

CENTRAL BANK OF BELIZE



Sixteenth Annual Report and Accounts



1997

1/20



Central Bank of Belize

Sixteenth Annual Report and Accounts, 1997





Abbreviations and Conventions used in this Report

Abbreviations:

ACP	African Caribbean and Pacific
BEL	Belize Electricity Limited
BFIA	Banks and Financial Institutions Act, 1995
BSI	Belize Sugar Industries Limited
CARICOM	Caribbean Community and Common Market
CDB	Caribbean Development Bank
CET	Common External Tariff
CPI	Consumer Price Index
CSO	Central Statistical Office
ECCB	Eastern Caribbean Central Bank
ECU	European Currency Unit
EIB	European Investment Bank
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Belize
GRT	Gross Receipts Tax
IDB	Inter-American Development Bank
IFS	International Financial Statistics
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PETROJAM	Petrojam Belize Limited
PGIA	Phillip Goldson International Airport
RECONDEV	Reconstruction and Development Corporation
ROC	Republic of China, Taiwan
SPS	Special Preferential Sugar Agreement
T&T	Trinidad and Tobago
UK	United Kingdom
US	United States
VAT	Value Added Tax
WTO	World Trade Organisation

Conventions:

\$ refers to the Belize dollar unless otherwise stated
mn denotes million

Since May of 1976 the Belize dollar has been tied to the US dollar at the rate of
US\$1.00 = Bz\$2.00.

Totals in tables do not always equal the sum of their components due to rounding.



DIRECTORS AND PRINCIPALS

April 30, 1998.

The Rt. Hon. Manuel Esquivel
Prime Minister and Minister of
Finance and Economic Development
Office of the Prime Minister
Belmopan
BELIZE

Dear Prime Minister,

In accordance with Section 56 of the Central Bank of Belize Act, 1982, I have the honour of submitting to you, in your capacity as Minister of Finance, the Report on the Central Bank of Belize's operations for the period January 1 to December 31, 1997, together with a copy of the Bank's Statement of accounts, as certified by the External Auditors.

I am
Yours faithfully,

Keith Arnold
Governor



DIRECTORS AND PRINCIPALS

At December 31, 1997

BOARD OF DIRECTORS

KEITH ARNOLD

Chairman

YVETTE ALVAREZ

Vice Chairman

JOY GRANT

ARSENIO BURGOS

ANWAR FLORES

JAIME ALPUCHE

Financial Secretary

PRINCIPAL OFFICERS

KEITH ARNOLD

Governor

YVETTE ALVAREZ

Deputy Governor

SYDNEY CAMPBELL

Manager, Research Department

CECILE REYES

Manager, Administration Department / Bank Secretary

DWAIN DAVIS

Manager, Finance Department

CAROL HYDE

Manager, Human Resource Department

MARILYN GARDNER

Manager, Banking and Currency Department

KENT HAYLOCK

Chief of Security



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OVERVIEW OF THE BANK

Mission, Goals and Objectives

The Central Bank of Belize's objectives are stated in the Central Bank of Belize Act, 1982.

"Within the context of the economic policy of the Government the Bank shall be guided in all its actions by the objectives of fostering monetary stability especially as regards stability of the exchange rate and promoting credit conditions conducive to the growth of the economy of Belize."

In light of these objective, the Bank has the following Mission:

"to Foster the development of an economic and financial environment in Belize that will facilitate economic growth."

In the pursuit of its mission, the Bank sets a number of goals and operating objectives. These are listed below. Emphasis is added in the first section to indicate the respective **client(s)** to which each of the Bank's goals is geared.

Goals

- √ Provide prompt and well-considered macroeconomic advice to the **Government**, the **business sector** and the **General Public**.
- √ Provide efficient banking services to the **commercial banks**, the **government** and various **public sector bodies** and **regional and international organisations** that hold accounts at the Bank.
- √ Provide guidelines to the **banking community** on matters such as money supply, interest rates, credit and exchange rates.
- √ Set high standards of efficiency and organisation so as to encourage higher levels of attainment in the Bank.

Objectives

- √ Promote Monetary Stability
- √ Regulate the issue and availability of money and its international exchange.
- √ Regulate and monitor the financial environment
- √ Foster credit and exchange conditions
- √ Foster the development of money and capital markets in Belize.



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Organization And Functions

The Bank's mission and objectives are pursued through its various departments, with core functions as follows:

Office of the Governor

- Managing the operations of the Bank.
- Co-ordinating the various functions of the Bank's Departments.
- Formulating, developing and reviewing the Bank's policy prescriptions.
- Maintaining security operations within the Bank.
- Streamlining and monitoring systems and procedures to ensure appropriate internal controls.
- Ensuring that all communications necessary for the deliberations of the directors are prepared and submitted.

Administration

- As secretariat to the Board, ensuring that the decisions and relevant directives of the Board are communicated to all parties concerned.
- Procuring supplies, and conducting stock keeping and inventory exercises.
- Managing the Bank's records management system.
- Maintaining the Bank's plant and equipment
- Disseminating information produced by the Bank, particularly economic reports and bulletins, research papers, relevant acts and regulations and related guidelines.
- Maintaining the Bank's library of information.
- Managing the Bank's numismatic operations.

Human Resources

- Advising on personnel policy matters.
- Promoting the conditions necessary for staff development and training.
- Providing employee assistance.
- Administering staff compensation and benefits.
- Recruiting and selecting suitable staff
- Fostering healthy industrial relations between the Bank and its employees' union.



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Finance

- Preparing the Bank's budget and monitoring and controlling the Bank's financial activities.
- Monitoring and maintaining the Bank's information technology requirements.
- Performing fiscal agent functions on behalf of the Central Government and other public sector entities for the trading of securities.

Banking and Currency

- Issuing notes and coins.
- Providing banking services to Central Government, other public sector entities and financial institutions.
- Acting as fiscal agent to Central Government for trading in treasury bills.
- Monitoring the Central Bank's foreign reserve holdings.
- Conducting clearing-house operations for the domestic banking system.

Financial Sector Supervision

- Screening and processing applications for domestic and offshore bank licenses.
- Conducting On-site examination and off-site surveillance of commercial banks.
- Processing of applications for large credit exposures under section 21(2) a of the Banks and Financial Institutions Act.
- Promoting and conducting anti money-laundering surveillance.

Research

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



Organizational Chart

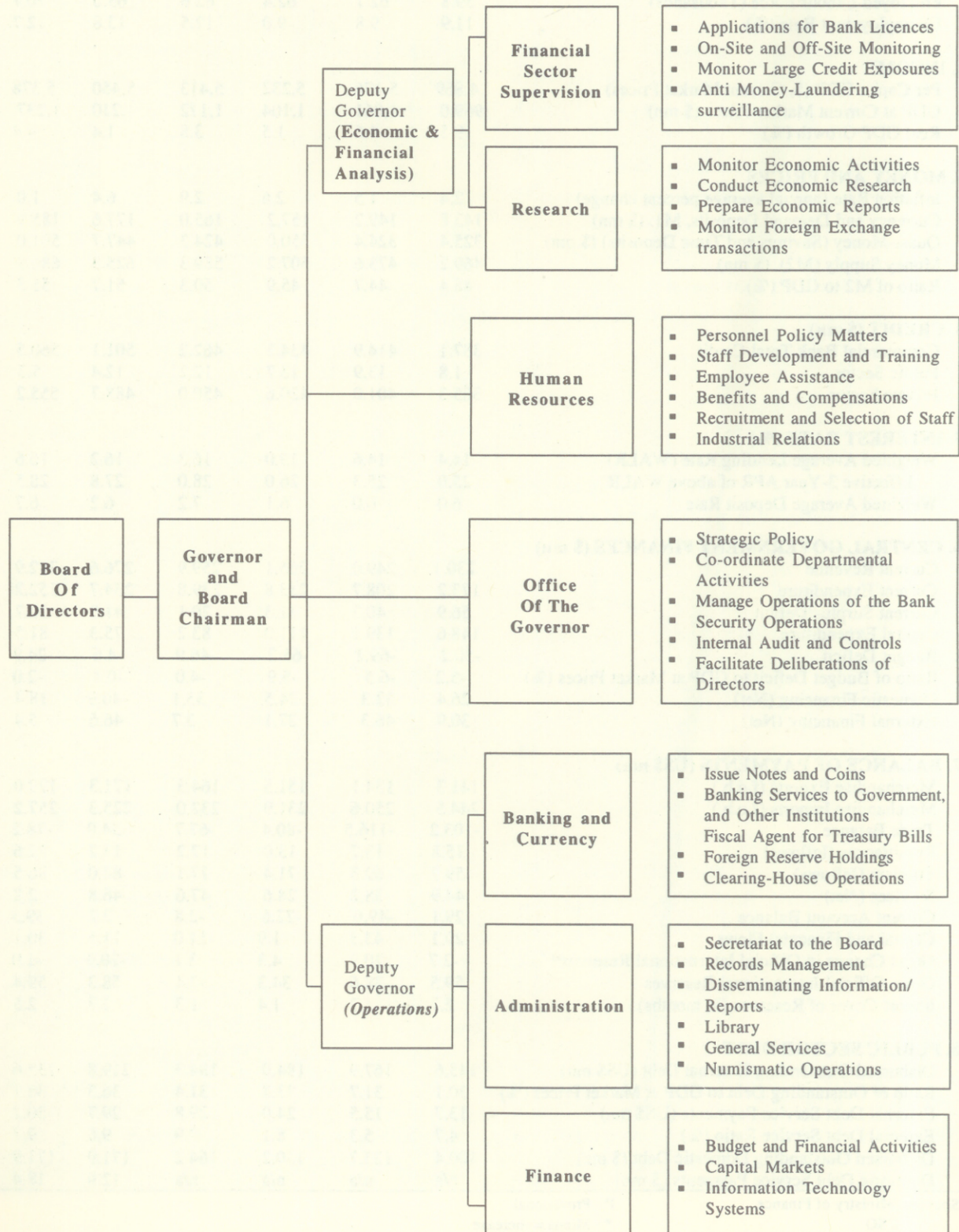




Table I.1: Major Economic Indicators

	1992	1993	1994	1995	1996	1997 ^P
1. POPULATION AND EMPLOYMENT						
Population (Thousands)	199.0	205.0	211.0	216.5	222.0	230.0
Employed Labour Force (Thousands)	59.8	62.1	62.4	62.6	65.0	70.7
Unemployment Rate (%)	11.9	9.8	9.0	12.5	13.8	12.7
2. INCOME						
Per Capita GDP (\$, Current Market Prices)	4,869	5,176	5,232	5,413	5,450	5,378
GDP at Current Market Prices (\$ mn)	969.0	1,061	1,104	1,172	1,210	1,237
Real GDP Growth (%)	9.5	4.6	1.5	3.8	1.4	4.4
3. MONEY AND PRICES						
Inflation Rate (annual average percent change)	2.4	1.5	2.6	2.9	6.4	1.0
Currency and Demand Deposits, M1. (\$ mn)	143.8	149.2	157.2	165.0	177.6	185.9
Quasi-Money (Savings and Time Deposits) (\$ mn)	325.4	324.4	350.0	424.3	447.7	501.0
Money Supply (M2). (\$ mn)	469.2	473.6	507.2	589.3	625.3	686.9
Ratio of M2 to GDP (%)	48.4	44.7	45.9	50.3	51.7	55.5
4. CREDIT (\$ mn)						
Commercial Bank Total Credit	387.1	414.9	434.3	462.2	501.1	560.5
Public Sector	1.8	13.9	13.7	12.2	12.4	5.3
Private Sector	385.3	401.0	420.6	450.0	488.7	555.2
5. INTEREST RATE (%)						
Weighted Average Lending Rate (WALR)	14.4	14.6	15.0	16.3	16.2	16.6
Effective 3-Year APR of above WALR	25.0	25.3	26.0	28.0	27.8	28.5
Weighted Average Deposit Rate	6.0	6.0	6.1	7.2	6.2	6.7
6. CENTRAL GOVERNMENT FINANCES (\$ mn)						
Current Revenue	230.1	249.0	265.1	259.9	276.6	282.9
Current Expenditure	173.2	208.7	233.8	239.8	234.7	252.2
Current Surplus/Deficit	56.9	40.3	31.3	20.1	41.9	30.7
Capital Expenditure	148.6	139.1	111.0	83.2	75.3	81.5
Budget Deficit	-50.2	-69.1	-65.2	-46.9	-4.6	-24.9
Ratio of Budget Deficit to GDP at Market Prices (%)	-5.2	-6.5	-5.9	-4.0	-0.4	-2.0
Domestic Financing (Net)	26.4	32.3	24.5	33.1	-40.9	18.4
External Financing (Net)	30.9	46.3	27.1	3.7	46.6	5.4
7. BALANCE OF PAYMENTS (US\$ mn)						
Merchandise Exports (f.o.b.)	141.3	134.1	151.5	164.3	171.3	179.0
Merchandise Imports (f.o.b.)	244.5	250.6	231.9	232.0	225.3	257.2
Trade Balance	-103.2	-116.5	-80.4	-67.7	-54.0	-78.2
Remittances (Inflows)	15.8	13.7	13.0	17.2	13.2	12.6
Tourism (Inflows)	59.7	69.3	71.4	77.1	84.0	86.5
Services (Net)	44.9	38.2	28.6	47.6	46.8	2.8
Current Account Balance	29.1	-49.0	-22.6	-2.8	2.2	-39.5
Capital and Financial Flows	29.1	43.3	1.9	-11.0	11.5	30.1
Gross Change in Official International Reserves*	-2.7	20.9	4.3	-3.1	-20.9	-1.0
Gross Official International Reserves	59.5	38.6	34.3	37.4	58.3	59.4
Import Cover of Reserves (in months)	2.7	1.7	1.4	1.3	2.7	2.5
8. PUBLIC SECTOR DEBT						
Disbursed Outstanding External Debt (US\$ mn)	145.6	167.9	184.0	184.3	219.8	235.6
Ratio of Outstanding Debt to GDP at Market Prices (%)	30.1	31.7	33.3	31.4	36.3	38.1
External Debt Service Payments (US\$ mn)	13.7	15.5	24.0	29.8	29.7	30.7
External Debt Service Ratio (%)	4.7	5.3	8.1	9.9	9.6	9.7
Disbursed Outstanding Domestic Debt (\$ mn)	100.4	123.7	150.2	164.2	171.9	171.9
Domestic Debt Service Payments (\$ mn)	n/a	n/a	n/a	n/a	12.9	18.4

Sources: Ministry of Finance
CSO
Central Bank of Belize

P - Provisional
* - Minus = increase
n/a - not available



ECONOMIC REVIEW

Overview

The Belizean economy grew in real terms by 4.4% in 1997, significantly higher than the 1.4% growth realised in 1996. Improvements were distributed across the three main sectors of the economy, i.e. primary, secondary and tertiary (services). In the primary sector, growth was mainly a result of significant increases in agriculture and marine output, while a turnaround in the secondary sector mainly reflected an increase in manufacturing output and in utilities. The improvement in services was driven by heightened activity in the trade and tourism and finance and insurance sub-sectors.

The increase recorded in the tourism sub-sector in part reflected an estimated 3.7% rise in tourist arrivals. The number of tourists arriving via the Phillip Goldson International Airport (PGIA) rose by 3.1%, while arrivals through the land borders grew at a slower pace of 1.9%. There was also a marked increase in arrivals by sea as a result of cruise ship visitors. Reflecting the increases in arrivals, estimated tourist expenditure rose by 3.0% to US\$86.5 mn.

A labour force survey conducted by the Central Statistical Office (CSO) revealed that the unemployment rate stood at 12.7% in April of 1997 compared to 13.8% a year earlier. This agency also provides statistics on consumer prices, and data collected in 1997 showed a slow-down in the rate of inflation to 1.0%. This follows the 6.4% rate recorded in 1996 when the Value Added Tax (VAT) was introduced. Most major commodity groups showed moderate increases, while there were declines in clothing and footwear, and transportation and communication.

During 1997 money supply (M2) expanded by 9.9% to \$686.9 mn, largely reflecting a \$74.0 mn expansion in net domestic credit. This represented a turnaround from 1996 when the main impetus

behind money supply expansion was an increase in Central Bank assets resulting from Central Government foreign borrowing.

The net foreign assets of the banking system contracted by \$16.6 mn during 1997 after three years of steady growth. This mainly reflected a reduction in commercial banks' net foreign position as sales of foreign exchange to the general public exceeded total purchases.

Net domestic credit grew by 12.7 % in 1997 to \$654.9 mn. Much of this represented an expansion in credit to the private sector, including increased credit extended to the citrus industry, and to individuals in the form of personal loans. There was also a significant rise in personal loans due to increased use of credit cards.

Net credit from the domestic banking system to the Government of Belize (GOB) rose during the year as withdrawals from Government's accounts outweighed deposits from the proceeds of the US\$10.0 mn bond issue for infrastructure development. Credit from the banking system to other public sector entities declined by almost 50.0%. This was due to the surrender of some \$8.7 mn in Belize Electricity Limited's (BEL) debentures and repayments by the Reconstruction and Development Corporation (RECONDEV) to Central Bank on the Republic of China (ROC), Taiwan Housing loan.

The approved liquid assets requirement of commercial banks was unchanged in 1997. Holdings of approved liquid assets increased by 10.9% mn during the year to \$188.3 mn, while holdings of required liquid assets went up by 11.0% as deposits expanded. This resulted in a 10.1% increase in excess liquidity to \$13.1 mn at the end of the year.



Commercial banks' weighted average interest rate spread narrowed by 10 basis points to 9.9% during 1997 as both the weighted average deposit and lending rates increased by 50 and 40 basis points, respectively. The increase in the weighted average lending rate to 16.6% was led primarily by higher rates on mortgage and personal loans, while an increase in the time deposit rate was responsible for the rise in the weighted average deposit rate to 6.7%.

GOB's fiscal operations for 1997 resulted in an overall deficit of \$24.9 mn as an increase in total revenue and grants was outweighed by an expansion in total expenditure. The overall deficit was financed from both internal and external sources of \$18.4 mn and \$5.4 mn respectively. Domestic financing was derived primarily from withdrawals from the ROC, Taiwan loan and grant accounts at the Central Bank.

GOB's domestic debt increased by only \$0.1 mn over the year as loan disbursements and an increase in the overdraft facility at the Central Bank marginally outweighed loan repayments and the redemption of debentures. The public sector external debt rose as disbursements outweighed loan repayments and negative valuation adjustments. In addition to the proceeds from the US\$10 mn bond issue for infrastructure development, disbursements included loan proceeds from the CIBC Bank and Trust for the expansion of the PGIA; the World Bank for the Belize City Infrastructure Project; and various multilateral sources for the Power II Project.

The total value of domestic exports grew by 3.4% to \$317.5 mn in 1997, reflecting increases in volume and thus earnings of both traditional and non-traditional exports. Strong growth in earnings from single strength citrus juices, marine products, garments and sawn wood outweighed declines

from sugar, molasses and banana earnings. Exports of single strength citrus juices more than quadrupled in both volume and value as one of the factories shifted from test marketing to full-fledged exportation to the European market.

The value of gross imports was up 12.0% to US\$286.2 mn in 1997, resulting in a widening of the merchandise trade deficit. The increase was across all categories of items, but the most significant was in fuels and lubricants and machinery and transport equipment. In terms of end-use, the increases were most marked in intermediate and consumer goods.

Belize achieved an overall surplus of US\$1.0 mn on its balance of payments in 1997 as compared to a US\$20.9 mn surplus in the previous year. The current account deficit expanded from US\$6.9 mn to US\$39.7 mn largely as a result of the increase in visible imports and of a decline in net services inflows. The capital account showed a modest deterioration to a net outflow of US\$3.4, while the net inflow on financial account surplus declined by US\$15.8 mn to US\$27.3 mn following reductions in net inflows from direct foreign investment and public sector loan drawings.

The outlook for 1998 is for real growth of between 3.0% and 3.5% based on moderate improvements in the export and tourism sectors and an increase in externally funded capital expenditure by the public sector. In the manufacturing sector, the operations of PETROJAM Belize Ltd. should be of a longer duration as the GOB signs a lease agreement with the Government of Jamaica. Among the major projects to be undertaken during the year are phase II of the Southern Highway, a continuation of the Power II Project, and investment in the social sector targeting poverty alleviation.



International and Regional Developments

World economic output expanded by approximately 4.5% in 1997, the strongest growth rate recorded since the start of the decade. The expansion was fuelled by solid growth accompanied by low levels of inflation in the US and the UK, and by economic recovery in Canada and countries of continental Western Europe. Robust growth trends in developing countries, especially China, and positive upswings in economic activity in Russia and the transition economies also contributed to the buoyant performance. Initial optimistic projections for output in Asia were revised downward toward the end of the year in light of the turmoil experienced in South East Asian financial markets.

Developments in Select OECD Countries

The US economy continued on its path of expansion in 1997 with GDP recording a growth of 3.8%, up from 2.8% in 1996. The rate of inflation, as measured by the CPI, moderated to an 11-year low of 2.4% while the unemployment rate declined to 4.7%. These improvements were prompted by prudent macroeconomic policies combined with buoyant private sector initiatives and a responsive labour market. Higher tax revenues emanating from the strong economic activity contributed to a continued narrowing of the fiscal deficit.

The economic recovery of the UK continued into 1997, with real growth estimated at 3.3% up from 2.3% in 1996. A 4.3% increase in the output of the services sector propelled the overall expansion in economic activity and facilitated a reduction in the unemployment rate. However, manufacturing sector was negatively affected by the appreciation of the pound sterling against continental European currencies, particularly the Deutsche Mark.

Canada's economic recovery, which began in mid-1996, persisted into 1997 with GDP growth estimated at 3.7%. The improved performance was driven by strengthened confidence, improved international competitiveness following the depreciation of the Canadian dollar in the first half of the 1990's, and lower interest rates. The latter, combined with improved fiscal performance and price stability, allowed for an increase in business and residential investment. Despite the robust economic growth, the unemployment rate declined only marginally.

Notwithstanding the gains achieved beginning in late 1996 and in early 1997, economic activity in Japan slowed over the remainder of the year. The deceleration was linked to the implementation of a consumption tax in April. A slight increase in the unemployment rate, a more notable rise in the rate of inflation, and the economic crisis in Asia exacerbated the slowdown.

Table II.1: Selected Indicators for Some OECD Countries

Country	GDP Growth Rate (%)		Industrial Production (%)		Inflation Rate (%)		Unemployment Rate (%)	
	1996	1997	1996	1997	1996	1997	1996	1997
United States	2.8	3.8	2.7	5.9	2.9	2.4	5.3	4.7
United Kingdom	2.3	3.3	1.1	0.8	2.5	3.6	6.7	5.0
Canada	1.5	3.7	0.9	3.6	1.5	0.7	9.7	8.6
Japan	3.6	1.0	3.0	-1.3	0.2	1.8	3.3	3.4

Source: The Economist
International Financial Statistics (IMF)



Developments in Select Regional Economies

The Caribbean

Over the first six months of 1997, sustained economic activity prompted an estimated 4.3% increase in real output in **Barbados**. The main contributors to this were expansions in the sugar, tourism, and construction sectors. The growth in tourism prompted a US \$138.4 mn increase in the net international reserves, so that, despite growth in imports, the import cover rose to approximately 4.5 months from 3.7 months in the first half of 1996. Revenues from the VAT, implemented during the year, exceeded projections but pushed the rate of inflation from 1.2% at the end of September, 1996 to 9.2% one year later. The increase in revenues prompted higher capital expenditure, so that the fiscal deficit expanded to \$34.6 mn.

At 6.1%, economic growth in **Guyana** over the first half of 1997 was in line with the 1996 out-turn. Agriculture continued to be the major stimulus to economic growth and, along with a surge in mining and quarrying, offset a 50% decline in service sector activities. Over the first ten months of the year, the unemployment rate held steady at 12.0%. Reflecting relative stability in the exchange rate, lower prices for basic personal and household items prompted a slow down in the rate of inflation from 6.0% in December 1996 to 4.6% by the end of October, 1997. Central Government operations over the first nine months resulted in an expansion of the overall deficit, reflecting increases in interest payments, employment costs and capital expenditures.

The first half of 1997 saw a reduction in economic output in **Jamaica** with annual estimates projecting zero growth for the full year. Output was affected by a reduction in investment spending and cautious consumer spending. The agriculture sector suffered from drought conditions which necessitated the importation of large volumes of basic food items.

On the other hand, cheaper imports benefited consumers as the rate of inflation (as measured in June) fell to 8.3%, down from 30.1% a year earlier. Given the necessary increase in import levels, Jamaica's overall balance of payments (BOP) posted a deficit of US \$107.1 mn over the first three-quarters of the year. This represented a complete turnaround from the US\$ 244.0 mn surplus recorded over the same period in 1996. The performance was exacerbated by a decline in net capital inflows.

