Financial Operations

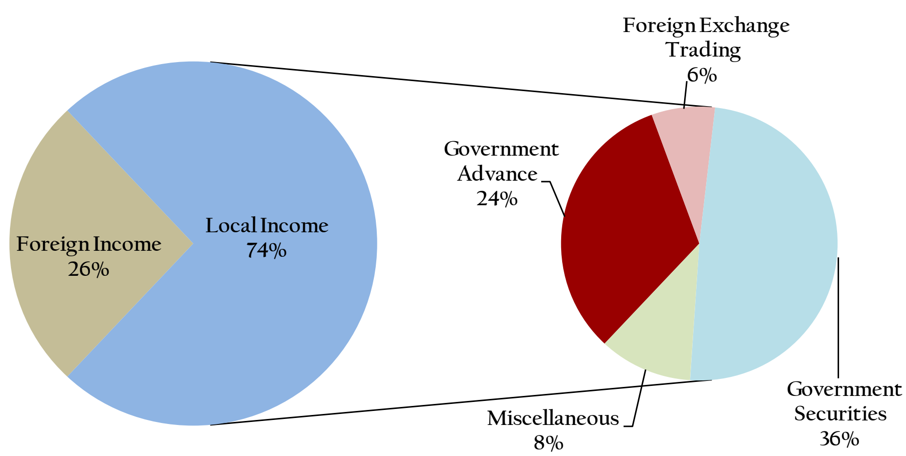
Financial Performance

Boosted by robust foreign currency inflows, the Central Bank's assets rose by 27.8% to reach $1.0bn by the end of the year. Even though international interest rates remained at historically low levels, the buildup in the Bank's holdings of investible foreign assets and a management decision to diversify the portfolio to include marketable securities as well as the traditional fixed/certificates of deposits facilitated a 55.8% growth in foreign investment earnings. As a consequence, income from foreign sources increased from 20.0% of total income in 2012 to 26.0% in 2013.

At $22.4mn, gross income was $3.6mn higher than the amount recorded in the previous year. The net operating surplus more than doubled to $6.7mn due to the rescheduling of some projects and the associated expenditures, capital gains from foreign investments, increased earnings from foreign exchange trading, revenues from the overdraft facility and dividends from Belize Telecommunications Limited. Annual expenditure amounted to $15.7mn, with staff costs, interest and currency payments, and other administrative and operating outlays representing 58.0%, 13.0% and 29.0% respectively.

As provided for under section 9(1) and section 50 of the Central Bank Act, $0.7mn (10.0% of the net operating surplus less any revaluation loss) will be paid into the Central Bank General Reserve Fund. The balance of $6.0mn will be transferred to the Accountant General for government's consolidated revenue fund.

