ECONOMIC OVERVIEW & PROSPECTS

Benefitting as the global economy emerged from the doldrums of the previous year, GDP grew by 2.9% with a substantial increase in electricity generation and moderate rallies in “Hotels and Restaurants”, “Transportation and Communication” and distributive trade that were underpinned by a modest increase in stay-over tourist arrivals and more robust growth in cruise ship disembarkations. Trade activity was further boosted by an upward surge in cross border trade with Mexico in the Corozal Free Zone (CFZ) during the year. Growth was also buoyed by the heightening of government activities to accommodate the 2010 Population Census and its capital programmes. On the other hand, contractions in fishing, petroleum extraction and construction exerted a dampening effect on the overall level of economic activity.

The domestic price level rose by 0.9% as increases in the fuel intensive categories of the Consumer Price Index (CPI) were largely offset by the government’s targeted tax relief initiatives. An 8.2% surge in prices for “Transportation and Communication” reflected higher pump prices for gasoline and diesel while much of the 3.0% hike in “Rent, Water, Fuel and Power” was explained by the increase in the cost of butane. On the other hand, the inflationary impact of a 2.5 percentage point increase in the General Sales Tax (GST) was ameliorated by the zero rating of several essential food items and household durables that resulted in price reductions of 1.1% for “Household Goods and Maintenance” and 3.0% for “Food, Beverages and Tobacco”.

On the external front, the current account deficit narrowed for a second consecutive year as higher commodity prices ramped up export earnings while subdued consumption and lower export processing zone (EPZ) production curbed imports. Higher inflows from services and current transfers also contributed to the improvement. Notwithstanding a considerable reduction in foreign direct investment inflows and net repayments to foreign creditors, gross official reserves rose by 2.0% to $436.0mn, equivalent to 4.5 months of merchandise imports.

The fiscal position improved in 2010 with a robust 8.7% increase in Central Government’s revenues outpacing its 3.6% growth in expenditures. The revenue buoyancy reflected higher collections from the oil industry and several revenue enhancing measures enacted in April. Current expenditure rose by 2.3% with spending increases for all categories, except pensions and interest payments. After a sizeable contraction in the previous year, capital expenditure and net lending expanded by 11.3% as funds were disbursed to support the sugar industry and efforts began to be made to bring the pace of project execution back on track in the latter part of the year.

The primary surplus increased from 0.8% to 1.9% of GDP, and the overall deficit shrank from 2.8% to 1.5% of GDP, with the latter being mostly financed domestically through the issuance of securities and the sale of BTL shares.

While the public sector's external debt declined by $12.9mn to $2,018.3mn (72.1% of GDP), Central Government's domestic liabilities rose by $47.6mn to $367.8mn (13.1% of GDP) mainly due to increased issuances of Treasury bills and notes. The latter improved the government's domestic debt profile by reducing its reliance on high cost Central Bank overdraft financing. It resulted in the shrinkage of the government's domestic interest payments by $6.3mn as the average effective interest rate on its domestic debt fell from 7.6% to 5.3%.

Monetary policy initiatives were aimed at addressing the continued build-up in excess liquidity and influencing commercial banks' lending rates downward through cost reducing measures. In May, a new securities' requirement was implemented that required commercial banks to hold a minimum of 6.5% of their average deposit liabilities in short-term government paper. The cash reserve requirement was simultaneously lowered in a dual effort to free up the necessary funds for purchase of the securities and reduce the non-remunerated portion of required reserves. This was followed up in November with the reduction of the flooring on ordinary saving deposits from 4.5% to 3.5%. The hoped for re-pricing of loans was slow to materialise given the mismatch in the maturity structure of loans and deposits, and the recent increase in non-performing loans that further lengthened and complicated banks' adjustment processes. The weighted average lending rate consequently fell by 20 basis points compared to a 51 basis points decline in the weighted average deposit rate. Given the dearth of investment alternatives, commercial banks held onto the bulk of the available Treasury bills during the year and their holdings exceeded the required level by 19.3% ($24.7mn) at the end of December. In a climate of sluggish credit demand, banks' excess statutory and cash reserves similarly exceeded the required amounts by 35.7% and 36.5%, respectively.

Looking ahead, GDP growth is likely to be in the proximity of 2.5% in 2011 as increased production of electricity, tourism and government services are expected to outweigh contractions in farmed fish, farmed shrimp and crude oil.The domestic price level is expected to rise at a slightly higher rate of around 2.0% in the wake of higher international costs for fuel and food, particularly wheat, prices for which have been trending upwards as global supplies fall due to inclement weather. The uptick in economic growth along with higher petroleum tax and grant receipts should boost government revenues and provide some headroom for the acceleration of ongoing capital projects as well as for the

commencement of new capital works and programs. Despite a modest rebound in private sector credit, the banking system will continue to feature high levels of liquidity as commercial banks continue to strengthen their balance sheets.

A 1.6% contraction is expected in the primary sector as sizeable declines in sugarcane, farmed fish and shrimp outweighs increased output of citrus, papaya, banana, grains and livestock. Sugarcane deliveries are projected to decline by 16.0% due to the shortening of the growth cycle that resulted from the unusual two month harvest extension of the previous crop and field losses from an unusually high volume of stand-over sugarcane. The financial difficulties being faced by several local aquaculture enterprises should also result in further contractions of 72.0% and 12.2%, respectively, in output of farmed fish and shrimp. On the other hand, citrus will be emerging from a cyclical downturn and production is slated to bounce back with a 10.8% increase in deliveries attributable solely to orange given the damage inflicted by Hurricane Richard on the grapefruit harvest in October of 2010. Productivity increases should boost papaya production by 6.4% and output of banana, corn and livestock (cattle and poultry) by 3.0%.

Meanwhile, greater use of plant capacity should ensure that the secondary sector grows by around 2.0%. This would include an 11.0% increase in domestic electricity generation as the co-generation plant and hydro-electric facilities operate for the entire year. Even with a smaller harvest, the delivery of high quality sugarcane is likely to boost sugar production by nearly 13.0% to 105,000 long tons, while citrus juice output is expected to improve by 22.0% with the cyclical upswing in orange deliveries. In contrast, petroleum production should be contracting by nearly 4.0% to 1.5mn barrels as the incremental output from the Never Delay oil field falls short of the decline in output of the Spanish Lookout oil field.

Underpinned by increases of 5.1% in government services and 5.8% in distribution, the tertiary sector is expected to spearhead the economy with an overall expansion of 3.2%. The carry-over of a backlog of capital projects from the previous fiscal year points to the likelihood of an undiminished level of government outlays during the upcoming period, while distribution should be spurred by improved cross-border trade at the Corozal Free Zone, a small pick-up in domestic demand and an uptick in tourism activity. A projected 2.3% increase in overnight arrivals would more than offset the projected decline in cruise ship disembarkations that is partly attributable to the uncertainties caused by the cruise lines demand for the use of large tenders that local service providers do not currently possess. Hotel and restaurant activity should therefore grow by a modest 0.8% with financial intermediation also projected to grow by 2.2%, reflecting a

moderate increase in private sector loans.

A larger trade deficit, a fall in service receipts due to the downsizing of the British military presence in Belize, and to a lesser extent, the hike in public sector interest payments that reflects a full year of super bond interest payments at the heightened 6.0% rate are expected to be the principal factors in the projected widening of the external current account deficit to some 4.0% of GDP in 2011. Positive developments include a modest rise in remittance inflows and a notable increase in government's grant receipts. A modest increase in foreign direct investment and sizeable external loan disbursements to the public sector for pipeline projects are expected to boost the capital and financial account surplus and hold gross official reserves steady at around 4.5 months of merchandise import coverage.

INTERNATIONAL & REGIONAL DEVELOPMENTS

Advanced Economies

The world economy rebounded with a 5.0% increase aided by the continuation of relaxed monetary policies, fiscal expansion and a recovery in commodity prices. The latter reflected increased demand particularly from developing countries, the return of private capital flows to middle income countries and a marked rise in manufacturing and global trade. The recovery was uneven however, with a relatively muted 2.7% upswing in advanced economies that was heavily dependent on continued policy interventions while emerging and developing economies registered buoyant growth of 7.1%, fuelled by internal demand, strong capital inflows and higher commodity prices.

Advanced countries continued to wrestle with elevated levels of unemployment, modest income growth, tightened credit, financial sector weaknesses and high levels of government and household debt. The rearing of sovereign debt issues, especially in the Euro-zone area, also provided a source of instability that undermined consumer confidence and raised questions as to the sustainability of the recovery.

While Japan returned to positive growth with a 2.8% increase in GDP that was export led, its domestic demand remained tepid. Further policy measures were therefore undertaken to prop up domestic consumption and the result was a further deterioration in public finances. Notwithstanding the growth turnaround, investment spending was weak and unemployment remained unchanged from the previous year at 5.1%.

After two consecutive years of contraction, economic activity expanded in the United Kingdom (UK) with GDP growing by 1.7% led by heightened manufacturing

Table 2: Key Indicators for Advanced, Emerging and Developing Economies

Country	GDP Growth Rate (%)		Inflation Rate (%)		Current a/c Ratio (%)		Unemployment Rate (%)	
	2009	2010	2009	2010	2009	2010	2009	2010
Advanced	-3.2	2.7	0.1	1.4	-0.3	-0.3	8.2	n.a
United States	-2.6	2.6	-0.3	1.4	-2.7	-3.2	9.3	9.7
United Kingdom	-4.9	1.7	2.1	3.1	-1.1	-2.2	7.5	7.9
Japan	-5.2	2.8	-1.4	-1.0	2.8	3.1	5.1	5.1
Emerging and Developing	2.5	7.1	5.2	6.2	1.9	1.5	5.4	n.a
China	9.1	10.5	-0.7	3.5	6.0	4.7	4.3	4.1
India	5.7	9.7	10.9	13.2	-2.9	-3.1	0.0	n.a
Mexico	-6.5	5.0	5.3	4.2	-0.6	-1.2	5.5	5.0

Sources: World Economic Outlook and World Bank

activity, government consumption and a pick-up in fixed investment. The trade balance also improved but not as much as expected given the sizeable depreciation of the pound sterling. The unemployment rate increased from 7.5% to 7.9% and the rate of inflation rose to 3.1%, more than double the Bank of England's target rate. While the monetary policy stance remained accommodative, the government began to introduce measures aimed at lowering its sizeable deficit and restoring the fiscal position to a more sustainable path in the medium term.

The United States (US) economy also staged a recovery with a 2.6% increase in GDP that was fuelled by massive monetary and fiscal expansion. However, the issue of sustainability remained on the table since growth was predominantly driven by public sector expansion underpinned by large fiscal deficits and escalating debt. Private sector demand, business profits and investment remained relatively anaemic although there was a pick-up in consumer spending in the fourth quarter as the effect of the fiscal stimulus waned. The tepid nature of the recovery was highlighted by an increase in the rate of unemployment from 9.3% to 9.7% while inflation remained subdued at 1.4%.

Looking ahead, the economic recovery in advanced economies is expected to continue in 2011, albeit at a weaker pace, as the effects of fiscal stimulus measures fizzle out and the implementation of fiscal consolidation measures begin to bite. The hope is that the private sector would regain its dominant position as growth leader, however, much depends on whether household balance sheets improve with its inevitable impact on consumer confidence and spending. Monetary policy is likely to remain highly accommodative but since policy rates are already near zero, this will mainly take the form of quantitative easing in order to provide further impetus to stimulate demand and offset any economic drag caused by fiscal tightening. Against this backdrop, unemployment is expected to remain high and inflation muted.

Emerging and Developing Economies

Successful execution of countercyclical monetary and fiscal policies underpinned the strong economic recovery in the emerging and developing nations with robust domestic demand being the cornerstone for growth in these economies.

China led the global recovery with GDP growth of 10.5%. Its fiscal stimulus was mainly aimed at infrastructural development and included lower taxation, consumption subsidies and increased welfare spending. After relaxing monetary conditions in response to the financial crisis a year earlier, the authorities started tightening to mitigate the inflationary risks associated with the prolongation of its loose stance. The current account surplus contracted further to 4.7% as exports fell with the reduction in global demand and

imports rose with the robust increase in domestic demand for commodities and capital goods. Driven primarily by higher food prices, inflation rose to 3.5%, while unemployment shrank from 4.3% to 4.1%.

Following a severe economic contraction in the previous year, the Mexican economy bounced back with GDP growth of 5.0% that was buttressed by a resurgence in exports to the US, the restoration of normalcy in the tourism sector (after the set back caused by the A(H1N1) flu) and a resurgence in private consumption. The monetary policy stance remained accommodative, while, to address the deterioration in its fiscal position caused by countercyclical measures in 2009, the government launched a programme of tax reform to strengthen non-oil tax revenues. Partly reflecting the impact of the fiscal consolidation, the domestic inflation rate fell from 5.3% to 4.2%.

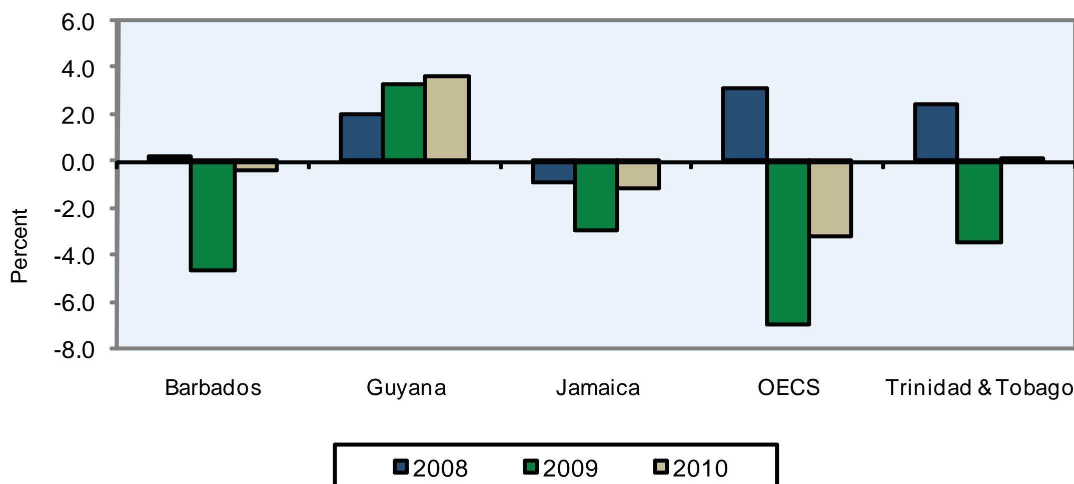
With domestic demand spurred by expansionary fiscal and monetary policies, India grew by a robust 9.7%. GDP growth was led by a marked increase in industrial activity as well as an expansion in services. However, the government's fiscal deficit rose from 7.4% to 9.6% of GDP during the year pointing to the need for fiscal consolidation in the upcoming period. The substantial growth in domestic expenditure led to a slight widening of the current account deficit as growth in imports outpaced exports. Meanwhile, escalating food prices drove inflation up from 10.9% to 13.2%.

Following their high paced recovery in 2010, indications are that emerging and developing countries will continue to drive world growth in 2011 but at a more moderate pace. While the contribution of private consumption and investment to growth will likely rise, there will be a certain amount of deceleration as governments seek to unwind large fiscal stimulus packages in order to restore fiscal sustainability and monetary authorities also tighten their extraordinarily loose stances in the wake of inflationary pressures and prudential risks. GDP growth is therefore expected to slow to 6.0% in 2011, with unemployment rates remaining sticky and higher levels of inflation due to rising oil and food prices.

Caribbean

The Caribbean recovered at a slower pace than initially projected, hindered by slow growth in the developed economies on which the region depended for tourism, remittances and foreign direct investment. The effects of natural disasters and high debt burdens also limited the scope for countercyclical fiscal and monetary policies. Regional GDP consequently grew by 0.5%, with ECLAC (the Economic Commission for Latin America and the Caribbean) estimating output expansions for Guyana and Bahamas of 3.6% and 0.5%, respectively, while GDP growth in Trinidad and Tobago edged up by 0.1%. Although output declined again in the Organization of Eastern Caribbean States (OECS), Jamaica and Barbados by 3.2%, 1.2%

Chart 1: GDP Growth for Selected Caribbean Countries



and 0.4%, respectively, the contractions were less severe than in the previous year.

The region's mild rebound in stayover and cruise tourist visitors fuelled a modest improvement in economies that relied heavily on tourism. In the Bahamas, stayover tourist arrivals were up 14.4% during the first ten months supported by an 18.2% rise in sea traffic. The OECS saw increases in luxury stay-over arrivals and cruise passengers of 5.0% and 3.0%, respectively, and the tourism sector in Barbados grew by 3.0% during the first eleven months as arrivals from the United States and Canada were up by a respective 17.0% and 13.0%. On the other hand, activities in construction, distribution and manufacturing generally declined as foreign direct investment stagnated and private sector borrowings waned.

In confronting generally lacklustre credit performance, the approach of the monetary authorities varied across the region. Barbados, Jamaica and Trinidad & Tobago assumed a more proactive stance with the implementation of monetary policy measures to lower interest rates. The Bank of Jamaica reduced the cash reserve requirements for deposit taking institutions by 2 percentage points to 12.0%. The Central Bank of Trinidad & Tobago reduced the policy repo rate by 125 basis points from 5.0% to 3.75%. In Barbados, the three-month Treasury bill rate declined by 0.09 percentage points to 3.35% in December. Although commercial banks responded by reducing lending rates somewhat in these countries, credit demand remained weak with private sector credit down by 2.2% in Trinidad & Tobago and up by 1.0% in Jamaica and Barbados.

