OPERATIONS

Foreign Exchange Operations

As in the previous year, Central Bank foreign currency purchases exceeded its sales in seven out of the twelve months. However, the $13.5mn increase in net holdings was significantly below the amount recorded in the previous two years ($114.5mn in 2008 and $107.3mn in 2009) the main difference being a significant decline in foreign grants and loan inflows. The downward trend in commercial bank sales of US dollars to the Central Bank (US$54.4mn in 2008, US$8.7mn in 2009 and US$0.18mn in 2010) also continued. Notable receipts in 2010 included US$10.0mn from the ROC and US$38.7mn from Belize Natural Energy, with the latter being bumped up by working interest accrued since 2006. The largest external payments were in February and August to cover the semi-annual interest payment on the super bond. Trading in CARICOM currencies continued to be mostly for settlement of official transactions and resulted in net sales of $2.5mn, an increase of $0.7mn over the previous year.

External Assets Ratio

The Central Bank was fully compliant 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.

Throughout the year, the external asset ratio was maintained at more than twice the legal threshold with changes being mainly determined by fluctuations in the

Chart 34: Trading in Foreign Exchange

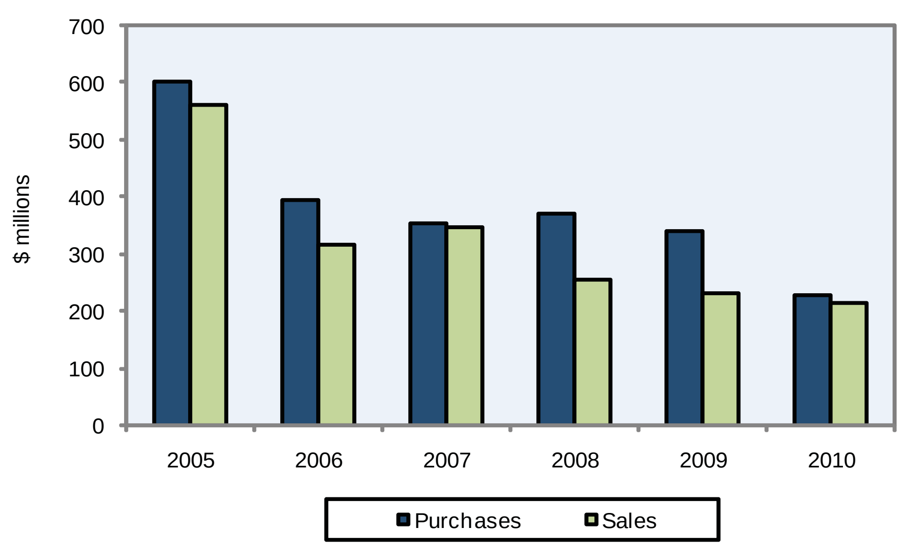
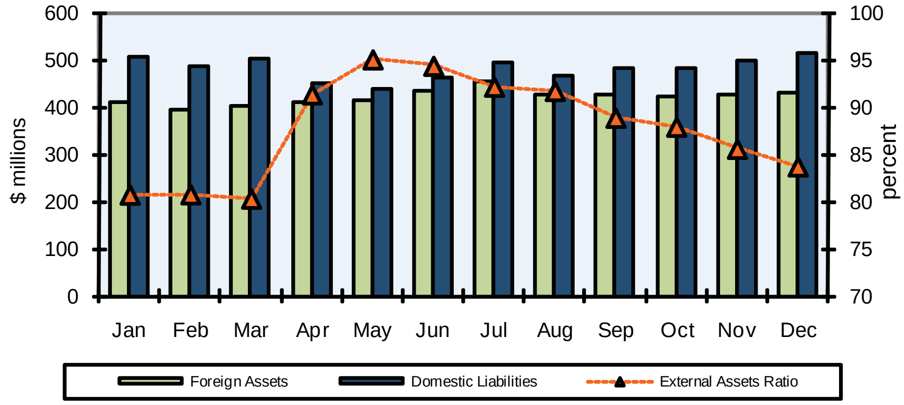
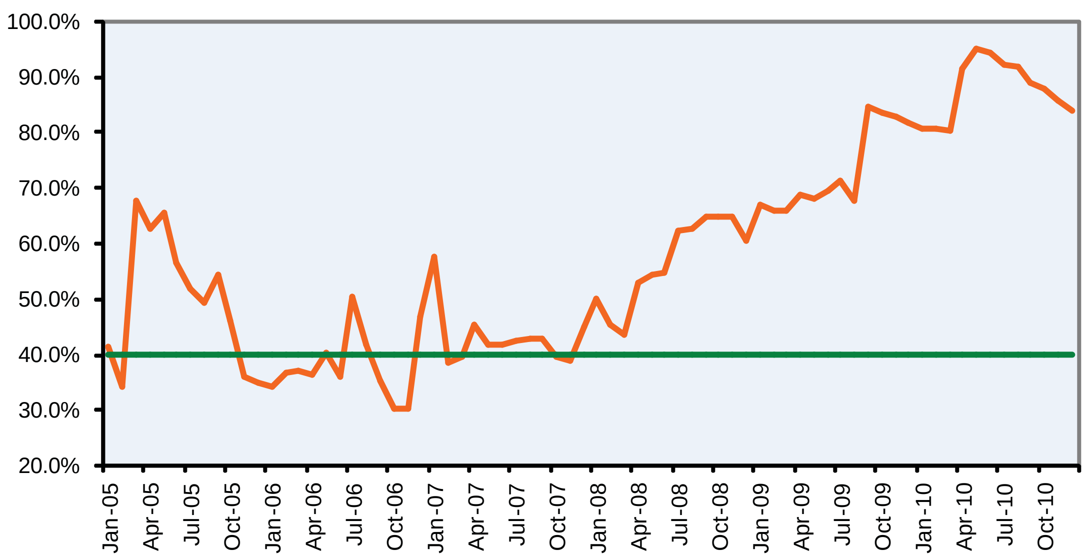


