Review of Economic and Financial Developments

Overview

The economy grew by an estimated 4.7% in the first three quarters of the year led by strong activity in tourism, agriculture, construction, and government services. Rising costs for energy, freight and imports as well as an increase in water rates pushed inflation upwards. As a result, the Consumer Price Index (CPI) rose by 0.8% between May to August 2004 and by 3.4% over the twelve month period from August 2003 to August 2004.

Notwithstanding falling export prices, the external current account deficit declined by 19.3% to $191.3mn (around 12.2% of GDP). The latter reflected a 9.2% decrease in the trade deficit, a 13.4% increase in tourism revenues and higher current transfers. In addition to net capital and financial inflows of approximately $136.1mn, the official reserves were drawn down by $46.7mn to assist in covering the current account gap. Import coverage consequently declined from to 2.1 to 1.6 months.

The broad money supply grew by 8.4%, an increase that was driven by an 18.2% expansion in net domestic credit. Statutory bodies (principally the Development Finance Corporation), Central Government and the private sector all received substantial increases in domestic funding. With increased credit coinciding with higher payments on the external debt, the net foreign assets of the banking system was reduced to $102.2mn.

In the third quarter of the year, accelerated lending by the commercial banks caused a $32.4mn contraction in excess statutory liquidity. This followed a build-up of $51.0mn in the first half of the year that was fuelled by the receipt of Belize Social Security Board proceeds from the sale of BTL shares to a foreign investor. The cash reserve position of the banks also tightened significantly and interest rates began to move upward as competition among the banks for deposits intensified. With the weighted average deposit rate rising by 40 basis points, and the weighted average lending rate falling, partly due to the effect of increased loans to the public sector, the spread earned by the commercial banks narrowed from 9.3% at the start of the year to 8.6%.

In the first two quarters of its 2004/2005 fiscal year, Central Government's operations generated an overall deficit of $44.6mn that was 91.7% above the projected budgetary shortfall for the fiscal year. Financing came from domestic sources as borrowing from the Central Bank and commercial banks rose and deposits were drawn down. The current surplus narrowed to $7.2mn as current expenditure (mainly on wages and interest payments) outpaced the rate of revenue expansion by more than 3.0%.

During the first nine months of the year, Central Government's domestic debt rose by 4.4% reflecting a net increase of $8.1mn in the overdraft balance and a disbursement of $5.0mn from a commercial bank. Principal and interest payments totalled $1.7mn and $11.1mn, respectively. During the same period, the public sector's disbursed outstanding external debt expanded by $51.4mn to $1,557.4mn as loan disbursements of $95.4mn and upward valuation adjustments outweighed amortization payments of $44.3mn. Interest and other payments amounted to $76.8mn.

Domestic Production and Prices

GDP grew by 4.7% during the first three quarters of the year led by buoyant activity in tourism, agriculture, construction, and government services.

Primary activity in agriculture/hunting/ forestry and fishing was up 11.4% and 2.1%, respectively. The latter was dependent on the natural cyclical patterns of conch and lobster wild capture since farmed shrimp output remained stable. Meanwhile, good harvest weather and increased usage of field inputs pushed up production of sugarcane, banana, citrus and papaya by 7.1%, 11.8%, 25.4% and 59.2%, respectively.

In the secondary sector, a notable increase in commercial bank loans facilitated a 10.8% expansion in construction. Together with a 4.0% rise in manufacturing (largely of sugar and citrus juices) this more than offset a 4.9% decline in electricity and water.

Further increases in stay-over and cruise ship visitors stimulated growth in services, which included a 24.6% increase in hotel and restaurant activities and 3.0% increase in transport and communication. Government services also expanded by 11.4%, while other private services (real estate, financial intermediation, business, community and social services) grew by 11.7%. On the other hand, a contraction in imports contributed to a 5.3% decline in the wholesale and retail trade sub-sector.

Inflation was up 0.8% between May to August 2004 and by 3.4% over the twelve-month period (August 2003 to August 2004). Prices were boosted upward by higher energy and freight costs, an increase in water rates and higher import costs as proxied by the increase in the US export price index

Sugarcane and Sugar Production

The sugarcane harvest ended on July 1st after 214 days of operation. Deliveries were up by 7.1% to 1,149,475 long tons due to favourable harvest weather, greater efforts by farmers and higher yields from the BSI Cane Growing project. The latter achieved 25 to 26 tons per acre as compared to the average of 17 to 18 tons per acre obtained by farmers.

Notwithstanding a one percentage point decrease in the crop's sugar content, sugar production increased by 11.6% to 116,515 long tons as the sugar extraction rate rose from 91.0% to 94.0% in response to changes in factory procedures and lower mud in the sugarcane deliveries. The higher sugar out-turn consequently caused molasses production to fall by 4.3% to 41,117 long tons.

With raw sugar prices under pressure from considerable global sugar inventories and good harvests, the estimated average final price per long ton of sugarcane fell to $42.41, some $1.68 below the 2002/2003 price. A significant rise in freight costs further eroded the industry's net returns. The price decline was however partly tempered by increased sales to the more remunerative regional market and the strengthening of export prices in the EU where a 5.1% improvement in the euro/US dollar exchange rate almost offset the rise in freight rates to that market.

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

	Nov-Sept 2003/04	Nov-Sept 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

Citrus

Factory deliveries for the 2003/2004 crop were up 25.4% to 6.4mn boxes, as orange and grapefruit deliveries surged by 22.3% and 37.2%, respectively. Crop yields were boosted by favourable weather and higher field inputs. Grapefruit yields also benefited from successful efforts to control the Mexican fruit fly that had caused extensive fruit drop in previous years.

Citrus juice production expanded 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. The larger growth was in grapefruit juice, which rose by 33.9%, while orange juice was up 16.8% to 28.1mn ps.

Concentrate juice production totalled 32.0mn ps (94.5% of total juice output), while Not-from-concentrate (NFC) juices measured 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. In an effort to increase the industry's value added, pulp and oil output grew by 71.1% and 89.0%, respectively.

Table 1.2: Output of Citrus Products

	2003/04 Oct– Sept	2002/03 Oct–Sept
Deliveries (boxes)		
Orange	4,946,717	4,046,295
Grapefruit	1,478,788	1,078,137
Total	6,425,505	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

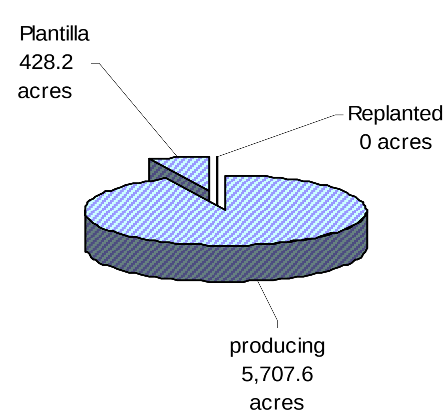
During the year, citrus export prices weakened in response to large, global inventories and good harvests in key producing countries such as Brazil and the United States. Further exacerbating price pressures were negative publicity on the effects of grapefruit on certain medications and the perception of citrus juices as a high carbohydrate drink. Consequently, final fruit prices to growers fell to $0.88 per pound solid for orange and $3.84 per box for 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

After a sluggish start caused by heavy rains and low temperatures in the early part of the year, banana production rebounded with the onset of good weather and productivity improvements that were facilitated by EU grant assistance. Up to September, production amounted to 3.4mn boxes, compared to 2.9mn boxes in the comparable period of 2003. The industry therefore remained on track to meet its annual forecast of 4.2mn export boxes.

