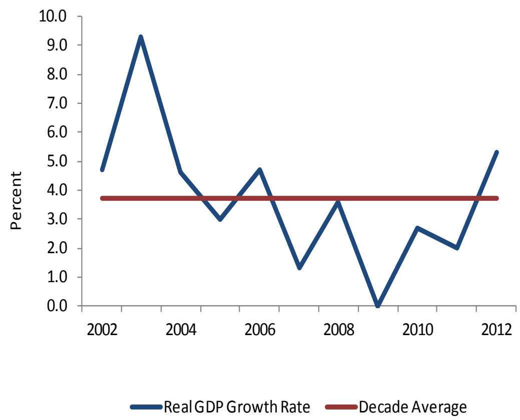
Developments in the Real Economy

Chart 5.1: Annual Growth Rate of Real GDP



Source: SIB

GDP growth accelerated to 5.3%, fuelled by rebounds in the main agricultural export crops, heightened construction activity and continued buoyancy in overnight tourist arrivals. The primary sector registered a 23.9% upswing that reflected double digit growth in banana, citrus and sugarcane deliveries as well as a rally in "Fishing" due to the increased catch of whole fish and reopening of the country's largest shrimp farm in the first quarter. Activity in the tertiary sector increased for a third consecutive year with "Wholesale and Retail Trade" posting a 7.1% increase that reflected a sharp expansion in imports and 10.2% growth in stay-over tourists, the latter of which also underpinned a 5.3% increase in "Hotels and Restaurants". “Transportation and Communications” also received an upward boost from the substantial investment made by the national telephone company in 4G network technology.

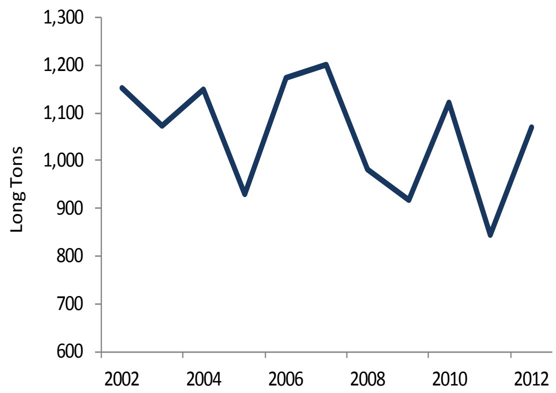
On the downside, the secondary sector contracted by 3.2% as declines in "Electricity and Water" and "Manufacturing" outweighed the spike in construction activity stemming from several public infrastructural projects. In the case of "Manufacturing", heightened production of sugar and citrus juices could not compensate for a 28.6% decline in petroleum extraction. "Electricity and Water" contracted due to an extended drought that reduced the generation of hydroelectricity during the second half of the year.

Agriculture

Sugarcane

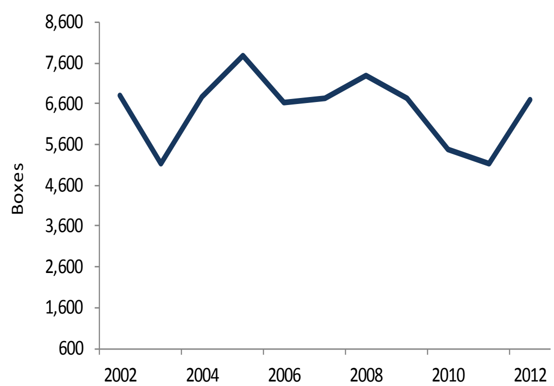
Exhibiting a full recovery from the flood and pest damages sustained in the previous crop year, the 2011/2012 sugarcane harvest achieved a 26.8% rise in deliveries to 1,070,278 long tons. The recovery was attributable to favourable weather and replanting efforts. Crop deliveries were also facilitated by the scheduling system and reduced factory down time. Farmers benefitted from a $4.01 rise in the average price paid for each long ton of sugarcane delivered ($72.13 per long ton) due to the more than doubling of direct consumption sugars sold to the European Union (EU).