Modest growth in economic performance in the member states of the OECS during 1997 was driven primarily by the tourism and construction sectors. However, output contracted in **Montserrat** as volcanic activity brought most economic functions to a virtual standstill. Furthermore, economic out-turn was negatively affected by declines in banana production in the windward islands, especially in **Dominica, St. Vincent and the Grenadines, and St. Lucia**. A number of marginal farmers exited the industry and banana output over the first three-quarters declined by 28.4% compared to output for the same period in 1996. This contributed to a decline of 39.2% in export earnings.

Grenada was the only island in the Windward group, which featured strong economic growth in 1997. The construction sector was the basis for this growth on the island while tourism also saw moderate improvements. In the Leeward Islands of **St Kitts and Nevis, Antigua and Barbuda, and Anguilla** growth was fuelled by the tourism, sugar and construction industries.

Economic developments in the region were accompanied by low levels of inflation with increases in consumer prices ranging from 0.8% to 2.0% in five of the member territories. One major exception was in St. Kitts where prices rose by 6.0%, partly reflecting higher bus fares. On the other hand, price declines were registered in Anguilla and St. Lucia.



Performance of the **Trinidad and Tobago** economy was robust over the first nine months of 1997 with GDP registering an increase of 3.3% during the third quarter. This out-turn was fuelled by activity in the non-petroleum sector where impressive growth in output from the agriculture and government sectors offset a deceleration in the rate of growth in the petroleum, distribution, finance and insurance, and real estate sectors. During the third quarter, consumer prices (as measured by the Index of Retail Prices) rose by 1.4% compared to 1.2% during the same period of 1996. At the end of the second quarter of 1997 the unemployment rate was up 1.8% relative to the end of December 1996.

Mexico

Economic performance in Mexico in 1997 was marked by a 7.0% increase in the rate of growth of GDP. The expansion was propelled by the manufacturing and construction sectors. With the upward trend in economic growth, the rate of unemployment, by all indications, continued to decline.

The performance of the external sector reflected the heightened activity in the Mexican economy as well as the vibrancy of the US economy. A strengthening of the peso vis-à-vis the US dollar resulted in a slowdown in the rate of growth in export revenues, while the value of imports increased. Consequently, the merchandise trade surplus contracted to US\$ 1.4 billion, only 18.4% of the surplus posted at the end of 1996. While demonstrating the improvement in economic performance, the rise in imports has nevertheless raised concerns for domestic industry. Over the year, the value of the peso vis-à-vis the US dollar appreciated by 3.0% to 7.84 pesos in mid-December, 1997. The stability of the exchange rate is expected to lead to a deceleration in the annual inflation rate to some 17.6%.

Central America

Regional growth for Central America in 1997 was estimated at 4.0%. The economies of **Honduras** and **Nicaragua** are projected to lead regional economic output with growth rates exceeding 4.0% while growth in **Costa Rica** is estimated to be below the 3.0% level.

With the relaxing of economic measures in the run up to general elections in Honduras, economic growth tripled to 4.5% in 1997. The primary impetus was increased domestic demand, linked to the elections, as well as a rise in exports. With a slow down in the rate of devaluation of the lempira, the inflation rate remained high at 15.0%, but below the 25.4% recorded in 1996.

Vibrant economic activity in **El Salvador** during 1997 was marked by strong growth in the finance, electricity, manufacturing, transport and trade sectors. Despite unfavourable weather conditions brought on by El Niño, the agriculture sector managed to post growth of 1.8% for 1997. Over the year, the GDP rose by 4.0%, up from the 2.5% recorded a year earlier but below the 6.8% average posted over the 1992-1995 period.

Slow recovery of investment activities was seen as the main cause for the increase in the urban unemployment rate which rose from 7.7% in 1996 to 8.0% in 1997. The inflation rate fared much better, falling to only 2.2% from 7.4% in the previous year.

Improved international coffee prices as well as growth in all other categories of domestic exports augured well for the external accounts. A 25% surge in export earnings prompted a 5% improvement of the merchandise trade balance. Imports grew by a slower 14% over the year.



At 4.0%, GDP growth in **Guatemala** was fuelled by expansion in agriculture output as well as construction and manufacturing activities. This facilitated the creation of new jobs, thereby improving the employment statistics. While high international coffee prices as well as improved performance of other major exports prompted increased export earnings, a relatively larger jump in imports resulted in an expansion of the merchandise trade deficit. The growth in imports reflected buoyant economic activity with increases recorded for capital equipment, construction materials and consumer goods. Over the year, the rate of inflation slowed, falling from 10.9% in 1996 to 9.0% in 1997.

The **Nicaraguan** economy continued on its path of strong growth with economic output growing by 5.0% in 1997 though below the 6.4% recorded in 1996. Economic activity was bolstered by the agriculture and construction sectors while manufacturing activities continued to struggle. The

merchandise trade deficit widened despite an increase in export earnings. The larger deficit was fuelled by increased imports, particularly capital goods, needed for the rise in investment activity.

A tempering of consumer price increases slowed the rate of inflation from 12.1% in 1996 to 8.6% in 1997 and the unemployment rate declined but was still high at 13.9%. While a reduction in the budget deficit was projected, one major concern to the Government was the record external debt and the inability to meet debt service payments.

A 4.0% rise in GDP in **Panama** in 1997 surpassed the 2.2% average annual growth for the past two years. The re-export trade and investment contributed to the improved performance. The agriculture sector was negatively affected by drought conditions but manufacturing, electricity generation, and communications and transport noted considerable upswings, facilitating a 15.8% reduction in the unemployment rate in urban areas.

Table II.2: Selected Indicators for Mexico and Central America

Country	GDP Growth Rate (%)		Inflation Rate (%)		Unemployment ¹ Rate (%)		Deficit/GDP Ratio (%)		Trade Balance US\$ mn	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
Costa Rica	-0.6	2.5	13.9	11.5	6.6	6.1	-5.3	-4.4	-54	-215
El Salvador	2.5	4.0	7.4	2.2	7.7	8.0	-2.0	-1.9	-1,338	-1,275
Guatemala	3.1	4.0	10.9	9.0	n.a.	n.a.	-0.1	-0.5	-740	-805
Honduras	3.3	4.5	25.4	15.0	6.4	6.4	-2.7	-3.0	-196	-45
Mexico	5.2	7.0	27.7	17.6	5.5	3.9	-0.1	-0.7	7,079	1,400
Nicaragua	6.4	5.0	12.1	8.6	14.8	13.9	-1.5	-1.3	-491	-635
Panama	2.5	4.0	2.3	1.8	16.7	15.8	-2.1	-1.1	-105	-305

Sources: The Economist
Preliminary Overview of the Economy of Latin America
and the Caribbean, 1997, ECLAC

¹ Urban unemployment
n.a. not available



Domestic Production, Employment and Prices

Production

Estimates from the CSO indicate that growth in Belize's real GDP accelerated to 4.4% in 1997 after a 1.4% growth in 1996. The acceleration was attributed mainly to an expansion of 11.7% in primary activities, up from growth of 6.8% in 1996. This was supplemented by a marked turnaround in secondary activities, and a 3.1% growth in services.

The expansion in primary activities resulted mainly from a notable recovery in commercial fishing, and to a lesser extent, a slowing in the contraction that had been afflicting the forestry sector since 1995. The improvement recorded in the fishing sub-sector was due largely to the higher production of farmed-shrimp, lobster and conch. Farmed-shrimp production rose by nearly 32.0% to 2.1 mn pounds, lobster production rose by 34.4% to 1.9 mn pounds and conch production increased by 74.3% to 0.6 mn pounds.

The 3.1% growth in the services sector was primarily influenced by a robust recovery of 8.2% by the trade, restaurants and hotel sub-sector. The

wholesale and retail trade sub-group registered a substantial increase of 9.4% after a contraction of 1.7% in 1996. A vigorous performance of 3.4% was also exhibited by the hotels and restaurants sub-group. Tourism activity provides the impetus for the output of the hotels and restaurants grouping, and tourist arrivals went up by 3.7% to 112,191 persons in 1997.

With the increased economic activity recorded in 1997, the unemployment rate declined from 13.8% in 1996 to 12.7%. The employed labour force rose by almost 5,700 persons indicating that on average, there were 470 jobs created monthly in the economy during 1997.

During the year, the annual rate of inflation slowed to an eleven-year low of 1.0%, following three years of consecutive increases. The prices of items in a 'basket of goods' are collected every quarter, and these are used in the computation of a quarterly price index. The four indices for any given year are averaged to derive an annual index. It is the percent change in the annual indices between any two given years that is referred to as the annual inflation rate.

Table III.1: Annual Percent Change in Selected Indicators

	1995	1996	1997 ^P
GDP at Current Market Prices	6.2	3.3	2.2
Real GDP at Factor Cost (1984 prices)	3.8	1.4	4.4
Primary Activities	5.7	6.8	11.7
<i>of which:</i> Agriculture	7.7	14.3	12.0
Fishing	18.4	-12.0	23.9
Forestry	-17.5	-8.9	-2.6
Secondary Activities	3.1	-1.7	1.4
<i>of which:</i> Manufacturing	4.4	0.3	2.7
Services	3.4	0.7	3.1
<i>of which:</i> Trade & Tourism	2.5	-1.4	8.2
Public Administration	1.3	-3.8	-4.1
Transport and Communication	5.8	4.2	0.8
Consumer Price Index			
Average	2.9	6.4	1.0
End of Period	3.9	6.4	0.6

Source: Central Statistical Office

P - Provisional



Table III.2: Sugar cane Production

	1994/95	1995/96	1996/97 ^P
Production of sugarcane (long tons) ¹	1,025,013	1,236,308	1,143,630
Sugarcane deliveries to BSI	952,764	1,093,450	1,134,042
Sugarcane deliveries to PETROJAM	72,249	142,858	9,588

Sources: Belize Sugar Board, Belize Sugar Industries Limited
P – Provisional; 1 Crop year: December – November

The slowdown in consumer prices was anticipated given that the sharp increase recorded in 1996 was driven by the implementation of the VAT. However, the decline in the rate of change was more pronounced than had been expected because of reductions in import duty rates and in the cost of items from the US, Belize's largest trading partner

Agriculture

Sugarcane

During the 1996/97 sugar cane season, overall sugar cane deliveries totalled 1.14 mn long tons. This was 7.5% below the volume delivered during the 1995/96 season as a 93.3% reduction in deliveries to PETROJAM outweighed the 3.7% increase in deliveries to Belize Sugar Industries Limited (BSI).

Deliveries to PETROJAM fell as the company terminated the 1996/97 processing period after only one month, four months short of the regular length of operations. The premature closure was influenced by renewed but unsuccessful efforts by the Jamaican Government to finalise the sale of the parent company and its subsidiaries to private interests. In an effort to alleviate the adverse economic effects of the closedown, the GOB has undertaken to lease PETROJAM from the Jamaican

Government and to sub-lease the subsidiary to private interests in Belize in time for the 1997/98 processing period.

Deliveries to BSI rose following a decision by company officials, late in the season, to accept an additional 50,000 long tons of sugar cane from cane-farmers. This was done to reduce the estimated 115,000 long tons of sugar cane that would have remained undelivered by the end of the season due to PETROJAM's premature closure. The move effectively resulted in a reduction in the quantity of undelivered, or "standover" sugar cane to 65,000 long tons, some 13.3% below the 75,000 long tons existing at the end of the previous processing period.

Citrus

Over the 1996/97 crop year, deliveries of citrus fruits totalled 6.0 mn boxes, the highest in the history of the industry. This represented growth of 38.3% over the comparable period in 1996. Orange and grapefruit deliveries increased by 44.0% and 22.4%, respectively.

Two factors were responsible for the rise in deliveries. The first was the relatively favourable growing and harvesting weather conditions that prevailed in 1997. Secondly, a growing number of

Table III.3: Production of Citrus Fruits

	1995	1996	1997 ^P
Deliveries ('000 boxes)*	4,387	4,324	5,978
Oranges	3,166	3,165	4,559
Grapefruits	1,221	1,159	1,419

Sources: Central Statistical Office; Belize Food Products; Citrus Company of Belize
P – Provisional ; *-Crop year: October to September



Box 1: Citrus Cultivation and Acreage

Between 1988 and 1994, the acreage under orange cultivation increased substantially from around 9,000 acres to approximately 48,000 acres, and involved a significant extension beyond the Stann Creek District, into the remaining five districts of the country. The new acreage began to reach fruit-bearing age in 1995. It is expected that increases in the new trees coming into maturity will continue at an average annual rate of about 10.0%, through to the year 2,005. While the cultivation of grapefruits occurs on a much smaller scale, there was also an increase in the acreage under cultivation during the same period, from around 3,200 acres to 8,195 acres, so that some increase in grapefruit juice production is also expected.

orchards have been reaching fruit-bearing age and this has resulted in an increasing volume of fruit production since 1995 (see Box 1).

Bananas

Banana production abated by 8.4% to 54,737 metric tons in 1997. Notwithstanding this reduction, it was the second consecutive year that the industry was poised to produce fruits in excess of the EU's export quota of 55,000 metric tons per annum. In 1996, the excess amounted to 6,000 metric tons of fruit and would have equalled 10,000 metric tons had production not been curtailed by the unusually cool weather conditions early in the year.

In the latter half of the 1980s the industry had embarked on a program to raise production capacity to gradually increase annual production from under 40,000 metric tons of bananas to 100,000 metric tons. By mid-1997, there were 5,000 acres under cultivation with a capacity to produce 74,000 metric tons by year-end. Production was expected to reach 100,000 metric tons annually by the end of 1998; however, such production may not be realised given the EU quota constraints on ACP banana exporting countries.

Other Agricultural Products

There were substantial increases in the production of rice paddy, red kidney beans and papayas in 1997, following from expansions in the acreage under cultivation. Rice paddy production increased by

31.0% to 37.0 mn pounds. Papaya cultivation increased largely because J.R. Brooks Ltd., the US company that buys most of Belize's papaya, has moved into the production aspect of the industry. Additionally, the Mennonite community has increased its production of papayas. The production of corn was stable at some 37,400 metric tons, but the output of red kidney beans rose by 24.1% to 4,244 metric tons.

In the case of livestock production, the output of beef and pork was up by 13.4% and 16.7% respectively. The volume of poultry, on the other hand, remained stable at 17.0 mn pounds in 1997.

Marine Products

The volume of shrimp, lobster tail and conch exports each increased as a result of expansions in production. The turnaround in shrimp production was due primarily to the increased output of farmed-shrimp establishments. This outcome arose following a general shift within the industry toward semi-intensive and intensive farming which resulted in an overall doubling of stock densities. The strategy was geared at offsetting an expected decline in output due to a significant cutback in production time. Much of these cutbacks occurred during the first half of the year and were intended to allow for the implementation of measures to minimise the danger posed by the taura syndrome, which is present in Belize. If not contained, this syndrome can prove disastrous to shrimp-farming operations.



The upswing in the production of lobster and conch in 1997 began early in the third quarter and progressed rapidly through the end of the year. The phenomenal growth was attributed to exceptionally favourable (warm) marine conditions prevailing during the second half of the year. These conditions have been linked by marine observers to the far-reaching impact of the atmospheric phenomenon known as El Niño.

Forestry, Mining and Construction

In 1997, the downturn that had beset activities in forestry and logging, mining and quarrying, and construction abated. The contraction in the construction sub-sector was some 5.4%, in improvement over the 8.2% contraction recorded in 1996. This negative out-turn was largely driven by the decline in public sector projects, a result of the winding-down of major infrastructure works. This has precipitated a fall in the demand for a wide range of construction materials including sawnwood and construction aggregates. As a consequence, the forestry and mining sub-sectors also registered downturns in output levels.

Manufacturing

Sugar and Molasses

Reflecting the increases in cane deliveries, sugar processed by BSI during the 1996/97 crop year rose by 13.8% to a record high of 123,782 long

tons. In addition to the higher deliveries, this achievement reflected improvements in both the quality of sugar cane and in the overall efficiency of the factory. The improvement in sugar cane quality was evidenced by a cane/sugar ratio of 9.1%, the lowest in ten years, and an increase in cane purity from 84.6% in 1996 to 85.4%. These reflected the favourable impact of the highly suitable growing and harvesting weather conditions prevailing during the crop year. Overall factory efficiency improved from 91.9% to 92.2%.

As a result of the early closure and the consequent drop in sugar cane deliveries to PETROJAM, the company's production of cane-juice molasses plunged by 92.8% to 1,425 long tons. This marked the lowest level of production by PETROJAM since its operations came on stream in 1990.

Given the upsurge in the volume of sugar processed, the production of molasses by BSI also increased. Since the molasses produced by BSI is a by-product of the sugar manufacturing process, the quantity was constrained by the improved sugar cane quality.

Citrus Concentrates and Juices

The rise in citrus fruit deliveries during the year led directly to a significant increase in the production of citrus concentrates. Production of orange concentrates rose by 34.6% to 3.0 mn gallons while grapefruit concentrate production increased by 12.8% to 0.7 mn gallons.

Table III.4: Sugar and Molasses Production

	1994/95	1995/96	1996/97 ^P
Sugar Processed (long tons)	105,344	108,784	123,782
Molasses Processed by BSI (long tons)	35,216	39,949	42,681
High test molasses processed by PETROJAM	0	0	0
Cane juice molasses processed by PETROJAM	10,598	19,850	1,425
Performance			
Overall Factory Efficiency (%)	90.75	91.85	92.19
Cane Purity (%)	85.47	84.59	85.35
Cane/Sugar Ratio	9.31	10.18	9.07

Sources: Belize Sugar Board, Belize Sugar Industries Limited
P - Provisional
Crop year: December - November



With the completion of market testing in Europe in 1996, the industry began full-scale production of single strength citrus juices. This led to a more than three-fold increase in orange juice production to 3.8 mn gallons and a more than six-fold increase in grapefruit juice production to 1.1 mn gallons.

Garments

Activities in the garment industry expanded during 1997. The increased production reflected the activities of Unity Enterprises Ltd., which spanned the full twelve months of 1997 compared to six months in 1996.

The proportion of men's blue-jean coveralls produced during the year, particularly over the first half, rose significantly. In addition, some industry agents began the assembling of accessories, such as zips and buttons, which prior to 1997, was performed abroad. The value added associated with the manufacturing and assembling of these new products was higher than that generated by the men and boys' blue jeans pants that had hitherto been the primary product made by the industry.

Other Manufacturing Production

During the year, there was an 11.4% increase in cigarette production, but the production of flour, fertiliser, battery, and beer declined. The fall in production of soft drinks was especially significant as the Ministry of Trade adopted a more liberal position with respect to the importation of soft

drinks. As there is no evidence that demand in Belize has weakened for the aforementioned items that have declined in production, it is more than likely that these were being sourced from the border towns of Mexico and Guatemala.

Tourism

Estimates are that tourist arrivals increased by 3.7% to 112,191 during 1997. Tourist visitors entering via the Philip Goldson International Airport (PGIA) rose by 3.1% to 95,337, while arrivals through the land borders grew at a slower pace of 1.9%. In contrast to 1996 when 771 cruise ship visitors were recorded, indications were that 10 cruise ships carrying 2,678 passengers made calls at Belizean ports during 1997.

Over the 1995 to 1996 period, the rate of growth in tourist arrivals has slowed to an average of 0.3%, well below the 9.8% annual average recorded over the 1992 to 1994 period. Estimates of tourist expenditure showed a 3.0% increase to US \$86.5 mn, up from US \$84.0 mn in 1996. The value added for tourism, as proxied by the Hotels and Restaurants sub-grouping, recovered by a healthy 3.4% after being stagnant in 1996.

A key determinant of the output generated by the tourist industry is the hotel room rate. On average, hotel room rates nation-wide, as reported to the Belize Tourist Board, declined by 3.0% in 1997 to \$124.7 compared to \$128.6 in 1996.

Table III.5: Production of Citrus Concentrate and Juices

	1995	1996	1997 ^P
Production ('000 gals)*	3,929	4,153	8,685
Orange Concentrate	2,355	2,259	3,040
Grapefruit Concentrate	692	635	716
Single Strength Juices	882	1,259	4,929

Sources: Central Statistical Office; Belize Food Products; Citrus Company of Belize

*- Crop year: October to September

P - Provisional



Box 2: Perspectives on Tourism

Promotion

The Belize Tourist Board (BTB) and the Belize Tourism Industry Association (BTIA) heightened their efforts in 1997 to promote Belize abroad as well as to improve the quality of the industry's services and personnel. In this regard, the organisations undertook the following promotions.

Starting in February, a series of tour guide certification workshops were held, training and certifying more than 1,000 tour guides. The seminars were aimed at engendering a high level of professionalism within the industry by equipping local tour guides and tour operators with general skills needed to provide a high standard of service by ensuring the safety of the tourists and by learning how to protect and preserve the environment. The workshops were also aimed at familiarising the participants with the more popular inland and marine attractions throughout the country. A number of tourism related industry personnel also made presentations to smaller groups.

In May, the BTB introduced its new tourism image, reflecting the diversity of tourist attractions in Belize. Comprehensively portrayed in the new Image brochure, illustrations of the "Best of Belize", "Water Wonders of Belize", "Eco-Adventures of Belize" and "Scenes From Belize City" are also featured in shell brochures, posters and postcards. International marketing activities throughout 1997 centred on attendance at trade shows in North America and Europe.

In July, the Belize Trade Expo (BETEX) 1997 was held in Belize City. This venture, held for the second consecutive year, was aimed at showcasing Belize and its attractions to travel agents and other industry officials from around the world. It is hoped that this exposition will continue to be held on an annual basis.

Later in the year, at least three television crews from the US and Canada were in Belize to produce documentaries and features, highlighting Belize's natural attractions. Airing of these programs will commence in 1998 and will be shown on nature oriented television channels in the US, as well as in Canada and Latin America.

In 1997, Government reiterated its commitment to engendering the development of the tourism industry. Firstly, duty concessions were approved for motor vehicles imported by auto rental companies which are members of the Belize Car Rental Association. Import duties on vehicles, which are not more than three years old at the time of importation, can be waived up to three years at which time duties become payable on the depreciated value. Vehicles imported by auto rental companies which are not members of the association are allowed duty exemptions up to 50%, provided that the vehicle is not more than six years old. Secondly, on October 1, 1997, the New Hotels Act became effective. This new legislation is aimed at increasing the level of co-ordination between the various Government Ministries and Departments involved in giving approval for the construction of new hotels. Significant emphasis is placed on adherence to laws and principles governing environmental protection and conservation.

Prospects

A number of developments are expected to impact favourably on tourism in Belize during 1998. These developments include

- (1) The "double daily" flight program implemented by Continental Airlines in December 1997, between Belize and Houston, Texas, which should have some positive impact on tourist arrivals during the year. The re-scheduling of flights between these two destinations will make travel connections more convenient, particularly for Belize bound passengers with flights originating in the state of California;
- (2) The number of cruise ship calls to Belizean ports are expected to increase significantly as a number of agreements have already been signed;
- (3) The marketing and promotion undertaken by the BTB and BTIA in 1997 are expected to bear fruit in 1998.
- (4) Infrastructure developments at the international airport should facilitate larger aircrafts and heavier traffic; and
- (5) The construction/rehabilitation of the Southern Highway should improve access to the southern region of the country and the eco-tourism attractions that abound in that area.



Table III.6: Selected Tourism Statistics

	1995	1996	1997 ^P
ARRIVALS	111,677	108,189	112,191
Air	92,114	92,488	95,337
Land	11,610	11,192	11,404
Sea	7,953	4,509	5,450
HOTEL CAPACITY			
No. of hotels	362	360	383
No. of rooms	3,708	3,690	3,905
No. of beds	6,137	6,111	6,425
Average Hotel Rates (National)	115.5	128.6	124.7
Average Occupancy Rates (National)	29.0	27.2	27.1
Average length of stay (days)	9.0	9.0	9.0
Average daily expenditure per person (US\$)*	82.0	90.0	90.0

Sources: Immigration Department; Belize Tourist Board, Central Bank of Belize

* - For arrivals by air and land

P - Provisional

Room rates in 1996 were unusually high as accommodation owners raised prices in anticipation of higher operating costs, following the implementation of the VAT on April 1 in 1996. At 27.1%, average room occupancy rate reported by the industry was essentially the same as in 1996.

Employment

Detailed statistics on the Belize labour force were collected by the CSO for 1997. These statistics showed that the labour force, made up of both employed and unemployed persons, stood at 80,940 persons as of April, an increase of 7.3% over the comparable figure for 1996.

The number of unemployed persons declined in 1997 to 12.7% compared to 13.8% in 1996. Indications were that the decline in the unemployment rate was marginal owing to a significant increase in the participation rate. This mainly reflected an increase in the number of females who indicated an interest in engaging in economic activity.

There was a significant increase in employment in 1997 as the employed labour force rose by almost 5,700 persons. Almost 30% of the 70,680 employed persons in 1997 were engaged in the agriculture, forestry and fishing subsector. The majority of jobs created between 1996 and 1997 were in the primary sector (particularly agriculture and fishing) and in services, mainly trade, restaurants and hotels.