Total acreage dedicated to banana cultivation remained relatively stable as acreage with producing trees measured 5,707.6 while that under plantilla (young trees not ready for harvesting) amounted to 428.2 acres.

Chart 1.1: Banana Acreage at September 2004



The minimum average price per box for the industry was negotiated at US$6.20. However, to encourage more production during the first part of the year, 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.

Tourism

The tourism boom continued as year to date arrivals of stay-over bona fide tourists increased by 5.4% to 163,397.

The United States and Europe accounted for approximately 66.1% and 11.5% of total stay-over tourists. Arrivals from the United States grew by 8.1% to 107,986 visitors as American consumer spending strengthened in line with a third quarter annualized growth rate of 3.7%. High oil prices and the strength of the euro restrained growth in the euro zone economies, and European arrivals consequently grew by a modest 2.2% to 18,779.

Air travelers accounted for 78.1% of total stay-over arrivals. Visitors through the land border and seaports made up 18.0% and 3.9%, respectively. While arrivals through the Phillip Goldson International

Table 1.2: Bona Fide Tourist Arrivals

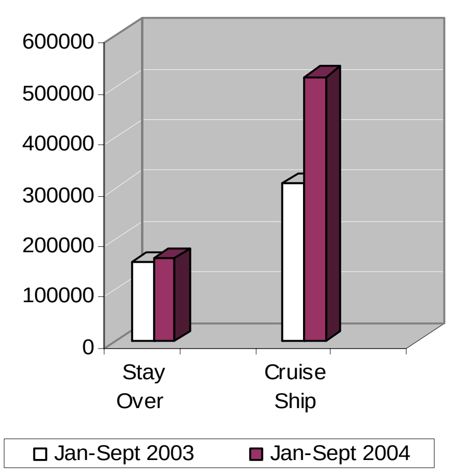
	2004 Jan-Sept	2003 Jan-Sept
Stay-over Arrivals		
Air	127,635	120,426
Land	29,375	28,104
Sea	6,387	6,509
Total	**163,397**	**155,039**
Cruise Ship	519,525	**309,647**
Total Arrivals	**682,922**	**464,686**

Source: Immigration Department

Airport (PGIA) and the land borders increased by 6.0% and 4.5%, respectively, those entering through the seaports declined by 1.9%.

The surge in cruise ship visitors continued with passenger disembarkations

Chart 1.2:Arrivals of Stay Over and Cruise Ship Tourists



expanding by 67.8% to 519,525 as the number of port calls increased from 204 to 289 and larger ships were used.

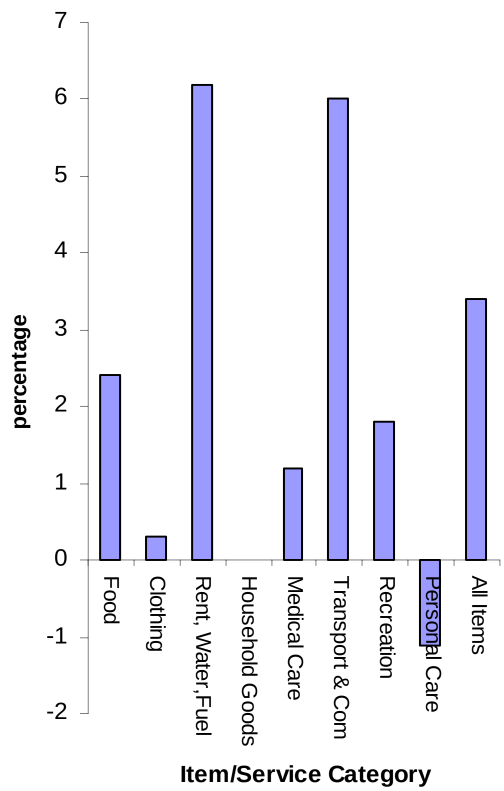
Consumer Price Index

Rising energy costs pushed the Consumer Price Index (CPI) upward by 0.8% between May to August 2004 and by 3.4% over the year (August 2003 to August 2004). Except for '*Personal Care*', prices of all categories of goods and services in the CPI basket increased.

The largest annual increases were in '*Rent, Water, Fuel and Power*' (6.2%) and '*Transport and Communication*' (6.0%). In the former, higher water rates (the utility company implemented an average 17.0% increase in water rates in April, 2004) and an escalation in butane/cooking oil costs were the main factors. Meanwhile, transportation costs were driven upward by a combination of increased drivers' license fees as well as higher airfares and fuel prices at the pump.

Prices within the '*Food, Beverage and Tobacco*' category increased by 2.4% mainly in response to the higher cost of food imports. '*Recreation, Education & Culture*' rose by 1.8%, while '*Medical Care*' grew modestly by 1.2%.

Chart 1.3: Annual Percentage Change in Consumer Price Index August 2003– August 2004



International Trade and Payments

The external current account deficit contracted by 19.3% to $191.3mn in the first three quarters of the year reflecting a 9.2% improvement in the trade deficit, a 13.4% increase in tourism revenues and higher current transfers. The deficit was financed by net capital/financial inflows of $136.1mn and by drawing down some $46.7mn from official reserves. Import coverage consequently declined to 1.6 months.

With a 9.6% reduction in imports more than compensating for a 9.9% drop in exports, the trade deficit fell to $254.5mn. Much of the decline in imports was due to reduced purchases of capital items for electricity, air and road transportation, telecommunications and the citrus industry. Imports of Mexican electricity, edible goods, agricultural inputs and packaging also declined and a 17.4% decline in Commercial Free Zone (CFZ) imports was recorded as cross border trade further slowed in response to tight Mexican customs procedures and competitive gasoline prices in Chetumal.

Exports were down mostly due to depressed prices in the international market for the major export commodities

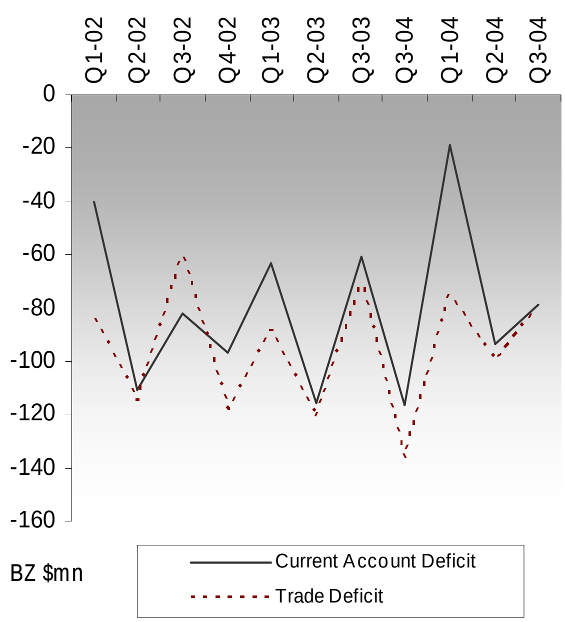
Table 2.1: Balance of Payments Summary

(BZ$mn)