Chart 9.1: Foreign and Local Income



Financial Operations *continued*

Chart 9.2: Assets

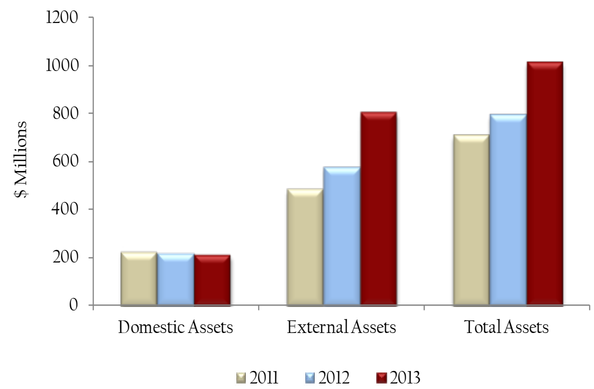


Chart 9.3: Trade in Foreign Currency

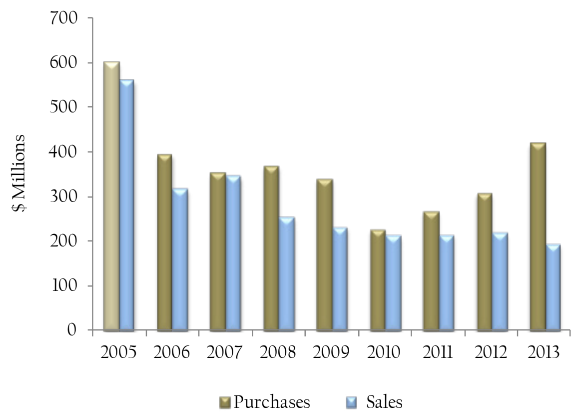
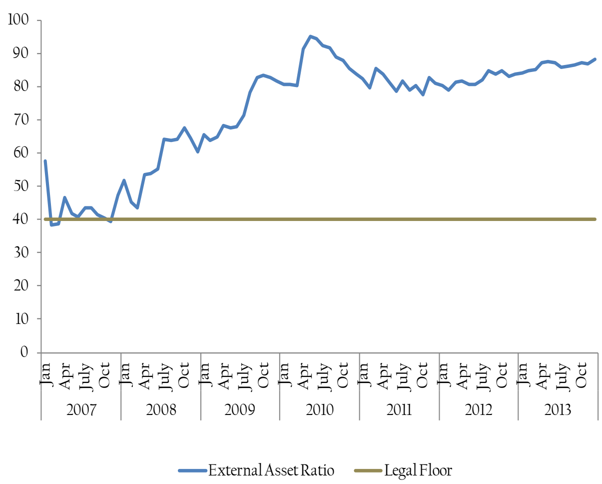


Chart 9.4: External Asset Ratio



Foreign Exchange Operations

The Central Bank's foreign currency transactions with the public sector, commercial banks, foreign governments and other external agencies yielded net purchases of $225.7mn, which was 157.0% more than what was recorded in the previous year. The largest amounts came from Alba Petro-Caribe (US$71.3mn), Belize Sugar Industries (US$32.2mn) and Belize Natural Energy (BNE) (US$27.0mn). Other sizeable inflows included US$17.5mn from ROC/Taiwan, US$9.7mn from the IDB, US$7.7mn from the international business companies and ships registries, and US$3.0mn from commercial banks. The largest external payment, which was the semi-annual interest due to foreign holders of the restructured super bond, took place in August. Trading operations involving CARICOM currencies were mainly to facilitate official transactions and these resulted in net sales of $2.9mn.

External Asset Ratio

During the entire year, the Central Bank fully complied with Section 25(2) of the Central Bank of Belize Act 1982, which stipulates that the Bank 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 aimed at ensuring that the Bank maintains foreign reserves at levels adequate to meet the country's external obligations.

Financial Operations *continued*

The Central Bank's foreign assets increased by 39.0% in 2013, peaking at $804.2mn at the end of December with holdings consisting of cash and fixed deposits (57.9%), foreign securities (32.8%) and Special Drawing Rights (SDR) with the IMF (9.3%).

The external asset ratio fluctuated closely around the 84.0% level in the first quarter as the growth in foreign assets and domestic liabilities was similarly paced. During the remainder of the year, July being the only exception, foreign assets grew at a pace that allowed the ratio to increase moderately and close the year at 88.2%. The generally upward drift in the ratio was facilitated by foreign currency inflows from Alba Petro Caribe, BSI and BNE. The July decline was partly due to a medley of external payments encompassing debt servicing obligations, payments for Belize Petroleum Energy, subventions to foreign missions and other miscellaneous expenses. External interest payments were significantly lower because of the successful restructuring of the super bond that resulted in a reduced interest rate as well as an agreement for only one payment to be made in 2013 when two is normally required.

