CENTRAL BANK OF BELIZE

Seventeenth Annual Report and Accounts

1998

Central Bank of Belize

Seventeenth Annual Report and Accounts, 1998

Abbreviations and Conventions used in this Report

Abbreviations:

ACP	African Caribbean and Pacific
BEL	Belize Electricity Limited
BFIA	Banks and Financial Institutions Act, 1995
BIS	Bank for International Settlements
BSI	Belize Sugar Industries Limited
BSSB	Belize Social Security Board
BTL	Belize Telecommunications Ltd.
CARICOM	Caribbean Community and Common Market
CCMS	Caribbean Centre for Monetary Studies
CDB	Caribbean Development Bank
CET	Common External Tariff
CFATF	Caribbean Financial Action Task Force
CFZ	Commercial Free Zone
CPI	Consumer Price Index
CSO	Central Statistical Office
DFC	Development Finance Corporation
ECCB	Eastern Caribbean Central Bank
ECU	European Currency Unit
EIB	European Investment Bank
EU/EEC	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Belize
IBC	International Business Company
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFS	International Financial Statistics
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PAYE	Pay As You Earn
PETROJAM	Petrojam Belize Limited
PGIA	Phillip Goldson International Airport
RECONDEV	Reconstruction and Development Corporation
ROC	Republic of China, Taiwan
SIF	Social Investment Fund
UK	United Kingdom
US/USA	United States
VAT	Value Added Tax
WTO	World Trade Organisation
WASA	Water and Sewerage Authority

Notes and Conventions:

--$ refers to the Belize dollar unless otherwise stated
--mn denotes million
--The figures for 1998 in this report are provisional, and the figures for 1997 have been revised.
--Since May of 1976 the Belize dollar has been tied to the US dollar at the rate of US$1.00 = Bz$2.00.
--Totals in tables do not always equal the sum of their components due to rounding.

April 28, 1999

Hon. Said Musa
Prime Minister and Minister of Finance
and Foreign Affairs
Office of the Prime Minister
Belmopan
BELIZE

Dear Prime Minister:

In accordance with Section 56 of the Central Bank of Belize Act,1982, I have the honour of submitting to you , in your capacity as Minister of Finance, the Report on the Central Bank of Belize's operations for the period January 1 to December 31, 1998, together with a copy of the Bank's Statement of Accounts, as certified by the External Auditors.

I am
Yours faithfully,

Keith Arnold
Governor

DIRECTORS AND PRINCIPALS

At December 31, 1998

BOARD OF DIRECTORS

KEITH ARNOLD
Chairman

YVETTE ALVAREZ
Vice Chairman

JAIME BRICENO

DEREK COURTENAY

FRANCIS FONSECA

ROBERT SWIFT

JAIME ALPUCHE
Financial Secretary

PRINCIPAL OFFICERS

KEITH ARNOLD
Governor

YVETTE ALVAREZ
Deputy Governor

SYDNEY CAMPBELL
Chief Economist, Research Department

CECILE REYES
Manager, Administration Department / Bank Secretary

DWAIN DAVIS
Manager, Finance Department

CAROL HYDE
Manager, Human Resource Department

MARILYN GARDINER
Manager, Banking and Currency Department

KENT HAYLOCK
Chief of Security

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OVERVIEW OF THE BANK

Mission, Goals and Objectives

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

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

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

> "***to foster the development of an economic and financial environment in Belize that will facilitate economic growth.***"

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

Goals

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

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

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

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

Objectives

√ Promote monetary stability.

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

√ Regulate and monitor the financial environment.

√ Foster credit and exchange conditions.

√ Foster the development of money and capital markets in Belize.

Organization And Functions

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

Office of the Governor

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

Administration

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

Human Resources

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

Finance

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

Banking and Currency

- Issuing notes and coins.
- Providing banking services to Central Government, other public sector entities and financial institutions.
- Acting as fiscal agent to Central Government for trading in treasury bills.
- Monitoring the Central Bank's foreign reserve holdings.
- Conducting clearing-house operations for the domestic banking system.

Financial Sector Supervision

- Screening and processing applications for domestic and offshore bank licenses.
- Conducting on-site examination and off-site surveillance of commercial banks.
- Processing of applications for large credit exposures under section 21(2) a of the Banks and Financial Institutions Act.
- Promoting and conducting anti money-laundering surveillance.

Research

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

Table I.1: Major Economic Indicators

	1993	1994	1995	1996	1997[R]	1998[P]
POPULATION AND EMPLOYMENT						
Population (Thousands)	205.0	211.0	216.5	222.0	230.0	238.0
Employed Labour Force (Thousands)	62.1	62.4	62.6	65.0	70.7	73.3
Unemployment Rate (%)	9.8	9.0	12.5	13.8	12.7	14.3
INCOME						
GDP at Current Market Prices ($mn)	1,060.5	1,104.0	1,173.2	1,207.2	1,230.9	1,259.9
Per Capita GDP ($, Current Mkt. Prices)	5,173	5,232	5,419	5,438	5,352	5,294
Real GDP Growth (%)	4.3	1.4	4.0	1.1	4.0	1.4
Sectoral Distribution of Constant 1984 GDP (%)						
Primary Activities	19.6	19.8	20.2	21.1	22.8	22.1
Secondary Activities	26.8	25.6	25.4	24.7	24.1	23.4
Services	53.6	54.6	54.4	54.2	53.1	54.5
MONEY AND PRICES ($mn)						
Inflation (Annual average percentage change)	1.5	2.6	2.9	6.4	1.0	-0.8
Currency and Demand deposits (M1)	149.2	157.2	165.0	177.6	186.0	206.1
Quasi-Money (Savings and Time deposits)	326.1	355.6	448.5	467.8	524.1	561.3
Money Supply (M2)	475.3	512.8	613.5	645.4	710.1	767.4
Ratio of M2 to GDP (%)	44.8	46.4	52.3	53.5	57.7	60.9
CREDIT ($mn)						
Commercial Bank Loans and Advances	387.2	405.7	440.7	480.9	547.3	625.6
Public Sector	0.3	0.4	2.7	2.9	5.2	12.8
Private Sector	386.9	405.3	438.0	478.0	542.1	612.8
INTEREST RATE (%)						
Weighted Average Lending Rate (WALR)	14.6	15.0	16.3	16.2	16.6	16.3
Effective 3-year APR of above WALR	25.3	26.0	28.0	27.8	28.5	28.3
Weighted Average Deposit Rate	6.0	6.1	7.2	6.2	6.7	6.0
CENTRAL GOVERNMENT FINANCES ($mn)						
Current Revenue	249.0	265.1	259.9	276.6	282.9	296.9
Current Expenditure	208.7	233.8	239.8	234.7	252.2	260.0
Current Account Surplus/(Deficit)	40.3	31.3	20.1	41.9	30.6	36.9
Capital Expenditure	139.1	111.0	83.2	75.3	81.8	95.1
Overall Surplus/(Deficit)	-69.1	-65.2	-46.9	-4.6	-25.3	-27.8
Ratio of Budget Deficit to GDP at mkt. Prices (%)	-6.5	-5.9	-4.0	-0.4	-2.1	-2.2
Domestic Financing (Net)	32.3	24.5	33.1	-40.9	17.6	18.0
External Financing (Net)	46.3	27.1	3.7	46.6	5.8	9.8
BALANCE OF PAYMENTS (US $mn)						
Merchandise Exports (f.o.b.)	134.1	156.3	164.3	171.3	193.4	186.1
Merchandise Imports (f.o.b.)	250.6	233.2	230.5	229.5	282.9	290.8
Trade Balance	-116.5	-80.4	-67.7	-58.2	-89.5	-104.8
Remittances (Inflows)	13.7	13.0	17.2	24.0	26.2	27.7
Tourism (inflows)	69.3	71.4	77.1	93.1	95.0	105.3
Services (Net)	38.2	50.1	48.2	46.2	46.2	47.9
Current Account Balance	-49.0	-20.3	-0.2	-4.2	-31.9	-53.5
Capital and Financial Flows	43.3	34.4	-13.6	9.3	26.8	24.1
Gross Change in Official International Reserves *	20.9	4.3	-3.1	-20.9	-1.0	15.4
Gross Official International Reserves	38.6	34.1	37.4	58.3	59.3	43.9
Import Cover of Reserves (in months)	2.0	1.3	1.3	2.7	2.5	1.8
PUBLIC SECTOR DEBT						
Disbursed Outstanding External Debt (US $mn)	167.9	184.0	184.3	219.8	240.7	256.9
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	31.7	33.3	31.4	36.4	39.2	40.8
External Debt Service Payments (US $mn)	15.5	24.0	29.8	29.7	30.7	33.2
External Debt Service Ratio (%)	5.3	8.1	9.9	9.4	9.1	9.8
Disbursed Outstanding Domestic Debt ($ mn)	123.7	150.2	164.2	171.9	171.9	180.0
Domestic Debt Service Payments ($ mn)	n.a.	n.a.	n.a.	12.9	18.4	15.7

Sources: Ministry of Finance
CSO
Central Bank of Belize

R – Revised P- Provisional
*Minus = increase

Central Bank of Belize
ONE HUNDRED
$100
CA242292
Central Bank of Belize
$50
Central Bank of Belize
TWENTY
$20
Central Bank of Belize
$10
Central Bank of Belize
FIVE
$5
Central Bank of Belize
$2
AC929273
$2

ECONOMIC REVIEW

Overview

A 4.0% expansion in the services sector cushioned the Belizean economy, as declines in the primary and secondary sectors led to an economic slowdown, from real growth of 4.0% in 1997 to 1.4% in 1998. In the primary sector, substantial growth in the fishing sub-sector could not outweigh the downturn in agriculture due to lower sugarcane and citrus fruit production. This resulted in lower activity in the agro-industrial processing component of the manufacturing sub-sector as sugar production as well as production of citrus juices and concentrates declined during 1998.

The upswing in the activities of the services sector continued a trend begun in 1997 as trade and tourism, transport and communications, and real estate and business services were primary contributors to the doubling of the growth rate in services. Notably, tourist arrivals at the Philip Goldson International Airport were estimated to have increased by 6.4% to 101,462, with associated inflows up by US$10.3 mn to US$105.3 mn.

Central Statistical Office (CSO) indicators pointed to a rise in the unemployment rate and a further decline in the rate of inflation. The unemployment rate increased to 14.3% in April of 1998 compared to 12.7% in April of 1997. Employment levels went up in the services sector, most notably in the trade, restaurants and hotels grouping but declined in the agriculture and manufacturing sectors. Consumer prices, as measured by the Consumer Price Index (CPI) declined by 0.8% during 1998. All major commodity groups recorded declines except for medical care and the rent, water, fuel and power categories.

The broad measure of money supply (M2) expanded by $57.3 mn to $767.4 mn, mainly due to a 15.7% rise in net domestic credit. The expansion in credit allowed for higher spending on consumption and investment and put downward pressure on the net foreign assets of the banking system which contracted by $27.6 mn.

By the end of 1998, the excess liquid assets and cash reserves of the commercial banks had increased by $16.7 mn to $29.8 mn and $2.7 mn to $4.0 mn, respectively. The excess liquidity, the highest since 1990, was due largely to the reduction in liquid asset requirements and cash reserves from 26.0% to 24.0% and 7.0% to 5.0%, respectively, effective November 1. Holdings of approved liquid assets expanded by 7.9% to $203.1 mn, while holdings of required liquid assets fell by 1.1%.

The weighted average interest rate spread of the commercial banks widened by 40 basis points to 10.3% as the weighted average deposit rate declined by 70 basis points to 6.0% while the weighted average lending rate fell 30 basis points to 16.3%. The fall in the weighted average lending rate was prompted by lower rates on personal loans and other loans offered by banks, while a decrease in the time deposit rate was responsible for the decline in the weighted average deposit rate.

Central Government's fiscal operations resulted in a current surplus of $36.9 mn and an overall deficit of $27.8 mn as total expenditure of $355.1 mn exceeded total revenue and grants of $327.4 mn. The sharp increase of $13.2 mn in capital expenditure outpaced a $4.6 mn rise in capital revenue and grants and was largely responsible for the expansion in the deficit from $25.3 mn to $27.8 mn. The overall deficit was financed from domestic and external sources. Domestic financing was mainly comprised of drawdowns from the ROC loan and grant accounts at the Central Bank and from the proceeds of the US$12.0 mn international bond issue.

Central Government's domestic debt rose by $8.1 mn to $180.0 mn as loan disbursements exceeded a fall in the overdraft facility at the Central Bank, loan repayments and the redemption of debentures. The disbursed outstanding external debt of the public sector increased to $513.8 mn as disbursements and positive valuation adjustments outweighed loan repayments. The largest single disbursement was from the US$12.0 mn bond issue for infrastructure development. Other large disbursements were earmarked for the Power Development Project and the Hummingbird Highway Project.

During 1998, the merchandise trade deficit widened largely due to a 3.4% contraction in the value of domestic exports as a fall in exports of traditional products outweighed an increase in exports of non-traditional commodities. Growth in earnings from marine products continued to be strong in contrast to a decline in earnings from citrus products, sugar, molasses and bananas. Prices for citrus products were depressed internationally, and this contributed to the fall in revenues from citrus fruit juice and concentrate production.

Gross imports recorded a moderate increase of 3.1% compared to a 12.1% expansion during the previous year. Imports of all major commodity categories increased except for beverages and tobacco, and fuels and lubricants. Fuel acquisition costs continued to decline in 1998 thus leading to the fall in its import value.

An overall balance of payments deficit of US$15.4 mn was recorded for 1998 compared to a surplus of US$1.0 mn in 1997. The current account deficit expanded by US$21.6 mn to US$53.5 mn due to the widening of the visible trade deficit and a rise in net factor outflows. A moderate improvement was recorded for the capital account which registered lower net outflows of US$1.3 mn. On the other hand, net inflows on the financial account declined by $4.8 mn to $25.4 mn.

Present expectations are for strong economic performance during 1999 due to the projected recovery of traditional exports and a continued upswing in the tourism sub-sector. Construction of residential houses and continuing works on the Hummingbird and Southern Highways are expected to impact positively on activities in other sectors of the economy. The Government of Belize, with the assistance of the ROC, is in the process of acquiring the PETROJAM facility from the Jamaican Government. Once this acquisition is completed, the manufacturing sector should receive an added boost as the processing facility is expected to become operational in the next sugarcane season. These activities are also expected to result in an expansion in the employed population and a reduction in the unemployment rate. Inflation should be modest during 1999 with replacement of the 15.0% VAT by a broad based sales tax of 8.0%.

International and Regional Developments

Growth in world economic output was estimated to slow to 2.0% in 1998. The USA continued its robust expansion for the seventh consecutive year and in Europe, countries prepared for the introduction of the European Economic and Monetary Union (EMU) through prudent fiscal management that kept interest and inflation rates low. While North America and Europe were anchors of stability and prosperity, the rest of the world faced deteriorating economic and financial conditions. Russia devalued its ruble in August and almost defaulted on its external debts. Japan continued in recession, exacerbating the economic slowdown in Asia. The financial crisis in Asia led to widespread deflation of asset values in the region, substantial corporate debt burdens and reversal of capital flows that reduced access to financing by the business sector. Shaken by the Asian crisis, investors brought pressure on the emerging financial markets in Latin America, thereby, restricting the capital flows needed to fuel investments and economic growth.

Developments in Select OECD and Newly Industrialized Countries

Tight fiscal policies paid off with a budget surplus and the US economy experienced sustained and non-inflationary growth of 4.2% during 1998. Strong domestic demand fuelled by growth in consumer spending and construction powered much of the expansion. Capital gains arising from the strong performance of the stock market increased the spending power of households. Inflation reached a record low level of 1.6% with unemployment decreasing to 4.3%. While the labour market was tight, price pressures were few as corporate restructuring continued with high levels of investments in information technology and other productivity increasing areas. Lower prices for commodities and imports and the reduction of interest rates by the Federal Reserve helped to keep inflationary pressures low. However, industrial production declined to 1.9%, in part due to weak export demand resulting from the turmoil in emerging markets. Consequently, the US finished 1998 with one of the largest trade deficits because of reduced exports and increased imports.

GDP growth in the United Kingdom slowed to 1.6% during 1998. Fiscal consolidation and the tightening of monetary conditions since 1997 restrained domestic demand and helped to reduce inflation marginally from 3.1% to 2.8%. Industrial production contracted to 0.1% due to weaker domestic demand as well as a slowdown in exports due to the problems affecting the Asian markets and other emerging economies. This fed through to higher unemployment, up from 5.7% in 1997 to 6.2% at the end of September 1998.

In Canada, real GDP growth slowed to 2.5% at the end of the third quarter of 1998. Downward pressure on the exchange rate caused significant

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

Country	GDP Growth Rate (%)		Industrial Production (%)		Inflation Rate (%)		Unemployment Rate (%)	
	1997	1998	1997	1998	1997	1998	1997	1998
Taiwan	6.8	4.8	7.4	3.8	0.9	1.7	2.7	2.7
United States	3.9	4.2	4.9	1.9	2.4	1.6	5.0	4.3
United Kingdom	3.2	1.6	1.4	0.1	3.1	2.8	5.7	6.2
Canada	4.4	2.5	5.2	2.2	5.2	1.0	9.2	8.0
Japan	0.9	-3.6	4.3	-6.4	1.7	0.6	3.4	4.3

Source: International Financial Statistics, Economist depreciation of the dollar, forcing official interest rates to be raised by 1.0% in August. Weak domestic and export demand led to a fall in industrial production to 2.2% at the end of November. However, despite this slowdown, the unemployment rate was reduced to 8.0% from 9.2%.

The Japanese economy contracted by 3.6% during the first three quarters of 1998 while unemployment increased to a high of 4.3%. The crisis in its banking system was felt in all sectors of the economy, resulting in weakened domestic demand and consumer spending. Burdened with large corporate debts, businesses reduced investment and spending. Industrial production declined by 6.4% due to weak demand and the consequent buildup of large inventories. Consumer prices remained weak and are expected to weaken further due to the appreciation of the yen, the decline in international commodity prices (especially oil), and sluggish private demand.

Real GDP for Taiwan grew by a respectable 4.8% during 1998, powered primarily by strong domestic demand. Financial, insurance and commercial services performed robustly but industrial production weakened to 3.8% due to weak demand in the principal Asian markets. Although private consumption increased healthily by 7.1%, stringent fiscal measures reduced government consumption by 18% and yielded, for the first time in many years, a positive central government balance. Foreign reserves grew by 8% to US$90.3 billion. A small depreciation of 2.4% in the exchange rate contributed to a near doubling of inflation from 0.9% to 1.7%.

Development in Select Regional Economies

The Caribbean

The Barbadian economy grew modestly by 2.0% in 1998 due to expansion in tourism, construction and manufacturing. Increased government spending on social projects and capital works programmes resulted in a public deficit measuring 2.5% of GDP. Inflation was extremely low at 0.2% as the number of items that were zero rated under the value added tax (VAT) were increased and further tariff reductions required under the Common External Tariff (CET) agreement were implemented. Contributing to this was a reduction in import prices (particularly oil). Increased activity in the tourism and construction sectors generated sufficient employment to reduce the unemployment rate by more than 2 percentage points to 12.1%.

For the third consecutive year, growth in Jamaica declined, this time by 3.5%. The government continued to implement very stringent monetary and fiscal policies consistent with the IMF endorsed programme. Notwithstanding, the public deficit grew from 6.8% of GDP in 1997 to 9.3% of GDP

Table II.2: Select Indicators for Some Caribbean Countries

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		Deficit/GDP Ratio (%)	
	1997	1998	1997	1998	1997	1998	1997	1998
Barbados	3.0	2.0	3.6	0.2	14.5	12.1	n.a	2.5
Jamaica	-2.3	-3.5	9.2	10.2	16.5	n.a	-6.8	-9.3
Trinidad	4.0	3.3	3.5	6.3	17.2	13.4	n.a	n.a

Source: Preliminary Overview of the Economies of Latin America and the Caribbean 1998, ECLAC.
n.a. = not available

in 1998. Agricultural production contracted while the manufacturing, construction and tourism sectors showed slight improvements over 1997. Several banks collapsed due to crisis in the financial sector. Increases in bus and taxi fares led to a minor increase in the inflation rate to 10.2%. Export earnings declined due to reductions in sugar, bauxite and garment exports. Nevertheless, the merchandise trade deficit contracted by US$19.0 mn to US$218.0 mn as a decline in imports compensated for the contraction in exports. The balance of payments position at the end of the first six months improved as the net international reserves rose by US $1.4 mn to US $597.0 mn. The exchange rate remained stable during 1998.

Trinidad and Tobago's growth was measured at 3.3% for the first three quarters of 1998. This was generated by both petroleum and non-petroleum sectors, except for agricultural production which declined sharply due to bad weather conditions. Unemployment fell by almost 4 percentage points to 13.4% during 1998. However, job creation centred in the construction, transport and communications sectors as the oil sector was affected by falling world prices for oil and petroleum products. Inflation almost doubled to 6.3% due to higher prices for food, housing and education. At the end of the third quarter, gross foreign assets stood at US $1.2 billion, an increase of US$9.0 million since the second quarter. The exchange rate remained stable.