	2004P Jan-Sept	2003R Jan-Sept
A. CURRENT ACCOUNT (I+II+III+IV)	**-191.3**	**-236.9**
I. Goods (Trade Balance)	**-254.5**	**-280.5**
Exports, f.o.b.	451.6	501.1
Domestic Exports	286.9	298.2
CFZ Gross Sales	140.3	168.8
Re-exports	24.3	34.1
Imports, f.o.b.	706.1	781.5
Domestic Imports	598.4	651.2
CFZ Imports	107.7	130.3
II. Services	**162.1**	**109.7**
Transportation	-17.6	-26.1
Travel	194.5	158.3
Other Services	-14.8	-23.2
III. Income	**-166.7**	**-116.1**
Compensation of Employees	-6.1	-4.8
Investment Income	-160.6	-111.3
IV. Current Transfers	**67.9**	**50.0**
Government	14.7	3.4
Private	53.1	46.5
B. CAPITAL & FINANCIAL ACCOUNT (I+II)	**136.1**	**196.8**
I. Capital Account	**8.0**	**2.4**
II. Financial Account (1+2+3)	**128.1**	**194.3**
1. Direct Investment in Belize	254.8	38.7
2. Portfolio Investment	-31.9	161.9
Monetary Authorities	0.0	-6.0
General Government	-33.0	168.1
Banks	0.0	0.0
Other Sectors	1.1	-0.2
3. Other Investments	-94.8	-6.3
Monetary Authorities	-5.2	-2.9
General Government	-56.8	-54.1
Banks	-15.4	26.8
Other Sectors	-17.5	23.9
C. NET ERRORS & OMISSIONS	**8.5**	**-32.1**
D. OVERALL BALANCE	**-46.7**	**-72.3**
E. RESERVE ASSETS	**46.7**	**72.3**

P= Provisional
R = Revised

Chart 2.1: Current Account Deficit vs. Trade Deficit



and a steep decline in merchandise and fuel sales in the CFZ.

Sugar exports were up 6.2% in volume to 101,746 long tons and 9.3% in earnings to $76.5mn, notwithstanding lower prices in the USA and CARICOM. This year, all sales were successfully targeted to preferential or higher valued niche markets in the region and Canada. Boosting the revenue surge was the pre-shipment of approximately 2,000 long tons of sugar against the 2005 EU sugar quota allocation.

High global stocks and good harvests in major global citrus producers as well as in the Caribbean contributed to instability in the processed juice market. Consequently, prices, especially for orange, plummeted to new record lows, and higher fuel and freight costs took a further chunk out of net returns to the industry. With a 35.1% price decline in the US, Belize's main orange juice market, and lower sales to the Caribbean, where the highest prices are usually obtained, citrus earnings contracted sharply by 37.9% to $30.4mn, while volume fell by 7.0%.

Banana exports, on the other hand, expanded by 14.8% to 61,700 metric tons and earnings increased by 4.9% to $42.8mn. Revenue growth was subdued by the exportation of second-grade bananas (12.3% of total export volume) which were sold at US$2.50 per box, compared to US$6.93 for the first-grade bananas.

Notwithstanding a 2.1% increase in the volume of marine exports, receipts shrank

Chart 2.2: Domestic Exports

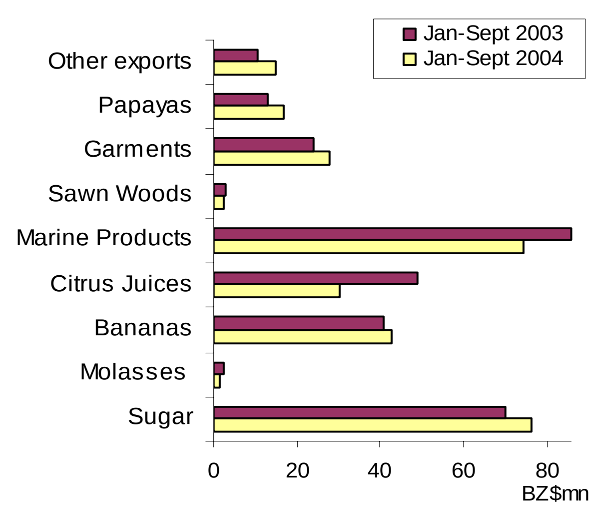
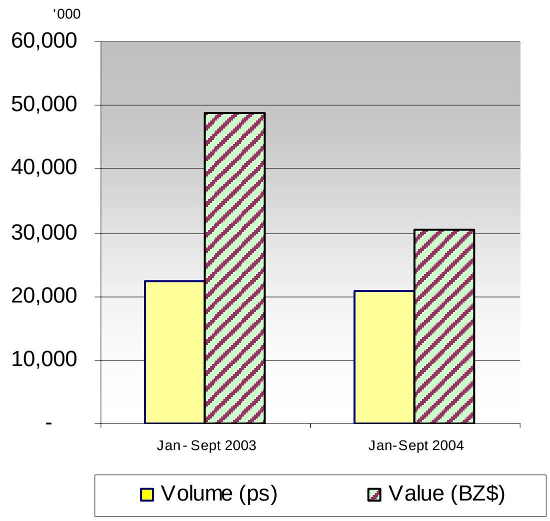


Chart 2.3: Citrus Juice Exports



by 13.6% to $74.3mn since increased earnings from lobster, conch and other fish were outweighed by a 20.5% fall in shrimp revenues as low cost producers from Asia and South America flooded the US market and prices plunged by $1.22 to $4.71 per pound .

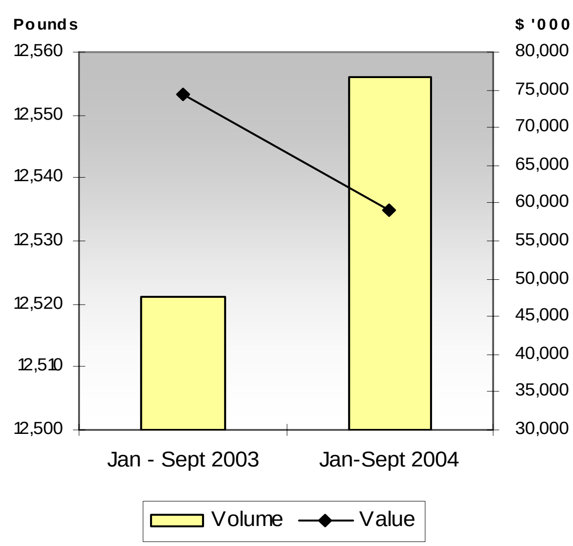
A 59.2% expansion in the export volume of papayas pushed up earnings by 29.5% to $16.6mn as average prices slid by 18.4% to $0.40 per pound. Revenue from garment exports rose by 16.0% to $27.7mn as a 17.6% increase in sales volume also offset a lower average unit price. In other developments, increased sales of citrus oils garnered $3.2mn compared to $0.6mn during the same period of 2003. As a result, other miscellaneous domestic exports rose by 41.3% to $14.7mn

Net earnings from services rose by 47.9% largely due to higher tourism receipts plus increased 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 for financial services consequently declined.

Interest paid to foreign lenders and profit taking by foreign investors rose substantially, boosting net outlays for income by 43.6% to $166.7mn. On the other hand, net receipts for current transfers went up 35.8% to $67.9mn reflecting increased grants, family remittances and funding for religious and non-profit organizations.

