

## Belize

### 1. General trends

Growth recovered to 3.3% in 2008, from 1.2% in 2007, despite the slowdown in global demand caused by the financial and economic crisis and the dampening effects of flood damage in 2008. The pick-up was driven by a substantial rise in manufacturing, including petroleum refining, and a recovery in agriculture.

Inflation spiked to 6.4%, the highest rate in the last 12 years, propelled by an upsurge in food and fuel prices during the first three quarters of the year. Unemployment declined to 8.2% from 8.5% in the previous year, as job growth was buoyed by stronger activity.

The fiscal situation benefited from a fortuitous growth in grant receipts, complemented by higher petroleum revenue, leading to an overall surplus of 1.1% of GDP, the first in 20 years. This resulted in a net decline in financing both from abroad and on the domestic market. However, public debt remains high (81% of GDP) and thus limits fiscal room for manoeuvre.

The central bank did not undertake any monetary-policy intervention during the year, despite the build-up in banking system liquidity. The central bank deemed the prior increases in the cash and liquid assets ratios in

2006 as sufficient to contain credit growth that could fuel imports that would in turn deplete vital foreign reserves, which are necessary for defending the fixed exchange-rate regime.

Partly reflecting the high dependence of growth on imported machinery and equipment, the external current account deficit almost tripled to 10.8% of GDP, as a surge in imports for major capital projects and hikes in fuel and food prices led to an almost 50% increase in the trade deficit. Foreign direct investment (FDI) financing boosted foreign reserves, but maintaining adequate reserves will remain a challenge in the medium term.

Economic growth is expected to slow to 1% in 2009 as the knock-on effects of the global financial and economic crisis buffet inflows from FDI and remittances and constrain demand for the country's commodity exports.

### 2. Economic policy

#### (a) Fiscal policy

Fiscal performance is still a major concern for growth and stability in Belize, owing to the country's high debt ratio, the volatility of its revenue growth and the stickiness of its current expenditure. For the calendar year 2008, fiscal performance exceeded expectations, with the central government recording an overall surplus of 1.1% of GDP,

the first in 20 years, compared to a 1.2% deficit in 2007. The primary surplus expanded to 4.9%, exceeding the estimated figure of 4% required for medium-term debt sustainability following the debt restructuring in 2007.

Fiscal improvement was built on dynamic growth in revenues from petroleum taxes that burgeoned with growing production, and a spike in grant receipts. Without grants, the overall balance would have been in deficit

