fallen significantly in the two years under the Standby Programme. Increased domestic and foreign investment, a favorable external environment and prudent fiscal management all contributed to the significant improvement in the economy[1].

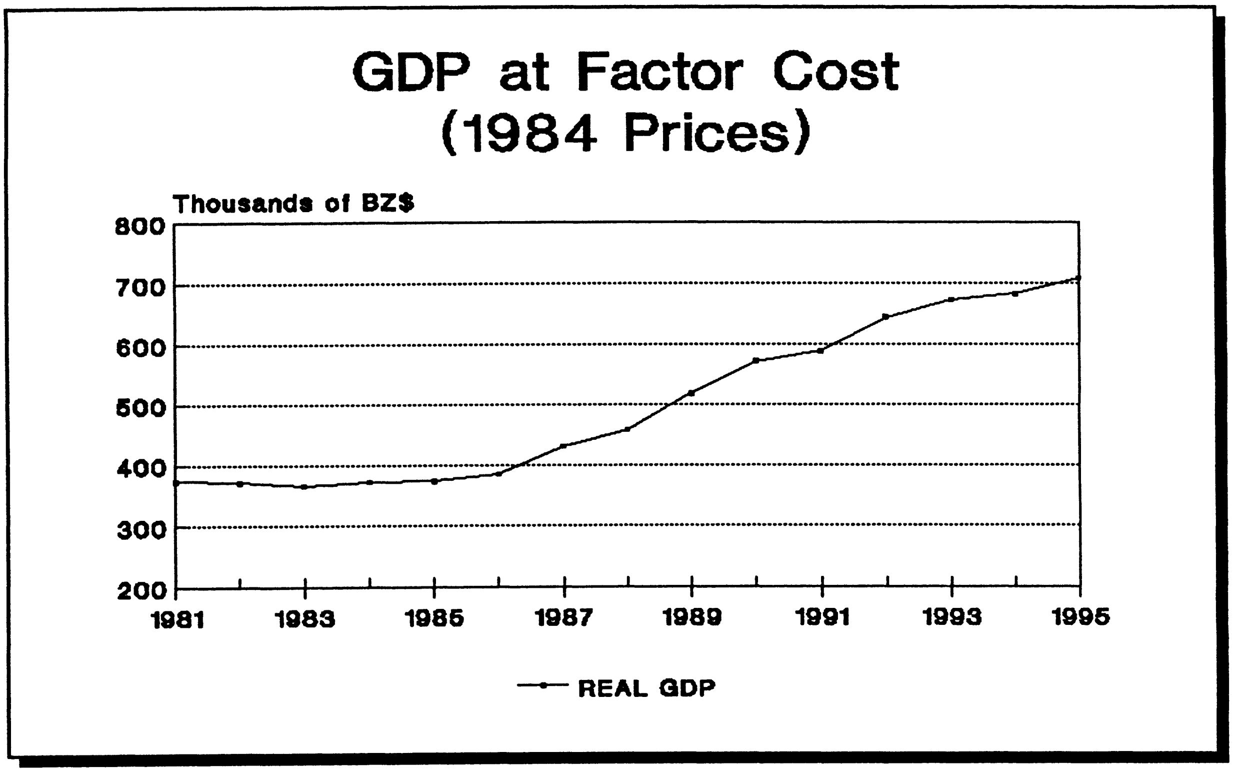

FIGURE 2

Over the 1990-1995 period real GDP growth was moderate, averaging 4.4% annually. From 1990 to 1992 the economy grew by 7.6% per annum but this was not sustainable since much of it relied on a large expansion in Government spending. While the agricultural sector performed relatively well, particularly in the areas of citrus and banana production, severe imbalances eventually developed in the fiscal accounts as government recurrent and capital expenditures grew at a much faster pace than revenues. Even with a large revenue windfall from the final sale of government equity in BTL and Big Falls Ranch in January of 1992, the overall deficit grew to -$50.2 mn, reflecting not only increases in the wages and salaries bill but a locally funded capital budget which had mushroomed to $101.0 mn. The

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1 Net international reserves increased from $9.8 mn in 1985 to $115.0 mn in 1989 while an overall surplus of $53.8 mn was recorded in the fiscal accounts for 1988/89 as Government divested itself from its holdings in BTL (the local telephone monopoly). This is compared with the $23.1 mn deficit which exisited in 1984/85.

Government increasingly relied on Central Bank direct advances while simultaneously drawing down on deposits held in the local commercial banks[2].

In June of 1993, early elections were called resulting in a narrow victory for the opposing United Democratic Party. Shortly after taking office the new government responded to what was essentially a fiscal crisis by halting expenditure on certain investment projects and cutting back on others. However, the government also decided to honor a campaign promise of free tuition for secondary school students and it partly succumbed to the demands of the Public Service Union that the third part of a three year agreement with the previous government be honored. The fiscal deficit therefore widened, leading to an increased need to resort to the domestic financial system for financing and creating added stress on foreign reserve stocks. Real GDP growth dropped to 1.6% in 1994 as improvements in the agricultural and services sectors were offset by declines in the construction industry, the latter being a direct result of Government's reduction in capital expenditure and the beginning of the phased withdrawal of the British Troops.

The economy experienced a mild recovery in 1995 as real GDP grew by 3.8%. But despite previous measures to increase revenues and reduce capital expenditure, the fiscal situation did not improve primarily due to the sizable wages and salaries component of government's recurrent expenditure bill. As the need for further adjustment became evident, several measures were taken to correct the situation. The most drastic of these was the imposition of a two -year wage freeze and the retrenchment of 860 workers in December, 1995. To raise revenues, excise taxes on spirits and tobacco were increased and a controversial Value Added Tax on goods and services was introduced effective April 1, 1996.

2 Net credit from the Central Bank and the commercial banks was up by $5.2 million and $20.1 million, respectively.

CHAPTER II

FINANCIAL SYSTEM DEVELOPMENTS 1970 - 1995

PART A MONETARY AUTHORITIES

Overview

The developments of the Monetary Authorities are presented in this section of the paper. An attempt is made to distinguish between the various functions of the monetary authority and show how these have changed over the time period under consideration. In general, the functions of a monetary authority encompass the issuance of currency, management of the country's international reserves, banking services to government and the domestic commercial banks, regulation of financial institutions and the determination and implementation of monetary and credit policies. However the first official monetary institution in Belize (the Belize Board of Commissioners of Currency) was restricted mainly to the issuance of currency. In 1976, the Monetary Authority Ordinance was passed establishing the Belize Monetary Authority with significantly expanded powers. A central bank was finally established after the country's independence from Britain as a result of the enactment of the "Central Bank of Belize Act 1982"

A.1. The Belize Board of Commissioners of Currency

Established in 1894, the Belize Board of Commissioners of Currency continued to operate until 1976. Prior to this period, the Belizean currency system was "characterized by considerable uncertainty and even chaos"[3]. In the early days of the colony, local exports such as logwood and mahogany were used as currency and later on the currencies of neighboring territories were used.

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[3] John Wyeth, *Belizean Economic History, A History of the Belize Board of Commissioners of Currency 1894-1976.*

With the establishment of the Board, a new currency was issued which replaced the Guatemalan Sol that was then in wide circulation. This first currency was based on the gold standard and this link was maintained until 1937 when the currency became tied to the US dollar. In 1949, the linkage with the US dollar was broken by the colonial administration and the Belize dollar was then formally linked to sterling. The change occurred against the backdrop of great public outcry as it also entailed a devaluation against the US dollar. The ultimate effect was a significant increase in the cost of living as most of the country's imports were from the United States. A formal link with the US dollar was not re-established until 1976 when the Board was replaced by the Monetary Authority of Belize.

During its existence, the Board was primarily responsible for the issue of local currency which it was obligated to redeem in exchange for sterling on demand. Its operations were basically passive in the sense that the Board could not refuse to issue currency as long as the requisite amount of sterling was deposited with it. The money supply was thus determined by commercial bank deposit creation and by the level of productivity in the economy as this impacted on the balance of payments.

Up until 1958, the Currency Board was not permitted to invest in Government securities. In that year, an amendment was passed which authorized the Board to take up a fiduciary issue of $350,000. In 1965, the amount allowed was raised to $1,000,000, although it was not until 1967 that the Board made an initial purchase of government bonds worth $500,000. This was followed by a second purchase of an equal amount in 1970. At no time did the Board attempt to use these securities as an instrument of policy to vary the level of the money supply or to develop a market for active trading.

A.2. BELIZE MONETARY AUTHORITY

Legislative Changes

In 1976, the Monetary Authority Ordinance was passed establishing the Belize Monetary Authority. The Authority assumed control of the assets and liabilities of the Board of Commissioners of Currency and the scope of its functions was broadened. In addition to the issuing of currency, it was now required to regulate commercial banking operations, initiate monetary policy measures aimed at stimulating economic growth, controlling inflation and maintaining balance of payments stability, provide banking services for the Government, commercial banks and other financial institutions operating in Belize, and manage the foreign exchange reserves of the country.

The tools at its disposal included the power to conduct open market operations although in practice this power was limited by the absence of a securities market. The Authority was also given the power to alter the discount/re-discount rate, to vary the reserve holdings and liquid asset ratios of the commercial banks, and to impose selective controls on the volume of credit extended by the banks. While the Currency Board previously maintained 100 percent backing for the local currency issue, the Authority was required to maintain external assets at no less than 50% of notes and coins in circulation and its domestic deposit liabilities.

In addition to the power to effect monetary policy changes, the shift from the currency board system also paved the way for the beginning of a domestic money market as in order to meet the new liquid asset requirements, the banks were required to diversify their portfolios by reducing the share of loans and advances (for the first time bringing its growth more in line with that of deposits) and investing in government securities (90 day Treasury Bills). The Authority first commenced trading in Treasury Bills in 1977 in small amounts in an attempt to provide an alternative to the banks' historical practice of investing surplus funds abroad. By 1980, Bills totalling $16.0 mn were issued, their ownership being shared evenly between the commercial banks and the Monetary Authority. During the first six years, active trading was limited to the banks and the Authority which together held 99.4% of outstanding bills.

In the same year, Statutory Instrument (S.I.) No. 30 was passed which provided detailed regulations for the control of transactions involving gold, foreign currency, foreign securities, foreign exchange etc. These regulations were connected with the implementation of the

"Exchange Control Regulations Ordinance, 1972". Although the principal ordinance had been passed in 1972 there had been no means of implementation until this statutory instrument came into force. Under its guidelines the Authority instituted a system to continuously monitor foreign exchange inflows and outflows. Effective June 16, 1977, the Monetary Authority set the minimum and maximum selling rates for commercial banks dealings with the public and also the rate at which the Authority would enter into transactions with the commercial banks. This was done so as to cover the commercial banks exchange rate risks given the fluctuations in the pound sterling and US dollar.

Monetary Policy

Apart from imposing cash reserve and liquid asset requirements on the commercial banks of 5.0% and 20.0% respectively, no other policy measures were instituted between 1976 and 1979. In 1977, two commercial banks experienced short term difficulties in meeting the cash reserve requirement and thus financing was facilitated by the Authority. Difficulties were also experienced in meeting the liquid asset requirements and after many consultations between the Authority and the commercial banks, it was decided to allow the banks to classify as liquid assets, all loans and advances outstanding to government and any other public sector entity plus ten percent of all other outstanding loans and advances. This became effective on February 1, 1977 but was gradually rolled back afterwards. By July of 1978, only the loans and advances outstanding to Government and other public sector entities were classified as approved liquid assets.

During this period, the Authority maintained its discount rate at 7.0% and consequently its lending rate fell below those prevailing in the major developed countries. In the absence of short term investment opportunities for liquid assets, the Authority paid interest on commercial bank deposits which exceeded the legal requirements. However, with the introduction of Treasury Bills in August of 1977, the practice of paying interest on such deposits was discontinued.

It was not until 1979 that the monetary policy stance of the Authority became activist. The change was brought on by an abrupt fall in foreign exchange reserves precipitated by a large increase in bank lending[4]. The Authority responded to the fall in its own external asset ratio by firstly increasing its lending rate to the banks, and then notifying the banks that it would extend loans only in exceptional circumstances. Since the banks were still able to access head office loan funds, albeit at higher cost, the Authority proceeded to direct the banks to reduce by March of 1980, the amount of loans and advances which were outstanding as at December 1979 by 5.0%.

In response to a tendency of the commercial banks to borrow excessively from the Authority, the discount rate which stood at 10.0% at the end of 1979 was raised to 14.0% by the end of 1980. In response, the commercial banks increased their prime lending rate from 9.5% at December 1979 to 11.5% in January of 1980. This was followed by further increases until the prime reached 17.0% in 1980. Interest rates on time deposits were simultaneously raised to 15.0% in an effort to attract deposits into the system and restore liquidity. These measures were largely successful and by the end of the year, there was a 13.0% increase in the level of deposits aided by the seasonal inflow of sugar funds. The disparity between deposits and loans and advances was consequently erased and the outflow of foreign exchange stemmed.

