

Belize

In 2012 Belize continued to register a stronger recovery than most other Caribbean countries, even though high debt levels and fiscal weakness presented a challenge to economic management. Growth is estimated at 4.2% in 2012, compared to 2.3% in 2011, driven by a rebound in agriculture and dynamic growth in stay-over visitor arrivals and spending. Employment gains in tourism, agriculture and distribution are expected to have led to a decline in the unemployment rate. However, the fiscal deficit expanded to an estimated 2.0% of GDP in calendar year 2012. Given the high costs of servicing the US\$ 544 million superbond debt, the government has embarked on a restructuring process with creditors, which could advance fiscal sustainability. Monetary conditions have improved, with a pick-up in credit demand, particularly in the public sector. The current account deficit narrowed from 2.9% of GDP in 2011 to 1.6% of GDP in 2012, reflecting improved tourism inflows and lower payments on the income account. Growth is projected to slow to 2.3% in 2013, owing to reduced petroleum production and construction activity.

The main thrust of policy in 2012 was setting the groundwork for a sustainable fiscal path that could facilitate the recovery and lead to a manageable debt burden. The key plank of this policy was the government's effort to negotiate a restructuring of the US\$ 544 million superbond. The government proposed three scenarios: first, lengthening the maturity to 2062, with a 15-year grace period on payment of principal and a 2% interest rate; second, a 30-year maturity with a 45% discount and a hike in interest rates from 1% to 4%; and, third, a 30-year maturity with a 45% discount at 3.5% interest and a 5-year principal grace period. Reflecting the dire fiscal situation, the government made a good-faith interest payment of US\$ 11.7 million, half the amount due on the superbond in September, after creditors granted an extension. The government hopes that a favourable deal can be reached with creditors that will lead to fiscal sustainability and create space for growth-enhancing public investment.

Fiscal policy in 2012 was aimed at increasing revenues and containing expenditure to reduce the debt level; however, this goal was not achievable during the year and is more likely to be achieved in the medium-term. Reflecting buoyancy on the back of economic growth and improved tax collections, revenues

increased by 11.1% in the first half of the year, but were just offset by an 11.2% expansion in spending. This led to a small overall deficit of 9.0 million Belize dollars (BZ\$), which was equivalent to 0.3% of GDP. However, revenue growth is expected to have slowed in the latter half of the year and the full payment of interest on the superbond will broaden the fiscal deficit from 0.3% of GDP in 2011 to 2.0% in 2012. Central government debt increased by BZ\$ 33.5 million in nominal terms, but declined from 78.7% of GDP in 2011 to 75.5% in 2012, thanks to GDP growth.

Monetary policy was geared towards facilitating increased credit to the private sector for productive business activity, but this had a limited impact. The Treasury-bill rate was lowered from 2.4% to 2.1% during the year, but this did not alter lending rates, since high liquidity in the banking sector has hindered the transmission of monetary policy. Net domestic credit grew by 2.9% in 2012, compared with a 1.5% decline in 2011. Credit to the private sector rose by 1.6%, associated with a slight increase in business confidence buoyed by the economy recovery, while credit to the public sector climbed 13.8%. Broad money expanded by 4.3% reflecting expansion in domestic credit, as growth in net foreign assets slowed owing to lower oil tax receipts and higher debt

servicing costs. Non-performing loans declined to 13.2% in June 2012 from 14.5% at the end of 2011. Interest rate spreads widened as a 1.7% decline in average deposit rates offset the 0.6% decline in lending rates.

The economy is estimated to have grown by 4.2% in 2012, compared with 2.3% in 2011. Brisk growth of 7.9% was registered in the first half of the year, but this slowed in the second half. The upturn was driven by a rebound in agriculture, headlined by strong growth in sugar cane deliveries (38.9% up to May) and increased citrus and banana production. Sugar production exceeded 100,000 long tons for the first time since the 2005/2006 harvest. Growth was also bolstered by an 8.2% increase in stay-over tourist arrivals, linked to strong marketing by the Belize Tourism Board and increased airlift. Meanwhile, petroleum production continued to decline owing to reduced output from the main field at Spanish Lookout.

Inflation moderated somewhat in 2012, falling from 2.6 in 2011 to 0.5 in 2012 (12-months variation to September). The rate increased by 0.5% year-on-year between January and September, reflecting slowdown in the price increases for food, health and recreational services, and lower prices for transportation (-1.6%) and education (-2.2%). Prices will likely pick up further during the last quarter of 2012, buoyed in part by Christmas shopping demand. The unemployment rate declined to 14.4% as of April 2012, with employment gains expected in agriculture, tourism and distribution.

Growth in commodity exports and improved tourism receipts were expected to narrow the current account deficit to 1.6% of GDP in 2012, compared with 2.9% in 2011. The result reflected an 11.2% improvement in the services account surplus, driven by a 17.5% expansion in the travel surplus, owing mainly

BELIZE: MAIN ECONOMIC INDICATORS			
	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	2.7	2.3	4.2
Per capita gross domestic product	0.7	0.3	2.2
Consumer prices	0.0	2.6	0.5 ^b
Money (M1)	-0.9	9.1	22.9 ^c
Annual average percentages			
Central government			
overall balance / GDP	-1.6	-0.3	-2.0
Monetary police rate	18.0	11.0	11.0 ^d
Nominal lending rate ^e	13.9	13.4	12.6 ^d
Millions of dollars			
Exports of goods and services	836	934	972
Imports of goods and services	810	898	963
Current account balance	-41	-42	-25
Capital and financial balance ^f	45	60	51
Overall balance	4	18	26

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimates.

^b Twelve-month variation to September 2012.

^c Year-on-year average variation, January to September.

^d January-September average.

^e Weighted average of the system lending rates.

^f Includes errors and omissions.

to higher tourism receipts from stay-over arrivals and expenditure. This more than offset the increase (7.2%) in the merchandise trade deficit associated with higher import payments for fuel and machinery and transport equipment for infrastructure projects. The income account position improved thanks to an upturn in remittances in line with the modest recovery in the United States economy and to reduced petroleum dividend payments abroad reflecting lower production and earnings. The capital and financial account surplus declined by 15%, owing to an 11% decline in foreign direct investment (FDI) to US\$ 76.5 million and increased errors and omissions. International reserves expanded by 10.9% to US\$ 262 million, covering 4.5 months of imports. The current account deficit is projected to narrow to 0.6% of GDP in 2013, as higher tourism inflows and remittances offset a larger trade deficit.