The central banks in the OECS and Bahamas chose to make no monetary policy changes but focused mainly on

Table 3: Key Indicators for Selected Caribbean Countries

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment Rate (%)		International Reserves (US$mn)	
	2009	2010P	2009	2010P	2009	2010	2009	2010
Barbados	-4.7	-0.4	4.4(2)	5.4(2)	10.5(1)	11.2(1)	743	726
Belize	0.0	2.9	-1.1	0.9	13.1	n.a.	214	218
Guyana	3.3	3.6	3.6	4.5	9.0	n.a.	628	780
Jamaica	-3.0	-1.2	10.2	11.7	n.a.	n.a.	1,752	2,979
OECS	-7.0	-3.2	-0.6	n.a.	n.a.	n.a.	2,154	n.a.
Trinidad & Tobago	-3.5	0.1	1.3	13.4	5.3	5.8(3)	8,652	9,070

Sources: ECLAC, Central Bank of Barbados, Central Bank of Guyana, Bank of Jamaica, Central Bank of Trinidad & Tobago, Eastern Caribbean Central Bank

(1) As at September

(2) As at October

(3) Represents the average of the first two quarters of 2010

financial system stability and maintaining credibility of the currency peg. Private sector loans edged down by 0.3% in the Bahamas but were up by a contrasting 2.0% in the OECS even though the discount rate, average lending and deposit rates were unchanged at 6.5%, 11.3% and 4.5%, respectively. Guyana was the only economy to experience buoyant credit growth of 7.1% during the year with increased lending for mortgages, agriculture, manufacturing, mining and quarrying. In other developments, Bahamas, Barbados and Trinidad & Tobago reported increases in the ratio of non-performing loans to total loans.

Regional governments also juggled the divergent goals of fiscal consolidation and their desire to maintain expenditure at levels supportive of the economic recovery. Commitments made by the OECS under an Eight–Point Stabilization and Growth Programme that included country-specific fiscal targets limited their ability to engage in counter-cyclical policies. Jamaica was similarly constrained due to its 27-month stand-by arrangement with the International Monetary Fund (IMF). On the other hand, Barbados raised customs duties, bus fares and the Value Added Tax (from 15.0% to 17.5%), with a view to reducing the fiscal deficit and the overall public debt, while simultaneously maintaining business support programmes begun in the previous year. In the case of Trinidad & Tobago, the government scaled back capital expenditures due to revenue constraints, but slower growth rates, outstanding wage settlements and a 39.0% increase in the minimum wage posed challenges to fiscal consolidation efforts.

Increased taxation and a spate of natural disasters that disrupted agricultural production pushed inflation rates higher in several Caribbean countries. The Bahamas was the only country to experience an easing with inflation falling from 3.6% to 1.0%, reflecting lower prices for food and beverages. St. Kitts & Nevis registered a 3.0% increase due to the impact of Hurricane Tomas and the introduction of VAT while Jamaica's price level rose by 11.7% due to a prolonged drought in the first half of the year and the effects of Tropical Storm Nicole in the latter half. Indications are that annual inflation in Trinidad & Tobago and Guyana will be up in 2010 by 13.4% and 4.5%, respectively, due to higher food prices.

Barbados experienced a rise in its unemployment rate to 11.2% at the end of September, with activity in construction and distribution down significantly. A similar rise in unemployment is expected in the OECS due to the slowdown in the construction and tourism sectors. Trinidad & Tobago is also expecting to report a rise in its jobless rate from 5.3% in 2009 to 5.8% in 2010. On the other hand, employment levels in the Bahamas are expected to register a marginal improvement due to the rebound in tourism. Prospects for the region appear somewhat mixed in the medium term. While the outlook for Jamaica seems lacklustre, this should change once the fiscal position is brought to a sustainable path and other measures are taken to improve the investment climate and maintain social stability. The Trinidad & Tobago economy should benefit from a new bail-out plan that was implemented for Colonial Life Insurance Company (CLICO) at the end of 2010, which makes provisions for cash repayments to short term investors and mutual fund holders, while payments for investments above TT$75,000 would be made via zero-interest government bonds. Barbados is projected to return to positive growth in 2011 with continued improvement in tourism and a pick-up in private capital inflows. The government aims to continue focusing on fiscal consolidation as well as the development of competitiveness and market diversification within tourism and other sectors. The outlook for Guyana is positive with assistance being received from Brazil for the completion of the Takutu Bridge and an energy project at Amaila Falls. The adoption of a low-carbon development strategy which commits them to reduce emissions from deforestation is expected to boost foreign exchange inflows over time. In the OECS, reconstruction efforts after the hurricanes are expected to contribute to improved growth performance in 2011.

Central America

Notwithstanding various natural disasters, Central American economies rebounded due to the strengthening of external demand (particularly from the United States), a sharp turnaround in domestic demand, resiliency in foreign

direct investment (FDI) inflows and small increases in remittance inflows. At 3.1%, regional growth was slower than that of the emerging economies since exports consisted mainly of basic agricultural commodities compared to the energy based raw materials and higher value added agricultural products of the emerging economies. Panama led the region for the second consecutive year with a 6.3% expansion that was driven by large public and private sector projects such as the expansion of the Panama Canal, the construction of an underground train system and a new copper mine, modernization of the metropolitan transport system, hydroelectric projects, new hotel developments and social housing projects. Mainly fueled by rebounds in their export sectors, Costa Rica and Nicaragua registered GDP increases of 4.0% and 3.0%, respectively. Subsequent to its normalization of relations with the rest of the world, the Honduras economy rebounded with a 2.5% increase; while GDP growth in Guatemala and El Salvador came in at a moderate 2.5% and 1.0%, respectively.

Principal growth areas were agriculture, manufacturing, transportation and communications, and hotel and restaurants, while on the down side, construction activity declined in all countries except Panama. Inflation rose across board in response to the increase in economic activity and higher acquisition costs of petroleum and energy based raw materials as well as lower food production in countries affected by storms and floods. Nicaragua recorded the largest price level increase of some 7.7% followed by Costa Rica and Honduras with 6.1% and 5.8%, respectively. Guatemala, Panama and El Salvador reported inflation rates of 5.3%, 4.1% and 3.2%, respectively.

Fiscal revenues generally grew in line with the expansion in economic activity, revenue enhancing measures or administrative reforms, so the fiscal deficit edged down slightly from 3.6% of GDP in 2009 to 3.3% of GDP. The focus during the year shifted to fiscal consolidation measures to ensure public sector debt sustainability. In September, Honduras sought IMF assistance in its fiscal consolidation and economic stability efforts, while Nicaragua met the targets under its current IMF programme. Meanwhile, monetary developments varied across countries. While interest rates declined across all countries, El Salvador, Costa Rica and Nicaragua reported a contraction in lending to the private sector whereas increases were recorded in Guatemala and Panama.

Although the region's export earnings increased in tandem with the US recovery, imports grew faster with a steep rise in the fuel bill and stronger domestic demand from households and the productive sector. The external current account deficit consequently worsened as inflows from family remittances, tourism and other miscellaneous services couldn't

Table 4: Key Indicators for Central America

Country	GDP Growth Rate(%)		Inflation Rate (%)		Unemployment Rate (%)		International Reserves (US$bn)	
	2009	2010p	2009	2010p	2009	2010	2009	2010
Guatemala	0.5	2.5	-0.3	5.3	n.a.	n.a.	5.2	5.9
Honduras	-1.9	2.5	3.0	5.8	4.9	6.4	2.3	2.7
El Salvador	-3.5	1.0	-0.2	3.2	7.1	n.a.	2.6	2.7
Nicaragua	-1.5	3.0	1.8	7.7	10.5	n.a.	1.6	1.8
Costa Rica	-1.1	4.0	4.0	6.1	7.6	n.a.	4.1	4.6
Panama	3.2	6.3	1.9	4.1	7.9	7.7	1.9	n.a

Source: ECLAC

compensate for the larger trade deficit. The latter was financed mostly by FDI flows, with Costa Rica being the largest recipient of net FDI, short term capital inflows and loan disbursements to the private sector. Holdings of official international reserves remained stable in Guatemala, increased in Nicaragua, fell in El Salvador and Panama, while a program to build up reserves was implemented in September in Costa Rica.

In May, a Treaty of Association between Central America and the European Union was signed, an important development that has the potential to boost future levels of trade and foreign investment in the region. The closeness of the US economy with that of the Central American region means that growth in 2011 will continue to hinge on the pace and magnitude of the recovery of the US economy. Growth is expected to remain positive and should once again be led by Panama due to its ongoing massive public and private sector projects. Costa Rica, Honduras and Nicaragua are expected to grow by 4.2%, 3.5% and 3.0%, respectively.

MONETARY & FINANCIAL DEVELOPMENTS

Notwithstanding the modest economic upturn and higher net foreign asset inflows, broad money supply (M2) contracted by 0.1% due mainly to a contraction in net domestic credit caused by sizeable and unusual one-off repayments from a single company group. The latter was largely accountable for a decline in outstanding loans to the private sector, the first such in 24 years. While inflows associated with improvements in the external current account enabled commercial banks to improve their net foreign asset positions significantly, in the context of sluggish domestic credit demand, it also contributed to a significant increase in the system's excess liquidity, which rose to an eight year high at year-end.

With interest rate spreads also widening as the pace of decline in deposit rates exceeded those on loans, the Central Bank took several steps aimed at sterilizing some of the excess liquidity in the system, reducing commercial banks' costs and influencing lending rates downwards. The first was the introduction of a new securities requirement on 1 May, which obliged commercial banks to hold a minimum of 6.5% of their average deposit liabilities in the form of Treasury bills while legally mandated cash reserves (funds held with the Central Bank at zero interest rate) were simultaneously reduced from 10.0% to 8.5% of average deposit liabilities. The government's Treasury bill issuance was raised by $75.0mn to accomodate this initiative and provide an outlet for investment of surplus funds. This was followed up with a reduction of the minimum interest rate on saving deposits from 4.5% to 3.5% on 1 November. Since asset repricing

Chart 2: Private Sector Credit and Money Supply (Annual Percentage Growth)

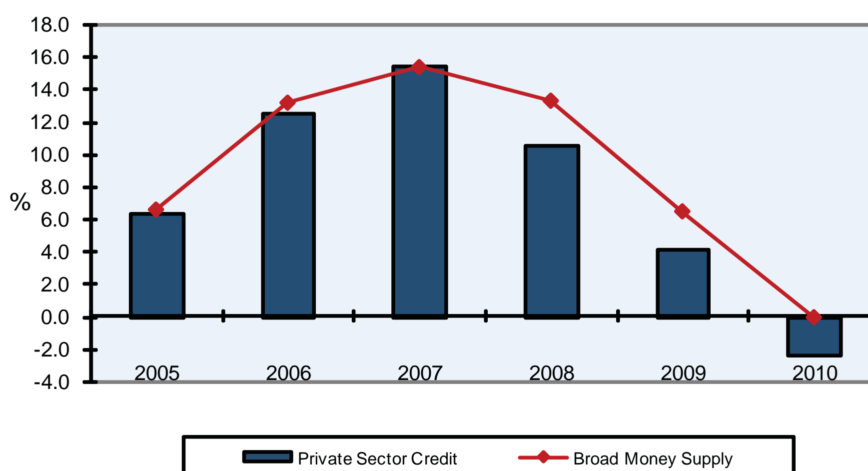
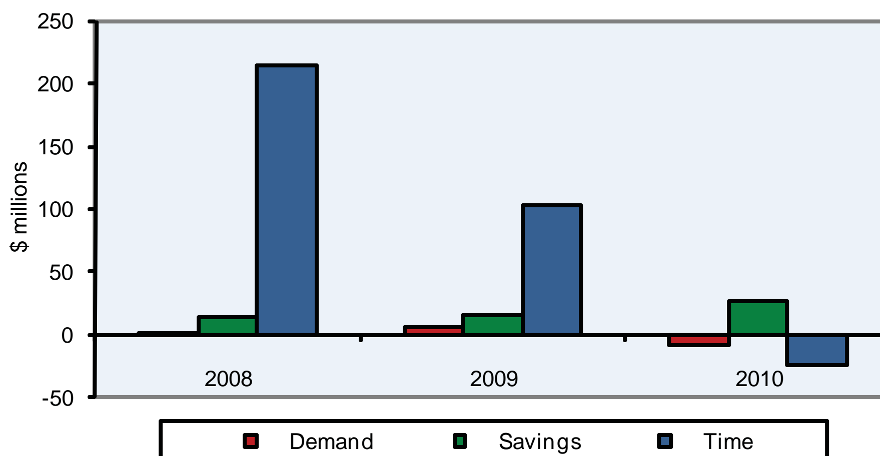


Chart 3: Annual Growth in Bank Deposits

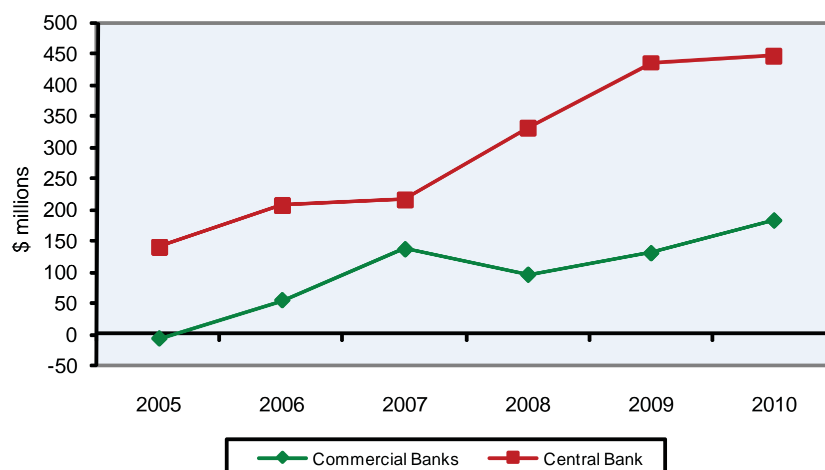


typically lags behind cost changes on the liabilities side of the banks' balance sheets, the impact on domestic lending rates was not immediately significant.

Domestic monetary developments partly reflected the tepid nature of the economic recovery. Narrow money shrank by 0.8% with a 5.6% reduction in demand deposits overshadowing increases in savings/ chequing deposits and currency in circulation of 6.8% and 2.1%, respectively. The downward movement in demand deposits was dominated by private utilities and businesses that withdrew funds to meet electricity, fuel and dividend payments. A contrasting 0.2% rise in quasi money reflected a $27.3mn increase in saving deposits mainly attributable to individuals while time deposits dipped by $24.3mn due to the sizeable withdrawal of funds that were used in the first quarter reduction of loan balances of the company group mentioned earlier.

Higher inflows from the exports of goods and services underpinned an 11.2% improvement in net foreign assets, though this was considerably lower than the 32.7% increase in 2009, the latter having been somewhat inflated by the Emergency National Disaster Assistance (ENDA) loan receipts and new IMF Special Drawing Right (SDR) allocations. The net position of the commercial banks improved by 40.3% reflecting an 11.0% increase in foreign assets and 40.2% reduction in liabilities to head offices and foreign affiliates. Rising by a comparatively modest 2.5%, the improvement in the Central Bank's foreign asset position was mainly facilitated by taxes and royalties received from petroleum producers, loan disbursements to the government and sugar export receipts that respectively accounted for 30.6%, 23.2% and 17.6% of the Bank's foreign exchange inflows. Since the Central Bank was not called on to provide the foreign exchange required

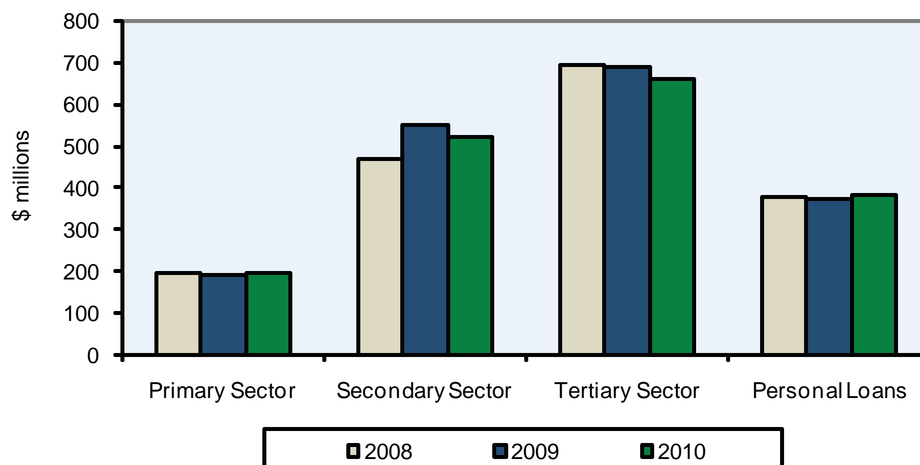
Chart 4: Net Foreign Assets



for essential imports as had been the case in 2009, outflows were 5.6% lower. Some 76.7% ($175.0mn) went to the public sector mostly for external debt servicing that included the $56.5mn interest payment on the super bond. Sales to statutory bodies, commercial banks (to meet repayments on the North American Securitization) and Belize Electricity Limited (BEL) accounted for 15.0% and the balance was made up of revaluation losses and bilateral payments.

In addition to a $42.0mn (2.3%) contraction in bank lending to the private sector, the 2.6% credit downturn featured declines of $8.6mn (4.4%) in net credit to Central Government and $0.9mn in loans to statutory bodies. A combination of the new securities requirement and high bank liquidity underpinned a shift in the government's domestic creditor profile with commercial banks adding significant amounts of government paper to their portfolios as their net lending to Central Government rose by 43.8%. In contrast, Central Bank's net credit to Government plummeted by 49.5% with income from the new securities, sale of Belize Telemedia Limited (BTL) shares and increased tax collections facilitating a marked reduction in the latter's Central Bank overdraft as well as a build up in deposits with the Central Bank and commercial banks. Meanwhile, in addition to the sizeable loan repayments by the single company group early in the year there was some loan portfolio consolidation by other private businesses that sought to reduce reliance on high cost overdraft facilities. Cuts in credit were concentrated in the secondary and tertiary sectors with substantial reductions to entities engaged in construction and transportation, and smaller decreases for activities such as real estate, professional services, distribution and entertainment. Apart from this there was a small increase (0.7%) for the primary sector that included new disbursements

Chart 5: Commercial Banks' Loan Distribution



to marine, citrus and banana producers while personal loans rose by 2.8%. Of some note was the fact that although bank lending was down, the five largest credit unions chalked up a 6.7% ($21.8mn) increase included in which was $12.4mn in personal loans, $4.7mn for real estate and $3.0mn for manufacturing.

