The Growth of Financial Savings in Belize and its Contribution to Economic Growth by Martin Brownbridge

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The Central Bank of Belize

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Introduction

This paper examines the growth and utilisation of domestically generated financial savings in Belize during the 1980s. The emphasis of the paper is on private sector financial savings which have been mobilised through domestic financial intermediaries and are potentially available to finance domestic investment. Section 1 contains a brief theoretical overview of the role of financial savings in the growth of developing countries. The financial instruments available to savers in Belize are examined in section 2. These consist mainly of commercial bank deposits and member shares in credit unions, although a very limited range of primary securities are also available. Developments in the Belizean economy during the 1980s are outlined in section 3. The country experienced a serious recession in the early part of the decade largely due to a sharp deterioration in the terms of trade, and had to undertake a balance of payments stabilisation program in the mid 1980s. Over the last two years however the economy has displayed vigorous growth. In section 4 the growth of the main domestic financial assets available in Belize is examined. Interest bearing bank deposits and shares in the credit unions have both displayed strong growth during the 1980s and the possible reasons for this growth are discussed. The utilisation of these savings to finance domestic economic activity is also examined in this section. The paper ends with some tentative conclusions regarding the role played by financial savings in facilitating economic growth in Belize.

The Role of Financial Savings in Economic Development

Development economics has for several decades recognised the importance of the mobilisation of domestic savings for economic growth in developing countries, with an inadequate level of savings, often attributed to the very low incomes of the population, being regarded as a major constraint on investment. Strategies to raise the level of savings in order to finance investment have included the use of the fiscal system and domestic credit creation, but the narrowness of the tax base and the consequences for the balance of payments and inflation have limited the efficacy of these approaches. Greater emphasis in recent years has been placed on policies aimed at raising the level of voluntary private savings mobilised in particular through the financial system, and on ensuring the optimal use of these scarce financial resources. These policies have included the much greater use of interest rates to both stimulate financial savings and to allocate credit, and increased efforts to maintain macro economic stability.[1] The need to increase the rate of domestic financial savings in developing countries has been given added urgency because of

1 The emphasis on the use of interest rates has been part of a much wider shift towards the use of market forces and the price mechanism in resource allocation in developing countries, a move which has included the liberalisation of foreign trade, exchange rates, agricultural and public utility prices as well as credit markets.

fears that the volume of external finance (foreign savings) available through foreign investment, aid and commercial bank borrowing may decline in the future.

The influential works of McKinnon (1973) and Shaw (1973) focussed attention on the importance of financial intermediation in the economy and the role that economic policies might play in promoting or suppressing financial savings.[2] These authors argued that financial savings and probably savings in general are sensitive to the expected real rate of return on holding financial assets. In developing countries with very limited primary securities markets the predominant form of domestic financial assets available to the public is money in the form of cash or bank deposits. Policies to encourage financial saving should therefore aim to ensure that real deposit rates of interest are maintained at positive levels, and that inflation is kept under control.

In contrast conventional Keynesian theories have tended to assign little importance to the impact of interest rates on saving which instead is assumed to be determined largely by real variables such as the level and growth of incomes, income distribution or factor shares and demographic

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2 McKinnon and Shaw developed critiques of a range of policies which they termed financial repression. These policies included ceilings on deposit and lending rates of interest, non price allocation of credit, and inflationary financing of government budget deficits.

trends.[3] Numerous empirical investigations into the interest responsiveness of savings ratios and growth rates of financial assets in developing countries undertaken in recent years have in general yielded conflicting and sometimes controversial results.[4]

A higher rate of growth of financial savings held in financial intermediaries can have three potential beneficial effects for economic growth. First, to the extent that increased financial savings are a substitute for consumption the overall domestic savings rate is raised, thus increasing the resources available for domestic investment. Second, if domestic financial savings substitute for largely non productive assets such as speculative land holdings, precious metals or foreign assets in savers' portfolios, there will again be an increase in the finance available for domestic investment. Third, the quality of domestic investment may be increased if savings are diverted from self financed investments with low rates of return through

3 In a simple model of intertemporal consumer choice a rise in the real interest rate will have an ambiguous effect on saving. Saving will be raised by the substitution effect of higher interest rates which makes future consumption more attractive relative to present consumption but lowered by the income effect. However even if there is little impact on overall saving higher interest rates may have a significant impact on the form in which savings are held, by inducing savers to substitute domestic financial assets for non financial or foreign assets.

4 See for instance Khatkhate (1988) and Gonzales Arrieta (1988)

the financial intermediaries into higher yielding outside financed investments.

As well as facilitating the long term growth of the economy policies to raise the level of financial savings may also have a beneficial role to play in the short term as part of balance of payments stabilisation programs. The Monetary Approach frequently used in small open economies is based on the banking system's balance sheet identity in which the change in the banking system's net foreign exchange reserves is equal to the increase in holdings of domestic monetary assets minus the increase in domestic credit. The emphasis in these programs has often been placed on quantitative restrictions on the growth of domestic credit, restrictions which have sometimes had an adverse impact on the financing of investment and working capital. Policies which increase the public's holdings of domestic monetary assets, such as higher deposit rates of interest, can allow for a larger rise in domestic credit for a given foreign reserves target and thus mitigate the impact on output and growth.