Chart 5.2: Sugarcane Deliveries



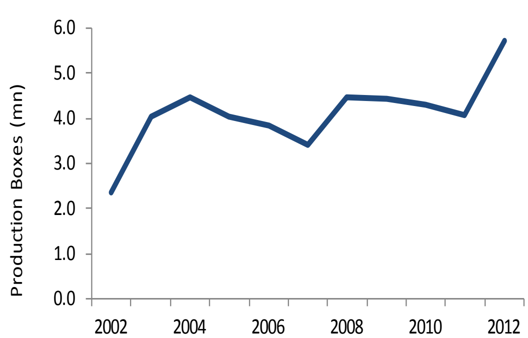
Source: BSI

Chart 5.3: Citrus Fruit Deliveries



Source: BSI

Chart 5.4: Banana Production



Source: BGA

Citrus

The citrus crop also rebounded to normal production levels following disruptions caused by storm damages in the previous year. The 2011/2012 crop year ended in late June with orange and grapefruit deliveries up by 30.6% to 5.8mn boxes and 30.8% to 0.9mn boxes, respectively. As a result of the further strengthening of international prices, the amount paid to farmers for orange increased by 22.9% to $2.31 per pound solid (ps) and the price paid for grapefruit saw an even sharper increase of 58.0% to $2.10 per ps.

Banana

Banana output ratcheted upward by 39.9% to 5.7mn boxes due to the rehabilitation of fields and improved weather. In contrast to the previous year, yields for the February/March harvest cycle were higher due to favourable weather in December 2011 that spurred bunch development. The rehabilitation efforts and good crop management paid off with a 33.2% increase in the average yield per acre from 616 boxes in 2011 to 820 boxes in 2012. At the end of the year, the acreage under cultivation was up by 5.1% to 6,971, while the area under plantilla (young trees not as yet yielding fruits) declined to 191 acres. For the first time, third class bananas were included in the export mix under the terms stipulated in the Banana Growers Association's (BGA) marketing contract

Box 1: Citrus Greening Control

Citrus greening, called Huang Long Bing (HLB), has the potential to wipe out Belize's citrus industry if concerted, industry-wide efforts are not undertaken to control its propagation. The disease is spread by the Asian citrus psyllid, and the most common control methods are the use of disease free saplings and prevention of the spread of the vector through the spraying of insecticides. In 2012, the Citrus Growers Association (CGA) received assistance from Mexico in the form of two green house structures valued at $600,000, and it intends to establish three more green houses for which domestic financing of $1.7mn must be obtained. One of the greenhouses will be used to hold the 'mother plants' from which buds will be derived for the disease free seedlings.

The industry is currently experiencing a three year replanting back log due to the lack of sufficient certified greenhouses devoted to the production of healthy seedlings. While several of the large producers have their own nurseries, these (as well as those belonging to the CGA) need to annually undergo the rigorous vetting process instituted by the Belize Agriculture Health Authority (BAHA) in order to be officially certified and allowed to commercially supply seedlings. Failing this, there is a danger of diseased plants being spread uncontrollably throughout the industry. The certification of 2 green houses in 2012 and12 in 2013, including the opening of the CGA nursery in March 2013, should provide 284,220 seedlings by December 2013. By May 2014, annual production should be approximately 500,000 seedlings, sufficient to satisfy the customary, annual demand. The needs of the industry could easily double, however, due to the impact of citrus greening.

Another initiative is the development of the "Area Wide Integrated Management Systems" (AIMS) approach, which separates the industry into four "Citrus Production Management Areas" (CPMAs). A major goal of AIMS is to reduce the Asian citrus psyllid population through coordinated spraying by farmers. Under the CPMAs project, farmers did simultaneous spraying of approximately 70.2% of all commercial farms between October and December of 2012. The project was jointly financed by CGA, the Food and Agriculture Organization (FAO) of the United Nations and CGA farmers who contributed $0.04 per box of fruit delivered during the year.

The CGA is also looking at new techniques to minimize disease and pest infestation and to increase production by improving the citrus nutrition program. Part of this is the development of an integrated pest management system, which not only entails spraying and fertilizing but also the biological control of the psyllid vector. Research into beneficial fungi and the development of a wasp reproduction and feeding facility is currently underway in this regard.