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	12.3	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.3
<b>Per capita gross domestic product</b>	9.5	2.4	2.6	6.8	2.2	0.7	2.4	-0.9	1.2
<b>Gross domestic product, by sector</b>									
Agriculture, hunting, forestry and fishing	9.5	-0.4	0.5	38.9	9.5	3.0	-6.4	-20.7	2.9
Mining and quarrying	23.3	3.3	-5.4	0.0	5.7	-6.5	3.4	15.6	22.9
Manufacturing	23.4	-0.4	1.5	-0.6	12.2	0.9	30.5	3.8	7.8
Electricity, gas and water	13.2	0.3	2.7	8.5	-1.5	-0.5	41.3	2.4	2.8
Construction	38.9	1.3	3.7	-17.8	4.5	-3.6	-1.9	-3.0	-1.9
Wholesale and retail commerce, restaurants and hotels	11.8	8.4	3.6	3.8	1.7	5.2	0.8	2.3	1.8
Transport, storage and communications	13.1	11.9	11.3	8.6	5.0	8.8	3.5	13.1	4.9
Financial institutions, insurance, real estate and business services	11.7	6.2	17.8	16.9	5.5	3.5	8.2	5.1	2.3
Community, social and personal services	4.5	4.2	4.0	5.7	2.1	2.5	-2.0	4.2	2.5
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	6.3	9.0	7.6	3.5	-0.3	-0.8	-2.3	4.9	...
Government consumption	7.0	6.1	13.1	5.3	-0.9	4.1	-0.9	11.1	...
Private consumption	6.1	9.5	6.7	3.2	-0.1	-1.7	-2.6	3.7	...
Gross domestic investment	30.9	-6.2	-5.3	-14.0	-5.4	8.0	1.8	5.0	...
Exports (goods and services)	8.7	4.9	9.6	13.2	5.7	11.8	11.0	-6.2	...
Imports (goods and services)	20.1	-0.8	2.6	2.1	-7.5	6.7	0.5	-0.3	...
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-162	-184	-166	-176	-156	-151	-25	-52	-149
Goods balance	-197	-209	-187	-207	-173	-231	-185	-216	-323
Exports, f.o.b.	282	269	310	316	307	325	427	426	465
Imports, f.o.b.	478	478	497	522	481	556	612	642	788
Services trade balance	30	43	44	70	88	143	211	230	219
Income balance	-53	-67	-69	-85	-117	-114	-125	-159	-156
Net current transfers	58	48	47	46	46	51	74	93	112
Capital and financial balance <sup>c</sup>	213	181	160	146	125	139	75	75	207
Net foreign direct investment	23	61	25	-11	111	126	108	139	176
Other capital movements	190	120	135	158	13	13	-33	-64	31
Overall balance	52	-3	-5	-30	-31	-12	50	23	58
Variation in reserve assets <sup>d</sup>	-52	3	5	30	31	12	-50	-23	-58
<b>Other external-sector indicators</b>									
Net resource transfer	161	115	91	61	8	25	-50	-84	50
Gross external public debt	431	495	652	822	913	970	985	973	955
<b>Average annual rates</b>									
<b>Employment</b>									
Unemployment rate <sup>e</sup>	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (November-November)	0.6	1.1	2.3	2.6	3.1	4.2	3.0	4.1	6.4
Nominal deposit rate <sup>f</sup>	5.4	4.4	4.3	4.8	5.2	5.4	5.8	5.9	6.2
Nominal lending rate <sup>g</sup>	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2
<b>Percentages of GDP</b>									
<b>Money and credit<sup>h</sup></b>									
Domestic credit	49.4	56.6	51.0	57.2	64.1	63.3	64.5	70.1	69.7
To the public sector	8.2	11.9	3.2	5.7	10.6	9.3	8.7	8.9	7.4
To the private sector	41.2	44.6	47.8	51.5	53.5	54.0	55.8	61.2	62.3
Liquidity (M3)	58.0	59.7	57.0	55.7	59.1	59.6	62.0	68.0	70.9
<b>Percentages of GDP</b>									
<b>Central government</b>									
Total income <sup>i</sup>	...	27.7	30.4	22.8	24.3	23.9	24.8	30.0	29.0
Current income	...	26.2	28.9	21.6	21.4	22.9	23.3	25.5	26.4
Tax income	...	23.9	26.5	19.0	19.3	20.5	21.2	22.6	22.4
Capital income	...	0.7	0.2	0.9	1.3	0.3	0.4	1.1	0.3
Total expenditure	...	39.2	34.0	31.8	30.6	30.7	26.7	31.2	27.8
Current expenditure	...	30.6	26.8	20.0	22.4	25.2	22.7	24.9	22.3
Interest	...	10.1	6.3	4.0	5.8	6.7	5.8	5.3	3.8
Capital expenditure	...	8.7	7.1	11.9	8.2	5.5	4.0	6.3	5.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>
Primary balance	...	-1.5	2.8	-5.0	-0.5	-0.1	3.9	4.1	4.9
Overall balance	...	-11.6	-3.6	-9.0	-6.3	-6.8	-1.9	-1.2	1.1
<b>Total public debt</b>	...	68.7	79.3	96.3	99.7	99.5	93.5	89.4	81.3
Domestic	...	12.0	9.2	13.0	13.2	12.5	12.4	12.7	12.4
External	...	56.8	70.1	83.3	86.5	87.0	81.2	76.7	68.9

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

<sup>a</sup> Preliminary figures.

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

<sup>c</sup> Includes errors and omissions.

<sup>d</sup> A minus sign (-) denotes an increase in reserves.

<sup>e</sup> Percentage of the economically active population. Nationwide total.