A.3. CENTRAL BANK OF BELIZE

Legislative changes

In 1982, the year immediately following the attainment of political independence, the "Central Bank of Belize Act 1982" came into force resulting in the transfer of the assets and liabilities of the Monetary Authority to the Central Bank of Belize. In addition to the instruments already available to the Monetary Authority, the Central Bank was authorized

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4 The commercial banks used short term insurance funds received from abroad as settlement for damages by Hurricane Greta as a springboard to dramatically increase the amount of credit extended primarily for distribution and personal loans and this resulted in heavy reserve losses. The situation was aggravated by the second hike in world oil prices and a certain amount of capital flight due to the low level of domestic interest rates vis a vis rates in developed countries (Humes 1979).

to set maximum and minimum deposit and lending rates. Other legislative changes were included which allowed the Bank to hold Treasury Bills of up to 5 times the value of its paid up capital and reserves and reduced the level of reserves of external assets it must hold from 50% in the case of the Monetary Authority, to not less than 40% of currency in circulation and deposit liabilities.

Monetary Policy

During the 1980s, the Monetary Authority and then the Central Bank found it necessary to continue to pursue an active role with respect to monetary policy as the economy suffered several setbacks early on, beginning with a sharp decline in the terms of trade due to falling sugar prices. This was exacerbated by successive devaluations of the Mexican peso which led to a collapse of the hitherto lucrative re-export trade with that country and compounded by an increase in cross border smuggling from Mexico to Belize. Domestically, prices were rising, aggregate demand was falling and Central Government, faced with declining revenues, resorted to borrowing from the commercial banks to meet recurrent payments of wages and salaries, etc.

Against the background of deteriorating international reserves and continuous high public sector deficits, the Government entered into a Standby Arrangement with the International Monetary Fund for the amount of SDR 7.125 in December 1984 which was aimed at strengthening the finances of the public sector and restoring the balance of payments to a sustainable position. With the implementation of the Standby Programme, monetary and fiscal policies were tightened substantially. Under the programme, the commercial banks were required to increase their cash reserve and liquid asset ratios from 5% to 9% and from 20% to 30%, respectively. The Central Bank also increased the minimum lending rate from 12% to 14% and raised the interest payable on commercial bank savings and time deposits by 3 percentage points[5]. The commercial banks were also instructed to lower the

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5 These measures contributed to a 20.3% increase in private sector deposit holdings in the commercial banks and a 10% decline in private sector borrowing. The resulting increased liquidity enabled the commercial banks to assume part of the burden of financing Central Government's debt as their

level of outstanding credit to reduce the drain on the foreign reserves. In conjunction with these monetary measures, Central Government increased indirect taxes and utility rates in order to improve its financial position. The implementation of these measures led to a reduction in commercial banks excess liquidity from $13.8 mn at December of 1984 to $8.3 mn in 1985 while loans and advances fell by 10.9% and deposits increased by 5.3%.

As the Standby Programme drew to a close in 1986, commercial banks began experiencing substantial excess liquidity resulting from increased foreign exchange inflows and reductions in credit to the private sector partly due to the high interest rates. This continued through to 1988. The Central Bank therefore decided to reduce minimum interest rates by between 1 and 2 percentage points in December 1986 and again in August 1988. At the same time, the commercial banks were encouraged to expand credit efforts and restructure their lending away from personal loans and the imports/distribution sector where possible. Credit to the private sector subsequently rose by $56.6 mn to $183.0 mn over this period. While the loosening of monetary policy contributed to the sharp increase in lending, this was however coupled with a slow down in deposit growth which resulted in a tightening of the commercial banks' liquidity position. It was decided that this should be temporarily alleviated through the transfer of Central Government deposits from the Central Bank to the commercial banks in October 1988 (Brownbridge).

Commercial bank lending significantly influenced the expansion of economic activity during 1988 as the expansion of activity in construction, manufacturing and agriculture coincided with increased credit to those sectors. At the same time public sector finances were being significantly improved enabling real GDP growth of 14.8% per annum between 1987 and 1990 real GDP growth. The expansion encompassed all sectors in the economy, particularly construction, tourism and other services and export agriculture. Since nearly 60% of public investment and a large proportion of private investment was funded from overseas sources, this growth did not impact adversely on the balance of payments (Brownbridge and Morgan 1990).

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holdings of Treasury Bills rose from $5.3 mn to $34.9 mn.

From 1985 to 1990, balance of payments surpluses led to steady increases in the country's stock of net foreign assets.

By January 1989, a trend of declining excess liquidity in commercial banks led the Central Bank to examine the existing liquidity requirements. The restoration of economic stability (evidenced by rising foreign reserves and substantial fiscal surpluses) made the requirements instituted under the Standby Programme - minimum cash reserves being 9% and minimum liquid assets ratio being 30% overall - no longer seem appropriate. The Central Bank therefore decided to further loosen monetary policy and stimulate the flow of funds for private investment by lowering the cash reserve and liquid assets ratios by 2 percentage points to 7% and 28%, respectively, in February 1989. But in order to maintain incentives for lower and middle income savers, the Bank raised the minimum interest rate on ordinary savings deposits from 4.5% to 5.0% in April of the same year. This was informed by the fact that the decline in liquidity was reflected in increased holdings of Government securities and declining deposits. As a result of the decline in liquidity requirements, the commercial banks were able to effect an 11.9% increase in lending by the end of 1989.

In September 1989, general elections were held some 3 months before originally expected. The result was a narrow victory for the opposition Peoples United Party which proceeded to sharply increase the level of public sector spending immediately after taking office. Economic performance during 1990 was marked by rapid growth in domestic production and the accumulation of public sector and external surpluses. In 1991, however, there was a shortfall in export earnings of the three major commodities being sugar, citrus, and bananas. Financed partly by drawdowns on deposits held with the Central Bank[6], Government's expenditure rose significantly to pay for increased purchases of goods and services, the addition of over 200 employees (medical staff, teachers & policemen), and an acceleration of infrastructure investment and capital transfers to assist the troubled Development Finance Corporation.

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6 Deposits with the Central Bank were reduced by $19.1 mn. Also, from being a net lender of funds to the banking system to the tune of $18.7mn at the end of 1990, Government reverted to the position of net borrower of $9.2mn at the end of 1991.

Meanwhile, sharp increases (22.4%) in commercial bank credit to the private sector led to a gradual tightening of liquidity. The Central Bank responded by reducing the cash and liquid asset requirements of the banks in September 1991 from 7% to 6% and from 28% to 25%, respectively. The main consideration was to ensure that the commercial banks would be able to provide bridge financing for the struggling agricultural sector, specifically, citrus. This easing of liquidity came at a time when there was a seasonal increase in imports due to the Christmas season and thus facilitated an expansion in credit and a fall in official reserves.

Improvements in the performance of the citrus and banana sectors contributed to an increase in foreign reserves during the first semester of 1992. However, reserve levels began to decline again by August and in order to reduce the pressure on foreign reserves that normally occurs in the last quarter of the year, the Central Bank increased the cash reserve requirement to 7.0% and the liquidity requirement to 27.0% in October, 1992. This contributed to a fall in commercial banks' liquidity during the last quarter of the year by some $16.5 mn. However, a decision by Government to deposit windfall revenues from partial divestment of the Belize Electricity Board into the commercial banks in January 1993 resulted in quick replenishment of bank liquidity levels. Even with seasonal foreign exchange inflows from exports, reserves declined continuously during the first months of 1993 largely due to the monetization of a rapidly expanding fiscal deficit.

In June 1993, the Government called snap elections which was narrowly lost to the United Democratic Party. Although the incoming administration responded to the fiscal crisis by cutting back on domestically financed capital expenditure, the deficit was not reduced sufficiently to stem the foreign exchange outflow. The Central Bank therefore further increased the liquid asset requirement of the commercial banks in October, 1993 to dampen foreign exchange demand and encourage commercial banks to increase the supply by bringing funds from abroad. Although this measure was somewhat successful in slowing down the rate of decline in the Central Bank's foreign asset holdings, the trend was not reversed. In the following year, economic activity slowed down considerably with real GDP growing by only 1.6% mainly due to the impact of the British Troops withdrawal from Belize and the reduction in Government's expenditure on locally funded capital projects.

By the start of 1995, the Central Bank felt it was increasingly urgent that something be done to reduce commercial bank reliance on Central Government deposits to fund private sector credit since the fiscal deficit was being financed mainly through an overdraft facility at the Central Bank. Acting finally on the Central Bank's advice, Government shifted $21.0 mn of its deposits from the commercial banks into the Central Bank at the end of December, 1994. To offset the resulting liquidity squeeze, the Central Bank lowered the cash and liquid asset reserve requirement by 2 and 3 percentage points, respectively, during the same month. Shortly thereafter, the Bank also removed the interest rate floors on time deposits in an effort to improve efficiency in the determination of interest rates and credit allocation in the banking system.

Central Bank's Role as Banker to Government

In Belize, as in many other small open economies on a fixed exchange rate system, monetary policy is subservient to fiscal policy. Furthermore, the Central Bank Act explicitly states that it is "within the context of the economic policy of the Government" that the Bank is to carry out the functions of fostering monetary and exchange rate stability and promoting credit and exchange conditions conducive to economic growth. Section 33 (1) of the Central Bank of Belize Act stipulates that "The bank may act as fiscal agent and trustee of, and as banker to, the Government." In performing its role as banker to Government, it is allowed to make direct advances to the Government and purchase Government paper although initially, the Central Bank could not lend Government more than 15% of the Government's estimated current revenues[7] and its Treasury Bill holdings were limited to 5 times[8] the aggregate amount of the Bank's paid up capital and General Reserve Fund.

7 This was changed in 1993 to 20% of the current revenues obtained in the previous fiscal year or a maximum of $50.0 mn, whichever is the greatest.

8 This is a departure from the original amount of seven times the aggregate value of the Bank's paid up capital and reserve which the Monetary Authority was authorized to hold as per the Monetary Authority of Belize Ordinance 1976 (Section 24).

The first issue of Treasury Bills was made in August 1977 shortly after the establishment of the Monetary Authority and the Authority acted as agent. By the end of that year, the total amount of Treasury Bills outstanding was $3.65 mn of which the Monetary Authority of Belize held 25% while the commercial banks held the remaining 75%. Since its inception, Treasury Bills has accounted for the lion's share of total credit to Government from the banking system averaging 55.1% of total credit in the 1980s and increasing even more significantly in the 1990s to an average of 67.5%. But while prior to 1986, the Central Bank held the greater share of outstanding Treasury Bills, this trend shifted after 1986 as since then the commercial banks have held the majority of outstanding Treasury Bills.

However, while the Central Bank's holding of Treasury Bills has fallen, its advances to Government have increased, reaching a record high in 1995. Because of certain weaknesses in the legislation, the Central Bank is not afforded the level of autonomy required to restrict the printing of money to finance government deficits. Between 1977 and 1980, advances provided to the Government by the Monetary Authority were insignificant accounting on average for approximately 5% of the Government's estimated current revenues or about a third of that allowed by law. However, this changed in the early 80s starting with Government's preparations for Belize's independence from Britain in 1981 so that between 1980 and 1981, the Authority's advances to Central Government rose from $3.8 mn to $7.3 mn, representing 14.6% of estimated current revenues. At the same time its holdings of Treasury Bills increased from $8.7 mn to $15.5 mn while holdings of other securities (Debentures) increased only slightly. After independence, the environment became more unfavourable due to a reduction in the terms of trade, a significant drop in revenues from import duties and the necessity for large transfers to struggling public sector enterprises.

In 1982, there was further deterioration in Central Government's fiscal position as the current account deficit totalled $8.7 mn while the overall deficit of $32.3 mn more than doubled that of the previous year. Notwithstanding an inflow of funds through the Caribbean Basin Initiative, Central Bank financing to Government increased by $7.1 mn as holdings of Treasury Bills and Debentures rose by $4.2 mn while advances increased by $2.9 mn.

In 1983, advances to Government continued to rise reaching $13.4 mn or only $1.4 mn less than the maximum legal amount. Given this constraint, Government resorted to Treasury Bills as its main source of financing by almost doubling the amount issued. In December of 1984 the PUP (People's United Party) government which had taken the country into independence lost the national elections to the UDP (United Democratic Party). Faced with a large overall deficit, the new government decided to enter a 2 year Standby Arrangement with the IMF immediately. Interest rates and commercial bank cash and liquid asset requirements were substantially increased and on the fiscal side, government taxes and public utility rates were raised . Assisted by a turnaround in the export sector and significant USAID inflows, internal and external stability was restored by 1986. By the 1987/88 fiscal year Central Government's overall deficit had been reduced considerably from $23.1 mn in the 1984/85 fiscal year to $1.7 mn. As a result, Central Bank advances to Government were greatly reduced. In fiscal year 1988/89 Government recorded an overall surplus of $53.8 mn and all outstanding advances owed to the Central Bank were repaid. This surplus was largely the result of windfall revenues received from Government's privatization of the national telephone company. For the following three years, the Government had no need to resort to Central Bank advances and the level of such advances consequently remained at nil. This state of affairs continued until 1992 when advances to Government began to expand again, this time at an annual rate of 37.2%.