Reduced commercial bank lending combined with net foreign inflows yielded an annual 52.5% increase in excess statutory liquidity with bank holdings exceeding requirements by 35.7% at the end of December. Holdings of excess cash reserves also rose by 51.3% and at year-end were 36.5% above the required level. The expansion in the latter reflected the relative scarcity of eligible investment alternatives as well as the 1.5% reduction in the cash reserve requirement effected in the month of May. Consequently, daily average cash holdings were down by $8.0mn year on year as compared to the

Chart 6: Excess Liquidity

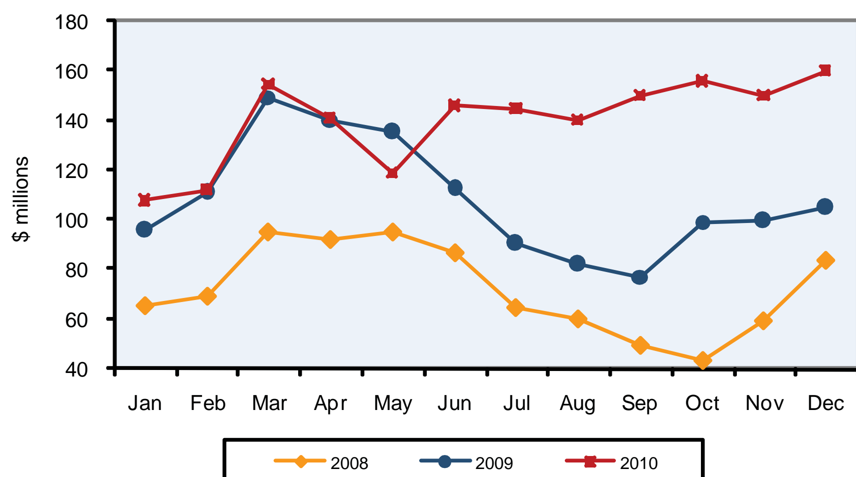
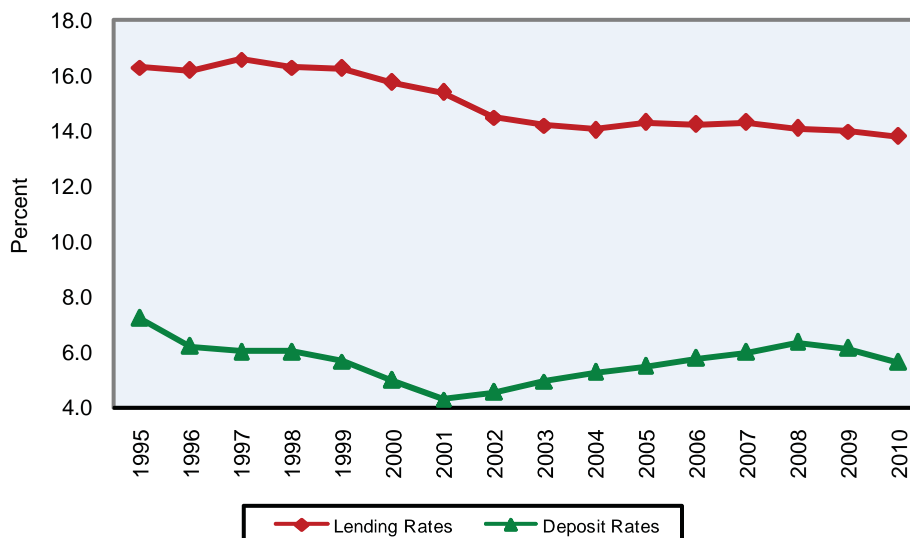


Chart 7: Weighted Average Deposit and Lending Rates



$28.5mn reduction in the level of required holdings. Notwithstanding this, loan rates continued to exhibit a certain stickiness with a 20 basis points fall in the weighted average lending rate falling short of a more substantial 51 basis points decline in the weighted average deposit rate. The situation appeared to be coloured by the necessity for careful portfolio management on the part of the banks given the recent increase in non-performing loans. Also, because of the small size of the system, the impact of a few large transactions tended to create some short term volatility which had the potential to mask the overall trend and magnitude of changes in weighted average rates. To illustrate this, while the marginal lending rate of several banks was shown to be an average of 100 basis points lower, other banks were bucking the trend with an average increase of 44 basis points. Thus, while the widening of the spread on the entire loan portfolio of the banks was seemingly a contraindicator of the effectiveness of the Central Bank's policy measures, there were also signs that a new downward trend in lending rates had been initiated. Given the typical time lag in asset repricing, the downward trend is expected to be maintained if there are no additional shocks to the system and other measures are effected to encourage fair competition in the domestic system. Focusing narrowly on the terms offered for new loans at the end of the review period as compared to those that were offered 24 months earlier, the data shows a decline in the weighted average lending rate of 164 basis points as compared to a reduction of 32 basis points in the weighted average rate for new deposits.

Box 1: Monetary Policy Reform

Building on the progress made in 2009, a number of significant milestones were accomplished under the aegis of the Monetary Policy Reform Project in 2010. Reform initiatives focused on two areas - the development of the domestic government debt market and the lowering of intermediation costs in order to influence lending rates downwards.

The development of the government domestic debt market is a prerequisite for the implementation of market-based monetary policy which involves adjusting the Central Bank's holdings of government securities in order to influence the supply of loanable funds. Efforts undertaken to increase the depth and the level of participation in the securities market required amendments to the Treasury Bill, Central Bank and the Banks and Financial Institutions Acts and adjustments to the commercial banks' reserve requirement structure. The volume of government securities, which was limiting market activity during 2009, was expanded during the year with the raising of the ceiling placed on total securities issuance from $175.0mn to $425.0mn. The headroom for Central Bank's market interventions was also expanded by allowing the Central Bank to hold up to ten times (up from seven times) its paid up capital and General Reserve Fund in government securities. Subsequently, an additional $130.0mn in government paper was issued at varying maturities extending up to ten years.

A commitment to fiscal discipline is also required for government debt markets to develop, function effectively and foster investor confidence. Central Government made notable strides toward this end, agreeing to significantly reduce direct financing from the Central Bank through its overdraft facility. The overdraft limit was lowered in April from 20.0% to 8.5% of the previous year's current revenues. The issuance of the additional securities allowed government to restructure its domestic debt and remain well within the newly agreed overdraft limit for the remainder of the year.

In efforts to secure market participation and improve the efficacy of the reserve requirement system, the Central Bank implemented a securities' requirement in May, mandating that banks hold a minimum of 6.5% of their average deposit liabilities in Treasury bills. The securities' requirement added a third tier to the reserve requirements, with tiers one and two being the cash reserve requirement and approved liquid asset requirement, respectively. While this gave the Central Bank an additional policy tool that could be adjusted to address changes in liquidity, more importantly, it furthered the development of the domestic debt market by requiring all banks to actively participate and manage their excess liquidity more efficiently. In the future, it is envisaged that the banks' holdings of Treasury bills will be used to collateralize interbank borrowing and repurchase agreements.

Box 1: Monetary Policy Reform (cont'd)

Against a backdrop of weakened credit demand, a fragile economic recovery, high excess liquidity and increasing levels of non-performing loans, the Central Bank implemented several measures aimed at reducing commercial banks' costs and influencing lending rates downwards. The legally mandated level of cash reserves (funds held with the Central Bank at zero interest rate) was reduced in May from 10.0% to 8.5% of average deposit liabilities. Furthermore, the new issuance of government securities provided an investment alternative for banks' surplus funds. In addition, the floor on saving deposits was lowered from 4.5% to 3.5% in November. Faced with diminishing profitability and the needed longer-term adjustments to reduce the level of non-performing loans in the system, banks have been re-pricing the asset side of their balance sheets at differing speeds, so lending rates over the year fell by a weighted average of 20 basis points compared to a 51 basis points fall in average deposit rates.

FINANCIAL SYSTEM DEVELOPMENTS

Domestic Commercial Banks

Sluggish credit demand coupled with an elevation in non-performing loans resulted in a 0.6% erosion in the asset base of the domestic commercial banks in 2010. Credit developments were heavily influenced by sizeable and unusual one-off repayments by a single company group that outweighed a more modest increase in disbursements to other borrowers. The result was a 2.4% contraction in commercial bank loans and advances. On the liabilities side, growth in bank deposits slowed to 0.3% (as compared to the 7.4% growth in 2009) with the substantial drawing down of business deposits to facilitate the loan reduction of the aforesaid company group being partly responsible. Customers continued to hold the bulk of their deposits in the form of time deposits (60.7%) with demand and saving deposits accounting for 28.5% and 10.8%, respectively.

Non-performing loans expanded by 46.5% during the year thus raising the commercial banks' ratio of non-performing loans (net of specific provisions) to total loans from 10.8% to 16.1%. The upward trend was indicative of the continued slackness in the real estate market as well as accounting adjustments called for as a result of the Central Bank's enhanced supervision of the system. In accordance with the Central Bank's prudential guidelines, loan loss reserves were increased by 37.2% resulting in a decline in return on assets (ROA) from 1.7% to 0.7%. The growth in primary capital of banks also slowed as a consequence to 3.6%, compared to the 10.6% increase realized at the end of 2009. Notwithstanding the spike in non-performing loans, the capital adequacy ratio (CAR) of the domestic banking

Chart 8: Assets, Loans and NPLs

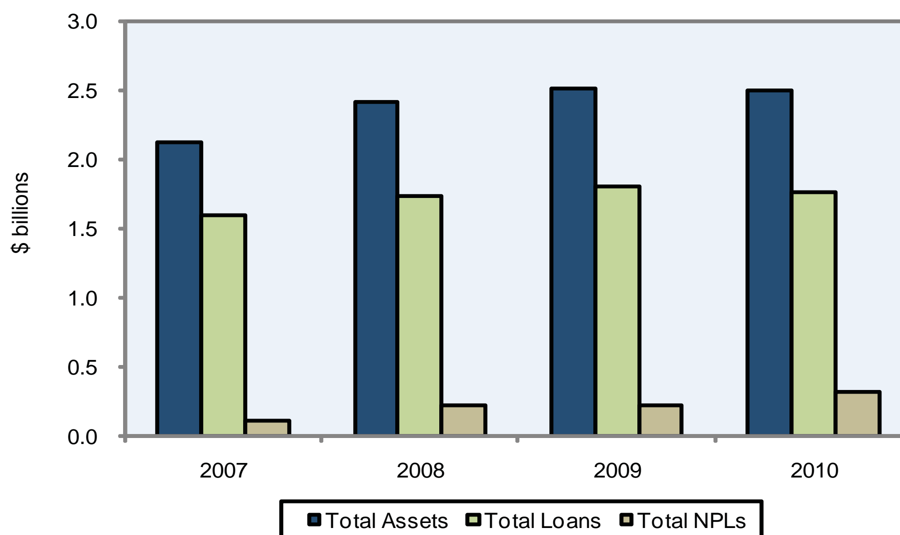
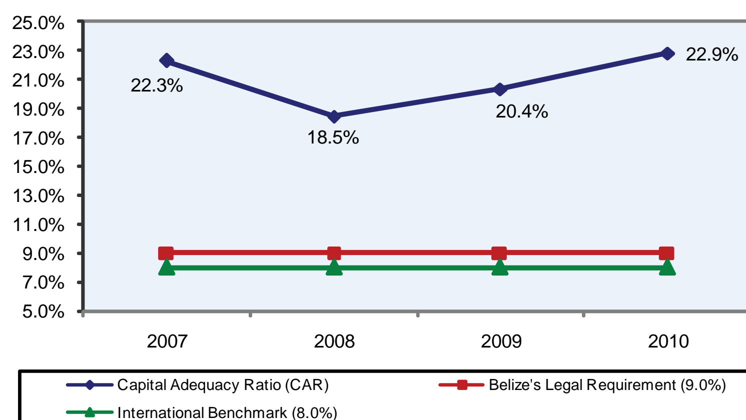


Chart 9: Capital Adequacy Ratios



system increased by 12.2% to 22.9% by year-end, with the individual CARs ranging from 10.1% to 29.8%, well above the 8.0% minimum requirement established by BASLE and the mandated minimum legal requirement of 9.0%.

The general weakening in bank earnings was shown in declines of 6.0% and 5.8%, respectively, in annual gross and net interest income. Non-interest income was also down by 6.1% with the latter coinciding with a 1.8% rise in non-interest expenses that was driven by higher operational costs. After factoring in additional provisions to beef up the system's loan loss reserves, net income before taxes shrank by 31.6% while net income after taxes was approximately halved to $20.7mn. At 4.4%, the system's return on equity (ROE) was significantly below the previous year's 11.4%. The combination of slumping operating income and rising operating expenses highlighted a deterioration in the overall efficiency ratio of the domestic banks from 57.9% in 2009 to 62.6%, which is compared to the international benchmark of 60.0%.

Chart 10: Key Sources of Funding

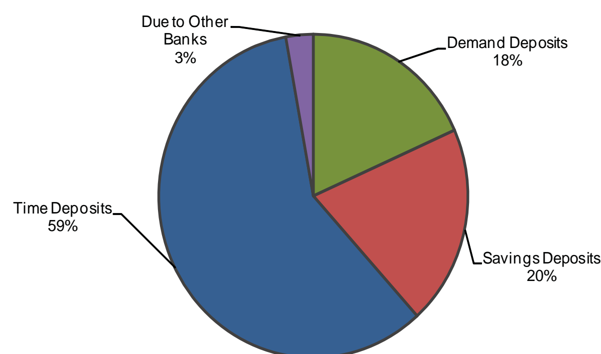


Chart 11: Composition of Capital

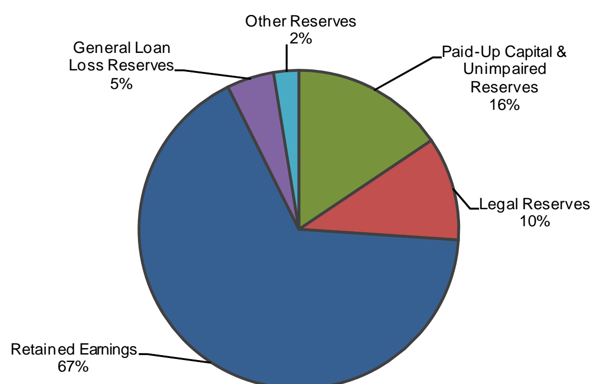
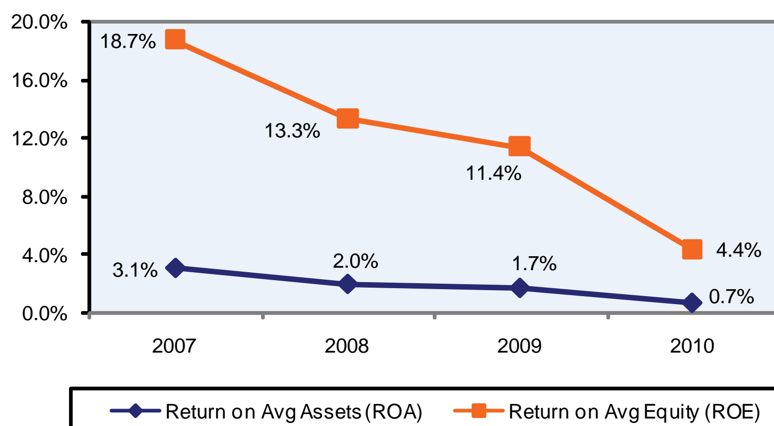


Chart 12: Profitability Ratios

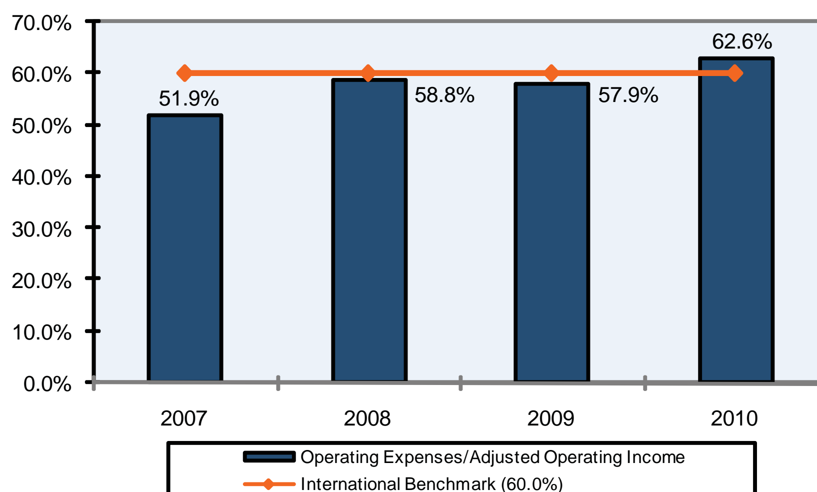


Supervision Issues

Thirteen applications for extensions of credit facilities that exceeded 25.0% of the banks' paid-up and unimpaired capital and reserves were submitted to the Central Bank in 2010. Approval was granted for eight facilities that summed to $70.3mn as compared to approvals for four facilities summing to $150.3mn in 2009.

The continuation of efforts to ensure the safety and soundness of the financial system included on-site examinations of two domestic banks, two international banks and six credit unions during the year. Using a risk focused approach, the Central Bank evaluated compliance with the Money Laundering and Terrorism (Prevention) Act (MLTPA), and also zeroed in on institutional viability and prudential performance, including matters related to solvency, liquidity,

Chart 13: Efficiency Ratios



capital adequacy and risk management.

Bearing in mind the importance of protecting the system against money laundering, the Bank conducted training for banks, credit unions and money transfer service providers in the latter part of the year aided by the Director of the Financial Intelligence Unit. The focus was on the new or enhanced requirements of the revamped MLTPA that came into effect on 1 January 2009 as well as the recently published Anti-Money Laundering and Combating the Financing of Terrorism guidelines.