Table III.7: Employed Labour Force by Industrial Group

Industrial Group	1993	1994	1995	1996	1997
Agriculture, Forestry & Fishing	15,005	14,290	16,990	18,650	21,140
Mining & Quarrying	255	375	180	85	95
Manufacturing	6,890	7,495	6,520	6,770	7,980
Electricity & Water	1,200	1,145	820	925	985
Construction	4,170	3,060	3,625	3,250	3,835
Trade, Restaurants & Hotels	10,890	11,665	13,755	13,815	15,155
Transport and Communications	3,165	3,595	3,650	3,845	3,655
Financing, Real Estate & Business Services	1,725	2,025	1,765	1,760	2,360
Community, Social & Personal Services	16,925	16,440	14,950	15,015	15,140
<i>of which: Public Administration</i>	6,035	6,015	4,680	4,980	4,185
Activities not classified elsewhere.	1,860	2,340	315	910	335
Total, All Sectors	62,085	62,430	62,570	65,025	70,680

1998
18340
275
7515
1160
4235
18230
3770
2625
161836
4980
360
73345

Source: CSO

* Labour Force Survey conducted in April of each year.

As a result, the Labour Force Survey (LFS) intimated that the new jobs were mainly suited for unskilled persons. Another supporting indicator is the fact that the average (mean) monthly income for employed persons declined from \$785 in 1996 to \$740 in 1997.

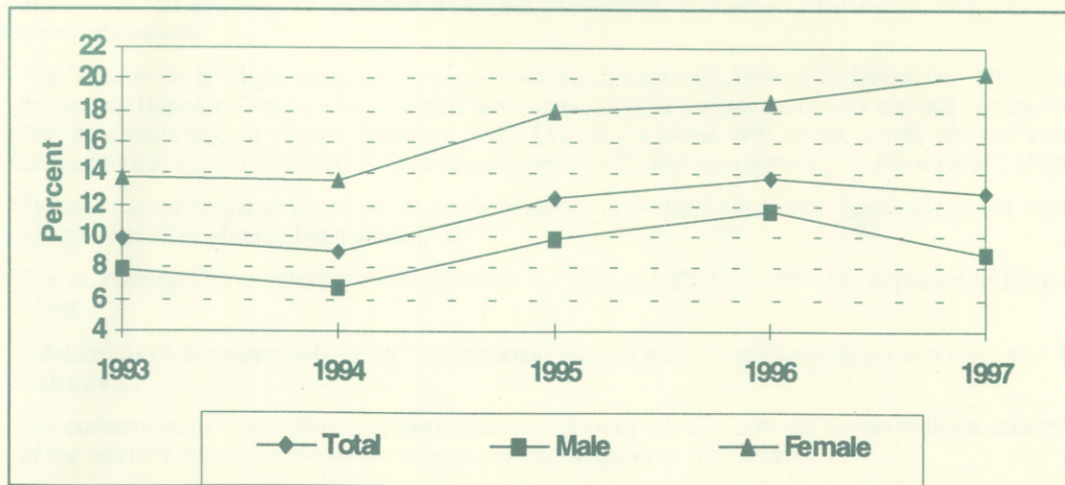
Data from the tourism industry complements those from the LFS. The industry reported that between 1991 and 1997 employment in the tourist industry increased by 41.1%. The island of San Pedro accounted for 25.4% of the total jobs while the Belize and Cayo districts was responsible for another 44.3%. The Stann Creek district, notably in Placencia and other islands were also major areas with employment opportunities in the industry.

Prices

The inflation rate, as recorded by the CSO, stood at 1.0% in 1997, compared to 6.4% in 1996. Annual inflation is measured by the change in the annual average of the Consumer Price Index (CPI). The price collection for the CPI is conducted quarterly, and the average of the indices for the four quarters of a given year is used to derive an annual index. The rate of change between the annual indices constitutes the inflation rate.

The deceleration in the rate of inflation was expected. In April 1996, Belize introduced a Value Added Tax (VAT) system, which contributed to a significant

Chart III.1: Unemployment Rate



update this



Table III.8: Quarterly Percent Change in CPI Components by Major Commodity Group

Major Commodity Group	Weights	Feb-97	May-97	Aug-97	Nov-97	Inflation Rate
Food, Beverages and Tobacco	346.6	-0.2	-0.2	0.5	-0.2	1.8
Clothing and Footwear	92.0	-0.4	-0.8	-2.0	-0.3	-1.8
Rent, Water, Fuel and Power	167.6	1.1	-0.8	-0.3	0.5	2.7
Household goods & Maintenance	85.3	-0.4	-0.7	-0.3	0.4	0.4
Medical care	20.1	0.4	0.3	0.6	0.6	1.1
Transport and Communication	170.1	-1.7	-0.7	0.1	0.0	-0.7
Recreation, Education, Culture	80.4	1.0	-0.3	0.6	0.9	2.5
Personal Care	37.9	-0.8	-0.8	-0.4	0.0	-0.2
All Items	1000.0	-0.2	-0.5	0.0	0.1	1.0

Source: CSO

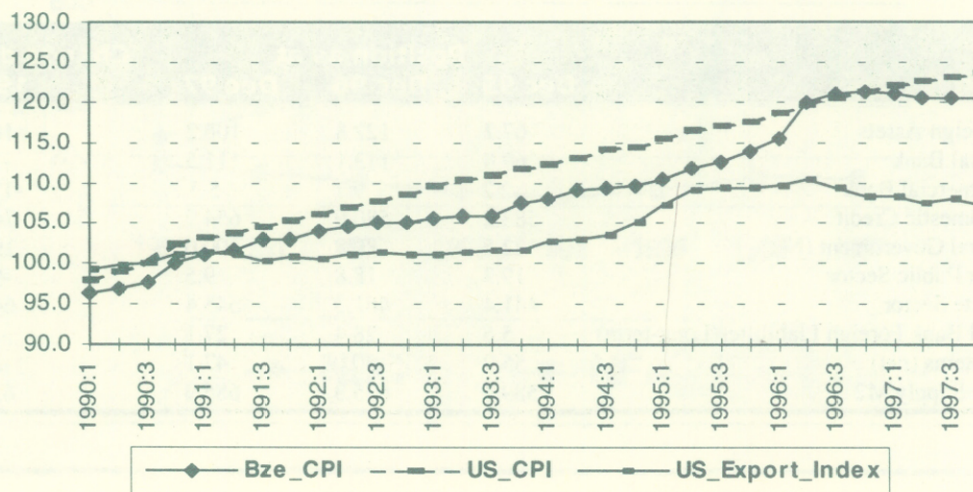
one-off increase in price levels. Consequently it was expected that as prices stabilised, albeit at a higher level, the rate of change would slow.

This was further supported by the introduction of two revenue measures in April 1997. These were (a) the Common External Tariff (CET) which reduced the average import duty rate from 35% to 30%, and (b) the expansion in the number of zero-rated items under VAT. Together, these measures had the effect of reducing/stabilising the prices of a wide range of items included in the 'basket of goods' that is priced for the CPI.

In addition to the above measures, there has been a decline of some 1.5% in the prices of US exports between 1996 and 1997. Since the basket of goods used for CPI compilation has a high import content, movements in the prices of imported goods, particularly from the US, the main source of Belizean imports, has a direct influence on consumer prices in Belize.

During the year the most significant price decreases were for clothing and footwear. The highest price increases were for utilities including fuel, and the recreation, education and culture grouping.

Chart III.2: Quarterly Price Indices, (Belize CPI, US CPI, & US Export Index)





Monetary and Financial Developments

Money Supply

Money supply (M2) grew by 9.9% during 1997, up from a 6.1% growth recorded in 1996. The increase was driven mainly by a \$74.0 mn expansion in net domestic credit, the bulk of which was extended to the private sector. This was accompanied by a \$16.6 mn decline in net foreign assets and a combined \$4.2 mn contraction in the Central Bank's long-term liabilities and other items (net).

The growth in M2 was evident in increases in quasi-money and narrow money (M1) of 11.9% and 4.7%, respectively. The expansion in M1 reflected higher demand deposits and currency with the public of \$5.5 mn and \$2.8 mn, respectively. Demand deposits of business enterprises rose while those of individuals declined.

The increase in quasi-money was 6.4 percentage points higher than that recorded in 1996, and was boosted mainly by higher private sector and public sector time deposits. The \$8.0 mn (6.6%) rise in savings deposits included a \$7.2 mn expansion in private sector deposits, again reflecting deposits of

individuals and business enterprises, and a marginal increase in deposits by financial public sector enterprises.

In general, higher private sector deposits were consistent with the expansion in economic activity recorded throughout the year, while the rise in public sector deposits reflected disbursements of foreign loans intended for development purposes. These included projects by the Belize Airport Authority, the Water and Sewerage Authority and the Development Finance Corporation.

Net Foreign Assets

The net foreign assets of the banking system fell by \$16.6 mn (13.5%) to \$106.2 mn in 1997 after recording growth averaging 94.1% during the previous two years. The reduction reflected declines in the net foreign positions of both the commercial banks and the Central Bank. The deterioration in the commercial banks' net foreign position resulted from a \$5.7 mn fall in banks' foreign assets which was compounded by a \$9.3 mn increase in foreign

Table IV.1: Factors Responsible for Money Supply Movements

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Net Foreign Assets	67.7	122.8	106.2	-16.6
Central Bank	69.9	113.1	111.5	-1.6
Commercial Bank	-2.2	9.7	-5.3	-15.0
Net Domestic Credit	583.2	580.9	654.9	74.0
Central Government (Net)	122.5	80.8	100.0	19.2
Other Public Sector	19.3	18.8	9.5	-9.3
Private Sector	441.4	481.3	545.4	64.1
Central Bank Foreign Liabilities(Long-term)	5.6	28.4	27.1	-1.3
Other Items (net)	55.9	50.0	47.1	-2.9
Money Supply M2	589.4	625.3	686.9	61.6

(\$ mn)



Table IV.2: Money Supply

(\$ mn)

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Money Supply (M2)	589.4	625.3	686.9	61.6
Money Supply (M1)	165.0	177.6	185.9	8.3
Currency with the Public	61.4	63.6	66.4	2.8
Demand Deposits	103.6	114.0	119.5	5.5
Quasi-Money	424.4	447.7	501.0	53.3
Savings Deposits	114.4	120.2	128.2	8.0
Time Deposits	310.0	327.5	372.8	45.3

Box 3: Trends in Money Supply

Throughout the 1990s, with the exception of 1996, the primary stimulus for money supply growth has been credit expansion from the domestic banking system. Since the beginning of the decade, net domestic credit has been growing at an annual average of 13.1% despite the 0.4% contraction recorded in 1996 following the loan to the GOB from the Government of the ROC, Taiwan. With an 11.3% average annual growth rate, the private sector has been the principal recipient of credit expansion as that of the rest of the public sector grew at a slower pace of 4.7% per annum. Since 1993, net credit to Government has been increasing, albeit at a declining pace, with the exception of 1996 when it fell by some 34.0%.

As can be seen on Chart 3a, the period 1990-1994 has seen a steady increase in domestic credit while net foreign assets declined consistently. This relationship is consistent with the high degree of openness of the economy as credit expansion inevitably leads to higher imports, placing demands on foreign currency reserves to meet payments. Due to improved performance in the real sector, the year 1995 saw an improvement in the net foreign assets of the banking system despite an expansion in net domestic credit. This improvement was buttressed in the following year by the proceeds of the ROC, Taiwan loan and of the sale of Central Bank building bonds. Net domestic credit contracted as Government deposited the loan proceeds with the Central Bank. In 1997 once more, net domestic credit rose while net foreign assets declined.

Chart 3a: Net Domestic Credit (NDC) and Net Foreign Assets (NFA)

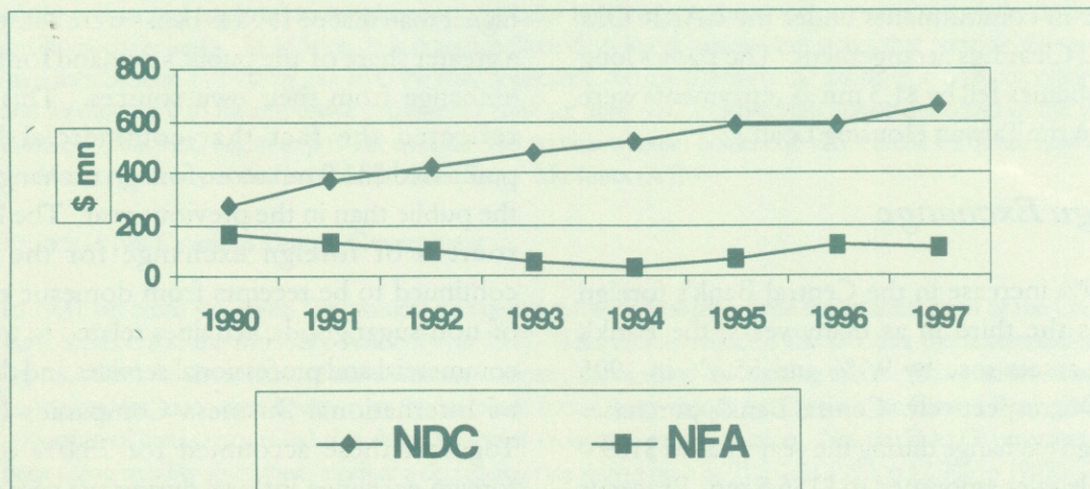




Table IV.3: Net Foreign Assets of the Banking System

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Net Foreign Assets of Banking System	67.7	122.8	106.2	-16.6
Net Foreign Assets of Central Bank	69.9	113.1	111.5	-1.6
Central Bank Foreign Assets	74.9	116.6	118.8	2.2
* Central Bank Foreign Liabilities(Demand)	5.0	3.5	7.3	3.8
Net Foreign Assets of Commercial Banks	-2.2	9.7	-5.3	-15.0
Commercial Bank Foreign Assets	50.9	75.3	69.6	-5.7
Commercial Bank Foreign Liabilities	53.1	65.6	74.9	9.3

* Excludes Central Bank long-term foreign liabilities of \$27.1 mn.

liabilities. The latter reflected a rise in non-residents' foreign currency deposits and, to a lesser extent, foreign borrowing by the banks.

The net foreign position of the Central Bank declined by \$1.6 mn (1.4%) during 1997, contrasting with the \$43.2 mn (61.8%) increase recorded in 1996. The latter had been largely influenced by extraordinary inflows arising from a loan from the ROC, Taiwan and from the sale of US\$ denominated Central Bank Building Bonds.

The decline in 1997 reflected a \$3.8 mn expansion in foreign demand liabilities, which more than offset a \$2.2 mn rise in foreign assets. The higher foreign demand liabilities was due to additional deposits by foreign institutions such as the European Investment Bank and the International Bank for Reconstruction and Development, as well as an increase in commitments under the CARICOM Bilateral Clearings arrangement. The Bank's long term liabilities fell by \$1.3 mn as repayments were made on the Taiwan Housing Loan.

Foreign Exchange

The 1.9% increase in the Central Bank's foreign assets is the third in as many years; the Bank's foreign assets rose by 9.1% and 55.8% in 1995 and 1996, respectively. Central Bank's purchases of foreign exchange during the year totalled \$189.0 mn while sales amounted to \$186.8 mn. Proceeds from sugar exports continued to be the single most

important source of foreign exchange for the Bank and at \$82.9 mn, accounted for 44% of total foreign exchange purchases.

Purchases of foreign exchange from international agencies registered an increase in comparison to 1996 mainly as a result of disbursements from the Caribbean Development Bank (CDB) and the European Investment Bank (EIB) for ongoing projects. In addition, proceeds were remitted to the Bank arising from the GOB's issue of a US\$10.0 mn bond floated by Citibank of Trinidad & Tobago in October 1997. The Central Bank's sales of foreign exchange during the year were \$11.3 mn (5.6%) less than those of 1996, with sales to the commercial banks declining by \$16.8 mn (17.3%).

Notwithstanding this decline, the volume of commercial banks' sales of foreign exchange was higher than that of 1996 as banks were able to meet a greater share of the public's demand for foreign exchange from their own sources. This partly reflected the fact that commercial banks' purchased \$31.9 mn more foreign exchange from the public than in the previous year. The leading sources of foreign exchange for the banks continued to be receipts from domestic exports of non-sugar goods, activities related to tourism, commercial and professional services and deposits of International Business Companies (IBCs). Together these accounted for 73.0% of total foreign exchange inflows during the year.



Table IV.4: Net Domestic Credit - Summary

(\$ mn)

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Total Credit to Central Government	145.8	151.7	152.2	0.5
From Central Bank	81.9	112.0	90.3	-21.7
From Commercial Banks	63.9	39.7	61.9	22.2
Less Central Government Deposits	23.3	70.9	52.2	-18.7
Net Credit to Central Government	122.5	80.8	100.0	19.2
Credit to Other Public Sector	19.3	18.8	9.5	-9.3
Plus Credit to the Private Sector	441.4	481.3	545.4	64.1
Net Domestic Credit to the Banking System	583.2	580.9	654.9	74.0

While the commercial banks' foreign exchange inflows (\$761.3 mn) were higher than 1996 levels, they were exceeded by outflows totalling \$766.9 mn. This contributed to the fall in banks' foreign assets. Approximately 50.0% of sales to the public was for import payments while a further 37.0% was for vacation travel (including credit card payments), and professional services, as well as for private sector loan repayments and miscellaneous capital outflows. Total sales of foreign exchange by commercial banks were \$61.9 mn more than that of 1996.

Net Domestic Credit

After the contraction experienced in 1996, net domestic credit from the banking system rose by 12.7% to \$654.9 mn during 1997. This growth resulted mainly from an expansion in credit to the private sector and represented the fourth consecutive expansion in as many years. Starting from a low growth rate of 2.5% in 1993, the rate of credit rose each year to 13.3% in 1997. While the increase in the latter year was distributed across all sectors of the economy, it was most

Box 4: Significant Trends in Domestic Credit

Developments in Personal Loans

The volume of personal loans outstanding at the end of 1997 represented some 20.8% of total outstanding loans, compared to shares of 15.5% in 1990 and 17.1% in 1996. This expansion has been largely facilitated by the proactive approach of commercial banks in promoting loan offers. Banks are not only increasingly advertising special credit offers at reduced interest rates but have broadened their services to include the use of credit via credit cards. In addition, it is common these days to encounter retail stores that promote the sale of their merchandise by making available the loan application form at the store and assisting in both completing it and forwarding it to the respective commercial bank for approval. Furthermore, towards the end of the year, Barclays Bank PLC began to provide an additional service wherein holders of VISA credit cards are now able to obtain cash at any of that bank's Automatic Teller Machines (ATMs).

Trends in Net Credit to Central Government

In 1990, net credit to Central Government was negative for the first time since the establishment of the Central Bank's precursor, the Monetary Authority, in 1977. This mainly reflected the fact that the accumulation of deposits from the divestment of the telephone company outweighed outstanding credit. This position was not maintained for much time however, as the increased use of the overdraft facility with the Central Bank plus the utilisation of their deposits led to a deterioration of their once sound position. Net credit to Government has been rising steadily since then, albeit at a decreasing rate from a high of 91.3% in 1993 to 12.7% in 1997.



Table IV.5: Sectoral Composition of Commercial Bank's Loans and Advances

(\$ mn)

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
PRIMARY SECTOR	66.5	64.6	78.5	13.9
Agriculture	60.4	61.2	73.6	12.4
Commercial Fishing	3.9	1.7	2.2	0.5
Forestry	1.3	1.1	1.4	0.3
Mining & Exploration	0.9	0.6	1.3	0.7
SECONDARY SECTOR	144.0	148.2	158.1	9.9
Manufacturing	36.8	38.5	41.5	3.0
Building & Construction	102.4	105.2	112.1	6.9
Public Utilities	4.8	4.5	4.5	0.0
TERTIARY SECTOR	159.3	178.1	196.6	18.5
Transport	12.5	12.3	15.8	3.5
Tourism	19.9	18.9	20.9	2.0
Distribution	91.0	103.3	103.5	0.2
Other*	35.9	43.6	56.4	12.8
Personal Loans	70.9	90.0	114.1	24.1
TOTAL	440.7	480.9	547.3	66.4

* Includes government services, real estate, financial institutions, professional services, and entertainment

significant in the personal loans category, which has been expanding rapidly, to reach a record high of \$114.1 mn in 1997.

There was a marked turnaround in net credit to Central Government as it rose by \$19.2 mn in 1997, following a \$41.7 mn decline during the previous year. The rise was due to an \$18.7 mn decline in government deposits and a \$0.5 mn increase in credit. Deposits with the Central Bank contracted by \$19.6 mn as drawdowns totalling

\$39.6 mn from the GOB/ROC Loan and Taiwan Grant accounts exceeded the \$20.0 mn received from the Government International Bond issue.

The increase in credit to Central Government reflected a \$1.5 mn increase in the use of overdraft facilities which was somewhat offset by a \$0.5 mn decline in borrowing. This latter resulted from the retiring of Government Debentures which matured earlier in the year.

Box 5: Analysis of Sectoral Distribution of Loans

Outstanding loans and advances in the primary sector rose by \$13.9 mn (21.5%). This largely reflected the effects of a reclassification exercise wherein some \$9.0 mn outstanding loans were changed from the manufacturing to the citrus category so as to distinguish between loans extended to citrus growers and processors. The only subsector where a decline in outstanding loans was observed was in bananas. Loans to the secondary sector rose by \$9.9 mn following a rise in loans for building and construction and manufacturing of \$6.9 mn and \$3.0 mn, respectively. Outstanding loans for commercial construction fell by \$4.3 mn while loans for residential construction increased by \$10.0 mn. The higher loans for manufacturing was primarily for the financing of the 1997/98 citrus crop.

In the tertiary sector, loans rose by \$18.5 mn to \$196.6 mn. The most significant credit expansion took place in real estate (\$9.5 mn), transport (\$3.5 mn) and tourism (\$2.0 mn), with much of the increase in real estate reflecting reclassifications from various other subsectors. The distribution subsector, which has been growing quite steadily over the past years, displayed very little variation once again resulting from reclassification wherein new loans which were granted to the distribution subsector, were offset by the amount which was reclassified from distribution to real estate.



Table IV. 6 : Commercial Banks' Holdings of Approved Liquid Assets

(\$ mn)

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Holdings of Approved Liquid Assets	163.6	169.8	188.3	18.5
Vault Cash	10.9	11.6	13.4	1.8
Balances with Central Bank	42.5	44.6	48.3	3.7
Money at Call and Foreign				
Balances (due within 90 days)	43.4	69.2	67.6	-1.6
Treasury Bills maturing in not				
More than 90 days	56.1	36.4	53.0	16.6
Treasury Notes	6.2	2.8	0.8	-2.0
Other Approved Assets	4.5	5.2	5.2	0.0
Required Liquid Assets	145.8	157.9	175.2	17.3
Excess/(Deficiency) Liquid Assets	17.8	11.9	13.1	1.2
Daily Average holdings of Cash Reserves	41.1	43.7	48.5	4.8
Required Cash Reserves	39.3	42.5	47.2	4.7
Excess/(Deficiency) Cash Reserves	1.8	1.2	1.3	0.1

Credit to the rest of the public sector fell by \$9.3 mn as one of the commercial banks surrendered its holdings of \$8.7 mn in BEL debentures while RECONDEV made repayments of \$2.2 mn to Central Bank on the Taiwan Housing Loan.

Liquidity

Fluctuations in excess liquidity throughout the year were consistent with the usual cyclical patterns of foreign exchange flows and domestic credit. At the end of the first quarter, excess liquidity peaked at \$35.4 mn, then fluctuated during the months that followed to \$31.5 mn by the end of the third quarter.

With loans and advances expanding further during the latter half of the year, excess liquidity fell to \$13.1 mn by the end of the year, \$1.2 mn more than was recorded at the end of 1996.

The rise in excess liquidity mainly reflected a rise in commercial banks holdings of approved liquid assets which more than offset the expansion in holdings of statutory required liquid assets. The latter reflected an increase in average deposits. Required liquidity has remained unchanged at 26.0% of average deposit liabilities since it was increased by 2.0 percentage points in December 1995



The expansion in commercial banks' holdings of approved liquid assets during the year was reflected mainly in the form of Treasury Bills. Statutory required cash reserves and daily average holdings increased by \$4.8 mn and \$4.7 mn, respectively, so that excess cash reserves expanded by \$0.1 mn

Interest Rates

The weighted average interest rate spread narrowed by 10 basis points during the year as the increase in the weighted average deposit rate of 50 basis points exceeded the 40 basis points rise in the lending rate.