As in many other countries, public sector spending in Belize tends to rise nearing an election. A swing from the previous pattern of fiscal conservatism therefore began in 1989 as the Government prepared for elections later that year. Public sector spending increased during the first and second quarters of the year leading up to the elections held in early September, 1989. The focus was mainly on community development projects in the various districts throughout the country. However, public discontent after the years of restrictions under the IMF Standby Programme was such that in September of 1989 the People's United Party obtained a majority of seats and formed the new Government shortly thereafter.

With this public sentiment in mind (which it had capitalized on during its campaign for office), the new Government embarked on an even more expansionary fiscal policy resulting in the overall fiscal surplus being reduced by $52.2 mn at the end of the 1989/90 fiscal year. The expansion was initially seen mainly in an increase of locally funded capital expenditure which almost doubled from the previous year. Although expenditure continued to rise in 1990, the public sector was able to maintain a surplus on its accounts through further divestment by Government of its holdings in the local telephone company (BTL). The funds from these further sales of shares were deposited in the commercial banks leading to a rise in the level of Government deposits and bank liquidity. This was used by the banks mainly to finance an expansion of credit to the private sector for agriculture, construction, distribution and personal loans. The practice of depositing Central Government funds in the commercial banks was one which had started in late 1988 and continued on in early 1989 to counter a liquidity squeeze and stimulate lending. The motive in 1990 appeared to be a Ministry of Finance desire to earn interest at the relatively high rates paid by the commercial banks relative to the Central Bank. The Central Bank position that such funds should be sterilized to minimize the banks' vulnerability to Government drawdown on deposits to finance current and capital programmes did not prevail.

It was subsequently noted that although a large revenue windfall had been received from the final sale of Government equity in BTL and Big Falls Ranch in January of 1992, the overall fiscal surplus of 1990/91 had quickly become a deficit which grew to -$50.2 mn as current expenditure growth rate exceeded that of current revenues[9] and the locally funded portion of the capital budget ballooned to $101.0 mn. Not surprisingly, Central Government access to net credit from the banking system[10] in that year rose sharply from $9.2 mn to $34.5 mn as it increased its use of the overdraft facility at the Central Bank to $23.8 mn while also drawing down on some of its deposits in the commercial banks.

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9 The wages and salaries bill increased by $17.6 million as the first phase of a three year salary increase agreement with the Public Service Union was implemented .

10 Net credit from the Central Bank and the commercial banks was up by $5.2 million and $20.1 million, respectively.

Although net credit increases to Central Government was combined with a reduction of Social Security Board deposits in the commercial banks[11], the Central Bank noted that bank liquidity was rising partly due to the turnaround in export performance of the citrus and banana sectors. Concerned that this was being used to fund personal loans and so adding to the pressure on the foreign reserves caused by Government deficit spending, the Central Bank acted to tighten liquidity on October 1, 1992 by increasing the cash reserve ratio from 6% to 7% and the secondary reserve ratio from 25% to 27%.

This was then counteracted by Central Government's decision in January 1993 to deposit funds received from the divestment of 49% of its holdings in Belize Electricity Ltd. into certain commercial banks[12]. Government later shifted another $8.0 mn from the Central Bank to these same banks and this boosted liquidity in the first half of the year. Since these funds were unevenly distributed, excess liquidity in a couple of the banks co-existed with a shortage in the others. Because of the imbalance, the Central Bank preferred not to lower the reserve requirement but provided advances for most of the year to alleviate the liquidity squeeze experienced by certain banks. At the same time the Bank recommended that Government withdraw its funds from the specific commercial banks to even out liquidity thereby enabling it to determine what the appropriate reserve ratios should be in light of the major trends in the economy. This recommendation was however rejected by the Ministry of Finance.

Between January and June of 1993, pressure on the foreign reserves position continued. While export receipts were down largely reflecting lower citrus production and prices, the Government continued to use the domestic financial system to finance the widening overall deficit. Deposits in the commercial banks were gradually drawn upon while access to the Central Bank's overdraft facility was increased. In June, early elections were called resulting in a narrow victory for the opposing United Democratic Party which, this time around, had campaigned on platform

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11 The SSB withdrew funds from the banks to diversify its investment portfolio in areas such as agriculture, housing and tourism.

12 Central Government deposits in the commercial banks rose by $21.6 million in January, 1993.

promises of free house lots and free tuition for all Belizean secondary school students. Shortly after taking office the new government responded to the fiscal crisis by halting expenditure on certain capital projects and cutting back on others. On the other hand, current spending was increased in order to fulfill the promise of free tuition and to pay for a portion of the salary increase negotiated by the Public Service Union with the previous administration.

Finances were raised through further issues of government paper and additional Central Bank advances. To facilitate this, Section 34 of the Central Bank Act was amended on November 6, 1993 to state that direct advances by the Bank to Central Government at any one time must not exceed 20% of current revenues collected by Government during the preceding financial year or the sum of $50.0 mn, whichever is greater. On the same date, the Treasury Bills Act was amended to increase the limit on the outstanding issue from $65.0 mn to $70.0 mn and to authorize the issue of Treasury Notes with maturity of between 1 and 5 years up to a maximum outstanding issue of $25.0 mn. Also on that date, the Belize Defence Fund Act was passed authorizing Government to raise $25.0 mn through an issue of Defence Bonds with maturity of up to 15 years to pay for expenses connected with the Belize Defence Force.

By the end of 1994, the additional Treasury Bill issue of $5.0 mn was taken up by Central Bank and the Bank's advances to Government also increased by $19.3 mn. At the same time, $15.0 mn in Treasury Notes were issued, all of which were subscribed by the commercial banks. However, while Government resorted to the Central Bank for additional advances, it nevertheless maintained a substantial amount of deposits from its sale of public enterprises with the commercial banks. These deposits at the end of 1993 and 1994 amounted to $29.4 mn and $22.6 mn, respectively. Towards the end of 1995, with no prospects of Government being able to reduce its outstanding advances which had increased during the year, the Central Bank recommended that Government shift to the Central Bank, $21.0 mn of its deposits held with the commercial banks in order to reduce the overdraft level. It was also felt that Government would be better able manage its cash flow situation without disrupting the banking system. The shift was finally implemented in December of 1995.

Banker to commercial banks

In its role as banker to the commercial banks the central monetary authority provides several services. These include keeping commercial bank deposit accounts, granting loans when necessary, and regulating their operations to ensure that these institutions remain healthy and operate in the public interest. However, since commercial banks are generally able to access financing from head office or other affiliates abroad whenever liquidity tightens, use of the Bank's rediscount facilities is relatively uncommon.

As regards facilitation of commercial bank business, an agreement between the Authority and the commercial banks was signed in October 1978 in which a bankers' clearing house was established. Representatives of each bank began to meet daily at the Monetary Authority, with the exception of Mondays, to deliver those cheques issued by its customers and drawn on other banks. At the end of the meeting, each of the banks' account with the Central Bank were either credited or debited as required by the settlements made. Since the beginning of clearing house operations, the total value of cheques cleared annually has grown at an average rate of 11.0%. Expansion has been consistent with the exceptions of 1982 and 1983 when the rate fell to 1.6%, and 1987, when clearances actually declined by 13.1%. More recently since 1993, a slowdown in the rate of growth has been observed which could perhaps be associated with the commercial banks' introduction of Automatic Teller Machines.

In carrying out its responsibilities of ensuring a healthy banking system, the Central Bank obtained IMF assistance in establishing a separate department to carry out banking supervision in 1983. The primary function of the Banking Supervision Department was that of maintaining surveillance over financial institutions and over the performance of banking business in or from within Belize to ensure compliance with legal requirements and promote prudent banking practices.

Initially the function of surveillance was carried out strictly by analyzing the information contained in the various Bank Returns which are submitted by the commercial banks on a regular basis to the Research Department. It was not until the latter part of 1987 that the first on-site examination was concluded and the main focus was then on quality of loan portfolio and possible violation of the law. Subsequently, the department has increased both the coverage and scope of its on-site examination while maintaining the off-site examination aspect of surveillance.

In terms of coverage, the Department increased this from 25% of existing banks offices in 1987 to 50% during the 1988 - 1990 period. In 1991, 80% of bank offices were surveyed. Thereafter coverage has fluctuated between 50% and 75%. Given the constraint in human resources, the Central Bank places greater importance on examining the two indigenous banks annually while the other two banks are rotated on a two year basis. As a result of the gradual increase in expertise within the Department, the scope of the on-site examinations has been broadened over the years to take into consideration areas such as the banks' capital adequacy, asset quality, management, earnings, liquidity, internal controls and more recently, money laundering.

There was however some impairment of the Department's ability to adequately supervise banking institutions and the payments system due to the passage of the "International Business Companies Act" in 1990. Besides facilitating a blurring of the lines between traditional banking and other investment activities, this piece of legislation enabled the creation of a hybrid entity known as a Public Investment Company which could enjoy the benefits of being classified as an offshore enterprise while owning and conducting business through on-shore entities. Controls over financial transactions between holding companies and subsidiaries of so-called "Public Investment Company Groups" were severely limited by the IBC Act thereby posing serious drawbacks to prudential supervision. Exemptions from all foreign exchange controls and taxes on such transactions led to marked increases in the level and frequency of short term foreign flows which had the potential of destabilizing the financial system.

The Central Bank responded by reorganizing the department and changing its name to the Financial Services Supervision Department and by drafting a new "Financial Institutions Act" to provide it with the power to adequately supervise those areas of the financial services industry which had not yet received much attention as well as those new and more complex entities that were emerging. This legislation was enacted in January 1, 1996 and covers not only banks, but other financial institutions such as finance companies, trust companies, investment banks, etc.

While the Bank has not yet expanded its staff levels and supervisory capacity, there are plans to do this in the not too distant future. With the legislation already in place the Central Bank is empowered to do much more than previously possible in maintaining an effective supervisory and regulatory regime designed to protect depositors' funds, ensure the viability of the financial institutions and general stability of the financial system.

Finally, although the Department concentrates primarily on the surveillance of commercial banks, it broke new ground by conducting an inspection of the Development Finance Corporation in 1993 upon request from the Ministry of Finance. The DFC was the first non-bank institution that the Department examined, the second being a money lending institution which was examined in 1994 for compliance with the Money Lenders Act.

A.4. SUMMARY

The maintenance of monetary and exchange rate stability are primary objectives of the Central Bank although its quest to carry out this mandate is complicated from time to time by, among other things, the predominant effect of government fiscal policy. As its role and policies are examined more closely over time, it would appear that under the present legislation the Central Bank is not accorded sufficient autonomy since its ability to maintain monetary stability and adequate foreign asset holdings is largely subject to the fiscal policy initiatives of Central Government[13]. Developments since 1990 in particular highlight the need for greater restrictions on Government's access to deficit financing from the Central Bank.

In implementing monetary policy the Central Bank altered interest rates in three of the five years

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13 The Central Bank Act initially allowed it to provide direct advances to Government of up to 15% of estimated current revenue and hold Treasury Bills of up to 5 times its paid up capital and General Reserve Fund.

between 1985 and 1990 in response to changes in economic indicators. More recently, the Bank has removed interest rate floors to reduce the level of regulations commercial banks must deal with in carrying out their business. However, it is noted that while the liquidity requirements imposed under the Standby Programme were gradually relaxed, the requirements have remained more stringent than those which existed before the programme was entered into. The Bank's policy was and is influenced by its desire to protect the country's stock of official reserves from excessive deposit creation by the commercial banks and by its past experience where this was concerned[14]. The success of this policy (facilitated by improvements in Central Government's fiscal performance) was evidenced by the steady improvement in the Bank's external asset ratio between 1985 and 1990.

But although the Central Bank has assumed a more active role in monetary policy, it continues to be subject to certain constraints. Its ability to manage the money supply is circumscribed because of the open nature of the economy, the large size of the public sector's budget relative to the economy, and the fact that the value of the Belize dollar is fixed in terms of the US dollar. The money supply is therefore largely determined by the level of real productive activity as it impacts on the balance of payments and the public's demand for money. The level of production is in turn determined by external demand and local supply conditions.

The Central Bank's use of open market operations as a means of tightening domestic liquidity and slowing the expansion of credit or vice versa has always been limited because of the poorly developed nature of the domestic financial markets. As a rule, increased commercial bank investment in Treasury Bills coincides with periods of excess liquidity associated with seasonal receipts for sugar and other major exports. Consequently the Bank cannot use open market operations to influence the volume and cost of credit on a continuous basis.

While the Central Bank has the power to dictate increases in interest rates and liquidity

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[14] The events leading up to the first balance of payments difficulties in 1979 are of particular significance in this regard.

requirements of a sufficiently high level to induce a contraction in private credit and so reduce pressure on the balance of payments, the problem with such measures is that they also impact adversely on domestic output and private investment by the smaller and more newly established firms which are not yet able to rely on self financing.

