Review of Economic and Financial Developments

Overview

Domestic exports rose by an impressive 33.3% during the first nine months of 2003 with favourable price movements, penetration into regional markets and a general increase in domestic production contributing to the buoyancy. Marine products and banana led the export rebound with export volume of farmed shrimps almost quadrupling and banana nearly doubling.

A strengthening tourism sector contributed to the general upswing as arrivals of bona fide stay-over tourists rose by 11.9% (to 153,045) and cruise ship passenger arrivals soared from 155,916 to 309,647.

Prices showed an upward trend with higher world fuel prices contributing to a 0.6% rise in the Consumer Price Index between May and August 2003 and an increase of 2.3% over the August 2002 to August 2003 period. All major categories were affected except for '*Medical Care*' and '*Personal Care*'.

Notwithstanding the strong growth in exports, the current account deficit widened by 6.2% to $246.8mn due to increased imports and interest payments. Nearly three-quarters of the deficit was financed by new foreign borrowings and official reserves were also drawn down by $72.3mn. Import coverage consequently declined to 2.0 months.

After accelerating in the first half of the year, monetary growth tapered off with M2 (broad money) increasing by some 3.7%. Growth was driven by marked increases in loans to the private sector as well as Central Government's use of overdraft financing from the Central Bank in the February to March period. With net credit rising by 16.7%, strong demand for hard currency associated with the acceleration in imports led to a 41.7% contraction in the net foreign assets of the banking system.

Credit expansion exceeded the pace of deposit growth and bank liquidity therefore tightened reflecting a 7.5%

increase in the ratio of loans to deposits. The banks were affected not only by the increase in domestic competition as market shares were adjusted to accommodate the recently established bank but also by the increasing share of long-term securities and loans in their total holdings of approved liquid assets.

Tightened liquidity and a more competitive environment led to a narrowing of the commercial banks weighted average interest rate spread to 9.6%. While the weighted average deposit rate rose by 30 basis points to 4.8%, the weighted average lending rate moved downward by 10 basis points to 14.4%.

In the first two quarters of the 2003/2004 fiscal year (April to September), Central Government operations generated an overall deficit of $62.8mn. Financing came from external sources with loan disbursements of $298.2mn outmatching amortization and deposits into a sinking fund.

While current revenue rose by 3.5% due to a modest increase in tax revenue, current expenditure rose by 17.6% reflecting increases in all major expenditure categories. At $85.8mn, capital outlays focused on various infrastructure projects, tertiary level scholarships, hurricane preparedness, The Museum of Belize and The University of Belize.

Over the January-September period, Central Government's domestic debt rose by $75.8mn to $250.1mn mainly due to the increase in overdraft financing from the Central Bank. Amortisation and interest payments amounted to $1.6mn and $8.9mn, respectively.

The public sector's external debt also rose by 17.7% to $1,352.6mn as disbursements of $322.7mn combined with $5.6mn in upward valuation adjustments eclipsed amortization payments of $124.7mn. At $59.0mn, interest payments were 46.4% above the amount paid over the first nine months of 2002.

Domestic Production And Prices

Sugar and Molasses

After 214 days of factory operations, the 2002/2003 sugarcane harvest ended on 25th June, some 19 days earlier than the 2001/2002 crop. Deliveries for the crop year stood at 1,073,339 long tons, a 6.7% decline that was partly due to unfavourable weather and the sub-optimal use of inputs by debt-burdened farmers.

Sugar production consequently contracted by 6.2% to 104,433 long tons. Although the factory's performance was adversely affected by high mud levels in the sugarcane due to the widespread use of mechanical harvesters, the cane/ sugar ratio improved slightly. Production of molasses rose by 4.9% to 42,994 long tons.

A strengthening in export prices and expansion into the Caricom market helped to push up the average price received per long ton of sugarcane to $42.42, approximately $4.34 above the price paid in the previous crop year. Hence, no relief payments went

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

	Nov-Sept 2002/03	Nov-Sept 2001/02
Deliveries of Sugarcane (long tons)	**1,073,339**	**1,150,656**
Sugar Processed (long tons)	**104,433**	**111,312**
Molasses processed (long tons)	**42,944**	**40,947**
Performance		
Factory Time Efficiency (%)	93.11	93.28
Cane Purity (%)	85.08	85.08
Cane/Sugar	10.28	10.34

Source: Belize Sugar Industries

to farmers, unlike the previous year when farmers received an additional $1.27 per long ton from the Sugarcane Stabilization Fund and the Sugarcane Industry Development Fund.

Citrus Products

Citrus production declined for the second consecutive year with a number of factors causing deliveries to fall by 4.2% to 5.1mn boxes. Following the end of the 2000/2001 crop, 168 growers (with a combined production of 118,868 boxes of citrus) stopped deliveries to the factory due to low fruit prices. Productivity was also hampered by mismanagement of groves (poor weed control, minimal replanting of dead and non-productive trees, and inadequate hedging or pruning) and a reduction in inputs caused by the low prices for citrus.

Table 1.2: Output of Citrus Products

	2002/03 Oct– Sept	2001/02 Oct–Sept
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

Source: Citrus Products of Belize, Citrus Growers Association

The situation was exacerbated by the decline of trees on Swingle rootstocks (7.0% of the orange and 8.0% of the grapefruit acreages). Various diseases (such as the Citrus Tristeza Virus) and pests (such as the Mexican fruit fly) also affected yields, while heat burn from the extremely hot and dry weather during the first part of the year resulted in the loss of some 30,000 boxes of oranges.

With export prices for orange juice weakening due to large global inventories and grapefruit juice demand remaining flat, 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. The pound solid (ps) payment system for orange deliveries did benefit the small farmers who averaged a higher ps per box and should be an incentive for larger farmers to increase the yield of ps from their groves in the future.

Despite the fall in citrus deliveries, production of citrus juices grew by 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 production of not from concentrate (NFC) more than doubled, concentrate production declined marginally principally due to a contraction in output of grapefruit concentrate. Still hampered by quality problems, pulp production fell by 20.3% while the expansion in NFC output led to a 7.1% rise in oil production.

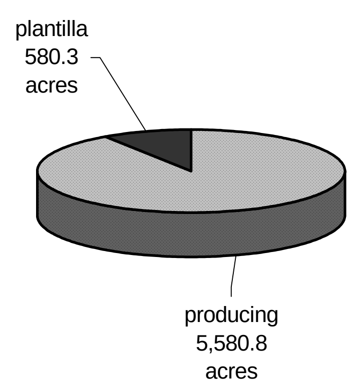
Banana

Extensive rehabilitation and investments in 2002 brought the banana industry fully back on stream in 2003. Field productivity was raised by replanting as well as improved field drainage and irrigation financed by EU grant funds. Production over the first three quarters therefore amounted to 3.2mn boxes, compared to the 1.8mn boxes achieved during the same period of 2002 and the industry is on track to meet its annual target of 4.0mn exportable boxes.