Chart 9.5: Monthly External Asset Ratio 2013

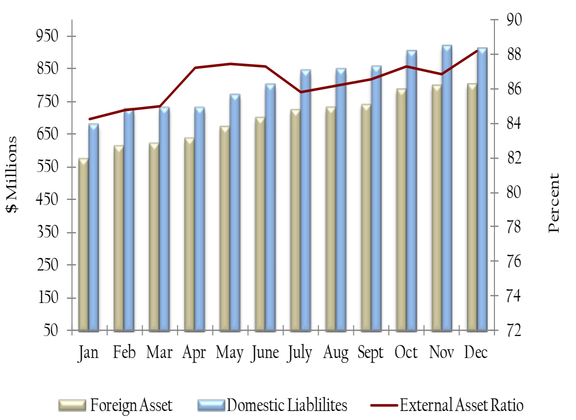
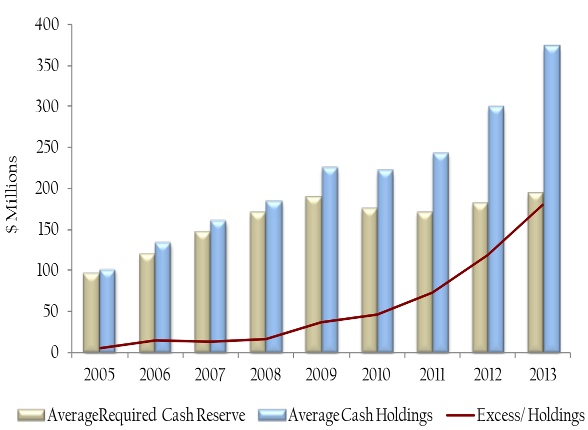


Chart 9.6: Commercial Banks' Cash Holdings



Commercial Banks' Cash Balances

The commercial banks' cash reserve requirement remained fixed at 8.5% of their average deposit liabilities. While secondary liquidity contracted for the first time since 2007, holdings of cash expanded by $51.6mn (15.2%) as deposits outpaced loans, and foreign currency sales led to a corresponding increase in domestic currency balances. Over the year, excess cash reserves rose by $45.7mn (30.0%) to $198.3mn and the monthly average of $179.5mn was significantly above the previous year's average of $118.0mn. Reverting to more customary growth patterns, almost three-quarters of the increase occurred

Financial Operations *continued*

Chart 9.7: Currency in Circulation

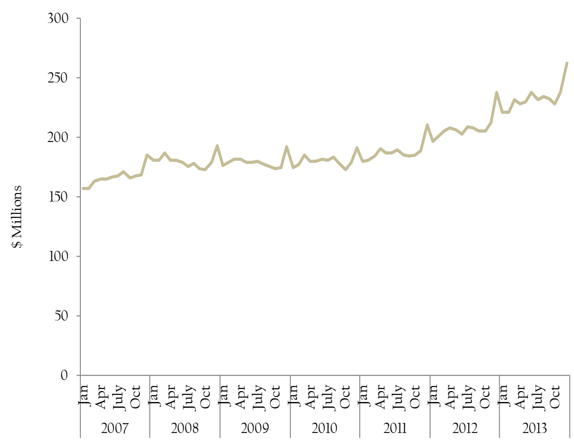
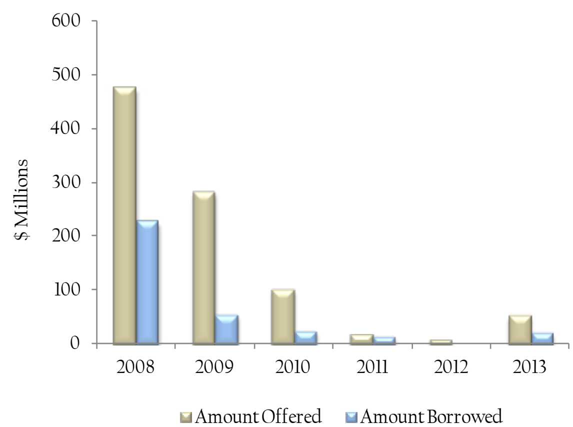


Chart 9.8: Annual Inter-Bank Market Activity



during the first seven months. Thereafter, the accumulation continued at a slower pace, except for a temporary dip in November that reflected an acceleration in lending during October and November.