Chart 35: Monthly External Assets Ratio - 2010



level of Central Bank's deposit liabilities rather than the tamer movements in foreign assets. It was at its lowest, averaging 80.5% in the first three months of the year. In the second quarter, the ratio breached and remained above the 90.0% threshhold (a level last achieved in 2003), peaking at 95.1% in May, as banks substantially reduced their deposits at the Central Bank during April ($53mn) and May ($16mn) in order to invest in Treasury bills to meet the new security reserve requirement that came into effect on 1 May 2010 and earn higher returns on surplus cash. Thereafter, it declined steadily to close the year at 83.7% (compared to 82.6% in December 2009), as domestic liabilities gradually returned to pre-amendment levels due to the increase in government deposits resulting from its

Chart 36: External Assets Ratio - 2005 to 2010



sale of BTL shares, a buildup in excess liquidity in the banking system and the customary spike in currency in circulation for the Christmas season. At the end of December, the Central Bank's external assets amounted to $431.6mn consisting of 74.7% in cash and fixed deposits, 7.9% in foreign securities and 17.4% in SDRs with the IMF.

Relations with Commercial Banks

Cash Balances

The implementation of the new securities requirement and simultaneous reduction of the cash reserve requirement from 10.0% to 8.5% of average deposit liabilities resulted in wide fluctuations in commercial banks' cash balances in the first three quarters of the year before there was some leveling off during the fourth quarter. Sluggishness in private sector credit coupled with net foreign inflows boosted the banks' cash position creating an average monthly excess of $46.1mn, $9.1mn above that of the previous year. In March, excess cash reserves peaked at $63.0mn before plunging in the subsequent two months and bottoming out at $20.5mn in May as the banks invested $61.7mn in Treasury bills and raised their holdings of the latter to $160.1mn, 24.8% above the mandated 6.5% of their average deposit liabilities. Thereafter, surplus cash reserves holdings trended steadily upwards to end the year at $60.5mn, a year-on-year increase of 51.3%.