The acreage under banana production stood at 6,161.1 acres at the end of August 2003 with the area containing harvestable trees growing from 1,517.3 acres in January 2002, to 5,580.8 acres in August 2003. Another 580.3 acres are presently under young plants.

Production costs were reduced by approximately 20%, which helped to offset the steady annual reduction in the negotiated market price of banana. For 2003, the floor on the average box price is set at $13.00, which is approximately $1.50 lower than the 2002 price. To encourage farmers to supply most of their banana during the first half of the year when prices are highest in

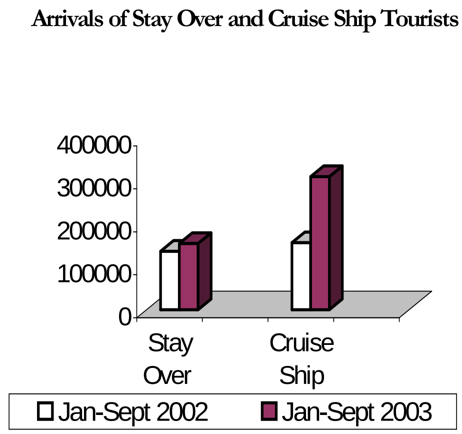
Chart 1.1: Banana Acreage



Europe, Fyffes offered a box price of US$7.21. Bananas delivered during the second half of the year fetch a lower price of US$5.75 per box. At year-end, if the average box price for the entire year comes out to be lower than US$6.50, Fyffes will make an adjusting payment to attain the floor price.

Tourism

Chart 1.2: Bona Fide Tourist Arrivals



Bonafide stay-over tourist arrivals for the January to September period increased by 13.1% to 154,144 as a as visitors from all major destinations increased. The economic turnaround in the US and renewed marketing efforts, particularly through the US cable networks, contributed to a 19.7% rise in tourist arrivals from the US. On the other hand, sluggish growth of the EU economy, projected to be only 0.8% for the year, resulted in European arrivals rising by only 1.2%.

Visitors entering through the Phillip Goldson International Airport (PGIA) and the seaports surged by 21.3% and 1.5%, respectively, which offset a 10.5% decline in arrivals through the land borders.

After only a few months in operation, on June 1st, Air Jamaica suspended its service between Montego Bay and Belize. The route was intended to transfer US passengers to Belize through Air Jamaica's Montego Bay hub, but could not compete with US Air, which had a similar strategy for its hub in Charlotte, North Carolina.

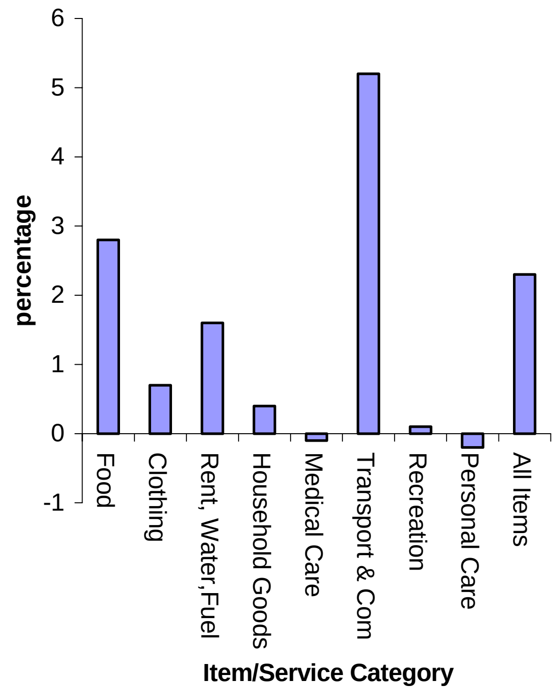
During the first half of the year, cruise visitors almost doubled to 309,647 as the number of cruise liners and port calls increased.

Consumer Price Index

The inflation rate as measured by the Consumer Price Index (CPI), grew by 0.6% between May to August 2003, as prices of all categories of goods and services increased with the exception of "Clothing and Footwear".

Over the twelve month period (August 2002 to August 2003), the CPI was up 2.3% with increases in all major categories of goods and services except for 'Medical Care' and 'Personal Care'. A significant factor was the hike in world fuel prices due to the strike in Venezuela's petroleum sector and the conflict in Iraq. This not only directly affected local fuel prices but also contributed to the increase in the cost of other imports as demonstrated by the 1.6% expansion in the US export price index (up to August 2003). Hence, the 'Transport and Communication' category experienced the largest price increase (5.1%), followed by 'Food, Beverage and Tobacco' (2.8%). The next largest increase of 1.6% was in 'Rent, Water, Fuel and Power' and mostly reflected rising costs for kerosene and butane.

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



International Trade and Payments

Balance of Payment Overview

A rise in payments abroad led to a $72.3mn decline in official reserves during the first three quarters and import coverage (excluding CFZ imports) consequently fell from 3.2 months to 2.0 months at the end of the period.

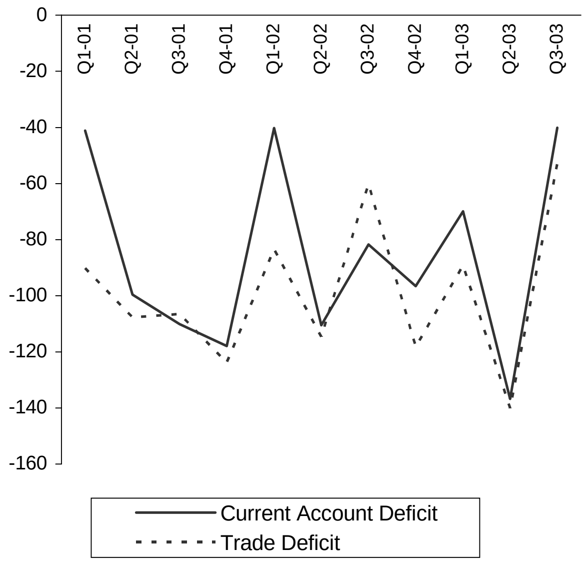
Net outflows on the current account rose by 6.2% notwithstanding a 45.7% growth in earnings from services associated with the upsurge in the tourist industry. Inflows from the latter were overshadowed by the enlarged trade deficit and increased interest payments on bonds and loans. Transfers from abroad declined in comparison to the previous year when hurricane related insurance settlements had been received.