Guyana experienced growth of 2.4% during the first 6 months of 1998. Drought conditions led to a fall in agricultural production with sugar and rice production, major agricultural crops, declining by 12.1% and 18.4%, respectively. In the mining sector, production of bauxite and diamonds increased while that of gold fell. Output from tourism contracted by 18.2% due to social tension stemming from the political rivalry between the dominant parties. At the end of June, inflation ranged between 4.0% to 5.0% bolstered by the 6.7% depreciation in the exchange rate. Net international reserves fell by US$34.9 mn due to a widening of the trade deficit to US$33.0 mn as visible exports fell by 11.7% while imports declined by only 2.2%.

The consolidated net foreign assets of the Eastern Caribbean territories increased by 50.0% to US$367.0 mn in 1998. Real growth was approximately 3.0%, generated primarily by increased activities in construction and tourism. Performance of the agricultural sector was mixed.

Of the major export crops, total banana exports for the region grew by 3.2%, with reductions in production in Dominica and Grenada being offset by increases in St. Lucia, St. Vincent and the Grenadines. Sugar production and exports in St. Kitts contracted. Nutmeg and mace production fell but cocoa output increased.

Tourist arrivals to the region increased by 9.0% to 2.4 mn, with the strongest growth being in cruise ship passengers. Construction activity was vibrant, fuelled by public sector investments into social and economic infrastructure as well as private sector construction for residential and commercial buildings. The rehabilitation of buildings damaged by the hurricane contributed to the activity in this subsector.

Inflation, as measured by the Consumer Price Index (CPI), was very moderate, ranging from a low of 0.3% in Dominica to a high of 4.4% in St. Lucia.

Due to the disruption caused by volcanic activity on the island, Montserrat remained in a very depressed state during the year.

Mexico

GDP grew by 4.8% in 1998 after vigorous growth of 6.8% in 1997. Strong domestic demand and investment fuelled much of this growth.

Unemployment fell to 3.3% as more jobs were created, particularly in the manufacturing sector. However, the international financial crisis eventually prompted the flight of short-term capital from Mexico. In the wake of the crisis, the government raised interest rates but could not stem a 25% depreciation in the peso that resulted in an 18.6% increase in inflation. By the end of the year, the trade balance had badly deteriorated, going from a surplus of $623.0 mn in 1997 to a deficit of $7.7 billion in 1998. The huge increase was due to a steep drop in oil prices and an increase in imports, particularly of basic grains, as drought in the early part of the year followed by heavy rainfalls caused a shortfall in agricultural production. During the year, the Mexican government had to adjust spending three times because of lower revenue collections.

Central America

Regional growth in Central America declined from 4.3% in 1997 to 3.9% in 1998. A wave of privatisations took place, particularly in the electricity and telecommunications sectors, significantly raising the level of direct foreign investments into the region. In October, Hurricane Mitch wreaked havoc and largely neutralized the region's strong performance during the first 10 months of the year. The negative effects of the devastation caused by the hurricane are expected to be felt keenly throughout 1999.

Bolstered by a surge in investment and strong export performance, Costa Rica led the region with 5.5% growth in GDP in 1998. Manufacturing, construction and traditional agricultural exports were the primary drivers of growth. The expansion in manufacturing was due to foreign investments into an Intel microchip factory and into export processing zones. The surge in economic activity lowered the unemployment rate marginally to 5.4%. Price pressures arising from the expanded activities, coupled with a devaluation of 12.0% in the exchange rate, raised inflation by another 1.7% above 1997. The public sector deficit, measured as a percentage of GDP, fell to 2.9% because of greater revenue collection coming from the increased economic activity and an improvement in the trade balance.

Honduras, Nicaragua and El Salvador were the countries worst hit by Hurricane Mitch in October. The hurricane devastated thousands of homes, destroyed road networks and did extensive damage to export crops and livestock. As a result, inflation rates rose in all three countries due to price increases caused by the shortage of goods and trade balances worsened as these countries were forced to increase imports to offset losses.

In El Salvador, GDP grew by 3.5% during 1998, fueled by vibrant performances in the manufacturing, construction and mining sectors. The economic expansion generated sufficient jobs

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

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		Deficit/GDP Ratio (%)		Trade Balance US$ billion	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Costa Rica	3.7	5.5	11.2	12.9	5.9	5.4	-4.0	-2.9	-0.3	-0.2
El Salvador	4.0	3.5	1.9	4.3	7.5	7.2	-1.1	-1.6	-1.2	-1.6
Guatemala	4.1	4.5	7.1	7.4	5.0	5.9	-1.1	-1.6	-1.0	-1.3
Honduras	4.3	3.0	12.7	15.1	6.4	5.8	-2.8	-3.5	-0.3	-0.5
Mexico	6.8	4.8	15.7	18.6	3.7	3.3	-0.4	-1.4	0.6	-7.7
Nicaragua	5.0	3.5	7.3	17.9	14.3	12.2	-1.5	-0.1	-0.7	-0.8
Panama	4.4	3.5	-0.5	1.5	15.4	15.6	-0.6	-4.0	-0.2	-0.4

Sources: Preliminary Overview of the Economies of Latin America and the Caribbean 1998, ECLAC; Banxico & SHCP; International Financial Statistics to reduce the unemployment rate marginally to 7.2%. A major contributor to economic performance has been the large capital inflows arising from privatisations in the telecommunication and electricity sectors. However, a drop in the price of coffee, a major traditional export, contributed to lackluster growth in exports.

The country most severely affected by the hurricane was Honduras. For the first 10 months, a reduction in taxes accompanied by steps to increase productivity and competitiveness resulted in strong growth and a lowering of the unemployment rate to 5.8% in 1998. After the hurricane, GDP growth lowered to 3.0%. The public deficit as a percentage of GDP increased as tax collections fell due to the reduction in economic activity while government expenditures rose for implementation of disaster recovery measures.

In Nicaragua, growth slackened from 5.0% in 1997 to 3.5% in 1998. Government's priority was to increase public savings and modernise state institutions through privatisations. Strong performance in the early part of the year reduced the unemployment rate as well as reduced the deficit to 0.1% of GDP. Foreign direct investments increased as a result of the privatisations of the telephone and electricity companies.

In Guatemala, growth measured 4.5% for 1998, marginally higher than that for 1997. The driving forces were expansionary monetary and fiscal policies, exchange rate stability and increased exports. Domestic consumption, was strong due to the expansion of credit as well as increased government spending. In the aftermath of Hurricane Mitch, inflation and unemployment grew to 7.4% and 5.9%, respectively. While the trade balance worsened, substantial foreign direct investment arising from the privatisation of the telephone and electricity companies eased the deficit on the balance of payments current account.

In Panama, growth slackened to 3.5% due to a reduction in agricultural output as well as a decline in activities in the Colon Free Zone. Inflation remained low at 1.5%. Local consumption supported by an increase in government expenditure caused the public deficit as a percentage of GDP to rise from 0.6% in 1997 to 4.0% in 1998. The trade deficit widened as exports declined while imports increased. Foreign direct investments increased as a result of the sell off of the telephone and electricity companies.

Domestic Production, Employment and Prices

Production

After moderate growth of 4.0% in 1997, real economic growth decelerated to 1.4% due to contractions in the primary and secondary sectors of the economy.

While fishing expanded by a robust 36.2% due to a near doubling of farmed shrimp production, all other primary sector activities contracted. Agriculture showed the greatest reduction in output of 9.2% mainly due to reductions in the production of sugarcane, citrus fruits, bananas and rice.

In the secondary sector, manufacturing contracted by 4.5% as output of sugar, citrus products and flour declined. Marginal growth in the construction, electricity and water sub-sectors was unable to offset the reduction in manufacturing.

Offsetting the negative growth in the first two sectors, the services sector expanded by a healthy 4.0%. The trade, restaurant and hotel sub-sector grew vigorously by 6.6%, powered mainly by the increase in tourist activity. The transport and communications and public administration sub-sectors recorded positive growth during the year, after contracting in 1997.

The slowing of economic activity led to an increase in the unemployment rate from 12.7% in 1997 to 14.3% in 1998 due mainly to heightened unemployment in agriculture and manufacturing. Most of the new jobs created during 1998 were in the higher paid services sector.

During the year, the cost of living fell by 0.8%. The primary factors accounting for this were the reduction in import duties that occurred in April 1998, a fall in import prices and the increase in the number of goods that were zero rated under the value added tax regime.

Agriculture

Sugarcane

Cane deliveries for the 1997/98 sugarcane crop totaled approximately 1.2 mn long tons, a reduction of 2.5% when compared to the 1996/97 crop. The reduction was attributed to the continued closure of Petrojam.

Cane quality was worse than in the previous year as relatively high rainfall during the early part of the season along with a higher proportion of green cane

Table III.1: Annual Percent Change in Selected Indicators

	1996	1997	1998
GDP at Current Market Prices	2.9	2.5	2.3
Real GDP at Factor Cost (1984 prices)	1.1	4.0	1.4
Primary Activities	6.0	12.5	-1.8
of which: Agriculture	14.3	12.0	-9.2
Fishing	-17.2	31.2	36.2
Forestry	-8.9	-2.6	-3.0
Secondary Activities	-1.7	1.4	-1.5
of which: Manufacturing	0.3	2.7	-4.5
Services	0.6	2.1	4.0
of which: Trade & Tourism	-1.9	8.2	6.6
Public Administration	-3.8	-4.1	1.9
Transport and Communication	4.2	-2.9	2.5
Consumer Price Index			
Average	6.4	1.0	-0.8
End of Period	6.4	-0.5	-0.8

Table III.2: Sugarcane Production

	1995/96	1996/97	1997/98
Production of Sugarcane (long tons)	1,236,308	1,188,847	1,159,657
Sugarcane deliveries to BSI	1,093,450	1,134,042	1,159,657
Sugarcane deliveries to PETROJAM	142,858	54,805	-

Source: Belize Sugar Board; Belize Sugar Industries Ltd.

in deliveries, increased the quantity of extraneous material and slowed the rate of deliveries and factory processing time.

Citrus

Total citrus fruit deliveries for the 1997/98 crop amounted to 4.9 mn boxes. Although weather conditions permitted three harvests rather than the customary two, deliveries were 18.0% lower than in1997 as orange and grapefruit deliveries declined by 17.0% and 19.0%, respectively.

The smaller crop was attributable to a combination of agronomic and labour problems. Citrus production follows cyclical swings in output, with a smaller crop usually following a bumper crop. Since a bumper crop was realized in 1996/97, the 1997/98 yield was expected to be smaller. This downturn was reinforced by the prolonged dry season caused by El Niño. In addition, low prices paid in past years for fruit deliveries caused farmers to reduce their agricultural inputs and agronomic practices. The effects of this neglect were manifested in lower yields overall. Low fruit prices also translated into low wages that resulted in a labour shortage at harvest time. Some of the smaller farmers even opted not to harvest since the low prices did not cover their costs. It was hoped that export prices for citrus products would improve during the year to enable better wages, thereby solving the industry's labour problems. Unfortunately, while the price for orange concentrates did improve slightly late in the year, grapefruit concentrate prices never recovered.

Bananas

Banana production for 1998 yielded 50,904 metric tonnes. During 1997, the industry was cultivating over 5,000 acres of land capable of yielding up to 75,000 metric tonnes of bananas. However, efforts by exporters to find financially viable markets outside of Europe for production that was surplus to the European quota were not successful. As a result, productive acreage was reduced from 5,388 to 3,623 acres in July and August of 1997 so that annual production could meet rather than exceed the European quota.

Papayas

During 1998, approximately 330 acres of papaya were under production. The bulk of this (about 280 acres) was located in the Corozal and Orange Walk districts and was mostly owned by J.R. Brooks,

Table III.3: Production of Citrus Fruits

	1996	1997	1998
Deliveries ('000 boxes)	4,324	5,974	4,917
Oranges	3,165	4,555	3,766
Grapefruits	1,159	1,419	1,151

Source: Central Statistical Office; Belize Food Products; Citrus Company of Belize

Box 1: Development of Papaya for Export

The technology for papaya production in Belize was developed by the Belize Agri-business Company Ltd (BABCO). BABCO was a US Agency for International Development funded project whose objectives were to develop crops that would substitute for selected imports and that could provide export alternatives to sugar. BABCO commenced operations in 1986 in the northern districts around the time when prices for sugar had fallen to historically low levels in the world market. The project stressed the need to work with importers in the US who were to conduct all marketing trials in the US.

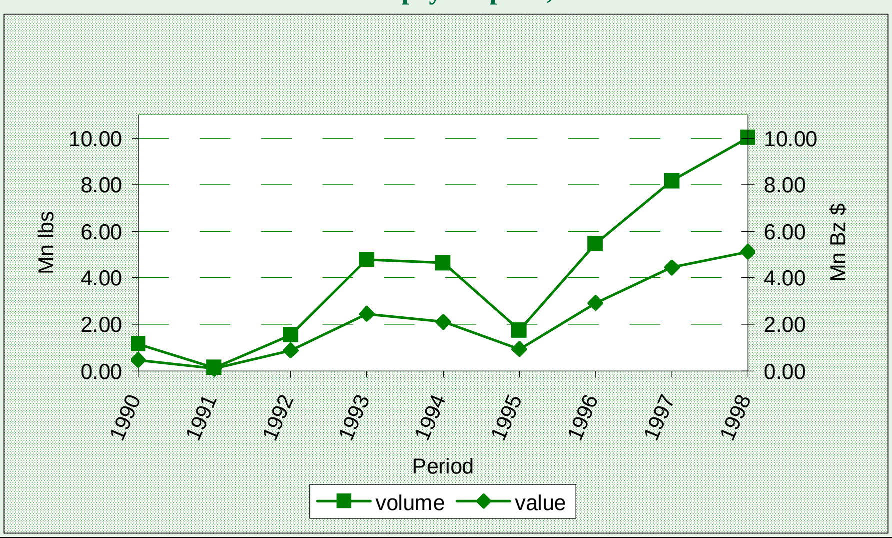
Of all the crops evaluated, papaya proved to be the most viable export crop. Timing was critical to its successful commercialisation. Production commenced in Belize at the same time when Hawaii, a major supplier, was experiencing problems with the Mediterranean fruit fly. This meant that Hawaiian papayas had to be treated before the product could enter the US which not only raised the cost of the Hawaiian papayas, but also decreased the fruit quality. Belizean papayas were therefore able to compete in both price and quality in the US market.

BABCO began commercial production in 1990 with just 20 acres. It was hoped that individual farmers would provide the bulk of the export volume with BABCO just supplementing these exports. However, the relatively high cost and the intensive nature of production were major deterrents to farmers. The export quality of papayas is very sensitive to the timeliness of management practices such as fertilisation and pest control. Due to cash flow problems, few farmers could provide the proper crop management.

In 1992, the US importer, J. R. Brooks, set up a subsidiary, Fruta Bomba, in Belize. This was done to ensure that production would meet export demand. This subsidiary accounts for almost all papaya cultivation in the north that today totals around 280 acres. In 1997, Fruta Bomba, in collaboration with the Development Finance Corporation Investment Company, took over the packing of the fruits.

Since 1998, a small group of farmers, including the Mennonite community, has started production in Cayo. To date, approximately 50 acres are under cultivation there. All papayas are currently sold to J. R. Brooks.

Chart 1a: Papaya Exports, 1990-1998



a US based fruit importer. Papaya production began in the Cayo district in early 1998 with about 50 acres planted by individual growers and the Mennonite community. National production has grown steadily, with cultivation increasing annually from approximately 20 acres in 1990 to the present 330 acres.

Other Agricultural Production

Rice production declined by 50.0% during 1998. Surplus output in 1997, along with the difficulty of finding alternative markets outside Belize, prompted farmers to cut back on rice production during the year. Bean production, particularly that of red kidney

Box 2: Marine Reserve Management

Marine reserves management has two dimensions – economic and biological sustainability. The former is of commercial interest whereas the latter, and more important, constitutes the long term survival of the species. Biological sustainability is the amount of fishing efforts that the natural population can support without negatively affecting the species' reproductive capacity. Over-exploitation of marine resources, at the extreme, can cause species extinction and destroy a fishing industry. Common qualitative measures to detect over-fishing are a reduction in size and number of a species as well as changes in its location or habitat.

In Belize, the economically important marine products are lobster, conch and whole fish. Management practices consist primarily of minimum size and weight restrictions and use of closed seasons during which fishing is prohibited to allow the species to reproduce. While a comprehensive national study has not been conducted to assess stock levels and fishing practices, several individual studies have been done in specific geographical areas.

Based on fisheries data, lobster production has fluctuated within a given range of 500,000 to 600,000 pounds per annum for a considerable period of time. This indicates that present fishing efforts in terms of number of fishermen, boats and traps, are at biologically sustainable levels. Further intensification of fishing efforts, however, could disrupt this balance.

All qualitative indications point to severe over-exploitation of conch stocks. A conch stock abundance study conducted in 1996 found that approximately 70% of the harvestable population were juveniles. Over the last twenty years, conch production fell from 1.2 million to just over 400,000 pounds per annum, indicating that over fishing has affected the species' ability to maintain its population levels. Apart from implementation of a closed season, more conservative management practices may be needed to allow the juvenile population to add to the reproductive capacity of the species.

Studies conducted in the southern waters indicated that the mutton and yellow tailed snapper, Nassau grouper and Jew fish have been severely over-exploited. The Nassau grouper has virtually disappeared from the south.

The fishing subsector's contribution to GDP generally fluctuates between 3% to 4%. Studies conducted to date have indicated that the economic sustainability of the industry may hinge on a conservative management approach for at least two of the major marine resources. Sensitization of fishermen and the public, along with co-management of resources by the Department of Fisheries and the fishermen's cooperatives, would assist in maintaining this patrimony for generations to come.

Table III.4: Sugar and Molasses Production

	1995/96	1996/97	1997/98
Sugar Processed (long tons)	108,784	123,782	118,111
Molasses Processed by BSI (long tons)	39,949	42,681	44,844
High Test molasses processed by PETROJAM	-	-	-
Cane juice molasses processed by PETROJAM	19,850	9,092	-
Performance			
Overall Factory Efficiency(%)	91.85	91.61	91.11
Cane Purity(%)	84.59	85.28	85.46
Cane/Sugar Ratio	10.18	9.07	9.82

Source: Belize Sugar Board; Belize Sugar Industries Ltd.

beans, was 26.0% below 1997 levels. On the other hand, corn production remained stable while poultry and egg output were 16.0% and 3.6% higher.

Marine Products

Production of farmed shrimp was considerably higher than in 1997 as a number of farms increased acreage.

Forestry, Mining and Construction

The downward trend in forestry and mining and quarrying continued into 1998, contracting even more than in 1997. Construction showed a small positive growth of 1.8% after a contraction of 5.4% in 1997.

The contraction in forestry was reflective of the overlogging of primary woods that has occurred over time. Some efforts are being made to sustainably manage forest reserves by reducing the extraction of primary woods and increasing the extraction of secondary woods. The industry is moving towards greater value added and away from the exports of sawn lumber. However, given the diminishing quantities of primary woods, the market for secondary species has to be developed. During this transitional period, outputs of secondary woods and wood products are expected to be relatively small. As the market becomes established for secondary species and wooden products, value added from this subsector should increase.

Manufacturing

Sugar and Molasses

Sugar production fell by 4.6% to 118,111 long tons due mainly to lower cane quality. Although cane purity increased marginally to 85.46%, the cane/sugar ratio fell from 9.07 in 1997 to 9.82 in 1998, meaning that 8.0% more cane was required to produce the same amount of sugar. At 91.11%, factory efficiency hovered near to 1997 levels.

Table III.5: Production of Citrus Concentrate and Juices

	1996	1997	1998
Production ('000 gals)	4,153	8,685	6,200
Orange Concentrate	2,259	3,040	2,580
Grapefruit Concentrate	635	716	674
Not-from-concentrate (NFC)	1,259	4,929	2,946

Sources: Central Statistical Office; Belize Food Products; Citrus Company of Belize.

Box 3: The Citrus Concentrate and Not-from-concentrate Juice Markets

Citrus products sold for juice production consist primarily of concentrate and not-from-concentrate (NFC) products. Water is extracted from pressed citrus juices to make the concentrate and this is sold to processors who reconstitute it by adding water. The dehydration and rehydration processes affect the quality, particularly, the taste of the final juice product. In contrast, the NFC product (which is produced from a high quality fruit) is not completely dehydrated and retains some water. The juice it produces has a superior taste, more in line with the taste of the natural juice, than that produced using concentrate and it therefore commands a higher price on the market.

Both citrus concentrate and NFC products are sold on a per pound solids (pps) basis on the export market. Prices of NFC products are at least three times that of concentrate on a pps basis and are more stable. For example, prices for NFC over the last three to five years have varied between US $650 to $680 per metric tonne for orange NFC and between US $600 to $625 per metric tonne for grapefruit NFC. During the course of only one year, 1998, prices for orange concentrate varied between US$5.45 per gallon to US $8.85 per gallon while prices for grapefruit concentrate varied between US $4 per gallon and US $9.60 per gallon.

The bulk of the market demand for citrus juice is presently for concentrates. As a relatively new product, NFC has been gaining popularity since the 1980's. Presently, it sells to a niche market where demand is much smaller.