In other developments, BAHA confirmed that it has been successful in combating citrus leprosy. This disease first surfaced in a 20 acre swath in the Kendall area and later spread to some 40 acres. However, as of late November 2012, BAHA reported that the disease was fully contained and possibly eradicated. Further tests will be conducted when the rainy season commences in 2013 to ensure that there is no recurrence.

with Fyffes. Second and third class bananas accounted for approximately 8.0% of the quantity exported.

Papaya

Papaya output was down for the second consecutive year due to viral infections that continue to plague the industry. During the first half of the year, crop losses were experienced that led to a reduction in acreage under cultivation and a 32.4% drop in annual output to 36.3mn pounds.

Other Agricultural Production

The out-turn for the grain and bean crops was mixed. Expansion in acreage led to marked increases in bean and soybean production of 42.7% and 77.5% to 28.5mn and 2.3mn pounds, respectively. Sorghum also grew by 53.7% to 33.8mn pounds due to increases in acreage and average yield. On the downside, annual rice output continued to fall, declining by 35.4% to 27.2mn pounds. The contraction was most pronounced in northern Belize, where farms slashed productive acreage by 61.5% and decreased output by 11.1mn pounds. This decline in acreage is reflective of the conversion of one of the region's largest rice farms to corn production. With new entrants still in the planting stage, corn production fell by 4.1% to 132.6mn pounds.

In the case of vegetable and root crops, production of Irish potatoes, carrots, cabbage, cauliflower, celery and tomato rose due to increased acreages and average yields. This was offset by lower output of hot pepper, squash, onion, broccoli, pumpkin and cucumber that reflected reductions in both acreage and average yields. While the area under plantain cultivation increased, output fell by 6.8%, as a lower yield per acre wiped out gains from a larger acreage. Poultry production rose by 3.2% to 3.2mn pounds, and cattle dressed weight rose by 3.8% to 3.7mn pounds. Output of milk and pig dressed weights recorded double digit increases of 36.5% and 19.2%, respectively.

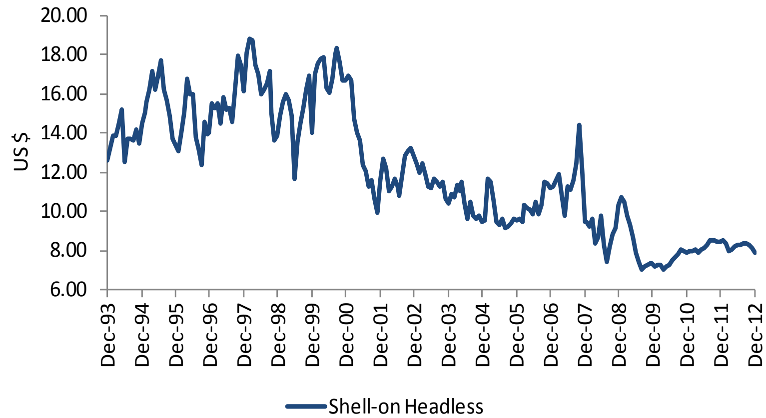
Marine Products

Marine products increased by 13.5%, mainly due to increases in shrimp and whole fish. The partial sale of BAL to a foreign investor and its subsequent reopening in the first quarter of the year contributed to a 15.3% rise in farmed shrimp output, and there was also a spike in whole fish production from cooperatives in southern Belize. Upturns in the reproductive cycle of conch and lobster helped to boost their wild capture by 26.7% to 1.1mn pounds and 8.0% to 0.7mn pounds, respectively. On the other hand, no cobia was produced during the year. In mid 2011, the lone

Box 2: Farmed Shrimp Industry

Local shrimp production grew rapidly at the turn of the century as very high prices and profits lured new entrants to the industry. During the 1997-2000 period, global prices for headless shell-on shrimp averaged US$16.22 per pound, reflecting a combination of demand pull from the major importing countries of the United States and Japan, as well as supply shocks caused by viral diseases that plagued farms in China, Thailand and Ecuador. There were few natural barriers to entry in Belize with both land and labor being relatively inexpensive during the 1990s and with the geographic topography providing easy accessibility to freshwater for pond operations. In this environment, the number of moderately large farms climbed to 13 by early 2000.

