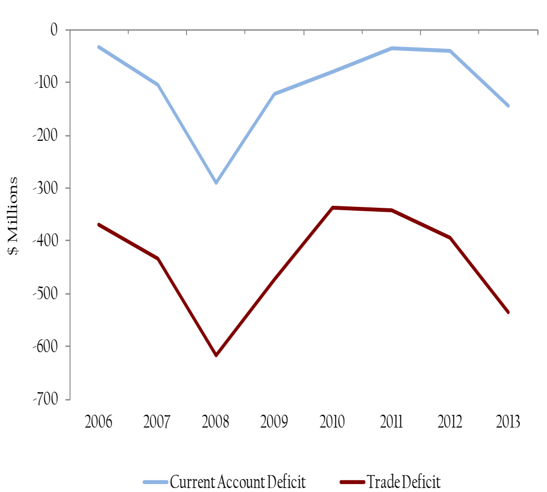
Balance of Payments

Table 6.1: Balance of Payments

$mn

	2012 Net	2013 Net
CURRENT ACCOUNT	-39.3	-144.1
Merchandise Trade	-393.1	-534.6
Services	442.5	480.5
Primary Income	-240.3	-236.0
Secondary Income	151.6	145.9
CAPITAL ACCOUNT	45.0	75.4
FINANCIAL ACCOUNT	-135.2	-268.8
NET ERRORS AND OMMISSIONS	-35.4	27.6
FINANCING	105.6	227.7
Memo Items:		
Monthly Import Coverage	3.8	5.0
Current Account/GDP Ratio (%)	-1.2	-4.5

Chart 6.1: Current Account and Trade Deficit



After hovering just above 1.0% of GDP in 2011 and 2012, the external current account deficit rose to 4.5% of GDP, as an expansion in the merchandise trade deficit outweighed a more modest increase in net earnings from services. The gross international reserves nevertheless rose by 39.6% to $805.4mn (equivalent to five months of merchandise imports) as the 10.0% haircut on the restructured bond, grants and loan disbursements to the government contributed to substantially larger net inflows on the capital and financial accounts.

Merchandise Trade

In 2013, the merchandise trade deficit expanded by 36.0% to $534.6mn (16.5% of GDP) reflecting a combination of heightened imports for export processing zones and domestic consumption, and reduced exports. Revenues from the latter were down by 3.9% due to a drop in earnings from petroleum, citrus juices and commercial free zone (CFZ) sales that eclipsed a modest uptick in other re-exports.

Domestic Exports

Sugar and Molasses

Under pressure from the global surpluses of recent years, benchmark world sugar prices sank for a third successive year, dragging down prices in the US market relative to the EU. Motivated further by the Fair Trade premium of US$60 per metric ton and an additional incentive payment offered by

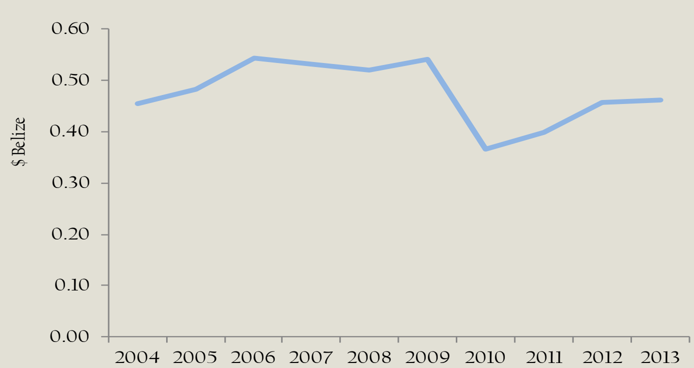
Balance of Payments *continued*

Box 2: Future Prospects of the EU Sugar Market

As a member of the African, Caribbean and Pacific countries, Belize has traditionally benefitted from preferential access to the EU market. These benefits were however eroded with the ending of the ACP EU Sugar Protocol and a 36.0% price cut that was back loaded over a four year period starting July 2006 and ending in October 2009. Since then, Caribbean and EU trade dynamics have been governed by the Economic Partnership Agreement that granted duty free, quota free access to Belize's sugar at the prevailing minimum price for sugar in the EU market. In June 2013, the European Council of Ministers, the European Parliament and the European Commission reviewed the current state of the EU Common Agricultural Policy (CAP) and made plans for the way forward. As a result of those discussions, the EU CAP was amended with the new sugar regime to take effect in 2017, and not in 2015 as was previously agreed upon, due to successful lobbying by key ACP stakeholders.