At $282.1mn, the trade deficit was 9.2% above the comparable period of 2002. Total imports rose by 10.1% mostly due to the one time importation of specialized machinery and equipment and the sharp rise in

Table 2.1: Balance of Payments Summary

	2003 Jan-Sep	2002 Jan-Sep
A. CURRENT ACCOUNT (I+II+III+IV)	**-246.8**	**-232.4**
I. Goods (Trade Balance)	**-282.1**	**-258.3**
Exports, f.o.b.	499.0	451.3
Domestic Exports	298.8	226.5
CFZ Gross Sales	168.8	209.7
Re-exports	31.4	15.1
Imports, f.o.b.	781.0	709.6
Domestic Imports	650.7	558.8
CFZ Imports	130.3	150.8
II. Services	**112.9**	**77.5**
Transportation	-26.1	-28.0
Travel	162.2	130.3
Other Services	-23.3	-24.8
III. Income	**-127.6**	**-114.6**
Compensation of Employees	-14.5	-14.5
Investment Income	-113.2	-100.1
IV. Current Transfers	**50.0**	**63.0**
Government	3.4	11.5
Private	46.5	51.4
B. CAPITAL & FINANCIAL ACCOUNT (I+II)	**198.2**	**206.2**
I. Capital Account	**4.4**	**3.8**
II. Financial Account (1+2+3)	**193.8**	**202.4**
1. Direct Investments	30.8	37.6
2. Portfolio Investment	161.9	266.4
Monetary Authorities	-6.0	-6.0
General Government	168.1	272.4
Banks	0.0	0.0
Other Sectors	-0.2	0.0
3. Other Investments	1.1	-102.0
Monetary Authorities	-2.9	-68.0
General Government	-56.2	-60.8
Banks	26.8	29.4
Other Sectors	33.4	-2.3
C. NET ERRORS & OMISSIONS	**-23.6**	**10.2**
D. OVERALL BALANCE	**23.6**	**-10.2**
E. RESERVE ASSETS	**72.3**	**16.0**

Chart 2.1: Current Account Deficit Vs. Trade Deficit



the acquisition cost of fuel. The former included telecommunications equipment for the establishment of a new telephone company, an evaporator for the citrus processor, and generators for the electricity company. The acquisition cost of fuels soared in response to the Venezuelan oil crisis, and the war in Iraq. Imports destined for re-sale in the CFZ fell as competitive and administrative pressures from across the border led to a 19.5% decline in CFZ gross sales. Mexicans in Chetumal instituted a practice called 'amalgación' in which the price of their regular fuel was matched to the pump price in the CFZ and the Mexican authorities also substantially decreased duty free allowances.

The growth in imports was partly offset by a 31.9% surge in domestic export earnings that reflected price improvements, expansion of regional sales and increased production. The rebound was led by marine products, banana and sugar. Re-exports more than doubled to $31.4mn due to the outward movement of transport equipment and the return of electrical generators rented by the electricity company to meet energy demand during the dry season.

Notwithstanding a 7.5% decline in volume, sugar revenues rose 6.3% as prices strengthened in almost all markets, and sales within Caricom (where prices were more than double those on the world market) expanded from 5,217 long tons in 2002 to 12,725 long tons in 2003. The appreciation of the Euro against the US dollar drove up the EU price by US $0.03 per pound, while the US price increased by US$0.01 per pound. On the other hand, the world sugar price held steady at US$0.06 per pound even though output from Cuba and Brazil fell below expectations.

Marine exports catapulted upward by 120.8% to $85.9mn as farmed shrimp rebounded from virus and hurricane setbacks. The sluggish performance in conch and lobster was more than offset by the near quadrupling in shrimp production and near tripling in its export sales. Pond expansion, timely stocking of ponds and the use of a strain resistant to the Taurus virus were key to the marked growth in output and exports.

Extensive replanting of damaged plantations together with improvements in irrigation and drainage resulted in an almost doubling of the volume and value of banana exports to 55,654 metric tons ($40.8mn). The volume increase fully offset the $1.49 contraction in the average box price to $13.00. The industry was therefore on track to meet its output target of 4.0mn boxes, especially given the incentive to avoid incurring a 'dead freight penalty' that kicks in when shipments fall below 75,000 boxes per week.

Citrus exports rose by a modest 2.7%. Huge surplus stocks of

Chart 2.2: Shrimp Exports

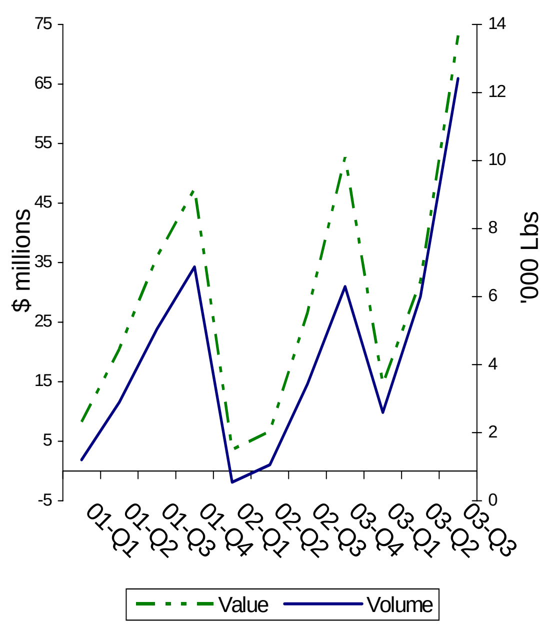
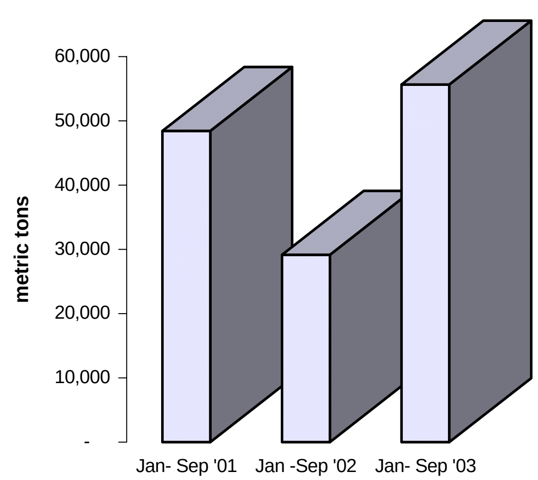


Chart 2.3: Banana Exports

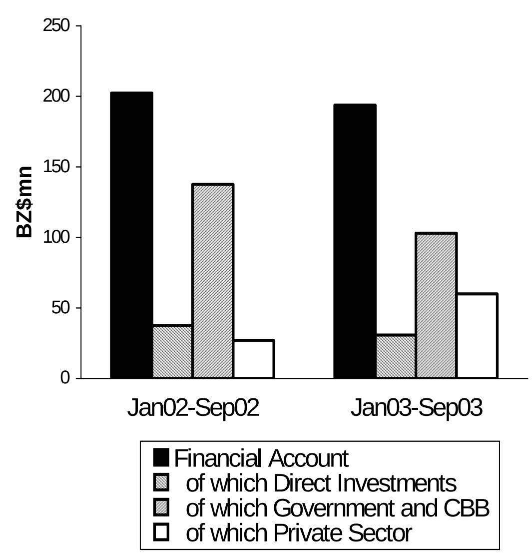


Brazilian orange juice helped to push global juice prices downward, despite a 9.0% decline in US production. Papaya was the only product to experience a small revenue contraction of $0.4mn as price declines were only partly compensated for by a 36.3% rise in export volume. With competition heating up from Brazil and Mexico, the average price fell by 29.4% to $0.48 per pound.