Chart A: Shrimp Prices



Source: indexmundi

However, the industry was dealt a hard blow in the following years as global prices fell sharply. Substantial increases in global stocks reflected technological advancements, the switch by some producers to White Pacific Vannamei (white shrimp) from the black tiger variety, the controversial use of antibiotics to boost shrimp resistance to disease and an upsurge in wild capture. As a result of the near flooding of international markets, global prices were slashed to US$9.45 per pound by the end of December 2004.

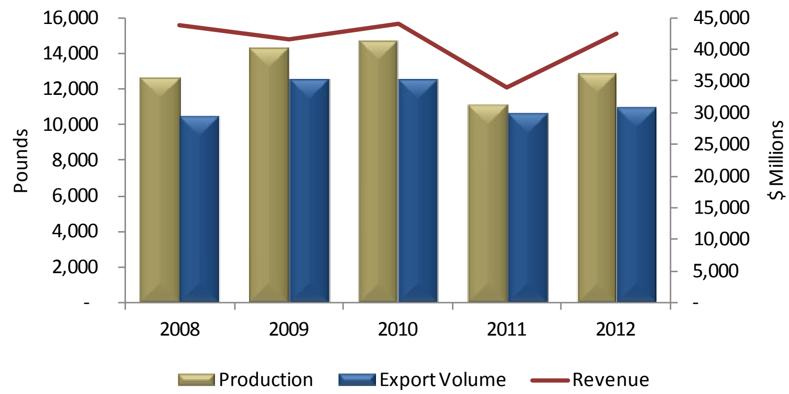
Local farms began to feel the squeeze from depressed world market prices at a time when operational costs, particularly for energy, feed and financing, were rising. Moreover, mass production and hurricane impact contributed to the appearance of the viral disease, Taura, in 2002. Export receipts, which peaked at $92.8mn in 2003 (inclusive of wild capture), fell to $60.5mn in 2005 and progressively declined until a ten-year low of $33.9mn was reached by the end of 2011. Over this period, the number of farmed shrimp producers declined to five with the two largest producers, NOVA and Belize Aquaculture Limited (BAL), ceasing operations in 2006 and 2010, respectively.

In the first quarter of 2012, BAL was able to resume operations under a new joint venture agreement thus raising the number of active shrimp farms to six. Its reopening was financed by the sale of 50% ownership to Seafresh Industry Invest (SII) of the UK, a subsidiary of Seafresh Industry of Thailand. Under the new management, Box 2: Farmed Shrimp Industry continued

the focus is primarily on increasing unit productivity. A piece-work compensation strategy was immediately implemented in an attempt to raise efficiency to the level of other regional shrimp farms whilst curbing costs. Whereas shrimp farm workers in Honduras and Guatemala produce an average of 6 pounds of headless, deveined shrimp per hour, Belizean shrimp farm workers had been producing only half of that on average. Additional investments of roughly $10.0mn in the building of new ponds and the purchasing of machinery and equipment are expected to cause production to double in 2013 and triple in 3 years to reach 20 million pounds.

Farm estimates for 2013 are for total shrimp production to climb to approximately 23mn pounds, equaling the peak output achieved in 2006. While the re-emergence of BAL will drive production, modest increases are also expected from other farms such as Paradise, Texmar and Royal Mayan, which have been using improved production techniques. As an example, Royal Mayan doubled its production over the last few years without increasing the number of ponds by utilizing a nursery system which reduced shrimp mortality and thus raised output per acre.