As of 30 September 2017, the EU's sugar quota system will end, thenceforth eliminating the distinction between quota sugar and surplus/excess sugar. Each EU country or sugar company will be able to produce as much sugar as its maximum factory capacity allows. This decision will change the nature of the European market, as the combination of unlimited sugar production and more import options is expected to put downward pressure on the price of sugar. The volume of sugar imports from non-EU countries is likely to decline as the new regime allows sugar to be purchased from EU suppliers on a first come, first serve basis before moving onto suppliers from other regions. Belize and other sugar producers in the Caribbean will be increasingly challenged to compete with low cost EU producers and in the absence of a guaranteed remunerative price, the profitability of the local sugar industry could be eroded. The industry's future viability largely depends on whether the cost of local sugar production remains below the market price it receives.

Chart B: Average Sugar Price Per Pound

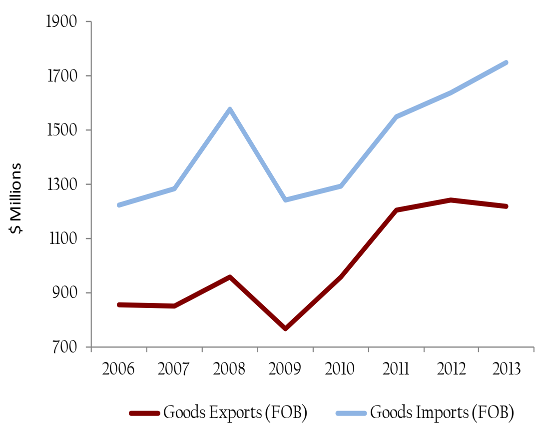


Balance of Payments *continued*

Box 2: Future Prospects of the EU Sugar Market *continued*

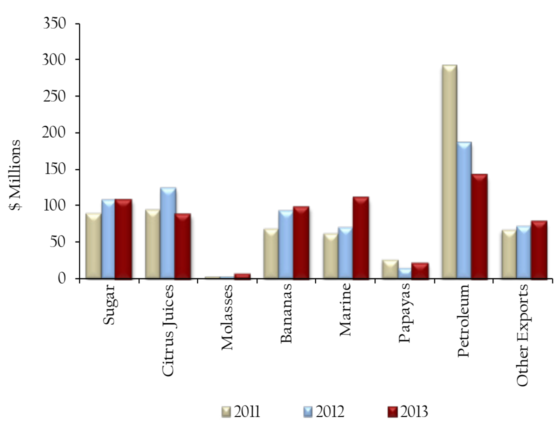
Belize's relationship to Tate & Lyle, via the parent company American Sugar Refining, ensures that there will be some softening of the blow delivered by the reform of the CAP as it guarantees a place for Belize's sugar in the EU market. Nevertheless, going forward, the viability of Belize's sugar industry will continue to depend on its success in reducing costs and increasing production and exports.

Chart 6.2: Merchandise Exports and Imports



Source: SIB

Chart 6.3: Domestic Exports



Source: SIB

EU importers, the local processor bypassed the US and diverted all sugar to the EU, except for 283 long tons that were sold in niche markets. However, notwithstanding a 7.4% increase in export volume, receipts were virtually unchanged at $107.4mn as depreciation of the Euro relative to the US dollar contributed to a 6.9% drop in the average price.

Weaker sugar prices and the build-up of inventory since 2010 led major producers in Europe and Asia to cut back on their beet and sugarcane production, and this also led to a lessening in the amount of molasses sold on the world market. Other smaller producers like Belize were therefore presented with an opportunity to capitalize on the price increases elicited by the supply shortfall. Consequently, the volume of molasses exports rose by 16.4% to 25,770 long tons, while the value almost doubled to $5.5mn.

