Review of Economic and Financial Developments

Overview

Economic activity picked up pace during the first six months of 2003 with marked increases in the growth of domestic exports, tourism and the government sector.

Except for garments, export earnings for all major commodities rose, driving total domestic export receipts upwards by 41.8%. Marine products and banana sales accounted for 55.8% of the overall increase as the export volume of farmed shrimp rose more than five fold and banana more than doubled relative to the same period of 2002.

The tourism sector continued to perform well with stay-over arrivals increasing by 12.1% while cruise ship visitors doubled. Inflation (as measured by the Consumer Price Index) rose at an annual rate of 2.2% driven by increases in the cost of fuel, food items and other merchandise.

During the first quarter of the fiscal year (April-June), Central Government operations yielded an overall deficit of $63.4mn, compared to the modest surplus of $0.3mn in the same period of 2002. A marginal increase in current revenue occurred while current outlays rose by 11.2% (principally on wages and salaries and goods and services). Capital expenditure contracted by 6.6% in view of the reduced current surplus and a $24.9mn contraction in capital revenue. The fiscal deficit was financed from external sources with loan disbursements of $245.5mn surpassing amortization payments abroad.

Driven largely by commercial bank loans to the private sector and supported by a modest increase in net foreign assets, the broad money supply (M2) rose by 5.6%. Total loan disbursements by the commercial banks was up by 8.8% ($79.4mn) with building and construction and the tertiary sector accounting for 27.6% and 62.8%, respectively of the issued funds.

After declining by 12.2% in the first quarter, the net foreign assets of the banking system registered an overall increase of 3.0% with the Central Bank's net position benefiting from external loan inflows to the Government. An increase in domestic absorption, caused commercial banks' foreign asset holdings to fall despite the substantial rise in export earnings during the period.

At the end of June, excess statutory liquidity stood $6.7mn above the December position as a 70.8% build-up in the first quarter (stimulated by pre-election spending) was followed by a 34.9% contraction as lending to the private sector accelerated. With the surge in lending, the weighted average deposit rate moved upward by 30 basis points as banks competed for deposits. This in turn contributed to a 40 basis points contraction in the weighted average interest rate spread to 9.6%.

Notwithstanding the marked increase in earnings from visible exports and tourism, the current account deficit on the balance of payments widened by 46.7% as increases in imports caused a 12.7% widening of the trade deficit while remittances of profits and interest payments abroad rose further. The deficit was financed primarily through loan disbursements to the government and private sector and to a lesser extent by foreign direct investment inflows.

During the period reviewed, Central Government's domestic debt increased by 37.9% ($66.0mn) to $101.2mn with principal and interest payments amounting to $0.8mn and $5.9mn, respectively. The external public sector debt also grew by 18.3% to $1.4bn as new loan disbursements of $248.8mn coupled with upward valuation adjustments of $4.3mn exceeded amortization payments of $43.3mn. Payments of interest and other charges totaled $12.8mn.

Domestic Production And Prices

Sugar and Molasses

After 214 days of factory operations, the 2002/2003 sugarcane harvest ended on June 25th, 19 days earlier than the closure of the 2001/2002 crop. Unfavourable weather and the curtailing of inputs by cash squeezed farmers led to a 2.1% reduction in sugarcane deliveries for the crop year to 1,073,339 long tons.

Sugar production also contracted by 2.1% to 104,433 long tons. High levels of mud in the sugarcane caused by the widespread use of mechanical harvesters helped to reduce factory time efficiency and cane purity. The net result was an 1.0% deterioration in the cane/sugar ratio from 10.17 to 10.28. With cane quality down, molasses production rose by 14.0% to 42,944 long tons.

Export prices strengthened in all markets, pushing up the average price per long ton of sugarcane to $42.42, some $4.34 above the factory price paid in the previous crop year. No relief payments went to farmers, unlike the previous year when farmers received $1.27 more per long ton from the Sugarcane Stabilisation Fund and the Sugarcane Industry Development Fund.

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

	Nov-Jun 2002/03	Nov-Jun 2001/02
Deliveries of Sugarcane (long tons)	**1,073,339**	**1,096,432**
Sugar Processed (long tons)	**104,433**	**106,681**
Molasses processed (long tons)	**42,944**	**37,662**
Performance		
Factory Time Efficiency (%)	93.11	93.42
Cane Purity (%)	85.08	85.28
Cane/Sugar	10.28	10.17

Source: Belize Sugar Industries

Citrus Products

Initially precipitated by the hurricane in 2001, the decline in citrus production continued for a second year with citrus deliveries for the 2002/2003 crop down 4.2% to 5.1mn boxes. Persistent low prices for grapefruit prompted some farmers to abandon their fields and the orange crop suffered an estimated loss of 25,000 boxes of fruit due to heat burn caused by the extremely high temperatures in March. Debt burdened farmers were also hard pressed to finance basic grove inputs, further reducing field productivity and crop yields. It is also believed that damage from the Mexican fruit fly could be reducing yields by as much as 25% through fruit drop in heavily infested groves.

With export prices for orange juice weakening due to large global inventories and grapefruit juice demand relatively stagnant, the average price paid to farmers for orange and grapefruit fell by $0.13 to $5.75 and by $0.67 to $4.07 per box, respectively. Nevertheless, paying farmers for oranges on a pound solid (ps) basis benefited the small farmers and seemed to motivate the larger farmers to improve their grove management.

Table 1.2: Output of Citrus Products

	2002/03 Oct– Jun	2001/02 Oct–Jun
Deliveries (boxes)		
Orange	4,046,295	4,118,956
Grapefruit	1,078,137	1,230,942
Total	5,124,432	5,349,898
Concentrate (ps)		
Orange	23,098,952	22,506,312
Grapefruit	3,728,410	4,348,262
Total	26,827,362	26,854,574
NFC(gals)		
Orange	1,040,817	405,865
Grapefruit	544,824	221,550
Total	1,585,641	627,415
Pulp (pounds)		
Orange	307,400	458,592
Grapefruit	58,320	0
Total	365,720	458,592
Oil (pounds)		
Orange	512,000	470,480
Grapefruit	46,000	50,400
Total	558,000	520,880

Sources: Citrus Products of Belize, Citrus Growers Association

Notwithstanding the drop in deliveries, production of citrus juices rose 3.4% to 28.4mn ps reflecting increases of 3.2% and 9.4% in juice out-turn per box of orange and grapefruit, respectively.

While concentrate production declined marginally by 0.1% due to a 14.3% drop in grapefruit concentrate, that of not-from-concentrates (NFC) more than doubled. Hampered by quality considerations, pulp production fell 20.3%, while oil production increased 7.1% in response to the expansion in NFC output.

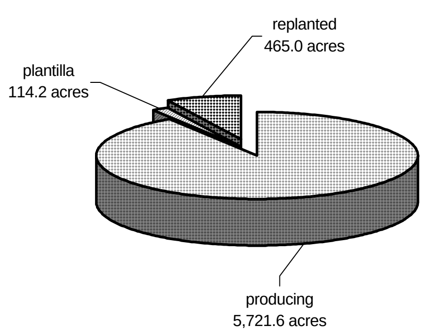
Banana

Extensive rehabilitation and investments during 2002 brought the banana industry fully back on stream with production for the first half of 2003 amounting to 2.0mn boxes, compared to 0.9mn boxes achieved during the same period of 2002 when recovery from Hurricane Iris was just beginning. Replanting coupled with improved field drainage and irrigation made possible by grant funds from the EU raised field productivity, keeping the industry on track with its annual forecast of 4.0mn exportable boxes.

