Review of Economic and Financial Developments

Overview

Export agriculture, government services and tourism propelled growth in the first six months of 2004. The agricultural sector (sugar, citrus, banana and papaya) clearly benefited from a two year respite from major storms, and tourism continued to boom with cruise ship passenger disembarkations soaring by 71.7% and stay-over visitors registering a 7.3% increase. With a 17.9% expansion in farmed shrimp output providing added impetus, GDP grew by 6.9% in real terms. While healthy, the increase was below the 13.8% growth achieved in the first half of 2003.

Domestic prices continued to reflect external pressure from the rising cost of fuel, a major contributor to a 0.8% rise in the Consumer Price Index between February and May 2004 as well as a 3.2% increase over the twelve months from May 2003 to May 2004.

A marked contraction in imports underpinned a 16.7% reduction in the trade deficit during the period reviewed. Combined with surging receipts from tourism and increased current transfers, this led to a considerable improvement in the external current account imbalance. A significant increase in debt service payments was therefore the main cause of an overall balance of payments deficit of $18.4mn over the period. Official international reserves consequently declined to $150.8mn (equivalent to 2.0 months of imports).

Driven largely by commercial bank loans to the public sector and supported by a modest increase in net foreign assets, the broad money supply (M2) rose by 6.6% while M1 grew by 3.9%. Compared with the first half of 2003, credit to the private sector tapered off, with the 4.6% increase in loans mainly targeting real estate, private utilities, banana and construction. Loans to statutory bodies (principally DFC) rose by 295.8% as that institution shifted some $50.0mn of its domestic debt from Central Government to a commercial bank and increased its borrowing from the Central Bank. Central Government subsequently used the funds it received to purchase a bond of the same value from the commercial bank that advanced the funds to DFC. It also increased its net use of financing from the Central Bank and commercial banks by 24.6% mostly to cover activity in the April to June period.

After a substantial decline in the second half of 2003, excess statutory liquidity posted a $56.6mn increase chiefly due to the placement of Social Security Board funds received from its sale of BTL shares with the commercial banks. Conditions nevertheless remained conducive to competition and this was shown in the further narrowing of the commercial banks' weighted average interest spread as the average deposit rate rose by 40 basis points to 5.3%, while the average lending rate declined by 30 basis points to 13.9%.

During the first quarter of its 2004/2005 fiscal year, Central Government's operations generated an overall deficit of $33.1mn that was 42.0% above the projected budgetary shortfall for the fiscal year. Current revenue and expenditure rose by 9.8% and 20.2% respectively, yielding a small deficit on the current account. On the other hand, capital expenditure and net lending declined by 43.9% as efforts were made to tighten the fiscal stance.

In the first six months of the year, Central Government's domestic debt rose by 3.9% reflecting a $6.1mn expansion in its Central Bank overdraft and a disbursement of $5.0mn from the Belize Bank. Outlays for servicing the domestic debt amounted to $8.3mn.

During the same period, the public sector's disbursed outstanding external debt contracted by $61.0mn to $1,444.3mn largely due to an arrangement whereby Innovative Communication Corporation (ICC) assumed responsibility for servicing an existing Government loan of $114.0mn prior to the completion of its purchase of BTL from the Government later in the year. In other transactions, the public sector received loan disbursements of $85.0mn and paid some $31.2mn in amortization. Interest and other payments amounted to $51.7mn.

Domestic Production And Prices

Expansion in export agriculture, government services and tourism activities underpinned a 6.9% increase in real Gross Domestic Product (GDP) during the first half of the year. While healthy, the increase fell short of the 13.8% growth achieved during the first half of 2003.

Spurred by across-the-board increases in almost all major agricultural export production and shrimp farming, the primary sector, agriculture/hunting/ forestry and fishing grew by 13.8% and 12.9%, respectively. Sugarcane, citrus, banana and papaya benefited from a two year respite from hurricanes as well as increased usage of field inputs and production therefore reached their highest levels in the past three years. The citrus crop, in particular, was finally able to reverse its declining trend of the previous two years with deliveries being boosted by more than 20.0%. Meanwhile, shrimp output surged by 17.9% alongside cyclical peaks in conch and lobster catches.

In the secondary sector, construction and manufacturing rebounded while the utilities (electricity and water) registered a 5.6% contraction. The 8.1% increase in construction was facilitated by commercial bank and Development Finance Corporation (DFC) lending, particularly in the second quarter. Propping up growth in manufacturing was the significant increase in citrus juices and sugar, which eclipsed lower output of beverages, fertilizer and motor vehicle batteries.

The strongest growth was in services where tourism was the driving force in a 28.5% increase in hotel and restaurant activities as well as a 3.5% increase in transport and communication. Government services also expanded 11.7%, while a medley of other private services, including real estate, financial intermediation, business, community and social services, grew by 14.5%. The contraction in international trade associated with lower import demand led to a small downturn in distributive trade.

Prices continued on an upward trend with inflation as measured by the Consumer Price Index rising by 0.8% between February to May 2004 and by 3.2% over the year, May 2003 to May 2004. Higher fuel prices at the pump, a 17.0% increase in water rates implemented in April 2004 and an increase in the costs of imports as proxied by the 3.2% increase in the US export price index were significant factors.

Sugar

The 2003/2004 sugarcane harvest ended on July 1st after 214 days of operation.Some 1,149,475 long tons of sugarcane were delivered, a 7.1% increase that was partly due to favourable harvest weather, greater efforts by farmers to maximise deliveries and production of 54,138 long tons from the BSI Cane Growing Project. The latter accounted for 71.1% of the increase.

Despite a 1.0% decline in the crop's average sugar content, sugar production expanded by a healthy 11.6% to 116,515 long tons, as improvements in factory techniques and cleaner sugarcane increased the sugar extraction rate from 91.0% to 94.0%. The higher sugar out-turn consequently caused molasses production to fall by 4.3% to 41,117 long tons.

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

	Nov-Jun 2003/04	Nov-Jun 2002/03
Deliveries of Sugarcane (long tons)	1,149,475	1,073,339
Sugar Processed (long tons)	116,515	104,433
Molasses processed (long tons)	41,117	42,944
Performance		
Factory Time Efficiency (%)	92.27	93.11
Cane Purity (%)	85.09	85.08
Cane/Sugar	9.87	10.28

Source: Belize Sugar Industries

At $42.41, the estimated average final price per long ton of sugarcane is $1.68 below the 2002/2003 price, as high global sugar inventories and good harvests continued to depress global prices for raw sugar. A significant rise in freight costs caused by the Asian export boom and corresponding increased demand for freight services also further eroded the industry's net returns. The decline in the final sugarcane price was however partly tempered by an expansion in sales to the higher priced regional market and the strengthening of export prices in the EU where a 5.1% improvement in the euro to US dollar exchange rate almost offset the rise in freight rates.

Citrus Products

With the citrus crop rebounding from a sluggish start and yielding an unusually large second harvest, deliveries for the crop year to date increased by 24.7% to 6.4mn boxes when compared to the same period of the previous year. Increased fertilizer usage coupled with favorable harvest weather boosted grapefruit and orange deliveries by 21.4% and 37.2%, respectively. Grapefruit yields further benefited from successful efforts to control the Mexican fruit fly that had caused extensive fruit drop in previous years.

While deliveries were up by 24.7%, citrus juice production grew by a more modest 19.4% to 33.9mn pound solids (ps) due to a fall in the average pound solid yield per box of fruit. Orange juice production increased by 16.8% while that of grapefruit grew by 33.9%.