Chart B: Shrimp Production, Export and Value



Source: SIB

Going forward, the future of the industry will depend on how well the local shrimp farms can reposition themselves in a highly competitive global landscape. Demand should continue to rise as the global middle class expands, particularly in the emerging economies. The focus therefore needs to be on productivity gains and cost reduction. In comparison with other countries, the local shrimp industry has been relatively disease-free with Belize and Venezuela being the only countries in the Americas that grow shrimp which have not been contaminated by the White Spot Virus. Latest reports are that the industry and BAHA have already begun to put in place stricter rules to prevent disease from entering the country, especially from Mexico where the White Spot Virus and other diseases have dampened production.

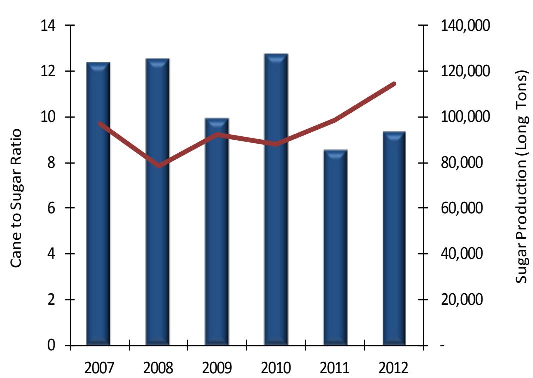
cobia producer, Marine Farms Belize, ceased operating amid discussions on the possible sale of its parent company to another investor. Its activities were subsequently limited to maintenance of the hatchery and equipment.

Manufacturing

Sugar and Molasses

While sugarcane deliveries surged upward by 26.8%, this was somewhat tempered by a reduction in the crop's sugar content (pol of 12.3% compared to 13.7% for the previous crop). The industry was nevertheless able to surpass the 100,000 long ton threshhold for the first time since the 2005/2006 crop as sugar output rose by 16.3% to 114,536 long tons. Production of molasses also posted a 7.8% gain to 30,955 long tons.

Chart 5.5: Sugar Production and Cane to Sugar Ratio



Source: BSI

Citrus Juices, Citrus Oil and Pulp

Even with a mixed juice out-turn per box of fruit, citrus juice production rose by 28.3% to 39.9mn ps as a result of the spike in citrus fruit deliveries. For orange, the average juice out-turn per box fell by 0.9% to 6.31 ps, while that of grapefruit increased by 2.2% to 4.03 ps per box of fruit.

Accounting for 91.0% and 8.2% of juice production, respectively, output of orange concentrate rose by 29.4% to 36.3mn ps, while that of grapefruit concentrate increased by 23.5% to 3.3mn ps. Output of by-products was on the upside as well with production of pulp and citrus oil growing by 55.9% and 38.4%, respectively, to 2.9mn and 2.2mn pounds. In contrast, not-from-concentrate (NFC) production accounted for only 0.7% of juice output and was 19.2% lower than the previous year.

Other Manufacturing Production

Downturns in petroleum and fertilizer were partly offset by increased production of flour, beer and soft drinks. Beer registered the strongest increase of 14.6%, while soft drinks and flour were up by 4.6% and 1.3%, respectively. Fertilizer output fell by 2.1%, its second consecutive year of decline. There was no production of cigarettes as the factory announced its formal closure.

Box 3: Belize Sugar Industry

A series of poor sugarcane harvests caused by severe storms, floods and pest infestation caused a weakening of BSI's financial position since 2006. The situation was exacerbated by its decision to construct a cogeneration plant during the 2007-2009 period, as this resulted in an already cash-squeezed company becoming overleveraged and in dire need of a strategic investor to infuse equity that would return the company to a sustainable financial position.