The area under banana production measured 6,300.8 acres at the end of May 2003. The harvestable acreage grew from 1,517.3 acres in January 2002 to 5,721.6 acres in May 2003. Another 114.2 acres have young plants and plans are in place to replant some 465 acres.

Production costs were down by approximately 20% - savings that helped to offset the steady annual reduction in the negotiated market price. For 2003, the floor on the average box price is US $6.50, approximately US$0.75 lower than the 2002 price. However, to encourage farmers to supply most of their banana during the first half of the year when prices are highest in Europe, Fyffes offered a box price of US$7.21. Bananas delivered during the second half of the year will fetch a lower price of US$5.75.

Chart 1.1: Banana Acreage



At yearend, if the average box price is lower than US$6.50, Fyffes will make an adjusting payment to achieve the floor price.

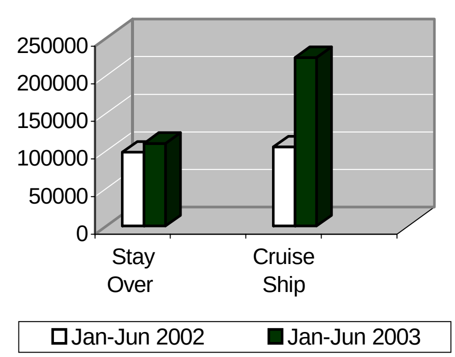
Tourism

Bona fide stay-over tourist arrivals for the first half of the year increased by 11.9% to 109,764 when compared to the same period of 2002. This growth is due to increased arrivals from all destinations but in particular from the United States (US) and Europe, the main tourist markets. Tourist arrivals from the US surged by 18.2% to 74,467 individuals because of a turnaround in the US economy and renewed marketing efforts particularly through the US cable networks. The greater purchasing power of the Euro as it appreciated against the US dollar also positively influenced European arrivals.

Visitors entering the country through the Phillip Goldson International Airport (PGIA), the main entry point, surged by 20.2%, offsetting declines in arrivals of 14.6% and 1.2%, respectively, through the land borders and seaports.

On June 1st, after only a few months in operation, Air Jamaica suspended its service between Montego Bay and Belize. The route was intended to transfer US passengers to Belize through Air

Chart 1.2: Bona Fide Tourist Arrivals



Jamaica's Montego Bay hub, but could not compete with US Air, which had a similar strategy for its hub in Charlotte, North Carolina.

During the first half of the year, cruise visitors more than doubled to 223,932 as the number of port calls and cruise liners increased.

Consumer Prices

Inflation rose by 0.2% between February and May 2003 with higher prices for all categories of goods and services except "Rent, Water, Fuel & Power" and "Personal Care".

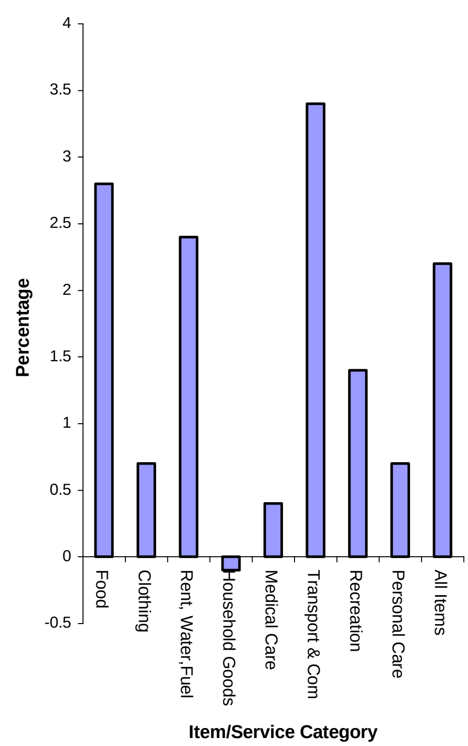
Over the year, (May 2002 to May 2003) the general price level rose by 2.2% with nearly all categories affected except for 'Household goods & maintenance'. The largest increase of some 3.4% was in 'Transport and Communication' and reflected the hike in world fuel prices caused by the strike in Venezuela's petroleum sector and the conflict in Iraq.

The cost of 'Food, Beverage & Tobacco' was up by 2.8% with prices of almost all food items rising. The next largest increase of 2.4% in 'Rent, Water, Fuel & Power' mostly reflected rising costs for kerosene and butane. Modest increases occurred for 'Recreation, Education & Culture' and 'Medical Care' while prices for 'Household goods and maintenance' fell marginally.

The upward move in prices for both 'Clothing and Footwear' and 'Personal Care' resulted from higher import costs as proxied by the 1.8% expansion in the US export price index (up to May 2003).

During the first six months of the year, international transactions resulted in net inflows of $10.8mn, boosting the official reserves to $240.2mn, the equivalent of 3.1 months of imports.

Chart 1.3: Annual Percentage Change in Consumer Price Index - May '02 to May '03



International Trade and Payments

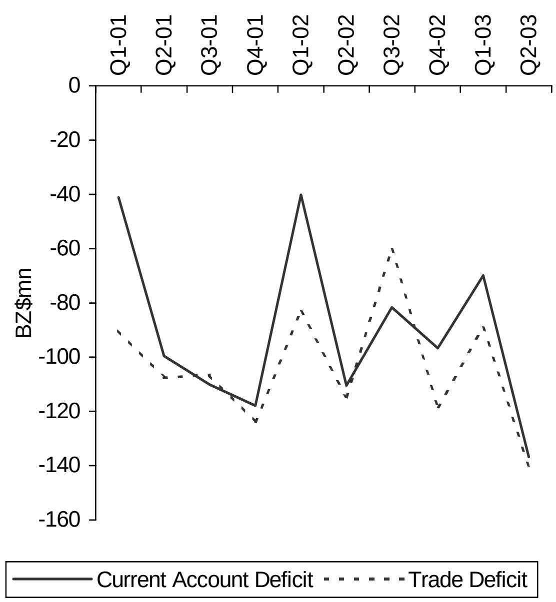
The current account deficit rose by 37.2% to $206.7mn as a surge in export and tourism earnings was outweighed by increased outflows for imports, interest payments and profit remittances. The shortfall was largely financed by a surplus of $198.8mn on the capital and financial account that was dominated by receipts from a new US$100.0mn international bond issue in June and loans secured offshore by EPZ and CFZ companies.

With imports outpacing exports, the trade deficit widened by 15.9% to $229.4mn. The 12.8% increase in imports was spurred by domestic demand and partly reflected a significant spike in the acquisition cost of fuel (eg. diesel and gasoline prices were up 54.4% and 30.3% respectively), purchase of factory equipment for the citrus industry and the installation of new telecommunication infrastructure. A prolonged and extremely dry season also pushed up imports of electricity from Mexico by 50.4%. Imports into the Commercial Free Zone (CFZ) plummeted by 16.1% as Mexican demand for retail goods was dampened by rising fuel prices and restrictions on duty free allowances imposed by Mexican authorities.

