Central Bank of Belize

Annual Report 2006

Cover Image: The graphics on the right of the cover illustrate a sketch of the National Symbols of Belize - The Kill Billed Toucan, Baird's Tapir, The Mahogany Tree and The Black Orchid by Gilvano Swasey, a feature which appears on the Belize currency notes.

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Prepared by: CBB Research Department

Printed by: CBB Reprographic Centre

CENTRAL BANK
OF
BELIZE

Twenty-fifth Annual Report
&
Statement of Accounts

For the Year Ending 31 December 2006

Abbreviations and Conventions
used in this Report

ACP	African, Caribbean and Pacific
AML/CFT	Anit-Money Laundering/Caribbean Financial Task Force
ASBA	Association of Supervisors of Banks of The Americas
APR	Annual Percentage Rate
BEL	Belize Electricity Limited
BFIA	Banks and Financial Institutions Acts, 1995
BGA	Banana Growers Association
BIS	Bank for International Settlements
BNE	Belize Natural Energy Ltd.
BSI	Belize Sugar Industries Limited
BSSB	Belize Social Security Board
BTB	Belize Tourism Board
BTL	Belize Telecommunications Ltd.
BWSL	Belize Water Services Limited
CARICOM	Caribbean Community and Common Market
CABEI	Central American Bank for Economic Integration
CARTAC	Caribbean Regional Technical Assistance Centre
CAFTA-RD	Central American Free Trade Agreement and Dominican Republic
CEMLA	Center of Monetary Studies for Latin America
CIBC	Canadian Imperial Bank of Commerce
CMFS	Capital Market Financial Services
CDB	Caribbean Development Bank
CFZ	Commercial Free Zone
CGA	Citrus Growers Association
CIF	Cost, Insurance and Freight
CPI	Consumer Price Index
CPBL	Citrus Products of Belize Ltd.
CSO	Central Statistical Office
CS-DRMS	Commonwealth Secretariat Debt Recording Management System
DFC	Development Finance Corporation
ECCB	Eastern Caribbean Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EIB	European Investment Bank
EPZ	Export Processing Zone
EU/EEC	European Union
FOB	Free on Board
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Belize
GST	General Sales Tax
HIPC	Highly Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IDB/IADB	Inter-American Development Bank
IMF	International Monetary Fund
NDFB	National Development Foundation of Belize
NICH	National Institute of Culture and History
NFC	Not from concentrate
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PGIA	Phillip Goldson International Airport
ps	Pound solid
RECONDEV	Reconstruction and Development Corporation
RMB	Royal Merchant Bank
ROC	Republic of China, Taiwan
SIF	Social Investment Fund
TIBoM	The International Bank of Miami
UK	United Kingdom
US/USA	United States of America
VEMS	Visitor Expenditure Motivation Survey
WTO	World Trade Organisation

Notes and Conventions:

-- $ refers to the Belize dollar unless otherwise stated
-- mn denotes million
-- bn denotes billion
-- The figures for 2006 in this report are provisional, and the figures for 2005 have been revised.
-- Since May of 1976 the Belize dollar has been fixed to the US dollar at the rate of US$1.00 = BZ$2.00.
-- Totals in tables do not always equal the sum of their components due to rounding.

April 27, 2007

Hon. Said Musa
Prime Minister and Minister of Finance
New Administration Building
Belmopan
BELIZE

Dear Prime Minister:

In accordance with Section 58 of the Central Bank of Belize Act,1982, I have the honour of submitting to you, in your capacity as Minister of Finance, the Report on the Central Bank of Belize's operations for the period January 1 to December 31, 2006, together with a copy of the Bank's Statement of Accounts, as certified by the External Auditors.

Yours sincerely,

Campbell

Sydney J. Campbell
Governor

Directors and Principals

At December 31, 2006

BOARD OF DIRECTORS

SYDNEY CAMPBELL
Vice Chairman

MARION PALACIO

MICHEL CHEBAT

JAIME BRICEÑO

ROBERT SWIFT

Dr. CARLA BARNETT
Financial Secretary

PRINCIPAL OFFICERS

SYDNEY CAMPBELL
Governor

MARION PALACIO
Deputy Governor

CAROL HYDE
Manager, Human Resources & Administration

HOLLIS PARHAM
Manager, Finance

MARILYN GARDINER
Manager, Banking & Currency

NERI MATUS
Manager, Financial Sector Supervision

CHRISTINE VELLOS
Manager, Research

ORNEL BROOKS
Officer in Charge, Security

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Overview of the Bank

Mission Statement

The Central Bank of Belize's objectives are stated in the Central Bank of Belize Act, 1982.

> "Within the context of the economic policy of the Government the Bank shall be guided in all its actions by the objectives of fostering monetary stability especially as regards stability of the exchange rate and promoting credit conditions conducive to the growth of the economy of Belize."

In light of these objectives, the Bank has the following Mission:

> ***To regulate and encourage the development of the financial system and to formulate economic policies that foster monetary and financial stability, confidence and economic growth.***
>
> ***The Bank is committed to serving the interest of the people of Belize through highly motivated and skilled professionals who operate under the ethos of integrity, efficiency and transparency.***

In the pursuit of its mission, the Bank sets a number of goals and operating objectives. These are listed below. Emphasis is added in the first section to indicate the respective **client(s)** to which each of the Bank's goals is geared.

Goals

√ Provide prompt and well-considered macroeconomic advice to the **Government**, the **business sector** and the **general public**.

√ Provide efficient banking services to the **commercial banks**, the **government** and various **public sector bodies** and **regional and international organisations** that hold accounts at the Bank.

√ Provide guidelines to the **banking community** on matters such as money supply, interest rates, credit and exchange rates.

√ Set high standards of efficiency and organisation so as to encourage higher levels of attainment in the Bank.

Objectives

√ Promote monetary stability.

√ Regulate the issue and availability of money and its international exchange.

√ Regulate and monitor the financial environment.

ORGANIZATION AND FUNCTIONS

The Bank's mission and objectives are pursued through its various departments, with core functions as follows:

Office of the Governor

- Managing the operations of the Bank.
- Co-ordinating the various functions of the Bank's Departments.
- Formulating, developing and reviewing the Bank's policy prescriptions.
- Streamlining and monitoring systems and procedures to ensure appropriate internal controls.
- Ensuring that all communications necessary for the deliberations of the directors are prepared and submitted.

Administration

- As secretariat to the Board, ensuring that the decisions and relevant directives of the Board are communicated to all parties concerned.
- Procuring supplies, and conducting stock keeping and inventory exercises.
- Managing the Bank's records management system.
- Disseminating information produced by the Bank, particularly economic reports and bulletins, research papers, relevant acts and regulations and related guidelines.
- Managing the Bank's numismatic operations.

Human Resources

- Advising on personnel policy matters.
- Promoting the conditions necessary for staff development and training.
- Providing employee assistance.
- Administering and processing of staff compensation and benefits.
- Recruiting and selecting suitable staff.
- Fostering healthy industrial relations between the Bank and its employees' unions.

Finance

- Preparing the Bank's budget and monitoring and controlling the Bank's financial activities.
- Performing fiscal agent functions on behalf of the Central Government and other public sector entities for the trading of securities.

Banking and Currency

- Issuing notes and coins.
- Providing banking services to Central Government, other public sector entities and financial institutions.
- Management of the Central Bank's foreign reserve holdings.
- Conducting clearing-house operations for the domestic banking system.

Financial Sector Supervision

- Screening and processing applications for domestic and international bank licenses and registration of credit unions.
- Supervising and regulating banks, financial institutions and credit unions through on-site examination and off-site surveillance.
- Processing of applications for large credit exposures under section 21(2) of the Banks and Financial Institutions Act and 21 b (2) of the International Banking Act.
- Promoting and conducting anti money-laundering surveillance of financial institutions licensed under the BFIA, IBA and the Credit Unions Act.

Research

- Monitoring economic activities in Belize on a continuing basis.
- Conducting focused economic research on the Belizean economy and aspects pertaining to its development.
- Maintaining the Bank's library of Information.
- Preparing monthly, quarterly and annual economic reports.
- Processing and monitoring foreign exchange transactions of the financial system.
- Producing appropriate statistics.

Other Support Operations

- Monitoring and maintaining the Bank's information technologies.
- Oversight of Internal Audit programme.
- Maintaining the Bank's plant and equipment.
- Maintaining security operations within the Bank.

Table I.1: Major Economic Indicators

	2001	2002	2003	2004	2005	2006
POPULATION AND EMPLOYMENT						
Population (Thousands)	255.3	262.7	271.1	281.1	289.9	299.8
Employed Labour Force (Thousands)	85.9	84.7	89.2	95.9	98.6	102.2
Unemployment Rate (%)	9.1	10.0	12.9	11.6	11.0	9.4
INCOME						
GDP at Current Market Prices ($mn)	1,742.7	1,864.3	1,975.2	2,110.4	2,222.7	2,442.3
Per Capita GDP ($, Current Mkt. Prices)	6,826.1	7,096.7	7,285.9	7,507.6	7,667.2	8,147.5
Real GDP Growth (%)	4.9	5.1	9.3	4.6	3.5	5.8
Sectoral Distribution of Constant 2000 GDP (%)						
Primary Activities	14.5	13.9	17.5	18.2	17.9	18.6
Secondary Activities	17.3	16.9	14.9	15.3	14.5	14.8
Services	68.3	69.3	67.6	66.5	67.6	66.6
MONEY AND PRICES ($mn)						
Inflation (Annual average percentage change)	1.1	2.3	2.6	3.1	3.7	4.3
Currency and Demand deposits (M1)	364.8	358.1	442.6	492.2	516.0	617.8
Quasi-Money (Savings and Time deposits)	676.0	705.3	659.7	756.1	814.0	887.1
Money Supply (M2)	1,040.8	1,063.4	1,102.3	1,248.3	1,330.0	1,504.9
Ratio of M2 to GDP (%)	59.7	57.0	55.8	59.1	59.8	61.6
CREDIT ($mn)						
Commercial Bank Loans and Advances	788.5	904.6	1,056.6	1,176.5	1,254.7	1,390.5
Public Sector	12.9	16.0	30.0	46.3	62.4	47.7
Private Sector	775.6	888.6	1,026.6	1,130.2	1,192.3	1,342.8
INTEREST RATE (%)						
Weighted Average Lending Rate (WALR)	15.4	14.5	14.2	14.0	14.3	14.2
Weighted Average Deposit Rate	4.3	4.5	4.9	5.2	5.5	5.8
Weighted Average Interest Rate Spread	11.1	10.0	9.3	8.8	8.8	8.4
CENTRAL GOVERNMENT FINANCES ($mn)						
Current Revenue	372.1	425.8	422.2	451.9	511.5	566.0
Current Expenditure	333.7	333.4	393.0	474.1	561.2	548.1
Current Account Surplus(+)/Deficit(-)	38.4	92.3	29.1	-22.2	-49.7	17.9
Capital Expenditure	267.4	260.3	276.4	173.2	127.1	100.5
Overall Surplus(+)/Deficit(-)	-142.4	-68.8	-216.0	-133.6	-151.6	-44.3
Ratio of Budget Deficit to GDP at mkt. Prices (%)	-8.2	-3.7	-8.9	-6.3	-6.9	-1.8
Domestic Financing (Net)	72.7	-220.9	-62.4	-36.2	-19.6	-10.9
External Financing (Net)	69.8	278.3	380.7	179.9	127.0	55.6
BALANCE OF PAYMENTS (US $mn)						
Merchandise Exports (f.o.b.)[1]	269.1	309.7	315.5	307.5	325.3	426.5
Merchandise Imports (f.o.b.)[2]	477.7	496.9	522.4	480.7	556.2	611.9
Trade Balance	-208.7	-187.2	-206.9	-173.3	-231.0	-185.5
Remittances (Inflows)	26.4	24.3	29.3	30.9	40.9	57.8
Tourism (inflows)	110.5	121.5	149.7	168.1	204.2	252.6
Services (Net)	44.0	43.6	69.7	88.2	133.7	205.2
Current Account Balance	-182.3	-165.6	-176.4	-155.9	-160.5	-24.4
Capital and Financial Flows	173.5	151.6	174.5	127.3	177.8	47.7
Gross Change in Official International Reserves [3]	2.7	5.4	30.1	31.4	-18.0	32.7
Gross Official International Reserves	120.1	114.7	84.6	53.3	71.3	104.5
Import Cover of Reserves (in months)	3.2	3.2	2.1	1.4	1.6	2.2
PUBLIC SECTOR DEBT						
Disbursed Outstanding External Debt (US $mn)[4]	494.9	653.1	822.4	913.0	970.0	985.2
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	56.8	70.1	83.3	86.5	87.3	80.7
External Debt Service Payments (US $mn)	79.2	178.4	135.3	194.0	225.4	134.5
External Debt Service Ratio (%)[5]	17.9	36.1	25.6	35.7	36.5	17.2
Disbursed Outstanding Domestic Debt ($ mn)	208.7	171.9	256.5	278.5	279.4	299.9
Domestic Debt Service Payments ($ mn)	17.7	19.2	13.7	18.8	23.1	27.5

Sources: Ministry of Finance, Central Statistical Office, & the Central Bank of Belize

[1] Includes CFZ gross sales

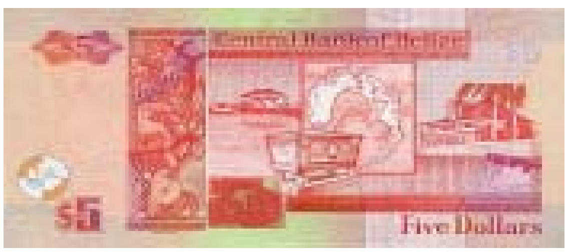
[2] Includes CFZ imports

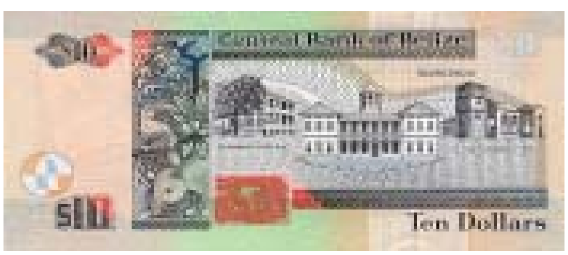
[3] Minus = increase

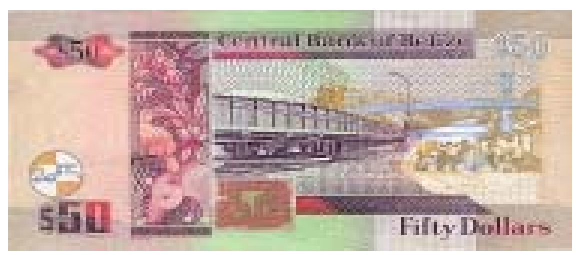
[4] Excludes guaranteed debts

[5] = amounts related to refinancing were excluded

Belize Currency Notes







Economic Overview

The government held to its conservative fiscal strategy in 2006 and monetary policy was tightened further in support of the fiscal stance. While the principal focus was on reducing domestic consumption to safeguard the fixed exchange rate and marshal the resources required to meet external obligations, the economy was resilient largely due to a timely boost provided by the launch of commercial oil operations. As growth of the non-oil sector slowed to 2.5%, GDP growth nevertheless accelerated to 5.8% with value added from the oil sector contributing 3.3% (measured in 2006 prices). Activity in the primary sector fell as bad weather, disease and cyclical factors impacted negatively on agriculture, and financial difficulties in the farmed shrimp sub-sector caused a downturn in fishing. The secondary sector experienced a contrasting turnaround largely due to an upsurge in local electricity production. While decelerating, the services sector registered an increase that was driven by wholesale and retail activity and expansion of the telecommunication infrastructure.

Measured annually in April, the rate of unemployment fell from 11.0% to 9.4%, with job increases being concentrated in services such as wholesale/retail trade and tourism. Domestic prices continued an upward trend with a 4.3% increase in the CPI resulting from spiking world oil prices, higher electricity rates and the government's imposition of a broader based general sales tax.

There was a significant improvement in the balance of payments position largely due to a strong performance from the export sector, which benefited from sugar quota increases, high prices for citrus and sugar, the commencement of oil exportation, and increased CFZ cross border sales. The export increase eclipsed a 10.0% rise in imports and contributed to a 19.7% contraction in the merchandise trade deficit. Adding to the improvement was a 53.4% increase in the surplus on the services account that reflected a substantial rise in tourism earnings and remittance inflows. A significant reduction was therefore recorded in the external current account deficit (from 14.4% of GDP to 2.0% of GDP). Inflows from loans, grants and foreign direct investment financed the deficit and pushed the gross official foreign reserves up to $208.9mn (equivalent to approximately 2.2 months of merchandise imports).

Increased buoyancy in the external sector created conditions in the banking system that minimized the effectiveness of Central Bank interventions aimed at reducing liquidity and monetary expansion. In addition to the heightening of commercial bank reserve requirements in January and September, the arrangement whereby monthly BSSB surpluses are sterilized in the Central Bank continued, and the co-mingling of non-resident and domestic deposits, which had previously caused an artificial boosting of liquidity, ceased in January when the International

Banking Act was fully implemented. Even so, generally liquid conditions prevailed, with broad money growth accelerating to 13.3% driven primarily by growth in net foreign assets and private sector loans. Credit increases for personal loans accounted for 46.5% of new disbursements and there were also marked increases in lending for activity in real estate, distributive trade, construction, professional services and transportation. Against the backdrop of higher reserve requirements and robust credit growth, competitive behaviour among the banks intensified slightly and was manifested in a slight narrowing of their weighted average interest rate spread. While the weighted average lending rate registered a decline of 10 basis points to 14.2%, the weighted average deposit rate rose by 30 basis points to 5.8% principally due to an increase in the rate offered on time deposits.

Under the weight of its substantial debt service obligations, Central Government continued efforts to improve its fiscal performance. The overall deficit was slashed by 70.8% to $44.3mn (1.8% of GDP) with revenues rising by 12.8% and expenditure being decreased by 5.6%. Capital expenditure declined for the third consecutive year and revenues were boosted by the implementation of a broader based general sales tax. The true measure of the fiscal effort was shown in the improvement in the primary balance where a surplus of $97.6mn (4.0% of GDP) was recorded. The overall deficit was financed principally from external sources, with the government borrowing to facilitate external debt service payments during the year. In December, recognizing that the trend in its external payments and receipts was unsustainable, and following the advice of its consultants (Houlihan Lokey Howard & Zukin), the government officially launched a programme to restructure the external debt stock. Pending the completion of the restructuring process, payments to commercial creditors were temporarily suspended and the postponement contributed to the improved 2006 fiscal outturn.

In other developments, Central Government's domestic debt rose to $299.9mn (12.3% of GDP) with loan repayments of $11.6mn being outweighed by a new Treasury Note issue valued at $31.5mn. These Notes were made out in favour of the Central Bank in fulfillment of the government's guarantee of Central Bank loans to the DFC and NDFB that were non performing. The public sector's external debt also increased by 1.6% to $1,970.4mn (80.7% of GDP) with loan disbursements of $167.2mn and principal and interest payments summing to $271.3mn.

Projections for 2007 include a deceleration in GDP growth to around 3.5% based on the assumption of austerity measures that will continue to be required even with successful completion of the debt restructuring exercise. In light of the government's reaffirmation of commitment to a conservative fiscal strategy, no significant change is expected in its overall deficit or in the level of its reliance on domestic financing. On the other hand, given the need to boost official reserves to higher levels, the upward trend in commercial bank liquidity will call for additional Central Bank initiatives to effectively dampen credit expansion and consumption growth. If these policies are successfully executed, there is a good likelihood that recent improvements in the balance of payments will continue, particularly since the export sector is forecasted to continue its good performance in 2007. The latter will hinge on higher CFZ sales and significant increases in citrus and petroleum earnings that should neutralize a fall-off in receipts from banana and farmed shrimp. Further increases are expected from the tourism sector, and inflows from foreign direct investment for major construction projects such as the Vaca Dam will support the balance of payments and boost economic activity. While unemployment may rise slightly, the upward trend in domestic prices is expected to decelerate to 3.0% with lower fuel acquisition costs and tax rates being held constant.

In 2006, the world economy experienced broad based and robust growth of approximately 5.0% notwithstanding a tightening of monetary policy in some of the major economies aimed at heading off a possible buildup of inflationary pressure. The growth impetus was largely provided by economic activity in China, India and the United States. Eurozone countries also experienced their strongest expansion since 2000 and Japan's performance was positively impacted by strong growth in the other Asian countries. Emerging and developing countries around the world benefitted from surging demand for commodities with oil producing countries, in particular, capitalizing on unprecedented increases in energy prices. Crude oil prices posted record highs, in excess of US$78 per barrel and averaging US$66 per barrel throughout the year. The downside of this was an increase in cost push factors, which, along with reduced spare capacity and declining unemployment, set the stage for increased global inflationary pressures that could threaten the momentum of future global expansion.

In the **United States**, GDP growth slowed slightly to 3.3% as higher interest rates and a weakening housing market dampened the growth of private consumption. Corporate profits, business investment and confidence remained strong, however, and notwithstanding the housing downturn, the economy continued to perform dynamically, adding an average of 149,000 new jobs per month and reducing the unemployment rate from 5.1% in 2005 to 4.8% in 2006. Inflation rose by 3.5%, partly due to high gasoline prices and a reduction in excess capacity. Meanwhile, the depreciation of the dollar against the Euro, and to a lesser extent, the yen, contributed to an estimated 8.5% increase in exports of goods and services. The external current account deficit for 2006 was estimated at 6.6% of GDP.

In the **United Kingdom**, GDP growth accelerated slightly to 2.7% driven by public investment, exports, a resurgence in the housing market and increases in private consumption. Unemployment registered a small increase (from 4.8% to 5.3%) as immigration and a higher participation rate caused growth in the labor force to outstrip the rate of job creation. Notwithstanding a tightening of monetary policy, with the Bank of England discount rate rising by 25 basis points to 4.75% in August, annual inflation exceeded the Bank's 2.0% target with a 2.3% increase being recorded.

The strong performance of other Asian economies provided a boost to the **Japanese** economy, which grew by an estimated 2.8% with unemployment declining to 4.1%. The expansion included increases in private consumption and business investments that were underpinned by robust corporate profits. With exports performing well, the external current account surplus increased to 3.8% of GDP. After almost seven years of falling prices, Japan ended its deflationary spiral with prices recording a 0.3% increase. Responding to this, the Bank of Japan raised its interest rate by 25 basis points in July and

Table II.1: Selected Indicators for Some OECD and Newly Industrialized Countries

Country	GDP Growth Rate (%)		Inflation Rate (%)		Current a/c Ratio (%)		Unemployment Rate (%)	
	2005	2006	2005	2006	2005	2006	2005	2006
United States	3.5	3.3	3.4	3.5	-6.5	-6.6	5.1	4.8
United Kingdom	2.0	2.7	2.0	2.3	-2.0	-2.3	4.8	5.3
Japan	2.6	2.8	-0.6	0.3	+3.5	+3.8	4.4	4.1
Taiwan	4.4	4.4	2.7	0.4	+4.7	+6.1	4.4	3.9
China	10.0	10.5	1.6	1.5	+7.2	+7.2	n.a.	9.8
Euro Area	1.5	2.6	2.2	1.8	-0.1	-0.1	8.7	7.9

Sources: OECD, World Economic Outlook, United States Department of Labor, The Economist, UK Government Statistics, International Energy Outlook 2006

n.a. = not available

is expected to enact further increases if price pressures continue to build.

Taiwan recorded growth of 4.4% with high-tech manufacturing maintaining its position as the country's most lucrative economic sector and unemployment declining from 4.4% to 3.9% largely due to the increase in export-oriented activities. Inflation also fell to 0.4% as domestic competitive behaviour increased with the continued liberalization of the Taiwanese economy and a strong currency limited the impact of inflation originating from trading partners. Notwithstanding the steady appreciation of the New Taiwan dollar against the US dollar, the current account registered a surplus of 6.1% of GDP and as of July 2006, the foreign exchange reserves of Taiwan were the fourth largest in the world.

China continued to experience booming growth with a 10.5% increase in GDP driven by exports, private consumption, and fixed-asset investments. Unemployment stood at 9.8%. Retail sales grew by 13.5% in the first three quarters of 2006, while the annual inflation rate stood at a modest 1.5%. Although the government imposed successive increases in reserve requirements to curb monetary expansion via bank lending, business investment grew by almost 30.0%. Notwithstanding the continuing appreciation of the renminbi, exports expanded rapidly while import growth stagnated and this resulted in a record trade surplus estimated in September 2006 at US$110.0bn, or 7.2% of GDP.

In general, there was a gradual increase in the **Euro Area's** economic momentum during the year with GDP growing by around 2.6% as compared to 1.5% in 2005. Business fixed investment, exports and production were largely responsible for the increase and private consumption also emerged as a key component of the recovery process. Even with oil price increases, annual inflation stood at 1.8%, well within the European Central Bank's target of 2.0%. Unemployment edged downwards from 8.7% in 2005 to 7.9% in 2006.

Development in Selected Regional Economies

The Caribbean

Solid performance in tourism and construction combined with increases in agriculture, financial services and manufacturing underpinned average growth of 6.3% in CARICOM, the best performance of the past 25 years. Stay-over tourism outshone the cruise sector, which experienced a decline in arrivals. Construction activity generally heated up with preparations for the hosting of the 2007 Cricket World Cup and hotel-related renovations and expansions. Agricultural production also benefitted from good weather while high world prices for agricultural exports led to an upswing in export earnings. Monetary policy in the CARICOM countries was generally aimed at dampening domestic demand for imports and achieving price stability. While most economies experienced robust revenue growth arising from the economic expansion and improved tax administration, some countries also faced widening fiscal deficits due to capital outlays for Cricket World Cup preparations.

In **Barbados,** the economy grew by 3.5% driven by activity in construction related to the preparations for the Cricket World Cup, transportation, storage, communications and wholesale and retail trade. Tourism value added grew by 2.5% as increases in stay-over tourists eclipsed a decline in cruise tourism. Higher oil prices pushed the average inflation rate up to 6.5% while the average rate of unemployment held steady at 9.1%. Strong growth in revenues helped to shave US$70.4mn from the fiscal deficit, which declined to 1.7% of GDP. The external current account deficit also declined as the merchandise trade deficit narrowed and tourism receipts increased. Financing for this deficit included withdrawals of US$18.0mn from the international reserves, which ended the year at US$599.3mn.

