CENTRAL BANK OF BELIZE

Annual Report and Accounts

2003

CENTRAL BANK OF BELIZE

Twenty-second Annual Report and Accounts 2003

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Central Bank of Belize

Annual Report and Accounts, 2003

Abbreviations and Conventions used in this Report

Abbreviations:

ACP	African, Caribbean and Pacific
APR	Annual Percentage Rate
BEL	Belize Electricity Limited
BFIA	Banks and Financial Institutions Acts, 1995
BGA	Banana Growers Association
BIS	Bank for International Settlements
BSI	Belize Sugar Industries Limited
BSSB	Belize Social Security Board
BTB	Belize Tourism Board
BTL	Belize Telecommunications Ltd.
BWSL	Belize Water Services Limited
CARICOM	Caribbean Community and Common Market
CABEI	Central American Bank for Economic Integration
CCMS	Caribbean Centre for Monetary Studies
CDB	Caribbean Development Bank
CET	Common External Tariff
CFATF	Caribbean Financial Action Task Force
CFZ	Commercial Free Zone
CGA	Citrus Growers Association
CIF	Cost Insurance and Freight
CPI	Consumer Price Index
CSO	Central Statistical Office
DFC	Development Finance Corporation
ECCB	Eastern Caribbean Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECU	European Currency Unit
EDF	European Development Fund
EIB	European Investment Bank
EU/EEC	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Belize
IBC	International Business Company
IBM	International Bank of Miami
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFS	International Financial Statistics
IMF	International Monetary Fund
NFC	Not from concentrate
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PAYE	Pay As You Earn
PGIA	Phillip Goldson International Airport
ps	Pound solid
RECONDEV	Reconstruction and Development Corporation
RMB	Royal Merchant Bank
ROC	Republic of China, Taiwan
SIF	Social Investment Fund
UK	United Kingdom
US/USA	United States
WTO	World Trade Organisation
WASA	Water and Sewerage Authority

Notes and Conventions:

--$ refers to the Belize dollar unless otherwise stated
--mn denotes million
--bn denotes billion
--The figures for 2002 in this report are provisional, and the figures for 2001 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 30, 2004

Hon. Ralph Fonseca
Minister of Finance and Home Affairs
New Administration Building
Belmopan
BELIZE

Dear Minister Fonseca:

In accordance with Section 58 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, 2003, together with a copy of the Bank's Statement of Accounts, as certified by the External Auditors.

Yours sincerely,

Sydney J. Campbell
Governor

DIRECTORS AND PRINCIPALS

At December 31, 2003

BOARD OF DIRECTORS

JORGE M. AUIL
Chairman

SYDNEY CAMPBELL
Vice Chairman

MARION PALACIO

DAVID FONSECA

JAIME BRICEÑO

ROBERT SWIFT

HUGH McSWEANEY
Financial Secretary

PRINCIPAL OFFICERS

SYDNEY CAMPBELL
Governor

MARION PALACIO
Deputy Governor

CAROL HYDE
Manager, Human Resources & Administration

HOLLIS PARHAM
Manager, Finance

MARILYN GARDINER
Manager, Banking and Currency

NERI MATUS
Manager, Financial Sector Supervision

CHRISTINE VELLOS
Manager, Research

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.

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.
- Disseminating information produced by the Bank, particularly economic reports and bulletins, research papers, relevant acts and regulations and related guidelines.
- 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.
- 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.
- Management of 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 international bank licenses.
- Supervising and regulating banks and financial institutions through on-site examination and off-site surveillance.
- Processing of applications for large credit exposures under section 21(2) of the Banks and Financial Institutions Act and 21 b (2) of the International Banking Act.
- Promoting and conducting anti money-laundering surveillance of financial institutions licensed under the BFIA.

Research

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

Other Operations

- Monitoring and maintaining the Bank's information technologies.
- Oversight of Internal Audit programme.
- Maintaining the Bank's plant and equipment.

Table I.1: Major Economic Indicators

	1998	1999	2000	2001	2002	2003
POPULATION AND EMPLOYMENT						
Population (Thousands)	238.0	243.0	249.8	255.3	262.7	271.1
Employed Labour Force (Thousands)	73.3	77.8	83.7	85.9	84.7	89.2
Unemployment Rate (%)	14.3	12.8	11.1	9.1	10.0	12.9
INCOME						
GDP at Current Market Prices ($mn)	1,377.8	1,464.7	1,663.5	1,734.8	1,851.9	1976.8
Per Capita GDP ($, Current Mkt. Prices)	5,789	6,028	6,659	6,795	7,049	7,292
Real GDP Growth (%)	3.7	8.8	12.3	4.9	4.3	9.4
Sectoral Distribution of Constant 2000 GDP (%)						
Primary Activities	15.4	15.7	15.6	14.9	14.5	17.7
Secondary Activities	16.1	16.1	17.9	16.9	16.5	15.0
Services	68.5	68.2	66.5	68.1	69.0	67.3
MONEY AND PRICES ($mn)						
Inflation (Annual average percentage change)	(0.8)	(1.2)	0.6	1.1	2.3	2.6
Currency and Demand deposits (M1)	206.1	255.1	310.2	364.8	358.1	361.1
Quasi-Money (Savings and Time deposits)	561.3	585.1	655.7	676.0	705.3	740.0
Money Supply (M2)	767.4	840.2	965.9	1,040.8	1,063.4	1101.1
Ratio of M2 to GDP (%)	55.7	57.4	58.1	60.0	57.4	55.7
CREDIT ($mn)						
Commercial Bank Loans and Advances	625.6	654.5	695.4	788.5	904.5	1041.7
Public Sector	18.9	8.4	11.1	12.9	15.9	26.4
Private Sector	606.8	646.1	684.3	775.6	888.6	1015.5
INTEREST RATE (%)						
Weighted Average Lending Rate (WALR)	16.3	16.3	15.8	15.4	14.5	14.2
Weighted Average Deposit Rate	6.0	5.7	5.0	4.3	4.5	4.9
Weighted Average Interest Rate Spread	10.3	10.6	10.8	11.1	10.0	9.3
CENTRAL GOVERNMENT FINANCES ($mn)						
Current Revenue	294.5	327.1	349.8	372.1	425.8	422.2
Current Expenditure	260.0	278.8	308.4	333.7	334.4	393.0
Current Account Surplus(+)/Deficit(-)	34.5	48.3	41.4	38.4	92.3	29.1
Capital Expenditure	93.6	165.3	247.5	267.4	260.3	216.0
Overall Surplus(+)/Deficit(-)	(28.6)	(29.1)	(139.9)	(142.4)	(68.8)	(213.6)
Ratio of Budget Deficit to GDP at mkt. Prices (%	(2.1)	(2.0)	(8.4)	(8.2)	(3.7)	(10.8)
Domestic Financing (Net)	27.6	(8.6)	(74.0)	72.7	(220.9)	(62.4)
External Financing (Net)	14.2	38.5	213.5	69.8	278.3	276.7
BALANCE OF PAYMENTS (US $mn)						
Merchandise Exports (f.o.b.)[1]	194.4	261.5	281.8	269.1	309.7	316.3
Merchandise Imports (f.o.b.)[2]	294.1	379.9	484.4	481.9	497.9	525.6
Trade Balance	(99.7)	(118.4)	(202.6)	(212.8)	(188.2)	(209.3)
Remittances (Inflows)	31.2	33.5	52.6	41.8	37.7	44.2
Tourism (inflows)	105.4	105.6	117.1	119.2	129.3	150.4
Services (Net)	49.5	46.7	34.2	52.5	52.9	72.6
Current Account Balance	(40.9)	(73.9)	(165.5)	(186.1)	(164.3)	(182.0)
Capital and Financial Flows	17.1	99.7	206.7	179.1	160.3	146.8
Gross Change in Official International Reserve:	15.4	(27.2)	(51.6)	2.8	5.5	30.1
Gross Official International Reserves	43.9	71.1	122.8	120.1	114.7	84.6
Import Cover of Reserves (in months)	1.6	2.1	3.2	3.2	3.2	2.1
PUBLIC SECTOR DEBT						
Disbursed Outstanding External Debt (US $mn	260.7	252.5	433.7	486.6	574.5	749.7
Ratio of Outstanding Debt to GDP at Mkt. Prices	37.8	34.5	52.1	56.1	62.0	75.8
External Debt Service Payments (US $mn)	33.2	33.7	43.1	68.0	75.2	72.0
External Debt Service Ratio (%)[5]	9.8	8.1	9.8	15.3	15.2	13.6
Disbursed Outstanding Domestic Debt ($ mn)	180.0	171.5	176.0	210.8	174.2	257.8
Domestic Debt Service Payments ($ mn)	15.7	12.2	22.6	17.7	19.2	13.7

Sources: Ministry of Finance, Central Statistical Office, & the Central Bank of Belize

[1] Includes CFZ gross sales in 1999 to 2001

[2] Includes CFZ direct imports in 1999 to 2001

[3] Minus = increase

[4] Excludes guaranteed debts

[5] = amounts related to refinancing were excluded

ECONOMIC REVIEW

Overview

GDP growth in real terms accelerated to 9.4% in 2003 largely due to a considerable expansion in output of banana and farmed shrimp. A bouyant tourism industry provided an additional boost as increases of 79.9% in cruise ship arrivals and 11.6% in stayover tourists set the stage for expansion in hotels and restaurants and other related services. A small contraction occurred in the secondary sector as reduced construction activity outweighed modest growth in manufacturing and utilities.

With much of the economy's growth being traced to productivity gains in farmed shrimp and the post hurricane recovery of the banana industry, labour force growth outstripped the pace of job creation. The unemployment rate consequently rose from 10.0% to 12.9%. Consumer prices also rose with higher costs for fuel at the pump and other imports contributing to a 2.6% increase in the Consumer Price Index (CPI).

Robust growth in domestic exports was largely offset by a sharp contraction in re-exports, and while imports and external debt related payments accelerated, current transfers from abroad declined. The current account deficit consequently widened to $361.9mn (18.3% of GDP) The gap was mainly financed by external loans and to a lesser extent by foreign direct investment inflows, and the drawing down of international reserves by some $60.4mn. At year-end the international reserves stood at $169.2mn, the equivalent of 2.1 months of imports.

Growth in the broad money supply accelerated slightly to 3.5% while liquidity conditions in the banking system tightened. Propelling M2's growth was a 19.5% expansion in net domestic credit with both the private sector and Central Government receiving substantial increases. The bulk of commercial bank loans to the private sector went to various service providers and the building & construction sub-sector. Net advances for agriculture (mostly traditional export crops) accounted for 8.0% of the total.

The heightened growth in credit and debt servicing underpinned a 48.0% contraction in the net foreign asset component of the money supply over the period reviewed. As in 2002, monetary growth lagged behind the pace of GDP expansion partly due to current account outflows and the shift of business to offshore banks by EPZ and CFZ companies. The latter also had a negative impact on liquidity as accelerated lending coincided with lower deposit inflows even as the number of banks competing for the same deposit base had increased from 4 to 5. Excess statutory liquidity consequently fell to a six-year low in October before recovering in November and December.

As some banks took measures to maintain market shares in conditions of tightened liquidity, the weighted average interest rate on deposits began to move upward. Competition on the lending side also drove the weighted average lending rate down and the result was a 70 basis points contraction in the weighted average spread of the banks to 9.3%.

During the calendar year, the Government's fiscal operations generated an overall deficit of 10.8% of GDP with revenue and grants declining by 13.6% while total expenditure increased by 12.3%. A 17.9% growth in current outlays drove the increase in expenditure while the fall-off in revenue was largely explained by the winding down of the privatization programme and advanced receipts of grant funds in 2002 for projects undertaken in 2003. Financing came mostly from external sources with loan disbursements significantly exceeding amortization payments as well as loans from the domestic system.

Increased use of overdraft financing combined with loan disbursements from a local commercial bank caused the Government's domestic debt to grow by 47.9% to $257.8mn and raised its domestic debt to GDP ratio from 9.4% to 13.2%. Principal and interest payments amounted to $1.8mn and $11.9mn, respectively. The external debt of the public sector (excluding publicly guaranteed debt of $287.2mn) grew by 30.5% to $1,499.3mn (75.8% of GDP). Disbursements and upward valuation adjustments during the year totaled $503.2mn and $8.6mn, respectively, while principal and interest payments (excluding refinancing outlays) amounted to $144.6mn.

The outlook for 2004 is for real growth in GDP ranging between 4.0% to 5.0%. Further expansion in export agriculture and farmed shrimp should boost domestic exports by at least 4.0% and the secondary sector should contribute positively as agro-processing expands to cope with larger sugar and citrus crops. Steady growth in the services sector should also continue in view of expected increases of 30.0% in cruise ship arrivals and 4.0% in stay-over tourists. Meanwhile, some fiscal tightening is expected in view of the government's stated commitment to roll back the deficit to within 3.0% of GDP. Toward this end, several new tax measures are likely to be instituted early in 2004. Inflation should continue to be moderate with some increase expected due to the recent 1.0% increase in the sales tax and higher rates for international freight. Monetary policy will focus on protecting the fixed exchange rate through close monitoring of commercial bank credit and liquidity trends in the coming months to determine whether any further changes in reserve requirements are called for.

International and Regional Developments

Soaring oil prices linked to the war in Iraq, the SARS epidemic in Asia and a general rise in the level of market uncertainty created temporary setbacks for the world economy in 2003. Although the developed economies appeared to suffer the greatest impact with consumer and business confidence declining as political/war tensions in the Middle East increased, some Latin American countries also experienced further deterioration. In the first part of the year, a weakening American dollar and tight domestic economic policies caused the rate of expansion in several European Union (EU) countries to be restrained. However, early cessation of major hostilities in Iraq paved the way for oil price declines and the start of a global economic recovery led by the United States (US), which experienced one of its largest growth spurts in the third quarter. India and China enjoyed boisterous growth of 8.4% and 9.1%, respectively, and Japan delivered its highest growth rate of the past four years. Europe's recessionary trend also eased so that after a rather dismal start, the world economy was able to grow by a respectable 3.2% over the year.

Developments in Select OECD and Newly Industrialized Countries

Notwithstanding concerns about the size of its trade and budget deficits, the **United States** economy achieved an overall expansion of 3.2% in 2003 with its third quarter growth being particularly remarkable. The recovery was fueled by fiscal stimulus, the restoration of consumer confidence, low interest rates, higher labour productivity and a weaker dollar. Companies reported record profits as industrial production expanded by 2.3% and businesses successfully kept inventories at the lowest levels ever. Housing construction regained momentum, while the depreciation of the dollar spurred a recovery in US export and import substituting activities. Inflation was held at 2.3% and unemployment marginally improved from 6.0% to 5.7%, with the improvement attributed mostly to people leaving the labour force altogether. The 'jobless recovery' was blamed on the globalisation of the labour market in which both low paid manufacturing and upscale service jobs are increasingly being funnelled abroad.

After a sluggish first quarter performance, the **United Kingdom's** economy gained momentum, with GDP moving from 0.1% in the first quarter, accelerating steadily to 3.8% in the last quarter and finishing the year with overall growth of 2.1%. On the downside, the appreciation of the pound contributed to a 0.5% contraction in industrial production and unemployment rose to 4.9%. To counteract the effects of a slow recovery in the euro area and depressed equity markets, the Bank of England cut its interest rate by a quarter of a percent in February and July, bringing it down to 3.5%. Subsequent strong consumer spending and the rising cost of housing caused inflation to rise above the 2.5% target to 2.8%. With the economy on the upswing and inflation on the rise, monetary policy began to be tightened in the latter part of the year with the interest rate being raised by a quarter percent to 3.8% in November.

Growth in the **Canadian** economy decelerated to 1.7% in 2003 with domestic production, exports and tourism hurt by the SARS epidemic, mad-cow disease, hurricanes, and forest fires. From an all-time low of C$1.61, the Canadian dollar appreciated against the US dollar to a ten-year high of C$1.30, and this cut into overall growth by weakening exports and simultaneously increasing the level of imports. To keep inflation in check, the Bank of Canada raised its overnight rate several times. With oil prices declining, the inflation rate consequently fell from a high of 4.6% in February to 2.7% by year-end. Waning profits and flat industrial production caused the loss of over 80,000 jobs and maintained unemployment at 7.4%. A tightened fiscal stance is expected to produce a higher-than-projected budget surplus for 2003/04 as measures are taken to cut costs while higher tax revenues from banks is being projected.

Japan's recovery continued through 2003 with the economy growing by 2.3%. Driving this growth were an expansionary monetary policy, booming export sales to China and the restructuring of some large firms. With growth highly dependent on exports, the government continuously intervened in the market to keep the yen weak against the dollar, a strategy that paid off with a 5.7% boost in industrial production and a notable decrease in unemployment from 5.5% in 2002 to 4.9% in 2003. Interest rates remained at practically zero (0.02%) and while easing off for a few months, a prevailing deflationary trend persisted, producing a further 0.4% decline in consumer prices.

After a temporary setback in the first half of the year induced by the SARS epidemic, the **Taiwanese** economy rebounded and achieved an overall expansion of 3.2% for the year. Travel bans during the outbreak dampened business, restricted exports and lowered spending and consumption. After being declared disease free in July, the economy regained momentum, boosted by robust exports, especially of computers and electronic gadgets. The export resurgence contributed to a 12.4% increase in industrial production, while unemployment declined from 5.2% to 5.0%. With consumer confidence still somewhat shaky and domestic demand only slowly recovering, the general price level contracted by 0.1%.

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

Country	GDP Growth Rate (%)		Industrial Production (%)		Inflation Rate (%)		Unemployment Rate (%)	
	2002	2003	2002	2003	2002	2003	2002	2003
United States	2.4	3.2	(3.5)	2.3	2.8	2.3	6.0	5.7
Canada	3.9	1.7	5.6	0.0	3.9	2.7	7.4	7.4
Taiwan	4.1	3.2	10.5	12.4	1.2	(0.1)	5.2	5.0
United Kingdom	2.1	2.1	(1.3)	(0.5)	2.9	2.8	3.1	4.9
Japan	2.2	2.3	5.5	5.7	(0.3)	(0.4)	5.5	4.9

Sources: Economist, Bloomberg, International Financial Statistics

Developments in Select Regional Economies

The Caribbean

After contracting in each of the previous two years, the **Barbadian** economy expanded by an estimated 2.2% in 2003 driven by the strong performance of tourism, and to a lesser extent, wholesale and retail activity. Arrivals of stay-over tourists rose by 6.6% while cruise ship visitors rose by 10.8%. An increase in construction activity offset declines in sugar production and manufacturing. Unemployment rose marginally from 10.6% to 10.7%, while increases in the prices of food, fuel, electricity, medical and personal care led to inflation of 1.7%. The fiscal position improved as a 6.7% increase in tax revenues alongside a 1.3% growth in central government expenditure lowered the deficit to GDP ratio from 5.7% in 2002 to 4.5% in 2003. Substantial inflows from divestment compensated for stronger import demand and a 1.9% decline in domestic exports, hence, net international reserves rose by US$67.7mn to approximately US$750.0mn.

The **Jamaican** economy picked up momentum with GDP expanding by an estimated 3.0%, as compared to 1.2% in 2002. Growth was driven by a highly buoyant tourism sector, improvements in agricultural production, financial services and construction. However, inflation rose sharply from 7.1% to 12.0% in response to increases in utility charges, transportation costs and an 11.0% adjustment in the minimum wage rate. Contributing to the inflationary pressures were steady increases in the costs of key imports such as oil and growth in the money supply that was fueled by Central Bank financing of the fiscal deficit. The fiscal stance therefore limited the effectiveness of monetary policy to keep core inflation down.

Strong growth in the energy sector supplemented by expansion in distribution, transportation, storage, communication and construction activities underpinned GDP growth of 3.4% in **Trinidad and Tobago** during the first nine months of 2003**.** The rate of unemployment declined from 11.0% in 2002 to 10.3%, despite the loss of jobs arising from the restructuring of CARONI Ltd. and British West Indian Airlines Ltd. (BWIA). An increase in average oil prices to US$29.60 per barrel compared to US$24.01 in the previous fiscal year enabled the government to post a large fiscal surplus, a turnaround from the deficit realized in the previous year. With oil fuelling an export surge, the current account of the balance of payments registered a surplus and official reserves increased by US$137.2mn to US$2.2bn, the equivalent of 6.3 months of imports. The price level declined by 3.9% to 3.0% at the end of September and interest rates were kept low with high levels of liquidity and Central Bank reduction of its benchmark repurchase rate.

Growth in **Guyana's** real GDP decelerated from 2.3% to 1.1% in response to high fuel prices and a slowdown in domestic consumption. Consumer confidence remained shaky, as government faced an uphill political battle to implement a series of fiscal, financial and regulatory reforms to improve the economy's macro-economic fundamentals. A rising crime rate also dampened domestic private investment and raised security costs, particularly in the mining sub-sector. Inflation declined by 1 percentage point to 5.0% mostly due to lower food costs as price competition prompted by weakened domestic demand contributed to a decline in vegetable and fruit prices. With increased export earnings from sugar, other agricultural products and tourism, the Guyana dollar stabilized against other currency, ending the year at G$194.25 to the US dollar. Notwithstanding the deterioration in the current account of the balance of payments, net international reserves increased marginally by 0.6% to US$128.8mn because of inflows received under the International Monetary Fund's Poverty Reduction & Growth Facility (PRGF) and debt relief from the Heavily Indebted Poor Countries (HIPC) Initiative.

OECS

Economic activity in the Organization of Eastern Caribbean States (OECS) in the first six months of 2003 expanded, driven by growth in tourism, wholesale and retail trade, communication and government services. Total visitors to the currency union fell by 3.2% to 1.2mn as a decline in cruise ship arrivals was only partially offset by an increase in stay-over visitors. The continued loss of preferences in traditional markets saw agricultural production decline, while the performance of the manufacturing sector was sluggish in the face of increased competition in international markets. Although the current fiscal deficit of the combined central governments increased, a reining in of capital expenditure combined with an increase in grants caused the overall deficit to decline by 14.5% to EC$160.3mn.

Mexico

A flurry of export activity in Mexico's oil industry only partly compensated for dampened domestic demand and stagnation in the non-oil sectors. Growth in the economy consequently slowed from 1.9% in 2002 to 1.3% in 2003. The global upswing in oil prices led to a 29.2% narrowing of the trade deficit to US$5.6bn and sufficiently boosted government's revenues to lower the fiscal deficit as a percent of GDP from 1.3% to 0.5% despite the loss of income from other productive sectors. To a large extent, the anemic performance in the non-oil sector reflected the loss of Mexican manufacturing's competitive edge to China and

Table II.2: Selected Indicators for Some Caribbean Countries

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		Deficit/GDP Ratio (%)	
	2002	2003	2002	2003	2002	2003	2002	2003
Barbados	(0.4)	2.2	2.1	1.7	10.5	10.6	(4.1)	n.a.
Jamaica	1.2	3.0	7.3	14.1	15.0	n.a	(6.0)	n.a.
Trinidad	3.1	3.4	4.5	3.0	11.0	10.3	n.a.	n.a.

Sources: Central Bank of Barbados, Central Bank of Trinidad & Tobago,
West Caribbean Quarterly Forecast Report
n.a: not available

Central America. In a bid to check inflation, monetary policy was tightened, leading to higher interest rates that prevailed for much of the year. This slowed the rate of growth in credit as well as domestic consumption. Nonetheless, inflation stubbornly rose by 0.3 percentage points to 4.0%. Unemployment also rose from 2.8% to 3.0% in response to a small upturn in labour force participation and slow job growth.