Table 2.1: Balance of Payments Summary

	2003 Jan-Jun	2002 Jan-Jun
A. CURRENT ACCOUNT (I+II+III+IV)	**-206.7**	**-150.7**
I. Goods (Trade Balance)	**-229.4**	**-198.0**
Exports, f.o.b.	302.9	274.0
Domestic Exports	177.8	130.5
CFZ Gross Sales	107.8	132.8
Re-exports	17.3	10.7
Imports, f.o.b.	532.3	472.1
Domestic Imports	448.9	372.8
CFZ Imports	83.3	99.3
II. Services	**88.4**	**77.2**
Transportation	-16.6	-18.4
Travel	128.0	105.8
Other Services	-23.0	-10.3
III. Income	**-97.7**	**-79.4**
Compensation of Employees	-13.7	-13.6
Investment Income	-84.1	-65.9
IV. Current Transfers	**32.0**	**49.6**
Government	2.5	10.7
Private	29.5	38.9
B. CAPITAL & FINANCIAL ACCOUNT (I+II)	**198.8**	**96.3**
I. Capital Account	**4.0**	**3.2**
II. Financial Account (1+2+3)	**194.7**	**93.2**
1. Direct Investments	23.7	37.9
2. Portfolio Investment	174.5	26.1
Monetary Authorities	-3.0	-3.0
General Government	177.6	29.1
Banks	0.0	0.0
Other Sectors	-0.1	0.0
3. Other Investments	-3.5	28.7
Monetary Authorities	-5.0	-3.3
General Government	-42.5	22.7
Banks	-3.9	7.2
Other Sectors	47.8	2.5
C. NET ERRORS & OMISSIONS	**18.8**	**10.1**
D. OVERALL BALANCE	**10.8**	**-44.3**
E. RESERVE ASSETS	**-10.8**	**44.3**

Chart 2.1: Current Account Deficit vs. Trade Deficit



A strong performance from the domestic export sector more than offset a 18.8% decline in CFZ sales and was mostly responsible for the 10.5% increase in total exports to $302.9mn. Apart from molasses and garments, all domestic exports rose in response to higher volumes, improved prices and investments to boost productivity.

Sugar revenue was up 53.8% reflecting a larger volume of sales to the EU in the first half of the year due to a change in the EU shipping schedule, some price gains and the successful push to expand sales within CARICOM (from 1,327 long tons in 2002 to 12,343 long tons in 2003) where prices were almost double those on the world market. Notably, the EU price rose by US$0.02 per pound as the Euro appreciated against the US dollar, while the world sugar price went up US$0.01 per pound as production from Cuba and Brazil, major sugar producers, fell below expectations.

Led by a robust resurgence in farmed shrimp production, marine export volume more than quadrupled to 6.3mn pounds, while revenues tripled to $36.8mn. Although conch and lobster exports were down, farmed shrimp did exceptionally well with the use of a strain that was resistant to the Taura virus and which had survival rates of 60% to 70% above that of the susceptible strain.

Banana exports were back in full swing with volume and value more than doubling the previous year's at 34,752 metric tons and $28.9mn. The volume increase fully compensated for the $1.49 decrease in the average box price to $13.00. The industry expects to maintain its average minimum shipment at 75,000 boxes per week to avoid the levying of a 'dead freight penalty' that is applicable when shipments fall below this level.

Exports of citrus juices and pulp were also up 7.7% to $36.5mn, with second

Chart 2.2: Shrimp Exports

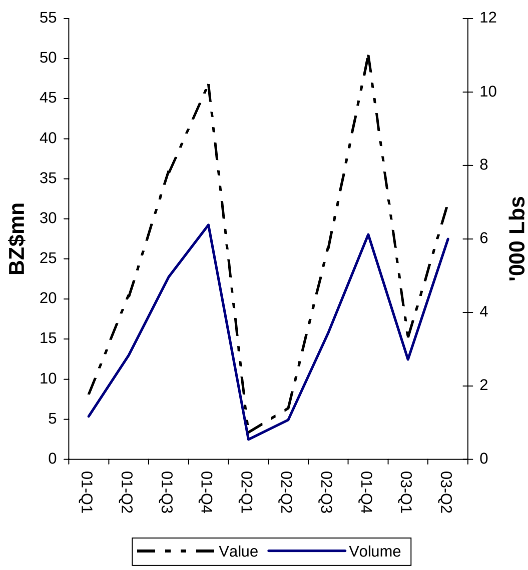
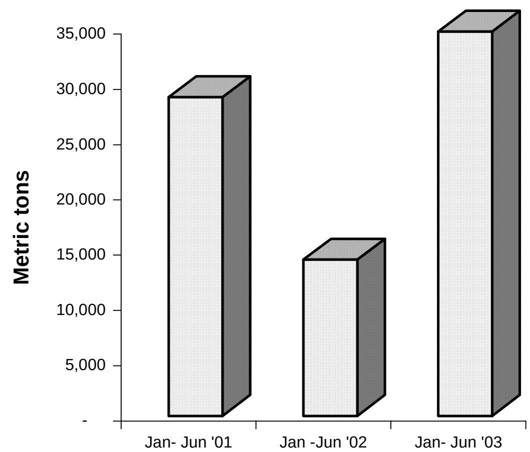


Chart 2.3: Banana Exports



quarter sales making up for the sluggish first quarter start. Driving the revenue increase was a doubling in the volume of grapefruit concentrate sold to the EU and a very modest increase in the sale of not-from-concentrate juices. While the amount of orange concentrate juices sold decreased by 1.3% to 13.5mn ps, the expansion of sales to the Caribbean market where prices were higher compensated for this.

Other miscellaneous domestic exports rose by 0.7% to $34.3mn reflecting increased revenues from sawn woods, papaya and other small non-traditional products that offset a 5.2% decrease in garment revenue. Notwithstanding a fall in volume, revenue from sawn wood grew because of increased exports of higher valued lumber. Papaya revenue rose in response to a higher volume, since the average price per pound fell by $0.21 to $0.54 as sales of the large papaya supplanted sales of the small papaya and competition from other producers such as Brazil and Mexico intensified.

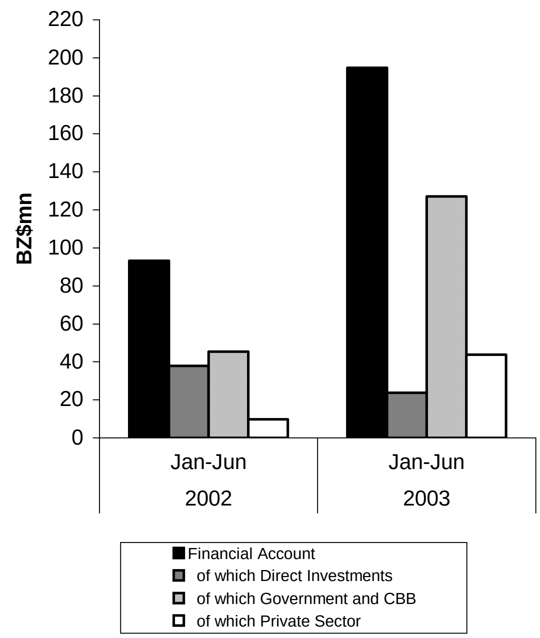
Re-exports rose by 61.7% to $17.3mn, mostly due to increased fuel sales to ships and aircrafts, the outward movement of specialized construction and transport equipment and the return of electrical generators rented by the electricity company during the prolonged dry season.