Currency Operations

The Central Bank issued $90.7mn in new notes during the year while removing $98.7mn in notes considered unfit for circulation. At the end of December, the total value of banknotes in circulation was down by 0.75% to $171.8mn although the percentage mix of notes remained the

Chart 37: Required & Excess Cash Balances - 2005 to 2010

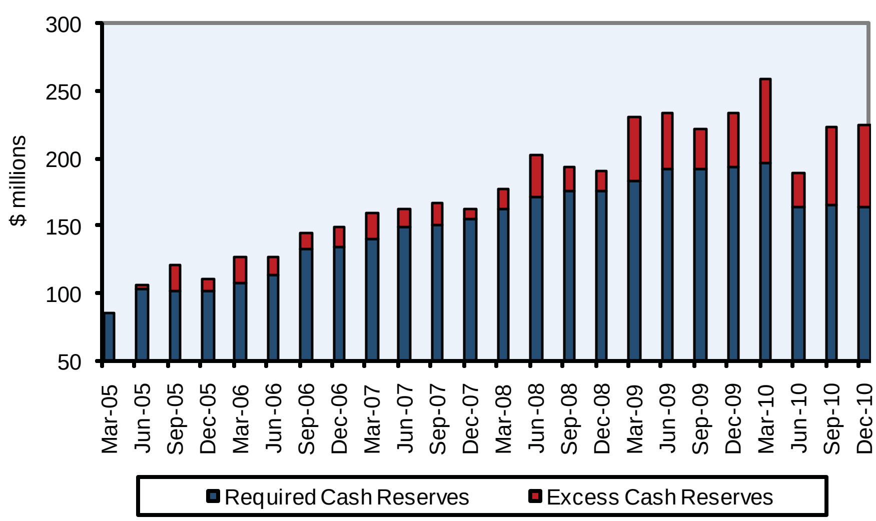
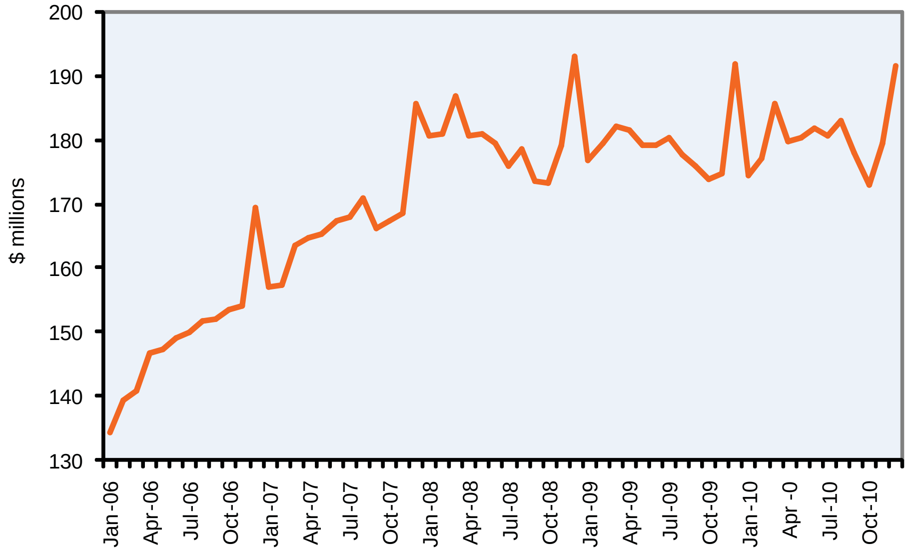


Chart 38: Currency in Circulation - 2006 to 2010



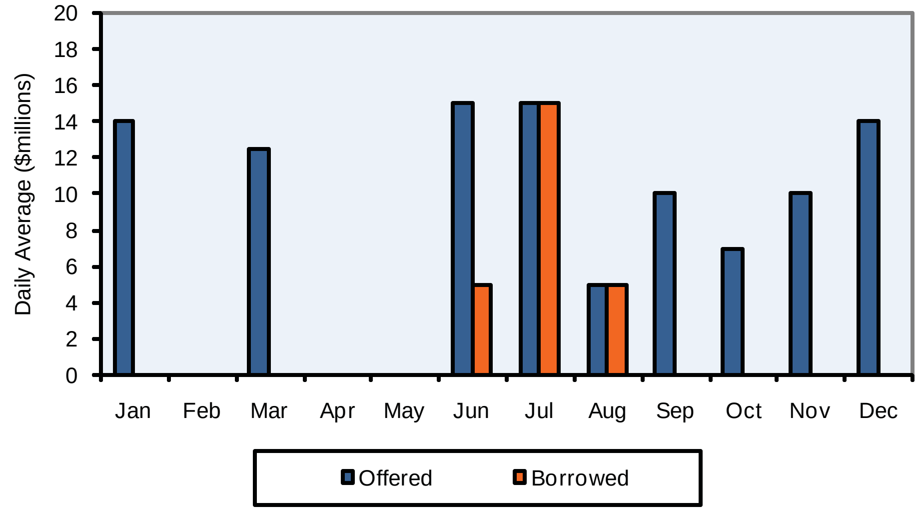
same as the previous year with the $50 banknote accounting for 41.0% of the value and 16.0% of the quantity, and the $100 bill accounting for 32.0% of the value and 6.0% of the quantity in circulation. The value of coins in circulation increased by 4.2% to $19.7mn with the percentage mix remaining the same as in the previous year.

