BELIZE

1. General trends

The Belizean economy experienced a reversal of fortunes in 2016, with growth dropping to -0.8% from 2.9% in 2015. A sharp fall in output in the primary sector, partly due to the effects of flooding and disease in agriculture, offset continued firm growth in the services sector, which was buoyed by dynamism in tourist activity. The average rate of inflation picked up to 0.7% in 2016 following mild deflation in 2015. Despite the slowdown in activity, the unemployment rate declined from 10.1% in 2015 to 9.5% in 2016, underpinned by job growth in tourism and other services. The government secured another restructuring of its external “super bond” debt, whose terms were deemed unsustainable because of the repayment commitments involved and the challenges faced by the economy. Debt restructuring has been combined with fiscal adjustment aimed at medium-term fiscal consolidation. The overall deficit fell to 3.4% of GDP from 7.8% of GDP in calendar year 2015. Monetary developments were marked by strong growth in domestic credit, accounted for by the public sector, as credit to the private sector slowed during the year. The balance-of-payments current account deficit narrowed slightly from 9.9% of GDP in 2015 to 9.4% of GDP in 2016 as higher tourism and reinsurance receipts following Hurricane Earl offset a larger trade deficit.

The economy is projected to post a firm recovery in 2017, expanding by 3.2%. Growth is expected to be propelled by a turnaround in the primary sector, supported by a modest rise in services output. Primary activity is forecast to register dynamic growth of over 8.0%, underpinned by a large increase in sugar cane production, which will be bolstered by expansion at the Santander plant. Banana output is also expected to recover from the adverse effects of flood and hurricane damage in 2016. Higher shrimp production will likewise provide a boost to primary output. The services sector is projected to grow by 2.0%, bolstered by continued growth in tourism due to increased stay-over arrivals and a pick-up in government services following a 3.0% wage increase. By contrast, activity in the secondary sector is expected to decline by some 1.9%, reflecting lower output of petroleum, electricity and citrus juice. Downside risks to the growth forecast could come from lower than projected growth in major markets that include the United States, the impact of natural disasters and the fall-out from derisking, which has led to the loss of correspondent banking relationships between banks in Belize and major international banks, including Bank of America and Commerzbank. This has affected a range of transactions such as remittance and other money transfers, credit card settlements and tourism transactions. Nevertheless, all banks now have at least one correspondent banking relationship, although for some of them this has come at a higher cost.

The fiscal position is expected to continue improving, with the overall deficit contracting from 3.4% of GDP in 2016 to 1.3% of GDP in 2017. Total revenue and grants are expected to increase by 1.0 percentage point to 30.9% of GDP, while total expenditure is projected to decline by 0.7 percentage points to 32.2% of GDP. The current account deficit is expected to widen marginally to 9.7% of GDP because of a deterioration in the services surplus, partly on account of a normalization of insurance inflows, which increased in 2016 to compensate for the impact of Hurricane Earl. Developments overall are expected to lead to a decline in international reserves for the third year in a row, leaving them at 3.8 months of merchandise imports.

2. Economic policy

Economic policy centres on measured medium-term fiscal consolidation to bring down public debt to more sustainable levels. Two key planks of this effort have been the settlements for the nationalization of the telecommunications companies and a further restructuring of super bond debt. The Belize Telemedia Limited (BTL) telecommunications company's settlement amounted to around BZ$ 550 million (US$ 275 million), of which BZ$ 350 million was paid in 2016, with the remaining BZ$ 200 million to be paid in the 2017/18 financial year. Belize is expected to avoid principal payments of BZ$ 55 million per year under the terms of the restructuring, partly because the interest rate on the bond has been cut by 27%, from 6.77% to 4.94%. As a result, the debt will decline by 25%, with the savings having a net present value of US$ 85.0 million. However, the government is obliged to seek International Monetary Fund (IMF) assistance if it fails to meet the primary surplus target of 2.0% of GDP for 2018, 2019 and 2020. This could present a challenge given how prone the economy is to economic and weather-related shocks.