Earnings from services rose to $112.9mn as a 24.5% surge in tourism receipts more than offset higher costs for freight (incurred from the growth in import volume) and re-insurance premiums paid to foreign insurers. On the other hand, a 12.9% increase in interest payments on bonds and loans caused net outflows on the income account to rise by 12.0% to $127.6mn.

Net capital and financial inflows amounted to $198.2mn, a 6.4% decline when compared to the same period of 2002. With lower receipts from foreign direct investment, the principal financial inflows came in the form of loan disbursements to the Government and companies in the Export Processing and Commercial Free Zones. The largest single disbursement to the government occurred in June when the proceeds of a US$100mn bond placement were received. Since these funds were used to refinance some loans, loan payments were relatively large, a development that was similar to 2002 when proceeds from a US$125mn bond were used to refinance some Government and Central Bank loans.

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



Monetary Developments

After accelerating in the first half of the year, monetary growth tapered off to 3.7% largely due to increased foreign exchange outflows associated with the widening balance of payments deficit. M2's growth was therefore driven entirely by a 16.7% expansion in net domestic credit that supported increased activity by the government and the private sector.

Table 3.1: Money Supply

$mn

	Position as at Sep 2003	Changes during June 2003 to Sep 2003	Changes during Dec 2002 To Sep 2003
Money Supply (M2)	**1,102.8**	**-19.6**	**39.4**
Money Supply (M1)	**359.7**	**-13.1**	**1.7**
Currency with the Public	98.9	-7.1	-7.9
Demand Deposits	260.8	-6.0	9.6
Quasi-Money	**743.1**	**-6.5**	**37.7**
Savings Deposits	212.1	-6.7	-4.8
* Time Deposits	531.0	0.2	42.5

**Includes Non-Residents Foreign Currency Time Deposits of $34.2mn*

Narrow money rose minimally (0.5%) with currency in circulation falling by $7.9mn while demand deposits rose by $9.6mn. A contrasting 5.3% increase in quasi-money was entirely accounted for by a $42.5mn (8.7%) expansion in time deposits, the latter being partly due to the higher interest rates being offered by increasingly competitive commercial banks.

Growth in net domestic credit was 14.1% above that of the 2002 January to September period, with loans to the private sector and net credit to Central Government rising by $114.6mn and $52.2mn, respectively, while loans to statutory bodies declined by $7.9mn.

Of the $77.5mn in loans provided to Central Government, 93.0% was in the form of overdraft financing provided by the Central Bank mainly in the January to March period. On the other hand, foreign inflows from international bond issues in June enabled the government's deposit holdings to rise by $33.9mn.

In secondary market activity, Central Bank purchased $16.8mn in Treasury bills thereby raising its total holdings to $70.5mn out of a total outstanding issue of $100.0mn. To facilitate the spurt in lending, commercial banks surrendered approximately $8.2mn worth of these low yield securities and replaced them with higher interest loans to the private sector.

Growing at an average rate of 4.3% per quarter, loans to the private sector went mainly to the tertiary sector with domestic air transportation, commercial real estate, distributive trade and tourism accounting for almost 60.0% of new loan disbursements. Substantial sums also went to the secondary sector to support building & construction and private utilities. Funds for the primary sector focused on banana and citrus as well as on mining activity linked to the increased demand for construction inputs.

Credit to statutory bodies contracted by $7.9mn reflecting Development Finance Corporation repayments to the Central Bank and commercial banks.

Partly due to the upswing in net domestic credit, the net foreign assets of the banking system contracted by 41.7% during the period reviewed. The Central Bank's foreign asset holdings fell sharply by $72.3mn to $157.0mn. Of the $391.5mn in inflows received, some 77.7% consisted of loan disbursements to the public sector. Outflows totalled $463.8mn and were dominated by foreign exchange sales of $300.9mn to the public sector. Roughly 61.0% of this was used to service the external debt. Central Bank sales of foreign exchange to the commercial banks rose by 26.7% to $115.0mn

Table 3.2: Net Domestic Credit

$mn

	Position as at Sep 2003	Changes during	
		June 2003 to Sep 2003	Dec 2002 to Sep 2003
Total Credit to Central Government	**212.9**	**10.6**	**86.1**
From Central Bank	**152.7**	**13.4**	**88.9**
Loans and Advances	72.1	9.9	72.1
Gov't Securities	80.6	3.5	16.8
From Commercial Banks	**60.2**	**-2.8**	**-2.8**
Loans and Advances	12.0	0.7	5.4
Gov't Securities	48.2	-3.5	-8.2
Less Central Government Deposits	**130.4**	**-50.2**	**33.9**
With Central Bank	119.8	-36.7	36.1
With Commercial Banks	10.6	-13.5	-2.2
Net Credit to Central Government	**82.5**	**60.8**	**52.2**
Credit to Other Public Sector	**21.6**	**-2.2**	**-7.9**
From Central Bank	10.0	-2.5	-5.0
From Commercial Banks	11.6	0.3	-2.9
Plus Credit to the Private Sector	**1,005.7**	**39.1**	**114.4**
Loans and Advances	1,003.2	39.1	114.4
Securities	2.5	0.0	0.0
Net Domestic Credit of the Banking System	**1,109.8**	**97.7**	**158.7**

while BEL was allocated $42.8mn to purchase fuel and service its external debt.

Over the first nine months of the year, the Bank's short-term foreign liabilities declined marginally and stood at $5.5mn at the end of the September.

Table 3.3: Net Foreign Assets of the Banking System

$mn

	Position as at Sep 2003	Changes during	
		June 2003 to Sep 2003	Dec 2002 to Sep 2003
Net Foreign Assets of Banking System	**149.3**	**-114.6**	**-107.0**
Net Foreign Assets of Central Bank	**151.5**	**-85.1**	**-71.9**
Central Bank Foreign Assets	157.0	-83.1	-72.3
*Central Bank Foreign Liabilities (Demand)	5.5	2.0	-0.4
Net Foreign Assets of Commercial Banks	**(2.2)**	**-29.5**	**-35.1**
Commercial Bank Foreign Assets	104.9	-6.7	-8.5
#Commercial Bank Foreign Liabilities (Short-Term)	107.1	22.8	26.6

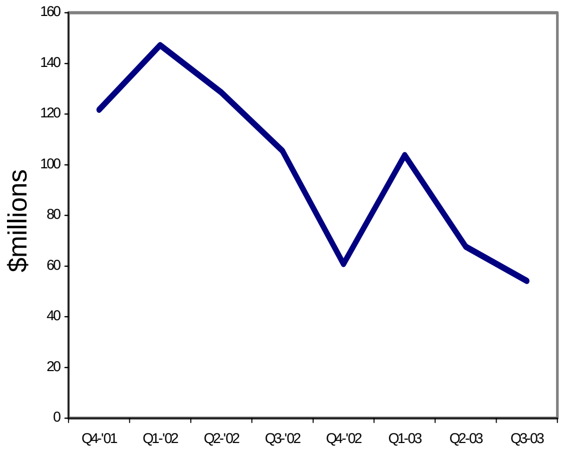
* Does not include Central Bank Long-term Foreign Liabilities of **$10.0**mn
\# Does not include Non-residents Foreign Currency Time Deposits of **$34.2**mn held with Commercial Banks.

