Developments in the Real Economy

Chart 6.1: Annual GDP Growth

Source: Statistical Institute of Belize (SIB)

Table 6.1: Sugarcane Deliveries

	2009/10	2010/11
Deliveries to BSI (long tons)	1,122,765	843,786

Source: Belize Sugar Industries Ltd. (BSI)

In 2011, the economy was negatively affected by weather related crop losses and financial setbacks in fishing. Notwithstanding this, GDP grew by 2.0%, fuelled primarily by activity in the services sector and to a lesser extent, a slight rebound in manufacturing. Increases in domestic consumption, the free zone trade with Mexico, tourism and public sector activity underpinned growth in "Wholesale & Retail Trade", "Hotels & Restaurants", "Transportation & Communication" and "Government Services" that exceeded 4.0% on average in 2011. The rebound in manufacturing reflected an upward surge in production of sugar, citrus juices and other beverages that outweighed the fall-off in petroleum output. Production of electricity was marginally higher due to output from the co-generation plant. On the other hand, construction was down by 4.1% and primary sector activity also contracted with a 3.4% downturn in agriculture that reflected reduced output of sugarcane, papaya and banana. Despite boosts from new ventures in southern Belize, fishing activity subsided due to the first quarter closure of Belize Aquaculture Ltd., the country's largest producer of farmed shrimp.

Agriculture

Sugarcane

Even with an improved delivery system, sugarcane deliveries for the 2010/11 crop came in at 843,786 long tons, 24.8% lower than that of the previous year. Contributory factors included the late start of the crop year which was due to delays in finalizing crop financing arrangements, a disruption in operations lasting three and a half weeks due to the breakdown of the cogeneration plant's two steam turbines in early February, and reduced crop yields that were partly due to unfavourable weather. The situation was exacerbated by rat infestation in several areas and the premature harvesting of some sugarcane fields due to the extended 2009/10 crop year.

Farmers benefitted from improved prices as the payment received per long ton of sugarcane increased by 59.4% to $72.17. While the EU sugar price was unchanged at €335.14 per metric ton, raw sugar prices in the US were 86.5% higher. Prices were further enhanced as a result of the notable improvement in sugarcane quality.

Box 2: 2011 Update on Sugar Industry Developments

Belize Sugar Industries Limited (BSI), the country's sole sugar processor, started the 2010/2011 crop year in a financial quandary as its annual revolving credit facility with ING Bank was not renewed upon its maturity on September 30, 2010. BSI was subsequently given a period of six months to pay off the outstanding balance on the facility. ING's action was the culmination of its years of concern over the industry's long standing problems with insufficient and poor quality sugarcane and the adverse impact this was having on BSI's financial performance. In response to BSI's difficulties in obtaining short-term crop financing for the 2010/11 crop year, Central Government intervened with a partial bridge loan that was supplemented by pre-shipment financing from Tate & Lyle amounting to US$5.0mn.

With working capital for the 2010/11 crop year having been secured, BSI turned its attention to finding a solution to the six-month deadline stipulated by ING. This effort was facilitated by an improvement in industry performance that was associated with the implementation of a quality based payment, harvest and delivery system. Early in the year, BSI was consequently able to secure a six-month extension of the ING repayment deadline that took it up to September 2011. The company then contracted the services of Corporacion Interamericana para el Financiamiento de la Infraestructura to bring interested parties to the table and lead the negotiations for the refinancing and restructuring of its outstanding ING debt.

