Financial Operations

Chart 9.1: Foreign and Local Income

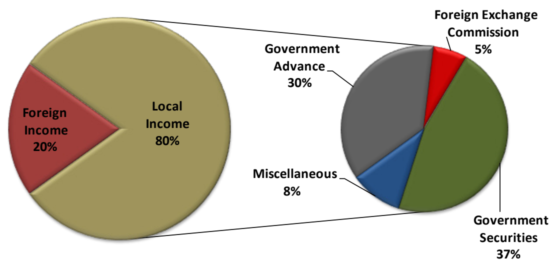
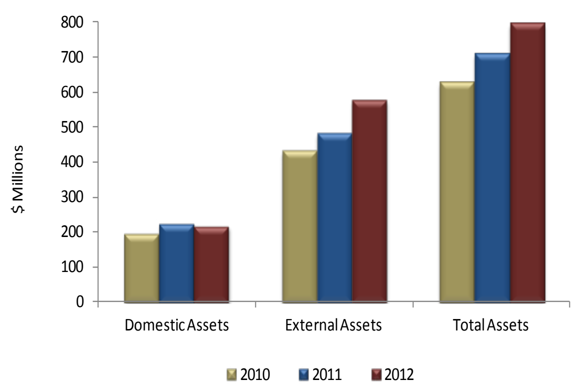


Chart 9.2: Assets



Financial Performance

Underpinned by robust external inflows, the Central Bank's assets grew by 12.0% in 2012. Gross income amounted to $18.9mn, however, even with the build-up in foreign assets, almost 80.0% of income was derived from domestic sources such as Central Government securities and its overdraft facility, which accounted for 37.0% and 30.0% of the latter, respectively. Notwithstanding tight controls on spending and the scaling down or rescheduling of work projects that kept expenditures below budget, the net operating surplus declined by $0.6mn to $2.7mn. Lower international interest rates was a key factor as the robust 19.5% growth in the external assets yielded only a 4.2% increase in investment earnings. The Bank spent a total of $15.9mn during the year with staff costs, interest and currency payments, and other administration/ operating costs accounting for 55.0%, 16.0% and 29.0%, respectively.

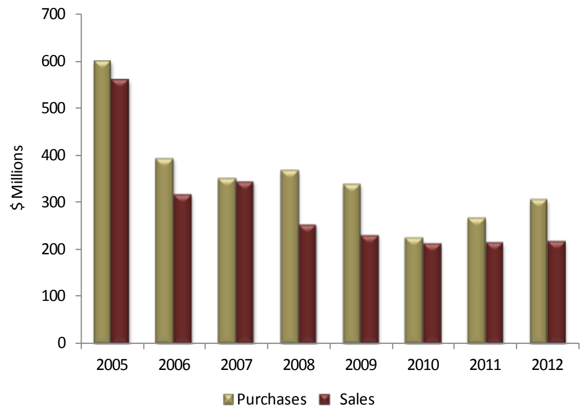
While revenues generated from the overdraft facility, foreign exchange tradings and other miscellaneous sources were in line with budget forecasts, receipts from Treasury notes and earnings from foreign investments were in excess of the amounts originally budgeted.

As provided for under section 9(1) and section 50 of the Central Bank Act, $0.27mn (10.0% of the net operating surplus less any revaluation loss) will be paid into the Central Bank General Reserve Fund. The balance of $2.5mn will be transferred to the Accountant General for government's consolidated revenue fund.

Foreign Exchange Operations

As custodian and manager of the country's official international reserves,

Chart 9.3: Trade in Foreign Currency



the Central Bank conducts foreign currency trades with government entities and the commercial banks it regulates. These transactions yielded net purchases of $87.9mn in 2012, which was 66.0% more than that of the previous year.

Among the largest receipts were US$36.8mn from BNE, US$33.9mn from BSI and US$22.0mn from commercial banks. Other notable inflows included US$13.9mn from the IDB and US$10.0mn from the ROC/Taiwan. The largest external payments were in February and September to meet the semi-annual interest payments due to foreign holders of the super bond. During the negotiations aimed at restructuring the bond, it was decided that only a portion of the amount due in the second annual payment would be made, and this had the effect of reducing outflows and boosting the annual net purchase position. Trading in CARICOM currencies was mostly for settlement of official transactions and resulted in net sales of $2.6mn, which was virtually unchanged from the previous year.