It is more costly to both produce and ship the NFC. However, because of the premium prices it commands, the operating margins are higher than from concentrate. Although the market is slowly moving away from concentrates to NFC, Belize still has to balance its citrus exports between both products. This is necessary to maximise revenues from both markets and position Belize to exploit the gradual expansion of the NFC market.

Molasses production was up by 5.0% over 1997 levels due to the inverse relationship between sugarcane quality and molasses production. Lower cane quality leads to higher production of molasses and vice versa. No high test molasses were produced during the year since Petrojam remained closed for the crop season.

Citrus Concentrates and Not-from-concentrate Juices

During the 1997/98 processing season, production of concentrates and not-from-concentrate (NFC) juices fell by 13.4% and 40%, respectively, when compared to 1996/97. The decline was a direct consequence of lower fruit deliveries and quality.

While both orange and grapefruit concentrate production fell, the bulk of the decrease occurred in the orange concentrates which approached just 85.0% of the previous year's volume. Production of grapefruit NFC juice plunged steeply by 74.0%, whereas the production of orange NFC juice decreased by only 12.8%. Production of the NFC juice requires a high quality fruit and the 1997/98 crop, particularly the grapefruit crop, was much lower in quality than the previous year.

As expected, with the reduction in fruit deliveries, the production of citrus oils fell by 12.0%.

Table III.6: Selected Tourism Statistics

	1996	1997	1998
Arrivals	**109,189**	**112,191**	**119,367**
Air	92,488	95,337	101,462
Land	11,192	11,404	12,134
Sea	4,509	5,450	5,771
Hotel Capacity			
No. Hotels	360	383	408
No. Rooms	3,690	3,905	3,921
No. Beds	6,111	6,425	6,617
Average Hotel Rates (National, US$)	128.6	124.7	n.a.
Average Occupancy Rates (National)	27.2	27.1	n.a.
Average Length of Stay (days)	9.0	9.0	9.0
Average Daily Expenditure per Person (US$)*	90.0	90.0	90.0

Source: Immigration Department; Belize Tourist Board; Central Bank of Belize.
* For arrivals by air and land
n.a. = not available

Other Manufacturing Production

Production of beer and soft drinks grew by 13.0% and 8.0%, respectively over 1997. Garments and cigarette production increased slightly while battery output fell by 6.6%. Fertiliser production decreased by 1.0%, which was not unexpected in view of the contraction in national agricultural output.

Tourism

Estimates indicate that tourism continued its upswing in 1998, with a 6.4% growth in arrivals and an attendant 10.8% increase in estimated total expenditure.

Employment

During 1998, the labour force grew by 5.8% to 85,598 but the rate of job creation did not keep pace with this growth. Consequently, although the number of employed persons rose by 3.8%, the rate of unemployment increased from 12.7% in 1997 to 14.3% in 1998.

Employment within the agricultural and manufacturing sectors fell by 13.0% and 5.8%, respectively. The reduction of employed persons in these sectors was reflective of the labour problems

Table III.7: Employed Labour Force by Industrial Group

Industrial Group	1996	1997	1998
Agriculture, Forestry & Fishing	18,650	21,140	18,340
Mining & Quarrying	85	95	275
Manufacturing	6,770	7,980	7,515
Electricity & Water	925	985	1,160
Construction	3,250	3,835	4,235
Trade, Restaurants &Hotels	13,815	15,155	18,230
Transport and Communications	3,845	3,655	3,770
Financing, Real Estate & Business Services	1,760	2,360	2,625
Community, Social & Personal Services	15,015	15,140	16,835
of which: Public Administration	4,980	4,185	4,980
Work Abroad*			30
Activities not classified elsewhere	910	335	330
Total, All Sectors	65,025	70,680	73,345

Source: Central Statistical Office
* New category introduced in 1998

Box 4: Tourism Developments and Prospects

Developments in 1998

During 1998, a number of changes occurred that affected marketing and institutional support for the tourist industry. In the first instance, the tourism portfolio was separated from the Ministry of the Environment, and the Belize Tourist Board (BTB) underwent administrative restructuring in order to permit greater focus on priority development areas. Secondly, work began on the creation of a Belizean National Tourism Council (BNTC). The Council is to be comprised of public and private sector entities and will act as a policy advisory body to the Ministry of Tourism.

Marketing of Belizean tourism was broadened from the previous focus on eco-tourism to one that appeals to a general "taste for adventure". Advertisements depicting a revised logo featuring the toucan and the message, "Catch the Adventure" were developed to appeal to this audience. A dual marketing and public relations approach was adopted to create and maintain international awareness of Belize as a tourist destination. Attendance at several international shows in North America and Europe, coupled with advertisements in well-known travel magazines, were key promotional tools. In addition, the annual BETEX trade show targeted at international travel agencies was held in Belize during July.

During the year, several studies were conducted to identify areas that would make substantive impact on the development of Belize's tourist potential. A tourism strategy study highlighted areas for institutional strengthening, policy development and enhancement of tourist attractions. A 'tourism awareness needs' study and the first phase of a small hotel consultancy project were completed. Also, work began during the year on a Cruise Ship Policy. This was deemed important since Belize successfully secured a two-year contract with the Seabreeze cruise ship company for a ship to dock every Thursday.

Prospects

Many of the initiatives started in 1998 should come to fruition in 1999. Included among these are:

- Implementation of a cruise ship policy
- Implementation of the BNTC
- Improvement of road infrastructure to well known tourist sites
- Site improvement and marketing of Caracol as the main anchor of Mayan archaeology
- Initiation of work on improvement of the border areas at Santa Elena, Corozal, and Benque Viejo in Cayo.
- Assessment of the feasibility of incorporating a tourist officer into Belizean overseas offices.
- Continuation of subsequent phases of the Small Hotel Consultancy Project

affecting the citrus industry and the contraction of production that occurred in the banana industry. Almost all the new jobs created were in the tertiary or services sector. The highest growth in jobs occurred in trade, restaurants, hotels and community services which was not surprising in view of the continued increases in tourist arrivals.

Average monthly wages rose from $740 in 1997 to $780 in 1998. This 5.0% increase was indicative of the reduction of jobs in the lower paid agricultural sector and increased employment in the higher paid services sector.

Table III.8: Quarterly Percent Change in CPI Components by Major Commodity Group

Major Commodity Group	Weights	Feb-98	May-98	Aug-98	Nov-98	Inflation Rate
Food, Beverages and Tobacco	346.6	-0.2	-1.2	-0.2	0.8	-1
Clothing and Footwear	92.0	0.3	-2.1	-1.9	-0.2	-3.7
Rent, Water, Fuel and Power	167.0	0.3	-0.6	0.9	0.2	0.4
Household goods & Maintenance	85.3	0.2	-0.5	-0.5	0	-0.4
Medical care	20.1	-2.7	2.1	1.1	-0.1	0.1
Transport and Communication	170.1	-0.5	0.3	-1.8	1.3	-1
Recreation, Education , Culture	80.4	0.8	-3.9	0.1	0.3	-1.2
Personal Care	37.9	0.1	-0.4	-0.6	-0.5	-1.1
All Items	**1000.0**	**-0.1**	**-0.9**	**-0.3**	**0.5**	**-0.8**

Source: Central Statistical Office.

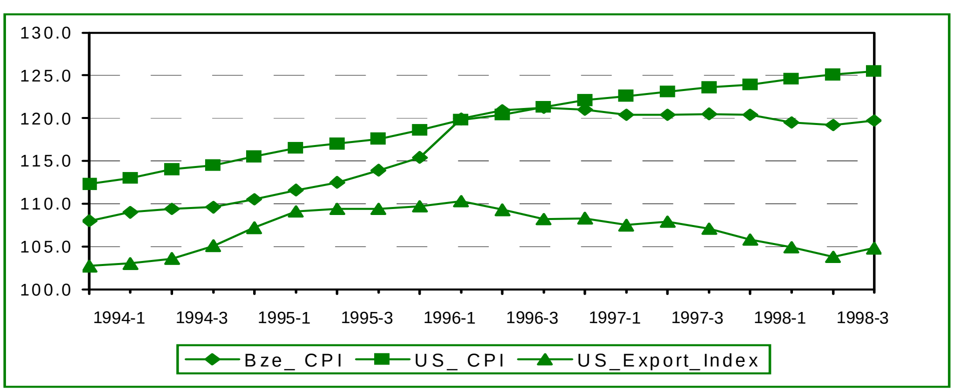
Prices

Between 1997 and 1998, the annual inflation rate trended downwards, moving from 1.0% to negative 0.8%. Annual inflation is measured by the rate of change in the annual average of the Consumer Price Index (CPI). The price collection for the CPI is conducted quarterly, and the average of the indices for the four quarters of a given year is used to derive the annual index.

The negative inflation rate during 1998 points to a decline in the cost of living that was attributable to several factors. In the first place, the amount of zero rated items under the Value Added Tax was expanded. Secondly, because of Belize's commitments under the Common External Tariff, the average rate of import duties declined in April from 30.0% to 25.0%. Importers also turned to cheaper sources of goods such as Mexico and CARICOM. In addition, US export prices fell by 2.7% from 1997 to 1998. Since the basket of goods comprising the CPI has a high import content, reductions in the prices of imports heavily influenced consumer prices.

Prices declined during the year for all items comprising the CPI except for relatively small increases in medical services and rent, water, fuel and power. The two commodity groups, food, beverages, tobacco and transport & communication, together comprise 51.0% of the basket of goods and services. A downward movement of prices for these groups therefore exerts significant downward pressure on the general price index. In July of 1998, the VAT was removed from telephone services, accounting for the deflationary drop of 1.0% for this service group. The high import content of the food commodity group and the fall in import prices during the year accounted for the 1.0% drop in prices for this item.

Chart III.1: Quarterly Price Indices, (Belize CPI, US CPI, & US Export Index)



Monetary and Financial Developments

Money Supply

The slowing of the economy, most pronounced in the real (export) sector, coincided with a deceleration in the growth of broad money supply (M2) from 10.0% in 1997 to 8.1% in 1998. For the second consecutive year, monetary expansion was internally generated as a 15.7% ($101.8 mn) rise in net domestic credit facilitated public and private sector consumption and investment spending which put downward pressure on the net foreign assets of the banking system. The expansion in net domestic credit, coupled with a reduction of $1.2 mn in Central Bank's long term liabilities, overshadowed declines in net foreign assets of $27.6 mn and an $18.1 mn rise in other items (net).

The $57.3 mn expansion in broad money supply included increases in narrow money (M1) and quasi-money of $20.2 mn and $37.1 mn, respectively. At 10.9%, the percentage increase in M1 was the largest recorded over the past five years. Currency with the public rose by 6.0% ($4.0 mn), a slightly higher increase than the previous year. However, the $16.2 mn expansion in demand deposits, 86.4% of which was due to business enterprises, resulted in a percentage growth that was nearly quadruple that of 1997. Most of this occurred in the second and fourth quarters of the year.

Contrasting with this, the percentage growth of quasi-money declined from 12.1% to 7.1%, somewhat indicative of the slowdown in growth and widening current account deficit. Savings deposits rose by $5.2 mn, a 4.1% increase compared to 6.7% a year earlier. Almost all of this was due to increased holdings by individuals who had built up these deposits (by $11.8 mn) during the first three quarters of the year and largely withdrawn from these balances during the December Christmas season.

With a growth rate of 8.1% ($31.9 mn), time deposits also rose at a slower pace than the 13.9% recorded in the previous year. The major portion of the increase was attributable to the Belize Social Security Board ($10.4 mn), business enterprises ($13.7 mn) and foreign currency deposits held by non-resident IBC's ($9.4 mn). On the other hand, holdings by individuals increased by only 1.4% ($3.3 mn), down from 14.6% ($30.0 mn) in 1997. Water and Sewerage Authority and religious organizations

Table IV.1: Factors Responsible for Money Supply Movements

$mn

	Dec 96	Position as at Dec 97	Dec 98	Change during 1998
Net Foreign Assets	**142.8**	**129.3**	**101.7**	**-27.6**
Central Bank	113.1	111.4	84.6	-26.8
Commercial Bank	29.7	17.9	17.1	-0.8
Net Domestic Credit	**580.9**	**649.3**	**751.1**	**101.8**
Central Government (Net)	80.8	94.4	123.3	28.9
Other Public Sector	18.8	9.5	18.0	8.5
Private Sector	481.3	545.4	609.8	64.4
Central Bank Foreign Liabilities(Long-term)	**28.4**	**27.1**	**25.9**	**-1.2**
Other Items (net)	**49.9**	**41.4**	**59.5**	**18.1**
Money Supply M2	**645.4**	**710.1**	**767.4**	**57.3**

Table IV.2: Money Supply

$mn

	Position as at			Change during 1998
	Dec 96	Dec 97	Dec 98	
Money Supply (M2)	**645.4**	**710.1**	**767.4**	**57.3**
Money Supply (M1)	**177.6**	**185.9**	**206.1**	**20.2**
Currency with the Public	63.6	66.4	70.4	4.0
Demand Deposits	114.0	119.5	135.7	16.2
Quasi-Money	**467.8**	**524.2**	**561.3**	**37.1**
Savings Deposits	120.2	128.2	133.4	5.2
* Time Deposits	347.6	396.0	427.9	31.9

* Includes Non-Residents Foreign Currency Time Deposits of $32.6 mn.

recorded increases of $1.1 mn each while the Belize Airport Authority drew down $6.2 mn for the final stages of the Airport Extension project.

Net Foreign Assets

The vigorous expansion in net domestic credit, particularly in the second half of the year, was mirrored by a sharp decline of $27.6 mn in the net foreign assets of the banking system. By the end of the year, net holdings of the Central Bank and commercial banks had fallen by $26.8 mn and $0.8 mn, respectively.

The deterioration in the Central Bank's net foreign asset position was evidenced by a $30.9 mn fall in foreign assets compared to a smaller decline of $4.1 mn in its short-term foreign liabilities. The Bank's purchases of foreign exchange totalled $181.7 mn most of which was sourced from BSI (43.2%), Central Government (24.6%), multilateral lending institutions (16.7%) and the economic citizenship programme (4.6%). At $213.7 mn, sales exceeded purchases by approximately $32.0 mn. The commercial banks were the largest customers obtaining 44.5% ($95.1 mn) to facilitate payments for imports of goods and services. Net sales to the commercial banks in fact rose sharply from $57.4 mn in 1997 to $81.6 mn during 1998, a 42.2% increase. Central Government and BEL were the other major customers, receiving 37.2% and 6.3%, respectively, of foreign exchange sold by the Bank. Approximately $4.4 mn was paid in settlements under the CARICOM bilateral clearing facility. During the year, the Central Bank realized interest income from investments abroad and revaluation gains totalling $5.7 mn.

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

$mn

	Position as at			Change during 1998
	Dec 96	Dec 97	Dec 98	
Net Foreign Assets of Banking System	**142.8**	**129.3**	**101.7**	**-27.6**
Net Foreign Assets of Central Bank	113.1	111.4	84.6	-26.8
Central Bank Foreign Assets	116.6	118.7	87.8	-30.9
* Central Bank Foreign Liabilities(Demand)	3.5	7.3	3.2	-4.1
Net Foreign Assets of Commercial Banks	29.7	17.9	17.1	-0.8
Commercial Bank Foreign Assets	75.3	69.6	73.8	4.2
** Commercial Bank Foreign Liabilities	45.6	51.7	56.7	5.0

* Does not include Central Bank Long-term Foreign Liab. of $27.1 mn
** Does not include Non-residents Foreign currency Time Deposits of $32.6 mn held with commercial banks

The fall in the Central Bank's short-term foreign liabilities reflected reductions in balances held in the GOB/IBRD Power 2 Project and BEL/EIB Project accounts of $1.0 mn and $2.2 mn, respectively, as well as a $0.9 mn fall in the outstanding balance on the CARICOM bilateral clearings facility.

Meanwhile, commercial banks' foreign assets and foreign liabilities rose by $4.2 mn and $5.0 mn, respectively, resulting in a slight deterioration in their net foreign position. A $10.0 mn increase in IBC foreign currency demand deposits combined with a credit line arranged with a foreign bank for the farmed shrimp industry were the primary contributors to the rise in foreign liabilities. These increases were counterbalanced by a reduction in balances owed to head offices as Libor loans previously on-lent to the private sector were repaid. The aforementioned transactions of IBC's and the shrimp industry also impacted on the rise in foreign assets of the commercial banks.

Net Domestic Credit

Net domestic credit expanded by $101.8 mn to $751.1 mn, up 15.7% compared to 11.8% in 1997. Credit to the private sector rose by $64.4 mn (11.8%), a marginally lower rate than the 13.3% recorded a year earlier. In comparison, net credit to Central Government grew by $28.9 mn, a 30.6% increase as compared to 16.8% in 1997, and after a nearly 50% decline in the previous year, credit to other public sector entities rose by $8.5 mn (89.5%).

The marked rise in net credit to Central Government was achieved by drawing down $31.7 mn in deposits held with the Central Bank. These deposits were derived mainly from GOB international bond issues in October, 1997 and May, 1998. The funds were used to finance the Capital II budget and to reduce the balance on the overdraft facility held with the Central Bank. As the year drew to a close, Central Government increased its borrowing from commercial banks from $0.3 mn to $3.3 mn and raised the level of its deposits in the commercial banks by $4.1 mn through bridge financing borrowed from DFC to facilitate housing expenditure. Additional financing was also afforded by the domestic banking system via a $2.6 mn net increase in holdings of Government securities.

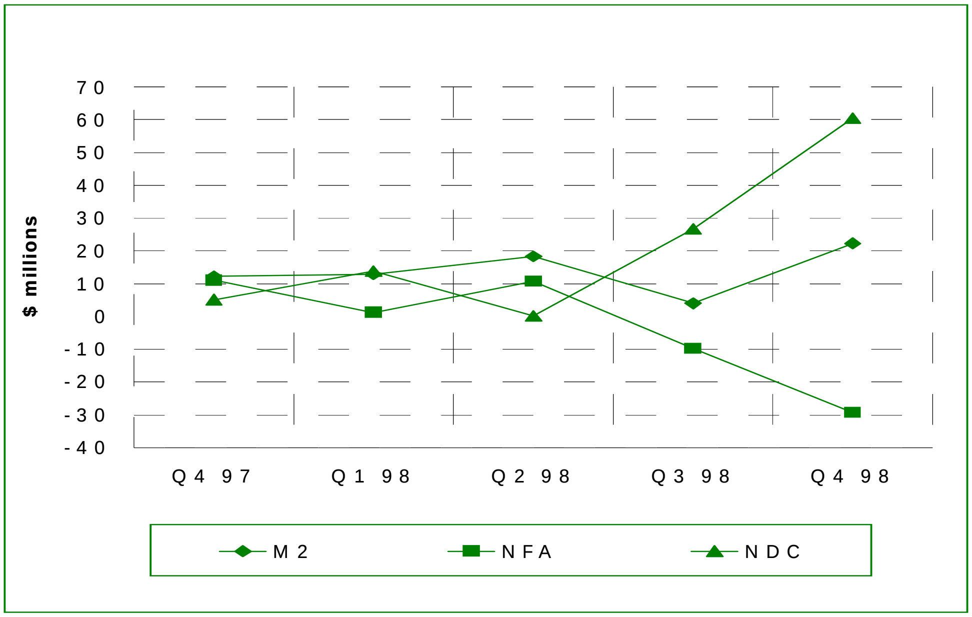
In secondary trading, the Central Bank purchased Treasury Bills valued at $29.8 mn from the commercial banks during the year. During the last quarter, the Central Bank implemented the Treasury Note Initiative under which commercial banks were allowed to use US dollars to carry out transactions

Table IV.4: Net Domestic Credit - Summary

$mn

	Position as at			Change during 1998
	Dec 96	Dec 97	Dec 98	
Total Credit to Central Government	151.7	152.2	153.5	1.3
From Central Bank	112.0	90.3	95.0	4.7
From Commercial Banks	39.7	61.9	58.5	-3.4
Less Central Government Deposits	70.9	57.8	30.2	-27.6
Net Credit to Central Government	80.8	94.4	123.3	28.9
Credit to Other Public Sector	18.8	9.5	18.0	8.5
Plus Credit to the Private Sector	481.3	545.4	609.8	64.4
Net Domestic Credit of the Banking System	**580.9**	**649.3**	**751.1**	**101.8**

Chart IV.1: Quarterly Change in Factors Affecting Money Supply



relating to Treasury Notes. These instruments were then classified as part of the banks' statutory liquid assets, earning interest in local currency and redeemable in US dollars. Approximately $7.0 mn in Treasury Notes was sold to commercial banks in October, followed by $9.1 mn in November, and $7.0 mn in December.