<sup>f</sup> Rate for savings.

<sup>g</sup> Weighted average rate for loans.

<sup>h</sup> The monetary figures are end-of-year stocks.

<sup>i</sup> Includes grants.

and the primary surplus would have narrowed to 2.7% of GDP. This highlights the need for reforms to the structure and administration of taxation to reduce dependence on volatile grant receipts.

Expenditure contracted by 3.1%, dampened by a sharp reduction in foreign interest payments and the termination of one-off debt restructuring fees from 2007. Outlays on wages and salaries and on goods and services moved in opposite directions, with the former increasing by 6.8% and the latter declining by 14.5%.

With the strengthened fiscal stance in 2008, both external and domestic lending to the government decreased. The public sector's external debt declined by 1.8% to the equivalent of 68.9% of GDP, while total public debt fell from 89% to 81% of GDP. Disbursements totalled US\$ 83 million, of which 57% represented credit for fuel imports under the PETROCARIBE initiative with the Bolivarian Republic of Venezuela.

The budget for fiscal year 2009-10 projects a deficit of 1.7% of GDP. The deficit will be driven by a spike (22%) in capital spending on infrastructure and other projects.

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

Monetary policy was largely neutral in 2008 with no real policy intervention, despite the sharp growth in liquidity at the end of the year relative to 2007 (13%). The policy authorities deemed the hike in statutory reserves since 2006 as adequate to control credit expansion and thereby limit the depletion of foreign reserves. This is essential to the stability of the pegged exchange rate, which underpins stable inflation.

The monetary stance was aided by the strong fiscal result, which led to an accumulation of government

deposits at the central bank. Net lending to the government fell by 14.5%, contributing to a sharp easing of total domestic credit growth from 14.3% in 2007 to 7.9% in 2008. Growth in credit to the private sector slowed to 10.6% from 15.4% in 2007, as more sluggish credit growth to services, the primary sector and manufacturing, linked to the elimination of the Universal Health Services (UHS) debt, more than offset the sharp rise in personal loans.

Reflecting the slowdown in domestic credit, broad money expanded at a slower pace (13.3%) relative to 15.4% in 2007. The deposit profile indicated a lengthening of maturity, as money growth was fuelled by time deposits. Growth in the foreign component of the money supply slowed as the central bank's build-up of reserves was offset by the depletion of those of commercial banks.

Banking sector liquidity was bolstered by reduced lending, as well as inflows from tourism and repatriation by residents of funds held overseas, partly in response to market uncertainty. With high excess reserves overall, however, competition increased, especially for the portfolios of large depositors. This nudged up the weighted average deposit rate by 40 basis points, while the weighted average lending rate fell by 20 basis points to 14.1%.

The central bank is putting systems in place to move to a more market-oriented monetary policy, including the use of open market operations to manage liquidity in the banking system. This approach is expected to foster the development of a vibrant interbank market that could benefit banks with liquidity problems.

In response to the difficulties of the CLICO Group, the government has imposed a number of restrictions on the operations of CLICO Belize to protect policyholders.

### 3. The main variables

#### (a) Economic activity

Despite the negative impact of the floods and a spreading global recession, growth in Belize rebounded in 2008, posting 3.3% relative to 1.2% in 2007. The pick-up in activity was spurred by a marked increase in oil production and the recovery of agriculture. Petroleum production expanded by 23.5% as the number of producing wells increased from five to seven, taking advantage of higher international prices. A major surge in hydroelectric power generation from the Beacon and Vaca dams also contributed to growth in activity. As a result, manufacturing, which includes petroleum refining, posted growth of 7.8% and mining and quarrying 22.9% (the latter, however, constitutes less than 1% of GDP).

Agriculture recovered (2.9%) from its weak performance in 2007 (-20.7%), when output was severely affected by hurricane Dean, floods, and pest and disease infestation. While sugar, the second most important crop after citrus fruits, contracted owing to weather damage and frog hopper infestation, citrus fruit output rose, largely owing to improved extension services and husbandry. Similarly, banana production expanded by 30.8% thanks to improved agronomic practices and additional demand from the Dole company. Nevertheless, output remained at lower levels than in the previous five years.