Consequently, while the Central Bank is able to restrain aggregate expenditures through its manipulation of interest rates, cash reserve and liquidity ratios, it is questionable, given the highly open nature of the economy and the established pattern of commercial bank lending, whether these instruments can be used to stimulate the economy when the need arises. The Central Bank's powers in the Belizean context are therefore asymmetrical.

As regards its supervisory functions, the Central Bank clearly consolidated its position as regulator of the financial system and banker to the commercial banks during the implementation of the IMF Standby Programme (1984-1986). Since then, the Bank has been able to increase the flow of information from the commercial banks and has used it to conduct an active monetary policy. In addition to the increased powers granted under the 1984 amendment, the Bank has become more adept in the use of moral suasion which is a significant stabilizing factor in the financial system.

PART B DEPOSIT MONEY BANKS

The first commercial bank to commence operations in Belize was the Bank of British Honduras which was founded by a group of local financiers in 1904.[15] This Bank however, was bought over by the Royal Bank of Canada in 1912. During the next thirty-seven years the Royal bank of Canada enjoyed a monopoly until Barclays Bank established a branch in Belize City in 1949. Up to the late 1950s the two banks (branches of foreign transnational banks), offered services primarily to the residents of Belize City and their operations were dominated by the financing of the import/export trade which had its center of operations in Belize City. Their operations were governed by the "Foreign Banks Ordinance" which came into force in 1920. This Ordinance confined the conducting of banking business to British subjects but imposed few other restrictions on their operations such as the payment of an annual fee of $1,000.

In the 1950s bank expansion began, though on a small scale, as both banks established sub-branches in the Stann Creek District which was experiencing a significant growth in the level of citrus production and exports. In January 1964 the "Banking Ordinance, 1963" was signed into law by the British Governor. This Ordinance repealed the Foreign Banks Ordinance and was a significant departure in that it imposed more stringent conditions on banks operating in Belize. The restrictions included prohibitions on banks engaging in trade and acquiring land except in the ordinary course of bank business and granting loans and advances in excess of 10% of paid up capital and reserves without ministerial approval. A liquid assets ratio of 30 % of average deposit liabilities was instituted but another clause specified that the two existing banks were exempted from this requirement. Banks were also required to submit quarterly and annual returns on loans and advances and assets and liabilities to the Minister of Finance and to publish audited balance sheets in the principal newspapers of the country.

The passage of the Banking Ordinance 1963 coincided with Belize's attainment of self government status under an anti colonialist and populist regime whose agenda was dominated

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[15] Gregg, R. A., *British Honduras, 1978*

by efforts to attain political and economic self-determination for Belize. However it does not appear that the new legislation had a significant impact on the commercial banks method of operations.

Between 1964 and 1966 commercial bank expansion continued with the opening of offices in the sugar districts of Corozal and Orange Walk. These moves followed Tate and Lyle's announced investment of some $31.0 mn largely for the refurbishment of the Libertad factory in Corozal and the construction of a new factory at Tower Hill in Orange Walk. It was also linked with the growing dominance of sugar as the principal foreign exchange earner. The Bank of Nova Scotia and the Atlantic Bank (member of the Chase Manhattan Group) followed, opening offices in Belize City in 1968 and 1971 respectively and later expanding by opening sub-branches in the Northern sugar districts. The two older banks also extended their operations during this period opening offices in the new capital city of Belmopan.

In 1973 a "Banking (Liquid Assets) Order" was passed amending the 1963 ordinance to read that the liquid assets of a bank other than "a schedule bank" should not on average be less than 20% of deposit liabilities. The liquid asset requirements applied to the newly established banks (Bank of Nova Scotia and Atlantic Bank) and not to the older banks (Royal Bank of Canada and Barclays Bank). However it is not clear whether any particular liquidity ratio was ever enforced on the commercial banks in Belize during this period. Three years later the "Banking Ordinance, 1976", which placed all four banks on equal footing with respect to liquid asset requirements, came into force replacing the 1963 law. This ordinance was passed simultaneously with the "Monetary Authority of Belize Ordinance" and signalled the Government's intention of instituting closer monitoring and control of commercial banking in Belize. Up to that point monetary policy had been passive and the commercial banks had been relatively free of restrictions with respect to their role in deposit creation and their domestic and foreign investment portfolio. The passage of these ordinances may have also been linked with the intensification of the Government's efforts to gain independence from the United Kingdom and its desire to gain greater control over the pace and direction of growth in the economy. The 1976 Banking Ordinance called for the banks to maintain a liquid asset ratio of 20% of average deposit liabilities and specified that government Treasury Bills could be used to satisfy the banks liquidity requirements. The passage of the new banking legislation therefore facilitated a rapid increase in the level of Government borrowing from the banking system[16].

Over the period reviewed, the banks heavily dominated the financial system averaging approximately 85 percent of total financial assets. They provided financial intermediation services such as accepting term deposits and deposit funds repayable at short notice, financing of foreign trade and provision of short term working capital for export crops such as sugar and citrus. The growth of commercial banking during the 60s and 70s was manifested in a substantial rise in the level of commercial bank assets and liabilities with expansion in bank offices and increased competition in the sector. The expansion was also fueled by increases in sugar production and exports plus the inflow of funds from the UK to finance the construction of a new capital city in the late sixties to replace the old one (Belize City) which had been heavily damaged by the 1961 hurricane[17].

While there was a substantial rise in the level of commercial bank loans, there was also a shift in the structure of bank loans and advances between 1960 and 1976 with the percentage share of loans for the distributive trade growing larger while the share of loans for the agricultural sector declined. Commercial bank lending therefore seems to have varied somewhat from the official government policy as delineated in successive government plans and party manifestos which called for economic diversification and a lessening of reliance on imports[18].

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16 Between 1976 and 1980, the year just prior to independence, total credit to Central Government from the banking system almost tripled from $7.9 million to $22.5 million. The increase in Government borrowing was not only a result of greater public investment but also due to its need to support several statutory bodies (Belize Electricity Board, Belize Marketing Board, Banana Control Board) which were experiencing financial problems.

17 Between 1960 and 1976 there was an eight-fold increase in commercial bank assets and liabilities (from $11.3 million to $89.8 million). Loans and advances rose from $6.1 million to $64.1 million while deposit liabilities went from $7.1 million to $61.3 million.

18 The share of commercial bank loans for agriculture fell from 45.5% in 1970 to 26.2% in 1980 while that for distribution rose from 17.4% to 27.4%.

Development of the structure of the financial system continued to be dominated by the commercial banks during the 1980s. Although the banks came under new restrictions requiring them to submit to closer supervision by the Central Bank, this was somewhat counteracted during the first four years of the decade by the Government's fiscal woes and its consequent partial reliance on the commercial banks for financing.

In 1982 and in 1984, there were separate amendments to the Banking Act. The "Banking (Amendment) Act 1982" doubled the required level of assigned capital of foreign banks operating in Belize and increased the license fees payable[19]. Provision was made for the issuance of International Licenses authorizing off shore banking in Belize. However, follow-up legislation was not subsequently enacted to provide detailed regulations to govern offshore banking and consequently while interest was expressed by local and foreign entities, no formal application for an International License was processed.

Under the 1982 amendment, transactions with the Government were also exempted from the restrictions imposed on commercial banks under Section 13 of the Banking Act with respect to the granting of credit facilities valued at more than 25% of a bank's paid up and outstanding capital and reserves. The inclusion of this latter clause was linked to the Government's need for financing during this period and this is evidenced by the fact that in 1982, commercial bank loans and advances to Government rose from $4.2 mn to $14.4 mn.

Two years later, the "Banking (Amendment) Act 1984" came into force resulting in the imposition of, and increases in the level of fines payable for the contravention of certain sections of the Act. Fines were imposed for financial institutions which paid dividends locally or remitted profits overseas before all capitalised expenditure and losses not represented by tangible assets were completely written off. A fine was also imposed for violation of Section 13 and there was a significant increase in the fine for contravention of Section 14 of the Act which

[19] The locally assigned capital of a foreign bank was raised from $200,000to a minimum of $400,000while annual fees for a local license rose from $3,000to $5,000.The newly introduced International License carried an annual fee of $20,000.

prohibits banks from engaging in trade, agricultural, industrial or other productive activity, acquiring shares in financial or productive enterprises valued in excess of 25% of the aggregate of the specific bank's assigned capital and reserves, and real estate investments.

The inclusion of these penalty clauses were made necessary by the off hand attitude of the commercial banks to the Central Bank's attempts at monitoring and supervising their operations. Even though a central monetary authority had been in existence for approximately eight years the banks continued to find it difficult to submit to outside control. The job of supervision during the first half of the eighties was made harder by the fact that the fall in its external assets drove even the Central Bank to the point of borrowing from the commercial banks[20].

The IMF Standby Programme (Dec. 1984 - 1986) coincided with the election of a new government[21] in 1984. IMF credit lines largely replaced that of the commercial banks and the information needs of the Fund, combined with stronger legislation, enabled the Central Bank to subsequently obtain more detailed information on commercial bank operations. Banks began to submit detailed balance sheet information plus additional information on public sector deposits, and loans and advances. The improvement in the flow of data facilitated the Bank in drafting a more informed monetary policy while enabling it to more efficiently supervise the commercial bank sector.

In 1988, Section 14 of the Act was further amended by the passage of the "Banking (Amendment) Act, 1988" which removed the restrictions on investment in public companies in which the Government held more than 50% of the shares carrying voting rights. This particular amendment was in consonance with the UDP Government's plans to privatize the national

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20 In mid 1984 the Bank's net foreign assets reached a low of $1.3 million and it resorted to foreign loans arranged through the local branch of the Bank of Nova Scotia.

21 The slightly left of centre Peoples United Party which had held power continuously since the attainment of self government was replaced by the right of center United Democratic Party in the December 1984 elections. The UDP came to power on a platform calling for privatization of public enterprises and an escalation of local and foreign investment.

telephone company. In 1988 the Belize Telecommunication Authority was transformed into a public limited liability company and shares were offered to the public for sale.

The 1980s were also marked by a significant increase in the number of bank offices. A total of seven new bank offices were opened. For the most part, the expansion took place during the latter half of the decade which coincided with a considerable increase in real economic growth. A recovery in world sugar prices, large increases in banana exports, and a rise in invisible earnings from tourism all contributed to the expansion. Bank deposits rose considerably during the period not only as a result of increases in private financial savings but also largely due to the substantial accumulation of deposits by the Social Security Board since its establishment in 1982, and the build up of deposits by Central Government and non financial public sector enterprises between 1985 and 1990[22].

With the exception of the two years under the IMF Standby Programme, commercial bank loans and advances also rose vigorously at an annual average of 16.7%. The banks reliance on foreign financing to facilitate domestic credit expansion in the first half of the decade was gradually reversed due to the strength of domestic deposit growth, particularly that of the public sector after 1985.

By 1991, the number of banks operating in the country rose to five as Banca Serfin SNC, a Mexican Bank, commenced operations in Belize on February of that year. This only lasted ten months as operations were suspended by December of the same year as a result of a global streamlining strategy pending privatization of the parent Bank in Mexico. In that same year, there was a total of twenty-one bank offices dispersed among all seven districts. Commercial bank assets totalled $443.4 mn (60.4% of GDP) while their deposit liabilities amounted to $361.2 mn (49.2% of GDP) contributing significantly to the deepening of the financial system.

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22 In 1990 public sector deposits including that of the Social Security Board reached $96.2 million or 26.6% of total deposits in the commercial banks. Due to the age structure of its contributors the SSB's deposits were increased substantially each year and in 1990 it accounted for $45.3 million of public sector deposits in the commercial banks.

This growth was influenced by economic expansion as well as by increases in the number of bank offices. In 1991 there were 34,212 savings accounts which meant that approximately 33.4% of the adult population had commercial bank savings accounts. Demand and time deposit accounts were significantly fewer at 4,829 and 2,492 respectively.

Development in the 1990s has been manifested mainly in the increased number of services offered by the commercial banks which appears to be stimulated by a more competitive environment. In 1993 the Bank of Nova Scotia became the first Bank to offer their customers the convenience of depositing, withdrawing, and transferring money via Automated Teller Machines (ATM). Barclays Bank followed shortly after by offering a similar debit card facility to its customers in June of 1994. This bank also opened another strategically located office in Belize City which includes an ATM among its services. In September of 1995, the Belize Bank followed suit by issuing cash cards to its customers and the Atlantic Bank established its first ATM in November of the same year. In September 1996, the Belize Bank established an ATM at a newly open gas service station. Aside from the convenience derived from the use of the cash card, it should be noted that there is no transaction fee charged for use of an ATM as compared to the $.10 fee charged on withdrawals made at the counter.

Visa credit cards first became available to the general public in April 1994 as the Belize Bank took the initiative. They remain the only local commercial bank to offer credit cards which can be used both locally[23] and abroad. To date approximately 2,500 of such credit cards have been issued. The issuance of the Belize Bank/Visa credit card was facilitated by the Central Bank's decision to relax exchange control regulations in a general move to de-regulate the financial system.