Credit to other public sector bodies rose by $8.5 mn as a commercial bank loan of $5.0 mn to DFC and purchase of $6.0 mn worth of BEL debentures were partially offset by an $0.8 mn reduction in the Marketing Board's commercial bank overdraft and a $1.7 mn reduction in balances owed by Recondev to the Central Bank. The latter was effected through

Table IV.5: Sectoral Composition of Commercial Bank's Loans and Advances

($mn)

		Position as at		Change during
	Dec 96	Dec 97	Dec 98	1998
PRIMARY SECTOR	**64.6**	**78.5**	**78.6**	**0.1**
Agriculture	61.2	73.6	69.2	-4.4
Commercial Fishing	1.7	2.2	6.8	4.6
Forestry	1.1	1.4	1.2	-0.2
Mining and Exploration	0.6	1.3	1.4	0.1
SECONDARY SECTOR	**148.2**	**158.1**	**153.7**	**-4.4**
Manufacturing	38.5	41.5	28.6	-12.9
Building and Construction	105.2	112.1	119.0	6.9
Public Utilities	4.5	4.5	6.1	1.6
TERTIARY SECTOR	**178.1**	**196.6**	**248.1**	**51.5**
Transport	12.3	15.8	19.1	3.3
Tourism	18.9	20.9	33.6	12.7
Distribution	103.3	103.5	123.0	19.5
Other*	43.6	56.4	72.4	16.0
Personal Loans	**90.0**	**114.1**	**145.2**	**31.1**
TOTAL	**480.9**	**547.3**	**625.6**	**78.3**

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

Table IV. 6 : Commercial Banks' Holdings of Approved Liquid Assets

$mn

	Position as at			Change during 1998
	Dec 96	Dec 97	Dec 98	
Holdings of Approved Liquid Assets	172.2	188.3	203.1	14.8
Vault Cash	12.7	13.4	15.6	2.2
Balances with Central Bank	42.0	48.3	43.2	-5.1
Money at Call and Foreign Balances (due within 90 days)	72.2	67.6	67.3	-0.3
Treasury Bills maturing in not more than 90 days	37.7	53.0	49.8	-3.2
Treasury Notes	2.0	0.8	17.8	17.0
Other Approved assets	5.6	5.2	9.4	4.2
Required Liquid Assets	157.9	175.2	173.3	-1.9
Excess/(Deficiency) Liquid Assets	**14.3**	**13.1**	**29.8**	**16.7**
Daily Average holdings of Cash Reserves	43.7	48.5	40.1	-8.4
Required Cash Reserves	42.5	47.2	36.1	-11.1
Excess/(Deficiency) Cash Reserves	**1.2**	**1.3**	**4.0**	**2.7**

a payment by Central Government whilst acting in its capacity as guarantor of the Central Bank/ Recondev housing loans.

Sectoral Distribution of Domestic Credit

In keeping with the increased level of economic activity in the tertiary sector during 1998, commercial bank lending was generally directed to the services sector and to personal loans. Loans to these sectors rose by $51.5 mn (26.2%) and $31.1 mn (27.3%), respectively. Following personal loans, the distribution and tourism sub-sectors recorded the next largest increases of $19.5 mn and $12.7 mn, respectively. These sub-sectors had received comparatively smaller increases of $0.2 mn and $2.0 mn during the previous year.

Vigorous growth in personal and tertiary sector loans contrasted with a minimal increase of $0.1 mn in loans to the primary sector. This occurred as a $4.6 mn rise in credit for commercial fishing and small increases for sugar farmers and mining activity were almost completely neutralized by repayments from growers of citrus and banana and from other agricultural producers. After rising by $9.9 mn in 1997, credit to the secondary sector fell by $4.4 mn as repayments from manufacturers (citrus processors and others) more than offset a rise in loans for building and construction and public utilities. During the previous year, loans to the primary and secondary sectors had increased by 21.5% and 6.7%, respectively.

Liquidity

Effective November 1, 1998, the Central Bank authorized the lowering of commercial bank liquidity requirements resulting in reduction of liquid asset and cash reserve ratios from 26% to 24% and 7% to 5%, respectively. Excess liquidity consequently expanded by $16.7 mn to $29.8 mn at the end of the year as commercial bank holdings of approved liquid assets rose by $14.8 mn and the statutory requirement declined by $1.9 mn. While required cash reserves were lowered by $11.1 mn, banks reduced their daily average holdings by only $8.4 mn, thereby increasing excess cash reserves by $2.7 mn to $4.0 mn.

Conforming to usual seasonal patterns, excess liquidity peaked during the first quarter and subsided thereafter, reaching a low of $9.7 mn in October as growth in loans outstripped that of deposits during the crisis arising from the Hurricane Mitch threat.

Table IV.7: Commercial Banks Weighted Average Interest Rates

$mn

	Position as at			Change during
	Dec 96	Dec 97	Dec 98	1998
Weighted Average Lending Rates				
Personal Loans	16.8	17.4	16.8	-0.6
Commercial Loans	16.2	16.4	16.3	-0.1
Mortgage Loans	14.9	15.7	15.7	0.0
Other	17.8	15.2	10.5	-4.7
Average	*16.2*	*16.6*	*16.3*	*-0.3*
Weighted Average Deposit Rates				
Savings	5.3	5.4	5.4	0.0
Time	8.6	9.3	8.3	-1.0
Average	*6.2*	*6.7*	*6.0*	*-0.7*
Weighted Average Spread	10.0	9.9	10.3	0.4

The fourth quarter is generally associated with heightened demand for loans as the Christmas season approaches and this also coincided with the newly elected Government's mandate to immediately stimulate economic activity. It was in this context that the Central Bank authorized the lowering of liquid asset and cash reserve ratios. The cost of lending by the commercial banks was further reduced by an increase in the Treasury Bill rate from 3.4% to 6.0%. In order to compensate for the likely effect of further credit expansion on foreign currency reserves, and stimulate the housing sector, the Central Bank simultaneously authorized the inclusion of Treasury Notes bought with US dollars and new mortgage loans for residential construction as part of the commercial banks approved liquid asset holdings. The banks consequently increased investment in Treasury Notes and new mortgages by $17.0 and $4.2 mn, respectively, while reducing balances with the Central Bank, short-term foreign balances, and Treasury Bills by the combined amount of $8.6 mn.

Interest Rates

Prior to the fall in liquidity requirements, a steady downward trend had been observed in time deposit rates largely as a result of increased inflows from non-residents. The lowering of the requirements and increase in the Treasury Bill rate contributed to the further decline in operational costs in the last quarter. The commercial banks consequently reacted by further reducing deposit and lending rates. By year-end, the weighted average deposit rate had fallen by 70 basis points to 6.0% largely reflecting a full percentage point reduction in the weighted average time deposit rate to 8.3%. The interest rate spread nevertheless widened to 10.3% as the weighted average lending rate declined by the lesser sum of 30 basis points. While mortgage rates were unchanged, personal and commercial loan rates fell by 60 basis points and 10 basis points, respectively. An even more marked decrease of 4.7 percentage points was recorded in the rate for other types of loans offered by the banks.

Central Government Operations and Public Debt

Central Government Operations

During 1998, Central Government's fiscal operations resulted in a current surplus of $36.9 mn and an overall deficit of $27.8 mn. The current surplus was $6.2 mn higher than the previous year, increasing from 2.5% to 2.9% of GDP. On the other hand, the overall deficit expanded by $2.5 mn to $27.8 mn (up from 2.1% of GDP to 2.2% of GDP) as capital expenditure of $13.2 mn outstripped a $4.6 mn increase in capital revenue and grants.

Current revenue amounted to $296.9 mn or 92.1% of total revenue and grants. This represented a $14.0 mn increase over 1997, as a $14.3 mn rise in tax revenue overshadowed a marginal decline of $0.3 mn in non-tax revenue. The most notable contributors to the increase in tax revenue were incomes and profits (up by $8.4 mn) and international trade and transactions (up by $4.6 mn).

Revenue from the VAT declined by $1.9 mn to $54.0 mn as a result of the expansion in zero-rated items in April 1998.

The rise in tax revenues from incomes and profits largely resulted from higher collections following the introduction of the Income Tax (Amendment) Act, 1998. An increase in collections from revenue replacement duties levied on fuel imports contributed significantly to the expansion in tax revenues from international trade and transactions.

Capital revenue and grants rose by $4.6 mn to $30.4 mn as a $2.6 mn decline in capital revenue was completely offset by growth in grant receipts of $7.2 mn. Except for a $1.7 mn rise from sales of crown land and $5.0 mn received in bridge financing from DFC, all other capital revenue categories declined. Grant receipts included $6.0 mn from the Republic of China (ROC) for balance of payments support and the prevention and eradication of Chagas Disease, IDB funds for rural

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

($mn)

	Jan-Dec. 1996	Jan-Dec. 1997	Jan-Dec. 1998	Change during 1998
Current revenue	276,.6	282.9	296.9	14.0
Tax revenue	250.2	250.9	265.2	14.3
Non-Tax Revenue	26.4	32.0	31.7	(0.3)
Current Expenditure	234.7	252.2	260.0	7.8
CURRENT BALANCE	**41.9**	**30.7**	**36.9**	**6.2**
Capital revenue	20.4	22.3	19.7	(2.6)
Capital Expenditure (Capital II local sources)	43.4	56.3	50.7	(5.6)
OPERATING SURPLUS	**18.8**	**(3.3)**	**5.8**	**9.2**
Total Grants	8.5	3.6	10.8	7.2
(of which non-project)	5.0	1.4	5.0	3.6
Total Revenue and Grants	305.4	308.8	327.4	18.6
Total Capital Expenditure	75.4	81.9	95.1	13.2
Total Expenditure	310.1	334.1	355.1	21.0
OVERALL BALANCE	**(4.6)**	**(25.3)**	**(27.8)**	**(2.5)**
FINANCING	4.6	25.3	27.8	2.5
Domestic Financing	(40.9)	17.6	27.6	10.0
Financing Abroad	46.6	5.8	9.8	4.1
Other	(1.1)	1.9	(9.6)	(11.5)

Source: Central Statistical Office; Ministry of Finance electrification and schools refurbishment ($0.9 mn) and the United Kingdom (UK) debt relief initiative aimed at poverty alleviation ($3.9 mn).

Central Government's current expenditure increased by $7.8 mn to $260.0 mn with 53.0% allocated to wages and salaries compared to 50.6% in 1997. A 2.0% salary increase granted to public officers effective on April 1, 1998 contributed to a$10.0 mn rise in wages and salaries to $137.7 mn. Of all categories under current expenditure, this was the most significant. Expenditure on pensions remained steady at some 6.8% of total current expenditure during 1998 and 1997. Subsidies and current transfers stood at $31.3 mn at the end of 1998, a $1.8 mn increase over the previous year. On the other hand, expenditure on goods and services fell by 3.4% to $48.5 mn, and interest payments declined by 10.8% to $24.8 mn.

Locally funded Capital II expenditure totalled $50.7 mn or some $5.6 mn below that for 1997. This included counterpart funding totalling $7.5mn in respect of projects such as the Southern Highway, rural electrification, and the Hummingbird Highway. Approximately $2.5 mn was spent on infrastructure and community development under the Ministry of Coordination and Mobilization. Other notable areas of expenditure were community services, land development and acquisitions, the Belize Marketing Board (BMB), contributions to international organizations, housing development, purchase of vehicles, and feeder roads.

Capital III expenditures rose by $17.9 mn to $39.8 mn. Approximately 32.0% of disbursements were allocated for the improvement of road infrastructure including the Hummingbird Highway, Southern Highway, Fabers Road and St. Thomas Street. Health infrastructure, housing, and primary education accounted for another 23.7%. Other projects receiving disbursements during the year included Belize City Infrastructure, Market Infrastructure, SIF, Community Development, and the Regional Language Institute.

The overall deficit was funded from the domestic banking system ($27.6 mn) and external sources ($9.8 mn). Net borrowing from the Central Bank increased by $4.7 mn and outweighed the $3.5 mn

Box 5: The Income Tax (Amendment) Act 1998

On July 1, 1998, the Government of Belize (GOB) implemented the Income Tax (Amendment) Act, 1998. The new tax regime had four main provisions, and these were:
(1) Exemption of all employed persons who earn under $20,000 annually from the payment of income tax;
(2) Increased basic allowance to $19,600 for all employed persons;
(3) Abolition of corporate income tax; and
(4) Imposition of a business tax levied on gross receipts ranging from 0.75% to 3.0% on companies and self-employed persons and 19.0% on telecommunication services.

Following the implementation of the new tax regime, receipts of Pay As You Earn (PAYE) remittances and direct payments by individuals declined. However, these reductions were more than offset by higher receipts of business taxes, as well as higher direct tax payments for the January to June period consistent with the now repealed corporate income tax, as all taxes payable under the corporate tax were payable to the GOB by August.

Table V.2: Central Government Domestic Debt

($ mn)

	1996	1997	1998
Loans & Advances	55.2	59.7	64.8
Treasury Bills	70.0	70.0	70.0
Treasury Notes	20.0	20.0	24.0
Defence Bonds	15.0	15.0	15.0
Debentures	11.6	7.2	6.2
Total	171.8	171.9	180.0

decline in net borrowing from the commercial banks. External financing was accomplished by disbursements of $41.3 mn which outweighed amortization payments of $31.7 mn. The $24.0 mn raised by the GOB from the international floating of bonds contributed significantly to the total level of disbursements.

Central Government Domestic Debt

The domestic debt increased by $8.1 mn to $180.0 mn (up from 14.0% of GDP to 14.3% of GDP). At $15.9 mn, disbursements outweighed a $4.6 mn decline in the overdraft balance at the Central Bank and amortization payments of $3.3 mn. Interest payments totalled $12.4 mn with the overdraft facility at the Central Bank and government securities accounting for 36.4% and 58.0%, respectively.

BSSB disbursements totalled $3.9 mn representing financing for the Rural Electrification II and Rice Crop II projects. Loan disbursements were also received from the Belize Bank ($3.0mn) for settlement of the Pinkerton Estate at Ambergris Caye and from DFC ($5.0mn) for housing development. Finally, an additional $4.0 mn worth of Treasury Notes was acquired by the commercial banks under the Treasury Notes Initiative.

Amortization payments included $2.3 mn to the BSSB in favour of Rice Crop I ($2.0 mn) and the Housing II loan ($0.3 mn) and $1.0 mn worth of Government Debentures that were retired.

Public Sector External Debt

The disbursed outstanding external public debt increased by $29.7 mn to $513.8 mn (40.8% of GDP compared to 39.2% in 1997), with total disbursements of $69.9 mn and positive valuation adjustments of $1.9 mn outweighing amortization payments of $40.2 mn. Interest payments on the external debt totalled $26.3 mn.

Box 6: Treasury Notes Initiative

The Treasury Notes Initiative became effective during the fourth quarter of 1998, allowing commercial banks to use foreign currency for transactions relating to Treasury Notes. The commercial banks initially purchased the $19.3 mn worth of Treasury Notes held by the Central Bank. In mid-December, there was a new issue of Treasury Notes amounting to $25.0 mn. Of this amount, $23.3 mn was sold to commercial banks, $0.7 mn was sold to individual investors, and $1.0 mn was sold to offshore institutions.

Under the initiative, Treasury Notes became classifiable as approved liquid assets for domestic commercial banks. On maturity, the face value of the Treasury Notes will be payable in foreign currency while the interest payments on the Treasury Notes are payable in Belize dollars.

Table V.3: Financial Flows on Public Sector External Debt

($ mn)

	1996	1997	1998
Disbursements	111.3	83.8	69.9
Repayments	43.2	41.3	40.2
Net Financing Flows	68.1	42.5	29.7
Interest Payments	16.2	20.2	26.3
Net Transfers	51.9	22.3	3.4

After increasing by $16.5 mn during the year, Central Government's debt accounted for 69.6% of the total disbursed outstanding external public debt at year-end. The $24.0 mn raised from the international floating of GOB bonds represented the largest single disbursement. CDB provided the second largest disbursement of $8.4mn in order to fund the Hummingbird Highway and Market Infrastructure projects. A total of $4.0 mn was also received from the Export/Import Bank of Taiwan for development of small business enterprises. The most notable amortization payment by Central Government was in settlement of outstanding Suppliers' Credit ($11.2 mn).

During the year, the disbursed outstanding debt of the 'rest of non-financial public sector' increased by $13.3 mn. Disbursements of $18.5 mn, together with a negative valuation adjustment of $0.2 mn, exceeded amortization payments of $5.0 mn. CDB disbursements totalled $12.5 mn, of which, $11.3 mn was allocated to the Power Development Project and $1.2 mn for the Third Port Project. The Power Development Project also benefitted from IBRD and EEC disbursements of $3.9 mn and $2.1 mn, respectively. Principal repayments were mainly made to the CDB and the IBRD in respect of these three projects. CDB also received $1.8 mn in interest payments. The other significant interest payment was to the CIBC Bank and Trust Company in respect of funds received for the Airport Improvement Project.

The disbursed outstanding debt of the financial public sector rose by $1.8 mn to $71.8 mn. Of $5.0 mn in total loan receipts, some 80.0% represented CDB disbursements to DFC. Two significant amortization payments of $1.3 mn each were made, one from DFC to the CDB, and the other from the Central Bank to the Export/Import Bank of Taiwan for a housing loan. The financial public sector also paid $4.9 mn in interest, the most significant of which were $1.5 mn from DFC to CDB and $2.9 mn from the Central Bank to Citicorp Merchant Bank in respect of the building bonds issued internationally to raise funds for the construction of the Central Bank's headquarters.

Table V.4: Public Sector External Debt by Source

($ mn)

	Disbursed Outstanding Debt December 1997	Transactions During 1998			Valuation Adjustments	Disbursed Outstanding Debt December 1998
		Disbursement	Amortization	Interest		
Bilateral	176.4	7.6	13.9	5.8	1.0	171.1
Multilateral	203.0	36.1	10.3	10.3	0.9	229.7
Commercial Banks	75.3	26.2	4.8	8.5	0.0	96.7
Suppliers Credit	27.5	0.0	11.2	1.6	0.0	16.3
Total	482.2	69.9	40.2	26.3	1.9	513.8

Foreign Trade and Payments

Financial transactions between residents of Belize and the rest of the world, resulted in net official payments of US$15.4 mn so that the official international reserves fell to US $43.9 mn at end-December, the equivalent of 1.8 months of imports.

The fall in reserves reflected a significant increase in the current account deficit, particularly due to a widening in the visible trade gap, and to a lesser extent, a decline in net positive flows of financial resources. Net capital flows improved slightly while net transfers declined marginally.

Merchandise Trade

The recorded expansion in the visible trade deficit reflected a US$7.3 mn (1.2% of GDP) decline in exports and a US$8.0 mn (1.3% of GDP) increase in imports. The increase in gross imports was entirely induced by higher domestic demand as activities in the Commercial Free Zone (CFZ), the export processing zones and bonded warehouses were virtually the same as in 1997. The decline in total exports resulted from reductions in the value of domestic exports and to a lesser extent in re-exports from the domestic economy.

Domestic Exports

The value of domestic exports contracted by $10.7 mn (0.8% of GDP), falling from $318.1 mn in 1997 to $307.4 mn in 1998. This decline was caused primarily by reductions in the export volumes of sugar, citrus products and bananas, underscoring the continued high dependence of the country on a narrow range of traditional exports.

Sugar and Molasses

The volume of sugar exports was 4.3% lower than in 1997 with a corresponding reduction in export earnings of 3.2%.

A reduction in the US quota from 20,947 tons to 15,875 tons resulted in a 45.0% drop in the volume of sugar exported to the USA. Consequently, a larger

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

(US$ mn)

	1996 Net	1997 Net	1998 Net
CURRENT ACCOUNT	-4.2	-31.9	-53.5
Visible Trade	-58.2	-89.5	-104.8
Invisible Trade	20.6	22.8	15.8
Services	46.2	46.2	47.9
Factor Income	-25.6	-23.3	-32.2
Current Transfers	31.1	34.8	35.5
CAPITAL ACCOUNT	**-2.2**	**-3.4**	**-1.3**
FINANCIAL ACCOUNT	**11.5**	**30.2**	**25.4**
NET ERRORS & OMMISSIONS	15.7	6.1	-13.9
OVERALL BALANCE	20.9	1.0	-15.4
FINANCING	-20.9	-1.0	15.4
Memo Items			
Import Cover in Months	**2.7**	**2.5**	**1.8**
Current Account/GDP Ratio (%)	**-0.7**	**-5.2**	**-8.5**

Table VI.2: Domestic Exports

$mn

	1996	1997	1998
Traditional Exports	292.3	300.6	287.3
Sugar	94.3	91.9	89.0
Citrus Concentrate	59.2	48.1	43.0
Not-from-concentrate	7.7	23.6	16.2
Molasses	11.0	6.6	2.2
Bananas	57.4	51.9	49.1
Marine	24.3	35.6	43.3
Garments	35.7	37.7	39.2
Sawn Wood	2.7	5.2	5.3
Non-traditional Exports	14.8	17.5	20.1
Total	307.1	318.1	307.4

Source: Central Statistical Office

volume of sugar was sold on the world market. The quantity exported to the EEC increased slightly but since the annual EEC quota is fixed, the variation in export volumes to this market reflected the timing of shipments and the sucrose content of the raw sugar.

Because of the larger volumes exported to the EEC and world markets, export earnings from these markets increased in contrast to a 37.0% fall in earnings from sales to the US.