(a) Fiscal policy

Fiscal policy was contractionary in 2016, despite the part-payment of the BTL settlement. The overall fiscal deficit for the calendar year more than halved from 7.8% of GDP to 3.4% of GDP, while the primary deficit was cut to 0.5% of GDP from 5.4% of GDP. Fiscal developments were influenced by a 12.0% cut in total expenditure, reflecting a normalization following dynamic growth of 17.9% in 2015. The decline in outlays was driven by a 53.2% fall in capital spending, which more than offset a 6.7% increase in current spending and represented a normalization after the one-off payment in 2015 to retire the BTL loan. Another reason for the decline in outlays was the completion of key infrastructure projects, including the rehabilitation of roads and bridges.

Total revenues increased only marginally (0.3%), as overall growth in tax receipts was dampened by lower domestic oil revenues owing to the continued decline in oil production. Tax revenues rose 3.6%, reflecting higher general sales tax, personal income tax and excise duty receipts, but this was outweighed by a 20.9% contraction in non-tax proceeds. Grant receipts and capital revenue were also lower in 2016, contributing to the weakness of revenue growth.

Public debt advanced to 88.6% of GDP, far above the benchmark of around 60% at which studies have shown that debt hurts growth in the Caribbean. Partly because of the limited access to the external market that has resulted from the country's low credit rating, the government relied on domestic borrowing to finance its deficit. Part of this was a BZ$ 270.0 million issue of new securities to defray the outstanding liabilities for the nationalization of BTL. This led to domestic debt increasing by 51.2% to BZ$ 747.8 million. Meanwhile, external debt grew by a marginal 1.9%, owing to a sharp (51.4%) fall in disbursements under the PetroCaribe Agreement with the Bolivarian Republic of Venezuela. By contrast, current spending rose by 6.4% (to 27.3% of GDP), propelled especially by a 7.1% rise in wages and salaries following the 3.0% wage increase for civil servants and by higher outlays on goods and services. The budget for 2017/18 targets an overall deficit of 0.18% of GDP, with the government planning to maintain spending on key areas, including road infrastructure, education, health and national security.

(b) Monetary policy

Despite the decline in economic activity, monetary policy remained neutral in 2016 against a background of exchange-rate stability. The central bank did not change its reserve requirements for the banking sector. Monetary developments were marked by a deceleration in the growth of broad money (M2) from 7.5% in 2015 to 2.7% in 2016. Net domestic credit expanded by 10.9%, but was mainly driven by lending to the government, as growth in private sector credit slowed to 1.6%, partly as a result of increased loan write-offs to clear the backlog of non-performing loans. Meanwhile, the net foreign assets of the banking system declined by 14.2%, mainly reflecting compensation payments to BTL, reduced inflows from exports and disruptions stemming from the fall-out of correspondent banking challenges. Liquidity in the banking system posted a modest decline as banks increased their holdings of government securities. Partly under the influence of high liquidity, interest rates on new loans declined by 19 basis points, while deposit rates fell by 5 basis points, causing the interest rate spread to narrow by 13 basis points to 7.63%.

(c) Other policies

The programme to modernize the financial system in Belize continued in 2016 and 2017. The central bank operationalized the Automated Payment and Securities Settlement System (APSSS) during the year. The system facilitates high-quality and speedy electronic payments. The real-time gross settlement component will allow continuous real-time settlement of large-value transactions, while the Central Securities Depository (CSD) expedites liquidity management and electronic auctions of government securities.

3. The main variables

(a) The external sector

Belize's external position improved slightly in 2016, with the current account deficit falling from 9.9% of GDP in 2015 to 9.4% of GDP in 2016. This marginal decline in the deficit was due to an increase in the services account surplus because of increased tourism receipts driven by firm growth in arrivals, insurance inflows after Hurricane Earl and higher remittances and official grant receipts. The services account thus helped to offset a widening trade deficit, the result of a sharp fall in exports (17.7%) that more than offset a 4.7% decline in imports. The drop in exports was due to lower volumes or lower prices, or both, for certain commodities. The value of sugar exports contracted by 23.4% to US$ 51.5 million, owing mainly to a 22.8% decline in the average price, while the value of banana exports declined by 29.3% to US$ 34.8 million. Petroleum exports plummeted by 37.7% to US$ 11.3 million owing to a fall in both volume and the average price of the product.

