



Economic Review (June 2005)



Overview

After a strong first quarter, the economy decelerated to yield an overall increase of 4.4% for the first half of the year. The expansion was driven by the trade sector, higher output of marine products, record levels of citrus juice production and continued buoyancy in the tourism sector. Unemployment (measured annually in the month of April) fell from 11.6% to 11.0% with the largest growth in jobs occurring in the services sector. Meanwhile, higher fuel costs and increases in tax and water rates pushed the Consumer Price Index up by 2.1% over the quarter (February 2005 to May 2005) and by 3.7% from May 2004 to May 2005.

With imports outpacing exports and substantial outlays on finance and insurance charges associated with the issue of several international bonds, the external current account deficit widened by 42.5% to \$154.5mn. Net inflows from loans, international bond placements and foreign investment not only financed this gap but also boosted gross international reserves by \$118.5mn to \$225.1mn, the equivalent of 2.8 months of imports.

These inflows underpinned a 5.9% growth in broad money by facilitating a build up of government deposits in the financial system and an overall contraction in net domestic

credit. While net credit to Central Government and statutory bodies fell, commercial bank loans to the private sector rose by 1.8% as an increase in personal loans outweighed repayments from agricultural producers, private utilities and service providers in tourism, distributive trade and transportation.

Notwithstanding a 1.0% increase in reserve requirements at the beginning of May, excess statutory liquidity rose by \$5.0mn over the January-June period as deposit growth outpaced loans. Higher inflows from abroad in the form of export earnings, loans and investment capital contributed to the increase. Excess cash reserves rose by \$2.7mn and the weighted average interest rate spread widened by 10 basis points to 8.9%.

During April to June, the first quarter of its 2005/06 fiscal year, Central Government's operations resulted in an overall deficit of \$31.4mn that was entirely financed from domestic sources. While targeted tax increases contributed to a 17.4% rise in total revenues, current expenditure rose by 23.3% with higher interest payments on the public debt accounting for almost half of the expansion. Capital expenditure fell by 31.0%, reflecting some reclassifications as well as efforts to reduce the size of the



fiscal shortfall.

In the first six months of the year, Central Government's domestic debt declined by 1.3% to \$277.2mn reflecting amortisation payments and a reduction in its overdraft balance. Interest payments amounted to \$8.3mn. On the other hand, the external public sector debt rose by 9.2% to \$1.9bn as disbursements of \$335.4mn outweighed amortisation of \$176.6mn and downward

valuation adjustments of \$3.1mn. Two Bear Stearns bonds and financing from Taiwan accounted for 90.8% of disbursements. The largest amortization payments consisted of the retirement of the Salomon Smith Barney bond and repayment of 55.0% of the notes outstanding to CMFS note holders. Interest and other payments totalled \$64.6mn, one-third of which went to Bear Stearns.



Domestic Production And Prices

During the first half of the year, activity in trade, fishing, tourism and manufacturing underpinned growth of 4.4% in Gross Domestic Product (GDP), an expansion that was slightly below the 6.6% growth achieved in the comparable period of 2004.

The performance of the primary sector was mixed as a record breaking citrus crop and strong gains in papaya output were overshadowed by contractions in sugarcane and banana, while increased production of farmed shrimp, conch and fish fillet spurred growth in fishing.

Manufacturing expanded by 7.5% as higher output of citrus juices, pulps and oils overshadowed a decline in sugar production. Large construction projects such as the Challillo dam and the US embassy and the launch of a new telecommunication company helped to account for expansions of 3.9% in construction and 0.7% in utilities.

Increases of 4.8% in stay-over and 8.6% in cruise ship arrivals contributed to expansions of 10.5% in hotel and restaurant activities and 3.1% in transport and communications. On the other hand, government services contracted by 6.3% as fiscal outlays tightened.

With the services sector accounting for approximately 62.3% of employment and the primary and secondary sectors for the remaining 22.5% and 15.2%, respectively, unemployment fell from 11.6% to 11.0% even as the employed labour force grew by 2.8% to 98,589 individuals.

The general price level as measured by the **Consumer Price Index** grew by 2.1% over the quarter (February 2005 to May 2005) and 3.7% from May 2004 to May 2005 as year-on-year prices increased across all major commodity groups except for clothing and footwear.

Sugar

The 2004/2005 crop year closed on May 31 after only 184 days of operation as a severe drought reduced sugarcane deliveries by 19.2% to 929,393 long tons, the lowest production in over a decade. The 13.8% decline in sugar production to 100,435 long tons was less than proportionate due to improvements in factory procedures and cane purity. The extended dry conditions also concentrated the sugarcane's sucrose, raising it from approximately 11.0% for the 2003/2004 crop to 12.6%. The cane/sugar ratio consequently improved from 9.87 to 9.25. Molasses production fell by 9.8% to 37,704 long tons.



Table 1.1: Deliveries of Sugarcane and Production of Sugar and Molasses

	Nov-Jun 2004/05	Nov-Jun 2003/04
Deliveries of Sugarcane to BSI (long tons)	929,393	1,149,475
Sugar Processed by BSI (long tons)	100,435	116,515
Molasses processed by BSI (long tons)	37,074	41,117
Performance		
Factory Time Efficiency (%)	94.57	92.27
Cane Purity (%)	85.83	85.09
Cane/Sugar	9.25	9.87

Source: Belize Sugar Industries

At \$50.97, the estimated average final price per long ton of sugarcane was \$4.90 higher than the previous year mostly because of an 8.5% gain in the euro to US exchange rate and the strengthening of sugar prices following declines in production by major producers (such as the United States, India and Thailand) and the shift of a higher proportion of Brazil's harvest into ethanol production.

Citrus

With deliveries up 21.9% to 7.8mn boxes, the 2004/2005 citrus crop ended on June 18 after setting a new production record. Oranges accounted for virtually all this growth with grapefruit experiencing only a moderate 3.3% increase to 1.5mn boxes.

Yields were boosted by increased fertilizer usage, better field management and the control of the Mexican fruit fly (in the case of grapefruit). The incentives for producers to deliver better quality fruits under the payment-by-pound-solids system and the renewed sense of involvement and ownership by growers may have also been contributory factors.

Reflecting further productivity gains, output of juices was up by 26.3% to 44.2mn pound solids (ps). Nearly all of this consisted of concentrate juices, as NFC accounted for only 0.7mn ps. Orange juice output was boosted by a 5.6% increase in the average yield of pound solids per box of fruit. This contrasted with grapefruit whose average pound solids per box declined by 12.0%. To maximize value added, output of by-products soared as pulp almost quadrupled to 2.5mn ps and oil production grew by approximately 83.7% to 1.9mn pounds.

In a turn-around from the previous year when prices nose-dived, citrus markets, especially grapefruit, rallied strongly as world output declined during 2004/2005 because of adverse weather conditions in Spain and Brazil and the ravaging of citrus groves in Florida and Cuba by hurricanes in 2004. Farmers benefited from the hike in export prices with estimated final prices of



\$1.01 per pound solid (pps) for orange, a 14.8% increase over the 2003/2004 crop, and \$2.36 pps for grapefruit, equivalent to a box price of \$9.38 that far supersedes the \$3.84 of the previous year.