The bulk of fruits went into the production of concentrate juices, which accounted for 94.5% (or 32.0mn ps) of juice output. NFC production increased by 17.8% to 1.9mn ps. The increased volatility in the orange juice market prompted the processor to more than double grapefruit NFC, while halving that of orange NFC. In the push to maximize the industry's value added, pulp and oil production increased by 71.1% and 89.0%, respectively.

The international market for citrus juices, especially orange juices, has been highly unstable with prices slumping by approximately 30.0% to reach levels in the low US$0.60's range per ps for orange concentrate juices. The price instability has made it difficult to forecast with any certainty the final fruit price to growers, but partial payments to date have been based on a price range of $0.88 to $0.94 per pound solid for orange and $4.00 per box of grapefruit. The latter compares to $1.02 per pound solid for orange and $4.58 per box of grapefruit paid in the previous year.

Banana

During the first two months of the year, heavy rains and low temperatures slowed banana production. Yields rebounded afterward as the weather improved and

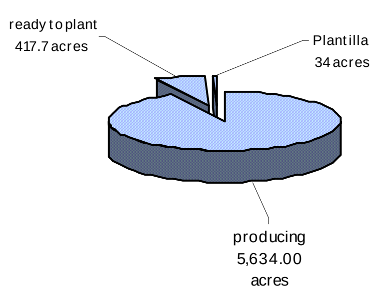
Table 1.2: Output of Citrus Products

	2003/04 Oct– Jun	2002/03 Oct–Jun
Deliveries (boxes)		
Orange	4,910,267	4,046,295
Grapefruit	1,478,788	1,078,137
Total	6,389,055	5,124,432
Concentrate (ps)		
Orange	27,647,271	23,066,972
Grapefruit	4,361,459	3,728,410
Total	32,008,730	26,795,382
NFC (ps)		
Orange	506,958	1,040,817
Grapefruit	1,360,776	544,824
Total	1,867,734	1,585,641
Pulp (pounds)		
Orange	586,816	307,400
Grapefruit	38,880	58,320
Total	625,696	365,720
Oil (pounds)		
Orange	925,937	499,200
Grapefruit	104,260	46,000
Total	1,030,197	545,200

Sources: Citrus Products of Belize, Citrus Growers Association the 2.3mn boxes produced by the end of June represented a year on year increase of 21.8%. Spurred by the higher price prevailing during the first part of the year and field productivity improvements that were facilitated by EU grant assistance, farmers were able to ratchet up production to its highest recorded level in the past seven years. In comparison, average output in the January to June period of previous years had averaged 1.4mn boxes. Given current production levels, the industry is on track to meeting its annual forecast of 4.2mn export boxes.

The acreage dedicated to banana cultivation remained relatively stable, standing at 6,085.7 acres in June compared to 6,150.2 acres in January. The acreage with producing trees measured 5,634, while that under plantilla (young trees not ready for harvesting) was

Chart 1.1: Banana Acreage at June 2004



34. Some 417.7 acres were ready for planting. This is in contrast to January when 5,728.7 acres had harvestable trees, 393.4 acres were under plantilla and only 10 acres were ready for planting.

While the average industry box price for the year was negotiated to be a minimum of US$6.20, the marketing agreement provided a price of US$6.93 for the first 26 weeks of the year and, thereafter, a gradual reduction over 5 weeks to end at US$5.47 for the rest of the year. The objective of encouraging the highest yields when prices are higher has been successful, and the industry exported more than the weekly minimum of 70,000 boxes necessary to avoid incurring a "dead freight fee".

Tourism

With no major hiccups affecting global tourism during 2004 to date, the buoyancy in the tourism sector continued with arrivals of stay-over bonafide tourists during the first half of the year increasing by 7.3% to 118,549 when compared to the same period of 2003.

The United States and Europe remained the largest markets, accounting for 68.9% and 10.2% of stay-over tourists. The surge in arrivals was mostly in US visitors, which rose by 8.8% to 81,717, a performance fuelled by targeted advertisements and continued strong growth in the US economy during the second quarter. On the other hand, weak growth in the euro zone economies, caused European arrivals to increase by a minimal 1.7% to 12,091.

Air travellers accounted for 79.3% of stay-over visitors. The land borders and seaports accounted for the remaining 17.0% and 3.7%, respectively. Arrivals through the Phillip Goldson International Airport (PGIA) and the land borders increased 6.3% and 14.6%, respectively, while those entering through the seaports declined by 1.3%.

The boom in cruise ship tourism continued with passenger arrivals expanding by 71.7% to 384,423. Up to June, 223 port calls were made compared to 162 for the same period of the previous year. The use of larger ships helped to boost arrivals as well and prospects for continued expansion are good since talks continue on the construction of a docking facility for the Carnival line of ships.

Consumer Price Index

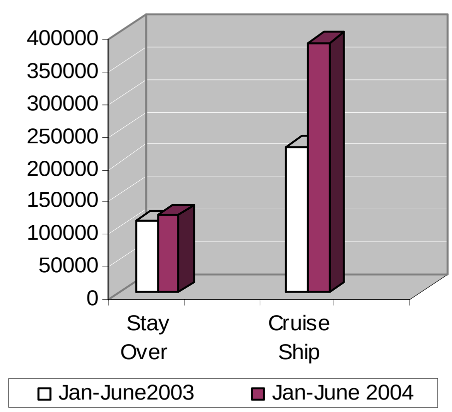
The general price level was pressured upward by higher oil prices as well as a 3.2% increase in the cost of imports as proxied by the increase in the US export price index (up to April, 2004).

Table 1.3: Bona Fide Tourist Arrivals

	2004 Jan-Jun	2003 Jan-Jun
Stay-over Arrivals		
Air	93,974	88,373
Land	20,191	17,625
Sea	4,384	4,443
Total	118,549	110,441
Cruise Ship	384,423	223,932

Source: Immigration Department

Chart 1.2 Bonafide Tourist Arrivals

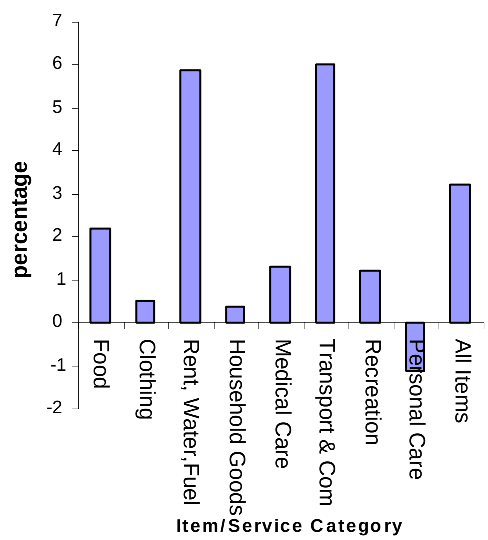


Between February to May 2004, the Consumer Price Index (CPI) rose by 0.8% and over the twelve month period (May 2003 to May 2004) the increase was 3.2%. Prices of all categories of goods and services in the CPI basket increased, except for "*Personal Care*".

The largest annual increases were in '*Transport and Communication*' (6.0%) and "*Rent, Water, Fuel & Power*" (5.9%). Public and private transportation costs were pushed upward by an increase in fees for drivers' licenses and higher fuel prices at the pump. In the latter, a 17.0% average increase in water rates in April, the continued shift to water meters based on American gallons (a smaller unit of measurement) rather than imperial gallons and higher butane and other cooking fuel costs.