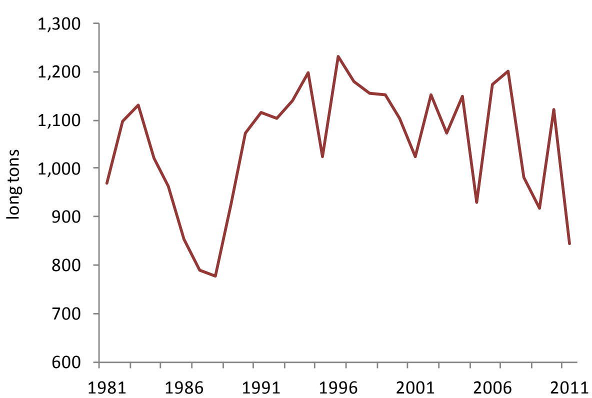
In this regard, representatives of Banco Atlantida of Honduras visited the factory in January, and a written proposal was submitted that outlined a phased, cumulative investment of US$90.0mn, which included the acquisition of 51.0% of BSI's shares, expansion of the processor's sugarcane production and the establishment of a fund to provide crop loans to farmers. The Belize Cane Farmers Association also expressed an interest in acquiring a controlling share in BSI and suggested that it could possibly arrange a syndicated loan for US$92.5mn to fund BSI's immediate debt obligations and pay for medium and long-term factory and production expansions. However, this was not backed by a written proposal. The third expression of investor interest came from American Sugar Refining, owner of Tate & Lyle, although in this case, a specific amount was not mentioned and a written proposal was also not submitted. Notwithstanding the expressions of interest, no deal was finalized during the year.

The proposals raised technical concerns regarding the handling of a BSI buyout, since 81.0% of the shares are owned by an Employees Trust. Furthermore, Banco Atlantida's plans to boost the factory's sugarcane production sparked sugarcane farmers' fears of displacement. Nevertheless, BSI was eventually able to get ING to reactivate its annual revolving credit facility and suspend the requirement to pay off its outstanding balance for the 2011/12 crop year based on the marked improvement in the 2011 industry performance.

Box 2: 2011 Update on Sugar Industry Developments (cont'd)

The tons-cane-to-tons-sugar ratio for the crop year was the lowest in over a decade (8.57) due to the quality assurance programme and good weather. While ING has indicated its willingness to remain as financier, the future renewal of this annual revolving credit line will depend on the continuation of industry measures to ensure the volume and quality of sugarcane deliveries. Looking ahead, BSI's main challenges will be to service the cogeneration plant's debt as well as to expand the factory's capacity. All things considered, the possibility of a joint venture partner will likely remain on the table as an option to safeguard the industry's long term viability.

Chart 6.2: Sugarcane Deliveries



Source: BSI

Table 6.2: Citrus Fruit Deliveries

	2009/10	2010/11
Deliveries ('000 boxes)	5,241	5,120
Oranges	3,851	4,447
Grapefruits	1,390	673

Source: Citrus Growers Association (CGA)

Citrus

Deliveries of citrus to the factory were 2.3% lower mainly due to losses sustained as a result of Hurricane Richard in October, 2010. The grapefruit harvest was the most severely impacted with deliveries for the crop year plummeting by 51.5% to 0.6mn boxes. Conversely, deliveries of orange (which are harvested later in the cycle) rose by 15.5% to 4.4mn boxes although this was still somewhat short of expectations. Rising cost of inputs, increased difficulty in obtaining migrant workers due to upturn in their home economies and higher incidences of disease contributed to the industry's less than stellar performance.

The overall reduction in the crop meant that farmers were not in a position to fully capitalize on the strengthening of international citrus prices due to the upswing in demand from the major importing countries. Influenced by the latter, the prices paid to farmers on a pound solid (ps) basis for orange and grapefruit were higher by 21.3% and 9.0%, respectively, in 2011.

Box 3: Update on Citrus Industry

Institutional conflicts within the citrus industry continued, notwithstanding a November 2011 ruling by the Supreme Court that the employment contract of the Chief Executive Officer of Citrus Products of Belize (CPBL) and his membership on the processing company's board of directors was valid. While the ruling resolved this specific two year dispute between the company and the Citrus Growers Association (CGA), the industrial disputes led several large growers to break away from the CGA and form another association. The institutional rift continued to plague the industry at a time when the focus should have been on consolidating and pooling scarce resources to produce germ free trees and provide research and extension services for farmers in order to control the spread of the devastating citrus greening (HLB), detected in 2009, and citrus leprosis, detected in 2011.