Increased usage of other payment instruments and moderation in the pace of economic transactions partly accounted for the relatively static growth in currency in circulation.At year-end, it stood at $191.5mn, $0.5mn below that of December 2009, with a $3.7mn reduction in commercial banks' vault cash being partly offset by a $3.2mn increase in currency held by the public. The latter averaged $149.6mn monthly with a high of $157.8mn in December and a low of $145.9mn in September. Commercial banks' vault cash fluctuated marginally during the year except for March when holdings rose by $8.7mn to its highest level of $36.5mn. The ratio of notes and coins remained relatively constant with notes accounting for approximately 90.0% of the currency in circulation. As in previous years, currency demand peaked in the Easter and Christmas seasons.

Inter-Bank Market

High levels of liquidity in the banking system considerably reduced the volume of inter-bank lending for the second consecutive year. Amounts offered and borrowed on the inter-bank market dwindled by 63.9% to $102.5mn and by 55.0% to $25.0mn, respectively. While offers were placed in nine of the twelve months, there was borrowing in only

Chart 39: Monthly Inter-bank Market Activity



three months – June through August – to meet cash reserve requirements. Nineteen offers were placed and five loans, each for $5.0mn and a seven day period at interest rates ranging between 7.0% and 6.5%, were executed. This compared with loans that averaged $4.6mn for periods averaging fourteen days in 2009. While lending rates started the year fluctuating between 9.0% and 7.0%, the rate leveled out at 6.5% by the fourth quarter.

Transactions with Central Government

On April 1, the ceiling on advances which the Central Bank can legally extend to the government was lowered from 20.0% to 8.5% of current revenue collected during the preceding fiscal year, thereby decreasing the overdraft limit from $134.9mn for fiscal year 2009/2010 to $57.3mn for fiscal year 2010/2011. Concomitantly, the aggregate amount of

Chart 40: Inter-bank Market Activity - 2008 to 2010

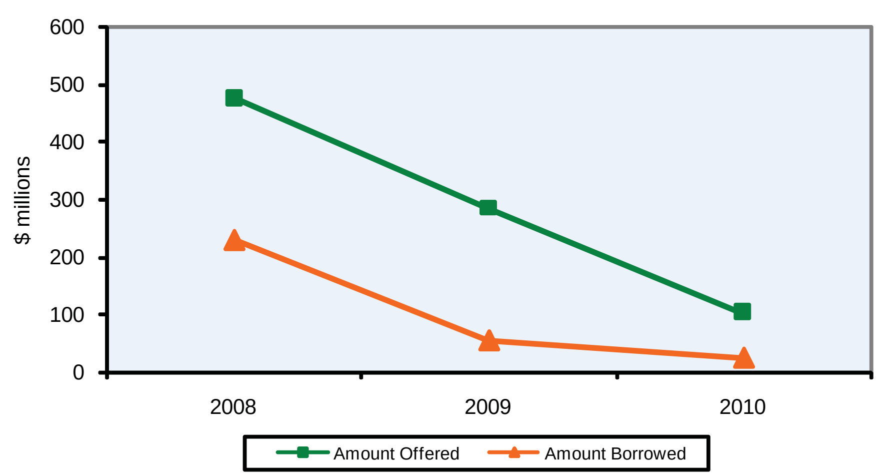
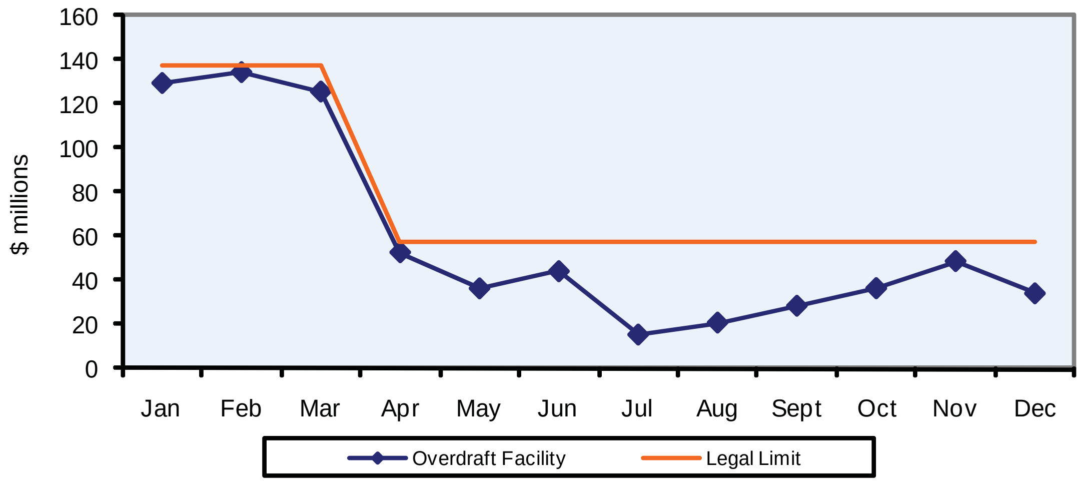