Currency Operations

The Central Bank is responsible for ensuring an adequate supply of domestic coins and notes 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 $76.8mn were removed from circulation, and $99.5mn in new notes was issued. At the end of the year, the total value of banknotes stood at $238.7mn, representing a 10.7% increase over the previous year, while the value of coins in circulation increased by 5.4% to $23.7mn.

Following a 13.1% growth in the previous year, currency in circulation increased by 10.2% to end the year at $262.5mn. In line with normal seasonal patterns, most of the increase was in December, during which commercial banks' vault cash rose by $11.5mn to $50.8mn and currency with the public expanded by $13.1mn to $211.7mn. The ratio of banknotes and coins was relatively stable with banknotes accounting for 91.0% of currency in circulation.

Inter-Bank Market

The build up of liquidity in the banking system has had a dampening effect on the inter-bank market since 2008. However, after a year of relative dormancy, activity revived somewhat in 2013 with the placements of $12.0mn and $10.0mn in January and November, respectively. Nine offers summing to $54.0mn were made during the year and three were taken up at interest rates ranging from 3.5% to 4.75%. The large liquidity overhang is expected to keep inter-bank lending at minimal levels during the forthcoming year.

Financial Operations *continued*

Chart 9.9: Overdraft Financing to Central Government 2013

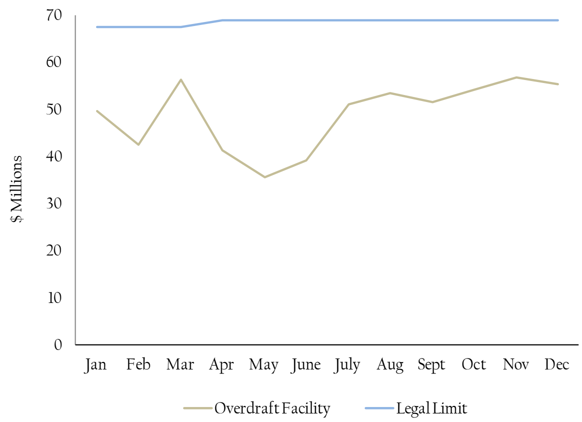
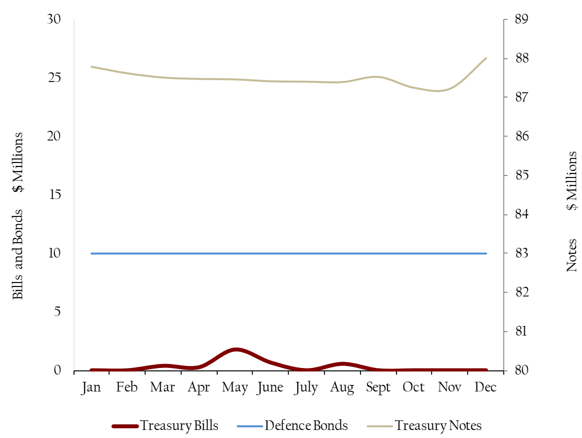


Chart 9.10: Central Bank's Holdings of Government Securities 2013



Transactions with Central Government

At 8.5% of current revenue collected during the preceding fiscal year, the ceiling on Central Bank overdraft advances to Central Government amounted to $69.0mn for the 2013/2014 fiscal year. While fiscal expenditures exceeded revenues for the calendar year, the balance on the facility was kept comfortably below the legislated ceiling.