Net earnings from services rose by 14.5% to $88.4mn, as the growth in revenue from the booming tourist trade (up 18.8%) outweighed an increase in the costs of miscellaneous foreign services. While net outflows for transportation contracted as payments from the foreign cruise ships to their local representatives outweighed the increase in freight charges arising from the larger volume of international trade, net outflows for other services more than doubled mostly due to the financing costs associated with the international bond issue in June and increases in re-insurance costs.

Foreign labour and capital accounted for net outflows of $97.7mn, 23.0% higher than the comparable period in 2002. The increase was largely due to higher outflows in the form of profit remittances and interest payments on public and private external liabilities. Payments to foreign workers also rose by 0.7% as the banana industry hired more agricultural workers to cope with the surge in production.

Growth in M2 (broad money) accelerated to 5.6% over the first half of the year driven mainly by an upsurge in second quarter lending by commercial banks. Meanwhile, the net foreign asset position improved slightly as loan inflows in May and June replenished first quarter outflows for external debt servicing, repatriation of dividends and profits and other payments abroad.

Chart 2.4 : Balance of Payments—Financial Account and Major Components



Monetary Developments

Compared with its 2.6% growth in the first half of 2002, M1 rose by 4.1% as a marked increase in the first quarter was only partly offset by a contraction in the second quarter. The expansion mainly reflected increased demand deposit holdings by business enterprises and individuals while currency held by the public declined slightly.

At 6.3%, growth in quasi-money nearly doubled that of the comparable period of 2002. Time deposits rose by 8.7% with business enterprises, individuals and private financial institutions accounting for much of the increase. On the other hand, non-residents withdrew some $9.5mn from the system. Higher interest rates on new time deposits was a key factor as commercial banks adjusted liquidity to comply with amendments to the International Banking Act and to accommodate additional lending.

Boosted by an expansion in commercial bank loans to the private sector, net domestic credit moved upward by 6.4% over the period reviewed. The acceleration in loans to the private sector included increases of 2.8% in the first quarter and 5.7% in the second. Transactions in real estate, tourism, transport and distributive trade accounted for almost 63% of new loan disbursements. Loans to the secondary sector supported commercial construction and private utilities while financing for the primary sector principally targeted mining, banana and marine products.

Inflows from an International Bank of Miami loan in May and the Bear Stearns

Table 3.1: Money Supply

$mn

	Position as at June 2003	Changes during	
		Mar '03 to June '03	Dec '02 to June '03
Money Supply (M2)	**1,122.4**	**-2.2**	**59.1**
Money Supply (M1)	**372.8**	**-9.3**	**14.8**
Currency with the Public	106.0	1.1	-0.8
Demand Deposits	266.8	-10.4	15.6
Quasi-Money	**749.6**	**7.1**	**44.3**
Savings Deposits	218.8	-8.7	2.0
*Time Deposits	530.8	15.8	42.3

**Includes non-residents foreign currency time deposits of $32.9mn*

US$100.0mn bond issue in June facilitated a contraction in net domestic credit to Central Government. Proceeds contributed to a $72.9mn build-up in deposits held with the Central Bank as well as an $11.3mn in holdings with the commercial banks. On the other hand, the Government's use of overdraft financing was up by $66.8mn including a $62.1mn expansion in the overdraft balance held with the Central Bank.

In secondary market trade, the Central Bank increased its Treasury bill holdings by $13.2mn to $67.0mn through purchases from private sector entities and commercial banks. After building up holdings by $16.6mn in the first quarter, the commercial banks surrendered $21.2mn worth of Treasury bills to the Central Bank replacing these low yield

Table 3.2: Net Domestic Credit

$mn

	Position as at June '03	Changes during Mar '03 to June '03	Changes during Dec '02 to June '03
Total Credit to Central Government	**202.1**	**7.6**	**75.3**
From Central Bank	**139.1**	**25.4**	**75.3**
Loans and Advances	62.1	4.1	62.1
Government Securities	77.0	21.3	13.2
From Commercial Banks	**63.0**	**-17.8**	**0.0**
Loans and Advances	11.3	3.4	4.7
Government Securities	51.7	-21.2	-4.7
Less Central Government Deposits	**180.5**	**95.3**	**84.1**
With Central Bank	156.4	85.9	72.8
With Commercial Banks	24.1	9.4	11.3
Net Credit to Central Government	**21.6**	**-87.7**	**-8.8**
Credit to Other Public Sector	**23.7**	**0.5**	**-5.8**
From Central Bank	12.5	0.0	-2.5
From Commercial Banks	11.2	0.5	-3.3
Plus Credit to the Private Sector	**966.6**	**52.1**	**75.3**
Loans and Advances	964.1	52.1	75.3
Securities	2.5	0.0	0.0
Net Domestic Credit of the Banking System	**1,011.9**	**-35.1**	**60.7**

securities with higher interest loans to the private sector.

Credit to the statutory bodies contracted largely due to Development Finance Corporation repayments to the Central Bank and commercial banks.

With fresh injections from foreign loan disbursements in the second quarter reversing the effect of net outflows in the first quarter, the net foreign assets of the banking system was able to grow by $7.7mn over the first half of the year.

The Central Bank's net foreign position improved by $13.3mn with foreign asset holdings rising by $10.8mn. Inflows totalled $299.6mn with loan disbursements to the public sector accounting for approximately 85.1%. Foreign exchange outflows amounted to $288.8mn with sales to the public sector increasing by 13.6% to $190.1mn relative to the same period in 2002 while sales to commercial banks declined by 3.5% to $96.2mn. The latter included some $29.9mn to facilitate transactions by BEL. Even so, commercial bank foreign asset holdings dipped due to increased outflows for fuel and other payments abroad. On the liabilities side, the Central Bank recorded deposit withdrawals from the banana support programme account and a lowering of the Caricom bilateral clearings balance while commercial bank borrowings from head offices and affiliates and foreign payments being processed rose.