The Belize Agricultural Health Authority (BAHA) continued its efforts to control the spread of HLB through surveillance and chemical spraying of fields supported by the CGA and funding from OIRSA-Mexico. The authorities estimated that approximately 80.0% of the groves in the most infected areas (Stann Creek Valley, Coastal Road and Southern Stann Creek) were sprayed during 2011. With funding from OIRSA-Mexico ending in November, the larger farms undertook their own chemical spraying, while the CGA, through a revolving fund, enabled the smaller farmers to continue the spraying programme. In 2011, more than a year after the authorities had dismantled all citrus nurseries and destroyed their seedlings, five BAHA approved nurseries were constructed with one becoming fully operational by the end of the year. There is currently a significant shortfall in nurseries with the five nurseries having a combined annual seedling capacity of 200,000 plants compared to the industry's yearly demand of 500,000 plants. Going forward, more investment and funding is needed for research and development programs to combat disease threats. The CGA has secured technical assistance from the United Nations Food and Agricultural Organisation as well as the Taiwanese government for 2012. With the ending of OIRSA's funding, BAHA will also need budgetary support to effectively execute its regulatory role. One of the major challenges remains the building of consensus among farmers to gain support for a comprehensive and cooperative approach in actively pursuing the control of the HLB disease within their groves. Unfortunately, the splintering of the CGA and the atmosphere of distrust have undermined efforts to implement a cohesive industry-wide extension programme to educate farmers and effectively control the disease.

In August, another disease (citrus leprosis) surfaced in the Kendall area of the country. Citrus leprosis is a non-systemic disease, and therefore the pruning and removal of all fruit and diseased branches are effective controls, unlike citrus greening, which is a systemic disease and requires the removal of the entire tree.

Box 3: Update on Citrus Industry (cont'd)

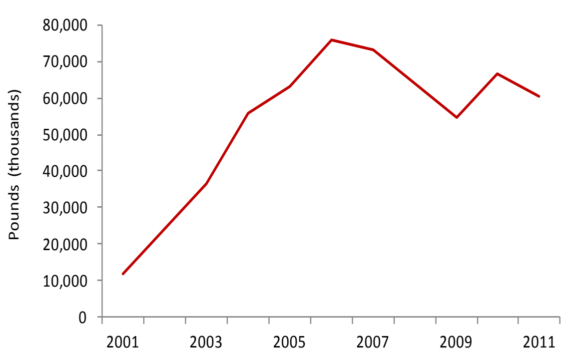
However, without a monitoring system and appropriate management practices, citrus leprosis can lead to extensive crop loss and tree debilitation. BAHA, along with the CGA, executed a chemical control plan, and supported by the internal quarantine on plant movement already in place due to citrus greening, it is believed that this disease can be contained.

The focus of the industry should be on increasing production and productivity by overcoming the institutional rifts to undertake the consolidated and coordinated approach required to effectively resolve the agronomic challenges facing the industry.

Chart 6.3: Banana Production

Source: Banana Growers Association (BGA)

Chart 6.4: Papaya Production



Source: SIB

Banana

Banana production fell by 4.8% to 4.1mn boxes due to losses from adverse weather. Extraordinarily cold conditions in December 2010 slowed bunch development and reduced yields for the February/March harvest cycle. Productivity was further depressed by the very dry weather in the country between March and May. In addition, three consecutive days of thunderstorms in the first week of September damaged the harvestable crop and fruit trees and hindered production in the remainder of the year.

