

## BELIZE

### 1. General trends

The economy recovered in 2014 with growth strengthening to 3.6% up from 1.5% in 2013. Growth was driven by increased dynamism in export agriculture, tourism and distribution and a rebound in government services, which more than offset the decline in manufacturing and petroleum output. Despite increased activity, inflation remained steady at 1.4% in 2014, reflecting the moderating effect of the fall in international fuel prices. However, higher demand led to a modest decrease in the unemployment rate from 11.7% in 2013 to 11.1% in 2014.

The fiscal imbalance and debt overhang will remain a serious challenge in Belize over the medium to long term. Although revenue growth has been fairly robust over the past five years (except for flat growth in 2013), a widening fiscal deficit underscores the need for a phased adjustment in government spending, particularly consumption expenditure, to drive the fiscal consolidation effort. The wage increase of over 4.0% in 2014, following 6.0% in 2013, will hold current expenditure at high levels in the medium term and limit the prospects for consolidation. Nevertheless, the PetroCaribe Agreement has provided the government with significant financing space. It has borrowed BZ\$ 286 million under the agreement and has drawn down more than BZ\$ 126 million. This fund has been used mainly to finance infrastructure projects, including roads and bridges in Belize City and other districts, to capitalize the Belize National Bank to the tune of BZ\$ 30 million and to support social assistance programmes. Analysts have argued that a portion of the funds could have been used to pay off some of the more expensive external debt in order to improve the country's debt dynamics.

Fiscal policy remained expansionary in 2014, with the overall deficit more than doubling to 2.8% of GDP from 1.1% of GDP in 2013. With the upturn in activity, revenues increased by 12%, bolstered by higher tax and non-tax receipts from the shipping and international business companies registries; however, this increase in revenue was outweighed by an 18% expansion in expenditure. The current account deficit almost doubled from 4.5% of GDP in 2013 to 8.0% of GDP in 2014. The growing imbalance stemmed from a significant widening of the trade deficit and profit repatriations, which counterbalanced the tourism-led improvement in the services account.

Indications are that the economy slowed in the first quarter of 2015 as a result of a 0.3% fall in air passenger arrivals, a slowdown in growth in cruise passenger arrivals and lower sugarcane and oil production, which offset the more than doubling of citrus output.

Growth in the economy is projected to slow to 2.5% in 2015. The impetus for growth is expected to come from a surge in agriculture value added and moderate growth in tourism, which will offset weakness in manufacturing and the decline in oil output. Sugarcane output is projected to record a modest improvement as production returns for the full crop cycle, and citrus and banana production are also expected to be higher. Similarly, stay-over tourist arrivals are projected to increase by 5.0%, underpinned by the recovery in major markets. Nevertheless, given the mediocre first quarter performance, actual growth may be less than 5.0%. Adverse weather conditions and higher international fuel prices pose downside risks to this growth projection. Inflation is forecast to exceed the 2014 rate of 1.4%, owing to upward pressure on international fuel prices. The March Budget Address projected a fiscal deficit of 2.5% for fiscal year 2015/2016, down from 4.1% in the previous fiscal year. Total expenditure is expected to

decline marginally as the government winds down capital spending, while revenue is projected to show a modest increase, in line with continued growth in activity. The current account deficit is projected to contract from 8.0% in 2014 to 7.0% in 2015, due to lower oil prices and higher receipts from tourism.

## **2. Economic policy**

### **(a) Fiscal policy**

Fiscal policy was expansionary in 2014, and the deficit more than doubled to 2.8% of GDP (compared with 1.1% of GDP in 2013), reflecting sizeable investments in capital infrastructure, particularly road networks, to provide a platform for future growth. Major outlays were made available for the construction of roads in Belize City and other districts, the Chetumal Street Bridge in Belize City and sporting facilities. These, along with a 4.0% rise in the wages of public officers and teachers and a sharp increase in interest payments, due to higher debt, pushed up expenditure by 18%. Moreover, the government has earmarked half of the revenues collected between fiscal year 2014/2015 and fiscal year 2016/2017 for wage increases for public employees. This, among other factors, could derail the fiscal consolidation effort.

Revenues expanded by 12.2%, the largest increase since the crisis, buoyed by an 8.5% rise in tax receipts and a 10.1% spike in non-tax proceeds. Although receipts from petroleum taxes plummeted with the steep decline in domestic oil production, these losses were offset by higher receipts from the shipping and international business registries.