Under the enhanced approach to supervision adopted in recent years, the heightened frequency in submission of loan delinquency reports by banks, financial institutions and credit unions was maintained. As a result of the increased intensity of its oversight, the Central Bank was able to secure quicker responses and corrective actions to deal with threats to the viability of the financial sector.

Revision to Banks and Financial Institutions Act (BFIA)

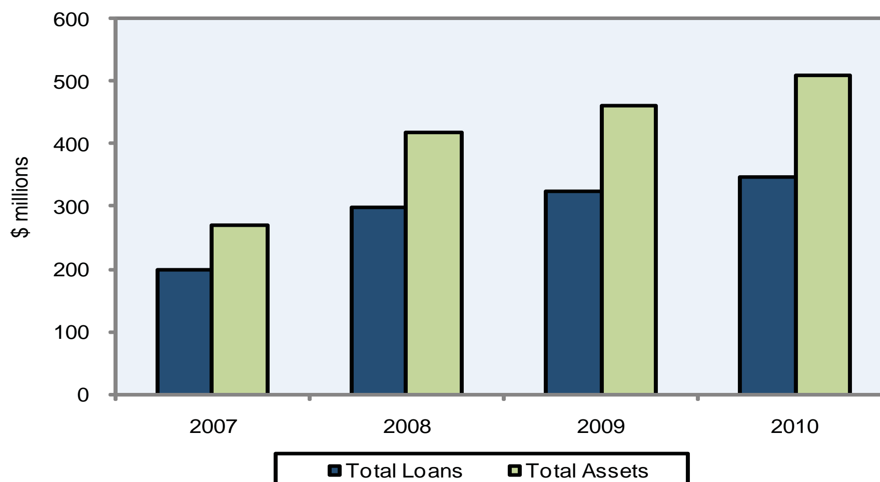
Technical assistance was received from the IMF as the Bank continued its programmed efforts to update and strengthen the BFIA, a piece of legislation that had been enacted 15 years earlier. The proposed revisions are aimed at strengthening prudential standards so as to align them with the recently revised international standards and best practices promulgated by the BASLE Committee on Banking Regulation and Supervisory Practices. The revisions are also aimed at improving efficiency by setting administrative penalties for non-compliance with the requirements of the law.

Revision of BFIA Circulars

Under current loan provisioning requirements, domestic and international banks are not required to allocate provisions against fully collateralized adversely classified loans (ACLs). However, the ongoing financial turmoil has highlighted the fact that the value of real estate held as collateral by banks tends to deflate during a crisis, either because it may have been originally overvalued or through the impact of adverse market conditions. As a result, balance sheets and capital positions of banks may be significantly overstated.

To address this, the Central Bank revisited the regulations that govern the provisioning of impaired assets and proposed that banks set aside provisions amounting to 25.0% of outstanding loan balances that are categorized as substandard secured. Once adopted, the result should be a reduction in commercial bank reliance on collateral that will ensure a smoother migration along the delinquency path based on progressive increases in provisioning (from an initial 25.0% to 50.0% and then 100.0%) in accordance with the actual performance and viability of the loans. The Central

Chart 14: Five Largest Credit Unions - Loans and Assets



Bank also proposed new regulations on the classification of loans and other assets to specify a more comprehensive range of circumstances governing the classification of accounts that do not have fixed repayment dates (i.e. overdrafts). In an effort to prevent the ever-greening of loans by banks, the maximum number of restructurings/renegotiations permissible over the life of a loan will be stipulated.

As the changes to the provisioning requirements take full effect, the expectation is that this will encourage more prudent lending practices that should result in lower levels of adversely classified loans and increased profitability.

Credit Unions

Unlike the domestic commercial banks, activity of the five largest credit unions was unabated with total assets growing by 10.9% to $509.3mn underpinned by a 6.7%

Chart 15: Credit Unions' NPLs

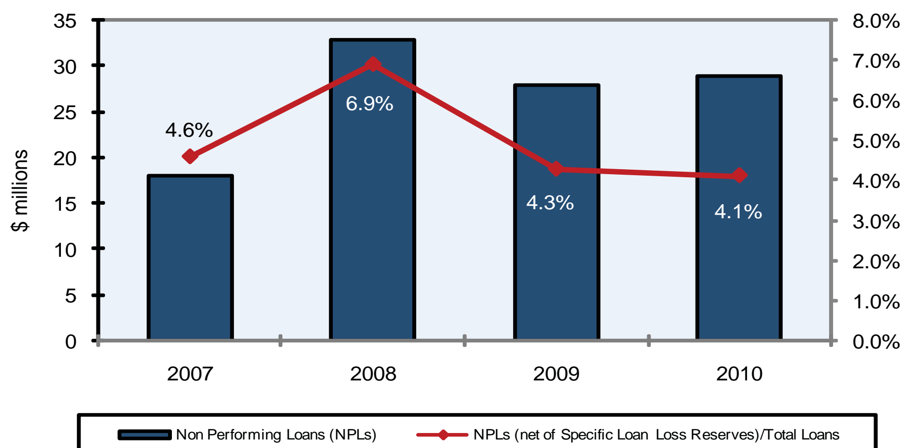
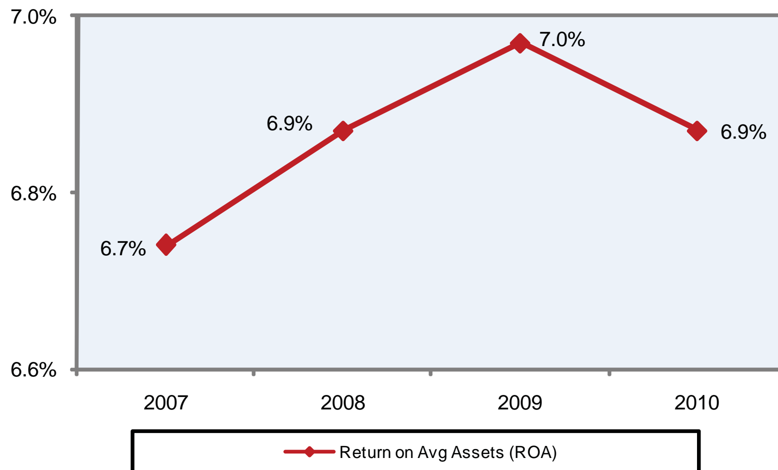


Chart 16: Five Largest Credit Unions - Profitability



increase in loans and advances. The ratio of non-performing loans (net of specific provisions) to total loans decreased slightly from 4.3% to 4.1% and net profits rose by 8.2% to $33.3mn, compared to the 11.9% growth experienced in the previous year. As a result, ROA remained at a healthy 6.9%, almost on par with the previous year due to strong growth in assets and net profits.

International Banks

Growth in assets of the international banks accelerated from 14.5% to 23.6% (US$92.5mn) with a combined increase of 56.5% in their portfolio holdings of "Cash and Balances due from Banks" and "Government Securities/Investments". While total loans were down US$1.0mn reflecting the continued deceleration in lending for non-resident construction of condominiums, deposits grew robustly by 24.6% to US$371.8mn. Demand deposits

Chart 17: Non Performing Loans - International Banks

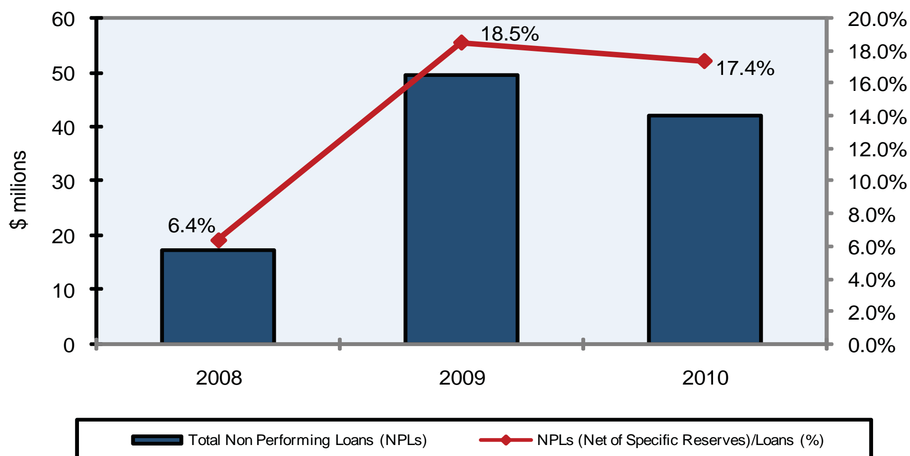
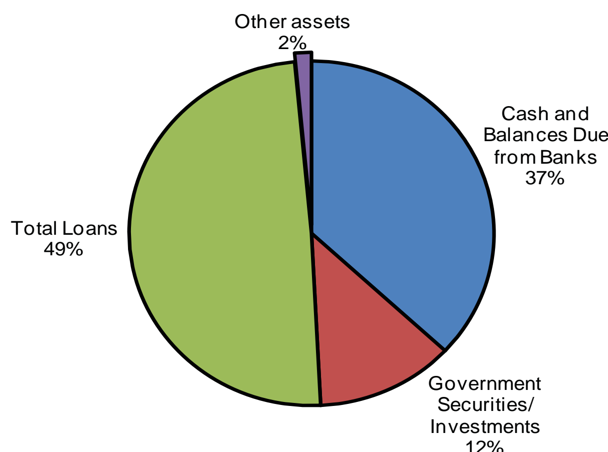


Chart 18: Asset Composition - International Banks



accounted for 61.0%, while time and saving deposits comprised 26.0% and 9.0%, respectively. The industry's ratio of non-performing loans (net of specific provisions) to total loans fell from 18.5% to 17.4% during the year and retained earnings saw an upward spurt that facilitated a 13.6% growth in system capital to US$92.1mn. The industry consequently reported a CAR of 27.3% with ratios of individual banks ranging from 11.9% to 50.9%, which compares favourably with the legal requirement of 10.0% and the 8.0% minimum requirement established by BASLE. Industry ROE and ROA were reported at 13.2% and 2.5%, respectively. Both ratios exceeded the international benchmarks of 10.0% for ROE and 1.0% for ROA.

Licensing Activities

During the year, two banks implemented name changes, licensing fees for domestic and international banks were restructured and one institution requested the Central

International Banks

Chart 19: Key Sources of Funding

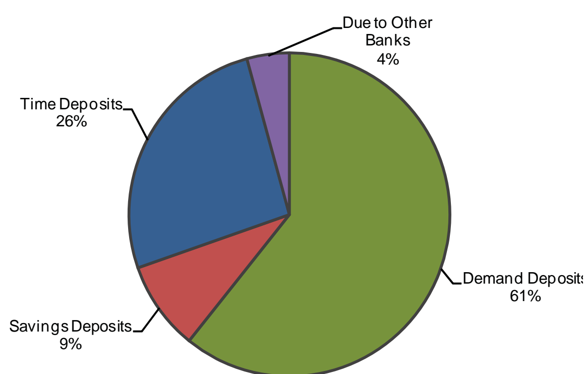
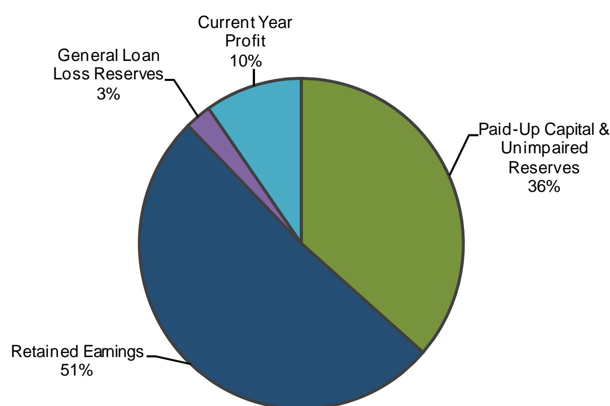


Chart 20: Composition of Capital



Bank's approval for voluntary liquidation.

Subsequent to receiving Central Bank approval in November 2009, the names of Alliance Bank of Belize Ltd. and Provident Bank and Trust of Belize Ltd. were officially changed on 1 January 2010 to "Heritage Bank Limited" and "Heritage International Bank & Trust Limited", respectively.

License fees that had been fixed since 1996 were adjusted in November after consultations were held with the domestic and international banks. Annual fees for domestic banks were changed from BZ$25,000 to 0.015% of the individual bank's total assets or $25,000, whichever is greater. Concurrently, the annual fees for international banks for the Unrestricted 'A' Class license moved from a set amount of US$20,000 to range from US$20,000 to US$40,000, depending on total bank assets.

After a year of operations under an Unrestricted 'A' Class license, Scotiabank (Belize) International Limited requested and was granted approval in October 2010 for the voluntary winding-up of its operations.

Box 2: Financial Infrastructure Initiatives

National Payment System

The Central Bank's mandate for ensuring the stability and orderly development of Belize's financial system includes the primary responsibility for overseeing the evolution and improvement of the country's national payment system. A project to modernize the financial infrastructure aimed at increasing the efficiency of the payments system and reducing the cost of financial transactions is consequently deemed to be of high priority at this time.

A payments system that operates efficiently is one of the prerequisites for the development of interbank market operations, monetary policy operations and capital markets; and by lowering the cost of certain financial transactions, it thus embodies significant potential for stimulating economic activity and growth. Such a system provides effective links between financial institutions and settlement systems for payments and securities and is underpinned by a robust framework of laws and regulations. International examples of payments systems that meet all the needs of a developing economy all include the essential components of

- an Automated Clearing House (ACH) for processing of small payments;
- a Real Time Gross Settlement (RTGS) facility for processing of large payments;
- a Securities Settlement System (SSS); and
- an updated legal and regulatory framework.

The current project therefore seeks to upgrade Belize's payments system by putting in place these components to facilitate the smooth uninterrupted flow of economic transactions and business. This initiative is not the first but is following on the continuum of various efforts to reform the system over the past few years. In mid 2010, technical assistance was received from the World Bank in order to conduct a full assessment and this study confirmed the need to modernize the domestic payment systems and put in place better measures to address liquidity, credit, operational, and legal risks. Among the most glaring shortcomings of the present system is the fact that customers can only transfer funds electronically through direct debits and credits and online payments within the same bank, the settlement time for cheques ranges from three days for district to seven days for out-district cheques and the fact that institutions are being exposed to unacceptable risks when it comes to the settlement of large value cheque transactions.

It is expected that the World Bank will be providing further technical assistance in 2011 for a development plan that will determine a suitable and cost effective design for Belize's payment system and for the drafting of an appropriate legal and regulatory framework. Given the versatility of a modernized payment systems, the expected benefits are not only a lowering of cost to the general consumers, but on a macro level, the strengthening of the Central Bank's oversight of the financial system and its capacity to conduct monetary policy.

Box 2: Financial Infrastructure Initiatives (cont'd)

Credit Bureau

The Central Bank is also seeking to establish a credit bureau in Belize in order to improve the quantity and quality of information provided to local lenders thus making it possible for risks, processing time and costs to be lowered. The result should be more effective and efficient distribution of credit in the domestic system. In pursuit of this goal, the Central Bank invited the International Finance Corporation (IFC,) a member of the World Bank Group, to meet with stakeholders in February 2010 to gauge interest in the development of a credit bureau in Belize. Working in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC), the IFC is presently involved in the development of credit bureaus across the English speaking Caribbean where the initiative has been generally received with enthusiasm. The initial meetings held in Belize revealed a high level of interest in the project.

In April, IFC consultants partnered with the World Bank in completing a Legal and Regulatory assessment of Belize to identify the areas of the legislation that are deficient and that would require amendment in order to enable the proper operation of a credit bureau. Subsequent to this, the IFC conducted a technical assessment of the private and public sectors in July and obtained data on each stakeholder's loan portfolio, credit operations and potential use of the bureau. The results are slated to be presented in April 2011.

The next phase of the project entails public education of stakeholders/consumers and the development of draft legislation that would address issues such as:

- minimum criteria for credit reporting service providers;
- regulatory and supervisory framework;
- exclusions related to sensitive data;
- limits on how long the data can be distributed (to allow borrowers a "fresh start");
- limits on access to the data;
- consumer rights framework; and
- assignment of liabilities for participants in the system – from providers (originators of credit information) and users to service providers.

DOMESTIC PRODUCTION & PRICES

Production

GDP rebounded with a 2.9% increase made possible by the growth of activity in the trade and service industries and with a further boost coming from the expansion of capacity in "Electricity & Water" and upswing in "Government Services". Benefitting from international and domestic demand, the tertiary sector expanded by 3.7% with "Government Services" growing by 6.5% partly due to activities associated with the 2010 Population Census and with the steady increase in cruise ship passengers and a return to positive growth of stay-over tourist arrivals after a two year decline contributing to increases of 5.5% in "Hotels and Restaurants", 2.9% in "Transportation and Communication" and 6.2% in "Wholesale and Retail Trade". The latter was also boosted by an escalation in cross border trade with Mexico via the CFZ. The sharpest annual growth was in "Electricity and Water" which surged by

Table 5: Selected Indicators (Annual Percent Change)

	2008	2009	2010
GDP at Current Market Prices	6.8	-1.1	3.9
Real GDP (2000 prices)	3.6	0.0	2.9
Primary Sector	**0.1**	**-2.2**	**0.6**
of which: Agriculture, Hunting & Forestry	0.7	-4.8	0.8
Fishing	-2.9	9.4	-0.3
Secondary Sector	**9.9**	**11.2**	**0.5**
of which: Construction	35.7	18.8	-5.7
Electricity and Water	3.1	17.1	19.7
Tertiary Sector	**3.0**	**-1.3**	**3.7**
of which: Hotels & Restaurants	-4.6	-4.8	5.5
Wholesale & Retail Trade	-6.0	-6.5	6.2
Government Services	4.6	3.9	6.5
Transportation and Communication	1.7	-2.7	2.9
Consumer Price Index			
Average	6.4	-1.1	0.9
End of period	4.4	-0.4	0.0

Source: Statistical Institute of Belize

19.7% almost entirely due to expansion in domestic electricity production as the cogeneration plant and the Vaca Dam facility became fully operational during the year. Notwithstanding this, overall growth in secondary sector activities came in at a very moderate 0.5% due to the offsetting impact of a 4.7% fall in “Manufacturing, Mining and Quarrying” that reflected diminishing petroleum output and a 5.7% decline in “Construction”, the latter being influenced by the wrap-up of the power projects and considerable deceleration in work on condominiums.