Output in **Guyana** grew by 4.8%, spurred by a rebound in sugar and rice production, a surge in public and private investment associated with the hosting of the Cricket World Cup and higher domestic consumption. Apart from agriculture, other sectors of note were distribution, construction and forestry ,which had double digit growth rates, and manufacturing, transport, communication and

Table II.2: Selected Indicators for Some Caribbean Countries

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		International Reserves US$mn	
	2005	2006	2005	2006	2005	2006	2005	2006
Barbados	3.8	3.5	6.1	6.5	9.1	9.1	618.2	599.3
Guyana	1.9	4.8	6.9	7.5	n.a.	n.a.	250.2	290.2
Jamaica	1.4	2.6	12.9	5.8	11.3	10.7	2,169.1	2,399.1
OECS	5.7	7.1	4.2	1.2	n.a.	n.a.	596.9	719.4
Trinidad & Tobago	8.0	12.0	6.9	7.9	8.0	7.2	4,771.4	6,760.6

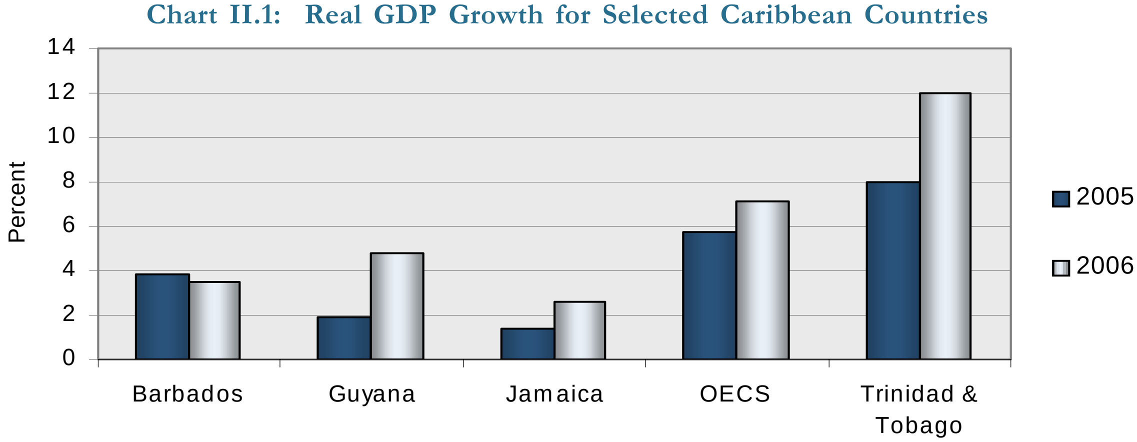
Sources: ECLAC, CDB, Central Bank of Barbados, Central Bank of Bahamas, Bank of Guyana, Bank of Jamaica, ECCB, and Central Bank of Trinidad & Tobago
n.a. = not available

financial services that grew by 8.0%. Inflation rose by 7.5% due to higher prices for oil, medical and personal care and the gradual depreciation of the Guyana dollar. With higher revenues from taxes and grants outpacing expenditure, the fiscal deficit fell from 14.1% to 13.2% of GDP. Debt relief of US$283.0mn under the HIPC initiative led to a 17.9% reduction in Guyana's external debt stock to US$898.5mn. Increases in merchandise exports and inward remittances contributed to a 1.0% decline in the external current account deficit to US$134.8mn.

Growth in **Jamaica's** economy accelerated to 2.6% driven by expansions of 14.7% in agriculture and 12.5% in tourism as the island recorded increases in both stayover and cruise ship visitors. Activity in manufacturing, the utilities and transportation, storage and communication also increased during the year. While unemployment fell from 11.3% to 10.7%, inflation dipped to 5.8% from 12.9% in 2005 largely due to greater stability in agricultural prices and the exchange rate. With revenues coming in below target and expenditures increasing due to a higher than expected wage bill, the fiscal deficit was projected to widen to between 3.0% and 4.0% of GDP. Meanwhile, although the external trade balance worsened, the international reserves position strengthened to US$2,399.1mn due to foreign direct investment inflows into the hotel industry, increased remittances and higher tourism receipts.

Trinidad and Tobago continued to lead the region with GDP growth of 12.0% on the back of a 20.6% expansion in its energy sector. Non-energy activity also grew strongly with expansions in construction, services and manufacturing. The latter registered an 11.8% increase that was underpinned by strong growth elsewhere in CARICOM. Unemployment during the first half of the year declined to 7.2%, while higher food prices caused inflation to rise by 7.9%. Notwithstanding substantial growth in expenditure, the government recorded current and overall surpluses of US$5,849.8mn and US$580.1mn, respectively. And although capital outflows increased, the surplus on the external current account was sufficient to push reserves upward by 41.7% to US$6,760.6mn, equivalent to over 11.0 months of goods and services imports.

Chart II.1: Real GDP Growth for Selected Caribbean Countries



At 7.1%, growth in the **OECS** countries was among the highest that the group has achieved in recent times. Heightened activity in tourism (mostly due to increases in stay-over arrivals) and construction connected with public and private sector preparations for the Cricket World Cup underpinned the growth surge. Higher external demand also stimulated a 3.4% increase in manufacturing output. There was some pressure on fiscal accounts as overall deficits widened due to significant increases in capital expenditure that outpaced revenue increases derived from robust growth in national income and improved tax administration. In the external sector, larger inflows on the services and capital accounts eclipsed an increase in the merchandise trade deficit and foreign exchange reserves therefore rose to US$0.7bn at year-end. A notable area of concern for policy makers in the OECS continued to be the upward trend of the group's total outstanding debt in recent years.

Mexico and Central America

Growth in the **Mexican** economy accelerated to 4.8% with consumption, investment and exports rising significantly. The latter reflected strong growth in exports of petroleum and automobiles that contributed to higher employment as well as a reduction in the external current account deficit to 0.3% of GDP. The inflation rate remained at 4.0% due to higher prices for milk, premium gasoline and diesel. Family remittances from abroad rose to US$24.0bn and consumer confidence was high as the unemployment rate fell for the second consecutive year to reach 4.6%. The government was able to hold the fiscal deficit to approximately 0.3% of GDP as increased revenues (principally from petroleum income) more than offset the growth in expenditures associated with major infrastructural projects and the presidential elections in July. With the pay off of US$12.4bn in external debt, international reserves declined to US$68.6bn.

Economic activity in Central America grew by 5.1% in 2006 fueled by domestic consumption, private sector investment and strong export demand. Most of the countries recorded significant increases in inward remittances and growth in private sector credit that underpinned the rise in domestic consumption. The Panamanian economy grew the fastest with its GDP increasing by around 7.5%, while Nicaragua lagged behind the rest with growth of 3.7%. Notwithstanding the impact of higher crude oil prices, inflation generally declined due to lower food prices and state subsidies for utilities. Inflation rates ranged from 2.0% in Panama to 10.0% in Costa Rica. Buoyed by high commodity prices, revenues from exports expanded and the terms of trade improved. External current account deficits, as a percentage of GDP, therefore decreased in most of the Central American countries.

Guatemala's economy grew by 4.6% driven by private sector investment and consumption that was supported by a significant increase in inward family remittances. Notwithstanding lower tariffs linked to the implementation of the Free Trade Agreement among the US, the Dominican Republic and Central America (CAFTA-RD), fiscal revenues increased in

Table II.3: Selected Indicators for Mexico and Central America

Country	GDP Growth Rate (%)		Inflation Rate (%)		Deficit/GDP Ratio (%)		Net International Reserves US$bn	
	2005	2006	2005	2006	2005	2006	2005	2006
Mexico	3.0	4.8	4.0	4.0	n.a	0.3	65.5	68.6
Costa Rica	5.9	6.8	13.6	10.0	2.1	2.4	2.3	2.8
Nicaragua	4.0	3.7	9.6	9.1	1.8	1.1	0.8	0.9
Panama	6.9	7.5	2.9	2.0	3.9	2.9	n.a	n.a
El Salvador	2.8	3.8	4.3	3.9	2.9	2.9	1.7	2.1
Honduras	4.2	5.6	7.7	4.9	2.7	1.0	n.a	0.4
Guatemala	3.2	4.6	9.1	4.9	1.5	1.5	n.a	4.0

Source: ECLAC

n.a. not available

real terms by 7.0% with improvements in tax administration and more stringent measures to control contraband trade and tax evasion. However, expenditures grew proportionately, and the fiscal deficit therefore remained at 1.5% of GDP. Inflation declined to 4.9% due to the relative stability of the exchange rate and an increase in agricultural output. For the second consecutive year, the external current account deficit stood at 4.3% of GDP with the deficit on trade in goods and services being somewhat mitigated by increased receipts of family remittances. Capital and financial inflows of US $1.7bn (including foreign direct investments of US $325mn) not only financed the current account deficit but also pushed the international reserves up by US$225.0mn to US$4.0bn, equal to over 4 months of goods and services imports.

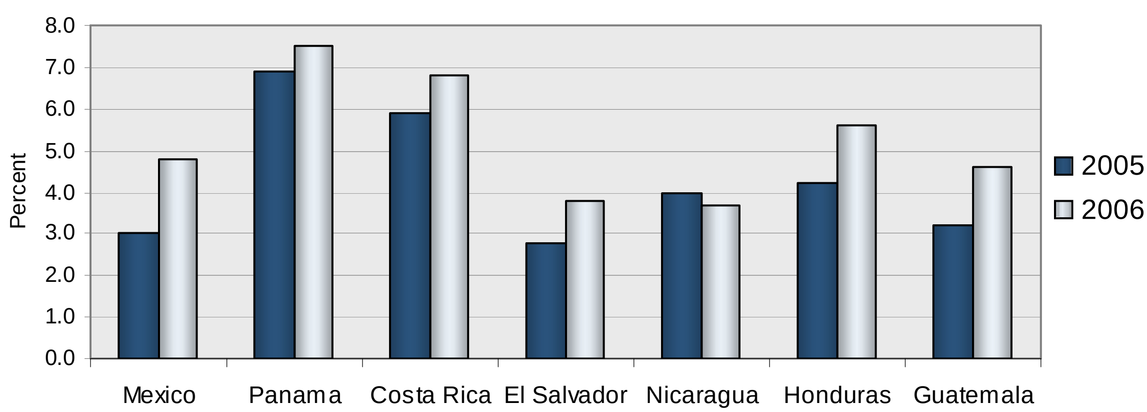
Honduras also experienced an upswing with GDP growing by 5.6%. As in the case of Guatemala growth drivers included private sector investment and consumption with family remittances (amounting to 26.0% of GDP) playing a key role and the export sector performing well. In addition to increases in agriculture and manufacturing, construction activities heated up with private investment into new commercial centers, "maquila" related activities and residential construction. The rate of inflation also fell to 4.9% due to stable grain prices, fuel subsidies and exchange rate stability. Even with the fall in tax revenue occasioned by Honduras' participation in the CAFTA-RD, the government was able to reduce its fiscal deficit to 1.0% of GDP aided by debt relief of US$149.0mn, higher receipts from grants and income and sale taxes, and by reducing its capital outlays. The external current account deficit declined from 0.8% to 0.2% of GDP, as family remittance inflows partly offset the deficit on trade in goods and services. Financial inflows, which included US $300.0mn in foreign direct investments mostly for communications, transportation and "maquila" operations, funded the deficit and raised international reserves to US$430.0mn.

Led by a 19.0% rise in exports, growth in **Costa Rica** accelerated to 6.8% during 2006. Activity was strong in manufacturing, agriculture, construction, and services such as tourism, financial intermediation and telecommunications. An upsurge in imports and profit repatriation eclipsed the growth in exports and caused the external current account deficit to rise to 5.0% of GDP. The latter was funded by financial inflows that also helped to push the international reserves up by US$760.0mn. During the year, the government experienced a worsening of the fiscal deficit from 2.1% to 2.4% of GDP as increased payments for interest and wages outweighed the rise in revenues derived from improved tax administration and the economic expansion. The inflation rate fell to 10.0% (which was below the Central Bank's target of 11.0%) partly due to a change in the method of calculating the CPI and declining prices of petroleum during the latter part of the year. Unemployment also declined from 6.6% to 6.0%.

Activity in agriculture, reconstruction works due to hurricane and volcano damages, transportation and financial services helped to push **El Salvador's** GDP up by 3.8% in 2006. Unemployment nevertheless rose slightly as "maquila" production declined, and inflation averaged 3.9% with reductions in the cost of food, transportation, rent, water, gas and electricity. Exports grew by 4.7%, as increases in traditional and non-traditional exports offset a decline in "maquila" exports. Across the board increases drove up imports by 12.0%. Like Guatemala and Honduras, higher family remittance inflows helped to boost private consumption and eased the impact of high petroleum prices on the external current account where the deficit stood at 4.6% of GDP. Higher interest and pension payments, subsidies for transportation, electricity and liquid gas combined with reconstruction costs led to a fiscal deficit equivalent to 2.9% of GDP, similar to that realized in 2005. With the issue of a new international bond for US$656.3mn, the external public sector debt reached US$5.6bn. At year-end, net international reserves stood at US$2.1bn, equal to 4.7 months of imports of goods and services.

Nicaragua's economy decelerated slightly from 4.0% to 3.7%, as a decline in domestic demand was partly offset by strong export growth. Private sector investment and consumption fell in the climate of political uncertainty occasioned by the presidential election. The slowdown was also

Chart II.2: Real GDP Growth for Mexico and Central America



influenced by higher international petroleum prices that increased production costs and reduced disposable income. Under pressure from high oil prices and mini devaluations, inflation measured 9.1%. After donations, the fiscal deficit stood at 1.1% of GDP, which was within the target set by the IMF structural adjustment program. The country benefited from multilateral debt reduction under the HIPC initiative and its external debt was reduced from 109.0% to 86.0% of GDP. An increase in family remittances also contributed to a reduction in its external current account deficit from 16.3% to 14.2% of GDP. A surplus on the financial account that featured US$290.0mn in foreign direct investment financed the deficit and pushed international reserves upward by US$31.1mn to US$868.0mn.

For the third consecutive year, the **Panamanian** economy grew strongly (7.5%) driven by strong external demand arising from the global expansion, domestic consumption and private investment. Activity in construction and mining was buoyant. Modest growth occurred in agriculture and manufacturing while financial intermediation and transportation performed well. The upsurge in economic activity was accompanied by a 1.0% decline in the rate of unemployment to 8.6%. Inflation fell to 2.0% as higher petroleum prices were offset by lower costs for food, clothing and medical services. The government's fiscal deficit fell to 2.9% of GDP, with tax revenues rising by 20.0% in response to fiscal and social security reforms and a 20.0% increase in revenues from the Panama Canal that were due to higher toll fees. Notwithstanding an increase in the merchandise trade deficit, the external current account deficit declined to 4.2% of GDP as higher inflows from transportation and tourism services were recorded. A surplus of US$615mn was recorded on the financial account, which was mostly attributable to foreign direct investment that reached a record high of US$2.5bn with the sale of the largest Panamanian bank for US$1.7bn.

Production

With growth of the non-oil sector decelerating to 2.5%, the launch of commercial oil operations provided a timely boost to the economy in 2006. In real terms, GDP increased by 5.8% with the oil sector accounting for 3.3% of this growth (note: the new sector's contribution was measured in 2006 prices). Unemployment (measured annually in the month of April) declined from 11.0% to 9.4% largely due to job creation in the tertiary sector.

Primary sector activity contracted with agricultural production being affected by disease, unfavourable weather and natural cyclical factors, and fishing decreasing mostly due to a sharp fall in farmed shrimp output. On the other hand, although manufacturing and construction declined (due to lower output of citrus, shrimp and cigarettes, the wrap-up of the Chalillo project in the previous year and delays in the start-up of several major new projects), activity in the secondary sector experienced a turnaround that was almost entirely due to a 34.6% surge in the utilities most of which came from local output of electricity.

The tertiary or services sector registered a 3.4% increase as higher imports fueled an 8.4% expansion in wholesale and retail activity, while transport and communications increased for the third consecutive year with the largest telecommunications service provider expanding the coverage of its cellular

Table III.1: Annual Percent Change in Selected Indicators

	2004	2005	2006P
GDP at Current Market Prices	6.8	4.7	9.9
Real GDP (2000 prices)	4.6	3.5	(1)5.8
Non Oil sector Real GDP (2000 prices)	4.6	3.5	2.5
Primary Activities	9.4	3.3	12.7
of which: Agriculture	11.9	-0.7	1.4
Fishing	5.5	9.8	-17.0
Forestry	8.1	11.1	1.3
Secondary Activities	7.4	-0.9	5.2
of which: Construction	4.6	-3.4	-2.9
Manufacturing	12.3	0.1	-2.0
Services	3.3	6.3	3.9
of which: Restaurant & Hotel	7.8	4.1	-3.4
Trade	0.0	5.6	8.4
Public Administration	1.3	1.3	-0.4
Transport and Communication	5.0	7.8	5.2
Financial intermediation	5.4	12.9	2.9
Consumer Price Index			
Average	3.1	3.7	4.3
End of period	3.0	4.2	3.1

Source: Central Statistical Office

(1) Petroleum's contribution to real GDP is measured in 2006 prices, not 2000 prices.

network in the southern part of the country. Continued growth in these subsectors contrasted with a slight downturn in hotel and restaurant activities that was due to the fall in cruise ship visitors and a decline in government services that reflected the continuation of fiscal restraint and allocation of resources to meet public debt obligations.

The Consumer Price Index (CPI) rose by 4.3% due to significant increases in the average acquisition costs of oil, higher import costs and an increase in electricity rates.

Agriculture

Sugarcane

After a drought induced decline in yields for the 2004/2005 sugarcane crop, a return to normal rainfall patterns during the critical growing period of the 2005/2006 crop boosted sugarcane production and deliveries by 26.3% to 1,173,469 long tons. Farmer deliveries rose by 28.0% to 1,124,300 long tons while those from the company's research division more than doubled to 20,767 long tons. Notwithstanding the surge in deliveries, a significant amount of stand over sugarcane was left in the fields due to heavy June rains that prevented field access. While the higher rainfall increased biomass yields, it also reduced the concentration of sugars in the sugarcane (pol of 11.6% versus 12.9% in 2004/2005) and caused a decline in cane purity (from 85.83% to 83.95%).

The average final price per long ton of sugarcane rose by $6.53 to $60.73 due to exchange rate gains from the Euro denominated average unit price negotiated on the futures market, a temporary increase in the preferential sales to the US and European Union markets, lower per unit freight charges during the first half of the year (since prices are quoted on a CIF basis) and a significant improvement in the world raw sugar price that pushed up sugar prices in Belize's regional markets.

Citrus

After the previous year's bumper crop, citrus production for the 2005/2006 crop went into a cyclical decline with yields down by 23.0% to 6.9mn boxes of fruit. Approximately 95.7% of the crop was processed, 2.2% went into fresh fruit exports and 2.1% was rejected at the factories.

The smaller crop led to a 15.1% decline in factory deliveries to 6.6mn boxes. While orange performed poorly with deliveries contracting by 21.3% to 4.9mn boxes, grapefruit scored record breaking deliveries with a 10.4% increase to 1.7mn boxes. The orange crop reflected the natural phenomenon of a lower blossom set after a flurry of fruit

Table III.2: Sugarcane Deliveries

	2003/04	2004/05	2005/06
Deliveries to BSI (long tons)	1,149,475	929,393	1,173,469

Source: Belize Sugar Industries Ltd.

Table III.3: Citrus Fruit Deliveries

	2003/04	2004/05	2005/06
Deliveries ('000 boxes)	6,426	7,793	6,618
Oranges	4,947	6,265	4,931
Grapefruits	1,479	1,528	1,688

Source: Citrus Growers Association

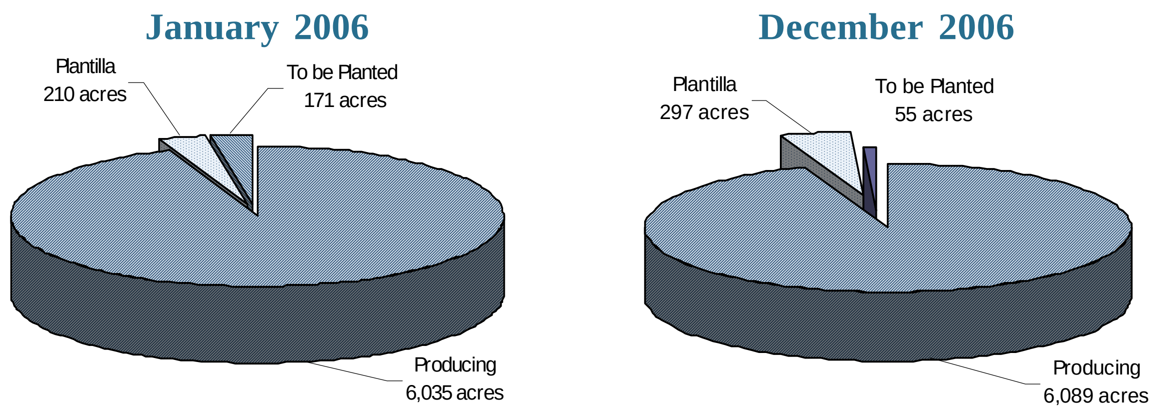
production in the previous year. The improvement in grapefruit yields was attributed to higher earnings that enabled farmers to increase the use of field inputs, the rehabilitation of groves and the continued implementation of the Mexican fruit fly control programme that reduces fruit drop. Payment on the basis of the pound solids yield per box of fruit maintained the incentive to farmers to take better care of groves and pay more attention to fruit quality. In another longer term, positive development, the demand for plants increased as farmers rehabilitated groves by replacing trees that had died.

Notwithstanding a 4.0% forecasted increase in world citrus output, the poor performance of Florida's citrus crop due to the effects of hurricanes, disease (citrus canker) and urban development pressures influenced Belize's key export markets. With US stocks of orange and grapefruit juices at one of the lowest level in years and production expected to remain virtually stable, export prices for orange and grapefruit juices were strong during the year. The final price for orange was $1.68 per pound solid (or $9.99 per box) compared to $0.95 (or $5.85 per box) received for the 2004/2005 crop, while that of grapefruit was $9.23 per box, slightly lower than the $9.82 paid in 2004/2005.

Banana

Unfavourable weather during the first part of the year, grower hesitance to invest in their groves due to uncertainties regarding the impact of the new EU import regime and the outbreak of Sigatoka disease in the latter part of the year pushed banana production down to 3.8mn boxes, approximately

Chart III.1: Banana Acreage



0.2mn boxes below the previous year's output.

Acreage under cultivation was more or less unchanged compared to the previous year. In January, 6,035 acres had harvestable trees and 210 acres were under plantilla (young, non-yielding trees). By December, harvestable acreage had increased to 6,089 and the area under plantilla had risen to 297 acres.

Papaya

Belizean papaya remained competitive compared to the Mexican and Brazilian product due to its high quality and the country's proximity to the US market. While the mainstay of the industry was the large papaya variety (Tainung), efforts to identify a high quality, small variety with a longer shelf life continued.

During 2006, papaya output rose as area under cultivation increased by 507 acres to a total of 1,910 acres, and production in the Orange Walk District revived. Of this acreage, 1,300 acres were devoted to large papayas and 610 acres to the small solo variety. Production was concentrated in the Corozal District where all the large papayas and some 230 acres of solo papaya were located. Acreage under solo cultivation in the Orange Walk and Cayo Districts amounted to 300 acres and 80 acres, respectively.

Other Agricultural Production

Output of basic grains, vegetables and fruits was lackluster with yields being affected by excessive rains that reduced planting and restricted harvest activities. Grain production was generally lower, except for soybean, output of which almost doubled to 1.4mn pounds with harvested acreage rising from 300 acres to 700 acres. In contrast, corn production fell by 22.0% to 81.3mn pounds reflecting a 13.9% fall in harvested acreage as well as lower yields. After being self sufficient in corn over an extended period, imports of a small quantity were necessary in 2006. In recent developments, some farmers have been shifting from corn to papaya production, a trend that could become sufficiently significant in the future to impact corn acreage and output. Sorghum yields declined by 32.2% as adverse weather prompted a decline in harvested acreage and average yields. Bad weather and delayed cash payments also led to a 22.9% reduction in the harvested acreage of rice, with output being driven down by 33.2% to 26.1mn pounds. Bean production was down by 13.4% to 14.5mn pounds as a supply overhang from the previous year and field losses caused by excessive rain led to a reduction in harvested acreage and an even bigger decline in average yields per acre.

A combination of wet weather and competition from the contraband trade also took its toll on production of some vegetables and root crops. While output of hot pepper, onion, carrot, lettuce, cocoyam and yam declined, increases were recorded in cabbage, cucumber, okra, pumpkin, sweet pepper, tomato, Irish potato, celery, yampi and cassava.

In general, the livestock sector did well with increases in cattle and pig dressed weights of 1.3%

to 3.2mn pounds and 25.6% to 2.6mn pounds, respectively, while that of poultry declined by 2.0% to 29.9mn pounds. Milk output fell by 20.4% to 6.6mn pounds while egg production increased by 9.7%, albeit still falling short of domestic demand. Honey production was up by 54.8% to 0.1mn pounds.

Marine Products

A decline in farmed shrimp, a reduction in the wild capture of most other marine species (except for conch) and a fall in Tilapia fish fillet led to an 11.3% contraction in fishery output to 23.7mn pounds.

Farmed shrimp was down by 11.7% to 22.4mn pounds with the shift by some farms from two to one harvest cycle and with production cuts from some farms facing financial difficulties. Wild capture of marine shrimp also declined by one-third to 0.05mn pounds, the low catch reflecting the over exploitation of shrimp fishing grounds in southern Belize during the last decade. Output of lobster, another marine resource that is subject to pressure from over harvesting, fell by 30.9% to 0.5mn pounds while whole fish almost halved to 0.01mn pounds. In contrast, conch entered a cyclical, reproductive peak with output increasing by 9.4% to 0.7mn pounds.

Other major developments during the year included the introduction of vertical long line fishing (also known as deep sea fishing) and cage farming. In joint collaboration with the Japanese International Cooperation Agency (JICA), the fisheries department conducted a workshop on vertical long line fishing in Belize that encouraged a few fishermen to engage in this activity. In 2006, the first marine cage farming facility for the commercial production of Cobia was established at Robinson Point Caye, and interest has been expressed in the production of other species such as Pompano.

Forestry, Mining and Construction

Reports are that Belizean entrepreneurs began the commercial exploitation of the ornamental Xate leaf during the year. Forestry expanded by 1.3% even though logging activities were restricted during the rainy season in line with Forestry Department guidelines aimed at sustainable management of the country's forest resources.

Construction shrank by 2.9%, a small decline that was partly due to the wrap-up of the Chalillo construction in 2005, the completion of the US Embassy and delays in the start-up of the Vaca Dam and tourist oriented developments.

Mining expanded mostly due to the start of petroleum production from the Spanish Lookout oil field that has proven reserves of approximately 10.0mn barrels. As of mid 2006, five wells were in production with a daily output of approximately 2,800 barrels and an annual petroleum production of approximately 796,962 barrels.

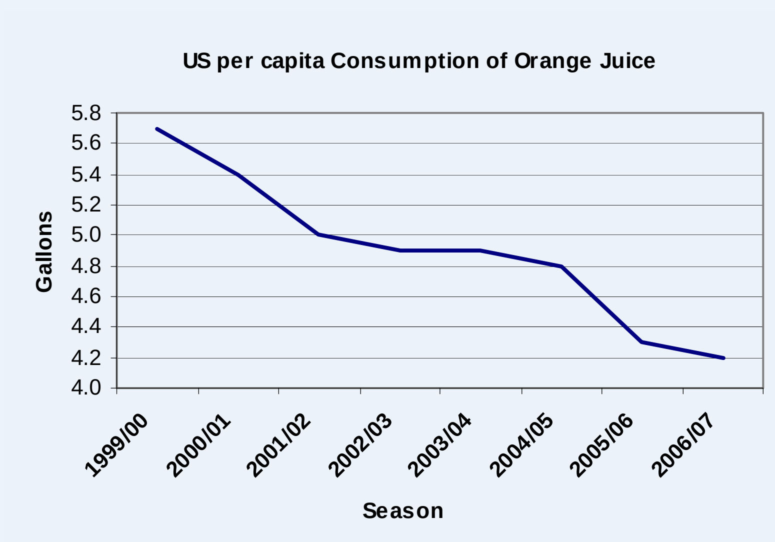
Box 1: Medium Term Outlook for Belizean Citrus

The outlook for the Belizean citrus industry over the next four to five years remains positive since yields in major citrus producing areas such as Cuba, Brazil, Florida and California have been negatively affected by disease and unusual weather patterns.

A significant portion of Brazil's citrus groves are suffering from the effects of citrus canker and citrus variegated chlorosis (CVC) diseases. Yields from Florida's groves have also been down due to the citrus tristeza virus, citrus canker and the residual effects of back-to-back hurricanes. In a fairly recent development, the acreage under citrus production has been declining in Florida as low fruit prices and high real estate values have been prompting a sell-off of groves. In California, a severe frost in 2006 contributed to the 2006/07 U.S. crop being the smallest since 1990/91. Belize, in contrast, has remained relatively free of any major disease or pest and has been spared from major weather disasters over the past four years.