The experience of many developing countries does tend to indicate that a positive correlation exists between the domestic savings rate, financial deepening (an increase in the level of financial assets to nominal incomes), the level and efficiency of investment and economic growth.[5] The evidence regarding the direction of causation among these

5 World Bank (1989) p28-30

variables is however much weaker and there are a number of reasons why, in some developing countries, policies which aim to promote financial savings might have little impact on growth.

The major drawback to these policies concerns the potential impact of higher real interest rates on investment demand. McKinnon and Shaw's recommendations for higher real interest rates were based upon an assumption of excess credit demand because of ceilings on loan rates. But if loan rates are already market determined there may be very little scope for increasing deposit rates without cutting credit demand. Moreover even if higher loan rates do not reduce credit demand investment might still fall. This is because many businesses in developing countries finance investment out of retained profits as well as bank credit, and higher interest payments may cut profits.[6]

Second the most important constraint on economic growth may not be a shortage of capital. An inadequate labour supply (especially of skilled labour), shortages of foreign exchange and a lack of suitable investment opportunities because of the small size of the domestic market and possible barriers to export markets might instead be much more serious obstacles to growth particularly in some of the

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6 Snowden (1987)

small and open economies that characterise the Caribbean region.

Financial Instruments Available to Savers in Belize

In common with many other developing countries Belize has a poorly developed financial system in the sense that the range of assets and liabilities available to potential savers and borrowers is very limited. The financial system is dominated by the commercial banks, whose operations are confined largely to retail rather than investment banking. The commercial banks attract the bulk of the private sector's financial savings and are by far the most important intermediaries for channeling domestic savings into domestic investment. Virtually the only alternative outlet for the public's savings is provided by credit unions and a Government savings bank. A very limited range of primary securities and equities are available but are not yet held in any significant volume by the non bank public. The Central Bank holds deposits of the Central Government and some public sector enterprises.[7]

The four commercial banks in Belize offer savers non interest bearing demand deposits and interest bearing savings and time deposits. Demand deposits are held largely by businesses and salaried workers and are probably held mainly for transactions rather than for savings purposes.

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7 A more detailed analysis of the financial system in Belize is given in Luben (1983) and Central Bank of Belize (1988).

Savings deposits are a relatively convenient form of saving for lower and middle income members of the public. These deposits are liquid and the minimum deposit requirement before interest is paid is relatively low. The current nominal interest rate payable on savings deposits is between 5% and 6% per annum. In recent years they have offered a positive if small real rate of return.

The banks offer time deposits of up to one year maturity which currently pay between 7% and 9.5% per annum in interest. Most time deposits however are of maturities of up to three months. A minimum deposit of $5000 is required by two of the banks while a minimum of $25000 is required by the other two. This must effectively exclude a large part of the population from purchasing these assets. Time deposits are mainly held by the wealthier sections of the public, by cash surplus businesses, and increasingly in recent years by some of the public enterprises and statutory bodies.

The Central Bank has, since its establishment in 1982, stipulated the minimum interest rates paid on commercial bank savings and time deposits (as well as a minimum lending rate). Minimum rates have been adjusted on average every one to two years mainly in response to the need to influence aggregate demand in the economy. Attention has also been given to ensuring that domestic deposit rates of interest remain competitive with those in the US because US financial assets are a potential substitute for domestic bank deposits. There are a large number of Belizeans living and working in the US and their remittances, which are estimated to have amounted to around BZ$30 million annually in recent years, provide an important source of foreign exchange.

The credit unions, of which there are 17 known to be active in Belize, attract savings largely because they can also offer credit facilities to savers who would normally have difficulty in obtaining commercial bank loans. Savers have the opportunity of either buying shares in a credit union (which entitles them to become a member) or in making a deposit, although virtually all savings in the credit unions are in the form of shares rather than deposits.[8] Shares yield a dividend of around 5-6% and are relatively illiquid but can be used as collateral for loans from the credit unions. Credit unions in effect recycle money between their members to facilitate spending on house building, education, small businesses and consumer durables etc. Any surplus funds are invested in the commercial banks.

The Government Savings Bank offers a 5% interest rate on deposits. The deposits of this institution are apparently held mainly by the elderly and have experienced very little growth in recent years. Savers in theory can also purchase Treasury Bills. These are auctioned regularly by the Central

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8 The value of deposits in the largest credit union amounted to less than 0.1% of the value of members' shares in 1989.