Banana

Unfavourable weather at the start of the year and a cutback in grower inputs contributed to a 13.1% reduction in banana production to 1.9mn boxes. With output at the half year mark falling below 2 million boxes, the odds against the industry achieving its forecasted output for 2005 of 4.5mn boxes appeared unfavourable.

At the end of June, acreage consisted of 6,106.1 acres with harvestable trees, compared to January when approximately 5,707.6 acres had harvestable trees and 428.2 acres were under plantilla (young, non-producing trees).

Under the 2005 marketing agreement, the average price per box of fruit has been reduced by US\$0.20 to US\$6.00. In addition, the weekly export volume for the second half of the year is limited to the average weekly volume achieved during the first half of the year. This volume restriction could prove troublesome in the last half of the year unless growers can negotiate greater volume flexibility.

Tourism

Tourism continued its steady growth with stay-over arrivals up by 4.8% to 129,612, compared to the first half of 2004.

Table 1.2: Output of Citrus Products

	Oct-Jun 2004/05	Oct-Jun 2003/04
Deliveries (boxes)		
Orange	6,264,847	4,910,267
Grapefruit	<u>1,527,802</u>	<u>1,478,788</u>
Total	7,792,649	6,389,055
Concentrate Produced (ps)		
Orange	37,688,898	27,723,715
Grapefruit	<u>5,846,097</u>	<u>5,432,337</u>
Total	43,534,995	33,156,052
Not from concentrate (ps)		
Orange	359,979	506,961
Grapefruit	<u>326,452</u>	<u>1,360,776</u>
Total	686,431	1,867,737
Pulp (pounds)		
Orange	1,807,936	586,816
Grapefruit	<u>682,080</u>	<u>38,880</u>
Total	2,490,016	625,696
Oil Produced (pounds)		
Orange	1,727,630	925,937
Grapefruit	<u>164,870</u>	<u>104,260</u>
Total	1,892,500	1,030,197

Sources: Citrus Products of Belize, Citrus Growers Association



The United States and Europe remained the largest markets, accounting for 68.0% and 12.4% of stay-over tourists. With the US economy growing by a healthy 3.4% during the second quarter, tourist arrivals from this market went up by 6.8%. Visitors from Europe also increased by 6.7%.

Air travelers accounted for 79.7% of total stay-over visitors with the land borders and seaports accounting for the remaining 17.5% and 2.8%, respectively. While arrivals through the Phillip Goldson International Airport and the land borders rose by 9.9% and 4.6%, respectively, entries through the seaports declined by 30%.

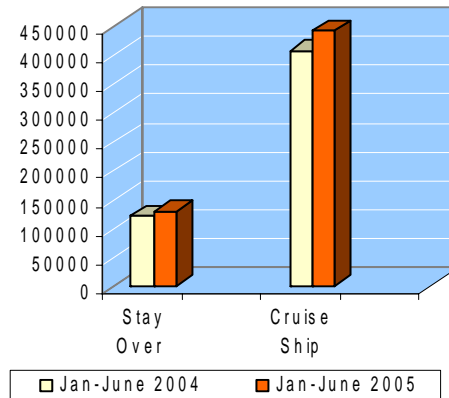
Cruise ship disembarkations grew by a robust 8.6% to 441,914 visitors. Up to June, 239 port calls were made, compared to 223 for the same period of 2004.

Table 1.3: Bona Fide Tourist Arrivals

	2005 Jan-Jun	2004 Jan-Jun
Stay-over Arrivals		
Air	103,238	93,974
Land	22,788	21,786
Sea	3,586	4,384
Total	129,612	120,143
Cruise Ship	441,914	407,036

Source: Immigration Department

Chart 1.1: Tourist Arrivals: Jan - June



Consumer Price Index

The steady growth in fuel acquisition costs combined with increased import costs as indicated by the 3.4% rise in the US export price index had a domino effect on domestic prices and were major contributors to the 2.1% quarterly (February 2005 to May 2005) and 3.7% annual (May 2004 to May 2005) growth in the Consumer Price Index. Except for 'Clothing and Footwear', year-on-year prices increased across all major commodity groups.

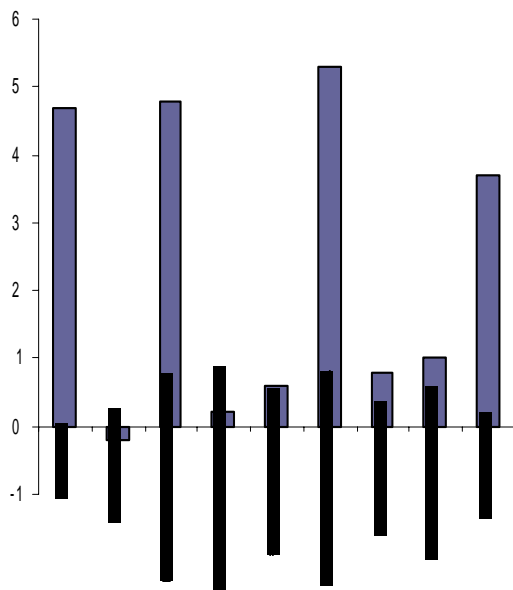
The largest annual increase was in 'Transport and Communication' (5.3%) as the price of diesel and gasoline rose by 12.4% and



9.4%, respectively. Airfare costs also rose by 3.0%.

The next largest increase was in 'Rent, Water, Fuel & Power' (4.8%) where prices were affected by increased water rates in April and higher costs for butane/cooking oils. The index for 'Food, Beverage and Tobacco' rose by 4.7% partly due to the impact of 'sin taxes' implemented in the early part of the year. Categories with a high import content, such as 'Personal Care' and 'Household goods & Maintenance' experienced modest price increases of 1.0% and 0.2%, while the cost of services, namely, 'Recreation, Education & Culture' and 'Medical Care' rose by 0.8% and 0.6%, respectively.

Chart 1.2: Annual Percentage Change in Consumer Price Index May 2004- May 2005





International Trade and Payments

Over the January to June period, the balance of payments recorded an overall surplus of \$118.5mn as net inflows from loans, bonds and foreign investments outweighed a 42.5% expansion in the current account deficit. The latter resulted largely from an increase in the trade deficit and, to a much lesser extent, from a contraction in net earnings from services. Gross international reserves rose to \$225.1mn, the equivalent of 2.8 months worth of imports.

The trade deficit widened by 29.7% to \$217.2mn as a 16.4% growth in imports (f.o.b.) outpaced an 8.7% rise in exports (f.o.b.). Fuel (\$20.1mn), the Commercial Free Zone (\$15.0mn) and export processing zones (\$4.8mn) accounted for approximately half of the \$75.3mn growth in imports. There were other notable increases in purchases of communication equipment, electricity, jewelry, fuel tanks, tires, construction materials and other consumer goods.