The capital and financial account surplus contracted by over 50%, meanwhile, mainly as a result of the BTL nationalization payments and lower foreign borrowing by the government. Net foreign direct investment plummeted by 47.2%, from US$ 64.6 million to US$ 34.1 million. As a result, net international reserves contracted by 13.8% to 4.5 months of merchandise imports.

(b) Economic activity

The economy contracted by 0.8% in 2016 following moderate growth of 2.9% in 2015. The performance downturn stemmed from a large (24.9%) drop in primary sector output, owing to the impact of damage from Hurricane Earl, disease infestation and the closure of operations by a major papaya producer. Output declined across all major export crops except sugar cane. There was a fall in the output of bananas (28.5%) due to the closure of the Meridian Enterprises farms. Citrus production dropped by 22.8% owing to citrus greening and the effects of Hurricane Earl. In the secondary sector, manufacturing value added dropped because of a 14.9% contraction in oil production, which offset increased output in the electricity and water supply and construction sectors. By contrast, the tertiary sector expanded by 3.1% as dynamic (13.2%) growth in overnight visitors lifted tourism activity. Moreover, the opening of the Harvest Caye cruise ship port in November 2016 is expected to boost cruise tourism.

(c) Prices, wages and employment

Average inflation increased by 0.7%, reflecting the higher cost of fuel, rent, clothing, health care and education. The rate of unemployment fell from 10.1% in 2015 to 9.5% in 2016 as job growth in services, especially tourism, compensated for an increase in the labour force participation rate.

Table 1

BELIZE: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	3.2	0.8	3.3	2.1	3.7	0.7	4.1	2.9	-0.8
Per capita gross domestic product	0.6	-1.7	0.9	-0.3	1.4	-1.5	1.9	0.7	-2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.5	1.6	5.3	-4.2	6.5	5.5	2.6	-11.3	-24.9
Mining and quarrying	20.0	-12.0	5.0	3.7	8.9	-5.9	-14.1	-4.4	...
Manufacturing	4.4	28.1	-8.2	-2.6	-7.6	-19.4	-7.5	-11.7	-6.5
Electricity, gas and water	4.1	12.3	21.0	-3.4	-8.5	10.1	3.8	3.3	5.5
Construction	15.5	-10.1	-24.7	-2.6	15.1	4.2	20.6	12.6	8.8
Wholesale and retail commerce, restaurants and hotels	1.9	-7.4	9.3	5.6	6.6	6.2	3.9	4.6	2.4
Transport, storage and communications	-3.9	-1.2	4.8	1.4	5.1	-3.1	1.5	5.2	3.4
Financial institutions, insurance, real estate and business services	1.7	9.9	2.5	-0.2	-1.1	-3.4	4.4	7.2	1.9
Community, social and personal services	3.5	4.4	0.9	0.3	4.9	-1.1	5.3	9.3	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.0	4.0	5.4	3.6	3.6	4.1	1.4	4.5	...
Government consumption	3.5	3.1	3.8	-1.4	4.3	0.7	5.5	6.5	...
Private consumption	-1.9	4.2	5.7	4.7	3.5	4.8	0.6	4.0	...
Gross capital formation	33.9	-25.1	-36.4	38.8	-5.0	20.7	22.9	12.7	...
Exports (goods and services)	4.0	-9.8	14.0	0.5	8.7	-0.3	2.6	4.7	...
Imports (goods and services)	13.2	-21.3	10.3	11.8	4.5	9.7	5.8	8.3	...
Balance of payments	**Millions of dollars**								
Current account balance	-145	-83	-46	-20	-33	-73	-136	-175	...
Goods balance	-308	-237	-171	-175	-209	-268	-337	-423	...
Exports, f.o.b.	480	384	476	604	628	608	589	538	...
Imports, f.o.b.	788	621	647	778	837	876	926	961	...
Services trade balance	217	183	191	169	218	240	270	274	...
Income balance	-165	-108	-158	-98	-118	-118	-143	-95	...
Net current transfers	112	79	92	84	76	73	74	70	...
Capital and financial balance c/	203	123	51	38	89	190	221	71	...
Net foreign direct investment	167	108	95	95	193	92	138	59	...
Other capital movements	36	14	-45	-57	-105	98	82	12	...
Overall balance	58	40	5	18	55	117	85	-104	...
Variation in reserve assets d/	-58	-47	-5	-18	-53	-114	-84	104	...
Other financing	0	7	0	0	-3	-4	-1	...	...
Other external-sector indicators									
Net resource transfer (millions of dollars)	38	22	-107	-60	-32	68	77	-24	...
Gross external public debt (millions of dollars)	958	1 017	1 021	1 032	1 029	1 083	1 127	1 177	1 199
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	4.4	-0.4	0.0	2.6	0.8	1.6	-0.4	-0.6	1.1
Nominal deposit rate e/	6.2	6.2	5.9	4.7	3.0	2.3	1.8	1.6	1.3
Nominal lending rate f/	14.1	14.1	13.9	13.3	12.3	11.5	10.9	10.3	9.8
Central government	**Percentajes of GDP**								
Total revenue	28.6	27.3	28.0	28.5	26.7	29.0	29.3	28.3	31.2
Tax revenue	22.5	21.6	23.6	22.6	22.5	23.3	24.7	24.5	27.3
Total expenditure	28.0	28.7	29.2	29.9	27.1	30.7	33.1	35.8	35.8
Current expenditure	23.2	25.0	24.7	24.5	22.5	23.9	24.4	25.6	28.8
Interest	3.7	3.8	3.7	3.4	1.9	2.7	2.5	2.4	3.0
Capital expenditure	4.9	3.7	4.6	5.4	4.6	6.8	8.6	10.2	7.0
Primary balance	4.3	2.4	2.5	2.0	1.5	0.9	-1.2	-5.1	-1.6
Overall balance	0.6	-1.5	-1.2	-1.4	-0.4	-1.7	-3.8	-7.5	-4.6
Non-financial public sector debt	79.4	82.2	72.3	70.7	72.8	78.5	75.6	78.4	88.6