Commercial bank foreign asset holdings contracted by $8.5mn as increased outflows for imports (particularly fuel) and other payments abroad eclipsed inflows from the Central Bank, export and foreign borrowings. The latter, which included loans from head offices and affiliates, pushed the foreign liabilities of the commercial banks upward, reducing the net position of the banks by $35.1mn.

Since the upward momentum in loans was not matched by similar growth in deposits, bank liquidity tightened with the loans/deposits ratio rising to 96.1%. Excess statutory liquidity had expanded by $43.1mn in the first quarter fueled by the rise in public spending prior to the elections. This was followed by a $49.8mn contraction in the second and third quarters and commercial banks began raising interest rates in an attempt to attract deposits as well as borrow from foreign affiliates to facilitate the rise in domestic lending. The primary liquidity of the banks also declined to the point where consolidated cash reserve holdings was $4.4mn below the required level at the end of September.

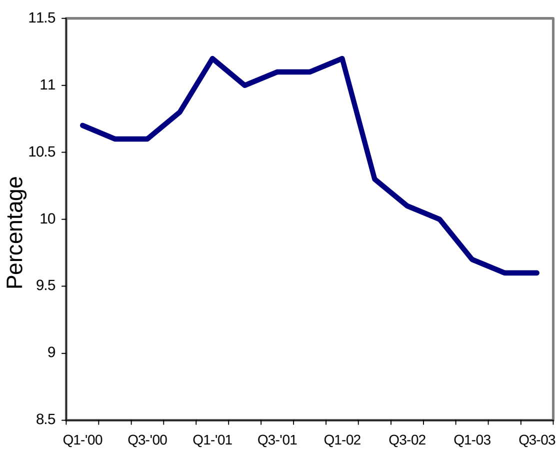
With liquidity tightening and banks facing a more competitive environment, the interest rate spread narrowed by 40 basis points to 9.6%. This largely reflected a 30 basis points increase in the weighted average deposit rate as the banks actively sought to attract new time deposit

Chart 3.1: Commercial Bank Excess Statutory Liquidity



contracts. Meanwhile, the weighted average lending rate declined by 10 basis points to 14.4% with rates applied on personal, commercial, mortgage-backed and other loans all moving downward.

Chart 3.2. Commercial Banks' Weighted Average Interest Rate Spread



Government Operations

In the first two quarters of the 2003/2004 fiscal year (April to September), Central Government operations generated an overall deficit of $62.8mn with revenue and expenditure totalling $215.3mn and $278.1mn, respectively. The deficit was financed from external sources with disbursements of $298.2mn outmatching amortization, debt refinancing assistance to the DFC and sinking fund contributions.

A current surplus of $12.9mn was recorded with current revenue collections of $205.2mn indicating an outturn of 47.4% of the budget. Tax revenues rose by $8.1mn reflecting increases in all major tax revenue categories except international trade and transactions. Non-tax revenue declined by $1.2mn when compared to the similar period of the previous fiscal year.

At $192.3mn, current expenditure was 51.9% of the budgeted amount and was 17.6% higher than that of the comparable period of FY 2002/03.

Table 4.1: Central Government's Expenditure

$mn

	Apr-Sep 2002	Apr-Sep 2003
Current Expenditure	**163.4**	**192.3**
Wages & salaries	83.8	91.2
Pensions	12.5	13.1
Goods & services	27.2	35.8
Interest payments	26.6	37.5
Subsidies & current transfers	13.3	14.7
Capital Expenditure	**107.9**	**85.8**
Capital II	36.9	36.3
Capital III	54.4	49.5
Capital transfers & net lending	16.7	0.0

Table 4.2: Central Government's Revenue

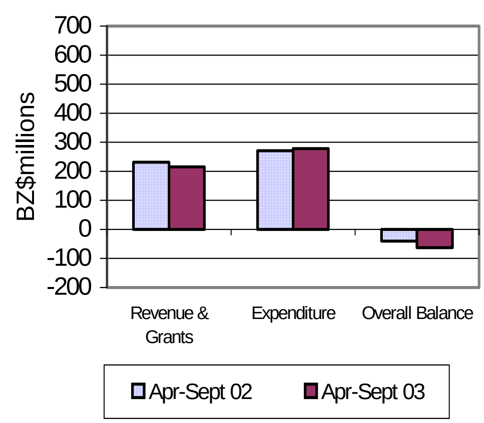
$mn

	Apr-Sep 2002	Apr-Sep 2003
Current Revenue	**198.2**	**205.2**
Tax Revenue	178.9	187.0
Income and profits	38.4	42.6
Taxes on property	1.5	1.4
Taxes on goods & services	56.3	61.7
Int'l trade & transactions	82.3	81.4
Non-tax Revenue	**19.3**	**18.1**
Property income	1.3	2.3
Transfers from NFPE's	0.1	0.0
Other	17.9	15.9
Capital Revenue	**32.4**	**8.6**
Grants	**0.7**	**1.6**

The growth was driven by increased outlays in the major expenditure categories, with the largest expansion being recorded for interest payments on foreign debt.

Capital expenditure declined by 20.5% to $85.8mn of which $49.5mn was earmarked for Capital III projects. Notable among these were hurricane preparedness, the museum of Belize and the University of Belize which together accounted for roughly 34.0% of outlays. Other notable items included the Marine Parade Boulevard, the Kolbe foundation that manages the prison, product development & marketing, the Orange Walk by-pass, payments to early retirees, the La Union road project, tourism development and vehicle procurement.

Chart 4.1: Central Government's Operation



Capital II outlays stood at $36.3mn (1.6% below that of the same period in FY 2002/03). Counterpart funding for roads (particularly sections 2 and 5 of the Southern Highway) and municipal drainage accounted for $5.5mn (16.0%) of the total. An additional $7.2mn (19.8%) was allocated for other infrastructure projects, land development, bridges, printing services and tertiary level scholarships. The remainder covered operating costs for the offices of area representatives and allocations to BAHA, SIF and a multiplicity of small projects.

Central Government Domestic Debt

During the **first nine months of 2003**, Central Government's domestic debt increased by $75.8mn with a net increase of $72.5mn in its overdraft balance and disbursements of $5.0mn overshadowing amortization payments of $1.6mn.

Interest payments totalled $8.9mn and included payments to the Central Bank of $3.7mn in respect of the overdraft account balance. Of the $1.9mn paid to Treasury Bill holders, 56.0% went to the Central Bank. Commercial banks and other organizations & individuals accounted for 38.7% and 5.3%, respectively. Holders of Treasury Notes (mostly commercial banks) received $2.2mn. Other payments on loans from the DFC, the Belize Bank, the BSSB and the debt for nature swap totaled $1.3mn.