External Asset Ratio

Throughout the year, the Central Bank remained in full compliance with Section 25(2) of the Central Bank of Belize Act 1982, which stipulates that it should maintain external assets amounting to at least 40.0% of the currency notes and coins in circulation and its domestic deposit liabilities. This legal threshold is intended to provide a partial safeguard for the maintenance of foreign reserves at levels adequate to meet the country's external obligations. The Bank's foreign assets grew by 19.5% over the year and reached its highest point of $577.5mn at the end of December. These holdings consisted of 84.3% in cash and fixed deposits, 2.8% in foreign securities and 12.9% in Special Drawing Rights (SDRs) with the IMF.

In the first half of the year, the external asset ratio fluctuated closely around the 80.0% level, as foreign assets and domestic liabilities moved almost in parallel. However, in the second half of the year, foreign assets grew at a faster pace and the ratio increased modestly to end the year at 83.9%. It was at its lowest in February (79.0%) following the interest payment on the super

Chart 9.4: External Asset Ratio

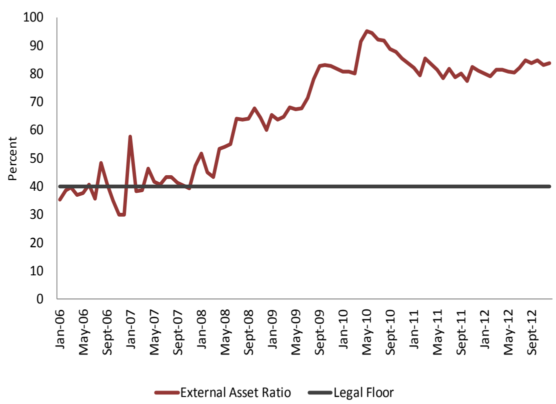


Chart 9.5: Monthly External Asset Ratio

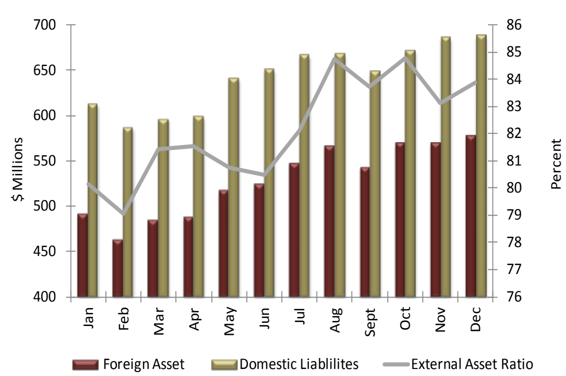
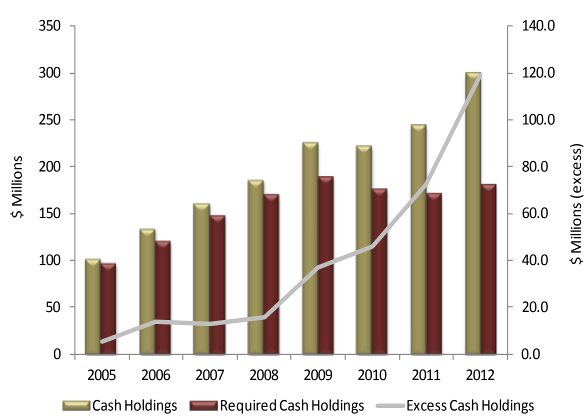


Chart 9.6: Commercial Banks' Cash Holdings

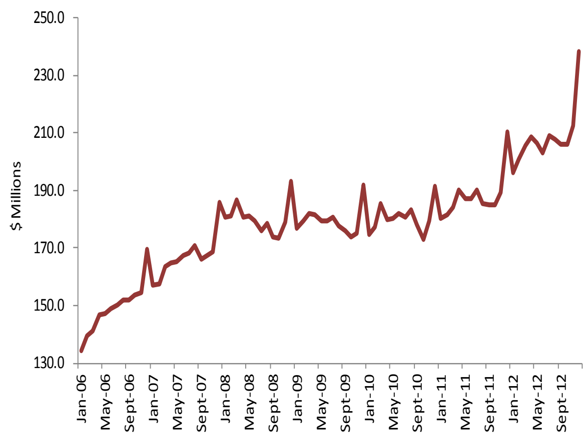


bond and reached a peak of 84.8% in October as a result of foreign currency purchases from BNE and BSI. Downward movements in September and November were respectively attributable to the interest payment on the super bond and an increase in domestic liabilities arising from the deposit of the proceeds of the Belize City Municipal Bond at the Central Bank, an increase in the currency in circulation and a notable growth in commercial banks' excess cash balances held at the Central Bank.