Other prices in the 'Food, Beverage & Tobacco' category rose by 2.2% while 'Recreation Education & Culture' was up by 1.2% and 'Medical Care' and 'Household goods and maintenance' registered modest increases of 1.3% and 0.4%, respectively.

Chart 1.3: Annual Percentage Change in Consumer Price Index May 2003- May 2004



International Trade and Payments

Balance of Payments Overview

A 16.7% reduction in the trade deficit combined with a 22.5% surge in tourism revenues and increased current transfers underpinned a considerable improvement in the current account in the period reviewed. The balance of payments nevertheless recorded an overall deficit of $18.4mn due to a significant increase in debt service payments. Official international reserves consequently declined to $150.8mn (equivalent to 2.0 months of imports).

Net earnings from services rose by 53.1% largely due to the surge in tourism receipts and higher earnings by the port and shipping agencies from the cruise industry. This coincided with a contraction in net outlays for professional services since no new bonds were issued and associated payments in financial fees consequently declined.

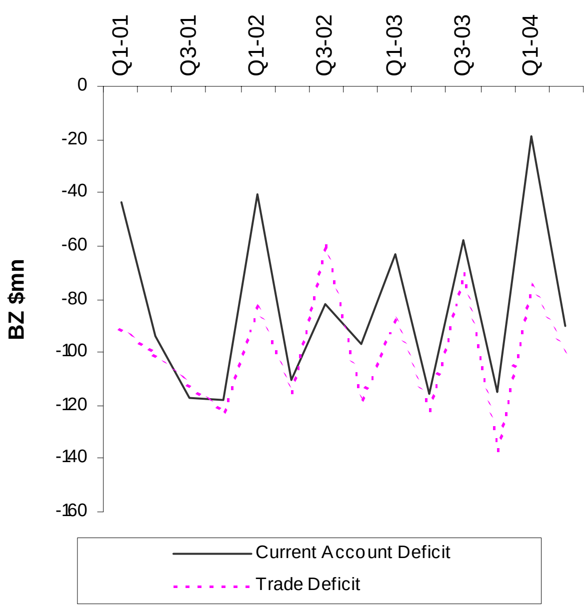
Interest paid to foreign lenders rose by 42.0% to $113.6mn while net current transfers received were up 50.3% to $48.1mn reflecting increases in grants to the government, family remittances and funding for religious and non-profit organisations.

Table 2.1: Balance of Payments Summary

	2004P Jan-June	2003R Jan-June
A. CURRENT ACCOUNT (BZ$mn) (I+II+III+IV)	**-117.4**	**-179.0**
I. Goods (Trade Balance)	**-174.8**	**-209.7**
Exports, f.o.b.	289.8	323.0
Domestic Exports	183.2	197.4
CFZ Gross Sales	89.5	107.8
Re-exports	17.0	17.9
Imports, f.o.b.	464.6	532.8
Domestic Imports	394.9	449.4
CFZ Imports	69.7	83.3
II. Services	**129.2**	**84.4**
Transportation	-8.4	-16.7
Travel	152.0	124.1
Other Services	-14.4	-23.0
III. Income	**-111.9**	**-85.7**
Compensation of Employees	-6.4	-5.8
Investment Income	-113.6	-80.0
IV. Current Transfers	**48.1**	**32.0**
Government	14.5	2.5
Private	33.6	29.5
B. CAPITAL & FINANCIAL ACCOUNT (I+II)	**97.6**	**189.2**
I. Capital Account	**6.8**	**1.7**
II. Financial Account (1+2+3)	**90.8**	**187.5**
1. Direct Investment in Belize	219.2	23.9
2. Portfolio Investment	-22.7	174.5
Monetary Authorities	0.0	-3.0
General Government	-22.5	177.6
Banks	0.0	0.0
Other Sectors	-0.2	-0.1
3. Other Investments	-105.7	-11.0
Monetary Authorities	-4.4	-5.0
General Government	-55.5	-40.1
Banks	-32.5	-3.9
Other Sectors	-13.2	38.0
C. NET ERRORS & OMISSIONS	**1.4**	**0.7**
D. OVERALL BALANCE	**-18.4**	**10.8**
E. RESERVE ASSETS	**18.4**	**-10.8**

P= Provisional

Chart 2.1: Current Account Deficit vs. Trade Deficit



At $97.6mn, net capital and financial inflows were 48.4% below that of the first six months of 2003. The capital account surplus was $6.8mn as a result of debt forgiveness from the British and US governments.

Net financial inflows, on the other hand, were down 51.6% to $90.8mn with the bulk of inflows coming from the sale of BTL shares (valued at some $171.0mn) to Innovative Communication Corporation (ICC), along with the sale of real estate, new hotel investments and private sector borrowings. The sale of the BTL shares was effected through a partial cash payment ($57.0mn) and a promissory note for $114.0mn. A 22.5% increase in loan disbursements to government offset debt amortization payments that returned to normal levels since no further debt refinancing took place over the review period.

With imports falling more sharply than exports, the visible trade deficit declined by 16.7% to $174.8mn. The reduction in imports was largely explained by (1) lumpy investments in 2003 for electric generators, aircrafts, vehicles, telecommunication infrastructure and the expansion of processing capacity at the citrus factory (2) lower importation of Mexican electricity, fish/animal feed, durum wheat, agricultural chemicals and

Chart 2.2: Public Sector Debt Disbursements and Financial Account Surplus

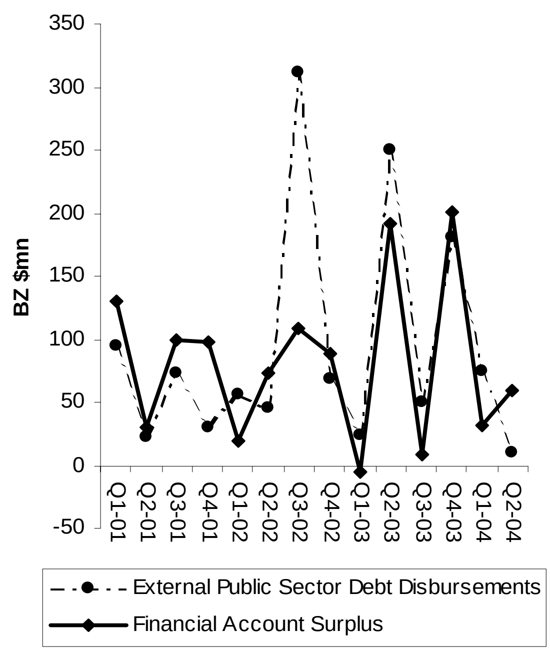
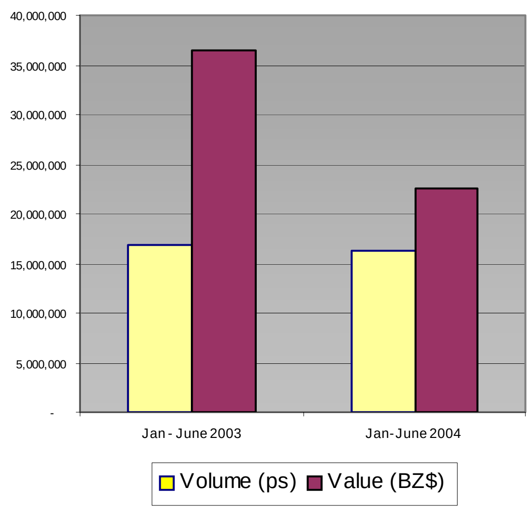


Chart 2.3: Citrus Juice Exports



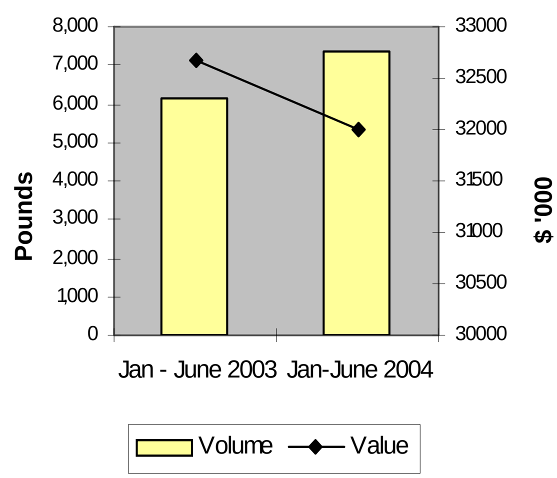
inputs, and (3) a 16.3% decline in Commercial Free Zone (CFZ) imports, as cross border trade further slowed in response to tight Mexican customs procedures and competitive gasoline prices in Chetumal, the Mexican border town.