Earnings were also affected by movements in the average price per ton of sugar. While the overall average price per long ton improved marginally by 1.2% over 1997, the small price improvement was unable to offset the reduction in export volume. The average unit price paid in the EEC market fell because of the appreciation of the pound sterling against the ECU. Because the sugar price is fixed at ECU 52.37 per 100 kilograms of sugar, export receipts from the EEC are affected by fluctuations in this exchange rate. Average prices in the world market remained stable while the average price received in the US market improved from US $0.177 to US $0.20 per pound.

Approximately 7.2 mn gallons of molasses were exported valued at $2.2 mn, representing a reduction of 3.7% in volume and 67.0% in value. The large reduction in export revenues reflected a sharp drop in the average price per gallon of molasses sold by BSI. In 1997, the average price was $64.80 per ton but this plummeted by 42.0% to $37.42 per ton in 1998. The decline was strongly influenced by a fall in the price of grain which can be substituted for molasses as an animal feed additive. When grain prices fell, the price of molasses moved downward as well in order to maintain competitiveness.

Table VI.3: Exports of Sugar and Molasses

($mn)

	1996		1997		1998	
	Volume	Value	Volume	Value	Volume	Value
Sugar (long tons)	94,828	94.3	108,957	91.9	104,255	89.0
E.E.C (Quota, long tons)	50,277	62	50,696	54.2	54,568	57.5
USA (Quota, long tons)	23,176	21.4	28,691	22.7	15,875	14.4
Other (World, long tons)	21,375	10.9	29,570	15	33,812	17.1
Molasses ('000 gallons)	9,587	11.0	7,497	6.6	7,218	2.2

Source: Central Statistical Office

Table VI.4: Exports of Citrus Products

	1996	1997	1998
Concentrate Exports ('000 gals)	3,396	3,619	3,284
Orange	2,677	3,127	2,548
Grapefruit	719	492	736
Concentrate Value ($mn)	60.0	48.0	43.0
Orange	48.0	42.0	36.0
Grapefruit	12.0	6.0	7.0
Not-from-concentrate Exports ('000 gals)	758	5,434	3,637
Not-from-concentrate Value ($mn)	8.0	24.0	16.0

Sources: Central Statistical Office; Belize Food Products; Citrus Company of Belize

Citrus

The export volume and value of citrus concentrates fell by 9.3% and 10%, respectively.

In the case of orange concentrates, prices were depressed during the first half of the year, only improving after July. As a result, even though the average price per gallon of orange concentrate improved marginally by 5.0% over 1997, export volume and earnings from this product were down by 19.0% and 14.0%, respectively. Two factors contributed to the improvement in export prices. Firstly, orange production fell in Brazil, a major exporter, due to drought and disease, and, secondly, four of the largest Brazilian processors made efforts to push prices upwards.

In the case of grapefruit, a bumper crop in Cuba kept prices for the concentrate depressed throughout the year. The average price per gallon

Box 7: Citrus Exports - Pound Solids System

Pound Solids is a term that is fast becoming popular in Belize's citrus industry. It is a measurement of the internal quality of citrus juice and all prices quoted on the world market are on the "per pound solids" basis. Most citrus growers in other countries are paid on the pound solids basis, and all concentrates exported from Belize are sold by pound solids. However, in Belize, growers are paid by weight: based on 90-pound per box for oranges with a Brix/Acid ratio of 13.0:1; and 80-pound per box for grapefruit with a Brix/Acid ratio of 9.0:1.

Two factors are used to determine the pound solids in a 90-pound box of oranges. These are the amount of juice by weight per box and the amount of fruit sugars in the juice (expressed as a percent of soluble solids or degree of Brix).

The 1997 Citrus Price Formula has provisions for the implementation of the pound solids pricing system by crop year 1999/2000 in the case of Citrus Company of Belize Ltd. (CCB) and 2000/2001 at Belize Food Products Ltd. (BFP).

The pound solids system used by the Florida Citrus Industry is fully managed and operated by the Florida Department of Agriculture. This is done at a cost of US$0.02 per box of orange produced. Processors provide the machinery to extract the samples. The staff of the US Department of Agriculture maintains these machines and conducts daily checks on the seals attached to the extractor to ensure that no tampering has occurred. Grading and sorting of rejects occurs before the sampling process and a manual apparatus is in place for determining pound solids per sample box in case of mechanical breakdown.

The pound solids system provides a consistent and uniform way to determine fruit quality. The implementation of this system in Belize will help the industry to better correlate world market prices to what growers actually receive, pay growers based on quality of the fruit they produce, and reward growers who produce the higher quality fruit.

Table VI.5: Exports of Bananas

	1996	1997	1998
Volume ('000 lbs)	125,489	118,242	111,515
Metric Tonnes	56,918	53,631	50,580
Value ($mn)	38.0	34.0	49.0
Quality Bonus ($mn)	20.0	18.0	n.a.
Total Value ($mn)	57.0	52.0	49.0

Source: Central Statistical Office
n.a.= not available

stood at $12.20 in 1997, but this fell to $9.51 in 1998, a 22% decline. Export volume and value of grapefruit concentrates nevertheless rose by 50% and 17%, respectively. The increase in volume was due to shipping schedules in which concentrates produced in late 1997 were shipped in early 1998.

The export volume and value of NFC fell by 33%. Since the average price received per gallon remained stable, the fall in value was due to the reduction in volume.

Bananas

During 1998, 50,580 metric tonnes of bananas were exported valued at $49.0 mn. This represented a contraction of 5.7% in export volume and value compared to 1997.

The reduction in export volume was a direct consequence of the 33% reduction in productive acreage that was undertaken since July of 1997 in order to tailor production to meet the EEC export quota of 55,000 metric tons.

Papayas

The export volume and value of papayas continued its steady growth during 1998. Since commercial exports of papayas began in 1990, export volumes have grown exponentially from 1.2 mn pounds to 10 mn pounds in 1998. Export values have similarly grown from $0.5 mn in 1990 to $5.1 mn in 1998. All papayas produced were exported to the United States under an exclusive marketing arrangement with a US importer, J.R. Brooks Ltd.

Marine Products

Approximately 4.3 mn pounds of marine products valued at $43.3mn were exported, representing increases of 33.0% and 22.0% in export volume and value, respectively. The increase in export volume was attributable solely to the surge in the export of shrimps, since exports of all other marine products contracted during 1998. The contraction in conch exports was due to depressed demand in Asia, the traditional market. Exports were diverted to the US market where prices were lower due to competition from Honduras.

Table VI.6: Exports of Marine Products

	1996		1997		1998	
	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)
Lobster Tail	412	10,043	559	14,870	504	14,822
Lobster Head	26	134	30	160	13	73
Whole Cooked Lobster	145	1,938	50	797	32	511
Shrimp	1,184	9,455	1,690	15,410	3,108	24,273
Conch	304	2,059	539	3,771	479	3,356
Whole Fish	395	629	311	460	108	160
Other	12	80	13	147	11	100
Total	2,478	24,338	3,192	35,615	4,255	43,295

Source: Central Statistical Office

Box 8: Preferential Market Arrangements for Banana Exports

The Lomé Convention has permitted Belize and other African,Caribbean Pacific (ACP) countries to export bananas into Europe duty free and at preferential prices. Also exporting to this market are several Latin American countries that produce a quality banana at a much lower cost.

In recognition of its responsibilities both to the ACP countries under the Lomé Convention and to the World Trade Organisation (WTO), the European Union (EU), introduced a 'Lomé Waiver' into the WTO which states that "No ACP state should be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable position than in the past or present".

In July 1993, the EU Commission passed banana regulations that (a) limited imports through quota restrictions and (b) set up a licensing system for banana importers. To set the quotas, the EU estimated total market consumption. Non-transferable quotas for EU and ACP territories were set at levels equal to or higher than the highest level of shipment over the past five years. The quota on the Latin American bananas was the residual and was transferable.

Under this system, ACP countries could export a total of 857,700 tonnes per year into the EU duty free. Up to 2.2 mn tonnes of Latin American bananas could be imported, but an import duty of 75 ECU per tonne was payable. Any exports above the quota were subject to a prohibitive over-quota tariff: 875 ECU per tonne for Latin American fruit and 750 ECU per tonne for ACP fruit. This tariff made the quota binding. Belize's quota allocation was 55,000 tonnes per annum under this system..

Several countries, including the USA, have successfully challenged the EU banana regime on the grounds that the quota and importers' licensing system are in violation of the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Services (GATS). The EU was given up to December 31, 1998, to bring its regime in conformity with the GATT and GATS. To exert additional pressure, the USA threatened to impose high tariffs on a number of EU imports in retaliation to the banana regime.

As of January 1, 1999, the EU has modified both its importer licensing scheme and its tariff-rate quota (TRQ) system. The allocation of 857,700 metric tonnes remains for the ACP countries but country specific quotas no longer apply. The EU maintains the quota of 2.2 million metric tonnes plus a further autonomous quota of 353,000 metric tonnes for non-ACP countries. This new banana regime is currently under review by a WTO panel to determine if it is in conformity with the GATT and GATS. A decision should be forthcoming by the end of March 1999.

Despite the uncertainties surrounding the revised EU banana regime, growers perceive this new regime as an opportunity to achieve the production economies of scale needed for shipping. Since a global allocation was set for all ACP countries, Belize is no longer restricted to only 55,000 metric tonnes and has an open quota. Potential exists for the expansion of exports because in the past, the ACP group has fallen short of their quota level by about 200,000 metric tonnes. To achieve economies of scale in production and shipping, Belize needs to export in the region of 85,000 to 100,000 metric tonnes of bananas per year. Given the open quota in effect since January, the industry is expanding acreage back to pre 1997 levels to increase export volumes to 85,000 metric tonnes by 2001.

Table VI.7: Exports of Garments and Sawn Wood

	1996	1997	1998
Sawn Wood			
Volume ('000 bd. ft.)	1,556	3,166	3,118
Value ($ mn)	2.7	5.3	5.3
Garments			
Volume (mn pieces)	2.0	2.0	2.0
Value ($ mn)	35.6	37.7	39.2

Source: Central Statistical Office

While the average price for lobster tails improved in 1998, a smaller catch restricted the volume that could be exported. Exports of whole fish fell primarily because producers chose to sell the bulk of their catch locally in response to more favourable domestic prices. In contrast, the average price per pound of shrimps fell by 14.0%, but the large increase in export volume was able to compensate for this drop in price, driving up total export earnings from shrimps by 58.0%.

Garments

The volume of garments exported remained stable for the third consecutive year at 2.0 mn pieces. Export value amounted to $39.2 mn, a 4.0% increase over 1997 that largely reflected increased exports of higher valued pieces.

Sawn Wood

During the year, 3.1 mn board feet of lumber were exported valued at $5.3 mn. Export volume declined by 1.5%, whereas export value rose by 1%. Export volume was affected by legislation that required suppliers to make available to local manufacturers up to 20% of primary sawn woods produced. Efforts continued to sustainably manage forest reserves by reducing the extraction of primary woods and increasing the extraction of secondary woods. These secondary woods command a lower price on the export market. Nevertheless, the average price per board feet improved slightly from $1.67 in 1997 to $1.70 in 1998, indicating that substantial amounts of primary woods were still being exported.

Non-traditional Exports

The value of non-traditional exports continued to grow, increasing by 15% in 1998 due mainly to a healthy expansion in papaya exports and exports to the CFZ and export processing zone. Export earnings from all other non-traditionals either contracted or remained stable. The most noteworthy was a 33% reduction in export earnings from red kidney beans due to problems in the Jamaican market that prevented shipments until later in the year. Not surprisingly, exports of orange and grapefruit oils fell due to the overall lower output from the citrus industry.

Re-exports

The value of re-exports fell by $8.3 mn (0.7% of GDP) during the year. Since re-exports from the export processing zones, the Corozal Free Zone and bonded warehouses remained unchanged, the reduction was due to a decline in re-exports from the domestic economy.

Gross Imports

The $16.1 mn increase in total imports reflected significant increases in imports of food and beverages, machinery and transport equipment and manufactured goods.

Table VI.8: Direction of Visible Trade

	Exports 1996	1997	1998	Imports 1996	1997	1998
United Kingdom	48.8	37.7	34.3	4.6	4.5	4.3
United States	41.4	48.7	39.2	54.9	50.3	49.0
Mexico	1.2	0.7	0.8	12.2	12.7	10.7
CARICOM	1.5	3.2	7.8	4.1	3.6	3.3
Other Countries	7.1	9.7	17.9	24.2	28.9	32.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office

Direction of Visible Trade

The US and the UK remained the main destinations for Belize's exports in 1998 although their market share declined. The US share fell from 48.7% to 39.2% mainly due to lower exports of sugar to that country. The direction of recorded commodity imports also indicated a marginal decline in imports from the US (the third in as many years) and, a more significant decline in *recorded* imports from Mexico. On the other hand, imports from other countries, including other neighbouring territories of Central America, showed a marked increase during the year.

Invisible Trade

Net receipts from invisible trade declined as higher net payments of factor income exceeded an increase in net services. The improvement in services reflected strong growth in tourist expenditure and in net inflows for official expenditure that were mainly for support of foreign military units. Increases in tourist expenditure in Belize more than offset higher spending on recorded travel by Belizean residents. Net outflows for transportation also rose significantly due to the increase in gross imports and associated higher payments for merchandise freight.

Table VI.9: Balance of Payments - Invisible Trade

(US$ mn)

	1996 Credit	1996 Debit	1996 Net	1997 Credit	1997 Debit	1997 Net	1998 Credit	1998 Debit	1998 Net
Invisible Trade	**144.6**	**124.0**	**20.6**	**145.3**	**122.5**	**22.8**	**154.2**	**138.4**	**15.8**
Services	***137.9***	***91.6***	***46.2***	***137.9***	***91.7***	***46.2***	***147.0***	***99.1***	***47.9***
Transportation	6.2	37.9	-31.7	6.5	43.1	-36.6	6.9	44.5	-37.6
Travel	93.1	26.2	66.9	95.0	17.9	77.2	105.3	21.2	84.0
Other Goods & Services	25.7	23.9	1.8	22.7	26.5	-3.8	16.2	28.2	-12.0
Govt. Goods & Services, N.I.E	12.9	3.7	9.2	13.6	4.2	9.4	18.8	5.2	13.6
Factor Income	***6.7***	***32.3***	***-25.6***	***7.5***	***30.8***	***-23.3***	***7.2***	***39.3***	***-32.2***
Labour Income	4.5	6.1	-1.6	4.9	6.8	-1.8	4.4	6.1	-1.7
Investment Income	2.2	26.2	-24.0	2.5	24.1	-21.5	2.7	33.2	-30.5
Current Transfers	*36.6*	*3.1*	*31.1*	*38.2*	*3.4*	*34.8*	*38.3*	*2.8*	*35.5*
Government	*12.6*	*2.1*	*10.5*	*12.0*	*2.3*	*9.8*	*10.6*	*1.7*	*9.0*
Private	*24.0*	*1.0*	*22.9*	*26.2*	*1.1*	*25.0*	*27.7*	*1.1*	*26.6*
Invisible Trade and Current Transfers	181.2	127.1	54.1	183.5	125.9	57.6	192.5	141.2	51.3

Table VI.10: Balance of Payments - Capital and Financial Accounts

(US$ mn)

	1996 Credit	1996 Debit	1996 Net	1997 Credit	1997 Debit	1997 Net	1998 Credit	1998 Debit	1998 Net
CAPITAL ACCOUNT	**0.0**	**2.2**	**-2.2**	**0.0**	**3.4**	**-3.4**	**1.3**	**2.5**	**-1.3**
Capital Transfers	0.0	2.2	-2.2	0.0	3.4	-3.4	0.0	2.5	-2.5
FINANCIAL ACCOUNT	**93.8**	**82.3**	**11.5**	**78.2**	**48.0**	**30.2**	**85.3**	**59.9**	**25.4**
DFI	16.6	5.7	10.9	11.9	3.9	8.0	17.6	4.5	13.1
Portfolio Investment	14.3	4.2	10.1	10.1	0.0	10.1	12.5	0.0	12.5
Other Investments	62.9	72.4	-9.5	56.1	44.1	12.0	55.2	55.4	-0.2
Public Sector Long Term Loans	41.9	22.4	19.4	31.9	20.6	11.3	32.9	20.1	12.9
Other Public Sector Capital	0.3	0.0	0.3	0.2	0.0	0.2	0.0	0.0	0.0
Commercial Banks	0.0	18.4	-18.4	7.5	0.0	7.5	7.2	2.1	5.1
Other	20.8	31.5	-10.8	16.5	23.4	-6.9	15.1	12.6	2.5
CHANGE IN RESERVES (- = increase)	**0.7**	**0.7**	**-20.9**	**37.9**	**38.9**	**-1.0**	**27.5**	**12.1**	**15.4**

Capital and Financial Account

Net capital flows improved slightly as migrant transfers abroad declined. Net financial inflows declined by US$4.8 mn to US$25.4 mn as a turnaround in other investments (from net inflows of US$12.0 mn in 1997 to net outflows of US$0.2 mn in 1998) more than offset an increase in net inflows of direct investment and portfolio investment. The turnaround in other investments reflected a reduction in the net foreign exchange position of the commercial banks and higher payments of long and short-term liabilities by the private sector. The most significant payment of long-term liabilities was made with respect to the hydro-project.

Official International Reserves

The widening of the current account deficit and, to a lesser extent, the decline in positive net capital flows, resulted in a US$13.4 m decline in net international reserves to US$42.4 mn. Gross reserves recorded a higher decline of US$15.4 mn, but this was ameliorated by a $2.0 mn reduction in foreign liabilities.

Table VI.11: Official International Reserves

(US$ mn

	Position as at Dec 1996	Position as at Dec 1997	Position as at Dec 1998	Change During 1998
Gross Official International Reserves	**58.3**	**59.4**	**43.9**	**-15.4**
Central Bank of Belize	51.0	52.5	37.2	-15.3
Holdings of SDRs	0.9	0.9	1.2	0.3
IMF Reserve Tranche	4.2	3.9	4.1	0.5
Other	45.9	47.7	31.8	-15.9
Central Government	**7.3**	**6.9**	**6.8**	**-0.1**
Foreign Liabilities	**1.8**	**3.6**	**1.6**	**-2.0**
CARICOM	0.2	0.5	0.1	-0.4
Other	1.6	3.1	1.5	-2.0
Net Official International Reserves	**56.5**	**55.8**	**42.4**	**-13.4**

Economic Prospects

Sugarcane deliveries for the 1998/99 crop are expected to reach 1,140,000 long tons, a small decline of 1.7% over 1997/98. However, production of sugar is forecasted to increase by 1.6% to 120,000 long tons due to better cane quality and purity and a higher brix content. On the other hand, production of molasses is expected to decline by 11.0% to approximately 39,900 long tons due to the inverse relationship between cane quality and molasses.

Indications are that sugar exports will total 106,300 long tons valued at $82.0 mn. While the volume will be 2.0% higher, the value received should fall by 8.0% due to a smaller USA quota allocation of 11,300 long tons for 1999. It is expected that molasses exports will amount to 37,100 long tons valued at $550,000. The latter represents a substantial decrease from the $2.2 mn earned in 1998 and is due to a 60.0% drop in the price of molasses to $15.19 per long ton.

Banana production is projected to rise from 50,904 metric tonnes to 62,000 metric tonnes. Bananas should register a significant increase in export earnings of 22%, growing to $60.0 mn during the coming year. Prior to 1999, the EU banana quota for Belize was restricted to 55,000 metric tonnes of the 857,700 metric tonnes allocated for all ACP countries. As of January 1, 1999, country specific quotas no longer apply. The quota is 'open' with the limit for all ACP exports being 857,700 metric tonnes, a limit that will be valid up to December 31, 2004. Growers are using this opportunity to expand production to achieve the economies of scale needed for shipping, and have started to bring back into production the acreage that was reduced in 1997 in order to reach production of 85,000 metric tonnes by 2001.

Forecasts for citrus fruit deliveries are up by 25%, with estimates of 5.0 mn boxes of oranges and 1.1 mn boxes of grapefruit. New investments by the Commonwealth Development Corporation (CDC) are expected to improve the industry's productivity and profitability. CDC plans to double farm productivity over a four year period and establish more stable markets principally in Europe where the growth potential is tremendous. Industry outputs of concentrates and not from concentrates are estimated at 6.6 mn gallons for 1999. Exports of citrus concentrate and not-from-concentrate products are expected to increase by 24.0% to $73.0 mn.

Industry insiders are anticipating a strong performance of the marine sector with a 50.0% increase in export volume during 1999. Expansion of acreages in 1998 and 1999 is expected to result in a 67.0% rise in farmed shrimp production to 5.2 mn pounds. Lobster export volume is forecasted to increase by 9% to 610,000 pounds and conch exports should grow by 15% to 550,000 pounds. Exports of whole fish, fish fillet and crab claws should also expand by 30% to 155,000 pounds.

Driven primarily by robust shrimp expansion, earnings from marine exports are forecasted to increase by approximately 10.0% above 1998. Shrimp export earnings should grow by 15.0% or $4.0 mn to $28.0 mn. Receipts from lobster and conch exports are expected to rise to $15.4 mn and $3.5 mn, respectively, slightly more than last year. Earnings from whole fish, fish fillet and crab claws should double to $0.6 million.