Central America

Except for El Salvador, growth in all Central American countries accelerated in 2003, averaging above 2.0%. This growth was export led and driven mainly by increased world demand (particularly in the US and China) as well as by higher export prices for key commodities such as sugar and coffee. Improved exchange rate stability along with prudent monetary and fiscal policies resulted in relatively low inflation across the region. However, the moderate upturn in economic activity was not sufficient to reverse high levels of unemployment (a hangover from the poor economic performances of recent years).

At 5.6%, the **Costa Rican** economy recorded its highest GDP growth in 5 years. High-technology and agriculture were the most dynamic sectors, contributing to a 15.0% (US$780.0mn) increase in total exports. The strong expansion in real sector activities pushed the trade deficit downward from 5.7% of GDP in 2002 to 5.5% and kept the unemployment rate steady at 6.7%. Notwithstanding the upsurge in economic activity, increased government spending during the year resulted in the fiscal deficit to GDP ratio declining only marginally to 4.1%. Meanwhile, the Central Bank raised interest rates and intervened in the foreign exchange market to reduce monetary expansion in order to achieve its objective of low and stable inflation.

After experiencing minimal growth of 0.5% in 2002, the **Nicaraguan** economy bounced back in 2003 with a 2.3% rise in GDP. The upturn was attributable to household consumption, higher wages and increases in credit and family remittances from abroad. The modest revival in domestic demand and higher fuel prices pushed inflation upwards from 4.2% in 2002 to 6.5%. Meanwhile,

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

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		Deficit/GDP Ratio (%)		Trade Balance US $bn	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Costa Rica	2.8	5.6	10.0	9.5	6.8	6.7	(4.3)	(4.1)	n.a	n.a
Mexico	1.9	1.3	3.7	4.0	2.8	3.0	(1.3)	(0.5)	(8.2)	(5.6)
El Salvador	2.0	1.8	2.8	2.2	7.1	10.0	(2.7)	(3.5)	n.a	n.a
Honduras	2.0	2.5	8.0	7.2	6.2	28.0	(5.2)	(5.8)	(1.1)	n.a
Guatemala	2.0	2.4	6.3	5.5	3.4	7.5	(1.5)	n.a	(0.2)	(1.1)
Nicaragua	0.5	2.3	4.2	6.5	12.9	24.0	(9.0)	(6.9)	n.a	n.a

Sources: ECLAC, Business Monitor International
n.a: not available

fiscal policies continued to focus on driving down the fiscal deficit (from 9.0% of GDP in 2002 to 6.9% of GDP in 2003) in order to enable Nicaragua to qualify for access to the HIPC initiative.

GDP growth in **Panama** quickened to 3.0% in response to upturns in tourism (especially cruise ship arrivals), the construction sector and in Canal and port operations. As at September, construction activities were up 50.8% (US $453.4mn) over the 2002 position. Increased tax revenues helped officials keep the fiscal deficit manageable while inflation, typical of dollarized economies, remained low at 0.9%. In other developments, unemployment remained unchanged at 16.0%, indicating that the labour market has not yet recovered from the lackluster economic performance of recent years.

The **Guatemalan** economy grew by 2.4%, a modest improvement over the previous year. Increased exports to the US market, particularly from the maquilladora sector, and improvements in coffee prices were the main factors underpinning this performance. Domestic consumption was also spurred by increased receipts of family remittances from abroad. Inflation declined from 6.3% to 5.5% as monetary policy was tightened and the exchange rate remained relatively stable. Meanwhile, the government kept the fiscal deficit to a minimum in line with the commitments it has made under the stand-by agreement negotiated with the IMF.

Growth in **Honduras** measured 2.5%, up from the 2.0% realised in 2002. The economy benefitted from a surge in maquilladora exports to the US market and the improvement in coffee prices, another key export commodity. Stability in the exchange rate helped to maintain the downward trend in inflation (recorded at 7.2% at the end of 2003). On the other hand, unemployment rose significantly from 6.2% to 28.0% as labour costs surged and non-export sectors experienced a slowdown. Increased government spending led to a 0.6 percentage point increase in the fiscal deficit from 5.2% of GDP in 2002 to 5.8% of GDP in 2003.

GDP growth in **El Salvador** held steady at 2.0% in 2003 as a turnaround in agricultural exports (mainly coffee and sugar) influenced by increased world demand and high export prices was somewhat offset by reductions in construction activities and industrial output. Unemployment continued its upward trend during the year, increasing by 3.9 percentage points to 10.0% while tight monetary policies contributed to a decline in the inflation rate from 2.8% to 2.2%. Notwithstanding a general focus on tight fiscal policies in this dollarized economy, the deficit as a percent of GDP increased from 2.7% to 3.5%. On a positive note, an 8.8% increase in remittances (expected to exceed US$2.0bn in 2003) allowed the economy to cover 79.0% of its visible trade deficit.

Domestic Production, Prices and Employment

Production

Real GDP accelerated to 9.4%, more than doubling the 4.3% increase of 2002. Growth was led by the primary sector, which expanded by a substantial 36.6% after an anemic 0.7% increase in 2002. Bolstered by a 5.5% increase in services, this performance was more than sufficient to overshadow a small contraction in the secondary sector.

The production surge in the primary sector was closely linked to a 111.0% expansion in fishing that was propelled by the doubling of farmed shrimp output. The latter was facilitated by the introduction of a Taura resistant strain and an increase in active pond acreage. Agriculture also expanded by 15.4% as production of almost all major grains increased and banana rebounded from hurricane damage with a 79.5% yield improvement. In contrast, forestry and logging contracted by 5.6% as operations to salvage pine trees affected by the pine bark beetle ceased and the country complied with CITES (Convention on International Trade On Endangered Species) regulations regarding the export of mahogany.

The secondary sector contracted by 1.6% as a reduction in construction activities outweighed modest increases in manufacturing and utilities (electricity and water). The lackluster performance in construction was associated with the slowdown

Table III.1: Annual Percent Change in Selected Indicators

	2001	2002	2003
GDP at Current Market Prices	4.4	6.8	6.4
Real GDP (2000 prices)	4.9	4.3	9.4
Primary Activities	(0.2)	0.7	36.6
of which: Agriculture	(2.4)	2.9	15.4
Fishing	3.8	(6.7)	111.0
Forestry	16.6	17.0	(5.6)
Secondary Activities	(0.8)	2.7	(1.6)
of which: Construction	(1.7)	5.2	(13.0)
Manufacturing	(0.7)	1.5	3.1
Services	7.8	6.6	5.5
of which: Restaurant & Hotel	13.5	2.5	8.0
Trade	7.6	4.0	4.8
Public Administration	5.8	2.7	5.1
Transport and Communication	11.8	11.2	2.6
Financial intermediation	4.2	16.5	10.1
Consumer Price Index			
Average	1.1	2.3	2.6
End of period	0.9	3.2	2.3

Source: Central Statistical Office

in government funded, residential housing projects and the wrap-up of major projects on highways and hurricane rehabilitation and preparedness.

The healthy growth in services reflected heightened activity in tourism, financial intermediation, real estate and government services. Increases of 10.5% in stay-over and 79.9% in cruise ship arrivals led to an 8.0% expansion in the hotel and restaurant sub-sector. Financial intermediation grew by 10.1% with increased lending and earnings by domestic and offshore banks licensed in Belize. Transport and telecommunications rose by 2.6% as a new telephone company completed its initial phase of infrastructural development and began offering cellular telephone service in the latter part of the year.

With productivity gains accounting for much of the economic expansion, growth in the labour force outstripped the pace of job creation. The unemployment rate consequently rose from 10.0% in 2002 to 12.9% in 2003.

Prices rose consistently throughout the year, resulting in an annual inflation rate as measured by the CPI of 2.6%. Increased market uncertainty due to the Iraq conflict drove up the acquisition cost of fuel during 2003 and contributed significantly in raising overall living costs. Pressuring prices upward as well was the estimated 1.5% increase in the cost of imported goods as proxied by the US export price index.

Agriculture

Sugarcane

The 2002/2003 sugarcane crop contended with drought conditions during its critical growth phase as well as declining field inputs as many farmers struggled with high debt burdens and low sugarcane prices.

Sugarcane deliveries for the crop year consequently declined by 6.7% to 1,073,339 long tons. Of total deliveries, the Belize Sugar Industries (BSI) cane-growing project yielded 33,590 long tons, while the company's research division produced 13,508 long tons. The cane-growing project demonstrated the tremendous potential for productivity improvements in crop management with an average yield per acre of 35 long tons compared to the industry's average of 17 long tons.

While the quality of the sugarcane was stable, high mud levels persisted in the factory deliveries, as farmers have been very slow to adjust harvest practices to accommodate the use of mechanical harvesters.

Table III.2: Sugarcane Deliveries

	2000/01	2001/02	2002/03
Deliveries to BSI (long tons)	1,023,440	1,150,656	1,073,339

Source: Belize Sugar Industries Ltd.

In contrast to the previous year when farmers received a total of $39.35 per long ton of sugarcane ($38.08 from the processor and $1.27 in relief payments from the Sugarcane Stabilisation Fund and the Sugarcane Industry Development Fund), the average price for 2002/2003 improved markedly to $44.09 in response to higher international prices.

Citrus

Citrus production fell for the second consecutive year as factory deliveries for the 2002/2003 crop shrank by 4.2% to 5.1mn boxes. The declining yields were mostly due to the inadequate use of inputs and lax agronomic practices that have become prevalent as cash squeezed farmers cope with the string of low prices experienced in recent years. Putting a further damper on output was the loss of approximately 30,000 boxes of fruit from heat damage caused by drought and extremely high temperatures during the first months of 2003. Additional pressures came from the decline of trees on swingle rootstock and the presence of several pests and diseases.

While orange deliveries fell by a modest 1.8% to 4.1mn boxes, those of grapefruit, where price pressures were greater, contracted by 12.4% to 1.1mn boxes. Notwithstanding a weakening in export prices for orange juices caused by huge global inventories, an expansion in regional sales coupled with an improvement in fruit quality led to an equivalent average box price for oranges of $5.90, slightly above the $5.88 paid in 2002. In contrast, the grapefruit price fell by 3.4% to $4.58 per box as sluggish demand in key markets pushed down export prices overall.

Payment for oranges based on the pound solids (ps) system resulted in equivalent prices per box of fruit ranging from $4.50 to $7.90. Of the 520 growers who delivered fruit this year, 76.0% (mostly small growers) received a per box payment equivalent to $5.90 or more. Only four growers received less than $5.00 per box equivalent. A Pound Solids Authority (PSA) established through the joint efforts of the Citrus Growers Association (CGA) and the Citrus Products of Belize Limited (CPBL) oversees the quality system. This focus on quality was so successful that discussions subsequently started on the feasibility of incorporating grapefruit into the pound solids programme.

Banana

Replanting efforts and European Union (EU) funded improvements in field drainage and irrigation raised field productivity and banana output significantly. Annual production, a substantial portion of which was in the first half of the year, rose from 2.4mn boxes in 2002 to 4.0mn boxes in 2003.

Table III.3: Citrus Fruit Deliveries*

	2000/01	2001/02	2002/03
Deliveries ('000 boxes)	7,195	5,350	5,124
Oranges	5,734	4,119	4,046
Grapefruits	1,461	1,231	1,078

Source: Citrus Growers Association
* Crop year runs from September to June.

In January, the acreage under banana cultivation stood at 6,384 acres with 5,292 producing and 641 under plantilla (trees too young to produce fruit). Another 451 acres were ready for planting. By December 2003, the acreage under banana cultivation stood at 6,132 acres, of which 5,729 were producing, 393 had plantilla and only 10 were ready for planting. An additional 26 acres were earmarked for expansion.

Encouraged by a pricing system that set a higher box price for the first half of the year, farmers continued the costly process of shifting more production into the January to June period when prices in Europe are higher.. This effort raised the proportion of export production occurring during the first part of the year from an average of about 37.0% to 46.0%, notwithstanding the prevalence of high pressure systems during this period that lower temperatures and negatively impact plant yields. Net payment to growers, after deducting for licenses and quality penalties, amounted to US$6.29 per box.

Papaya

Approximately 973 acres were under papaya cultivation during the year (517 acres having harvestable trees and 456 acres containing young non-producing trees). The Corozal district accounted for practically all acreage under cultivation.

Low world prices for the small solo papaya compounded by quality problems precipitated an industry shift towards the cultivation of only large papayas. During 2003, some 100 acres were retired and only 8 acres remained under solo papaya cultivation. The possibility of future cultivation of small papayas does remain if trials with small

Chart III.1: Banana Acreage

Brazilian fruits are successful in identifying a high yielding but hardy variety that has a longer shelf life.

Even though export prices plunged in 2003 as fruit supplies from major producers such as Brazil and Mexico increased, the outlook for Belizean papaya production remains highly positive since the large papayas currently dominating local production are superior in quality to those from Brazil and freight charges are lower due to proximity to the US market.

Other Agricultural Production

Except for sorghum, production of all major grains increased in 2003. Given the inverse relationship between sorghum and corn as substitutes in animal feed, corn output increased by 8.0% to 79.5mn pounds while sorghum decreased by 24.3% to 20.2mn pounds. Soybean production expanded by 70.8% to 3.5mn pounds due to the continuation of the government funded soybean project and a minimum guaranteed purchase price of $0.34 per pound of grade "A" beans. By year-end, the area under cultivation had increased from 2,088 acres to 2,602 acres. Rice output also grew by 11.1% to 26.8mn pounds as acreage under mechanization and irrigation expanded, while favourable weather conditions enabled a doubling in production of red kidney beans.

The performance of the livestock sub-sector was mixed. High farm gate prices (between $0.95 to $1.15 per pound for quality animals) and the absence of major diseases enabled a 10.7% production increase in cattle dressed weight to 4.5mn pounds. Milk output grew by 8.2% to 9.0mn pounds as producers improved pastures and feeding regimes. High farm gate prices also contributed to a 9.2% rise in pig dressed weights to 2.3mn pounds. On the other hand, poultry dressed weights contracted by 4.5% following a strong heat wave in May that pushed up bird mortality rates, resulting in the death of some 27,500 broilers and 200 breeder broiler birds. Meanwhile, the improvement in honey yields was held to a minimal 0.1mn pounds as deforestation, forest fires, the burning of sugarcane fields and a prolonged dry spell affected flora production.

Marine Products

Higher yields of shrimp and conch raised fisheries production from 11.1mn pounds in 2002 to 23.6mn pounds in 2003.

White-farmed shrimp output more than doubled to 22.3mn pounds with the timely re-stocking of ponds and the use of a Taura resistant strain that raised survival rates from 30% to between 60% and 70%. Yields would have been even higher were it not for the presence of bacteria that depressed production at one of the largest farms during the second half of the year . In contrast to the white-farmed shrimp, wild shrimp capture declined by 37.0% due to a late start in trawler activities. On the other hand, wild capture of conch grew by 18.1% as product demand surged due to a US moratorium on the importation of Queen Conch meat, shell and products from the Dominican Republic, Honduras and Haiti.

Reports from the fishing cooperatives showed their purchases of whole fish falling from 0.1mn pounds in 2002 to 0.02mn pounds in 2003, a decline which followed a determination by the cooperatives that the required processing was uneconomical. Fishermen consequently sold the bulk of their catch directly to consumers at higher prices in the local market.

Forestry, Mining and Construction

After positive growth in 2001 and 2002, forestry and logging activities declined by 5.6% in 2003 due to the completion of salvaging efforts to retrieve logs from trees damaged by the pine bark beetle and a reduction in the quantity of mahogany exported as the country complied with its commitments to CITES. The CITES listing requires that mahogany logging be done only in areas that have a certified forest management plan to ensure that its extraction is not detrimental to the survival of the species in the wild. Government also placed a moratorium on logging in the northern districts to address overexploitation issues.

Notwithstanding an increase in private sector construction loans, construction activity declined by 13.0%, as the government reduced the scale of its residential projects and began to focus specifically on low-income housing. Also contributing to the slowdown was the completion of major works on highways and the wrap-up of construction relevant to the hurricane preparedness program. Mining activity grew by 6.8% due to various land development projects, the initial stages of the construction of the Chalillo hydroelectric dam and the resumption of exploration for precious metals.

Manufacturing

Sugar and Molasses

Factory operations commenced on November 25, 2002, and closed on June 25, 2003, after 214 days of operation compared to 220 days for the 2001/2002 year.

In response to a 6.7% contraction in sugarcane deliveries, sugar production fell by 6.2% to 104,433 long tons. High mud content in deliveries reduced the average grinding rate from 270 tons cane per hour (TCH) in the previous crop to 266 TCH in 2003. To address this problem, the processor installed new mud filters and urged farmers to adjust their mechanical harvesting practices. During the year, a major failure of the factory's power generating plant resulted in a 0.2% increase in factory down time. Although cane purity was stable, the cane/sugar ratio improved from 10.34 to 10.28 because of a 2.2% improvement in the sucrose content (Pol) of the sugarcane.

Table III.4: Sugar and Molasses Production

	2000/01	2001/02	2002/03
Sugar Processed (long tons)	103,862	111,312	104,433
Molasses Processed (long tons)	34,410	40,947	42,944
Performance			
Overall Factory Efficiency	88.6	93.28	93.11
Cane Purity (%)	85.65	85.08	85.08
Cane/Sugar Ratio	9.85	10.34	10.28

Source: Belize Sugar Industries Ltd.

Lower mill extraction and sugar recovery rates caused by the higher fibre content and mud levels in the sugarcane increased losses of sucrose to the factory's by-products and consequently boosted the output of the molasses by 4.7% to 42,944 long tons.

Citrus Juices and Pulp

Notwithstanding a 4.2% shrinkage in factory deliveries caused by a variety of agronomic and climatic factors, production of juices was up 3.4% to 28.4mn ps for the 2002/2003 crop year. The stress on the delivery of high quality fruit along with improvements in factory efficiency saw the average yield of juice per box of orange increase 3.0% to 5.78 ps, while the out-turn for grapefruit amounted to 3.96 ps per box.

The bulk of fruits went into the production of concentrate juices, the mainstay of the industry. Nonetheless, concentrate production contracted by a miniscule 0.1%, as a 2.6% expansion in orange juice almost compensated for a 14.3% fall in that of grapefruit, the fruit with the steepest decline in deliveries.

In contrast to the concentrates, production of Not-From-Concentrate (NFC) juices more than doubled to 1.6mn ps with orange and grapefruit making up two-thirds and one-third of output, respectively. Although Brazil and Spain dominate this niche market, production of NFC juices is done on a minimal scale to retain a small market presence and take advantage of transitory price hikes as occurred with orange NFC in 2003.

Pulp production fell by 20.3% to 0.4mn pounds even with the resumption of grapefruit pulp extraction this year, albeit on a very modest scale (0.05mn pounds). Sales of this commodity had been affected by quality problems so output was scaled back to ensure that rigorous quality assurance standards are met.

Other Manufacturing Production

Production of other manufactured goods increased in 2003, except for beer and batteries, which fell by 9.2% and 30.2%, respectively. Since 2000, battery manufacture has been in decline and the closure of one producer in mid 2002 had a big impact on 2003 production levels. On the other hand, output of soft drinks, fertilizers, flour, rum and cigarettes all rose to meet domestic demand. Continuing its steady growth of the past six years, annual soft drink production increased by 3.5% to 5.7mn gallons. Fertilizer output also rose by 11.1% to 30,866 metric tons as usage in the citrus, sugarcane and banana

Table III.5: Production of Citrus Juices and Pulp

	2000/01	2001/02	2002/03
Production ('000 ps)	37,205	27,482	28,413
Orange Concentrate	31,677	22,506	23,099
Grapefruit Concentrate	4,557	4348	3728
Not-from-concentrate (NFC)	971	627	1,586
Production (pounds)			
Pulp	2,427	459	366

Source: Citrus Products of Belize Ltd.

fields expanded. Flour production grew by 3.4% to 26.9mn pounds, a record high level, while that of cigarettes expanded by a more modest 2.7% to 86.4mn units, still below the 87.6mn units achieved in 2001. After a temporary setback some years ago, rum production grew steadily over the last four years and recorded a 13.8% increase to 17.0mn gallons in 2003.

Tourism

Tourism grew robustly notwithstanding a 1.2% decline in world tourism caused by the US – Iraq war, the SARS epidemic and heightened security measures, particularly on international air travel. Total stay-over bona fide tourists increased by 11.6% and cruise ship arrivals were up by 79.9%.

With the upswing in arrivals of stay-over bona fide tourists that began in December 2002 continuing throughout 2003, the annual count rose from 177,120 in 2002 to 197,746 in 2003. Air arrivals were up by 19.8% and more than offset a 11.0% decline in land travellers. Fortunately, the suspension of Air Jamaica flights to Belize in mid-year did not affect air travel to the country negatively. The route was intended to transfer US passengers to Belize through Air Jamaica's Montego Bay hub, but could not compete with US Air, which had a similar strategy for its hub in Charlotte, North Carolina.

An intensive marketing campaign in the US helped to boost visitor volumes and attracted those who wished to stay closer to home in view of SARS and fears of terrorist reprisals. Hence, the US accounted for 62.9% of all tourists and for virtually all the growth in overnight visitors. At 12.7% of all arrivals, Europeans comprised the second largest market. Already under pressure from negative factors, travel by European visitors to the country grew by only 2.4% as economic growth slowed overall in Europe.

Building on the phenomenal growth of the previous year, the number of cruise ship visitors rose sharply from 271,737 to 488,917 in 2003. This was achieved with several new cruise lines coming to Belize and the addition of more port calls by existing lines.

Table III.6: Bonafide Tourism Arrivals

	2001	2002	2003
Stayover Arrivals			
Air	128,975	127,305	152,447
Land	36,914	41,399	36,857
Sea	10,144	8,416	8,442
Total stayovers	176,033	177,120	197,746
Cruise Ship Arrivals*	40,899	271,737	488,917
Expenditure by stay-overs	*$220.1mn*	*$220.2*	*$246.1mn*
Expenditure by cruise visitors	*$3.7mn*	*$24.7mn*	*$44.5mn*

Sources: Immigration Department, Belize Tourism Board, Central Bank of Belize
*Arrivals measure tourists disembarking from the ship

Box 1: Tourism Developments and Prospects

Developments in 2003

In stark contrast to the slowdown in global tourism, Belize's tourism industry did exceptionally well during 2003. An intensive marketing campaign in the major market, the United States, boosted the volume of stay-over tourists by 10.5%, while the cruise ship sub-sector surged as several cruise lines came to Belize and existing cruise lines added more port calls.

During the year, tourism administrators focused on enhancing human resources and physical infrastructure to improve the quality of visitors' stay in the country. The last phase of the Belize Tourism Village was completed with the construction of a fourth terminal that houses between 50 to 60 new stores, all catering mostly to the rapidly growing cruise ship market. The consolidation and enhancement of thirteen key Mayan sites completed the scheduled restoration works on the archaelogical sites. The entrance to Placencia was paved to improve accessibility to this increasingly popular tourist destination and in Caye Caulker, another popular tourist destination, a water taxi dock was constructed. New immigration and customs facilities at the northern and western borders were officially inaugurated and the fourth phase of the project to put up directional signs on the major highways and in the main towns went ahead on schedule. Work also commenced on the reclamation of land on Belize City's seafront which will enable the construction of a marine parade to relieve the traffic congestion caused by tour buses servicing the Tourism Village. On the cultural front, the renovation of the House of Culture was completed, while considerable progress was made in construction works on the Bliss Centre for the Performing Arts.

Efforts were also made to build in-country capacity to deliver quality services at all levels through various training programmes. In this regard, the Belize Tourism Board's Training Unit trained approximately 1000 individuals in diverse areas such as tour guide operations, bar tending, communications and other various aspects of service provision. In other developments, the management of the international airport, Philip Goldson International Airport (PGIA), was privatised with a view to improving efficiency and attracting new capital for future expansion.