Export revenues generally declined as major domestic export commodities such as sugar, citrus, molasses and sawn woods faced lower international prices that largely accounted for a 7.2% drop in domestic export earnings. Merchandise and fuel sales in the CFZ also fell by 16.9% and re-exports declined by 4.7%.

Although the volume of sugar exported was only 0.8% lower, earnings declined by 9.6% as a change in shipping schedules led to lower exports to the EU, while freight rates rose and prices weakened in the US and CARICOM markets. Industry success in diverting residual sugar sales away from the highly volatile world market into higher priced regional and niche markets was somewhat undermined by price declines of 14.5% and 16.9%, respectively, in the US and CARICOM markets brought about by high global inventories and good harvests.

The processed juice market also experienced instability due to high global stocks and good harvests in major citrus producers and the Caribbean. Prices, especially for orange, plummeted to new record lows and increased fuel and freight costs took a further chunk out of net returns to the industry. The largest price decline (38.2%) was in the US, Belize's main orange juice market, where per capita juice consumption has been declining apparently due to a perception of citrus

Chart 2.4: Shrimp Exports

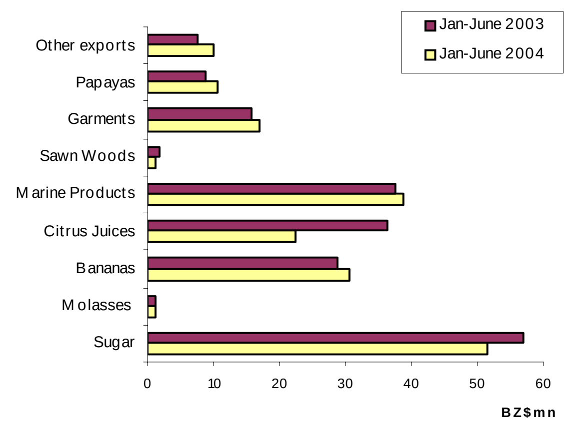


juice as being a high carbohydrate drink. Hence, while export volume fell by only 3.6%, earnings plummeted by 38.4%. In contrast, increased focus on by-product sales led to a 55.4% increase in pulp sales.

After a sluggish start, banana exports rebounded during the second quarter to realize a 18.0% volume increase to 41,012 metric tons. Revenue growth was a more modest 5.5%, as some 7.0% of the banana shipped consisted of second grade fruit selling at US$2.50 per box, versus, US$6.93 for the first grade fruit.

A surge in farmed shrimp production accompanied by notable increases in lobster and conch pushed up marine exports by 21.3% to 7.8mn pounds, while revenues grew by a much more modest 3.3% to $38.8mn. Notwithstanding a 20.2% rise in the export volume of farmed shrimp, revenue was down 2.0%, as supplies from low cost producers in Asia (China, Vietnam, India and Thailand) and South America (Brazil and Ecuador) flooded the US market and caused prices to decline by 18.4%. In contrast, the prices of lobster and conch improved in response to a revival in the dining out market and a US moratorium on the importation of conch from Honduras, Dominican Republic and Haiti.

Chart 2.5: Domestic Exports



Papaya prices continued to be negatively affected by cheap supplies out of Mexico and Brazil and declined by 29.1% to $0.39 per pound. A 67.6% increase in volume generated a revenue increase of 20.1%.

In other developments, the placing of mahogany on the endangered species list in late 2003 reduced already insignificant sawn woods exports since mahogany can only now be exported from forests managed under a certified, sustainable logging regime. Increased sales of citrus oils and beans expanded earnings from other miscellaneous domestic products by 32.2% to $10.0mn.

Monetary Developments

Growth in M2 accelerated to 6.6% over the first half of the year driven mainly by an 11.6% upsurge in net domestic credit almost all of which occurred in the second quarter. With credit accelerating, the net foreign asset holdings of the system dipped after experiencing a $24.1mn build-up in the first quarter. While commercial bank statutory liquidity benefited from injections of Belize Social Security Board (BSSB) deposits during the period reviewed, interest margins continued to narrow reflecting active competition among the banks, a carryover from 2003.

Table 3.1: Factors responsible for money supply movements

$mn

	Position as at June 2004	Changes during Mar 2004 to June 2004	Changes during Dec 2003 to June 2004
Net Foreign Assets	**146.7**	**-10.8**	**13.3**
Central Bank	147.0	-13.8	-16.5
Commercial Bank	(0.3)	3.0	29.8
Net Domestic Credit	**1,260.7**	**126.2**	**130.6**
Central Government (Net)	113.1	37.8	22.3
Other Public Sector	83.9	54.2	62.7
Private Sector	1,063.7	34.2	45.6
CBB Foreign Liabilities (Long-term)	**5.0**	**-2.5**	**-2.5**
Other Items (net)	**229.0**	**54.1**	**74.2**
Money Supply M2	**1,173.4**	**63.8**	**72.2**

Money supply

Narrow money (M1) rose by 3.9% as a 5.3% increase in the first quarter, much of which was due to the reclassification of some $17.0mn from savings to demand deposits in January, was partly offset by a 1.4% contraction in the second quarter.

Quasi-money expanded by 7.8% bolstered largely by a $40.0mn increase in Social Security Board time deposits following the sale of its BTL shares. Growth was reinforced by increased holdings of financial institutions, individuals and other statutory bodies. Savings deposits registered a modest decline as the reclassification and withdrawals (mainly by individuals) overshadowed increases by the BSSB.

Net Domestic Credit

Led by a 295.8% expansion in credit to statutory bodies, growth in net domestic credit nearly doubled that of the comparable period of 2003. A commercial bank loan of $50.0mn to the Development Finance Corporation accounted for much of the increase. These funds were transferred to Central Government, which then purchased a bond of the same value from the bank

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

$mn

	Position as at Jun 2004	Changes during Mar 2004 to Jun 2004	Changes during Dec 2003 to Jun 2004
PRIMARY SECTOR	**144.7**	**6.7**	**9.0**
Agriculture	98.8	10.5	11.1
Sugar	6.0	-1.1	-2.8
Citrus	21.0	-0.8	-1.1
Bananas	57.0	11.3	11.8
Other	14.8	1.1	3.2
Marine Products	24.7	-4.0	-1.8
Forestry	2.2	-0.3	-1.5
Mining & Exploration	19.0	0.5	1.2
SECONDARY SECTOR	**293.2**	**11.9**	**15.5**
Manufacturing	11.6	0.7	-1.0
Building & Construction	238.8	3.1	6.3
Utilities	42.8	8.1	10.2
TERTIARY SECTOR	**497.4**	**70.1**	**77.5**
Transport	38.0	0.7	-0.4
Tourism	76.2	3.6	3.1
Distribution	162.4	3.1	0.0
Other*	220.8	62.7	74.8
Personal Loans	**207.5**	**-0.5**	**-0.9**
TOTAL	**1,142.8**	**88.2**	**101.1**

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

that had loaned the funds to DFC. Central Government also withdrew $9.0mn from its deposits and received a combined increase of $11.0mn in overdraft financing from the Central Bank and loan disbursements from the commercial banks. In secondary trading, the commercial banks used a portion of the second quarter build-up in deposit liabilities to purchase $32.9mn worth of Treasury bills, including some $30.6mn from the Central Bank.