Chart 41: Overdraft Financing to Central Government



government securities that the Central Bank can hold was increased from seven to ten times its paid up capital and General Reserve Fund. These reforms facilitated a restructuring of government's domestic debt by replacing part of the overdraft with lower cost securities whilst enhancing the capacity of the Central Bank to manage liquidity in the banking system.

Bouyant revenue collections and proceeds from the issuance of new securities ensured that the government's overdraft at the Central Bank was kept well below the new ceiling. After peaking at $134.4mn in February, the overdraft balance progressively fell to $52.7mn in April and $36.3mn in May as the government adjusted to the newly prescribed limit by increasing its issuance of Treasury bills, the bulk of which was used by commercial banks to meet the new security requirement. A further substantial reduction was recorded in

Chart 42: Treasury Bills Allocation

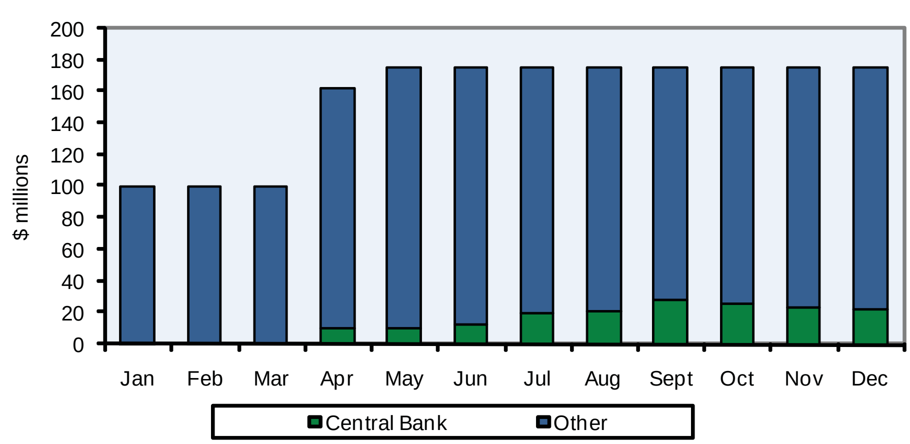
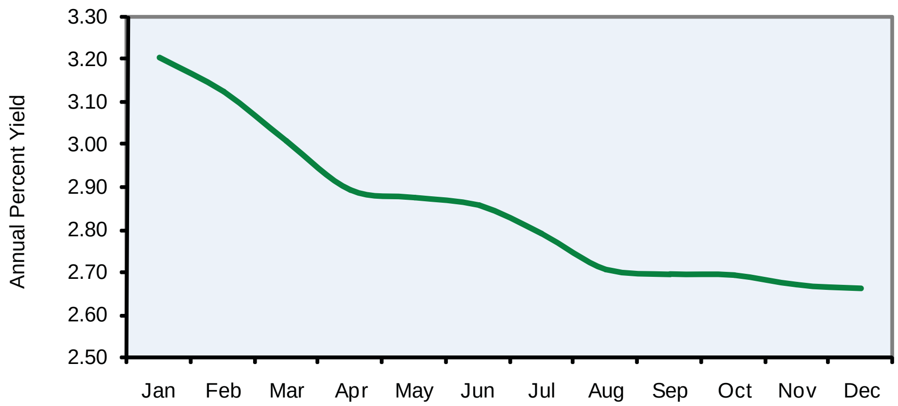