The weighted average savings rate changed for the first time since February, 1994, increasing by 10 basis points in August of 1997. It remained at that level through the end of the year. The weighted average time deposit rate rose by 60 basis points after falling steadily over the latter half of 1996. This increase was directly related to higher loan demands for which banks needed to attract funds into the system.

The weighted average lending rate consequently rose consistently over much of the latter half of the year to reach a record high of 16.6% in November. It remained at that level for the rest of the year. The increases occurred mainly in personal, commercial and mortgage loans but were outweighed by the decline in other loans.

Table IV.7: Commercial Banks Weighted Average Interest Rates

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
Weighted Average Lending				
Personal Loans	17.0	16.8	17.4	0.5
Commercial Loans	16.2	16.2	16.4	0.2
Mortgage Loans	14.6	14.9	15.7	0.8
Other	17.9	17.8	15.2	-2.6
Weighted Average	16.3	16.2	16.6	0.4
Weighted Average Deposit				
Savings	5.3	5.3	5.4	0.1
Time	10.0	8.6	9.3	0.6
Weighted Average	7.2	6.2	6.7	0.5
Weighted Average Spread	9.1	10.0	9.9	-0.1



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Central Government Operations and Public Debt

Central Government Operations

Central Government's fiscal operations during calendar year 1997 resulted in an overall deficit of \$24.9 mn (2.0% of GDP), with an increase in total revenues and grants of \$3.4mn, and in total expenditure of \$23.7mn. The main contributor to the increase in total expenditure was a \$17.6 mn (1.4% of GDP) rise in current expenditure, which contributed to a decline in the current surplus to \$30.7 mn (2.5% of GDP) from the \$41.9 mn (3.5% of GDP) recorded in calendar 1996. There were marginal increases in capital revenue and expenditure, while grant receipts declined.

The increases in current expenditure occurred across all categories, with the most marked being wages and salaries, goods and services, and to a lesser extent, interest payment on public debt. The

increase in current revenue resulted primarily from a 21.3% increase in non-tax revenue. This was complemented by a marginal rise in tax revenue, as the fall in receipts from the Gross Receipts Tax (GRT) and stamp duties was equally slightly offset by higher collections of VAT. These latter collections were effected for the full twelve months of 1997 compared to nine months of 1996. Furthermore, while the GRT was abolished in April 1996, there were still some \$7.3 mn collected with respect to the last two quarters of Fiscal Year (FY) 1995/96.

Another significant change in the tax regime was the further reduction in import duty rates, arising from the second phase of implementation of the CET which was effected April 1. This second phase brought about a reduction of import duties from an average maximum of 35% to 30%, notwithstanding increases effected in import duties

Table V.1: Government of Belize-Revenue and Expenditure (\$'000)

	Jan-Dec 1995	Jan-Dec 1996	Jan-Dec 1997 ^P
Current revenue	259,869	276,568	282,898
Tax revenue	232,122	250,181	250,881
Non-Tax Revenue	27,747	26,387	32,018
Current Expenditure	239,844	234,680	252,233
Current Balance	20,025	41,888	30,666
Capital Revenue	8,543	20,353	22,328
Capital Expenditure (Capital II Local Sources)	36,926	43,406	56,327
Operating Surplus	(8,358)	18,835	(3,333)
Total Grants	7,786	8,483	3,550
(of which non-project)	0	5,000	0
Total Revenue & Grants	276,199	305,404	308,777
Total Capital Expenditure	83,208	75,370	81,491
Total Expenditure	323,052	310,050	333,724
Overall Balance	(46,853)	(4,646)	(24,947)
Financing	46,853	4,646	24,947
Domestic Financing	32,116	(40,879)	18,396
Financing Abroad	3,662	46,613	5,376
Other	10,075	(1,088)	1,175

Source: Ministry of Finance
Central Bank of Belize

P = Provisional



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Financing	46,853	4,646	24,947
Domestic Financing	32,116	(40,879)	18,396
Financing Abroad	3,662	46,613	5,376
Other	10,075	(1,088)	1,175

Source: Ministry of Finance
Central Bank of Belize

P = Provisional



Box 6: Trends in Central Government Operations

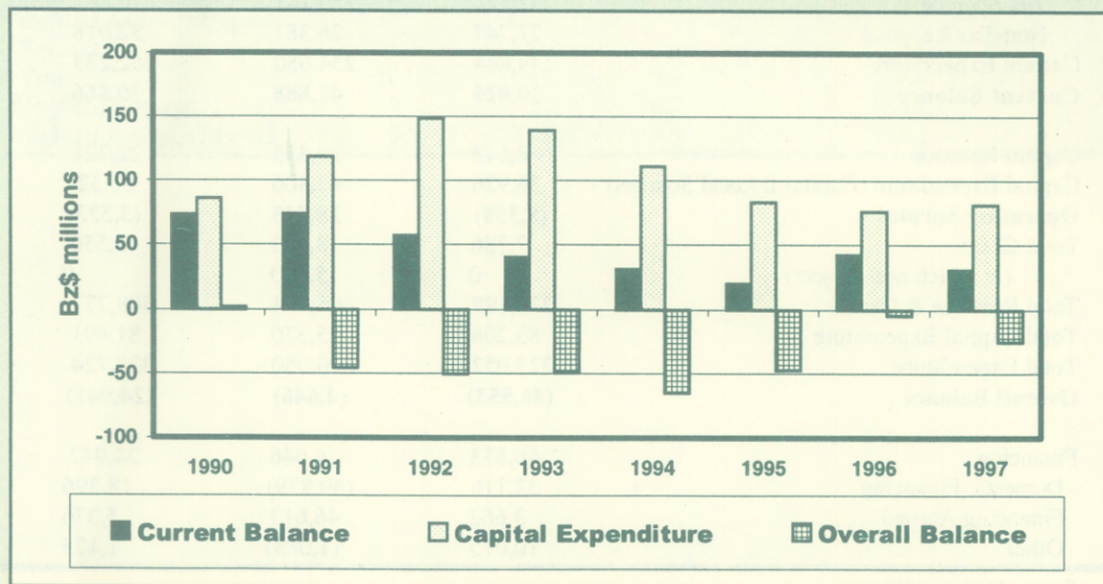
Since the start of the present decade current revenue and expenditure have expanded by an annual average of 4.3% and 9.0%, respectively. The current surplus fell steadily from a high of \$73.8 mn in 1991 to a low of \$20.0 mn in 1995. This deterioration was largely the result of the expansion in the wage bill and interest payments on the external debt. The latter was impacted by an increase in short-term suppliers' credit to finance capital projects during the 1992-1993 period.

Growth in the wage bill was a result of salary increases offered to public officers, as well as an expansion in the number of public sector employees. Public officers received salary increases of 10-12% both in FY 1992/93 and FY 1993/94, and a 6.5% increase in FY 1994/95. In addition to the salary hikes, there was an expansion in transfers to grant-aided schools to cover salaries of teachers. These expenditures out-paced growth in current revenue.

The downward trend in the current balance was reversed in 1996 when Government savings climbed to \$41.9 mn as a result of the retrenchment of public officers and the implementation of the first phase of the CET. During 1997, however, the current balance once again declined to \$30.6 mn as modest growth in revenue was overshadowed by an expansion in current expenditure.

A main factor contributing to this latter growth in current expenditure was the first and second phases of salary increases to public officers and teachers under an agreement signed in November 1996. The compensation package amounted to \$36.5 mn, (of which \$27.5 mn was to be paid between FY's 1996/97 and 1998/99,) and \$9.0 mn in interest-free bonds to compensate for a salary increase foregone in FY 1994/95. These bonds are to be redeemed in three equal annual drawings beginning in FY 1999/2000. Wages and salaries for 1997 were impacted by a lump sum payment equivalent to a 2.0% salary increase in respect of FY 1995/96, a 3.0% salary increase for FY 1996/97, and a 2.0% increase for FY 1997/98.

Chart 6a: Central Government Operations





on certain items to encourage and protect local industry. In each instance where the import duty was raised, VAT was removed so that the effective change in tax was neutral.

The increase noted in non-tax revenue was in large part due to three factors. The first was higher property income (\$4.5 mn) from the Central Bank. The second was a first time (\$1.4 mn) dividend payment by Belize Electricity Limited (BEL) in respect FY 1995/96. Thirdly, BEL effected a \$2.4 mn reimbursement to Government with respect to external debt service for FY 1996/97.

The transfer from the Central Bank was in respect of domestic and external operations during 1996. On the domestic side, interest earnings from GOB securities rose since the Bank had increased its holdings of Treasury Notes and Defence Bonds toward the end of 1995. External operations resulted in higher interest earnings as a result of higher international reserves due to the US\$26.1 mn loan from the Government of the ROC, Taiwan, and the US\$12.0 mn bond issue for the construction of the new Central Bank headquarters.

Capital revenue rose by \$2.0 mn to \$22.3 mn during calendar 1997 as lower collections from the Economic Citizenship Programme were compensated for by an increase in loan receipts from the Belize Social Security Board for rural electrification and financing of the Toledo rice crop. Collections under the Economic Citizenship Programme fell by 40.8% to \$8.1 mn as a result of a decline in demand. Revenue from grant receipts were largely from the CDB for small community projects under the Basic Needs Trust Fund; from the UK Government for the resealing of the Western Highway; and from the the ROC, Taiwan, for the institutional strengthening of the Ministry of Foreign Affairs.

Notwithstanding the increase in capital expenditure, there was a shift from externally funded (Capital III) to locally funded (Capital II) projects, and a \$1.4 mn decline in capital transfers to non-financial public enterprises. The latter reflects a fall in the quantum of external loan repayments effected by Central Government on behalf of public enterprises. The shift was prompted by resource constraints for the implementation of externally funded projects. These constraints were partly a result of the slow

Box 7: Government of Belize Capital Projects

Major Capital III outlays during 1997 included final stages of the Belize City Infrastructure Project, the first 18 miles of the Southern Highway Project (\$4.1mn). In addition, there were disbursements totalling \$1.0 mn to the Social Investment Fund, and \$0.5 mn from Inter-American Development Bank (IDB) for social and environmental technical assistance in connection with the Southern Highway Project. Capital II projects included Government's counterpart contribution to the Belize City Infrastructure and the Southern Highway projects, rural electrification, voters' re-registration, contributions to international organisations, and improvements to and construction of feeder roads.

BEL continued to execute the Rural Electrification Project which involved the expansion of electricity supply to rural communities and suburban areas throughout the entire country. Communities distant from transmission lines were equipped with either a generator, or solar power as in the case of the Lynam facility in the Stann Creek District. The final stages of Phase I encompassed electricity expansion at Mile 8 on the Western Highway, where Government has issued over 500 residential lots, and the Elliot's Subdivision II in San Pedro, Ambergris Caye.



Box 8: Financial Management Development Project

In August of 1996 the GOB circulated its Public Expenditure and Fiscal Adjustment Policy document, which highlighted the need for tax reform and stronger fiscal management, in light of declining fiscal balances during the 1990's. The objective was to put in place a mechanism that would restore fiscal balance, thereby stabilising the economy, and creating suitable conditions for long-term growth. The document was circulated to the international community for possible project funding.

The UK Government expressed interest in the project and dispatched consultants to Belize on an appraisal and participatory project design mission in April 1997. Workshops were held with senior officials of the public service and the Central Bank of Belize. Based on these discussions, a project document was prepared, which outlined a course of action for implementation. In October of 1997, the governments of Belize and the UK signed a grant agreement for 1.25 mn Pounds Sterling, which would fund the design and implementation of a Financial Management and Development Programme (FMDP) in Belize. A field manager was recruited and commenced working in November and, in late December, a consulting firm from Barbados was contracted to execute key elements of the project.

The FMDP, to be implemented during FY 1997/98 and 1998/99, encompasses measures targeted at improving revenue management and control, rationalising expenditure, enhancing budget formulation and implementation, and modernising the public sector. The four broad components of the project include the legislation and policy framework, revenue enhancement, accounting systems and organisational structure, and a planning and budget system.

One of the major legislative actions taken in 1997 under the Financial Management Development Project was the passing of the Recovery of Revenue (Amendment) Act, 1997, which paves the way for the formation a Revenue Advisory Board. The Board will be charged with the task of overseeing organisational, operational, and policy matters within the various revenue-collecting departments. The Board will also advise Government on simplification of the existing tax structures with a view to ensuring equity and transparency, and will co-ordinate staff training and information sharing within these departments.

The Board will consist of six members, with the Deputy Financial Secretary serving as Chairman, and the Inland Revenue Commissioner serving as Secretary. Other members of the Board will include the Accountant General; Deputy Governor of the Central Bank of Belize; and two representatives to be appointed by the Minister of Finance from the private sector who have special knowledge of financial and commercial affairs, one of whom shall be a member of the Institute of Chartered Accountants of Belize. The Commissioner of Income Tax, the Comptroller of Customs, and the Land Revenue Administrator as resource persons will attend all meetings of the Board.

pace of finalising external loan agreements, and of focusing on small projects that would not necessarily have been funded by external lenders.

The overall fiscal deficit was financed from domestic and foreign sources. The \$18.4 mn domestic financing was effected primarily through drawdowns from the ROC, Taiwan loan and grant accounts at the Central Bank which had been budgeted to fund debt service and Capital II

projects. External financing of \$5.4 mn reflected disbursements of \$37.5 mn, loan repayments of \$33.1 mn, and net withdrawals of \$0.9 mn from the Sinking Fund.

Public Sector External Debt

The stock of public sector external debt rose during 1997 by \$31.4 mn to \$471.1 mn as disbursements of \$83.8 mn outweighed loan repayments of \$41.3



Table V.2: Financial Flows on Public Sector External Debt

	(\$ mn)		
	1995	1996	1997 P
Disbursements	42.3	111.3	83.8
Repayments	43.3	43.2	41.3
Net Financing Flows	(1.0)	68.1	42.5
Interest Payments	16.0	16.2	20.2
Net Transfers	(17.0)	51.9	22.3

mn and negative valuation adjustments of \$11.1 mn. Compared to the previous year, loan repayments fell by 4.4%, while interest payments increased 24.7% as payments fell due on commercial loans and on the ROC, Taiwan balance of payments support loan.

The commercial loans on which interest payment fell due included the US\$12.0 mn bond issue floated by the Central Bank in 1996, and a \$12.0 mn loan from CIBC Bank & Trust Company for the expansion of the terminal building at the Philip S. W. Goldson International Airport. This latter was contracted in 1997.

Apart from the loan for the expansion of the terminal building at the International Airport, major disbursements included proceeds of a US\$10.0 mn international bond issue by Government of Belize for infrastructure development, and \$10.1 mn from the World Bank for the Belize City Infrastructure Project),

as well as a total of \$22.7 mn under the Second Power Development Project (Power II). This latter reflected disbursements from the World Bank (\$12.0 mn), the CDB (\$7.9 mn) and the EIB (\$2.8 mn).

Central Government's Domestic Debt

Central Government's outstanding domestic debt increased by \$0.1 mn to \$171.9 mn during 1997. This reflected loan disbursements of \$4.5 mn and a \$1.5 mn increase in the overdraft facility at the Central Bank that outweighed \$1.5 mn in loan repayments to the Belize Social Security Board (BSSB) and the redemption of \$4.4 mn in debentures. Interest on Central Government's domestic debt amounted to \$12.5 mn in 1997.

Loan disbursements were drawn from BSSB to finance Phase I of the Rural Electrification Project (\$2.5 mn) as well as the Toledo rice crop

Table V.3: External Public Debt by Source

	(\$ mn)					
	Disbursed Outstanding Debt 31/12/96	Transactions During 1997			Valuation Adjustments	Disbursed Outstanding Debt 31/12/97P
		Disbursements	Repayments Of Principal	Interest		
Bilateral	181.7	3.6	12.2	5.9	(1.8)	71.4
Multilateral	171.4	48.2	9.8	6.7	(9.3)	200.5
Commercial Banks	47.3	32.0	4.9	5.2	0.0	74.4
Suppliers Credit	39.3	0.0	14.4	2.4	0.0	25.0
Total	439.7	83.8	41.3	20.2	(11.1)	471.1



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Suppliers Credit	39.3	0.0	14.4	2.4	0.0	25.0
Total	439.7	83.8	41.3	20.2	(11.1)	471.1



Box 9: Government of Belize US\$10.0 mn Bonds

The Government of Belize US\$ bond issue, arranged and placed by Citicorp Merchant Bank Limited, Trinidad & Tobago, was the first of its kind for Belize. Prior to this, Governments had relied on standard external loans from multilateral, bilateral, and private sources. Proceeds from these bonds will be used to finance the refurbishment of the Belize City Swing Bridge, and approaches to a new bridge that will span the twin towns of San Ignacio and Santa Elena. Interest on the bond is fixed at 9.75% and is payable in 10 years, inclusive of a three-year grace period.

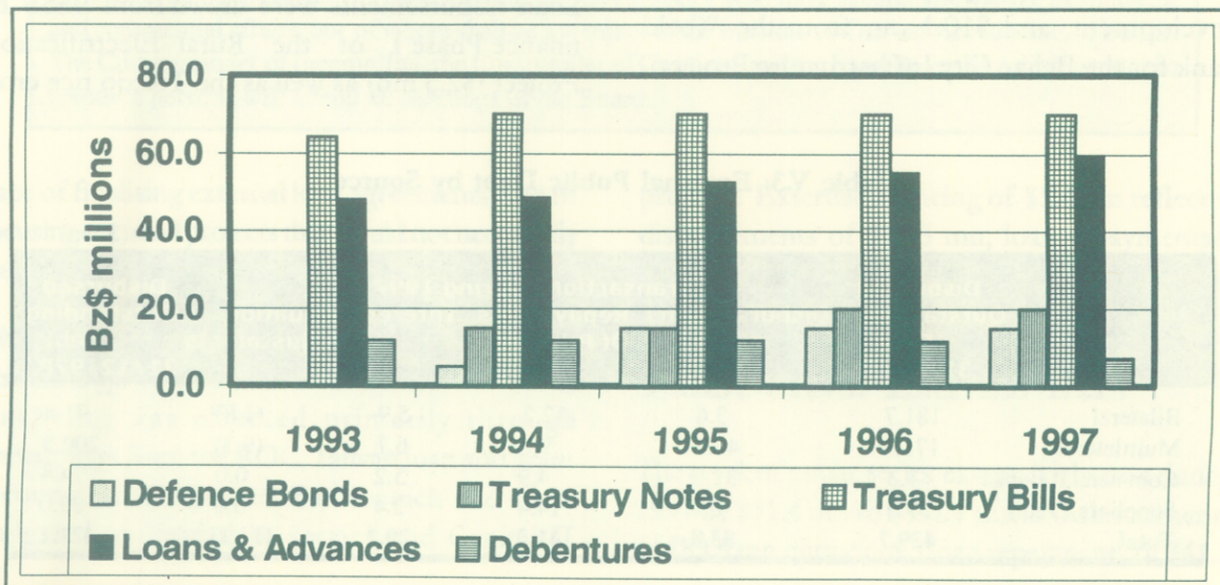
(\$2.0 mn). Interest on the latter is 8.0%, and the repayment period is 15 months, inclusive of three-month grace period.

Loan repayments of \$1.1 mn and \$0.4 mn were made to the BSSB for Housing I and Housing II loans, respectively. In addition, Government redeemed all of its outstanding 8.5% debentures valued at \$4.4 mn, during the first quarter of 1997. Major holders of these securities included the Central Bank (\$1.5 mn), insurance companies (\$0.6 mn) and various funds administered by Government such as sugar price stabilisation fund, Teachers' Provident Fund (\$1.7 mn), and the GOB Savings Bank (\$0.5 mn). These debentures were first issued in the 1970s,

and their proceeds over the years have been used to fund such capital projects as electricity expansion and the construction of the University College of Belize's administrative building.

While the Central Bank held the largest share (52.5%) of GOB's domestic debt at the end of 1997, this represented a reduction from the previous year's share (65.3%). The decline coincided with an increase in the share held by commercial banks' (from 23.2% to 36.2%) as banks increased their holdings of treasury bills. The BSSB's share rose from 8.4% to 9.5% as loan disbursements by the board outweighed loan repayments to the board.

Chart V.1: Central Government Domestic Debt by Instrument





Foreign Trade and Payments

At the end of 1997, Belize's official international reserves stood at US \$59.4 mn, the equivalent of 2.5 months of imports. Financial transactions with residents abroad resulted in net official receipts of US\$1.0 mn, compared to net receipts of US\$3.1 mn and US\$20.9 mn in 1995 and 1996, respectively.

The reduction in the rate of growth of net inflows reflected a significant increase in the current account deficit, resulting mainly from a widening in the visible trade gap. This was exacerbated by deteriorations in net capital and financial flows.

Merchandise Trade

The expansion in the visible trade deficit followed three consecutive years of contractions, and resulted from a significant expansion in imports during the year, which more than offset a slight increase in export earnings. The value of total exports rose by 4.5% in 1997, compared to a 4.3% increase in 1996. On the other hand, imports expanded by 12.1%

compared to a slight contraction in 1996. The value of domestic exports and re-exports rose by 3.4% and 14.1% respectively.

Domestic Exports

The fall in the growth rate of domestic export value reflected two main factors; declines in the volume of banana and molasses exported and reductions in earnings from citrus product and sugar due to price erosions and unfavourable exchange rate movements. These factors were partly offset by buoyant performance in the marine industry and expansions in the export volume of single strength citrus juice.

Sugar and Molasses

Owing to the increase in sugar production, the overall volume of sugar exports during 1997 rose by 14.9% to 108,961 long tons. However, the value of these shipments fell by 2.5% to \$91.9 mn. The increase in export volume was seen primarily in a 74.6% rise in

Table VI.1: Balance of Payments - Summary and Financing Flows (US\$ mn)

	1995	1996	1997 ^P
Current Account	-0.5	-6.9	-39.7
Merchandise Trade	-66.2	-58.2	-78.2
Exports (f.o.b.)	164.3	171.3	179.0
Imports (f.o.b.)	230.5	229.5	257.2
Invisible Trade	25.5	20.2	9.0
Services (net)	47.8	46.3	32.8
Factor Income (net)	-22.3	-26.0	-23.8
Current Transfers (net)	40.2	31.1	29.6
Capital and Financial Account			
Capital Account	-2.6	-2.2	-3.4
Financial Account	-11.0	11.5	30.1
Net Errors & Omissions	17.2	18.5	16.8
Overall Balance	3.1	20.9	1.0
Financing	-3.1	-20.9	-1.0
Memo Items			
Import Cover in Months	1.3	2.7	2.5
Current Account/GDP ratio (%)	-0.0	-1.1	-6.4

P - Provisional



Table VI.2: Domestic Exports

(\$ mn)

	1995	1996	1997 ^P
Traditional Exports	271.4	289.2	299.2
Sugar	95.5	94.3	91.9
Citrus	62.1	63.8	70.9
Molasses	5.6	11.0	6.6
Bananas	44.1	57.4	52.2
Marine	31.1	24.3	35.4
Garments	29.1	35.7	37.0
Sawn Wood	3.9	2.7	5.2
Non-traditional Exports	14.4	17.9	18.3
Total	285.8	307.1	317.5

Source: Central Statistical Office
P = Provisional

exports to the world market, which, combined with a marginal 0.8% increase in shipments to the EU, more than offset a 9.6% decline in shipments to the US under quota arrangements.

The reduction in the value of sugar exports mainly reflected a drop of 12.6% and 11.4% in earnings from the preferential markets of the EU and US, respectively. The decrease in the value of exports to the EU resulted from an appreciation of the Pound Sterling against the ECU over the course of the year. On the other hand, the reduction in the value of shipments to the US resulted from a decrease in the volume of exports to that market as well as from a 1.9% fall in the average unit price. Lower reallocations of production shortfalls

by other quota beneficiaries and the erosion in prices, was linked to an increase in the level of output of US domestic sugar producers (see Box 10).

The contraction in the value of exports to the EU and the US outweighed a near doubling in the volume and value of sugar exports to the world market. World sugar production in 1997, at 122.3 mn tonnes, fell marginally compared to 1996, while consumption increased by 3.7% to 123.0 mn tonnes. The increase was satisfied largely from stocks.

Exports of molasses totalled 48,697 long tons valued at \$6.6 mn, representing contractions of 21.8% and 40.0%, respectively, in volume and value. The reduction in volume resulted from lower

Table VI.3: Exports of Sugar and Molasses

	1995		1996		1997 ^P	
	Volume (Long Tons)	Value (\$ mn)	Volume (Long Tons)	Value (\$ mn)	Volume (Long Tons)	Value (\$ mn)
Sugar	92,316	95.5	94,828	94.3	108,961	91.9
E.E.C (Quota)	54,538	69.6	50,277	62.0	50,696	54.2
USA (Quota)	14,095	12.6	23,176	21.4	20,947	19.0
Other (World)	23,683	13.3	21,375	10.9	37,318	18.7
Molasses	41,842	5.6	62,276	11.0	48,697	6.6

Sources: CSO
BSI
P - Provisional



Box 10: Preferential Arrangements for Sugar Exports

The United States sugar quota arrangement is an integral part of the US Sugar Protocol, the objective of which is to guarantee US domestic sugar producers a price ranging between US\$0.20 and US\$0.22 per pound. This strategy was adopted because US producers, by virtue of the relative size of their production, are price-takers on the World Market. In order to maintain this guaranteed domestic price, the supply of sugar on the US market is restricted to a total which includes the output of US producers and a fixed amount of imports, set by quota, from beneficiary countries.