Export growth was fuelled by a 13.8% rise in domestic exports. Re-exports contracted marginally as a \$0.2mn improvement in CFZ sales was nullified by a \$0.3mn slippage in other re-exports. A doubling of citrus sales and higher earnings from papaya, garments and non-traditional

Table 2.1: Balance of Payments Summary

(BZ\$m)

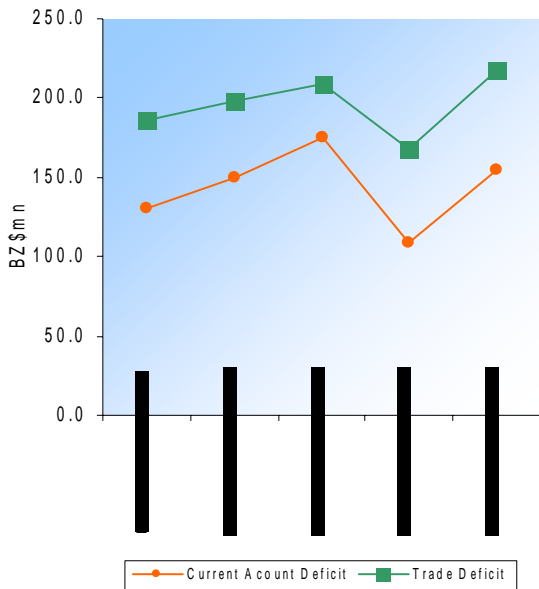
	2005 ^P Jan-Jun	2004 ^R Jan-Jun
A. CURRENT ACCOUNT (I+II+III+IV)	-154.5	-108.4
I. Goods (Trade Balance)	-217.2	-167.4
Exports, f.o.b.	317.0	291.5
Domestic Exports	210.8	185.3
CFZ Gross Sales	93.8	93.6
Re-exports	12.3	12.6
Imports, f.o.b.	534.2	458.9
Domestic Imports	455.8	395.5
CFZ Imports	78.4	63.4
II. Services	123.9	130.5
Transportation	-13.5	-9.5
Travel	163.9	153.7
Other Services	-26.4	-13.7
III. Income	-110.7	-121.3
Compensation of Employees	-3.5	-5.6
Investment Income	-107.2	-115.7
IV. Current Transfers	49.4	49.8
Government	3.5	14.5
Private	45.9	35.3
B. CAPITAL & FINANCIAL ACCOUNT (I+II)	208.4	110.2
I. Capital Account	1.1	6.8
II. Financial Account (I+2+3)	207.4	103.4
1. Direct Investment in Belize	106.5	117.5
2. Portfolio Investment	129.7	-22.7
Monetary Authorities	0.0	0.0
General Government	130.0	-22.5
Banks	0.0	0.0
Other Sectors	-0.2	-0.2
3. Other Investments	-28.8	8.5
Monetary Authorities	-2.7	-4.4
General Government	23.5	60.1
Banks	-34.7	-31.8
Other Sectors	-15.0	-15.3
C. NET ERRORS & OMISSIONS	64.6	-10.2
D. OVERALL BALANCE	118.5	-8.4
E. RESERVE ASSETS*	-118.5	8.4

P indicates Provisional, R indicates Revised

* Minus = increase



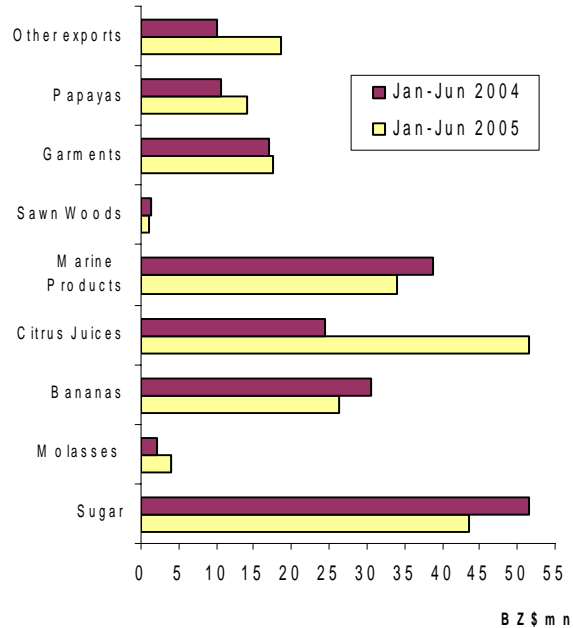
Chart 2.1: Current Account Deficit vs. Trade Deficit



products sufficiently offset lower earnings from sugar, banana, marine products and sawn woods to yield domestic export receipts of \$210.8mn.

Sugar exports declined by 16.7% to 61,612 long tons as sale volume to the EU and CARICOM fell by 30.1% and 12.5%, respectively. While deliveries to the EU contracted because of the pre-delivery of 5,886 long tons of Protocol sugar in 2004, residual sugar sales to CARICOM declined as a result of a drought induced shortfall in production. At 15.4%, the corresponding fall in sugar revenues to \$43.6mn was lower due to an appreciation in the euro to US dollar exchange rate and a modest price improvement in the CARICOM market.

Chart 2.2: Domestic Exports



A significant decline in foreign supplies and a price rally following hurricane destruction to citrus groves in Florida and Cuba facilitated a more than doubling of earnings from citrus juices to \$51.5mn, as sale volume went up by 41.8% to 23.8mn ps and prices improved across all markets. Concentrate juices accounted for virtually all sales since NFC juices were mostly marketed domestically. Sales of orange juices increased 29.3% in volume and 80.3% in value, while that of grapefruit juices more than doubled in volume and tripled in value. With the largest price increase occurring in grapefruit juices, sales re-commenced to the US after a two year hiatus.

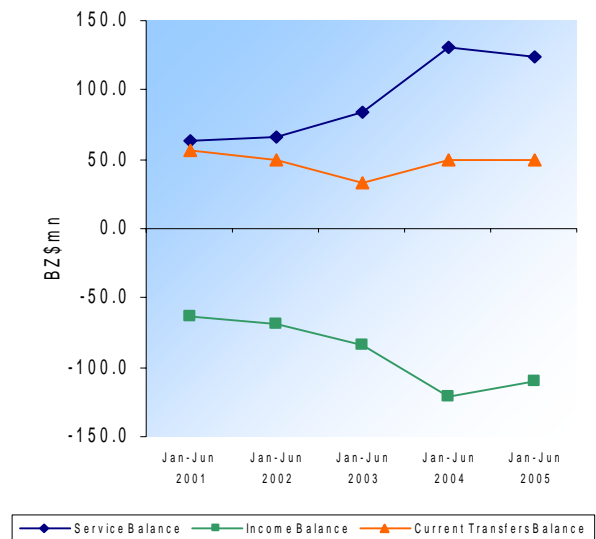


Unfavorable weather at the start of the year and a reduction in field inputs caused banana exports to decline by 10.2% to 36,831 metric tons. This, along with a US\$0.20 reduction in the average price per box and a higher share of second-class fruit in the export mix (13.0% versus 6.0%), drove down revenues by 13.7% to \$26.3mn.