Notwithstanding a $36.4mn contraction in the second quarter, excess statutory liquidity of the commercial banks experienced an overall growth of $6.7mn to $67.6mn over the period reviewed. Holdings of approved liquid assets rose by $23.5mn against a $16.8mn increase in the required level of

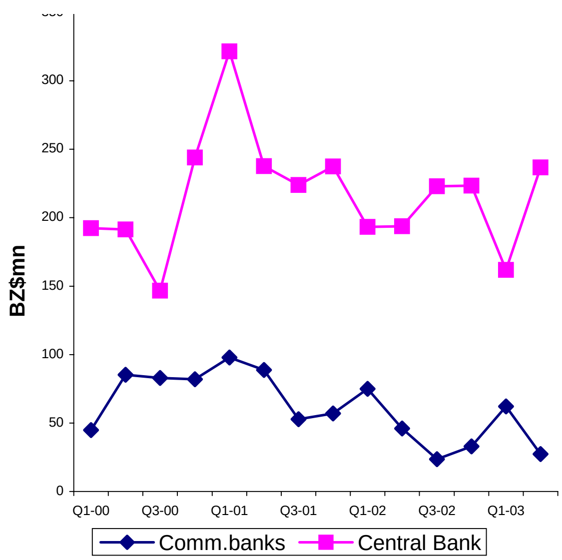
Table 3.3: Net Foreign Assets of the Banking System

$mn

	Position as at June 2003	Changes during	
		Mar '03 to June '03	Dec '02 to June '03
Net Foreign Assets of Banking System	**264.0**	**40.0**	**7.7**
Net Foreign Assets of Central Bank	**236.7**	**74.8**	**13.3**
Central Bank Foreign Assets	240.2	76.5	10.8
*Central Bank Foreign Liabilities (Demand)	3.5	1.7	-2.5
Net Foreign Assets of Commercial Banks	**27.3**	**-34.8**	**-5.6**
Commercial Bank Foreign Assets	111.6	-30.6	-1.8
#Commercial Bank Foreign Liabilities (Short-Term)	84.3	4.2	3.8

* Does not include Central Bank Long-term Foreign Liabilities of $13.0mn
# Does not include Non-residents Foreign Currency Time Deposits of $32.9mn held with Commercial Banks.

Chart 3:1: Change in Central Bank and Commercial Banks Net Foreign Assets



liquid assets. The most notable development in the commercial banks' portfolio was a $13.7mn growth in holdings of other approved liquid assets that reflected increases in loans for residential construction and Central Government's overdraft balance held with the banks. Other consolidated adjustments included increases in holdings of Treasury Bills, balances held with the Central Bank and vault cash while short-term foreign balances declined. In contrast to the $6.2mn decline recorded over the first half of 2002, excess cash reserves grew by $2.8mn to $6.3mn as daily average holdings of cash reserves rose by $7.0mn against a $4.2mn increase in the required level of cash reserves.

A further narrowing of 40 basis points (to 9.6%) was recorded in the weighted average interest rate spread accruing to the commercial banks. This largely reflected a 30 basis points increase in the weighted average deposit rate as the banks actively sought to attract new time deposit contracts to accommodate the higher loan demand. During the same period, the weighted average lending rate declined by 10 basis points with the rates applied on personal, commercial, mortgage-backed and other loans all moving downward.

Chart 3.2 : Commercial Bank Excess Statutory Liquidity

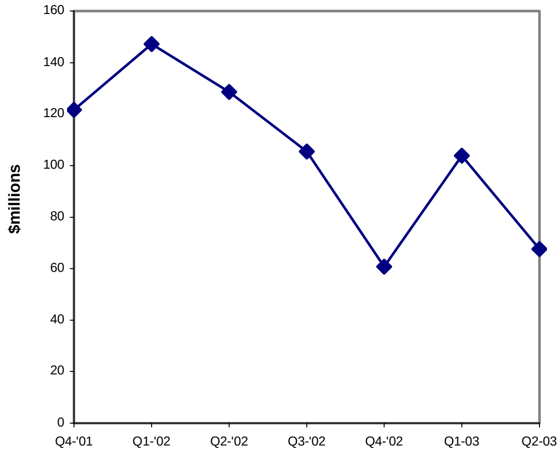
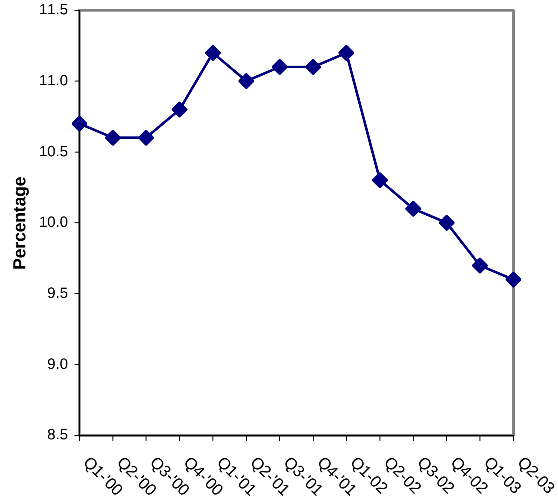


Chart 3.3 : Weighted Average Interest Rate



Government Operations

During the first quarter of the 2003/04 fiscal year (April to June), Central Government recorded an overall deficit of $28.9mn with total revenue and expenditure amounting to $105.3mn and $134.2mn, respectively. The fiscal shortfall was financed from external sources with loan disbursements of $245.5mn surpassing amortization payments on Central Government and Development Finance Corporation external debt. These loan inflows also contributed to a temporary build-up of government domestic deposits in the banking system.

While current revenue and grants rose slightly, capital revenue fell from $28.6mn to $3.7mn due to lower sales of equity and property. Current expenditure was 12.6% above that of the similar period of FY 2002/03 with increased payments for goods and services and wages outweighing a decline in interest payments. Given the rather modest 1.2% increase in current revenues and grants, the surplus on current operations declined by approximately 48% to $9.7mn relative to the comparable period of the previous fiscal year. Capital outlays contracted by 9.7% to $42.9mn, which included $14.9mn for Capital II projects and $28.1mn for Capital III projects. A multiplicity of projects were funded ranging from infrastructure work on streets, drains, highways and land development to agriculture health services, tourism development and trade and investment promotion.

Operations over the first six months of the calendar year resulted in an overall deficit of $75.1mn with total expenditure of $295.9mn exceeding revenue and grants of $220.8mn. After largely relying on Central Bank credit for the first quarter, a shift to external financing occurred with loan disbursements of $266.2mn (most of which was received in the month of June) exceeding amortization payments abroad.

Current revenue was 5.7% below that of the first half of 2002, as a $28.7mn

Table 4.1: Summary of Central Government's Revenue & Expenditure

$mn

	Apr-Jun 2002	Apr-Jun 2003
Total Revenue & Grants	128.9	105.3
of which: Current Revenue	99.8	101.0
Total Expenditure	128.6	134.2
of which: Current Expenditure	81.0	91.3
Current Balance	18.8	9.7
Overall Balance	0.3	(28.9)

decline in non-tax revenue eclipsed a $10.4mn increase in tax revenue that was mostly derived from international trade and transactions. (Note: A lump sum loan repayment of $25.0mn from DFC in the first half of 2002 had elevated non-tax revenues during that period whereas no similar payments were received in the first half of 2003).

Increased outlays for pensions, wages/ salaries, goods, services and interest payments contributed to a 18.2% rise in current expenditure relative to the January to June period of 2002. These increases were partly offset by a reduction in subsidies and current transfers. With expenditure outpacing revenue, the current surplus shrank from approximately $66.0mn to $24.1mn.