Up to September, net capital and financial inflows totaled $136.1mn compared to $196.8mn during the same period of 2003

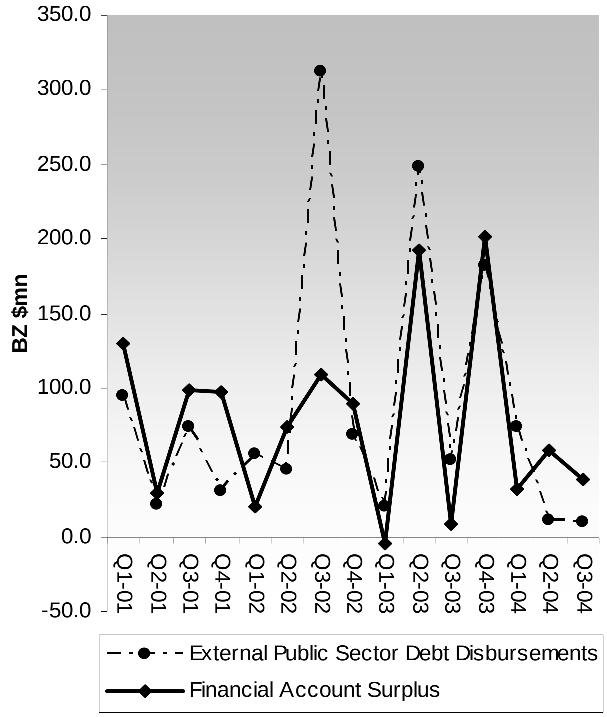
Chart 2.4: Shrimp Exports



when an international bond for US$100mn was successfully issued.

The capital account registered a surplus of $8.0mn, largely due to debt forgiveness from the British and US governments. A surplus of $128.1mn was also recorded on the financial account as debt repayments were offset by foreign direct investment inflows that amounted to $254.8mn. The latter included the sale of BTL shares to Innovative Communications Corporation (some $171.0mn, of which $57.0mn was cash and $114.0mn was a short-term promissory note), new hotel investments and several other investments attracted under the fiscal incentive programme. Debt repayments included $32.2mn for mortgage securitization and covered other regularly scheduled amortization since no further debt refinancing occurred in the period under review.

Chart 2.5: Public Sector Debt Disbursements and Financial Account



Monetary Developments

M2 (broad money) grew by 8.4% driven by an 18.2% expansion in net domestic credit that featured strong growth in credit to the public and private sectors. The increase in credit coincided with higher payments on the external debt and the net foreign assets of the banking system consequently fell by $31.1mn. After accelerating in the first half of the year, liquidity in the banking system contracted sharply as commercial bank portfolios were adjusted to support the rise in lending.

Money Supply

Narrow money rose by 3.0% reflecting increases in currency held by the public and demand deposits of $2.8mn and $8.0mn, respectively. Growth in the latter was influenced by the reclassification of some $17.0mn from savings to demand deposits in the month of January. Even so, quasi-money expanded by $82.0mn (11.1%), more than doubling the 5.3% increase recorded over the corresponding period of 2003. The growth was shown in an $88.1mn expansion in time deposits that was heavily influenced by the Social Security Board's sale of its BTL shares to a foreign investor. Financial institutions,

Table 3.1: Factors Responsible for Money Supply Movements

$mn

	Position as at Sep 2004	Changes during	
		Jun 2004 t Sep 2004	Dec 2003 to Sep 2004
Net Foreign Assets	**102.2**	**-44.4**	**-31.1**
Central Bank	119.4	-27.6	-44.0
Commercial Bank	(17.2)	-16.8	12.9
Net Domestic Credit	**1,335.8**	**75.1**	**205.7**
Central Government (Net)	131.5	18.4	40.7
Other Public Sector	93.2	9.3	72.0
Private Sector	1,111.1	47.4	93.0
CBB For. Liab.(Long-term)	**5.0**	**0.0**	**-2.5**
Other Items (net)	**239.1**	**10.2**	**84.3**
Money Supply M2	**1,193.9**	**20.5**	**92.8**

individuals and business enterprises also contributed to the expansion.

Net Foreign Assets

With outlays for debt servicing increasing, the Central Bank's foreign asset holdings fell by $46.7mn to $122.5mn during the period reviewed. Of the $269.4mn in inflows, 30.8% came from loan disbursements, and 21.1% was accounted for by proceeds from the sale of BTL shares. Approximately 37.0% consisted of purchases from the Belize Sugar Industry and domestic commercial banks. Outflows totaled $316.1mn and were dominated by foreign exchange sales of $185.3mn to the public sector of which roughly 80.0% was used to service the external debt. Sales to the commercial banks stood at $89.9mn, a

Table 3.2: Net Foreign Assets of the Banking System

$mn

	Position as at Sep 2004	Changes during Jun 2004 to Sep 2004	Changes during Dec 2003 to Sep 2004
Net Foreign Assets	**102.2**	**-44.4**	**-31.1**
Central Bank	**119.4**	**-27.6**	**-44.0**
Foreign Assets	122.5	-28.3	-46.7
*Foreign Liabilities(Demand)	3.1	-0.7	-2.7
Commercial Banks	**(17.2)**	**-16.8**	**12.9**
Foreign Assets	113.7	-28.8	-5.1
#Foreign Liab. (Short-Term)	130.9	-12.0	-18.0

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

\# Does not include Non-residents Foreign Currency Time Deposits of **$32.1** held with Commercial Banks.

21.8% decline when compared to the same period of 2003. Sales to BEL for debt servicing and fuel payments also declined from $42.8mn in the comparable period of 2003 to $27.5mn.

Commercial bank foreign asset holdings dipped by $5.1mn as a $10.7mn growth in foreign currency deposits by non-residents and net purchases from the Central Bank were largely offset by outflows to facilitate imports of goods and services and repayments on foreign borrowings of some $28.6mn. Although short-term foreign liabilities of the banks fell by $18.0mn, the net external position of the banks remained negative.

Net Domestic Credit

Credit growth was broad based consisting of a $40.7mn (44.8%) increase in net credit to Central Government as well as expansions in credit to the private sector and statutory bodies of $93.0mn (9.1%)and $72.0mn (339.6%), respectively. The latter was dominated by the Development Finance Corporation, which borrowed $50.0mn from commercial banks and $22.5mn from the Central Bank as it sought to cope with its cash flow difficulties. Meanwhile, Central Government deposit holdings fell by $25.5mn and its borrowings from the Central Bank and commercial banks rose by some $13.0mn as inflows from external