Notwithstanding an 11.1% increase in marine export volume, earnings declined by 12.1% to \$34.1mn. The latter resulted from a 22.0% drop in shrimp revenues due to unabated competition from Asia and Latin America as well as an increase in the share of fresh, whole shrimp (which fetches lower prices than tails) in the export mix. The surge in demand for fresh, whole shrimp came from Mexico whose domestic production was down. In other developments, exports of conch and tilapia were up noticeably in volume and value, while lobster receipts fell as export volume modestly contracted.

Papaya receipts improved by 31.5% to \$14.1mn as export volume rose by 17.1% and prices inched up by an average of \$0.05 per pound. Similarly, the value of garment exports grew 3.6% to \$17.5mn in line with a 1.5% rise in export volume and \$0.20 increase in the average price per pound. Sawn wood exports declined by \$0.2mn while heightened sales of grapefruit oil,

Chart 2.3: Service, Income and Current Transfers Balances



fresh orange, red kidney beans and black eye peas drove other domestic exports up nearly two-fold to \$18.7mn.

Although travel receipts rose by 6.6%, net earnings from services contracted by 5.1% to \$123.9mn due to a rise in payments for transportation and other services. While the growth in outlays for transportation reflected the increased volume of international trade, higher outflows for other services were dominated by the financial fees and insurance premiums (associated with the placement of two Bear Stern bonds in March). The latter eclipsed modest improvements in inflows associated with the construction of the US Embassy and other professional services.

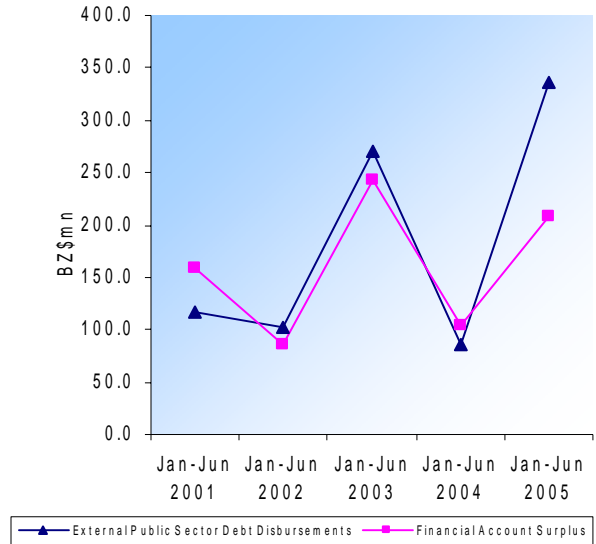


Net outflows on the income account fell by 8.7% as reductions in profit remittances, payments for foreign labour and private sector interest payments more than offset a 12.3% increase in public sector interest payments.

Current transfers were stable as a decline in government grants was almost matched by inward remittances to individuals and non-profit organizations.

At \$208.9mn, the surplus on the capital and financial account was 89.1% above the amount recorded in the first six months of 2004. The largest inflows came from ongoing foreign investments in the communication, electricity, and tourism sectors along with a sizeable increase in government borrowings. External disbursements to government totaled \$335.4mn, of which, \$285.4mn were proceeds from three bonds issued during the first quarter. Principal repayments by the public sector amounted to \$186.0mn and included the retirement of the Salomon Smith Barney Bond (\$58.2mn), partial redemption of notes held by Capital Financial Market Services (\$86.7mn), mortgage securitization payments (\$9.4mn) and other loan amortization payments (\$24.5mn). In other developments, commercial banks' foreign assets rose by \$22.3mn boosted by larger inward remittances, export earnings and tourism

Chart 2.4: Public Sector Debt Disbursements and Financial Account Surplus



receipts, while their external liabilities fell by \$12.4mn. Net foreign borrowings by the private sector fell as repayments exceeded loan disbursements.



Monetary Developments

During the first half of 2005, the broad money supply rose by 5.9% with foreign loans, export receipts and other inflows boosting net foreign assets by 175.5% and underpinning a 4.7% contraction in net domestic credit. With a view to forestalling an upward surge in credit and concomitant rise in foreign exchange demand, the Central Bank implemented an additional 1.0% increase in commercial bank reserve requirements on 1 May. During that month, the Social Security Board (BSSB) also began to deposit its monthly receipts with the Central Bank in support of the initiative to reduce domestic liquidity.

Narrow money rose by 3.9% with demand deposits and public currency holdings up by \$13.2mn and \$2.7mn, respectively. At 6.9%, quasi-money grew at a faster pace, with much of the increase occurring in time deposits held by business enterprises, individuals and BSSB.

Inflows from foreign loans and bond placements, particularly during the first quarter, boosted Central Government's deposits to \$75.6mn causing an almost 50% decline in its net use of financing from the domestic system. The latter contributed to an overall contraction in net domestic credit that contrasted with the positive growth trend of previous years. Loans to

Table 3.1: Factors Responsible for Money Supply Movements

	\$mn		
	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2005
Net Foreign Assets	234.7	149.5	13.6
Central Bank	222.5	118.7	-16.5
Commercial Bank	12.2	30.8	29.8
Net Domestic Credit	1,290.5	-63.2	130.6
Central Government (Net)	96.5	-78.9	22.3
Other Public Sector	42.8	-4.2	62.7
Private Sector	1,151.2	19.9	45.6
Central Bank Foreign Liabilities (Long-term)	0.0	-2.5	-2.5
Other Items (net)	203.3	15.1	74.2
Money Supply M2	1,321.9	73.7	72.2

statutory bodies also fell by \$4.2mn, reflecting DFC repayments to the Central Bank as well as net repayments to the commercial banks by the Belize Marketing Development Corporation (BMDC) and Belize Tourism Board. In secondary trading, the commercial banks used a portion of the first quarter build-up in deposits to purchase \$27.3mn in Treasury Bills from the Central Bank while private sector entities purchased \$0.5mn.

Commercial bank loans and advances rose by a modest 0.8% as an increase in personal



Table 3.2: Sectoral Composition of Commercial Banks' Loans and Advances

	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2004
		\$mn	
PRIMARY SECTOR	142.5	-2.6	9.0
Agriculture	94.0	-2.2	11.1
Sugar	6.1	-3.8	-2.8
Citrus	16.6	-2.4	-1.1
Bananas	58.2	5.3	11.8
Other	13.1	-1.3	3.2
Marine Products	23.3	-1.8	-1.8
Forestry	1.8	0.0	-1.5
Mining & Exploration	23.4	1.4	1.2
SECONDARY SECTOR	337.0	-2.2	15.5
Manufacturing	20.1	5.2	-1.0
Building & Construction	252.9	-5.8	6.3
Utilities	64.0	-1.6	10.2
TERTIARY SECTOR	494.1	-0.5	77.5
Transport	34.6	-4.1	-0.4
Tourism	65.7	-18.8	3.1
Distribution	159.0	-6.2	0.0
Other*	234.8	28.6	74.8
Personal Loans	211.5	14.4	-0.9
TOTAL	1,185.1	9.1	101.1

* Includes government services, real estate, financial institutions, professional services and entertainment.

loans outweighed net repayments by agricultural producers, private utilities, and service providers in tourism, distributive trade and transportation. The comparative shift in loan distribution partly reflected a decision by the banks to reclassify loans amounting to some \$24.0mn from the

building, construction and tourism sub-sectors to the real-estate sub-sector.