Chart 43: Treasury Bill Yield



July, with the overdraft reaching its lowest level of $15.3mn for 2010 following the Government's issuance of $40.0mn in Treasury notes. A series of subsequent transactions caused the account balance to gradually climb back up and it ended the year at $34.0mn (5.0% of current revenue of the preceding fiscal year).

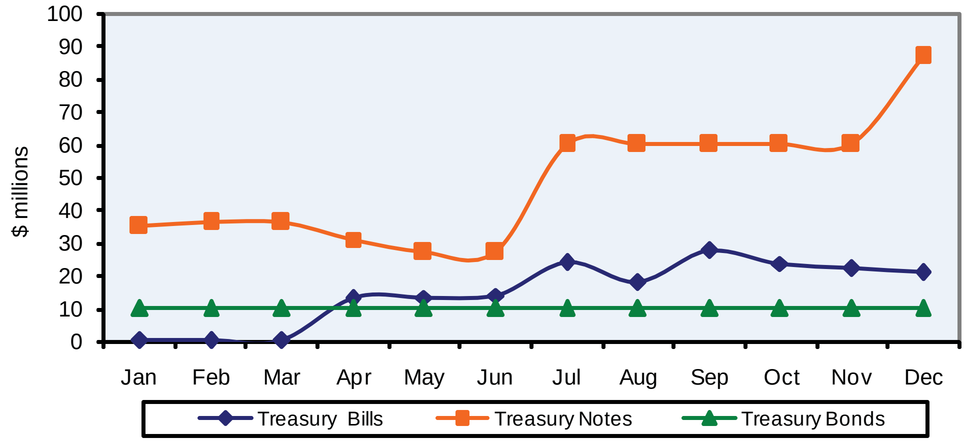
Treasury Bills

For the second consecutive year, high levels of bank liquidity coincided with a shortage of eligible securities for investment. With the demand for Treasury bills chronically exceeding supply, the Treasury Bill Act was consequently amended on March 30 in order to raise the ceiling on the amount the government could issue from $100 million to $200 million. New issuances were subsequently made in April ($62.0mn) and in May ($13.0mn) bringing the total outstanding to $175.0mn where it remained to the end of the year. As the highly liquid banks were also required to hold Treasury bills valued at $128.3mn (equivalent to 6.5% of average deposit liabilities) in order to comply with the statutory requirement that became effective on May 1, these institutions dominated with average Treasury bill holdings of $155.0mn during the remainder of the year. The market was a competitive one as is expected in an environment of high liquidity and muted private sector credit demand. This was demonstrated in the downward trend of the Treasury bill yield, which started the year at 3.20% and drifted gradually down to 2.66% by the end of the year. Meanwhile, the Central Bank, also a key player in the Treasury bill market, began the year holding only $0.2mn worth. This rose to $13.0mn in April, peaked at $27.6mn in September and declined thereafter to end the year at $23.0mn.

Treasury Notes

The Treasury Bill Act was also amended to allow for an increase of $150.0mn in the issuance of Treasury notes (from

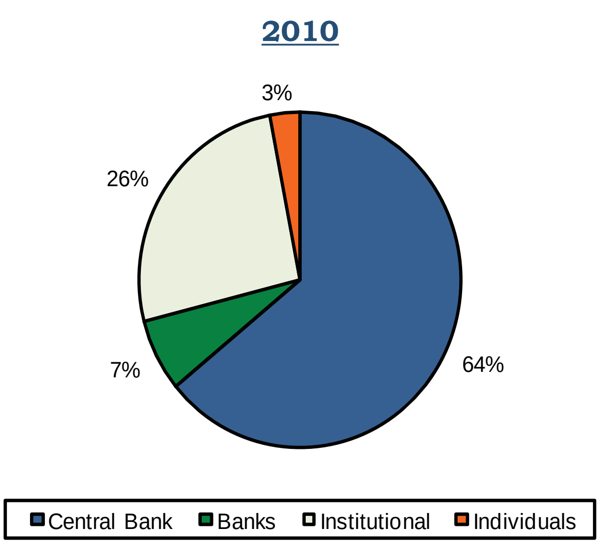
Chart 44: Holdings of Government Securities