Chart 3.1: Sources of Foreign Exchange Inflows to the Central Bank Jan - Sep 04

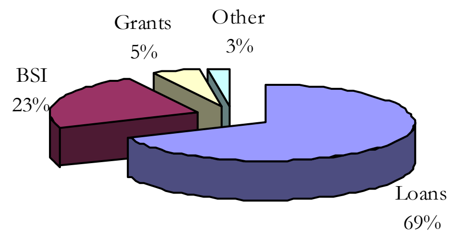


Chart 3.2: Central Bank Foreign Exchange Sales Jan - Sep 04

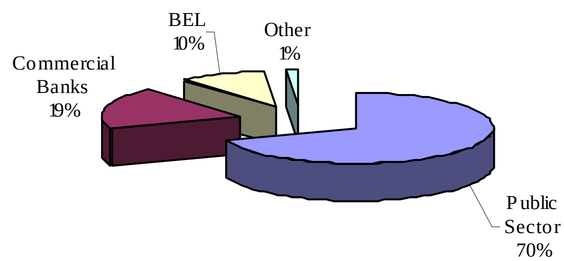


Table 3.3: Sectoral Composition of Commercial Banks' Loans and Advances

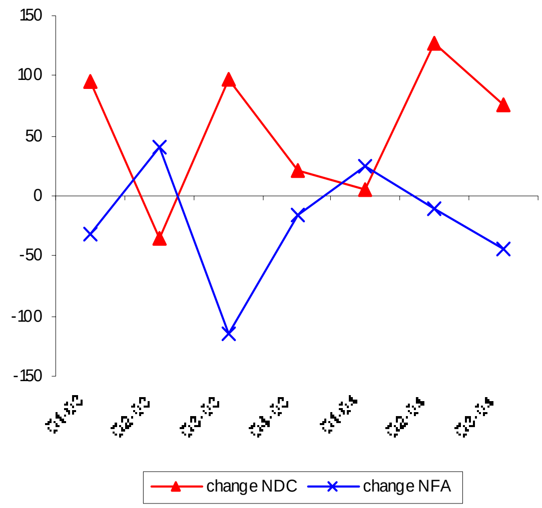
$mn

	Position as at Sep 2004	Changes during Jun 2004 to Sep 2004	Changes during Dec 2003 to Sep 2004
PRIMARY SECTOR	**149.4**	**4.7**	**13.7**
Agriculture	100.8	2.0	13.1
Sugar	13.1	7.1	4.3
Citrus	22.3	1.3	0.2
Bananas	51.3	-5.7	6.1
Other	14.1	-0.7	2.5
Marine Products	25.4	0.7	-1.1
Forestry	1.9	-0.3	-1.8
Mining & Exploration	21.3	2.3	3.5
SECONDARY SECTOR	**331.8**	**38.6**	**54.1**
Manufacturing	17.6	6.0	5.0
Building & Construction	261.5	22.7	29.0
Utilities	52.7	9.9	20.1
TERTIARY SECTOR	**519.8**	**22.4**	**99.9**
Transport	37.5	-0.5	-0.9
Tourism	83.4	7.2	10.3
Distribution	175.0	12.6	12.6
Other*	223.9	3.1	77.9
Personal Loans	**188.9**	**-18.6**	**-19.5**
TOTAL	**1,189.9**	**47.1**	**148.2**

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

loans slowed relative to the previous year. In secondary trading, the Central Bank sold $5.8mn in Treasury Bills to commercial banks, retaining $85.7mn out of a total outstanding issue of $100.0mn. Notably, after a net increase in holdings by the commercial banks during the first half of the year, the banks surrendered some $24.9mn in the third quarter to facilitate credit expansion.

Chart 3.3: Quarterly Change in Net Domestic Credit and Net Foreign Assets



Higher loan demand was evidenced by a 9.1% ($93.0mn) increase in commercial bank credit to the private sector. Transactions involving the private utilities and construction accounted for 41.8% of new loans. Real estate, distribution and tourism accounted for an additional 41.3% of new disbursements. Financing for the primary sector focused mainly on banana, sugarcane and mining. Personal loans recorded a decline of $19.5mn, the bulk of which represented the reclassification of loans to the construction, distribution and sugar sub-sectors.

Liquidity

After more than doubling in the first half of the year with the receipt of BSSB deposits derived from its sale of BTL shares, excess statutory liquidity declined by 30.2% to $74.9mn in the third quarter as the pace of lending accelerated. Over the nine month period, holdings of approved liquid assets fell by $8.2mn relative to a $32.0mn decline in required liquidity. The latter reflected the removal of residential loans as part of approved liquid assets in April, a move that was designed to increase transparency and coincided with the lowering of the reserve requirement from 24% to 19%. The overall effect on liquidity was therefore neutral. The cash position of the banks tightened significantly over the year as daily average cash holdings fell by $7.8mn while required cash reserves were up by $6.5mn. The result was a $14.3mn contraction in excess cash reserves (from $16.9mn to $2.6mn).

Weighted Average Interest Rates

Reduced liquidity and increased competition caused the commercial banks' weighted average interest rate spread to narrow by 70 basis points to 8.6% (its lowest level in ten years). This reflected an increase of 40 basis points in the weighted average deposit rate as the banks sought to attract deposits while the weighted average lending rate fell by 40 basis points partly due to the effect of increased loans to the public sector. Weighted average lending rates applied to personal and other types of loans showed a general downward trend while that on residential loans increased by 20 basis points.

Chart 3.4: Commercial Banks' Excess Statutory Liquidity & Excess Cash Reserves

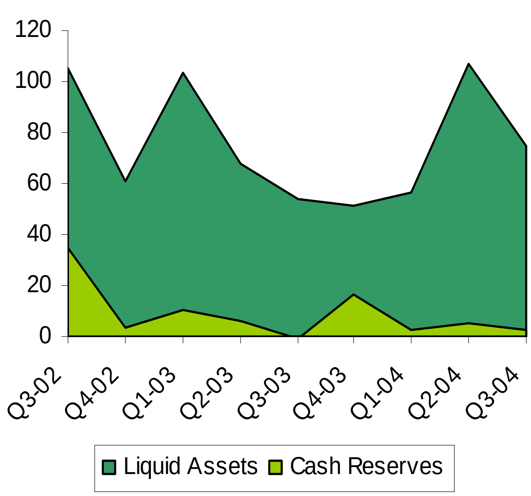
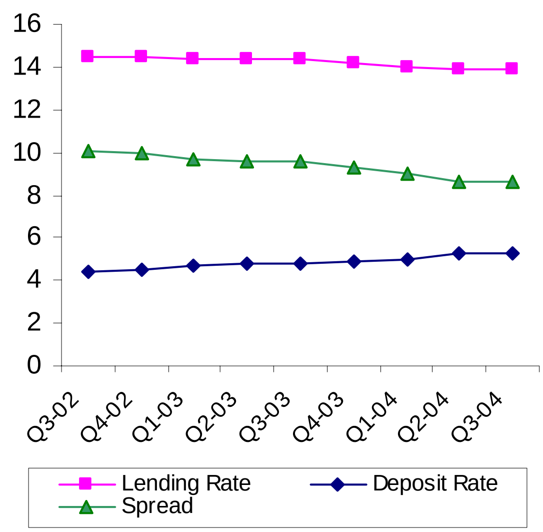


Chart 3.5: Commercial Banks' Weighted Average Interest Rates and Spread (%)



Government Operations

In the first two quarters of its 2004/2005 fiscal year (April to September), Central Government operations yielded an overall deficit of $44.6mn with revenue and expenditure totalling $241.0mn and $285.6mn, respectively. The fiscal shortfall was financed domestically as use of funds from the Central Bank and commercial banks increased while borrowings from external sources fell with amortization payments of $29.4mn and sinking fund deposits ($3.2mn) eclipsing the $19.2mn received in disbursements.

At $7.2mn, the current account surplus was 41% below that of FY 03/04. While tax revenues grew by a robust 9.3% with increases being recorded in all major tax revenue categories, this was outpaced by a 12.5% rise in current expenditure. At $217.4mn, the latter was 52.0% of budget. The pace of expansion was driven by increased outlays for salaries and pensions in the first instance and to a lesser extent by rising interest payments. An increase in subsidies and current transfers was another contributory factor.

Table 4.1: Central Government's FY Expenditure

$mn

	Apr - Sept 2003	Apr - Sept 2004
Current Expenditure	**193.2**	**217.4**
Wages & Salaries	93.3	106.0
Pensions	12.7	14.7
Goods & Services	36.0	34.7
Interest Payments	36.9	44.5
of which: External	29.5	36.7
Subsidies & current transfers	14.3	17.4
Capital Expenditure	**119.4**	**68.3**
Capital II	35.5	28.8
Capital III	47.0	34.8
Net lending	36.9	4.6

Capital expenditure declined by 42.8% to $68.3mn, with outlays on capital III projects summing to $34.8mn. Notable among these were hurricane preparedness, the University of Belize, tourism development and the Orange Walk bypass, which together accounted for roughly 39.2% of outlays. Other notable items included the roads and municipal drainage project, the Kolbe foundation, payments to early retirees and printing services.

