**BELIZE**

**1. General trends**

The Belizean economy continued to recover in 2011, with GDP growth slowing to 2.5%, from 2.8% in 2010. This places Belize among the better performers in the Caribbean and indicates that the economy has turned around following the recession of 2008-2009. Growth in 2011 was driven by a pick-up in stay-over tourism, sugar and citrus production, and distribution. Inflation increased, fuelled by higher international petroleum prices, while unemployment was expected to decline owing to job growth in tourism and distribution. Although still a challenge, the fiscal position was bolstered by higher oil-sector revenues and marginal growth in spending. Monetary policy remained focused on stimulating commercial bank lending to the private sector in order to consolidate the recovery. The balance-of-payments current account deficit narrowed from 2.9% of GDP in 2010 to 2.5% of GDP in 2011, reflecting higher exports and a reduction in profit outflows.

 Economic growth is expected to strengthen further to 3.0% in 2012, thanks to improved agricultural output, tourism value added and an expansion in financial services. Indicators point to a moderation in inflation, although this could be precluded by of higher fuel prices; at the same time, further growth in employment is predicted. The fiscal position is expected to strengthen with growth in revenues offsetting growth in expenditure. Meanwhile, the current account deficit of the balance of payments is projected to further narrow in line with growth in exports.

**2. Economic policy**

Economic management in 2011 was geared towards strengthening the recovery and facilitating job creation, while maintaining sound government finances to control the escalation in public sector debt. Monetary policy was focused on incentives for banks to reduce the cost of credit with a view to stimulating private investment in productive activity. However, the interest rate on the restructured “super bond” debt rose from 4.25% to 6.0% during the year and will constrain the fiscal space available to the government in the short to medium term.

* 1. **Fiscal policy**

 The fiscal position strengthened in 2011 (calendar year), owing to robust oil-sector revenues and higher tax receipts in line with the upturn in activity. As a result, revenue grew to 27.6% of GDP, while expenditure declined to 28.2% of GDP, leading to a contraction in the overall deficit from 1.6% of GDP in 2010 to 0.3% of GDP in 2011. Furthermore, the primary surplus increased from 1.3% of GDP to 3.3% of GDP, providing some savings for capital projects. The hike in crude oil prices boosted oil revenues, which included windfall receipts. Non-tax revenues were up by 7.3% owing to higher proceeds from land sales.

 Total expenditure advanced by a mere 0.1%, as a 4.5% increase in current spending was offset by a sharp (23%) fall in capital expenditure. Growth in current spending reflected the continued increase in the wage bill, a trend that started in 2007, and higher outlays on debt servicing costs associated with higher interest rates (6.0%) on the restructured “super bond”. Capital expenditure suffered from a series of implementation bottlenecks, which hampered planned projects.

 Based on the first ten months of fiscal year 2011/2012[[1]](#footnote-1), fiscal performance is expected to be better than budgeted, with the deficit set to be lower than the budgeted 1.6% of GDP. Revenues were 7.5% higher than in the similar period of fiscal year 2010/2011 and surpassed total spending, leading to a small surplus of 0.1% of GDP, compared with a deficit of 1.2% of GDP in the similar period of 2010/2011. Revenues were bolstered by higher proceeds from petroleum taxes, import duties, and property taxes, which outweighed the lower receipts from the general sales tax (GST) and business tax. Expenditure increased by 1.8% year-on-year, owing to higher current spending, which was only partly offset by a decline in capital spending. Capital projects continued to face capacity constraints and administrative delays in disbursements.

 Public external debt expanded marginally by 1.2% in nominal terms, but declined from 72.3% of GDP to 70.7% of GDP.