With air traffic to the country up substantially and accounting for virtually all the increase in stay-over tourists, overall airline activities were quite buoyant. On the down side, Air Jamaica suspended its flights from Belize to Montego Bay on June 1st 2003, some seven months after opening this route, since it could not compete with US Air. The three US carriers, on the other hand, instituted additional flights and increased the frequency of some flights at various times of the year to cope with the surge in air arrivals.

Prospects:

During 2004, major developments in the tourism industry are expected to include:

a)Completion of the project to enchance archaeological sites and improve on-site facilities;

b)Expansion of the runway at the Philip Goldson International Airport;

c)Upgrade of the road from the Northern Highway to Altun Ha;

d)Continuation of the Tourism Training Project;

e) Completion of the Marine Parade in Belize City and the construction of a boardwalk at the mouth of the river;

f)Increased advertising outreach to the European market;

g)Re-opening of the Bliss Centre for the Performing Arts.

Table III.7: Quarterly Percentage Change in CPI Components by Major Commodity Group

Major Commodity	Weights	Feb-03	May-03	Aug-03	Nov-03	Annual Inflation Rate
Food, Beverage and Tobacco	346.6	0.8	0.5	0.9	0	2.6
Clothing and Footw ear	92	1.1	0.1	-0.2	-0.5	0.7
Rent, Water, Fuel and Pow er	167	1.1	-0.6	0.0	4.0	3.1
Household goods & Maintenance	85.3	0.1	0.0	0.2	-0.4	0.1
Medical Care	20.1	0.1	0.6	0.0	0.2	0.7
Transport and Communication	170.1	0.4	0.7	1.7	0.4	5.1
Recreation , Education, Culture	80.4	-0.5	0.2	0.0	0.7	1.0
Personal Care	37.9	0.1	-0.4	0.1	-0.6	0.2
All items	1000	0.6	0.2	0.6	0.8	2.6

Source: Central Statistical Office

Prices

The conflict in Iraq drove up fuel acquisition costs during 2003 and contributed significantly in raising the overall price level. Also contributing to the upward pressure was a 1.5% increase in the cost of imported goods as proxied by the US export price index. Approximately half of Belize's imports are sourced from the USA, so Belize's inflation rate closely parallels that of the USA. Hence, with prices rising consistently throughout the year, the annual inflation rate as measured by the Consumer Price Index (CPI) was 2.6%.

The increase was across the board with the largest occurring in '*Transport and Communication*' as higher fuel prices at the pump pushed up the cost of public and private transportation. The next largest increase was in the '*Rent, Water, Fuel and Power*' category. The latter was particularly affected by the raising of the

Table III.8: Employed Labour Force by Industrial Group

Industrial Group	2001	2002	2003
Agriculture nec	17,570	18,422	17,164
Forestry, logging, saw milling	1,248	773	864
Fishing and fish processing	2,242	1,188	2,120
Mining and Quarrying	341	210	360
Manufacturing	5,952	6,182	6,739
Electricity, gas & w ater	1,011	644	778
Construction	7,275	7,652	7,475
Wholesale, retail, repair	14,326	14,002	14,687
Tourism (Hotels & Restaurants)	7,870	9,203	9,400
Transport and Communication	3,437	3,006	3,297
Financial intermediation	1,457	1,536	1,518
Real Estate, renting	1,593	1,448	1,770
General Government Services	11,094	8,639	10,309
Community, Social & Personal Services	10,356	11,348	10,779
Work Abroad*	38	299	1,676
Activities not classified elsew here	58	168	286
Total, All Sectors	85,868	84,720	89,222

Source: Central Statistical Office

* Covers w ork abroad and in 2003, w orkers in commercial free zone as w ell.

price for butane gas as well as the water company's decision to change from meters based on imperial gallons to meters based on US gallons, a smaller unit of measurement. Costs for *'Food, Beverage and Tobacco'* rose by 2.6%, while more modest increases occurred in the remaining categories making up the CPI's basket of goods and services.

Employment

The pace of job creation was slower than expected since much of the economic expansion consisted of productivity gains in farmed shrimp production, increased output of banana and larger profits from financial intermediation by onshore and offshore banks. While the number of employed persons rose by 5.3% to 89,222, the labour force grew by 8.8% to 102,441 individuals . The rate of unemployment consequently rose from 10.0% in 2002 to 12.9% in 2003.

At 19.2%, agriculture was the largest job market in the country, followed by trade with 16.5% of the employed labour force. Community, social services and public administration ranked third and fourth in job provision, while tourism, at 10.5% of total employment, was the fifth largest employer. In line with the surge in marine production, employment in this sub-sector increased by a significant 78.5%, while land development projects expanded new job opportunities in mining/quarrying and real estate by 71.4% and 22.2%, respectively. Building on the employment gains of the previous year, a bouyant tourism industry accommodated a 2.1% job increase.

Most of the increase in the labour force came from the female population who accounted for the larger proportion of unemployed workers as well. The latter indicated that women were entering the work force at a much faster rate than the jobs they traditionally do were being created.

Monetary and Financial Developments

Money Supply

M2 (broad money) grew by 3.5% driven by a 19.3% expansion in net domestic credit during the year. While supporting the acceleration in economic activity, the credit expansion also facilitated the growth of imports and other payments abroad and resulted in a 48.0% contraction in net foreign assets. As in 2002, monetary growth lagged behind the pace of GDP expansion largely due to the shift of business to offshore banks by several EPZ and CFZ companies. After increasing in the first quarter, bank liquidity progressively tightened as rapid growth in lending coincided with the lowering of EPZ/CFZ inflows and shifts in market shares as the system adjusted to accommodate the rapid growth of the newest bank. The heating up of competition led to a further narrowing of the commercial bank weighted average interest spread, reversing a consistent upward trend in the previous decade.

M1 (narrow money) grew marginally as a $6.5mn rise in demand deposits was partly offset by a $3.5mn decline in the public's currrency holdings. Growth in quasi-money accelerated slightly (from 4.3% in 2002 to 4.9%) reflecting an upward surge in time deposits. The 9.4% expansion in the latter contrasted with a 5.2% contraction in savings deposits, a partial indication of increased depositor responsiveness to the higher interest rates that were being offered by the banks.

Net Foreign Assets

Strong credit growth, higher external debt payments and reduced EPZ inflows accounted for an approximate halving in net foreign assets of the banking system (from $256.3mn to $133.3mn). Central Bank foreign asset holdings shrank by 26.2% with outflows of $675.3mn relative to

Table IV.1: Factors Responsible for Money Supply Movements

$mn

	Position as at			Changes During 2003
	Dec 2001	Dec 2002	Dec 2003	
Net Foreign Assets	**294.2**	**256.3**	**133.3**	**-123.0**
Central Bank	237.3	223.3	163.4	**-59.9**
Commercial Bank	56.9	33.0	(30.1)	**-63.1**
Net Domestic Credit	**986.3**	**951.2**	**1,135.1**	**184.0**
Central Government (Net)	110.9	30.4	90.7	**60.4**
Other Public Sector	97.0	29.5	21.2	**-8.3**
Private Sector	778.4	891.3	1,023.2	**131.9**
Central Bank Foreign Liabilities (Long-term)	**93.5**	**18.5**	**7.5**	**-11.0**
Other Items (net)	**146.1**	**125.6**	**159.8**	**34.3**
Money Supply M2	**1,040.8**	**1,063.4**	**1,101.1**	**37.7**

Chart IV.1: Ratio of M2 to GDP

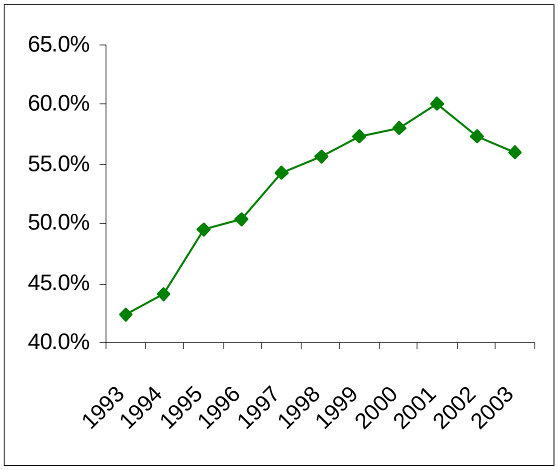
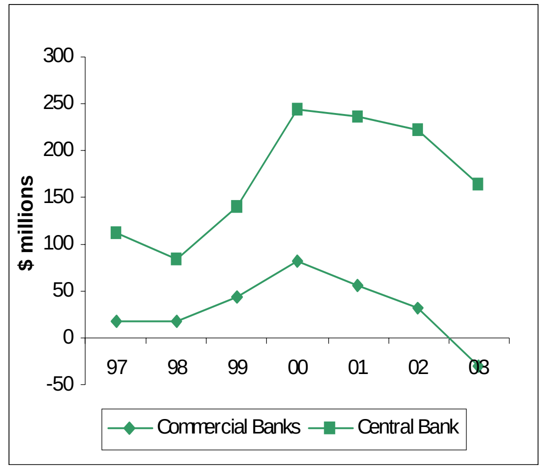


Chart IV.2: Annual Change in Net Foreign Assets of Commercial Banks & Central Bank



inflows of $615.2mn. Loan disbursements accounted for 78.2% of the latter, notable among which were receipts of $191.3mn from a Bear Stearns bond issue and $154.4mn from the International Bank of Miami. Sugar exports contributed $64.1mn and $52.0mn was purchased from a local commercial bank. Grants, revaluation gains and interest earnings made up the remainder. Outflows were dominated by sales to the public sector of some $474.9mn, much of which was used to service the external debt and effect a down payment for Belize Telecommunication Limited (BTL) shares. Sales to the commercial banks rose by 10.8% to $141.9mn, and Belize Electricity Limited (BEL) received $52.6mn for debt servicing and fuel purchase. The Bank's short-term foreign liabilities declined marginally with decreases in EU Banana Support Programme deposits and the CARICOM Bilateral Clearings balance overshadowing increases in EDF deposits.

Table IV.2: Money Supply

$mn

	Position as at			Changes During 2003
	Dec 2001	Dec 2002	Dec 2003	
Money Supply (M2)	**1,040.8**	**1,063.4**	**1,101.1**	**37.7**
Money Supply (M1)	**364.8**	**358.1**	**361.1**	**3.0**
Currency with the Public	105.2	106.8	103.3	-3.5
Demand Deposits	259.6	251.3	257.8	6.5
Quasi-Money	**676.0**	**705.3**	**740.0**	**34.7**
Savings Deposits	216.9	216.8	205.5	-11.3
* Time Deposits	459.1	488.5	534.5	46.0

*Includes Non-Residents Foreign Currency Time Deposits of $33.8mn

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

$mn

	Position as at			Changes During 2003
	Dec 2001	Dec 2002	Dec 2003	
Net Foreign Assets of Banking System	**294.2**	**256.3**	**133.3**	**-123.0**
Net Foreign Assets of Central Bank	**237.3**	**223.3**	**163.4**	**-59.9**
Central Bank Foreign Assets	240.2	229.3	169.2	-60.1
Central Bank Foreign Liabilities(Demand)*	2.9	6.0	5.8	-0.2
Net Foreign Assets of Commercial Banks	**56.9**	**33.0**	**(30.1)**	**-63.1**
Commercial Bank Foreign Assets	133.7	113.5	119.5	6.0
Commercial Bank Foreign Liab. (Short-Term) **	76.8	80.5	149.6	69.1

* Does not include Central Bank Long-term Foreign Liabilities of $7.5mn

** Does not include Non-residents Foreign Currency Time Deposits of $33.8mn held with Commercial Banks.

The foreign asset position of the commercial banks deteriorated for the third consecutive year, with net holdings plunging by $63.1mn to negative $30.1mn. While foreign assets rose by a minimal $6.0mn, short-term foreign liabilities ballooned by $69.1mn, an 85.8% increase over 2002, as additional borrowings from head offices and foreign banks were undertaken to finance the domestic lending programme and provide liquidity support.

Net Domestic Credit

Strong reliance on overdraft financing from the Central Bank during the first quarter build-up to elections contributed to a 198.7% ($60.4mn) rise in net domestic credit to Central Government over the year. The overdraft balance held with the Central Bank rose by $74.1mn and advances from the commercial banks totalled $11.2mn. Foreign loan inflows (particularly in June and December) enabled

Table IV.4: Net Domestic Credit - Summary

$mn

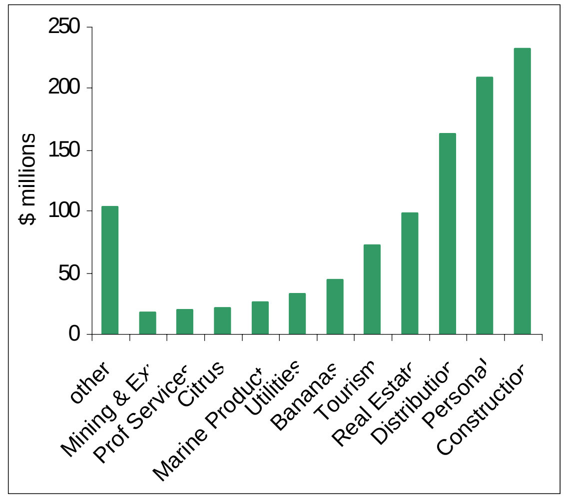
	Position as at			Changes During 2003
	Dec 2001	Dec 2002	Dec 2003	
Total Credit to Central Government	**166.0**	**126.8**	**220.5**	**93.7**
From Central Bank	78.2	63.8	165.5	101.7
From Commercial Banks	87.8	63.0	55.0	-8.0
Less Central Government Deposits	55.1	96.4	129.8	33.4
Net Credit to Central Government	**110.9**	**30.4**	**90.7**	**60.4**
Plus Credit to Other Public Sector	**97.0**	**29.5**	**21.2**	**-8.3**
Plus Credit to the Private Sector	**778.4**	**891.3**	**1,023.2**	**131.9**
Net Domestic Credit of the Banking System	**986.3**	**951.2**	**1,135.1**	**184.0**

deposit holdings with the Central Bank to eventually rise by some $39.4mn. Credit to statutory bodies declined by $8.3mn as DFC (with Central Government assistance) made repayments to the Central Bank and a local commercial bank.

Activity in the secondary market for Treasury Bills reflected the heating up of domestic lending with commercial banks trading in some $19.2mn (34.0% of their holdings) and substituting higher interest loans in their asset portfolios. Other private sector entities also surrendered $8.4mn leaving the Central Bank with 82.0% of total Bills being traded at year-end.

In consonance with the quickening pace of economic activity, credit to the private sector accelerated to 14.8%. The bulk went to the tertiary sector with loans to various service providers up 22.5%, an increase that followed a 17.0% expansion in the previous year. Construction dominated the secondary sector once again with a net increase of $30.8mn (15.3%). Most of these funds (71.0%) were for residential and commercial projects being undertaken by the private sector. Loans for primary production focused largely on the recovering banana industry, which experienced a 23.5% rise in funding from the banks. Loans for mining were up by nearly 50.0% due to various land development projects and the renewed search for precious metals. Lending for citrus cultivation rose by 17.6% after a minimal increase in 2002 when the industry shifted its main source of funding to offshore banks. Forestry also attracted additional financing with some $2.0mn being advanced to this usually quiet sector.

Chart IV.3: Sectoral Distribution of Outstanding Commercial Banks Loans



Liquidity

After a first quarter upward boost that was partly linked to the rise in pre-election spending, bank liquidity tightened even though external funds were increasingly relied upon to facilitate the acceleration in domestic lending. Higher payments abroad, lower EPZ/CFZ inflows and shifts in market shares as the system adjusted to accommodate the rapid growth of the newest bank contributed to the general contraction. With substantial increases in credit to the private sector, particularly in the second

Chart IV.4 : Quarterly Change in Excess Liquidity

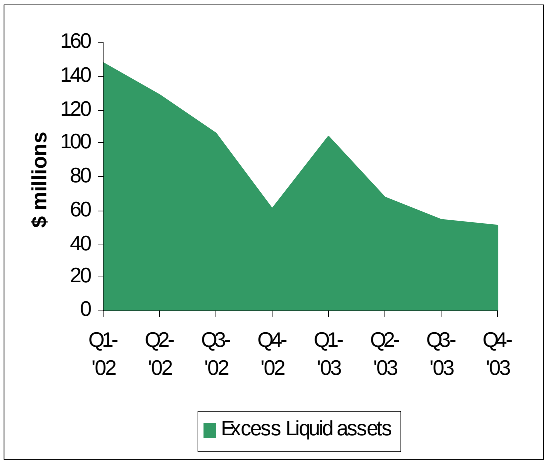
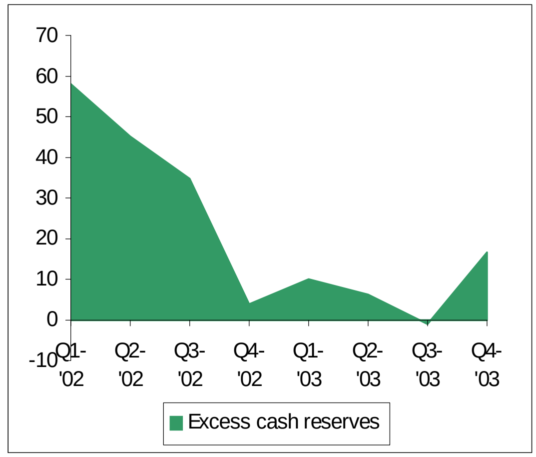


Chart IV.5 : Quarterly Change in Excess Cash Reserves



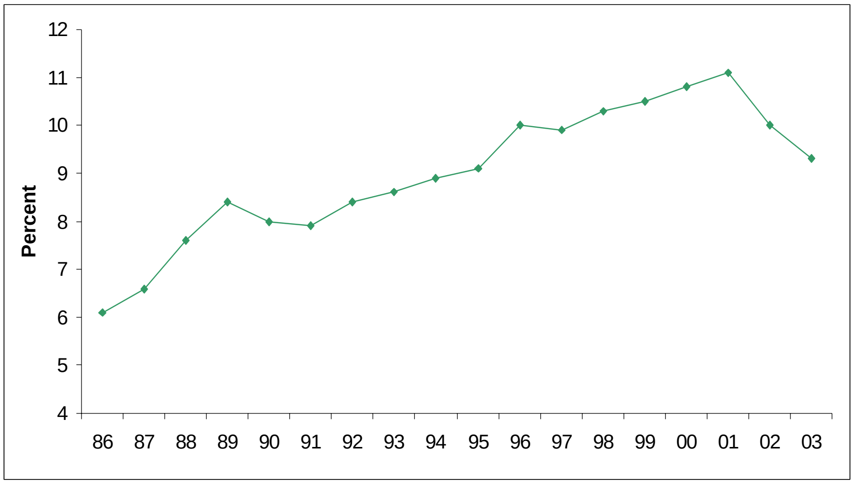
and third quarters, excess statutory liquidity fell to a six-year low of $18.9mn at the end of October. As the fourth quarter approached, the Central Bank, acting in its lender of last resort capacity, provided temporary liquidity support while prevailing on commercial banks to restrain the growth in lending and redirect credit from the consumption-based sectors (where loan demand was strongest) to the more productive, income generating sectors. By year-end, excess statutory liquidity rebounded, though still finishing some $9.6mn lower than the position at the start of the year. Among notable portfolio changes were increases in cash balances held with the Central Bank and other approved assets (i.e. new housing loans) of $14.8mn and $13.0mn, respectively. Short-term foreign balances fell by $17.7mn, reflecting the sustained pressure from the imbalance in private sector transactions with entities abroad.

Table IV. 5 : Commercial Banks' Holdings of Approved Liquid Assets

$mn

	Position as at			Changes During
	Dec 2001	Dec 2002	Dec 2003	2003
Holdings of Approved Liquid Assets	**354.3**	**304.2**	**303.4**	**-0.8**
Notes and Coins	22.9	27.4	29.8	2.4
Balances with Central Bank	87.2	64.8	79.6	14.8
Money at Call and Foreign Balances (due 90 days	97.2	91.7	74.0	-17.7
Treasury Bills maturing in not more than 90 days	64.6	33.1	19.8	-13.3
Other Approved assets	82.4	87.2	100.2	13.0
Required Liquid Assets	**232.5**	**243.4**	**252.2**	**8.8**
Excess/(Deficiency) Liquid Assets	**121.8**	**60.8**	**51.2**	**-9.6**
Daily Average holdings of Cash Reserves	86.6	64.4	79.9	15.5
Required Cash Reserves	35.1	60.8	63.1	2.3
Excess/(Deficiency) Cash Reserves	**51.5**	**3.6**	**16.8**	**13.2**

Chart IV.6 : Commercial Banks' Weighted Average Interest Rate Spread



Shored up by external funding from headquarters and affiliates, commercial banks were able to raise the level of excess primary liquidity more than four-fold to \$16.8mn by the end of the year with daily average holdings of cash reserves rising by \$15.5mn relative to a \$2.3mn increase in required holdings.

Interest Rates

Increasingly competitive behaviour led to a narrowing of the weighted average interest rate spread for the second year in a row as the banks sought to maintain market shares in conditions of tightened liquidity by offering more attractive rates to customers. The change represented a reversal of the consistently upward trend observed in the previous decade. The weighted average deposit rate rose to 4.9%, some 40 basis points higher than at the start of the year led by a 70 basis points increase in the weighted average time deposit rate. Competition on the lending side also drove the weighted average lending rate down by 30 basis points to 14.2%.

Central Government Operations and Public Debt

Central Government Operations

Fiscal operations during the 2003 calendar year generated an overall deficit of $213.6mn (10.8% of GDP) . While revenue and grants shrank by 13.6%, expenditure rose by 12.3% with current and capital expenditure up 17.9% and 5.2%, respectively. The sharp increase in current expenditure coincided with a 0.8% decline in current revenue and the current surplus therefore contracted from $92.3mn in 2002 to $29.1mn in 2003.

While increases were recorded in all major categories of current expenditure, the largest was in interest payments on the public debt, which rose by 49.4% to $77.4mn. Salary and pension payments rose by approximately 11.5% reflecting increased payments to government executives, teachers, the police department and the Belize Defence Force BDF). Although purchases of goods and services rose by 20.8%, its share of current outlays declined further to 18.9%.

