



# FOREIGN EXCHANGE CONTROLS

## WHAT IT MEANS TO YOU!

PUBLIC EDUCATION SERIES



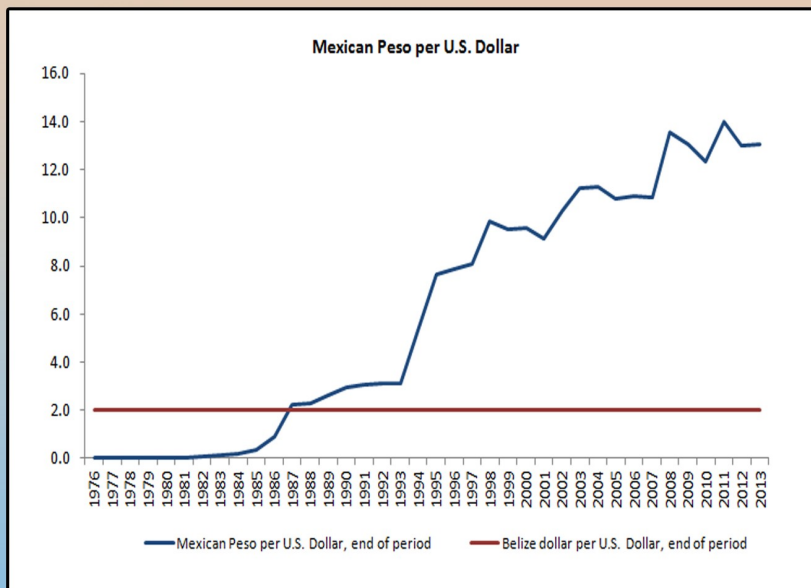
## What is the Official Medium of Exchange in Belize?

The Belize dollar is the official medium of exchange in Belize. Not only is it acceptable as a means of payment for any goods or services provided here, but it should be noted that no Belizean resident can be forced to use foreign currency in settlement of a domestic transaction. To do so would violate the law and also be a waste of scarce resources. This rule applies not only to foreign cash but also to the use of credit cards. When residents use credit cards to pay for a domestic good or service, the settlement should be in Belize dollars only. Foreign currency should be reserved for the settlement of international transactions.



## What is a Fixed Exchange Rate System?

In a fixed exchange rate system, the unit value of the domestic currency of a country is fixed in relation to the currency of another country (usually a major trading partner) or in relation to a basket of currencies derived from countries that are major trading partners. In the case of Belize, the value of its currency has been fixed at the ratio of 2 Belize dollars to 1 United States dollar since 1976. Countries may also choose to allow the value of their currency to float freely. Those who do so find that the value in terms of the currencies of other countries may change daily or even more frequently as the forces of market demand and supply are applied to it. Mexico is a good example of a floating exchange rate regime where the value of the peso fluctuates daily against the US dollar.



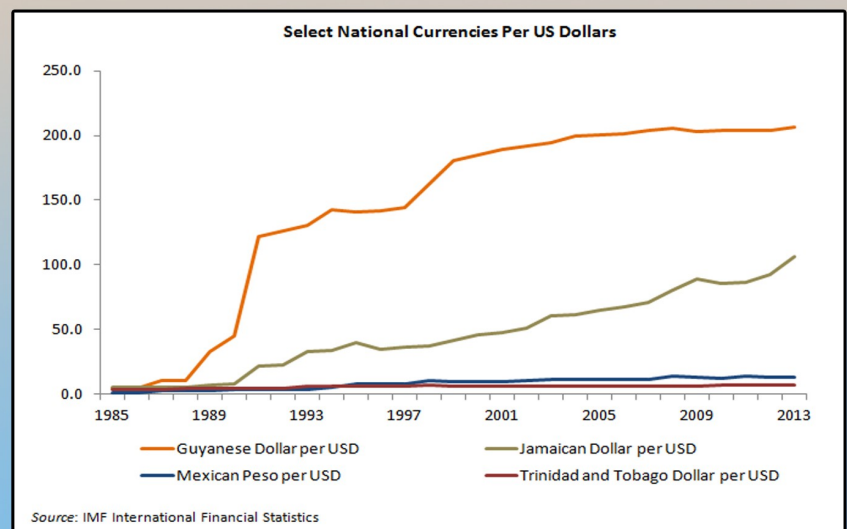
Because of the inherent instability of the floating exchange rate system, more countries opt for a ‘managed float’ in which market forces are allowed to affect the value of their currency within certain upper and lower limits. Under that system, the central bank attempts to keep the value of the currency from fluctuating too widely by buying and selling foreign exchange in sufficient quantities to influence the market price. Central banks in those countries must keep large stocks of foreign currency reserves in order to facilitate those transactions. Generally, the evidence supports the view that ‘managed floats’ are difficult to administer and that central bank interventions have only a limited and temporary effect in the world foreign currency market.