Commercial Banks' Cash Balances

The cash reserve requirement remained fixed at 8.5% of average deposit liabilities, and with deposit growth more than doubling that of loans, the liquid cash balances of the commercial banks escalated by $69.1mn (25.6%). Over the twelve month period, their excess cash holdings increased by $56.9mn (59.5%) with a monthly average of $118.0mn that was $45.8mn higher than that of 2011. In an out-turn which was similar to 2011, cash liquidity was atypically higher during the second half of the year (a monthly average of $134.9mn) with December recording the highest level of $152.6mn. The commercial banks' purchase of an additional $22.3mn in Treasury bills since August did not reverse the upward trend in their excess cash balances during the second half of the year.

Chart 9.7: Currency in Circulation



Currency Operations

The Central Bank is responsible for ensuring an adequate supply of domestic notes and coins for cash transactions. As issuer of the domestic currency, the Central Bank regularly replaces worn out banknotes that are unfit for circulation. During the year, banknotes valued at $83.9mn were removed from circulation and $95.3mn in new notes was issued. Of the latter, $15.8mn consisted of $20 banknotes that were issued to commemorate the Central Bank's 30th anniversary. A one dollar commemorative coin was also issued on 30 April 2012. At year-end, the total value of banknotes stood at $215.6mn, representing a 13.7% increase over the previous year, while the value of coins in circulation rose by 7.7% to $22.5mn.

On the heels of a 9.9% growth in 2011, currency in circulation expanded by 13.1% to end the year at $238.1mn. In line with normal seasonal patterns, most of the increase occurred in December, during which commercial banks' vault cash rose by $10.2mn (29.2%) and currency held by the public grew by $15.6mn (8.8%). The ratio of notes and coins remained relatively stable, with notes accounting for 90.6% of currency in circulation.

Inter-Bank Market

Except for placement offers of $5.0mn in November and December, the inter-bank market was dormant throughout the year due to the continuing build-up of liquidity in the banking system. None of these offers were accepted even though the interest rate on the proffered funds was 3.0% as compared to an average offer rate of 6.5% for funds made available in the previous year.

Transactions with Central Government

At 8.5% of current revenues collected in the preceding fiscal year, the ceiling on advances which the Central Bank can legally extend to Central Government through the overdraft facility rose from $65.1mn to $67.5mn for the 2012/2013 fiscal year. Although outpaced by expenditure, the growth in government revenues was sufficient to keep balances in the overdraft facility comfortably below the legislated ceiling throughout the year. At the end of December 2011,

Chart 9.8: Treasury Bill Yield

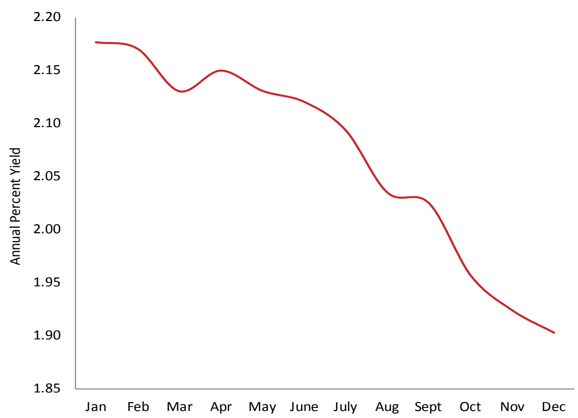


Chart 9.9: Annual Inter-bank Market Activity

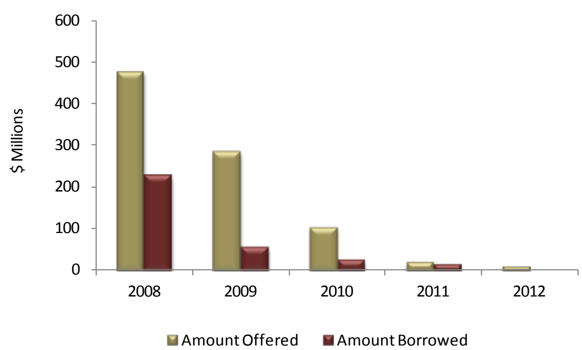
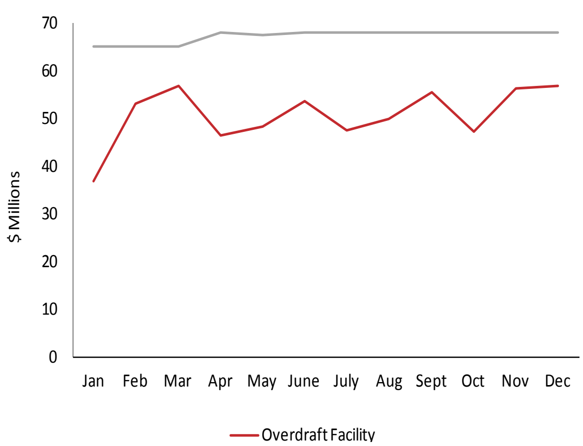