In October 1995, the Atlantic Bank became the first and only Bank to offer the benefits of an auto teller which means that customers can now drive up to a teller and make transactions

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[23] These can be used locally but only for specific purposes as stated on the Central Bank's Exchange Control Circular #4.

without getting out of one's vehicle. Expansion in bank services has continued in 1996 with several of the banks offering the facility to pay utility bills. One can pay utility bills either at the counter, by using the ATM or by depositing payments in a marked envelope in a designated box at the bank. The Belize Bank also offers the facility of using the cash card to make direct purchases at select centres. This avoids the use of cash totally as the customer's account is debited while the business account is credited with the value of the purchase made.

Notwithstanding these innovations, the lending policy of the commercial banks remains conservative. While two of the banks have authority to grant loan approval subject to the limitation imposed by Section 13(1)(a) of the Banking Act, the others must refer loans above a certain amount to head offices abroad for approval. The banks also customarily require high amounts of collateral (sometimes between 150% and 200% of loan value) and this has restricted growth in certain sectors of the economy (Shoraka 1986). Borrowers must usually possess long and favorable track-records, have co-signers with such a credit record, or have adequate collateral before obtaining loans from the banks. Lending continues to be concentrated in short term loans consisting of working capital for the retail trade, manufacturing, agricultural and personal loans. Mortgage loans are usually approved only for middle and upper income home purchasers as interest charges are high. More recently commercial banks have been actively advertising lending for mortgage purposes but as yet there is no evidence to indicate a lowering of interest rates for such purposes.

PART C OTHER BANKLIKE INSTITUTIONS

C.1 DEVELOPMENT FINANCE CORPORATION

The Development Finance Corporation was originally established under the terms and conditions laid out in the "DFC Ordinance" of 1961. DFC was expected to remedy one of the major deficiencies of the financial system at the time which was a shortage of investment capital. The objectives of the Corporation as spelt out in the Ordinance were to expand and strengthen the economy of Belize by providing financial assistance for the development of enterprises, and promoting and facilitating private capital investment by undertaking economic and financial studies as a guide to investment. The Ordinance included provisions for exempting the corporation from the payment of income taxes and excluding dividends paid on shares from being taken into account in ascertaining the chargeable income of shareholders under the Income Tax Ordinance.

In 1963, the Corporation's income tax holiday was limited to 15 years as a result of the passage of the DFC Ordinance of 1963 which repealed the 1961 Ordinance. The objectives of DFC were spelled out in the new law as aimed at expanding and strengthening the country's economy by:

(a) supplying finance for the development of agriculture, forestry, fishing, industry, tourism, housing, and public utilities;
(b) purchasing, developing and improving land and engaging in commercial ventures;
(c) promoting and facilitating domestic and foreign capital investment; and
(d) undertaking, promoting and facilitating economic and financial studies as a guide to investment.

Central Government's 1964-1970 Development Plan called for it to grant material support to DFC in order to make up for some of the perceived deficiencies of the financial system with respect to investment financing. However between 1963 and 1972 the Corporation's activities were low keyed due to the small size of its capital base and its continued inability to access loan funds[24]. In 1972 the "Development Finance Corporation (Loans) Ordinance" came into force. The new law authorized the Minister of Finance to issue debentures the proceeds of which were to be used by Government to purchase shares in DFC. In the following year the DFC Transfer of Shares Ordinance was passed. This law approved compensation to the private shareholders and transformed DFC into a government owned corporation with an authorized share capital of $4.0 mn.

After its transfer to Government ownership, the Corporation experienced a considerable build-up in the level of its assets and liabilities. A United Kingdom grant in 1975 enabled DFC to establish branches in the main district towns and institute a small farmers loan programme. The authority of Branch officers was limited to the granting of short term loans primarily for use as working capital[25]. DFC's expansion was primarily due to an inflow of foreign capital as its new status enabled it to access over $15.5 mn in foreign loans over the period, 65.0% of which was on-lent for agricultural purposes and the balance being directed toward housing, tourism and industry. The Corporation's share of total financial assets rose from 0.7% in 1972 to 12.9% in 1980 which also testifies to the fact that DFC was fulfilling a role that the commercial banks were unwilling to take on, that of lender of risk capital for domestic agriculture and industry.

The Development Finance Corporation expanded the level of its operations during the decade as it continued to access foreign loans for on-lending locally. The level of its foreign liabilities consequently increased from $17.0 mn in 1980 to $30.7 mn in 1990 while its outstanding loans and advances also rose from $19.8mn to $32.7 mn.

In 1989, the "DFC (Amendment) Act, 1989" came into force. The amendment was principally to enable the Financial Secretary or his representative to sit on DFC's Board of Directors and

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[24] Between 1965 to 1972 DFC's assets rose from $0.2 million to $0.4 million and its loans and advances increased from $26,000 to $200,000 mostly allocated to agriculture, manufacturing and tourism.

[25] Branches could approve up to 8 crop loans of up to $3,000 after consultation with headquarters. All other loan applications had to be forwarded to headquarters for decision.

to require the annual submission of the Corporation's budget estimates to the Minister of Finance who would then present these estimates to the National Assembly with any amendments thought necessary. This was seen as an essential precaution because weaknesses in DFC's financial position were beginning to surface and this followed a period in which Central Government had been required to shoulder the significant burden caused by several struggling public sector enterprises. The Government felt there was a need to ensure that the Ministry of Finance was not only fully apprised of all developments which could have an adverse impact on its budget, but able to take preventative steps if necessary.

As a statutory body, the Development Finance Corporation is required to channel development funds to priority sectors determined by government and to use its project evaluation capabilities to assist those sectors in formulating and implementing financially viable projects. To date the priority sectors have included agriculture, forestry, fishing, industry, tourism, housing and public utilities. In addition to promoting domestic investment, the Corporation's charter also requires it to promote foreign capital investment in Belize.

DFC's main sources of funds are from the Belize government and foreign bi-lateral and multi-lateral agencies such as USAID, the World Bank, CDB, CDC, IFAD and EIB. In 1990 foreign liabilities to such bodies accounted for 71.5% of the Corporation's total liabilities. Loans are usually negotiated on concessional terms between the foreign agency and the Government in accordance with Government priorities. However in recent years these loans have been more frequently negotiated at market rates since the country's GDP no longer qualifies it as a low income country. Since loan funds specify the purpose for which they may be used, there is no established pattern with respect to the level and allocation of DFC's loan disbursements.

As a government owned body, DFC is generally required to conduct its operations so as to enable Government to achieve its macroeconomic, social and political objectives. However, in pursuit of these objectives DFC has been subject to a certain amount of political interference over the years which contributed to its developing financial difficulties. Perhaps the single most important contributory factor was the high level of inefficiency which plagued the Corporation over the years and which manifested itself in "a technically bankrupt institution by the end of 1990".[26] DFC's problems included a loan delinquency rate in excess of 50% as well as the suspension of disbursements to DFC under various credit lines from CDB and the World Bank.

To address the deteriorating situation of the institution, the Government initiated a consultancy study and subsequently implemented some of the recommendations that arose from the study. These included among others the restructuring of branch operations, increased equity investments by the Government over a three year period, the payment by Government of its outstanding liabilities to DFC which totalled $4.3 mn and increased efforts by DFC to collect loan arrears.

In accordance with the recommendation made by Burgos[27] Central Government injected $6.6 mn into the corporation during 1990 - 1992 in an attempt to broaden DFC's equity base and improve its debt/equity ratio. By the end of 1992, there was notable improvement in the corporation's financial position and consequently, certain foreign credit lines were re-opened. By the end of 1995, DFC's total assets and loans had grown by 24% and 37%, respectively over its 1990 position.

Despite the difficulties which the Corporation has encountered, it remains an important source of financing for agriculture, industry, construction and education. In 1990 loans amounting to $6.1 mn were approved including agriculture (38.1%), housing (26.4%), tourism (28.0%), student loans (5.2%), and industry (2.3%). More recently, however there has been a notable shift in the Corporation's lending away from agriculture which in the past had accounted for the lion's share of total loans. While loans provided to the agricultural sector accounted for an average of 46.9% of total loans in the 80s, this fell in the 90s to 33.2%. Loans for building and construction has increased over the period December 1990 to December 1995 by $8.3 mn or 68% largely facilitated by financing obtained from the Social Security Board[28]. During this

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[26] Alpuche, 1992

[27] Burgos, 1990

[28] At the end of 1994, DFC owed $7.8 mn to the Social Security Board.

same period, student loans increased by $2.4 mn, loans for professional services increased by $1.2 mn while loans for agricultural purposes fell by $1.4 mn.

C.2. CREDIT UNIONS

The first credit union in Belize was organized in the southern part of the country in 1943. This was followed by the formation of a second credit union in Belize City in 1944. In the years that followed, the credit union movement grew significantly as it provided small savers with savings outlets throughout the country and also made loans available for a variety of purposes including home improvement, purchases of household furniture and equipment, farming, trading, medical expenses, etc. The activities of the credit unions were governed by the "Cooperative Societies Ordinance" of 1948 which basically provided legal guidelines for investments by the credit unions, level of dividends payable to shareholder/members, and the level of interest charged on loans. According to this Ordinance, credit unions were allowed to deposit money in any chartered bank in Belize including the Government Savings Bank but were prohibited from investing more than 25% of their share capital in any private or public stock, debentures or securities. Credit unions were also limited to charging an interest rate of 12.0% per annum calculated on a reducing balance while obligated to pay interest of 6.0% on share dividends.

In 1973, the "Credit Unions (Amendment) Ordinance" was passed. The principal purpose of the Ordinance was to specify that the Registrar of Cooperatives must approve any auditor selected by a credit union to conduct the annual audit of their books. The amendment also spelled out the power of the auditor to request all books and documents relevant to the audit examination. It is likely that the passage of the amendment was influenced by the rather high failure rate in the credit union movement[29] and government's desire to provide a greater level of protection for shareholders.

Growth in the credit union movement from 1964 to 1980 was evidenced by an almost eleven-fold rise in the level of assets while the listed membership nearly doubled from 14,657 to 28,567. Although information is not available to indicate membership growth by region, Belize City (the major population center) was host to several of the larger credit unions including the largest, Holy Redeemer Credit Union.

[29] In 1964 a total of 43 credit unions were registered but only 18 were active.

During the 80s, credit unions membership continued to increase and the number of active credit unions rose to 21. Share capital rose steadily during the period while loans and advances also increased substantially, averaging an annual increase of 17.2%. Both of these aggregates increased relative to GDP during this period.

In 1982, the Credit Unions Act was amended to empower the Minister responsible for credit unions to vary the interest rate payable on credit union loans. Section 39 was also amended to state that the Minister may approve increases in the borrowing limits of the credit unions[30]. The amendment also enabled shareholders to operate joint accounts, a facility similar to that offered at the time only by the commercial banks.

The changes in the legislation stemmed from the fact that the credit union movement was seeking to expand its scope of operations at this time particularly in terms of providing loans for home construction and home improvement for their members. The statutory limit of 1.0% interest rate charged on loans calculated on a reducing balance, meant that the credit unions could only earn on average approximately 7.5% on loans advanced which was far less than that charged by commercial banks whose weighted average rates stood at 17.7%. The amendment was therefore designed to increase the flexibility of the credit unions by enabling them to access loans from commercial sources including the banks, DFC and the Social Security Board. From 1985 onwards, credit unions expanded their loans for housing. This was facilitated by financing obtained by DFC from USAID and onlent to credit unions specifically for home improvement.

By 1991, there were approximately 21 active credit unions of which the Holy Redeemer Credit Union was the largest, accounting for approximately 67.9% of total assets. Thirteen of the inactive credit unions were then being considered for liquidation. Total assets of the Credit unions in that year amounted to $50.5 mn while outstanding loans and advances were valued at

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30 Section 39 stated that credit unions may borrow funds exceeding 25% of its combined capital and surplus and deposits if approved by a vote of 3/4 of its Board of Directors and may borrow up to 50% of combined capital,surplus and deposits upon a vote of 3/4 of the Board of Directors or 1/3 of the total membership if those voting in support of the resolution represent a majority of shares issued.

$44.8 mn, approximately 21.0% of total credit extended in the country.

The basic objectives of the credit unions continue to be that of promoting thrift among their members and provision of loans for provident and productive purposes. The unions operate by selling shares and recycling these funds to provide for the credit needs of shareholders. Over 90 percent of credit union assets are advanced to members in loans. Shareholders are paid an annual dividend of 6.0% in accordance with the credit union legislation. This is 1 percentage point higher than that paid by commercial banks on ordinary passbook savings[31] deposits and the credit unions are therefore competitive with the commercial banks in mobilizing savings.

An added attraction of the credit unions is the relative ease with which members may obtain loans in comparison with the commercial banks. A person is able to borrow up to two times the value of his/her shares without having to obtain approval from the credit committee. In addition, both loans and shares are insured by most credit unions with CUNA Mutual. Thus, if a member dies, his debt is canceled up to the amount of $40,000 while he receives 100% of the money saved from age 6 months to 55 years and twice this value if the member dies by accident[32]. Some credit unions also pay a rebate on interest paid to those borrowers who are current with their payments. In the case of the Holy Redeemer Credit Union, this rebate amounts to 5%, thus making borrowing in comparison to other sources, not only cheaper but even attractive.