### Why Has Belize Chosen a Fixed Exchange Rate System?

The floating currency system mentioned earlier appears to work reasonably well only in developed countries that have highly diversified economies. The large volume of transactions that take place in these economies tends to have a balancing effect and usually ensures that currency value changes are small since the same forces that may cause the value of the currency to fall at one time, may work to bring about an increase in the value at another time.

In the case of a small, import-dependent country like Belize, **the fixed exchange rate system works well because the currency is protected from large swings in value that can be caused by one or more large transactions.** Unlike developed countries, the Belizean economy (which is only about 0.01% of the size of the United States economy) is characterized by a significantly lower quantity and variety of transactions. It is therefore more vulnerable to the destabilizing impact that a single large transaction can have.

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It is well known that public uncertainty tends to rise and investor confidence is undermined when the value of a currency is subject to large fluctuations.

The result is **lower investment, lower economic growth and higher unemployment.**

A tendency for currencies to experience numerous devaluations has also been noted in small developing economies that abandon the fixed exchange rate as residents search for a safe haven to protect their savings from depreciation. In Jamaica and Guyana, for example, the value of the domestic currency has fallen many times over the years to reach 106 to 1 US dollar and 206 to 1 US dollar, respectively, as at December 2013.

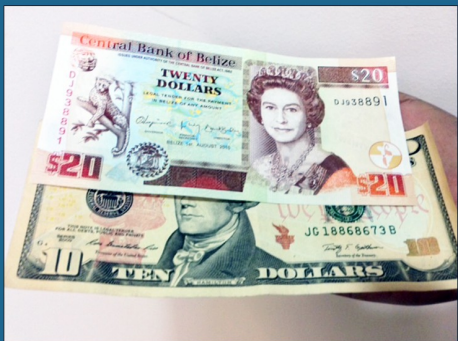
In the case of Belize, if the domestic currency is devalued, the general cost of living would rise, given the significant amount of vital goods that Belize does not produce and which must be imported from abroad. Once the exchange rate is changed, it becomes more difficult to build confidence and stem the forces that result in downward movement. For these and other reasons it has been determined that the fixed exchange rate provides the best framework for investment and stable long term growth and development in Belize.



## Why 2 to 1?

Prior to 1976, the Belize dollar was tied to the British pound sterling but this was changed because the United States replaced the United Kingdom as the primary source of Belize's imports. The specific exchange rate was determined by the average level of foreign reserves maintained by the monetary authorities, patterns of foreign exchange inflows and outflows and expectations of future growth in the domestic economy, as well as exports of goods and services.

The BZ\$2.00 to US \$1.00 exchange rate has been successfully maintained through the years because of the strong consensus of opinion that the stability it provides is of great benefit to the Belizean economy.



## Will Belize Keep its Fixed Exchange Rate?

**There are several very important reasons why successive Belizean governments remain committed to keeping the fixed exchange rate.**



