BELIZE

1. General trends

Buffeted by the impacts of the pandemic, Belize saw its GDP plummet by 14.0% in 2020, following growth of 1.8% in 2019. The steep decline was caused by a collapse of tourism arrivals and spending owing to measures to contain the coronavirus disease (COVID-19) pandemic. This led to a 17.0% decline in value added in the services sector. In addition, primary activity fell by 2.4%, owing to reduced global demand, combined with adverse weather and outbreaks of disease. Inflation remained subdued at 0.1%. Because of the downturn in key sectors, unemployment had risen to 13.8% by September, with heavy job losses in the services sector and among women and youths. The fiscal situation also deteriorated because of a hike in public spending amidst falling revenues, with the deficit expanding to 10.7% of GDP from 3.3% of GDP. Public debt climbed from 94.2% of GDP to 123.3%. The balance of payments current account deficit narrowed from 9.3% of GDP in 2019 to 7.5% in 2020, owing to reduced imports and investment income payments and higher remittance inflows, which offset falls in exports of goods and services.

Economic growth is projected to improve to 2.7% in 2021, buoyed by a modest recovery in agriculture, fisheries and livestock output, with better weather conditions and a rebound in demand. A slight recovery is also expected in tourism, as vaccinations in source markets and Belize allow travel to resume, albeit to a limited extent. Nevertheless, there are key downside risks to this projection, including continued vaccine hesitancy in source markets, new variants of concern of COVID-19 and risks posed by hurricanes and floods.

2. Economic policy

(a) Fiscal policy

Fiscal policy remained expansionary in 2020, with higher spending to counter the effects of the pandemic, and a decline in government revenues. The fiscal deficit more than tripled from 3.3% of GDP in 2019 to 10.7% in 2020, reflecting sharp falls in tax and non-tax receipts. Because of the impact of the pandemic on households, businesses and international trade, total revenues contracted by 17.4% to 972 million Belize dollars (BZ$). Tax revenues fell by 19.3%, owing to lower intake from taxes on goods and services and international trade taxes, the latter as a result of a decline in imports. Non-tax receipts plummeted by 17.2%, while grants increased by 31.7% to BZ$ 29 million, providing some offset to the other revenue losses.

As a percentage of GDP, total expenditure rose by 2.4 percentage points to 39.2% of GDP in 2020 from 33.0% in 2019. Higher spending was driven by emergency outlays on health and social transfers to cope with the impact of COVID-19, equivalent to 4.1% of GDP. By contrast, current expenditure contracted by 8.4%, reflecting reduced outlays on debt interest payments due to deferral of interest payments by the Government, owing to its difficult financial position. There were also cuts in spending on goods and services and pensions. Total capital expenditure expanded by 55.3% to 10.1% of GDP, linked to activities such as infrastructure work, and management of solid waste and land.

The ratio of public sector debt to GDP expanded by a substantial 29.1 percentage points to 123.3%, far surpassing sustainability limits. The ratio of domestic debt to GDP increased by 19.0 percentage points to 38.5% of GDP, while external debt rose by 10 percentage points to 84.8% of GDP.
The 2021/22 budget projects an ambitious overall deficit of 4.93% of GDP, with a primary deficit of 2.91%, just over a third of the figure for 2020/21. The 2021/22 government budget is focused on fiscal consolidation to return public finances to a position that is sustainable over the medium term. The fiscal adjustment programme includes cuts in the salaries of public sector workers, but this has been challenged by trade unions.

(b) Monetary and exchange-rate policy

Monetary policy was expansionary in 2020. The Central Bank of Belize lowered reserve requirements by two percentage points, to stimulate credit to the private sector. This, alongside increased government borrowing from the banking sector, spurred 5.9% growth in domestic credit to 89.1% of GDP. Growth in credit to the public sector almost doubled to mitigate the effects of the pandemic. Meanwhile, growth in credit to the private sector slowed to 3.1%, with the bulk of lending in the first quarter, before the lockdown to stem the spread of COVID-19.

The broad money supply grew by 10.7% in 2020, compared with 5.8% in 2019, underpinned by sharp (16.9%) growth in narrow money (M1), bolstered by increased demand for cash and an increase in informal activities, owing to unemployment caused by the pandemic. Meanwhile, there was a slowdown in the growth of quasi-money, owing to muted growth in savings deposits and a decline in time deposits. The weighted average interest rate spread narrowed by 0.35 percentage points to 7.27% in 2020. The average loan rate fell by 23 basis points, owing to declines in rates on personal, commercial and residential construction loans, while the average deposit rate rose by 12 basis points to 1.23%, influenced by tighter liquidity conditions in the early part of the year, before the lockdown.