While there are no firm statistics, it is generally believed that a considerable number of individuals maintain commercial bank accounts as well as shares in a credit union. On one hand, having shares at a credit union facilitates borrowing in time of need while having an account at the commercial banks facilitates payments and transactions via cheques or easy access through the ATMs. Moreover, it should be noted that while the interest rates offered by

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31 The minimum rate for such deposits is established by the Central Bank. In March of 1994, the Bank decreased the minimum rate payable on ordinary passbook savings from 5.0% to $4.5%.

32 These rates apply for the Holy Redeemer Credit Union. Coverage may differ somewhat for other credit unions.

commercial banks on savings deposits were generally higher than that offered by credit unions from 1985 - 1988, this is no longer the case. From 1989 to the present, the weighted average interest rate paid by commercial banks on deposits has been between 5.3% and 5.4% while that paid by credit unions has been maintained at 6.0%. The credit unions are therefore a more attractive option for small savers. In comparison, rates paid by commercial banks on time deposits are higher. At the end of 1995, the weighted average time deposit rate stood at 10.0% though in general, a minimum of $5,000 is required which is far beyond that affordable by members.

Another important aspect of the credit union movement is its ability to penetrate the rural areas of the country which the commercial banks find uneconomical to service. The credit unions are able to do this because in many instances its administrators perform their functions free of cost. Consequently these organizations have and continue to play an important role in increasing the level of monetization, and in developing the productive sectors of the economy as well as the financial system itself.

Notwithstanding their continued importance, the number of credit unions over the years have declined for several reasons, the most important of which may be poor management and supervision. There are major success stories among those that have managed to survive however. In particular, the Holy Redeemer Credit Union, which has existed now for 51 years, has a membership at the end of 1995 of 30,652 and assets totalling $73.5 mn of which loans receivable amounted to $64.1 mn. This credit union had been instrumental in lending for mortgage purposes and at the end of 1995 loans for such purposes has accounted for 42.5% of total outstanding loans. Other credit unions that have not only managed to survive but which have made notable progress over the years are St. John's Credit Union, Civil Service Credit Union, La Inmanculada Credit Union, Xavier Credit Union, among others.

C.3. GOVERNMENT SAVINGS BANK

The Government Savings Bank was established in 1938 and its operations are governed by the "Savings Bank Ordinance" which came into force in 1939. The ordinance places the Accountant General in control of the Savings Bank and guarantees the repayment of all moneys deposited in the Bank with interest out of Central Government's consolidated revenue fund. It also specifies that not more than one third of moneys mobilized through the Savings Bank can be used for investment in Belize Government securities while at least two-thirds must be invested in sterling securities.

The Savings Bank office is located in the Government's Treasury Department in Belize City and there are five branches, one in each of the main town of the other five districts. Growth in the assets of the Savings Bank has been very sluggish since the early sixties[33] and it may be that the expansion of commercial bank offices has attracted deposits away from the Bank. Over a period of 33 years (1938 to 1971) the rate of interest offered by the Savings Bank rose by 0.5% only. In 1971 the Savings Bank Ordinance was amended so as to authorize an increase in the interest offered on deposits from 3.0% to 4.0% but this had no apparent impact on the Bank's rate of deposit growth. The interest rate remained at 4.0% until 1980 when it was moved upward to 6.0% in line with the upward shift in commercial bank savings and time deposit rates[34].

However, deposits in the Savings Bank continued to rise at a slower rate than those of the commercial banks and credit unions and its share of total financial assets declined. There was no change in the legislation during the decade and the interest offered by the Savings Bank consequently remained fixed at 6.0% throughout the period. During the 1982/83 crop year a decision was taken to suspend payments into the Sugar Stabilization Fund and to date payments have not been resumed.

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[33] Between 1964 and 1980 Savings Bank assets rose from $2.5 million to $4.3 million with most of the growth taking place between 1976 and 1980 when Government decided to enforce a 1958 law requiring the sugar industry to create a Sugar Price Stabilization Fund in the Savings Bank.

[34] Weighted average deposit rates moved up from 5.6% in 1979 to 7.8% in 1980.

Presently, the Savings Bank consists of 7 branches located in the Treasury offices in each of the six district capitals as well as in the capital city of Belmopan. The bank is principally a savings institution having no authority to advance loans to members. Since its original establishment, there have been no changes in its governing legislation aside from amendments raising the interest payable on deposits. Its objective appears to remain that of encouraging individuals in the middle and lower income brackets to save since one of its regulations places an upper limit of $40,000 on savings by individuals and $60,000 in the case of registered friendly societies (Luben 1983). Treasury officials state that it is highly unusual for deposits to reach these limits.

The Savings Bank pays interest on deposits of 6.0%, approximately 1 percentage point higher than that paid by commercial banks on ordinary savings deposits and equivalent to that earned on credit union shares. Despite its attractive interest rate, the Savings Bank's assets at the end of 1995 was approximately $6.8 mn, representing an annual average growth rate of 4.8% over the past 5 years. Deposits have however fallen slightly over this same period from $5.7 mn in 1990 to $5.5 mn in 1995.

There is no active promotion of the Savings Bank in the various media by the Treasury Officials responsible for its administration and this could be a factor in its decline. Since the Bank does not offer services comparable to that of the commercial banks it would seem that it must become more aggressive in self promotion to arrest its relative fall in fortune.

In accordance with its governing legislation which dictates that at least two thirds of the Bank's assets consist of investment in sterling securities, the Savings Bank invests the lion's share of its funds overseas thus presently limiting its possible impact on domestic financial market development.

C.4 National Development Foundation of Belize

The National Development Foundation was established in 1983 with US Aid assistance as a private non-profit organization designed to provide funding and technical assistance for small enterprises which are generally unable to access commercial bank financing due to lack of adequate collateral. It achieves this by lending at an interest rate of 12% per annum plus an additional 2% administrative fee. While the interest rate is lower than that charged by the commercial banks, it is comparable to that charged by other institutions such as credit unions and DFC. However, the NDFB, unlike credit unions, charges an additional 2% administrative fee but in return provides technical assistance and training to its borrowers whenever necessary.

The Foundation obtains funds through grants obtained from various international agencies including USAID, EEC, UNHCR and EDF, among others. Given the expansion in the institution's activities and the inadequate level of grants it received, NDFB resorted to borrowing from the Government in 1987. Since then, it has borrowed from several other sources including the UNDP/Prodere, BCCI/BEIPU, the Central Bank and supplements this with local fundraising. Donations given to the Foundation are tax deductible thus providing an incentive for members of the public to make contributions. The funding received has been utilized for issuing credit as well as to sustain the daily operations of the institution. NDFB's loan portfolio has increased from $82,358 in 1984 to $7.5 mn in 1995.

Originally, the Foundation had hoped to become self-sustainable within five years from the commencement of its operations. However, by 1988, its operating revenues only amounted to 40% of its operating expenditure. Revenues have therefore been supplemented mainly by grants received from various institution plus other funds raised locally. Subsequent expansion in loan portfolio has improved the NDFB's income earning capacity significantly and consequently in 1995, they were able to meet 85% of operating costs from operating revenues. This is a major improvement but there is still some distance to go before the Foundation will be fully self-sustainable and able to operate without the aid which it has been privileged to receive so far.

The typical size of an NDFB loan is around $5,000.[35] Loans are extended for a variety of purposes such as manufactures, trades and services ranging from tailoring, furniture making and small farming to retail and distribution. While the NDFB remains small relative to the other major components of the financial system it has nevertheless made a significant impact in the number of micro enterprises that have been launched with its assistance. Between 1984 and 1994 the Foundation approved a cumulative total of 3,888 loans valued at $17.8 mn.

35 Loans of this size constitute 65% of total lending.

PART D NONBANK FINANCIAL INSTITUTIONS

D.1 Insurance Companies

Information on the insurance industry is exceedingly difficult to come by. Consequently no attempt has been made to trace the development of this sector over the past years. The problem of collecting data is compounded by the failure of several insurance companies to submit audited financial statements to the Supervisor of Insurance.

There are presently 20 insurance companies doing business in Belize. Approximately one half are branches or agents of foreign companies. Eleven companies transact both life and non-life insurance business, 5 transact non-life insurance only and there is 1 company which offers only life insurance coverage. In addition, there are 2 insurance brokerage firms and 2 agents. Gross premium income reported for 1989 amounted to $12.8 million, a $2.9 million increase over that reported for the previous year.

In the absence of detailed information on the assets and liabilities of the insurance sector one can only make tentative conclusions about the disposition of insurance funds. While firms which are branches of foreign companies would most likely remit funds overseas for investment, locally owned companies are believed to invest a significant portion of their funds in interest bearing deposits and an indeterminate portion is used to purchase re-insurance overseas. There is also preliminary information that individuals who have life insurance coverage with one of the existing 12 life insurance companies are able to borrow from this companies for home construction using their life insurance premium as collateral. Much work is yet to be done on the collection of data on this sector however.

D.2 Unorganized Money Market

The scope and size of operations of the unorganized money market is a matter of mostly conjecture at this time as very little research has been done in this area. The legal component of the market consists primarily of the "syndicates" which are small groups of people (averaging around 10 in number) who make interest free loans to each other (Luben 1983). Store credit, loan sharking and money laundering through the border trade with Mexico are other aspects of this market for which little information is available.

The very nature of an unorganized money market implies that the sector is not subject to Government monitoring and control. However the central authorities have not been completely oblivious to its existence as evidenced by the passage of a "Moneylenders Ordinance" in 1954. Under this ordinance the term "moneylender" includes every person whose business is that of moneylending or who advertises or announces that he is carrying on such a business. Section 3 of the ordinance declares the charging of compound interest on loans or the imposition of increases either in the rate or amount of interest due to default in payment of sums due, to be illegal. Section 7 provides for the granting of relief by the courts from harsh and unconscionable transactions which includes the charging of excessive interest. If interest charged by a moneylender exceeds 48% per annum this qualifies for legal relief under the ordinance. However the law also provides for relief if the court is satisfied that interest charged is excessive even if the rate does not exceed 48%.

The practice of pawnbroking falls under the provisions of the Moneylenders Ordinance based on its definition of a moneylender. However there seems to be no attempt at enforcing this piece of legislation. Presently there is one registered pawnbroker although the writers know of at least two others which are in business. None are included on the income tax role and it is therefore extremely difficult to gather information on the level of assets and liabilities of this sector.

In 1990, visits were made to two pawnbrokers, only one of which was registered, in an attempt to obtain information on the interest rates charged on loans and collateral required. The unregistered pawnbroker accepted almost any item as collateral with the stipulation that the customer present identification or show proof of purchase. He charged interest at 25.0% payable after 17 days after which if the loan is not repaid the collateral becomes his property. The registered pawnbroker, JL's Quick Loan Ltd., offered loans up a maximum of $5,000. The only collateral which was accepted at this institution was jewelry and the customer had to present some sort of valid identification or proof of purchase. The interest rate charged was 10.0% for the first ten days and increased to 15.0% thereafter up to 33 days. If the interest was paid after 33 days the cycle began again. If not, the collateral reverts to the pawnbroker's ownership.

In the Belizean context, pawnbroking has not been considered a very reputable activity. This concept however has changed somewhat over the recent past attributable largely to the aggressive advertising and innovative services which are being offered by the only registered pawnbroker, JL's Quick Loan Ltd. Having established the business in 1988 as a pawnshop, JL's has quickly expanded the business by offering certain services that have been lacking for some time.

These services include the Quick Cash Card instituted in 1993. The concept began with J.L's advancing customers cash at 10% interest rate over a 30 day period in return for post dated cheques. By 1993, the company believed it had acquired enough knowledge about the type of clientele it was dealing with to be able to issue the Quick Cash Card to customers without any collateral. Holders of the card are able to obtain cash up to an authorized amount simply by presenting the cash to the J.L's cashier. At this time the only conditions for obtaining such a card is Belizean citizenship and continuous employment for at least 1 year.

The interest charged on advances received by using the Card declines as the customer is able to acquire a good credit rating over a period of time. In the first instance, a new customer is issued a Blue Card with an authorized amount which ranges between $200 - $600 with an interest charge of 10.0% for 30 days. After one year and a good credit record, the individual qualifies for a Silver Card where the maximum amount obtainable is increased to $1,000 at an interest rate of 8.0% for 30 days. A good credit rating over a two year period enables the issuance of a Gold Card with a maximum of $2,000 and a reduced interest charge of 6.0% over the same 30 day period.

J.L's has successfully offered incentives to encourage increased use of the Quick Cash Card facility by the public. These include an insurance scheme which provides the sum of $1,000 for the beneficiaries of a Card holder upon his/her death, emergency medical benefit of $350 and up to $120 for dental cleaning. As at August of 1996, the Quick Cash Card was offered free of cost but since then a membership fee of $25.00 has been introduced. However, management is currently working towards an expansion of benefits for its cardholders. To date, some 2,100 Quick Cash Cards have been issued and advances to card holders have increased from $119,264 in 1993 to $1.5 mn in 1995 and $1.5 mn for the first nine months of 1996.