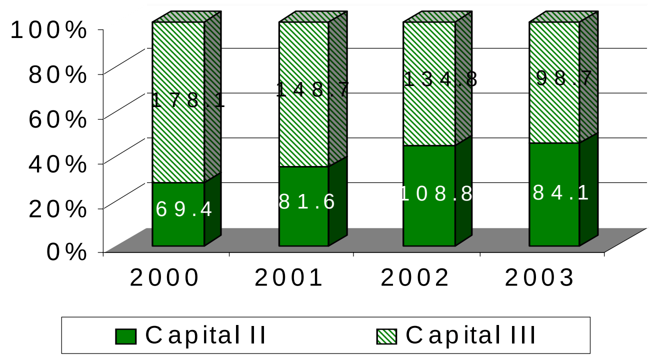
Current revenue fell to $422.2mn (21.4% of GDP) as a $19.7mn contraction in non-tax revenue overshadowed a $16.2mn increase in tax receipts. The contraction in the former reflected lower receipts from repayments of old loans, government departments and property income. On the other

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

$mn

	Jan-Dec 2001	Jan-Dec 2002	Jan-Dec 2003	Change during 2003
Current Revenue	372.1	425.8	422.2	(3.6)
Tax Revenue	322.3	354.0	370.2	16.2
Non-Tax Revenue	49.8	71.7	52.0	(19.8)
Current Expenditure	333.7	333.4	393.0	59.6
CURRENT BALANCE	**38.4**	**92.3**	**29.1**	**(63.2)**
Capital Revenue	73.8	67.5	24.8	(42.7)
Capital Expenditure (Capital II local sources)	81.6	108.8	89.6	(19.1)
OPERATING SURPLUS	**30.6**	**51.1**	**(35.7)**	**(86.7)**
Total Grants	12.8	31.7	6.4	(25.3)
(of which non-project)	-	-	-	-
Total Revenue and Grants	458.7	524.9	453.4	(71.5)
Total Capital Expenditure	267.4	260.3	273.9	13.6
of which Hurricane Reconstruction	57.8	26.0	2.5	(23.6)
Unidentified Expenditure	-	-	36.0	36.0
Total Expenditure	601.1	593.8	667.0	73.2
OVERALL BALANCE	**(142.4)**	**(68.8)**	**(213.6)**	**(144.8)**
balance excluding Hurricane ERF	(84.6)	(42.8)	(211.1)	(168.3)
FINANCING	142.4	68.8	213.6	144.8
Domestic Financing	72.7	(220.9)	(62.4)	158.5
External Financing	69.8	278.3	276.7	(1.6)
Other	(0.1)	11.4	(0.7)	(12.1)
Ratio of Overall Balance to GDP (%)	**(8.2)**	**(3.7)**	**(10.8)**	**(7.1)**

Chart V.1: Central Government's Development Expenditure



hand, tax revenue rose by 4.6% with vigorous growth in economic activity pushing up receipts from taxes levied on income and profits as well as those on goods and services. Income from international trade and transactions rose only marginally as an 11.6% rise in imports into the customs territory was largely offset by duty exemptions awarded to EPZ's. With no privatisation inflows to boost receipts in 2003, capital revenue subsided to a more modest $24.8mn and the early receipt of grant funds in 2002 for projects scheduled in 2003 almost fully accounted for the steep decline in grant revenue.

The declines in capital II and III outlays was not sufficient to offset the almost trippling of net lending to DFC and unidentified expenses, thus leading to a 5.2% increase in the overall capital expenditure . Roughly 25.0% of capital outlays was allocated to infrastructural development, hurricane preparedness, land reclamation and acquisitions, the University of Belize, the Museum of Belize and counterpart funding for the southern highway. The balance covered a multiplicity of small items ranging from the Social Investment Fund (SIF) to tertiary level scholarships.

Financing for the overall deficit came principally from external sources with loan disbursements of $499.5mn outweighing amortization payments of $100.9mn, partial payment for BTL shares ($104.0mn), deposits into a sinking fund ($27.4mn) as well as overdraft financing provided by the Central Bank.

Central Government's Domestic Debt

The Government's domestic debt rose by $83.5mn as a loan disbursement of $10.0mn from the Belize Bank and a $75.3mn increase in its overdraft balance (mainly with the Central Bank) eclipsed amortization payments made on loans from the DFC, the BSSB and commercial banks and the US/GOB debt for nature swap. The domestic debt to GDP ratio consequently rose from 9.4% to 13.2%. The bulk of the overdraft financing from the Central Bank took place in the period prior to the elections in March.

Interest payments totalled $11.9mn, with approximately $5.1mn consisting of charges associated with the overdraft balance. Holders of Treasury Bills and Treasury Notes received $2.7mn and $2.1mn, respectively. The $1.9mn balance was shared among the DFC, the Belize Bank, the BSSB and the US/GOB debt for nature swap.

External Public Sector Debt

The public sector's disbursed outstanding external debt increased by approximately 30.5% to $1,499.4mn, raising the debt to GDP ratio from 62.0% to 75.8%. Central Government's share stood at $1,413.5mn. External financing from commercial sources increased from 48.9% to 60.3%, while financing from all other sources contracted.

Disbursements totalled $503.2mn and of this amount, $100.4mn was used to retire existing loans. Hence, of the $245.0mn expended in principal and interest payments, $144.6mn was used to effect normal debt service payments. The debt service ratio consequently fell from 15.3% to 13.6%.

Approximately 99.3% of total disbursements were to Central Government and included some $435.2mn from commercial sources. Notable among these were $191.3mn from the International Bank of Miami and $200.0mn from Bear Stearns, which was used to effect the refinancing programme. Another $53.6mn came from multilateral creditors led by the IDB, which extended $30.6mn for projects such as Southern Highway construction, tourism development, and hurricane rehabilitation. The $9.5mn balance came from bilateral creditors like the Banco Nacional De Comercio (Bancomex), which advanced $8.1mn for the cultural infrastructure project. Disbursements to the financial public sector consisted entirely of loans to DFC from the EEC ($2.1mn) and the CDB ($1.6mn).

Chart V.2: Sources of Central Government's Domestic Debt

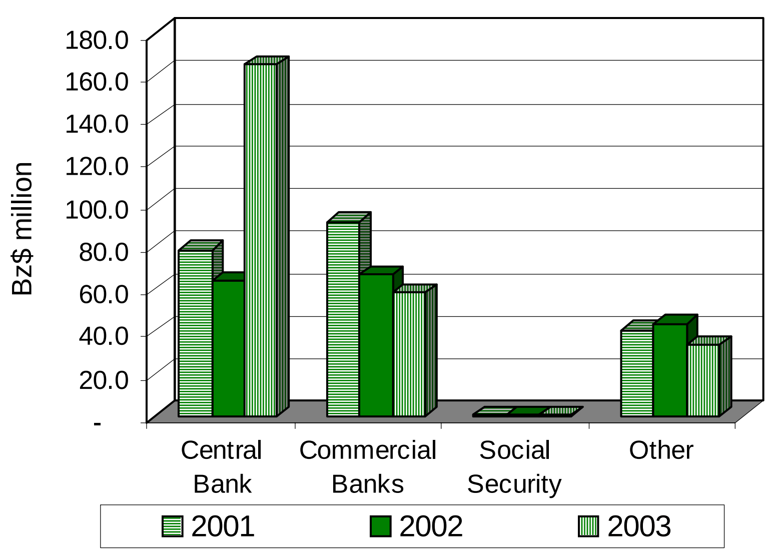


Table V.2: Central Government's Domestic Debt

$mn

Instrument	2001	2002	2003
Loans & Advances	95.6	35.2	118.8
Treasury Bills	70.0	100.0	100.0
Treasury Notes	24.0	24.0	24.0
Defence Bonds	15.0	15.0	15.0
Debentures	6.2	-	-
Total	**210.8**	**174.2**	**257.8**

Sources: Ministry of Finance, Central Bank of Belize

Of the $100.9mn in Central Government amortization payments, the bulk ($74.1mn) went to commercial creditors with the International Bank of Miami and commercial suppliers accounting for $32.0mn and $22.0mn, respectively. The latter was largely made up of prepayments to Banco Santander and Barclays Bank, which were facilitated by the proceeds of the US$100.0mn Bear Stearns bond issue. Payments on bilateral loans amounted to $16.5mn and included $7.4mn to Taiwan and $4.8mn to the UK Government. Multilateral agencies such as IBRD, CDB and the OPEC Fund received a combined total of $10.3mn.

Loan repayments by the financial public sector were dominated by the $55.1mn paid to commercial creditors. Again, much of this consisted of prepayments using funds derived from the Bear Stearns bond issue. In comparison, multilateral and bilateral agents received $3.1mn and $0.4mn, respectively. Amortization payments by the non-financial public sector totalled $2.0mn.

Interest and other payments grew by 49.9% to $83.5mn as Central Government made sizeable payments to commercial creditors such as Bear Stearns & Co. Inc. ($33.2mn), the Royal Merchant Bank ($11.4mn), Salomon Smith Barney ($5.4mn) and the International Bank of Miami ($4.0mn). Other Central Government payments to multilateral and bilateral creditors totalled $8.7mn and $10.0mn, respectively. Interest payments by the financial and non-financial public sectors summed to $5.9mn with 57.6% going to commercial lenders and multilateral and bilateral lenders accounting for 33.9% and 8.5%, respectively.

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

$mn

	2001	2002	2003
Disbursements	219.9	482.2	503.2
Repayments	70.3	293.1	161.5
Net Financing Flows	149.6	189.1	341.7
Interest Payments	60.1	55.7	83.5
Net Transfers	89.5	133.4	258.2

Sources: Ministry of Finance and the Central Bank of Belize

Box 2: External Debt and Publicly Guaranteed Debt

At the end of 2003, the outstanding public sector external debt stood at $1,499.4mn, a figure that does not include publicly guaranteed debt, which totals $287.2mn. These contingent liabilities include mortgage securitization liabilities of the DFC and the BSSB, and the guaranteed debt of the privatized enterprises. Under the mortgage securitization operations, the public sector maintains the credit, liquidity and exchange risks inherent to the operations by way of a subsidiary guarantee provided by the government. In addition to the securitizations, the government has a contingent liability for the external borrowing of three privatized enterprises, BEL, BWSL and Port of Belize Limited. When these are added to the outstanding public sector debt, the total outstanding debt increases to $1.8 billion for 2003 and the external debt/GDP ratio rises to 90.4%.

External Debt and Publicly Guaranteed Debt

	2001	2002	2003
(In millions of Bz dollars)			
External Debt Outstanding (end of period)	**1,290.2**	**1,534.2**	**1,783.6**
Public Sector Debt	**973.2**	**1,149.0**	**1,499.4**
Central Government	682.2	1,009.3	1,413.6
Non-Financial Public Sector	39.6	16.2	14.3
Financial Public Sector	251.4	123.6	71.5
Publicly Guaranteed Debt	**317.0**	**385.2**	**284.2**
Debt for Privatized Enterprises	95.4	112.0	96.4
Securitization proceeds	221.6	273.2	187.8
(In percent of GDP)			
External Debt Outstanding (end of period)	**74.4**	**82.8**	**90.4**
Public Sector Debt	**56.1**	**62.0**	**75.8**
Central Government	39.3	54.5	71.5
Non-Financial Public Sector	2.3	0.9	0.7
Financial Public Sector	14.5	6.7	3.6
Publicly Guaranteed Debt	**18.3**	**20.8**	**14.5**
Debt for Privatized Enterprises	5.5	6.0	4.9
Securitization proceeds	12.8	14.8	9.5

Table V.4: Public Sector External Debt by Source

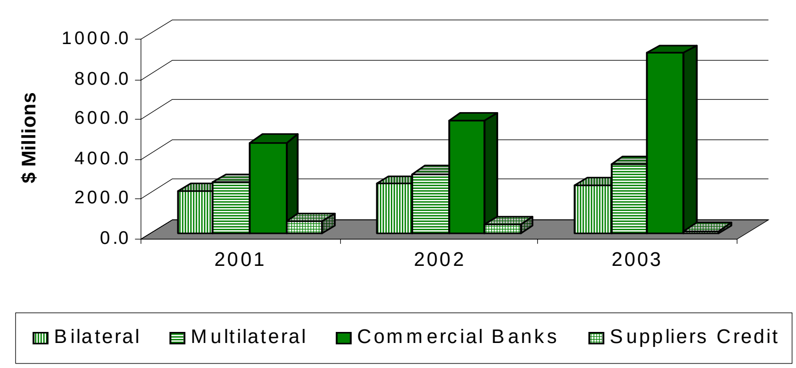
$mn

	Disbursed Outstanding Debt 31/12/2002	Transactions During 2003				Disbursed Outstanding Debt 12/31/2003
		Disbursement	Amortization	Interest & Other Charges	Valuation Adjustments	
Bilateral	247.6	9.5	17.5	10.5	2.1	241.6
Multilateral*	296.2	57.4	13.4	10.7	4.6	344.8
Commercial Banks*	561.9	432.5	92.1	60.8	1.8	904.2
Suppliers Credit	43.4	3.9	38.5	1.6	-	8.8
Total	**1,149.0**	**503.2**	**161.5**	**83.5**	**8.6**	**1,499.4**

* Effective 31/12/02 the Port Authority loans were classified as private sector debt following its full privatization.

Appreciation of the euro, pound sterling and dinar against the US dollar led to upward valuation adjustments of $8.6mn during the year with the outstanding value of dinar, sterling and euro denominated loans increasing by $0.3mn, $1.8 and $6.5mn, respectively.

Chart V.3: Sources of Public Sector External Debt



Foreign Trade and Payments

After narrowing in 2002, Belize's current account deficit grew by 10.0% to $361.9mn (from 17.8% to 18.3% of GDP), as a surge in tourism and export revenues was overshadowed by increased imports, larger external debt service payments and a decline in receipts from current transfers. The deficit was partly financed by $288.0mn in net capital and financial inflows and by the drawing down of some $60.1mn from the official international reserves. While still substantial, the capital and financial account surplus was 8.3% lower than the previous year as increased government and private sector borrowings and foreign direct investment inflows were partly offset by the government's partial payment for BTL. Withdrawals from the official reserves caused the gross position to decline from $229.3mn to $169.2mn, the equivalent of 2.1 months of imports.

Merchandise Trade

Exports (f.o.b.) and imports (f.o.b.) were up by 2.1% and 5.6%, respectively, causing the merchandise trade deficit to widen by 11.2% to $418.6mn (21.2% of GDP).

Domestic exports fuelled the expansion in the export sector with a healthy 20.7% increase that outweighed the contraction in merchandise sales from the CFZ. This contrasted with 2002 when disease and hurricane damage caused a modest contraction in export production that was more than compensated for by record high CFZ sales. The substantial decline in CFZ sales reflected lower fuel sales and the tightening of Customs controls by Mexican authorities. On the other hand, gross imports rose to $1.1bn, as an 11.8% increase in imports into the customs territory outweighed an 18.4% decrease in CFZ imports.

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

($mn)

	2001 Net	2002 Net	2003 Net
CURRENT ACCOUNT	**-372.2**	**-329.1**	**-361.9**
Merchandise Trade	-425.7	-376.5	-418.6
Services	105.0	105.1	147.3
Income	-149.8	-150.9	-179.6
Current Transfers	98.4	93.3	89.1
CAPITAL ACCOUNT	**2.3**	**22.9**	**-96.1**
FINANCIAL ACCOUNT	**355.8**	**291.2**	**384.1**
NET ERRORS & OMMISSIONS	8.6	4.2	13.8
OVERALL BALANCE	-5.5	-10.9	-60.1
FINANCING	5.5	10.9	60.1
Memo Items			
Import cover in months	**3.2**	**3.2**	**2.1**
Current Account/GDP Ratio (%)	**(21.5)**	**(17.8)**	**(18.3)**

Table VI.2: Balance of Payments - MerchandiseTrade

($mn)

	2001	2002	2003	Change
Goods Exports, f.o.b.	**538.1**	**619.4**	**632.6**	**2.1%**
of which: Domestic Exports	322.5	316.7	382.1	20.7%
CFZ sales	199.3	298.6	236.8	-20.7%
Goods Imports, f.o.b.	**963.8**	**995.9**	**1,051.2**	**5.6%**
of which: Free Circulating Area	841.7	791.2	884.2	11.8%
CFZ	122.1	204.7	167.0	-18.4%
Merchandise Trade Balance	**-425.7**	**-376.5**	**-418.6**	**11.2%**

Higher fuel acquisition costs prompted by the US-Iraq war and increased consumption of inputs by companies in EPZs were key factors in the imports surge. Included in the latter was capital equipment for a new telephone company.

Domestic Exports

Price improvements, increased sales to CARICOM and the resurgence of production in banana, shrimp and papaya pushed domestic exports to $382.1mn. Except for citrus and molasses, all major traditional exports expanded.

Notwithstanding a fall in the volume of sugar exports, higher prices in the preferential markets and expanded sales to CARICOM resulted in increased sugar revenues. Earnings from molasses fell marginally as demand stagnated and prices weakened under pressure from higher supplies out of Asia. Similarly, the value of citrus juice shipments into inventory abroad declined because of the fall in global citrus prices and the higher proportion of concentrates in the export mix. Extensive rehabilitation works and investments to enhance field productivity and production boosted banana exports to a record high level, driving up export

Table VI.3: Domestic Exports

$mn

	2001	2002	2003
Traditional Exports	**305.6**	**302.3**	**367.9**
Sugar*	59.4	66.0	71.2
Citrus Juices**	95.1	81.8	79.8
Citrus Concentrate	*88.6*	*67.2*	*78.6*
Not-from-Concentrate	*6.5*	*14.6*	*1.2*
Molasses	1.6	2.7	2.5
Bananas	42.8	33.5	52.6
Marine**	63.7	69.8	110.2
Garments	30.4	30.6	31.4
Sawn Wood	2.3	2.6	3.6
Papayas	10.3	15.3	16.6
Non-traditional Exports	**16.9**	**14.4**	**14.2**
Total Exports	**322.5**	**316.7**	**382.1**

Source: Central Statistical Office, Central Bank's Estimates

* Based on estimates and not sales

** Value of export shipment and not sales.

revenues by 57.0% despite a $1.92 decline in the average box price. Meanwhile, the marine sub-sector forged to the forefront to become the number one domestic export earner with revenues of $110.2mn. Garment revenues modestly increased, while earnings from sawn wood strengthened, as higher prices per board foot more than offset a decline in export volume. Export earnings from papaya also rose, as a larger sales volume overshadowed a sharp decline in papaya prices caused by the flood of papayas on world markets from Mexico and Brazil. The minimal decline in non-traditional exports was mostly due to lower sales of fresh oranges and citrus oils.

Sugar and Molasses

Notwithstanding the contraction in sugar production and consequent 6.6% decline in export volume to 95,784 long tons, price improvements and a more than doubling of sales into CARICOM pushed up sugar export earnings by 5.4% to $71.0mn.

In line with the gradual reductions in the Special Preferential Sugar (SPS) quota as the "Everything But Arms" (EBA) programme is phased in, shipments to the EU contracted by 5.3% to 46,356 long tons. This contraction will continue until 2006 when the EBA program will be fully implemented and the SPS quota eliminated. Although EU export volume fell, revenues rose 6.4% to $46.5mn as a 12.6% appreciation in the euro/US$ exchange rate caused the average price per pound to rise by US$0.02 to US$0.22.

The US quota was filled at 10,888 long tons valued at $10.0mn, a 1.1% decline in volume and 4.4% increase in value. The revenue gain reflected an increase in the price per pound (from US$0.20 in 2002 to US$0.21 in 2003).

The drive to expand sales to CARICOM where prices (US$0.12 per pound) were more favourable than on the world market (US$0.07 per pound) proved highly successful and was facilitated by the continued contraction in CARICOM sugar

Table VI.4: Exports of Sugar*and Molasses

($mn)

	2001		2002		2003	
	Volume	Value	Volume	Value	Volume	Value
Sugar (long tons)	**90,128**	**60.5**	**102,545**	**67.3**	**95,784**	**71.0**
E.U. (Quota long tons)	44,633	37.7	48,929	43.7	46,356	46.5
USA (Quota long tons)	10,858	8.8	11,014	9.6	10,888	10.0
CARICOM (Quota long tons)	6,004	2.6	5,808	3.4	12,725	6.9
Other (World, long tons)	28,633	11.5	36,794	10.6	25,815	7.6
Molasses	**31,228**	**1.6**	**36,482**	**2.8**	**37,753**	**2.8**

Source: Belize Sugar Industries, CSO

* Reflects actual sales value as reported by the processor and not an estimate of exports value as reported by the CSO.

production. Sales to this market amounted to 12,725 long tons valued at $6.9mn compared with 5,808 long tons valued at $3.4mn realized in 2002. CARICOM purchasers required mostly bagged sugar, a product that commands a higher price than bulk sugar. The industry will therefore maintain its strategy of exploiting the growing regional demand for sugar while at the same time reducing sales to the more volatile and less remunerative world market.

Sales to the world market declined by 29.8% to 25,815 long tons, with revenues down 28.5% to $7.6mn. World market prices remained depressed as favourable weather conditions, acreage expansion and higher yields in major sugar producing countries boosted production.

Although molasses export volume rose by 3.5%, earnings fell by 2.2% as higher supplies from major sugarcane molasses producers in Asia and little or no growth in imports by the principal buyers – the US and EU- prompted a price decline (from $78.09 to $73.82 per long ton).

Citrus Juices and Pulp

Even with high global inventories and declining export prices, citrus juice sales increased by 3.8% and 1.4% in volume and value, respectively, to 26.9mn ps and $58.2mn. The modest revenue improvement reflected expanded sales to the more lucrative regional market and strategic decisions to sell as much stocks as possible to reduce storage costs and maximise profit margins.

While exports of concentrate juices (including freeze concentrates) modestly increased in volume and value, the growth in sales was isolated to grapefruit, which was up by 50.8% in volume and 42.5% in value, while sales of orange juices declined overall.

The US received some 62.0% of total orange concentrate export volume. Although US orange production was down, high stocks and declining consumption of orange juice in this market caused the average price per ps to fall from $1.93 in 2002 to $1.80 in 2003. Some in the industry blame the worrying decline in US juice consumption on the perception that citrus juices may not fit into a low-carbohydrate diet, a fad that has become very popular in the last few years. A concentrated effort to increase sales to CARICOM and benefit from its higher prices (averaging $2.15 per ps versus $1.80 in the US) caused a doubling in export volume and raised revenues from this market by 77.2%. Sales of orange freeze concentrate more than doubled to 1.5mn ps ($5.1mn) as demand picked up in Japan. With more favourable prices in the US and the Caribbean, no orange concentrate was sold in Europe.

In contrast to orange, the bulk of grapefruit concentrate juices went to health conscious consumers in Europe, while none was sold in the US. EU sales catapulted by 69.6% to 3.5mn ps, while revenues increased by 56.2% to $7.9mn, as the average price declined by $0.20 to $2.28 per ps. The substantial surge in sales reflected the push to sell off stocks, albeit at lower prices, to hold down costs and maximise profits. In line with the marketing focus on CARICOM, sales to the

Caribbean virtually doubled and benefited from a $0.52 price increase to $2.98 per ps. Freeze concentrate sales were approximately 75.0% lower than the previous year as taste preferences in Japan shifted toward the orange product. The market for grapefruit is much smaller than the one for orange and the winding down of US international advertisement efforts over the previous two years has seen global demand stagnate and prices remain depressed. Steeper slides in world market prices have been avoided to date as some producers, including the US, cut back production in response to the persistently low prices over the past seven years.

Sales of NFC remained minimal and were primarily aimed at maintaining a presence in the market. While the volume of orange and grapefruit NFC exports remained unchanged at 0.6mn ps, revenues declined by 7.7% to $3.1mn because of a 9.4% fall in the price of grapefruit NFC.

Pulp exports declined by 28.6% to 0.5mn pounds ($0.3mn) as production was held to a minimum to accommodate the installation of a new pulp wash system.

Banana

With full recovery from hurricane damage, banana exports leapfrogged to 74,935 metric tons ($52.6mn) from the 41,737 metric tons ($33.5mn) achieved in 2002. Production was boosted by extensive rehabilitation works and investments to enhance field productivity, reduce costs and even out harvest yields. Also, some growers deferred part of their production from the last quarter of 2002 into the first half of 2003 to take advantage of the higher price prevailing then.