(c) Other policies

The 2021/22 budget is focused on strengthening government finances to achieve a fiscal position that is sustainable in the medium term, while still facilitating economic recovery. The Government plans to implement a COVID-19 emergency business financing programme to provide low-cost liquidity to small, medium-sized and large enterprises, to boost their capacity to generate employment and foreign exchange.

3. The main variables

(a) The external sector

The external position improved in 2020, largely owing to reduced imports, profit and dividend repatriation and debt service payments, amidst higher remittances. The balance of payments current account deficit narrowed to 7.5% of GDP in 2020, from 9.3% in 2019. The merchandise deficit contracted from 27.4% of GDP in 2019 to 25.9% in 2020. Export receipts declined by 32.0% to US$ 289.0 million, reflecting a lower export volume of sugar and molasses, which were partly offset by higher international prices.

The services account surplus contracted from 22.3% of GDP to 15.0% of GDP, mainly because of the impact of COVID-19 on tourism receipts. Net travel earnings declined by 53.2% to US$ 226.3 million, reflecting double-digit falls in both stay-over and cruise ship visitors. In addition, net payments for transportation services rose by 6.2%. In contrast, the other services balance reversed to a surplus, underpinned by provision of more call centre services and lower payments for business services, on account of the economic downturn. The income account deficit narrowed from 8.2% of GDP in 2019 to 3.4% in 2020. This was due to reduced net outflows of profits and dividends and higher inflows of remittances and donations to respond to COVID-19.
The capital and financial account surplus expanded from 8.4% of GDP to 11.6%. The capital account surplus expanded owing to an increase in bilateral investment grants from Taiwan Province of China. Foreign direct investment (FDI) inflows declined by 21.8% to US$ 71.8 million, linked to lower FDI in tourism-based construction and real estate, which were dampened by the pandemic. However, this was offset by a US$ 96.2 million increase in public sector external borrowing to deal with the pandemic and for infrastructure and other spending. Gross international reserves almost quadrupled to US$ 348.1 million, covering 5.2 months of merchandise imports, owing to a spike in debt inflows.

(b) Economic activity

Reflecting a significant fallout from the pandemic, GDP contracted by 14.1% in 2020, following growth of 1.6% in 2019. Stifled by travel restrictions, lockdowns and physical distancing measures, the services sector, which accounted for 63% of GDP in 2019, declined by 17.0%. This fall mainly reflected the impact on tourism, and the knock-on effects on distribution and other services. Value added in the hotels and restaurants subsector plunged by 69.0%. Stayover visitor arrivals plummeted by 71.2% to 133,583 and cruise passenger arrivals sank by 70.8% to 308,003. Indeed, just 14,813 visitors were recorded in the last quarter of 2020, after the main international airport was reopened.

Primary activity declined by 2.4%, on account of a 27.0% fall in value added in fishing, which offset a 0.5% increase in output in agriculture, hunting and forestry. Lobster and queen conch catches were affected by heavy rains, while shrimp output declined due to early mortality syndrome. Sugarcane deliveries declined by 14.3% to 1,512,592 long tons, owing in part to effects of drought on output from the northern region. Following five years of decline, citrus fruit output grew by 9.1% to 2.6 million boxes in 2020, driven by higher yields from new orange groves to replace those lost to citrus greening disease, and favourable weather conditions. Bolstered by increased acreage under production and improved agronomic practices, banana output rose by 8.6% to 5.0 million boxes.

In the secondary sector, sugar production dropped by 28.2% to 141,760 long tons, owing to lower cane quality (average sucrose content was down 8.9%). Crude oil output contracted by 26.25% to 194,435 barrels, in line with the steady decline in production.

(c) Prices, wages and employment

The end-of-year rate of inflation rose slightly from 0.2% in 2019 to 0.4% in 2020, spurred mainly by higher prices for domestic food items (up 3.4%), including cabbage and tomato, as international prices were contained by sluggish demand owing to the pandemic. The rate of unemployment jumped from 7.7% in 2019 to 13.7% in 2020, as jobs in tourism and other services were badly affected by the pandemic. The labour force survey (using an updated methodology) found a significantly lower labour force participation rate of 55.1% in 2020 compared to the 71.1% recorded in 2019.