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	70.6	74.9	69.6	64.4	62.5	58.0	56.8	65.6	...
To the public sector	7.4	7.6	6.7	5.5	5.6	1.2	0.6	8.8	...
To the private sector	63.1	67.3	62.9	58.9	56.9	56.8	56.3	56.8	...
Monetary base	14.0	16.0	14.9	16.0	18.0	20.4	24.0	29.2	...
Money (M1)	25.8	26.7	25.3	28.2	35.0	34.8	38.5	43.9	...

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

	2015				2016				2017	
	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/	7.8	-0.7	1.8	2.8	-0.2	-1.0	-0.8	-1.1	2.1	…
Gross international reserves (millions of dollars)	483	512	502	431	434	438	431	366	371	381 c/
Consumer prices (12-month percentage variation)	-0.9	-0.8	-0.7	-0.6	0.0	0.9	0.7	1.1	…	…
Nominal interest rates (average annualized percentages)										
Deposit rate d/	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.3	…
Lending rate e/	10.5	10.4	10.3	10.1	10.0	9.9	9.8	9.7	9.6	…
Interbank rate	2.8	2.8	2.7	2.4	2.5	2.5	2.5	2.5	2.5	2.5 f/
Monetary policy rates	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	…
Sovereign bond spread, Embi Global (basis points to end of period) g/	784	736	804	822	1 460	1 285	1 297	1 837	655	739 c/
Domestic credit (variation from same quarter of preceding year)	4.0	4.9	9.0	17.5	19.4	21.7	22.3	11.6	8.6	…
Non-performing loans as a percentage of total credit	…	…	…	6.7	…	…	…	3.0	…	…

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/ Rate for personal and business loans, residential and other construction loans; weighted average.
f/ Figures as of April.
g/ Measured by J.P.Morgan.

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