During the period reviewed, the Central Bank and commercial banks recorded increases in net foreign asset holdings of \$118.7mn and \$30.8mn, respectively.

Among the notable foreign exchange inflows to the Central Bank were loan disbursements (inclusive of the Bear Stearns bonds) that totaled \$298.6mn, purchases from local commercial banks, proceeds from the sale of BTL shares and sugar export receipts. With debt service payments rising, the public sector accounted for some 89.3% of foreign exchange outflows, more than double the

Table 3.3: Net Foreign Assets of the Banking System

	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2004
		\$mn	
Net Foreign Assets	234.7	149.5	13.3
Central Bank	222.5	118.7	-16.5
Foreign Assets	225.1	118.5	-18.4
*Foreign Liabilities (Demand)	2.6	-0.2	-1.9
Commercial Banks	12.2	30.8	29.8
Foreign Assets	151.6	22.3	29.8
#Foreign Liab. (Short-Term)	139.4	-8.5	-6.0

* Does not include Central Bank Long-term Foreign Liabilities of \$0.0 mn

Does not include Non-residents Foreign Currency Time Deposits of \$32.0mn held with Commercial Banks.

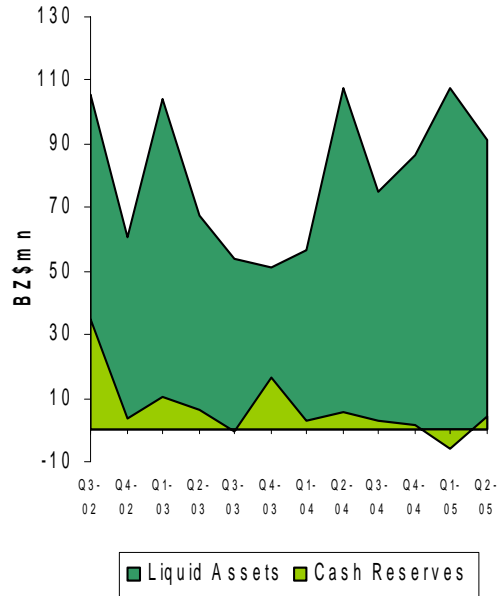


amount obtained for the comparable period of 2007. On the other hand, sales to the commercial banks declined by 67.2%.

The improvement in the commercial banks' position included a \$22.3mn increase in foreign asset holdings that reflected increased inflows from domestic exports and tourism, investment capital and foreign loan inflows for the mariculture industry that more than offset outflows for fuel and other imports. The banks' short-term foreign liabilities declined by \$8.5mn as repayments on foreign loans outweighed increases in IBC demand deposits.

Bolstered by strong deposit growth, excess liquidity rose by \$5.0mn to \$91.5mn even with the 1.0% increase in reserve requirements in May and removal of

Chart 3.2: Commercial Banks' Excess Statutory Liquidity & Excess Cash Reserves

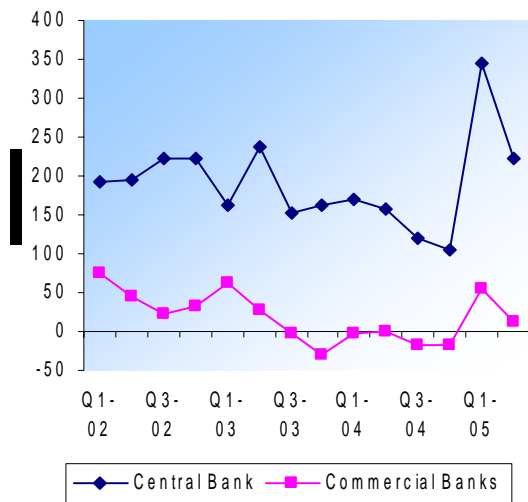


\$22.3mn in long-term loans to the Government from the list of approved liquid assets in April. Portfolio changes included increases of \$30.8mn in short-term foreign balances \$23.9mn in balances held with the Central Bank and \$17.6mn in Treasury Bill holdings.

In contrast to the \$11.4mn decline recorded over the first half of 2004, excess cash reserves grew by \$2.7mn to \$4.1mn reflecting a \$23.3mn rise in daily average holdings of cash reserves relative to a \$20.6mn increase in required cash reserves

Meanwhile, the weighted average spread of the commercial banks rose by 10 basis points to 8.9%. Across the board increases

Chart 3.1: Net Foreign Asset Holdings of the Central Bank and Commercial Banks





in lending rates on new loans were instrumental in pushing up the weighted average lending rate by 20 basis points, while the weighted average deposit rate rose by a more modest 10 basis points to 5.3%.



Government Operations

In the first quarter of the 2005/06 fiscal year, Central Government recorded current and overall deficits of \$12.9mn and \$31.4mn, respectively. The latter was approximately 49.5% of the projected shortfall for the entire fiscal year and was financed by the Central Bank and local commercial banks. Net financing from abroad was negative as loan disbursements of \$5.8mn were overshadowed by amortization payments of \$171.3mn.

Current revenue grew by \$19.9mn with increases in collections of tax and non-tax revenues exceeding that of the comparable period of 2004. While all categories of tax revenue expanded, the largest increase came from taxes on goods and services. Grant receipts declined by \$1.8mn while capital revenue increased by approximately \$1.5mn.