Since US sugar producers increased their output in 1997, total US domestic supply—local output plus quota imports—increased. This led to a reduction in the price per pound from US\$0.2061 cents to US\$0.2024 cents. With the price being so close to the lower limit of the band within which it is allowed to fluctuate, the extent of reallocation of shortfalls in production of non-US sugar producers was reduced. Had this decision not been taken, there would have been even greater supply available on the US domestic market that would have led to further erosion of the guaranteed price.

The effect of the diversion of sugar to the US preferential market is a contraction in supply and demand on the world market so that less sugar is traded at a lower price. In the absence of the quota arrangement, US domestic demand and supply would be absorbed on the world market and those companies that are not price competitive would exit the industry. In such a scenario, prices would fluctuate around US\$0.16 per pound, as opposed to the prevailing US\$0.11/US\$0.12.

While the mechanics behind the EU's Lome IV protocol are similar to that of the US', the more relevant peculiarity for Belize, at least in 1997, was the fact that guaranteed prices for exports under this arrangement are set in ECU. Since payments are typically made in the currency of the member-country to which the sugar is sold, foreign exchange conversions are required. Consequently, the actual receipts vary according to fluctuations in the relevant exchange rates. In the case of sugar, there are two arrangements. Under the EU-ACP Protocol the actual price per 100 kilograms is fixed at ECU52.37, and the actual price per 100 kilograms is set at ECU44.27 under the Special Preferential Sugar arrangement.

exports of cane-juice molasses by PETROJAM. Although increased exports of molasses by the BSI partly offset this contraction, the difference in the two types of products accounted for the more than proportionate fall in value. The cane-juice molasses produced by PETROJAM is typically used in food production and commands a higher unit price than that produced by BSI.

Citrus ✓

Increases in the production of concentrates and single strength juices led directly to an increase in the volume of exports by the citrus industry in 1997. At 3.6 mn gallons, exports of citrus concentrates, were 6.5% more than exports in 1996.

Table VI.4: Export of Citrus Products

	1995	1996	1997 ^P
Exports ('000 gals)	4,288	4,154	8,162
Orange Concentrate	2,696	2,677	3,127
Grapefruit Concentrate	757	719	492
Single Strength Juices	835	758	4,543
Value (\$mn)	62.1	63.8	70.9
Orange Concentrates	44.9	47.5	42.3
Grapefruit Concentrates	13.4	11.6	5.8
Single Strength Juices	3.8	4.7	22.8

Sources: Central Statistical Office; Belize Food Products; Citrus Company of Belize
P – Provisional



Box 11: Trends in World Concentrate Markets and their Impact on Local Industry

The marked increase in the volume of citrus exports belied the difficulties experienced by the industry in securing sales during the year. Market saturation by the larger Brazilian and US producers, beginning as early as December 1996, significantly increased the level of competition among exporters. This was an adverse development for Belize since processing-related inefficiencies do not allow locally produced concentrates to be price-competitive on the world market. A good measure of protection came from the fact that US and EU production of concentrates are tied to imports of superior quality concentrates, such as that produced by Belize, for blending. This level of quality is a result of the fact that Belize's soil and climatic conditions are conducive to the cultivation of citrus.

While the quality of the product offered some protection from the effects of market saturation, there was no defense against the decline in prices, which occurred in every citrus concentrate market to which Belize exports. In the US, which together with the EU accounts for some 80.0% of Belize's market, the average unit price of orange and grapefruit concentrates fell by 27.6% and 35.8%, respectively. In the EU average prices fell by some 28.0% and 30.0%, respectively. In the smaller markets of the English-speaking Caribbean and in Puerto Rico, the price of orange concentrates fell by 13.1% and 25.8%, respectively. As a result of these price contractions, earnings from the export of citrus concentrates, at \$47.3 mn, were some 20.0% less than in 1996.

As a result of the fall in concentrate earnings, the unit prices for fruits delivered to the factory was forced downward. The price per box of oranges delivered fell from \$6.80 to \$4.84, while the price per box of grapefruit fell from \$4.73 to \$3.56. These were the lowest price levels recorded since the 1980s.

In addition to declining prices, the industry experienced debt service difficulties, as well as constraints on wages that precipitated industrial disputes. Altogether, these factors contributed to a delay in the commencement of the 1997/98 processing season by over a month.

Notwithstanding this increase in volume, there was a significant decline in unit price which led to an erosion in earnings (see box 11).

Exports of single strength juices fared much better during the year. As the industry moved into full-scale production, the volume of exports increased six-fold to 4.5 mn gallons. Consistent with the trend in citrus concentrate markets, the prices for this product declined over the year, so that per unit value fell by 19.0% to US\$2.5 per gallon.

Given the quantity of single strength juice produced relative to concentrate, as well as its high fixed cost of production, earnings from this commodity, while substantial, were insufficient to offset the unfavourable financial impact of the contraction in concentrate earnings.

Bananas ✓

During 1997, banana exports totalled 118.2 mn pounds (53,631 metric tons) valued at \$52.2 mn. Compared to exports in 1996, volume was lower by 5.8% while value was down by 9.1%.

The decline in export volume partly reflected a reduction of 32.7% in the acreage under banana cultivation as a number of plantations were taken out of production. This move was intended to eliminate 19,000 metric tons of bananas over the year so as to bring domestic output in line with the quota allocation of 55,000 metric tons. The strategy was implemented because the industry is not price-competitive outside of the preferential arrangement. In addition to the downscaling,



Table VI.5: Exports of Bananas

	1995	1996	1997 ^P
Volume ('000 lbs)	87,876	125,476	118,230
40-lb net boxes	1,599,305	2,539,483	2,398,001
28-lb net boxes	853,722	850,706	669,961
Value (\$mn)	28.3	37.6	34.1
Quality Bonus (\$mn)	15.8	19.8	18.1
Total Value (\$mn)	44.1	57.4	52.2

Source: Central Statistical Office
P - Provisional

there was also a shift in exports as part of the 1997 quota was shipped in 1996 in order to reduce the amount of over-production in that year.

While there was no change in the unit price, the value of banana exports declined by 8.5% to US \$26.1 mn, mirroring the contraction in export volume and declines in quality bonus earnings.

Marine Products

During 1997, exports of marine products totalled 3.2 mn pounds valued at \$35.4 mn. Compared to 1996, volume rose by 29.1% while value increased by 45.6%. The expansion in export volume was observed in increases of 42.7%, 36.2% and 77.3% in the volume of shrimp, lobster tail and conch exports, respectively.

These outweighed reductions of 65.5% and 21.3% respectively in the volume of whole cooked lobster and whole fish exports, respectively. The volume of shrimp, lobster tail and conch exports each increased as a result of expansion in production, which in turn led to increases in value.

Garments

During 1997, the volume of garments exported amounted to 2.0 mn pieces valued at \$37.0 mn. This represented some 0.4% and 3.6% increases, respectively, in volume and value over those of 1996.

Sawn Wood

During 1997, the sawn wood industry exported 3.2 mn board feet valued at \$5.2 mn, twice the volume and value of exports during the previous

Table VI.6: Exports of Marine Products

	1995		1996		1997 ^P	
	Volume ('000 lbs.)	Value (\$'000)	Volume ('000 lbs.)	Value (\$'000)	Volume ('000 lbs.)	Value (\$'000)
Lobster Tail	476	13,231	412	10,043	561	16,508
Lobster Head	18	118	26	134	30	168
Whole Cooked Lobster	285	3,987	145	1,938	50	797
Shrimp	1,335	10,978	1,184	9,455	1,690	13,203
Conch	363	2,271	304	2,059	539	4,180
Whole Fish	148	409	395	629	3,111	461
Other	14	148	12	80	13	115
Total	2,639	31,142	2,475	24,338	3,194	35,432

Source: Central Statistical Office
P - Provisional



Table VI.7: Exports of Garments and Sawn Wood

	1995	1996	1997 ^P
Garments			
Volume (mn pieces)	1.8	2.0	2.0
Value (\$ mn)	29.1	35.7	37.0
Sawn Wood			
Volume ('000 bd. ft.)	1,952	1,556	3,166
Value (\$ mn)	3.9	2.7	5.2

Source: CSO

year. This recovery followed contractions of 20.3% in 1996 and 56.0% in 1995, and was largely due to the industry's success at marketing primary and secondary sawn wood to the US, following the virtual collapse of the Mexican economy in 1995.

The share of exports to the US consequently rose from some 3.0% prior to 1996, to approximately 30.0% in 1996 and 1997. Demand from this market consists primarily of higher-valued mahogany pieces, thus yielding significant returns in earning. Access to US markets has also provided the opportunity to exploit the largely untapped reserves of secondary wood specie in Belize, leading to exports of an unprecedented 1.0 mn board feet of secondary sawn woods in 1997.

Non-traditionals

In 1997, the value of exports of non-traditional products rose by 2.2% to \$18.9 mn, significantly lower than the 24.3% increase of 1996. The increase in export value was seen mainly in the export of Red Kidney Beans, which more than doubled to \$4.2 mn, and to a lesser extent, in papayas, which rose by 45.8% to \$4.3 mn. On the other hand, the value of orange oil and mango exports fell by 68.0% to \$0.5 mn and 82.3% to \$0.2 mn, respectively, leading to the slowing of the growth rate.

Chart VI.1: Merchandise of Trade

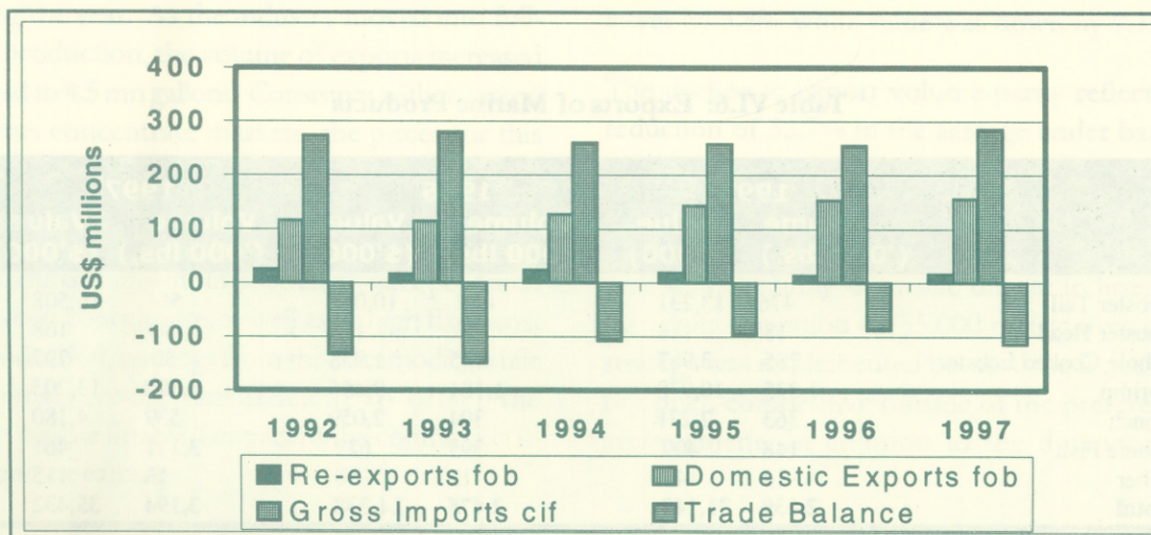




Table VI.8: Merchandise Imports (c.i.f.) by End use

(\$ mn)

End Use Category	1992	1993	1994	1995	1996	1997
Consumer Goods	165.0	156.8	155.2	155.4	154.4	168.4
Intermediate Goods	269.0	285.4	260.8	246.2	247.4	281.7
Capital Goods	83.0	90.6	75.8	85.2	80.8	89.2
Other Goods	31.4	29.0	28.2	30.4	28.6	33.1
Total Imports	548.4	561.8	520.0	517.2	511.2	572.4

Source: CSO

Re-Exports

The re-export trade recorded growth of US\$2.5 mn in 1997, rising to US \$20.3 mn. The principal items responsible for this were diesel exports to Guatemala and exports of alcoholic beverages and miscellaneous manufactured goods and machinery to Mexico.

Gross Imports

A US \$30.7 mn surge in gross recorded imports was the main cause of the increase in the visible trade deficit in 1997. The importance of gross recorded imports as against total imports must be highlighted as a significant volume of goods are brought into the country by individual shoppers who travel to southern Mexican municipalities to take advantage of lower priced Mexican commodities.

At US\$286.2 mn, the level of gross recorded imports for 1997 was the highest since the 1993 peak of US \$280.9 mn. In terms of SITC

categories, there was a US \$9.8 increase in imports of machinery and transport equipment, mainly associated with the upgrading of electricity service.

The execution of the US Army Unit's "New Horizons" exercise during the first half of the year contributed significantly to a US \$7.9 mn rise in imports of fuels and lubricants, while a US \$6.1 mn rise in imports of manufactured goods mainly reflected higher inputs for the agriculture and tourism sectors.

Measured by end-use, the most significant increase in imports during 1997 occurred in intermediate goods, which accounted for some 49.2% of total imports. There were also marked increases in capital goods, and in other goods. However, since these together constitute less than 25.0% of total imports, their impact was not as great as that of the intermediate and consumer goods categories. The latter, which accounts for 29.4% of total imports, rose by 9.1% during the year.

Table VI.9: Direction of Trade

	Exports			Imports		
	1995	1996	1997	1995	1996	1997
United Kingdom	46.2	48.8	37.7	4.6	4.6	4.5
United States	32.4	41.4	48.7	54.0	54.9	50.3
Mexico	0.5	1.2	0.7	11.0	12.2	12.7
CARICOM	3.7	1.5	3.2	4.2	4.1	3.6
Other Countries	17.2	7.1	9.7	26.2	24.2	28.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO



Direction of Trade

The US and the UK were once again the primary consumers of Belize's major exports in 1997. Exports to the US accounted for 48.7% of the total while 37.7% were sold to the UK. During the year, the share of total major exports to the US increased by 7.3 percentage points over 1996, reflecting the increase in sales of marine product to that market. Notwithstanding the shift in exports of citrus concentrate to the UK to take advantage of relatively higher prices, the extent of erosion was still sufficient to contribute to an 11.1 percentage point decline in the share of total major exports to that market.

The share of exports to CARICOM markets also increased in 1997, rising to 3.2% from 1.5% the previous year. This followed the sale of sugar to Jamaica as drought conditions adversely affected domestic production in that country.

The share of exports to other countries increased from 7.1% to 9.7%, reflecting unanticipated sales of sugar to France. At 0.7% of the total, exports to Mexico declined from 1.2% in 1996.

In keeping with past trends, the United States remained the most important source of recorded imports supplying just over half of the recorded imports. Imports from all other countries also increased during the year, rising to 28.9% of the total from an average of 25.2% over the 1995-1996

period. Increases were recorded in the volume of goods imported from Curacao (fuels and lubricants), Argentina (manufactured goods), and Canada and Japan (machinery and transport equipment). The share of total imports originating in the UK and CARICOM fell marginally to 4.5% and 3.6%, respectively.

While exports to Mexico were minimal, recorded imports from that country showed marginal growth, rising to 12.7% of the total in 1997. Most of these imports were in the form of manufactured goods (US \$10.1 mn), fuels and lubricants (US \$6.0 mn), and food and live animals (US \$5.9 mn). Not included in these official statistics are goods purchased by individual consumers who continued to travel to bordering Mexican municipalities during the year to take advantage of relatively low cost Mexican products.

Invisible Trade

A reduction in invisible trade resulted in a marked decline in net inflows on the services account which, combined with a marginal decline in net transfers, more than offset a US\$2.2 mn improvement in net factor income outflows.

The deterioration in services reflected higher payments by residents for transportation and freight on imported merchandise, as well as for other goods and services and for travel (see box

Table VI.10: Balance of Payments - Invisible Trade

(US \$ mn)

	1995			1996			1997 ^P		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Invisible Trade	141.8	116.3	25.5	143.9	123.7	20.2	144.1	135.1	9.0
<i>Services</i>	<i>135.8</i>	<i>88.0</i>	<i>47.8</i>	<i>137.6</i>	<i>91.3</i>	<i>46.3</i>	<i>137.5</i>	<i>104.7</i>	<i>32.8</i>
<i>Of which:</i>									
Transportation	5.8	37.9	-32.2	5.9	37.9	-31.9	6.1	40.2	-34.2
Travel	87.0	24.8	62.3	93.1	26.2	66.9	95.0	33.8	61.2
Other Goods & Services	28.0	21.6	6.4	25.7	23.6	2.1	22.7	26.4	-3.7
Factor Income	6.0	28.3	-22.3	6.3	32.4	-26.0	6.6	30.4	-23.8
Current Transfers	43.1	2.9	40.2	34.2	3.1	31.1	33.0	3.4	29.6
Government	17.7	1.4	16.3	12.6	2.1	10.6	12.0	2.3	9.8
Private	25.4	1.5	23.9	21.6	1.0	20.6	21.0	1.1	19.9



Box 12: Trends in the Services Account

Net inflows on the services account have been declining since 1990, becoming more pronounced since the withdrawal of the British Forces which started in 1994. Between 1991 and 1996, net inflows from services declined by an average of 10.6% per year, from a high of US \$51.6 mn recorded in 1990. This trend continued into 1997 when net inflows from exports of non-factor services declined to US \$32.8 mn, following a US \$5.7 mn decline in net flows on the travel account at the same time that net inflows from other goods and services contracted by US \$5.8 mn.

The classification of credit card payments as part of vacation travel has resulted in an acceleration in the rate of growth of travel outflows, at the same time that inflows from tourism receipts have been slowing. Since the introduction of international credit cards to Belize in 1994, foreign exchange outflows for vacation travel have increased by an average of 25.8% per year, reaching US \$24.4 mn in 1997. At the same time, tourist expenditure slowed to an average annual increase of 6.2% between 1994 and 1997, compared to 16.7% between 1991 and 1993.

12). The latter was only slightly offset by a 2.0% increase in estimated receipts from expenditure by returning residents.

The fall in inflows for goods and services was in large part due to the scaling down of operations at the PETROJAM factory. Increased outward flows of US \$2.4 mn for professional services were also recorded. Most of these outflows were related to the construction of the Central Bank headquarters, the Belize City infrastructure project, telecommunications infrastructure improvements, and storage and brokerage of single strength citrus juices in Europe. There was a notable decline in profit remittances during 1997 which contributed to an improvement in net factor income recorded. This was due to a delay in remittances on the part of one commercial bank pending clarifications of income tax obligations.

Reflecting the global shift in development assistance provided by bilateral and multilateral agencies, an estimated US \$7.8 mn in official grant receipts in 1997 did not deviate from the declining trend noted over the past four years. Between 1990 and 1995 official grant aid averaged US \$13.6 mn per year. In 1996 and 1997, however, grant receipts have been estimated at an average of only US \$7.2 mn, a reduction of almost 50%.

A fall of US \$1.5 mn net inflows of current transfers was also recorded as local expenditure of international organisations and private transfers (worker remittances and receipts of non-profit organisations) showed marginal declines in 1997.

Capital and Financial Accounts

Foreign exchange movements on the capital account deteriorated to a net outflow of US \$3.4 mn in 1997. This was US \$1.0 mn more than the average outflows recorded in the previous two years. A US \$0.9 mn increase in migrant transfers was largely responsible for this growth in net outflows.

At the end of the 1997, the financial account posted net inflows of US \$27.3 mn, representing a more than two-fold increase over that recorded in 1996. The latter had been significantly influenced by the extra-ordinary flows in connection with the ROC Loan contracted by Central Government, as well as receipts from the Central Bank's building bonds. Central Government's foreign borrowing during 1997 included a first time issue of US\$ denominated bonds which were floated abroad, and accounted for inflows of US\$10.0 mn on the financial account.

Offshore financing for the citrus industry dominated private sector loan receipts in 1997. During the year, the industry received US\$9.5 mn in offshore financing, marginally above the foreign financing



Table VI.11: Balance of Payments - Capital and Financial Accounts (US\$ mn)

	1995			1996			1997 ^P		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
CAPITAL ACCOUNT	0.0	2.6	-2.6	0.0	2.2	-2.2	0.0	3.4	-3.4
FINANCIAL ACCOUNT	58.0	69.0	-11.0	93.8	82.3	11.5	78.1	48.0	30.1
Direct Foreign Investment	20.8	2.5	18.2	16.6	5.7	10.9	11.9	3.9	8.0
Portfolio Investment	3.7	0.0	3.7	14.3	4.2	10.1	0.1	0.0	0.1
Other Investments	33.5	66.5	-33.0	62.9	72.4	-9.5	66.1	44.1	22.0
Public Sector Long Term Loans	19.1	21.7	-2.6	41.9	22.4	19.4	41.9	20.6	21.3
Other Public Sector Capital	0.3	0.0	0.3	0.3	0.0	0.3	0.2	0.0	0.2
Commercial Banks and other	14.1	44.8	-30.7	20.8	49.9	-29.1	24.0	23.4	0.6
CHANGE IN RESERVES	1.4	11.7	-3.1	0.4	0.4	-20.9	37.8	38.9	-1.0
(- = increase)									

recorded for the industry in 1996. While freeing-up resources in the domestic banking system, this strategy also helped the industry to take advantage of more competitive international interest rates. Foreign financing was utilised for the improvement of telecommunications infrastructure and oil companies also accessed foreign loans during the year.

External loan repayments in 1997 declined by 6.4% to US \$31.1 mn. Public sector loan repayments contracted by 10.7% to US \$20.6 mn. Payments were made by Central Government for suppliers credits (US \$6.9 mn), and to the Government of the UK (US \$2.4 mn), ICLE (US \$2.0 mn) and the World Bank (US \$1.7 mn). Private sector loan repayments amounted to US \$10.5 mn, a 3.7% decline from repayments made in 1996.

Net inflows for direct foreign investment (DFI) contracted, falling to US \$11.9 mn from an average of US \$18.7 mn over the previous two years. Inflows for DFI have been declining since the start of the current decade when a high of US \$19.0 mn was recorded. Movements in other investments during the year partly reflected the US \$10.0 mn bond floated by Central Government in October. Proceeds from the issue will be used for various infrastructure development projects.

Official International Reserves

Net international reserves declined marginally to US \$55.8 mn. Gross official reserves increased by 1.9% to US \$59.4 mn following much lower level of inflows compared to 1996. Foreign liabilities, on the other hand, doubled to reach US \$3.6 mn owing to the higher deposits made for the Power II Project.

Table VI.12: Official International Reserves (US\$ mn)

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
1. Gross Official Reserves	37.4	58.3	59.4	1.0
Central Bank of Belize	30.5	51.0	52.5	1.5
Holdings of SDRs	0.7	0.9	0.9	0.0
IMF Reserve Tranche	4.3	4.2	3.9	-0.3
Other	25.5	45.9	47.7	1.8
Central Government	6.9	7.3	6.9	-0.4
2. Foreign Liabilities	2.5	1.8	3.6	1.8
CDB	0.0	0.0	0.0	0.0
CARICOM	0.2	0.2	0.5	0.3
Other	2.3	1.6	3.1	1.5
3. Net Official International Reserves	34.9	56.5	55.8	-0.7



Economic Prospects

The Belizean economy is expected to display moderate economic growth in 1998, with a real GDP increase of between 3.0% and 3.5%. The expansion is expected mainly as a result of higher agriculture, agro-industrial and tourism activities, which in turn should lead to an increase in employment. The employment rate is thus expected to fall to below 12.0% and the inflation rate should change marginally. In light of the expected increase in agriculture and agro-industry, the value of domestic exports and gross imports should increase by 2.0% and 5.0% respectively.

The production of sugarcane is expected to increase by about 4.5% to some 1.2 million long tons in 1998. Notwithstanding the increase in sugarcane deliveries, sugar production is expected to decline by about 3.0% to 120,000 long tons due to a reduction in cane juice quality. On the other hand, the production of molasses should increase by about 2.0% to 52,800 long tons as the PETROJAM facility resumes operations.

Activity in the citrus industry is expected to be substantial albeit at a slightly lower level. Owing to the cyclical nature of production, the delivery of citrus fruits is expected to decrease by about 5.0% to 5.7 million boxes in 1998. Consequently, the production of both citrus concentrates and single strength juices should be a somewhat lower.