Papaya

Diseases and poor weather were contributory factors in the 9.3% decrease in papaya production to 60.5mn pounds. While the weather played an important part in hindering fruit development and output in the first quarter, uncontrolled viral infections gained ascendance and depressed fourth quarter production. The latter was linked to a new requirement of the U.S. Environmental Protection Agency that only chemicals specifically designated for papaya should be used on fruit exported into that market. Since local producers were not able to immediately identify a virus treatment option that was both suitable for domestic conditions and in accordance with the new phyto-sanitary restrictions, substantial losses were suffered.

Other Agricultural Production

Apart from corn, the output of the grain and bean crops was significantly lower in 2011. Sorghum production fell by 49.9% to 22.0mn pounds with the average yield being negatively affected by weather. Soybean output was down 54.8% to 13.1mn pounds as acreage devoted to its cultivation contracted by 47.6%. Heavy rains caused bean production to plunge by 21.9% to 20.0mn pounds, and notwithstanding the rise in mechanized acreage, rice output declined by 7.0% to 42.1mn pounds with some farmers scaling back production in response to the excess supply in the industry. On the upside, growth in local demand and in the Caribbean prompted increases in the acreage under mechanized production of corn and boosted output of this grain by 8.0% to 138.2mn pounds.

The performance of vegetable and root crops was mixed as sharp increases in Irish potato, hot pepper, squash and onion were countered by declines in carrot, cabbage, broccoli, cauliflower, pumpkin, cucumber, celery and tomato. The latter declines reflected double digit reductions in productive acreage which contrasted with the growth in acreage devoted to Irish potato and hot pepper that underpinned a more than doubling of output. Rebounding somewhat from its decline in the previous year, plantain production grew by 16.8% due to increases in both acreage and average yield. Cattle dressed weight and poultry registered production increases of 5.4% and 1.5%, respectively, and output of milk expanded by 18.5%. Contrasting with these improvements, egg production decreased by 12.4% and pig dressed weight fell by 3.4%.

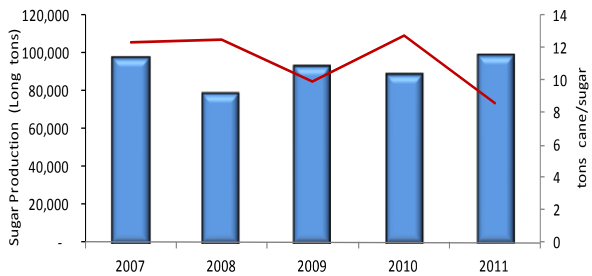
Marine Products

Output in the fishing industry was down 22.2% as a substantial reduction in aquacultural production due to the closure of major fish and shrimp farms outweighed increases in the wild capture of other marine species. The country's largest shrimp farm, which was financially strapped, closed its operations in the first quarter of the year. As a result of storm losses suffered in the latter part of the previous year, the cobia fish farm also suspended its operations for the first six months of the year. The impact of the closure of Fresh Catch, a large tilapia farm, in the latter part of 2010 was also a factor in the 88.3% plunge in farmed fish output during the year. Shrimp farming followed suit, recording a 24.3% decline in production to 11.1mn pounds with the largest producer leaving a 3.7mn pound void in the industry. On the upside, a cyclical upswing in reproduction increased the lobster catch by 21.8% to 0.7mn pounds, while conch output increased by 21.4% to 0.9mn pounds.

Sugar and Molasses

Notwithstanding operational issues with the cogeneration plant and the fact that the sugarcane crop was the smallest in the past ten years, output of sugar grew by 11.7% to a five year high of 98,482 long tons. Delivery schedules by appointment and test groups ensured the timely conveyance of sugarcane to the processor and consequently

Chart 6.5: Sugar Production & Cane to Sugar Ratio



Source: BSI

Table 6.3: Sugar and Molasses Production

	2009/2010	2010/11
Sugar Processed (long tons)	88,144	98,482
Molasses Processed (long tons)	54,248	28,727
Performance		
Factory Time Efficiency	93.89	90.30
Cane Purity (%)	80.29	87.46
Cane/Sugar Ratio	12.73	8.57