Table 4.1: Central Government's Revenue and Expenditure

	BZ\$mn	
	Apr - Jun 2005	Apr - Jun 2004
Total Revenue & Grants	134.5	114.5
of which: Current Revenue	130.5	110.6
of which: Grants	1.0	2.8
Total Expenditure	165.9	148.7
Current Expenditure	143.4	116.2
Capital Expenditure	22.5	32.6
Current Balance	-12.9	-5.6
Overall Balance	-31.4	-34.2

Source: Ministry of Finance

Table 4.2: Summary of Government's Revenues

	BZ\$mn	
	Apr - Jun 2005	Apr - Jun 2004
Current revenue	130.5	110.6
Tax revenue	117.5	102.3
Income and profits	31.5	24.7
Taxes on property	2.1	1.0
Taxes on goods & services	41.5	33.7
Int'l trade and transactions	42.3	42.9
Non-Tax Revenue	13.1	8.3
Property income	1.8	0.7
Licenses	2.1	1.9
Other	9.2	5.7
Capital revenue	2.6	1.1
Grants	1.0	2.8
Debt services receipts	0.3	0.07

Source: Ministry of Finance

Current expenditure rose by 23.4% as higher outlays on wages/salaries, pensions, interest payments and goods and services

Table 4.3: Summary of Government's Expenditure

	\$mn	
	Apr - Jun 2005	Apr - Jun 2004
Current Expenditure	143.4	116.2
Wages & Salaries	57.8	52.2
Pensions	9.8	7.2
Goods & Services	24.7	17.7
Interest Payments	41.5	29.1
of which: External	36.6	24.7
Subsidies & current transfers	9.6	10.0
Capital Expenditure	22.5	32.6
Capital II	16.0	14.4
Capital III	5.7	18.2
Net lending	0.8	0.0

Source: Ministry of Finance



outweighed a marginal decline in subsidies and transfers. Capital expenditure registered a contrasting decline of 31.0%, reflecting cuts in both capital II and III projects. Of the \$16.0mn expended under Capital II, the more notable items were paving of roads, printing services, the University of Belize, soybeans project and support payments to various conservation groups under the GOB debt for nature swap arrangement. Capital III outlays totalled \$5.7mn and included disbursements for the strengthening of vocational and technical programmes, poverty alleviation projects funded under the Commonwealth Debt Initiative and the Basic Needs Trust Fund.

Government's Domestic Debt

During the first six months of the year, Central Government's domestic debt declined by \$3.7mn to \$277.2mn, reflecting a \$1.7mn net contraction in the overdraft and principal payments of \$2.0mn to the DFC, the Belize Bank Limited and the GOB debt for nature swap.

In the secondary market for government securities, the Central Bank sold Treasury Bills valued at \$27.3mn to the commercial banks and \$0.5mn to private sector entities.

Interest payments summed to \$8.3mn with \$3.6mn being paid on the overdraft

Table 4.4: Summary of Central Government's Domestic Debt

	BZ\$m	
	Jan - Jun 2005	Jan - Jun 2004
Overdraft	90.3	83.0
Loans	47.9	46.9
Treasury Bills	100.0	100.0
Treasury Notes	24.0	24.0
Defence Bonds	15.0	15.0
Total	277.2	268.9

balance, while holders of Treasury Bills and Treasury Notes received \$1.1mn each, and Defence Bond holders received \$0.6mn. The balance was shared among the DFC, BSSB, the Belize Bank, an insurance company and the GOB debt for nature swap.

Public Sector External Debt

The public sector's external debt grew by \$155.8mn to \$1,852.1mn largely due to two new bond issues from Bear Stearns and financing from Taiwan. Total disbursements for the six-month period equalled \$335.4mn and were only partly offset by principal repayments of \$176.6mn and downward valuation adjustments of \$3.1mn. The latter resulted from the depreciation of the pound sterling and euro against the US dollar. Interest and other payments amounted to \$64.6mn.



Central Government received all disbursements, with \$294.4mn coming from commercial creditors, \$31.1mn from bilateral creditors and \$9.9mn from multilateral institutions.

Amortization payments by Central Government totalled \$170.7mn with commercial banks and suppliers and bond holders receiving \$153.3mn and payments to bilateral and multilateral creditors amounting to \$9.8mn and \$7.5mn, respectively. Noteworthy repayments included the retiring of the Salomon Smith Barney bond and payments that slightly more than halved amounts outstanding to the CMFS note holders who had refinanced an earlier TIBOM loan for the purchase of BTL. Of the \$4.8mn paid by the financial public sector, \$3.1mn went to commercial banks and suppliers, \$1.5mn to multilateral agents and \$0.2mn to bilateral creditors. Payments by the non-financial public sector to the government of Kuwait and CIBC Bank & Trust totalled \$1.1mn.

Of the \$63.4mn in interest and other payments by Central Government, commercial creditors such as Bear Stearns and the Royal Merchant Bank accounted for 82.3%. The remainder was equally shared between bilateral and multilateral lenders. Interest payments by the financial public sector amounted to \$0.8mn with the

Table 4.5: Financial Flows on Public Sector's External Debt

	BZ\$mn	
	Jan - Jun 2005	Jan - Jun 2004
Central Government		
Disbursements	335.4	87.2
Amortization	170.7	25.3
Interest & Other Charges	63.4	55.8
Rest of Non-Financial Public Sector		
Disbursements	0.0	0.0
Amortization	1.1	1.1
Interest & Other Charges	0.4	0.5
Financial Public Sector		
Disbursements	0.0	0.2
Amortization	4.8	5.3
Interest & Other Charges	0.8	1.3

largest payment going to the CDB. A total of \$0.4mn was paid by the non-financial public sector and this was divided between CIBC Bank & Trust and the government of Kuwait.



Annex

Table 5.1: Percent Variation in Consumer Price Index (CPI) by Commodity Group

Major Commodity Group	Weights	Quarterly Change				Annual Change
		Aug-04	Nov-04	Feb-05	May-05	
Food, Beverage & Tobacco	346.6	1.1	0.8	0.1	2.6	4.7
Clothing & Footwear	92.0	-0.4	-0.3	0.2	0.3	-0.2
Rent, Water, Fuel, & Power	167.6	0.3	1.2	0.2	3.0	4.8
Household goods & maintenance	85.3	-0.2	-0.2	0.1	0.6	0.2
Medical care	20.1	-0.1	0.2	0.1	0.4	0.6
Transport & Communication	170.1	1.8	0.1	0.4	2.9	5.3
Recreation, Education & Culture	80.4	0.6	0.0	0.3	-0.1	0.8
Personal care	37.9	0.1	0.2	0.3	0.4	1.0
ALL ITEMS	1000.0	0.8	0.5	0.2	2.1	3.7

Source: Central Statistical Office

Table 5.2: Gross Imports (CIF) by SITC

Bz\$'000

SITC Category	Jan – Jun 2005	Jan – Jun 2004
Food and Live Animals	52,266	55,343
Beverages and Tobacco	5,776	4,947
Crude Materials	4,678	3,298
Minerals, Fuels and Lubricants	117,333	88,972
of which electricity	21,133	14,841
Oils and Fats	1,552	1,424
Chemical Products	42,882	37,495
Manufactured Goods	69,090	60,886
Machinery and Transport Equipment	98,527	86,615
Other Manufactures	45,711	35,901
Commodities N.E.S	5	14
Export Processing Zones	64,829	59,585
Commercial Free Zone	86,172	69,715
Personal Goods	1,034	926
Total	589,855	505,123