Dr. Thomas Spreen, Chairman of Food and Resource Economics at the University of Florida, has pointed out that even if new groves were planted in Brazil or Florida in 2006, it would take at least five to six years before any significant amount of fruit could be harvested and prices should therefore remain high over this period. A window of opportunity therefore exists for Belizean growers to benefit from increases in market share and profits.

While global production fundamentals are bullish for Belize, as a small citrus producer and price taker, market trends on the demand side are not as favorable. The high retail price of orange juice over the next few years may adversely affect consumer demand as has been occurring in the US market where a downward consumption trend has been apparent since 1999/2000. Average US per capita consumption for the 2006/07 crop is expected to decline by a further 2.0% to 4.2 gallons.



Source: Economic Research Services USDA

cont'd...

Box 1: Medium Term Outlook for Belizean Citrus (cont'd)

The demand for orange concentrate, Belize's main product, is likely to be more affected by the higher prices than demand for not-from-concentrate (NFC) orange juices, a product that Belize has been de-emphasizing. Although NFC is higher priced than other forms of juice, its consumers have shown a willingness to pay more because of the perception of greater juice freshness and wholesomeness.

Juice prices in the grapefruit market are expected to be low in the coming years due to stagnating demand for both fresh and processed grapefruit. The availability and quality of numerous fresh fruit alternatives has been having a negative impact on grapefruit consumption, particularly among younger consumers. Grapefruit is considered a difficult fruit to eat because it has to be peeled and sectioned and its taste can be inconsistent. Recent evidence indicates that per capita consumption of grapefruit is directly related to age, with older consumers eating more. Unless the eating patterns of younger consumers change as they age, this could have significant negative impacts on future grapefruit demand and prices.

Manufacturing

Sugar and Molasses

Factory operations commenced on November 28th and closed on July 02nd after 217 days of operations. A 26.3% rebound in sugarcane deliveries boosted sugar production by 11.0% to 111,323 long tons, a less than proportionate increase that was due to the lower sugar content of the crop.

While the 24 hour delivery system operated successfully, factory time efficiency declined by 3.4% as down time for repairs increased and the factory battled with high mud levels that showed no improvement over the previous year. Lower sucrose content contributed to a deterioration in the cane/sugar ratio so that it required 13.8% more sugarcane to produce a given amount of sugar. Due to the increase in sugarcane processing volume, output of molasses rose by 10.9% to 41,250 long tons.

Citrus Juices and Pulp

The 15.1% decline in citrus deliveries was exacerbated by reductions in the average yield of pound solids (ps) per box of orange and grapefruit. Citrus juice production for the 2005/2006 crop year

Table III.4: Sugar and Molasses Production

	2003/04	2004/05	2005/06
Sugar Processed (long tons)	116,515	100,328	111,323
Molasses Processed (long tons)	41,117	37,181	41,250
Performance			
Factory Time Efficiency	92.27	94.57	91.34
Cane Purity (%)	85.09	85.83	83.95
Cane/Sugar Ratio	9.87	9.26	10.54

Source: Belize Sugar Industries Ltd.

Table III.5: Production of Citrus Juices and Pulp

	2003/04	2004/05	2005/06
Production ('000 ps)	35,202	44,221	35,778
Orange Concentrate	27,902	37,689	29,332
Grapefruit Concentrate	5,432	5,846	6,328
Not-from-concentrate (NFC)	1,868	686	117
Production (pounds)			
Pulp	626	2,490	2,509

Source: Citrus Products of Belize Ltd.

consequently declined by 19.1% to 35.8mn pound solids. While the average pound solid per box of fruit fluctuates yearly, an upward trend in average yields per box is evident over the 4 years since the implementation of farmer payment based on pound solids.

Virtually all deliveries went into the production of orange and grapefruit concentrate. In line with deliveries, output of orange concentrate fell by 22.2% to 29.3mn ps, while that of grapefruit concentrate rose by 8.3% to 6.3mn ps. With Asian demand stagnating, freeze concentrate production was minimal and accounted for only 1.8% of the concentrate juices. A bullish market for concentrate juices further limited production of not-from-concentrate juices, which fell to 0.1mn pound solids. Output of pulp (mostly from orange) edged up by a marginal 0.8% to 2.5mn pounds.

Other Manufacturing Production

Businesses engaged in other miscellaneous manufacturing activities rebounded after a slowdown in 2005 that was linked to the hiking of excise duties and increased competition from contraband products. Softdrink output rose by 11.9% to 4.6mn gallons, and fertilizer production was up by 6.6% to 28,200 long tons to meet demand in the citrus and sugar belts. Flour output also rose by 6.1% to 32.0mn pounds and a measure of success in the crackdown on contraband trade enabled the local beer industry to regain some ground with a small 1.3% increase to 1.9mn gallons, a level that still fell below output in 2004. Success against contraband did not extend to the local cigarette industry, which experienced a further reduction in market share with output plummeting by 42.1% to 45.2mn units, a second consecutive year of decline.Output of rum remained virtually unchanged at 0.03mn gallons.

Tourism

Notwithstanding risks such as terrorism, health scares due to the avian flu and rising oil prices, international tourism experienced a record year in 2006 with preliminary results from the World Tourism Organization (WTO) indicating a 4.5% increase in the number of international tourist arrivals to approximately 842.0mn.Within the region, tourist arrivals in the Caribbean islands and Central America grew by 3.2% and 6.1%, respectively.

Box 2: Tourism Developments and Prospects

Following the general trend in the Caribbean, the performance of the tourism sector was mixed. While stay-over visitors increased by 4.8%, cruise ship arrivals declined by 18.0% with the number of port calls to the country falling for the second consecutive year.

During the year, the Belize Tourism Board (BTB) maintained its promotional efforts, particularly in the North American and European markets, through advertising campaigns and attendance at the most important tourism trade shows. Perceiving the potential of the Canadian market, the BTB began to focus more of its effort in targeting that market, especially since the PGIA was expanded to enable it to accommodate direct flights from that country. The BTB also tried to attract more visitors from Central America such as Guatemalans and Salvadorans.

Among the most important infrastructural developments in 2006 was the work done in the first phase of the project to expand the international airport by extending the runway and building a new four-lane airport road. Upon completion, the 7,300 feet runway would be able to accommodate the European Airbus and Boeing 767, trans-atlantic aircrafts with a capacity of between 200 and 300 passengers. Closer to home and notwithstanding these expansion plans, Tikal Jets, a Guatemalan airline that provided service between Guatemala City and Belize City, ceased operations during the year.

The development programme for 2007 is expected to include:

a) Paving of the Placencia road

b) Completion of the first phase of the PGIA runway expansion

c) Establishment of a Tourism Development Fund for Belize City

d) Presentations to different European stakeholders to promote the improvements at the airport

e) Implementation of a BTIA/BTB project that is funded by the IADB to increase the competitiveness of micro, small and community based organizations, which service the cruise ship tourism sector

f) Continuation of the Stakebank project to provide docking facilities for cruise ships

g) Construction of condominiums at Northern Ambergris and in the Placencia area

h) The launch by Delta Airlines of one weekly direct flight from Los Angeles to Belize

Source: Belize Tourism Board

Table III.6: Bonafide Tourism Arrivals & Expenditure

	2004	2005	2006
Stayover Arrivals			
Air	164,073	175,965	179,892
Land	48,165	43,815	49,398
Sea	8,121	7,256	8,550
Total stayovers	**220,359**	**227,036**	**237,839**
Cruise Ship Arrivals	**766,292**	**720,298**	**590,336**
Tourist Expenditure ($mn)	*324.5*	*397.1*	*492.0*

Sources: Immigration Department, Belize Tourism Board, Central Bank of Belize

In Belize, stay-over arrivals increased by 4.8% to 237,839, reflecting the relatively buoyant economic growth and increased marketing efforts in major markets such as the US, Europe and Canada. On the other hand, cruise ship visitors declined by 18.0% to 590,336 disembarkations partly due to a spike in the demand for Mediterranean cruise vacations and the lingering aftereffects of the highly active 2005 hurricane season.

The number of overnight visitors entering the country through the Phillip Goldson International Airport (PGIA) increased by 2.2%, while arrivals through the land and sea borders grew by 12.7% and 17.8%, respectively. Visitors from the United States rose by 3.4%, accounting for about half of the increase in stay-over arrivals and 64.0% of total stay-over arrivals. Arrivals from the EU, which ranked as the second largest market with 14.0% of all stay-overs, were up by 5.2%. Visitors from other countries also increased by 8.5%, with the most notable growth coming from Canada, where targeted marketing efforts were successful in boosting Belize as a tourist destination.

Meanwhile, after peaking in 2004 with 766,292 disembarkations, cruise ship arrivals saw consecutive declines of 6.0% in 2005 and a further 18.0% in 2006 as port calls fell from 370 in 2005 to 295 in 2006. The latter reflected the redeployment elsewhere of a cruise ship that used to make weekly port calls to Belize. The market appears to be partly affected by the fact that potential visitors from America seem increasingly willing to venture further from home to destinations such as the Mediterranean, which has led to the deployment of more ships to that region.

Prices

A combination of external and domestic factors drove up the cost of living for the seventh consecutive year. Continued high demand from China and the U.S.A. and turbulence in the Middle East and Nigeria caused global oil prices to peak at historic levels and raised domestic energy costs. Furthermore, import costs, measured by the US export price index, rose by 3.4% (up to October, 2006), creating more domestic inflationary pressures. Other major domestic cost push factors included an increase in electricity rates and the replacement of

Table III.7: Quarterly Percentage Change in CPI Components by Major Commodity Group

Major Commodity	Weights	Feb-06	May-06	Aug-06	Nov-06	Inflation Rate
Food, Beverage and Tobacco	346.6	0.7	0.1	3.4	0.8	4.3
Clothing and Footwear	92.0	0.7	0.8	1.0	-3.3	0.6
Rent, Water, Fuel and Power	167.0	1.8	1.2	1.1	-2.9	4.9
Household goods & Maintenance	85.3	-0.1	0.2	3.2	0.2	2.5
Medical Care	20.1	-0.4	0.3	2.9	-4.1	1.7
Transport and Communication	170.1	1.7	4.1	2.0	-5.1	6.9
Recreation , Education, Culture	80.4	0.2	0.0	1.5	0.6	1.4
Personal Care	37.9	1.4	0.0	3.5	-1.8	2.5
All items	**1,000**	1.0	1.2	2.3	-1.5	4.3

Source: Central Statistical Office

the sales tax (at a minimum of 9.0%) by a broader based general sales tax of 10.0% during the second half of the year. The cumulative effect was a 4.3% increase in the Consumer Price Index (CPI) as average prices increased across all categories of goods and services.

"Transport and Communication" services had the biggest increase of 6.9% due to the higher price of fuel at the pump. "Rent, Water, Fuel and Power" grew by 4.9%, driven by a 13.0% increase in electricity rates implemented in January and a sharp rise in butane costs. "Food, Beverage and Tobacco" closely followed with growth of 4.3% reflecting higher prices for beer and basic foodstuffs.

Categories with relatively high import content such as "Household Goods & Maintenance" and "Personal Care" increased by 2.5% each, while increases in "Medical Care", "Recreation, Education & Culture" and "Clothing and Footwear" were more modest at 1.7%, 1.4% and 0.6%, respectively.

Employment

The unemployment rate declined from 11.0% to 9.4% as the labour force increased by 1.8% to 112,806 while the employed labour force rose by 3.7% to 102,233. The largest job growth was in the tertiary sector, which contrasted with a fall in employment in the primary sector and modest job creation in the secondary sector. Even with a 1.4% decline in workers, agriculture remained the largest job provider, accounting for some 18.0% of total employment.

In the primary sector, modest gains in banana and mining were offset by lower employment in sugar, fishing, domestic agriculture and forestry. The losses in the sugar industry reflected the increase in mechanical harvesting and the movement of labour to the free zone while lower employment in the fishing industry was linked to the reduction in output and the sale of more head-on, shell-on shrimps to Europe and Mexico that require reduced processing.

Within the secondary sector, increased employment of 7.4% in construction and 2.1% in manufacturing

Table III.8: Employed Labour Force by Industrial Group

Industrial Group	2004	2005	2006
Agriculture nec	18,157	18,671	18,406
Forestry, logging, sawmilling	1,010	961	733
Fishing and fish processing	2,554	2,330	2,070
Mining and Quarrying	401	211	434
Manufacturing	7,607	7,210	7,363
Electricity, gas & water	768	934	879
Construction	6,595	6,884	7,390
Wholesale, retail, repair	16,227	15,944	16,722
Tourism (Hotels & Restaurants)	11,062	12,865	13,981
Transport and Communication	3,683	3,553	4,352
Financial intermediation	1,939	1,594	1,800
Real Estate, renting	2,123	2,084	2,431
General Government Services	9,885	10,033	9,345
Community, Social & Personal Services	13,531	15,084	16,041
Work Abroad(1)	157	85	0
Activities not classified elsewhere	212	146	285
Total, All Sectors	95,911	98,589	102,233

Source: Central Statistical Office

(1) Covers work abroad and in 2004, workers in commercial free zone as well.

offset a 5.9% fall in jobs within the utilities.

The largest increase in service employment occurred in "Wholesale, retail, repair" and "Hotels and Restaurants", the latter maintaining its position as the fourth largest employer with some 13.7% of the employed labour force. Jobs within the third largest category, "Community, Social and Personal Services", expanded by 6.3% to 16,041 individuals, while employment in government services fell by 6.9% to 9,345, reflecting government's tight fiscal position.

Generally liquid conditions prevailed as growth in the broad money supply accelerated to 13.3% in 2006. This occurred even though the policy framework remained tight with the Government achieving a primary surplus on its operations and the Central Bank intervening in January and September to raise commercial bank reserve requirements. Additional efforts were made to moderate the buildup of commercial bank liquidity with agreement being reached with the Belize Social Security Board (BSSB) to continue the sterilization of its monthly surpluses with the Central Bank during the year. The co-mingling of domestic and offshore deposits, which had caused an artificial boosting of bank liquidity in previous years was also addressed in January with the commercial banks being required to transfer all non-resident foreign currency deposits to international affiliates as stipulated under the International Banking Act. While these measures had some degree of success, the underlying upward momentum in liquidity remained a reality that appeared to call for an eventual increase in the periodicity and flexibility of Central Bank interventions. Immediate action was however considered unnecessary in view of the breathing room provided by the bouyancy of the external sector and the continuation of fiscal restraint.

Given the public sector's reduced reliance on domestic financing, monetary growth was driven by elevated receipts from exports and tourism, foreign loans, and an acceleration in private sector credit, most of which occurred in the second half of the year. Narrow money (M1) expanded by 19.8%, the largest increase recorded over the past five years. In addition to a 16.5% rise in the public's

Table IV.1: Factors Responsible for Money Supply Movements

$mn

	Position as at			Changes During 2006
	Dec 2004	Dec 2005	Dec 2006	
Net Foreign Assets	**85.5**	**134.2**	**261.1**	**127.0**
Central Bank	104.1	140.8	206.5	65.8
Commercial Bank	-18.6	-6.6	54.6	61.2
Net Domestic Credit	**1,353.2**	**1,409.4**	**1,565.9**	**156.3**
Central Government (Net)	175.1	144.8	183.5	38.5
Other Public Sector	46.9	61.3	27.9	-33.4
Private Sector	1,131.2	1,203.3	1,354.5	151.2
Central Bank Foreign Liabilities (Long-term)	**2.5**	**0.0**	**0.0**	**0.0**
Other Items (net)	**187.9**	**213.6**	**322.0**	**108.3**
Money Supply M2	**1,248.3**	**1,330.0**	**1,505.0**	**175.0**

Chart IV.1: Ratio of M2 to GDP

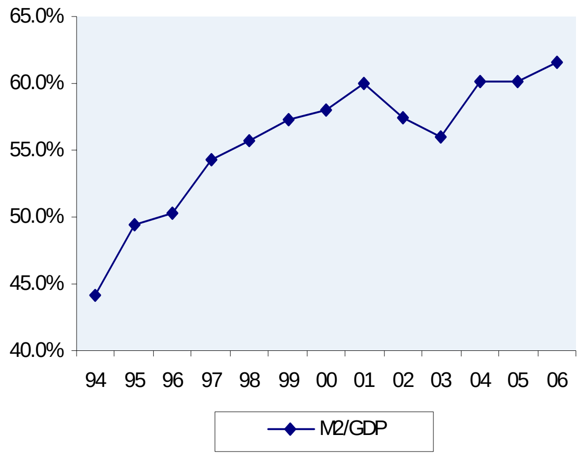
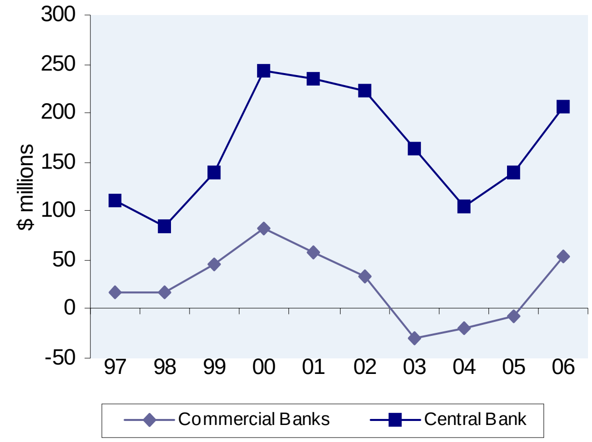


Chart IV.2: Annual Change in Net Foreign Assets of the Banking System



currency holdings, there was a 28.2% surge in demand deposits. The latter was dominated by private utilities, and to a lesser extent, other business enterprises. One particular private utility played a key role in accounting for roughly 40.0% of the increase in demand deposits. Quasi money also grew strongly with a 9.0% increase that included increases of $20.2mn in savings and $52.9mn in time deposits. As is generally the case, individuals accounted for most of the increase in savings. In the case of time deposits, the growth was spread somewhat evenly during the four quarters and largely reflected increased holdings by the utilities, the BSSB, credit unions, individuals and business enterprises. Businesses and individuals accounted for 34.0% of the increase, the private utilities for 29.7% and the BSSB and credit unions combined for 28.2%.

Benefitting from the recovery in the external current

Table IV.2: Money Supply

$mn

	Position as at			Changes During 2006
	Dec 2004	Dec 2005	Dec 2006	
Money Supply (M2)	**1,248.3**	**1,330.0**	**1,505.0**	**175.0**
Money Supply (M1)	**492.2**	**516.0**	**617.9**	**101.9**
Currency with the Public	115.3	117.5	136.9	19.4
Demand Deposits	241.2	254.5	326.3	71.8
Savings/Cheque Deposits	135.7	144.0	154.7	10.7
Quasi-Money	**756.1**	**814.0**	**887.1**	**73.1**
Savings Deposits	112.8	115.7	135.9	20.2
Time Deposits	643.3	698.3	751.2	52.9

Table IV.3: Net Foreign Assets of the Banking System

$mn

	Position as at			Changes During 2006
	Dec 2004	Dec 2005	Dec 2006	
Net Foreign Assets	**85.5**	**134.2**	**261.1**	**127.0**
Central Bank	**104.1**	**140.8**	**206.5**	**65.8**
Foreign Assets	106.9	143.5	208.9	65.4
Foreign Liabilities(Demand)	2.8	2.7	2.4	-0.4
Commercial Banks	**-18.6**	**-6.6**	**54.6**	**61.2**
Foreign Assets	129.3	147.6	180.4	32.8
Foreign Liab. (Short-Term)	147.9	154.2	125.8	-28.4

account as well as new loan disbursements, the banking system recorded a 94.6% improvement in the overall net foreign asset position. The Central Bank's net foreign assets rose by $65.8mn to $206.5mn although it recorded lower foreign exchange inflows and outflows than in the previous year when substantial transactions to refinance portions of the external debt had been undertaken. Of the $370.5mn received in 2006, some 43.0% came from loan disbursements. Purchases from domestic commercial banks accounted for 31.0% with the commercial banks upping sales to the Central Bank partly to meet higher reserve requirements. Inflows from sugar exports, oil taxation, grants, revaluation gains and interest earnings made up the balance. Outflows totalled $304.5mn, the bulk being payments on behalf of the public sector and some 8.6% ($26.4mn) consisting of sales to commercial banks and BEL. Even with increased sales to the Central Bank, the improvement in the commercial banks' position was also marked with a $61.2mn rise in net foreign assets that included foreign asset increases of $32.8mn while foreign liabilities shrank by $28.4mn.

With the growth in foreign inflows reducing the impact of the tighter framework, there was a sizeable increase in credit to the private sector of 12.6% as compared to 6.4% in 2005. The expansion was dominated by personal loans, which rose by 24.4% and accounted for 46.5% of total new disbursements. Other substantial increases were recorded for tertiary sector activity in real estate, distributive trade, professional services and transportation. In the secondary sector, the main focus was on construction, since, in a notable development, the utilities reduced their commercial bank loan balances by over 50.0% using loan and equity funds obtained from the BSSB. Lending to the primary sector increased slightly with activity in mining and exploration picking up and funds being extended for the established export crops (banana, citrus and sugar).

Net credit to Central Government fluctuated

Table IV.4: Net Domestic Credit

$mn

	Position as at			Changes During
	Dec 2004	Dec 2005	Dec 2006	2006
Total Credit to Central Government	**246.9**	**249.2**	**271.7**	**22.3**
From Central Bank	165.3	181.8	228.9	47.0
From Commercial Banks	81.6	67.4	42.8	-24.7
Less Central Government Deposits	71.8	104.4	88.2	-16.2
Net Credit to Central Government	**175.1**	**144.8**	**183.5**	**38.5**
Plus Credit to Other Public Sector	**46.9**	**61.3**	**27.9**	**-33.4**
Plus Credit to the Private Sector	**1,131.2**	**1,203.3**	**1,354.5**	**151.2**
Net Domestic Credit of the Banking System	**1,353.2**	**1,409.4**	**1,565.9**	**156.3**

significantly during the year with movements in the government's Central Bank overdraft (which peaked at $156.4mn in November) being largely determined by timing differences between external debt service payments and foreign loan disbursements intended to help the government meet those obligations. Those receipts enabled the government to reduce loan balances held with the Central Bank and the commercial banks by year end. Hence, while a net increase in funding for Central Government of $38.5mn was recorded during 2006, this was largely due to a new 5-year Treasury note issue valued at $31.5mn that was made out in favour of the Central Bank in fulfillment of government's guarantee of DFC and NDFB loans that were not performing. In addition to the primary note issue, the Central Bank purchased an additional $16.3mn in Treasury bills and notes from the commercial banks in the secondary market.

Chart IV.3: Annual Change in Commercial Bank Loan Distribution

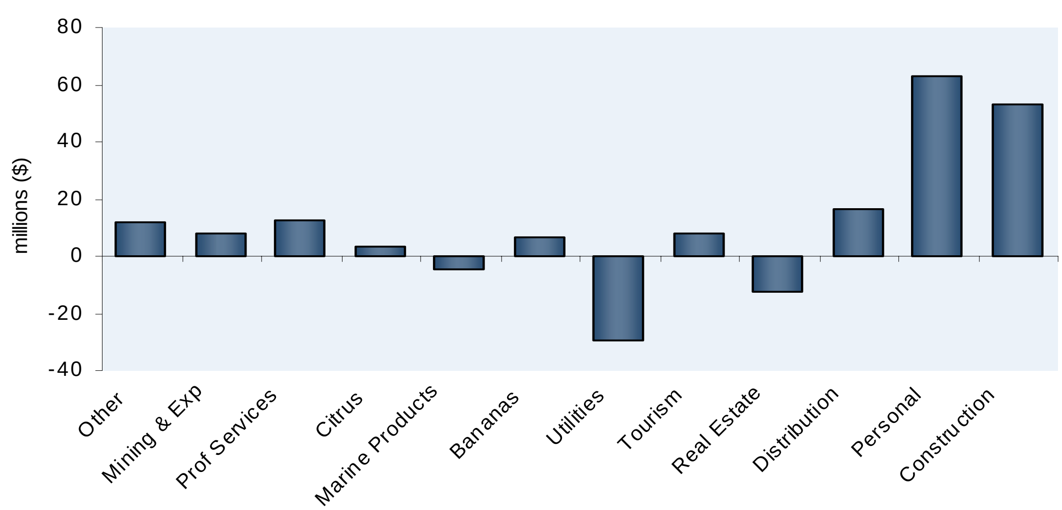


Chart IV.4 : Quarterly Change in Excess Liquidity

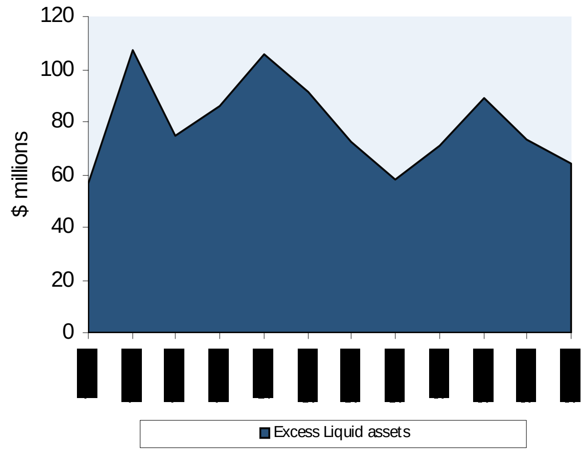
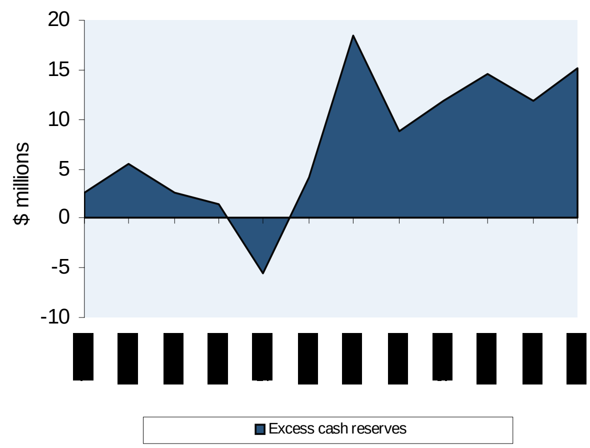


Chart IV.5 : Quarterly Change in Excess Cash Reserves



Robust deposit growth stemming from unusually high export receipts created generally liquid conditions for the commercial banks during the year. After a contraction in January due to a 1.0% increase in reserve requirements, excess statutory liquidity began to build up again, reaching a peak of $100.7mn in August. In the beginning of September, the Central Bank responded by implementing a further 1.0% increase in commercial bank required reserves (from 9.0% to 10.0% for cash and from 22.0% to 23.0% for secondary reserves). However, this seemed to have minimal effectiveness in restraining the lending activity of the banks, which normally heightens in the months leading up to Christmas. With the lending spurt that began in August continuing in the third quarter, this reinforced the downward shift in liquidity that resulted from the increase in reserve requirements.