More recently JL's has gone beyond providing very short-term financing and now offers advances up to a maximum of $1,000 for a period of 6 months at 4.0% per month. This facility has been named "Finance 60" as the objective is to provide advances to Quick Cash Card holders within 60 seconds. The ease with which financing is made available both in terms of time and requirements, makes these facilities very attractive. At the same time, financing is made available to those who might not qualify for a loan at the commercial banks or other financial institutions.

PART E CONCLUSION

Belize's financial system is characterized by its small size as it essentially consists of the Central Bank, commercial banks, credit unions, DFC, insurance companies, the Savings Bank and the NDFB. This has resulted in a somewhat low level of competitiveness over the years but with some recent evidence of change in this area. Although there has been expansion in the number of savings institutions and considerable deepening of the financial system based on the increased level of financial savings relative to total output, savers are still faced with limited alternatives as regards the number, maturity, liquidity and yield of available financial instruments. Evidence of this is seen in that the recent imposition of a Government 5% tax on interest earned on time deposits in excess of $100, has not affected the growth of this aggregate in any significant way.

Since 1991, any broadening in the range of financial instruments available have been largely due to new issues of Government paper associated with the imperative of financing annual deficits and continued privatizations of public enterprises which are also linked to the state of public finances. These instruments have been purchased primarily by large institutions such as the commercial banks themselves. While big and well established firms are able to obtain financing from the banking system, excessive track record and collateral requirements limit bank lending to small and medium sized enterprises. Small local enterprises therefore continue to find it difficult to acquire the resources needed for medium and long term investment. Since both the mobilization and allocation of financial savings is hindered by the size and depth of the system, this has led to imbalances in the country's economic development.

It is noted that the prospects for the continued development of the financial system have recently been improved as Belize has adopted some of the strategies used elsewhere to bring about a certain degree of financial liberalization. Interest rates regulations, foreign exchange and other price controls have been significantly reduced. With the Central Bank maintaining a strong prudential and regulatory framework facilitated by the new Banking and Financial Institution Act

1996, the reduction of such price distortions which normally results in financial resources being drawn towards inefficient investments, can only have a positive effect on the system's evolution in the years to come.

CHAPTER III

FINANCIAL DIARY
IN CHRONOLOGICAL ORDER

1894 The Belize Board of Commissioners of Currency is established.

1904 The Bank of British Honduras is the first commercial Bank to commence operations in Belize and is founded by a group of local financiers.

1912 The Royal Bank of Canada buys over the Bank of British Honduras and continues providing banking services.

1949 Barclays Bank PLC commences operation in Belize.

1961 Passage of "DFC Ordinance 1961". The Corporation is expected to provide investment capital and undertake economic and financial studies to help guide investors. Profits and dividends paid by the corporation are exempted from income taxes.

1963

a) The "Foreign Banks Ordinance" is repealed and "Banking Ordinance, 1963" is passed into law. The Ordinance requires paid up capital of banks to be no less than $200,000 and includes prohibitions on banks engaging in trade and speculating in land. Commercial banks are also prohibited from granting loans and advances in excess of 10% of paid up capital and reserves without ministerial approval and required to submit quarterly and annual returns on loans and advances and assets and liabilities to the Minister of Finance. A section provides for the publishing of audited balance sheet in the principal newspapers of the country.

b) "DFC Ordinance 1961" is repealed and "DFC Ordinance, 1963" comes into force. The objective of the corporation are spelled out in greater detail and its tax holiday is limited to 15 years.

1965	Amendment to Currency Board Ordinance is enacted to increase the authorized investment of the Board to fiduciary issue of $1.0 mn.
1968	The Bank of Nova Scotia commences operations in Belize.
1971	The locally incorporated Atlantic Bank commences operations in Belize.
1971	Amendment to the Savings Bank Ordinance is enacted to increase the rate of interest offered from 2.5% to 4.0%.
1972	a) "Exchange Control Regulations Ordinance" passed which provides for the making of regulations to control and regulate holding, dealing and transactions involving gold, foreign currency, securities, etc. b) Development Finance Corporation (Loans) Ordinance" is passed authorizing the Minister to issue Government Debentures for the purchase of shares in DFC. c) "Treasury Bills Ordinance" is passed to authorize the Minister of Finance to borrow by issuing Treasury Bills provided that the total value of the issue does not exceed 15% of the estimated revenues of the current financial year.
1973	a) "Banking (liquid assets) Order" is passed establishing liquid

assets ratio for two of the four banks at 20% of average deposit liabilities.

b) "Development Finance Corporation (Transfer of Shares)" Ordinance transforms DFC into a public sector enterprise. All shares in the company were transferred to Government, with the private shareholders being compensated for the value of their shares. This was done in order that the corporation could fulfill the requirements of obtaining a government guarantee for development loans from international, regional and bilateral funding institutions.

c) "Credit Unions (amendment) Ordinance" is passed to tighten the auditing requirements of the credit unions.

May 11, 1976

a) "Exchange Control Regulations, 1976" comes into force which provided the detailed guidelines for the monitoring and management of daily foreign exchange transactions. The Authority was appointed Controller thereby assuming responsibility for ensuring "that the foreign exchange reserves in Belize are administered in the interest of the economy and in accordance with the economic policy of the Government."

b) The Belize dollar link with the US dollar is re-established and set at parity of BZ $2.00 to US $1.00.

Jan 1, 1977

a) "Monetary Authority of Belize Ordinance" comes into force and the new Authority assumes control of the assets and liabilities of the Currency Board. The Authority is given the power to regulate commercial bank operations and initiate monetary policy measures to stimulate the economy, control inflation, and maintain balance of payments stability. Its instruments include varying the cash reserve and liquid assets ratios of the commercial banks, the imposition of selective controls on the volume of credit extended, and open market operations.

b) The Monetary Authority establishes its discount rate at 7%.

Feb 1, 1977 "Banking Ordinance, 1976" repeals the 1963 Ordinance. This Ordinance required every person carrying on banking business to obtain a license, and every licensed institution to maintain:

i) a minimum balance in an account with the Authority amounting to 5.0% of average deposit liabilities and

ii) a minimum aggregate holding of approved liquid assets amounting to 20.0% of average deposit liabilities.

Feb 1 , 1977 The Authority, with the approval of the Minister and in accordance with the provisions of Section 18 (3) (j) of the Banking Ordinance 1976 declared as approved liquid assets 80.0% of loans to Government and public sector entities together with 10.0% of all other loans.

March 4, 1977 The Authority is a signatory to the Agreement establishing the CARICOM Multilateral Clearing Facility which replaced the several bilateral arrangements which previously constituted the inter regional system of payments. The declared aims of the Facility are to facilitate settlement on a multilateral basis of payments for eligible transactions, to promote the use of participants' currencies in settling eligible transactions.

June 16, 1977 The Authority fixes and notifies licensed institutions on a daily basis, the minimum and maximum selling rates of stipulated currencies. These rates were posted on notice boards at all banking premises, including the offices of the Authority. Stipulated currencies were (a) pound sterling, (b) United States dollar, (c) Canadian dollar and (d) currencies of member countries of the Caribbean Community.

Aug. 5, 1977 — The first issue of Government Treasury Bills is made. The Authority acted as agent in this process.

1977 — The Development Finance Corporation launched the D.F.C. Investment Company with an offer of 500,000 shares of $1.00 to the public. It is intended that the Company will invest in new and existing operations in Belize, and by so doing provide nationals with an opportunity to own a stake in productive enterprises in the country.

Jan. 1, 1978 — In accordance with the provisions of section 18 (3) (j) of the Banking ordinance, 1976, the Authority with the approval of the Minister declared the following to be approved liquid assets for the purposes of section 18 of the said ordinance

a) Loans and advances outstanding to government and any public sector entity;

b) Five percentum of other loans and advances outstanding from time to time.

To be effective January 1, 1978 and expires June 30, 1978 after which date the Authority would stand ready to make advances in accordance with the provision of sections 26 of the MAB Ordinance 1976 if necessary to assist a bank facing liquidity difficulties of a seasonal nature.

1978 — The Monetary Authority increases its discount rate from 7% to 7.5%.

1978 — The Authority introduces a commission charge on its own account dealings in Treasury Bills where transactions were initiated by third parties. In May Treasury bills were moved to monthly issues from the previous practice of quarterly issues in order to increase flexibility in dealings. It also began accepting non-competitive tenders for Treasury Bills.

May 1978	Commencement of Monthly Treasury Bills Issue.
June 1978	In accordance with the provisions of section 18 (3) (j) of the Banking ordinance, 1976, the Authority with the approval of the Minister declared only those loans and advances outstanding to Government and other public sector entities to be approved liquid assets for the purposes of section 18 of the said ordinance. This replaced the declaration of January 1978 and thus the 5.0% of outstanding private sector loans no longer considered to qualify as approved liquid assets.
Oct. 1978	The Authority established correspondent relationship with one of the commercial banks in Ciudad Chetumal, Quintana Roo, Mexico, to facilitate the exchange of Mexican pesos received by Belizean for payment of re-exports.
Oct. 1978	Clearing House agreement is signed between the Monetary Authority and commercial banks to encourage local commercial banks to clear local documentary credits and to settle local interbank balances in Belize. Representatives of each bank meet every business day except Mondays, to deliver cheques drawn on other banks and to receive cheques issued by its customers. The agreement also provides for ad hoc clearing between two banks.
1979	The Monetary Authority directs commercial banks to reduce outstanding credit by 5.0% of the value outstanding as at December, 1979 by March 1980.

March 1979	The arrangement set up by the Authority in October 1978 to facilitate the exchange of Mexican Pesos by a correspondent Mexican Bank failed to achieve the desired objective and thus discontinued.
1979	The discount rate is increased from 7.75% to 10.0%.
Jan. 1, 1980	The Authority with the approval of the Minister and in accordance with the provisions of sections 18 (3) (j) of the Banking Ordinance 1976, declared that approved liquid assets would include loans and advances outstanding from the Banana Control Board and the Reconstruction and Development Corporation. This replaced the declaration of June 1978.
1980	Amendment to Savings Bank Ordinance enacted to increase the rate of interest offered from the existing 4.0% to 6.0%.
Jan. 1980	The discount rate is raised from 10.0% to 10.75%.
March 1980	a) Prime lending rate is increased by 2 percentage points from 9.5% to 11.5%. b) The discount rate increased from 10.75% to 12.5%.
May 1980	The discount rate is raised to 12.75%.
June 1980	The discount rate is raised to 13.5%.
July 1980	The discount rate is raised to 14.0%.
Aug. 1980	The discount rate is lowered to 13.0%.

Dec. 1980	The discount rate is raised to 14.0%.
Dec. 1980	a) Prime lending rate raised to 17.0%. b) Three month time deposit rate is set at 15.0%.
1981	The Authority increases the discount rate from 14.0% to 14.5%.
June 1981	The Social Security Scheme comes into effect. Contributions by both employers and employees are to be administered by the Social Security Board and are to be utilized to protect insured persons and their dependents against loss of income from employment, invalidity, retirement from work, sickness and maternity.
Sept. 21, 1981	Belize achieve Independence from Great Britain and hence eligible to apply for membership in a number of international organizations. Applications are made to the International Monetary Fund and the World Bank.
1982	The "Credit Unions Act" is amended to allow the Minister responsible to vary interest payable on loans, approve increases in credit union borrowing limits. The amendment also enables shareholders to operate joint accounts.
Jan. 1, 1982	a) The "Central Bank of Belize Act, 1982" becomes law. The assets and liabilities of the Monetary Authority is transferred to the Central Bank which is granted additional powers to set maximum and minimum interest rates. The Central Bank is required to maintain external asset ratio of 40% of currency in circulation and deposit liabilities while also allowed to hold Treasury Bills of up to 5 times its paid up capital and reserves.

b) The Central Bank establishes minimum commercial bank deposit and lending rates at 5.0% and 16.0% respectively on January 1, 1982.

c) The Central Bank's discount rate is set at 13.5%.

d) The "Banking (Amendment) Act, 1982 is passed which doubles the required assigned capital of foreign banks, increases license fees and exempts loans to Government from the restrictions under Section 13 of the Banking Act.

Jan. 1982 Central bank suspended its trading in Treasury Bills for the first time to stem reserve losses and hopes to stimulating inter-bank trading.

March 1983 Government of Belize signs an Agreement with the Government of United States of America to provide a US $5.0 mn loan facility to the Central Bank of Belize to establish a Discount Fund against which the commercial banks could discount new loans for certain designated projects. The aim of this agreement is to provide funding for private sector productive investment. Mainly those that are export oriented.

Aug. 1, 1983 The prime lending rate chargeable to borrowers is reduced from 16.0% to 14.0%.

Ordinary passbook savings is reduced from 5.0% to 4.0%.

Premium savings reduced from 8.0% to 7.0%.

One month term deposit reduced from 10.0% to 8.0%.

Three & six month term deposits reduced from 12.0% to 10.0%.