Bank. They are normally of 90 days maturity and currently offer an annual nominal yield of just about 7.5%. In addition longer dated Government debentures are also available. The non bank public however has shown virtually no interest in buying Treasury Bills or debentures and these securities have instead been held by the Central Bank, the Social Security Board and the commercial banks; the latter in order to meet statutory liquidity requirements and to absorb excess liquidity. Little attempt has been made to widen the market for Treasury Bills partly because the Government's borrowing requirement has been reduced considerably in recent years. The public was offered the opportunity to purchase equity in Belize Telecommunications Ltd (BTL) when this company was partially privatised in 1988, but the bulk of these shares were actually bought by the commercial banks, the Social Security Board and a foreign investor (British Telecom). BTL preference shares were bought by the Central Bank. In addition the public can hold financial savings in the form of life insurance policies. No aggregate data on the assets and liabilities of these companies are available but most of their funds are probably invested abroad through the parent companies. Life insurance policies might therefore more usefully be regarded as savings held mainly in the form of foreign assets. Any funds invested locally are likely to be held as commercial bank deposits.

At the end of 1988 the non bank Belizean private sector held almost BZ$200 million of commercial bank deposits, just over BZ$25 million of (recorded) member shares in credit unions, BZ$4 million of deposits in the Government Savings Bank and BZ$2.4 million of BTL shares. Total non bank private sector domestic financial assets (excluding cash) therefore amounted to about BZ$230 million at the end of 1988, of which approximately 85% were in the form of commercial bank deposits and about 11% in the form of credit union shares.

The tax system in Belize provides the public with an incentive to hold financial assets by exempting interest earnings and credit union dividend payments from income tax. There is also no capital gains tax.

Economic Developments in Belize during the 1980s

The world economic recession and the fall in commodity prices during the first part of the 1980s had a severe impact on the Belizean economy. Real output increased only marginally between 1980 and 1983, while real incomes fell substantially as a result of steep falls in the value of sugar and other exports (see table 1). Export earnings declined by 20% between 1980 and 1983. Most sectors of the economy with the exception of public administration and the utilities experienced very little real growth in this period and private sector investment fell sharply. Meanwhile consumer prices, reflecting the still high rates of inflation in the industrial countries, rose by over 30% during the first four years of the decade.

The economy made a brief recovery in 1984 but a balance of payments crisis and growing public sector deficits led to the implementation of a stabilisation program supported by the IMF in the second half of that year and in early 1985. The stabilisation program involved fiscal reforms and monetary restraint and was designed to improve the finances of the public sector, contain the growth of aggregate demand and restore the balance of payments to a more viable position. The fiscal reforms included raising indirect taxes and utilities charges while the policy of monetary restraint consisted of an increase in the reserve and liquid asset ratios of the commercial banks and an increase in minimum deposit and lending rates of interest. Private sector borrowing from the domestic banking system fell in 1985 and remained depressed in the following year. Meanwhile the growth of private sector bank deposits accelerated substantially.

The balance of payments began to improve in 1985 due to substantial official capital inflows combined with the impact of the policy induced demand restraint on imports. Although the consumer price inflation of the early 1980s had abated significantly by 1985 incomes in real terms were stagnant with export earnings suffering another sharp decline due to the continuing difficulties of the sugar industry. In addition private investment suffered another fall.

Economic growth remained modest in 1986 but by the end of the year a second successive annual balance of payments surplus and an improvement in public sector finances allowed monetary policy to be eased in an effort to stimulate private sector investment. Meanwhile the growth of the citrus, banana, garment and tourist industries was beginning to reduce the country's dependence on sugar for foreign exchange earnings.

The reduction of the macro economic imbalances in 1985/86 was followed by a major acceleration of economic growth in the following two years, with output in real terms estimated to have expanded by 13.3% in 1987 and a further 7.9% in 1988. The growth, which was accompanied by a rapid increase in private sector borrowing, was strongest in the construction industry and in parts of the services sector. A major impetus to the economy was provided by a substantial expansion in both private and public sector investment. The former, financed from both local and foreign sources, increased by over 150% between 1986 and 1988 and encompassed sectors such as export agriculture, tourism, light manufacturing and residential construction. Export earnings, boosted by a rise in the unit values of sugar and citrus concentrate and the volume of banana and garment exports, increased by 17% in 1987 and 10% in 1988.

Trends in Financial Savings during the 1980s

The stock of domestic financial assets in Belize has expanded during the 1980s both in real terms and as a proportion of the nominal value of the economy. Growth has encompassed both bank deposits and shares held in the credit unions while the sources of growth have been both the private and the public sectors.

A well known measure of "financial deepening" in an economy with very limited non monetary financial assets is the broad money to nominal GDP (or GNP) ratio - the inverse of the income velocity of broad money. The M2/nominal GDP ratio in Belize has risen from 36.6% in 1980 to 59.4% in 1988.[9] The growth in M2 - in real terms it expanded by 87% between 1980 and 1988 - is largely a reflection of the growth in bank deposits and in particular interest bearing deposits by the private sector and to a lesser extent by the Belize Social Security Board.

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9 M2 consists of currency with the public plus all commercial bank deposits held by the non bank private sector, plus all deposits in the Central and commercial banks of the non Central Government public sector. GDP is calculated at factor cost.