Source: BSI

Table 6.4: Production of Citrus Juices and Pulp

	2009/10	2010/11
Production ('000 ps)	27,995	31,091
Orange Concentrate	22,023	28,047
Grapefruit Concentrate	5,023	2,644
Not-from-concentrate (NFC)	948	400
Production ('000 pounds)		
Pulp	1,406	1,890
Citrus Oil	1,683	1,571

Source: Citrus Products of Belize Ltd.

improved the quality of the delivered product. In addition, an extended dry period improved the crop's sucrose content and resulted in a 32.7% reduction in the cane/sugar ratio to 8.57, the lowest value ever recorded in sugar production in Belize. Molasses output declined by 47.0%, reflecting its inverse relationship with sugar production.

Citrus Juices, Citrus Oil and Pulp

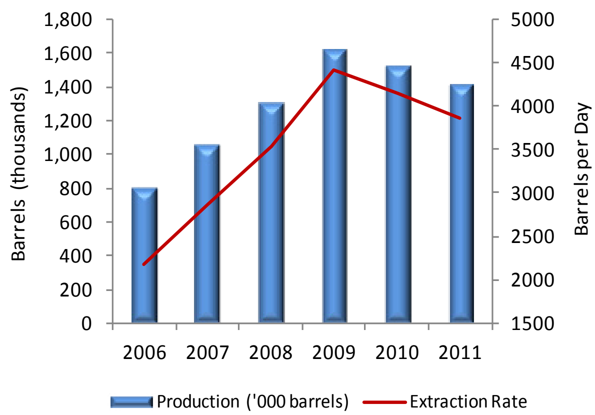
Citrus juice production rose by 11.1% to 31.1mn ps as the fall-off in fruit deliveries was offset by a 9.5% rise in the average juice out-turn per box of orange and a 2.2% increase per box of grapefruit.

While output of orange concentrate rose by 27.4% to 28.0mn ps, the marginal improvement in juice yield per box could not compensate for the plunge in grapefruit deliveries and this resulted in a 47.4% contraction in output of grapefruit concentrate to 2.6mn ps. NFC production accounted for only 1.3% of juice output and was 57.8% lower than that of the previous year. While pulp output grew by 34.4% to 1.8mn pounds, that of citrus oil declined by 6.6% to 1.6mn pounds.

Other Manufacturing Production

Declines in petroleum, cigarette and fertilizer production were partly offset by moderate growth in the rest of the manufacturing sector. While flour and beer operations recorded moderate increases of 1.5% and 2.2%, respectively, soft drink manufacturing registered a double digit expansion boosted by the upswing in tourist arrivals. Conversely, with the temporary throttling back in Fair Trade funding, fertilizer output plummeted by 20.2% as demand subsided. Cigarette production shrank by 49.0%, as operations ceased during the second half of the year.

Table 6.6: Petroleum Production



Source: Geology & Petroleum Dept.

Petroleum production fell by 7.1%, as output from the Never Delay field, which came online in the first quarter, just partly compensated for a 13.5% fall in production from the Spanish Lookout field. The daily extraction rate from the Spanish Lookout field averaged 3,637 barrels, approximately 568 barrels less than 2010. Some 42.2% or 7.6mn of the 18.0mn barrels in extractable reserves (estimated at the end of December 2011) has been recovered from Spanish Lookout after six years of commercial production. Production from Never Delay is still uncertain, despite plans to drill additional wells (including directional) in 2012 to maximize the field's potential.