Table IV. 5 : Commercial Banks' Holdings of Approved Liquid Assets

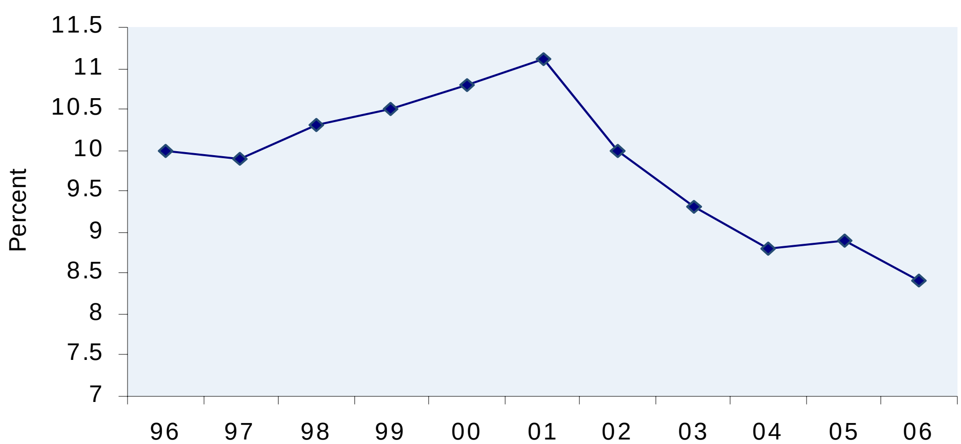
$mn

	Position as at			Changes During
	Dec 2004	Dec 2005	Dec 2006	2006
Holdings of Approved Liquid Assets	**324.2**	**330.0**	**377.7**	**47.6**
Notes and Coins	33.7	35.6	40.9	5.4
Balances with Central Bank	81.7	111.8	152.1	40.3
Money at Call and Foreign Balances (due 90 days)	102.9	120.0	131.4	11.3
Treasury Bills maturing in not more than 90 days	25.9	22.8	12.0	-10.9
Other Approved assets	80.0	39.8	41.3	1.5
Required Liquid Assets	**237.9**	**271.6**	**310.0**	**38.4**
Excess/(Deficiency) Liquid Assets	**86.3**	**58.4**	**67.7**	**9.2**
Daily Average holdings of Cash Reserves	84.7	112.2	150.0	37.8
Required Cash Reserves	83.3	103.5	134.8	31.3
Excess/(Deficiency) Cash Reserves	**1.4**	**8.7**	**15.2**	**6.5**

After shrinking by 45.5% between August and October, however, growth in excess statutory liquidity began to trend upward again, ending the year at $67.7mn, a year on year increase of 15.8% as commercial bank holdings of approved liquid assets rose by $47.6mn relative to a $38.4mn increase in required holdings. For the second consecutive year, average excess cash reserves were held at levels that were significantly above the long term trend for such holdings. The atypical increase was due to the portfolio decisions of only one bank and the Central Bank was therefore content to monitor the situation without taking immediate action. At year-end, excess cash reserves stood at $15.2mn, a 74.4% increase over the position at the end of 2005 with daily average holdings of cash reserves rising by $37.8mn relative to a $31.3mn increase in required holdings.

A slight narrowing of the banks' interest rate spread in 2006 continued a 5-year downward trend that began when the number of domestic commercial banks were increased from four to five. The legislative change that paved the way for export processing zones to do banking business with domestically licensed international banks has also heightened the level of competition in the banking system in recent years. The impact of higher reserve requirements was an additional factor that led the banks to compete for market shares by offering more attractive rates to customers. While the weighted average lending rate fell by 10 basis points to 14.2%, the weighted average deposit rate rose to 5.8%. The latter was some 30 basis points higher than the start of the year and largely reflected a 40 basis points increase in the weighted average time deposit rate.

Chart IV.6 : Commercial Banks' Weighted Average Interest Rate Spread



Central Government Operations

During the 2006 calendar year, Central Government's overall deficit was slashed by 70.8% to $44.3mn (1.8% of GDP) with revenues rising by 12.8% while expenditure was 5.6% lower. A primary surplus that totalled $97.6mn (4.0% of GDP) was recorded. The revenue surge partly reflected an upturn in tax collections associated with increased economic activity as well as the introduction of the broader based general sales tax in July. In addition to cost containment efforts, the expenditure decline reflected the lowering of debt related interest and fees (compared to 2005 when unusually large finance and insurance charges were incurred for international bond placements) as well as the fact that some loan payments were temporarily suspended in December with the initiation of the debt restructuring programme. A decline in outlays under the Capital III component of the budget also contributed to the overall lowering in expenditure.

Financing for the fiscal deficit came from external sources, as the government borrowed mostly to meet external debt service payments during the year. External loan disbursements amounted to $169.4mn while amortization stood at $123.3mn. Financing from the domestic system came by way of a new Treasury Note issue totalling $31.5mn, the proceeds

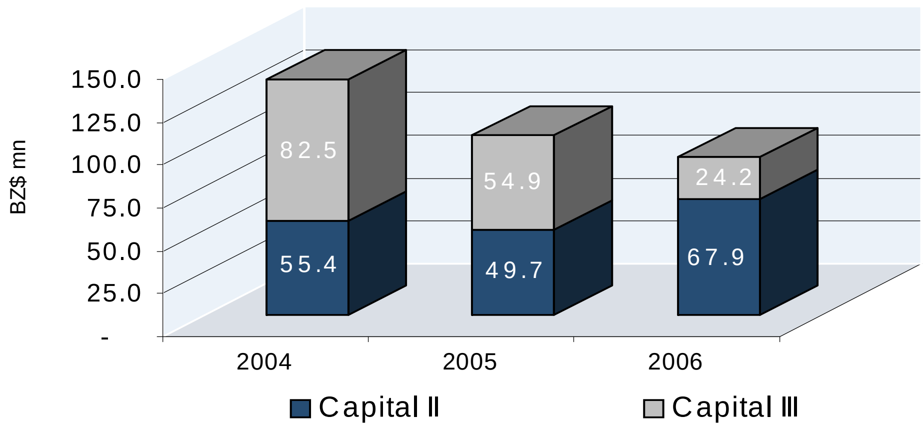
Table V.1: Government of Belize - Summary of Revenue and Expenditure

$mn

	Jan-Dec 2004	Jan-Dec 2005	Jan-Dec 2006	Change during 2006
Current Revenue	451.9	511.5	566.0	54.5
Tax Revenue	408.4	457.8	514.4	56.6
Non-Tax Revenue	43.5	53.6	51.5	-2.1
Current Expenditure	474.1	561.2	548.1	-13.1
CURRENT BALANCE	**-22.2**	**-49.7**	**17.9**	**67.6**
Capital Revenue	26.5	6.4	10.0	3.6
Capital Expenditure (Capital II local sources)	55.4	49.7	67.9	18.2
OPERATING SURPLUS	**-51.1**	**-93.0**	**-40.0**	**52.9**
Total Grants	35.4	18.8	29.3	10.5
Total Revenue and Grants	513.8	536.7	605.3	68.6
Total Capital Expenditure	173.2	127.1	101.5	-25.6
Total Expenditure	647.4	688.2	649.6	-38.7
of which Interest Payment on Public Debt	122.4	149.5	141.9	-7.6
PRIMARY BALANCE	**-11.2**	**-2.1**	**97.6**	**99.7**
OVERALL BALANCE	**-133.6**	**-151.6**	**-44.3**	**107.3**
FINANCING REQUIREMENTS	133.6	151.6	44.3	-107.3
Net Privatization Proceeds	-10.0	44.4	0.0	-44.4
Domestic Financing	-36.2	-19.6	-10.9	8.7
Financing Abroad	179.9	127.0	55.6	-71.4
Other	-0.1	-0.1	-0.3	-0.2
Ratio to GDP (%)				
Current Balance	**-1.1**	**-2.2**	**0.7**	**3.0**
Operating Surplus	**-2.4**	**-4.2**	**-1.6**	**2.5**
Primary Balance	**-0.5**	**-0.1**	**4.0**	**4.1**
Overall Balance	**-6.3**	**-6.8**	**-1.8**	**5.0**

Sources: Central Bank of Belize, Ministry of Finance

Chart V.1: Central Government's Development Expenditure



of which were swapped against non performing Central Bank loans previously extended to the DFC and NDFB under government guarantee. For the purpose of the fiscal accounts, the transaction was not treated as a transfer to the DFC but rather as bringing about a shift in liabilities from the Central Bank to Central Government.

During the year, current revenue posted a healthy 10.7% growth to $566.0mn (23.2% of GDP) with a $56.6mn increase in tax revenue eclipsing a $2.1mn decline in non-tax revenue. The largest growth was in revenues from goods and services, which were boosted by $32.7mn with the switch from the sales tax (which had a minimum rate of 9.0%) to the broader based general sale tax (at 10.0%). In addition, tax revenue from income and profits increased by $16.3mn and revenues from taxes on international trade were up by $9.1mn in tandem with the growth in imports. Non-tax revenue declined as new income of $4.8mn in petroleum royalties did not offset the deferral of property income revenue to 2007 and an 11.3% fall in license fees. Capital revenue totalled $10.0mn and some $29.3mn was received in grants (including $10.0mn each from the United Kingdom and Venezuela).

All categories of current expenditure declined, except for subsidies and transfers, which increased because of the reclassification of wages paid to Karl Heusner Memorial Hospital staff. A temporary halt to payments on the external commercial debt shaved $15.5mn off interest payments, and without the need to pay the sizeable insurance and finance fees connected with the 2005 bond placements, outlays on goods and services reverted to normal levels. An overall decline of 2.3% was therefore recorded in current expenditure over the year.

Capital expenditure fell by 20.1% to $101.5mn, the third consecutive year in which a decline has occurred. While expenditure on locally funded Capital II projects increased by 36.7%, outlays on externally funded (Capital III) projects were down by 55.9%. Capital transfers and net lending also contracted by 48.3%. Education accounted for 24.0% of total capital outlays with the University

Box 3: Major Fiscal Initiatives in 2006

February- Under the Health Sector Reform Project, the Ministry of Health embarked on work to build and renovate health facilities throughout the country. In addition to construction work, the project included components that addressed the improvement of human resource capacity and procurement of equipment and ambulances.The estimated project cost exceeded BZ$7.0mn and was funded by loans from the IDB and the CDB.

June- Belize Petroleum and Energy Ltd, (BPEL) the Government's Oil Company and Petróleos de Venezuela, (PDVSA) signed the Articles and Memorandum of Association of a Joint Venture Company, registered as ALBA Petrócaribe (Belize Energy) Ltd. Under the Agreement the Government of Belize is able to purchase petroleum by paying only 60.0% of the cost at the time of purchase when petroleum is priced at over US$50/barrel. The Government of Belize may retain 40.0% of the cost as financing, which can be channeled to projects aimed at alleviating poverty in Belize. The financing would then be amortized after a two-year grace period over 23 years at 1.0 % interest per annum.

July- The sales tax was replaced by the General Sales Tax (GST). Under Section 99 of the GST Act, Section 62 of the Stamp Duties Act, which requires a ten cent stamp to be placed on every receipt for payment of ten dollars or more, and the Entertainment Tax Act were repealed.

August- The Government of Belize announced its decision to seek the cooperation of the country's private sector creditors in achieving the restructuring of approximately US$960.0mn in external debt. It was expected that the bulk of the public sector's external commercial debt would be affected by the proposed restructuring. The Government also approached official creditors to solicit assistance in dealing with the country's unsustainable debt burden.

September- An Association Agreement was signed between the Government of Belize and the Central American Bank for Economic Integration (CABEI) that enabled Belize to be incorporated to CABEI as a Non-founding Beneficiary Member. CABEI, which was established by the Governments of Guatemala, El Salvador, Honduras, Costa Rica and Nicaragua, plans to contribute to the social and economic development of the Central American region by investing US$2.0bn in the three major areas of: Poverty Alleviation, the Integration Process and Globalization. By becoming a non-founding beneficiary member, the Government of Belize, as well as the private sector, will be able to benefit from projects and programmes financed by the Bank.

November- The Income and Business Tax Act was amended to provide for a special tax regime for companies engaged in petroleum operations. These companies were exempted from the business tax and made subject to an income tax rate of 40% of their chargeable income.

December- The Inter-American Development Bank announced its approval of a US$25.0mn fast-disbursing policy based loan to support Belize's agenda of reforms to restore macroeconomic and financial stability, improve its business climate and bolster investor confidence. The loan is to be disbursed in two tranches, the first of $10.0mn in December, and the second of $15.0mn to occur in 2007. The loan (at LIBOR) is to be amortized over 20 years and includes a five-year grace period.

December- The Caribbean Development Bank [CDB] approved a US$25.0mn Policy Based Loan for Belize comprised of US$15.0mn from CDB's Ordinary Capital Resources [OCR] and US$10.0min from CDB's Special Fund Resources [SFR]. A loan of US$12.6mn loan was also approved to finance the upgrading of the Placencia Road.

December- The Government of Belize made an offer to exchange the country's outstanding commercial indebtedness in return for new U.S. dollar bonds to be issued by Belize ("New Bonds"). The New Bonds have a final maturity falling due in 2029; equal semi-annual principal amortizations commencing in 2019, and a step-up coupon structure with annual interest payments set at 4.25% for the first three years after issuance of the New Bonds, 6.00% for years four and five, rising to 8.50% in year seven through to maturity. The exchange offer was preceded by four months of intensive consultations between the affected creditors and the Belizean authorities.

Source: Government of Belize Press Releases, Laws of Belize

Table V.2: Central Government's Domestic Debt

$mn

Instrument	2004	2005	2006
Loans & Advances	139.5	140.5	129.1
Treasury Bills	100.0	100.0	100.0
Treasury Notes	24.0	24.0	55.8
Defence Bonds	15.0	15.0	15.0
Total	**278.5**	**279.4**	**299.9**

Sources: Ministry of Finance, Central Bank of Belize

of Belize and tertiary level scholarships accounting for $14.3mn, and some $6.6mn being disbursed for technical and vocational training. Approximately 18.0% of outlays went to infrastructural projects such as rural electrification, maintenance of highways, feeder roads, streets and drains and construction of the Orange Walk bypass. An equivalent amount went on social development programs executed under the Social Investment Fund, Basic Needs and Trust Fund, National Institute of Cultural Heritage, and Commonwealth Debt Initiative, among others. Health, the environment and agriculture accounted for 8.6%, 8.9% and 3.8%, respectively, with outlays for projects that included National Health Insurance, health sector reform, land development/management and agricultural health services (BAHA).

Central Government's Domestic Debt

Central Government's domestic debt rose by 7.3% to $299.9mn during the year as a $7.2mn decline in overdraft balances and amortization payments of $4.4mn were more than offset by a new 5-year Treasury Note issue valued at $31.5mn. Proceeds from the latter were swapped against non performing Central Bank loans to DFC ($29.9mn) and the NDFB ($1.6mn) that had been guaranteed by Central Government.

By way of trade in the secondary market, commercial banks and other private entities surrendered $12.6mn in Treasury Bills to the Central

Chart V.2: Sources of Central Government's Domestic Debt

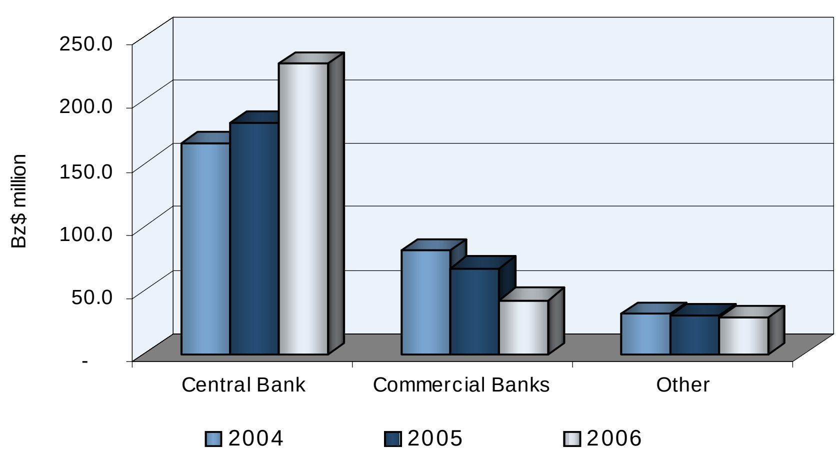


Table V.3: Public Sector External Debt by Source

$mn

	Outstanding Debt 31/12/2005	Disbursement	Amortization	Interest & Other Charges	Valuation Adjustments	Outstanding Debt 31/12/2006
Bilateral	326.8	131.6	32.7	16.8	1.2	426.8
Bonds	983.5	0.0	42.9	72.5	0.0	940.7
Commercial Banks	213.9	3.5	37.5	19.7	0.0	179.9
Multilateral	414.4	32.1	26.6	19.6	2.8	422.8
Suppliers Credit	1.4	0.0	1.2	0.1	0.0	0.2
Total	**1,940.0**	**167.2**	**140.8**	**128.7**	**4.0**	**1,970.4**

Source: Ministry of Finance , Central Bank of Belize

Bank, and the latter sold $0.5mn of its newly acquired Treasury Notes to private entities. Of the $14.3mn in older Treasury Notes that matured in December 2006, the commercial bank rolled over $10.0mn and the Central Bank took up the remaining $4.3mn.

The Belize Bank and the GOB/US debt for nature swap account were the recipients of the largest principal payments amounting to $1.7mn and $1.2mn, respectively. Smaller payments were made to the DFC, Atlantic Bank, Recondev, the BSSB and to the Belize Tourist Village for dredging the Belize harbour. Of the $23.2mn in government interest payments, the Central Bank received $13.3mn as the cost of funds provided through the overdraft facility. Holders of Treasury Bills, Notes and Defence Bonds received $3.2mn, $1.3mn and $1.2mn, respectively. A $2.7mn interest payment went to the Belize Bank, while the DFC received $0.5mn. Smaller sums were paid to Reconstruction and Development, GOB/US debt for nature swap, BSSB, Guardian Life and Atlantic Bank.

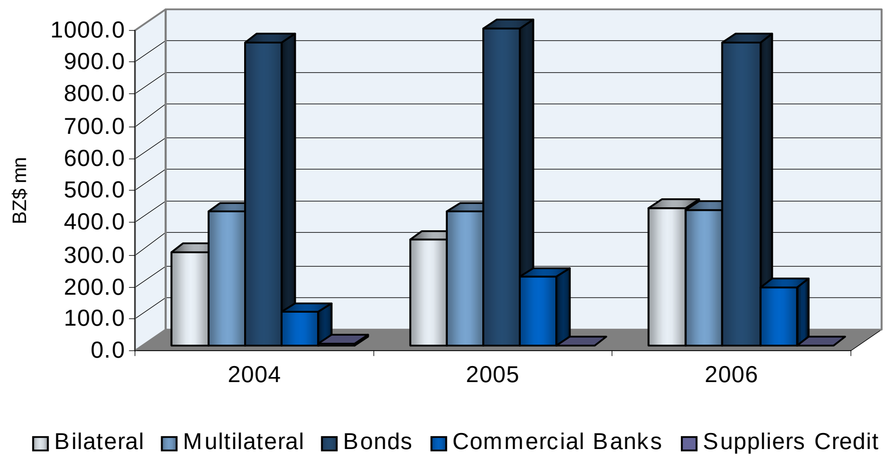
External Public Sector Debt

The public sector's external debt rose by 1.6% to $1,970.4mn (80.7% of GDP) with new disbursements of $167.2mn all going to Central Government. The latter accounted for 92.4% ($1,821.3mn) of the outstanding debt, while the non-financial and financial public sector held 2.1% and 5.5%, respectively.

Bilateral disbursements of $100.0mn from Venezuela and $30.0mn from ROC/Taiwan supported the Government's cash flow and assisted in meeting external debt service obligations. Disbursements from multilateral creditors totalled $32.1mn. Included in this was $20.0mn from the IDB that represented the first tranche of a $50.0mn policy based loan, and $7.4mn from CDB. Some $4.4mn in disbursements consisted of capitalized interest payments, the largest being $3.5mn on a loan from TIBoM. At year-end, the public sector debt was comprised of bonds (47.7%), bilateral loans (21.7%), multilateral loans (21.5%), commercial loans (9.1%) and export credits (less than 0.1%).

In an effort to achieve greater sustainability in external flows, the Government launched a programme to restructure the public sector's commercial debt in December. As a result, two

Chart V.3: Sources of Public Sector External Debt



bond payments (totaling $3.0mn in principal and $15.5mn in interest) were put on hold. Central Government's amortization therefore amounted to $121.3mn with bondholders receiving 32.3% of the total. The largest payments went to Bear Stearns ($28.6mn) and Citicorp Merchant Bank Ltd ($7.9mn). Bilateral creditors accounted for 24.6% ($32.7mn) of total payments, of which $14.7mn was paid to ROC/Taiwan. Commercial banks accounted for 22.3%, and multilateral lenders/ suppliers received the remaining 20.9%. Repayments by the financial public sector totalled $13.9mn with $7.9mn going to DFC/North American securitization loan, $4.3mn to multilateral lenders, and $1.7mn to bilateral creditors. Of the $5.5mn repaid by the non-financial public sector, the Belize Water Services Ltd. sent a total of $3.0mn (to CDB and Amtrade International), and Belize Airport Authority payments to CIBC Bank & Trust Company and the Government of Kuwait summed to $2.5mn.

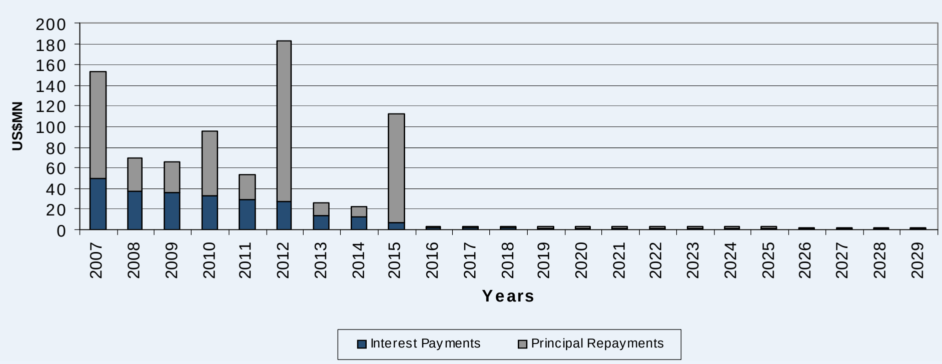
Annual interest payments by Central Government totalled $118.9mn partly because of the rescheduling of payments that were to have been made in December. Payments to bondholders amounted to $72.5mn and included $46.9mn to Bear Stearns and $20.9mn to Royal Merchant Bank. Of the $16.8mn paid to bilateral lenders, ROC/ Taiwan accounted for $13.4mn. Multilateral creditors, commercial banks, and suppliers received $19.6mn, $14.0mn, and $0.1mn, respectively. Financial and non-financial public sector institutions paid a total of $9.8mn with notable payments going to Belize Mortgage Company ($5.6mn) and the CDB ($3.1mn).

A $4.0mn increase in the value of the external debt was recorded during the year due to the appreciation of the euro, pound sterling and Kuwait dinar against the U.S. dollar. Upward adjustments in loans denominated in euro, pound sterling and the Kuwait dinar amounted to $2.8mn, $0.9mn, and $0.3mn, respectively.

Box 4: Belize's Debt Restructuring Process

In recent years, the government of Belize has borrowed extensively from foreign commercial banks and from other lenders through the issuance of US dollar bonds in the international capital market to finance an expansionary economic programme and cover hurricane rehabilitation costs. Between 1998 and 2006, the external public sector debt stock almost quadrupled from US. $256.9mn to US $985.2mn with bonds and other commercial loans accounting for 56.9% of this debt. In addition to high debt servicing costs stemming from an average effective interest rate of 11.25%, the maturities for most of the new external obligations were tightly bunched together over a ten year period between 2005 and 2015. The loan amortization profile was also highly uneven with sharp spikes occurring when the bullet payments for designated international bonds became due. Adding to the pressure was the presence of a put option on a US $76.1mn bond that was exercisable in 2007, all indications being that the bond holder was going to exercise this put option. (See Chart V.4.) With a weakening in the foreign exchange reserve position and successive downgrades from the international credit rating agencies, the Government was finding it increasingly expensive to access international funds to meet its debt service payments, particularly with the exercisable put option in 2007 looming ahead.

Chart V.4: Debt Service Payments Before Restructuring



To prevent a possible default on external loan payments and a full-blown balance of payment crisis, the Government therefore obtained a resolution from the National Assembly to restructure some US $565.0mn of its external obligations and contracted Houlihan Lokey Howard and Zukin as consultants to facilitate the process. Having committed itself to a debt restructuring, the Government received assistance in the form of special policy based loans from the IDB and CDB and bilateral loans from ROC/Taiwan (US $30.0mn) and Venezuela (US $50.0mn) were also obtained to meet the government's external debt service obligations and boost international reserves.

After extensive consultations with creditors to devise a palatable debt restructuring offer, Government proposed to exchange the various commercial debt instruments with one US dollar "super-bond", the main elements of which are listed below.

- A final maturity in February 2029, with principal repaid in equal semi-annual installments starting August 2019
- A step-up coupon structure based on the following schedule: 4.25% in years 1 to 3; 6.00% in years 4 to 5; and 8.50% from year 6 onwards
- Redeemable at par by the Government at any point after the end of the grace period.

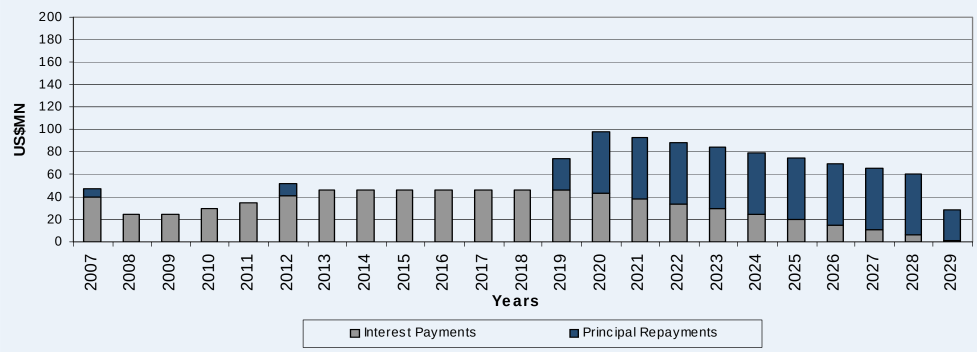
The Government launched its formal offer on December 18, 2006 and debt service payments were

cont'd...

Box 4: Belize's Debt Restructuring Process (cont'd)

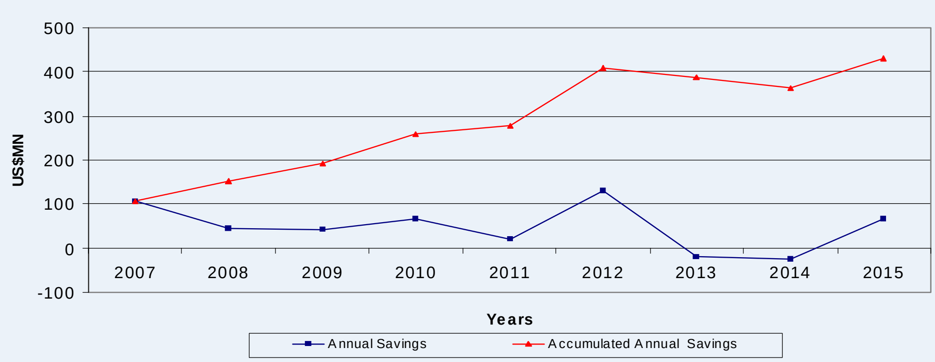
temporarily suspended with the Government offering to pay accrued interest and principal payments up to the closing date (20 February, 2007) of the exchange offer as a "participation fee" to the participating creditors. The new loan repayment profile smooths debt service payments as indicated in Chart V.5 and significantly lowers the cost of debt servicing in the short and medium terms.

Chart V.5: Debt Service Payments After Debt Restructuring



As illustrated in Chart V.6, foreign exchange outflows for debt service payments during the first nine years are projected to fall by an average of US $48.0mn per year or US $431.0mn cumulative over the nine year period. This positive development should improve the country's general economic outlook, investment climate and credit ratings. The longer repayment period should also afford the country the opportunity to expand its economic base so that the higher debt servicing obligations that fall due in the later years will be less burdensome.