Positive though muted growth of 0.6% in the primary sector reflected a 0.8% increase in agriculture while fishing contracted by 0.3%. In the case of agriculture, increased output of sugarcane, grains, papaya, root crops and livestock outweighed declines in banana and citrus while the fishing downturn was largely due to declines of 5.8% and 20.1%, respectively, in shrimp and fish aquacultural operations that were financially strapped and also sustained damage from Hurricane Richard in October.

Agriculture

Sugarcane

Teething problems with Belcogen, the new cogeneration plant, caused a two week delay in the start of the 2009/2010 sugarcane crop, drastic fluctuations in the factory’s daily intake and longer delivery queues that resulted in reduced sugar content in the waiting sugarcane. To close the production gap, the industry extended the crop year by two months, well into the rainy season. The harvest consequently came in at 1,122,765 long tons, a 22.3% rebound over the previous crop year in which deliveries had slumped to a twenty year low. Sugarcane deliveries from the farmers and Belize Sugar Industries’ (BSI) cane growing project expanded by 22.9% and 15.8%, respectively.

As virtually all (99.8%) sugar sales were to the European Union (EU), developments in this market heavily influenced the price paid to sugarcane farmers so that notwithstanding exchange rate gains from

Table 6: Sugarcane Deliveries

	2007/08	2008/09	2009/10
Deliveries to BSI (long tons)	980,114	917,728	1,122,765

Source: Belize Sugar Industries Ltd.

Box 3: Sugar Industry Update

Pressure to transform the domestic sugar industry in order to increase its competitiveness has greatly intensified in recent years as a result of gradual cuts in EU sugar prices over a four year period ending October 2009. However, while the erosion of the protective trade canopy spurred stakeholders to address long standing problems of low sugarcane production and poor quality, an attempt to institute payment on the basis of quality through the use of a core sampler for the 2008/2009 crop was unsuccessful because of widespread opposition from farmers skeptical of the accuracy of the sampling tests. As an alternative, it was agreed that a home-grown quality control system to deliver clean, fresh, mature sugarcane would be instituted. However, an unfortunate lack of leadership and cohesiveness among the farmers resulted in delayed implementation of the new system. Quality problems for the 2009/2010 crop were further exacerbated as a result of inconsistency in the factory's performance caused by the teething problems of the new cogeneration plant and extension of the harvest two months into the rainy season.

With the full weight of the EU's 36.0% price cut equating to an industry revenue loss of approximately $23.7mn, the year 2010 was particularly challenging. The farmers' portion of this revenue loss was $15.0mn or $13.70 per long ton of sugarcane. Furthermore, three consecutive years of producing less than 100,000 long tons of sugar cut into expected cash flows and exacerbated BSI's financial problems particularly in view of the fact that it took on a large amount of debt in order to invest in the construction of the cogeneration plant. Two key conditions to access credit from its financiers included the installation of a core sampler to motivate the delivery of better quality sugarcane and a minimum production of 100,000 long tons of sugar. After the third crop year of underperformance, the principal financier pulled its line of credit in September 2010, leaving the company unable to meet the third and final payment to farmers for the 2009/2010 crop year as well as the 2010/2011 crop payments.

The financial crisis served as the impetus for bringing all the stakeholders together to make a concerted attempt at ensuring the survival of the industry. The government stepped in with a $10.0mn loan and BSI secured another $10.0mn loan from Tate and Lyle. The Cane Farmers' Association affirmed their commitment to work closely with the Sugarcane Production Committee and BSI to carry through the necessary reforms to keep the industry going. The ad hoc delivery system that was a source of contention between the factory and the Association for many years was replaced in December with a delivery schedule organized by divisions and test groups. These scheduled deliveries should reduce delivery times and lower the loss of sugars in the cut sugarcane. Furthermore, a series of extensive meetings with farmers convinced the majority to opt for payment by quality, and the factory has improved its consistency in forecasting daily sugarcane requirements. So far,

Box 3: Sugar Industry Update (Cont'd)

the new modus operandi appears to be working quite well as the tons cane to tons sugar ratio improved substantially from 12.37 in 2009/2010 to an average of 9.04 in the early months of the new crop year.

Although its interim financial needs have been met, BSI still needs to access a new line of credit to fund its operations. The financial crisis in 2010 highlighted the need to accelerate the pace of reform to tackle the inefficiencies that have been impeding the industry's profitability and long term viability. The industry's restructuring initiatives must continue to focus on increasing field yields through replanting efforts and better husbandry practices, improving cost and technical efficiencies at all levels and rationalizing the transportation system. These reforms must be complemented by the firm resolve of all industry partners to collaborate and communicate effectively to ensure the survival of the sugar industry.

the average Euro price negotiated on the futures market, the final average price paid to farmers was down by 32.6% to $45.28 per long ton. In addition to the final scheduled EU price cut in October 2009, the latter also reflected marked increases in international freight costs and the lower sugar outturn per unit of sugarcane.

Citrus

Continuing the downward trend started in the previous crop year, citrus production fell by 19.1% to 5.5mn boxes of fruit. Approximately 95.7% of the harvest was processed, 3.0% went into fresh fruit exports and 1.3% was rejected at the factories.

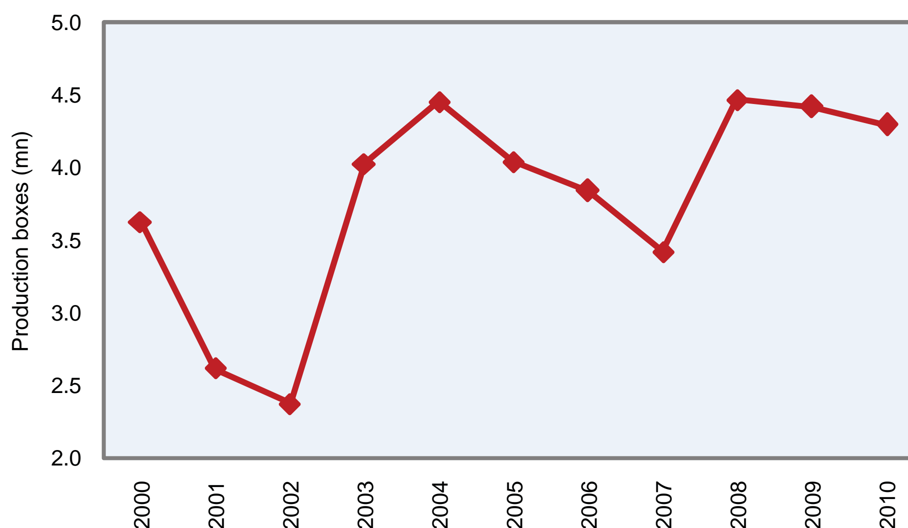
Factory deliveries were down by 21.1% with orange deliveries plummeting by 30.2% to 3.9mn boxes. The latter usually accounts for upward of 70.0% of the citrus harvest and the smaller crop in

Table 7: Citrus Fruit Deliveries

	2007/08	2008/09	2009/10
Deliveries ('000 boxes)	7,102	6,643	5,241
Oranges	5,661	5,519	3,851
Grapefruits	1,441	1,124	1,390

Source: Citrus Growers Association

Chart 21: Banana Production



2010 reflected the cyclical nature of the Valencia variety of citrus trees as well as reduced usage of field inputs during the growing season by cash squeezed farmers. On the other hand, deliveries of grapefruit were up by 23.7% to 1.4mn boxes as improved prices provided a crop harvesting incentive for farmers. The expectation is for a surge in output of oranges in the next crop year, however it also appears that the lack of a certified disease free nursery to provide seedlings for the continuous work of grove rehabilitation and replanting will continue to present a looming cloud on the industry's horizon.

The final price paid to farmers for oranges vaulted to $1.55 per pound solid (ps) in 2010, a 46.4% increase that was underpinned by higher orange juice prices in the key markets of Florida and Brazil, which were experiencing smaller crops. With export prices for grapefruit also being strengthened by lower beginning grapefruit juice stocks and declining productive acreage in Florida, the price paid to local farmers rose by 29.5% to $1.22 per ps of grapefruit.

Banana

A first quarter production spurt that was partly the result of the industry's meristem investments was followed by a second quarter marked by unfavourable weather that hindered plant development and fruit maturation. This caused farmers to reduce their productive acreage and increase the area under rehabilitation. Output levels consequently staggered, resulting in a 3.2% decline in annual banana production to 4.3mn boxes. While the industry has maintained banana acreage relatively constant at around 6,500 acres over the past five years, it aims to expand this to 7,000 acres by 2012.

At the start of the year, 6,524 acres had harvestable trees and 350 acres were under plantilla (young, non-harvestable trees). By December, the acreage under cultivation had decreased by 2.0% to 6,396 acres while the area under plantilla grew to 635 acres.

Papaya

Output of papaya expanded by 22.0% to 66.7mn pounds as a 9.4% decline in productive acreage was offset by higher yields arising from improved agronomic practices and favorable weather. At year-end, the area under production stood at 1,135 acres, of which 573 acres had harvestable trees and 562 acres were under young non-producing trees. Most of the acreage under cultivation was in the Corozal District with the Orange Walk and Cayo Districts maintaining groves of only 30 acres and 8 acres, respectively.

Other Agricultural Production

While there were substantial increases in sorghum, bean and soybean production, output of corn and rice remained relatively stable after the bumper crops of 2009. In response to the rising demand for animal feed, growers increased their acreage and upgraded their farming practices to produce higher yields resulting in a more than doubling of sorghum output to 43.9mn pounds. Acreage under soybean also increased by 114.4% with output expanding by 125.0% to 2.9mn pounds, while bean production, driven by Caribbean demand, increased by 36.2% to 25.6mn pounds. Given the massive increase in sorghum, which is a substitute, corn registered a comparatively marginal 1.2% increase as a reduction in the mechanized acreage was more than compensated for by a 57.1% increase in the average yield. Rice output dipped by 0.4% to 45.2mn pounds as a reduction of 1,700 acres under mechanization and irrigation was almost matched by higher average yields.

Production of most root crops increased, with the exception of Irish potato which was down by 22.9% as higher acreage failed to compensate for a sharp decline in the average yield. Double digit increases were recorded for tomato, sweet pepper, cabbage, lettuce, celery, broccoli, cauliflower and pumpkin, while hot pepper, onion, carrot, cucumber and squash recorded lower outputs due to a reduction in acreage. With acreage down by 0.9% and average yields plunging by 66.8%, output of plantain shrank by 67.1% to 0.2mn bunches.

The performance of livestock and dairy was mixed as increases in egg, poultry and pig coincided with lower production of milk and cattle. To satisfy local demand, poultry and egg output rose by 5.4% to 30.1mn pounds and by 17.7% to 4.0mn dozens. While pig production grew by 2.0% to 2.7mn pounds, cattle and milk declined by 6.9% and 11.4%, respectively, to 3.3mn and 7.3mn pounds. In a notable development, the export of live cattle increased by 1,054 to 4,895 heads.

Marine Products

Total marine output fell by 6.7% in 2010 as the sector was confronted by a variety of challenges. Highly leveraged aquaculture farms faced significant financial difficulties during the year and were under extreme pressure to cope and survive. The country's largest tilapia producer went into receivership, the management of the largest shrimp farm in the country sought buyers to take over its operations in the face of a challenging global market, and investments into a cobia hatchery stalled yet again, while the mortality of cobia fingerlings shot up in the wake of hurricane damages. The consequent throttling back in operations resulted in a 20.1% contraction in fish farm output. Meanwhile, notwithstanding improved international prices and increased production from all but two farms, shrimp output fell by 5.8% as operations on the largest shrimp farm wound down at the end of the third quarter. On the upside, the wild capture of lobster and conch increased by 15.4% to 0.6mn pounds and 5.9% to 0.7mn pounds, respectively as a result of upturns in these species' reproductive cycles.

Manufacturing

Sugar and Molasses

Notwithstanding the bumper harvest, sugar production declined by 4.5% to 88,144 long tons due to poor sugarcane quality caused in part by the start-up problems of the cogeneration plant and exacerbated by the extension of harvesting into the rainy season. Factory hiccups increased the kill-to-mill time and consequent deterioration of sugars in the queued sugarcane, while harvesting into the rainy season led to an 81.0% increase in the quantity of mud in sugarcane delivered to the factory. As a result, the sucrose content of sugarcane declined to a pol of 10.82% compared to 12.32% in 2008/09 and the cane/sugar ratio deteriorated from 9.93 to 12.73. Molasses

Chart 22: Sugar Production & Cane to Sugar Ratio

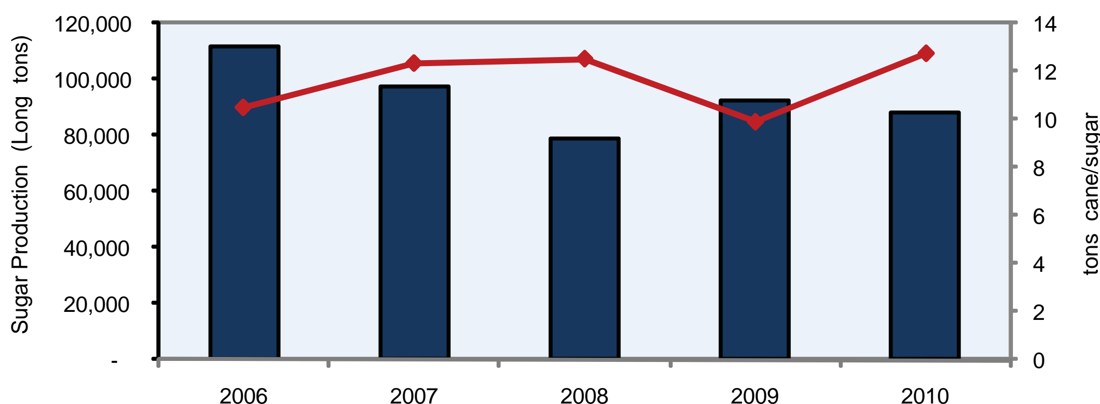


Table 8: Sugar & Molasses Production

	2007/08	2008/09	2009/10
Sugar Processed (long tons)	78,235	92,325	88,144
Molasses Processed (long tons)	40,204	28,473	54,248
Performance			
Factory Time Efficiency	88.46	93.27	93.89
Cane Purity (%)	80.47	84.81	80.29
Cane/Sugar Ratio	12.53	9.93	12.73

Source: Belize Sugar Industries Ltd.

production, on the other hand, expanded by 90.5% to 54,248 long tons, reflecting its negative correlation with sugar output.

Citrus Juices, Citrus Oil and Pulp

Citrus juice production shrank by 28.1% to 28.0mn ps reflecting a 21.1% drop in citrus deliveries and lower juice outturn per box of fruit. With orange accounting for the greater portion of the crop, an 8.8% fall in its average juice yield per box masked a 7.2% increase in the average juice out-turn per box of grapefruit. In line with the processor's objective of selling more value added juices, NFC production more than doubled to 0.9mn ps. Even so, most of the delivered fruit was used to produce orange and grapefruit concentrates that accounted for 78.7% and 17.9% of juice production, respectively. Output of orange concentrate declined by 35.4% in line with deliveries and the lower juice yield per box, while that of grapefruit concentrate was up 12.8% due to the higher processing volume and juice

Table 9: Production of Citrus Juices and Pulp

	2007/08	2008/09	2009/10
Production ('000 ps)	39,927	38,923	27,995
Orange Concentrate	33,400	34,100	22,023
Grapefruit Concentrate	5,793	4,453	5,023
Not-from-concentrate (NFC)	734	370	948
Production ('000 pounds)			
Pulp	1,904	3,012	1,406
Citrus Oil	2,006	2,357	1,683

Source: Citrus Products of Belize Ltd.

Box 4: Citrus Industry Update

In another landmark Supreme Court judgement, the courts ruled that the exclusive right of the Citrus Growers' Association (CGA) to issue licences to deliver citrus fruit was unconstitutional under the Citrus and Production Act because it restricted the freedom of association constitutionally guaranteed to every citrus farmer. Along with the mandatory 'cess' payments, which were also ruled unconstitutional in 2007, this system was designed to secure the sustainability of the association and its critical farmer extension services.

Another major challenge in the citrus industry was the continued battle against citrus greening, also known as Huanglongbing (HLB) or yellow dragon. This is a bacterial disease transmitted by psyllids that suck the fluid out of trees and leaves a residue that paralyzes the tree's vascular system, leaving it too weak to grow healthy fruit. The presence of HLB in Belize is of paramount importance to the industry as almost all citrus species are susceptible to this disease. In an effort to control the spread of HLB, Belize Agricultural Health Authority (BAHA) dismantled all nurseries and destroyed trees in 2010. Standards for nurseries were tightened to include, among other things, protective screening. To date, there has been no BAHA approved nursery in Belize, and none is expected to be completed until mid 2012. The CGA, which would logically be expected to focus on raising this investment, has instead been embroiled in institutional conflicts. As a result, replanting using germ free material by farmers came to a standstill, and this will have a negative effect on crop yields and lower production in the medium-term. Although OIRSA-Mexico gifted Belize with US$700,000 for the screening of HLB, removal of infected trees and staff training, more local investment is needed in research and development programs so as to effectively combat the threat to the industry.

In the month of October the industry suffered significant financial losses as a result of Hurricane Richard with the fore-runner crop, grapefruit, being the most affected. As indicated by the National Emergency Management Organization in its Damage Assessment and Needs Analysis report, approximately 1,500 acres of unharvested oranges and grapefruits were destroyed, which equated to a loss of BZ$29.1mn. Notwithstanding the losses, the citrus industry still foresees a successful crop year with prices expected to improve considerably for both the orange and grapefruit crops.