Source: Central Statistical Office, Central Bank of Belize



Table 5.3: Balance of Payments Summary

	Bz\$m	
	2005 ^P Jan-Jun	2004 ^R Jan-Jun
CURRENT ACCOUNT	-154.5	-108.4
Goods: Exports f.o.b.	317.0	291.5
Goods: Imports f.o.b.	-534.2	-458.9
<i>Trade Balance</i>	-217.2	-167.4
Services: Credit	281.6	258.1
Transportation	33.8	32.7
Travel	199.0	189.0
Other Goods & Services	30.5	23.2
Gov't Goods & Services	18.3	13.2
Services: Debit	-157.6	-127.7
Transportation	-47.4	-42.2
Travel	-35.1	-35.4
Other Goods & Services	-66.3	-41.4
Gov't Goods & Services	-8.9	-8.7
<i>Balance on Goods & Services</i>	-93.2	-36.9
Income: Credit	6.2	4.0
Compensation of Employees	4.0	2.4
Investment Income	2.3	1.6
Income: Debit	-116.9	-125.3
Compensation of Employees	-7.5	-8.1
Investment Income	-109.4	-117.2
<i>Balance on Goods, Services & Income</i>	-203.9	-158.2
Current Transfers: Credit	52.3	51.8
Current Transfers: Debit	-2.8	-1.9
CAPITAL ACCOUNT	1.1	6.8
Capital Account: Credit	1.8	7.6
Capital Account: Debit	-0.7	-0.7
FINANCIAL ACCOUNT	207.4	103.4
Direct Investment Abroad	0.0	-0.1
Direct Investment in Reporting Economy	106.5	117.7
Portfolio Investment Assets	-0.2	-0.2
Portfolio Investment Liabilities	130.0	-22.5
Financial Derivatives	0.2	0.6
Other Investment Assets	-24.2	-25.6
Other Investment Liabilities	-4.9	33.5
NET ERRORS & OMISSIONS	64.6	-10.2
OVERALL BALANCE	118.5	-8.4
RESERVE ASSETS*	-118.5	8.4

*(Minus = Increase)
Source: Central Bank of Belize
P: Indicates Provisional
R: Indicated Revised



Table 5.4: Central Government's Revenue and Expenditure

Bz \$'000

	Approved Budget 2005/2006	June 2005	April 05 to June 05	April 04 to June 04	Actual to date as % of Budget
TOTAL REVENUE & GRANTS (1+2+3)	574,188	45,642	134,451	114,529	23.4%
1). Current revenue	546,341	43,870	130,522	110,585	23.9%
Tax revenue	501,288	40,926	117,453	102,326	23.4%
Income and profits	135,579	9,973	31,535	24,676	23.3%
Taxes on property	9,506	580	2,132	1,017	22.4%
Taxes on goods and services	146,159	14,982	41,523	33,695	28.4%
Int'l trade and transactions	210,045	15,391	42,263	42,938	20.1%
Non-Tax Revenue	45,053	2,943	13,069	8,259	29.0%
Property income	3,600	0	1,838	676	51.1%
Licenses	12,343	709	2,064	1,902	16.7%
Other(1)	29,110	2,234	9,167	5,681	31.5%
2). Capital revenue	3,500	1,773	2,640	1,084	75.4%
3). Grants	24,347	0	1,008	2,790	4.1%
4). Debt Service Receipts		0	281	70	
TOTAL EXPENDITURE (1+2)	64,245	61,238	165,899	148,718	26.1%
1). Current Expenditure	493,715	55,886	143,393	116,155	29.2%
Wages and Salaries	224,927	19,338	57,811	52,208	25.7%
Pensions	34,514	3,134	9,820	7,214	28.5%
Goods and Services	79,775	9,774	24,659	17,703	31.8%
Interest Payments on Public Debt	118,340	20,789	41,533	29,066	35.1%
Subsidies & current transfers	36,159	2,851	9,570	9,964	26.5%
2). Capital Expenditure	146,530	5,352	22,507	32,563	15.8%
Capital II (local sources)	80,769	4,516	15,994	14,372	20.0%
Capital III (foreign sources)	65,761	836	5,711	18,191	9.5%
Capital Transfer & Net Lending	0	0	802	0	
CURRENT BALANCE	52,626	(12,016)	(12,871)	(5,570)	-25.8%
OVERALL BALANCE	(66,057)	(15,596)	(31,448)	(34,189)	49.5%
FINANCING		15,596	31,448	34,189	
Domestic Financing		92,047	195,552	37,697	
Central Bank		78,903	152,019	15,509	
Net Borrowing		(11,513)	(17,618)	(29,670)	
Change in Deposits		90,416	169,637	45,179	
Commercial Banks		2,866	33,946	22,270	
Net Borrowing		6,003	9,343	37,590	
Change in Deposits		(3,137)	24,603	(15,320)	
Other Domestic Financing		10,278	9,587	(82)	
Transact with DFC (Debt)		0	0	0	
Financing Abroad		(76,064)	(165,482)	(4,895)	
Disbursements		395	5,822	11,014	
Amortization		(76,459)	(171,304)	(14,759)	
Change in Foreign Assets		0	0	(1,150)	
Privatization Proceeds		0	0	0	
Other		(387)	1,378	1,387	

Source: Ministry of Finance and Central Bank of Belize



Table 5.5: Public Sector External Debt By Creditor

Bz\$'000

	Disbursed Outstanding Debt 31/12/2004	TRANSACTIONS DURING Jan - June 2005				Disbursed Outstanding Debt 30/06/2005
		Disbursement	Amortization	Interest & Other Charges	Valuation Adjust- ments	
CENTRAL GOVERNMENT	1,619,625	335,428	170,659	63,466	-2,310	1,782,082
Banco Nacional de Comercio Exterior	8,999	0	0	273	0	8,999
Fondo de Financ. de las Exportaciones	980	0	109	29	0	871
Government of Great Britain	12,359	0	1,204	0	-595	10,558
Government of Peoples Rep. of China	116	0	0	0	0	116
Government of the United States*	7,792	0	703	145	0	7,090
Government of Trinidad and Tobago	24	0	4	0	0	20
Kuwait Fund for Arab Economic Dev	20,581	0	570	419	542	20,553
Republic of China	195,106	31,115	7,212	4,898	0	219,009
Caribbean Development Bank	84,450	7,464	854	959	0	91,059
European Economic Community	19,889	0	208	38	-2,148	17,532
European Investment Bank	1,052	0	0	0	-114	938
Inter-American Development Bank	139,385	2,411	2,440	3,034	0	139,355
International Fund for Agric. Dev.	2,060	0	351	47	-1	1,709
Intl. Bank for Reconstruction & Dev.	68,348	60	3,411	1,228	5	65,002
Opec Fund for Int'l. Development	7,833	0	267	194	0	7,566
Allfirst Bank of Maryland	2,940	0	420	85	0	2,520
Bear Stearns & Co. Inc.	450,000	273,366	0	21,625	0	723,366
Citibank, Trinidad & Tobago	12,000	0	1,714	591	0	10,286
Citicorp Merchant Bank Ltd.	48,571	0	1,429	2,213	0	47,143
CMFS Note Holders	157,910	0	86,728	6,585	0	71,182
International Bank of Miami	97,868	1,965	0	5,223	0	99,833
KBC Bank NV	5,607	0	935	153	0	4,673
Provident Bank & Trust of Belize	374	0	35	6	0	338
Royal Merchant Bank	213,948	11,991	2,977	12,808	0	222,962
Salomon Smith Barney	58,200	0	58,200	2,692	0	0
Belize Estate and Co. Ltd.	1,628	0	651	156	0	977
Caterpillar Financial Services Corp.	1,325	0	144	16	0	1,182
Export Import Bank of the United States	280	0	93	13	0	187
Manufacturers & Traders Trust Co.	0	7,056	0	35	0	7,056
NON-FINANCIAL PUBLIC SECTOR	12,124	0	1,148	400	219	11,195
Kuwait Fund for Arab Economic Dev	8,140	0	348	167	219	8,011
CIBC Bank & Trust Company	3,984	0	800	233	0	3,184
FINANCIAL PUBLIC SECTOR	64,584	0	4,786	755	-965	58,840
Caribbean Development Bank	43,148	0	1,201	516	-14	41,938
European Economic Community	640	0	17	3	-64	559
European Investment Bank	11,430	0	304	53	-887	10,242
Citibank, Trinidad & Tobago	1,250	0	1,250	27	0	0
Citicorp Merchant Bank Ltd.	1,250	0	1,250	27	0	0
Paine Webber Real Estate Securities Inc.	1,900	0	0	0	0	1,900
N.V. De Smet S.A. Engineers	2,825	0	565	98	0	2,260
Government of the United States	2,140	0	200	32	0	1,940
GRAND TOTAL	1,696,332	335,428	176,593	64,621	-3,056	1,852,118