The expanded fiscal deficit contributed to the 3.0% growth in public debt in nominal terms, while the debt-to-GDP ratio contracted by 1.2 percentage points to 77.3% of GDP, thanks to robust GDP growth in 2014. The government has been able to finance a significant portion of its operations on concessionary terms of 1% interest per annum and a repayment term of 25 years using funds available under the PetroCaribe Agreement. It has been argued that these funds could also contribute to much needed fiscal consolidation if the government were to draw on them to pay down part of its more expensive external superbond debt.

The recent budget projects a cut in the deficit from 4.1% in fiscal year 2014/2015 to 2.5% in 2015/2016, predicated on 2% growth in revenues and a 3.0% decline in expenditure. The government plans to reduce capital spending as substantial outlays in the past three years have helped to upgrade public infrastructure. Nevertheless, with the escalation in current costs, stemming in part from higher wage payments, the government will be hard-pressed to meet the fiscal target.

### **(b) Monetary and exchange-rate policy**

Monetary policy remained neutral in 2014 and the central bank held its policy rate constant, despite the expansion in imports occasioned by the recovery. Bolstered by the growth in activity, domestic credit increased by 3.6%, the strongest growth in the past five years. Growth in credit to the private sector almost doubled to 4.7%, reflecting increased lending to the sugar industry, real estate and construction. The government-owned National Bank of Belize, which provides mainly mortgage loans, increased its loan portfolio by BZ\$ 20 million in 2014 to BZ\$ 40 million.

The broad money supply (M2) expanded by 7.9%, following anaemic growth of 1.4% in 2013. The money supply was boosted by export receipts in line with growth in major sectors and official inflows from the PetroCaribe fund and other creditors.

In a welcome turnaround, all domestic banks were able to meet the enhanced loan loss provisioning stipulated by the central bank in 2014. During the year, non-performing loans amounting to BZ\$ 22.0 million were written off. As a result, the non-performing loan ratio fell from 8.8% in 2013 to 7.0% in 2014.

Banks continued to build up significant liquidity during 2014. The weighted average interest rate on new loans fell by 12 basis points to 9.89% but this fall was outweighed by the 84 basis-point decline in interest rates on new deposits to 2.1%. As a result, the interest rate spread widened by 72 basis points to 7.8%.

### **(c) Other policies**

The government is moving to fully implement programme budgeting in fiscal year 2015/2016. This would entail a clearer focus on purpose, priorities and results of expenditure with the aim of improving efficiency and effectiveness and value for money in spending. Nevertheless, this system reform needs to be complemented with effective measures to rein in spending and contain the public debt. For instance, the government has capitalized the National Bank of Belize to the tune of BZ\$ 40 million from the PetroCaribe fund to provide mortgage lending to public servants, teachers and other low-income earners. However, the authorities may need to enforce strict prudential standards in order to avoid the financial difficulties due to non-repayment of loans with which State banks often have to contend.

In order to protect small borrowers, the central bank issued a practice direction to local banks stating that the latter should provide full disclosure of their treatment of interest and other charges on consumer loans.

## **3. The main variables**

### **(a) The external sector**

Stronger growth fuelled an expansion in imports, which, along with higher profit repatriations by foreign-owned businesses, led to a significant widening of the current account deficit from 4.5% of GDP in 2013 to 8.0% of GDP in 2014. The trade deficit increased significantly owing to 5.6% growth in imports and a 3.3% decline in exports. Export receipts were adversely affected by reduced earnings from the oil sector, the citrus industry and the commercial free zone. Imports were driven by consumer goods and capital goods, including equipment for construction projects.

The surplus on the services account expanded by 11.8% thanks to strong tourism receipts, which reflected dynamic growth in stay-over arrivals. This offset the higher net payments for transportation services. The capital and financial account surplus expanded by 33% to US\$ 114.8 million, boosted by a 53% increase in foreign direct investment (FDI) to US\$ 141 million, directed mainly to tourism and real estate activities. This was complemented by significant financial inflows, including loans from the PetroCaribe fund. Overall developments led to an expansion in international reserves by 20% to US\$ 487 million, or 5.7 months of import cover.