No significant changes in the exports of either garments or sawn lumber are expected. Papayas and beans are major drivers of non-traditional exports, and while export of papayas is expected to increase by 22.0% to $6.2 mn, beans should remain at 1998 levels.

As of April 1, VAT will be removed and replaced with a broad-based sales tax of 8.0% on all goods and services, except alcohol, cigarettes and fuel that will be subject to 12.0%. Under the sales tax system, fewer goods will be exempt from the tax as compared to the list of zero rated goods under VAT. Given the reduction from a VAT of 15.0% to a sales tax of 8.0% and the inclusion of more items subject to taxation, inflation is expected to be very modest during 1999.

Construction projects and continued strong performance of services should create sufficient opportunities to reduce the unemployment rate from 14.3%. Expansion of output from bananas and citrus coupled with the recently obtained export market for rice in Mexico should impact positively on employment in the primary sector.

ADMINISTRATION

The Board of Directors

The Board of Directors held 10 meetings in 1998 and considered 69 submissions. A new slate of non-executive directors was appointed to the Board in September.

Overseas Meetings

In their capacities as executive officers of the Bank and as advisors to the Government, the Governor and Deputy Governor attended various meetings during the course of 1998 (see box). Other senior staff represented the Bank at the following conferences:

- XXVI Iberian and American Central Banks Meeting on Systematization, in Havana , Cuba
- XVI Annual Conference of Caribbean Supervisors, in Bridgetown, Barbados
- Second Meeting of CARICOM Central Banks Directors of Banking & Operations, in Bahamas
- Trade mission regarding the Proposed Belize Mexico Free Trade Agreement, Mexico City

Headquarters Building Project

The Central Bank's headquarters was completed in 1998, a little over 2 years after construction began. Extensive renovations were also carried out on the exterior and a portion of the interior of the old and derelict Belize City Prison. By mid August, sufficient progress had been made to enable the Bank to mark the climax of the project by officially inaugurating its new headquarters building.

In his keynote address, the Central Bank's Governor noted that while this project was initiated in 1992, the quest to acquire a suitable and purpose-built headquarters had actually begun immediately after the Central Bank was established 16 years ago. The selection and purchase of the present site was done only after consideration of five other suggested locations. The Governor affirmed that the original budget of $30.0mn has not been exceeded due to meticulous planning and implementation. He praised the team of consultants who helped the Bank to achieve its objectives of constructing a landmark building of international standard that was both inspired by and contributed to Belize's national heritage.

Immediately after the opening ceremony, preparations for transfer of the Bank's departments and operations from five locations into the headquarters commenced. Even though works to the building and its property continued to be undertaken as required by the terms of the contract between the Central Bank and Kier International, the move to centralize operations was almost fully completed by the end of October, 1998.

Project disbursements during the year amounted to approximately $7.3mn bringing total expenditure since its inception to $25.5mn. It is anticipated that final account negotiations with the contractor will be completed in 1999. To date, design and construction costs have accounted for 71.0% of disbursements. The balance was largely shared among costs for site acquisition, consultants, prison renovation, insurance, landscaping and furniture, fittings & equipment.

Finance

The Central Bank's financial statements for the year ended December 31, 1998, with comparative figures for the previous year, are annexed to this report.

During the year, the total assets of the Bank declined by 8.0% to $201.3 mn. External assets decreased sharply by 29.5% to $73.1 mn, while domestic

Box 9: Meetings Attended by the Governor and Deputy Governor during 1998

Name of Meeting/Conference	Month	Place
Sub-Committee Meeting of Caribbean Bank Supervisors	January	Barbados
Meeting of the IDB Governors for Central America and the Dominican Republic	January	Panama
13^{th} Annual Meeting of the Board of Governors of the IDB	March	Cartagena, Colombia
Review Meeting with Ministers of Finance and Central Bank Governors and CARICOM Central Bank Governors	April	Barbados
Preliminary Meeting to Discuss Belize-Mexico FTA	April	Mexico City
Senior Policy Seminar on Foreign Exchange Markets	April	Trinidad & Tobago
Executive Committee Meeting of the CCMS	April	Trinidad & Tobago
The 28^{th} Annual Board of Governors Meeting of the CDB	May	Grenada
XVI Annual Conference of Caribbean Supervisors	May	Barbados
Meeting of Sub-Committee of Caribbean Bank Supervisors	May	Barbados
Capital Markets Committee Meeting	May	Guyana
Meeting of Officials Preparatory to the First Meeting of the Council of Finance and Planning	May	Guyana
Bank of England's Annual Meeting of Central Bank Governors	June	London, England
BIS Annual General Meeting	June	Basle, Switzerland
Meeting of the CGCED	June	Washington, D.C.
Meetings of the Committee of CARICOM Central Bank Governors and CARICOM Central Bank Governors	June	Paramaribo, Suriname
IMF/World Bank Annual Meetings	October	Washington, D.C.
10^{th} International Conference of Banking Supervisors	October	Sydney, Australia
IV Meeting of CFATF Council and CFATF Plenary VII	November	Grand Cayman, Cayman Islands

assets rose by 11.2% to $128.2 mn. The latter was due largely to the completion of the Central Bank of Belize New Headquarters Building.

At year-end, the Bank's net operating surplus amounted to $4.8 mn compared to $6.3 mn in 1997. Gross earnings totaled $14.83 mn including interest income of $12.9 mn and commissions and other income of $1.5 mn. Current expenditure amounted to $9.6 mn with staff costs, interest payments and other operating costs accounting for 38.1%, 26.5%, 35.4%, respectively.

As provided for under Section 9(1) of the Central Bank Act, $0.48 mn or 10.0% of the net operating surplus will be paid into the Central Bank's General Reserve Fund. The balance of $4.30 mn will be transferred to the Accountant General for the Government of Belize's Consolidated Revenue Fund.

Human Resources

Staffing

At the end of the year the total staff complement stood at 110 persons out of 128 established posts. The average number of staff employed during 1998 was 116, with 14 additions and 23 separations, resulting in a turnover rate of 19.8%; an increase of 11.5% over the 8.3% recorded in 1997. Eight (8) of the separations were as a result of positions being made redundant with the transfer of the Bank from five locations into its new headquarters building.

Mr. Keith Arnold's contract as Governor of the Central Bank was renewed in January 1998, to initiate his third term in office.

Staff Development

In keeping with the Bank's on-going efforts to enhance performance, Central Bank staff participated in training seminars locally and overseas.

In-house training initiatives were focused on developing the technical skills of the staff of the Building Services and Security Units, in preparation for the transition into the new headquarters building. Locally, the Bank sponsored training for staff at the management and professional levels. Staff attended a course offered by the Belize Institute of Management (BIM) in the development of Writing Skills, and a course in Procurement and Negotiations for C&D Countries offered by the Inter-American Development Bank, in conjunction with BIM.

The Bank's attendance at overseas training were limited to those of technical and professional nature and included: Seminar on IMF/CCMS/Caricom Study on Small States; Risk Analysis Seminar; Junior Bank Supervisors' Course; Risk Management Internal Controls Seminar; IV Course on Central American Integration; Joint CCMS/CEMLA Course on Caribbean Financial Innovations and Risk Management; IV Seminar on Payment Systems; VII Seminar of Economic Issues; Economic and Operative Aspects of Central Banking; and Supporting Windows NT 4.0: Core Technologies Course.

Staff Club

The Central Bank's Staff Club organized several social activities and sporting competitions during 1998. Among the events were the Bank's annual Family Day Outing that was held at the Sibun River Resort in the Belize District, and the Christmas Party. The outing provided staff with the opportunity to compete as teams in sporting activities while socializing with their families and colleagues in a relaxed atmosphere.

The system of rewarding staff at the Christmas Party continued in 1998. Five members of staff were honored for completing ten years of service with the Bank. The Best Team Player in each department, selected by peers, and the Overall

Achievers, chosen by the management of each department, were also recognized and presented with gift certificates.

Community Services

The Central Bank continued its support to the community during the year under review.

In the field of education, the Bank sponsored the Summer Employment program, which focused on developing the skills of Belizean students at the tertiary level, while affording some economic benefit to the students. During 1998, there were seven participants in the program. The Bank also participated in the Work Experience Program whereby secondary school students were placed throughout the Bank in an effort to provide them with practical experience in a formal setting. Students from seven local high schools were accepted into this program during 1998.

Central Bank staff made substantial contributions of food and clothing to the Belize Red Cross for victims of Hurricane Mitch in Central America. Management and staff of the Bank also donated generously to the Salvation Army annual Christmas Appeal for the needy. The latter donations were supplemented by a financial contribution from the Central Bank.

OPERATIONS

Foreign Exchange

In 1998, the Bank's trade in US dollars, Canadian dollars, and the Pound Sterling resulted in a net sale of $31.1 mn. Trade in CARICOM currencies (largely Barbados and Eastern Caribbean dollars) resulted in net sales of $3.7 mn.

External Assets Ratio

During 1998, the external assets of the Bank consisted of foreign notes, deposits with foreign central banks and correspondent banks abroad, securities of foreign governments and International Monetary Fund Special Drawing Rights. Section 25(2) of the Central Bank of Belize Act, 1982 requires the Bank to maintain a reserve of external assets of not less than 40.0% of the aggregate amount of notes and coins in circulation and the Bank's liabilities to its customers in respect of sight and time deposits. The ratio fluctuated during the year, reaching a low of 50.3% in December and attaining its highest level of 67.8% in June. At no time did it fall below the legal requirement.

Relations with Commercial Banks

Cash Balances

In 1998, from January to October the commercial banks were required to maintain 7.0% of their average deposit liabilities on deposit with the Central Bank. Effective November 5, 1998, only 5.0% of their deposit liabilities were required. For the first 10 months, the actual average cash balance held with the Central Bank fluctuated between 7.2% and 8.0%. For the remainder of the year, the average was somewhere between 5.5% and 5.7%.

Currency in Circulation

During 1998 there was an overall increase of currency in circulation (cic) in comparison to the corresponding periods in the previous year. Currency in circulation displayed the usual seasonal pattern, the lowest level occurring in the first quarter and peaking during the last quarter.

Table IX.1: Central Bank Dealings in Foreign Exchange 1998

($ mn)

	US & Canadian Dollars and £ Sterling			CARICOM Currencies		
Month	Purchases	Sales	Net	Purchases	Sales	Net
January	12.2	18.0	-5.8	0.0	0.3	-0.3
February	18.0	13.6	4.4	0.0	0.4	-0.4
March	13.3	17.3	-4.0	0.0	0.2	-0.2
April	10.9	18.6	-7.7	0.0	0.3	-0.3
May	34.7	9.6	25.1	0.0.	0.4	-0.4
June	21.6	17.6	4.0	0.0	1.0	-1.0
July	15.1	22.2	-7.1	0.0	0.1	-0.1
August	18.5	18.7	-0.2	0.0	0.1	-0.1
September	5.1	17.7	-12.6	0.0	0.3	-0.3
October	4.1	18.4	-14.3	0.0	0.2	-0.2
November	17.8	18.7	-0.9	0.0	0.2	-0.2
December	15.2	27.4	-12.2	0.0..	0.2	-0.2
Total	**186.6**	**217.7**	**-31.1**	**0.0**	**3.7**	**-3.7**

Table IX.2: External Assets Ratio 1998

Month	Assets $mn	Liabilities $mn	External Assets Ratio (%)
January	97.5	159.3	61.22
February	102.0	166.0	61.47
March	98.0	159.2	61.55
April	90.4	164.6	54.91
May	115.5	182.4	63.30
June	119.7	176.5	67.80
July	112.6	180.3	62.41
August	112.3	188.3	59.63
September	100.0	153.6	65.09
October	85.6	153.0	55.96
November	85.0	132.8	63.99
December[P]	73.1	145.4	50.26

[P] - Provisional

The most prominent increase occurred in December with $86.7 mn in circulation. This included $77.9 mn in notes and $8.8 mn in coins.

Relations with Central Government

Under Section 34 of the Central Bank of Belize Act, 1982 as amended in 1993, the Bank may extend advances to Government up to a maximum of 20.0% of current revenue collected during the preceding financial year or a sum of $50.0 mn, whichever is greater.

During 1998, 20.0% of the preceding year's revenue amounted to $57.6 mn. Advances to Central Government reached a high of $51.5 mn during July but was reduced to $25.0 mn towards the beginning of the last quarter in the year.

Treasury Bills

Treasury Bill operations are conducted by the Central Bank on behalf of the Government of Belize. The Treasury Bill market continued to be dominated by the commercial banks with purchases by individuals being insignificant. The bidding process introduced in 1992 for the determination of the

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

($ mn)

Month	Average Deposit Liabilities (1998)	Required Cash Reserves	Daily Average Holding Of Cash Reserves With Central Bank	Excess (1998)	Excess (1997)
January	672.8	47.1	50.2	3.1	1.4
February	677.1	47.4	53.8	6.5	2.1
March	673.2	47.1	56.5	9.4	0.1
April	682.0	47.7	50.0	2.2	1.6
May	688.6	48.2	52.1	3.9	2.5
June	689.9	48.3	52.4	3.1	3.2
July	703.7	49.3	52.5	3.2	1.6
August	709.6	49.7	52.3	2.6	1.1
September	717.2	50.2	55.0	4.8	1.6
October	716.3	50.1	51.5	1.4	0.8
November	715.8	35.8	40.8	5.0	3.6
December	722.0	36.1	40.1	4.0	1.3

Table IX.4: Currency in Circulation 1998

($ mn.)

Month	Notes	Coins	Total	Commercial Bank Vault Cash	Currency With the Public
January	65.9	7.9	73.8	6.8	67.0
February	67.24	8.0	75.2	8.8	66.4
March	67.3	8.1	75.4	11.1	64.3
April	69.2	8.2	77.4	9.6	67.8
May	72.1	8.3	80.4	10.9	69.5
June	71.9	8.3	80.2	13.0	67.2
July	72.7	8.3	81.0	10.8	70.2
August	76.5	8.4	84.9	12.1	72.8
September	72.1	8.6	80.7	12.9	67.8
October	71.1	8.6	79.6	11.1	68.5
November	73.0	8.7	81.7	11.9	69.8
December	77.9	8.8	86.7	17.2	69.5

yield on Treasury Bills remained in effect until October 1998. However, as was the case in 1997, the commercial banks exhibited a reluctance to bid and as a result, Central Bank dominated the Treasury Bill biddings. In November 1998 Government fixed the yield on all Treasury Bills at 6.0% and invited tenders for Treasury Bills. As at December 31, 1998 total treasury bills outstanding stood at its maximum of $70.0 mn.

Treasury Notes

Under the 1993 amendment to the Treasury Bill Act, the GOB may issue up to $25.0 mn in Treasury Notes that have a one-year maturity period and carry a 9.0% rate of interest. At the end of 1998, total Treasury Notes outstanding amounted to $25.0 mn, all of which were held by private sector institutions and individuals.

Table IX.5: Central Bank Credit to Central Government

($ mn.)

Month	Treasury Bills	Treasury Notes	Defence Bonds	Other Securities	Advances to Government	A	B
January	8.5	19.5	10.0	2.2	50.1	1.99	17.83
February	11.4	19.5	10.0	2.2	49.0	2.13	17.45
March	8.4	19.5	10.0	2.2	49.2	1.98	17.51
April	11.8	19.5	10.0	2.2	50.4	2.09	17.50
May	9.3	19.5	10.0	2.2	48.3	1.97	16.78
June	5.0	19.5	10.0	2.2	46.7	1.52	16.23
July	5.1	19.5	10.0	2.2	51.5	1.76	17.90
August	15.5	19.5	10.0	2.2	49.1	2.27	17.05
September	18.9	19.5	10.0	2.2	24.2	2.43	8.41
October	38.6	12.5	10.0	2.2	25.7	3.04	8.92
November	18.0	2.4	10.0	2.2	37.0	1.56	12.85
December	38.0	0.0	10.0	2.2	45.0	2.41	15.62

A Central Bank holdings of Government Securities as a multiple of Central Bank's paid up Capital Reserves.
B Advance to Government as a percentage of Government's estimated recurrent revenue fiscal year.
1996/97 January to March: $73.6 mn.
1997/98 April to December: $288.0 mn.

Table IX.6: Government of Belize Treasury Bill Issues

Issue Number	Issue Date	Maturity Date	Tender $mn	Allotment $mn	Average Bid Rate (%)	Average Yield To Maturity (%)
1/98	08/01/98	09/04/98	15.4	15.4	3.40	3.43
2/98	05/02/98	08/05/98	13.2	13.2	3.41	3.44
3/98	19/02/98	21/05/98	5.8	5.8	3.41	3.44
4/98	18/03/98	17/06/98	35.6	35.6	3.41	3.44
5/98	09/04/98	09/07/98	15.4	15.4	3.41	3.44
6/98	07/05/98	06/08/98	13.2	13.2	3.41	3.44
7/98	21/05.98	20.08/98	5.8	5.8	3.41	3.44
8/98	17/06.98	16/09.98	35.6	35.6	3.43	3.46
9/98	09/07/98	08/10/98	15.4	15.4	3.41	3.44
10/98	06/08/98	05/11/98	13.2	13.2	3.42	3.45
11/98	20/08/98	20/11/98	5.8	5.8	3.38	3.41
12/98	16/09/98	16/12/98	35.6	35.6	3.42	3.45
13/98	08/10/98	07/01/99	15.4	15.4	3.42	3.45
14/98	05/11/98	04/02/99	13.2	13.2	3.91	5.99
15/98	20/11/98	19/02/99	5.8	5.8	3.91	5.99
16/98	16/12/98	17/03/99	35.6	35.6	3.91	5.99

Supervision of the Financial System

During 1998, the Central Bank continued its efforts toward the development of Belize's offshore sector. On August 14, the first offshore banking license was issued to Provident Bank and Trust of Belize Limited, which subsequently commenced operating on September 1, 1998. While no other license was granted, the Central Bank received several other applications that were closely scrutinized with a view to maintaining legitimacy within the offshore jurisdiction and thereby avoid negative publicity for Belize.

Credit concentration in the commercial banks increased during the year as nineteen applications for the extension of large credits, totaling $179.2 million were processed compared to eleven applications, totaling $85.8 million in 1997. Large credits (*considered to be any amount in excess of 25.0% of the bank's assigned and/or paid up capital and unimpaired reserves)* may be extended by domestic banks only after approval has been given by the Central Bank. The Central Bank monitored to ensure that the appropriate levels of capital adequacy prescribed by the Banks and Financial Institutions Act, 1995 (BFIA) were adhered to. The law limits the aggregate of large credits to six times the banks' assigned and/or paid up capital and unimpaired reserves. Commercial banks are required to satisfy these requirements by February 3, 1999. However, by the end of 1998 nearly all banks were found to be in full compliance.

In discharging its prudential responsibilities, the Central Bank continuously monitored the banking system through off-site and on-site inspections during the year. On-site inspections were planned and performed in accordance with the findings of off-site monitoring. As a result, a full scope on-site inspection was conducted at one of the banks while a specialized inspection, verifying reported delinquent loans, was done at another bank. The newly licensed off shore bank was also inspected as part of its pre-license requirements.

Under the BFIA, the Central Bank is required to monitor various other financial institutions in addition to domestic commercial banks. During 1998, the first application for a financial institution licence was received since the enactment of the BFIA in 1995. The application was submitted by the Small

Farmers and Business Bank Limited, a government owned company, which seeks to offer the primary service of money lending to small entrepreneurs. The application was submitted late in the year and processing will continue during 1999.

The Central Bank worked along with the commercial banks to address the potential Year 2000 problem in the domestic banking system during the year. It encouraged the commercial banks to adopt an internationally recognized five phased approach and implement a Year 2000 Compliance Status Chart. Each commercial bank was required to submit updated quarterly progress reports that would enable the Central Bank to monitor progress towards overall Year 2000 compliance. Assuming present progress rates are maintained, it is expected that all domestic commercial banks will be fully Year 2000 compliant by 31 July 1999.

The Bank also participated in an information sharing exercise spearheaded by the Joint Year 2000 Committee which aims to set up a global databank to be managed by the Council's Secretariat at the Bank for International Settlements (BIS). In contributing to this exercise, the Central Bank conducted a survey of large private sector enterprises as well as government institutions to collect information on specific initiatives taken with respect to the Year 2000 problem. This information will be included in the Council's databank and will be accessible by the general public at the Council's Web site. The survey indicated that an overwhelming majority of Belizean enterprises were aware of the situation and its potential consequences, and are undertaking necessary steps towards ensuring Year 2000 compliance.