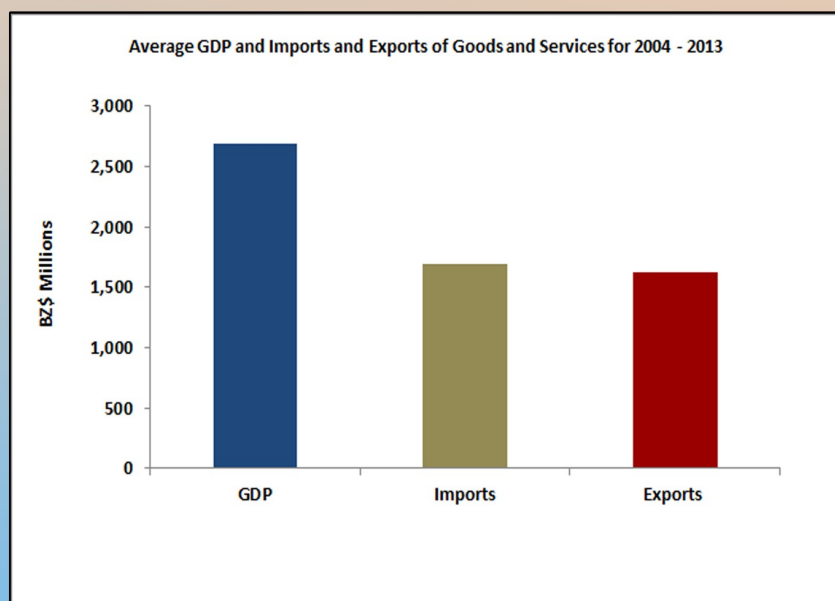
- a) The external debt is almost entirely denominated in US dollars. A devaluation of the Belize dollar would push the cost of servicing this debt upward and significantly worsen the balance of payments situation.
- b) Belize is heavily reliant on imports for consumption and for inputs used in domestic production. In general, structural constraints limit our ability to significantly increase the quantity of export sales in the short to medium term although this has been somewhat ameliorated in recent years by the introduction of petroleum exports and the increased importance of tourism inflows. Even so, removing the fixed exchange rate without a significant fall in imports would tend to increase the balance of payments deficit and the level of our international indebtedness.
- c) One of the principal benefits of a fixed exchange rate system is the level of certainty and confidence that it provides to investors. Stability is the necessary platform for investment, growth and development and the fixed exchange rate is one of the most important components of this.

## How is a Fixed Exchange Rate Maintained?

A country cannot maintain a fixed exchange rate without instituting certain safeguards and controls on foreign exchange inflows and outflows. Hence, when the value of the Belize dollar was fixed in relation to the US dollar in 1976, the Government also simultaneously passed the Exchange Controls Regulations Act under which the system of domestic exchange control regulations was set in place. Since then, the exchange controls have enabled the monitoring of inflows and outflows. This is necessary for the compilation of the external balance of payments statistics, which is a summary statement of Belize’s dealings with the rest of the world. It has also provided a means of managing capital inflows and outflows in order to reduce the likelihood of dangerous and unsustainable imbalances that drain foreign reserve holdings.

**Countries that have a fixed exchange rate system are also obliged to ensure that fiscal and monetary policies are both sound and suitable. In small, open economies, GDP growth should be led by the productive sector with a substantial part of their output being goods and services for the export market.**

Monetary policy should therefore aim to ensure that adequate funds are allocated for such producers and that growth in consumer loans is not excessive. In cases where the Government spends much more than it receives in taxes and other income, it should try not to rely on loans from the Central Bank to make up the difference since this type of



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borrowing enables higher expenditure (a significant portion of which goes on imports) without immediately increasing the economy's foreign exchange earning capacity. The general rule is that increased imports mean higher payments abroad and reductions in foreign reserves that make it more difficult to defend the fixed exchange rate. Since the Central Bank cannot print foreign currency, Belize is restricted to what it can earn, borrow or attract from investors. Because of this foreign exchange constraint, moderation is one of the principal guidelines in setting targets for fiscal and monetary policy and overall growth in the economy.

### **How Do Belize's Exchange Controls Work?**

The exchange controls aim to ensure that national foreign currency reserves are used for the benefit of everyone. As a result, certain rules and general guidelines have been instituted not only to guide inflows into the banking system, but also to ensure that foreign exchange is used for legitimate transactions and that funds are available to residents when they need to make payments abroad.

#### **Current Account**

Except for portfolio investments in US dollars (i.e. bank deposits, mutual funds, bonds and other financial securities), there are no restrictions on inflows of money from legitimate sources. There are also very few restrictions on the outflow of funds to pay for goods and services of a current nature (i.e. imports, vacation, medical and business travel, family maintenance and gifts).

While residents are required to provide information and





documentation to verify the legitimacy of certain current transactions, this should in no way be interpreted as a restriction on the specific transaction. The Belizean authorities obviously have a legitimate need for information to enable the proper oversight and protection of the exchange rate.

### **Capital Transactions**

Large deficits on the current account of the balance of payments and foreign debt servicing obligations ensure that there is a need for continued vigilance over flows for capital transactions such as the purchase and sale of land, company shares, financial assets and other investments. Exchange control approval is therefore required for all capital account transactions that involve residents and non-residents.