Public Sector External Debt

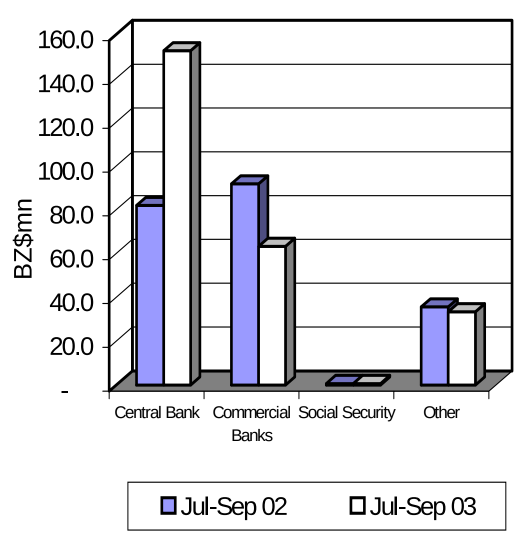
Disbursements of $322.7mn plus upward valuation adjustments of $5.6mn helped to push the public

Table 4.3: Central Government's Domestic Debt

$mn

	Jan-Sep 2002	Jan-Sep 2003
Loans and Advances	101.1	111.1
Treasury Bill	70.0	100.0
Treasury Notes	24.0	24.0
Defence Bonds	15.0	**15.0**
Debentures	0.0	0.0
TOTAL	**210.2**	**250.1**

Chart 4.2: Sources of Central Government's Domestic Debt



sector's external debt upward by 17.7% to $1,352.6mn. Principal and interest payments amounted to $124.7mn and $59.0mn, respectively.

Disbursements to Central Government totalled $288.0mn with multilateral and bilateral lenders providing 11.6% and 2.8%, respectively, and the balance coming from commercial banks, suppliers credit and bonds floated in the international financial market. Included in the latter was some $200mn from the Bear Stearns bond issue in June. Of the $34.7mn disbursed to the financial public

Table 4.4: Financial Flows on Public

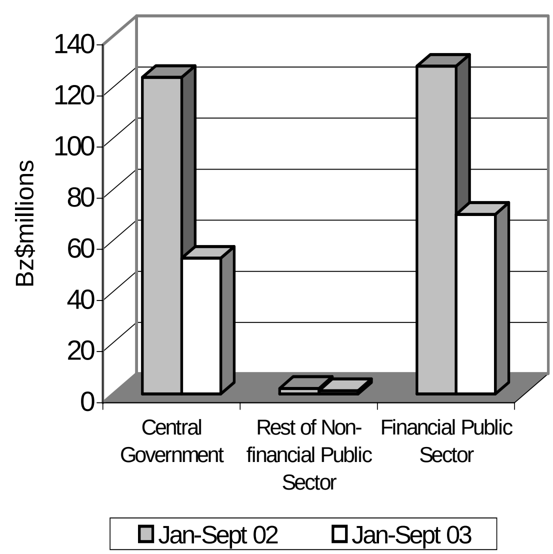
$mn

	Jan-Sep 2002	Jan-Sep 2003
CENTRAL GOVERNMENT		
Disbursements	363.4	288.0
Amortizations	123.9	53.1
Interest & Other Payments	27.9	51.5
NON-FINANCIAL PUBLIC SECTOR		
Disbursements	3.3	0.0
Amortizations	2.2	1.3
Interest & Other Payments	1.9	0.7
FINANCIAL PUBLIC SECTOR		
Disbursements	37.7	34.7
Amortizations	128.3	70.3
Interest & Other Payments	10.4	6.8

sector, $31.3mn came from an International Bank of Miami loan to DFC. CDB and EEC loans to DFC accounted for the remaining $3.4mn.

Central Government made amortization payments of $53.1mn, two-thirds of which went to commercial banks and suppliers credit. The rest of the non-financial public sector paid $1.3mn to amortize loans from CDB and the Government

Chart 4.3: Amortization Payments by Sector



of Kuwait. Almost all (95.3%) of the $70.3mn in amortization payments by the financial public sector went to commercial lenders to refinance several loans over the period reviewed. The larger payments were $26.9mn to Deutsch Bank of Germany, $15.7mn to the

International Bank of Miami, $12.0mn to Private Export Funding Corporation and $7.3mn to Citibank Trinidad & Tobago.

Interest and other payments rose by 46.8% to $59.0mn with Central Government accounting for $51.5mn and the financial and non-financial public sectors for $6.8mn and $0.7mn, respectively. As in the case of the amortization payments, commercial lenders such as Bear Stearns, Royal Merchant Bank, Salomon Smith Barney and the International Bank of Miami received most of the interest paid by Central Government and the financial public sector over the period reviewed.

Valuation adjustments contributed to a $5.6mn rise in the outstanding debt as the euro, pound sterling and Kuwait dinar all appreciated against the US dollar. Euro-denominated loans were adjusted upward by $4.5mn, sterling-denominated loans by $0.7mn and loans from Kuwait by $0.3mn.

ANNEX 5

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

Major Commodity Group	Weights	Quarterly Change				Annual Change
		Nov-02	Feb-03	May-03	Aug-2003	
Food, Beverage & Tobacco	346.6	0.5	0.8	0.5	0.9	2.8
Clothing & Footwear	92.0	-0.3	1.1	0.1	-0.2	0.7
Rent, Water, Fuel, & Power	167.6	1.0	1.1	-0.6	0.0	1.6
Household goods & maintenance	85.3	0.1	0.1	0.0	0.2	0.4
Medical care	20.1	-0.8	0.1	0.6	0.0	-0.1
Transport & Communication	170.1	2.3	0.4	0.7	1.7	5.2
Recreation, Education & Culture	80.4	0.4	-0.5	0.2	0.0	0.1
Personal care	37.9	0.0	0.1	-0.4	0.1	-0.2
ALL ITEMS	**1000.0**	**0.8**	**0.6**	**0.2**	**0.6**	**2.3**

Source: Central Statistical Office

Table 5.2: Gross Imports (CIF) by SITC

Sitc Section	Jan- Mar 2002	Jan- Mar 2003
0 Food and Live Animals	22,079,615	30,823,930
1 Beverages and Tobacco	2,392,280	2,332,658
2 Crude Materials	1,073,564	2,137,898
3 Fuels and Lubricants	27,222,032	37,100,158
Of which electricity	5,513,699	8,660,855
4 Animals and Vegetable Oils	467,706	502,483
5 Chemicals	18,415,766	19,632,353
6 Manufactured Goods	26,460,266	27,154,278
7 Machinery and Transport Equipment	48,439,986	54,141,566
8 Misc. Manufactured Goods	16,531,006	15,933,242
9 Commodities NIE	226,017	-
of which CFZ Direct Imports	44,737,707	40,479,484
of which EPZ Imports	19,473,426	43,021,803
of which household/personal effects	710,392	942,063
Total	233,743,462	282,862,771