Capital II outlays stood at $28.8mn (18.9% below that of the same period in FY 2003/04). Among the more notable items were counterpart funding for the Orange Walk bypass, the Southern Highway, municipal drainage, land development, the Social Investment Fund and tertiary level scholarships. The Capital II budget also covered operating costs for the offices of area representatives, allocations to the National Sports Council, purchase of vehicles and a multiplicity of small projects.

Central Government Domestic Debt

During the first nine months of 2004, Central Government's domestic debt increased by $11.3mn with a net increase of $8.1mn in its overdraft balance and disbursements of $5.0mn overshadowing amortization payments of $1.7mn.

Interest payments totalled $11.1mn and included payments to the Central Bank of $6.4mn in respect of the overdraft facility. Of the $1.9mn paid to Treasury Bill holders, 76.4% went to the Central Bank. Commercial banks and other organizations & individuals accounted for 19.9% and 3.7%, respectively. Holders of Treasury Notes (mostly commercial banks) received $1.4mn. Other payments on loans from the DFC, the Belize Bank, the BSSB, Guardian Life Insurance and the debt for nature swap totalled $1.5mn.

Table 4.2: Summary of Central Government's Domestic Debt

	Position as at Dec 03	Jan - Sept 2004
Loans and Advances	119.8	131.1
Treasury Bills	100.0	100.0
Treasury Notes	24.0	24.0
Defence Bonds	15.0	15.0
Total	**258.8**	**270.1**

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

	Jan - Sept 2003	Jan - Sept 2004
Central Government		
Disbursements	286.8	95.2
Amortization	55.7	36.5
Interest & Other Charges	48.7	74.4
Rest of NFPS		
Disbursements	0.0	0.0
Amortization	1.3	1.8
Interest & Other Charges	0.7	0.8
Financial Public Sector		
Disbursements	34.7	0.2
Amortization	70.1	6.1
Interest & Other Charges	6.8	1.6

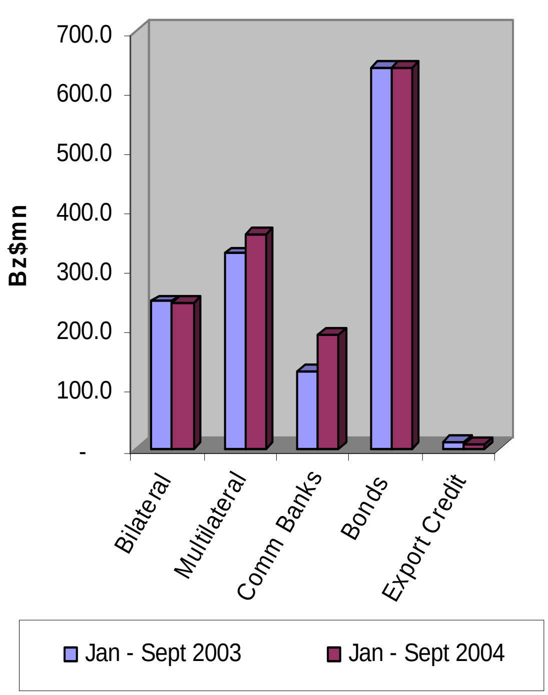
Public Sector External Debt

The public sector's external debt rose by 3.4% to $1,557.4mn as disbursements of some $95.4mn were partly offset by principal payments of $44.3mn. Interest payments amounted to $76.7mn.

Of the $95.2mn disbursed to Central Government, 59.5% consisted of commercial bank loans and bonds. Multilateral and bilateral lenders provided 26.8% and 13.7%, respectively. Among the funds received from commercial banks were International Bank of Miami disbursements of $32.7mn in January and $24.0mn in March. A single disbursement of $0.2mn was made by the CDB to the DFC.

Central Government made principal payments of $36.5mn that were almost evenly apportioned among the three major creditor categories (commercial banks and suppliers credit ($12.6mn), bilateral creditors ($12.2mn) and multilateral lenders ($11.7mn). The rest of the non-financial public sector paid $1.8mn to amortize loans from CIBC and the Government of Kuwait. A total of $6.1mn was paid by the financial public sector including $3.2mn to commercial creditors, $2.7mn to multilateral institutions and $0.2mn to bilateral lenders.

Chart 4.1: Disbursed Outstanding External Debt by Creditor Category



Interest payments totaled $76.7mn over the period reviewed, with Central Government accounting for $74.2mn. The latter included payments of $57.9mn to commercial lenders such as Bear Stearns, Royal Merchant Bank, Salomon Smith Barney and the International Bank of Miami. Payments by the financial and non-financial public sectors totaled $1.6mn and $0.8mn, respectively.

The external debt was adjusted upward slightly (by $0.3mn) as depreciation in the euro was offset by appreciation of both the pound sterling and Kuwait Dinar. While euro-denominated loans were adjusted downward by $0.6mn, those denominated in sterling and dinar were adjusted upwards by $0.2mn and $0.6mn.

ANNEX 5

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

Major Commodity Group	Weights	Quarterly Change Nov-03	Feb-04	May-04	Aug-04	Annual Change
Food, Beverage & Tobacco	346.6	0.0	0.8	0.6	1.1	2.4
Clothing & Footwear	92.0	-0.5	1.1	0.1	-0.4	0.3
Rent, Water, Fuel, & Power	167.6	4.0	1.7	0.1	0.3	6.2
Household goods & maintenance	85.3	-0.4	0.2	0.4	-0.2	0.0
Medical care	20.1	0.2	-0.4	1.5	-0.1	1.2
Transport & Communication	170.1	0.4	1.2	2.6	1.8	6.0
Recreation, Education & Culture	80.4	0.7	0.4	0.1	0.6	1.8
Personal care	37.9	-0.6	-0.5	-0.1	0.1	-1.1
ALL ITEMS	**1000.0**	0.8	0.9	0.8	0.8	3.4

Source: Central Statistical Office

Table 5.2: Gross Imports (CIF) by SITC

$ '000

SITC Section	Jan – Sept 2003	Jan – Sept 2004
0 Food and Live Animals	89,090	84,523
1 Beverages and Tobacco	6,577	7,655
2 Crude Materials	5,375	5,873
3 Minerals, Fuels and Lubricants	104,429	111,912
of which electricity	*23,899*	*21,947*
4 Oils and Fats	2,628	2,157
5 Chemical Products	61,774	56,310
6 Manufactured Goods	96,163	99,871
7 Machinery and Transport Equipment	155,853	125,856
8 Other Manufactures	56,918	55,144
9 Commodities N.E.S	910	14
Export Processing Zones	104,702	87,416
Commercial Free Zone	130,300	107,510
Personal Goods	2,524	1,656
Total	**817,245**	**745,895**