The current account is projected to narrow from 8.0% of GDP to 7.0% of GDP in 2015. Reduced oil prices in the first half of 2015 should lead to a lower trade deficit and, together with marketing and promotion, should contribute to growth in stay-over tourist arrivals and earnings. Meanwhile, the capital and financial account surplus is expected to contract due to reduced inflows of FDI, capital grants and borrowing from the PetroCaribe programme. Nevertheless, the surplus will cover the current account deficit and lead to modest growth in international reserves.

**(b) Economic activity**

Economic activity picked up in 2014 with growth of 3.6%, compared with 1.5% in 2013. The growth impetus came from export agriculture, tourism and electricity generation. Agricultural production was boosted by favourable weather during the second half of the year. Sugarcane production expanded by 10.8%, despite the late start to the crop season. Banana production rose by 4.0% to 5.7 million boxes and citrus output was up marginally at 4.7 million boxes. Output in the fisheries subsector was dampened by lower production of lobster and conch. The services sector grew by 2.2%, owing to dynamic growth in tourist arrivals, especially high value added stay-over visitors, whose numbers increased by 9.2% to 321,220 persons. Belize benefited from increased air lift, due in part to aggressive marketing by the Belize Tourism Board and also higher investment in product development under the Sustainable Tourism Project. Cruise passenger arrivals rose by 42.9% to 968,131 persons, reflecting the variety of the product offering and a shift in cruise ship tourism from the Mediterranean to the Caribbean.

Oil production continued its secular decline, with output down by 18.9% to 0.6 million barrels. Indeed, the less productive Never Delay field was withdrawn from production during the last quarter of 2014 because of low productivity and the impact of the fall in international oil prices.

**(c) Prices, wages and employment**

Inflation remained steady at 1.4% in 2014, as the fall in international fuel prices offset price rises in some sectors due to higher domestic demand. As activity picked up, the unemployment rate decreased slightly from 11.7% in 2013 to 11.1% in 2014. Average employment rose by 3.6% to 134,554 persons in 2014, a more robust improvement than in 2013. Wages increased in 2014 with the 6.0% rise in the salaries of public servants and teachers.

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
<b>Annual growth rates b/</b>									
Gross domestic product	4.6	1.1	3.2	0.7	3.3	2.1	3.8	1.5	3.6
Per capita gross domestic product	1.9	-1.4	0.6	-1.8	0.8	-0.4	1.3	-0.9	1.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-6.5	-20.7	9.9	2.5	6.9	-4.3	6.8	5.6	8.3
Mining and quarrying	3.5	14.8	20.0	-12.0	5.0	3.7	8.9	-5.9	-8.4
Manufacturing	30.5	3.2	4.4	28.1	-8.2	-2.6	-7.6	-19.4	-3.3
Electricity, gas and water	41.3	2.4	4.1	10.2	21.4	-3.5	-7.0	10.1	7.1
Construction	-2.0	-3.1	15.5	-10.1	-24.7	-2.6	15.1	4.2	-4.8
<b>Wholesale and retail commerce, restaurants and hotels</b>									
Transport, storage and communications	0.8	2.4	1.9	-7.4	9.3	5.6	6.6	6.2	9.1
Financial institutions, insurance, real estate and business services	3.5	14.0	-3.9	-1.2	4.8	1.4	5.1	4.5	-0.3
Community, social and personal services	8.3	7.9	1.7	9.9	2.5	-0.2	-1.1	-3.4	-5.8
-1.6	3.9	3.5	4.4	0.9	0.3	4.9	-1.1	4.7	
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	-2.1	4.4	-1.0	3.9	5.4	3.6	3.7	4.8	...
Government consumption	-0.2	10.0	3.5	3.1	3.8	-1.4	4.3	0.7	...
Private consumption	-2.4	3.3	-1.9	4.1	5.7	4.7	3.6	5.6	...
Gross capital formation	-7.2	2.4	33.9	-25.1	-36.4	38.8	-5.0	20.7	...
Exports (goods and services)	12.6	-5.4	4.0	-9.8	14.0	0.5	8.7	-0.2	...
Imports (goods and services)	0.5	0.4	13.2	-21.3	10.3	11.8	4.5	9.7	...
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-25	-52	-145	-83	-46	-20	-33	-73	-136
Goods balance	-185	-216	-308	-237	-175	-175	-209	-268	-337
Exports, f.o.b.	427	426	480	384	478	604	628	608	589
Imports, f.o.b.	612	642	788	621	653	778	837	876	926
Services trade balance	211	230	217	183	176	169	218	240	270
Income balance	-125	-159	-165	-108	-138	-98	-118	-118	-143
Net current transfers	74	93	112	79	92	84	76	73	74
<b>Capital and financial balance c/</b>									
Net foreign direct investment	75	75	203	130	50	38	89	190	221
Other capital movements	108	139	167	108	96	95	193	92	138
-34	-65	36	22	-46	-57	-105	98	82	
Overall balance	49	22	58	47	4	18	55	117	85
Variation in reserve assets d/	-49	-22	-58	-47	-4	-18	-53	-114	-84
Other financing	0	0	0	0	0	0	-3	-4	-1
<b>Other external-sector indicators</b>									
Net resource transfer (millions of dollars)	-51	-84	38	22	-88	-60	-32	68	77
Gross external public debt (millions of dollars)	985	973	958	1,017	1,021	1,032	1,029	1,083	1,126
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	2.9	4.1	4.4	-0.4	0.0	2.6	0.8	1.6	-0.4
Nominal deposit rate e/	5.8	5.9	6.2	6.2	5.9	4.7	3.0	2.3	1.8
Nominal lending rate f/	14.2	14.3	14.1	14.1	13.9	13.3	12.3	11.5	10.9
<b>Percentajes of GDP</b>									
<b>Central government</b>									
Total revenue	26.1	29.7	28.6	27.3	28.0	28.5	26.7	29.0	27.9
Tax revenue	21.1	22.4	22.5	21.6	23.6	22.6	22.5	23.1	23.4
Total expenditure	30.2	29.9	28.0	28.7	29.2	29.9	27.1	30.8	32.1
Current expenditure	25.5	23.1	23.2	25.0	24.7	24.5	22.5	23.9	24.5
Interest	7.0	4.3	3.7	3.8	3.7	3.4	1.9	2.6	2.7
Capital expenditure	4.7	6.8	4.9	3.7	4.6	5.4	4.6	6.8	7.5
Primary balance	2.9	4.2	4.3	2.4	2.5	2.0	1.5	0.9	-1.5
Overall balance	-4.1	-0.2	0.6	-1.5	-1.2	-1.4	-0.4	-1.7	-4.1
Non-financial public sector debt	92.5	83.6	79.4	82.2	72.3	70.7	72.8	78.5	77.6