Commercial Bank Deposits

Commercial bank deposits increased in real terms by 95% between 1980 and 1988 (see table 2).[10] The strongest growth was displayed by time deposits, with the share of time deposits in total bank deposits rising from 39% to 55% during this period. The growth in commercial bank deposits during the 1980s is examined below. Deposit holdings by the private and public sectors are treated separately because the economic factors underlying the growth of holdings by the two sectors are different. For similar reasons private sector holdings of non interest bearing and interest bearing deposits are considered separately.

Private Sector Demand Deposits

Demand deposits have been the slowest growing component of private sector bank deposits, expanding by 37% in real terms between 1980 and 1988 (83% in nominal terms). Virtually all of the growth in real terms has taken place over the last two years. Business deposits have been the most rapidly growing component of private sector demand deposits.

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10 Nominal asset values have been deflated by the Consumer Price Index (table 1) in order to calculate real growth rates.

Demand deposits, along with cash, are likely to be held by the private sector primarily to facilitate financial transactions. Changes in the level of these deposits, combined with currency in circulation have quite closely reflected changes in the value of nominal GDP during the 1980s. The ratio of these assets to GDP (the inverse of the velocity of circulation) has remained relatively stable at between 13.1% in 1980 and 15.8% in 1988 (see Table 4). The behaviour of these assets is therefore consistent with a conventional quantity theory of money demand with a small trend fall in velocity.

Private Sector Time and Savings Deposits

Time and savings deposits held by the private sector registered substantial growth in real terms between 1980 and 1988; the former by 102% and the latter by 41%. As a share of GDP, private sector time and savings deposits combined have risen from 21.7% in 1980 to 32.8% in 1988 (see table 4), and this has been the most important element of the financial deepening of the Belizean economy during the 1980s.

These deposits are likely to be held primarily as savings instruments, and given the limited availability of alternative interest bearing assets in the economy, they are by far the most important outlet for the financial savings of the private sector in Belize. It is this role as the major financial savings instruments in the economy which lies behind the increase in the ratio of these assets to GDP mentioned above.[11]

The growth of private sector interest bearing deposits has occurred in two distinct phases; first between 1980 and 1983 and second between 1984 and 1988. The first phase of growth took place in a period in which the Belizean economy experienced serious difficulties, with GDP in terms of domestic purchasing power falling by about 18% between 1980 and 1983 and annual consumer price inflation averaging over 10% in 1980 and 1981; conditions which would not normally be considered conducive to the accumulation of financial assets.

The growth in interest bearing deposits during this period was concentrated entirely in time deposits. Private sector savings deposits actually declined by 2% in nominal terms and by 18% in real terms and this suggests that low income households were unable to add to their stock of financial savings in the face of sharply falling real incomes.

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11 The fact that the stock of private sector financial savings as a share of GDP has been increasing does not necessarily mean that the private savings ratio measured as a flow of funds (ie the share of income saved in any given year) has also increased. The IMF estimates that the latter has actually fallen from 21.5% in 1981 to 9.8% in 1987. The increase in the stock of time and savings deposits during the 1980s is equivalent to about 3% of GDP per year on average.

Time deposits in contrast increased by 69% in real terms and by 101% in nominal terms between 1980 and 1983. This represents a marked acceleration in the nominal rate of growth of these assets compared with that of the late 1970s[12].

The growth of time deposits during the early 1980s was probably influenced by the high rates of interest paid on these deposits. Weighted average nominal time deposit rates increased from 10.6% in 1980 to 14.9% in 1982 (see table 5). The rise in nominal interest rates combined with the fall in inflation increased ex post real interest rates to 11% in 1982 and almost 9% in the following year,[13] although ex ante real rates may have been much lower due to the persistence of inflationary expectations.

The high rates of interest available on time deposits may have attracted funds from the business sector which would otherwise have been used for internally financed capital investment. Private fixed capital investment is estimated to have fallen from $52 million in 1981 to $32 million in 1983 (see table 7). With the economic recession and falling

12 Private sector time deposits increased by 61% in nominal terms between 1977 and 1980. Calculating the increase in real terms is not possible because of the absence of a CPI for this period. Private sector time and savings deposits combined increased by 40% in nominal terms between 1977 and 1980 as compared with 53% between 1980 and 1983.

13 The real interest rates given here should be treated with a great deal of caution because of possible inaccuracies in the CPI.

living standards limiting domestic market opportunities and with depressed world commodity prices, the expected rate of return, discounted for risk, of many prospective capital investments in Belize may not have matched that available from time deposits.