At $7.0mn, capital revenue was less than quarter of the amount received in the first six months of 2002 while grant receipts shrivelled from $13.6mn to $1.1mn. Total capital expenditure decreased by $21.7mn to $107.2mn with an $18.4mn fall in Capital II expenditure and a $3.3mn fall in Capital III outlays. Notable disbursements under Capital II included $6.9mn for infrastructure projects, $5.6mn in counter part funding for the Southern Highway project, $4.2mn for the land development acquisition project, $3.3mn for streets, road and municipal drainage project for towns and villages, $1.7mn for general administration, $1.5mn each to the Government Printery and for the purchase of vehicles, and $1.0mn for Orange Walk Bypass. Capital III outlays were dominated by allocations for Marine Parade Boulevard ($7.0mn), museum project ($6.5mn), hurricane preparedness and disaster management ($6.4mn), UB ($5.6mn), urban development and housing project ($4.5mn), Southern Highway ($2.6mn), and early retirement ($2.4mn)

Table 4.2: Summary of Central Government's Revenue & Expenditure

$mn

	Jan-Jun 2002	Jan-Jun 2003
Total Revenue & Grants	271.3	220.8
of which: Current Revenue	225.6	212.8
Total Expenditure	288.5	295.9
of which: Current Expenditure	159.7	188.7
Current Balance	65.9	24.1
Overall Balance	(17.2)	(75.1)

Government's Domestic Debt

During the first six months Central Government's domestic debt rose by $66.0mn (37.9%) reflecting a $61.9mn expansion in Central Government's overdraft and a disbursement of $5.0mn from the Belize Bank. Principal repayments were to the DFC ($0.2mn), the Belize Bank Limited ($0.1mn) and $0.5mn went towards the GOB debt for nature swap.

In the secondary market for government securities, the Central Bank purchased $13.2mn worth of Treasury Bills from private sector entities and commercial banks .

Interest payments equalled $5.9mn with the overdraft balance accounting for $1.8mn. Holders of Treasury Bills and Treasury Notes received $1.2mn and $2.2mn, respectively, and the balance was shared among the DFC, the Belize Bank and the GOB debt for nature swap.

Public Sector External Debt

The public sector's disbursed outstanding external debt grew by 18.3% to $209.7mn as loan disbursements (largely from the Bear Stearns US $100.0mn bond issue) and upward valuation adjustments amounted to $248.mn and $4.3mn, respectively, while amortization payments totalled $43.4mn. Interest and other payments amounted to $12.7mn.

Table 4.3: Central Government's Domestic Debt

$mn

	Position as at Dec. '02	Jan-Jun 2003
Loans and Advances	35.2	101.2
Treasury Bill	100.0	100.0
Treasury Notes	24.0	24.0
Defence Bonds	15.0	15.0
Total	**174.2**	**240.2**

Approximately 87.2% of total disbursements went to Central Government including $202.9mn from commercial creditors and $14.0mn from multilateral institutions such as the IDB, CDB and the IBRD. The financial public sector (DFC) received a disbursement of $31.3mn from the International Bank of Miami and $0.6mn from the CDB under a line of credit.

Amortization payments by Central Government totalled $18.7mn, of which $9.1mn went to commercial banks and $0.9mn to commercial suppliers. Payments to bilateral and multilateral creditors totalled $7.1mn and $1.6mn, respectively. Payments by the financial public sector equalled $24.0mn and included $22.9mn to commercial banks, $0.9mn to multilateral agents and $0.2mn to bilateral creditors. The non-financial public sector also made payments of $0.7mn, to the CDB and CIBC Bank & Trust.

Interest and other payments by Central Government totalled $10.2mn, while the financial and non-financial public sector accounted for the remaining $2.1mn and $0.3mn, respectively. Of the amount paid by Central Government, $6.2mn (60.8%) went to commercial creditors such as the Royal Merchant Bank and Salomon Smith Barney. Bilateral and multilateral agents received $2.0mn and $1.8mn, respectively. Interest and other payments from the financial public sector amounted to $2.1mn, including $1.6mn to the commercial banks and $0.5mn to CDB. The non-financial public sector paid a total of $0.4mn, which was divided equally between CIBC Bank & Trust and the CDB.

During the period under review, the euro, the Kuwait dinar and the pound sterling appreciated against the US dollar, resulting in an upward valuation adjustment of $4.3mn to the disbursed outstanding debt. Euro-denominated loans were adjusted upward by $2.7mn, while sterling denominated loans went up by $0.9mn.

Table 4.4: Financial Flows on Public Sector's External Debt

	Jan-Jun 2002	Jan-Jun 2003
CENTRAL GOVERNMENT		
Disbursements	86.2	237.0
Amortizations	35	26.5
Interest & Other Payments	19.8	28.4
REST OF NON-FINANCIAL PUBLIC SECTOR		
Disbursements	3.3	-
Amortizations	1.5	1.0
Interest & Other Payments	0.8	0.6
FINANCIAL PUBLIC SECTOR		
Disbursements	1.7	32.5
Amortizations	23.3	30.8
Interest & Other Payments	6.2	4.4

ANNEX 5

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

Major Commodity Group	Weights	Quarterly Change				Annual Change
		Aug-02	Nov-02	Feb-03	May-03	
Food, Beverage & Tobacco	346.6	0.8	0.5	0.8	0.5	2.8
Clothing & Footwear	92.0	-0.3	-0.3	1.1	0.1	0.7
Rent, Water, Fuel, & Power	167.6	0.8	1.0	1.1	-0.6	2.4
Household goods & maintenance	85.3	-0.3	0.1	0.1	0.0	-0.1
Medical care	20.1	0.5	-0.8	0.1	0.6	0.4
Transport & Communication	170.1	0.0	2.3	0.4	0.7	3.4
Recreation, Education & Culture	80.4	1.3	0.4	-0.5	0.2	1.4
Personal care	37.9	1.1	0.0	0.1	-0.4	0.7
ALL ITEMS	**1000.0**	**0.5**	**0.8**	**0.6**	**0.2**	**2.2**

Source: Central Statistical Office

Table 5.2: Gross Imports (CIF) by SITC

SITC Section	Jan– June 2002	Jan– June 2003
0 Food and Live Animals	51,137,733	60,888,335
1 Beverages and Tobacco	3,982,971	4,326,672
2 Crude Materials	3,483,596	3,590,067
3 Fuels and Lubricants	66,742,917	88,243,430
Of which electricity	12,125,100	18,156,388
4 Animals and Vegetable Oils	1,410,273	1,609,141
5 Chemicals	40,132,038	41,410,366
6 Manufactured Goods	62,500,223	63,524,577
7 Machinery and Transport Equipment	106,575,892	109,974,871
8 Misc. Manufactured Goods	32,090,345	37,006,592
9 Commodities NIE	140,360,035	162,090,145
Of which CFZ Direct Imports	99,286,781	83,557,659
Of which EPZ Imports	39,233,615	76,035,028
Of which household/personal effects	1,594,486	1,587,077
Total	508,416,019	572,664,196