Prospects are for banana production to rise to approximately 56,135 metric tons. The industry continues to be plagued by an uncertain future stemming from a limited export market. In 1997, the World Trade Organization (WTO) ruled that the provisions of the EU-ACP banana agreement, which benefits Belize, violated the free-trade principles of the WTO and, as member states, the participants were obligated to make them WTO-consistent within a "reasonable" time period or face retaliatory measures.

The volume of output harvested by the fishing sub-sector is expected to remain stable in 1998. The production of lobster and conch should abate slightly, but a rise in the output of shrimp farms may compensate for this. Having had some success in containing the taura virus, the industry is poised to continue employing a range of techniques in order to increase the level of shrimp production. Farmed shrimp output is expected to expand significantly over the next three years from the cultivation of additional acreage.

Sawnwood production is expected to increase but output will likely be comprised of secondary sawnwood, as reserves of secondary wood specie are larger and easier to access than primary wood specie. The availability of primary wood specie has been severely restricted in recent years by the establishment of forest management plans designed to regulate harvesting. Such regulation became necessary following the depletion of the specie after years of exploitation.

The 1998 outlook for tourism is encouraging with projected increases in the number of tourist arrivals and the level of expenditure. Belize will be celebrating the bicentennial anniversary of the Battle of St. George's Caye, culminating in September. A significant number of Belizeans residing abroad are expected to arrive in the country, particularly during the latter half of the year, to participate in these bicentennial celebrations.

Furthermore, since the majority of tourists travelling to Belize are from the US, the UK and Canada, and with GDP growth of above 3.0% recorded in these countries during 1997, there should be a continued increase in tourists from these markets.



Continued expansion in economic activity should result in increased employment mainly in the agriculture and trade, hotels and restaurants sub-sectors. The unemployment rate should therefore fall to below 12.0% in 1998.

A marginal and downward trend in consumer prices is expected to continue in 1998. Three factors should be responsible for this. Firstly, Phase III of the Common External Tariff (CET) is scheduled for implementation in April 1998, and it is expected that this implementation will lead to a reduction of some 16.0% to 33.0% in import duties. Secondly, by mid-1998, residential consumers will no longer be faced with the 15.0% VAT rate that is currently levied on telephone charges.

The third factor that should contribute to the expected downward trend is the decline of some 1.5% in US export prices between 1996 and 1997, a trend that is expected to continue into 1998. The majority of Belize's imports continue to be sourced from the US, and a large number of imported items are contained in the 'basket of goods' used to compute the CPI. Consequently, lower import prices should feed through to the domestic inflation figures.

The fiscal operations of Central Government should yield an overall budget deficit of \$31.5 mn. Government expenditure is expected to increase by 6.7% to \$432.1 mn as a number of capital

projects will be executed during 1998. These projects are expected to stimulate activities in construction and other sub-sectors.

Domestic exports are expected to increase by about 2.0% to \$324.0 mn in 1998. Although the volume and value of sugar exports is expected to decline by 5.5% and 6.5%, respectively, the increase in the exports of citrus products, banana, sawn-wood, garments, and other non-traditional commodities should offset this decline.

There are also prospects for the value of citrus exports to rise by some 2.0% to \$72.5 mn while banana exports should amount to 55,000 metric tons. An improvement in the export price of shrimp is also predicted, and this should offset the expected fall in the price of other marine products. Exports of sawnwood and garments should rise by 4.0% and 7.0% respectively.

Projections are that gross imports will increase by some 5.0% to \$601.0 mn in 1998. Belize's open economy is such that any increase in disposable income results in increased consumption which in turn has to be satisfied by increased imports. Fiscal measures such as the reduction of import duties are, therefore, expected to lead to an increase in imports.



ADMINISTRATION

The Board of Directors

In 1997 the Board of Directors held ten meetings. A total of 71 board papers were submitted to the board for its consideration.

Overseas Meetings

In their capacities as executive officers of the Bank and as advisors to the Government, the Governor and Deputy Governor attended various meetings during the course of 1997 (see box 13). Other senior staff represented the Bank at the following conferences:

- First Crime Prevention Conference in Money Laundering, in the Cayman Islands
- Regional Information Specialists Conference, in Suriname
- Meeting of CARICOM Central Banks Directors of Banking & Operations, in St. Kitts
- Association of Records Managers and Administrators (ARMA) Conference, in Chicago, Illinois
- The Annual CCMS Conference, in Barbados
- Debt due to CMCF - Implications of the HIPC Initiative, in Trinidad & Tobago
- XV Annual Conference of Caribbean Bank Supervisors, in The Bahamas

Headquarters Building Project

Significant progress was made on the new headquarters building project during 1997. Under the close scrutiny of the Central Bank's team of

consultants, Kier International began the year by driving the remaining piles and pouring concrete for pilecaps, ground beams, and some of the columns and corewalls to the first level. Working steadily during the following months, Kier was able to largely complete structural work on the three floors, roof and security yard by October 31. At the end of the year, internal work on partitioning, installation of electrical and public address cable conduits, trunking for security system cables, air conditioning ducts, drainage, water service and hose reel pipes was also well advanced.

During the year, the Central Bank's drive to maximize local input resulted in a decision to remove the provisional sum of \$1.8 mn for furniture procurement from Kier International's contract thereby reducing the lump sum contract price for design and construction to \$20.1 mn. The Bank then commissioned workstation prototypes from four local furniture making consortiums during the first quarter. These consortiums were later invited to bid for the manufacture of a range of items which the Bank has decided to obtain from local producers. Items, which cannot be made in Belize, are being imported, and steps were also taken toward finalizing such procurement by soliciting price quotations from local importers.

During 1997, the Central Bank disbursed approximately \$7.9 mn to the contractor and \$0.9 mn to its consultancy team which included Widnell International, Oscar Faber Consulting Engineers, Project Advisory Services International, and Cunningham & Associates. In the six years since the inception of the project, a total of \$18.3 mn has been expended to acquire the building site from Central Government and to plan and execute the design and construction of the headquarters building.



Box 13: Meetings/conferences attended by the Governor and Deputy Governor during 1997.

Name of Meeting/Conference	Month	Place
The 7 th International Conference on Money Laundering, Cyber Payments, Corporate and Bank Security & Financial Crimes	February	Miami, Florida
CFATF Plenary Meeting & Money Laundering Typology Exercise	February	Port of Spain, Trinidad
Regional Bank Supervisors Sub-Committee Meeting	March	Jamaica
The 38 th Annual Meeting of the Board of Governors of the IDB	March	Barcelona, Spain
The 21 st Meeting of Standing Committee of Ministers responsible for Finance and the Fourth Meeting of the Sub-Committee on Regional Capital Markets	April	Guyana
The 8 th International Conference on Money Laundering	May	Cuarcao
The 27 th Annual Board of Governors Meeting of the CDB	May	Ontario, Canada
Executive Committee Meeting of the CCMS	May	Port of Spain, Trinidad
Bank of England's Annual Meeting of Central Bank Governors	June	London, England
BIS Annual General Meeting	June	Basle, Switzerland
The CARICOM Central Bank Governors Meeting	June	St. Kitts
CFATF Regulatory Conference	July	Aruba
Meeting of Working Group on Financing for Caribbean Development	July	Kingston, Jamaica
Meeting of Working Group on Financing for Caribbean Development	September	Jamaica
IMF/World Bank Annual Meeting	September	Hong Kong
IDB Conference on Financial Disclosure	September	Washington, D.C., USA
IDB Conference on Development of Securities Markets in Emerging Markets: Obstacles & Preconditions for Success	October	Washington, D.C., USA
Executive Committee Meeting of the CCMS	October	Barbados
The CARICOM Central Bank Governors Meeting	December	Barbados
Second Western Hemisphere Finance Ministers Meeting.	December	Chile

BIS Bank for International Settlements
 CDB Caribbean Development Bank
 IDB Inter-American Development Bank

CCMS Caribbean Centre for Monetary Studies
 CFATF Caribbean Financial Action Task Force
 IMF International Monetary Fund



Finance

The financial statements of the Central Bank for the year ended December 31, 1997, with comparative figures for the previous year, are annexed to this report.

During the year, the Bank's total assets decreased by 5.1% to \$218.9 mn with external assets increasing moderately and domestic assets decreasing sharply. Approved external assets expanded by 2.9% to \$103.7 mn, whereas domestic assets reflected a decrease of 11.2% to \$115.3 mn. This was due largely to a reduction in Government of Belize deposits.

At year-end, the Bank's net operating surplus amounted to \$6.3 mn compared to \$5.4 mn in 1996. Gross earnings totalled \$15.9 mn including interest income of \$14.5 mn and commissions and other income of \$1.4 mn. Current expenditure totalled \$9.3 mn with staff costs, interest payments and other operating cost accounting for 38.7%, 32.3%, 29.0%, respectively.

As provided for under Section 9(1) of the Central Bank Act, \$0.6 mn or 10% of the net operating surplus will be paid into the Central Bank's General Reserve Fund. The balance of \$5.7 mn will be transferred to the Accountant General for the Government of Belize Consolidated Reserve Fund.

Human Resources

Staffing

As the Bank continued its mission of promoting economic development through monetary and exchange rate stability during the year, its activities were expanded and four senior positions were created, bringing the establishment to 133 posts. At the end of the year, 121 of the established posts were filled by permanent and contract staff, supplemented by ten temporary and part-time

employees. During the period under review the turnover rate declined by 2.3 percentage points to 10%.

Leaving the services of the Bank in 1997 were Dr. Carla Barnett, Deputy Governor, and Mr. Ricardo Pelayo, Manager, Financial Sector Supervision Department.

In February 1997, Mrs. Yvette Alvarez, Senior Manager, Research Department, was appointed to the post of Deputy Governor by the Minister of Finance. Other appointments at the management level during the year included Mr. Andrew Kelly to the post of Security Operations Officer, Security Unit, and Mr. Francis Arana to the post of Assistant Manager, Research Department.

Several functional changes in the Bank's organizational structure were implemented during 1997. Firstly, with a view to enhancing the Bank's capacity and performance in the vital areas of economic and financial services analysis, a Strategic Policy Unit (SPU) was established in the Office of the Governor in February. The SPU is staffed by a multidisciplinary team of professionals trained in economic policy, finance and statistics.

Other functional changes implemented included the transfer of responsibility for the supervision of the Management Information Systems Unit from the Administration Department to the Finance Department, and the transfer of the Library from the Research Department to the Administration Department.

In an effort to reduce job specialization and decrease job monotony, a system of job rotation was successfully implemented within the Bank during the year. In the first instance, supervisory and clerical staff were identified and transferred based on the number of years in their substantive posts, their level of qualifications and experience. Individuals have welcomed the challenge of new assignments and the widened career opportunity as manifested in the cross-fertilization of ideas, improved efficiency



and effectiveness, and increased departmental cooperation, which is a direct result of the establishment of personal networking.

The practice of recognizing staff who have completed ten years of service with the Bank continued in 1997, and seven members of staff were presented with zericote wood carvings of the Bank's logo, the Jabiru Stork. The system of rewarding the staff members selected by their colleagues as the Best Team Players, and the Overall Achievers selected by the departmental management, was also continued. All awards were presented by the Governor at the Bank's annual Christmas Party.

Staff Development

In keeping with its objectives of increasing the quality of work life, productivity, personnel satisfaction and personnel development, the Human Resources Department launched a monthly bulletin for staff, "The Scoop". This forum has been used to officially inform staff about relevant personnel issues and to clarify existing policies.

During 1997, local training was focused on the administrative competencies of the secretarial staff. All secretarial staff attended an advanced training course aimed at developing communication skills, assertiveness, and the ability to portray a positive image in today's workplace. An in-house seminar was conducted to enlighten the secretarial and administrative staff on the Bank's vision for a centralized comprehensive records management system as they prepare to move into the new headquarters building.

Overseas courses attended by the managerial and professional staff included: Junior Bank Supervisor Training; Training course on Econometrics for Central Banking; Banking Supervisors Seminar; Seminar on Statistics and the Measurement of the Economic Importance of Tourism; Seminar on Payments and Settlements systems; WTO Seminar

on Financial Services Negotiations; Accounting and Budgeting for Central Banks: A New Approach; Seminar on Central Bank Human Resources Management; and Securities Regulators Training. One manager was also sent on an attachment to a regional central bank.

Staff Club

Following up on the participation at the regional games, an executive committee was elected to the Central Bank of Belize Staff Club in October 1997. The objective of the Club is to organize and promote social, educational, cultural, sporting and community outreach activities for staff members of the Bank. It is hoped that the interaction of staff through the activities of the Club will enhance the quality of staff relations and the quality of output in the workplace. The motto of the Club is "In Unity there is Strength", and its colours are Red, Black and Gold.

Community Services

The Central Bank continued its tradition of assisting in a number of community service initiatives during 1997. The assistance was targeted at education, sports, and social associations.

The Bank lent support to the field of education in a number of ways. Firstly, senior personnel of the Bank were available as resource persons to a number of students, engaged in research, from both tertiary and secondary schools. During the summer of 1997, the Bank continued its practice of executing a Summer Employment Programme, directed at the development of working skills of students at the tertiary level. There were three participants in the 1997 programme. Also, the Bank participated in the annual Work Experience Programme whereby high school seniors worked at the Bank to gain practical experience. Finally, the Bank provided financial and other assistance to three primary



schools namely the Queen Street Baptist School, the Queen Square Middle School and the St. Isabella Primary School.

The Bank's support of sports included sponsoring two teams, one male (the Jabirus) and one female (the Angels), to compete in the 1997 Belize City Inter-Office basketball Competition. The Bank also gave financial contributions to both the Belize Volleyball Association and the Belize Amateur Athletic Association. Furthermore, a delegation of staff members travelled to Barbados to represent the Bank at the Second Annual Intra-Regional Games.

The social associations that benefited from the Bank's assistance were the Belize Arts Council, the Scout Association, the Council for Voluntary Social Services, the Mercy Clinic, the Nurses Association, the Ambergris Historical Society and the Belize Red Cross Society.

The staff of the Bank made contributions to the Belize Red Cross for the Prince and Albert Streets fire victims and the Salvation Army for its Christmas appeal for the needy. On both occasions, the Bank matched the contributions made by staff.



OPERATIONS

Trade in Foreign Currencies

During 1997, foreign exchange operations dealt largely in US dollars, Canadian dollars and Pound Sterling. Trading was also done, on a smaller scale, in CARICOM currencies, namely, Barbados and Eastern Caribbean dollars.

As depicted in Table 10.1, sales in foreign currencies peaked in the month of December at \$1.1 mn for CARICOM currencies and \$22.6 mn for other currencies. Purchases for Non-CARICOM currencies ranged from a low of \$8.6 mn in September to a high of \$29.4 mn in October. The peak in October was attributed to funds received from the sale of Government of Belize US dollars bonds arranged and placed by Citicorp Merchant Bank of Trinidad & Tobago. A net purchase of \$3.4 mn was reported in trading of US dollars, Canadian dollars and Pound sterling, representing a 90.6% decline over the corresponding figures for 1996. CARICOM currencies posted net sales of \$5.0 mn, or a 50% rise over 1996.

External Assets

During 1997, the external assets of the Bank consisted of foreign notes and coins, deposits with foreign central banks and correspondent banks abroad, instruments for international settlements, securities of foreign governments and international financial institutions, and International Monetary Fund Special Drawing Rights. Section 25(2) of the Central Bank of Belize Act, 1982 requires the Bank to maintain a reserve of external assets of not less than 40.0% of the aggregate amount of notes and coins in circulation and the Bank's liabilities to its customers in respect of sight and time deposits. The ratio fluctuated during the year, reaching a low of 56.3% in January and attaining its highest level of 66.5% in August. At no time did it fall below the legal requirement. At the end of the year the external assets ratio stood at 64.0%.

Table 10.1: Central Bank Dealings in Foreign Exchange 1997

Month	US & Canadian Dollars and £ Sterling			CARICOM Currencies		
	Purchases	Sales	Net	Purchases	Sales	Net
January	12.9	18.1	-5.2	0	0.8	-0.8
February	18.9	10.9	8.0	0	0.1	-0.1
March	15.8	15.4	0.4	0	0.4	-0.4
April	12.7	15.5	-2.8	0	0.2	-0.2
May	17.8	10.7	7.1	0	0.6	-0.6
June	11.7	15.6	-3.9	0	0.6	-0.6
July	12.7	21.4	-8.7	0	0.3	-0.3
August	17.1	10.9	6.2	0	0.2	-0.2
September	8.6	19.8	-11.2	0	0.3	-0.3
October	29.4	16.7	12.7	0	0.3	-0.3
November	18.8	13.1	5.7	0	0.1	-0.1
December	17.7	22.6	-4.9	0	1.1	-1.1
Total	194.1	190.7	3.4	0	5.0	-5.0

(\$ mn)



Table 10.2: External Asset Ratio 1997

Month	Assets \$'000	Liabilities \$'000	External Asset Ratio (%)
January	95,421	169,631	56.25
February	103,323	166,094	62.21
March	103,420	171,357	60.35
April	100,398	159,969	62.76
May	107,640	174,342	61.74
June	103,754	158,992	65.26
July	95,083	153,137	62.10
August	101,187	152,118	66.52
September	89,904	148,466	60.56
October	102,814	166,753	61.65
November	108,380	169,614	63.90
December ^P	103,373	161,617	64.00

^P - Provisional

Relations with Commercial Banks

Cash Balances

In accordance with section 13(1) of the Banks and Financial Institutions Act (BFIA), 1995, commercial banks are required to maintain on account with the Central Bank, an average daily balance of not less than 7% of average deposits liabilities. During 1997, this requirement was fully complied with. The actual reserves held exceeded the required minimum level

throughout the year. While the average deposit liabilities held by the commercial banks were almost 11% higher in 1997, the excess holdings in the cash reserves at the Central Bank were far below those held in 1996 during the months of January to October. This reflected a close management of cash reserves by the commercial banks in order to maximize profits since the funds held at the Central Bank do not earn interest.

Table 10.3: Commercial Bank Balances with the Central Bank

MONTH	Average Deposit Liabilities (1997)	Required Cash Reserves	Daily Average Holding Of Cash Reserves With Central Bank	Excess (1997)	Excess (1996)
January	612.8	42.9	44.3	1.4	6.6
February	607.9	42.6	44.7	2.1	5.4
March	610.0	42.7	42.8	0.1	8.4
April	628.1	44.0	45.6	1.6	7.6
May	642.3	45.0	47.5	2.5	5.3
June	639.6	44.8	48.0	3.2	5.3
July	658.5	46.1	47.7	1.6	5.1
August	657.2	46.0	47.1	1.1	9.9
September	664.0	46.5	48.1	1.6	3.4
October	672.4	47.1	47.9	0.8	1.3
November	669.1	46.8	50.4	3.6	2.3

(\$ mn)



Table 10.4: Currency in Circulation 1997

Month	Notes	Coins	Total	(\$ mn.)	
				Commercial Bank Vault Cash	Currency With the Public
January	64.4	7.5	71.9	7.9	64.0
February	64.4	7.4	71.8	6.6	65.2
March	68.5	7.5	76.0	8.5	67.5
April	68.2	7.6	75.8	11.1	64.7
May	69.9	7.7	77.6	9.7	67.9
June	69.1	7.8	76.9	10.5	66.4
July	67.7	7.7	75.4	11.7	63.7
August	67.9	7.7	75.6	8.5	67.1
September	64.7	7.8	72.5	11.0	61.5
October	65.1	7.8	72.9	8.4	64.5
November	67.4	7.8	75.2	8.5	66.7
December	71.2	8.0	79.2	12.8	66.4

Currency in Circulation

Currency in circulation displayed the usual seasonal pattern during 1997, with the lowest levels occurring in the months of January and February and the highest levels in May and December. Total circulation in December of 1997 was 3.8% higher than the figure recorded for the previous year. The increase was reflected in currencies held with the public which rose from \$63.6 mn in 1996 to \$66.4 mn in 1997.

Relations with Central Government

Under Section 34 of the Central Bank of Belize Act, 1982 as amended in 1993, the Bank may extend advances to Government up to a maximum of 20% of current revenue collected during the preceding financial year or a sum of \$50 mn, whichever is greater. During 1997, 20% of the preceding year's revenue amounted to \$56.2 mn. Advances to Central Government peaked at \$51.6 mn in January, but declined marginally to \$49.7 mn by the end of 1997.

Table 10.5: Central Bank Credit to Central Government

Month	Treasury		Defence Bonds	Debentures	Total GOB Securities	Overdraft Balance	(\$ mn.)	
	Bills	Notes					A	B
January	32.5	17.7	10.0	4.7	64.8	51.6	3.21	18.36
February	23.5	17.7	10.0	4.7	55.8	49.5	2.76	17.62
March	31.3	17.7	10.0	3.2	62.1	48.6	3.08	17.30
April	24.0	17.7	10.0	3.2	54.8	47.4	2.71	16.87
May	28.4	17.7	10.0	3.2	59.3	50.5	2.94	17.97
June	14.5	17.7	10.0	3.2	45.3	49.0	2.25	17.40
July	16.2	17.7	10.0	3.2	47.0	47.9	2.33	17.02
August	7.9	17.7	10.0	3.2	38.7	48.4	1.92	17.22
September	10.4	17.7	10.0	3.2	41.2	49.2	2.04	17.51
October	14.8	17.7	10.0	3.2	45.6	50.5	2.26	17.98
November	11.7	17.7	10.0	3.2	42.8	50.4	2.10	17.94
December	7.9	19.5	10.0	3.2	40.6	49.7	2.01	17.67

A Central Bank holdings of Government Securities as a multiple of Central Bank's paid up Capital Reserves.

B Advance to Government as a percentage of \$281.1 mn, Government's current revenue collected for fiscal year 1995/96 for the period January to March and \$259.2 mn for the period April to December.



Table 10.4: Currency in Circulation 1997

Month	Notes	Coins	Total	(\$ mn.)	
				Commercial Bank Vault Cash	Currency With the Public
January	64.4	7.5	71.9	7.9	64.0
February	64.4	7.4	71.8	6.6	65.2
March	68.5	7.5	76.0	8.5	67.5
April	68.2	7.6	75.8	11.1	64.7
May	69.9	7.7	77.6	9.7	67.9
June	69.1	7.8	76.9	10.5	66.4
July	67.7	7.7	75.4	11.7	63.7
August	67.9	7.7	75.6	8.5	67.1
September	64.7	7.8	72.5	11.0	61.5
October	65.1	7.8	72.9	8.4	64.5
November	67.4	7.8	75.2	8.5	66.7
December	71.2	8.0	79.2	12.8	66.4

Currency in Circulation

Currency in circulation displayed the usual seasonal pattern during 1997, with the lowest levels occurring in the months of January and February and the highest levels in May and December. Total circulation in December of 1997 was 3.8% higher than the figure recorded for the previous year. The increase was reflected in currencies held with the public which rose from \$63.6 mn in 1996 to \$66.4 mn in 1997.

Relations with Central Government

Under Section 34 of the Central Bank of Belize Act, 1982 as amended in 1993, the Bank may extend advances to Government up to a maximum of 20% of current revenue collected during the preceding financial year or a sum of \$50 mn, whichever is greater. During 1997, 20% of the preceding year's revenue amounted to \$56.2 mn. Advances to Central Government peaked at \$51.6 mn in January, but declined marginally to \$49.7 mn by the end of 1997.

Table 10.5: Central Bank Credit to Central Government

Month	(\$ mn.)				Total GOB Securities	Overdraft Balance	A	B
	Treasury Bills	Treasury Notes	Defence Bonds	Debentures				
January	32.5	17.7	10.0	4.7	64.8	51.6	3.21	18.36
February	23.5	17.7	10.0	4.7	55.8	49.5	2.76	17.62
March	31.3	17.7	10.0	3.2	62.1	48.6	3.08	17.30
April	24.0	17.7	10.0	3.2	54.8	47.4	2.71	16.87
May	28.4	17.7	10.0	3.2	59.3	50.5	2.94	17.97
June	14.5	17.7	10.0	3.2	45.3	49.0	2.25	17.40
July	16.2	17.7	10.0	3.2	47.0	47.9	2.33	17.02
August	7.9	17.7	10.0	3.2	38.7	48.4	1.92	17.22
September	10.4	17.7	10.0	3.2	41.2	49.2	2.04	17.51
October	14.8	17.7	10.0	3.2	45.6	50.5	2.26	17.98
November	11.7	17.7	10.0	3.2	42.8	50.4	2.10	17.94
December	7.9	19.5	10.0	3.2	40.6	49.7	2.01	17.67

A Central Bank holdings of Government Securities as a multiple of Central Bank's paid up Capital Reserves.

B Advance to Government as a percentage of \$281.1 mn, Government's current revenue collected for fiscal year 1995/96 for the period January to March and \$259.2 mn for the period April to December.



The Central Bank may also hold GOB securities up to a maximum of five times the Bank's paid-up capital and reserves. In December of 1997, these holdings totalled \$40.6 mn or twice the Bank's paid up capital and reserves.