Private sector time deposits declined in 1984 although there was a small rise in savings deposits. Part of the fall in time deposits may have been attributable to capital outflows as a result of a reduction in the interest rates paid on those deposits, and a decline in Belizean time deposit rates relative to those in the US.[14]

The country continued to experience balance of payments problems in 1984 and in response implemented a stabilisation program. As part of the program the Central Bank raised minimum deposit rates by 3 percentage points in January 1985 in order to stimulate financial savings. The actual weighted average nominal rate paid on time deposits increased as a result from 9.2% in 1984 to 11.6% in 1985 and 11.8% in the following year, while that paid on savings deposits rose from 4.8% in 1984 to 7.8% and 7.7% in 1985 and 1986

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14 Central Bank of Belize, 1985 p18-19. Minimum deposit and lending rates were lowered at the beginning of 1983 by between 2 and 3 percentage points and minimum lending rates were reduced by a further 2 percentage points in January 1984. These reductions were in response to declining international interest rates. However the differential between deposit interest rates in Belize and those in the US, which had widened in favour of Belize in 1981, 1982 and 1983, narrowed significantly in 1984.

respectively. During this period consumer price inflation is estimated to have declined from 5.9% in 1984 to 2.5% in 1986.

The growth in private sector interest bearing deposits resumed in 1985. Over the four years to the end of 1988 these deposits expanded by 63% in nominal terms and 52% in real terms. Both time and savings deposits registered large increases during this period - the former by 40% and the latter by 77% in real terms - suggesting that the growth of financial savings was encompassing a wider section of the public than had been the case earlier in the decade.

Public Sector Commercial Bank Deposits

Public sector deposits in the commercial banks have also experienced substantial growth during the 1980s, expanding tenfold from a small base (see Table 3). By the end of 1988 those deposits, most of which are time deposits, accounted for 19% of total commercial bank deposits.

The expansion of public sector deposits is mainly attributable to the growth since its foundation in 1981 of the Belize Social Security Board BSSB). The BSSB held 60% of public sector deposits in the commercial banks at the end of 1988. These deposits are a form of indirect financial or contractual saving for its 30,000 individual contributors.[15]

Some of the utilities and other statutory bodies have also accumulated deposits in the commercial banks following an improvement in their operating finances in recent years.

15 The Belize Social Security Board also holds deposits in the Central Bank, Treasury Bills, Government debentures and equity in Belize Telecommunications ltd. The rapid growth in its financial assets is partly a reflection of the age structure of its contributors, ie there are at present far more people paying contributions than making claims.

Commercial Bank Lending

The expansion of their deposit liabilities during the 1980s has allowed the commercial banks to increase lending to both the public and private sectors. Private sector borrowing expanded by 69% in real terms between 1980 and 1988 with most of the increase concentrated in the final two years of this period. The sectoral composition of commercial bank loans and advances is shown in table 6. During the 1980s the share of agricultural loans in total commercial bank lending has fallen from 26% in 1980 to under 14% in 1988 while the share of lending for construction and some of the service industries has increased.

Lending to the private sector expanded at a modest rate in real terms over the 1980/84 period, growing by an average of 6% per year. As mentioned above private sector investment was badly affected by the impact of the recession on exports and domestic demand and by very high interest rates. Credit to the agricultural sector, and in particular to the sugar, rice and banana industries, fell very sharply.[16] Nevertheless the growth of lending to the private sector accounted for the bulk of the increase in the commercial

16 The fall in commercial bank credit to the sugar and rice farmers was partly offset by an increase in credit from the Development Finance Corporation, a public sector development bank which utilises mainly foreign sources of finance.

banks' deposit liabilities in this period.

Over the following two years private sector borrowing from the commercial banks declined by 10%, undoubtedly due in part to the effects of the increase in minimum interest rates and the liquid assets ratio in early 1985. However, by 1987 the banks had accumulated a large volume of excess liquid assets and this, combined with the lowering of minimum interest rates at the end of the previous year, put some modest downward pressure on lending rates. With the economy starting to display more vigorous growth assisted by higher export earnings, private sector borrowing increased rapidly in the second half of 1987 and the expansion continued in the following year. Loans to the private sector rose in real terms by 20% and 31% in 1987 and 1988 respectively, stimulated by a large increase in demand for loans for residential construction. Lending to most other private sectors of the economy, including agriculture, also increased during this period. The growth in credit to the private sector has facilitated a major expansion in gross fixed capital formation (GFCF). Private sector GFCF expanded by 88% in 1987 and a further 39% in 1988 (see table 7).[17] [18]

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17 These figures are in nominal terms. Calculating the increase in real terms is difficult because of the absence of a prices index for private sector investment expenditures. It is also not possible to give a breakdown of GFCF by sector.

18 Private sector GFCF has also been financed by a substantial inflow of foreign investment. Private direct foreign investment is estimated to have amounted to BZ$16

There is however a widespread perception in the country that the commercial banks remain too conservative in their lending statagies and that the credit needs of small businesses in particular are not being adequately met by the banks.

Commercial bank lending to the public sector, both directly and through purchases of Government securities, began expanding rapidly in 1982. The relatively slow growth of private sector borrowing prior to 1987 had led to a large increase in commercial bank liquidity and this was channeled into financing the deficits of the Central Government and some of the public utilities. The private sector, via the commercial banks, had in effect taken on a large part of the burden of financing the public sector's domestic debt from the Central Bank, and this played an important role in helping to stabilise the economy in the mid 1980s.[19]

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million in 1987 and BZ$28 million in 1988 (ie 22% and 28% of total private sector GFCF in 1987 and 1988 respectively) and has been concentrated in export agriculture, light manufacturing such as garment assembly and the tourist industry. Public investment has relied heavily on foreign sources of finance.