* 1. **Monetary and exchange-rate policy**

 The central bank lowered its lender-of-last-resort rate from 18% to 11% and reduced the securities requirement imposed on commercial banks from 5% to 3% in an effort to encourage bank lending to the private sector. However, this moderately expansionary monetary policy stance did not achieve its goal of stimulating credit to the private sector. Net domestic credit declined by 7.0% in 2011, compared with 2.6% in 2010, following a sharp fall in credit to the public sector, which took advantage of higher oil receipts to build up its assets. Credit to the private sector fell marginally by 0.3%, as the increase in loan disbursements was offset by allocations for non-performing loan write-offs especially for businesses in tourism, construction and agriculture. Credit to the productive sectors declined, while personal loans increased by 20.6 million Belizean dollars (BZ$).

 The broad money supply expanded by 5.6%, bolstered by a 19.9% expansion in net foreign assets associated with strong foreign-exchange inflows. Inflows were boosted by receipts from the commercial free zone (CFZ), the recovery in tourism, and agricultural exports. In response to the lowering of the central bank’s lender-of-last-resort rate and the minimum deposit on savings, the weighted average lending rate declined by 76 basis points. This was much lower, however, than the 196 basis point fall in the weighted average deposit rate, resulting in a much wider interest rate spread. Meanwhile, the exchange rate remained unchanged in 2011.

**3. The main variables**

* 1. **Economic activity**

 The recovery continued in 2011 with GDP growth of 2.5%, marginally slower than the 2010 rate of 2.8%. This suggests that the economy has turned around following the fallout from the global crisis. Growth was fuelled by a rally in stay-over tourism, sugar and citrus production, and distribution. Real value added in the sub-sector of wholesale and retail commerce, hotels and restaurants expanded by 7.0%, much faster than the 1.9% posted in 2010. Stay-over arrivals increased by 3%, boosting value added in hotels, restaurants and transportation. However, cruise ship passenger arrivals fell by 4.8%, partly due to disagreements between Carnival Cruise Line and local tender operators.

 Sugar production went up by 12.5% to stand at 919,705 long tons as a result of increased productivity stemming from more timely deliveries to the factory and the higher sucrose content of the sugar crop. Citrus production expanded by 24.7% to 33,934 pound solids, due to rising productivity based on improved farming practices. Value added in distribution picked up with the burgeoning activity in the CFZ, as the stronger economy boosted demand. Meanwhile, lower productivity at the maturing Spanish Lookout field resulted in a 7% contraction in petroleum output, which fell to 1,406,534 barrels .

 The economy is projected to grow by 3.0 in 2012. Activity will be driven by agriculture, stay-over tourism and financial services.

* 1. **Prices, wages and employment**

 Fuelled by higher fuel and food prices, inflation increased by 2.5% following the 0% rise in 2010. Although the government replaced the 12.5% general sales tax on fuel imports with a fixed rate of duty, the effects of higher fuel prices were felt in a number of sectors. Transport and communication costs rose by 8.2%, reflecting higher prices for diesel and gasoline. Food prices went up by 3.8%, again partly because of higher fuel costs. Meanwhile, the costs of clothing and footwear and medical care declined during the year. Wage rates remained relatively stable, but the payment of raises pushed up the wage bill. Unemployment data are not available for 2011, but employment was expected to pick up in tourism and wholesale and retail trade, and the buoyant segments of the agricultural sector.

* 1. **The external sector**

 The balance-of-payments current account deficit narrowed from 2.9% of GDP in 2010 to 2.5% GDP in2011. This development reflected a sharp fall in profit outflows and higher official transfers, which offset the marginal increase in the trade deficit and the stagnant services balance.

 The trade deficit increased marginally, reflecting the economic upturn, as the strong surge in imports was only partly offset by the expansion in exports. Imports expanded by 19.6%, reflecting mainly the higher fuel costs linked to the hike in international prices. Exports also posted dynamic growth (26.1%), associated with higher volumes and improved terms. Exports of sugar and retail and wholesale goods in the CFZ increased in 2011. In addition, higher petroleum prices for Louisiana Light Sweet crude oil, the benchmark for Belize’s petroleum sector, led to higher oil export receipts, despite the fall in export volume.