Treasury Bills

Treasury Bills operations are conducted by the Central Bank on behalf of the GOB and the commercial banks are presently the largest traders. The yield started at the previous year's minimum of 3.66% and contracted during the course of the year to stand 3.44% at year-end. The present bidding process was introduced in 1992, and indications are that it has influenced the yield downward. Total Treasury Bills outstanding as at 31 December 1997 was \$70.0 mn.

Treasury Notes

Under the 1993 amendment to the Treasury Bill Act, the GOB may issue up to \$25.0 mn in Treasury Notes which have a one-year maturity period and carry a 9.0% rate of interest. Total Treasury Notes outstanding amounted to \$20.0 mn at the end of

1997. Of this amount, the Central Bank held \$19.5 mn and private sector institutions and individuals held \$0.5 mn.

Defence Bonds

The Government may issue up to \$25.0 mn in Defence Bonds, which have a five year maturity period. There were two issues outstanding at the end of 1997. Issue number 1/1994 amounting to \$5.0 mn at an interest rate of 9.0% was held largely by the Social Security Board. Issue number 1/95 amounting to \$10.0 mn at an interest rate of 9.5% was held largely by the Central Bank.

Supervision of the Financial System

During 1997, the Bank conducted two on-site inspections of commercial banks, one of full scope and one of limited scope. During these examinations, the focus was on safety and soundness issues such as commercial banks' capital adequacy, asset quality, management, earnings, liquidity, internal controls and compliance with the provisions of the BFIA.

Table 10.6: Government of Belize Treasury Bills Issues

Issue Number	Issue Date	Maturity Date	Tender \$mn	Allotment \$mn	Average Discount Rate	Average Yield To Maturity
1/97	09/01/97	10/04/97	15.4	15.4	3.63	3.66
2/97	06/02/97	08/05/97	17.2	13.2	3.60	3.63
3/97	19/02/97	21/05/97	5.8	5.8	3.60	3.63
4/97	19/03/97	18/06/97	35.6	35.6	3.57	3.60
5/97	10/04/97	10/07/97	15.4	15.4	3.54	3.57
6/97	08/05/97	07/08/97	13.2	13.2	3.52	3.55
7/97	21/05/97	20/08/97	5.8	5.8	3.53	3.56
8/97	18/06/97	17/09/97	35.6	35.6	3.51	3.54
9/97	10/07/97	09/10/97	15.4	15.4	3.50	3.53
10/97	07/08/97	06/11/97	13.2	13.2	3.47	3.50
11/97	20/08/97	20/11/97	5.8	5.8	3.47	3.50
12/97	17/09/97	17/12/97	35.6	35.6	3.44	3.47
13/97	09/10/97	08/01/98	15.4	15.4	3.44	3.47
14/97	06/11/97	05/02/98	13.2	13.2	3.43	3.46
15/97	20/11/97	19/02/98	5.8	5.8	3.42	3.45
16/97	17/12/97	18/03/98	35.6	35.6	3.41	3.44



The findings of the inspection were forwarded to the respective banks along with the necessary corrective measures that should be undertaken.

In addition to the on-site inspections, the Central Bank continued to monitor the operations of the commercial banks through its off-site surveillance system. The primary objective of this system is to monitor the commercial banks' adherence to the various legal requirements by analyzing weekly returns submitted by these institutions.

The Bank also monitored borrowing in excess of 25.0% of a commercial bank's paid-up capital and reserves. Such movements were monitored through the processing of applications under Section 21(2) of the BFIA. The BFIA stipulates that large borrowing in excess of 25.0% of a commercial bank's paid-up capital and reserves should not exceed six times the capital and reserves of that bank. Credit concentrations with respect to large borrowing decreased by \$48.4 mn or 36.0% during the year compared to 1996.

In the area of financial market development, the Central Bank accepted and processed eight applications for offshore banking licenses, two of which were later withdrawn. The Minister of Finance agreed to the granting of licenses to three of the applicants.

During the year the Bank assisted in the drafting of new anti-money laundering regulations under the Money Laundering (Prevention) Act. These draft regulations were disseminated to all interested parties and organizations for their review and comment. The regulations are expected to be implemented in early 1998. In conjunction with the preparation of these regulations, Guidance Notes were also prepared for dissemination to financial

institutions to assist them in complying with both the Money Laundering (Prevention) Act and the regulations issued thereunder.

Economic Research

The Bank also engaged in its regular roles of economic monitoring and analysis by way of the processing of applications for foreign exchange transactions, the processing of a range of monetary, banking and other economic statistics, and the conducting of economic research by staff of the Bank.

Areas of research visited include an examination of Belize's Real Effective Exchange Rate, an Analysis of Belize's Public Sector External Debt, and an Investigation into the Competitiveness of Belize's Export Sector Industries which are faced with dwindling preferential tariff arrangements, Inflation, and An Examination of Credit Costs in Belize.

The papers were presented and discussed at a two-day in-house seminar held at the Bank. The paper on External Debt was later presented by Laetitia Solis at the 1997 Conference of the Caribbean Centre for Monetary Studies (CCMS).

Other studies that were conducted in 1997 dealt with topics such as excess liquidity, money supply, and trade policy.

One of the major tasks undertaken by the Bank in conjunction with the Belize Tourist Board was the 1997 Visitor Expenditure and Motivation Survey (VEMS). The undertaking covered two survey rounds each covering a four-week duration. Round I, covering the winter, season began in January while Round II, targeting



summer visitors, began in July. The survey results are used, in part, to augment tourism expenditure and balance of payments estimates.

The Bank also processed a wide range of requests for information from both government and private sector agents, domestic and international.

Publications

In its ongoing efforts to respond to informational needs, the Bank, in 1997, prepared and published the *1996 Annual Statistical Digest*, the *1996 Annual Report*, as well as quarterly economic reviews for March, June and September of 1997. The Bank also designed and published two new pamphlets on key economic indicators for distribution in 1997.

Economists of the Bank had three papers published during 1997, and these were:

"The Evolution of the Financial Sector in Belize", by Christine Vellos and Nigeli Sosa, in L. Clarke and D. Danns (Editors), *The Financial Evolution of the Caribbean Community (1970-1996)*, Caribbean Centre for Monetary Studies, Trinidad and Tobago, 1997.

"A Review Of Fiscal Reform Measures In Belize 1984-1996", by Francis Arana, in *CEMLA Working Paper No. 40 - Seminar on Fiscal Policy*, Centre For Latin American Monetary Studies, Mexico.

"Measuring the Multidimensional Aspects of Poverty: A Study Based on Orange Walk District, Belize." by Nigeli Sosa, in the Institute of Social Studies *Working Paper No. 238*, The Netherlands.



STATISTICAL APPENDIX

Table 1: Real Gross Domestic Product (GDP) by Industrial Origin at Factor Cost (1984=100)

	1993	1994	1995	1996	1997 ^P
	(\$'000)				
Gross Domestic Product	672,063	682,152	707,901	717,459	749,459
Primary Activities	131,996	135,133	142,821	152,548	170,347
Agriculture	89,062	91,486	98,528	112,660	126,148
Forestry & Logging	17,001	19,271	15,907	14,486	14,113
Fishing	20,531	19,467	23,057	20,294	25,144
Mining	5,402	4,910	5,329	5,107	4,942
Secondary Activities	179,800	174,412	179,745	176,756	179,250
Manufacturing	110,381	115,637	120,674	121,039	124,324
Electricity & Water	13,334	14,193	14,652	14,935	16,365
Construction	56,086	44,582	44,419	40,781	38,560
Service	382,854	395,448	408,976	411,853	424,324
Trade, Restaurant & Hotel	118,792	124,012	127,167	125,363	135,637
Transport & Communications	98,247	99,395	105,134	109,601	110,458
Finance & Insurance	31,839	33,155	34,317	33,964	36,035
Real Estate & Business Services	32,889	34,248	35,763	37,307	37,500
Public Administration	54,916	57,105	57,823	55,607	53,344
Comm. & Other Services	46,181	47,533	48,772	50,011	51,711
Less imputed bank service charges	22,597	22,840	23,641	23,397	24,824

Source: CSO

P - Provisional

Table 2: Annual Percentage Change In GDP By Sector At Constant 1984 Prices

	1993	1994	1995	1996	1997 ^P
Gross Domestic Product	4.3	1.5	3.8	1.4	4.4
Primary Activities	0.3	2.4	5.7	6.8	11.7
Agriculture	(0.7)	2.7	7.7	14.3	12.0
Forestry & Logging	(5.7)	13.3	(17.5)	(8.9)	(2.6)
Fishing	9.3	(5.2)	18.4	(12.0)	23.9
Mining	5.0	(9.1)	8.5	(4.2)	(3.2)
Secondary Activities	8.0	(3.0)	3.1	(1.7)	1.4
Manufacturing	4.7	4.8	4.4	0.3	2.7
Electricity & Water	10.7	6.4	3.2	1.9	9.6
Construction	14.3	(20.5)	(0.4)	(8.2)	(5.4)
Service	4.1	3.3	3.4	0.7	3.1
Trade, Restaurant & Hotel	3.8	4.4	2.5	(1.4)	8.2
Transport & Communications	6.1	1.2	5.8	4.2	0.8
Finance & Insurance	4.1	4.1	3.5	(1.0)	6.1
Real Estate & Business Services	3.9	4.1	4.4	4.3	0.5
Public Administration	2.4	4.0	1.3	(3.8)	4.1
Comm. & Other Services	2.6	2.9	2.6	2.5	3.4
Less imputed bank service charges	3.0	1.1	3.5	(1.0)	6.1

Source: CSO

P - Provisional



Table 3: Net Domestic Credit

	Position as at			Change during 1997
	Dec 95	Dec 96	Dec 97	
	(\$ mn)			
Total Credit to Central Government	145.8	151.7	152.2	0.5
From Central Bank	81.9	112.0	90.3	-21.7
Loans and Advances	47.2	48.2	49.7	1.5
Gov't Securities	34.7	63.8	40.6	-23.2
From Commercial Banks	63.9	39.7	61.9	22.2
Loans and Advances	0.0	0.0	0.0	0.0
Gov't Securities	63.9	39.7	61.9	22.2
Less Central Government Deposits	23.3	70.9	52.2	-18.7
With Central Bank	19.4	66.9	47.3	-19.6
With Commercial Banks	3.9	4.0	4.9	0.9
Net Credit to Central Government	122.5	80.8	100.0	19.2
Credit to Other Public Sector	19.3	18.8	9.5	-9.3
From Central Bank	7.1	6.4	4.2	-2.2
From Commercial Banks	12.2	12.4	5.3	-7.1
Plus Credit to the Private Sector	441.4	481.3	545.4	64.1
Loans and Advances	438.3	478.2	542.3	64.1
Securities	3.1	3.1	3.1	0.0
Net Domestic Credit of the Banking System	583.2	580.9	654.9	74.0

Table 4: Gross Imports (cif) by SITC Categories

SITC Categories	(US\$ mn)				
	1993	1994	1995	1996	1997
Food and Live Animals	41.1	38.2	40.1	43.0	45.2
Beverages and Tobacco	6.9	7.7	7.2	6.9	9.2
Crude Materials	2.8	2.4	1.7	1.2	1.4
Fuels and Lubricants	31.2	29.3	29.7	29.0	36.9
Animal and Vegetable Oils	1.5	1.6	1.7	1.9	1.9
Chemicals	32.1	27.9	27.1	29.5	31.3
Manufactured Goods	56.5	52.3	46.1	46.4	52.5
Machinery and Transport Equipment	74.1	66.7	66.7	64.1	73.9
Miscellaneous Manufactured Goods	34.8	33.8	37.2	31.9	32.2
Commodities not classified elsewhere	0.1	0.1	0.1	1.5	1.7
Total	281.0	259.9	257.6	255.4	286.2

Source: CSO



Table 5: Balance Of Payments Summary

(US\$ mn)

	1995	1996	1997 ^P
1. Current Account	-0.5	-6.9	-39.7
i) Merchandise Trade	-66.2	-58.2	-78.2
Exports (f.o.b.)	164.3	171.3	179.0
Imports (f.o.b.)	230.5	229.5	257.2
ii) Invisible Trade	25.5	20.2	9.0
Services (net)	47.8	46.3	32.8
of which: Travel	62.3	66.9	61.2
Factor Income	-22.3	-26.0	-23.8
of which: Investment Income	-20.8	-24.0	-21.1
iv) Current Transfers (net)	40.2	31.1	29.6
Official	16.3	10.6	9.8
Private	23.9	20.6	19.9
2. Capital and Financial Account			
A. Capital Account	-2.6	-2.2	-3.4
Capital Transfers	-2.6	-2.2	-3.4
B. Financial Account	11.0	11.5	30.1
i) Direct Investment	18.2	10.9	8.0
ii) Portfolio Investment	3.7	10.1	0.1
iii) Other Investment	-33.0	-9.5	22.0
3. Net Errors & Omissions	17.2	18.5	16.8
4. Overall Balance	3.1	20.9	1.0
5. Financing	-3.1	-20.9	-1.0
Change in SDR Holdings	0.1	0.2	0.0
Change in IMF Reserve Position	0.1	-0.1	-0.3
Change in Government Foreign Assets	-0.1	0.5	-0.4
Change in Other Official Foreign Assets	2.9	20.3	1.8
Memo Items			
Import Cover in Months	1.3	2.7	2.5
Current Account/GDP (%)	-0.5	-0.4	-6.4

P - Provisional



Table 6: Balance of Payments, 1995 - 1997

(US\$ mn)

	1995			1996			1997 ^P		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
CURRENT ACCOUNT	349.2	349.7	-0.5	349.4	356.3	-6.9	356.0	395.7	-39.7
Visible Trade	164.3	230.5	-66.2	171.3	229.5	-58.2	179.0	257.2	-78.2
Invisible Trade	141.1	116.3	25.5	143.9	123.7	20.2	144.1	135.1	9.0
Services	135.8	88.0	47.8	137.6	91.3	46.3	137.5	104.7	32.8
Transportation	5.8	37.9	-32.2	5.9	37.9	-31.9	6.1	40.2	-34.2
Travel	87.0	24.8	62.3	93.1	26.2	66.9	95.0	33.8	61.2
Other Goods & Services	28.0	21.6	6.4	25.7	23.6	2.1	22.7	26.4	-3.7
Govt. Goods & Services, N.I.E	15.0	3.7	11.3	12.9	3.7	9.2	13.6	4.2	9.4
Factor Income	6.0	28.3	-22.3	6.3	32.4	-26.0	6.6	30.4	-23.8
Labour Income	4.1	5.6	-1.5	4.1	6.1	-2.1	4.1	6.8	-2.7
Investment Income	1.9	22.7	-20.8	2.2	26.2	-24.0	2.5	23.7	-21.1
Current Transfers	43.1	2.9	40.2	34.2	3.1	31.1	33.0	3.4	29.6
Government	17.7	1.4	16.3	12.6	2.1	10.6	12.0	2.3	9.8
Private	25.4	1.5	23.9	21.6	1.0	20.6	21.0	1.1	19.9
CAPITAL ACCOUNT	0.0	2.6	-2.6	0.0	2.2	-2.2	0.0	3.4	-3.4
Capital Transfers	0.0	2.6	-2.6	0.0	2.2	-2.2	0.0	3.4	-3.4
Acquisition/Disposal of Non-Produced Non-financing Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCIAL ACCOUNT	58.0	69.0	-11.0	93.8	82.3	11.5	78.1	48.0	30.1
Director Foreign Investment	20.8	2.5	18.2	16.6	5.7	10.9	11.9	3.9	8.0
Portfolio Investment	3.7	0.0	3.7	14.3	4.2	10.1	0.1	0.0	0.1
Other Investments	33.5	66.5	-33.0	62.9	72.4	-9.5	66.1	44.1	22.0
Public Sector Long Term Loans	19.1	21.7	-2.6	41.9	22.4	19.4	41.9	20.6	21.3
Other Public Sector Capital	0.3	0.0	0.3	0.3	0.0	0.3	0.2	0.0	0.2
Other	14.1	44.8	-30.8	20.8	49.9	-29.2	24.0	23.4	0.6
NET ERRORS & OMISSIONS			17.2			18.5			12.0
OVERALL BALANCE	-1.4	-11.7	3.1	-0.4	-0.4	20.9	-37.8	-38.9	1.0
Change In Reserves (- = increase)	1.4	11.7	-3.1	0.4	0.4	-20.9	37.8	38.9	-1.0

P - Provisional

N.I.E - not included elsewhere



Table 7: External Public Debt by Creditor

(\$'000)

	Disbursed	Transactions During 1997			Disbursed	
	Outstanding Debt Dec 1996	Disbursement	Amortization	Interest	Outstanding Debt Dec 1997	
				Adjustments		
CENTRAL GOVERNMENT	342,335	37,531	33,122	12,770	(9,183)	337,146
Caribbean Development Bank	30,481	949	226	862	(95)	31,109
European Union	23,215	0	384	186	(2,483)	20,348
Int'l Bank for Reconstruction & Development.	53,997	12,346	3,436	2,345	(4,701)	58,206
Int'l Fund for Agricultural Dev.	2,445	0	258	89	(111)	2,076
Gov't of United Kingdom	45,002	0	4,817	0	(1,076)	39,109
Gov't of Trinidad and Tobago	52	0	3	1	(1)	48
Gov't of USA	41,731	0	2,387	1,235	0	39,344
Suppliers Credit	39,263	0	14,350	2,392	42	24,955
OPEC Fund for International Development.	2,428	750	200	122	0	2,978
Instituto Nazionale di Credito	19,813	0	3,976	1,310	0	15,837
Government of China	827	0	58	0	(247)	522
Export/Import Bank of Taiwan	67,126	0	1,285	3,394	0	65,841
Fondo de Inversiones de Venezuela	7,122	0	1,037	481	0	6,085
Inter-American Development Bank	0	520	0	13	0	520
Government of Spain	5,033	0	705	71	(527)	3,801
Government of Kuwait	3,800	2,966	0	269	16	6,782
CitiCorp Merchant Bank Ltd.	0	20,000	0	0	0	20,000
REST OF NON-FINANCIAL PUBLIC SECTOR	34,200	38,659	4,889	2,980	(1,591)	66,379
Caribbean Development Bank	18,042	11,244	2,117	1,147	(95)	27,074
Intl. Bank for Reconstruction & Development.	12,669	12,022	1,249	834	(1,436)	22,006
Commonwealth Development Corporation	940	0	460	68	(21)	459
Export/Import Bank of Taiwan	1,686	0	376	81	0	1,310
European Union	863	2,770	0	9	(43)	3,590
CIBC Bank & Trust Co.	0	12,000	687	841	0	11,313
Government of Kuwait	0	623	0	0	4	627
FINANCIAL PUBLIC SECTOR	63,153	7,603	3,279	4,449	(320)	67,157
Caribbean Development Bank	24,312	7,603	1,466	1,003	(112)	30,337
European Union	1,997	0	42	12	(208)	1,747
Paine Webber Real Estate Securities Inc.	3,500	0	200	222	0	3,300
Gov't of USA	4,967	0	319	147	0	4,648
Export/Import Bank of Taiwan	4,377	0	1,252	206	0	3,125
CitiCorp Merchant Bank Ltd.	24,000	0	0	2,859	0	24,000
TOTAL	439,688	83,793	41,290	20,199	(11,094)	471,097

^P - Provisional



Table 8: Government of Belize - Revenue and Expenditure

(\$'000)

	Fiscal Year 1994/95	Fiscal Year 1995/96r	Fiscal Year 1996/97	Fiscal Estimated Budget 1997/98	Jan-Dec 1996 ^r	Jan-Dec 1997 ^p
TOTAL REVENUE & GRANTS (1+2+3)	280,542	275,282	311,296	335,868	305,404	308,777
1). Current revenue	263,045	259,226	283,201	280,901	276,568	282,898
Tax revenue	231,812	233,154	252,061	251,974	250,181	250,881
Income and profits	63,709	59,104	55,922	52,300	59,431	54,107
Taxes on property	1,660	1,172	1,578	1,540	1,491	1,564
Taxes on goods and services	29,154	28,571	101,305	101,884	83,725	97,272
Int'l trade and transactions	130,739	137,282	84,936	89,050	97,324	90,957
Other	6,549	7,025	8,320	7,200	8,209	6,981
Non-Tax Revenue	31,234	26,072	31,140	28,927	26,387	32,018
Property income	3,637	1,720	3,209	3,000	3,209	4,495
Contributions to pension fund	318	461	306	306	501	312
Transfers from NFPE's	1,732	1,963	3,427	1,800	1,776	3,488
Extrabudgetary revenue	2,398	1,922	2,193	2,610	2,214	2,378
Other	23,149	20,006	22,005	21,211	18,688	21,344
2). Capital revenue	4,231	9,977	24,046	13,791	20,353	22,328
3). Grants	13,265	6,079	4,049	41,176	8,483	3,550
<i>of which: non-project</i>		5,000	599	5,000	5,000	0
TOTAL EXPENDITURE (1+2)	350,954	312,298	321,571	370,388	310,050	333,724
1). Current Expenditure	239,859	232,954	242,166	248,072	234,680	252,233
Wages and Salaries	131,858	126,989	123,123	132,421	122,571	127,737
Pensions	14,534	15,808	16,284	18,197	16,450	17,053
Goods and Services	46,094	42,071	48,666	42,195	43,998	50,178
Interest Payments on Public Debt	21,827	23,192	24,939	26,595	24,182	27,812
Subsidies & current transfers	25,547	24,894	29,154	28,663	27,480	29,452
2). Capital Expenditure	111,094	79,344	79,406	122,317	75,370	81,491
Capital II (local sources)	47,387	38,717	47,218	42,248	43,406	56,327
Capital III (foreign sources)	60,537	37,373	27,301	76,275	27,038	21,593
Capital Transfer	3,170	3,254	4,887	3,794	4,927	3,571
CURRENT BALANCE	23,186	26,272	41,035	32,829	41,888	30,666
OVERALL BALANCE	(70,412)	(37,016)	(10,275)	(34,520)	(4,646)	(24,947)
FINANCING	70,412	37,016	10,275	34,520	4,646	24,947
Domestic Financing	39,070	28,673	(44,992)	29,399	(40,879)	18,396
Central Bank	14,452	8,482	(16,856)		(16,667)	(2,226)
Net Borrowing	5,688	8,375	22,755		29,977	(21,782)
Change in Deposits	8,764	107	(39,611)		(46,644)	19,556
Commercial Banks	24,746	20,081	(27,857)		(24,181)	21,164
Net Borrowing	(2,965)	19,822	(26,229)		(24,149)	22,148
Change in Deposits	27,711	259	(1,628)		(32)	(984)
Other Domestic Financing	(128)	217	(279)		(31)	(542)
Financing Abroad	19,484	4,922	48,284	5,121	46,613	5,376
Disbursements	47,272	36,294	80,549	40,099	80,009	37,531
<i>of which: non-project</i>		0	52,200	0	52,200	0
Amortization	(27,905)	(32,754)	(32,278)	(34,978)	(32,529)	(33,122)
Sinking Fund & JCF	117	1,382	13	0	(867)	967
Other	11,858	3,421	6,983	(0)	(1,088)	1,175

Sources: Ministry of Finance
Central Bank of Belize

P - Provisional



Table 9: Central Government's Domestic Debt

	Disbursed Outstanding Debt 1996	Disbursement /New Issue of Securities	Transactions During 1997			Disbursed Outstanding Debt 1997 ^P
			Amortization /Reduction in Securities	Interest	Net Change in Overdraft/ Securities	
Overdraft	48,164	0	0	5,474	+1,517	49,681
Central Bank	48,164	0	0	5,461	+1,517	49,681
Commercial Banks	0	0	0	13	0	0
Belize Social Security Board Loans	7,071	4,500	1,509	724	0	10,062
Banana	0	0	0	0	0	0
Housing I	1,071	0	1,071	86	0	0
Housing II	3,500	0	438	402	0	3,062
Rural Electrification	2,500	2,500	0	236	0	5,000
Rice Crop	0	2,000	0	0	0	2,000
Treasury Bills	70,000	0	0	2,441	0	70,000
Central Bank	31,695	0	0	745	(23,795)	7,900
Commercial Banks	37,800	0	0	1,677	24,300	62,100
Other	505	0	0	19	(505)	0
Treasury Notes	20,000	0	0	1,801	0	20,000
Central Bank	17,650	0	0	1,589	1,846	19,496
Commercial Banks	2,000	0	0	180	(2,000)	0
Other	350	0	0	32	154	504
Defence Bonds	15,000	0	0	1,250	0	15,000
Central Bank	10,000	0	0	800	0	10,000
Commercial Banks	100	0	0	9	0	100
BSSB	3,335	0	0	298	(1,030)	2,305
Other	1,565	0	0	143	1,030	2,595
Debentures	11,630	0	4,430	772	0	7,200
Central Bank	4,670	0	1,500	271	0	3,170
Commercial Banks	40	0	40	2	0	0
BSSB	3,980	0	0	372	0	3,980
Other	2,940	0	2,890	127	0	50
TOTAL	171,865	4,500	5,939	12,462	1,517	171,943

P - Provisional



AUDITOR'S REPORT

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors

Central Bank of India

We have audited the financial statements of Central Bank of India as at December 31, 1997 and 1998 and the related accounts of operations and cash flows for the periods. These financial statements are the responsibility of the Bank's management, and our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards generally accepted in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit cannot provide absolute assurance that the financial statements are free of material misstatement. An audit also involves the exercise of professional judgment and significant judgment about the application of accounting principles to the facts and circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Central Bank of India as at December 31, 1997 and 1998 and the results of its operations and cash flows for the periods in conformity with the accounting principles generally accepted in the United States.

