

Belize

Following exceptional growth in 2006 (5.6%), driven by newly developed commercial oil production, growth in 2007 is expected to slow to 3%. While petroleum production continued to increase, the slowdown is mainly due to the impact of Hurricane Dean on the agricultural, fisheries and other sectors as well as sluggish growth in tourism. Inflation moderated to an estimated 3.5% from 4.3% in 2006, dampened by lower acquisition costs for diesel and gasoline. Propelled by capital spending, partly hurricane-related, the fiscal deficit increased from 1.8% to 2.1% of GDP. The balance of payments weakened but continues to post a surplus (estimated at US\$ 8 million compared with US\$ 50 million in 2006). The tropical storm caused significant damage and losses, with a negative impact on economic performance in 2007, and also in 2008 when the economy is expected to grow by 3%.

Fiscal policy continues to be the main concern in Belize. While the successful debt restructuring in early 2007 gave the authorities some latitude in fiscal management, short-term fiscal outcomes have been derailed by election spending and the impact of Hurricane Dean on government expenditure. Capital spending shot up by over 30%, particularly in relation with social development projects and rehabilitation and reconstruction after the hurricane, and the overall deficit increased slightly from 1.8% to 2.1% of GDP.¹

Current spending was much more subdued as wage costs were contained and interest payments benefited from the debt rescheduling. Revenues were bolstered by a spike in petroleum revenue with increased output from the Spanish Lookout oilfield. Tax returns fared well with an improved take from taxes on international

trade and transactions, partly associated with growth in imports in the aftermath of the disaster. Grant receipts also increased, reflecting greater international assistance.

The debt burden has eased with the restructuring, which has extended the average maturity and duration of the public-sector external debt owed to private creditors by roughly 11 and 6.8 years, respectively. The public debt stock stood at US\$ 1,171.700,000 as at the end of the first semester, 90.4% of GDP. Importantly, the government has embarked on implementing a petroleum revenue management fund to save some of the returns from the sector for the future.

Monetary conditions were relatively stable in 2007. Broad money posted dynamic growth of almost 10% at the end of the first half of the year relative to the

¹ The 2007 overall fiscal balance will be distorted by one-off accounting items on the expenditure side linked to the execution of the February 2007 debt exchange. Without these accounting distortions the overall fiscal balance for 2007 would be forecast at -0.5% of GDP.

similar period last year. This upturn was driven by growth in domestic credit and inflows from tourism and merchandise exports. However, money growth slowed in the second half of the year, dampened by the impact of the hurricane, leading to fairly stable overall growth. Credit expanded to productive activity in tourism, construction, agriculture and fisheries, helping to ease the constraints faced by these sectors. Credit to the government also rose fairly sharply to facilitate debt restructuring payments. The overall increase in inflows to tourism boosted the net foreign asset position of the banking system.

Inflationary pressures eased in 2007, with the rate dropping to 3.5%, compared with 4.3% in 2006. Prices of clothing, transportation and medical care decreased, while the impetus for higher consumer prices came from food shortages stemming from the hurricane, household goods and recreation. The unemployment rate fell to 8.5% from 9.4% in 2006.

Growth in 2006 was exceptional, spurred by newly-developed commercial oil production; as a result, it was expected to slow in 2007. Nevertheless, the adverse impact of the hurricane as well as reduced output in shrimp farming, garment manufacturing and a decline in the number of cruise ship arrivals from the United States over the second half of the year meant that at 3%, growth outturn came in below projections. Oil production rose sharply by an estimated annualized 41% reflecting more intense exploitation of existing wells. In the first semester, the wholesale and retail sector concentrated in the free trade zone also expanded and new hydroelectric energy production got started. Agriculture was severely affected by the hurricane, with output expected to fall by around 13%. Papaya, banana and other crop subsectors, in particular, as well as livestock and fisheries suffered. The adverse impact on tourism is estimated at around \$9.4 million. Growth of tourism was sluggish, around 1.2% in the relatively high-value-added stay-over segment.

In spite of a 40% increase in petroleum exports, the balance of payments deteriorated in 2007, reflecting the impact of Hurricane Dean on agricultural exports. The overall balance surplus contracted from 4.1% of GDP in 2006 to an estimated 0.6% of GDP in 2007 with the current account deficit increasing from 2% of GDP in 2006 to an estimated 3.7% of GDP in 2007. Agricultural exports were buffeted by the hurricane, with an impact estimated at over 60% of the sector's GDP and around 12% of exports of goods and services. Tourism earnings were

BELIZE: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	3.0	5.6	3.0
Consumer prices ^b	3.7	4.3	3.5
Money (M1)	30.1	12.1	16.5 ^c
Annual average percentages			
Unemployment rate ^d	11.0	9.4	8.5
National administration overall balance / GDPB	-5.5	-1.8	-2.1
Nominal deposit rate	5.4	5.8	5.7 ^e
Nominal lending rate	14.2	14.2	14.3 ^e
Millions of dollars			
Exports of goods and services	325	426	462
Imports of goods and services	556	612	650
Current account	-161	-25	-49
Capital and financial account	177	67	57
Overall balance	17	50	8

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

^a Preliminary estimates.

^b Annual average.

^c Twelve-month variation to September 2007.

^d Includes hidden enemployment.

^e Average from January to March, annualized

also affected by the damage from the hurricane. Current transfers rose by more than 13%, partly associated with relief and recovery assistance in the wake of the hurricane. The financial account remained robust with a surplus of US\$ 57 million. Underscoring renewed confidence in the wake of the debt restructuring, foreign direct investment remained strong at around US\$ 69 million and is expected to increase in the short term with further oil exploration. Meanwhile, reserves are expected to reach US\$ 94 million at the end of 2007, providing two months of import coverage; although below the stipulated three months, this was the highest level since the first quarter of 2005.

Against a background of overall macroeconomic stability, Belize faces several challenges to achieving sustainable growth. The most immediate concern is debt. Although debt restructuring has provided some breathing space for the economy, fiscal prudence and careful debt management must be maintained to prevent debt from undermining other macroeconomic gains. Keeping spending under control will be a challenge given the impending election of next year. The country also needs to tackle the competitiveness of production systems and to further enhance service quality, value for money and product differentiation in the tourism sector.