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	64.5	69.7	70.6	74.9	69.6	64.4	62.5	57.6	57.2
To the public sector	8.9	9.2	7.4	7.6	6.7	5.5	5.6	1.2	0.6
To the private sector	55.6	48.1	63.1	67.3	62.9	58.9	56.9	56.5	56.7
Monetary base	13.2	13.0	14.0	16.0	14.9	16.0	18.0	20.3	24.1
Money (M1)	25.4	27.3	25.8	26.7	25.3	28.2	35.0	34.5	38.8

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Weighted average rate of deposit rates.

f/ Rate for personal and business loans, residential and other construction loans; weighted average.

Table 2  
**BELIZE: MAIN QUARTERLY INDICATORS**

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	0.8	1.8	1.4	2.2	-1.2	9.2	4.8	1.6	7.0	...
Gross international reserves (millions of dollars)	302	336	366	399	411	432	465	476	483	500 c/
Consumer prices (12-month percentage variation)	0.3	-0.1	0.6	1.3	1.7	1.4	1.0	0.2	-1.1	-0.7 c/
Nominal interest rates (average annualized percentages)										
Deposit rate d/	2.5	2.3	2.3	2.2	2.0	1.9	1.8	1.7	1.7 e/	...
Lending rate f/	11.8	11.6	11.5	11.2	11.1	10.9	10.8	10.7	10.5	10.4 g/
Interbank rate	4.2	4.0	4.0	4.1	3.5	2.8	2.8	2.8	2.8	...
Monetary policy rates	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0 h/	...
Sovereign bond spread, Embi Global (basis points to end of period) i/	789	872	872	807	724	765	695	819	784	736
Domestic credit (variation from same quarter of preceding year)	0.2	-1.3	-3.7	-5.5	-3.4	-3.0	-0.2	4.3	4.0	5.6 g/
Non-performing loans as a percentage of total credit	...	...	...	8.8	...	...	...	7.0	...	...

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Figures as of May.

d/ Weighted average rate of deposit rates.

e/ Figures as of January.

f/ Rate for personal and business loans, residential and other construction loans; weighted average.

g/ Figures as of April.

h/ Figures as of February.

i/ Measured by J.P.Morgan.