19 Since 1985 public sector net credit from the domestic banking system (the commercial banks and the Central Bank) has fallen as a result of the improved financial position of the Central Government and the public utilities combined with the build up of deposits by the Social Security Board. The public sector became a net lender to the domestic banking system in 1988 following the sale of nearly half of the Government's equity in BTL.

Savings in the Credit Unions

The rate of growth of member shares in the credit unions during the 1980s has been similar to that of private sector deposits in the commercial banks. Member shares increased by 67% in real terms between 1980 and 1988, with the rate of growth having accelerated significantly over the last two years (see table 8). The pattern of growth of these savings during this period suggests that changes in incomes (and especially urban incomes) have probably had the most influence over this expansion.

Credit union loans have expanded at a slightly faster pace than member shares, increasing by 75% in real terms between 1980 and 1988. As with the commercial banks, lending for residential construction, improvement and repair has become an increasingly important part of the credit unions' loan portfolios during the 1980s. These loans accounted for between 40% and 50% of total credit union lending in 1988, with lending for business investment accounting for another 20%.[20] The bulk of lending by the credit unions is therefore used to finance various forms of domestic investment rather than simply consumer spending.

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20 Estimate based on a breakdown of loan approvals made by the Holy Redeemer Credit Union, the largest credit union in Belize in 1988. The HRCU accounted for approximately 75% of recorded credit union lending in 1988.

Conclusions

The stock of financial assets in Belize has expanded in real terms during the 1980s leading to a considerable "financial deepening of the economy". This has occurred despite the very difficult economic circumstances facing the country for much of the decade and the very limited range of financial instruments available to savers. The growth of savings by the private sector has been concentrated in commercial bank time and savings deposits and to a lesser extent in the shares of credit unions. Bank deposits have also been enhanced by the surpluses of the Social Security Board.

It seems likely that one reason for the growth of private sector bank deposits, and particularly time deposits, has been the relatively high interest rates prevailing for most of the 1980s. The Central Bank, since 1982, has attempted to maintain incentives for savers by stipulating the minimum nominal rates of interest to be paid on commercial bank time and savings deposits. This, together with falling rates of consumer price inflation, has ensured that positive real interest rates have been available on these deposits for most of the subsequent period.

The expansion of the stock of financial savings in Belize has made two important contributions to the economy in the 1980s. First, it helped to stabilise the economy in the mid

1980s as private sector savings were used to finance the public sector deficit. Second, the build up of liquidity in the commercial banks was channelled into a rapid expansion of credit to the private sector in 1987 and 1988. This credit was used to finance a range of domestic economic activities including a major expansion of fixed capital investment, and in particular residential construction. In addition credit union lending, much of it also used to finance residential construction, increased greatly during 1987 and 1988.

Real output expanded vigorously in 1987 and 1988 after several years of very slow growth. The expansion of commercial bank and credit union lending to the private sector over the last two years has undoubtedly facilitated the growth in output although there are a number of additional factors which have also made an important contribution. These include the inflow of direct foreign investment, the recovery of certain commodity prices, the repair and expansion of the country's public infrastructure and the reduction of macro economic imbalances. Nevertheless much of the investment which has taken place in several important growth industries such as construction, trade, and parts of the tourist and agricultural sectors has relied of necessity upon local sources of finance.

The growth of financial savings in the comming years is likely to continue if rising incomes, the modest rates of inflation and the preferential treatment of tax deposits also continue to prevail. Economic policies in the USA and the UK give high priority to the control of inflation and as imports from these countries account for the bulk of imports into Belize the chances for restricting domestic inflation rates to modest levels are bright. The contribution which further steady growth of financial savings can make to the achievement of high growth rates of the Belizean economy in the years ahead is likely to depend crucially on the success achieved in channelling these savings into the productive sectors, both large and small.

During 1987, the year following the reduction of minimum deposit and lending rates of interest in December 1986, the excess liquidity with the commercial banks ranged between 11.0% and 18.7% of deposits. The high levels of liquidity continued in the first part of 1988 and prompted banks to discourage time deposits and instead channel additional deposits into the less costly savings deposits. This highlights the difficulty faced by the banks in expanding credit to the private sector even during a period when the economy was growing rapidly and they had ample liquidity.

Evidently the banks are confronted with a narrow credit base. There are a limited number of large private enterprises to which the banks can lend. Some of the larger tourism projects have been financed from foreign loans and loans to the manufacturing sector have increased very little. The major growth areas of bank lending have been residential construction and personal loans.