Chart 9.10: Overdraft Financing to Central Government



the overdraft facility balance stood at $48.1mn, subsequently rising to $56.8mn by the end of March due to the cumulative effect of the interest payment on the super bond in February and the usual end-of-fiscal-year hike in expenditures to settle outstanding obligations.

The facility registered modest fluctuations during the year with periodic downward shifts reflecting the seasonal receipts of tax revenues (January, April and July) and the repayment of the loan extended to BSI (October), while an increase in September coincided with the second interest payment on the super bond. At the end of the year, the balance stood at $56.8mn (7.1% of recurrent revenues of the 2011/2012 fiscal year).

Treasury Bills

The Central Bank continued to conduct Treasury bill operations on behalf of the government and with no new issuances, its activities centred on the periodic rollover of tranches that summed to $175.0mn. Against a backdrop of low international interest rates and rising levels of domestic liquidity, commercial banks' demand for these securities outstripped supply. After holding an average of $22.0mn during the first seven months of the year, the Central Bank surrendered all of its holdings in August in view of the oversubscription of each

Chart 9.11: Central Bank's Holdings of Government Securities

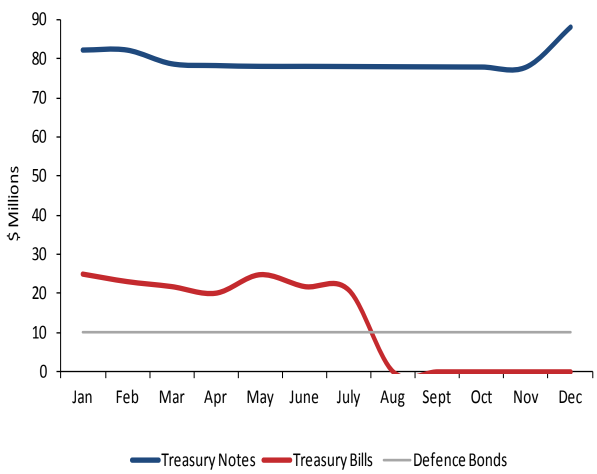
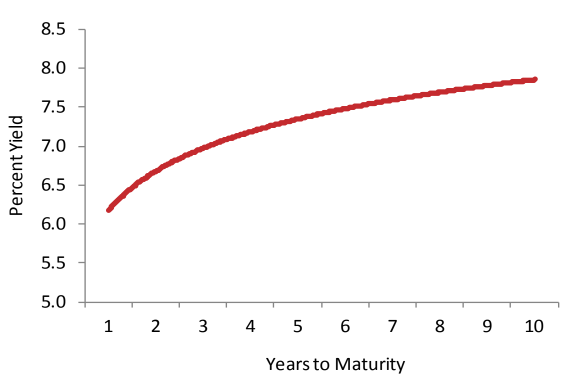


Chart 9.12: Treasury Note Yield Curve



rollover and the competitive bidding by commercial banks. Commercial bank holdings consequently rose by 14.9% to $173.5mn, and the average yield fell from the 2.21% realised in the last auction in 2011 to 1.90% at the end of 2012. The remaining $1.5mn was taken up by insurance companies to meet statutory requirements.

Treasury Notes

The stock of Treasury notes also remained unchanged at $136.5mn, and there were no adjustments in maturity or interest rates. During the year, commercial bank holdings of some $10.0mn matured, and upon their roll-over, the Central Bank acquired almost all, with institutional investors and small individuals taking up the remainder. As a result, the Central Bank's share of the outstanding issue rose from 60.2% to 64.3%. Additional purchases by institutions and individuals during the year raised their respective shares from 31.0% and 1.0% in 2011 to 33.7% and 2.0%. At the end of the year, the Treasury notes issue consisted of $25.0mn in one-year notes carrying a 6.0% interest rate, $15.0mn in two-year notes at 7.0%, $66.5mn in five-year notes at 7.5% and $30.0mn in ten-year notes at 8.25%.

Financial Statements