The two largest sectors of the economy—commerce, restaurants and hotels and financial services—also posted positive growth. The former grew by 1.8% (2.3% in 2007) despite a contraction in stay-over arrivals (2.8%), the first such contraction in 12 years, which was mainly due to a fall in arrivals from the United States. Cruise visitor arrivals were also down (4.1%). In response, the government has embarked on a promotion programme which includes securing more attractive rates from major airlines and marketing in Latin America, but such efforts are constrained by limited budgetary scope. Financial services grew by 2.3% as compared to 5.1% in 2007.

The pass-through effects of the recession in major markets is expected to lead to a slowing of activity in 2009. Growth is projected to fall to 1%, linked to declines in tourism, construction, citrus fruit production and distribution. Meanwhile transport and communication will post positive growth thanks to expansion in cellular telephony.

To cushion the impact of the fallout in major markets, the government has prioritized a number of infrastructure projects; reintroduced excise taxes on fuels and raised import duty on petrol and diesel fuel.

#### (b) Prices, wages and employment

Inflation (November-November) rose to 6.4%, the highest rate in the last 12 years, driven by soaring international food and fuel prices in the first three quarters of the year. It moderated, however, with the decline in fuel and food prices in the fourth quarter. On an annual basis, food and fuel prices were up 13.3% and 3.6%, respectively. Inflation declined by 1.6 percentage points over the quarter from November 2008 to February 2009.

Mid-year unemployment (June 2008) fell from 8.5% to 8.2%, as the pick-up in economic activity led to a 2.4% increase in job growth relative to a 1.9% rise in the labour force. Most jobs were created in the primary sector (18.5%), but the tertiary sector remained the largest employer with 57.3% of the working population. Employment is expected to be adversely affected in 2009; the fallout from slowing global demand is likely to lead to job losses in tourism, construction and other sectors.

#### (c) The external sector

The external accounts worsened in 2008, as surging imports for capital projects caused the current account deficit to almost triple, to 10.8% of GDP. Import payments soared by 22.8%, reflecting both higher volumes and prices for capital goods, fuel and food and animal feed products. Exports also grew, by 9.2%, bolstered by higher petroleum exports that were spurred by increased production, stemming partly from the hike in international prices. Exports of non-traditional products, including sawn wood and citrus oils, also recorded increases, while the other key commodity exports turned in a mixed performance. Sugar exports contracted in both value and volume owing to unfavourable weather and pest damage.

The services surplus declined for the first time since 2000, owing mainly to falling tourism and transportation receipts. Net transport payments rose on account of lower receipts from port calls (16.4%) and higher transportation costs (22%).

Net current transfers rose by 19.5% to the equivalent of 8% of GDP. Net transfers were boosted by a grant from the government of Taiwan province of China; by insurance and remittance receipts; and by a fall in transfers to non-resident entities in relation to the Universal Health Services debt.

The expanded current account deficit was financed by capital and financial inflows, with the balance shooting up from 8.9% of GDP in 2007 to 15.7% of GDP in 2008. The capital account surplus was boosted by grants under the European Union sugar and banana support programmes and from the Caribbean Development Bank for the Basic Needs Trust Fund. The financial account surplus expanded by 90.6% to US\$ 209 million as a result of large FDI outlays in petroleum, real estate and tourism. Loan repayments were also down because of the debt restructuring of 2007. Gross international reserves increased by 53.2% to US\$ 166.2 million, raising the import cover from 2.3 to 2.8 months.

The slowdown in growth is expected to lead to a reduced current account deficit in 2009, estimated at 9.7% of GDP, as imports will contract by around 12% owing to lower prices and a substantial decrease in imports of capital goods as a result of the winding down of major projects and sluggish private consumption. Exports are projected to fall sharply (16%) on account of a major softening of commodity prices. The collapse of FDI inflows means the current account deficit will have to be financed by drawing down official reserves. Nevertheless, import coverage should remain at around three months, owing to lower import volumes.