Source: Central Statistical Office, Central Bank of Belize

Table 5.3: Balance of Payments Summary

$mn

	Jan-Sep 2003	Jan-Sep 2002
CURRENT ACCOUNT	**-246.8**	**-232.4**
Goods: Exports f.o.b.	499.0	451.3
Goods: Imports f.o.b.	-781.0	-709.6
Trade Balance	***-282.1***	***-258.3***
Services: Credit	322.4	273.1
Transportation	32.8	26.1
Travel	230.2	194.5
Other Goods & Services	34.7	29.7
Gov't Goods & Services	24.7	22.8
Services: Debit	-209.5	-195.7
Transportation	-58.8	-54.1
Travel	-68.0	-64.3
Other Goods & Services	-70.0	-64.1
Gov't Goods & Services	-12.6	-13.2
Balance on Goods & Services	***-169.2***	***-180.8***
Income: Credit	6.1	6.1
Compensation of Employees	3.7	2.8
Investment Income	2.4	3.3
Income: Debit	-133.7	-120.7
Compensation of Employees	-18.2	-17.4
Investment Income	-115.6	-103.3
Balance on Goods, Services & Income	***-296.8***	***-295.4***
Current Transfers: Credit	53.9	66.1
Current Transfers: Debit	-4.0	-3.1
CAPITAL ACCOUNT	**4.4**	**3.8**
Capital Account: Credit	6.0	5.5
Capital Account: Debit	-1.6	-1.7
FINANCIAL ACCOUNT	**193.8**	**202.4**
Direct Investment Abroad	-0.5	0.0
Direct Investment in Reporting Economy	31.4	37.6
Portfolio Investment Assets	-0.2	0.0
Portfolio Investment Liabilities	162.1	266.4
Financial Derivatives	1.1	1.3
Other Investment Assets	-1.6	13.8
Other Investment Liabilities	1.6	-116.6
NET ERRORS & OMISSIONS	**-23.6**	**10.2**
OVERALL BALANCE	**-72.3**	**-16.0**
RESERVE ASSETS*	**72.3**	**16.0**

*(Minus = Increase)

Table 5.4: Central Government's Revenue and Expenditure

BZ $'000.

	Estimated Budget 2003/2004	Jul 2003 to Sep 2003	Jul 2002 to Sep 2002	Apr 2003 to Sep 2003	Apr 2002 to Sep 2002	Actual to date as % of Budget
TOTAL REVENUE & GRANTS (1+2+3)	480,511	110,018	102,472	215,286	231,374	44.8%
1). Current revenue	433,304	104,179	98,477	205,174	198,265	47.4%
Tax revenue	391,357	94,352	90,745	187,041	178,925	47.8%
Income and profits	91,017	21,471	19,192	42,595	38,395	46.8%
Taxes on property	5,645	478	436	1,351	1,473	23.9%
Taxes on goods and services	122,995	30,314	29,101	61,744	56,273	50.2%
Int'l trade and transactions	171,700	42,089	42,015	81,351	82,785	47.4%
Non-Tax Revenue	41,947	9,827	7,732	18,133	19,340	43.2%
Property income	4,800	1,500	0	2,274	1,323	47.4%
Contributions to pension fund	522	0	0			0.0%
Transfers from NFPE's	0	0	0	0	125	
Extrabudgetary revenue	0	0	0	0	0	
Other	36,626	8,327	7,732	15,860	17,892	43.3%
2). Capital revenue	38,650	4,876	3,753	8,550	32,365	22.1%
3). Grants	8,557	964	243	1,563	744	18.3%
(of which non-project grants are:)		0	0	0	193	
TOTAL EXPENDITURE (1+2)	512,119	142,378	150,764	278,079	271,359	54.2%
1). Current Expenditure	370,130	100,987	82,415	192,264	163,444	51.9%
Wages and Salaries	187,542	45,506	42,600	91,229	83,839	48.6%
Pensions	23,534	6,442	6,505	13,067	12,518	55.5%
Goods and Services	65,603	18,022	15,367	35,760	27,237	54.5%
Interest Payments on Public Debt	64,362	23,818	11,579	37,549	26,569	58.3%
Subsidies & current transfers	29,089	7,200	6,364	14,659	13,282	50.4%
2). Capital Expenditure	141,989	41,391	51,649	85,815	107,915	60.4%
Capital II (local sources)	60,980	21,414	20,043	36,267	36,865	59.5%
Capital III (foreign sources)	77,328	19,976	31,606	49,548	54,350	64.1%
Capital Transfer & Net Lending	3,681	0	16,700	0	16,700	0.0%
CURRENT BALANCE	63,174	3,192	16,062	12,909	34,821	20.4%
OVERALL BALANCE	(31,608)	(32,359)	(48,292)	(62,792)	(39,985)	198.7%
FINANCING	31,608	32,359	48,292	62,792	39,985	
Domestic Financing	(80,624)	17,174	(213,995)	(174,823)	(222,136)	
Central Bank		63,416	(68,622)	(5,572)	(59,299)	
Net Borrowing		13,458	9,274	38,778	18,225	
Change in Deposits		49,958	(77,896)	(44,350)	(77,524)	
Commercial Banks		10,713	(96)	(16,583)	114	
Net Borrowing		(2,830)	(673)	(20,690)	(636)	
Change in Deposits		13,543	577	4,107	750	
Privatization DFC Debt Refinancing	0	(56,752)	(145,200)	(152,265)	(145,200)	
Other Domestic Financing		(177)	(77)	(349)	(935)	
Financing Abroad	112,232	15,262	261,892	244,182	264,206	
Disbursements	66,616	49,072	341,190	298,167	386,119	
Amortization	36,503	(16,841)	(88,841)	(35,702)	(107,032)	
Interest & Penalties Prepayment		0	(3,654)	0	(3,654)	
Sinking Fund & JCF	9,113	(16,969)	13,197	(18,283)	(11,227)	
Other		(77)	395	(6,566)	(2,085)	

Table 5.5: Central Government's Domestic Debt

	Disbursed Outstanding Debt 31/12/02R	Transactions to – Sept 2003				
		Disburse-ment/ New Issues of Securities	Amortiza-tion/ Re-duction in Securities	InterestP	Net Change in Over-draft/ Secu-rities	Disbursed Outstanding Debt 30/09/03
Overdraft	1,590			3,657	72,470	74,060
Central Bank	0			3,657	72,053	72,053
Commercial Banks	1,590			0	417	2,007
Treasury Bills	100,000	0	0	1,878	0	100,000
Central Bank	53,795		0	1,051	16,757	70,552
Commercial Banks	33,124		0	727	(8,173)	24,951
Other	13,081		0	100	(8,584)	4,497
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	343	492	0	8,550
BSSB Housing Loan	708	0	14	42	0	694
GOB (Debt for Nature Swap)	15,848	0	1,101	358	0	14,747
Cohune Walk Loan Belize Bank	3,181	0	164	350	0	3,017
Infrastructure Dev. Loan Belize Bank	5,000	5,000	0	0	0	10,000
TOTAL	**174,220**	**5,000**	**1,622**	**8,938**	**72,470**	**250,068**