Deloitte & Touche
 April 10, 1998



INDEPENDENT AUDITORS' REPORT

To The Board of Directors

Central Bank of Belize

We have audited the accompanying balance sheets of Central Bank of Belize as at December 31, 1997 and 1996 and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bank of Belize as at December 31, 1997 and 1996 and the results of its operations and cash flows for the years then ended in conformity with International Accounting Standards and the Central Bank of Belize Act.

Deloitte & Touche

April 10, 1998

CENTRAL BANK OF BELIZE
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1997 AND 1996

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CENTRAL BANK OF BELIZE
INDEPENDENT AUDITORS' REPORT
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YEARS ENDED DECEMBER 31, 1997 AND 1996

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CENTRAL BANK OF BELIZE

BALANCE SHEETS

DECEMBER 31, 1997 and 1996

<u>ASSETS</u>	<u>NOTES</u>	<u>1997</u>	<u>1996</u>
APPROVED EXTERNAL ASSETS	4b		
Balances and deposits with foreign bankers and Crown Agents		\$ 6,642,771	\$ 5,897,269
Reserve Tranche and balances with the International Monetary Fund	5	9,723,850	10,078,147
Marketable securities issued or guaranteed by foreign governments and international financial institutions		3,975,000	3,975,000
Other foreign credit instruments		83,139,997	80,520,968
Accrued interest and cash intransit		<u>191,068</u>	<u>301,404</u>
		103,672,686	100,772,788
BELIZE GOVERNMENT SECURITIES	6	40,527,557	63,827,909
BELIZE GOVERNMENT CURRENT ACCOUNT	7	44,002,396	43,691,315
LOANS TO THE PUBLIC SECTOR	8	4,184,074	6,388,642
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		11,674	42,812
OTHER ASSETS	9	3,684,691	6,157,986
PROPERTY AND EQUIPMENT	10	<u>22,861,853</u>	<u>9,708,661</u>
TOTAL ASSETS		<u>\$218,944,931</u>	<u>\$230,590,113</u>

See notes to financial statements.

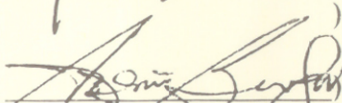
CENTRAL BANK OF BELIZE

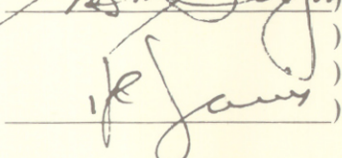
BALANCE SHEETS (Continued)

DECEMBER 31, 1997 and 1996

<u>LIABILITIES, CAPITAL AND RESERVES</u>	<u>NOTES</u>	<u>1997</u>	<u>1996</u>
DEMAND LIABILITIES			
Notes and coins in circulation		\$ 79,228,754	\$ 76,280,963
Deposits by licensed financial institutions	11	41,795,179	36,769,589
Deposits by and balances due to Government and Public Sector Entities in Belize		34,233,623	53,544,202
Deposits by international agencies	12	<u>6,204,667</u>	<u>3,362,715</u>
		161,462,223	169,957,469
BALANCES DUE TO CARICOM CENTRAL BANKS			
		1,081,663	173,629
OTHER LIABILITIES			
COMMERCIAL BANK DISCOUNT FUND	13	1,647,586	1,796,041
BELIZE CREDIT FACILITY	14	2,879,898	1,938,968
LOANS PAYABLE TO FOREIGN INSTITUTIONS	15	3,125,000	4,375,000
CONSTRUCTION BONDS	16	<u>24,000,000</u>	<u>28,968,000</u>
Total liabilities		198,128,101	209,986,476
REVALUATION ACCOUNT	19	-	417,847
CAPITAL ACCOUNT			
Paid up capital (Authorized capital \$10,000,000)		10,000,000	10,000,000
GENERAL RESERVE FUND	18	<u>10,816,830</u>	<u>10,185,790</u>
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u>\$218,944,931</u>	<u>\$230,590,113</u>

) GOVERNOR

) DIRECTOR

) MANAGER, FINANCE

See notes to financial statements.

CENTRAL BANK OF BELIZE**STATEMENTS OF OPERATIONS****YEARS ENDED DECEMBER 31, 1997 and 1996**

INCOME	NOTES	1997	1996
Interest			
Approved external assets		\$ 5,166,412	\$ 3,692,798
Advances to Government		5,492,171	5,297,091
Local securities		2,725,491	2,511,062
Loans to statutory boards		<u>301,073</u>	<u>513,731</u>
		13,685,147	12,014,682
Discount on local securities		745,424	380,649
Commissions and other income		1,427,629	1,766,875
Revaluation account	19	-	(272,858)
Total income		<u>15,858,200</u>	<u>13,889,348</u>
LESS:			
Interest expense		(3,041,258)	(1,678,282)
Loss on sale of marketable security		-	(34,082)
Unrealized loss on marketable security	2c	-	(17,936)
Income from operations		<u>12,816,942</u>	<u>12,159,048</u>
EXPENDITURE			
Printing of notes and minting of coins	2f	(632,876)	(756,706)
Salaries and wages, including super annuation contributions and gratuities		(3,630,399)	(3,880,299)
Depreciation		(275,058)	(436,980)
Administrative and general		<u>(1,729,663)</u>	<u>(1,999,069)</u>
Total expenditure		<u>(6,267,996)</u>	<u>(7,073,054)</u>
NET PROFIT		6,548,946	5,085,994
Revaluation Account	19	(238,539)	272,858
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND		6,310,407	5,358,852
Transfer to General Reserve Fund in accordance with Section 9 (1) of the Act	18	<u>(631,040)</u>	<u>(885,981)</u>
Balance credited to the Accountant General for the Consolidated Revenue Fund		<u>\$ 5,679,367</u>	<u>\$ 4,472,871</u>

See notes to financial statements.

CENTRAL BANK OF BELIZE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
OPERATING ACTIVITIES:		
Net profit transferable to the general reserve fund and consolidated fund	\$ 6,310,408	\$ 5,358,852
Adjustments to reconcile net profit to net cash provided by (used in) operating activities		
- Depreciation	275,058	436,980
- Loss on sale of marketable security	-	34,082
- Unrealized loss on marketable security	-	17,936
Changes in assets and liabilities that provided (used) cash:		
Other assets	2,473,295	(2,135,782)
Other liabilities	1,154,362	2,370,253
Revaluation Account	<u>417,847</u>	<u>54,426</u>
Net cash provided by operating activities	<u>10,630,969</u>	<u>6,136,847</u>
INVESTING ACTIVITIES:		
Belize Government current account	(9,444,608)	(11,993,367)
Receipts from loans to public sector	2,204,568	799,189
Acquisition of property and equipment	(13,428,250)	(5,859,175)
Reserve Tranche in the International Monetary Fund	513,205	327,384
Revaluation of Reserve Tranche in the International Monetary Fund	354,297	(327,384)
Proceeds from sale of marketable securities	-	474,667
Construction bonds	<u>(4,968,000)</u>	<u>23,968,000</u>
Net cash (used in) provided by investing activities	<u>(24,768,788)</u>	<u>7,389,314</u>
FINANCING ACTIVITIES:		
Notes and coins in circulation	2,947,791	4,970,262
Deposits by licensed financial institutions	5,025,590	(1,374,689)
Deposits by and balances due to Government and Public Sector Entities	(19,310,579)	47,004,639
Deposits by international agencies	2,841,952	(1,477,622)
Balances due to Caricom Central Banks	908,034	16,380
Commercial Bank Discount Fund	(148,455)	(927,423)
Belize Credit Facility	940,930	1,227,039
Loans payable to foreign institutions	<u>(1,250,000)</u>	<u>(1,250,000)</u>
Net cash (used in) provided by financing activities	<u>\$(8,044,737)</u>	<u>\$48,188,586</u>

See notes to financial statements.

CENTRAL BANK OF BELIZE

STATEMENTS OF CASH FLOWS (Continued)

YEARS ENDED DECEMBER 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(22,182,556)	\$ 61,714,747
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>120,029,623</u>	<u>58,314,876</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>97,847,067</u>	<u>120,029,623</u>

CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:

EXTERNAL ASSETS:

Balances and deposits with foreign bankers and Crown Agents	\$ 6,642,771	\$ 5,897,269
Other foreign credit instruments	83,139,997	80,520,968
Accrued interest and cash intransit	191,068	301,404
Balance with the International Monetary Fund	-	<u>1,759,261</u>
	<u>89,973,836</u>	88,478,902

LOCAL ASSETS:

Cash and bank balances	11,674	42,812
Government of Belize Treasury Bills	<u>7,861,557</u>	<u>31,507,909</u>
	<u>\$ 97,847,067</u>	<u>\$120,029,623</u>

See notes to financial statements.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1997 AND 1996

1. ORGANIZATION

Central Bank of Belize, (the Bank), was established by the Central Bank of Belize Act 1982 (the Act).

The principal activity of the Bank is to foster monetary stability especially in regards to stability of the exchange rate and to promote banking, credit and exchange conditions conducive to the growth of the economy of Belize.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements are presented in Belize dollars.

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

a. Property and equipment, depreciation and amortization -

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

Depreciation rates are as follows:

Buildings and improvements	5%
Office furniture	20%
Equipment	20%
Vehicles	25%

Improvements to the Treasury Building are amortized over the remaining period of intended use. (See note 10).

b. Sale of special coins -

Special coins, minted or packaged as collector items are legal tender. However, no liability is recorded under notes and coins since they are not expected to be placed in circulation as currency. Minting cost is charged against income in the year incurred. Income is recognized when sales are made.

c. Foreign currency translation and exchange gains and losses -

i. Assets and Liabilities

Foreign currency balances at year end are translated at the rates of exchange ruling at year end.

ii. Income and Expenses

Income and expenses in foreign currencies are translated at the rate of exchange ruling on the transaction date.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

iii. Revaluation

Section 49 of the Act stipulates that gains or losses from any revaluation of the Bank's net assets or liabilities in gold, special drawing rights (SDR), foreign exchange or foreign securities as a result of any change in the par value of the Belize dollar or any change in the par value of the currency unit of any other country shall be excluded from the computation of the annual profits and losses of the Bank. All such gains or losses shall be carried in a special account called Revaluation Account. However no profits shall be credited to the General Reserve Fund or paid to the Government under section 9 (See Note 18) whenever the revaluation account shows a net loss. Such profits shall be credited to the revaluation account in an amount sufficient to cover the loss.

d. Valuation of securities -

Securities are stated at lower of cost or market value. Unrealized losses arising from changes in the market value of securities are charged against income while unrealized gains are deferred. Realized gains and losses are included in income.

e. Accrued interest and cash intransit -

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

f. Printing and minting expenses -

The cost of printing notes and minting coins is charged against earnings in the year of delivery of the notes and coins.

g. Pension -

The Pension Scheme, a defined benefit plan, is funded by contributions from the Bank and employees. It is financially separate from the Bank and is managed by a Board of Trustees.

h. Taxation -

In accordance with Article 51 of the Act, the Bank is exempt from the provisions of any law relating to income tax or customs duties and from the payment of stamp duty.

3. INTEREST ON CENTRAL BANK BUILDING CONSTRUCTION BONDS

Interest is payable semi-annually on the Bank's Construction Bonds. The portion of the interest on the amount spent on the building project during construction is capitalized net of income generated from the investment of proceeds of the construction bonds. In 1997 and 1996 interest of \$978,872 and \$755,027 was capitalized respectively. Otherwise interest is charged against the annual income of the Bank. (See note 16).

4. **CENTRAL BANK OF BELIZE ACT SECTION 25**

- a. The Bank shall at all times hold assets of an amount in value sufficient to cover fully the value of the total amount of its notes and coins for the time being in circulation.
- b. The Bank shall maintain at all times a reserve of external assets of not less than 40 percent of the aggregate amount of notes and coins in circulation and of the Bank's liabilities to customers in respect of its sight and time deposits. At December 31, 1997 and 1996 total approved external assets approximated 64 percent and 59 percent of such liabilities respectively.

5. **INTERNATIONAL MONETARY FUND - RESERVE TRANCHE**

Belize became a member of the International Monetary Fund in 1982 with a subscription of SDR 7,200,000 of which SDR 1,320,600 was paid in foreign currency (The Reserve Tranche) and the remainder in Belize dollars made up of currency and non-interest bearing promissory notes.

In 1982, this Reserve Tranche was purchased by the Bank from the Government of Belize.

At December 31, 1997, the country's subscription to the International Monetary Fund amounted to SDR 13,500,000, and the Bank's Reserve Tranche amounted to SDR 3,552,414 . The Reserve Tranche which earns interest is included in Approved External Assets in the financial statements at the rate of BZ\$2.69 to SDR 1.0 at December 31, 1997 (1996 BZ\$2.88 to SDR 1.0).

6. **BELIZE GOVERNMENT SECURITIES**

Belize Government securities consist of:

	<u>1997</u>	<u>1996</u>
Treasury Bills	\$ 7,861,557	\$31,507,909
Debentures, 8.5% - 10%	3,170,000	4,670,000
Treasury notes, 9%	19,496,000	17,650,000
Belize Defence Bonds, 8%	<u>10,000,000</u>	<u>10,000,000</u>
	<u>\$40,527,557</u>	<u>\$63,827,909</u>

Section 35(2) of the Act stipulates that the Bank shall not at any time hold Belize Government securities in an aggregate amount exceeding five times the aggregate amount at that time of the paid up capital and general reserves of the Bank. At December 31, 1997 and 1996 the Bank's aggregate holding of Belize Government Securities approximated 2.0 times and 3.16 times respectively the amount of paid up capital and general reserves of the Bank.

7. BELIZE GOVERNMENT CURRENT ACCOUNT

In accordance with Section 34 of the Act, the Bank may make direct advances to the Government provided that at any one time the total outstanding amount of direct advances shall not exceed twenty percent of the current revenues of the Government collected during the preceding financial year or the sum of fifty million dollars, whichever is greater. At December 31, 1997 and 1996 advances to Government represent approximately 85 percent and 84 percent of the authorized limit respectively.

8. LOANS TO THE PUBLIC SECTOR

	<u>1997</u>	<u>1996</u>
Loans to the public sector comprise the following loans to Reconstruction and Development Corporation to finance housing construction. (See note 15).		
5% p.a. loan due in 16 consecutive semi-annual payments commencing July 10, 1993	\$ 250,000	\$ 321,218
5.5% p.a. loan due in 16 consecutive semi-annual payments commencing July 10, 1993.	1,250,000	1,492,932
6% p.a. loan due in 16 consecutive semi-annual payments commencing December 22, 1992	<u>2,684,074</u>	<u>4,574,492</u>
	<u>\$4,184,074</u>	<u>\$6,388,642</u>

These loans are guaranteed by the Government of Belize.

9. OTHER ASSETS

At December 31 other assets are made up as follows:

	<u>1997</u>	<u>1996</u>
Prepaid printing and minting of notes and coins (See note 2f)	\$ 593,136	\$1,225,855
Prepayments and accrued interest	597,291	1,036,262
Receivables	1,755,787	1,992,217
Mobilization advance	691,835	1,867,292
Other	<u>46,642</u>	<u>36,360</u>
	<u>\$3,684,691</u>	<u>\$6,157,986</u>

10. PROPERTY AND EQUIPMENT

	Land	Building - Construction in progress	Properties and improvements	Improvements to Treasury building	Furniture	Equipment	Vehicles	Totals
Cost								
Brought Forward at 1/1/97	\$2,040,400	6,948,671	715,322	336,912	202,796	2,639,315	263,165	13,146,581
Additions	-	13,328,493	-	42,773	5,984	51,000	-	13,428,250
Carried Forward at 12/31/97	<u>2,040,400</u>	<u>20,277,164</u>	<u>715,322</u>	<u>379,685</u>	<u>208,780</u>	<u>2,690,315</u>	<u>263,165</u>	<u>26,574,831</u>
Accumulated Depreciation								
Brought Forward at 1/1/97	-	-	340,923	214,710	179,050	2,491,120	212,117	3,437,920
Additions	-	-	35,766	104,088	19,156	92,987	23,061	275,058
Carried Forward at 12/31/97	<u>-</u>	<u>-</u>	<u>376,689</u>	<u>318,798</u>	<u>198,206</u>	<u>2,584,107</u>	<u>235,178</u>	<u>3,712,978</u>
Net Book Value								
December 31, 1997	<u>\$2,040,400</u>	<u>20,277,164</u>	<u>338,633</u>	<u>60,887</u>	<u>10,574</u>	<u>106,208</u>	<u>27,987</u>	<u>22,861,853</u>
December 31, 1996	<u>\$2,040,400</u>	<u>6,948,671</u>	<u>374,399</u>	<u>122,202</u>	<u>23,746</u>	<u>148,195</u>	<u>51,048</u>	<u>9,708,661</u>

The Bank, except for its Research, Finance, Supervision and Administration Departments, is housed in the Treasury Building provided rent free by the Government of Belize.

11. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Licensed financial institutions under the provisions of Section 16 of the Banks and Financial Institutions Act 1995 are required to keep on deposit with the Bank an amount equivalent to at least 7% of their average liabilities. These deposits are interest free.

12. DEPOSITS BY INTERNATIONAL AGENCIES

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

	<u>1997</u>	<u>1996</u>
Commission of the European Communities	\$ 283,250	\$ 208,894
International Monetary Fund	94,718	100,581
Caribbean Development Bank	17,480	71,422
International Bank for Reconstruction and Development	<u>5,809,219</u>	<u>2,981,818</u>
	<u>\$6,204,667</u>	<u>\$3,362,715</u>

13. **COMMERCIAL BANK DISCOUNT FUND**

Commercial Bank Discount Fund is a facility which was established by an agreement signed in March 1983 by the Government of Belize and the United States of America, providing for a discount fund to be operated through the Bank. The United States Government acting through United States Agency for International Development (USAID) had earmarked US\$5 million in loan funds up to June 30, 1987, to finance this facility. The facility enabled commercial banks in Belize to discount with the Bank up to 100% of loans made to sub-borrowers for projects approved by the Bank and USAID. In 1993 USAID and the Bank agreed that BZ\$2 million and BZ\$1.5 million from the reflows to the Discount Fund could be used as a line of credit facility to National Development Foundation of Belize (the Foundation) and Development Finance Corporation (DFC), respectively.

The USAID loan has the following terms:

Interest rate 2% for the first ten years and 3% thereafter. The loan is to be repaid within 25 years with a grace period of 9 1/2 years and 31 equal semi-annual principal payments for 15 1/2 years.

At December 31, 1997, outstanding loans discounted by commercial banks through the facility amounted to BZ\$1 million (BZ\$1.3 million) net of repayments, against a total drawdown of BZ\$5.7 million (1996 - BZ\$5.7 million) from USAID. On that date the amount drawn down by the Foundation was BZ\$1.8 million (1996 - BZ\$1.8 million) net of repayments and the amount drawn down by DFC was BZ\$1.2 million (1996 - BZ\$1.1) net of repayments.

14. **BELIZE CREDIT FACILITY**

Under the World Bank Agricultural Credit and Export Development Project Loan Agreement signed between the Government of Belize and the International Bank for Reconstruction and Development on July 19, 1988, the Bank acting as the agent for the Government of Belize assists the Government in operating the Belize Credit Facility through which loans are made available to the Development Finance Corporation for specific development projects.

The Bank's responsibility to assist the borrower is set out in an agreement signed between the Government and the Bank on March 13, 1989.

15. **LOAN PAYABLE TO FOREIGN INSTITUTIONS**

Loan payable to foreign institutions consist of:

Due to a foreign institution repayable in 16 semi-annual installments commencing December 22, 1992. Interest accrues at 5% per annum. The loan was negotiated for US\$5,000,000 for on-lending to Reconstruction and Development Corporation to finance housing construction and is secured by a promissory note from the Bank. (See note 8).

	<u>1997</u>	<u>1996</u>
	<u>\$3,125,000</u>	<u>\$4,375,000</u>

16. CONSTRUCTION BONDS

	<u>1997</u>	<u>1996</u>
BZ\$5,000,000 construction bonds maturing on September 30, 1997 secured by a guarantee from the Belize Government . Interest will accrue at 9% per annum and is payable semi-annually.	\$ -	\$ 4,968,000
BZ\$24,000,000 construction bonds maturing on July 31, 2003 secured by a guarantee from the Belize Government. Interest will accrue at 11.75% per annum and is payable semi-annually.	<u>24,000,000</u>	<u>24,000,000</u>
	<u>\$24,000,000</u>	<u>\$28,968,000</u>

17. OTHER LIABILITIES

	<u>1997</u>	<u>1996</u>
Interest payable(including construction bonds)	\$1,102,818	\$1,504,328
Pension contribution and gratuities	334,457	273,475
Abandoned property	425,873	322,369
Retention payable	595,072	254,804
Progress billings	1,031,074	294,962
Other	<u>442,437</u>	<u>127,431</u>
	<u>\$3,931,731</u>	<u>\$2,777,369</u>

18. GENERAL RESERVE FUND

Section 9(1) of the Act provides for the establishment of a General Reserve Fund into which shall be paid 20 percent of the net profit of the Bank in each financial year until the Fund is equal to the amount of the Bank's paid up capital. Thereafter, 10 percent of net profit is to be paid into the Fund.

	<u>1997</u>	<u>1996</u>
Balance at beginning of year	\$10,185,790	\$ 9,299,809
Transfer from profits at 20%	-	700,191
Transfer from profits at 10%	<u>631,040</u>	<u>185,790</u>
Balance at end of year	<u>\$10,816,630</u>	<u>\$10,185,790</u>

19. REVALUATION ACCOUNT

Under Section 49 of the Act no profits shall be credited to the General Reserve Fund or paid to the Consolidated Revenue Fund whenever the Revaluation Account shows a net loss. Such profits shall be credited to the Revaluation Account in an amount sufficient to cover the loss.

	<u>1997</u>	<u>1996</u>
Balance at beginning of year	\$ 417,847	\$ 690,705
Net Loss on revaluation of Reserve Tranche in the International Monetary Fund	(513,205)	(327,384)
Net (loss) gain on revaluation during the year	(143,181)	54,526
Transfer from profits	<u>238,539</u>	<u>-</u>
Balance at end of year	\$ <u>-</u>	\$ <u>417,847</u>

See note 2c. iii

20. PENSION SCHEME

The Pension Scheme, a defined benefit plan, receives contributions from the Bank and its eligible employees. During the year under review the Bank contributed Bz\$262,065 to the Scheme. The Scheme is financially separate from the Bank and is managed by a Board of Trustees. The cost of plan benefits is determined using an accrued benefit valuation method.

Significant actuarial assumptions used in the last valuation were:

- i. Over the long term new and existing assets of the scheme will secure a rate of return on investments of 7% p.a. net of all investment expenses.
- ii. Members' pensionable salaries will increase by 5% p.a. as a result of general inflationary conditions in addition to modest increases in recognition of increasing experience and responsibility.
- iii. No allowance for pensions in course of payment to be increased.
- iv. No retroactive salary increase was contemplated at January 1, 1996

The last actuarial valuation was as at December 31, 1995. That valuation reported the present value of the promised retirement benefits and the cost of the plan's assets as at December 31, 1995 to be approximately BZ\$1,614,000 and BZ\$1,692,000, respectively. A retroactive salary increase was effected as at January 1, 1996. The fair market value of plan assets is not readily available. An actuarial valuation is conducted every two to three years.

21. COMMITMENTS AND CONTINGENT LIABILITIES

The Central Bank of Belize has signed a formal contract with Kier International Limited for the construction of a new Central Bank building at an estimated cost of BZ\$21,901,697. The building is due to be completed by June of 1998.

The contractor of the new Central Bank building has given notice of a claim for additional costs and extension of time due to unforeseen concealed ground conditions. Based on the opinion of the Bank's consultants, management is of the view that the settlement, if any, will not exceed the contingency provision in the contract price. A quantification of such a settlement cannot be made at this time.

Outstanding letters of credit not reflected in the accompanying financial statements amount to BZ\$3,373,750 at December 31, 1997 (1996 -BZ\$3,863,803).

CENTRAL BANK OF BELIZE

Sixteenth Annual Report and Accounts 1997

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