STATISTICAL APPENDIX

Table 1: Real Gross Domestic Product (GDP) by Industrial Origin at Factor Cost (1984=100)

($ mn)

	1994	1995	1996	1997	1998
Gross Domestic Product	**681.5**	**708.5**	**716.6**	**745.3**	**755.5**
Primary Activities	**135.1**	**142.8**	**151.3**	**170.2**	**167.1**
Agriculture	91.5	98.5	112.7	126.1	114.6
Forestry & Logging	19.3	15.9	14.5	14.1	13.7
Fishing	19.5	23.1	19.1	25.0	34.1
Mining	4.9	5.3	5.1	4.9	4.7
Secondary Activities	**174.7**	**179.8**	**176.8**	**179.3**	**176.6**
Manufacturing	115.9	120.8	121.1	124.3	118.8
Electricity & Water	14.2	14.7	15.0	16.4	18.6
Construction	44.6	44.4	40.8	38.6	39.3
Services	**394.6**	**409.5**	**411.9**	**420.6**	**437.3**
Trade, Restaurant & Hotel	124.0	127.7	125.4	135.6	144.6
Transport & Communications	98.5	105.1	109.6	106.4	109.0
Finance & Insurance	33.2	34.3	34.0	36.0	36.9
Real Estate & Business Services	34.2	35.8	37.3	37.5	38.9
Public Administration	57.1	57.8	55.7	53.4	54.4
Comm. & Other Services	47.5	48.8	50.0	51.7	53.5
Less imputed bank service charges	22.8	23.6	23.4	24.8	25.4

Source: Central Statistical Office

Table 2: Annual Percentage Change In GDP By Sector At Constant 1984 Prices *

	1994	1995	1996	1997	1998
Gross Domestic Product	**1.4**	**4.0**	**1.1**	**4.0**	**1.4**
Primary Activities	**2.4**	**5.7**	**6.0**	**12.5**	**(1.8)**
Agriculture	2.7	7.7	14.3	12.0	(9.2)
Forestry & Logging	13.4	(17.5)	(8.9)	(2.6)	(3.0)
Fishing	(5.2)	18.4	(17.2)	31.1	36.2
Mining	(9.1)	8.5	(4.1)	(3.2)	(4.4)
Secondary Activities	**(2.9)**	**3.0**	**(1.7)**	**1.4**	**(1.5)**
Manufacturing	5.0	4.2	0.3	2.7	(4.5)
Electricity & Water	6.4	3.3	2.0	9.6	13.4
Construction	(20.5)	(0.4)	(8.2)	(5.4)	1.8
Services	**3.0**	**3.8**	**0.6**	**2.1**	**4.0**
Trade, Restaurant & Hotel	4.4	3.0	(1.8)	8.2	6.6
Transport & Communications	0.2	6.7	4.2	(2.9)	2.5
Finance & Insurance	4.1	3.5	(1.0)	6.1	2.5
Real Estate &Business Services	4.1	4.4	4.3	0.5	3.6
Public Administration	4.0	1.3	(3.8)	(4.1)	1.9
Comm. & Other Services	2.9	2.6	2.5	3.4	3.5
Less imputed bank service charges	1.1	3.5	(1.0)	6.1	2.5

Source: Central Statistical Office
* Figures in Table 1 may not reflect these percentages due to rounding

Table 3: GDP by Expenditure in Current Prices

	1994	1995	1996	1997	1998
GDP in $mn					
Gov't. final consumption expenditure	186.8	186.9	196.5	209.5	219.1
Private final consumption expenditure	723.1	764.3	770.6	826.9	852.2
Gross capital formation	254.3	257.8	264.1	281.1	304.0
Exports: goods & services	579.2	601.6	618.2	662.6	666.2
Imports: goods & services	639.4	637.4	642.2	749.2	781.6
Net Exports	(60.2)	(35.8)	(24.0)	(86.6)	(115.4)
Domestic Savings	194.1	222.0	240.1	194.5	188.6
GDP market prices	**1,104.0**	**1,173.2**	**1,207.2**	**1,230.9**	**1,259.9**
Percent Distribution of GDP					
Gov't. final consumption expenditure	16.9	15.9	16.3	17.0	17.4
Private final consumption expenditure	65.5	65.2	63.8	67.2	67.6
Gross capital formation	23.0	22.0	21.9	22.8	24.1
Exports: goods & services	52.5	51.3	51.2	53.8	52.9
Imports: goods & services	57.9	54.3	53.2	60.9	62.0
Net Exports	(5.5)	(3.1)	(2.0)	(7.0)	(9.2)
Domestic Savings	17.6	18.9	19.9	15.8	15.0
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office

Table 4: GDP by Expenditure in Constant 1984 Prices

	1994	1995	1996	1997	1998
GDP in $mn					
Gov't. final consumption expenditure	145.2	141.2	139.5	147.3	155.2
Private final consumption expenditure	462.2	525.0	512.7	502.0	519.0
Gross capital formation	197.7	194.7	187.5	197.5	215.4
Exports: goods & services	501.2	463.3	468.9	561.9	559.0
Imports: goods & services	497.0	481.5	455.8	526.5	553.7
Net Exports	4.2	(18.2)	13.1	35.4	5.3
Domestic Savings	201.9	176.5	200.5	232.9	220.7
GDP market prices	**809.2**	**842.7**	**852.7**	**882.1**	**894.9**
Percent Distribution of GDP					
Gov't. final consumption expenditure	17.9	16.8	16.4	16.7	17.3
Private final consumption expenditure	57.1	62.3	60.1	56.9	58.0
Gross capital formation	24.4	23.1	22.0	22.4	24.1
Exports: goods & services	61.9	55.0	55.0	63.7	62.5
Imports: goods & services	61.4	57.1	53.5	59.7	61.9
Net Exports	0.5	(2.2)	1.5	4.0	0.6
Domestic Savings	24.9	20.9	23.5	26.4	24.7
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office

Table 5: Net Domestic Credit

($ mn)

	Position as at			Change during
	Dec 96	Dec 97	Dec 98	1998
Total Credit to Central Government	**151.7**	**152.2**	**153.5**	**1.3**
From Central Bank	112.0	90.3	95.0	4.7
Loans and Advances	48.2	49.7	45.1	-4.6
Gov't Securities	63.8	40.6	49.9	9.3
From Commercial Banks	39.7	61.9	58.5	-3.4
Loans and Advances	0.0	0.0	3.3	3.3
Gov't Securities	39.7	61.9	55.2	-6.7
Less Central Government Deposits	**70.9**	**57.8**	**30.2**	**-27.6**
With Central Bank	66.9	52.9	21.2	-31.7
With Commercial Banks	4.0	4.9	9.0	4.1
Net Credit to Central Government	**80.8**	**94.4**	**123.3**	**28.9**
Credit to Other Public Sector	**18.8**	**9.5**	**18.0**	**8.5**
From Central Bank	6.4	4.2	2.3	-1.9
From Commercial Banks	12.4	5.3	15.7	10.4
Plus Credit to the Private Sector	**481.3**	**545.4**	**609.8**	**64.4**
Loans and Advances	478.2	542.3	607.1	64.8
Securities	3.1	3.1	2.7	-0.4
Net Domestic Credit of the Banking System	**580.9**	**649.3**	**751.1**	**101.8**

Table 6: Gross Imports (cif) by SITC Categories

(US$ mn)

SITC Categories	1994	1995	1996	1997	1998
Food and Live Animals	38.2	40.1	43.0	45.2	50.0
Beverages and Tobacco	7.7	7.2	6.9	9.2	4.9
Crude Materials	2.4	1.7	1.2	1.4	1.9
Fuels and Lubricants	29.3	29.7	29.0	36.9	32.9
Animal and Vegetable Oils	1.6	1.7	1.9	1.9	1.8
Chemicals	27.9	27.1	29.5	31.3	31.6
Manufactured Goods	52.3	46.1	46.4	52.5	56.5
Machinery and Transport Equipment	66.7	66.7	64.1	73.9	76.0
Miscellaneous Manufactured Goods	33.8	37.2	31.9	32.2	37.5
Commodities not classified elsewhere	0.1	0.1	1.5	1.7	1.9
Sub-Total	259.9	257.6	255.4	286.2	295.0
Imports into CFZ and EPZs					29.8
Grand Total	**259.9**	**257.6**	**255.4**	**286.2**	**324.8**

Source: Central Statistical Office

Table 7: Balance Of Payments Summary

(US$ mn)

	1994	1995	1996	1997	1998
1. Current Account	**-20.3**	**-0.2**	**-4.2**	**-31.9**	**-53.5**
i) Merchandise Trade[1]	-76.9	-66.2	-58.2	-89.5	-104.8
Exports (f.o.b.)	156.3	164.3	171.3	193.4	186.1
Imports (f.o.b.)	233.2	230.5	229.5	282.9	290.9
ii) Invisible Trade	25.0	25.8	20.6	22.8	15.8
Services (net)	50.1	48.1	46.2	46.2	47.9
of which: Travel	58.2	62.3	66.9	77.2	84.0
Factor Income	-25.1	-22.3	-25.6	-23.3	-32.2
of which: Investment Income	-23.7	-20.8	-24.0	-21.5	-30.5
iv) Current Transfers (net)	31.6	40.2	33.5	34.8	35.5
Official	14.8	16.3	10.5	9.8	9.0
Private	16.8	23.9	23.0	25.0	26.6
2. Capital and Financial Account					
A. Capital Account	**-4.1**	**-2.6**	**-2.2**	**-3.4**	**-1.3**
Capital Transfers	-4.1	-2.6	-2.2	-3.4	-2.5
B. Financial Account	**38.4**	**-11.1**	**11.5**	**30.2**	**25.4**
i) Direct Investment	18.8	18.2	10.9	8.0	13.1
ii) Portfolio Investment	6.3	3.7	10.1	10.1	12.5
iii) Other Investment	13.3	-33.0	-9.5	12.0	-0.2
3. Net Errors & Omissions	**-18.3**	**17.0**	**15.7**	**6.1**	**13.9**
4. Overall Balance	**-4.3**	**3.1**	**20.9**	**1.0**	**-15.4**
5. Financing	**4.3**	**-3.1**	**-20.9**	**-1.0**	**15.4**
Change in SDR Holdings	0.2	0.1	0.2	0.1	0.2
Change in IMF Reserve Position	0.2	0.1	-0.2	-0.3	0.2
Change in Government Foreign Assets	0.2	0.0	0.5	-0.5	-0.1
Change in Other Official Foreign Assets	-5.0	3.2	20.4	1.7	-15.4
Memo Items					
Import Cover in Months	1.3	1.3	2.7	2.5	1.8
Current Account/GDP (%)	-3.7	0.0	-0.7	-5.2	-8.5

1. Visible trade data for 1997 and 1998 include activity of CFZ and EPZs

Table 8: Balance of Payments, 1996 - 1998

(US$ mn)

	1996			1997			1998		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
CURRENT ACCOUNT	**352.4**	**356.6**	**-4.2**	**376.9**	**408.8**	**-31.9**	**378.7**	**432.2**	**-53.5**
Visible Trade	171.3	229.5	-58.2	193.4	282.9	-89.5	186.1	290.9	-104.8
Invisible Trade	144.6	124.0	20.6	145.3	122.5	22.8	154.2	138.4	15.8
Services	137.9	91.6	46.2	137.9	91.7	46.2	147.0	99.1	47.9
Transportation	6.2	37.9	-31.7	6.5	43.1	-36.6	6.9	44.5	-37.6
Travel	93.1	26.2	66.9	95.0	17.9	77.2	105.3	21.2	84.0
Other Goods & Services	25.7	23.9	1.8	22.7	26.5	-3.8	16.2	28.2	-12.0
Govt. Goods & Services, N.I.E	12.9	3.7	9.2	13.6	4.2	9.4	18.8	5.2	13.6
Factor Income	6.7	32.3	-25.6	7.5	30.8	-23.3	7.2	39.3	-32.2
Labour Income	4.5	6.1	-1.6	4.9	6.8	-1.8	4.4	6.1	-1.7
Investment Income	2.2	26.2	-24.0	2.5	24.1	-21.5	2.7	33.2	-30.5
Current Transfers	36.6	3.1	33.5	38.2	3.4	34.8	38.3	2.8	35.5
Government	12.6	2.1	10.6	12.0	2.3	9.8	10.6	1.7	9.0
Private	24.0	1.0	23.0	26.2	1.1	25.0	27.7	1.1	26.6
CAPITAL ACCOUNT	**0.0**	**2.2**	**-2.2**	**0.0**	**3.4**	**-3.4**	**1.3**	**2.5**	**-1.3**
Capital Transfers	0.0	2.2	-2.2	0.0	3.4	-3.4	0.0	2.5	-2.5
Acquisition/Disposal of Non-Produced Non-financing Assets	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0	1.3
FINANCIAL ACCOUNT	**93.8**	**82.3**	**11.5**	**78.2**	**48.0**	**30.2**	**85.3**	**59.9**	**25.4**
Director Foreign Investment	16.6	5.7	10.9	11.9	3.9	8.0	17.6	4.5	13.1
Portfolio Investment	14.3	4.2	10.1	10.1	0.0	10.1	12.5	0.0	12.5
Other Investments	62.9	72.4	-9.5	56.1	44.1	12.0	55.2	55.4	-0.2
Public Sector Long Term Loans	41.9	22.4	19.5	31.9	20.6	11.3	32.9	20.1	12.9
Other Public Sector Capital	0.3	0.0	0.3	0.2	0.0	0.2	0.0	0.0	0.0
Commercial Banks	0.0	18.4	-18.4	7.5	0.0	7.5	7.2	2.1	5.1
Other	20.8	31.5	-10.7	16.5	23.4	-6.9	15.1	33.2	-18.1
NET ERRORS & OMMISSIONS			15.7			6.1			13.9
OVERALL BALANCE	-0.7	-21.6	20.9	-37.9	-38.9	1.0	-27.5	-12.1	-15.4
CHANGE IN RESERVES (- = increase)	0.7	21.6	-20.9	37.9	38.9	-1.0	27.5	12.1	15.4

N.I.E – not included elsewhere

Table 9: Government of Belize - Revenue and Expenditure

($'000)

	Fiscal Year 1997/98	Estimated Budget 1998/99	Jan-Dec. 1996	Jan-Dec. 1997	Jan-Dec. 1998
TOTAL REVENUE & GRANTS (1+2+3)	313,524	342,575	305,404	308,777	327,355
1).Current revenue	**287,956**	**295,945**	**276,568**	**282,898**	**296,908**
Tax revenue	257,213	263,270	250,181	250,881	265,189
Income and profits	55,767	58,500	59,431	54,107	62,538
Taxes on property	1,742	1,620	1,491	1,564	1,673
Taxes on goods and services	98,047	99,450	83,725	97,272	97,459
Int'l trade and transactions	94,939	96,700	97,324	90,957	95,570
Other	6,719	7,000	8,209	6,981	7,949
Non-Tax Revenue	30,743	32,675	26,387	32,018	31,719
Property income	4,494	4,600	3,209	4,495	5,680
Contributions to pension fund	363	307	501	312	383
Transfers from NFPE's	1,947	2,776	1,776	3,488	1,370
Extrabudgetary revenue	2,318	2,300	2,214	2,378	1,907
Other	21,621	22,692	18,688	21,344	22,380
2). Capital revenue	**16,997**	**21,091**	**20,353**	**22,328**	**19,693**
3). Grants	**8,570**	**25,539**	**8,483**	**3,550**	**10,753**
(of which non-project)	5,833	0	5,000	1,417	5,015
TOTAL EXPENDITURE (1+2)	330,066	390,515	310,050	334,080	355,124
1). Current Expenditure	**252,744**	**258,181**	**234,680**	**252,233**	**260,035**
Wages and Salaries	130,509	140,464	122,571	127,737	137,730
Pensions	17,028	18,277	16,450	17,053	17,673
Goods and Services	51,671	54,605	43,998	50,178	48,550
Interest Payments on Public Debt	24,408	15,242	24,182	27,812	24,797
Subsidies & current transfers	29,128	29,593	27,480	29,452	31,286
2). Capital Expenditure	**77,322**	**132,334**	**75,370**	**81,847**	**95,089**
Capital II (local sources)	48,758	43,742	43,406	56,327	50,749
Capital III (foreign sources)	24,869	82,979	27,038	21,949	39,773
Capital Transfer	3,695	5,613	4,927	3,571	4,567
CURRENT BALANCE	35,212	37,764	41,888	30,666	36,873
OVERALL BALANCE	(16,543)	(47,940)	(4,646)	(25,303)	(27,770)
FINANCING	16,543	47,940	4,646	25,303	27,770
Domestic Financing	**16,844**	**19,773**	**(40,879)**	**17,596**	**27,571**
Central Bank	(43,68)	17,565	(16,667)	(3,026)	34,943
Net Borrowing	(21,484)	7,725	29,977	(21,782)	4,724
Change in Deposits	17,116	9,840	(46,644)	18,756	30,219
Commercial Banks	21,314	1,945	(24,181)	21,164	(7,609)
Net Borrowing	20,936	153	(24,149)	22,148	(3,524)
Change in Deposits	378	1,792	(32)	(984)	(4,085)
Other Domestic Financing	(102)	263	(31)	(542)	237
Financing Abroad	**2,553**	**28,167**	**46,613**	**5,762**	**9,832**
Disbursements	35,909	57,441	80,009	37,916	46,327
(of which non-project)	0	22,505	52,200	0	24,000
Amortization	(33,281)	(30,225)	(32,529)	(33,121)	(31,704)
Sinking Fund & JCF	(75)	951	(867)	967	(78)
Other	**(2,854)**	**0**	**(1,088)**	**1,945**	**(9,633)**

Sources: Ministry of Finance
Central Bank of Belize

Table 10: Central Government's Domestic Debt

($000)

	Disbursed Outstanding Debt Dec. 1997	Transactions During 1998 Disbursement/ New Issue of Securities	Amortization/ Reduction in Securities	Interest Payments	Net Change in Overdraft/ Securities	Disbursed Outstanding Debt Dec. 1998
Overdraft	49,682	0	0	4,526	(4,591)	45,091
Central Bank	49,682	0	0	4,526	(4,591)	45,091
Commercial Banks	0	0	0	0	0	0
Belize Social Security Board Loans	10,063	3,900	2,292	690	0	11,671
Housing I	0	0	0	0	0	0
Housing II	3,063	0	292	239	0	2,771
Rural Electrification	5,000	0	0	319	0	5,000
Rice Crop	2,000	0	2,000	80	0	0
Rural Electrification II	0	2,500	0	52	0	2,500
Rice Crop II	0	1,400	0	0		1,400
Treasury Bills	70,000	0	0	2,563	0	70,000
Central Bank	7900	0	0	634	29,773	37,673
Commercial Banks	61,896	0	0	1,925	(30,028)	31,868
Other	204	0	0	4	255	459
Treasury Notes *	20,000	4,000	0	2,222	0	24,000
Central Bank	19,496	0	0	2,141	(19,496)	0
Commercial Banks	0	4,000	0	18	19,269	23,269
Other	504	0	0	63	227	731
Defence Bonds	15,000	0	0	1,791	0	15,000
Central Bank	10,000	0	0	1,675	0	10,000
Commercial Banks	100	0	0	5	0	100
BSSB	2,303	0	0	111	(640)	1,663
Other	2,597	0	0	0	640	3,237
Debentures	7,200	0	1,000	633	0	6,200
Central Bank	3,170	0	1,000	440	0	2,170
Commercial Banks	0	0	0	0	0	0
BSSB	3,980	0	0	186	0	3,980
Other	50	0	0	7	0	50
Land Acquisition (BBL)	0	3,000	0	0	0	3,000
DFC Housing Loan	0	5,000	0	0	0	5,000
TOTAL	**171,945**	**15,900**	**3,292**	**12,425**	**(4,591)**	**179,962**

* Since September 1998 the transactions relating to Treasury Notes have been conducted in US dollars whereby the principal to resident entities is payable in US dollars and the interest is payable in Belize dollars.

Table 11: Public Sector External Debt by Creditors

($'000)

	Disbursed Outstanding Debt December 1997	Transactions During 1998				Disbursed Outstanding Debt December 1998
		Disbursement	Amortization	Interest	Valuation Adjustments	
CENTRAL GOVERNMENT	**341,096**	**46,327**	**31,704**	**16,898**	**1,898**	**357,617**
Caribbean Development Bank	34,188	8,371	476	1,367	36	42,120
European Economic Community	20,348	0	313	127	1,167	21,202
Int'l Bank for Reconstruction Dev.	58,206	3,389	3,697	4,302	(265)	57,633
Int'l Fund for Agricultural Dev.	2,076	0	250	82	49	1,875
Gov't of United Kingdom	39,109	0	4,895	0	618	34,832
Gov't of Trinidad and Tobago	48	0	3	1	0	45
Gov't of United States of America	39,347	0	2,521	1,126	0	36,826
Suppliers Credit	24,955	0	10,964	1,471	1	13,992
OPEC Fund for International Dev.	2,978	710	100	130	1	3,589
Instituto Nazionale di Credito	15,855	0	3,964	1,019	0	11,891
Government of China	522	0	0	0	(58)	464
Export/Import Bank of Taiwan	65,733	4,000	1,667	3,315	0	68,066
Fondo de Inversiones de Venezuela	6,088	1,960	1,036	353	0	7,013
Inter-American Development Bank	769	1,235	0	45	0	2,004
Government of Spain	3,801	0	716	60	204	3,289
Government of Kuwait	7,070	1,662	1,102	333	146	7,776
CitiCorp Merchant Bank Ltd.	20,000	24,000	0	3,167	0	44,000
Provident Bank & Trust (Treasury Notes)*	0	1,000	0	0	0	1,000
REST OF NON-FINANCIAL PUBLIC SECTOR	**71,070**	**18,509**	**5,027**	**4,512**	**(161)**	**84,391**
Caribbean Development Bank	22,626	12,526	2,029	1,833	(476)	32,647
Intl. Bank for Reconstruction Dev.	22,842	3,911	1,164	745	(186)	25,403
Commonwealth Development Corp.	459	0	465	30	6	0
Export/Import Bank of Taiwan	1,313	0	376	62	0	937
European Economic Community	4,218	2,072	0	83	391	6,681
CIBC Bank & Trust Co.	11,494	0	744	1,306	0	10,750
Government of Kuwait	5,627	0	0	285	104	5,731
Commission Federal de Electricidad	2,491	0	249	168	0	2,242
FINANCIAL PUBLIC SECTOR	**70,033**	**5,032**	**3,429**	**4,922**	**182**	**71,818**
Caribbean Development Bank	31,219	4,019	1,338	1,547	(9)	33,891
European Economic Community	3,841	1,013	414	135	191	4,631
Paine Webber Real Estate Securities	3,200	0	100	101	0	3,100
Gov't of United States of America	4,648	0	327	137	0	4,321
Export/Import Bank of Taiwan	3,125	0	1,250	143	0	1,875
CitiCorp Merchant Bank Ltd.	24,000	0	0	2,859	0	24,000
TOTAL	**482,199**	**69,868**	**40,160**	**26,332**	**1,919**	**513,826**

***** Since September 1998 the transactions relating to Treasury Notes have been conducted in US dollars whereby the principal to resident entities is payable in US dollars and the interest is payable in Belize dollars.