To encourage larger export volume during the first half of the year when international prices are most favourable, the 2003 marketing agreement offered

Table VI.5: Export Sales of Citrus Juices and Pulp*

	2001	2002	2003
Concentrate ('000 ps)	**37,184**	**25,285**	**26,267**
Orange	32,520	22,194	21,605
Grapefruit	4,664	3,091	4,662
Concentrate value ($mn)	**76.0**	**54.3**	**55.1**
Orange	63.3	46.2	43.5
Grapefruit	*12.7*	*8.1*	*11.5*
Not-from-concentrate Exports ('000 ps)	**2,579**	**641**	**644**
Orange	2,038	263	329
Grapefruit	541	377	315
Not-from-concentrate Value ($mn)	**11.0**	**3.3**	**3.1**
Orange	7.9	1.1	1.4
Grapefruit	3.1	2.2	1.7
Pulp Export ('000 pounds)	**2,075**	**703**	**481**
Pulp Value ($mn)	**1.4**	**0.4**	**0.3**

Source: Citrus Products of Belize Ltd

* Reflects actual sales as reported by the processor and not the valueof export shipments as reported by the CSO. Export shipments go into inventory for sale at a later point in time.

a two-tier pricing system in which the box price during the first part of the year was US$7.21 and US$5.75 for the remainder of the year. The minimum guaranteed average price per box was US$6.50 for the year, implying payment adjustments in the event that the average price paid was lower. As a further incentive to maintain shipment consistency, a dead freight penalty of US$1.25 per box was imposed on unused cargo space if the industry's average weekly shipments fell below 75,000 boxes. At year-end, after deducting for the cost of licenses and quality penalties, the average industry price was $12.57 per box, down $1.92 from the $14.49 netted in 2002. Contributing to this price decline was the institution of a more rigorous quality system that raised penalties from an average of US$0.02 per box in 2002 to US$0.06 in 2003. To offset these losses, the industry made weekly exports to the UK of some 5,000 to 6,000 boxes of second-class bananas at a price of US$2.50 per box.

The industry remains under a cloud of uncertainty regarding the expected modification to the EU banana import regime in 2006 and the expansion of the EU that would bring ten new members, none of which has historical ties and sympathies with African Caribbean Pacific (ACP) countries. It is generally felt that the EU is leaning toward a tariff system that may retain some vestiges of quota management. In the meantime, the industry has used EU grant assistance to improve field productivity and reduce production costs by some 20.0% on average as growers prepare for 2006.

Marine Products

Led by a robust resurgence in farmed shrimp production, annual marine exports increased from 7.6mn pounds to 17.1mn pounds, while revenues increased by 57.9% to $110.2mn.

The shrimp industry became Belize's number one export earner in 2003 with revenue rising by 76.3% to $92.8mn. This was attributed to a 142.9% increase in export volume since the average price was pressured downward from $7.94 to $5.76 per pound due to growing supplies from Asian shrimp producing countries. Given the increasing dominance of these producers, it is likely that shrimp prices will remain at or below 2003 levels in the coming year.

Table VI.6: Exports of Bananas

	2001	2002	2003
Volume (metric tons)	**48,125**	**41,737**	**74,935**
Of which: (metric tons)			
Traditional Quota Market	48,125	38,890	74,935
Non-traditional Markets	-	2,847	-
Other EU Market	-	*2,024*	-
Transit Market	-	*822*	-
Value ($mn)	**42.8**	**33.5**	**52.6**

Source: Central Statistical Office

Following the cyclical pattern of the wild-harvest catch, exports of lobster were up 1.5% to 0.5mn pounds, but sluggish consumer demand in the US dining-out market caused the average price per pound to fall by $1.11 to $25.32, hence a 2.8% decline in export revenue to $13.6mn.

Conch exports also expanded by 7.2% with earnings up by 22.5% to $3.7mn. A temporary ban imposed by the U.S. Fish and Wildlife Service on US imports of conch from the Dominican Republic, Honduras and Haiti pushed up the average price per pound from $7.29 in 2002 to $8.33 in 2003.

With demand for whole and fillet fish bolstered by growth in the tourist trade, exports of these products declined substantially, as sales were diverted to the local market where prices were more favourable. Since the domestic economy provides a ready market for the wild-harvest catches, significant exports of whole and fillet fish are only expected when the fish farms geared for export production come on stream in 2004. Exports of other marine products, namely stone crab, a by-product of the lobster traps, resumed in 2003 on a very small scale.

Other Major Exports

Garment exports were stable at 3.3mn pounds, although a small increase in the unit price reflecting a shift in the export mix towards more high valued items boosted revenue by 2.6% to $31.4mn.

The placement of mahogany on the CITES list and government's moratorium on logging in the northern districts led to an 8.4% decline in sawn wood export volume. However, an increase in the average price per board foot pushed up revenue by 38.5%. This positive price development was partly due to the premium usually paid on woods harvested under a "green" approach.

With the industry shift to the higher yielding large varieties, papaya exports surged by 50.7% to 36.4mn pounds, all of which went to the US. However, the average price per pound fell sharply from $0.63 to $0.46, leading to a more moderate 8.5% increase in export revenue. The price decline occurred as US imports from Mexico and Brazil increased while demand for fresh papaya has remained relatively constant over the past two years.

Table VI.7: Exports of Marine Products

	2001		2002		2003	
	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)	Volume ('000 lbs)	Value ($'000)
Lobster Tail	433	12,198	486	13,673	521	13,511
Lobster Head	28	241	43	311	16	87
Shrimp*	6,381	46,665	6,631	52,658	16,104	92,831
Conch	622	4,596	419	3,054	449	3,740
Whole/Fillet Fish	11	14	38	125	24	30
Other	0	0	0	0	1	26
Total	**7,475**	**63,714**	**7,617**	**69,821**	**17,115**	**110,225**

Source: Central Statistical Office
* Reflects value of export shipments, not sales.

Table VI.8: Other Major Exports

	2001	2002	2003
Garments			
Volume (mn lbs)	3.2	3.3	3.3
Value ($mn)	32.2	30.6	31.4
Sawn Wood			
Volume ('000 bd ft.)	1,030	1,087	996
Value ($mn)	2.3	2.6	3.6
Papayas			
Volume ('000 lbs)	14,153	24,133	36,370
Value ($mn)	10.3	15.3	16.6

Source: Central Statistical Office

Belize has been able to maintain its niche position in the US by supplying papayas that are of a superior quality.

Non-traditional Exports

The value of non-traditional exports declined by 2.1% to $14.2mn as increased sales of pepper sauces, beans, cocoa beans and veneer/plywood were unable to wholly compensate for a decline in sales of fresh oranges and citrus oils. The export of fresh oranges is a relatively recent undertaking and occurs on a very small scale with a few growers targeting mostly the 'freshly squeezed juice' market in the UK and Europe. These growers use available cargo space on the banana boat. However, with the resurgence of banana exports this year, space constraints caused fresh orange shipments to fall from 16.1mn pounds ($3.0mn) to 10.3mn pounds ($2.5mn). The decline in exports of citrus oils was due to processing constraints that have since been rectified for the forthcoming year.

Re-exports

Re-exports fell by 18.1% to $261.2mn as merchandise sales at the CFZ dropped by 20.7% to $236.8mn. The latter reflected successful lobbying of their government by Mexican businessmen to have taxes on regular gasoline removed. This led to reduced fuel sales in the CFZ since prices in Chetumal, the Mexican border town, were lower than in the zone. The Mexican customs department also tightened duty free allowances and confiscated all purchases above these limits, stifling cross border merchandise sales.

On the other hand, re-exports from the customs territory increased from $20.4mn to $24.5mn, mostly due to the resumption of diesel oil sales to Guatemala and the return of generators rented by the electricity company during the extended dry season.

Gross Imports

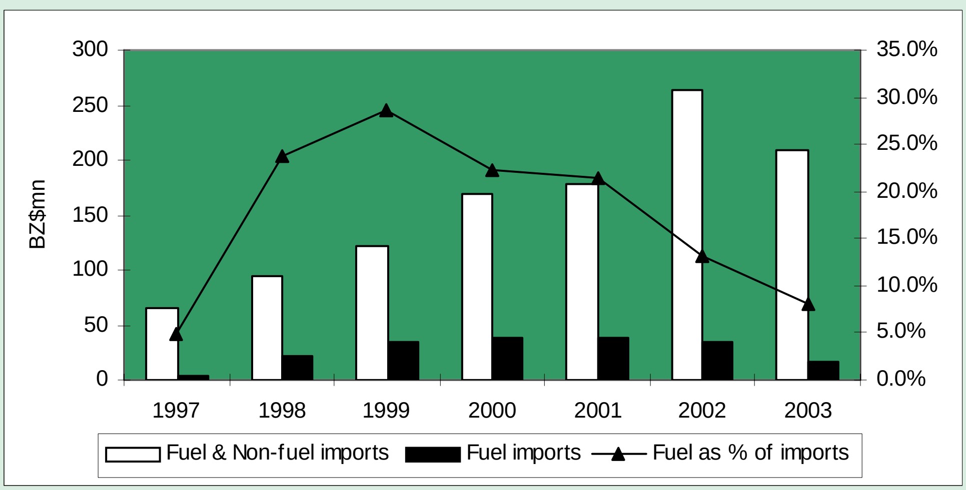
Gross imports (f.o.b.) of goods and electricity rose by $55.3mn, as a $93.0mn increase in goods for the customs territory was partly offset by a $37.7mn reduction in CFZ imports. The most significant increases were seen in imports of EPZ companies

Box 3: Corozal Commercial Free Zone

The Commercial Free Zone (CFZ) legislation was enacted in 1994 to encourage cross border trade as well as to create employment and increase foreign exchange earnings. These free zones were to cater solely to non-residents, especially those just across the borders. The main fiscal incentives offered were exemptions from income and other corporate taxes for the first ten years and exemptions from all customs duties, consumption taxes, excise taxes, export duties and export taxes on all free zone imports and exports. Notwithstanding the preceding, a social fee of 1½% and 10% is levied on non-fuel and fuel products, respectively.

Currently, the Corozal Commercial Free Zone (CCFZ), located at the northern border with Mexico, is the only active zone. The fast paced, extensive growth that has characterized it since 1998 began when the Mexican government implemented a tax that drove up the cost of Mexican fuel prices at the pump above fuel charges in the CCFZ. This significantly boosted CCFZ fuel sales and pushed up its fuel imports from $3.2mn in 1997 to a record high of $38.3mn in 2001. At the peak of fuel sales, up to 4,000 Mexican vehicles entered the Zone daily. During this boom, merchants were quick to capitalize on the large influx of Mexicans by offering a wide variety of duty free merchandise (all imported) ranging from apparel, footwear, wines, perfumes, gourmet food to electronic consumer goods. Hence, after rising from a meager 4.8% in 1997 and peaking at 28.6% of CCFZ imports in 1999, the share of fuel in total CCFZ imports has declined steadily and ended 2003 at 8.0%. With fuel providing the impetus, gross imports into the CCFZ rose from $66.3mn in 1997 to a peak of $263.1mn in 2002 and ended 2003 at $208.2mn.

Chart VI.1: CCFZ Imports



A foremost consideration in CCFZ prosperity was its dependence on fuel and merchandise sales that could readily evaporate in response to changes in Mexico's fuel tax policy, tariff and non-tariff barriers, especially in view of the vociferous complaints from Mexican businesses who claimed to be

Box 3: Corozal Commercial Free Zone (Con't)

Box 3 continued....

negatively affected by the competition. To address these concerns, efforts were made to entice Mexican businesses to operate in the zone and so create vested Mexican interests in the zone's welfare. Furthermore, attempts were made to encourage high-end stores as well as light manufacturing and activities other than general merchandising. Notwithstanding these efforts, activity in the CCFZ decelerated markedly in 2003 with total imports falling by 20.9% as Mexico adjusted fuel taxes and tightened up on Customs controls. As prices for regular gasoline in the Mexican border town became lower or comparable to CCFZ prices, fuel sales to Mexicans abruptly halved. Sales of non-fuel products also suffered when Mexicans' duty free allowances were sharply cut back from US$1000 to US$150 for residents of the neighbouring Quintana Roo state and to US$50 for all other residents. To further frustrate shoppers, Mexican customs confiscated all purchases above the allowable limits.

Although the value added from merchandising activities is low, the future of the CCFZ is of material concern because of its impact on employment. Estimates place employment at approximately 1,500 persons, mostly drawn from the Corozal district, which has been depressed since the closure of its sugar factory in 1997. The new direction since 2003 appears to be the establishment of casinos adjacent to the CCFZ to attract Mexicans back into Belize and, hopefully, the zone. One casino is already operational and another is under construction with a projected opening date in June 2004.

($50.5mn), 'Miscellaneous Manufactured Goods' ($22.0mn), 'Fuels and Lubricants' ($21.9mn), and 'Food and Live Animals' ($10.9mn).

Accounting for a sizeable part of EPZ demand was capital equipment for a new telephone company, expansion of citrus processing facilities and higher feed imports associated with the substantial growth in farmed shrimp production. The aquacultural expansion also contributed to greater outlays on 'Food and Live Animals' as most of the additional demand was associated with animal feed, pellets and durum wheat. Imports of 'Fuel and Lubricants' rose mostly because of higher acquisition costs for petroleum products linked to the US-Iraq war, and increased purchases of electricity from Mexico due to a prolonged dry season during the first half of the year. Large book shipments to a charitable organization were responsible for the spike in 'Miscellaneous Manufactured Goods'.

Direction of Visible Trade

The USA and the UK accounted for 79.9% of Belize's domestic exports with a drop in citrus juice sales marginally pushing down the USA's export share to 55.6%. On the other hand, the proportion of sales to the UK rose from 21.6% to 24.3% largely in response to stronger banana and grapefruit concentrate sales and, to a much lesser extent, the appreciation of the euro against the US dollar. Successful efforts to increase sales of sugar and citrus juices to the Caribbean raised the volume of CARICOM exports from 6.5% in 2002 to 9.1%, the highest level recorded to date.

Table VI.9: Direction of Visible Trade

Percentage

	Exports*			Imports		
	2001	2002	2003	2001	2002	2003
United Kingdom	16.2	21.6	24.3	3.2	3.1	3.2
Other EU	7.2	8.5	5.4	3.9	5.0	5.3
United States	58.3	56.3	55.6	45.9	42.2	42.2
Mexico	0.9	1.6	1.5	8.4	7.8	7.9
CARICOM	6.3	6.5	9.1	4.2	3.1	2.8
Other Countries	11.1	5.5	4.1	34.4	38.8	38.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office
* excludes CFZ sales

At 42.2% of total imports, the US was the country's major supplier. The share of imports sourced from the EU also rose from 8.1% in 2002 to 8.5%, partly reflecting the appreciation in the cost of European goods. While Mexican imports were relatively stable at 7.9%, CARICOM's market share slid downward once again and stood at 2.8%. The relatively high proportion (38.6%) of goods bought from a medley of other countries includes fuel purchases from South America and CFZ imports, a significant part of which comes from low cost sources such as Asia and Panama.

Services

Increased tourist arrivals caused net service receipts to expand by 40.2% to $147.3mn, as a 16.3% surge in inflows outweighed a more modest 6.7% growth in outflows. The transportation sector, in particular, benefited from the 57.5% increase in cruise ship port calls, as shipping agents expanded services to the cruise lines. These revenue gains more than offset increased payments for international freight arising from the expansion in foreign trade, greater overseas expenditure on non-business travel and higher reinsurance costs.

Table VI.10: Balance of Payments - Services, Income and Current Transfers

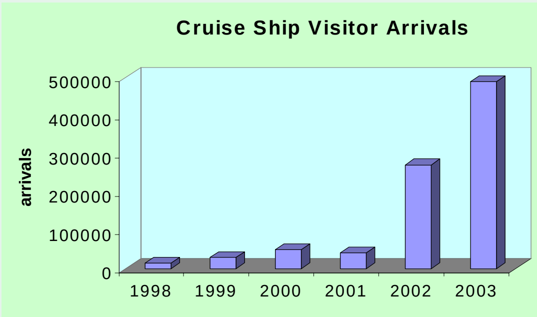
($mn)

	2001			2002			2003		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Services	***347.3***	***242.3***	**105.0**	***366.2***	***261.1***	**105.1**	***425.9***	***278.6***	**147.3**
Transportation	*23.7*	*72.2*	(48.5)	*36.2*	*75.0*	(38.8)	*44.3*	*79.0*	(34.7)
Travel	*238.5*	*81.5*	157.0	*258.2*	*85.1*	173.1	*303.1*	*88.3*	214.8
Other Goods and Services	*38.9*	*71.8*	(32.9)	*41.6*	*83.2*	(41.6)	*46.6*	*92.9*	(46.3)
Govt. Goods and Services, N.I.E	*46.2*	*16.9*	29.3	*30.2*	*17.8*	12.4	*32.0*	*18.3*	13.7
Income	***16.6***	***166.4***	**(149.8)**	***7.9***	***158.8***	**(150.9)**	***8.4***	***188.0***	**(179.6)**
Labour Income	*4.0*	*25.4*	(21.4)	*3.8*	*21.5*	(17.7)	*5.0*	*22.3*	(17.3)
Investment Income	*12.6*	*141.1*	(128.5)	*4.1*	*137.3*	(133.2)	*3.4*	*165.6*	(162.2)
Current Transfers	***102.1***	***3.7***	**98.4**	***97.4***	***4.1***	**93.3**	***94.0***	***4.9***	**89.1**
Government	*18.4*	*0.5*	17.9	*21.9*	*0.4*	21.5	*5.5*	*0.2*	5.3
Private	*83.6*	*3.2*	80.4	*75.4*	*3.7*	71.7	*88.4*	*4.7*	83.7

Box 4: Cruise Ship Tourism

Cruise ship tourism has grown exponentially over the past six years, moving from 14,183 arrivals in 1998 to 488,917 visitors in 2003. Over the same period, stay-over visitors grew by a much more modest 18.8% to 196,148.

Large cruise ships first started port calls to Belize in the latter half of the 1990's on a seasonal basis – between October to May. The terrorist attacks of September 11, 2001, in the USA and the subsequent war on terrorism, while discouraging Americans from traveling far afield, boosted travel nearer to home and increased the attractiveness of Belize as a tourist destination. Hence, while tourism in the general Caribbean was depressed during 2002, Belize's cruise ship market increased more than fivefold, with ships calling year-round for the first time. Not only did existing lines make more port calls but new cruise lines, including the Carnival ships, started calling. In 2004, a 30.0% increase in cruise ship arrivals is anticipated.



While providing obvious benefits to the country, the extremely rapid growth in arrivals over the past two years and prospects for further significant increases have also raised several concerns. A major issue has been the accompanying development in the country's physical infrastructure, transportation capacity and human resources to competently cope with the rapid and tremendous surge in tourist numbers. The concerns range from simple matters such as the adequacy of basic amenities at tourist sites and the availability of comfortable, reliable tour buses to complex considerations such as the preservation of fragile ecosystems and appropriate management of main tourist sites such as the Mayan temples to conserve them for posterity. Training has emerged as a key issue to develop and build the local capacity to deliver a quality service experience. While specific projects, including training and tourist site enhancements, have been implemented to address some of these concerns, it is not clear whether the pace of implementation is matching the increase in arrivals.

Another area of disquiet has been the equitable distribution of benefits. From a national perspective, the preoccupation has been that the benefits from this explosive growth should not be concentrated in the hands of a few. These concerns were heightened when Royal Caribbean took over ownership of the Belize Tourism Village, the entry port for cruise ships and has also been manifested in disputes arising between large and small stakeholders. Another issue has been the potentially negative impact of cruise ship tourists on the stay-over market and the need to ensure that this influx of mass tourism does not crowd out the more exclusive, high-end market. Cruise ship visitors are generally low spenders, while the stay-over market has traditionally focused on visitors interested in a more pristine environment and who are generally bigger spenders.

Responsible regulation of this dynamic sub-sector is key to ensuring its long term viability and will require skilled management in balancing the interests of all stakeholders in the tourism industry. Further infra-structural works are needed to improve highways, access roads to tourist attractions as well as the facilities at these sites. The developments in tourism have already outgrown the Tourism Development Project, which was conceived for a total of 300,000 cruise ship and stay-over arrivals. Training of human resources and availability of low cost financing are fundamental to encouraging more local participation and maximise socio-economic benefits. In short, the need is for comprehensive oversight of the industry with enforceable guidelines setting the parameters for the further growth of the industry.

Income

Net outflows on the income account rose by 19.0% to $179.6mn largely due to a 47.1% increase in interest payments on the external debt and a 30.6% increase in earnings repatriated by foreign investors. Further exacerbating the deficit on this account was a decline in interest earned on the official reserves due to lower deposit holdings abroad and depressed international interest rates. On the other hand, net outflows for employee compensation declined slightly as an increase in salaries received by residents employed by embassies and international organizations narrowly outweighed the growth in foreign labour costs as the number of seasonal workers in the banana industry returned to pre-hurricane levels.

Current Transfers

Net inflows from current transfers fell by $4.2mn to $89.1mn during the year as grant funds received by the government experienced a four-fold decline to $5.5mn, largely due to the early receipt of funds for certain 2003 projects in the last quarter of the previous year. On the other hand, increased inflows to international/regional organizations and higher family remittances from abroad outweighed a fall-off in proceeds from insurance claims and drove private sector net receipts upward by 16.7% to $83.7mn. The higher insurance receipts in 2002 stemmed from claims arising from the hurricane damage suffered in October 2001.

Table VI.11: Balance of Payments - Capital and Financial Accounts

($mn)

	2001 Net	2002 Net	2003 Net
CAPITAL ACCOUNT	**2.3**	**22.9**	**-96.1**
General Government	0.6	5.9	-97.7
Other Sectors	1.8	17.0	1.6
FINANCIAL ACCOUNT	**355.8**	**291.2**	**384.1**
Direct Investment Abroad	0.0	0.0	-0.7
Direct Investment in Belize	119.8	49.6	57.6
Portfolio Investment Assets	0.0	0.0	-0.3
Portfolio Investment Liabilities	-29.7	253.2	151.1
Financial Derivatives Assets	0.0	1.7	1.1
Financial Derivatives Liabilities	0.0	0.0	0.0
Other Investment Assets	7.8	16.1	-17.1
Monetary Authorities	0.0	0.0	0.0
General Government	-6.1	-8.0	-6.0
Banks	5.0	20.3	-6.0
Other Sectors	9.0	3.8	-5.1
Other Investment Liabilities	257.9	-29.4	192.4
Monetary Authorities	-1.2	-66.0	-5.2
General Government	245.2	-22.2	100.0
Banks	23.3	-2.8	60.4
Other Sectors	-9.3	61.6	37.2
CHANGES IN RESERVES (Minus = Increase)	**5.5**	**10.9**	**-60.1**

Capital and Financial Accounts

From its usual surplus position, the capital account swung to a net outflow of $96.1mn in 2003 mainly due to the government's partial payment for BTL shares held by Carlisle Holdings. At $1.6mn, capital transfers received by the private sector were substantially below the 2002 level when a $16.0mn loan to the citrus processors had been written off by the Commonwealth Development Corporation during the sale of its controlling interest to the Citrus Growers Association.

On the other hand, increased foreign borrowings by the government and commercial banks helped to boost net inflows from financial transactions upward by 31.9% to $384.1mn. This included $151.1mn in portfolio investment inflows as proceeds from a new US$100.0mn bond issue were partly offset by payments to foreign holders of mortgage securities. An additional $192.4mn was received as commercial bank loans to the government and local commercial banks outweighed prepayments in furtherance of the government's debt refinancing programme and regular amortisation payments.

Private sector external indebtedness continued the upward trend that started when the International Banking Act was amended to permit CFZ and EPZ companies to borrow from offshore banks located in Belize. From a net negative position in 2001, private sector foreign loan commitments recorded net increases of $61.6mn in 2002 and $37.2mn in 2003.