From a high of $56.8mn in December 2012, the overdraft balance declined for two consecutive months and averaged $42.6mn in February as a result of the temporary easing of cash flow pressures following the receipt of VPCA funds in February and the capitalisation of the first bi-annual interest payment on the restructured super bond. An upward surge in March due to expenditures associated with the close of the fiscal year was followed by further declines with a low of $35.6mn being reached in the month of May as funds were received from OPEC and Venezuela. In the second half of the year, spending pressures arising from scheduled debt servicing, including payment of interest on the restructured bond in August, the establishment of the National Bank of Belize Limited and a modest pickup in the pace of capital expenditures pushed the average balance back up to $53.6mn. And by the end of the year, the facility stood at $55.4mn (6.8% of recurrent revenues of the 2012/2013 fiscal year).

Treasury Bills

There were no new government issuances and the Central Bank's activities therefore centred on the periodic rollover of Treasury bill tranches that summed to $175.0mn. Against a backdrop of low international rates and high domestic liquidity, commercial banks' demand for these securities significantly outstripped the available supply. Consequently, the banks held the bulk of the Treasury bills throughout the year, although their portfolio holdings

Financial Operations *continued*

Chart 9.11: Treasury Bill Yield Curve 2013

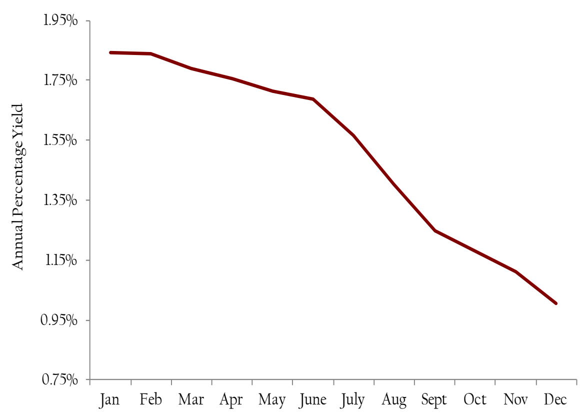
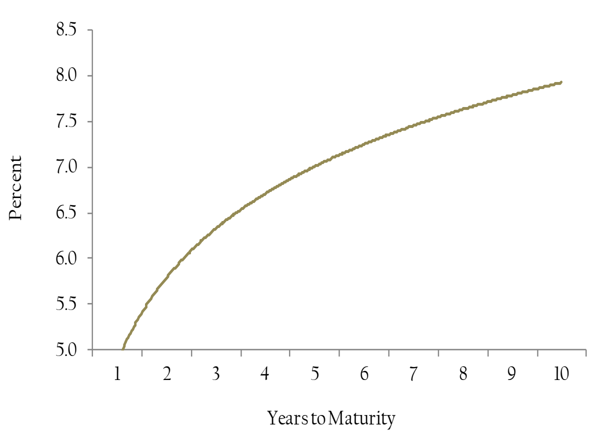


Chart 9.12: Treasury Note Yield Curve



fell by 4.5% to $166.0mn at year-end due to competition from insurance companies. The quantity held by the latter rose from $1.5mn in January to $8.3mn at year-end, and the remaining $0.7mn was taken up by the Belize City Council. In this environment, the average yield continued to trend downward, tumbling from 1.90% at the last auction in 2012 to 1.01% at the end of 2013.

Treasury Notes

The stock of Treasury notes remained unchanged at $136.5mn in 2013, as there were no new issuances during the year. In December, Treasury notes consisting of $20.0mn in one-year and $15.0mn in two-year notes matured. These were rolled over for similar maturities, however, the interest rate on each was reduced by 100 basis points in light of current market conditions.

During the year, the Central Bank took up a portion of the notes surrendered at maturity by some institutional investors, and this caused its share to edge up from 64.3% in 2012 to 64.8% ($88.4mn). The share held by institutional investors decreased from 33.7% in 2012 to 33.2% in 2013, while holdings by individuals remained unchanged at 2.0%.

At the end of the year, outstanding Treasury notes consisted of $25.0mn in one-year notes ($20.0mn at 5.0% and $5.0mn at 6.0%), $15.0mn in two-year notes at 6.0%, $66.5mn in five-year notes at 7.5% and $30.0mn in ten-year notes at 8.25%.