Twelve month term deposits reduced from 12.5% to 10.5%.

Discount rate reduced from 13.5% to 12.0%.

1984 The "Banking (Amendment) Act, 1984 is passed imposing fines for the violation of Sections 10 and 13 of the Banking Act and increasing the fine payable for violation of Section 14.

Jan. 12, 1984	Prime lending rate lowered from 14.0% to 12.0%. Ordinary passbook remains unchanged at 4.0%. Premium savings reduced from 7.0% to 6.0%. One-Month term deposits reduced from 8.0% to 7.0%. Three-month and six-month term deposits reduced from 10% to 9%. Twelve-month term deposits reduced from 10.5% to 9.5%.
July 1984	Bank are allowed to include US$3.0 mn balance of payments support loan to the Central bank in other approved assets.
Nov. 1, 1984	Cash reserve ratio was increased by 2 percentage points to 7.0%.
Jan. 28, 1985	Minimum lending rate increased from 12.0% to 14.0%.
Jan. 28, 1985	Prime lending rate increased from 12.0% to 14.0%. Ordinary passbook increased from 4.0% to 7.0%. Premium savings increased from 6.0% to 9.0%. One-Month term deposits increased from 7.0% to 10.0%. Three-month and six-month term deposits increased from 9% to 12%. Twelve-month term deposits increased from 9.5% to 12.5%. Central Bank's deposit rate set at 10.0%. Discount rate is 20.0%.
Feb. 1985	A loan agreement is signed between the Government of Belize and the Government of the United States of America for the sum of US $13.0 mn and a US $1.0 mn grant. The purpose of the agreement was to assist Government in its fiscal stabilization efforts through the provision of funding for capital projects and through the provision of

technical and other assistance.

March 1, 1985	Cash reserve ratio was increased by 2 percentage points from 5.0% to 7.0%.
March 1, 1985	Commercial banks liquid assets requirements were increased by 5 percentage points to 25.0% of average deposit liabilities. Interest rate on CBB's loans to banks raised from 12.0% to 20.0%. This meant abandoning the previous practice whereby Central Bank's lending rate to Government and commercial banks was calculated at 2.0 percentage points above Treasury Bill rate, rounded to the nearest 0.5%.
April 1, 1985	Commercial banks liquid assets requirements were increased by another 5 percentage points to 30.0% of average deposit liabilities.
April 1985	The rate on Central Bank lending to commercial banks was raised from 12% to 20% and the practice of automatic lending was stopped. Banks were informed that loans would only be considered in cases where failure to lend could seriously harm the banking system. This measure was understood not to apply to Central Bank lending under the commercial bank discount fund arrangements jointly sponsored by USAID.
1986	Treasury Bills Act is amended to limit the outstanding aggregate of Treasury Bills to $65.0 mn.
1986	Development Finance Corporation (Amendment) Act, 1986 provides for the share capital of the corporation to be increased from $4.0 mn to $10.0 mn. It also provides for the corporation to operate as a

savings institution.

Dec. 12,1986 Prime lending rate decreased from 14.0% to 12.0%.
Ordinary passbook decreased from 7.0% to 5.0%.
Premium savings decreased from 9.0% to 8.0%.
One-Month term deposits decreased from 10.0% to 8.0%.
Three-month and six-month term deposits decreased from 12.0% to 10.0%.
Twelve-month term deposits reduced from 12.5% to 11.0%.
New two year term deposits set at 12.0%.
Discount rate reduced from 20.0% to 12.0%.
Central bank's deposit rate reduced from 10.0% to 8.0%.

1988 The "Banking (Amendment) Act, 1988" is passed amending Section 14 by removing the restrictions on commercial banks investment in public companies in which Government holds more than 50% of shares.

Aug. 1,1988 Prime lending rate decreased from 12.0% to 10.0%.
Ordinary passbook decreased from 5.0% to 4.5%.
Premium savings decreased from 8.0% to 6.0%.
One-Month term deposits decreased from 8.0% to 7.0%.
Three-month and six-month term deposits decreased from 10% to 8%.
Twelve-month term deposits reduced from 11.0% to 8.5%.
New two year term deposits remained unchanged at 12.0%.
Discount rate reduced from 12.0% to 10.0%.
Central bank's deposit rate reduced from 8.0% to 6.0%.
The new rate structure is intended to provide an opportunity to commercial banks to reduce their lending rates without unduly reducing the incentive to save and to restrain consumption.

1989	The "DFC (Amendment) Act, 1989" is passed to allow the Financial Secretary or his representation to sit on the Board of Directors and to require DFC to submit its budget to the Minister of Finance who could amend it before laying it before the National Assembly.
Sept. 9, 1989	The Central Bank Act is amended to enable the Bank to obtain loans or grants from domestic or foreign sources for on-lending to banks and financial institutions in Belize for financing specific development projects and also to provide for the submission of the Bank's budget estimates to the Minister of Finance.
Feb. 1, 1989	Required cash reserve ratio reduced by 2 percentage points to 7.0%.
Feb. 1, 1989	Required liquidity decreased by 2 percentage points to 28.0%.
April 1,1989	Commercial banks prime lending rate remains unchanged at 10%. Prime lending rate increased from 10.0% to 12.0%. Central Bank's deposit rate remains at 6.0%. Ordinary passbook increased from 4.5% to 5.0%. Premium savings remains unchanged at 6.0%. One-Month term deposits remains at 7.0%. Three-month and six-month term remains at 8.0%. Twelve-month term deposits remains at 8.5%. Rate on Treasury Bills will be determined at the monthly tenders. The rate changes reflect the need to encourage a shift from consumption to savings in order to sustain a continuation of the high rate of investment in productive capacity in the economy.
1990	The International Business Companies Act 1990 comes into force in an effort to promote the expansion and development of the financial

system. This Act provides for the formation of PICs as a unique type of IBC with several advantages including exemption of all forms of taxes and duties in Belize for up to 30 years, exemption from exchange control requirements, exemption from withholding taxes on its dividends to shareholders and treatment of members of PIC group as one local entity for tax purposes and preferential tax rates of 25%. Subsequently, two commercial banks became members of PIC groups thus enjoying advantages over the rest.

Feb. 11, 1991	A fifth commercial bank, Banca Serfin SNC of Mexico, commences operation in Belize.
Sept. 1, 1991	Required cash reserve ratio decreased by 1 percentage points to 6.0%.
Sept. 1, 1991	Required liquidity decreased by 3 percentage points to 25.0%.
Dec. 20, 1991	Approximately 10 months after commencing operations in Belize, Banca Serfin SNC closed its doors as part of a global streamlining strategy pending privatization of the bank in Mexico.
1992	Government injected $3.5 mn in equity into the Development Finance Corporation. The DFC showed an improvement in its financial position following the restructuring exercise started in 1990.
1992	A Securities Desk is established at the Central Bank of Belize to carry out such functions of subscriptions, transfer and registrar agent for BTL and BEL. In the privatization process of these companies, the Central Bank acted as the sole financial intermediary for the Government through its Securities Desk. The Bank is also responsible for maintaining the Register of share holders and debenture holders

and the payment of interest and dividends.

Aug. 1992 — Central Bank offers the Central Bank Building Construction Bonds to the public to finance the construction of a new headquarters which will house all departments.

Oct. 1, 1992
a) Required cash reserves ratio increased by 1 percentage points to 7.0%.
b) Required liquidity increased by 2 percentage points to 27.0%.

1 The aim is to dampen the rate of credit expansion by absorbing some of the excess liquidity in the system so as to ease the pressure on the official international reserve position.

Nov. 1, 1993 — Approved liquid assets ratio increased by 1 percentage point from 27.0% to 28.0%.
The aim is to reduce the level of excess liquidity in the system thereby dampening the demand for foreign exchange and encourage financial institutions to bring in funds from abroad.

Nov. 27, 1993 — Central Bank of Belize (Amendment) Act, 1993, in which the maximum level of advances to Government by the Central Bank was increased from "15% of estimated current revenues of Government for its current financial year" to "20% of the current revenues of the Government collected during the preceding financial year, or the sum of fifty million dollars, whichever is the greater".

Nov. 1993 — An amendment is made to the Treasury Bill Act, chapter 65 of the Laws of Belize, to provide for the issue of Treasury Notes up to a maximum of $25.0 mn and to increase the amount of outstanding Treasury Bills to $70.0 mn.

Jan. 4, 1994	The first issue of Treasury Notes was floated. This was a one year issue for $5.0 mn. This was taken up by the commercial banks who were required to purchase these with foreign exchange so that they could be classified a component of liquid assets.
1994	Government may issue up to $25.0 mn in Defense Bonds. The first issue which was floated at 8.0% amounted to $5.0 mn and was held largely by Social Security Board. These have a five year maturity period.
1994	The second issue of Defense Bonds at 9.0%, amounting to $10.0 mn, was floated and held by the Central Bank. This bring the total amount outstanding to $15.0 mn.
March 26, 1994	Commercial banks prime lending rate reduced from 10.0% to 9.0%. Ordinary passbook decreased from 5.0% to 4.5%. Term deposits reduced to 6.5%. Central Banks lending rate reduced from 12.0% to 11.0%. Change in rate in an effort to simplify the rate structure so as to increase the flexibility of the banking system in determining interest rates.
Dec. 12, 1994	The second one-year issue of Treasury Notes in floated for $10.0 mn.
Jan. 1, 1995	The required liquid assets holdings of the commercial banks are reduced from 28.0% to 24.0%. Cash reserves requirements are reduced from 7.0% to 5.0%. Central Bank removes the floors previously set on time deposits savings other than passbook savings and lending rate. The floor on ordinary passbook savings set at 4.5% to provide some

measure of security to small savers.
Government shifts $21.0 mn of its time deposits held with commercial banks to Central Bank.

Jan. 1995 — The Bank establishes disclosure requirements which will specify that banks display prominently the effective rates of interest charged on loans and paid on deposits in order that the general public may be better informed. In order to promote orderly development of the market, the Central Bank will commence to publish the marginal rates of interest on a monthly basis beginning with January 1995.

March 1995 — Social Security transfers $4.7 mn of its deposits held with the commercial banks to Central Bank.

June 1995 — The PIC section of the IBC act was repealed on the basis that it provided no economic benefits to Belize and was in fact detrimental since it unfairly advantaged subsidiaries of holding companies. Existing PICs are protected by a 30-year clause and therefore only the creation of new PICs is restricted.

Aug. 16, 1995 — The Inter-bank Market was officially introduced and managed by the Bank. The primary objective of this facility is to provide the commercial banks with a mechanism to profitably re-deploy their excess cash holdings within the banking system. Thus, those banks experiencing a cash shortfall would now be able to borrow from another bank experiencing excess liquidity thereby reducing the need to seek financing outside the domestic financial system. This would be done by way of a short-term loan which bears interest at a rate determined by the Central Bank.

Dec. 1, 1995	Cash reserves increased from 5.0% to 7.0% of average deposit liabilities. Liquidity requirements increased from 24.0% to 26.0% of average deposit liabilities.
1995	The Central Bank prepared and submitted to Government a draft Bill for an Offshore Banking Act which will establish licensing requirements for two classes of offshore banks; lists the prohibited activities of these institutions; provides for its adequate supervision and establishes secrecy and disclosure practices. This should be enacted in 1996.
1995	The Central Bank also proposed the implementation of anti-money laundering legislation to discourage such activity from taking place in Belize. The Money Laundering (Prevention) Bill is expected to be passed into law in 1996 along with the Offshore Banking Act. Both the pieces of legislature will assist the development of Belize as a reputable offshore financial services sector.
Jan. 1, 1996	The new Banks and Financial Institutions Act came into force thus replacing the 1976 Banking Act. Contains features that strengthen the role of the Central Bank in the prevention of banking failures/crisis. Some of the most important features of the new BFIA includes:

i) Licensing procedures and requirements were strengthened imposing stringent standards on the Central Bank to ensure that only fit and proper persons own and manage banking and financial institutions.

ii) BFIA now covers not only banks, but also other financial intermediaries such as finance companies, specialized mortgage lending institutions, merchant bank, investment banks, etc.

iii) Legal duties and responsibilities on officers and directors of licensed institutions are imposed.

iv) The minimum entry capital requirements are increased.

v) Limited supervision of bank holding companies and affiliates are introduced.

vi) Bank auditors now have the legal obligation to review and report to the Central Bank on certain key area of the bank's operations.

vii) Gateway provisions for the exchange of confidential information with other foreign supervisors now included.

viii) New provisions were introduced to facilitate early intervention in problem institutions.

ix) Provisions are made for dealing with abandoned property.

x) BFIA established an Appeal board to hear and determine matters arising from the enforcement of the Act.

Jan. 13, 1996 Central Bank of Belize (Amendment) Act, 1995 is passed widening the powers of the Central Bank to borrow funds for on-lending to banks and financial institutions for development purposes; to empower the Central Bank to perform agency functions for the Government for trading in Government securities; to provide for two Deputy Governors instead of the existing one; and to make consequential amendments pursuant to the Banks and Financial Institutions Act.

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