Tourism

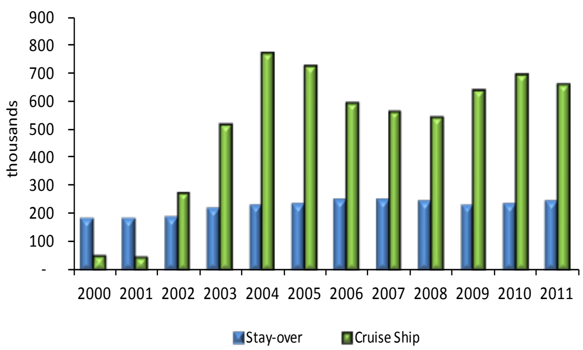
World tourism grew by 4.0% in 2011 against the backdrop of the continued economic fragility of the developed countries, natural disasters in Japan, major political upheavals in North Africa and the Middle East and sovereign debt problems. The World Tourism Organization reported that growth in visitor arrivals was highest in South Africa at 10.0%, while closer to home, Central America and the Caribbean recorded increases of 4.0%. In a reversal of the previous year's performance, the increase in arrivals was higher in advanced economies at 5.0%, compared to the 3.8% recorded for emerging nations. Current expectations are that international arrivals will continue to grow in 2012 and pass the one billion visitor milestone.

In Belize, overnight visitors entering the country through the sea ports and the Philip Goldson International Airport grew by 11.9% and 4.7% respectively, while arrivals through the land borders fell by 5.8%. The net result was a 3.0% rise in stay-over tourist arrivals to 233,401 visitors. While visitors from the US and other markets increased by 5.9% and 1.0%, respectively, there was an 8.3% downturn in visitors from the EU. The two largest sources of tourist visitors to Belize continued to be the US and EU, which accounted for 66.4% and 11.2%, respectively, of total stay-over tourists. Cruise ship disembarkations, on the other hand, fell by 4.8% to 654,790 due to the controversy at the start of the year between local tender operators and Carnival Cruise Line which resulted in the cancellation of eleven port calls.

Prices

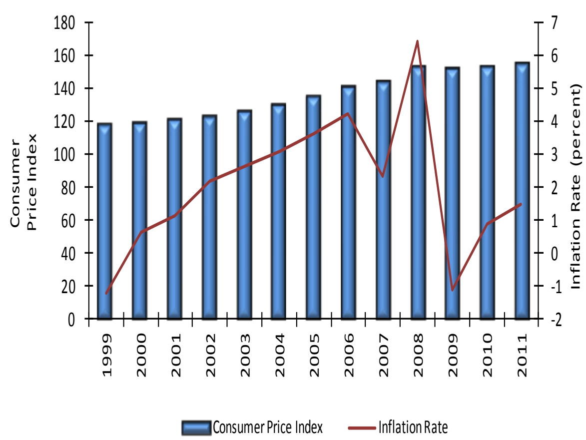
Rising international prices for food and petroleum were significant factors in the 1.5% average increase in the Consumer Price Index (CPI) during 2011. With double digit increases in pump prices for diesel and gasoline, "Transport and Communications" registered the largest annual price increase of 5.9%, and "Rent, Water Fuel and Power" rose by 1.5%, underpinned by a 6.3% escalation in butane prices. The upswing in fuel acquisition costs reflected sharp

Chart 6.7: Tourist Visitors



Sources: Belize Tourism Board (BTB) and Central Bank of Belize (CBB)

Chart 6.8: Consumer Price Index



Source: SIB

increases in international oil prices, much of which was due to speculative activities and fear of shortages sparked by geopolitical tensions in North Africa and the Middle East. The average monthly price of West Texas Intermediate (WTI) Crude, one major price indicator, consequently peaked at about US$110 per barrel in the first half of the year, approximately US$20 above its highest value in 2010. These increases were partly moderated by the replacement of the 2.5% GST on fuel imports with a fixed rate of import duty in March.

Higher import prices as indicated by the 8.1% increase in the US export price index underpinned a 3.0% increase in "Personal Care", while the 1.1% rise in "Food, Beverages and Tobacco" resulted from higher global commodity prices and the subsequent pass through to the local market. Somewhat mitigating these inflationary pressures, "Household Goods and Maintenance" and "Clothing and Footwear" prices fell by 2.2% and 0.2%, respectively.