Loans to the private sector rose by 4.6% compared to an 8.5% increase in the first half of 2003. Real estate, private utilities, construction and banana were the main recipients of the additional financing provided by commercial banks over the period reviewed.

Net Foreign Assets

Net foreign assets rose by 10.0% ($13.3mn) aided by the comparative slowing in demand for imports. The $29.8mn improvement in the net foreign position of the commercial banks reflected a $23.8mn increase in foreign assets as net purchases from the Central Bank and export receipts exceeded sales while short-term foreign liabilities declined by $6.0mn.

On the other hand, the Central Bank's net holdings fell with foreign assets and short-term foreign liabilities dipping by $18.4mn and $1.9mn, respectively. Foreign exchange outflows amounted to $226.3mn while inflows totaled $207.9mn. The latter included $57.0mn in proceeds from the sale of BTL shares, loan disbursements of $84.4mn and $38.8mn from BSI. The balance came from the commercial banks and ROC/Taiwan. Outflows were dominated by sales to the public sector (mainly for external debt servicing) that totaled some $127.5mn while sales to the commercial banks rose to $69.6mn. BEL was allocated $18.6mn for debt servicing and fuel purchase.

After substantial declines in the last half of 2003, commercial banks' excess statutory liquidity expanded by $56.3mn fueled by injections of BSSB proceeds from the sale of its BTL shares. While holdings of approved liquid assets rose by $13.1mn, required holdings declined by $43.2mn. The latter reflected the removal of residential loans from the list of approved liquid assets in April, a move that coincided with the lowering of the reserve requirement from 24% to 19%. The composition of the banks' liquid portfolio shifted during the period with short-term foreign balances and Treasury

Table 3.3: Net Foreign Assets of the Banking System

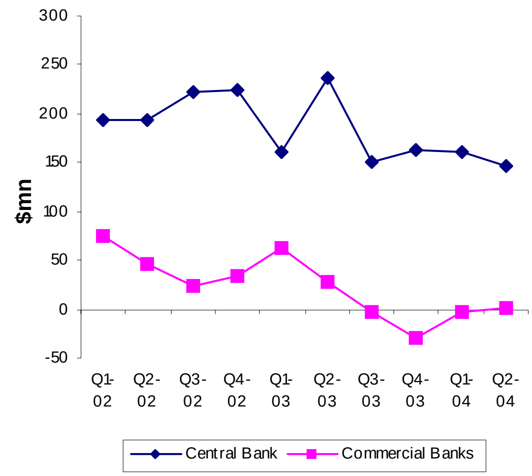
$mn

	Position as at June 2004	Changes during Mar 2004 to June 2004	Changes during Dec 2003 to June 2004
Net Foreign Assets	**146.7**	**-10.8**	**13.3**
Central Bank	**147.0**	**-13.8**	**-16.5**
Foreign Assets	150.8	-13.7	-18.4
*Foreign Liabilities(Demand)	3.8	0.1	-1.9
Commercial Banks	**(0.3)**	**3.0**	**29.8**
Foreign Assets	142.5	8.0	23.8
#Foreign Liab. (Short-Term)	142.8	5.0	-6.0

** Does not include Central Bank Long-term Foreign Liabilities of* ***$5.0***

 # Does not include Non-residents Foreign Currency Time Deposits of ***$31.8*** *held with commercial banks*

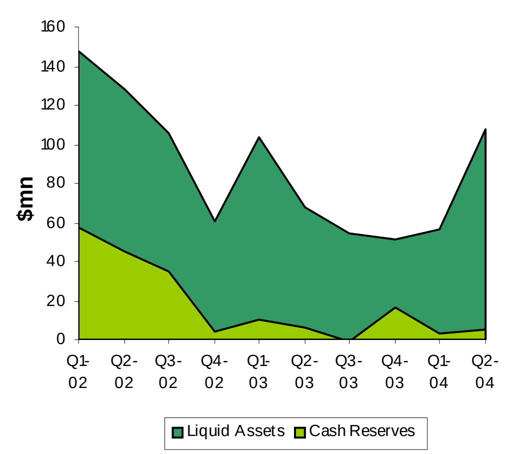
Chart 3.1: Net Foreign Asset Holdings of the Central Bank and Commercial Banks



Bill holdings being built up by $34.7mn and $21.3mn, respectively. On the other hand, excess cash reserves declined by $11.4mn reflecting an $8.4mn decline in daily average holdings of cash reserves relative to a $3.0mn rise in required holdings.

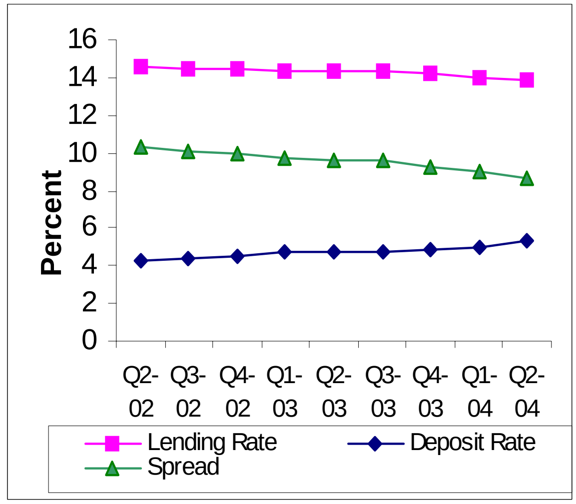
Active competition among the banks caused further narrowing of the weighted

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



average interest rate spread to 8.6% (its lowest level in ten years). The 70 basis points decline reflected an increase of 40 basis points in the weighted average deposit rate and a 30 basis point decline in the weighted average lending rate. Weighted average rates on personal and other types of loans maintained a general downward trend while that on residential loans increased by 20 basis points.

Chart 3.3: Commercial Banks' Weighted Average Interest Rates and Spread



Government Operations

Fiscal operations: April to June 2004

In the first quarter of the 2004/05 fiscal year, Central Government's operations generated current and overall deficits of $1.6mn and $33.1mn, respectively. The latter was roughly 42.0% above the projected shortfall for the entire fiscal year and was financed in equal proportions by the Central Bank and local commercial banks. Net financing from abroad was negative as loan disbursements of $11.1mn were surpassed by amortization and sinking fund payments that totalled $20.5mn.

Current revenue rose by 9.8% with increases in collections of tax and non-tax revenues exceeding that of the comparable period of 2003 by 8.3% and 31.9%, respectively. While all categories of tax revenue expanded, the largest increase came from taxes on income and profits. Grant receipts remained constant at around $2.8mn and capital revenue declined by approximately $0.9mn.