$75.0 million to $225.0 million) and for an extension in maturity from five to ten years. Beginning the year at $71.8mn, the Treasury note issue was subsequently raised to $136.8mn with the Central Bank initially taking up all of the new notes. The new issuances provided the opportunity to introduce notes of two and ten year durations with annual interest rates on the new issues ranging from 6.0% on the one-year notes to 8.25 % on the ten-year notes.

The Central Bank started the year holding Treasury notes valued at $35.1mn and this rose to $60.1mn at the end of July as some $40.0mn in new notes were issued during that month. In December, the Government issued an additional $25.0mn to underwrite the Hurricane Richard

Chart 45: Treasury Notes Distribution



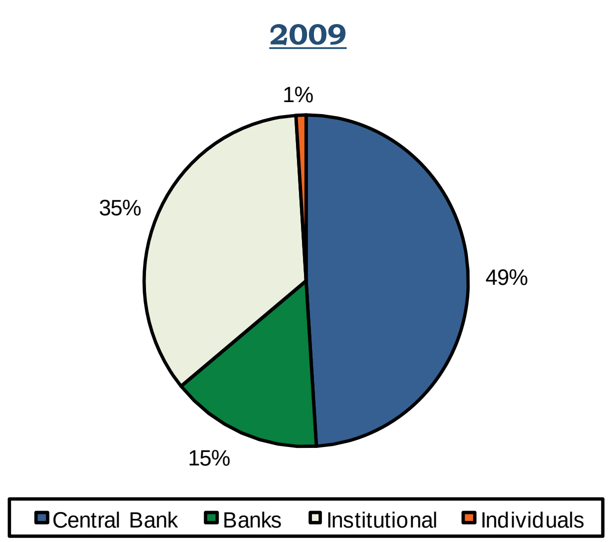
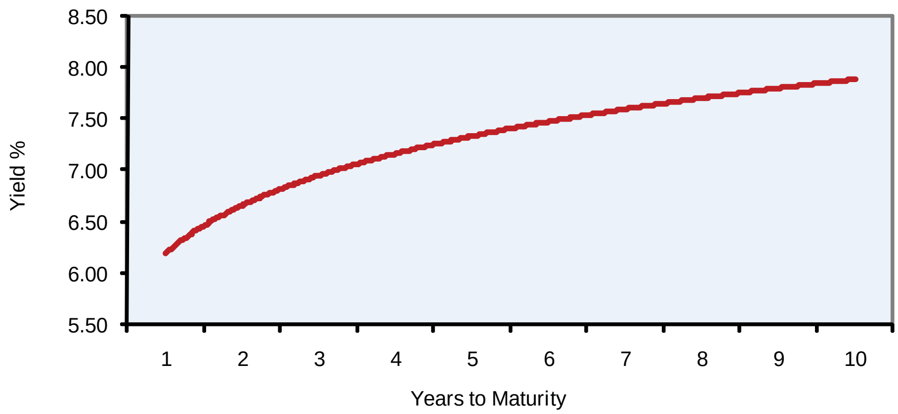


Chart 46: Treasury Notes Yield on Issues for 2010



Reconstruction Programme and provide assistance to the Belize Sugar Industries Ltd. In order to foster conditions conducive to credit expansion, the Central Bank took a policy decision to secure the bulk of the available Treasury notes and consequently closed the year holding some $87.9mn worth. As a result, holdings by commercial banks which were at their highest level of $19.0mn for six of the twelve months of the year, subsequently declined to end the year at $10.0mn.