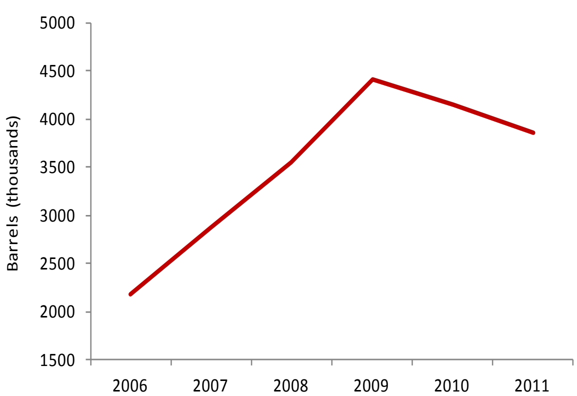
Box 4: Petroleum Industry

Since oil was first discovered in commercial quantities in mid-2005, its production has yielded significant fiscal revenues, employment and foreign exchange earnings for the economy.

To date, there have been two oil finds with total extractable reserves estimated at around 23 million barrels. The Spanish Lookout field with extractable reserves of some 18 million barrels of light sweet crude oil was commercialized in 2005. Up to 2011, 7.6 million barrels or 42.2% of the potential yield from this field have been extracted. Notwithstanding the addition of another three wells in 2011, bringing the total to nineteen, production at Spanish Lookout peaked in 2009 at a daily average yield of 4,408 barrels, and the 5.9% decline in annual production experienced in 2010 accelerated to a 13.5% fall in 2011. In view of the geological structure, the oil company plans to drill another two wells, including at least one more directional well, to maximize field output.

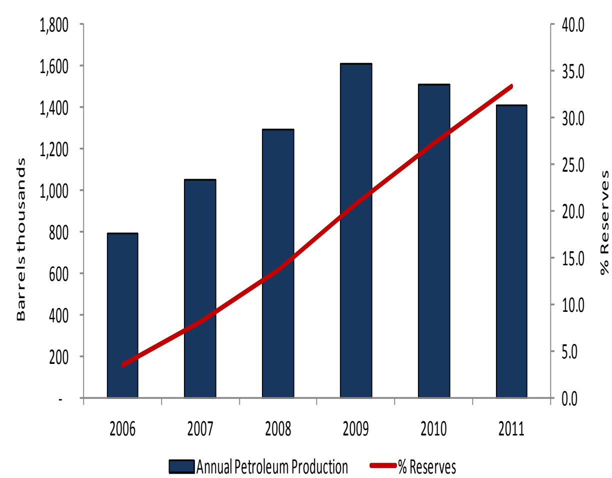
The smaller oilfield at Never Delay, which was commercialized in 2009, has extractable reserves estimated at 5 million barrels with ten months of production from nine developmental wells during 2011 totaling 97,383 barrels, an amount that was insufficient to offset the declining production from Spanish Lookout. To raise output levels, the plan is to increase the number of wells by another six during 2012 to bring the total to fifteen.

Chart A: Average Daily Extraction Rate



Source: Geology & Petroleum Dept.

Chart B: Petroleum Production & Percentage

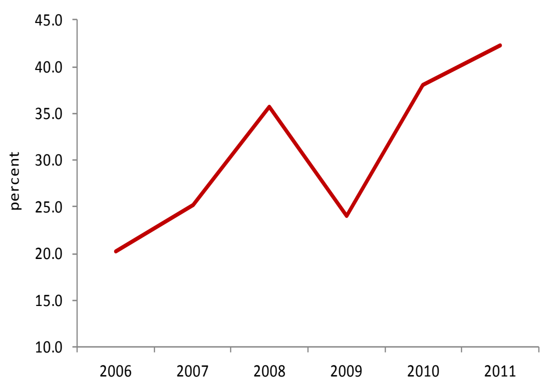


Source: Geology & Petroleum Dept.