The reinvigoration of the industry in the upcoming years will depend on the resolution of the institutional rifts, which is creating an atmosphere of distrust and uncertainty in the industry, and financial investments to address citrus greening issues and improve grove replanting and rehabilitation.

yield. The comparatively lower processing volume notably led to reduced output of by-products such as pulp and oil which fell by 53.3% and 28.6%, respectively.

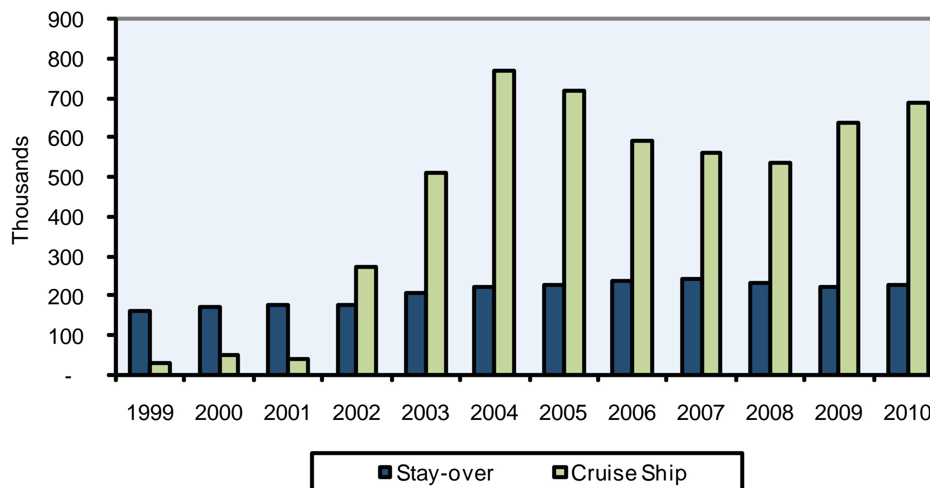
Other Manufacturing Production

Except for petroleum, the performance of the rest of the manufacturing sector improved during the year. Demand for fertilizer rose sharply in the first quarter as "Fair Trade" programme funds were disbursed to purchase fertilizers for sugarcane farmers. This led to a reversal of the previous year's decline as fertilizer production surged upward by 51.4%. The modest economic recovery, growth in tourist arrivals and crackdown on contraband activities contributed to respective increases of 0.7%, 3.3% and 5.4% in beer, soft drink and cigarette production. Flour output also expanded by 5.5% to 31.7mn lbs. On the other hand, output of petroleum fell by 5.9% to 1,513,700 barrels even with the commissioning of an additional well that increased the total in operation at the Spanish Lookout field to 11. The reduction was attributable to well downtime and the natural decline in output over the life of an oil field. The daily extraction rate averaged 4,147 barrels, some 240 less than 2009. Total output from the Spanish Lookout field over the five full years of commercial production amounted to 6.3mn barrels, which is 33.0% of the recoverable reserves (estimated at 19.0mn barrels as at the end of December 2010).

Tourism

Reports from the World Tourism Organization were that international tourism recovered strongly in 2010 following a 4.0% decline in the previous year. Notwithstanding intractable economic problems in some major markets, natural disasters suffered by some countries and the serious disruption to air travel following the April volcanic eruption in Iceland, international visitors

Chart 23: Tourist Visitors



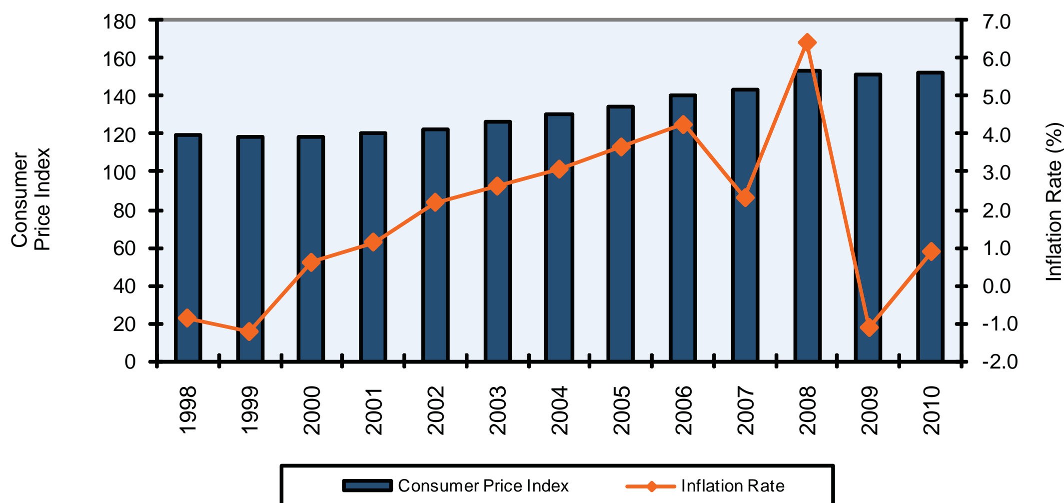
increased by 6.7% to 935 million. While growth in travel to all world regions was up, the speed of recovery varied, with emerging and advanced economies experiencing increases of 8.0% and 5.0%, respectively. Closer to home, North and Central America recorded an 8.0% increase, while growth in the Caribbean was the lowest in the region at 4.0%.

Given the lingering effects of the financial crisis in its key source markets, stay-over tourist visitors to Belize grew by a modest 2.2% to 226,632. Overnight visitors that entered through the Phillip Goldson International Airport (PGIA) and land borders increased by 2.5% and 2.1%, respectively, while arrivals through the sea ports declined by 1.0%. US visitors were up by 3.5% and accounted for 64.6% of total stay-overs. However, there was only a marginal 0.2% rise in visitors from the EU, the second largest source market, while those from all other markets registered a 0.1% decline. Cruise lines achieved significant success in marketing economy packaged deals and short haul trips to price concious consumers and cruise ship disembarkations consequently rose for a second consecutive year to 688,165, an 8.4% increase over the previous year. A change to larger ships reduced the number of port calls from 284 in 2009 to 279.

Prices

Influenced by a combination of domestic and external factors, the CPI rose by 0.9% during the year. The modest uptick occurred as price hikes in the fuel intensive categories of the index were countered by the targeted tax relief initiatives of the government. The cost of imported fuel increased significantly as the global recovery stoked demand for oil and fueled a price rally that had the average price of West Texas

Chart 24: Consumer Price Index



Intermediate (WTI) crude, one major price indicator, peaking at over US$90 per barrel in the latter part of 2010, compared to prices that had fallen below US$40 per barrel in the first half of the previous year. The fuel dependent categories of the CPI consequently registered the largest price increases with “Transportation and Communication” up by 8.2% and ‘’Rent, Water, Fuel and Power” up by 3.0%. The former reflected price increases at the pump of 21.5% for gasoline and 27.0% for diesel, while the latter was mostly influenced by a 17.1% rise in butane prices. As indicated by the US export price index, import prices rose by 4.9% and this underpinned modest upward movements in the “Clothing and Footwear” and “Personal Care” categories. “Medical Care” and “Recreation, Education and Culture” also registered increases of 0.5% and 0.8% respectively. Price pressures that were expected to emanate from the 2.5 percentage points increase in the GST to 12.5% in April were substantially mitigated by the government’s decision to zero rate basic food items and selected household durables. As a result, prices for “Household Goods and Maintenance” and “Food, Beverages and Tobacco” declined by 1.1% and 3.0%, respectively.

FOREIGN TRADE & PAYMENTS

Higher prices for key domestic exports and a modest upswing in international demand factored into a substantial improvement in the 2010 balance of payments position. The external current account deficit fell from 6.2% to 2.9% of GDP, a second consecutive year of improvement that was underscored by a sizeable reduction in the trade deficit as well as higher inflows from services and current transfers. Although net capital and financial inflows were significantly down due to lower foreign direct investments and net loan repayments to foreign creditors, these were nevertheless sufficient to finance the current account deficit and top up gross international reserves to $436.0mn, the equivalent of 4.5 months of merchandise imports.

Merchandise Trade

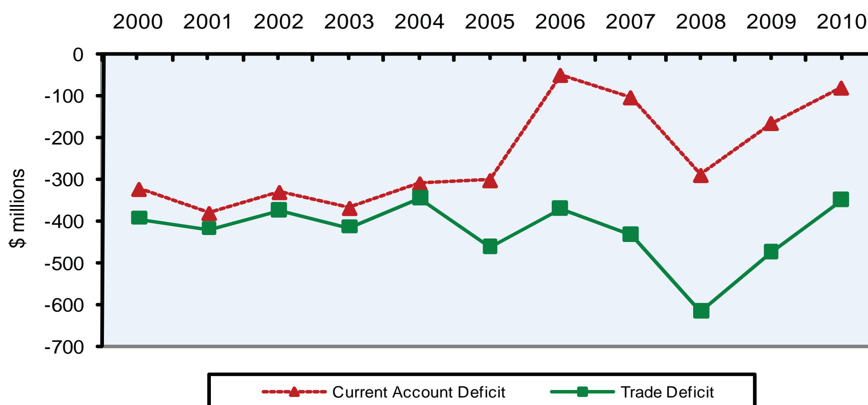
The merchandise trade deficit shrank by 26.5% to $348.1mn (12.4% of GDP), reflecting a 24.0% expansion in exports and comparatively modest 4.7% rise in imports. Escalating international oil prices provided a substantial boost to petroleum revenues and was the most significant factor driving the increase in domestic export earnings. Higher earnings from citrus juices, banana and papaya also contributed, helping to offset the fall in earnings from sugar, marine products and other miscellaneous commodities. Imports for domestic consumption contracted

Table 10: Balance of Payments Summary

$mn

	2008 Net	2009 Net	2010 Net
CURRENT ACCOUNT	**-289.8**	**-166.2**	**-81.2**
Merchandise Trade	-616.3	-473.7	-348.1
Services	433.7	365.3	400.2
Income	-330.4	-216.5	-316.9
Current Transfers	223.1	158.8	183.6
CAPITAL ACCOUNT	**18.1**	**37.0**	**11.3**
FINANCIAL ACCOUNT	**411.0**	**234.1**	**54.7**
NET ERRORS & OMMISSIONS	-23.5	-10.4	23.8
OVERALL BALANCE	115.8	94.5	8.6
RESERVE ASSETS (Minus = Increase)	-115.8	-94.5	-8.6
Memo Items:			
Import cover in months	**2.8**	**4.2**	**4.5**
Current Account/GDP Ratio (%)	-10.7	-6.2	-2.9

Chart 25: Current Account and Trade Deficits

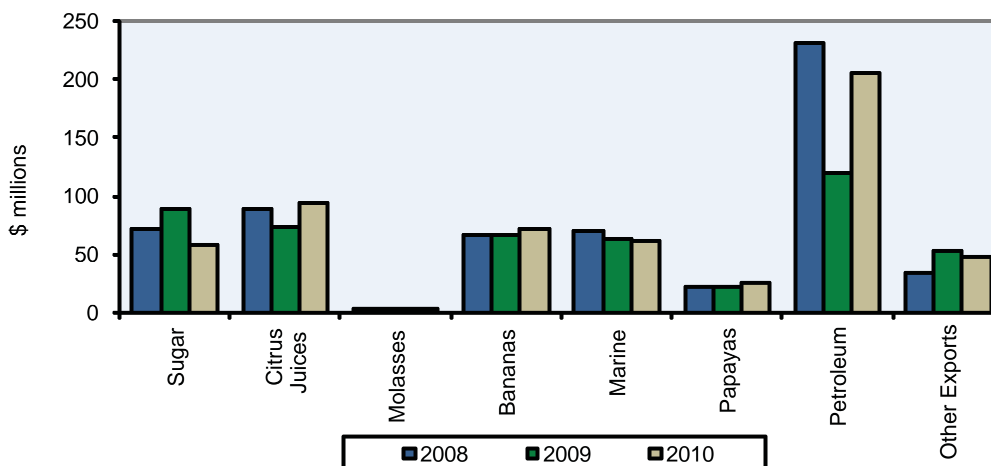


by 3.5% as notably lower outlays on "Machinery & Transport Equipment" and inputs for EPZ companies more than offset higher spending on "Manufactured Goods", "Minerals, Fuels & Lubricants" and "Beverages & Tobacco". Contrasting with this, CFZ imports skyrocketed by 68.5% as cross border trade with Mexico accelerated.

Domestic Exports

Domestic export earnings rose by 15.5% to $569.3mn with higher revenues from petroleum, citrus, banana, papaya and molasses outweighing a less than stellar performance from sugar, marine commodities and non-traditional products. Petroleum, citrus and banana benefitted from robust prices while the rise in receipts for papaya and molasses was a reflection of larger volumes. Crude oil maintained its position as the most important export earner for the fourth successive year. On the down side, volume and price declines were responsible for the lowering of sugar and marine receipts.

Chart 26: Domestic Exports



Sugar and Molasses

Sugar export receipts plummeted by 34.1% to $58.7mn in response to a 6.6% contraction in export volume and the EU price cut (from €448.80 to €335.14 per metric ton) that took effect in October 2009. Sales to the EU amounted to 72,243 long tons, and the remaining 120 long tons were sold to Canada. Due to supply shortfalls, demand from the EU was once again met by foregoing sales to CARICOM and, for the third consecutive year, by not fulfilling the US quota. Even with the price cut, the EU remained the preferred export destination as sales to that market enabled the local industry to access some $22.2mn in Fair Trade grants, which were used to fund social and infrastructural projects in the sugarcane belt. Molasses exports more than doubled to 42,303 long tons but receipts were up by only 10.1% to $4.3mn as a surge in molasses production by key Asian producers such as India led to a more than halving in the average price from $209.08 to $100.70 per long ton.

Citrus Juices and Pulp

Notwithstanding reduced production, exports of citrus juices (mainly concentrates) rose by 0.4% as inventories were drawn down while revenues received a notable upward boost of 26.8% to some $93.7mn due to improved prices.

Although exports of orange concentrate dipped by 3.8%, receipts surged upward to $77.3mn, a 22.3% increase that was due to stronger prices in all major markets except Japan. Sales to the US declined by 22.6% to 15.8mn ps, while earnings grew by 18.7% to $40.5mn as the average price rose by $0.89 per pound solid as a result of adverse weather and lower harvestable acreage in Florida. Sales to the Caribbean shrank by 25.0% (to 6.4mn ps) and revenues fell to $16.4mn, a slightly less than proportionate decline of 23.6% that was due to a 1.9% rise in the average unit price. On the other hand, earnings from the European market jumped more than eightfold to $13.8mn reflecting a more than six fold increase in export volume and 26.5% increase in the average unit price. Sales of freeze concentrate juices to Japan amounted to 2.9mn ps valued at $6.7mn.

Receipts from grapefruit concentrate sales escalated by 53.3% to $16.4mn, buoyed by a 29.8% increase in volume as well as higher prices. As in the case of orange, the upward price trend was largely due to a smaller Florida harvest. Europe was Belize's principal market for this particular product, accounting for almost half of all export volume and yielding some $7.8mn in earnings, a 30.0% increase over the previous year that also reflected a $0.52 improvement in the unit price. The volume sold to Japan, the second largest market, expanded by 62.9%, and with prices improving by 20.2%, receipts almost doubled to $5.4mn. Exports to the Caribbean were up by 14.7%, however receipts lagged somewhat, increasing by

13.2% to $2.1mn as the average unit price contracted slightly. Exports of pulp fell to 1.7mn pounds valued at $1.2mn mainly due to a decline in volume produced.

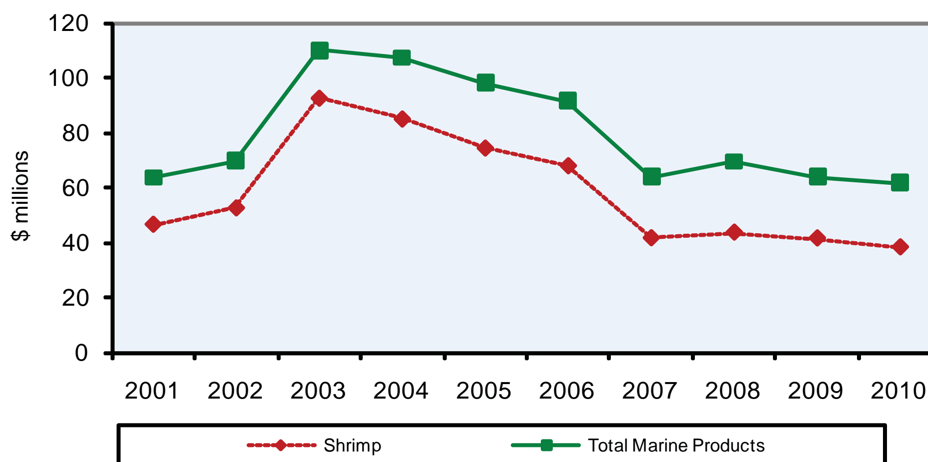
Banana

In consonance with the production decline, banana export volume fell by 3.2% to 77,826 metric tons, however, receipts rose by 7.0% to $71.6mn due to the higher prices offered by Fyffes in exchange for exclusivity in marketing Belize's bananas. In the previous year, marketing privileges had been shared between Fyffes (84.6%) and Dole (15.4%). In 2010, the average banana box price improved by 10.3%, while quality penalties for the year reduced by 47.0% to $0.1mn.