Current expenditure vaulted upward by 15.5% as higher outlays on wages/salaries, pensions, interest payments and transfers outweighed a 2.2% decline in expenditure on goods and services. Capital expenditure registered a contrasting decline of 23.2% reflecting efforts to rein in the fiscal deficit. Of the $14.3mn expended under Capital II, the more notable items were land development, municipal roads and drainage, road maintenance, public awareness campaigns, the National Sports Council and passports. Capital III outlays totalled $18.2mn and included disbursements for early retirement/gratuities, the University of Belize, prison custodial services, hurricane preparedness, the tourism

Table 4.1: Central Government's FY Expenditure

$mn

	Apr - Jun 2003	Apr - Jun 2004
Current Expenditure	95.4	110.2
Wages & Salaries	45.9	52.1
Pensions	6.6	7.2
Goods & Services	18.0	17.6
Interest Payments	17.4	23.4
of which: External	13.6	19.1
Subsidies & current transfers	7.5	9.9
Capital Expenditure	66.1	37.1
Capital II	14.9	14.3
Capital III	27.5	18.2
Net lending	23.8	4.6

Table 4.2: Summary of Central Government's Domestic Debt

$mn

	Position as at Dec 03	Jan - Jun 2004
Loans and Advances	119.8	132.8
Treasury Bills	100.0	100.0
Treasury Notes	24.0	24.0
Defence Bonds	15.0	15.0
Total	**258.8**	**271.8**

development plan, land management programme and paving of the road between Burrell Boom and Mussel Creek. Outlays in the form of loans to the DFC contracted by $19.2 (80.6%) in comparison with the same period of 2003.

Government's Domestic Debt

During the first six months of the year Central Government's domestic debt rose by 3.9% to $268.9mn, reflecting a $6.1mn expansion in the Central Bank overdraft and a disbursement of $5.0mn from the Belize Bank. Principal repayments totalled $0.6mn and recipients included the DFC, the Belize Bank Limited and the GOB debt for nature swap.

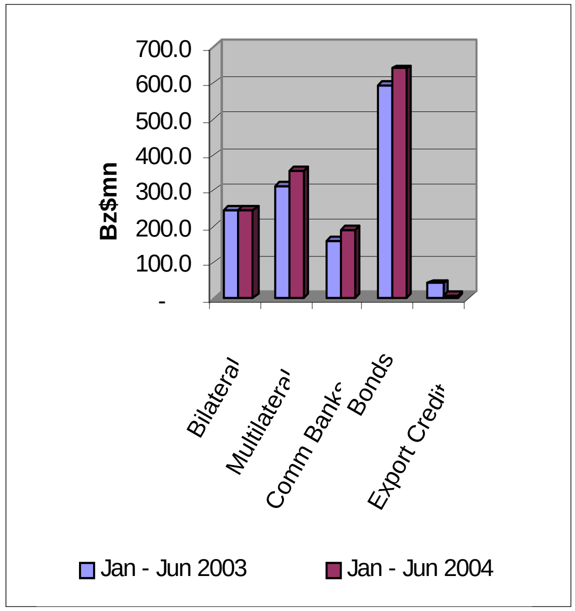
Interest payments summed to $7.7mn with $4.3mn being paid on the overdraft balance and holders of Treasury Bills and Treasury Notes receiving $1.3mn and $1.1mn, respectively. The balance was shared among the DFC, BSSB, the Belize Bank and the GOB debt for nature swap.

Table 4.3: Financial Flows on Public Sector's External Debt

$mn

	Jan - Jun 2003	Jan - Jun 2004
Central Government		
Disbursements	237.0	84.8
Amortization	26.5	24.9
Interest & Other Charges	28.4	51.1
Rest of NFPS		
Disbursements	0.0	0.0
Amortization	1.0	1.1
Interest & Other Charges	0.6	0.5
Financial Public Sector		
Disbursements	32.5	0.1
Amortization	30.8	5.3
Interest & Other Charges	4.4	1.3

Chart 4.1: Disbursed Outstanding External Debt by Creditor Category



In the secondary market for government securities, the commercial banks purchased $32.9mn worth of Treasury Bills from the Central Bank ($30.6mn) and private sector entities ($2.3mn).

Public Sector External Debt

The public sector's external debt contracted by $60.8mn to $1,444.5mn largely due to an arrangement whereby

ICC assumed responsibility for servicing a loan of $114.0mn from the International Bank of Miami. In other transactions, loan disbursements of $85.1mn were partly offset by amortization payments of $31.2mn and downward valuation adjustments of $0.7mn. The latter reflected the appreciation of the US dollar against the euro, which was only partly offset by the appreciation of the pound sterling against the US dollar. Interest and other payments amounted to $51.7mn.

Central Government accounted for 99.8% of total disbursements, with $56.7mn coming from commercial creditors, $17.3mn from multilateral institutions such as the IDB, CDB and the IBRD and disbursements from bilateral creditors amounting to $10.8mn. The financial public sector (DFC) received a single CDB disbursement of $0.2mn.

Amortization payments by Central Government totalled $24.9mn with commercial banks and suppliers receiving $9.8mn and payments to bilateral and multilateral creditors amounting to $7.9mn and $7.2mn, respectively. Of the $5.3mn paid by the financial public sector, $3.2mn went to commercial banks and suppliers, $1.9mn to multilateral agents and $0.2mn to bilateral creditors. Payments by the non-financial public sector to the government of Kuwait and CIBC Bank & Trust totaled $1.1mn.

Of the $51.1mn in interest and other payments by Central Government, commercial creditors such as Bear Stearns, the International Bank of Miami (TIBOM) and the Royal Merchant Bank accounted for 79.3%. The remainder was equally shared between bilateral and multilateral lenders. Interest payments by the financial public sector amounted to $1.3mn with the largest payment going to the CDB ($0.9mn). A total of $0.5mn was paid by the non-financial public sector and this was divided between CIBC Bank & Trust and the government of Kuwait.

ANNEX 5

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

Major Commodity Group	Weights	Quarterly Change				Annual Change
		Aug-03	Nov-03	Feb-04	May-04	
Food, Beverage & Tobacco	346.6	0.9	0.0	0.8	0.6	2.2
Clothing & Footwear	92.0	-0.2	-0.5	1.1	0.1	0.5
Rent, Water, Fuel, & Power	167.6	0.0	4.0	1.7	0.1	5.9
Household goods & maintenance	85.3	0.2	-0.4	0.2	0.4	0.4
Medical care	20.1	0.0	0.2	-0.4	1.5	1.3
Transport & Communication	170.1	1.7	0.4	1.2	2.6	6.0
Recreation, Education & Culture	80.4	0.0	0.7	0.4	0.1	1.2
Personal care	37.9	0.1	-0.6	-0.5	-0.1	-1.1
ALL ITEMS	**1000.0**	**0.6**	**0.8**	**0.9**	**0.8**	**3.2**

Source: Central Statistical Office

Table 5.2: Gross Imports (CIF) by SITC

$ '000

SITC Section	Jan– June 2003	Jan– June 2004
0 Food and Live Animals	60,881	55,343
1 Beverages and Tobacco	4,326	4,947
2 Crude Materials	3,590	3,298
3 Minerals, Fuels and Lubricants	70,086	74,131
of which electricity	18,156	14,841
4 Oils and Fats	1,609	1,424
5 Chemical Products	41,446	37,495
6 Manufactured Goods	64,038	60,886
7 Machinery and Transport Equipment	110,034	86,615
8 Other Manufactures	36,962	35,901
9 Commodities N.E.S	910	14
Export Processing Zones	76,321	59,585
Commercial Free Zone	83,323	69,715
Personal Goods	1,587	926
Total	**544,843**	**490,282**