AUDITOR'S REPORT

CENTRAL BANK OF BELIZE

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Central Bank of Belize

We have audited the accompanying balance sheets of Central Bank of Belize as of December 31, 1998 and 1997, and the related statements of operations and cash flows for years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Belize at December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended in conformity with International Accounting Standards and the Central Bank of Belize Act.

Deloitte & Touche

March 31, 1999

Julian Castillo, Kathlyn Tillett, Rene Blanco

DeloitteTouche Tohmatsu

CENTRAL BANK OF BELIZE

BALANCE SHEETS
DECEMBER 31, 1998 and 1997

ASSETS	1998	1997
APPROVED EXTERNAL ASSETS		
Balances and deposits with foreign bankers and Crown Agents	$ 31,309,284	$ 6,642,771
Reserve Tranche and balances with the International Monetary Fund	10,468,748	9,723,850
Marketable securities issued or guaranteed by foreign governments and international financial institutions	-	3,975,000
Other foreign credit instruments	31,116,209	83,139,997
Accrued interest and cash in transit	201,670	191,068
	73,095,911	103,672,686
BELIZE GOVERNMENT SECURITIES	49,842,659	40,527,557
BELIZE GOVERNMENT CURRENT ACCOUNT	40,792,138	44,002,396
LOANS TO THE PUBLIC SECTOR	2,250,000	4,184,074
BALANCES WITH LOCAL BANKERS AND CASH ON HAND	63,024	11,674
OTHER ASSETS	3,784,114	3,684,691
PROPERTY AND EQUIPMENT	31,504,587	22,861,853
TOTAL	$ 201,332,433	$ 218,944,931

See notes to financial statements.

CENTRAL BANK OF BELIZE

BALANCE SHEETS (Continued)
DECEMBER 31, 1998 and 1997

LIABILITIES, CAPITAL AND RESERVES	1998	1997
DEMAND LIABILITIES		
Notes and coins in circulation	$ 86,665,914	$ 79,228,754
Deposits by licensed financial institutions	46,907,402	41,795,179
Deposits by and balances due to Government and Public Sector Entities in Belize	8,469,573	34,233,623
Deposits by international agencies	3,021,283	6,204,667
	145,064,172	161,462,223
BALANCES DUE TO CARICOM CENTRAL BANKS	197,688	1,081,663
OTHER LIABILITIES	3,212,052	3,931,731
COMMERCIAL BANK DISCOUNT FUND	1,479,771	1,647,586
BELIZE CREDIT FACILITY	3,784,884	2,879,898
LOAN PAYABLE TO FOREIGN INSTITUTION	1,875,000	3,125,000
CONSTRUCTION BONDS	24,000,000	24,000,000
Total liabilities	179,613,567	198,128,101
REVALUATION ACCOUNT	424,345	-
CAPITAL ACCOUNT		
Paid up capital (Authorized capital $10,000,000)	10,000,000	10,000,000
GENERAL RESERVE FUND	11,294,521	10,816,830
TOTAL LIABILITIES, CAPITAL AND RESERVES	$ 201,332,433	$ 218,944,931

) GOVERNOR
)
)
) DIRECTOR
)
)
) DEPUTY GOVERNOR OPERATIONS

See notes to financial statements.

CENTRAL BANK OF BELIZE

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998 and 1997

	1998	1997
INCOME		
Interest		
Approved external assets	$ 5,276,659	$ 5,166,412
Advances to Government	4,943,505	5,492,171
Local securities	2,518,365	2,725,491
Loans to statutory bodies	178,794	301,073
	12,917,323	13,685,147
Discount on local securities	392,425	745,424
Commission and other income	1,495,828	1,427,629
Gain on sale of marketable securities	25,000	-
Total income	14,830,576	15,858,200
LESS:		
Interest expense	(2,528,821)	(3,041,258)
Income from operations	12,301,755	12,816,942
EXPENDITURE		
Printing of notes and minting of coins	(1,023,123)	(632,876)
Salaries and wages, including superannuation contributions and gratuities	(3,636,334)	(3,630,399)
Depreciation	(374,695)	(275,058)
Administrative and general	(1,993,837)	(1,729,663)
Total expenditure	(7,027,989)	(6,267,996)
NET PROFIT	5,273,766	6,548,946
Revaluation Account	-	(238,539)
PRIOR PERIOD ADJUSTMENT	(496,853)	-
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND	4,776,913	6,310,407
Transfer to General Reserve Fund in accordance with Section 9 (1) of the Act	(477,691)	(631,040)
Balance credited to the Accountant General for the Consolidated Revenue Fund	$ 4,299,222	$ 5,679,367

See notes to financial statements.

CENTRAL BANK OF BELIZE

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998 and 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit transferable to the general reserve and consolidated fund	$ 4,776,913	$ 6,310,408
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:		
- Prior period adjustment	(496,853)	-
- Depreciation	374,695	275,058
- Gain on sale of securities	(25,000)	-
- Loss on disposal of fixed assets	193,622	-
Changes in assets and liabilities that provided (used) cash:		
Other assets	(99,423)	2,473,295
Other liabilities	(719,679)	1,154,362
Revaluation account	424,345	417,847
Net cash provided by operating activities	4,428,620	10,630,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Belize Government current account	24,684,901	(9,444,608)
Disbursement of (receipts from) loans to public sector	(1,437,221)	2,204,568
Acquisition of property and equipment	(9,050,653)	(13,428,250)
Reserve Tranche in the International Monetary Fund	(340,054)	513,205
Revaluation of the Reserve Tranche in the International Monetary Fund	340,054	354,297
Proceeds from sale of marketable securities	4,000,000	-
Proceeds from sale of fixed assets	8,000	-
Construction Bonds	-	(4,968,000)
Net cash provided by (used in) investing activities	18,205,027	(24,768,788)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and coins in circulation	7,437,160	2,947,791
Deposits by licensed financial institutions	5,112,223	5,025,590
Deposits by and balances due to Government and Public Sector Entities	(25,764,050)	(19,310,579)
Deposits by International agencies	(3,183,384)	2,841,952
Balances due to Caricom Central Banks	(883,975)	908,034
Commercial Bank Discount Fund	(167,815)	(148,455)
Belize Credit Facility	904,986	940,930
Loans payable to foreign institutions	(1,250,000)	(1,250,000)
Net cash used in financing activities	(17,794,855)	(8,044,737)

See notes to financial statements.

CENTRAL BANK OF BELIZE

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1998 and 1997

	1998	1997
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,838,792**	(22,182,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**97,847,067**	120,029,623
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 102,685,859**	$ 97,847,067
CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:		
EXTERNAL ASSETS:		
Balances and deposits with foreign bankers and Crown Agents	**$ 31,309,284**	$ 6,642,771
Other foreign credit instruments	**31,116,209**	83,139,997
Accrued interest and cash intransit	**201,670**	191,068
Balance with the International Monetary Fund	**2,323,013**	-
	64,950,176	89,973,836
LOCAL ASSETS:		
Cash and bank balances	**63,024**	11,674
Government of Belize Treasury Bills	**37,672,659**	7,861,557
	$ 102,685,859	$ 97,847,067

See notes to financial statements.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998 and 1997

1. ORGANIZATION

Central Bank of Belize, (the "Bank'), was established by the Central Bank of Belize Act 1982 (the Act).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements are presented in Belize dollars.

Following is a summary of the more significant accounting policies adopted by the Bank in preparing its financial statements which accord with International Accounting Standards and the Central Bank of Belize Act:

a. Property, Plant and Equipment, depreciation and amortization -

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

Depreciation rates are as follows:

Building and improvements	1%, 3%
Office furniture	20%
Equipment	20%
Vehicles	25%

Improvements to the Treasury Building are amortized over the remaining period of intended use. (See note 10).

b. Sale of special coins –

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

c. Foreign currency translation and exchange gains and losses –

i. Assets and Liabilities

Foreign currency balances at year end are translated at the rates of exchange ruling at year end.

ii. Income and Expenses

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

iii. Revaluation

Section 49 of the Act stipulates that gains or losses from any revaluation of the Bank's net assets or liabilities in gold, special drawing rights (SDR), foreign exchange or foreign securities as a result of any change in the par value of the Belize dollar or any change in the par value of the currency unit of any other country shall be excluded from the computation of the annual profits and losses of the Bank. All such gains or losses shall be carried in a special account called Revaluation Account. However no profits shall be credited to the General Reserve Fund or paid to the Government under section 9 (See note 19) whenever the Revaluation Account shows a net loss. Such profits shall be credited to the Revaluation Account in an amount sufficient to cover the loss.

d. Valuation of securities –

Securities are stated at the lower of cost or market value. Unrealized losses arising from changes in the market value of securities are charged against income while unrealized gains are deferred. Realized gains and losses are included in income.

e. Accrued interest and cash in transit -

Accrued interest and cash in transit in respect of foreign assets are shown as a part of External Assets.

f. Printing and minting expenses -

The cost of printing notes and minting coins is charged against earnings in the year of delivery of the notes and coins.

g. Pension -

The Pension Scheme, a defined benefit plan, is funded by contributions from the Bank and employees. It is financially separate from the Bank and is managed by a Board of Trustees.

h. Taxation -

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

3. INTEREST ON CENTRAL BANK BUILDING CONSTRUCTION BONDS

Interest is payable semi-annually on the Bank's Construction Bonds. The portion of the interest on the amount spent on the building project during construction is capitalized net of income generated from the investment of proceeds of the construction bond. In 1998 and 1997 interest of $373,293 and $978,872 was capitalized respectively. Otherwise interest is charged against the annual income of the Bank. (See note 17).

4. CENTRAL BANK OF BELIZE ACT SECTION 5 COMPLIANCE

Section 5 of the Act stipulates that:

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

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

c. At December 31, 1998 and 1997 total approved external assets approximated 50 percent and 64 percent of such liabilities respectively.

5. INTERNATIONAL MONETARY FUND - RESERVE TRANCHE

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

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

At December 31, 1998, the country's subsriptions to the International Monetary Fund amounted to SDR 13,500,000 and the Bank's Reserve Tranche amounted to SDR 2,913,690. The Reserve

5. INTERNATIONAL MONETARY FUND - RESERVE TRANCHE (Continued)

Tranche which earns interest is included in Approved External Assets in the financial statements at the rate of BZ$2.82 to SDR 1.0 at December 31, 1998 (1997 – BZ$2.88 to SDR 1.0).

6. BELIZE GOVERNMENT SECURITIES

Belize Government securities consist of:

	1998	1997
Treasury Bills	**$37,672,659**	$7,861,557
Debentures, 8.5% - 10%	**2,170,000**	3,170,000
Treasury Notes, 9%	**-**	19,496,000
Belize Defence Bonds, 8%	**10,000,000**	10,000,000
	$49,842,659	$40,527,557

Section 35(2) of the Act stipulates that the Bank shall not at any time hold Belize Government securities in an aggregate amount exceeding five times the aggregate amount at that time of the paid up capital and general reserves of the Bank. At December 31, 1998 and 1997 the Bank's aggregate holding of Belize Government securities approximated 2.3 times and 2.0 times, respectively, the amount of paid up capital and general reserves of the Bank.

7. BELIZE GOVERNMENT CURRENT ACCOUNT

In accordance with Section 34 of the Act, the Bank may make direct advances to the Government provided that at any one time the total outstanding amount of direct advances shall not exceed twenty percent of the current revenues of the Government collected during the preceding financial year or the sum of fifty million dollars, whichever is greater. At December 31, 1998 and 1997 advances to Government represent approximately 87 percent and 85 percent of the authorized limit respectively.

8. LOANS TO THE PUBLIC SECTOR

	1998	1997
Loans to the public sector comprise the following loans to Reconstruction and Development Corporation to finance housing construction. (See note 16).		
5% p.a. loan due in 16 consecutive semi-annual payments commencing July 10, 1993	**$ 156,250**	$ 250,000
5.5% p.a. loan due in 16 consecutive semi-annual payments commencing July 10, 1993.	**781,250**	1,250,000
6% p.a. loan due in 16 consecutive semi-annual payments commencing December 22, 1992	**1,312,500**	2,684,074
	$2,250,000	$4,184,074

These loans are guaranteed by the Government of Belize.

9. OTHER ASSETS

At December 31 other assets are made up as follows:

	1998	1997
Prepaid printing and minting of notes and coins (See Note 2f)	**$ 1,276,827**	$ 593,136
Prepayments and accrued interest	**593,912**	597,291
Receivables	**1,753,680**	1,755,787
Mobilization advance	**164,513**	691,835
Other	**73,640**	46,642
	$3,862,572	$3,684,691

NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 1998 and 1997

10. PROPERTY AND EQUIPMENT

	Land	Building – Construction in progress	Properties and improvements	Improvements to Treasury building	Furniture	Equipment	Vehicles	Totals
COST								
Brought Forward, January 1, 1998	$ 2,040,400	$ 20,277,163	$ 715,322	$ 379,685	$ 208,780	$ 2,690,315	$ 263,165	$ 2,6574.831
Additions	-	8,866,290	-	-	19,345	102,540	62,477	9,050,653
Disposals	-	-	-	(379,685)	-	(792,152)	(107,087)	(1,225,536)
Reclassifications	-	(28,410,753)	25,034,551	-	615,420	2,915,334	-	-
Carried Forward, December 31, 1998	2,040,400	578,150	25,749,873	-	843,545	4,916,037	218,555	34,399,948
ACCUMULATED DEPRECIATION								
Brought Forward, January 1, 1998	-	-	376,689	318,798	198,206	2,584,107	235,178	3,712,978
Additions	-	-	81,210	59,795	29,123	175,561	29,006	374,695
Disposals	-	-	-	(378,593)	-	(706,636)	(107,083)	(1,192,312)
Carried Forward, December 31, 1998	-	-	457,899	-	227,379	2,053,032	157,101	2,895,361
NET BOOK VALUE								
DECEMBER 31, 1998	$ 2,040,400	$ 578,150	$ 25,291,974	$ -	$ 616,216	$ 2,916,393	$ 61,454	$ 31,504,587
December 31, 1997	$ 2,040,400	$ 20,277,164	$ 338,633	$ 60,887	$ 10,574	$ 106,208	$ 27,987	$ 22,861,853

The Bank, except for its Research, Finance, Supervision and Administration Departments, was housed in the Treasury Building provided rent free by the Government of Belize, up until October 1998.

11. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Licensed financial institutions under the provisions of Section 16 of the Banks and Financial Institutions Act 1995 are required to keep on deposit with the Bank an amount equivalent to at least 7% of their average deposit liabilities. These deposits are interest free.

12. DEPOSITS BY INTERNATIONAL AGENCIES

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

	1998	1997
Commission of the European Communities	$ 277,797	$ 283,250
International Monetary Fund	93,409	94,718
Caribbean Development Bank	25,814	17,480
Inter-American Development Bank	178,000	-
International Bank for Reconstruction and Development	2,466,263	5,809,219
	$3,021,283	$6,204,667

13. OTHER LIABILITIES

	1998	1997
Interest payable (including construction bonds)	$1,378,931	$1,102,818
Pension contribution and gratuities	351,621	334,457
Abandoned property	471,885	425,873
Retention payable	785,176	595,072
Progress billings	-	1,031,074
Other	224,439	442,437
	$3,212,052	$3,931,731

14. COMMERCIAL BANK DISCOUNT FUND

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

The USAID loan has the following terms:

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

At December 31, 1998, outstanding loans discounted by commercial banks through the facility amounted to BZ$.9 million (1997 - BZ$1 million) net of repayments, against a total drawdown of BZ$5.7 million (1997 - BZ$5.7 million) from USAID. On that date the amount drawn down by the Foundation was BZ$1.6 million (1997 - BZ$1.8 million) net of repayments and the amount drawn down by DFC was BZ$1.6 million (1997 - BZ$1.2) net of repayments.

15. BELIZE CREDIT FACILITY

Under the World Bank Agricultural Credit and Export Development Project Loan Agreement signed between the Government of Belize and the International Bank for Reconstruction and Development on July 19, 1988, the Bank acting as the agent for the Government of Belize assists the Government in operating the Belize Credit Facility through which loans are made available to the Development Finance Corporation for specific development projects.

The Bank's responsibility to assist the borrower is set out in an agreement signed between the Government and the Bank on March 13, 1989.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 1998 and 1997

16. LOAN PAYABLE TO FOREIGN INSTITUTION

Loan payable to foreign institution consists of:

	1998	1997
Due to a foreign institution repayable in 16 semi-annual installments commencing December 22, 1992. Interest accrues at 5% per annum. The loan was negotiated for US$5,000,000 for on-lending to Reconstruction and Development Corporation to finance housing construction and is secured by a promissory note from the Bank. (See note 8).	**$1,875,000**	$3,125,000

17. CONSTRUCTION BONDS

	1998	1997
BZ$24,000,000 construction bonds maturing on July 31, 2003 secured by a guarantee from the Belize Government. Interest will accrue at 11.75% per annum and is payable semi-annually.	**$24,000,000**	$24,000,000

18. GENERAL RESERVE FUND

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

	1998	1997
Balance at beginning of year	**$10,816,830**	$10,185,790
Transfer from profits at 10%	**477,691**	631,040
Balance at end of year	**$11,294,521**	$10,816,630

19. REVALUATION ACCOUNT

Under Section 49 of the Act no profits shall be credited to the General Reserve Fund or paid to the Consolidated Revenue Fund whenever the Revaluation Account shows a net loss. Such profits shall be credited to the Revaluation Account in an amount sufficient to cover the loss.

	1998	1997
Balance at beginning of year	$ -	$ 417,847
Net gain (loss) on revaluation of Reserve Tranche in the International Monetary Fund	**340,054**	(513,205)
Net gain (loss) on revaluation during the year	**84,291**	(143,181)
Transfer from profits	-	238,539
Balance at end of year	$ 424,345	$ -

See note 2c. iii

20. PENSION SCHEME

The Pension Scheme, a defined benefit plan, receives contributions from the Bank and its eligible employees. During the year under review the Bank contributed Bz$236,809 to the Scheme. The Scheme is financially separate from the Bank and is managed by a Board of Trustees. The cost of plan benefits is determined using an accrued benefit valuation method.

Significant actuarial assumptions used in the last valuation were:

i. Over the long term new and existing assets of the scheme will secure a rate of return on investments of 7% p.a. net of all investment expenses.

ii. Members' pensionable salaries will increase by 5% p.a. as a result of general inflationary conditions in addition to modest increases in recognition of increasing experience and responsibility.

iii. No allowance for pensions in course of payment to be increased.

iv. No retroactive salary increase was contemplated at January 1, 1996.

20. PENSION SCHEME (Continued)

The last actuarial valuation was as at December 31, 1995. That valuation reported the present value of the promised retirement benefits and the cost of the plan's assets as at December 31, 1995 to be approximately BZ$1,614,000 and BZ$1,692,000, respectively. A retroactive salary increase was effected as at January 1, 1996. The fair market value of plan assets is not readily available. An actuarial valuation is conducted every two to three years.

21. COMMITMENTS AND CONTINGENT LIABILITIES

The Central Bank of Belize had signed a formal contract with Kier International Limited for the construction of a new Central Bank building at an estimated cost of BZ$21,901,697. As at the September 29, 1998 a qualified certificate of practical completion was issued to the Bank.

The contractor of the new Central Bank building has given notice of a claim for additional costs. Based on the opinion of the Bank's consultants, management is of the view that the settlement, if any, will not exceed the contingency provision in the contract price. A quantification of such a settlement cannot be made at this time.

22. PRIOR PERIOD ADJUSTMENT

In the calculation of the late penalty charges on the Loans to the Public Sector, the Bank has been including the interest due as a part of the base for the penalty charges, which is not in compliance with the original loan agreement. The set off of these penalty charges was used to reduce the principal due from the Public Sector entity.

CENTRAL BANK OF BELIZE

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