In other developments, foreign direct investment in Belize rose by 16.1% to $57.6mn, with the

Chart VI.2: Financing for Current Account Deficit

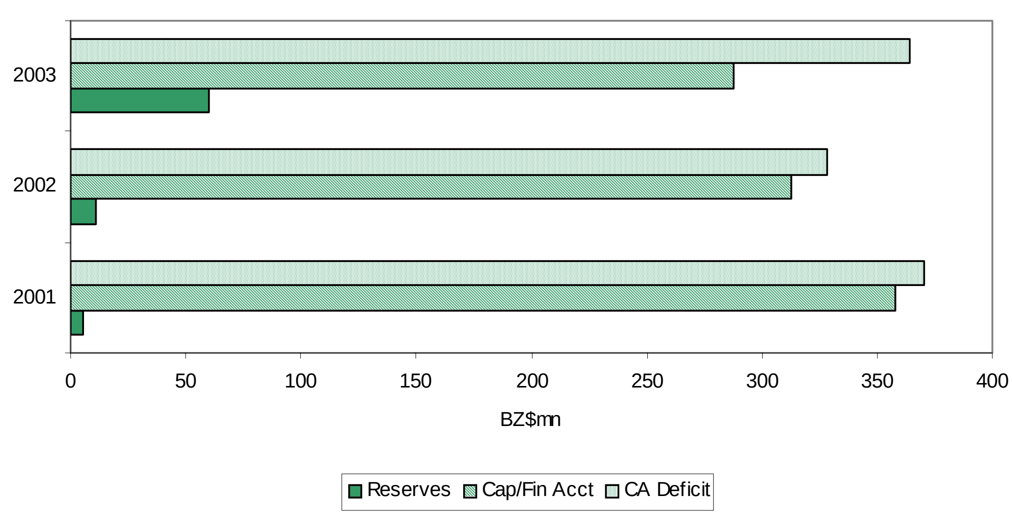


Table VI.12: Official International Reserves

($mn)

	Position as at			Changes during 2003
	Dec-01	Dec-02	Dec-03	
Gross Official International Reserves	**240.2**	**229.3**	**169.2**	**-60.1**
Central Bank of Belize	**208.4**	**212.5**	**152.4**	**-60.1**
Holdings of SDRs	3.4	4.0	4.6	0.6
IMF Reserve Tranche	10.6	11.4	12.5	1.1
Other	194.4	197.1	135.3	-61.8
Central Government	**31.8**	**16.8**	**16.8**	**0.0**
Foreign Liabilities	**2.9**	**6.0**	**5.8**	**-0.2**
CARICOM	0.6	1.5	0.8	-0.7
Other	2.3	4.5	5.0	0.5
Net Official International Reserves	**235.7**	**223.3**	**163.4**	**-59.9**

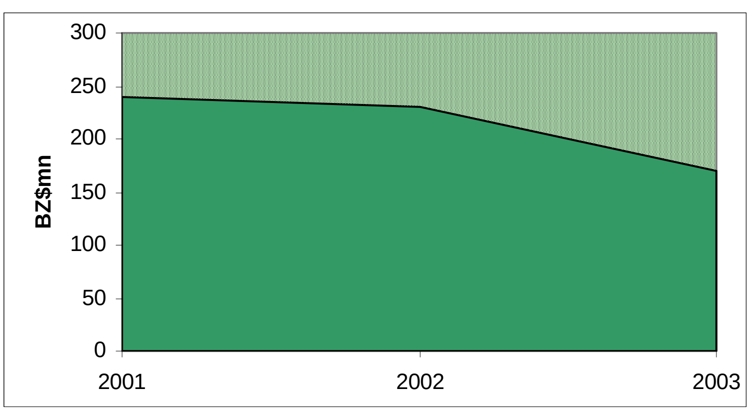
tourism sector (notably casino hotels) attracting most of these funds.

Foreign deposits held by commercial banks and the private sector together with government sinking funds rose by the combined sum of $17.1mn. The sinking funds were topped up to meet the cost of retiring the Salomon Smith Barney Bonds that become due in 2005.

Official International Reserves

Gross official international reserves declined to $169.2mn reflecting withdrawals of $60.1mn to partially finance the current account deficit. The fall was seen in the foreign holdings of the Central Bank, while those of the Central Government remained unchanged. After deducting $5.8mn in foreign liabilities, net international reserves stood at $163.4mn.

Chart VI.3: Gross Official International Reserves at December



Economic Prospects

Building on the production and efficiency gains of the previous year, economic activity during 2004 is poised for another year of positive growth as domestic exports should expand by at least 4.0% and real GDP between 4.0% and 5.0%.

Output of all major domestic export crops is forecasted to increase, while livestock and basic grains should remain stable or expand in line with demand from the growing tourist trade. Sugarcane deliveries should be up 2.5% to 1.1mn long tons, yielding some 110,000 long tons of sugar and 40,650 long tons of molasses. Exports are expected to grow by 2.7% in volume to 98,400 long tons and 5.4% in value to $74.8mn. The disproportionate rise in export revenues is predicated on a more than doubling of sale volume to CARICOM and a locked-in rate of US$1.03 to the euro. This compares to a rate of US$0.98 to the euro for 2003. The diversion of sales to CARICOM from the world market where prices remain under continuous downward pressure from significant global surplus production and high stocks is timely. Exports of molasses should remain fairly steady at 36,632 long tons valued at $2.8mn.

After two years of declining production, the citrus crop should rebound in 2004 with production rising by almost a million boxes (or 18.5%) to 6.4mn boxes and deliveries to the processing plant estimated at 6.1mn boxes compared to the 5.1mn for the 2002/2003 crop. With the increased throughput at the factory, juice production should expand by some 15.8% to 32.3mn ps. Boosted by stocks in inventory, export sales of citrus juices are expected to reach 35.5mn ps valued at $62.7mn, increases of 34.0% and 14.0% in volume and value over 2003. However, with Brazil and Florida forecasting highly favourable harvests in 2004, prices for orange citrus juices will start the year at an all time low, accounting for the lower than proportionate increase in expected export revenue. The processor's strategy of boosting sales of by-products will see revenues from citrus oils, pulp cells and essences rise from 0.7mn pounds valued at $0.9mn to 1.5mn pounds valued at $3.0mn.

Further investments to improve field productivity should boost banana production and expand exports by 1.7% to 76,200 long tons. However, a US$0.30 reduction in the average box price to US$6.20 will hold revenues steady at $52.0mn. Papaya exports is also set for a 2.5% increase to 37.3mn pounds and revenue improvement of 1.2% to $16.8mn, as price pressures continue with abundant supplies out of Brazil and Mexico.

Marine products should once again lead export performance, as farmed shrimp sales increase by another 5.6% and 4.0% in volume and value, respectively, to 17.0mn pounds and $96.5mn. Conch production is expected to grow by 11.1% to 0.5mn pounds and 20.3% to $4.5mn in view of the favourable prices that now prevail. On the other hand, lobster production should be down marginally to 0.52 mn pounds due to its cyclical reproductive patterns while export value will remain relatively stable at $13.6mn. Premiering on the export scene will be 0.3mn pounds (valued at approximately $1.68mn) of fish fillet from a large tilapia fish farm that was recently established.

The secondary sector should contribute to growth as agro-processing expands to cope with larger sugar and citrus crops and some major construction projects such as the Challilo Dam continue or come on stream.

Even if performance is uneven, growth in services should be quite respectable with increases of 30.0% in cruise ship and 4.0% in stay-over tourist arrivals impacting positively on transportation, hotels, restaurants and trade. However, CFZ merchandising activities is likely to be dampened further because of competitive fuel prices in Chetumal and the stringent enforcement by Mexican customs authority of duty free allowances permitted to their nationals.

Some fiscal tightening is expected in 2004 in view of the government's stated commitment to keep the deficit to within 3.0% of GDP. Toward this end, several new tax measures are expected at the start of the year. The government has also budgeted for an 11.4% decline in Capital II and Capital III expenditures for 2003/2004 relative to the previous fiscal year.

The institution of a 1.0% increase in the sales tax and the global shift towards higher rates for international freight will provide upward pressure on the cost of goods and services. Inflation should therefore be at or above the 2003 level. In the monetary sector, the long anticipated separation of offshore deposits from onshore deposits should help to control credit and consumption growth. The Central Bank will also be maintaining a close watch on general liquidity developments to forestall excessive credit expansion that lead to pressures on the exchange rate.

OPERATIONS

Foreign Exchange Operations

In 2003, the Central Bank's trade in US dollars, Canadian dollars, and Pound Sterling resulted in net sales of $62.0 mn. Sales exceeded purchases in eight out of the twelve months with net outflows averaging $27.2mn during this period. Net inflows in the remaining months were highest in June and November when disbursements were received from an international bond issue and a commercial bank loan to the Government. Trade in Caricom currencies (mostly Barbados and Eastern Caribbean dollars) resulted in net sales of $1.9mn over the year.

External Assets Ratio

Under the law, the Central Bank is required to maintain external asset reserves equivalent to at least 40.0% of the aggregate amount of notes and coins in circulation and the Bank's demand and time deposit liabilities. From a high of 97.2% in January, the external asset ratio followed a generally declining trend as increased lending to the government coincided with higher payments to foreign entities, a development typical of this type of economy. In December, the ratio recorded its lowest level in 2003 of 57.8%. The bulk (90.5%) of the Bank's external asset holdings was comprised of foreign currency notes and deposits with foreign central banks and correspondent banks abroad. Foreign government securities and holdings of Special Drawing Rights at the International Monetary Fund accounted for 1.3% and 8.2%, respectively.

Relations with Commercial Banks

Cash Balances

Accelerated lending activity by the commercial banks caused cash reserve balances to fall below required

Table IX.1: Central Bank Dealings in Foreign Exchange 2003

$mn

Month	US & Canadian $ and UK £			CARICOM Currencies		
	Purchases	Sales	Net	Purchases	Sales	Net
January	20.6	31.0	(10.4)	0.01	0.06	(0.05)
February	20.8	50.9	(30.1)	0.00	0.09	(0.08)
March	18.5	53.0	(34.5)	0.01	0.12	(0.11)
April	20.5	29.3	(8.7)	0.01	0.12	(0.11)
May	46.6	33.4	13.2	0.12	0.24	(0.12)
June	211.1	130.3	80.8	0.01	0.12	(0.11)
July	60.5	69.5	(8.9)	0.08	0.36	(0.28)
August	27.1	62.7	(35.6)	0.00	0.16	(0.15)
September	27.3	66.3	(39.0)	0.00	0.09	(0.08)
October	34.1	33.3	0.7	0.00	0.19	(0.18)
November	92.6	31.5	61.1	0.00	0.16	(0.16)
December	114.4	165.0	(50.6)	0.01	0.42	(0.41)
Total	**694.0**	**756.0**	**(62.0)**	**0.26**	**2.12**	**(1.86)**

Table IX.2: External Assets Ratio 2003

MONTH	Assets $mn	Liabilites $mn	External Asset Ratio (%)
January	201.6	207.4	97.20
February	171.4	214.4	79.94
March	136.9	201.1	68.08
April	128.4	207.4	61.91
May	142.1	211.5	67.19
June	222.6	315.9	70.47
July	213.5	324.2	65.85
August	177.7	279.8	63.51
September	139.5	230.4	60.55
October	140.3	238.8	58.75
November	201.6	310.1	65.01
December	151.7	262.6	57.77

levels in September and October. With banks borrowing from abroad to beef up their domestic position, excess cash reserve balances were able to bounce back and reached its highest level of the twelve month period during December..

At the end of the year, currency in circulation stood at $103.2mn, some $5.0mn below that of the previous year. Currency holdings by the public and commercial bank vault cash declined by $3.5mn and $1.5mn, respectively. As in 2002, currency in circulation was at its lowest level in October and peaked in December with a total of $127.6mn ($114.8mn in notes and $12.8mn in coins) being circulated.

Transactions with Central Government

By law, the Central Bank may extend advances to the Government up to a maximum of 20.0% of current revenue collected by the Government in the

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

$mn

MONTH	Average Deposit Liabilites	Required Cash Reserves	Actual Cash Holdings	Excess/ Deficit
January	1,019.9	61.2	69.7	8.5
February	1,039.9	62.4	77.8	15.4
March	1,062.4	63.7	73.9	10.1
April	1,070.6	64.2	73.3	9.1
May	1,082.4	64.9	65.7	0.8
June	1,089.3	65.4	71.4	6.1
July	1,079.5	64.8	69.5	4.8
August	1,094.3	65.7	67.5	1.8
September	1,081.1	64.9	64.0	-0.8
October	1,074.6	64.5	61.5	-3.0
November	1,055.4	63.3	71.4	8.1
December	1,050.9	63.1	79.9	16.8

Table IX.4: Currency in Circulation 2003

$mn

MONTH	Notes	Coins	Total	Commercial Bank Vault Cash	Currency with the Public
January	111.4	12.0	123.4	16.0	107.4
February	114.6	12.0	126.6	16.1	110.5
March	113.2	12.2	125.4	20.5	104.9
April	112.7	12.3	125.0	22.3	102.7
May	109.4	12.4	121.8	15.6	106.2
June	112.6	12.4	125.0	19.0	106.0
July	110.5	12.5	123.0	21.7	101.3
August	110.3	12.5	122.8	18.5	104.3
September	107.5	12.6	120.1	21.2	98.9
October	106.3	12.5	118.8	18.2	100.6
November	107.9	12.6	120.5	18.4	102.1
December	114.8	12.8	127.6	24.4	103.2

preceding financial year or a sum of $50.0 million, whichever is greater. A monthly average of $6.7mn was supplied to the government during 2003 to cover fiscal shortfalls. After starting the year at a zero balance that was maintained throughout January, overdraft lending to the Government surged upward in the February-March period by some $58.0mn to facilitate pre-election activity. While fluctuating somewhat in the following months, the overdraft balance continued on an upward trend, finishing the year at $74.1mn, a substantial increase but still within the legal upper threshhold of $82.3mn.

Treasury Bills

The Central Bank continued to act on the Government's behalf in conducting Treasury bill operations. There were no new issues during the

Table IX.5: Central Bank Credit to Central Government

Month	Treasury Bills	Treasury Notes	Defence Bonds	Overdraft Facility	A	B
January	42.5	0.0	10.0	0.00	0.00	0.00
February	47.5	0.0	10.0	30.70	3.92	7.58
March	46.0	0.0	10.0	58.05	5.07	14.34
April	51.8	0.0	10.0	67.74	5.76	6.85
May	49.3	0.0	10.0	55.23	5.09	12.96
June	67.4	0.0	10.0	62.12	6.20	15.12
July	74.0	0.0	10.0	70.84	6.88	12.33
August	79.0	0.0	10.0	72.61	7.18	13.86
September	71.0	0.0	10.0	72.05	6.80	15.81
October	71.5	0.0	10.0	79.38	7.15	16.20
November	74.3	0.0	10.0	77.28	7.18	16.08
December	82.0	0.0	10.0	74.12	7.39	17.72

A: Central Bank Holdings of Government Securities as a multiple of Central Bank's paid up Capital and Reserves
B: Advance to Government as a percentage of Government's estimated recurrent revenue fiscal year
Estimates for Fiscal 2002/2003 $404,765,140 (January - March)
Estimates for Fiscal 2003/2004 $448,083,286 (April - December)

Table IX.6: Government of Belize Treasury Bill Issues

Issue Number	Issue Date	Maturity Date	Allotment $mn	Average Discount	Average Yield %
1/03	02/01/03	03/04/03	45.4	3.22	3.25
2/03	30/01/03	30/04/03	13.2	3.22	3.25
3/03	13/02/03	15/05/03	5.8	3.22	3.25
4/03	12/03/03	11/06/03	35.6	3.22	3.25
5/03	03/04/03	03/07/03	45.4	3.22	3.25
6/03	30/04/03	30/07/03	13.2	3.22	3.25
7/03	15/05/03	14/08/03	5.8	3.22	3.25
8/03	11/06/03	09/09/03	35.6	3.25	3.28
9/03	03/07/03	02/10/03	45.4	3.22	3.25
10/03	30/07/03	29/10/03	13.2	3.22	3.25
11/03	14/08/03	13/11/03	5.8	3.22	3.25
12/03	09/09/03	09/12/03	35.6	3.22	3.25
13/03	02/11/03	31/12/03	45.4	3.25	3.28
14/03	29/10/03	28/01/04	13.2	3.22	3.25
15/03	13/11/03	12/02/04	5.8	3.22	3.25
16/03	09/12/03	09/03/04	35.6	3.22	3.25

year and at 31 December 2003 the total outstanding was at its statutory limit of $100.0mn. Since the government's reinstatement of the bidding process in December 2001, the average discount rate generally declined and bottomed out at 2.98% in October 2002 before rebounding slightly. With the discount rate holding at 3.22% through the entire year (a policy decision of the Government), the market became dominated by the Central Bank as commercial banks progressively sold off holdings in order to facilitate an increase in lending, which was being done at far more lucrative rates. Hence, the Central Bank's holdings grew by nearly $28.0mn reaching an annual high of $82.0mn in December.

Treasury Notes

Under the 1993 amendment to the Treasury Bill Act, the Government of Belize may issue up to $25.0 mn in treasury notes. These notes have a one-year maturity period and carry a 9.0% rate of interest. At the end of 2003 total treasury notes outstanding amounted to $25.0 mn, all of which was held by private sector institutions and individuals.

Supervision of the Financial Sector

During 2003, the Financial Sector Supervision Department (FSSD) performed four full scope on-site examinations and one specialized inspection

Table IX.7: Banks

Domestic Banks	International Banks	Financial Institutions
Alliance Bank of Belize Ltd.	Atlantic International Bank Ltd.	Belize Unit Trust Corp. Ltd.
Atlantic Bank Ltd.	Caye International Bank Ltd.	
Belize Bank Ltd.	Handels Bank & Trust Company Ltd.	
FirstCaribbean International Bank Ltd.	Inter Bank and Trust Ltd.	
Scotiabank (Belize) Ltd.	Investment and Commerce Bank Ltd.	
	Market Street Bank Ltd.	
	Provident Bank & Trust of Belize Ltd.	
	The Oxxy Bank Ltd	

involving two domestic banks and three international banks. These examinations focused on ensuring that the Banks and Financial Institutions Act (BFIA) and the International Banking Act (IBA) were being adhered to and that the specific banks were operating in a sound manner. FSSD also continued to conduct its normal prudential off-site surveillance of the domestic and international banks licensed in Belize.

One unrestricted Class A International Banking license was granted during the year bringing the total number of international banks operating under Central Bank license to eight. In addition, one domestic bank operating as a branch of an international bank was locally incorporated as a subsidiary and the first financial business licence was issued. To date, there are five domestic commercial banks, eight international banks and one financial institution operating in Belize under Central Bank regulation and supervision.

As required under Sections 21(2) of the BFIA and 21b(2) of the IBA, the FSSD continued to monitor credit facilities that were in excess of 25% of a bank's capital and reserves and analysed sixteen applications totalling $173.9mn that were submitted for the Bank's approval during the year.

In keeping with international standards, publication of individual domestic commercial banks' data on a quarterly basis was commenced. The information included balance sheets, income statements, indicative ratios and interest rates on deposits and loans.

In other initiatives to foster the development of the financial sector in 2003, the Central Bank collaborated with CARTAC in conducting a seminar on Corporate Governance for Directors and Senior Management of banks, insurance companies, credit unions and other financial institutions.

Information Systems Developments

Overview

The year was a particularly busy one for the Information Systems Unit (ISU). While many projects were undertaken, an area of particularly high priority was the general upgrading of security where the Bank's internal network, information systems, and connections to and from the Internet were concerned. ISU also put priority on implementing measures to ensure the availability of the Bank's critical systems in the event of a disaster.

After upgrading the Windows NT 4.0 primary domain network controller to Windows 2000 Active Directory Services, the process of upgrading the Bank's security policies to take advantage of the new security features in Windows 2000 Directory Services was initiated.

Upgrade of Major Applications

Among the major applications of the Bank that were upgraded during the year were:

a) The operating platform for the Prophecy Open financial system,
b) The Ingres database,
c) The OpenRoad development platform and report writer,
d) The financial transfer system (SWIFT),
e) The Commonwealth Secretariat's Debt Recording and Management System (CSDRMS), and
d) The Microsoft SQLServer database

A new version of the Intranet was also released, which enhanced staff access to information about the departments of the Bank as well as internal circulation of daily local news, internal newsletter, staff club events, photo album, and internal telephone directory.

New Applications

The ISU was also involved in the implementation of several new systems, chief among which was a web-based human resources information system (HRIS). Portions of the HRIS are now running parallel with existing systems and other modules are being tested for implementation in 2004.

The Bank's Picture Perfect security and access control system was also replaced by a completely new version, which is now hosted on the Linux operating system and is accessed via windows-based clients. The system is also web enabled and can be accessed by administrators using a web browser.

A tourist survey system was developed in-house for the Research department to capture tourist related information in a database for further statistical analysis.

Internet Access

During the year, the Bank's official website www.centralbank.org.bz was officially launched. In addition to providing visitors with options to download economic, statistical, and financial data, the site contains a variety of information about the Central Bank, its operations, currency and regulations. Contact with the Bank is now facilitated by e-mail links that are provided on the website.

To further facilitate the Bank's work, ISU launched a secure internet email service to enable employees to send and receive Internet electronic mail and also assisted with the drafting and implementation of an e-mail policy that governs the use of this service.

Administration

The Board of Directors

The Board of Directors held 10 meetings in 2003 and considered 82 submissions.

Overseas Meetings

In their capacity as executive officers of the Bank and advisors to Government, the Governor & Deputy Governor attended several meetings during the course of 2003, some of which are shown in Box 4.

Finance

The Central Bank's financial statements for the year ended December 31, 2003, with comparative figures for the previous year, are annexed to this report. During 2003, the Bank's assets declined by 2.2% to $317.8mn with external assets falling by 28.3% to $152.4mn, while domestic assets rose by 46.9% to $165.6mn.

At year-end, the Bank's net operating surplus amounted to $3.6mn, a slight increase over the 2002 position. Gross earnings totaled $16.3mn with interest income accounting for $13.9mn and commissions and other income contributing $2.4mn. Current expenditure declined by 13.0% to $12.7mn with staff costs, interest payments and other operating costs accounting for 42.6 %, 21.7%, 35.7%, respectively.

As required under Section 9(1) of the Central Bank Act, the sum of $0.4mn or 10% of the net operating surplus will be paid into the Central Bank's General Reserve Fund. The balance of $3.2mn will be transferred to the Accountant General for the Government of Belize's Consolidated Revenue Fund.

Internal Audit

In 2003, the Internal Audit Unit was expanded and its role, functions and procedures updated. The Unit routinely monitored the pension fund records, stocktaking procedures for securities, currency notes and coins and also observed the currency destruction process.

Audits were conducted of the Bank's compilation process in preparing for the annual external audit, the Central Bank's Financial Rules, its Security Control and Business Recovery Procedures and the internal operations of the S.W.I.F.T. money transfer system.

Assisting in an advisory capacity, the Unit reviewed the newly formulated Building Services Unit stock procedures, the criteria used to select the external auditor and the coordination of alternates for the vault and S.W.I.F.T. security officers.