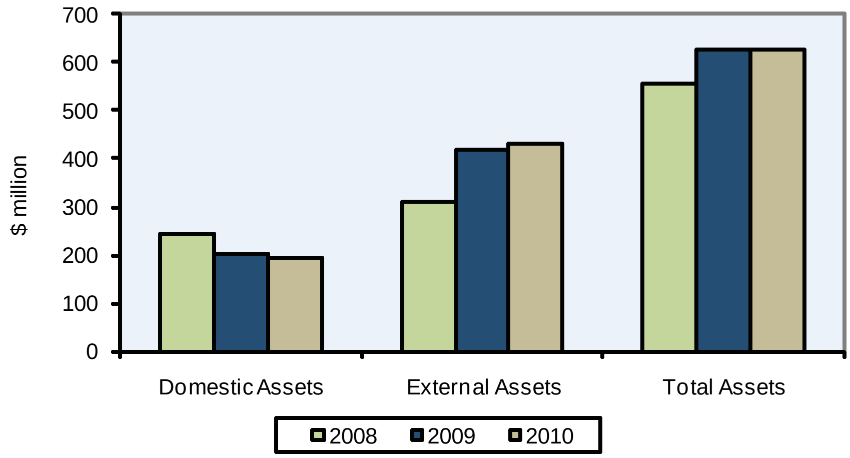
While the number of other market participants remained relatively stable, the size of their investments increased from $25.7mn to $38.8mn with the BSSB, pension and saving funds, insurance companies, and other institutional investors accounting for a total of $34.8mn and the remainder being shared among approximately fifty small investors.

At the end of the year, the outstanding Treasury notes issue consisted of $25.5mn in one-year notes at 6.0%, $15.0mn in two-year notes at 7.0%, $31.5mn in five-year notes at 9.0%, $35.0mn in five-year notes at 7.5% and $30.0mn in ten-year notes at 8.25%.

Financial Performance

Annual growth in the Central Bank's assets slowed from 12.6% to 0.6% with an increase in foreign assets of $12.0mn being partly offset by an $8.0mn shrinkage in domestic assets. At $1.1mn, the net operating surplus was $5.9mn below the previous year's outturn. Since expenses were held steady, this mostly reflected a reduction in income, specifically from facilities provided to the government. The latter reflected a shift in the composition of government financing with increased reliance on commercial banks and other private sector institutions that is one of the intermediate objectives of the Bank's monetary policy reform programme. In 2010, the government significantly reduced

Chart 47: Assets

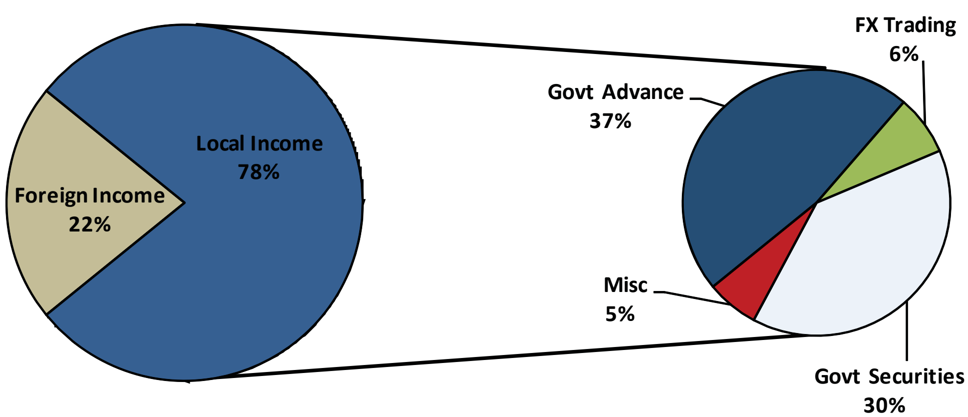


its overdraft balance at the Central Bank and simultaneously issued additional securities at much reduced interest rates.

Gross income declined by $6.1mn to $16.4mn, with domestic and foreign income amounting to $12.8mn and $3.6mn, respectively. While some 33.3% below the previous year, income from domestic operations continued to outweigh the Bank's earnings from its foreign investments given the depressed state of international interest rates. Domestic operations consequently contributed 78.0% of the Central Bank's total income with some 37.0% derived from direct lending to Central Government and 30.0% being earned on Government's securities.

Current expenditure totaled $15.3mn, a 1.3% decline, with staff costs, interest payments and other operating costs

Chart 48: Foreign and Local Income



accounting for approximately 50.0%, 10.0% and 40.0% respectively.

As provided for under Section 9(1) and Section 50 of the Central Bank Act, $0.1mn (10.0% of the net operating surplus less any revaluation loss) will be paid into the Central Bank's General Reserve Fund. The balance of $1.0mn will be transferred to the Accountant General for Government's consolidated revenue fund.