Citrus Juices and Pulp

Exports of citrus juices shrank by 16.3%, reflecting contractions of 14.4% and 31.6%,

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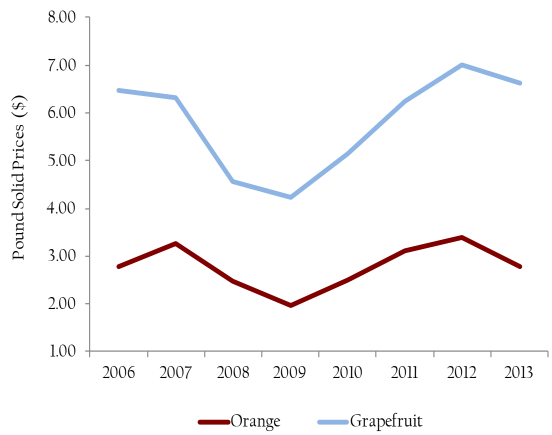
Chart 6.4: Citrus Prices



Source: CPBL

respectively, in the export volume of juices derived from orange and grapefruit. Revenues plunged by 29.1% to $87.4mn, as the volume decline and lower prices for orange concentrate outweighed gains from more favourable grapefruit concentrate prices.

Revenues from orange juices fell by $32.2mn to $76.6mn because of reduced volume and price decreases ranging from $0.04 to $0.86 per ps that followed the heightening of output by major producers such as Brazil, EU and China. Except for a 12.3% increase in sales to the US that enabled it to account for the largest share of Belize's citrus exports in 2013, the volume sold to nearly all markets was down. Most of the decline was accounted for by reduced sales of concentrates to the Caribbean and a halving in freeze concentrate sales to Japan.

In the case of grapefruit, export revenues were down by $3.9mn to $10.3mn, mainly due to the drying up of freeze concentrate sales to Japan. Sales of grapefruit concentrate to the Caribbean and EU markets rose during the year, however Belize lost its freeze concentrate market in Japan when importers switched to Mexican suppliers following the removal of import duties on freeze concentrate purchased from that country.

Only 0.1mn ps of not-from-concentrate juice was sold at a value of $0.5mn, compared to pulp exports, which were up in volume and value by 58.9% to 3.0mn pounds and 55.6% to $2.4mn, respectively.

Banana

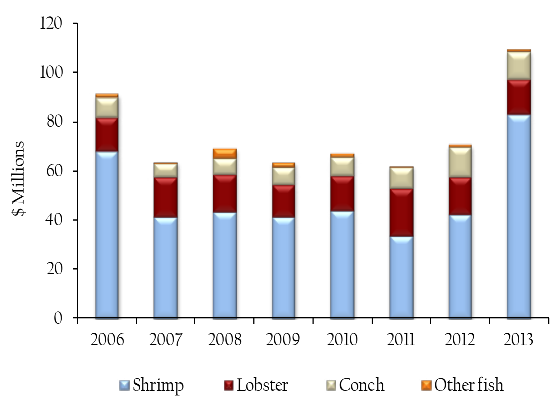
In late 2012, the BGA and Fyffes negotiated a five-year extension of their exclusive marketing contract, which commenced on 1 January 2013. Under the new agreement, the average price per box of banana sold to Fyffes was increased by 8.7%, with the justification being the rise in the global cost of banana production. While quality penalties increased from $0.014 to $0.018 per box, premiums earned on value added packaging enabled growers to net a 9.9% increase on the average box price. Banana export revenue consequently expanded by 5.6% to $97.8mn, even though the volume sold was down by 4.7% to 98,820 metric tons.