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 Sept 2003				Disbursed Outstanding Debt 30/09/2003
		Disburse-ment	Amortiza-tion	Interest & Other Charges	Valuation Adjust-ments	
CENTRAL GOVERNMENT	**941,259**	**288,006**	**53,122**	**51,453**	**3,104**	**1,179,242**
Caribbean Development Bank*	45,248	11,518	1,232	1,249	8	55,542
European Economic Community	17,546	0	389	80	1,931	19,088
Int. Bank for Reconstruction Dev.	73,356	3,541	5,555	2,865	0	71,342
Inter-American Development Bank	97,201	18,839	970	2,072	0	115,070
OPEC Fund for International Dev.	6,971	1,359	267	254	0	8,063
Int. Fund for Agricultural Dev.	1,958	446	394	173	170	2,180
Government of the UK	19,644	0	2,348	0	729	18,025
Government of the USA*	10,490	0	880	243	0	9,610
Government of Kuwait	18,314	1,056	566	612	219	19,023
Republic of China	183,667	0	3,989	6,740	0	179,678
Fondo de Inv. de Venezuela	2,560	0	861	156	0	1,699
Government of China	232	0	58	0	0	174
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	3,915	87	0	0
Citicorp Merchant Bank Ltd.	14,286	40,000	1,429	704	0	52,857
Citibank of Trinidad	18,858	0	1,714	930	0	17,144
Provident Bank & Trust	4,471	0	1,245	179	0	3,226
Solomon Smith Barney	52,030	0	0	4,038	0	52,030
Royal Merchant Bank	83,705	0	2,977	5,700	0	80,728
All First Bank of Maryland	4,200	0	420	242	0	3,780
KBC Bank	9,346	0	1,869	502	0	7,477
Bear Stearns & Co. Inc	250,000	200,000	0	23,420	0	450,000
Banco Nacional De Comercio	0	7,340	0	380	0	7,340
Suppliers Credit	22,901	3,907	21,665	823	0	5,143
REST OF NON-FINANCIAL PUBLIC SECTOR	**16,164**	**0**	**1,308**	**745**	**105**	**14,961**
CIBC Bank & Trust Co.	6,766	0	970	556	0	5,796
Government of Kuwait	9,398	0	338	189	105	9,165
FINANCIAL PUBLIC SECTOR	**191,586**	**32,462**	**70,255**	**6,753**	**2,363**	**158,376**
Caribbean Development Bank	46,850	1,283	1,898	1,357	21	46,256
European Economic Community	7,092	2,120	590	210	498	9,120
Government of the USA	2,910	0	188	44	0	2,722
Paine Webber Real Estate Sec. Inc.	2,200	0	100	24	0	2,100
Citicorp Merchant Bank Ltd.	6,250	0	1,250	111	0	5,000
Citibank Trinidad & Tobago	12,250	0	7,250	649	0	5,000
Private Export Funding Corporation	12,041	0	12,041	217	0	0
Deutsche Bank of Germany	25,006	0	26,850	948	1,844	0
Provident Bank & Trust	541	0	541	28	0	0
Commerz Bank of Belgium	5,085	0	565	176	0	4,520
CSSL/New Holland of Brazil	3,327	0	3,327	106	0	0
International Bank of Miami	68,034	31,279	15,655	2,883	0	83,658
TOTAL	**1,149,009**	**322,688**	**124,685**	**58,951**	**5,572**	**1,352,582**

*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 Sectoral Distribution of Commercial Banks' Loans and Advances

$mn

	Position as at Sep 2003	Changes during June 2003 to Sep 2003	Changes during Dec 2002 to Sep 2003
PRIMARY SECTOR	**129.7**	**3.3**	**13.0**
Agriculture	84.3	3.6	6.8
Sugar	10.4	1.5	-0.8
Citrus	21.1	1.6	2.3
Bananas	40.9	0.0	4.3
Other	11.9	0.5	1.0
Marine Products	24.3	-3.1	-1.3
Forestry	3.3	1.3	1.6
Mining & Exploration	17.8	1.5	5.9
SECONDARY SECTOR	**283.7**	**9.1**	**30.1**
Manufacturing	16.3	3.1	-6.7
Building & Construction	226.9	3.3	25.2
Utilities	40.5	2.7	11.6
TERTIARY SECTOR	**412.8**	**20.2**	**70.1**
Transport	46.2	8.0	19.0
Tourism	64.2	1.3	12.4
Distribution	162.9	1.9	12.4
Other*	139.5	9.0	26.3
Personal Loans	**197.9**	**7.6**	**6.4**
TOTAL	**1024.1**	**40.2**	**119.6**

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

Table 5.8: Commercial Banks Liquidity Position and Cash Reserves

$mn

	Position as at Sep 2003	Changes during June 2003 to Sep 2003	Changes during June 2002 to Sep 2002	Changes during Dec 2002 to Sep 2003
Holdings of Approved Liquid Assets	**313.7**	**-14.1**	**-14.9**	**9.5**
Notes and Coins	28.0	-0.3	2.5	0.6
Balances with Central Bank	66.8	-1.7	-7.8	2.0
Foreign Balances (due 90 days)	87.3	1.2	-21.9	-4.4
Treasury Bills (90 days)	25.7	-18.2	0.1	-7.4
Other Approved assets	105.9	4.9	12.2	18.7
of which: Treasury Notes	23.3	0.0	0.0	0.0
New Residential Loans	47.0	1.7	0.2	6.7
Non-Trad. Export Loans	0.4	-0.2	-0.1	-0.5
Required Liquid Assets	**259.5**	**-0.7**	**8.0**	**16.1**
Excess/(Deficiency) Liquid Assets	**54.2**	**-13.4**	**-22.9**	**-6.6**
Daily Average holdings of Cash Reserves	64.0	-7.4	-9.2	-0.4
Required Cash Reserves	64.9	-0.2	1.5	4.0
Excess/(Deficiency) Cash Reserves	**(0.9)**	**-7.2**	**-10.7**	**-4.4**

Table 5.9: Factors Responsible for Money Supply Movements

$mn

	Position as at Sep 2003	Changes during June 2003 to Sep 2003	Changes during June 2002 to Sep 2002	Dec 2002 to Sep 2003
Net Foreign Assets	**149.3**	**-114.6**	**6.5**	**-107.0**
Central Bank	151.5	-85.1	29.0	-71.9
Commercial Bank	(2.2)	-29.5	-22.5	-35.1
Net Domestic Credit	**1,109.8**	**97.7**	**-86.6**	**158.7**
Central Government (Net)	82.5	60.8	-55.8	52.2
Other Public Sector	21.6	-2.2	-66.3	-7.9
Private Sector	1,005.7	39.1	35.5	114.4
Central Bank Foreign Liabilities(Long-term)	**10.0**	**-3.0**	**-67.0**	**-8.5**
Other Items (net)	**146.3**	**5.7**	**-7.6**	**20.8**
Money Supply M2	**1,102.8**	**-19.6**	**-5.5**	**39.4**