Chart V.6: Cash Flow Savings on Debt Service Payments



It should however be noted that notwithstanding the improvement in the repayment schedule, a medium term forecast indicates the need for dexterous management and continued fiscal and monetary restraint to ensure sustainability in handling the national external debt.

Sources: Ministry of Finance; Central Bank of Belize

A reduced trade deficit and increased inflows from tourism and remittances contributed to a significant improvement in the external current account in 2006. From $320.9mn (14.4% of GDP) in 2005 the deficit fell to $48.9mn (2.0% of GDP). Net capital and financial inflows (mostly from foreign direct investment in tourism, banking, and real estate and, to a lesser extent, public and private sector external borrowing), covered the current account shortfall and pushed the gross official reserves up by $65.4mn to $208.9mn, the equivalent of 2.2 months of merchandise imports.

Merchandise Trade

The merchandise trade deficit narrowed to $370.9mn (a 19.7% improvement) as a 31.1% increase in exports outpaced a further 10.0% rise in imports. The latter included increases for domestic consumption and the CFZ of 8.8% and 16.7%, respectively. Slightly more than one third of the increase in imports for the domestic market was made up of capital investment goods for export processors. The remainder reflected increased demand for construction materials, transportation equipment and higher fuel acquisition costs. Exports were boosted by the advent of crude oil exports, high citrus prices and the temporary re-allocation of preferential sugar quotas to Belize.

Domestic Exports

Higher international prices and crude oil sales pushed domestic exports up by 36.3% to $542.1mn in 2006. Notably, petroleum accounted for 56.2% of the increase. The remainder was made up of a substantial

Table VI.1: Balance of Payments - Summary and Financing Flows

$mn

	2004 Net	2005 Net	2006 Net
CURRENT ACCOUNT	**-311.7**	**-320.9**	**-48.9**
Merchandise Trade	-346.5	-462.0	-370.9
Services(1)	176.4	267.4	410.5
Income	-233.5	-228.8	-236.3
Current Transfers	91.8	102.4	147.9
CAPITAL ACCOUNT	**19.6**	**5.9**	**18.3**
FINANCIAL ACCOUNT	**234.9**	**349.7**	**77.1**
NET ERRORS & OMMISSIONS	-5.2	1.9	18.9
OVERALL BALANCE	-62.3	36.6	65.4
FINANCING	62.3	-36.6	-65.4
Memo Items:			
Import cover in months	**1.4**	**1.7**	**2.2**
Current Account/GDP Ratio (%)	**14.8**	**14.4**	**2.0**

(1) Tourism earnings for 2005 were based on actual inflows into the banking system 2005, while estimates for 2004 & 2006 were based on Visitor Expenditure Surveys.

Table VI.2: Balance of Payments - MerchandiseTrade

$mn

	2004	2005	2006	Change
Goods Exports, f.o.b.	**614.9**	**650.5**	**852.9**	**31.1%**
of which: Domestic Exports	372.9	397.8	542.1	36.3%
CFZ sales	218.9	227.4	277.0	21.8%
Other Re-exports	23.1	25.2	33.9	34.5%
Goods Imports, f.o.b.	**961.4**	**1,112.4**	**1,223.9**	**10.0%**
of which: Free Circulation Area	818.9	938.9	1,021.3	8.8%
CFZ(1)	142.5	173.6	202.6	16.7%
Merchandise Trade Balance	**-346.5**	**-462.0**	**-370.9**	**-19.7%**

(1) This CFZ item excludes fuel and goods obtained from the free circulation area.

surge in citrus and sugar earnings, and smaller increases from molasses, papaya, banana and garments that offset reduced earnings from marine products and non-traditional exports.

Sugar and Molasses

With increased output fortuitously coinciding with stronger prices across all markets and a temporary hike in preferential market quotas in 2006, sugar exports rose by 9.3% in volume and 43.2% in value to $100.1mn. The largest revenue gain came from the EU where tonnage expanded by 39.2% reflecting a 3.5% rise in the quantity of Protocol sugar and a more than sevenfold increase in sales of Special Preferential Sugar (SPS) as Belize was allowed to meet shortfalls from other CARICOM countries. Even with the programmed implementation of a 5.1% cut in the price of Protocol sugar that affected 42.5% of EU tonnage, receipts from the EU rose by 54.1% to $65.3mn due to the volume increase and a 9.5% gain in the

Table VI.3: Domestic Exports

$mn

	2004	2005	2006
Traditional Exports	**349.7**	**362.3**	**430.7**
Sugar	79.7	69.9	100.1
Citrus Juices(1)	47.1	77.5	120.2
Citrus Concentrate	*45.8*	*76.5*	*120.2*
Not-from-Concentrate	*1.3*	*0.9*	*0.0*
Molasses(1)	2.6	5.5	6.3
Bananas	53.0	49.9	50.6
Marine	107.4	98.1	86.0
Garments	37.1	34.5	36.6
Papayas	22.8	26.9	31.0
Petroleum(2)	**0.0**	**0.0**	**81.1**
Non-traditional Exports	**23.2**	**35.5**	**30.3**
Total Exports	**372.9**	**397.8**	**542.1**

Sources: Central Statistical Office, BSI, CPBL, Central Bank of Belize

(1) Reflect actuals sales as reported by processor.

(2) Estimated F.O.B value of petroleum shipment.

Table VI.4: Exports of Sugar and Molasses

	2004		2005		2006	
	Volume (long tons)	Value ($'000)	Volume (long tons)	Value ($'000)	Volume (long tons)	Value ($'000)
Sugar[1]	**107,103**	**79,682**	**88,131**	**69,899**	**96,309**	**100,065**
E.U.	47,965	47,273	39,928	42,392	55,567	65,330
USA	10,917	8,364	11,015	8,441	18,794	17,505
CARICOM	46,367	22,707	35,319	17,720	19,660	15,044
Other	1,854	1,338	1,869	1,346	2,288	2,186
Molasses[2]	**32,706**	**2,645**	**33,336**	**5,519**	**35,100**	**6,264**

Sources: Belize Sugar Industries, CSO

(1) Reflects value of export shipments.
(2) Relect actual sales as reported by the processor.

exchange rate between the US dollar and the Euro that was negotiated on the futures market

Exports to the US market surged by 70.6% to 18,794 long tons with Belize receiving a temporary increase in quota allocation to cover shortfalls in US production after hurricane damages to the sugarcane growing belt of Louisiana and Florida. With increases in both volume and average unit price, revenues from this market more than doubled to $17.5mn.

The diversion of sugar to the more profitable preferential markets caused exports to CARICOM (mostly of bagged sugar) to contract by 44.3% to 19,660 long tons. Earnings fell by 15.1% to $15.0mn, a less than proportionate decline as the average price rose from US$0.11 to US$0.17 per pound influenced by a hike in the world price for raw sugar. The latter averaged a record breaking US$0.16 per pound in 2006 due to supply shortages in the United States and Asian markets and the diversion of more Brazilian sugarcane into ethanol production.

Exports to other markets (namely bagged sugar to Curacao and Canada) were up by 22.4% to 2,288 long tons, while earnings increased by 62.4% to $2.2mn as the average price per pound rose by US$0.05 to $0.21.

Molasses followed this positive trend with export volume rising by 5.3% to 35,100 long tons and earnings up by 13.5% to $6.3mn as shortfalls in the US market pushed the average price up from $165.56 to $178.46 per long ton.

Citrus Juices and Pulp

Supply shortages underpinned high citrus juice prices and provided additional market opportunities in 2006. The citrus industry responded with a 19.8% surge in export volume that consisted of the current year's juice production and almost all of the inventory overhang from the previous year. Revenues increased by 55.1% to $120.2mn, making citrus juices the lead foreign exchange earner in domestic commodity exports.

While the volume of orange concentrate exports increased by 23.8%, high prices provided a further boost to earnings, which rose by 74.2% to $94.9mn. In addition to lower US production due to hurricane damage, disease and the sale of some groves to real estate developers, the market was influenced by the levying of anti-dumping duties against Brazilian concentrates. The US was the lead purchaser of Belize's orange concentrates, accounting for 59.5% of export volume and 64.4% of revenue. Even with a 7.5% fall in volume, revenues from sales to the US were up by 50.9% to $61.1mn due to an increase in the average price per pound solid of $1.10. Prices also rallied in Europe, the next largest consumer with 8.2mn pound solids valued at $19.4mn. Sales to the Caribbean increased by 20.3% in volume to 6.3mn pound solids and 23.7% in value to $14.1mn. On the other hand, weakening demand in Asia caused sales of orange freeze concentrate to plunge by 91.1% to a minimal 0.06mn pound solids.

Exports of grapefruit concentrate increased by 5.9% to 6.6mn pound solids while earnings rose by 14.5% to $25.2mn. Sales to Europe almost doubled and accounted for 54.5% of volume and 50.4% of earnings. Prices improved by 19.4% in the US, which, as the second largest market, accounted for earnings of $7.1mn (27.9% of total grapefruit revenue). With the focus on the higher priced European and US markets, sales to the Caribbean declined by 16.8% to 0.6mn pound solids valued at $1.8mn. Sales of grapefruit freeze concentrate fell by 12.3% to 0.7mn pound solids, but a 6.2% increase in the average unit price limited the revenue decline to 6.9% ($3.4mn).

Sales of not-from-concentrate were negligible and the strong momentum of pulp exports achieved in the previous year slowed somewhat with sales down 21.4% to 2.0mn pounds and revenue declining by 30.6% to $1.1mn.

Table VI.5: Export Sales of Citrus Juices and Pulp[1]

	2004	2005	2006
Concentrate ('000 ps)	**27,806**	**35,520**	**42,815**
Orange	22,643	29,222	36,165
Grapefruit	5,163	6,298	6,650
Concentrate value ($mn)	**45.8**	**76.6**	**120.2**
Orange	33.0	54.5	94.9
Grapefruit	12.8	22.1	25.3
Not-from-concentrate Exports ('000 ps)	**284**	**227**	**0.8**
Orange	67	189	0.8
Grapefruit	217	38	0
Not-from-concentrate Value ($mn)	**1.3**	**0.9**	**0.0**
Orange	0.3	0.7	0.0
Grapefruit	1.0	0.2	0.0
Pulp Export ('000 pounds)	**332**	**2,548**	**2,002**
Pulp Value ($mn)	**0.2**	**1.6**	**1.1**

Source: Citrus Products of Belize Ltd

(1) Reflects actual sales as reported by the processor and not the value of export shipments as reported by the CSO. Export shipments go to inventory for sale at a later point in time.

Table VI.6: Exports of Bananas

	2004	2005	2006
Volume (metric tons)	**79,428**	**76,164**	**74,925**
Value ($mn)	**53.0**	**49.9**	**50.6**

Source: Central Statistical Office

Banana

A sluggish start due to unfavourable weather and the spread of Sigatoka in the latter half of the year impacted negatively on banana causing a 1.6% decline in annual exports to 74,925 metric tons. A slight improvement in earnings (up 1.4% to $50.6mn) was due to the 5.7% increase in the average annual negotiated box price and the elimination of second class banana in the export mix in 2006 (unlike 2005 when 5.6% of the export mix was classified as second class banana). Notwithstanding quality penalties, growers received a final, average box price of $12.84 compared to $12.40 in 2005. Under the first come, first serve system, some 7,313 metric tons (equal to 9.8% of export tonnage) were subjected to the out of quota tariff of •176 per metric ton. This cost will be shared equally between the marketer and the industry and will be paid off in 2007 by deducting approximately $0.44 per export box during the year.

Marine Products

After peaking in 2005, marine export volume fell by 13.8% while revenue declined by 12.3% to $86.0mn. Low prices and the costliness of intensifying production techniques caused some shrimp farms, including the largest, which accounted for about 40.0% of total production in 2005, to shift from two to one harvest cycle per year. Shrimp export volume consequently fell by 16.3% to 15.9mn pounds. Receipts declined by 16.1% to $62.5mn with a slight increase in U.S. and European prices compensating for lower prices in the Caribbean and Mexican markets. About 46.0% of total export volume went to the US, 33.5% was sent to Mexico, and Europe accounted for 19.0% of market share. While sales to the US declined by 18.4%, shrimp exports to Europe increased by 3.6%. The upward trend in sales of "head-on, shell-on" shrimp continued with Europe and Mexico accounting for the bulk of sales.

Table VI.7: Exports of Marine Products

	2004		2005		2006	
	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)
Lobster Tail	505	14,980	502	14,703	392	13,884
Lobster Head	33	162	20	126	6	43
Shrimp	16,999	85,153	19,024	74,530	15,922	62,520
Conch	596	5,810	547	7,501	707	8,109
Whole/Fillet Fish	251	1,229	307	1,206	540	1,210
Other	3	38	4	55	25	250
Total	**18,387**	**107,372**	**20,404**	**98,121**	**17,593**	**86,016**

Source: Central Statistical Office

Lobster exports fell by 23.8% as a result of abnormally warm water temperature and heavy exploitation over a sustained period. Revenues declined by 6.1% as a 23.2% increase in the average price to $34.99 per pound partly compensated for the fall in volume. While exports of conch were up by 29.2%, the average price was 16.3% lower at $11.47 per pound and resulted in a proportionately smaller revenue increase of 8.1% ($8.1mn).

Exports of fish (whole and fillet) registered a 75.9% increase to 0.5mn pounds valued at $1.2mn, while exports of other marine products, namely stone crab, rose to 0.03mn pounds valued at $0.2mn.

Other Major Exports

Garment exports totalled 3.6mn pounds ($36.6mn) reflecting increases of 2.9% in volume and 5.8% in value over the previous year.

Strong growth in output and aggressive marketing resulted in a 20.3% expansion in papaya exports, earnings of which rose by 15.2% to $31.0mn. Belize remained second to Mexico in supplying papayas to the US, followed by Brazil, whose market share has been declining since 2004, and Guatemala, which has steadily increased its exports.

In 2006, Belize became the newest oil exporting country with sales of 705,644 barrels of crude oil at an estimated f.o.b. value of $81.1mn. The latter was equivalent to an average price of US$57.54 per barrel, which was arrived at after adjusting the c.i.f. value for quality differentials (approximately US$4.00 per barrel) and international freight and handling charges (about US$7.00 per barrel). Of a high quality similar to the industry's light sweet crude, Belize's petroleum was sold to the United States, Costa Rica, Panama and El Salvador and was benchmarked to the West Texas Intermediate crude oil price.

Non-traditional Exports

Table VI.8: Other Major Exports

	2004	2005	2006
Garments			
Volume (mn lbs)	3.9	3.5	3.6
Value ($mn)	37.1	34.5	36.6
Papayas			
Volume ('000 lbs)	55,607	63,129	75,928
Value ($mn)	22.8	26.9	31.0
Petroleum (1)			
Volume (barrels)	0	0	705,644
Value ($mn)	0	0	81.1

Sources: Central Statistical Office, Central Bank

(1) Quality differentials and international transportation cost was taken out of the C.I.F. value as reported by the CSO to derive a F.O.B.value.

Box 5: Update on EU Banana Import Regime

On January 1, 2006, the new EU banana import regime came into force establishing a tariff of •176 per tonne on Most Favoured Nations (MFN) banana, namely Latin American "dollar banana", and a duty-free quota of 775,000 tonnes for Africa, Caribbean and Pacific (ACP) banana. While an official study of the situation has not yet been done, reports suggest that for the first 11 months of 2006, ACP banana exports to the EU rose by 20.0% compared to an 8.2% increase for Latin American exports and that the ACP's market share increased over the period, while that of the Latin American countries declined slightly. The increased competition also appears to have adversely affected prices on the EU market. In the third quarter of 2006, banana prices fell by 20.0% and though there was a partial recovery in the fourth quarter, prices were still more than 10.0% below 2005 price levels.

In November 2006, Ecuador filed a request for consultation with the EU, disputing the WTO consistency of the duty-free quota for ACP bananas and the level of the tariff. According to Eurostat, the EU's statistical agency, Ecuador's share of EU banana imports fell from 29.9% to 27.5% for the first 11 months of 2006, which provides some justification for its claim of market injury. Once the case is taken to a dispute settlement stage, further downward pressure is to be expected on the tariff of •176 per tonne.

Meanwhile, the Management Committee for Bananas accepted the European Commission's proposal for a duty-free quota of 775,000 tonnes for ACP countries for 2007. Some 81.0% of this quota will be on a 'first come, first serve' basis and the remaining 19.0% will be under licenses, the same division that was applied for the March to December period in 2006. A total of 628,152 tonnes under the 'first come, first serve' basis will be allocated in six tranches (one tranche is equal to a two month period) of 104,692 tonnes each. The remaining 146,848 tonnes of the duty-free quota will be reserved for operators who actually imported bananas from ACP countries in 2006, and the respective import licenses will be proportional to the quantities these operators imported in 2006.

In other developments, the ACP countries are favourably disposed to the inclusion of sugar and banana in the new Economic Partnership Agreements (EPA) currently under negotiations but the "how" of this is still unknown. Furthermore, changes in the EU support programs for EU banana producers may lead to additional downward price pressures. The net result is that the banana import regime remains quite fluid with high market uncertainties.

Source: Agritrade - http://agritrade.cta.int/en/commodities/banana_sector/news
European Commission Agriculture and Rural Development -
http://ec.europa.eu/agriculture/newsroom/en/240.htm
Bridges Weekly Trade News Digest –
http://www.icrsd.org.weekly/06-11-22/story4.htm

Receipts from non-traditional exports registered a 14.6% decline to $30.3mn as earnings from veneer sheet/plywood, fresh oranges, beans, grapefruit oil and sawn wood fell. An 84.6% volume decline was recorded for veneer sheet/plywood while sales of fresh oranges to Europe were down by 5.8% in volume and 21.0% in value, due to layovers in a neighbouring country that increased shipping time/ costs and reduced shelf life. Reduced bean output resulted in sales of red kidney and black beans falling by 40.1% to $5.3mn. Meanwhile, even with no change in volume, revenue from grapefruit oil declined by a substantial 54.1% to $2.8mn and earnings from orange oil were held constant only through a 24.3% increase in export volume. In a positive development, an increase in the price for pepper sauces offset a 21.7% decline in volume to push earnings up by 21.8%, while revenues from a medley of miscellaneous, non-traditional exports almost doubled.

Re-exports

With approximately 2.0mn persons entering the CFZ during 2006, sales rose by 21.8% to $277.0mn and drove up re-exports by 23.1% to $310.9mn. The improvement was partly due to a temporary increase in the value of duty free goods allowed into Mexico during the peak season (November and December) and the luring of a wider cross section of Mexican consumers, including patrons of the adjacent casinos, into high end merchandise stores. Other re-exports grew by $8.7mn with increased sales of liquor, jewelry, water storage tanks, footwear, scaffolding equipment and scrap metal.

Gross Imports

Gross imports (f.o.b.) rose by $111.5mn with merchandise imported into the customs' territory and the CFZ increasing by $82.4mn and $29.0mn, respectively. All categories of imports rose except *'Food and Live Animals'*, which fell by $2.2mn due to lower imports of durum wheat. Goods for *'Export Processing Zones'* led with a $30.2mn increase that consisted mostly of capital equipment and machinery for the aquaculture industry. *Manufactured Goods'* followed with a $17.6mn increase that was linked to higher outlays for construction materials, and to a much lesser extent, purchases of bottles, paper and vats. Tractors, fire engines, other vehicles, aircrafts and yachts largely accounted for a $17.6mn rise in *'Machinery and Transport Equipment'*. Higher fuel acquisition costs largely explained the $8.9mn rise in *'Mineral, Fuel, Lubricants and Electricity'* since the full operationality of the Chalillo Dam caused a contraction in electricity imports. *'Chemical Products'* increased by $4.0mn with higher imports of fertilizers and fungicides while *'Crude Materials'*, *'Other Manufactures'* and *'Beverages and Tobacco'* edged up by $1.7mn, $1.1mn and $0.6mn, respectively.

Direction of Visible Trade

Even with the share of exports going to the United States falling from 50.4% in 2005 to 37.0% due mostly to lower shrimp sales and a change in the export mix, the US retained its position as the primary export market in 2006. Higher sales of shrimp, sugar and citrus concentrates kept the market share of the UK and other European countries relatively stable at 30.6%. The most dramatic shift was an increase from 0.7% in 2005 to 18.6% in 2006 in the share of exports going to Central America, which was due to the sale of petroleum to Costa Rica, Panama and El Salvador. CARICOM's share fell to 8.1% with the diversion of sugar from this market to the preferential EU and US markets. A fall in farmed shrimp sales accounted for the decline in Mexico's market share from 5.6% to 3.2%.

The US was also the primary source of imports, supplying 37.5% of the total, a small downward shift from the 39.1% of 2005. The share of imports from Mexico, the UK, CARICOM, and Canada fell marginally while Central America increased its share from 19.5% to 20.5% by supplying goods for the CFZ, construction materials, lubricants, butane and chemical products. The import shares of other EU and other miscellaneous countries rose by 0.9 and 0.7 percentage points, respectively, the latter mostly reflecting higher imports of goods for the CFZ from China and other Asian countries and an increase in the acquisition cost of fuel.

Services

Net receipts from services rose by 53.4% to $410.5mn with inflows rising by 21.6% while outflows contracted by 5.3%. Notwithstanding a decrease in cruise ship visitors, inflows from tourism rose by 30.2% with an increase in overnight arrivals and improvements in tourism services. Inflows from other services and official foreign institutions also increased although part of the latter may reflect more accurate classification by the commercial banks.

Contributing to the improvement on the services account, outlays on travel, government embassies and other services declined and payments for insurance and financial services were also lower than in 2005 when substantial insurance and financial costs associated with the Bear Stearns Bonds were incurred. The only services account to record an increase in net outflows was transportation with shipping agents reporting lower earnings due to

Table VI.9: Direction of Visible Trade

Percentage

	Exports (1)			Imports		
	2004	2005	2006	2004	2005	2006
United States of America	55.4	50.4	37.0	38.7	39.1	37.5
Mexico	1.4	5.6	3.2	10.3	9.4	9.2
United Kingdom	19.7	23.1	16.3	2.3	1.6	1.4
Other EU	10.1	7.2	14.3	3.9	5.1	6.0
Central America	0.4	0.7	18.6	19.2	19.5	20.5
CARICOM	11.0	10.5	8.1	2.6	2.4	2.0
Canada	0.2	0.1	0.1	1.2	1.3	1.0
Other	1.7	2.5	2.5	21.8	21.6	22.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office
(1) excludes CFZ sales

the reduction in cruise ship port calls while payments linked to the increase in trade volume were higher.

Income

Higher earnings from US embassy construction workers along with a small decrease in payments to seasonal agricultural workers resulted in a small net labour inflow of $0.5mn. On the other hand, outflows for investment income rose by 5.4% as a modest increase in Central Bank foreign asset interest earnings was eclipsed by increases in profit remittances, reinvested earnings and private sector interest payments. The net result was a 3.3% increase in net outflows on non-resident labour and capital that summed to $236.3mn.

Current Transfers

Net inflows from current transfers rose by 44.4% to $147.9mn reflecting increases in inbound family remittances (which accounted for the bulk of the increase), higher inflows to credit unions and insurance companies and a doubling in grants to the government.

Capital and Financial Accounts

The surplus on the capital account increased to $18.3mn due to debt forgiveness from the British Government of some $9.1mn compared to $1.3mn in 2005, and capital grants of $7.0mn compared to $3.9mn in 2005. In contrast, the surplus on the financial account declined sharply from $349.7mn in 2005 to $77.1mn in 2006 due to reductions in foreign direct investment, public sector borrowings and commercial bank foreign liabilities.

Without privatization inflows to boost receipts, such as those from the sale of Belize Telecommunications Limited shares in 2005, foreign direct investment fell by 42.5% to $145.9mn. While equity in the electricity and citrus companies was sold to foreign investors for a combined sum of $72.8mn, these proceeds were mostly used to pay

Table VI.10: Balance of Payments - Services, Income and Current Transfers

$mn

	2004			2005			2006		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Services	**470.6**	**294.2**	**176.4**	**584.6**	**317.2**	**267.4**	**710.8**	**300.3**	**410.5**
Transportation	54.8	89.2	-34.4	59.4	100.2	-40.8	57.1	109.1	-52.0
Travel(1)	336.1	85.2	250.9	408.3	83.3	325.0	505.2	82.1	423.1
Other Goods and Services	56.0	103.5	-47.5	81.3	110.5	-29.2	100.9	91.4	9.5
Govt. Goods and Services, N.I.E	23.8	16.3	7.5	35.6	23.2	12.4	47.6	17.7	29.9
Income	**8.7**	**242.2**	-233.5	**13.6**	**242.4**	**-228.8**	**20.0**	**256.3**	**-236.3**
Labour Income(2)	4.9	12.4	-7.5	7.5	11.7	-4.2	11.9	11.4	0.5
Investment Income	3.8	229.7	-225.9	6.0	230.7	-224.7	8.1	245.0	-236.9
Current Transfers	**121.5**	**29.7**	**91.8**	**136.7**	**34.3**	**102.4**	**184.3**	**36.4**	**147.9**
Government	20.7	4.6	16.1	11.0	4.8	6.2	21.8	4.9	17.0
Private	100.8	25.1	75.7	125.7	29.5	96.2	162.5	31.5	131.0

(1) Tourism earnings for 2005 were based on actual inflows into the banking system 2005, while estimates for 2004 & 2006 were based on Visitor Expenditure Surveys.
(2) Payments to non-resident workers were revised from 1999 to 2004 based on a field survey of non-resident seasonal and border workers conducted in 2004.

down foreign debts, so the impact on the balance of payments was minimal. Of greater significance were investments in tourism, real estate, and the reinvested earnings of the banking sector, which accounted for much of the financial surplus.

Assets held abroad more than tripled to $61.5mn, reflecting a $3.1mn capital subscription payment to CABEI by Government, a $32.8mn increase in commercial bank foreign assets that resulted from the surge in export receipts and remittances, and deposits held in offshore banks by private entities.

During the year, public sector borrowings and principal repayments more than halved to $167.2mn and $140.8mn, respectively, the latter being partly due to the government's decision to initiate the restructuring of its commercial debts in December and its postponement of debt service payments pending completion of the process. In another development of note, foreign liabilities of domestic commercial banks contracted by $64.5mn partly due to the shift of non-resident foreign currency deposits to their international affiliates in accordance with the International Banking Act. In contrast, the foreign liabilities of other private sector entities expanded as loan disbursements associated with investments in agriculture, aquaculture, petroleum, tourism and telecommunications exceeded loan repayments.