Source: Central Statistical Office, Central Bank of Belize

Table 5.3: Balance of Payments Summary

$mn

	Jan-Jun 2003	Jan-Jun 2002
CURRENT ACCOUNT	**-206.7**	**-150.7**
Goods: Exports f.o.b.	302.9	274.0
Goods: Imports f.o.b.	-532.3	-472.1
Trade Balance	***-229.4***	***-198.0***
Services: Credit	223.2	190.6
Transportation	23.0	18.5
Travel	166.7	141.2
Other Goods & Services	19.3	17.7
Gov't Goods & Services	14.2	13.1
Services: Debit	-134.8	-113.5
Transportation	-39.7	-36.9
Travel	-38.6	-35.4
Other Goods & Services	-48.6	-31.8
Gov't Goods & Services	-7.9	-9.3
Balance on Goods & Services	***-141.0***	***-120.9***
Income: Credit	4.0	4.3
Compensation of Employees	2.5	1.9
Investment Income	1.5	2.4
Income: Debit	-101.7	-83.8
Compensation of Employees	-16.1	-15.4
Investment Income	-85.6	-68.3
Balance on Goods, Services & Income	***-238.7***	***-200.3***
Current Transfers: Credit	34.8	51.7
Current Transfers: Debit	-2.8	-2.1
CAPITAL ACCOUNT	**4.0**	**3.2**
Capital Account: Credit	4.7	4.5
Capital Account: Debit	-0.6	-1.3
FINANCIAL ACCOUNT	**194.7**	**93.2**
Direct Investment Abroad	-0.5	0.0
Direct Investment in Reporting Economy	24.2	37.9
Portfolio Investment Assets	-0.1	0.0
Portfolio Investment Liabilities	174.6	26.1
Financial Derivatives	0.7	0.9
Other Investment Assets	6.8	0.2
Other Investment Liabilities	-11.0	28.1
NET ERRORS & OMISSIONS	**-18.8**	**10.1**
OVERALL BALANCE	**10.8**	**-44.3**
RESERVE ASSETS*	**-10.8**	**44.3**

*(Minus = Increase)

Table 5.4: Central Government's Revenue and Expenditure

BZ $'000

	Estimated Budget 2003/2004	Apr 2003 to Jun 2003	Apr 2002 to Jun 2002	Actual to date as % of Budget
TOTAL REVENUE & GRANTS (1+2+3)	480,511	105,268	128,902	36.5%
1).Current revenue	433,304	100,994	99,789	39.2%
Tax revenue	391,357	92,689	88,181	39.8%
Income and profits	91,017	21,124	19,203	39.6%
Taxes on property	5,645	873	1,038	21.9%
Taxes on goods and services	122,995	31,430	27,171	41.7%
Int'l trade and transactions	171,700	39,262	40,769	39.2%
Non-Tax Revenue	41,947	8,306	11,608	33.3%
Property income	4,800	774	1,323	16.1%
Contributions to pension fund	522	0	0	0.0%
Transfers from NFPE's	0	0	125	0.0%
Extrabudgetary revenue	0	0	0	0.0%
Other	36,626	7,532	10,160	36.0%
2). Capital revenue	38,650	3,675	28,612	13.2%
3). Grants	8,557	599	501	7.0%
(of which non-project grants are:)		0	0	
TOTAL EXPENDITURE (1+2)	512,119	134,213	128,595	45.9%
1). Current Expenditure	370,130	91,277	81,030	43.6%
Wages and Salaries	187,542	45,723	41,239	40.6%
Pensions	23,534	6,625	6,014	50.2%
Goods and Services	65,603	17,738	11,870	44.7%
Interest Payments on Public Debt	64,362	13,731	14,990	49.3%
Subsidies & current transfers	29,089	7,460	6,918	42.5%
2). Capital Expenditure	141,989	42,936	47,566	52.0%
Capital II (local sources)	60,980	14,852	24,822	46.9%
Capital III (foreign sources)	77,328	28,083	22,744	58.5%
Capital Transfer & Net Lending	3,681	0	0	0.0%
CURRENT BALANCE	63,174	9,717	18,759	13.5%
OVERALL BALANCE	(31,608)	(28,945)	307	188.7%
FINANCING	31,608	28,945	(307)	
Domestic Financing	(80,624)	(194,820)	8,635	
Central Bank		(68,988)	9,323	
Net Borrowing		25,320	8,951	
Change in Deposits		(94,308)	372	
Commercial Banks		(27,296)	210	
Net Borrowing		(17,860)	37	
Change in Deposits		(9,436)	173	
Privatization DFC Debt Refinancing	0	(98,336)	0	
Other Domestic Financing		(173)	(898)	
Financing Abroad	112,232	235,169	2,314	
Disbursements	66,616	245,519	44,929	
Amortization	36,503	(18,736)	(18,191)	
Interest & Penalties Prepayment		0	0	
Sinking Fund & JCF	9,113	(1,314)	(24,424)	
Other		(1,703)	(11,256)	

Table 5.5: Central Government's Domestic Debt

	Disbursed Outstanding Debt 31/12/02R	Transactions to – June 2003				
		Disbursement/ New Issues of Securities	Amortization/ Reduction in Securities	InterestP	Net Change in Overdraft/ Securities	Disbursed Outstanding Debt 30/06/03
Overdraft	1,590			1,772	61,868	63,458
Central Bank	0			1,772	62,123	62,123
Commercial Banks	1,590			0	(255)	1,335
Treasury Bills	100,000	0	0	1,159	0	100,000
Central Bank	53,795		0	591	13,219	67,024
Commercial Banks	33,124		0	492	(4,671)	28,453
Other	13,081		0	76	(8,558)	4,523
Treasury Notes *	24,000	0	0	2,159	0	24,000
Central Bank	0		0	0	0	0
Commercial Banks	23,269		0	2,094	0	23,269
Other	731		0	65	0	731
Defence Bonds	15,000	0	0	0	0	15,000
Central Bank	10,000		0	0	0	10,000
Commercial Banks	100		0	0	0	100
BSSB	0		0	0	0	0
Other	4,900		0	0	0	4,900
DFC Loan (Debt Restructuring)	8,893	0	226	332	0	8,667
BSSB Housing Loan	708	0	3	14	0	705
GOB (Debt for Nature Swap)	15,848	0	546	192	0	15,302
Cohune Walk Loan Belize Bank	3,181	0	107	236	0	3,074
Infrastructure Dev. Loan Belize Bank	5,000	5,000	0	0	0	10,000
TOTAL	**174,220**	**5,000**	**882**	**5,864**	**61,868**	**240,206**

R = Revised
P = Provisional
* Since October of 1998 Treasury Notes are being subscribed to in $U.S.
Therefore they are now considered part of Foreign Liabilities. However interest is still paid in local currency.