Source: Central Statistical Office, Central Bank of Belize

Table 5.3: Balance of Payments Summary

BZ$mn

	2004[P] Jan-Sept	2003[R] Jan-Sept
CURRENT ACCOUNT	**-191.3**	**-236.9**
Goods: Exports f.o.b.	451.6	501.1
Goods: Imports f.o.b.	-706.1	-781.5
Trade Balance	*-254.5*	*-280.5*
Services: Credit	355.8	319.2
Transportation	43.0	32.8
Travel	257.4	227.0
Other Goods & Services	36.3	34.6
Gov't Goods & Services	19.2	24.9
Services: Debit	-193.7	-209.6
Transportation	-60.6	-58.9
Travel	-62.8	-68.0
Other Goods & Services	-59.8	-70.0
Gov't Goods & Services	-10.4	-12.6
Balance on Goods & Services	*-92.4*	*-170.8*
Income: Credit	6.1	6.1
Compensation of Employees	3.7	3.7
Investment Income	2.3	2.4
Income: Debit	-172.8	-122.2
Compensation of Employees	-9.8	-8.5
Investment Income	-163.0	-113.7
Balance on Goods, Services & Income	*-259.1*	*-286.9*
Current Transfers: Credit	71.6	53.9
Current Transfers: Debit	-3.7	-4.0
CAPITAL ACCOUNT	**8.0**	**2.4**
Capital Account: Credit	9.1	4.0
Capital Account: Debit	-1.1	-1.6
FINANCIAL ACCOUNT	**128.1**	**194.3**
Direct Investment Abroad	-0.1	-0.5
Direct Investment in Reporting Economy	254.9	39.3
Portfolio Investment Assets	-0.3	-0.2
Portfolio Investment Liabilities	-31.5	162.1
Financial Derivatives	0.9	1.1
Other Investment Assets	-110.4	-9.4
Other Investment Liabilities	14.7	2.0
NET ERRORS & OMISSIONS	**8.5**	**-32.1**
OVERALL BALANCE	**-46.7**	**-72.3**
RESERVE ASSETS*	**46.7**	**72.3**

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

Table 5.4: Central Government's Revenue and Expenditure

$'000

	Estimated Budget 2004/2005	Apr 2004 to Sept 2004	Apr 2003 to Sept 2003	Actual to date as % of Budget
TOTAL REVENUE & GRANTS (1+2+3)	521,111	240,980	218,354	46.2%
1). Current revenue	491,099	224,587	205,454	45.7%
Tax revenue	444,372	206,416	187,045	46.5%
Income and profits	101,955	48,763	42,595	47.8%
Taxes on property	20,020	2,159	1,351	10.8%
Taxes on goods and services	135,045	69,166	61,748	51.2%
Int'l trade and transactions	187,352	86,328	81,351	46.1%
Non-Tax Revenue	46,727	18,172	18,409	38.9%
Property income	4,075	2,176	2,274	53.4%
Contributions to pension fund	681	0	0	
Transfers from NFPE's	1,080	0	0	
Other	40,891	15,996	16,136	39.1%
2). Capital revenue	24,000	13,532	8,550	56.4%
3). Grants	6,013	2,860	4,350	47.6%
TOTAL EXPENDITURE (1+2)	544,386	285,607	312,578	52.5%
1). Current Expenditure	418,016	217,354	193,210	52.0%
Wages and Salaries	212,484	106,033	93,287	49.9%
Pensions	23,901	14,732	12,660	61.6%
Goods and Services	71,044	34,687	36,040	48.8%
Interest Payments on Public Debt	76,982	44,521	36,939	57.8%
Subsidies & current transfers	33,605	17,380	14,285	51.7%
2). Capital Expenditure & Net Lending	126,370	68,254	119,368	54.0%
Capital II (local sources)	52,342	28,820	35,492	55.1%
Capital III (foreign sources)	70,347	34,829	47,022	49.5%
Capital Transfer & Net Lending	3,681	4,605	36,854	125.1%
CURRENT BALANCE	73,082	7,234	12,244	9.9%
OVERALL BALANCE	(23,275)	(44,628)	(94,224)	191.7%
FINANCING	23,275	44,628	94,224	
Receipts from DFC		50,000	0	
Domestic Financing	(80,624)	62,090	(134,034)	
Central Bank		54,553	(5,572)	
Net Borrowing		2,775	3,8778	
Change in Deposits		51,778	(44,350)	
Commercial Banks		(42,379)	(16,491)	
Net Borrowing		11,102	(20,690	
Change in Deposits		(3,481)	4,196	
Privatization DFC Debt Refinancing		0	(111,567)	
Other Domestic Financing		(84)	(404)	
Holding of commercial bank security		(50,000)		
Financing Abroad	39,989	(13,312)	229,146	
Disbursements	81,284	19,236	298,667	
Amortization	(47,518)	(29,397)	(60,943)	
Sinking Fund & JCF	6,223	(3,151)	(8,578)	
Other		(4,150)	(888)	

Table 5.5: Public Sector External Debt By Creditor

$'000

	Disbursed Outstanding Debt 31/12/2003	TRANSACTIONS DURING Jan - Sept 2004					Disbursed Outstanding Debt 30/09/2004
		Disbursement	Amortization	Interest	Other Charges	Valuation Adjustments	
CENTRAL GOVERNMENT	**1,417,587**	**95234**	**36,451**	**74,242**	**128**	**238**	**1,476,607**
Caribbean Development Bank	60,930	9,804	1,657	1,290	21	73	69,150
European Economic Community	19,192	0	461	83	0	(299)	18,431
European Investme nt Bank	1,238	0	170	25	0	(16)	1,052
Inter-American Development Bank	127,811	13,224	3,060	3,278	4	0	137,976
Int'l Bank for Reconstruction Dev.	71,699	1,997	5,708	2,388	0	0	67,988
Int'l Fund for Agricultural Dev.	2,317	253	349	57	0	(135)	2,086
OPEC Fund for International Dev.	7,847	183	267	268	0	0	7,764
Banco Nacional De Comercio	8,454	545	0	504	43	0	8,999
Fondo de Inversiones de Venezuela	1,198	0	109	36	0	0	1,089
Government of China	174	0	58	0	0	0	116
Government of Kuwait	21,225	486	575	660	0	384	21,520
Gov't of Trinidad and Tobago	28	0	4	1	0	0	24
Gov't of United Kingdom	16,558	0	2,653	0	0	231	14,136
Gov't of United States of America*	9,231	0	842	201	0	0	8,389
Republic of China	176,643	12,011	7,948	7,237	0	0	180,706
Bear Stearns & Co. Inc	450,000	0	0	33,500	0	0	450,000
Citibank of Trinidad & Tobago	15,429	0	1,714	765	0	0	13,714
Citicorp Merchant Bank Ltd.	51,429	0	1,429	4,147	0	0	50,000
Royal Merchant Bank	77,750	0	2,977	5,700	0	0	74,773
Salomon Smith Barney***	52,030	0	0	4,038	0	0	52,030
All First Bank of Maryland	3,780	0	840	206	0	0	2,940
International Bank Of Miami (1)	228,505	56,730	1,350	9,122	60	0	283,885
KBC Bank	7,477	0	1,869	382	0	0	5,607
Provident Bank & Trust	1,828	0	1,250	84	0	0	579
Suppliers Credit	4,815	0	1,164	271	0	0	3,651
NON-FINANCIAL PUBLIC SECTOR	**14,273**	**0**	**1,777**	**792**	**0**	**156**	**12,652**
CIBC Bank & Trust Co.	5,454	0	290	352	0	156	8,285
Government of Kuwait	8,820	0	1,086	440	0	0	4,367
FINANCIAL PUBLIC SECTOR	**74,137**	**189**	**6,095**	**1,647**	**2**	**(129)**	**68,102**
Caribbean Development Bank	46,084	189	2,126	1,209	2	(1)	44,146
European Economic Community	618	0	16	3	0	(10)	593
European Investment Bank	11,448	0	594	120	0	(118)	10,736
Gov't of United States of America	2,531	0	194	38	0	0	2,337
Citibank Trinidad & Tobago	3,750	0	1,250	61	0	0	2,500
Citicorp Merchant Bank Ltd.	3,750	0	1,250	61	0	0	2,500
Paine Webber Real Estate Securities Inc.	2,000	0	100	16	0	0	1,900
Commerz Bank of Belgium	3,955	0	565	138	0	0	3,390
TOTAL	**1,505,997**	**95,423**	**44,323**	**76,680**	**130**	**265**	**1,557,361**

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 $23.8mn were re-classified as private sector debt as a result of its full privatization. Outstanding external debt of private entities remains 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$29.1mn payable in 2005 (US$20mn sinking fund established in 2002, additional deposit of $6.7mn made in 2003).