Source: Central Statistical Office, Central Bank of Belize

Table 5.3: Balance of Payments Summary

$mn

	2004[P] Jan-June	2003[R] Jan-June
CURRENT ACCOUNT	-117.4	-179.0
Goods: Exports f.o.b.	289.8	323.0
Goods: Imports f.o.b.	-464.6	-532.8
Trade Balance	-174.8	-209.7
Services: Credit	252.2	219.2
Transportation	31.6	23.0
Travel	187.4	162.7
Other Goods & Services	19.8	19.2
Gov't Goods & Services	13.4	14.3
Services: Debit	-123.0	-134.8
Transportation	-40.0	-39.7
Travel	-35.4	-38.6
Other Goods & Services	-40.3	-48.6
Gov't Goods & Services	-7.3	-7.9
Balance on Goods & Services	-45.6	-125.3
Income: Credit	4.0	4.0
Compensation of Employees	2.5	2.5
Investment Income	1.6	1.5
Income: Debit	-124.0	-89.7
Compensation of Employees	-8.8	-8.2
Investment Income	-115.2	-81.5
Balance on Goods, Services & Income	-165.6	-211.1
Current Transfers: Credit	50.4	34.8
Current Transfers: Debit	-2.2	-2.8
CAPITAL ACCOUNT	6.8	1.7
Capital Account: Credit	7.6	2.3
Capital Account: Debit	-0.7	-0.6
FINANCIAL ACCOUNT	90.8	187.5
Direct Investment Abroad	-0.1	-0.5
Direct Investment in Reporting Economy	219.3	24.4
Portfolio Investment Assets	-0.2	-0.1
Portfolio Investment Liabilities	-22.5	174.6
Financial Derivatives	0.6	0.7
Other Investment Assets	-138.5	0.8
Other Investment Liabilities	32.3	-12.5
NET ERRORS & OMISSIONS	1.4	0.7
OVERALL BALANCE	-18.4	10.8
RESERVE ASSETS*	18.4	-10.8

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

Table 5.4: Central Government's Revenue and Expenditure

$'000

	Estimated Budget 2004/2005	Apr 2004 to Jun 2004	Apr 2003 to Jun 2003	Actual to date as % of Budget
TOTAL REVENUE & GRANTS (1+2+3)	521,111	114,253	107,676	21.9%
1). Current revenue	491,099	108,649	101,115	22.1%
Tax revenue	444,372	100,390	92,689	22.6%
Income and profits	101,955	24,471	21,124	24.0%
Taxes on property	20,020	1,017	873	5.1%
Taxes on goods and services	135,045	33,695	31,430	25.0%
Int'l trade and transactions	187,352	41,207	39,262	22.0%
Non-Tax Revenue	46,727	8,258	8,426	17.7%
Property income	4,075	676	774	16.6%
Contributions to pension fund	681	0	0	0.0%
Transfers from NFPE's	1,080	0	0	0.0%
Other	40,891	7,582	7,652	18.5%
2). Capital revenue	24,000	2,814	3,675	11.7%
3). Grants	6,013	2,790	2,886	46.4%
TOTAL EXPENDITURE (1+2)	544,386	147,326	161,507	27.1%
1). Current Expenditure	418,016	110,211	95,400	26.4%
Wages and Salaries	212,484	52,122	45,930	24.5%
Pensions	23,901	7,213	6,626	30.2%
Goods and Services	71,044	17,551	18,011	24.7%
Interest Payments on Public Debt	76,982	23,405	17,372	30.4%
Subsidies & current transfers	33,605	9,920	7,461	29.5%
2). Capital Expenditure & Net Lending	126,370	37,116	66,107	29.4%
Capital II (local sources)	52,342	14,320	14,853	27.4%
Capital III (foreign sources)	70,347	18,191	27,470	25.9%
Capital Transfer & Net Lending	3,681	4,605	23,784	125.1%
CURRENT BALANCE	73,082	(1,562)	5,716	-2.1%
OVERALL BALANCE	(23,275)	(33,073)	(53,831)	142.1%
FINANCING	23,275	33,073	53,831	
Receipts from DFC		50,000	0	
Domestic Financing	(80,624)	44,275	(169,340)	
Central Bank		22,087	(68,988)	
Net Borrowing		(24,524)	25,320	
Change in Deposits		46,611	(94,308	
Commercial Banks		22,270	(27,204)	
Net Borrowing		37,590	(17,860)	
Change in Deposits		(15,320)	(9,344)	
Other Domestic Financing		(82)	(73,148)	
Holding of commercial bank security		(50,000)	0	
Financing Abroad	39,989	(9,348)	225,688	
Disbursements	81,284	11,111	249,095	
Amortization	(47,518)	(17,877)	(31,793)	
Sinking Fund & JCF	6,223	(2,582)	8,386	
Other		(1,855)	(2,518)	

Table 5.5: Public Sector External Debt By Creditor

$'000

	Disbursed Outstanding Debt 31/12/2003	TRANSACTIONS DURING Jan - June 2004				Disbursed Outstanding Debt 30/06/2004
		Disburse-ment	Amortiza-tion	Interest & Other Charges	Valuation Adjust-ments	
CENTRAL GOVERNMENT	**1,416,896**	**84,899**	**24,878**	**51,065**	**(427)**	**1,362,368**
Caribbean Development Bank*	60,930	4,409	1,013	812	1	64,327
European Economic Community	20,428	0	439	78	(759)	19,230
Inter-American Development Bank	127,811	11,151	1,925	2,324	0	137,037
Int'l Bank for Reconstruction Dev.	71,074	1,496	3,170	1,524	0	69,400
Int'l Fund for Agricultural Dev.	2,317	96	349	57	(11)	2,053
OPEC Fund for International Dev.	7,847	174	267	198	0	7,754
Banco Nacional De Comercio	8,454	545	0	276	0	8,999
Fondo de Inversiones de Venezuela	1,198	0	109	36	0	1,189
Government of China	174	0	0	0	0	174
Government of Kuwait	21,225	298	575	660	10	20,958
Gov't of Trinidad and Tobago	28	0	4	1	0	24
Gov't of United Kingdom	16,558	0	2,653	0	333	14,238
Gov't of United States of America*	9,164	0	612	155	0	8,552
Republic of China	176,642	10,000	3,989	4,264	2	182,653
Bear Stearns & Co. Inc	450,000	0	0	21,625	0	450,000
Citibank of Trinidad & Tobago	15,430	0	1,714	765	(1)	13,715
Citicorp Merchant Bank Ltd.	51,429	0	1,429	2,357	0	50,000
Royal Merchant Bank	77,750	0	2,977	5,700	0	74,773
Salomon Smith Barney***	52,030	0	0	2,692	0	52,030
All First Bank of Maryland	3,780	0	420	110	0	3,360
International Bank Of Miami	228,506	56,730	668	6,989	0	170,568
KBC Bank	7,477	0	935	203	0	6,542
Provident Bank & Trust	1,828	0	886	63	0	942
Suppliers Credit	4,816	0	744	176	0	4,072
REST OF NON-FINANCIAL PUBLIC SECTOR	**14,274**	**0**	**1,053**	**482**	**0**	**13,221**
CIBC Bank & Trust Co.	5,454	0	714	303	0	4,740
Government of Kuwait	8,820	0	339	179	0	8,481
FINANCIAL PUBLIC SECTOR	**74,125**	**189**	**5,252**	**1,295**	**(313)**	**68,748**
Caribbean Development Bank	46,084	189	1,582	914	(7)	44,684
European Economic Community	12,055	0	311	65	(306)	11,438
Gov't of United States of America	2,531	0	194	38	0	2,337
Citibank Trinidad & Tobago	3,750	0	1,250	62	0	2,500
Citicorp Merchant Bank Ltd.	3,750	0	1,250	62	0	2,500
Paine Webber Real Estate Securities Inc.	2,000	0	100	16	0	1,900
Commerz Bank of Belgium	3,955	0	565	138	0	3,390
TOTAL	**1,505,295**	**85,088**	**31,183**	**52,842**	**(740)**	**1,444,460**