Currently the banks enjoy a spread of about 7.8 percentage points between their weighted average deposit and lending rates of interest. This spread has increased from 6.1% in December 1986. The banks have preferred to maintain a rising trend in their interest rate spread rather than lowering interest rates to stimulate loan demand and reduce their excess liquidity. They obtain a yield of 7.5% from excess liquid assets invested in Treasury Bills and obtain even higher yields currently on their holdings of short term foreign assets. These yields are consistently higher than the average cost of deposits and reduce the pressure on the banks to raise their levels of lending. The continuation of high levels of excess liquidity represent a potential loss of momentum for growth.

Private sector credit demand needs to be stimulated by a reduction in lending rates of interest by the banks and a narrowing of their interest rate spreads. At the same time banks must work out imaginative credit schemes whereby their lending is increased without any undue rise in the risks incurred. In particular small enterprises in the tourism and services sector need to be financed in order to create opportunities for increased employment and incomes. Small farmer development should also be undertaken especially in the banana and citrus industries which have been expanding in recent years. Lower interest rates would also stimulate credit demand for housing construction, an industry with a large employment potential. The banks also need to review their norms for minimum collateral so that greater emphasis is placed on the viability of projects financed and less on the amount of collateral that the entrepreneur is prepared to provide. It will be difficult to channel the flow of financial savings into productive investment unless the small enterprises are also brought into the ambit of bank lending in greater measure.

Table 1

GDP, Exports, Incomes and Consumer Prices 1980 - 88

BZ$ millions

Year	GDP Current Prices (fc)	GDP Real Growth %	Exports	Real Income Growth %	CPI	Consumer Price Inflation %
1980	308.1	2.6	163.7	-3.1	100.0	14.8
1981	309.4	2.9	149.5	-10.3	111.9	11.9
1982	291.6	0.0	121.7	-9.3	116.3	3.9
1983	302.4	-1.3	130.3	1.1	119.3	2.6
1984	339.0	2.8	145.7	5.9	126.3	5.9
1985	335.2	2.5	128.9	-0.5	125.5	-0.6
1986	354.3	2.6	148.9	3.2	128.6	2.5
1987	425.3	13.3	173.8	17.7	131.2	2.0
1988	480.4	7.9	190.3	9.4	135.5	3.3

fc Factor cost

Real income growth is calculated as
the % change in nominal GDP/CPI

Sources: Central Bank, CSO, IMF and World Bank

Table 2

Commercial Bank Deposits 1980-88

Level Oustanding at Year End
(BZ$ millions)

Year	Demand	Savings	Time	Other	Total	Growth %	Real Growth %
1980	25.3	31.2	36.8	0.7	94.0	12.8	-1.7
1981	23.1	27.8	53.8	0.5	105.2	11.9	0.0
1982	20.6	26.6	66.9	1.3	115.4	9.7	5.5
1983	22.4	30.9	85.1	1.9	140.3	21.6	18.5
1984	28.6	32.3	81.1	1.6	143.6	2.4	-3.3
1985	27.3	31.8	90.6	1.5	151.2	5.3	6.0
1986	30.8	37.8	105.1	1.7	175.4	16.0	13.2
1987	39.5	45.9	126.3	1.9	213.6	21.8	19.4
1988	46.8	62.6	137.0	2.0	248.4	16.3	12.6

Sources: Central Bank, CSO, IMF

Table 3

Commercial Bank Deposits 1980-88

Public and Private Sectors

Level Outstanding at Year End
(BZ$ millions)

Year	Public Sector	Growth %	Real Growth %	Private Sector	Growth %	Real Growth %
1980	3.6	-22.8	-32.8	89.7	14.9	0.0
1981	5.0	38.9	24.1	99.7	11.1	-0.7
1982	10.6	112.0	104.0	103.5	3.8	-0.1
1983	15.6	47.2	43.5	122.8	18.6	15.7
1984	18.1	16.0	9.6	124.0	1.0	-4.6
1985	18.2	0.6	1.2	131.7	6.2	6.9
1986	24.6	35.2	31.9	149.1	13.2	10.5
1987	30.7	24.6	22.5	101.1	21.6	19.1
1988	46.9	52.8	47.9	199.4	10.1	6.6

Sources: Central Bank, CSO, IMF

Table 4

Private Sector Monetary Assets as a share of GDP

Year	GDP ($m)	Currency (c) ($m)	Demand Deposits (dd) ($m)	c+dd ($m)	c+dd/GDP %
1980	308.1	17.5	22.9	40.4	13.1
1981	309.4	19.0	21.5	40.5	13.1
1982	291.6	20.6	18.5	39.1	13.4
1983	302.4	21.4	20.5	41.9	13.9
1984	339.0	22.8	27.4	50.2	14.8
1985	335.2	22.6	25.0	47.6	14.2
1986	354.3	25.9	27.8	53.7	15.2
1987	425.3	29.6	35.9	65.5	15.4
1988	480.4	34.1	41.9	76.0	15.8