(1) 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

	Disbursed Outstanding Debt 31/12/03R	Transactions To September 2004				Disbursed Out-standing Debt 30/09/04P
		Disbursement/ New Issue of Securities	Amortization/ Reduction in Securities	Interest	Net Change in Overdraft/ Securities	
Overdraft	**76,937**	**0**	**0**	**6,423**	**8,056**	**84,993**
Central Bank	74,121	0	0	6,423	9,717	83,838
Commercial Banks	2,816	0	0	0	(1,661)	1,155
Treasury Bills	**100,000**	**0**	**0**	**1,879**	0	**100,000**
Central Bank	81,413	0	0	1,435	(5,752)	75,661
Commercial Banks	13,896	0	0	374	7,953	21,849
Other	4,691	0	0	70	(2,201)	2,490
Treasury Notes	**24,000**	**0**	**0**	**1,350**	**0**	**24,000**
Central Bank	0	0	0	0	0	0
Commercial Banks	23,269	0	0	1,295	0	23,269
Other	731	0	0	55	0	731
Defence Bonds	**15,000**	**0**	**0**	**0**	**0**	**15,000**
Central Bank	10,000	0	0	0	0	10,000
Commercial Banks	100	0	0	0	0	100
BSSB	0	0	0	0	0	0
Other	4,900	0	0	0	0	4,900
DFC Loan (Debt Restructuring)	**8,431**	**0**	**372**	**307**	**0**	**8,059**
BSSB Housing Loan	**691**	**0**	**9**	**28**	**0**	**682**
GOB (Debt For Nature Swap)	**14,747**	**0**	**1,134**	**344**	**0**	**13,613**
Cohune Walk Loan Belize Bank	**2,978**	**0**	**210**	**358**	**0**	**2,768**
Infrastructure Dev. Loan Belize Bank	**15,000**	**5,000**	**0**	**342**	**0**	**20,000**
Guardian Life Belize $1mn Loan	**1,000**	**0**	**0**	**90**	**0**	**1,000**
Total	**258,784**	**5,000**	**1,725**	**11,121**	**8,056**	**270,115**

Table 5.7: Commercial Banks' Weighted Average Interest Rates

Percentages

	Position as at Sep 2004	Changes during: Jun 2004 to Sep 2004	Jun 2003 to Sep 2003	Dec 2003 to Sep 2004
Weighted Lending Rates				
Personal Loans	15.4	-0.2	0.1	-0.4
Commercial Loans	13.9	0.0	0.0	0.0
Residential Construction	12.6	0.0	0.0	0.2
Other	9.9	0.0	-0.4	-0.7
Weighted Average	**13.9**	**0.0**	**0.1**	**-0.4**
Weighted Deposit Rates				
Demand	0.5	0.0	0.0	0.1
Savings/ Cheque	5.1	-0.1	-0.1	0.0
Savings	5.1	0.1	0.0	0.0
Time	7.5	0.0	0.0	0.3
Weighted Average	**5.3**	**0.0**	**0.0**	**0.4**
Weighted Average Spread	**8.6**	**0.0**	**0.0**	**-0.7**

Table 5.8: Commercial Banks Liquidity Position and Cash Reserves

$mn

	Position as at Sep 2004	Changes during: Jun 2004 to Sep 2004	Jun 2003 to Sep 2003	Dec 2003 to Sep 2004
Holdings of Approved Liquid Assets	**295.1**	**-21.3**	**-14.1**	**-8.2**
Notes and Coins	32.6	2.3	-0.3	2.8
Balances with Central Bank	72.3	3.3	-1.7	-7.3
Money at Call and Foreign Balances (due 90 days)	96.9	-11.8	1.2	22.9
Treasury Bills maturing in not more than 90 days	27.1	-14.0	-18.2	7.3
Other Approved assets	66.2	-1.1	4.9	-33.9
of which: Treasury Notes	23.3	0.0	0.0	0.0
Loans for New Residential Construction	0.0	0.0	1.7	-49.5
Loans for Non-Traditional Exports	0.0	0.0	-0.2	0.0
Required Liquid Assets	**220.2**	**11.1**	**-0.7**	**-32.0**
Excess/(Deficiency) Liquid Assets	**74.9**	**-32.4**	**-13.4**	**23.8**
Daily Average holdings of Cash Reserves	72.1	0.6	-7.4	-7.8
Required Cash Reserves	69.5	3.5	-0.2	6.5
Excess/(Deficiency) Cash Reserves	**2.6**	**-2.9**	**-7.2**	**-14.3**

Table 5.9: Net Domestic Credit

$mn

	Position as at Sep 2004	Changes during Jun 2004 to Sep 2004	Jun 2003 to Sep 2003	Dec 2003 to Sep 2004
Total Credit to Central Government	**235.8**	**2.0**	**10.6**	**15.2**
From Central Bank	**169.5**	**28.5**	**13.4**	**3.9**
Loans and Advances	83.8	3.6	9.9	9.7
Gov't Securities	85.7	24.9	3.5	-5.8
From Commercial Banks	**66.3**	**-26.5**	**-2.8**	**11.3**
Loans and Advances	21.2	-1.6	0.7	3.3
Gov't Securities	45.1	-24.9	-3.5	8.0
Less Central Government Deposits	**104.3**	**-16.4**	**-50.2**	**-25.5**
With Central Bank	92.0	-4.6	-36.7	-31.1
With Commercial Banks	12.3	-11.8	-13.5	5.6
Net Credit to Central Government	**131.5**	**18.4**	**60.8**	**40.7**
Credit to Other Public Sector	**93.2**	**9.3**	**-2.2**	**72.0**
From Central Bank	32.5	8.0	-2.5	22.5
From Commercial Banks	60.7	1.3	0.3	49.5
Plus Credit to the Private Sector	**1,111.1**	**47.4**	**39.3**	**93.0**
Loans and Advances	1,110.1	47.4	39.3	94.5
Securities	1.0	0.0	0.0	-1.5
Net Domestic Credit of the Banking System	**1,335.8**	**75.1**	**97.9**	**205.7**

Table 5.10: Money Supply

$mn

	Position as at Sep 2004	Changes during Jun 2004 to Sep 2004	Jun 2003 to Sep 2003	Dec 2003 to Sep 2004
Money Supply (M2)	**1,193.9**	**20.5**	**-19.6**	**92.8**
Money Supply (M1)	**371.9**	**-3.4**	**-13.1**	**10.8**
Currency with the Public	106.1	-0.7	-7.1	2.8
Demand Deposits	265.8	-2.7	-6.0	8.0
Savings/Cheque Deposits	0.0	0.0	0.0	0.0
Quasi-Money	**822.0**	**23.9**	**-6.5**	**82.0**
Savings Deposits	199.4	-2.2	-6.7	-6.1
* Time Deposits	622.6	26.1	0.2	88.1

***Includes Non-Residents Foreign Currency Time Deposits of $32.1 mn**