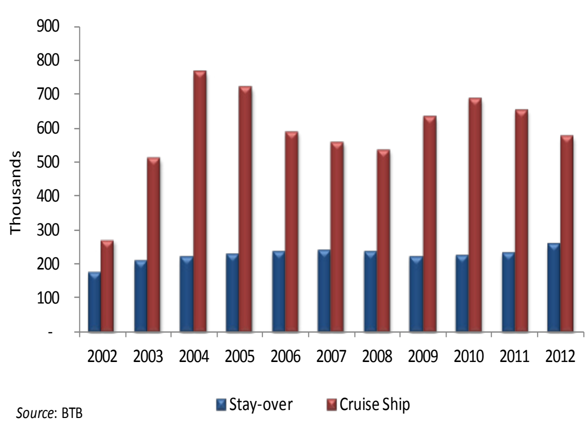
While interest was expressed by Banco Atlántida in 2011, a formal offer was never made due to the vociferous opposition of the sugarcane farmers association, which was trying to raise funds to buy the factory and keep it in local hands. The latter's efforts were unsuccessful however, and BSI continued to explore its options as mandated by its cash flow problems and inability to secure the long term external financing that it needed. After months of negotiations involving the various industry stakeholders, the majority of the BSI shares was sold to American Sugar Refining (ASR), which already had a vested interest through its ownership of Tate and Lyle, the marketer of the sugar produced by the company and a minor shareholder. The deal that was finalized in September 2012 resulted in ASR's acquisition of 79.1% of the BSI shares with the remaining 20.9% being held by the government and BSI's Employee Holdings Limited. Subsequently, ASR increased its holdings by a further 2.09%.

Approximately US$100.0mn was invested by ASR with some 65.0% of the cash infusion being used to pay off BSI's external debts and the balance being used for factory modernization and other expenses. The sale of shares to ASR was initially met by protests from various industry stakeholders due to the substantial concessions it was granted by the government as part of the latter's efforts to broker the deal. Industrial relations have grown to be quite affable since then, however. As part of the purchase agreement, factory workers were assured job security, a payment plan was instituted for the $5.2mn owed in dividends to factory workers, and ASR made a commitment to honour the collective bargaining agreement with the Belize Workers Union and all others in place at the time that it assumed majority ownership.

BSI has seen immediate benefits from the technical expertise brought by ASR, which also owns and operates sugar refineries across the United States, Canada, Mexico and Europe. The milling rate for sugarcane has increased notably and processing capacity has been expanded by the addition of an evaporator. Going forward, ASR is targeting an increase in processing capacity to 1.8 million long tons of sugarcane and 180,000 long tons of sugar, which provides an opportunity for local sugarcane growers to significantly increase their output and earnings.

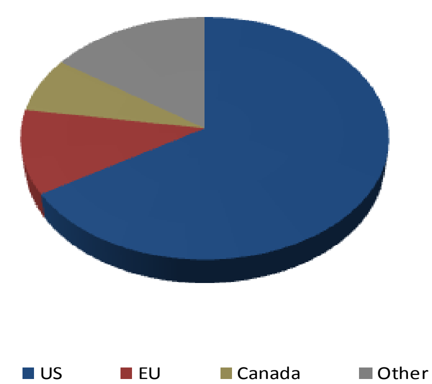
Petroleum extraction plummeted by 26.8% to 1,029,938 barrels, reflecting declines at the Spanish Lookout and Never Delay oil fields of 24.5% and 57.4%, respectively. The daily extraction rate from the Spanish Lookout field averaged 2,708 barrels, approximately 879 barrels less than 2011. Some 47.8% or 8.6mn of the 18.0mn barrels in extractable reserves have been recovered from Spanish Lookout after seven years of commercial production. In an attempt to slow the decline in production, the oil producer will start to drill horizontal wells in early 2013 to improve the extraction rate of this field. A full year of production at the Never Delay field yielded a lower output than the ten months of operation for 2011. Alternative extraction techniques are therefore being explored at this field to tap into its full potential.