Official International Reserves

Table VI.11: Balance of Payments - Capital and Financial Accounts

$mn

	2004 Net	2005 Net	2006 Net
CAPITAL ACCOUNT	**19.6**	**5.9**	**18.3**
General Government	18.6	5.2	16.1
Other Sectors	1.1	0.8	2.2
FINANCIAL ACCOUNT	**234.9**	**349.7**	**77.1**
Direct Investment Abroad	-0.1	-2.0	-1.1
Direct Investment in Belize	223.0	253.8	145.9
Portfolio Investment Assets	-0.5	-0.4	-0.5
Portfolio Investment Liabilities	153.8	36.1	-47.7
Financial Derivatives Assets	1.1	0.5	0.0
Financial Derivatives Liabilities	0.0	-11.1	0.0
Other Investment Assets	-8.8	-17.2	-61.5
Monetary Authorities	0.0	0.0	0.0
General Government	0.0	0.0	-3.1
Banks	-10.6	-18.3	-32.8
Other Sectors	1.8	1.1	-25.6
Other Investment Liabilities	-133.5	90.0	42.1
Monetary Authorities	-8.0	-2.6	-0.4
General Government	-105.9	90.2	76.9
Banks	0.7	6.5	-64.5
Other Sectors	-20.3	-4.1	30.0
CHANGES IN RESERVES (Minus = Increase)	**62.3**	**-36.6**	**-65.4**

Table VI.12: Official International Reserves

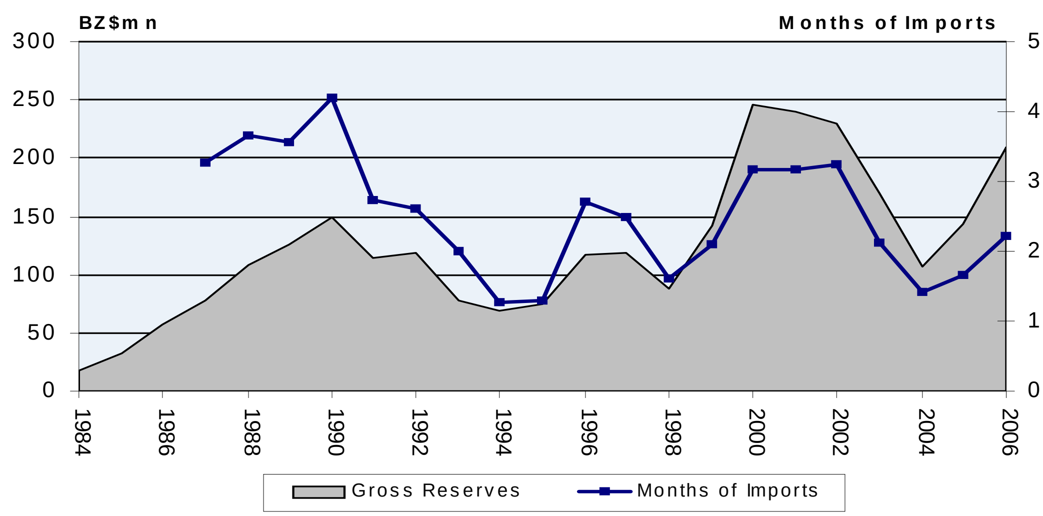
$mn

	Position as at			Changes during 2006
	Dec-04	Dec-05	Dec-06	
Gross Official International Reserves	**106.9**	**143.5**	**208.9**	**65.4**
Central Bank of Belize	**79.6**	**115.8**	**190.6**	**74.8**
Holdings of SDRs	4.77	5.0	5.8	0.8
IMF Reserve Tranche	13.1	12.1	12.7	0.6
Other	61.7	98.7	172.1	73.4
Central Government	**27.2**	**27.7**	**18.3**	**-9.4**
Foreign Liabilities	**2.8**	**2.7**	**2.4**	**-0.4**
CARICOM	0.1	0.3	0.2	-0.1
Other	2.7	2.4	2.2	-0.3
Net Official International Reserves	**104.1**	**140.8**	**206.5**	**65.7**

Although holdings by Central Government declined by $9.4mn, the gross international reserves increased by $65.4mn to $208.9mn with the Central Bank's foreign asset holdings increasing by $74.8mn as a result of foreign exchange purchases from the domestic commercial banks and loan disbursements

Foreign liabilities declined slightly to $2.4mn, hence, an overall increase of $65.8mn in the net international reserve position to $206.5mn.

Chart VI.1: Gross Official International Reserves and Months of Imports



Economic Prospects

Notwithstanding the success of the government's external debt restructuring effort, current forecasts show that debt servicing pressures will be adequately ameliorated in the short term only. This means that there is a continued need for fiscal and monetary discipline to restrain domestic consumption and safeguard the foreign reserve position. The required climate of disciplined austerity should cause GDP growth to decelerate to around 3.3% with a possible slight increase in the level of unemployment.

The external balance of payments is expected to be stable in 2007. Receipts from gross exports are likely to remain at the 2006 level as an improvement in CFZ sales offsets a projected 2.0% fall in earnings from domestic exports. The latter is being projected largely due to declines in the values of sugar, banana and farmed shrimp exports,which are expected to outweigh significant increases in citrus and petroleum earnings. The government recently reaffirmed its commitment to keep a tight rein on deficit spending. This, together with a proactive monetary policy effort to slow the growth of credit, would help to ratchet down domestic consumption and contribute to a buildup in foreign reserves.

In the domestic economy, activity in the primary sector is expected to contract marginally as a significant expansion in petroleum production and small increases in agriculture and mining are overshadowed by a substantial contraction in fishing. From 0.8mn barrels in 2006, petroleum production from the current field is expected to peak at about 1.1mn barrels in 2007. Exports of the latter will be approximately 0.9mn barrels valued at $92.0mn with domestic sales rising to 0.2mn barrels as a more purified product is made available for the home market. With a modest recovery in grain production, steady growth in livestock and a 10.0% increase in papaya outweighing declines in sugarcane, citrus and banana, growth in agriculture and forestry should range between 1% and 2%.

Sugarcane deliveries for the 2006/2007 crop are estimated at 1,150,000 long tons, down 2.0% from 2006, and sugar exports forecasted at about 97,700 long tons valued at $78.0mn, a substantial fall from the $100.1mn realized in 2006 that would be partly due to the impact of the first 5.1% cut in EU sugar prices. Earnings from molasses are also projected to decline with prices falling due to a rally in US molasses production. Where the citrus crop is concerned, heavy rains have reduced the blossom set and factory deliveries of the 2006/2007 citrus crop will be some 9.0% lower, at 6.0mn boxes, with juice output dropping by an estimated 6.7% to 33.0mn pound solids (ps). Even with the decline in output, citrus is expected to deliver another revenue windfall of $132.0mn (a 9.8% increase) due to the contracted sale of the entire crop year's juice output and the further strengthening of orange juice prices. In the face of a slow recovery from Sigatoka disease, banana exports can be expected to come in at approximately 66,000 metric tons, and with prices remaining virtually stable, earnings would sum to $47.0mn.

Meanwhile, it is expected that marine output will decline for the second consecutive year with an estimated 18.0% contraction being largely due to a production slump on some of the larger shrimp farms now in financial difficulties and a cyclical downturn in the conch catch. On the other hand, tilapia output could more than double as a result of expansions undertaken in the previous year and the wild capture of lobster is projected to improve by over 20.0% bringing export volume back up to average levels of around 0.5mn pounds.

While the fall-off in sugarcane and citrus processing will impact negatively on manufacturing, an estimated 17.0% expansion in electricity production and strong growth in construction as major projects such as the co-generation plant, the Vaca Dam and cruise ship docking facilities are launched would yield an overall increase of around 5.0% in secondary sector activity during the year.

Growth in the services sector should be moderate at around 2.8% as an increase in capital investments for projects such as the co-generation plant and Vaca Dam is offset by the necessary slowdown in private consumption. Activity in tourism should maintain momentum with a modest expansion driven by a projected 4.5% increase in stay over visitors the positive impact of which would eclipse the negative effect of a 10% fall in cruise ship arrivals. While decelerating, wholesale and retail activity should therefore remain moderately strong. Meanwhile, if the growth in private sector credit is contained and the fiscal stance remains conservative, only modest growth would be expected in financial intermediation, general government services and community, social and personal services.

Developments in the CPI are again likely to be heavily influenced by the trend in oil prices. Current indications are that lower international acquisition costs for fuel may lead to some downward movement in fuel prices at the pump in 2007. In 2006, the CPI was boosted upward by the implementation of the general sales tax. Since, no changes in the GST are being projected in 2007, the rate of inflation can be expected to fall from 4.3% to around 3.0% in 2007.

Foreign Exchange Operations

During 2006, the Central Bank recorded net purchases of $73.9mn as a result of its trade in US dollars, Canadian dollars, and Pound Sterling. Purchases exceeded sales in six of the twelve months, the peak months being January, July and December when loan and grant inflows from ROC/Taiwan, Venezuela and the IADB were received. These specifically included US$20.0mn from ROC/Taiwan in January, US$25.0mn from the Government of Venezuela in July and a total of US$35mn from the IADB and the Government of Venezuela in December. Purchases from the domestic commercial banks increased sharply by 64.0% to US$56.6mn mostly because of the heightening of cash reserves requirements during the year. The trade in CARICOM currencies was principally for the settlement of official transactions and resulted in net sales of $1.5mn.

External Assets Ratio

Section 25(2) of the Central Bank of Belize Act 1982 requires the Bank to maintain external assets reserves of not less than 40.0% of the aggregate amount of notes and coins in circulation and the Bank's demand and time deposit liabilities. This ratio peaked at 48.4% in July and bottomed out at 30.1% in October. At year-end, the Bank's external assets were comprised of 89.2% in cash and fixed deposits, 7.7% in foreign securities and some 3.1% consisted of Special Drawing Rights with the International Monetary Fund.

Table VII.1: Central Bank Dealings in Foreign Exchange 2006

$mn

Month	US $, Canadian $, and UK £			CARICOM Currencies		
	Purchases	Sales	Net	Purchases	Sales	Net
January	55.3	15.0	40.3	0.00	0.34	-0.34
February	22.2	31.4	-9.2	0.00	0.16	-0.16
March	20.7	36.6	-15.9	0.00	0.02	-0.02
April	29.8	22.5	7.3	0.00	0.08	-0.08
May	24.0	12.8	11.2	0.00	0.14	-0.14
June	17.7	33.5	-15.8	0.07	0.21	-0.14
July	56.4	14.8	41.6	0.24	0.14	0.10
August	25.9	46.4	-20.5	0.00	0.03	-0.03
September	17.5	39.2	-21.7	0.00	0.34	-0.34
October	15.6	32.8	-17.2	0.00	0.21	-0.21
November	19.5	14.7	4.8	0.00	0.05	-0.05
December	90.4	21.4	69.0	0.00	0.10	-0.10
Total	**395.0**	**321.1**	**73.9**	**0.31**	**1.82**	**-1.51**

Table VII.2: External Asset Ratio 2006

MONTH	Assets $mn	Liabilites $mn	External Asset Ratio (%)
January	155.6	370.1	42.04
February	146.3	366.6	39.91
March	130.5	352.3	37.04
April	137.8	365.1	37.74
May	149.8	369.1	40.59
June	133.7	373.2	35.83
July	175.3	361.9	48.44
August	154.9	376.8	41.11
September	133.0	380.5	34.95
October	115.9	385.4	30.07
November	121.0	400.7	30.20
December	190.0	395.7	48.02

Relations with Commercial Banks

Cash Balances

In an attempt to forestall a liquidity bubble that could ratchet up credit growth and foreign exchange demand, the Central Bank raised the cash reserve requirement for domestic commercial banks from 8% to 9% of average deposit liabilities with effect from January 1st, 2006. A further intervention was made in the beginning of September when the cash reserve requirement was increased from 9% to 10%. While required average cash holdings rose by $13.9mn in January and by $16.6mn in September the average excess in cash reserve holdings remained at more than $15.0mn for nine months out of the twelve months and closed at $15.2mn at the end of December; some $6.5mn higher than the position at the end of the previous year.

At December 31, 2006 currency in circulation was $26.4mn (18.5%) higher than that of the previous year with currency held by the public increasing by $19.4mn and commercial banks' vault cash holdings up by $7.0mn. The month of lowest currency circulation was January, and from that point on

Table VII.3: Commercial Bank Balances with the Central Bank

$mn

MONTH	Average Deposit Liabilites	Required Cash Reserves	Actual Cash Holdings	Excess/ (Deficit)
January	1,304.8	117.4	125.3	7.9
February	1,282.0	115.4	132.0	16.6
March	1,206.4	108.6	127.6	19.0
April	1,234.4	111.1	128.7	17.6
May	1,253.1	112.8	130.1	17.3
June	1,268.5	114.2	128.8	14.6
July	1,283.6	115.5	122.7	7.2
August	1,297.6	116.8	124.0	7.2
September	1,333.8	133.4	145.3	11.9
October	1,341.2	134.1	150.1	16.0
November	1,343.4	134.3	151.5	17.2
December	1,348.0	134.8	150.0	15.2

Table VII.4: Currency in Circulation 2006

$mn

MONTH	Notes	Coins	Total	Commercial Bank Vault Cash	Currency with the Public
January	119.7	14.6	134.3	22.8	111.5
February	124.8	14.7	139.5	23.0	116.5
March	126.1	14.9	141.0	21.7	119.3
April	131.8	15.0	146.8	21.2	125.6
May	132.0	15.2	147.2	25.8	121.4
June	133.7	15.3	149.0	21.7	127.3
July	134.6	15.4	150.0	23.7	126.3
August	136.2	15.5	151.7	24.4	127.3
September	136.6	15.5	152.1	22.0	130.1
October	138.1	15.6	153.7	25.9	127.8
November	138.7	15.6	154.3	25.5	128.8
December	153.5	15.9	169.4	32.5	136.9

growth was uninterrupted. The largest increase (some $15.1mn) occurred in December, which is generally the peak time for transactions.

Inter-Bank Market

In the years following its establishment in January 1995, the Inter-Bank Market Facility has been largely inactive. However, a significant increase in activity was observed over the July to December period in 2006 as liquidity in some of the banks tightened, and the Central Bank effected a 6% decrease (from 17% to 11%) in the interest rate, making it more attractive to borrow from the Facility.

Transactions with Central Government

Section 34 of the Central Bank of Belize Act (as amended in 1993), makes it possible for the Bank to extend advances to Central Government of up to a maximum of 20% of current revenue collected during the preceding financial year or a sum of $50.0 million, whichever is greater.

The legal ceiling for 2006 stood at $106.0mn. However, advances to Central Government exceeded this limit in several months of the year, reaching a high of $156.4mn in November and falling at year-end to $88.9mn. The extensive use

Table VII.5: Inter-Bank Market 2006

MONTH	Placed	Borrowed
January	0.0	0.00
February	0.0	0.00
March	0.0	0.00
April	0.0	0.00
May	0.0	0.00
June	0.0	0.00
July	5.0	5.00
August	6.5	4.00
September	3.0	3.00
October	3.0	3.00
November	0.0	0.00
December	3.0	3.00

Table VII.6: Central Bank Credit to Central Government

Month	Treasury Bills	Treasury Notes	Treasury Bonds	Overdraft Facility	A	B
January	65.8	9.0	10.0	99.20	3.49	22.00
February	70.8	9.0	10.0	101.23	3.70	22.45
March	61.8	9.0	10.0	113.30	3.33	25.13
April	58.8	9.0	10.0	122.52	3.20	23.34
May	48.8	9.0	10.0	124.12	2.79	23.65
June	48.8	9.0	10.0	145.23	2.79	27.67
July	50.1	9.0	10.0	91.93	2.84	17.51
August	58.1	40.5	10.0	120.52	4.47	22.96
September	71.1	40.5	10.0	134.63	5.01	25.65
October	91.1	40.5	10.0	138.61	5.83	26.41
November	84.4	40.0	10.0	156.44	5.53	29.81
December	86.4	44.2	10.0	88.85	5.79	16.93

A: Central Bank Holdings of Government Securities as a multiple of Central Bank's paid up Capital and Reserves

B: Advance to Government as a percentage of Government's estimated recurrent revenue fiscal year

Revised Estimates for Fiscal 2004/2005 $450.823mn (January - March)

Approved Estimates for Fiscal 2005/2006 $524.857mn (April - December)

of the overdraft facility was principally due to the government's need to meet its external debt obligations since it achieved a substantial primary surplus on its operations in 2006.

Treasury Bills

As the Government's agent, the Central Bank continued to conduct Treasury bill operations on its behalf during the year. Treasury bills with a total value of $100.0mn (the maximum presently allowable) were traded in the secondary market. The Central Bank was dominant in the market with monthly average holdings valued at $66.3mn and commercial banks holding most of the remainder. The Bank's holdings were lowest in May and June ($48.8mn) and peaked in October at $91.1mn. At

Table VII.7: Government of Belize Treasury Bill Issues

Issue Number	Issue Date	Maturity Date	Allotment $mn	Average Discount	Average Yield %
1/06	12/28/05	03/29/06	45.4	3.22	3.25
2/06	01/25/06	04/26/06	13.2	3.22	3.25
3/06	02/09/06	05/10/06	5.8	3.22	3.25
4/06	03/08/06	06/07/06	35.6	3.22	3.25
5/06	03/29/06	06/29/06	45.4	3.22	3.25
6/06	04/26/06	07/26/06	13.2	3.22	3.25
7/06	05/10/06	08/09/06	5.8	3.22	3.25
8/06	06/07/06	09/06/06	35.6	3.22	3.25
9/06	06/29/06	09/29/06	45.4	3.22	3.25
10/06	07/26/06	10/25/06	13.2	3.22	3.25
11/06	08/09/06	11/08/06	5.8	3.22	3.25
12/06	09/06/06	12/06/06	35.6	3.22	3.25
13/06	09/29/06	12/29/06	45.4	3.22	3.25
14/06	10/25/06	01/24/07	13.2	3.22	3.25
15/06	11/08/06	02/07/07	5.8	3.22	3.25
16/06	12/06/06	03/07/07	35.6	3.22	3.25

Table VII.8: List of Banks and Financial Institutions

Domestic Banks	International Banks	Financial Institutions
Alliance Bank of Belize Ltd.	Atlantic International Bank Ltd.	Belize Unit Trust Corp. Ltd.
Atlantic Bank Ltd.	Belize Bank International Ltd.	
Belize Bank Ltd.	Caye International Bank Ltd.	
First Caribbean Int'l Bank (Barbados) Ltd.	Handels Bank & Trust Company Ltd.	
Scotiabank (Belize) Ltd.	Investment and Commerce Bank Ltd.	
	Market Street Bank Ltd.	
	The Oxxy Bank Ltd.	
	Provident Bank & Trust of Belize Ltd.	

year end, Central Bank Treasury bill holdings stood at $86.4mn.

Treasury Notes

In April 2006 Government of Belize amended the Treasury Bill Act to increase the statutory limit of Treasury Notes to $75.0mn. These notes have a maturity that ranges between one and five years and for the most part carry a 9% rate of interest. At the end of 2006, the outstanding Treasury Notes amounted to $56.8mn, of which some $44.2mn was held by the Central Bank of Belize.

Supervision of Banks and Financial Institutions

In working to ensure the safety and soundness of the financial institutions currently operating in Belize, the Financial Sector Supervision Department (FSSD) closely monitored the activities of five domestic commercial banks, eight international banks, as well as fourteen active credit unions and one financial institution.

In addition to off-site surveillance of the entire system, risk focused on-site examinations were conducted on one domestic bank, three international banks, three credit unions and one financial institution. These examinations encompassed safety and soundness issues plus a review of the systems that have been set in place to prevent money laundering and combat the financing of terrorism (AML/CFT).

Nine applications for extensions of credit facilities in excess of 25% of their capital and unimpaired reserves were received from commercial banks during the course of the year. Of the total amount requested, the Central Bank Board of Directors granted approval for domestic banks to on-lend $68.5mn and for international banks to advance

Table VII.9: List of Credit Unions

Belize Credit Union League	Blue Creek Credit Union Ltd.	Holy Redeemer Credit Union Ltd.
Civil Service Credit Union Ltd.	Evangel Credit Union Ltd.	Police Credit Union Ltd.
La Inmaculada Credit Union Ltd.	Mount Carmel Credit Union Ltd.	St. Martin's Credit Union Ltd.
St. Francis Xavier Credit Union Ltd.	St. John's Credit Union Ltd.	Wesley Credit Union Ltd.
Toledo Teachers Credit Union Ltd.	Citrus Growers & Workers Credit Union Ltd.	

US$26.2mn to specific private sector customers.

In the latter part of the year, one application for an "A" Class international banking license and one application for a financial institution license were received and the requisite processing to determine the viability of the applications was started.

In an effort to bring Belize's legislation in line with international standards, the Banks and Financial Institutions Act was revised and the proposed bill was circulated among industry stakeholders with a view to the commencement of consultations in early 2007. The department also continued to work toward improving the exchange of information with the institutions currently being regulated by the Central Bank. As part of this effort, it continued to coordinate quarterly meetings of domestic commercial bank managers and instituted meetings with managers of international banks in 2006.

Information Systems

Overview

In 2006, the Bank upgraded its network operating system and some of its mission-critical systems. It completed the automation of processes to update anti-virus signatures, to synchronize the network time using Internet based time servers, and to download and apply the Microsoft Windows patches and security updates from the Internet.

Network Infastructure

After completing the upgrade of the Bank's network infrastructure from Windows 2000 to Windows 2003, the ISU upgraded the Microsoft Exchange Mail Server 5.5 to Microsoft Exchange Server 2003. The Webroot Spy Sweeper Enterprise anti-spyware software was also deployed on the network as part of the bank's security strategy for its internal network.

Application Software

As recommended by SWIFT, detailed plans were made for the SWIFTNET Migration Phase 2, which is to be completely implemented by June 2007. All the required hardware and software online orders were placed and business continuity plans for the SWIFT system were upgraded and successfully tested. A second connectivity option was also implemented which is based on an Internet connection, and which provides an additional recovery option for this critical system.

In October, a new version of the CS-DRMS was installed that is being tested in a parallel run. This new version will be placed in production by March 2007.

The Bank also launched a project to covert the documents in its archives and record center into an electronic format. The training was outsourced and training for all secretaries and records management staff was completed in December 2006. The substantial work of preparing electronic images of files and other documents has begun and will continue during 2007.

The Board of Directors

The Board of Directors held 11 meetings in 2006 and considered 60 submissions.

Overseas Meetings

In their capacity as executive officers to the Bank and as advisors to Government, the Governor & Deputy Governor attended several meetings in 2006, some of which are shown in Box 6.

Finance

The Central Bank's financial statements for the year ended December 31, 2006, with comparative figures for the previous year are annexed to this report. During the year, the Bank's assets rose by 22.6% with external assets rising by 65.0% to $190.0mn and holdings of domestic assets increasing by 2.9% to $254.6mn.

The net operating surplus stood at $12.9mn compared to $8.5mn in 2005. Interest income

Box 6: Meetings Attended by the Governor and Deputy Governor during 2006

Name of Meeting/Conference	Month	Place
Meeting of CARICOM Central Bank Governors	February	Barbados
Meeting of the Alternates Committee of CEMLA	March	Buenos Aires, Argentina
Seminar on Financial Integration for Central Bank Governors of Latin America and the Caribbean)	March	Caracas, Venezuela
2nd Annual meeting of Group of Latin American & Caribbean Debt Management Specialists	April	Cartagena, Colombia
36th Annual Meeting of the Board of Governors of the Caribbean Development Bank	May	Montego Bay, Jamaica
43rd Meeting of Central Bank Governors of the Americas and the 81st Meeting of Central Bank Governors of Latin American and Spain	May	Lima,Peru
Meeting of CARICOM Central Bank Governors	June	Georgetown, Guyana
ASBA Seminar entitled Operational Risk in Basel II	August	Mexico City
Meeting of the Alternates Committee of CEMLA	August	Mexico City
Meeting of CARICOM Central Bank Governors	November	Georgetown Guyana
Offshore Practitioners Conference	November	Panama
Fourth IMF Roundtable for Offshore & Onshore Supervisors and Standard Setters	December	Cayman Islands

amounted to $24.2mn and accounted for 93.8% of total gross earnings. The bulk (some $18.3mn) was derived from interest earned on domestic government securities and loans extended to the government through the overdraft facility. Earnings from commissions and other income totalled $1.6mn. Current expenditure summed to $12.9mn with staff costs, interest payments and other operating costs accounting for 45.8 %, 12.8%, and 41.4%, respectively.

As provided for under Section 9(1) of the Central Bank Act, $1.3mn or 10.0% of the net operating surplus will be paid into the Central Bank's General Reserve Fund. The balance of $11.6mn will be transferred to the Accountant General for the Government of Belize's Consolidated Revenue Fund.

Internal Audit

In addition to its ongoing internal control assessments of the Bank's operations, the Internal Audit Unit conducted special audits of the following Central Bank activities during 2006:

- End of year reconciliation of transactions in 2005.
- Processes for the receipt, handling and disposal of non-monetary abandoned property.
- Existence and management of computer equipment inventory.
- Pension scheme procedures and financial controls.
- Cash account operations.

The Unit also performed routine checking of stocktaking exercises, currency destruction procedures, information systems back up processes and the Bank's vacation leave policy.

Support was provided to the Audit Committee (a sub committee of the Central Bank's Board of Directors), which carried out a review of the Central Bank's annual audited financial statements and management letter for the 2005 financial year.

In 2006, the first meeting of central bank heads of internal audit was jointly hosted by Mexico and the Bank of International Settlements (BIS). The Chief Internal Auditor joined delegates from central banks in Latin America and the Caribbean in discussions that focused on a review of recent developments in the area of internal audit, evolving standards and best practices.

Human Resources

The Organizational Review of the Central Bank that commenced in 2005 continued during 2006. Among its goals were the strengthening of the Central Bank's operating methods, procedures and processes, improvement of information flow and development of an optimal structure and action plan for the Bank. A Committee, led by the Deputy Governor, was mandated to create an operational strategy and effect the recommended changes. A Health & Safety Committee was also formed as the Bank sought to take a proactive approach in creating a healthy and safe environment throughout the Bank.

The Bank held its Annual Employee Recognition Ceremony on 31 March, during which employees with ten, fifteen, twenty and twenty-five years of service were recognized. The coveted "Governor's Choice" award of a fully paid scholarship to the University of Belize, was presented to Miss Patricia Waight, a Senior Clerical Officer in the Banking and Currency Department, on the basis of her proven dedication to the job, sixteen years of service and exemplary job performance.

Staffing

At the end of the year, Central Bank staff totaled 145, of which 106 were established positions and 33 were contract officers. Additionally, six persons were recruited on a temporary basis to assist with special projects and to ensure the smooth flow of operations. During 2006, the Bank's retention efforts yielded an improvement in the staff turnover rate. Over the previous 10 years, the average staff turnover rate stood at 12.3% (of which professionals and clerical officers accounted for 24.0% and 33.0% respectively). In comparison, the turnover rate for 2006 was 4.8% with 7 separations occurring and 2 new positions being created.

Bereavement

On 18 July 2006, the Bank mourned the sudden passing of its Chief of Security, Mr. Kent Haylock. Mr. Haylock had been working in that capacity with the Bank for eleven years.

Staff Development & Training

A primary focus of the Bank's 2006 training programme was on strategically preparing managerial staff to meet the changing needs of the organization. In this regard, customized training was facilitated by the University of the West Indies School of Continuing Studies (Belize) in *Organizational Development* & *Transformation, Strategic Management, Project Management, and Team Building*. Significant efforts were also made to strengthen the professional, technical and administrative staff. Over a four week period in the months of June and July, CARTAC and CEMLA assisted by conducting training in financial programming and tourism indicators methodology. Other support staff also benefited from customized training courses in Advanced Microsoft Excel, Access, Quickdata XLS and records management through the auspices of the University of Belize, an international consultant and in-house personnel. In addition, managerial and professional staff attended several international workshops and courses geared toward meeting the evolving demands of the financial industry. The Bank continued its policy of supporting and encouraging staff members who took the initiative for further self development to upgrade job performance.

Community Service

In support of the University of Belize's Internship Programme, 1 student was accepted as an intern to meet the core requirements for graduation. In addition, 9 senior secondary school students undertook work-study for an average of two weeks, and a nine-week Summer Employment Programme provided opportunity for 9 tertiary level students to be paid while developing practical workplace skills.

In collaboration with the HIV/AIDS Workplace Education Project launched by the Government of Belize in partnership with the International Labour Organization (ILO) and the United States Department of Labor (USDOL), fifty members of staff participated in an Impact Survey as a follow-up to the Baseline Survey conducted in 2004. The Bank's "peer educators" also attended several seminars and workshops to ensure that staff was kept abreast of new information relating to the disease.