Balance of Payments *continued*

Marine Products

A surge in exports of farmed shrimp and whole fish boosted marine exports by 24.2% to 16.4mn pounds. Benefitting as well from higher prices for all commodities except fish, revenues expanded by 54.0% to $109.3mn, exceeding the $100.0mn threshold for the first time since 2004. Earnings from shrimp almost doubled to $82.8mn with increases of 31.5% in export volume and 48.2% in the average price per pound. The industry's strategy focused on the production of a high quality product to sell into specific niche markets, such as Mexico, where the geographic proximity allows producers to place the fresh product into the market within 24 hours of harvest. Earnings from fish exports also increased by $0.2mn to $1.1mn due to a notable growth in volume. In contrast, lobster and conch receipts fell by 9.3% and 5.8%, respectively, as price improvements did not compensate for lower sale volumes.

Chart 6.5: Exports of Marine Products



Source: SIB

Other Major Exports

Petroleum was once again the lead export commodity with earnings of $140.2mn, despite volume and revenue declines of 24.4% and 24.7%, respectively. The average price per barrel remained relatively steady at US$103.93, as geopolitical tensions eased during the year and global supplies remained stable. Meanwhile, US demand for papaya continued to be boosted by the growth of immigrant populations that have an appetite for this fruit. As one of the leading suppliers of papaya to the US, Belize was well positioned and thus able to increase the volume exported by 32.2% to 56.5mn pounds, which yielded a proportional revenue increase to $20.7mn.

Non-Traditional Exports

Strong growth in sales of animal feed, corn meal, pepper sauce and beans helped to push revenues from non-traditional exports up by 7.8% to $77.1mn. Volume increases accounted for the hike in earnings from animal feed and pepper sauce, while the growth in bean receipts was mostly due to improved prices. Of particular note, exports of animal feed more than quadrupled to 116.0mn pounds and revenues surged from $8.7mn to $28.5mn in the space of a year. In contrast, revenues from citrus oils, citrus squash, sawn wood, fresh orange and other miscellaneous commodities plunged because of reduced export volumes and prices.

Balance of Payments *continued*

Re-Exports

Income from re-exports was on par with the previous year as higher sales from the customs area of "Machinery and Transport Equipment", "Minerals, Fuel and Lubricants" and "Beverages and Tobacco" offset a 1.6% decline in CFZ sales. Receipts from the latter amounted to $486.0mn during the year.

Gross Imports

Gross imports (FOB) increased by 7.1% with imports for domestic consumption rising by $132.5mn versus a $16.9mn contraction in those destined for the CFZ. For the second consecutive year, ongoing infrastructural projects around the country bolstered growth in particular categories of imports such as "Machinery and Transport Equipment" and "Manufactured Goods", two of the three categories that together accounted for more than 80.0% of the imports growth.

Expenditure on "Machinery and Transport Equipment" was up by $46.5mn with increased purchases of big ticket items such as engines, telecommunications apparatus, vehicles, heavy duty construction and transportation equipment, industrial equipment and other capital inputs. Outlays on "Manufactured Goods" expanded by $24.6mn with sizeable increases for cement, construction materials, tiles, glass bottles, diamonds and other precious stones. "Other Manufactures" also grew by $26.7mn, boosted by higher expenditure on a wide array of items including jewellery, wrist watches, plastics and medical supplies and equipment. Higher production by export processing zone companies, the shrimp farms in particular, caused their import requirements to vault upward by 24.3% ($14.3mn).

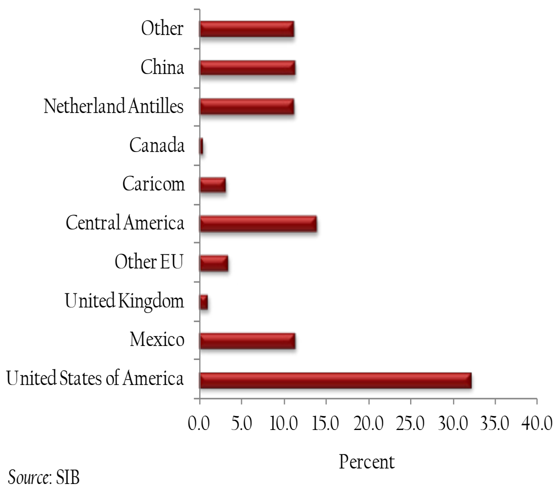
Smaller increases were recorded for "Chemical Products" that includes pharmaceutical supplies, herbicides and paints, and "Food and Live Animals" where the increases centred on items such as vitamin supplements, soups and sausages. On the other hand, purchases of "Minerals, Fuels and Lubricants" contracted by $4.8mn due to the lessening of electricity imports in the second half of the year.