Chart 5.6: Tourist Visitors



Source: BTB

Chart 5.7: Composition of Stay-Over Tourist Arrivals



Tourism

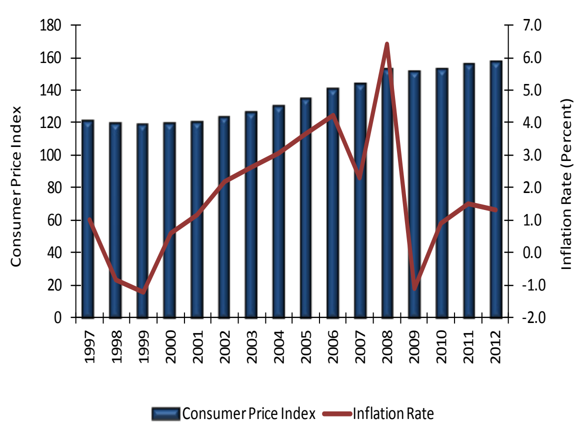
According to the World Tourism Organization, international tourist arrivals grew by 3.8% in 2012, surpassing the one billion visitor mark for the first time in history. At 6.8%, the growth was highest in the Asian and Pacific region with the emerging economies experiencing higher visitor growth than the advanced economies (4.1% versus 3.6%). The Western Hemisphere saw increases of 6.0% and 4.0% in tourist arrivals in Central America and the Caribbean, respectively. The outlook for 2013 is for growth in arrivals, notwithstanding the economic problems that are plaguing key markets.

On the domestic front, overnight visitors to Belize rose by 10.3% to 257,291 during the year, as a 17.1% growth in visitors through the Philip Goldson

International Airport eclipsed respective decreases of 10.9% and 22.8% in visitors entering through the land and sea ports. While visitors from the US and Canada were up by 13.9% and 27.0%, respectively, there was an 8.4% downturn in visitors from the EU as that region continued to experience economic turmoil.

In contrast to the overnight segment, cruise ship disembarkations fell for the second consecutive year, declining by 11.9% to 576,661 even with a four ship increase in port calls. The decline reflected the use of smaller vessels, existing infrastructural limitations on docking and tendering, as well as the expansion of routes by North American cruise ships to alternative long-haul, non-traditional destinations.

Chart 5.8: Consumer Price Index



Source: SIB

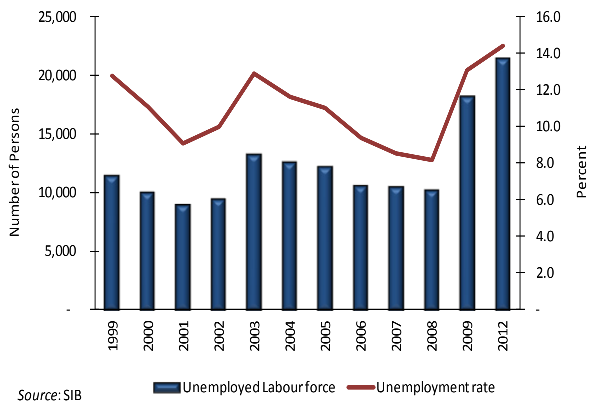
Prices

The reduced volatility of global oil prices contributed to a softening of international inflation rates and a lower increase in the domestic average price level of 1.3%, compared to 1.5% in 2011. The largest price increases were in "Health" (4.1%), "Recreation and Culture" (3.6%), and "Miscellaneous Goods and Services" (3.1%). Fuel dependent categories of the CPI basket registered moderate increases with "Transportation" up by 2.3% and "Housing, Water, Electricity, Gas and Other Fuels" up by 0.4%, as higher prices for gasoline and diesel were juxtaposed with lower prices for butane. A drought in the US led to increased feed prices, which were passed through subsequently to the local market and pushed up poultry prices as well. As a result, the "Food and Non-Alcoholic Beverages" index rose by 2.4%. "Furnishing, Household Equipment and Routine Household Maintenance" registered a 0.7% decrease.

Employment

Since labour force surveys were not undertaken in 2010 and 2011, there were no statistics for those years that would enable a proper comparison with the employment figures of 2009. After a three year lapse, the Statistical Institute of Belize (SIB) conducted labour force surveys in April and September 2012, which are considered to be the seasonal high and low periods for

Chart 5.9: Unemployment



Source: SIB

employment. Comparing April 2012 with April 2009, the results indicated that the unemployment rate had risen from 13.1% to 14.4%. Over the three year period, the labour force grew by 6.8% to 148,093 persons, while job opportunities expanded by 5.2%. The September labour force survey indicated that between April and September, the labour force expanded by approximately 2,918 persons, while the number of jobs declined by 98 partly due to the seasonal slowdown in the second half of the year. The unemployment rate consequently increased to 16.1%.