Marine Products

With financial problems hamstringing the largest shrimp and fish farms, marine export volume was down 6.7% and earnings contracted by 3.7% to $61.7mn. While benefits were derived from the shifting of focus by some shrimp producers from keeping businesses afloat in 2009 to rebuilding the export market in 2010, these were significantly offset by the drastic reduction in output of the largest shrimp farm in the last quarter of the year due to financial problems. The net result was a 6.6% reduction in annual export volume and an even steeper 7.8% fall in export receipts to $38.4mn as the price per pound edged down by 1.2%. Mexico remained the chief market although new market opportunities were identified in CARICOM countries such as Trinidad & Tobago. In the case of fish exports, financial difficulties affecting the tilapia farm and high mortality of cobia fingerlings led to a 20.1% slump in export volume. In addition, a 21.9% deterioration in the average unit price pushed receipts down by 37.6% to $1.3mn. In contrast to the previous year when prices were low because of reduced

Chart 27: Marine Exports



demand and an abundant supply of Venezuelan lobsters, lobster export receipts increased by 10.0% to $14.3mn in response to a 15.4% rise in sale volume as well as an increase of $3.10 per pound in the price of lobster tails. Meanwhile, a 5.0% increase in conch receipts to $7.6mn reflected modest gains in export volume since prices remained relatively stable.

Other Major Exports

Improved land selection and crop management paid off with a papaya production spurt and export volume and value consequently rose by 22.0% to 66.7mn pounds and by 18.8% to $25.9mn, respectively. Notwithstanding storm damage to papaya fields in Mexico, the main US supplier, the average price edged down by US$0.01 to US$0.19 per pound in the US market. Petroleum remained the lead earner among the commodity exports with receipts shooting upward by 71.0% to $206.2mn due to a 13.3% expansion in export volume and a 50.9% increase in the average price (from US$47.71 per barrel to US$71.98 per barrel). The latter reflected higher than expected global demand, lower OECD inventories and a weaker US dollar.

Non Traditional Exports

Earnings from other domestic exports summed to $47.2mn, a year on year reduction of 9.9% that was mainly due to declines in non-traditional products such as orange oil, fresh oranges and pepper sauces, revenues from which shrank by 40.7%, 72.7% and 17.3%, respectively. Partly offsetting this were increased earnings from red kidney beans, black eye peas, sawn woods and grapefruit oil which were up by 41.0%, 14.0%, 73.8% and 5.9%, respectively. Higher volumes and improved prices accounted for the increased revenue from red kidney beans and grapefruit oils and in the case of sawn woods and black eye peas, improved prices offset lower export volumes.

Re-Exports

Propelled by higher sales from the CFZ and the customs area, re-exports increased by 39.2%. Sales from the CFZ increased by 37.3% to $350.8mn as the substantial turnaround in the Mexican economy fueled an acceleration in cross border trade. Other re-exports also increased significantly due to higher sales of all major categories of goods but most notably “Minerals, Fuels & Lubricants”, “Other Manufactures” and “Machinery & Transport Equipment”.

Gross Imports

Following its 21.3% contraction in 2009, gross imports (f.o.b.) rose by 4.7%, as a $39.0mn fall in imports for domestic consumption was outweighed by a $97.5mn increase in CFZ imports to accommodate the rebound in cross border trade. While increases were recorded in most import

categories for the domestic market, these were eclipsed by significant contractions in “Machinery & Transport Equipment” and purchases by EPZ companies. Underpinning a $30.3mn fall in outlays on the former was lower purchases of engines, transformers and other electrical supplies. Imports for EPZ companies contracted by $37.9mn due in part to the trimming of purchases by aquaculture farms as two of the major ones scaled down operations considerably in the second half of the year. While amounts expended on “Food & Live Animals” and “Miscellaneous Manufactured Goods” were stable, imports of “Crude Materials” and “Personal Goods” fell by 16.1% and 17.7%, respectively.

Outlays on “Manufactured Goods” and “Minerals, Fuels & Lubricants” were up by $13.2mn and $17.1mn, respectively, with the latter being significantly impacted by the sharp rise in world petroleum prices. Of particular note was a $3.1mn fall in the value of electricity imports, as a 16.0% volume reduction outweighed the heightening of Mexican electricity rates that are indexed to international fuel prices. Expenditure on “Chemical Products” rose by $0.3mn due to higher fertilizer demand, particularly from the sugarcane industry. Outlays on “Beverages and Tobacco” grew by $1.9mn with the uptick in tourism, and spending on “Oils & Fats” rose by $1.2mn.

Direction of Visible Trade

Higher sales of petroleum, citrus juices and papaya boosted the share of exports going to the US from 32.4% to 46.3% resulting in that country remaining Belize’s lead export market. While the UK’s share fell from 31.7% to 25.7% as the plummeting of sugar sales outweighed increased banana exports, improved citrus juice

Table 11: Percentage Distribution of Visible Trade by Country/Area

Percentage

	Exports[1]			Imports[2]		
	2008	2009	2010	2008	2009	2010
United States of America	42.4	32.4	46.3	34.2	34.7	34.3
Mexico	1.7	2.2	2.8	12.8	10.2	10.2
United Kingdom	19.8	31.7	25.7	1.5	1.4	2.0
Other EU	7.2	5.0	5.3	3.7	3.9	3.0
Central America	20.6	18.4	8.2	18.5	18.7	16.8
CARICOM	5.2	5.4	6.2	1.5	2.0	2.0
Canada	0.4	0.4	0.2	0.8	0.9	0.8
Other	2.7	4.4	5.3	27.0	28.1	31.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sources: SIB and CBB

(1) excludes CFZ sales

(2) includes electricity imports from Mexico

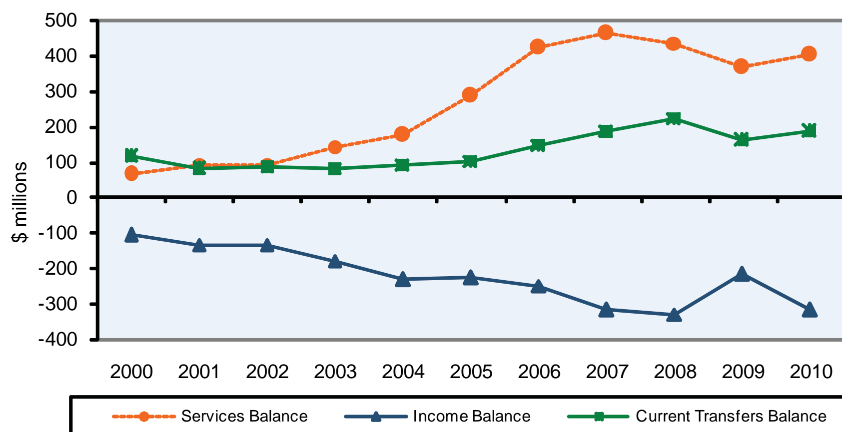
sales resulted in a marginal increase in the share of other EU countries. The diversion of petroleum sales to the US caused a significant drop in Central America's share (from 18.4% to 8.2%) and there was only a small increase in Mexico's share (from 2.2% to 2.8%) due mainly to strong shrimp sales. Meanwhile, the share allocated to CARICOM rose from 5.4% to 6.2% as a result of increased sales of grapefruit concentrate, as well as new market opportunities for shrimp and black beans.

Imports continued to be sourced mainly from the US, which accounted for 34.3% of goods purchased from abroad. Mexico's share held steady at 10.2%, notwithstanding a fall in electricity imports as domestic capacity expanded. An expansion in the import share of other miscellaneous countries from 28.1% to 31.0% was indicative of increased purchases from China and this was apparently at the expense of Central America, which experienced a drop in share from 18.7% to 16.8% as CFZ companies opted to source cheaper goods directly from Asia rather than from the Panama Free Zone.

Services

Reversing its 2009 decline of some 15.8%, net earnings from services rebounded with a 9.6% increase that was underpinned by higher inflows from tourism, transportation, business, professional and government services. In addition to a 5.7% growth in net tourism receipts, the uptick in foreign visitors contributed to heightened earnings by the shipping agencies that service the cruise lines. Receipts from transportation services consequently rose by 14.5%. Inflows to embassies and professional/ business service providers were also up by 5.9% and 7.3%, respectively. Annual payments to foreign service providers were $3.8mn lower mainly due to a reduction in outflows for foreign travel as international freight

Chart 28: Net Balance for Services, Income and Current Tranfers



charges and outflows from embassies & military units remained virtually steady when compared to the previous year.

Income

Smaller citrus and banana harvests resulted in a second consecutive year of reduced payments to foreign seasonal workers and net labour outflows consequently fell by 8.6%. Contrasting with this, net outflows in the form of investment income spiralled upward by 48.2% as a 20.5% growth in public sector interest expenses plus higher profit remittances from the oil and tourism industries eclipsed a 29.5% decline in commercial banks' retained earnings. The net result of these transactions was $316.9mn in outflows on the income account, a year on year increase of $100.4mn.

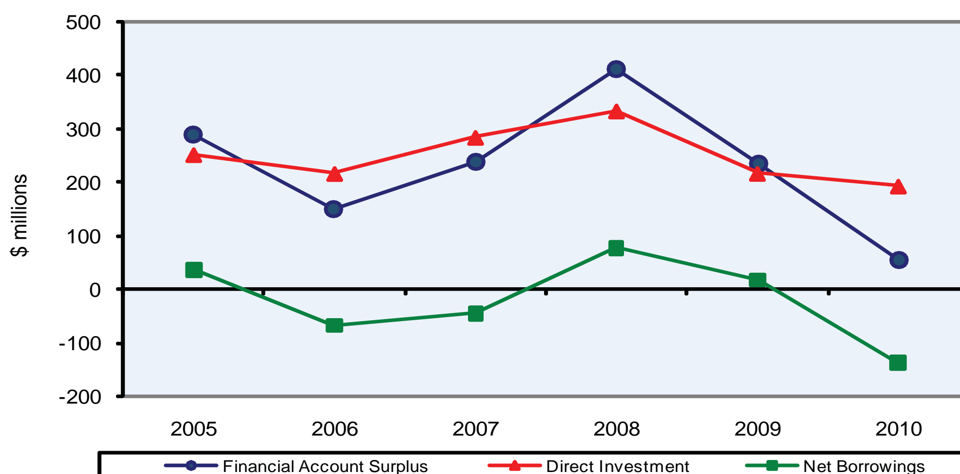
Current Transfers

The surplus on current transfers expanded by 15.6% ($24.8mn) facilitated by a 17.4% ($28.2mn) hike in net inflows to the private sector. Fair Trade receipts on behalf of the sugar industry accounted for almost half of this growth, with the remainder coming from an 8.5% increase in inflows to religious organizations, credit unions and insurance companies. In a reversal of its 3.1% growth in 2009, family remittances declined by 0.6% as high levels of unemployment persisted in developed economies. In other developments, the government recorded net outflows for a second consecutive year as grants receipts fell short of routine outlays related to subscriptions to international institutions.

Capital and Financial Accounts

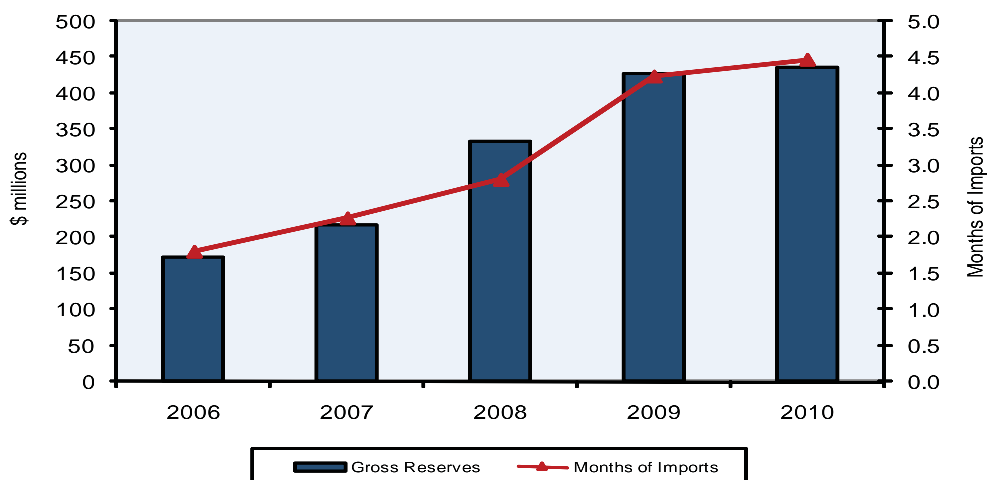
The surplus on the capital account plummeted by 69.5% to $11.3mn, as inflows shrank with the culmination of the UK's debt relief program and the non-recurrence of grant assistance received in the previous year for flood relief efforts. In

Chart 29: Main Components of the Financial Account



like fashion, the surplus on the financial account nosedived by 76.6% to $54.7mn as foreign direct investments into agriculture, tourism and the petroleum industry fell by 10.4% and substantial net loan repayments were made by the government, private sector and commercial banks. In other developments, commercial banks built up their foreign asset holdings abroad by $22.5mn and the Central Bank invested $4.1mn in bonds issued by the Government of Barbados.

Chart 30: Gross Official International Reserves and Months of Imports



CENTRAL GOVERNMENT FISCAL OPERATIONS & PUBLIC DEBT

Central Government Operations

Rebounding from 2009's 12.7% decline, Government revenues rose by 8.7% due to a more than doubling of receipts from the oil industry and several revenue enhancing measures. As a result, even with expenditures growing by 3.6%, the primary surplus heightened from 0.8% to 1.9% of GDP while the overall deficit shrank from 2.8% to 1.5% of GDP, the latter being mainly financed domestically through the issuance of government securities and sale of BTL shares.

Current revenues were up 12.5% to $735.7mn (26.3% of GDP), boosted by higher collections from the business tax, GST and social fee as well as the petroleum taxes. Regarding the latter,

Table 12: Summary of Revenue and Expenditure

	Jan-Dec 2008	Jan-Dec 2009	Jan-Dec 2010	Change during 2010
		(In millions of dollars)		
Current Revenue	729.4	653.9	735.7	81.8
Tax Revenue	616.6	576.9	641.4	64.5
Non-Tax Revenue	112.8	77.0	94.3	17.3
Current Expenditure	617.9	661.8	676.7	14.9
CURRENT BALANCE	**111.5**	**-7.9**	**59.0**	**66.8**
Capital Revenue	8.6	10.6	14.1	3.5
Capital Expenditure (Capital II local sources)	69.1	67.9	73.1	5.1
OPERATING SURPLUS	**51.1**	**-65.2**	**0.0**	**65.2**
Total Grants	62.7	34.3	10.1	-24.2
Total Revenue and Grants	800.7	698.8	759.9	61.1
Total Capital Expenditure	141.6	113.3	126.1	12.8
Total Expenditure	759.5	775.1	802.8	27.8
of which Interest Payment on Public Debt	105.2	97.0	95.8	-1.2
PRIMARY BALANCE	**146.5**	**20.7**	**52.8**	**32.1**
PRIMARY BALANCE W/OUT Grants	**83.8**	**-13.6**	**42.7**	**56.3**
OVERALL BALANCE	**41.2**	**-76.3**	**-43.0**	**33.3**
OVERALL BALANCE W/OUT Grants	**-21.4**	**-110.6**	**-53.1**	**57.5**
FINANCING REQUIREMENTS	**-41.2**	**76.3**	**43.0**	**-33.3**
Net Privatization Proceeds	0.0	0.0	33.3	33.3
Domestic Financing	-23.3	20.1	4.1	-16.0
Financing Abroad	-3.3	60.5	4.9	-55.6
Other	-14.6	-4.3	0.6	4.9
		(Percent of GDP)		
Current Expenditure	**22.7**	**24.4**	**24.2**	**-0.2**
Capital Expenditure (Capital II local sources)	**2.5**	**2.5**	**2.6**	**0.1**
Total Capital Expenditure	**5.2**	**4.2**	**4.5**	**0.3**
of which Interest Payment on Public Debt	**3.9**	**3.6**	**3.4**	**-0.2**
Primary Balance to GDP	**5.4**	**0.8**	**1.9**	**1.1**
Primary Balance w/out Grants to GDP	**3.1**	**-0.5**	**1.5**	**1.0**
Overall Balance to GDP	**1.5**	**-2.8**	**-1.5**	**1.3**
Overall Balance w/out Grants to GDP	**-0.8**	**-4.1**	**-1.9**	**2.2**

Sources: Central Bank of Belize and Ministry of Finance

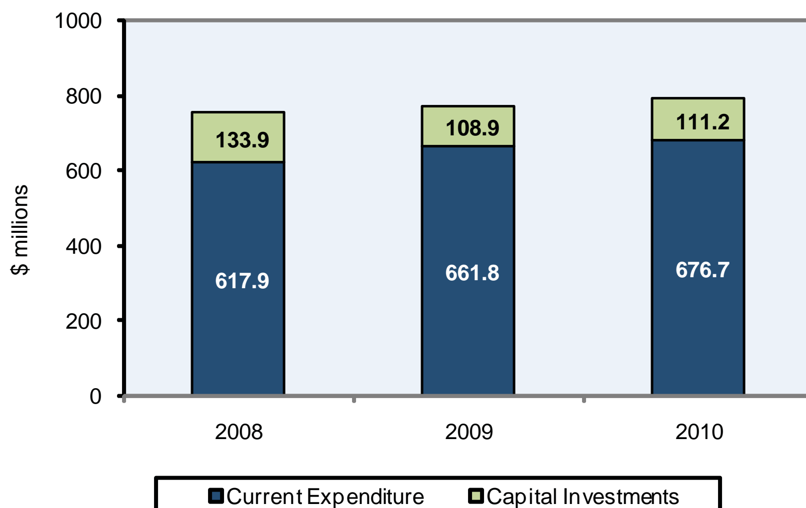
although production was down, the resurgence in crude oil prices provided a significant boost to earnings thus enabling the oil industry to account for 52.9% of the government's revenue increase and 10.2% of its total revenues.