Direction of Visible Trade

The inclusion of CFZ cross border sales causes Mexico to be ranked as Belize's principal market, its share increasing from 42.9% to 43.4% in 2013. Whereas the combination of zero sugar sales and lower receipts from petroleum and citrus juices resulted in the share of the US declining from 26.2% to 22.7%, increased sales of sugar and banana to the UK boosted its share from 13.1% to 15.7%. Banana sales to Ireland and Spain also contributed to a 0.8 percentage point rise in the share of the rest of the EU to 7.5%. Meanwhile, a notable expansion in animal feed exports combined with exports of farmed shrimp and fish to niche

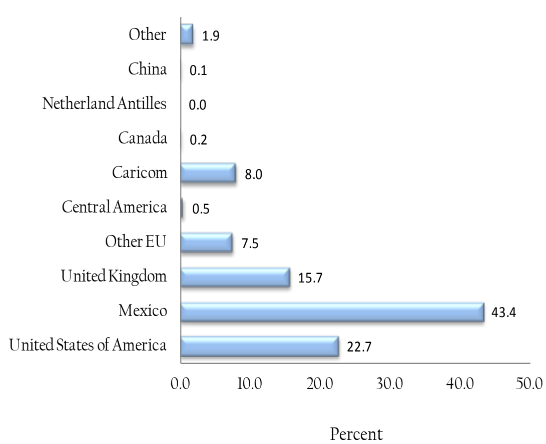
Balance of Payments *continued*

Chart 6.6: Direction of Visible Trade in 2013 - Imports



Source: SIB

Chart 6.7: Direction of Visible Trade in 2013 - Exports



Source: SIB

markets in Trinidad and Jamaica resulted in CARICOM's share rising from 5.9% to 8.0%.

The main source of imports was the US, which accounted for 32.2% of Belize's foreign purchases. Because of the downturn in CFZ activity, the share of imports from China dipped from 12.8% to 11.4%. While Mexico's share rose from 10.7% to 11.4%, that of Central America fell to 14.0% after flattening out at slightly more than 15.0% in the previous two years. The Netherlands Antilles accounted for 11.3% of imports mainly due to fuel purchases from the Venezuelan owned refinery that is located there.

Services

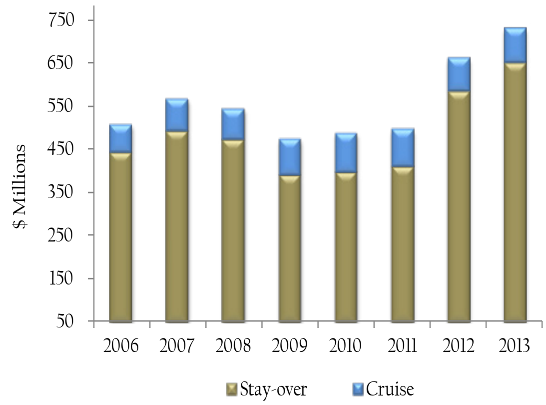
Net earnings from services rose by 8.6% to $480.5mn as increased inflows from tourism more than compensated for higher outflows on transportation and other miscellaneous services. Buoyancy in arrivals of stay-over and cruise ship visitors underpinned an 18.6% rise in net travel receipts to $621.7mn. On the other hand, the balance on other services swung from a surplus in 2012 to a net outflow due to payments for consultancies, accounting services and legal assistance relating to the restructuring of the super bond. Outlays on international freight charges also rose in tandem with the growth in trade volume.