Year	GDP ($m)	Savings Deposits (sd) ($m)	Time Deposits (td) ($m)	sd+td ($m)	sd+td/GDP %
1980	308.1	31.1	35.7	66.[illegible]	21.7
1981	309.4	27.6	50.6	78.2	25.3
1982	291.6	26.4	58.5	84.9	29.1
1983	302.4	30.4	71.9	102.3	33.8
1984	339.0	31.4	65.2	96.6	28.5
1985	335.2	31.3	75.4	106.7	31.8
1986	354.3	36.1	85.2	121.3	34.2
1987	425.3	43.4	101.9	145.3	34.2
1988	480.4	59.6	97.9	157.5	32.8

Source: Central Bank, CSO

Table 5

Commercial Bank Weighted Average Interest Rates

Year	Weighted Average Deposit Rate	Weighted Average Savings Deposit Rate	Weighted Average Time Deposit Rate	Weighted Average Lending Rate	Consumer Price Inflation
1980	6.7	7.0	10.6	15.6	14.8
1981	9.3	7.5	14.5	19.1	11.9
1982	10.4	7.7	14.9	18.6	3.9
1983	8.3	5.8	11.5	15.3	2.6
1984	6.6	4.8	9.2	13.8	5.9
1985	8.8	7.6	11.6	14.7	-0.6
1986	9.0	7.7	11.8	14.7	2.5
1987	7.3	6.3	9.6	14.2	2.0
1988	6.3	5.7	6.5	13.6	3.3

Source: Central Bank, CSO, World Bank

Table 6

Commercial Bank Lending By Sector

Loans Outstanding at End of Year BZ$ millions

Sector	1980	1981	1982	1983	1984	1985	1986	1987.0	1988.0
Government Services	2.5	4.2	14.4	15.1	16.5	16.7	12.3	8.2	4.3
Public Utilities	0.2	0.8	0.6	2.2	3.9	1.1	0.8	6.3	5.8
Agriculture	24.1	24.1	22.7	17.2	16.7	14.3	12.8	21.5	28.6
Commercial Fishing	0.7	0.4	0.5	0.9	0.8	0.7	1.5	1.6	2.6
Forestry	3.1	2.7	2.8	1.0	1.5	0.4	0.3	1.8	0.6
Manufacturing	12.5	11.9	15.0	18.6	19.9	21.1	16.7	14.2	17.5
Tourism	0.7	1.0	1.4	1.1	1.2	1.5	1.6	4.1	5.9
Building and Construction	9.2	11.9	12.6	13.1	15.4	15.4	19.0	23.4	33.9
Real Estate	0.9	1.2	1.4	3.1	4.7	3.1	3.6	4.2	7.7
Financial Institutions	0.2	0.4	0.3	1.4	0.0	0.7	1.1	2.2	2.0
Distribution	25.2	36.3	44.4	42.7	45.9	45.9	44.0	51.0	61.5
Professional Services	1.1	0.9	0.8	0.9	0.9	1.4	1.1	1.7	2.1
Transport	1.6	1.8	2.0	3.5	2.7	1.9	2.3	4.2	7.5
Entertainment	0.4	0.4	0.9	0.7	0.8	0.7	0.6	0.8	1.0
Mining and Exploration	0.0	0.0	1.9	5.0	6.0	5.8	5.0	4.7	5.8
Personal Loans	9.6	10.9	10.7	14.9	16.1	10.8	12.4	15.2	24.9
Sundries								-1.2	-1.7
Total	91.9	106.9	132.3	141.4	153.0	141.4	135.0	163.9	210.2

Source: Central Bank

Table 7

Gross Fixed Capital Formation 1980-88

(BZ$ millions)

Year	GFCF	Public Sector GFCF	Private Sector GFCF	GFCF/GDP %
1980	88.7			28.8
1981	95.8	43.7	52.1	31.0
1982	81.0	45.7	35.3	27.8
1983	71.3	39.2	32.1	23.6
1984	85.0	36.1	48.9	25.1
1985	71.6	36.7	34.9	21.4
1986	80.0	41.1	38.9	22.6
1987	119.2	46.2	73.0	28.0
1988	158.6	56.6	102.0	33.0

Sources: Central Bank, CSO and IMF

Table 8

Credit Unions

Assets and Liabilities 1980-88

BZ$ millions

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Assets									
Loans	13.3	14.2	15.4	16.6	18.9	20.5	22.2	26.0	31.6
Bank Deposits	0.9	1.3	1.6	1.9	1.9	2.1	2.5	2.9	2.8
Other Assets	0.5	0.3	0.4	0.5	1.0	0.9	0.7	1.0	1.3
Total Assets	14.7	15.8	17.4	19.0	21.8	23.4	25.4	29.9	35.7
Liabilities									
Members' Shares	11.2	11.6	12.7	13.9	15.3	16.5	17.9	21.6	25.3
Reserve Funds	2.2	2.9	3.2	3.5	3.7	4.1	4.6	2.5	2.8
Other Liabilities	1.3	1.3	1.5	1.6	2.7	2.7	2.9	5.7	7.6

Data for 1980-85 are estimates

Sources: Central Bank, Holy Redeemer Credit Union,
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