The Audit Committee (comprised mainly of representatives from the Central Bank's Board of Directors with the Chief Internal Auditor acting as secretary) reviewed the audited financial statements and management letter prepared by the external auditors with the Bank's management with a view to ensuring the adequacy of the statements and disclosures. The Committee also participated in the process of selecting the external auditor and made recommendations to the Board for the appointment

Box 5: Meetings Attended by the Governor and Deputy Governors during 2003

Name of Meeting/Conference	Month	Place
Central American & Caribbean Credit Conference	January	Miami
Seventh Meeting of Council for Finance and Planning (COFAP)	February	Trinidad & Tobago
Fifth Special Meeting of the Caribbean Development Bank Board of Directors	February	Trinidad & Tobago
Inter-American Development Bank XVII Meeting of Governors of the Central American Isthmus and the Dominica Republic	February	Honduras
Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation	March	Italy
Meeting of the Central American Finance Ministers	April	Washington D.C.
Caribbean Development Bank Board of Governors Meeting	May	St. Kitts and Nevis
Third Euromoney & Latin Finance Caribbean Investment Forum	May	Dominican Republic
Thirty Third Annual Meeting of the Board of Governors of Caribbean Development Bank	May	St. Kitts and Nevis
Meeting of CARICOM Central Bank Governors and the Meeting of the Committee of Central Bank Governors	May	Barbados
IMF/OFC Round table discussions	May	Washington D.C.
Fourth Meeting of Ministers of Finance & Presidents of Central Banks	June	Guatemala
Eighth Meeting of the Council for Finance and Planning (COFAP)	June	Jamaica
Two Hundred and Seveth Meeting of the Board of Directors and Eleventh Budget Committee Meeting of the Caribbean Development Bank	July	Barbados
IMF and World Bank Group Annual Meeting of Board of Governors	September	Brunei
Meeting of Commonwealth Finance Minister	September	United Arab Emirates
Second Latin Finance/Euromoney Central America Conference	October	Colombia
CARICOM Central Bank Governor's Meetings in Barbados	November	Barbados
Inter-American Development Bank's Fifth Informal Meeting of Ministers of Finance and Presidents of Central Banks of Central America and the Dominican Republic	November	Nicaragua

of external auditors for the years 2003 to 2005.

Human Resources

The Bank continued to focus on developing career central bankers in 2003. Hence, one of its more important initiatives involved customized training of management and supervisory personnel aimed at upgrading the performance appraisal system, a necessary condition for fostering career development and retention of trained staff.

In January, the fourth annual Employee Recognition Ceremony was held under the theme "TEAM- Together Everyone Achieves More". Long Service Awards for ten and twenty years of service were presented to staff that reached these milestones, and departmental Outstanding Performers were honored.

Another initiative to improve management-employee communications involved the dissemination of a quarterly Newsletter, *"The JabiViews"*, which is produced under the guidance of an editorial committee that includes supervisory and professional staff. The newsletter welcomed articles contributed by staff on general or specific issues relevant to the workplace and replaced "*The Scoop*" and the *"Library and Records Management News"*, which were previously produced by the Human Resources and Records Management Units.

Staffing

As at 31 December 2003, the staff complement was 129, representing 97.7% of the estimated staffing requirements. One hundred and twenty five were permanent employees (of which 32 were contract staff) and 4 were employed on a temporary basis.

Several changes occurred at the executive and managerial levels during the year. In September, Mr J. Meliton Auil's term as Governor came to an end and the Governorship was assumed by Mr. Sydney Campbell who formerly held the position of Deputy Governor of Economic Intelligence. Mr. Marion Palacio, Statistical Analyst/Economist, was subsequently appointed Deputy Governor, Economic Intelligence. In other developments, the Deputy Governor of Operations, Mrs. Yvette Alvarez took up an appointment in the Government Service and Mr. Dwain Davis, Manager of the Finance Department, resigned to pursue opportunities in the private sector after serving the Bank for twenty-six years.

In line with progression planning and staff motivation objectives, six promotions took place at the managerial level. Also, four staff members were appointed to professional positions to strengthen the operations of the Financial Sector Supervision Department.

In comparison with 2002, the staff turnover rate rose by 4 percentage points to 12% with sixteen separations occurring and nine persons being hired.

Staff Development & Training

The Bank's training initiative focused on strengthening both its economic intelligence and operational arms in 2003. Eighteen staff members attended a total of fifteen courses/workshops held regionally and in the United States. Several employees also attended a series of customized training seminars conducted at the Bank to improve grammar, writing and supervisory skills.

Among the training courses/workshops were Attendance and Security Systems, Report Writing, Delivery of Professional Customer Care, Performance Evaluation, Human Resources and Personnel Issues, Elements of Effective Banking Supervision, Economic and Operative Aspects of Central Banking, Money and Banking, Relationship with Government and Financial Institutions, Monetary Policy, Records Management, Information Technology Management, Pension Administration, and Internal Audit. The Bank also supported and encouraged staff members who took the initiative for further self-development to enhance job performance.

Staff Club

In 2003, an energetic and dedicated Staff Club executive committee successfully organized a number of social functions for staff and their families. Staff mixers and games evenings provided opportunities for relaxation and socializing. Among the notable events were the annual Family Day in May and a highly successful formal Christmas party. Staff Club efforts were facilitated by the renovation of the staff lunch room/lounge, which was inaugurated in August and which quickly became the venue for informal staff functions.

In the spirit of sharing, the Club organized charitable events that included a book drive for the Dorothy Menzies Child Care Center as well as the collection and distribution of Christmas gifts for the children admitted to the Children's Ward at the Karl Heusner Memorial Hospital.

Community Service

In 2003, the Central Bank participated in the University of Belize's Internship Programme by permitting four senior students to work in various departments to meet core requirements for graduation. Ten students at the senior secondary level also had the opportunity to do work-study for an average of three weeks. In addition, the Bank sponsored a ten-week Summer Employment Programme for tertiary level students. This programme not only provided paid employment and skills development to Belizean youths, but also facilitated the vacation schedule for auxiliary staff and assisted in addressing backlogged clerical functions.

As in previous years, staff members and the Central Bank as an institution responded generously to the Salvation Army's Annual Christmas Appeal.

STATISTICAL APPENDIX

Table 1: Gross Domestic Product (GDP) by Industrial Origin

$mn

	1999	2000	2001	2002	2003
Primary Industries	**228.0**	**256.4**	**236.4**	**244.4**	**289.3**
Agriculture & forestry	170.4	185.2	167.2	171.9	181.3
Fishing	50.4	62.2	59.7	63.4	98.1
Mining	7.2	9.0	9.4	9.0	9.8
Secondary Industries	**237.6**	**298.7**	**298.4**	**306.0**	**299.7**
Manufacturing	131.8	159.2	155.6	156.5	161.3
Electricity & Water	46.6	56.7	60.8	61.9	60.7
Construction	59.2	82.8	82.1	87.6	77.7
Tertiary Industries	**849.2**	**942.0**	**1,012.7**	**1,094.0**	**1,168.4**
Wholesale & retail trade	235.6	270.8	287.7	301.3	316.9
Hotels & restaurants	52.1	58.5	66.8	68.4	79.1
Transport & Communications	127.3	141.1	158.8	186.9	183.1
Finance intermediation	84.9	107.7	106.7	118.0	128.6
Real estate & business services	100.0	98.2	112.1	124.9	137.9
Community, social & other services	96.8	100.7	105.4	108.4	120
General government services	152.5	165.0	175.2	186.1	202.8
Less: Financial Services Indirectly	**37.7**	**42.1**	**49.6**	**56.2**	53.3
All Industries at basic prices	**1,277.1**	**1,455.0**	**1,497.9**	**1,588.2**	**1,704.2**
Taxes less subsidies on products	187.6	208.6	236.9	263.7	272.6
GDP at market prices	**1,464.7**	**1,663.5**	**1,734.8**	**1,851.9**	**1,976.8**

Source: Central Statistical Office

Table 2: Percentage Share Of GDP By Industrial Sector at Current Prices *

	1999	2000	2001	2002	2003
Primary Industries	**15.6**	**15.4**	**13.6**	**13.2**	**14.6**
Agriculture & forestry	11.6	11.1	9.6	9.3	9.2
Fishing	3.4	3.7	3.4	3.4	5.0
Mining	0.5	0.5	0.5	0.5	0.5
Secondary Industries	**16.2**	**18.0**	**17.2**	**16.5**	**15.2**
Manufacturing	9.0	9.6	9.0	8.5	8.2
Electricity & Water	3.2	3.4	3.5	3.3	3.1
Construction	4.0	5.0	4.7	4.7	3.9
Tertiary Industries	**58.0**	**56.6**	**58.4**	**59.1**	**59.1**
Wholesale & retail trade	16.1	16.3	16.6	16.3	16.0
Hotels & restaurants	3.6	3.5	3.9	3.7	4.0
Transport & Communications	8.7	8.5	9.2	10.1	9.3
Finance intermediation	5.8	6.5	6.2	6.4	6.5
Real estate & business services	6.8	5.9	6.5	6.7	7.0
Community, social & other services	6.6	6.1	6.1	5.9	6.1
General government services	10.4	9.9	10.1	10.0	10.3
Less: Financial Services Indirectly	**2.6**	**2.5**	**2.9**	**3.0**	**2.7**
All Industries at basic prices	**87.2**	**87.5**	**86.3**	**85.8**	**86.2**
Taxes less subsidies on products	12.8	12.5	13.7	14.2	13.8
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office

* Figures in Table 1 may not reflect these percentages due to rounding

Table 3: Real Gross Domestic Product by Industrial Origin at Factor Cost (2000=100)

$mn

	1999	2000	2001	2002	2003
Primary Industries	**229.9**	**256.4**	**255.9**	**257.7**	**351.9**
Agriculture & forestry	172.6	185.2	182.0	188.6	215.3
Fishing	50.0	62.2	64.6	60.3	127.2
Mining	7.3	9.0	9.3	8.8	9.4
Secondary Industries	**239.4**	**298.7**	**296.4**	**304.3**	**299.4**
Manufacturing	128.2	159.2	158.1	160.5	165.5
Electricity & Water	51.6	56.7	56.9	58.2	59.4
Construction	59.6	82.8	81.4	85.6	74.5
Tertiary Industries	**854.7**	**942.0**	**1,015.3**	**1,081.9**	**1,141.0**
Wholesale & retail trade	241.5	270.8	291.4	303.1	317.6
Hotels & restaurants	52.9	58.5	66.4	68.0	73.5
Transport & Communications	125.3	141.0	157.6	175.3	179.7
Finance intermediation	79.7	107.7	112.1	130.7	143.9
Real estate & business services	101.1	98.2	110.9	121.6	131.4
Community, social & other services	99.1	100.7	102.2	103.9	106.4
General government services	155.0	165.0	174.6	179.3	188.4
Less: Financial Services Indirectly Measured	**36.2**	**42.1**	**51.4**	**61.4**	**60.5**
All Industries at basic prices	**1,287.7**	**1,455.0**	**1,516.2**	**1,582.4**	**1,731.8**
Taxes less subsidies on products	194.1	208.6	228.7	236.6	257.9
GDP at market prices	**1,481.8**	**1,663.5**	**1,744.9**	**1,819.1**	**1,989.8**

Source: Central Statistical Office

Table 4: Annual Percent Change In GDP By Sector at Constant 2000 Prices *

	1999	2000	2001	2002	2003
Primary Industries	**10.6**	**11.6**	**(0.2)**	**0.7**	**36.6**
Agriculture & forestry	6.3	7.3	(1.7)	3.6	14.2
Fishing	29.3	24.5	3.8	(6.7)	111.0
Mining	6.9	23.7	3.4	(5.7)	6.8
Secondary Industries	**9.2**	**24.8**	**(0.8)**	**2.7**	**(1.6)**
Manufacturing	6.5	24.2	(0.7)	1.5	3.1
Electricity & Water	8.1	9.8	0.3	2.3	2.2
Construction	16.6	39.0	(1.7)	5.2	(13.0)
Tertiary Industries	**8.0**	**10.2**	**7.8**	**6.6**	**5.5**
Wholesale & retail trade	9.3	12.1	7.6	4.0	4.8
Hotels & restaurants	12.0	10.6	13.5	2.5	8.0
Transport & Communications	11.9	12.5	11.8	11.2	2.6
Finance intermediation	16.6	35.1	4.2	16.5	10.1
Real estate & business services	10.2	(2.9)	12.9	9.7	8.0
Community, social & other services	2.1	1.6	1.5	1.6	2.4
General government services	0.6	6.4	5.8	2.7	5.1
Less: Financial Services Indirectly Measured	**7.2**	**16.3**	**21.9**	**19.5**	**(1.4)**
All Industries at basic prices	**8.7**	**13.0**	**4.2**	**4.4**	**9.4**
Taxes less subsidies on products	9.4	7.5	9.6	3.5	9.0
GDP at market prices	**8.8**	**12.3**	**4.9**	**4.3**	**9.4**

Source: Central Statistical Office

* Figures in Table 3 may not reflect these percentages due to rounding

Table 5: GDP by Expenditure in Current Prices

	1999	2000	2001	2002	2003
GDP in $mn					
Govt. final consumption expenditure	197.9	215.3	229.3	264.7	284.3
Private final consumption expenditure	1,133.5	1,244.7	1,354.8	1,461.6	1527.1
Gross capital formation	360.4	477.0	436.9	420.6	394.6
Changes in inventories including discrepancy	(0.1)	55.9	(6.2)	23.0	10.8
Gross Domestic Expenditure	**1,691.8**	**1,992.8**	**2,014.9**	**2,169.9**	**2,216.9**
Exports: goods & services	806.8	869.2	887.0	980.3	1101.2
Imports: goods & services	987.1	1,226.0	1,204.9	1,233.4	1316.9
Net Exports	(180.3)	(356.8)	(317.9)	(253.1)	(215.7)
Discrepancy	(46.8)	27.6	37.8	(64.9)	-24.3
GDP market prices	**1,464.7**	**1,663.5**	**1,734.8**	**1,851.9**	**1,976.8**
Percent Distribution of GDP					
Govt. final consumption expenditure	13.5	12.9	13.2	14.3	14.4
Private final consumption expenditure	77.4	74.8	78.1	78.9	77.3
Gross capital formation	24.6	28.7	25.2	22.7	20.0
Exports: goods & services	55.1	52.3	51.1	52.9	55.7
Imports: goods & services	67.4	73.7	69.5	66.6	66.6
Net Exports	(12.3)	(21.4)	(18.3)	(13.7)	(10.9)
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office

Table 6: GDP by Expenditure in Constant 2000 Prices

	1999	2000	2001	2002	2003
GDP in $mn					
Govt. final consumption expenditure	200.7	215.3	228.2	255.4	265.5
Private final consumption expenditure	1,154.5	1,244.7	1,371.1	1,458.2	1511.3
Gross capital formation	364.4	477.0	439.7	419.1	389.7
Changes in inventories including discrepancy	(0.7)	55.9	(5.3)	25.2	11.1
Gross Domestic Expenditure	**1,718.9**	**1,992.8**	**2,033.6**	**2,157.9**	**2,177.6**
Exports: goods & services	811.0	869.2	929.0	1,017.5	1225.5
Imports: goods & services	1,020.9	1,226.0	1,228.6	1,275.2	1319.6
Net Exports	(209.9)	(356.8)	(299.6)	(257.7)	(94.1)
Discrepancy	(27.2)	27.6	10.9	(81.1)	-93.7
GDP market prices	**1,481.8**	**1,663.5**	**1,744.9**	**1,819.1**	**1,989.8**
Percent Distribution of GDP					
Govt. final consumption expenditure	13.5	12.9	13.1	14.0	13.3
Private final consumption expenditure	77.9	74.8	78.6	80.2	76.0
Gross capital formation	24.6	28.7	25.2	23.0	19.6
Exports: goods & services	54.7	52.3	53.2	55.9	61.6
Imports: goods & services	68.9	73.7	70.4	70.1	66.3
Net Exports	(14.2)	(21.4)	(17.2)	(14.2)	(4.7)
GDP market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office

Table 7: Sectoral Composition of Commercial Banks' Loans and Advances

$mn

	Position as at			Changes During 2003
	Dec 2001	Dec 2002	Dec 2003	
Primary Sector	**96.2**	**116.7**	**135.7**	**19.0**
Agriculture	73.8	77.5	87.7	10.2
Marine Products	16.4	25.6	26.5	0.9
Forestry	1.3	1.7	3.7	2.0
Mining & Exploration	4.7	11.9	17.8	5.9
Secondary Sector	**226.5**	**253.6**	**277.7**	**24.1**
Manufacturing	44.3	23.0	12.6	-10.4
Building & Construction	177.7	201.7	232.5	30.8
Utilities	4.5	28.9	32.6	3.7
Tertiary Sector	**292.8**	**342.7**	**419.9**	**77.2**
Transport	40.1	27.2	38.4	11.2
Tourism	44.0	51.8	73.1	21.3
Distribution	136.3	150.5	162.4	11.9
Other*	72.4	113.2	146.0	32.8
Personal Loans	**173.0**	**191.5**	**208.4**	**16.9**
TOTAL	**788.5**	**904.5**	**1041.7**	**137.2**

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

Table 8: Commercial Banks' Weighted Average Interest Rates

Percentages

	Position as at			Changes Dec-02 to Dec-03
	Dec 2001	Dec 2002	Dec 2003	
Weighted Lending Rates				
Personal Loans	16.8	15.9	15.8	-0.1
Commercial Loans	14.8	14.3	13.9	-0.4
Residential Construction	14.0	13.3	12.4	-0.9
Other	12.6	10.1	10.6	0.5
Weighted Average	**15.4**	**14.5**	**14.2**	**-0.3**
Weighted Deposit Rates				
Demand	0.2	0.4	0.4	0.0
Savings/ Cheque	n.a.	5.2	5.1	-0.1
Savings	5.4	5.1	5.1	0.0
Time	6.1	6.5	7.2	0.7
Weighted Average	**4.3**	**4.5**	**4.9**	**0.4**
Weighted Average Spread	**11.1**	**10.0**	**9.3**	**-0.7**

n.a. - not available

Table 9: Balance Of Payments Summary

$mn

	2001	2002	2003
CURRENT ACCOUNT	**-372.2**	**-329.1**	**-361.9**
Goods: Exports f.o.b.	538.1	619.4	632.6
Goods: Imports f.o.b.	-963.8	-995.9	-1,051.2
Trade Balance	-425.7	-376.5	-418.6
Services: Credit	347.3	366.2	425.9
Transportation	23.7	36.2	44.3
Travel	238.5	258.2	303.1
Other Goods & Services	38.9	41.6	46.6
Gov't Goods & Services	46.2	30.2	32.0
Services: Debit	-242.3	-261.1	-278.6
Transportation	-72.2	-75.0	-79.0
Travel	-81.5	-85.1	-88.3
Other Goods & Services	-71.8	-83.2	-92.9
Gov't Goods & Services	-16.9	-17.8	-18.3
Balance on Goods & Services	-320.7	-271.3	-271.3
Income: Credit	16.6	7.9	8.4
Compensation of Employees	4.0	3.8	5.0
Investment Income	12.6	4.1	3.4
Income: Debit	-166.4	-158.8	-188.0
Compensation of Employees	-25.4	-21.5	-22.3
Investment Income	-141.1	-137.3	-165.6
Balances on Goods, Services &	-470.6	-422.3	-450.9
Current Transfers, n.i.e.: Credit	102.1	97.4	94.0
Current Transfers: Debit	-3.7	-4.1	-4.9
CAPITAL ACCOUNT, n.i.e.	**2.3**	**22.9**	**-96.1**
Capital Account, n.i.e.: Credit	4.9	25.1	9.7
Capital Account: Debit	-2.5	-2.2	-105.8
FINANCIAL ACCOUNT, n.i.e.	**355.8**	**291.2**	**384.1**
Direct Investment Abroad	0.0	0.0	-0.7
Direct Investment in Belize, n.i.e.	119.8	49.6	57.6
Portfolio Investment Assets	0.0	0.0	-0.3
Portfolio Investment Liabilities, n.i.e.	-29.7	253.2	151.1
Financial Derivatives Assets	0.0	1.7	1.1
Financial Derivatives Liabilities	0.0	0.0	0.0
Other Investment Assets	7.8	16.1	-17.1
Other Investment Liabilities	257.9	-29.4	192.4
NET ERRORS & OMISSIONS	**8.6**	**4.2**	**13.8**
OVERALL BALANCE	**-5.5**	**-10.9**	**-60.1**
RESERVE ASSETS (Minus = increase)	**5.5**	**10.9**	**60.1**

Table 10: Gross Imports (CIF) by SITC Categories

					$mn
SITC Category	**1999**	**2000**	**2001**	**2002**	**2003**
Food and Live Animals	107.1	106.3	118.8	107.8	118.7
Beverages and Tobacco	11.0	7.5	7.7	8.3	8.9
Crude Materials	5.4	8.0	11.6	7.5	6.7
Fuels and Lubricants	125.9	170.1	159.7	139.3	161.2
Of which electricity	7.2	15.0	16.9	23.8	28.4
Animal and Vegetable Oils	3.8	4.0	3.2	3.1	3.3
Chemicals	73.1	84.8	71.7	85.0	82.5
Manufactured Goods	113.1	143.8	136.2	128.2	128.7
Machinery and Transport Equipment	200.4	237.1	230.5	208.5	203.5
Miscellaneous Manufactured Goods	86.5	64.5	75.9	80.5	102.5
Commodities not classified elsewhere	20.2	104.1	91.7	83.4	135.2
Total	**746.5**	**930.2**	**906.8**	**851.6**	**951.2**
CFZ Direct Imports	73.8	114.5	132.0	221.3	180.5
Grand Total	**819.5**	**1,044.7**	**1038.8**	**1,072.8**	**1,131.7**

Sources: Central Statistical Office; Central Bank

Table 11: Central Government's Domestic Debt

$'000

	Disbursed Outstanding Debt 31/12/2002	Transactions During 2003: Disbursement/ New Issues of Securities	Amortization/ Reduction in Securities	Interest Payment	Net Change in Overdraft/ Securities	Disbursed Outstanding Debt 31/12/2003
Overdraft	**1,590**	**-**	**-**	**5,062**	**75,347**	**76,937**
Central Bank	-	-	-	5,062	74,121	74,121
Commercial Banks	1,590	-	-	-	1,226	2,816
Treasury Bills	**100,000**	**-**	**-**	**2,724**	**-**	**100,000**
Central Bank	53,795	-	-	1,688	27,618	81,413
Commercial Banks	33,124	-	-	892	(19,228)	13,896
Other	13,081	-	-	144	(8,390)	4,691
Treasury Notes *	**24,000**	**-**	**-**	**2,159**	**-**	**24,000**
Commercial Banks	23,269	-	-	2,094	-	23,269
Other	731	-	-	65	-	731
Defence Bonds	**15,000**	**-**	**-**	**-**	**-**	**15,000**
Central Bank	10,000	-	-	-	-	10,000
Commercial Banks	100	-	-	-	-	100
Other	4,900	-	-	-	-	4,900
Loans	**33,630**	**10,000**	**1,803**	**1,948**	**-**	**41,827**
DFC (Debt Restructuring)	8,893	-	462	654	-	8,431
BSSB (Housing)	708	-	17	55	-	691
BBL (Cohune Walk)	3,181	-	223	463	-	2,958
GOB/US Debt Swap	15,848	-	1,101	358	-	14,747
BBL (Infrastructure dev.)	5,000	10,000	-	418	-	15,000
TOTAL	**174,220**	**10,000**	**1,803**	**11,893**	**75,347**	**257,764**

R = Revised
P = Provisional
* Since October of 1998 Treasury Notes are being subscribed to in $US.
They are now , therefore, considered part of Foreign Liabilities. How ever interest is still paid in local currency.