Effective 31st March 2001, WASA loans were re-classified as private sector debt as a result of its full privatization.
*****Effective 31st December, 2002 BPA Loans of Bz $23.8 mn were re-classified as private sector debt as a result of its full privatization.***
Outstanding external debt of private entities remained as a contingent liability of Central Government.
**** USAID Debt for Nature Swap Agreement as at 2nd August, 2001 was implemented on 30th November, 2001 for BZ $17,168.***
Solomon Smith Barney Bond of US$29.1 mn payable in 2005 was net of US$20 mn sinking fund established in 2002.
International Bank of Miami's DOD at the end of June was reduced by $114mn as BTL now assumes the liability. However, the $114mn remains a contingent liability for GOB

Table 5.6: Public Sector Domestic Debt By Creditor

$'000

	Transactions To June 2004					
	Disbursed Outstanding Debt 31/12/03R	Disbuse-ment/ New Issue of Securities	Amortiza-tion/ Re-duction in Securities	Interest	Net Change in Overdraft/ Securities	Disbursed Outstanding Debt 30/06/04P
Overdraft	**76,937**			**4,320**	**8,998**	**85,935**
Central Bank	74,121			4,320	6,139	80,260
Commercial Banks	2,816			0	(103)	2,713
Treasury Bills	**100,000**	**0**	**0**	**1,293**	0	**100,000**
Central Bank	81,413		0	1,030	(30,619)	50,794
Commercial Banks	13,896		0	221	32,883	46,779
Other	4,691		0	42	(2,264)	2,427
Treasury Notes	**24,000**	**0**	**0**	**1,125**	**0**	**24,000**
Central Bank	0		0		0	0
Commercial Banks	23,269		0	1,075	0	23,269
Other	731		0	50	0	731
Defence Bonds	**15,000**	**0**	**0**	**0**	**0**	**15,000**
Central Bank	10,000		0		0	10,000
Commercial Banks	100		0		0	100
BSSB	0		0		0	0
Other	4,900		0		0	4,900
DFC Loan (Debt Restructuring)	**8,431**		**244**	**156**	**0**	**8,187**
BSSB Housing Loan	**691**		**1**	14	**0**	**690**
GOB(Debt For Nature Swapp)	**14,747**		**563**	**176**	**0**	**14,184**
Cohune Walk Loan Bze. Bank	**2,978**		**144**	**253**	**0**	**2,834**
Infrastructure Dev. Ln Bze. Bank	**15,000**	**5,000**	**0**	**228**	**0**	**20,000**
Guardian Life Bze $ 1mn Loan	**1,000**	**0**	**0**	**270**	**0**	**1,000**
Total	**258,784**	**5,000**	**952**	**7,835**	**6,036**	**268,868**

Table 5.7: Commercial Banks' Weighted Average Interest Rates

Percentages

	Position as at Jun 2004	Changes during Mar 2004 to Jun 2004	Changes during Mar 2003 to Jun 2003	Dec 2003 to Jun 2004
Weighted Lending Rates				
Personal Loans	15.6	0.1	-0.3	-0.2
Commercial Loans	13.9	0.1	0.0	0.0
Residential Construction	12.6	0.1	-0.2	0.2
Other	9.9	0.0	-0.4	-0.7
Weighted Average	**13.9**	**-0.1**	**-0.1**	**-0.3**
Weighted Deposit Rates				
Demand	0.5	-0.1	-0.2	0.1
Savings/ Cheque	5.2	0.0	0.0	0.1
Savings	5.0	-0.1	0.0	-0.1
Time	7.5	0.2	0.1	0.3
Weighted Average	**5.3**	**0.3**	**0.1**	**0.4**
Weighted Average Spread	**8.6**	**-0.4**	**-0.1**	**-0.7**

Table 5.8: Commercial Banks Liquidity Position and Cash Reserves

$mn

	Position as at June 2004	Changes during March 2004 to June 2004	Changes during March 2003 to June 2003	Changes during Dec 2003 to June 2004
Holdings of Approved Liquid Assets	**316.4**	**1.6**	**-31.1**	**13.1**
Notes and Coins	30.3	0.2	-1.1	0.5
Balances with Central Bank	69.0	1.2	-4.3	-10.6
Money at Call and Foreign Balances (due 90 days)	108.7	9.9	-27.0	34.7
Treasury Bills maturing in not more than 90 days	41.1	34.4	-2.7	21.3
Other Approved assets	67.3	-44.1	4.0	-32.8
of which: Treasury Notes	23.3	0.0	0.0	0.0
Loans for New Residential Construction	0.0	-50.3	2.6	-49.5
Loans for Non-Traditional Exports	0.0	0.0	-0.1	0.0
Required Liquid Assets	**209.1**	**-49.1**	**5.3**	**-43.2**
Excess/(Deficiency) Liquid Assets	**107.3**	**50.7**	**-36.4**	**56.3**
Daily Average holdings of Cash Reserves	71.5	4.3	-2.4	-8.4
Required Cash Reserves	66.0	1.5	1.3	3.0
Excess/(Deficiency) Cash Reserves	**5.5**	**2.8**	**-3.7**	**-11.4**

Table 5.9: Net Domestic Credit

$mn

	Position as at June 2004	Changes during Mar 2004 to June 2004	Changes during Dec 2003 to June 2004
Total Credit to Central Government	**233.8**	**7.9**	**13.3**
From Central Bank	**141.1**	**-29.7**	**-24.5**
Loans and Advances	80.3	5.7	6.1
Gov't Securities	60.8	-35.4	-30.6
From Commercial Banks	**92.7**	**37.6**	**37.8**
Loans and Advances	22.7	2.3	4.9
Gov't Securities	70.0	35.3	32.9
Less Central Government Deposits	**120.7**	**-29.9**	**-9.0**
With Central Bank	96.6	-45.2	-26.5
With Commercial Banks	24.1	15.3	17.5
Net Credit to Central Government	**113.1**	**37.8**	**22.3**
Credit to Other Public Sector	**83.9**	**54.2**	**62.7**
From Central Bank	24.5	4.0	14.5
From Commercial Banks	59.4	50.2	48.2
Plus Credit to the Private Sector	**1,063.7**	**34.2**	**45.6**
Loans and Advances	1,062.7	35.7	47.1
Securities	1.0	-1.5	-1.5
Net Domestic Credit of the Banking System	**1,260.7**	**126.2**	**130.6**

Table 5.10: Money Supply

$mn

	Position as at June 2004	Changes during Mar 2004 to June 2004	Changes during Dec 2003 to June 2004
Money Supply (M2)	**1,173.4**	**63.8**	**72.2**
Money Supply (M1)	**375.3**	**-5.2**	**14.2**
Currency with the Public	106.8	4.2	3.5
Demand Deposits	268.5	-9.4	10.7
Savings/Cheque Deposits	0.0	0.0	0.0
Quasi-Money	**798.1**	**69.0**	**58.0**
Savings Deposits	201.6	11.0	-3.9
* Time Deposits	596.5	58.0	61.9

*Includes Non-Residents Foreign Currency Time Deposits of **$31.8mn**