 In the services account, steeper transport payments overshadowed the stronger business services and tourism receipts, leading to a slight fall in the services surplus. The capital and financial account increased by 22.5%, as debt forgiveness and official grants conceded by the United Kingdom bolstered capital inflows by US$ 23.7 million. Nevertheless, the financial account surplus narrowed by 38%. This is attributable to a 3.5% decline in foreign direct investment (FDI) inflows due to continued fragility in the international economic environment and higher net loan repayments by the private sector. International reserves increased by 8.3% to US$ 236.1 million, or the equivalent of 4.3 months of merchandise imports.

**4. General trends (first quarter of 2012)**

The Belizean economy continued to gain momentum in the first quarter of 2012 and is expected to record 3.0% growth in 2012. Robust activity in agriculture and tourism helped to offset a decline in oil production. Inflation increased, driven by higher international fuel costs. The fiscal position improved as higher revenues from petroleum taxes, non-tax revenues and grants offset the increase in expenditure. Windfall receipts due to higher international fuel prices compensated for the fall in petroleum production and boosted revenue from petroleum taxes. The balance-of-payments current account deficit narrowed, largely due to a reduction in the merchandise account and a tourism-driven improvement in the services account.

 Economic policy announcements continued to advocate an orderly reduction in the deficit and debt levels without compromising the fledgling recovery in the economy. However, election spending led to above-average growth in expenditure during the first quarter.

 The fiscal situation strengthened during the first two months of 2012, owing to a 15.8% expansion in revenues, which outstripped the 10.6% increase in real expenditure. Revenues were bolstered by growth in receipts from import duties, a rise in petroleum tax proceeds, and loan repayments by Belize Telemedia Ltd. Higher expenditure was mainly attributable to capital spending, which soared by 79% (or BZ$ 13.6 million), while current spending edged up by 2.9%. The surge in capital spending was associated with outlays on infrastructure projects.

 Central government domestic debt increased by 2.7% to stand at BZ$ 391.7 million, owing in part to election spending. Meanwhile, public-sector external debt contracted by BZ$ 6.9 million to stand at BZ$ 2.039 billion, as amortizations surpassed disbursements. The government is seeking to negotiate more favourable terms for its ‘super bond’ debt in order to reduce debt service payments and increase fiscal space.

 Monetary conditions improved with a 1.8% expansion in the broad money supply in the first two months of 2012. Net domestic credit increased by 1.6% in line with the modest rally in activity, while net foreign assets strengthened by 3.2% (BZ$ 24.2 million), owing to tax receipts from the domestic petroleum sector and sugar exports.

 The growth impetus in the first quarter of 2012 was provided by agriculture, tourism and distribution. Sugarcane deliveries increased in January and February of 2012, relative to the same period in 2011. Sugar cane production for the first three crop months (December 2011-February 2012) was 70.6% above the level of the similar period of 2011, when the breakdown of the cogeneration plant led to a major disruption in sugarcane deliveries. Stay-over tourist arrivals rebounded by 10.2% in the first two months of 2012, while cruise ship passenger arrivals were up by 29.9%. The rate of inflation was higher, at 1.9% (year-on-year to February 2012), compared with 0.9% in 2011. The higher prices stemmed mainly from rising fuel costs and their pass-through impact on other sectors. Price increases were steepest in the transportation and communication sector (6.1%) and food and beverages (3.9).

 The balance-of-payments current account deficit narrowed following a 40% reduction in the merchandise deficit to US$ 75 million. Export receipts doubled, boosted by higher proceeds from sugar, citrus and banana, which offset the decline in petroleum export receipts and the increase in the import bill. The merchandise account was reinforced by a healthier services account, thanks to higher tourism receipts, which reflected an expansion in stay-over arrivals and expenditure and dynamic growth in cruise ship passenger arrivals, as shipping schedules returned to normal following upheavals in 2011.

1. In Belize, the fiscal year runs from April 1 to March 31. [↑](#footnote-ref-1)