* USAID Debt for Nature Swap Agreement as at 2nd August, 2001 was implemented on 30th November, 2001 for BZ \$17,168.



Table 5.6: Central Government's Domestic Debt By Creditor

Bz\$'000

	Transactions To June 2005					Disbursed Outstanding Debt 30/06/05P
	Disbursed Outstanding Debt 31/12/04R	Disbursement / New Issue of Securities	Amortization / Reduction in Securities	Interest	Net Change in Overdraft/ Securities	
Overdraft	91,987			3,625	(1,676)	90,311
Central Bank	82,498			3,625	6,489	88,987
Commercial Banks	9,489			0	(8,165)	1,324
Treasury Bills	100,000	0	0	1,064	0	100,000
Central Bank	72,637		0	765	(27,734)	44,903
Commercial Banks	24,847		0	272	27,276	52,123
Other	2,489		0	27	485	2,974
Treasury Notes	24,000	0	0	1,125	0	24,000
Central Bank	158		0	0	(158)	0
Commercial Banks	23,269		0	1,093	0	23,269
Other	731		0	32	0	731
Defence Bonds	15,000	0	0	625	0	15,000
Central Bank	10,000		0	418	0	10,000
Commercial Banks	100		0	1	0	100
BSSB	0		0	0	0	0
Other	4,900		0	206	0	4,900
DFC Loan (Debt Restructuring)	7,931	0	263	295	0	7,668
BSSB Housing Loan	678	0	11	41	0	667
GOB Debt For Nature Swap)	13,613	0	580	159	0	13,033
Cohune Walk Loan Belize Bank	2,700	0	145	199	0	2,555
Infrastructure Dev. Loan Belize Bank	24,000	0	1,050	1,077	0	22,950
Guardian Life Belize \$1mn Loan	1,000	0	0	45	0	1,000
Total	280,909	0	2,049	8,255	(1,676)	277,184



Table 5.7: Commercial Banks' Weighted Average Interest Rates

	Percentages		
	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2004
Weighted Lending Rates			
Personal Loans	16.0	0.5	-0.2
Commercial Loans	14.1	0.2	0.0
Residential Construction	12.9	0.3	0.2
Other	12.5	2.4	-0.7
Weighted Average	14.3	0.2	-0.3
Weighted Deposit Rates			
Demand	0.4	-0.1	0.1
Savings/ Cheque	5.1	0.0	0.1
Savings	5.1	0.0	-0.1
Time	7.8	0.2	0.3
Weighted Average	5.3	0.1	0.4
Weighted Average Spread	8.9	0.1	-0.7

Table 5.8: Commercial Banks Liquidity Position and Cash Reserves

	Bz \$mn		
	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to Jun 2004
Holdings of Approved Liquid Assets	364.1	39.7	13.1
Notes and Coins	33.4	-0.3	0.5
Balances with Central Bank	105.6	23.9	-10.6
Money at Call and Foreign Balances (due 90 days)	133.8	30.8	34.7
Treasury Bills maturing in not more than 90 days	43.6	17.6	21.3
Other Approved assets	47.7	-32.3	-32.8
of which: Treasury Notes	23.3	0.0	0.0
Loans for New Residential Construction	0.0	0.0	-49.5
Loans for Non-Traditional Exports	0.0	0.0	0.0
Required Liquid Assets	272.6	34.7	-43.2
Excess/(Deficiency) Liquid Assets	91.5	5.0	56.3
Daily Average holdings of Cash Reserves	108.0	23.3	-8.4
Required Cash Reserves	103.9	20.6	3.0
Excess/(Deficiency) Cash Reserves	4.1	2.7	-11.4



Table 5.9: Net Domestic Credit

Bz \$mn

	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2004
Total Credit to Central Government	243.6	-3.3	13.3
From Central Bank	143.9	-21.4	-24.5
Loans and Advances	89.0	6.5	6.1
Government Securities	54.9	-27.9	-30.6
From Commercial Banks	99.7	18.1	37.8
Loans and Advances	24.3	-9.2	4.9
Government Securities	75.4	27.3	32.9
Less Central Government Deposits	147.1	75.6	-9.0
With Central Bank	128.0	69.7	-26.5
With Commercial Banks	19.1	5.9	17.5
Net Credit to Central Government	96.5	-78.9	22.3
Credit to Other Public Sector	42.8	-4.2	62.7
From Central Bank	30.0	-2.5	14.5
From Commercial Banks	12.8	-1.7	48.2
Plus Credit to the Private Sector	1,151.2	19.9	45.6
Loans and Advances	1,150.2	19.9	47.1
Securities	1.0	0.0	-1.5
Net Domestic Credit of the Banking System	1,290.5	-63.2	130.6

Table 5.10: Money Supply

Bz \$mn

	Position as at June 2005	Changes during	
		Dec 2004 to June 2005	Dec 2003 to June 2004
Money Supply (M2)	1,321.9	73.7	72.2
Money Supply (M1)	422.6	15.9	14.2
Currency with the Public	118.0	2.7	3.5
Demand Deposits	304.6	13.2	10.7
Savings/Cheque Deposits	0.0	0.0	0.0
Quasi-Money	899.3	57.8	58.0
Savings Deposits	217.8	19.6	-3.9
* Time Deposits	681.5	38.2	61.9

**Includes Non-Residents Foreign Currency Time Deposits of \$32.0 mn*