Box 4: Petroleum Industry (cont'd)

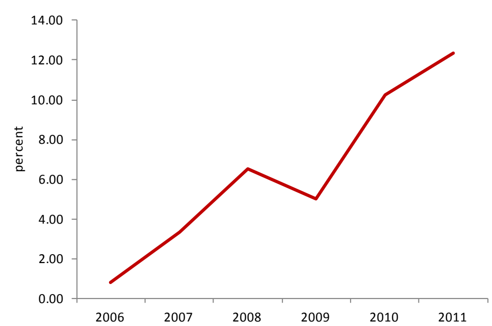
Elsewhere in southern Belize, Princess Petroleum Company unsuccessfully conducted exploratory drilling during 2011 and plans to carry out further tests and drilling in 2012. The Geology and Petroleum Department indicated that exploratory drilling should increase in 2012 as four different companies plan to drill in previously unexplored areas of the country. Seismic exploration was conducted by a few companies, including US Capital, Blue Creek Exploration and Perenco Belize Ltd. Going forward, the Department plans to change the exploration contracts and blocs to encourage greater activity. In other developments, the protest by conservation interest groups against offshore drilling has caused some companies that had offshore exploration contracts to relinquish these blocs to avoid potential litigation problems.

Chart C: Petroleum Revenues as Percent of Domestic Export Revenues



Sources: Geology & Petroleum Dept. and CBB

Chart D: Oil Receipts as Percent Fiscal Revenues

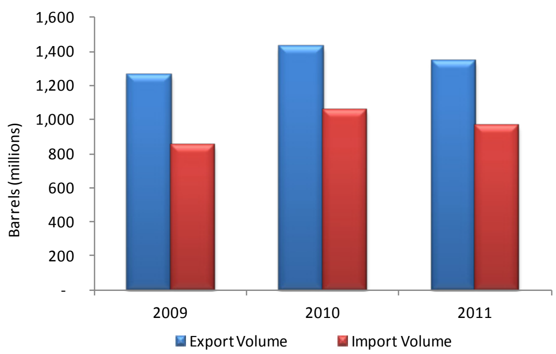


Sources: Geology & Petroleum Dept. and CBB

Since the inception of oil production, this commodity has rapidly surged to the forefront of domestic exports, and except for a 2009 hiccup when crude oil prices plunged with the global slowdown, its export revenues has grown consistently from 20.3% of the value of domestic exports in 2006 to 42.2% in 2011. On the fiscal front, oil receipts as a percent of government revenues have increased from 0.8% in 2006 to 12.4% in 2011, with the latter growth being buoyed by windfall taxes activated when the price rose above US$90 per barrel. In comparing imports of gasoline, diesel and kerosene with crude oil exports, the country was a net exporter between 2009 and 2011 in terms of volume and value. With production at the main oilfield in its declining phase, the buoyancy of the industry's performance has been sustained so far by price increases.

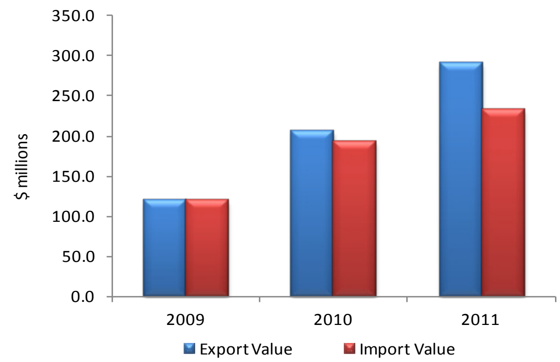
Box 4: Petroleum Industry (cont'd)

Chart E: Volume of Petroleum Exports and Imports



Source: Ministry of Finance

Chart F: Value of Petroleum Exports and Imports



Source: Ministry of Finance

In conclusion, tax related receipts on domestic oil production particularly during this current global slowdown has provided the government with much needed fiscal headroom to meet burdensome external debt servicing, rein in the fiscal deficit and offset the sharp reduction in grant inflows.