Table 5.6: Public Sector External Debt By Creditor

BZ$'000

	Disbursed Outstanding Debt 31/12/2002	Transactions during Jan to June 2003				Disbursed Outstanding Debt 30/06/2003
		Disburse-ment	Amortiza-tion	Interest & Other Charges	Valuation Adjust-ments	
CENTRAL GOVERNMENT	**933,191**	**237,015**	**26,466**	**28,409**	**2,572**	**1,146,312**
Caribbean Development Bank*	45,248	10,290	429	493	7	55,116
European Economic Community	17,546	0	214	49	1,603	18,935
Int. Bank for Reconstruction Dev.	67,152	2,836	3,176	1,510	0	66,812
Inter-American Development Bank	97,200	13,766	104	1,306	0	110,862
OPEC Fund for International Dev.	6,971	423	267	182	0	7,127
Int. Fund for Agricultural Dev.	1,963	144	130	62	189	2,166
Government of the UK	19,644	0	2,348	0	538	17,834
Government of the USA*	10,531	0	657	191	0	9,874
Government of Kuwait	17,893	0	566	587	188	17,515
Republic of China	183,666	0	3,364	3,874	0	180,302
Fondo de Inv. de Venezuela	2,560	0	234	81	0	2,326
Government of China	232	0	0	0	0	232
Government of Spain	328	0	375	3	47	0
Government of Trinidad & Tobago	32	0	4	1	0	28
Deutsche Bank of Germany	3,915	0	653	51	0	3,262
Citicorp Merchant Bank Ltd.	14,286	0	1,429	704	0	12,857
Citibank of Trinidad	18,857	0	1,714	930	0	17,143
Provident Bank & Trust	3,141	0	607	103	0	2,534
Solomon Smith Barney	52,030	0	0	2,692	0	52,030
Royal Merchant Bank	83,704	0	5,700	2,977	0	78,004
All First Bank of Maryland	4,200	0	0	122	0	4,200
KBC Bank	9,346	0	935	258	0	8,411
Bear Stearns & Co. Inc	250,000	200,000	0	11,545	0	450,000
Banco Nacional De Comercio	0	5,649	0	238	0	5,649
Suppliers Credit	22,746	3,907	3,560	450	0	23,093
REST OF NON-FINANCIAL PUBLIC SECTOR	**16,164**	**0**	**976**	**569**	**98**	**15,286**
CIBC Bank & Trust Co.	6,766	0	638	380	0	6,128
Government of Kuwait	9,398	0	338	189	98	9,158
FINANCIAL PUBLIC SECTOR	**189,152**	**32,462**	**30,806**	**4,443**	**1,039**	**276,802**
Caribbean Development Bank	46,142	1,183	1,265	890	19	46,079
European Economic Community	5,365	0	300	74	475	5,540
Government of the USA	2,911	0	188	44	0	2,723
Paine Webber Real Estate Sec. Inc.	2,200	0	0	0	0	2,200
Citicorp Merchant Bank Ltd.	6,250	0	1,250	111	0	5,000
Citibank Trinidad & Tobago	12,250	0	4,250	471	0	8,000
Private Export Funding Corporation	12,041	0	2,007	208	0	10,034
Deutsche Bank of Germany	25,006	0	2,189	537	2,192	25,009
Provident Bank & Trust	541	0	541	28	0	0
Commerz Bank of Belgium	5,085	0	709	205	0	4,376
CSSL/New Holland of Brazil	3,327	0	2,452	65	0	875
International Bank of Miami	68,034	31,279	15,655	1810	0	83,658
TOTAL	**1,138,507**	**269,477**	**58,248**	**33,421**	**5,356**	**1,355,092**

*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.

Table 5.7: Tourism Statistics

Period	2001	2002	2002 Qrt.1	2002 Qrt.2	2003 Qrt.1	2003 Qrt.2
Visitor Arrivals						
Air	129,231	127,521	39,959	33,101	46,928	41,148
Land	38,041	43,014	11,926	9,755	10,063	8,632
Sea	10,144	8,416	2,408	2,088	2,172	2,271
Visitor Type						
Stopover	177,416	178,951	54,293	44,944	59,164	52,051
Cruise	40,898	271,737	50,427	54,770	135,160	88,771
Tourist Expenditure (BZ$ mn)						
Stopover	221.9	222.6	68.3	56.0	74.4	65.2
Cruise	3.7	24.7	4.6	4.9	12.3	8.1
Monthly Occupancy Rates						
Ambergris	53.9	47.3				
Belize District	51.3	42.5				
Cayo District	31.4	32.7				
Average Nightly Room Rates (BZ$)						
Ambergris	204.31	229.15				
Belize District	140.95	133.87				
Cayo District	130.67	132.84				

Table 5.8: Statutory Liquid Assets—Actual Versus Required Holdings

$mn

	Position as at June '03	Changes during: Mar '03 to June '03	Dec '02 to June '03
Holdings of Approved Liquid Assets	**327.8**	**-31.1**	**23.5**
Notes and Coins	28.3	-1.1	0.9
Balances with Central Bank	68.5	-4.3	3.6
Money at Call and Foreign Balances (due 90 days)	86.1	-27.0	-5.6
Treasury Bills maturing in not more than 90 days	44.0	-2.7	10.9
Other Approved assets	100.9	4.0	13.7
of which: Treasury Notes	23.3	0.0	0.0
Loans for New Residential Construction	45.3	2.6	4.9
Loans for Non-Traditional Exports	0.6	-0.1	-0.2
Required Liquid Assets	**260.2**	**5.3**	**16.8**
Excess/(Deficiency) Liquid Assets	**67.6**	**-36.4**	**6.7**
Daily Average holdings of Cash Reserves	71.4	-2.4	7.0
Required Cash Reserves	65.1	1.3	4.2
Excess/(Deficiency) Cash Reserves	**6.3**	**-3.7**	**2.8**

Table 5.9: Commercial Banks' Weighted Average Interest Rates

Percentages

	Position as at June 2003	Changes during: Mar '03 to June '03	Dec '02 to June '03
Weighted Lending Rates			
Personal Loans	15.7	-0.3	-0.2
Commercial Loans	14.2	0.0	-0.1
Residential Construction	13.0	-0.2	-0.3
Other	9.7	-0.3	-0.4
Weighted Average	**14.4**	**0.0**	**-0.1**
Weighted Deposit Rates			
Demand	0.3	-0.2	-0.1
Savings/ Cheque	5.2	0.0	0.0
Savings	5.1	0.0	0.0
Time	6.9	0.1	0.4
Weighted Average	**4.8**	**0.1**	**0.3**
Weighted Average Spread	**9.6**	**-0.1**	**-0.4**

Table 6.0 Sectoral Distribution of Commercial Banks' Loans and Advances, Mar—June 2003

$mn

	Position as at June '03	Changes during: Mar 2003 to June '03	Dec 2002 to June '03
PRIMARY SECTOR	**126.4**	**10.9**	**9.7**
Agriculture	80.7	5.4	3.2
Sugar	8.9	-0.7	-2.3
Citrus	19.5	-4.9	0.7
Bananas	40.9	9.1	4.3
Other	11.4	1.9	0.5
Marine Products	27.4	3.5	1.8
Forestry	2.0	0.2	0.3
Mining & Exploration	16.3	1.8	4.4
SECONDARY SECTOR	**274.6**	**6.3**	**21.0**
Manufacturing	13.2	-8.3	-9.8
Building & Construction	223.6	16.3	21.9
Utilities	37.8	-1.7	8.9
TERTIARY SECTOR	**392.6**	**27.3**	**49.9**
Transport	38.2	0.6	11.0
Tourism	62.9	11.8	11.1
Distribution	161.0	11.7	10.5
Other*	130.5	3.2	17.3
Personal Loans	**190.3**	**11.5**	**-1.2**
TOTAL	**983.9**	**56.0**	**79.4**

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