Table 12: Government of Belize - Revenue and Expenditure

$'000

	Fiscal Year 2002/2003	Estimated Budget 2003/2004	Jan-Dec 2001	Jan-Dec 2002	Jan-Dec 2003
TOTAL REVENUE & GRANTS (1+2+	**498,083**	**480,512**	**458,653**	**524,933**	**453,406**
1).Current revenue	411,669	433,305	372,057	425,759	422,190
Tax revenue	359,961	391,357	322,253	354,036	370,231
Income and profits	78,947	91,017	77,626	78,025	86,282
Taxes on property	2,531	5,645	2,641	2,724	2,423
Taxes on goods and services	113,526	122,995	107,397	111,447	118,657
Int'l trade and transactions	164,957	171,700	134,589	161,840	162,869
Non-Tax Revenue	51,707	41,948	49,804	71,723	51,959
Property income	3,323	4,800	1,777	3,323	2,274
Contributions to pension fund	9043	522	0	0	0
Transfers from NFPE's	500	0	500	500	0
Repayment of old loans	14,496	3,331	11,409	31,927	18,541
Other	24,345	33,295	36,118	35,973	31,144
2). Capital revenue	67,431	38,650	73,833	67,523	24,829
3). Grants	18,983	8,557	12,763	31,651	6,387
TOTAL EXPENDITURE (1+2)	**629,023**	**512,119**	**601,071**	**593,756**	**666,992**
1). Current Expenditure	352,235	370,130	333,669	333,445	393,048
Wages and Salaries	172,856	187,542	162,196	167,519	186,672
Pensions	26,287	23,534	22,594	25,115	26,682
Goods and Services	63,350	65,603	66,839	61,597	74,406
Interest Payments on Public Deb	63,916	64,362	53,875	51,758	77,403
Subsidies & current transfers	25,826	29,089	28,165	27,456	27,885
2). Capital Expenditure	276,789	141,989	267,402	260,311	273,944
Capital II (local sources)	92,343	60,980	81,640	108,771	89,627
Capital III (foreign sources)	167,746	77,328	148,745	134,840	99,142
of which Hurricane ERF	16662		57,776	26,021	2,454
Capital Transfer & Net Lending	16,700	3,681	37,017	16,700	49,175
Unidentified Expenditure					36,000
CURRENT BALANCE	**59,434**	**63,175**	**38,388**	**92,314**	**29,142**
OVERALL BALANCE	**(130,941)**	**(31,607)**	**(142,418)**	**(68,823)**	**(213,586)**
balance excluding Hurricane ERF	(114,279)	(31,607)	(84,642)	(42,802)	(211,132)
FINANCING	**130,941**	**31,607**	**142,418**	**68,823**	**213,586**
Domestic Financing	(111,306)	(80,624)	72,691	(220,877)	(62,396)
Central Bank	53,328		61,868	(52,728)	76,290
Net Borrowing	50,028		15,470	(14,360)	101,739
Change in Deposits	3,300		46,398	(38,368)	(25,449)
Commercial Banks	(16,890)		8,927	(29,195)	(1,599)
Net Borrowing	(8,251)		756	(24,891)	(8,002)
Change in Deposits	(8,639)		8,171	(4,304)	6,403
Other Domestic Financing	(2,744)		1,896	6,046	(9,089)
Transaction with DFC (debt)	(145,000)			(145,000)	(127,998)
Financing Abroad	242,574	66,616	69,789	278,328	276,712
Disbursements	440,468	66,616	139,132	472,991	499,488
Amortization	(145,754)	(36,503)	(55,543)	(153,808)	(100,876)
Interest & Penanties prepaymt	(3,654)			(3,654)	0
Partial payment for BTL shares	0		0	0	(104,000)
Sinking Fund & JCF	(48,486)	9,113	(13,800)	(37,201)	(17,900)
Other	(327)		(62)	11,372	(730)

Sources: Ministry of Finance

Table 13: Public Sector External Debt by Creditors

($'000)

	Disbursed Outstanding Debt 31/12/02	TRANSACTIONS DURING 2003 Disbursement	Amortization	Interest & Other Charges	Valuation Adjustments	Disbursed Outstanding Debt 31/12/03
CENTRAL GOVERNMENT	**1,009,291**	**499,517**	**100,879**	**77,696**	**5,689**	**1,413,618**
Caribbean Development Bank*	45,248	17,081	1,410	1,339	11	60,930
European Economic Community	17,546	-	608	127	3,492	20,430
Inter-American Development Bank	97,201	30,597	970	3,500	-	126,828
Int'l Bank for Reconstruction Dev.	73,355	4,080	6,361	3,140	-	71,074
Int'l Fund for Agricultural Dev.	1,958	446	394	173	170	2,180
OPEC Fund for International Dev.	6,971	1,428	533	375	-	7,866
Banco Nacional De Comercio	-	8,116		469		8,116
Fondo de Inversiones de Venezuela	2,560	-	1,362	207	-	1,198
Government of China	232	-	58	-	-	174
Government of Kuwait	18,314	1,056	1,131	810	206	18,445
Government of Spain	328	-	375	3	47	-
Gov't of Trinidad and Tobago	32	-	4	1	-	28
Gov't of United Kingdom	19,644	-	4,849	-	1,763	16,558
Gov't of United States of America**	10,490	-	1,326	370	-	9,164
Republic of China	183,667	300	7,355	8,182	-	176,612
All First Bank of Maryland	4,200	-	420	242	-	3,780
Bear, Stearns & Co. Inc	250,000	200,000	-	33,170	-	450,000
Citibank of Trinidad	18,858	-	3,429	1,779	-	15,429
Citicorp Merchant Bank Ltd.	14,286	40,000	2,857	1,342	-	51,429
Deutsche Bank of Germany	3,915	-	3,915	87	-	-
International Bank Of Miami	68,034	192,506	32,034	3,967	-	228,506
KBC Bank	9,346	-	1,869	502	-	7,477
Provident Bank & Trust	4,472	-	1,674	225	-	2,798
Royal Merchant Bank	83,705	-	5,955	11,400	-	77,750
Salomon Smith Barney***	52,030	-	-	5,384	-	52,030
Suppliers Credit	22,899	3,907	21,990	902	-	4,816
REST OF NON-FINANCIAL PUBLIC SECTOR	**16,164**	**-**	**1,996**	**1,099**	**106**	**14,274**
CIBC Bank & Trust Co.	6,766	-	1,312	723	-	5,454
Government of Kuwait	9,398	-	684	376	106	8,820
FINANCIAL PUBLIC SECTOR	**123,553**	**3,724**	**58,605**	**4,746**	**2,808**	**71,480**
Caribbean Development Bank	46,850	1,604	2,529	1,817	33	45,958
European Economic Community	7,092	2,120	607	213	931	9,536
Gov't of United States of America	2,911	-	380	84	-	2,531
Citibank Trinidad & Tobago	12,250	-	8,500	752	-	3,750
Citicorp Merchant Bank Ltd.	6,250	-	2,500	214	-	3,750
Deutsche Bank of Germany	25,006	-	26,850	948	1,844	-
Paine Webber Real Estate Securities Inc	2,200	-	200	34	-	2,000
Provident Bank & Trust	541	-	541	28	-	-
Commerz Bank of Belgium	5,085	-	1,130	333	-	3,955
CSSL/New Holland of Brazil	3,327	-	3,327	106	-	-
Private Export Funding Corporation	12,041	-	12,041	217	-	-
TOTAL	**1,149,008**	**503,241**	**161,480**	**83,541**	**8,603**	**1,499,372**

*Effective 31st March 2001, WASA loans were re-classified as private sector debt as a result of its full privatization.

** USAID Debt for Nature Swap Agreement as at 2nd August, 2001 was implemented on 30th November, 2001 for BZ $17,168

*** Salomon Smith Barney Bond of US$29.1mn payable in 2005 was net of US$20.0mn sinking fund established in 2002

Effective 31st December, 2002 BPA Loans of Bz $23.8 mn were re-classified as private sector debt as a result of its full privatization.

Outstanding external debt of privatized enterprises and Securitization proceeds remained as contingent liability of Central Government.

AUDITOR'S REPORT

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AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
CENTRAL BANK OF BELIZE

We have audited the accompanying balance sheet of Central Bank of Belize as of 31 December 2003 and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. 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 principles 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 give a true and fair view of the financial position of Central Bank of Belize as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board.

KPMG

20 February 2004

CENTRAL BANK OF BELIZE
BALANCE SHEET
At 31 December 2003

In Belize dollars.

	Note	2003	2002
ASSETS			
APPROVED EXTERNAL ASSETS			
Balances and deposits with foreign bankers and Crown Agents		119,873,204	95,399,943
Reserve Tranche and balances with the International Monetary Fund	5	17,164,707	15,431,305
Other foreign credit instruments		10,000,000	70,260,000
Accrued interest and cash intransit	6, 2e	2,665,371	30,600,564
Marketable securities issued or guaranteed by foreign government and international financial institutions.	7	2,000,000	-
	4b	151,703,282	211,691,812
BELIZE GOVERNMENT SECURITIES	8	91,412,770	63,794,873
BELIZE GOVERNMENT CURRENT ACCOUNT	9	72,444,782	-
LOANS TO PUBLIC SECTOR	10	10,000,000	15,000,000
LOANS TO COMMERCIAL BANKS	11	5,124,086	-
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		177,421	36,548
OTHER ASSETS	12	5,252,510	3,896,148
PROPERTY AND EQUIPMENT	2a, 13	32,373,445	30,839,608
TOTAL ASSETS		**368,488,296**	**325,258,989**

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
BALANCE SHEET
At 31 December 2003 (Continued)

In Belize dollars.

LIABILITIES, CAPITAL AND RESERVES	**Note**	**2003**	**2002**
DEMAND LIABILITIES			
Notes and coins in circulation		127,626,959	132,673,605
Deposits by licensed financial institutions	14	75,071,727	57,007,542
Deposits by and balances due to Government and public sector entities in Belize		55,553,007	34,944,093
Deposits by international agencies	15	4,969,109	4,464,131
		263,220,802	229,089,371
BALANCES DUE TO CARICOM CENTRAL BANKS		820,132	1,499,704
OTHER LIABILITIES	16	7,241,963	3,131,614
COMMERCIAL BANK DISCOUNT FUND	17	1,815,643	1,959,445
GOVERNMENT SINKING FUND	18	54,210,070	40,170,058
BELIZE CREDIT FACILITY	19	7,961,159	7,227,477
LOANS PAYABLE TO FOREIGN INSTITUTIONS	20	7,500,000	12,500,000
CONSTRUCTION BONDS	21	-	6,000,000
TOTAL LIABILITIES		342,769,769	301,577,669
REVALUATION ACCOUNT	2c, 22	2,872,621	1,188,317
CAPITAL ACCOUNT			
Paid up capital (Authorized capital $10,000,000)		10,000,000	10,000,000
GENERAL RESERVE FUND	23	12,845,906	12,493,003
TOTAL LIABILITIES, CAPITAL AND RESERVES		**368,488,296**	**325,258,989**

) GOVERNOR
)
) DIRECTOR
)
) DEPUTY GOVERNOR

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF INCOME
For the year ended 31 December 2003

In Belize dollars.

	Note	2003	2002
INCOME			
Interest			
Approved external assets		3,432,725	4,104,824
Advances to government		6,316,883	5,667,937
Local securities	2d	800,000	801,527
Loans to statutory bodies		1,407,996	4,408,738
		11,957,604	14,983,026
Discounts on local securities		1,919,806	350,654
Commission and other income		2,445,846	2,329,141
TOTAL INCOME		16,323,256	17,662,821
LESS: Interest expense		(2,753,468)	(5,826,802)
Income from operations		13,569,788	11,836,019
EXPENDITURE			
Printing of notes and minting of coins	2b	(1,107,715)	(1,017,542)
Salaries and wages, including superannuation contributions and gratuities		(5,406,102)	(4,315,727)
Depreciation		(849,185)	(813,121)
Administrative and general		(2,677,755)	(2,607,913)
Total expenditure		(10,040,757)	(8,754,303)
NET PROFIT		3,529,031	3,081,716
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND		3,529,031	3,081,716
Transfer to general reserve fund in accordance with Section 9(1) of the Act	23	(352,903)	(308,172)
Balance credited to the accountant general for the consolidated revenue fund		3,176,128	2,773,544

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 December 2003

In Belize dollars.

	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit transferred to the general reserve fund	352,903	308,172
Adjustment to reconcile net profit to net cash provided by operating activities:		
Depreciation	849,185	813,121
Loss on disposal	30,852	-
Changes in assets and liabilities that provided (used) cash:		
Other assets	(1,356,361)	1,405,517
Other liabilities	4,110,349	(857,491)
Revaluation account	1,684,303	1,188,317
Net cash provided by operating activities	5,671,231	2,857,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Belize Government current account	(72,444,782)	61,274,654
Loans to public sector/commercial bank	(124,086)	69,000,000
Acquisition of property and equipment	(2,413,874)	(518,262)
Reserve tranche in the IMF	(1,106,444)	(836,606)
Construction bonds	(6,000,000)	(6,000,000)
Belize Government securities	-	2,188,000
Net cash (used in) provided by investing activities	(82,089,186)	125,107,786
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and coins in circulation	(5,046,646)	7,393,231
Deposits by licensed financial institutions	18,064,185	(23,710,584)
Deposits by and balances due to Government and public sector entities	20,608,916	(29,998,385)
Government sinking fund	14,040,012	40,170,058
Deposits by international agencies	504,978	2,148,399
Balances due to Caricom central banks	(679,572)	877,507
Commercial Bank Discount Fund	(143,803)	13,497
Belize credit facility	733,682	799,757
Loan repayment made to foreign institutions	(5,000,000)	(69,000,000)
Net cash provided by (used in) financing activities	43,081,752	(71,306,520)

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 December 2003 (Continued)

In Belize dollars.

	2003	**2002**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(33,336,203)	56,658,902
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	254,095,222	197,436,320
CASH AND CASH EQUIVALENTS, END OF YEAR	220,759,019	254,095,222
CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:		
EXTERNAL ASSETS:		
Balance and deposits with foreign bankers and Crown Agents	121,873,204	95,399,943
Other foreign credit instruments	10,000,000	70,260,000
Accrued interest and cash intransit	2,665,371	30,600,564
Balance with the International Monetary Fund	4,630,253	4,003,295
	139,168,828	200,263,802
LOCAL ASSETS:		
Cash and bank balances	177,421	36,548
Government of Belize Treasury Bills	81,412,770	53,794,872
	220,759,019	254,095,222

The accompanying notes form an integral part of these financial statements.

In Belize dollars.

1. ORGANIZATION

The 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 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

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

a. Property, plant and equipment depreciation and amortization –

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

Depreciation is charged at the following rates:

Building and improvements	1%, 5%
Office furniture	10%
Equipment	10%, 20%
Vehicles	20%

b. Sale of special coins –

Special coins, which are minted or packaged as collector items, are legal tender. However, no liability is recorded in respect of these 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 the balance sheet date are translated at the rates of exchange ruling at the date.

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Foreign currency translation and exchange gains and losses –

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 and losses from any revaluation of the Bank's net assets or liabilities in gold, special drawings 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 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 credited in a special account called Revaluation Account. However, no profits shall first be carried to the General Reserve Fund or paid to the Government under Section 9 (see Note 22) whenever the Revaluation Account shows a net loss. Such profits shall first 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 intransit –

Accrued interest and cash intransit in respect of foreign assets are shown as part of external assets.

f. 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.

g. 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.

In Belize dollars.

3. INTEREST ON CENTRAL BANK BUILDING CONSTRUCTION BONDS

Interest is payable semi-annually on the Bank's Construction Bonds, and is charged against the annual earnings of the Bank (See Note 21).

4. CENTRAL BANK OF BELIZE ACT SECTION 5 COMPLIANCE

Section 25 of the Act stipulates that:

a. The Bank shall at all times hold assets of an 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.

At 31 December 2003 and 2002 total approved external assets approximated 58 percent and 92 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 1,320,000 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 31 December 2003, Belize's subscriptions to the International Monetary Fund amounted to SDR 18,800,000 and the Bank's Reserve Tranche amounted to SDR 4,238,690. The Reserve Tranche which earns interest is included in approved external assets in the financial statements at the exchange rate of Bz$2.9719 to SDR 1.0 at 31 December 2003 (2002 – Bz$2.7096 to SDR 1.0).

In Belize dollars.

6. ACCRUED INTEREST AND CASH INTRANSIT

Accrued interest and cash intransit consist of:

	2003	2002
Accrued interest	1,265,538	263,414
Cash intransit	1,399,833	30,337,150
	2,665,371	30,600,564

7. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENTS AND FOREIGN FINANCIAL INSTITUTIONS

These securities consist of 3% debentures issued by the Government of Dominica and maturing in 2006.

8. BELIZE GOVERNMENT SECURITIES

Belize Government securities consist of:

	2003	2002
Treasury Bills	81,412,770	53,794,873
Belize Defense Bonds	10,000,000	10,000,000
	91,412,770	63,794,873

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 the time of the paid up capital and general reserves of the Bank. At 31 December 2003 and 2002 the Bank's aggregate holding of Belize Government securities approximated 4 times and 2.84 times, respectively, of the amount of paid up capital and general reserves of the Bank.

9. 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 31 December 2003 and 2002, advances to Government represent approximately 90 percent and zero percent of the authorized limit respectively.

In Belize dollars.

10. LOANS TO THE PUBLIC SECTOR

	2003	2002
11% p.a. loan with semi-annual payment of interest, and payment of first installment of principal 18 months after 16 August 2000 and every 6 months thereafter until maturity on 1 November 2005. The loan is guaranteed by the Government of Belize.	10,000,000	15,000,000
	10,000,000	15,000,000

11. LOANS TO COMMERCIAL BANK

	2003	2002
11.5% p.a. short-term loan due from a commercial bank maturing on 25 February 2004. The loan is secured by the assignment of a DFC Bond maturing in 2007 for the same amount.	2,500,000	-
11.5% p.a. short-term loan due from a commercial bank maturing on 12 March 2004. The loan is secured by a promissory note signed by the Government of Belize.	2,624,086	-
	5,124,086	-

12. OTHER ASSETS

Other assets consist of:

	2003	2002
Inventory of notes and coins	3,210,169	1,245,158
Prepayments and accrued interest	941,221	1,451,780
Accounts receivable	1,017,114	1,116,236
Other	84,006	82,974
	5,252,510	3,896,148

In Belize dollars.

13. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2003	2002
Property	31,019,704	29,170,058
Furniture	1,024,817	1,022,669
Equipment	4,439,120	4,210,684
Vehicles	390,071	365,924
Work in progress	135,237	-
	37,008,949	34,769,335
Less: accumulated depreciation	4,635,504	3,929,727
	32,373,445	30,839,608

14. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Under the revised provisions of Section 13 of the Banks Financial Institutions Act 1995, licensed financial institutions are required to keep on deposit with the Bank an amount equivalent to at least 6% of their average deposit liabilities.

Under Section 21 A (1) of the International Banking Act, licensed financial offshore institutions are required to maintain an account of a minimum balance of $200,000 with the Bank. These deposits are interest free.

15. DEPOSITS BY INTERNATIONAL AGENCIES

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

	2003	2002
Commission of the European Communities	2,001,572	75,148
International Monetary Fund	142,451	129,877
Caribbean Development Bank	99,538	67,041
Inter-American Development Bank	317,035	294,199
International Bank of Reconstruction and Development	716,450	716,450
European Union	1,682,063	3,181,416
	4,969,109	4,464,131

In Belize dollars.

16. OTHER LIABILITIES

	2003	2002
Interest payable (including construction bonds)	1,093,033	545,760
Severance and gratuities	622,002	586,955
Abandoned property	1,174,068	929,651
Retention payable	-	24,730
Other	4,352,860	1,044,518
	7,241,963	3,131,614

17. 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) earmarked US$5 million in loan funds up to 30 June 1987, to finance this facility. The facility enabled commercial banks in Belize to discount with the Bank and USAID. In 1993, USAID and the Bank agreed that $2 million and Bz $1.5 million from the reflows to the Discount Fund could be used as a line of credit to National Development Foundation of Belize (the Foundation) and Development Finance Corporation (DFC), respectively.

The USAID loan has the following terms:

Interest rate of 2% for the first ten years and 3% thereafter. The loan is repayable in 25 years with a grace period of 9½ years and 31 equal semi-annual principal payments for 15½ years.

At 31 December 2003, outstanding loans discounted by commercial banks through the facility amounted to $.3 million (2002 - $.4 million) net of repayments, against a total drawdown of $5.7 million from USAID. On that date the amount drawn down by the Foundation was $1.5 million (2002 - $1.5 million) net of repayments and the amount drawn down by DFC was $743,095 (2002 - $1.0 million) net of repayments.

18. GOVERNMENT SINKING FUND

Government Sinking Fund consists of US$20,449,036 and US$6,656,000 invested by the Bank on behalf of the Government for a bond issue maturing in 2005.

In Belize dollars.

19. BELIZE CREDIT FACILITY

Under a 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 19 July 1988, the Bank acting as 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 is set out in an agreement signed between the Government and the Bank on 13 March 1989.

20. LOANS PAYABLE TO FOREIGN INSTITUTIONS

Loans payable to foreign institutions consist of:

	2003	**2002**
Due to a foreign institution repayable in 8 installments commencing 4 November 2001 and every 6 months thereafter. Interest accrues at 2.82% per annum above LIBOR for the first 2 years and thereafter at 2% per annum above LIBOR. The loan was negotiated for US$5,000,000 for project financing and is secured by a first-priority charge lien or security interest on a deposit of US$3,750,000 placed by the borrower with the foreign institution.	3,750,000	6,250,000
Due to a foreign institution repayable in 8 installments commencing 4 November 2001 and every 6 months thereafter. Interest accrues at 2.82% per annum above LIBOR for the first 2 years and thereafter at 2% per annum above LIBOR. The loan was negotiated for project financing and is secured by the first-priority charge, lien or security interest on a deposit of US$3,750,000 placed by the borrower with the foreign institution.	3,750,000	6,250,000
	7,500,000	12,500,000

These loans are guaranteed by the Government of Belize

In Belize dollars.

21. CONSTRUCTION BONDS

	2003	2002
$24,000,000 construction bonds secured by a guarantee from the Belize Government. Interest at 11.75% per annum is payable semi-annually. Principal repayable by 8 semi annual installments of US$1,500,000 beginning 15 January 2001.	-	6,000,000
	-	6,000,000

22. 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.

	2003	2002
Net gain on revaluation of Reserve Tranche in the International Monetary Fund	1,509,227	836,603
Net gain on revaluations during the year	1,363,394	351,714
Transfer (to)/from profits	-	-
Balance at end of year (Note 2c. iii)	2,872,621	1,188,317

23. GENERAL RESERVE FUND

Section 9(1) of the Act provides for the establishment of a General Reserve Fund into which is 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 paid into the Fund.

	2003	2002
Balance at beginning of year	12,493,003	12,184,831
Transfer from profits at 10%	352,903	308,172
Balance at end of year	12,845,906	12,493,003

In Belize dollars.

24. PENSION SCHEME

The Bank operates a defined pension scheme which receives contributions from the Bank and its eligible employees. During the year under review, the Bank contributed $144,302 (2002 - $135,000) 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.

The last actuarial valuation at 31 December 2002 reported the present value of past service liabilities and plan assets at assessed value to be $2,916,000 and $4,599,000, respectively.

Significant actuarial assumptions used in the valuation were:

I. A valuation rate of interest of 7% p.a.

II. A rate of escalation of pensionable salaries of 5% p.a.

III. Allowance for pensions is not to be increased in the course of payments.

25. FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, and other short-term instruments and obligations at the balance sheet date represent best estimates of fair value because of the relative short-term maturities of these assets and liabilities. Long-term obligations have been contracted at market terms and their carrying amounts approximate fair value to the extent it is practicable to estimate.

26. COMMITMENTS AND CONTINGENCIES

a. The Bank is guarantor to the Government of Belize in a USD/Yen currency swap agreement with Citicorp. This agreement will terminate in June 2005. Periodically, the swap agreement is valued and potential margin calls can be made.

b. The Bank is contingently liable as cosigner with the Government of Belize on promissory notes to International Bank of Miami totaling US$114 million.