Primary Income

Net outflows under the primary income account dipped by 1.8% to $236.0mn,

Balance of Payments *continued*

Chart 6.8: Tourism Expenditure



Sources: BTB and SIB

Chart 6.9: Net Balances of Services and Income Accounts

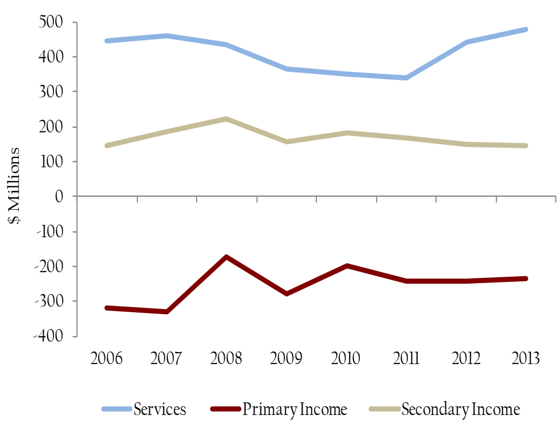
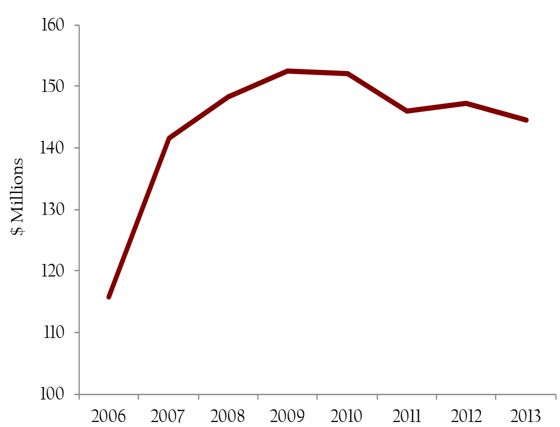


Chart 6.10: Remittance Inflows



notwithstanding substantial increases in profit repatriation by the tourism industry and the electricity sub-sector. The latter was partially countered by a contraction in the retained earnings of commercial banks and the lowering of government's interest costs due to the agreement to capitalize one of the biannual interest payments on the restructured super bond. Meanwhile, with activity in citrus and banana remaining subdued, payments to casual and border workers declined slightly during the year.

Secondary Income

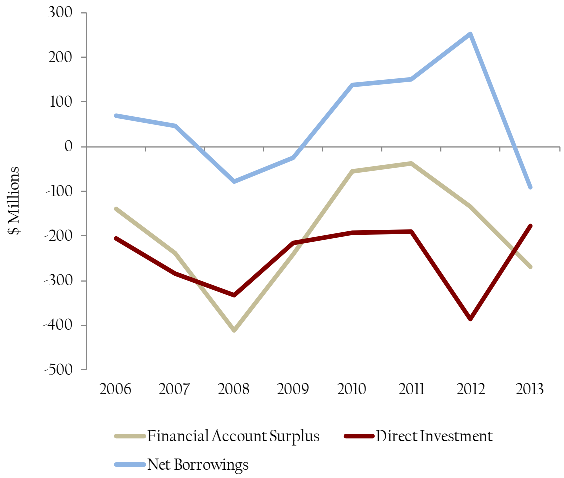
At $145.9mn, the surplus on the secondary income account was 3.7% lower than the previous year as a reduction in personal remittances sent to Belize outweighed a modest uptick in net inflows to religious organizations, insurance companies and credit unions. In the case of remittances, the net decline was $11.1mn, which reflected both a lowering of inflows and an increase in outflows.

Capital and Financial Accounts

The capital account surplus increased to $75.4mn (compared to $45.0mn in the previous year) as a result of the 10.0% haircut negotiated on the restructured super bond and grants from foreign donors. Net inflows on the financial account also doubled to $268.8mn due to a surge in loan disbursements to the government under the VPCA and net foreign direct investment

Balance of Payments *continued*

Chart 6.11: Main Components of the Financial Account



inflows of $177.2mn that were directed mostly into tourism, real estate activities and petroleum exploration projects. Other developments of note included a $92.3mn reduction in deposits held abroad by commercial banks and private sector net loan repayments to foreign creditors that amounted to $82.7mn. The aggregate surplus on the capital and financial accounts was thus sufficient to finance the current account deficit and boost the gross international reserves by $227.7mn to $805.4mn.