GST collections surged upward following the government's April decision to raise the rate from 10.0% to 12.5%. However, while receipts of some $182.4mn were 20.6% higher year on year, this was below original expectations with the relative under performance possibly being due in part to its simultaneous removal from a range of basic food items, household appliances and monthly electricity consumption of $200 or less (up from $150 per month) as well as its dampening effect on domestic consumption. In other developments, a heightening in the business tax rate from 1.5% to 6.5% on the supply of electricity and the levying of a social fee on EPZ fuel and other imports yielded a combined revenue increase of $7.3mn. Excluding petroleum royalties, non-tax revenues were up 17.7% ($11.8mn) because of BTL dividend payments as well as first time transfers from the Public Utility Commission (PUC) and the International Financial Services Commission (IFSC), while capital revenue increased due to the working interest collected from the oil industry. Contrasting with this, grant receipts fell for the third consecutive year to bottom out at $10.1mn, of which $5.0mn was for the development of the National Coast Guard and $1.0mn was from ROC/Taiwan for the modernization of the Foreign Affairs department.

Current expenditure rose by 2.3% reflecting general spending increases except for pensions and interest payments. Comprising 41.0% of the total, outlays on wages and salaries were up 3.4%, while the amount expended on goods and services increased by 1.3% in response to higher operating, rent, contractor and travel costs. Subventions given to the Belize City Council, Karl Heusner Memorial Hospital (KHMH), Belize Trade and Investment Development Service (BELTRAIDE), BAHA and contributions to non-governmental organizations (NGOs) accounted for a 6.4% growth in subsidies and current transfers. Annual interest payments were 1.3% lower, as a $6.3mn fall in domestic costs due to the substantial lowering of government's overdraft balance at the Central Bank and its increased reliance on financing through low interest government securities outweighed a $5.1mn rise in external charges that largely reflected the step up in the annual interest rate on the super bond from 4.25% to 6.0%.

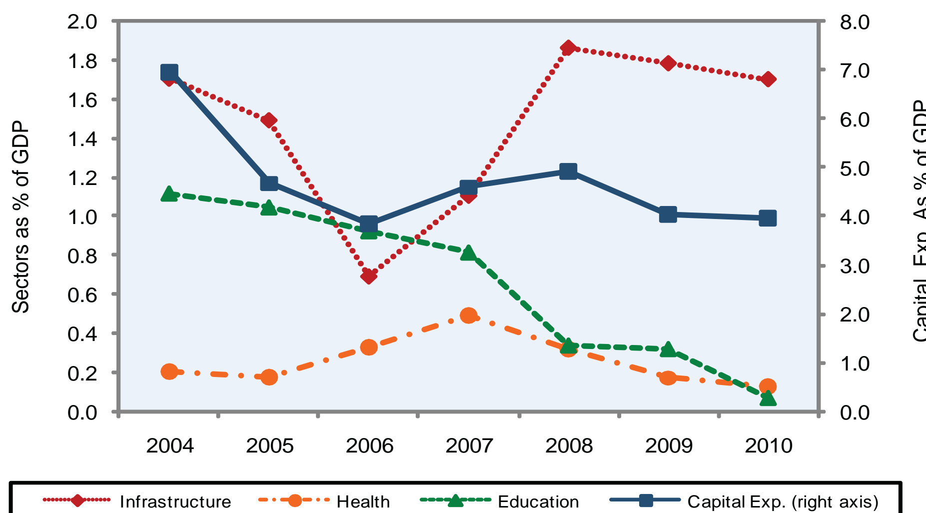
The government's $10.0mn loan to BSI in December to assist with the start-up of the sugarcane crop helped to account for the 11.3% growth in capital expenditure and net lending in 2010. Outlays for capital projects increased by $2.3mn and totalled $111.2mn, with spending on locally funded projects up by $5.1mn but with outlays on projects funded from

Chart 3: Current and Capital Expenditure



external sources (Capital III) coming in some $2.8mn lower and falling short of budget expections. Included in the backlog of major Capital III projects were the Kendall Bridge, paving of the Southern Highway, water systems, Belize/Mexico international crossing, rural finance, EU sugar support and the sustainable tourism project. Some 32.0% of capital outlays went on infrastructure projects such as the upgrading of the Placencia road, poverty alleviation, maintenance of roads, bridges, ferries, culverts and causeways. Another 17.4% was spent on social projects that included the Social Investment Fund (SIF), the Basic Needs Trust Fund (BNTF), human development and the housing and population census. Housing projects were allotted 10.9% and 8.9% was assigned for land development/ acquisition and solid waste management. Some $7.2mn was spent to upgrade

Chart 32: Capital Expenditure as a Percentage of GDP



the infrastructure for national security and included the construction of the National Coast Guard headquarters on Calabash Caye and purchase of state-of-the-art equipment for their use. Capital expenditure on youth, sports, education, health, agriculture and contributions to international agencies totalled $27.2mn.

Central Government's Domestic Debt

The most notable development during the year was the expansion in the volume of government securities that enabled an improvement in Central Government's debt structure while providing some scope for open market operations and a more active securities market. Resulting from this, Central Government's domestic debt rose by 14.9% to $367.8mn (13.1% of GDP) with disbursements of $159.3mn and amortization payments of $21.9mn. Excluding a miniscule amount for the dredging of the Belize City harbour, disbursements consisted of $65.0mn in new Treasury notes as well as a net increase of $75.0mn in Treasury bills. The proceeds were used to reduce the overdraft balance with the Central Bank from $124.7mn to $34.0mn the latter amount being equivalent to 5.0% of the preceding fiscal year's recurrent revenues. The commercial banks purchased most of the Treasury bills in order to meet a new statutory securities' requirement that became effective in May and also to invest their surplus liquidity. Some of the proceeds from the new Treasury notes was also earmarked for a Hurricane Richard housing rehabilitation program and to extend a loan to BSI for the start of the 2010/2011 sugarcane crop. Excluding the $18.9mn redemption of Treasury bills that was a necessary component of a scheduling change, amortization consisted of $2.9mn that went to the Belize Social Security Board (BSSB), the Debt for Nature Swap, Heritage Bank for the payment of the Belize City Council loan and Fort Street Tourism Village for dredging at the mouth of the Belize River. Interest payments totaled $18.2mn, which was $6.3mn lower than the previous year and equivalent to an average effective interest rate of 5.3% compared to the 7.6% for 2009. The shift in the composition of the

Table 13: Central Government's Domestic Debt

$mn

Instrument	2008	2009	2010
Loans & Advances	152.0	139.4	46.0
Treasury Bills	100.0	100.0	175.0
Treasury Notes	65.8	70.8	136.8
Defence Bonds	15.0	10.0	10.0
Total	**332.8**	**320.2**	**367.8**

Sources: Central Bank of Belize and Ministry of Finance

domestic debt – the substantial lowering of the overdraft balance at the Central Bank and increase in lower interest government securities – was mostly responsible for the lower costs. Central Bank received $6.1mn on the overdraft facility (down from $13.3mn in the previous year) and $3.7mn on its holding of government securities. The commercial banks and non-bank entities received $4.6mn and $2.6mn, respectively, on their holdings of government securities. Interest on loans totaled $1.2mn and included payments to the BSSB, the Debt for Nature Swap, a commercial bank and an insurance company.

The commercial banks ended the year holding 87.2% of the outstanding Treasury bills, after selling $13.9mn principally to the Central Bank. The Central Bank was the largest holder of Treasury notes followed by the non-bank entities. At year-end, the holders of Central Government's domestic debt consisted of commercial banks with 44.9%, Central Bank with 41.6% and non-bank entities with 13.5%.

Public Sector External Debt

At year-end, the external public sector debt stood at $2,018.3mn (72.1% of GDP), declining by some $12.9mn during the year with disbursements of $60.1mn being outweighed by amortization payments of $70.7mn and downward valuation adjustments of $2.4mn mainly due to the appreciation of the US dollar against the SDR and Euro. In the first quarter, $1.0mn worth of Treasury notes surrendered by an international bank was taken up by the Central Bank. Within the next twelve months, $3.6mn of the present portfolio is slated to mature, some $202.6mn will mature during the next ten years, leaving $1.8bn (89.2%) with a maturity schedule that exceeds ten years. Central Government held 93.4% of the outstanding debt and the financial and non-financial public sectors

Chart 33: Sources of Central Government's Domestic Debt

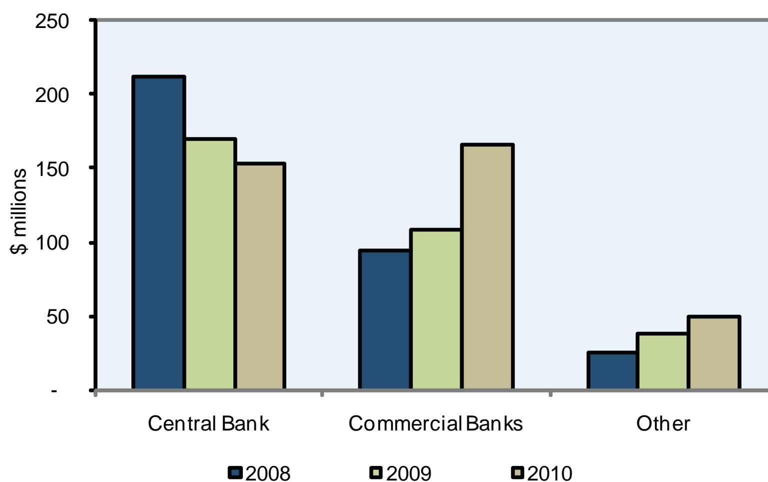


Table 14: Public Sector External Debt by Source

$mn

	Outstanding Debt 31/12/2009	Disbursement	Amortization	Interest & Other Charges	Valuation Adjustments	Outstanding Debt 31/12/2010
Bilateral	**355.3**	20.1	26.7	9.2	0.4	**349.0**
Bonds	**1,123.5**	0.0	11.2	58.8	0.0	**1,112.3**
Commercial Banks	**1.5**	0.0	1.4	0.1	0.0	**0.1**
Multilateral	**551.0**	40.0	31.3	14.2	-2.7	**556.9**
Total	**2,031.2**	**60.1**	**70.7**	**82.3**	**-2.4**	**2,018.3**

accounted for 5.0% and 1.5%, respectively. Bilateral and multilateral disbursements to Central Government totaled $20.1mn and $39.0mn, respectively, and included $20.0mn from ROC/Taiwan for budget support and $12.4mn from Caribbean Development Bank (CDB) for the third phase of works to upgrade the Placencia Road. An additional $26.6mn was sourced from various multilateral agencies to fund projects such as road rehabilitation, the social investment fund, solid waste management, tourism, land management, agricultural services and the Development Finance Corporation (DFC) micro-financing. Central Government's loan repayments summed to $54.2mn with bilateral creditors (principally ROC/Taiwan) receiving $25.8mn and $27.3mn being shared among multilateral creditors such as the International Bank for Reconstruction and Development (IBRD), CDB and Inter-American Development Bank (IDB). Loan repayments by the DFC to the Belize Mortgage Company (BMC) in respect of the North American securitization liabilities totaled $11.2mn and should be completed within the next two years. The financial public sector also paid $1.6mn to multilateral creditors, while the non-financial public sector amortized a total of $3.4mn to CDB, Deutsche Bank and the Government of Kuwait. Interest and other payments amounted to $82.3mn, with Central Government accounting for 95.0%. The 'super bond' accounted for 68.7% ($56.5mn) of these payments, with the step up in the annual interest rate from 4.25% to 6.0% in August adding $9.6mn of this amount and factoring into an increase in the annual average effective interest rate from 3.9% in 2009 to 4.0%. In comparison, the government's bilateral and multilateral creditors received $9.0mn and $12.5mn, respectively. Other interest payments by the rest of the public sector to creditors that included the BMC, CDB, the Government of Kuwait and Deutsche Bank summed to $4.1mn, a decline of approximately 11.0% relative to the previous year.

Table 15: Public Sector and Publicly Guaranteed Debt

	2008	2009	2010
	(in millions of BZ dollars)		
Public Sector & Publicly Guaranteed Debt Outstanding (end of period)	**2,309.3**	**2,406.0**	**2,432.2**
Public Sector Debt	**2,261.3**	**2,361.6**	**2,392.2**
External:	**1,915.6**	**2,031.2**	**2,018.3**
Central Government	1,822.2	1,882.1	1,885.9
Non-Financial Public Sector	35.2	33.2	30.8
Financial Public Sector	58.3	115.9	101.6
Development Finance Corporation	57.8	45.1	32.0
Of which BMC bonds:	*40.3*	*30.0*	*18.8*
Central Bank of Belize	0.5	70.8	69.6
Domestic:	**345.7**	**330.4**	**373.9**
Central Government	332.8	320.2	367.8
Other Public Sector	12.9	10.2	6.1
Publicly Guaranteed Debt	**48.0**	**44.4**	**40.0**
External:	**47.0**	**43.5**	**39.1**
Other Public Sector	0.4	0.4	0.4
Privatized Enterprises	22.5	19.0	14.6
Private Enterprises	24.1	24.1	24.1
Domestic:	**1.0**	**0.9**	**0.9**
Private Enterprises	1.0	0.9	0.9
	(in percent of GDP)		
Public Sector & Publicly Guaranteed Debt Outstanding (end of period)	**90.1**	**88.9**	**86.9**
Public Sector Debt	**83.2**	**87.2**	**85.5**
External:	**70.5**	**75.0**	**72.1**
Central Government	67.1	69.5	67.4
Non-Financial Public Sector	1.3	1.2	1.1
Financial Public Sector	2.1	4.3	3.6
Domestic:	**12.7**	**12.2**	**13.4**
Central Government	12.2	11.8	13.1
Other Public Sector	0.5	0.4	0.2
Publicly Guaranteed Debt	**1.8**	**1.6**	**1.4**
External:	**1.7**	**1.6**	**1.4**
Other Public Sector	0.0	0.0	0.0
Debt for Privatized Enterprises	0.8	0.7	0.5
Private Enterprises	0.9	0.9	0.9
Domestic:	**0.0**	**0.0**	**0.0**
Private Enterprises	0.0	0.0	0.0

Sources: Central Bank of Belize and Ministry of Finance

Box 5: Major Fiscal Initiatives

30 March, 2010 – The Central Bank of Belize Act was amended to reduce the total amount of direct advances the Bank may make to the Government at any one time from 20% to 8.5% of previous fiscal year current revenue and to increase the aggregate amount of Government securities that the Central Bank may hold at anytime from seven times to ten times the aggregated amount of its paid up capital and General Reserve Fund.

30 March, 2010 – The Treasury Bill Act was amended to raise the principal sums represented by Treasury bills and Treasury notes outstanding at any one time from $100.0mn to $200.0mn and $75.0mn to $225.0mn, respectively, and to increase the maturity limit of Treasury notes from five years to ten years.

31 March, 2010 – The Income and Business Tax Act was amended to provide tax relief to employed persons earning not more than $26,000 per annum; and to increase the rate of business tax on electricity supply from 1.75% to 6.5%.

31 March, 2010 – The Customs and Excise Duties Act was amended to vary the duties on certain goods in order to lower the cost of living and also to provide for an excise duty on locally extracted crude oil as follows:

Locally extracted crude oil $1.00 per barrel (of 42 US gals.)

Import duty was removed from the following items:

a) cooking oils
b) some canned foods (sausages, luncheon meat & potted meat)
c) macaroni & cheese
d) breakfast cereals
e) chocolate & coffee drinks
f) vitamin & supplements
g) powdered laundry detergents
h) agricultural supplies and packing materials
i) school supplies
j) essential consumable items such as bed linens, towels, carpets imported by small licensed hotel and guest operators.

31 March, 2010 – The General Sales Tax Act was amended to increase the rate of tax from 10% to 12.5%.

31 March, 2010 – The EPZ Act was amended to provide for the imposition of a Social Fee on imports into an EPZ as follows:

Box 5: Major Fiscal Initiatives (cont'd)

a) fuel: 10.0%
b) all other goods and services: 1.5%

13 April, 2010 – The General Sales Tax was amended to remove the GST on the supply of electricity to consumers who use up to $200.00 of electricity per month – up from the prior ceiling of $150.00 per month.

17 April, 2010 – The General Sales Tax was amended to remove the GST on the following items:

a) rice, flour, corn, beans and eggs
b) fresh meat from any mammal, bird and fish
c) edible offal of bovine animals, swine and sheep
d) processed foods such as: milk, oats, edible swine and bovine meats salted or in brine
e) cooking lard, cooking oil, margarine
f) chicken sausage, potted meat, luncheon meat
g) sugar, cocoa powder, chocolate powder drink, baby formula, cereals
h) bread, yeast, soups and broths in powdered form
i) agricultural supplies and equipment
j) medicines and medical supplies
k) laundry detergent, stoves, refrigerators and washing machines
l) education supplies

16 September, 2010 – The Fiscal Transparency and Responsibility Act commits the Government of Belize to fiscal transparency and accountability in the conduct of its affairs; and to provide a framework for sound fiscal discipline and public scrutiny of fiscal policy and performance at all levels.

22 October, 2010 – The Customs and Excise Duties Act was amended to vary the rates of customs duties on certain goods to further lower the cost of living; and to make provisions to give effect to the Partial Scope Agreement between Belize and Guatemala to strengthen commercial and economic relations.

24 December, 2010 – The Environmental Tax was amended on certain imported fuel products, effective 28 December.

Description of Goods	Rate of Environmental Tax
aviation spirit	from $0.18 to $0.20 per Imp. Gal
premium gasoline	from $0.18 to $0.20 per Imp. Gal.
regular gasoline	from $0.18 to $0.20 per Imp. Gal.

Box 5: Major Fiscal Initiatives (cont'd)

kerosene (jet fuel)	from $0.18 to $0.20 per Imp. Gal.
illuminating kerosene	from $0.18 to $0.20 per Imp. Gal.
diesel oil	from $0.18 to $0.20 per Imp. Gal.
gas oils (other than diesel oil)	from $0.18 to $0.20 per Imp. Gal.

30 December, 2010 – The Income and Business Tax Act was amended to provide further relief to employed persons earning not more than $29,000.00 per annum; to lower the rate of business tax for entities licensed to provide telecommunication services that offer real time voice services from 24.5% to 19.0%; and to exempt from tax the dividends paid by such entities to their shareholders.