In early September, the Bank participated in the Belize Blood Donor Membership Drive. Staff members and the Central Bank continued to support other social projects during the year including contributions to the Salvation Army's Annual Christmas Appeal and participation in the Belize Cancer Society's Annual Walk.

APPENDICES

A. Monetary Policy Developments

1998 - **(1 November)** Commercial banks' liquid asset and cash reserve ratios were lowered from 26% to 24% and from 7% to 5%, respectively. The Central Bank also authorized the inclusion of new loans for residential construction (up to 5% of deposit liabilities) as part of commercial banks approved liquid assets.

2000 - **(3 April)** Commercial banks' cash reserve requirement on savings and time deposits was lowered from 5.0% to 3.0%. New commercial bank loans for non-traditional, export-oriented enterprises became classifiable as approved liquid assets.

2002 - **(2 January)** Amendments to the Exchange Control Regulations that allowed the licensing and operations of Casas de Cambios became effective.
(1 October) The Offshore Banking Act was amended to enable domestic companies with EPZ and CFZ status to conduct banking transactions with offshore banks licensed in Belize. The Act was also renamed "The International Banking Act".
(28 September) Commercial banks' cash reserve requirements were raised from 3.0% to 5.0% on average savings and time deposit liabilities and from 5.0% to 7.0% on average demand deposit liabilities.
(1November) The cash reserve requirements on demand, savings and time deposit liabilities were harmonized at 6.0%.

2004 - **(29 January)** The Export Processing Zone Act was amended to disallow the use of Belize currency within an EPZ, require that all transactions be conducted in US dollars and specify that EPZ's are subject to the Exchange Control Regulations.
(1 April) The Central Bank disallowed the inclusion of residential construction loans as part of commercial banks' approved liquid assets, a move that coincided with the reduction of the liquid asset ratio from 24% to 19%.
(1 November) The International Banking Act was amended to eliminate the co-mingling of resident and non-resident deposits in domestic banks. The Central Bank decreed that commercial banks' loans from affiliates must not exceed 10% of domestic deposit liabilities.
(1December) Commercial banks' cash and liquid asset ratios were increased from 6% to 7% and from 19% to 20%, respectively.

2005 - **(1 May)** Commercial banks' cash and liquid asset ratios were raised from 7% to 8% and from 20% to 21% respectively.
(1 May) The Central Bank disallowed the inclusion of long-term loans to Central Government as part of the commercial banks' approved liquid assets.
(11 July) Amendment to the Exchange Controls Regulations to repeal the licensing of Casas de Cambios.
(1 July) Commencement of the new Commercial Free Zone Act to make new and better provisions with respect to free zones.
(**1 December)** Commencement of the amendment of the Credit Unions Act to provide for the supervision of credit unions by the Central Bank.

2006 - **(1 January)** Commercial banks' cash and liquid asset ratios were raised from 8% to 9% and from 21% to 22% respectively.

(1 January) The Central Bank disallowed the process of co-mingling domestic and offshore deposits and required the commercial banks to transfer all foreign currency deposits belonging to non-residents to their offshore branches as stipulated under the International Banking Act.

(**1 September)** Commercial banks' cash and liquid asset ratios were raised from 9% to 10% and from 22% to 23% respectively.

B. Statistical Appendix

Table 1: Gross Domestic Product (GDP) by Industrial Origin at Current Prices

$mn

	2002	2003	2004	2005	2006[1]
Primary Industries	**245.6**	**292.7**	**310.1**	**279.8**	
Agriculture & forestry	173.1	185.5	206.8	197.5	
Fishing	63.5	98.0	93.5	72.1	
Mining	9.0	9.2	9.8	10.3	
Secondary Industries	**306.8**	**288.7**	**312.0**	**326.7**	
Manufacturing	154.1	153.7	164.9	173.1	
Electricity & Water	64.1	59.7	64.7	70.9	
Construction	88.6	75.3	82.4	82.8	
Tertiary Industries	**1,122.6**	**1,212.7**	**1,293.9**	**1,404.2**	
Wholesale & retail trade	301.8	305.1	304.7	329.7	
Hotels & restaurants	68.4	83.6	97.5	103.5	
Transport & Communications	199.1	204.5	225.5	246.7	
Finance intermediation	133.3	163.7	173.1	188.2	
Real estate & business services	124.9	129.3	141.5	160.3	
Community, social & other services	107.4	120.4	136.7	146.0	
General government services	187.7	206.2	214.9	229.6	
Less: Financial Services Indirectly Measured	**74.4**	**91.3**	**94.6**	**101.7**	
All Industries at basic prices	**1,600.6**	**1,702.8**	**1,821.5**	**1,909.0**	
Taxes less subsidies on products	263.7	272.4	289.0	300.9	
GDP at market prices	**1,864.3**	**1,975.2**	**2,110.4**	**2,209.9**	

Source: Central Statistical Office

[1] At the time of publication, GDP figures from the C.S.O were not available.

Table 2: Percentage Share of GDP by Industrial Sector at Current Prices

Percent

	2002	2003	2004	2005	2006 [1]
Primary Industries	**13.2**	**14.8**	**14.7**	**12.7**	
Agriculture & forestry	9.3	9.4	9.8	8.9	
Fishing	3.4	5.0	4.4	3.3	
Mining	0.5	0.5	0.5	0.5	
Secondary Industries	**16.5**	**14.6**	**14.8**	**14.8**	
Manufacturing	8.3	7.8	7.8	7.8	
Electricity & Water	3.4	3.0	3.1	3.2	
Construction	4.8	3.8	3.9	3.7	
Tertiary Industries	**60.2**	**61.4**	**61.3**	**63.5**	
Wholesale & retail trade	16.2	15.4	14.4	14.9	
Hotels & restaurants	3.7	4.2	4.6	4.7	
Transport & Communications	10.7	10.4	10.7	11.2	
Finance intermediation	7.2	8.3	8.2	8.5	
Real estate & business services	6.7	6.5	6.7	7.3	
Community, social & other services	5.8	6.1	6.5	6.6	
General government services	10.1	10.4	10.2	10.4	
Less: Financial Services Indirectly Measured	**4.0**	**4.6**	**4.5**	**4.6**	
All Industries at basic prices	**85.9**	**86.2**	**86.3**	**86.4**	
Taxes less subsidies on products	14.1	13.8	13.7	13.6	
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	

Source: Central Statistical Office

[1] At the time of publication, GDP figures from the C.S.O. were not available.

Table 3: Real Gross Domestic Product by Industrial Origin (2000=100)

	2002	2003	2004	2005	2006
Primary Industries	**252.9**	**348.0**	**380.7**	**393.4**	**443.3**
Agriculture & forestry	183.9	212.4	237.6	236.1	239.2
Fishing	60.3	126.8	133.8	146.9	122.0
Mining	8.8	8.8	9.3	9.5	9.6
Petroleum				1.0	72.5
Secondary Industries	**306.3**	**295.0**	**316.7**	**314.0**	**330.5**
Manufacturing	159.0	158.2	177.7	178.0	174.4
Electricity & Water	60.2	65.3	64.3	63.9	86.0
Construction	87.0	71.5	74.7	72.2	70.1
Tertiary Industries	**1,086.4**	**1,175.2**	**1,213.7**	**1,290.2**	**1,340.9**
Wholesale & retail trade	301.8	306.0	305.9	323.0	350.0
Hotels & restaurants	68.0	77.9	84.0	87.4	84.4
Transport & Communications	176.4	191.5	201.1	216.7	227.9
Finance intermediation	131.1	172.5	181.8	205.3	211.2
Real estate & business services	121.7	123.0	129.9	142.3	150.0
Community, social & other services	106.2	111.5	115.8	117.8	120.5
General government services	181.2	192.7	195.3	197.7	197.0
Less: Financial Services Indirectly Measured	73.4	97.3	101.3	113.9	124.5
All Industries at basic prices	**1,572.3**	**1,720.9**	**1,809.8**	**1,883.8**	**1,990.2**
Taxes less subsidies on products	262.4	285.0	289.0	288.6	308.2
GDP at market prices	**1,834.6**	**2,005.9**	**2,098.8**	**2,172.4**	**2,298.4**

Source: Central Statistical Office

Table 4: Annual Percent Change in GDP by Sector at Constant 2000 Prices

	2002	2003	2004	2005	2006
Primary Industries	**0.3**	**37.6**	**9.4**	**3.3**	**12.7**
Agriculture & forestry	3.3	15.5	11.9	-0.7	1.4
Fishing	-7.0	110.3	5.5	9.8	-17.0
Mining	-5.7	0.5	4.9	2.5	1.1
Secondary Industries	**2.4**	**-3.7**	**7.4**	**-0.9**	**5.2**
Manufacturing	1.5	-0.5	12.3	0.1	-2.0
Electricity & Water	2.7	8.4	-1.5	-0.6	34.6
Construction	3.7	-17.9	4.6	-3.4	-2.9
Tertiary Industries	**8.0**	**8.2**	**3.3**	**6.3**	**3.9**
Wholesale & retail trade	4.0	1.4	0.0	5.6	8.4
Hotels & restaurants	2.5	14.5	7.8	4.1	-3.4
Transport & Communications	11.3	8.6	5.0	7.8	5.2
Finance intermediation	26.4	31.5	5.4	12.9	2.9
Real estate & business services	9.7	1.1	5.6	9.6	5.4
Community, social & other services	3.9	5.0	3.9	1.7	2.3
General government services	3.9	6.3	1.3	1.3	-0.4
Less: Financial Services Indirectly Measured	40.8	32.6	4.1	12.4	9.3
All Industries at basic prices	**4.4**	**9.4**	**5.2**	**4.1**	**5.7**
Taxes less subsidies on products	9.3	8.6	1.4	-0.2	6.8
GDP at market prices	**5.1**	**9.3**	**4.6**	**3.5**	**5.8**

Source: Central Statistical Office

Table 5: GDP by Expenditure in Current Prices

	2002	2003	2004	2005	2006[1]
GDP in $mn					
Gov't. final consumption expenditure	266.8	289.6	295.4	318.7	
Private final consumption expenditure	1,463.6	1,528.8	1,584.1	1,587.5	
Gross capital formation	421.5	374.8	373.2	414.8	
Changes in inventories including discrepancy	23.0	31.1	40.4	16.3	
Gross Domestic Expenditure	**2,175.0**	**2,224.3**	**2,293.2**	**2,337.3**	
Exports: goods & services	980.3	1,053.5	1,069.9	1,222.9	
Imports: goods & services	1,233.4	1,306.0	1,238.0	1,388.7	
Net Exports	-253.0	-252.6	-168.0	-165.8	
Discrepancy	-57.7	3.4	-14.7	38.5	
GDP market prices	**1,864.3**	**1,975.2**	**2,110.4**	**2,209.9**	
Percent Distribution of GDP					
Gov't. final consumption expenditure	14.3	14.7	14.0	14.4	
Private final consumption expenditure	78.5	77.4	75.1	71.8	
Gross capital formation	22.6	19.0	17.7	18.8	
Exports: goods & services	52.6	53.3	50.7	55.3	
Imports: goods & services	66.2	66.1	58.7	62.8	
Net Exports	-13.6	-12.8	-8.0	-7.5	
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	

Source: Central Statistical Office

[1] At the time of publication, GDP figures from the C.S.O were not available.

Table 6: GDP by Expenditure in Constant 2000 Prices

	2002	2003	2004	2005	2006[1]
GDP in $mn					
Gov't. final consumption expenditure	257.8	271.5	269.0	276.7	
Private final consumption expenditure	1,441.3	1,487.3	1,485.1	1,453.0	
Gross capital formation	423.3	364.0	344.4	372.6	
Changes in inventories including discrepancy	19.7	31.1	46.9	16.7	
Gross Domestic Expenditure	**2,142.1**	**2,153.9**	**2,145.4**	**2,119.0**	
Exports: goods & services	996.1	1,125.8	1,171.9	1,319.9	
Imports: goods & services	1,248.1	1,274.5	1,179.4	1,252.0	
Net Exports	-252.0	-148.7	-7.6	67.9	
Discrepancy	-55.5	0.7	-39.0	-19.4	
GDP market prices	**1,834.6**	**2,005.9**	**2,098.8**	**2,167.5**	
Percent Distribution of GDP					
Gov't. final consumption expenditure	14.1	13.5	12.8	12.8	
Private final consumption expenditure	78.6	74.1	70.8	67.0	
Gross capital formation	23.1	18.1	16.4	17.2	
Exports: goods & services	54.3	56.1	55.8	60.9	
Imports: goods & services	68.0	63.5	56.2	57.8	
Net Exports	-13.7	-7.4	-0.4	3.1	
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	

Source: Central Statistical Office

[1] At the time of publication, GDP figures from the C.S.O were not available.

Table 7: Sectoral Composition of Commercial Banks' Loans and Advances

$mn

	Position as at			Changes Dec 2005 to
	Dec 2004	Dec 2005	Dec 2006	Dec 2006
PRIMARY SECTOR	**145.1**	**141.7**	**155.8**	**14.1**
Agriculture	96.2	95.9	106.5	10.6
Sugar	9.9	9.5	11.5	2.0
Citrus	19.0	16.0	19.4	3.4
Bananas	52.9	58.0	64.4	6.4
Other	14.4	12.4	11.2	-1.2
Marine Products	25.1	19.6	15.2	-4.4
Forestry	1.8	1.7	2.0	0.3
Mining & Exploration	22.0	24.5	32.1	7.6
SECONDARY SECTOR	**357.0**	**381.6**	**373.2**	**-8.4**
Manufacturing	14.9	19.2	24.6	5.4
Building & Construction	276.5	300.8	316.5	15.7
Utilities	65.6	61.6	32.1	-29.5
TERTIARY SECTOR	**476.8**	**472.4**	**539.3**	**66.9**
Transport	38.7	33.3	45.8	12.5
Tourism	84.5	71.5	79.3	7.8
Distribution	165.2	157.6	173.8	16.0
Other(1)	188.4	210.0	240.4	30.4
Personal Loans	**197.1**	**259.0**	**322.2**	**63.2**
TOTAL	**1176.0**	**1254.7**	**1390.5**	**135.8**

(1) Includes government services, real estate, financial institutions, professional services, and entertainment.

Table 8: Commercial Banks' Weighted Average Interest Rates

Percentages

	Position as at			Changes Dec 2005 to
	Dec 2004	Dec 2005	Dec 2006	Dec 2006
Weighted Lending Rates				
Personal Loans	15.5	16.0	16.3	0.3
Commercial Loans	14.0	14.2	13.8	-0.4
Residential Construction	12.6	13.1	13.1	0.0
Other	10.1	12.2	12.4	0.2
Weighted Average	**14.0**	**14.3**	**14.2**	**-0.1**
Weighted Deposit Rates				
Demand	0.5	0.7	0.7	0.0
Savings/ Cheque	5.1	5.3	5.3	0.0
Savings	5.1	5.2	5.2	0.0
Time	7.6	7.8	8.2	0.4
Weighted Average	**5.2**	**5.5**	**5.8**	**0.3**
Weighted Average Spread	**8.8**	**8.8**	**8.4**	**-0.4**

Table 9: Balance Of Payments Summary

$mn

	2004	2005	2006
CURRENT ACCOUNT	**-311.7**	**-320.9**	**-48.9**
Goods: Exports f.o.b.	614.9	650.5	852.9
Goods: Imports f.o.b.	-961.4	-1,112.4	-1,223.9
Trade Balance	-346.5	-462.0	-370.9
Services: Credit	470.6	584.6	710.8
Transportation	54.8	59.4	57.1
Travel(1)	336.1	408.3	505.2
Other Goods & Services	56.0	81.3	100.9
Gov't Goods & Services	23.8	35.6	47.6
Services: Debit	-294.2	-317.2	-300.3
Transportation	-89.2	-100.2	-109.1
Travel	-85.2	-83.3	-82.1
Other Goods & Services	-103.5	-110.5	-91.4
Gov't Goods & Services	-16.3	-23.2	-17.7
Balance on Goods & Services	-170.0	-194.5	39.5
Income: Credit	8.7	13.6	20.0
Compensation of Employees	4.9	7.5	11.9
Investment Income	3.8	6.0	8.1
Income: Debit	-242.2	-242.4	-256.3
Compensation of Employees	-12.4	-11.7	-11.4
Investment Income	-229.7	-230.7	-245.0
Balances on Goods, Services & Income	-403.5	-423.4	-196.8
Current Transfers, n.i.e.: Credit	121.5	136.7	184.3
Current Transfers: Debit	-29.7	-34.3	-36.4
CAPITAL ACCOUNT, n.i.e.	**19.6**	**5.9**	**18.3**
Capital Account, n.i.e.: Credit	21.2	7.9	20.5
Capital Account: Debit	-1.5	-2.0	-2.2
FINANCIAL ACCOUNT, n.i.e.	**234.9**	**349.7**	**77.1**
Direct Investment Abroad	-0.1	-2.0	-1.1
Direct Investment in Belize, n.i.e.	223.0	253.8	145.9
Portfolio Investment Assets	-0.5	-0.4	-0.5
Portfolio Investment Liabilities, n.i.e.	153.8	36.1	-47.7
Financial Derivatives Assets	1.1	0.5	0.0
Financial Derivatives Liabilities	0.0	-11.1	0.0
Other Investment Assets	-8.8	-17.2	-61.5
Other Investment Liabilities	-133.5	90.0	42.1
NET ERRORS & OMISSIONS	**-5.2**	**1.9**	**18.9**
OVERALL BALANCE	**-62.3**	**36.6**	**65.4**
RESERVE ASSETS (Minus = increase)	**62.3**	**-36.6**	**-65.4**

(1) Tourism earnings for 2005 were based on actual inflows into the banking system 2005, while estimates for 2004 & 2006 were based on Visitor Expenditure Surveys.

Table 10: Gross Imports (CIF) by SITC Categories

$mn

SITC Category	2002	2003	2004	2005	2006
0 Food and Live Animals	107.8	118.7	109.2	120.7	118.2
1 Beverages and Tobacco	8.3	8.9	9.8	10.5	11.2
2 Crude Materials	7.5	6.7	7.3	9.1	10.9
3 Fuels and Lubricants	139.3	161.2	184.3	236.0	246.5
Of which electricity	*23.8*	*28.4*	*29.7*	*40.3*	*33.2*
4 Animal and Vegetable Oils	3.1	3.3	3.2	3.2	3.9
5 Chemicals	85.0	82.7	76.3	88.7	93.6
6 Manufactured Goods	128.2	128.7	136.8	138.9	164.2
7 Machinery and Transport Equipment	208.5	203.7	175.9	199.8	219.1
8 Miscellaneous Manufactured Goods	80.4	103.2	81.8	101.1	102.4
9 Commodities - not classified elsewhere	0.2	0.9	0.0	0.0	0.0
Export Processing Zones	221.3	130.7	113.8	124.7	157.9
Personal Goods	3.2	3.4	2.6	2.7	3.4
Total	**992.9**	**952.1**	**901.1**	**1,075.7**	**1,131.4**
CFZ Direct Imports	79.9	180.5	156.6	190.7	222.6
Grand Total	**1,072.8**	**1,132.6**	**1,057.7**	**1,266.5**	**1,354.0**

Sources: Central Statistical Office, Central Bank of Belize

Table 11: Central Government's Domestic Debt

$'000

	Disbursed Outstanding Debt 12/31/2005	Transactions During 2006				Disbursed Outstanding Debt 12/31/2006
		Disbursement/ New Issues of Securities	Amortization/ Reduction in Securities	Interest Payment	Net Change in Overdraft/ Securities	
Overdraft	**96,317**	**0**	**0**	**13,331**	**-7,221**	**89,096**
Central Bank	89,642	0	0	13,331	-791	88,851
Commercial Banks	6,675	0	0	0	-6,430	245
Treasury Bills	**100,000**	**0**	**0**	**3,215**	**0**	**100,000**
Central Bank	73,185	0	0	1,681	12,552	85,737
Commercial Banks	23,840	0	0	1,385	-11,876	11,964
Other	2,975	0	0	149	-676	2,299
Treasury Notes (1) (2)	**24,000**	**31,800**	**0**	**1,304**	**31,800**	**55,800**
Central Bank	9,000	31,500	**0**	417	35,243	44,243
Commercial Banks	14,269	0	0	815	-4,269	10,000
Other	731	300	0	72	826	1,557
Defence Bonds	**15,000**	**0**	**0**	**1,250**	**0**	**15,000**
Central Bank	10,000	0	0	815	0	10,000
Commercial Banks	100	0	0	63	0	100
Other	4,900	0	0	372	0	4,900
Loans	**44,121**	**225**	**4,382**	**4,066**	**0**	**39,964**
DFC (Debt Restructuring)	7,398	0	577	539	0	6,821
BSSB (Housing)	662	0	18	52	0	644
GOB/US Debt Swap	10,140	0	1,203	273	0	8,937
Reconstruction & Developmen	2,403	0	344	343	0	2,059
BBL (Infrastructure dev.)	21,819	0	1,666	2,717	0	20,153
Guardian Life Bze	1,000	0	0	90	0	1,000
Atlantic Bank Ltd. (Airstrip Loan	699	0	412	52	0	287
Belize Tourist Village (3)	0	225	162	0	0	63
TOTAL	**279,438**	**32,025**	**4,382**	**23,166**	**24,579**	**299,860**

(1) Since October of 1998 $1.0mn in Treasury Notes held by Provident Bank were being subscribed to in $US. They are considered as part of Foreign Liabilities.

(2) In 1993 Loans ($2.0mn) was issued to NDFB from reflows to 'commercial discount fund' as per USAID/CBB agreement and in 2003 short term credit facility ($27.5mn) was extended to DFC, maturing June 2006. Both these loans were recorded as government contingent liabilities and were repaid August 2006 by GOB with the issuance of $31.5mn in new Treasury Notes to CBB.

(3) A Promissory Note made to Belize Tourist Village reimbursing them for cost of dredging the Belize Harbour. This loan is interest free.

Table 12: Government of Belize - Revenue and Expenditure

$'000

	Fiscal Year 2005/2006	Estimated Budget 2006/2007	Jan-Dec 2004	Jan-Dec 2005	Jan-Dec 2006
TOTAL REVENUE & GRANTS (1+2+3)	**564,626**	**598,048**	**513,781**	**536,653**	**605,254**
1).Current revenue	529,838	562,345	451,933	511,461	565,953
Tax revenue	474,746	513,902	408,418	457,833	514,441
Income and profits	129,458	135,067	97,962	120,291	136,625
Taxes on property	5,519	6,115	4,226	5,979	4,393
Taxes on goods and services	181,834	202,292	143,802	175,155	207,875
Int'l trade and transactions	157,935	170,428	162,429	156,408	165,548
Non-Tax Revenue	55,092	48,443	43,514	53,628	51,512
Property income	8,588	4,500	6,419	8,338	1,355
Licenses	10,247	11,180	9,867	11,842	10,499
Transfers from NFPE's	20,720	15,938	17,513	19,923	19,642
Repayment of old loans	5,833	6,478	893	3,900	4,578
Rent & Royalties (1)	9,703	10,348	8,822	9,624	15,437
2). Capital revenue	7,150	7,173	26,478	6,390	9,988
3). Grants & Debt Service Receipts (2)	27,638	28,531	35,370	18,802	29,313
TOTAL EXPENDITURE (1+2)	**640,340**	**667,943**	**647,356**	**688,239**	**649,584**
1). Current Expenditure	548,723	561,685	474,150	561,151	548,093
Wages and Salaries	222,884	223,565	207,925	221,264	218,078
Pensions	40,102	39,802	31,087	39,756	39,016
Goods and Services (3)	95,048	103,120	80,421	115,512	101,989
Interest & Other Payments	153,740	145,572	122,416	149,523	141,916
Subsidies & current transfers (4)	36,949	49,626	32,300	35,097	47,093
2). Capital Expenditure	91,617	106,258	173,206	127,087	101,491
Capital II (local sources)	54,472	54,199	55,357	49,657	67,869
Capital III (foreign sources)	27,765	48,851	82,463	54,852	24,188
Capital Transfer & Net Lending	9,380	3,208	1,387	8,578	4,435
Unidentified Expenditure	0	0	34,000	14,000	5,000
CURRENT BALANCE	**-18,884**	**660**	**-22,217**	**-49,691**	**17,861**
OVERALL BALANCE	**-75,713**	**-69,895**	**-133,575**	**-151,586**	**-44,329**
PRIMARY BALANCE	78,026	75,677	-11,159	-2,063	97,587
FINANCING	**75,713**		**133,575**	**151,586**	**44,329**
Net Privatization Proceeds	15,391		-10,000	44,391	0
Domestic Financing	269,632		-36,163	-19,623	-10,936
Central Bank	249,724		76,938	-10,161	58,788
Net Borrowing	32,074		-241	16,534	47,003
Change in Deposits	217,650		77,179	-26,695	11,785
Commercial Banks	20,337		20,000	-19,685	-26,976
Net Borrowing	-8,189		26,564	-14,217	-24,679
Change in Deposits	28,526		-6,564	-5,468	-2,297
Other Domestic Financing	-429		-3,101	10,223	-11,281
Transaction with Gov't Guaranteed Debt	0		-130,000	0	-31,467
Financing Abroad	-209,934		179,863	126,950	55,578
Disbursements (5)	118,454		439,181	427,779	169,400
Amortization (6)	-327,852		-248,865	-300,345	-123,260
Change in Foreign Assets	-535		-10,454	-484	9,438
Other	624		-125	-132	-312

Sources: Ministry of Finance, Central Bank of Belize

(1) Rent and royalties included $4.8mn in royalties from Belize Natural Energy Ltd.

(2) Debt receipts of $4.7mn annually were payments of external debt obligation by other public sector organization acquired in the name of Government of Belize.

(3) In 2005, goods & service category was bumped up by expenditures pertaining to prepaid insurance and financial fees amounting to $25.3mn associated with the new Bear Stearns bond offering.

(4) In FY2006/07 the KHMH was classified as a statutory body and wage, salaries, and pension of its employees were removed from this line item and placed under subsidies and transfers largely accounting for the $12.0mn increase.

(5) 2006 disbursements included proceeds of $2.2mn from the sale of petroleum oil imported from Venezuela. Also included are capitalized interest of $4.4mn of which $3.5mn was a promissory note from The International Bank of Miami.

(6) 2006 amortization included $1.5mn as 60% part payment for petroleum oil imported form Venezuela.

