



CENTRAL BANK  
*of* BELIZE

EXCHANGE CONTROL DIRECTION

NUMBER 19

(Revised November 2024)

**TO: AUTHORISED DEALERS**

**Extraction and Redistribution of Foreign Currency and Conditions for Investments**

This Direction provides a framework for the Central Bank to extract foreign currency from Authorised Dealers and redistribute it to ensure monetary and financial stability. It also outlines the communication strategy and reporting requirements for these processes, as well as conditions for Authorised Dealers to invest their foreign currency.

**1.0 Extraction of Foreign Currency from Authorized Dealers**

- 1.1 The Central Bank of Belize shall require Authorised Dealers to supply foreign currency for redistribution to maintain monetary and financial stability.
- 1.2 The Central Bank may extract foreign currency from Authorised Dealers under the following broad circumstances:
  - a. To intervene in the foreign exchange market to address market failures arising from the inefficient distribution of foreign currency resources;
  - b. To pay for essential imports of goods and services and to cover the Government's external payment needs, such as foreign debt obligations, to maintain confidence in the currency and economy; and
  - c. To address imbalances in the country's balance of payments and build precautionary balances to safeguard against economic shocks.
- 1.3 The extraction of foreign currency shall be conducted fairly and equitably, considering all orders issued by the Central Bank to sell foreign currency to the public, including under Direction 18.

1.4 The Central Bank will determine the amount to be extracted from each Authorised Dealer who is above the minimum threshold using the following formula:

$$\text{Extraction Amount for Dealer}_{i(t)} = \left( \frac{FA_{i(t)} - AFI_{i(t)} - STFL_{i(t)}}{\sum_{j=1}^n (FA_{j(t)} - AFI_{j(t)} - STFL_{j(t)})} \right) \times T_t$$

Where:

- $FA_{i(t)}$  is the foreign asset holdings of  $dealer_i$  at time (t) who is above the minimum threshold.
- $AFI_{i(t)}$  is the approved foreign investment of  $dealer_i$  at time (t), which includes pre-approved illiquid foreign currency assets, such as equity investments and pledged deposits in foreign financial corporations (for example, to maintain correspondent bank accounts).
- $STFL_{i(t)}$  is the short-term foreign liabilities of  $dealer_i$  at time (t).
- $\sum_{j=1}^n (FA_{j(t)} - AFI_{j(t)} - STFL_{j(t)})$  is the total adjusted foreign asset holdings of all Authorised Dealers above the minimum threshold at time (t).
- $(T)_t$  is the total amount of foreign currency to be extracted at time (t)
- $n$  is the number of foreign currency dealers above the minimum threshold.

1.5 The Central Bank has the right to adjust the formula as necessary to meet its objectives.

1.6 To ensure smaller Authorised Dealers are not disproportionately affected, a minimum threshold will be set based on the total foreign asset holdings at any point in time. The minimum threshold will be calculated as follows:

$$\text{Minimum Threshold} = \alpha \times \sum_{j=1}^n TFA_{j(t)}$$

Where:

- $\alpha$  is a small percentage (e.g., 1% to 5%)
- $\sum_{j=1}^n TFA_{j(t)}$  is the sum of foreign asset holdings of all Authorised Dealers

1.7 Authorised Dealers with holdings below the minimum threshold may be exempted from extraction or have their extraction amounts adjusted as deemed fit.

1.8 To determine alpha ( $\alpha$ ), the Central Bank may consider (i) conducting a historical analysis of all Authorised Dealers' foreign currency holdings over a period, analysing the variability and distribution of these holdings; (ii) using statistical methods, such as percentile analysis; (iii) conducting assessments on the impact on small dealers through simulations; and (iv) engaging with stakeholders, taking into account critical regulatory and policy considerations.

1.9 The Central Bank will provide clear and detailed instructions on the extraction process through a consultative process. Authorised Dealers will receive advance notice, including the rationale for the extraction, the amount required, and the timeframe for compliance. Regular updates and open channels of communication will be maintained to address any concerns or queries from Authorised Dealers.

## **2.0 Redistribution of Extracted Foreign Currency**

2.1 The foreign currency extracted from Authorised Dealers will be surrendered to the Central Bank for redistribution to meet the country's strategic financial needs. Based on national priorities or other monetary policy objectives, the Central Bank will establish the criteria, manner, and beneficiaries for redistributing the foreign currency extracted at the appropriate time.

2.2 The liquidity needs of Authorised Dealers to meet the foreign currency demands of businesses and individuals and the opportunity cost of holding reserves will be considered. The redistribution process will ensure that foreign currency is allocated in a manner that supports the Central Bank's monetary and financial stability objectives.

2.3 The Central Bank will establish a system to routinely monitor and evaluate the extraction and redistribution processes. Regular impact assessments will be performed to determine their influence on the financial system and the overall economy.

## **3.0 Reporting and Accountability**

3.1 Authorised Dealers must submit regular reports on their foreign currency holdings, transactions, as well as unmet and projected demand. These reports will be used to monitor foreign currency market conditions, ensure compliance, and assess the effectiveness of the extraction and redistribution processes.

3.2 The Central Bank will provide periodic reports on the extraction and redistribution of foreign currency, including the rationale for actions taken, the amounts involved, and the outcomes achieved.

#### **4.0 Investment of Foreign Currency Assets**

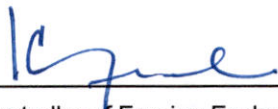
4.1 Authorised Dealers can invest their holdings of foreign assets in sovereign or commercial securities.

4.2 Authorised Dealers must obtain prior approval from the Central Bank to invest funds abroad, excluding deposits placed in correspondent banks or correspondent bank accounts to provide, among other things, cross-border payment services to their customers.

4.3 Investments must be made in safe, highly rated, liquid assets. This includes investments in financial assets or financial institutions that meet the following criteria:

- Investments must be made in investment-grade, marketable securities that are rated by recognised rating agencies such as Moody's, Standard & Poor's, and Fitch.
- Investments must be in marketable securities readily convertible into cash and not subject to significant loss of value. This can include foreign government bonds and other highly liquid securities.
- Investments must be made in financial institutions that demonstrate strong financial health.

4.4 The Central Bank may require banks to liquidate any foreign investment to make available foreign currency to the domestic market as needed.



Controller of Foreign Exchange  
CENTRAL BANK OF BELIZE