### **Direct, Portfolio and All Other Investments Abroad**

These are dealt with on a case by case basis. Given the negative current account position, residents are encouraged to invest in Belize rather than abroad. All trading in securities between residents and non-residents is subject to approval under the Exchange Control Regulations.

### **Purchases of Real Estate and Direct Investment in Belize by Non-Residents**

Exchange control approval is required and it is advisable that incoming funds be registered with the Central Bank to facilitate record keeping and eventual repatriation.



## **Repatriation of Investments**

Approval is given once proof is provided that the funds were brought into Belize and income tax clearance has been received.

## **Loans**

Prior exchange control approval must be received before borrowing from abroad. Loan payments are contingent on presentation of the loan agreement with amortization schedule. Proof of disbursement must be provided and clearance by income tax authorities must be received.

## **Currency/Deposits**

Persons who have moved abroad or non-resident Belizeans are allowed to move such funds after receiving income tax clearance.

## **Emigration Allowance**

Funds derived from liquidation of personal possessions may be transferred subject to receipt of a declaration of assets and income tax clearance.

## **Can I Keep the Foreign Exchange I Receive from Abroad for My Own Use?**

First of all, it should be noted that the fixed exchange rate system is based on an arrangement whereby foreign exchange inflows to residents are sold to or deposited with the commercial banks, which then have the responsibility for supplying these funds to companies, institutions and individuals who need to make payments abroad for goods and services. While they buy at the official exchange rate, the banks are allowed to charge a small commission on sales to cover administrative expenses. For the system to work properly, there must be a continual inflow to the central pool of funds in the banking system to which all residents are entitled to have access. Normally, payments abroad are easily and quickly carried out. There have been times however, when due to a significant excess of outflows over inflows, residents may encounter a short waiting period. Situations like this can only be corrected in an effective way to by making



changes in the revenue and expenditure patterns of the government and by reducing the growth of consumer credit in order to create a greater balance between foreign exchange inflows and outflows.

Some residents may be tempted to deal with occasional delays by hoarding foreign exchange. Whether they realize it or not, those who do not bring their foreign exchange earnings to the commercial banks are undermining the fixed exchange rate system in order to gain a short term benefit.

**Businesses and individuals that operate in Belize should take full account of the fact that they cannot and do not earn foreign exchange in isolation from the rest of the economy.** They need the stability of the fixed exchange rate and the infrastructure and general economic framework that is paid for by the tax dollars of the entire population.

Those who produce goods and services in Belize have the privilege of benefiting directly and indirectly from the work and contributions of fellow residents. With this privilege comes the responsibility for helping to build and maintain a healthy and stable economic system by obeying the laws and supporting the value of the Belize dollar.

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## Foreign Currency Accounts

Authority has been delegated to the commercial banks to open foreign currency accounts for export earners, foreign investors and others in accordance with the specified exchange control guidelines. Domestic commercial banks may not provide foreign currency accounts for non-residents, who are instead encouraged to do business with institutions licensed under the International Banking Act.

Generally, foreign currency accounts are a privilege granted to individuals and entities in the export-earning sector **solely to facilitate business transactions**. It is not intended that the holders of such accounts should be favoured over the rest of the population by being allowed to have unrestricted access to the foreign exchange earnings that all Belizean residents have contributed to in some way. Foreign currency account holders are required to comply with all the rules that the general population must comply with before funds can be moved from these accounts.

## Will the Caribbean Single Market and Economy (CSME) Affect the Stability of the Exchange Rate?

No change associated with the CSME is likely in the foreseeable future. Belize will maintain its fixed exchange rate system with continued controls on the movement of capital until a new monetary system is put in place. The latter should eventually take the form of a single Caribbean currency that would be used throughout the CARICOM region. In any event, it is expected that this currency would be fixed in relation to the US dollar or a basket of major currencies in order to ensure maximum stability in value.



## Where Can I Get Additional Information About the System of Exchange Controls?

Information on the system of exchange controls can be found in the Exchange Controls Regulations Act (amended in 2000), Statutory Instrument No. 30 of 1976 and the Exchange Control Circular.

The Statutory Instrument and Circulars can be viewed on the Central Bank of Belize's web page ([www.centralbank.org.bz](http://www.centralbank.org.bz)). The staff of the Central Bank's Research Department is also available to offer further clarifications where necessary.



# Notes

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