Table 13: Public Sector External Debt by Creditors

$'000

	Disbursed Outstanding Debt 31/12/2005	Disbursements	Principal Payments	Interest & Other Payments	Parity Change	Disbursed Outstanding Debt 31/12/2006
CENTRAL GOVERNMENT	**1,772,403**	**167,230**	**121,349**	**118,875**	**3,029**	**1,821,313**
Banco Nacional de Comercio Exterior	8,999	0	0	546	0	8,999
Fondo de Financ. de las Exportaciones	762	0	218	42	0	544
Government of Great Britain	7,772	0	3,591	0	873	5,054
Government of Peoples Rep. of China	58	0	58	0	0	0
Government of the United States	6,375	0	1,465	231	0	4,910
Government of Trinidad and Tobago	20	0	4	1	0	16
Government of Venezuela	1,546	100,000	0	0	0	101,546
Kuwait Fund for Arab Economic Dev	19,631	0	1,643	794	225	18,213
Republic of China	246,076	30,000	14,688	13,441	0	261,388
Allfirst Bank of Maryland	2,100	0	840	107	0	1,260
KBC Bank NV	11,738	0	5,869	560	0	5,869
Manufacturers & Traders Trust Co.	7,056	1,594	865	402	0	7,786
Belize Bank Ltd.	12,668	0	12,668	2,456	0	0
Bear Stearns & C0. Inc.	709,072	0	28,589	46,859	0	680,483
BWS Finance Limited	19,844	0	4,961	1,984	0	14,883
Russer Financial Ltd.	10,000	0	10,000	252	0	0
Citibank, Trinidad & Tobago	8,571	0	3,429	762	0	5,143
Citicorp Merchant Bank Ltd.	45,714	0	7,857	4005	0	37,857
International Bank of Miami (1)	101,737	3,509	0	9,102	0	105,246
Provident Bank & Trust of Belize (2)	1,117	0	117	96	0	1,000
Royal Merchant Bank	220,183	0	2,977	20,874	0	217,206
Belize Estate and Co. Ltd.	326	0	326	78	0	0
Caterpillar Financial Services Corp.	850	0	663	46.8	0	188
Export Import Bank of the United States	187	0	187	10	0	0
Caribbean Development Bank	99,824	7,424	3,324	5,215	0	103,923
European Economic Community	16,688	0	736	126	1,777	17,729
European Investment Bank	752	0	186	17	81	647
Inter-American Development Bank	141,715	24,625	7,310	7,270	0	159,030
International Fund for Agric. Dev.	2,003	20	392	89	73	1,704
Intl. Bank for Reconstruction & Dev.	61,820	58	7,653	3,161	0	54,225
Opec Fund for Int'l. Development	7,199	0	733	348	0	6,466
NON-FINANCIAL PUBLIC SECTOR	**46,387**	**0**	**5,517**	**2,082**	**97**	**40,968**
Kuwait Fund for Arab Economic Dev	7,532	0	695	296	79	6,916
Amtrade International Bank of Georgia	2,060	0	1,051	103	0	1,009
CIBC Bank & Trust Company	2,338	0	1,844	191	0	494
Caribbean Development Bank	34,457	0	1,927	1,492	18	32,549
FINANCIAL PUBLIC SECTOR	**121,199**	**0**	**13,942**	**7,735**	**827**	**108,084**
Paine Webber Real Estate Securities Inc	1,600	0	200	88	0	1,400
N.V. De Smet S.A. Engineers	1,695	0	1,130	98	0	565
Government of the United States	1,737	0	415	49	0	1,322
Caribbean Development Bank	39,678	0	3,638	1,567	10	36,050
European Economic Community	535	0	34	5	56	557
European Investment Bank	9,757	0	625	314	761	9,892
Belize Mortgage Company (3)	66,198	0	7,900	5,614	0	58,298
GRAND TOTAL	**1,939,990**	**167,230**	**140,808**	**128,692**	**3,953**	**1,970,364**

Outstanding external debt of private entities remained as a contingent liability of Central Government.

(1) Promissory Note of $3.5mn is for interest capitalized on loan of $31.2mn utilized to finance general activities of DFC

(2) $1.0mn in Treasury Notes.

(3) BMC is the issuer of DFC/North American Securitization Loan through the Bank of New York; the loan was recorded as a contingent liability of Central Government. However, in accordance with GDDS guidelines, this transaction is now included as part of public financial sector stock of external debt obligation.

CENTRAL BANK OF BELIZE

2006 FINANCIAL STATEMENTS

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AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
CENTRAL BANK OF BELIZE

We have audited the accompanying balance sheet of Central Bank of Belize as of 31 December 2006, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Central Bank of Belize as of 31 December 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Horwath Belize

14 February 2007

CENTRAL BANK OF BELIZE
BALANCE SHEET
At 31 December 2006

In Belize dollars.

Assets	**Notes**	**2006**	**2005**
APPROVED EXTERNAL ASSETS			
Balances and deposits with foreign bankers and Crown Agents	4	39,709,976	63,882,197
Reserve Tranche and balances with the International Monetary Fund	5	18,505,883	17,087,886
Other foreign credit instruments	6	129,000,000	20,800,000
Accrued interest and cash intransit	7,2k	798,866	11,401,682
Marketable securities issued or guaranteed by foreign government and international financial institutions.	8	2,000,000	2,000,000
	3b	190,014,725	115,171,765
BELIZE GOVERNMENT SECURITIES	9	139,979,534	92,184,594
BELIZE GOVERNMENT CURRENT ACCOUNT	10	77,215,718	88,536,782
LOANS TO PUBLIC SECTOR	11	-	27,521,712
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		153,314	68,795
OTHER ASSETS	12	7,126,279	8,496,710
PROPERTY AND EQUIPMENT	13,2f	30,083,887	30,633,964
TOTAL ASSETS		**444,573,457**	**362,614,322**

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
BALANCE SHEET
At 31 December 2006 (Continued)

In Belize dollars.

LIABILITIES, CAPITAL AND RESERVES	**NOTES**	**2006**	**2005**
DEMAND LIABILITIES			
Notes and coins in circulation		169,354,339	143,089,348
Deposits by licensed financial institutions	14	152,283,691	112,341,444
Deposits by and balances due to Government and public sector entities in Belize		85,031,994	73,416,067
Deposits by international agencies	15	2,188,311	2,440,333
		408,858,335	331,287,192
BALANCES DUE TO CARICOM CENTRAL BANKS		197,880	295,942
OTHER LIABILITIES	16	4,183,765	3,184,518
COMMERCIAL BANK DISCOUNT FUND	17	2,745,321	1,480,663
TOTAL LIABILITIES		415,985,301	336,248,315
REVALUATION ACCOUNT	18,2i	3,011,360	2,081,924
CAPITAL ACCOUNT			
Paid up capital (Authorized capital $10,000,000)		10,000,000	10,000,000
GENERAL RESERVE FUND	19	15,576,796	14,284,083
TOTAL LIABILITIES, CAPITAL AND RESERVES		**444,573,457**	**362,614,322**

) GOVERNOR
)
) DIRECTOR
)
) DEPUTY GOVERNOR

The accompanying notes form an integral part of this financial statement.

CENTRAL BANK OF BELIZE
STATEMENT OF INCOME
For the year ended 31 December 2006

In Belize dollars.

	NOTES	2006	2005
INCOME			
Interest			
Approved external assets		5,856,110	5,019,698
Advances to government		13,330,420	9,497,530
Local securities	2e	2,803,990	954,282
Loans to statutory bodies		-	697,900
		21,990,520	16,169,410
Discounts on local securities		2,183,670	2,100,659
Commission and other income		1,608,139	1,481,748
TOTAL INCOME		25,782,329	19,751,817
LESS: Interest expense		(1,642,742)	(832,743)
Income from operations		24,139,587	18,919,074
EXPENDITURE			
Printing of notes and minting of coins		(1,547,726)	(1,361,288)
Salaries and wages, including superannuation contributions and gratuities		(5,884,117)	(5,698,289)
Depreciation	13	(1,111,255)	(860,755)
Administrative and general		(2,669,362)	(2,548,460)
Total expenditure		(11,212,460)	(10,468,792)
NET PROFIT		12,927,127	8,450,282
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND		12,927,127	8,450,282
Transfer to general reserve fund in accordance with section 9(1) of the Act	19	(1,292,713)	(845,028)
Balance credited to the accountant general for the consolidated revenue fund		11,634,414	7,605,254

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CHANGES IN EQUITY
At 31 December 2006

In Belize dollars.

	Share capital	Revaluation account	General reserve	Accumulated profits
At 1 January 2005	10,000,000	3,658,886	13,439,055	-
Net profit	-	-	-	8,450,282
Loss on revaluation	-	(1,576,962)	-	-
Transfer to Government of Belize	-	-	-	(7,605,254)
Transfer to General Reserve Fund	-	-	845,028	(845,028)
At 31 December 2005	10,000,000	2,081,924	14,284,083	-
Net profit	-	-	-	12,927,127
Gain on revaluation	-	929,436	-	-
Transfer to Government of Belize	-	-	-	(11,634,414)
Transfer to General Reserve Fund	-	-	1,292,713	(1,292,713)
At 31 December 2006	10,000,000	3,011,360	15,576,796	-

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

In Belize dollars.

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit transferred to the general reserve fund	1,292,713	845,028
Adjustment to reconcile net profit to net cash provided by operating activities:		
Amortization	57,815	57,815
Depreciation	1,111,255	860,755
Loss/(gain) on disposal	14,326	16,327
Changes in assets and liabilities that provided (used) cash:		
Other assets	1,312,616	(1,755,056)
Other liabilities	999,247	(797,180)
Revaluation account	929,436	(1,576,962)
Net cash provided by/(used in) operating activities	5,717,408	(2,349,273)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Belize Government current account	11,321,064	(7,877,207)
Loans to public sector/commercial bank	27,521,712	5,000,000
Acquisition of property and equipment	(580,155)	(412,204)
Proceeds from sale of assets	4,651	43,726
Reserve tranche in the IMF	(633,737)	1,043,772
Collateral deposits with foreign bankers	24,303,115	(61,255,724)
Net cash provided by/(used in) investing activities	61,936,650	(63,457,637)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and coins in circulation	26,264,991	1,139,664
Deposits by licensed financial institutions	39,942,247	24,447,792
Deposits by and balances due to Government and Public Sector entities	11,615,927	59,669,184
Government sinking fund	-	(20,210,971)
Deposits by international agencies	(252,022)	(263,441)
Balances due to Caricom central banks	(98,062)	208,025
Commercial Bank Discount Fund	1,264,658	(175,461)
Belize credit facility	-	(8,653,769)
Loan repayment made to foreign institutions	-	(2,500,000)
Net cash provided by financing activities	78,737,739	53,661,023

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 December 2006 (Continued)

In Belize dollars.

	2006	2005
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,391,797	(12,145,887)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	124,113,252	136,259,139
CASH AND CASH EQUIVALENTS, END OF YEAR	270,505,049	124,113,252
CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:		
EXTERNAL ASSETS:		
Balances and deposits with foreign bankers and Crown Agents	4,757,367	4,626,473
Other foreign credit instruments	129,000,000	20,800,000
Accrued interest and cash intransit	798,866	11,401,682
Balance with the International Monetary Fund	5,815,968	5,031,708
	140,372,201	41,859,863
LOCAL ASSETS:		
Cash and bank balances	153,314	68,795
Government of Belize Treasury Bills	85,736,534	73,184,594
Government of Belize Treasury Notes	44,243,000	9,000,000
	270,505,049	124,113,252

The accompanying notes form an integral part of these financial statements.

In Belize dollars.

1. GENERAL INFORMATION

The Central Bank of Belize, (the "Bank"), was established by the Central Bank of Belize Act 1982 (the Act) and has its principal place of business in Belize City, Belize.

The principal activity of the Bank is to foster monetary stability especially in regard to the exchange rate, and to promote banking, credit and exchange conditions conducive to the growth of the economy of Belize.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the more significant accounting policies adopted by the Bank in preparing its financial statements which accord with International Financial Reporting Standards and the Central Bank of Belize Act. Certain prior year amounts have been reclassified to conform with the 2006 presentation.

a. Measurement base

The financial statements are prepared on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

b. Revenue and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and accrued discount on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Miscellaneous income and expenses are recognized on an accrual basis.

c. Inventories

Inventories are carried at lower of cost or net realizable value. Cost is determined on a first-in- first-out basis.

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Changes in accounting policies

There were no changes in accounting policies during the year. All policies have been applied on a basis consistent with the prior year.

e. Financial instruments

Financial assets and financial liabilities are recognized on the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument.

International Monetary Fund balances

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as an agent for the Government of Belize. All transactions by the Bank with the IMF have been included in these financial statements on that basis.

Quota with the IMF is recorded by the Bank as an asset. Exchange gains and losses arising on revaluation of IMF assets at the exchange rate applying at the balance sheet date as published by the IMF are recognized in the Revaluation account in accordance with section 49 of the Act.

Foreign marketable securities

These consist of debentures issued by the Government of Dominica and are classified as held-to-maturity based on the Bank's positive intent and ability to hold these securities to maturity.

Belize government securities

The Bank's investment portfolio includes treasury bills, treasury notes and Belize Defense Bonds purchased from Government of Belize all of which the Bank has the positive intent and ability to hold to maturity. Treasury bills are carried at amortized cost. All other investments are carried at cost which approximates market value.

Loans to government

Loans to Government represent direct provisional advances to Government of Belize under Section 34 of the Central Bank of Belize Act 1982.

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financial instruments (continued)

Loans to public sector

Loans to the public sector are carried at the original amount less an allowance for any uncollectable amounts. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

Other financial assets and liabilities

Local and foreign currency cash, deposits and short-term advances are recognized on settlement date.

f. Property, plant and equipment, depreciation and amortization

Fixed assets are carried at cost, and are depreciated on a straight line basis over their estimated useful lives. Land is not depreciated.

Depreciation is charged at the following rates:

Building and improvements	1%, 5%
Office furniture	10%
Equipment	10% - 25%
Vehicles	20%

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Employee benefits

<u>Pension</u>

The Bank operates a defined benefit pension scheme for employees. Contributions are made by the Bank and employees to a separately administered fund. The cost of providing benefits under this plan is determined using an accrued benefit valuation method.

<u>Gratuity</u>

The Bank is liable to pay gratuity for contract employees who are not eligible to participate in the pension scheme. In order to meet this liability, a provision is carried forward in the balance sheet equivalent to an amount calculated on 20% of the annual salary for each completed year of service, commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement. The gratuity liability is neither funded nor actually valued. This item is grouped under other liabilities in the Balance Sheet.

h. Sale of special coins

Special coins, which are minted or packaged as collector items, are legal tender. However, no liability is recorded in respect of these coins since they are not expected to be placed in circulation as currency. Minting cost is charged against income in the year incurred. Income is recognized when sales are made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Foreign currency translation and exchange gains and losses

i. Assets and liabilities

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling at that date.

ii. Income and expenses

Income and expenses in foreign currencies are translated at the rate of exchange ruling on the transaction date.

iii. Revaluation

Section 49 of the Act stipulates that gains or losses from any revaluation of the Bank's net assets or liabilities in gold, special drawings rights (SDR), foreign exchange or foreign securities as a result of any change in the par value of the Belize dollar or any change in the par value of the currency unit of any other country shall be excluded from the computation of the annual profits and losses of the Bank. All such gains or losses are credited in a special account called Revaluation Account. Profit is not carried to the General Reserve Fund or paid to the Government under Section 9 (see note 19) when the Revaluation Account shows a net loss, but is first credited to the Revaluation Account in an amount sufficient to cover the loss.

j. Valuation of securities

Securities are stated at the lower of cost or market value. Realized and unrealized gains and losses arising from changes in the market value of securities or the par value of the Belize dollar are transferred to the Revaluation Account.

k. Accrued interest and cash intransit

Accrued interest and cash intransit in respect of foreign assets are shown as part of external assets.

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Taxation

In accordance with Article 51 of the Act, the Bank is exempt from the provisions of any law relating to income tax or customs duties and from the payment of stamp duty.

m. Cash and cash equivalents

The Bank classifies as cash equivalents financial instruments with an original maturity of three months or less, and deposits and other balances that are readily marketable or convertible. The Banks' cash management and investment policies restrict investments to investment grade highly liquid securities. The carrying value of cash and cash equivalents approximates fair value.

3. CENTRAL BANK OF BELIZE ACT SECTION 5 COMPLIANCE

Section 5 of the Act stipulates that:

a. The Bank shall at all times hold assets of an amount in value sufficient to cover fully the value of the total amount of its notes and coins for the time being in circulation; and

b. The Bank shall maintain at all times a reserve of external assets of not less than 40 percent of the aggregate amount of notes and coins in circulation and of the Bank's liabilities to customers in respect of its sight and time deposits.

At 31 December 2006 and 2005 total approved external assets approximated 46 percent and 35 percent of such liabilities respectively.

4. BALANCES AND DEPOSITS WITH FOREIGN BANKERS

Included in foreign deposits is $36,952,609 (2005 - $61,255,724) of restricted collateral deposits which are held in designated reserve accounts with Bank of New York and are primarily used to secure payments on notes payable to international lenders by Government of Belize.

In Belize dollars.

5. INTERNATIONAL MONETARY FUND - RESERVE TRANCHE

Belize became a member of the International Monetary Fund in 1982 with a subscription of
SDR 7,200,000 of which SDR 1,320,600 was paid in foreign currency (Reserve Tranche) and the remainder in Belize dollars made up of currency and non-interest bearing promissory notes.

In 1982, this Reserve Tranche was purchased by the Bank from the Government of Belize.

At 31 December 2006, Belize's subscriptions to the International Monetary Fund amounted to SDR 1,932,986 and the Bank's Reserve Tranche amounted to SDR 4,238,690. The Reserve Tranche which earns interest is included in approved external assets in the financial statements at the exchange rate of BZ$3.0088 to SDR 1.0 at 31 December 2006 (2005 - BZ$2.8585 to SDR 1.0).

6. OTHER FOREIGN CREDIT INSTRUMENTS

These instruments comprise overnight deposits held with the Federal Reserve Bank.

7. ACCRUED INTEREST AND CASH TRANSIT

Accrued interest and cash intransit consist of:

	2006	**2005**
Accrued interest	331,190	277,201
Cash intransit	467,676	11,124,481
	798,866	11,401,682

8. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENTS AND FOREIGN FINANCIAL INSTITUTIONS

These securities, which are carried at cost, consist of 3.5% debentures issued by the Government of Dominica and maturing in 2034. The Bank has the positive intent and ability to hold these securities to maturity.

In Belize dollars.

9. BELIZE GOVERNMENT SECURITIES

Belize Government securities consist of:

	2006	2005
3.25% Treasury Bills	85,736,534	73,184,594
9% Treasury Notes	44,243,000	9,000,000
8% Belize Defense Bonds	10,000,000	10,000,000
	139,979,534	92,184,594

The following table classifies the Banks' investments in Government securities by the contractual maturity date of the security:

	2006	2005
Due within 1 year	99,012,534	82,184,594
Due within 1 year through 5 years	30,967,000	-
Due within 5 years through 10 years	10,000,000	10,000,000
	139,979,534	92,184,594

Section 35(2) of the Act stipulates that the Bank shall not at any time hold Belize Government securities in an aggregate amount exceeding five times the aggregate amount at that time of the paid up capital and general reserves of the Bank, subsequently amended to seven times in April 2006. At 31 December 2006 and 2005 the Bank's aggregate holding of Belize Government securities approximated 5.47 times and 3.80 times, respectively, the amount of paid up capital and general reserves of the Bank. Government securities are classified as held-to-maturity based on the Bank's positive intent and ability to hold the securities to maturity. The carrying amount of these investments approximates fair value due to their short maturity and/or market-sensitive interest rates.

10. BELIZE GOVERNMENT CURRENT ACCOUNT

In accordance with Section 34 of the Act, the Bank may make direct advances to the Government provided that at any one time the total outstanding amount of direct advances shall not exceed twenty percent of the current revenues of the Government collected during the preceding financial year or the sum of fifty million dollars, whichever is greater. At 31 December 2006 and 2005 advances to Government represent approximately 73 percent and 99 percent of the authorized limit respectively.

In Belize dollars.

11. LOANS TO THE PUBLIC SECTOR

	2006	2005
11% p.a. short-term loan maturing on 30 June 2006, guaranteed by the Government of Belize. Interest has been waived since February 2005.	-	27,521,712
	-	27,521,712

12. OTHER ASSETS

Other assets consist of:

	2006	2005
Inventory of notes and coins	3,003,514	3,673,027
Prepayments and accrued interest	1,966,617	3,011,275
Accounts receivable	1,473,234	1,198,956
Museum endowment fund	520,335	520,335
Other	278,209	150,932
	7,241,909	8,554,525
Less: amortization	(115,630)	(57,815)
	7,126,279	8,496,710

Museum endowment fund is amortized over 10 years commencing 2004.

Included in accounts receivable is an amount of $585,945 due from Guyana under the Caricom Multilateral Clearing Facility. The loan is being restructured and management believes the carrying amount of the loan will be repaid in full. Interest has not been recognized on the loan since October 2004.

In Belize dollars.

13. PROPERTY AND EQUIPMENT

Cost	**Property**	**Furniture**	**Equipment**	**Vehicles**	**Total**
At 1 January 2006	30,441,554	1,048,149	4,938,529	379,339	36,807,571
Additions	-	33,647	546,508	-	580,155
Disposals	-	-	(73,397)	-	(73,397)
At 31 December 2006	30,441,554	1,081,796	5,411,640	379,339	37,314,329
Accumulated Depreciation					
At 1 January 2006	(1,987,102)	(759,919)	(3,237,688)	(188,898)	(6,173,607)
Depreciation charge for the year	(280,626)	(79,704)	(696,934)	(53,991)	(1,111,255)
Disposals	-	-	54,420	-	54,420
At 31 December 2006	(2,267,728)	(839,623)	(3,880,202)	(242,889)	(7,230,442)
Net book value					
At 1 January 2005	28,454,452	288,230	1,700,841	190,441	30,633,964
At 31 December 2006	28,173,826	242,173	1,531,438	136,450	30,083,887

14. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Under the revised provisions of Section 13 of the Banks and Financial Institutions Act 1995, licensed financial institutions are required to keep on deposit with the Bank an amount equivalent to at least 9% effective 1 January 2006, subsequently amended to 10% effective 2 September 2006, of their average deposit liabilities.

Under Section 21 A (1) of the International Banking Act, licensed financial offshore institutions are required to maintain an account of a minimum balance of $200,000 with the Bank.

These deposits are interest free.

In Belize dollars.

15. DEPOSITS BY INTERNATIONAL AGENCIES

The Bank acts as agent for and accepts deposits from international financial institutions. At 31 December, deposits consist of:

	2006	2005
Commission of the European Communities	271,188	1,036,584
International Monetary Fund	144,218	137,015
Caribbean Development Bank	70,522	32,641
Inter-American Development Bank	985,933	324,263
International Bank for Reconstruction and Development	716,450	716,450
European Union	-	193,380
	2,188,311	2,440,333

16. OTHER LIABILITIES

	2006	2005
Severance and gratuities	813,443	709,726
Abandoned property	2,208,394	1,622,430
Other	1,161,928	852,362
	4,183,765	3,184,518

17. COMMERCIAL BANK DISCOUNT FUND

Commercial Bank Discount Fund (Fund) is a facility which was established by an agreement signed in March 1983 by the Government of Belize and the United States of America, providing for a discount fund to be operated through the Bank. The United States Government acting through United States Agency for International Development (USAID) earmarked US $5 million in loan funds up to 30 June 1987, to finance this facility. The facility enabled commercial banks in Belize to discount with the Bank up to 100% of loans made to sub-borrowers for projects approved by the Bank and USAID. The Bank is expected to accumulate significant net interest earnings over the repayment term of the USAID loan to form a permanent fund. In 1993, USAID and the Bank agreed that Bz $2 million and Bz $1.5 million from the reflows to the Discount Fund could be used as a line of credit to National Development Foundation of Belize (the Foundation) and Development Finance Corporation (DFC), respectively.

The USAID loan has the following terms:

Interest rate of 2% for the first ten years and 3% thereafter. The loan is repayable within 25 years with a grace period of 9-1/2 years and 31 equal semi-annual principal payments for 15-1/2 years.

At 31 December 2006, reflows onlent to the Foundation amounted to nil (2005 - $1.6 million). Reflows onlent to DFC amount to $107,730 net of repayments (2005 - $215,462).

At 31 December 2006, the Fund is comprised as follows:

	2006	**2005**
Loan payable to USAID	(1,321,989)	(1,737,051)
Loans receivable from institutions	107,730	1,825,148
	(1,214,259)	88,097
Interest paid to USAID	2,241,051	2,192,029
Interest received from institutions	(3,772,113)	(3,760,789)
	(2,745,321)	(1,480,663)

In Belize dollars.

18. REVALUATION ACCOUNT

The Revaluation Account has been set up in compliance with Section 49 of the Act, in accordance with which profits are not credited to the General Reserve Fund or paid to the consolidated Revenue Fund whenever the Revaluation Account shows a net loss. Such profits are credited to the Revaluation Account in an amount sufficient to cover the loss.

	2006	**2005**
Net gain on revaluation of Reserve Tranche in the International Monetary Fund	912,943	1,462,169
Net gain on revaluations during the year	2,098,417	619,755
	3,011,360	2,081,924

19. GENERAL RESERVE FUND

Section 9(1) of the Act provides for the establishment of a General Reserve Fund into which is paid 20 percent of the net profit of the Bank in each financial year until the Fund is equal to the amount of the Bank's paid up capital. Thereafter, 10 percent of net profit is paid into the Fund.

	2006	**2005**
Balance at beginning of year	14,284,083	13,439,055
Transfer from net profit	1,292,713	845,028
Balance at end of year	15,576,796	14,284,083

In Belize dollars.

20. PENSION SCHEME

The Bank operates a defined benefit pension scheme which receives contributions from the Bank and its eligible employees. During the year under review, the Bank contributed $190,774 (2005 - $179,828) to the scheme. The scheme is financially separate from the Bank and is managed by a Board of Trustees. The cost of plan benefits is determined using an accrued benefit valuation method.

The last actuarial valuation done at 31 December 2004 reported the present value of past service liabilities and plan assets to be $4,386,000 and $6,477,000, respectively.

Significant actuarial assumptions used in the valuation were:

I. A valuation rate of interest of 7% p.a.

II. A rate of escalation of pensionable salaries of 5% p.a.

III. Pensions will not increase in the course of payments.

Under the plan, the employees are entitled to retirement benefits varying between 60 and 70 per cent of final salary on attainment of a retirement age of 60. No other post-retirement benefits are provided.

21. RELATED PARTY TRANSACTIONS

Transactions with governmental departments

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Belize and various government departments and entities. All transactions are carried out with reference to market criteria.

Transactions entered into include:

a. Acting as the fiscal agent, banker and financial advisor to the government; the Bank is the depository of the government, its agents and institutions, and provide banking services to government and government departments.

b. Acting as the agent of the government, its agencies, and institutions, the Bank provides guarantees, and participates in loans to government and related institutions.

In Belize dollars.

21. RELATED PARTY TRANSACTIONS (CONTINUED)

c. The Bank does not ordinarily collect any commission, fees, or other charges for services it renders to the government or related entities, except in the case of banking and financial services.

d. Acting as the agent of government, the Bank issues government securities, purchases unsubscribed portions of any issue and amounts set aside for the Bank.

e. As the agent of the government, the Bank manages public debt and foreign reserves.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
Short-term benefits	786,559	888,078
Post-employment benefits	21,375	79,426
Termination benefits	82,037	20,448
	889,971	987,952

Loans and advances to key management personnel

As at 31 December 2006, an amount of $111,639 (2005 - $110,059) was receivable from key managerial personnel as approved advances made by the Bank.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. When a financial instrument is traded in an organized and liquid market that is able to absorb a significant transaction without moving the price against the trader, quoted market values represent fair value.

Financial assets and liabilities

All financial assets and liabilities are valued at either quoted market prices or prices derived from market yield curves, as described in the Bank's accounting policies, except as detailed below:

In Belize dollars.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Currency in circulation

The fair value of currency in circulation is considered to be its face value as reported in the financial statements.

Deposits

The carrying amounts of deposits are considered to approximate their fair value as they are payable on demand.

The carrying amounts of cash and cash equivalents, and other short-term instruments and obligations at the balance sheet date represent best estimates of fair value because of the relative short-term maturities of these assets and liabilities. Long-term obligations have been contracted at market terms and their carrying amounts approximate fair value to the extent it is practicable to estimate.

23. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations. The Bank manages credit risk by selecting counterparties of high credit ratings. Credit risk is monitored, reviewed and analyzed to minimize the risk of loss.

24. COMMITMENTS AND CONTINGENCIES

a. The Bank is contingently liable as co-signer with the Government of Belize on promissory notes amounting to US$52.6 million with International Bank of Miami.

25. The financial statements were approved for issue by the Board of Directors on 30 March 2007.

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ISSN 1025-1618