

Belize

The economy is expected to post a significant recovery in 2008 by growing 6% as compared with 1.2% in 2007. After the negative effects of Hurricane Dean in 2007, activity picked up on account of higher production of oil and some agricultural commodities, foremost fishery products. Economic policy is constrained both on the domestic and the external front. A high debt burden and a tight fiscal position, which have been worsened by the international financial crisis, are reducing policy leverage, and the likely fall-out in export demand and tourism is hampering efforts to improve the balance of payments. Although the new administration has returned to fiscal prudence, the slowdown in external demand might push the authorities to use fiscal stimuli to shield growth and employment.

Public finances improved in 2008, with the overall balance moving from a deficit of 1.1% of GDP in 2007 to an estimated surplus of 0.7% of GDP in 2008. The primary surplus will increase marginally to 4.7% of GDP. Petroleum revenue has expanded on the back of higher production in established fields. A windfall tax of 50% on oil revenues, when the price of oil exceeds US\$ 90 per barrel, was implemented in September. However, the downward trend in oil prices means that revenues will be lower than expected. Public finances also benefited from significant grant inflows, including BZ\$ 50 million from Taiwan Province of China. Despite higher allocations for flood rehabilitation and development expenditure, total public spending will fall to 28.9% of GDP linked to lower external interest payments and reduced outlays on goods and services. Public debt remains a major concern notwithstanding a comprehensive debt restructuring programme and a super bond issued at the beginning of 2007. Central government debt stood at 79% of GDP at the end of September 2008. Weakened global demand is likely to slow growth in receipts from the general sales tax, import duties and business taxes, and an overall fiscal deficit of 4.6% of GDP is therefore expected in 2009.

The monetary stance was relatively neutral in 2008. The central bank left its reserve requirement unchanged, while year-on-year growth in broad money slowed in October to 13.8% from 15.4% in 2007, in spite of the increase in activity. Credit to the private sector slowed moderately as demand was constrained by adverse global conditions.

The central government reduced its borrowing from the banking system as foreign debt replaced domestic debt to some extent. However, central bank net credit to the government is projected to increase in 2009 as access to external borrowing becomes more difficult and its cost increases. The central bank is also planning to move towards a more market-driven monetary policy, including the use of open market operations, a repo rate and other indirect instruments. In the longer term, the policy change might facilitate the deepening of the nascent capital market and improve the financing of businesses.

Domestic supply rebounded following the fall-out from Hurricane Dean in 2007. Output of shrimp, bananas, citrus fruits, the wholesale and retail trade, transport and communications and petroleum boosted growth to 6.0% in 2008 from 1.2% the previous year. Momentum also came from distribution activities, buoyed by dynamic imports and telecommunications, which benefited from a medium-term roll-out plan for service expansion. Activity in the Free Zone picked up strongly in the first half of the year. Nevertheless, an unfavourable external environment has led to reduced activity in tourism and construction. The closure of Williamson Industries, the country's leading manufacturer, led to a sharp fall in the production of clothing and textiles. Economic growth was also hampered by flood damage to food crops and lower electricity generation and is expected to decline to approximately 3% during 2009 as downside risks for tourism, construction and distributive trades posed by the

global financial crisis materialize. However, the effect will be partly offset by recovery in sugarcane output, moderate growth in shrimp production and dynamic petroleum output.

Inflation picked up significantly. For the period August-August it stood at 9.5% fuelled by price hikes in basic food products, such as flour and rice, transport and communication, fuel and power. With the fall in international fuel and food prices in the latter part of the year and the global slowdown affecting demand for a range of other commodities, however, inflation is expected to fall to 5.0% by the end of 2008 (December-December). Wage demands have eased as the unions allow the government a grace period for settling in.

The structural current account deficit is expected to double to 7.4% of GDP but will be offset by foreign direct investment, especially in fisheries, tourism and real estate and higher capital grant receipts. This will lead to an improvement in the overall balance-of-payments surplus from 2.2% of GDP in 2007 to 3.7% of GDP in 2008. Domestic exports rebounded following the dampening effects of Hurricane Dean in 2007. Banana export receipts increased on account of higher volumes and prices, and exports of marine products also benefited from increased volumes. The year saw substantial outlays on imports of oil and capital goods for major projects such as the Vaca dam and the Belcogen sugar-based electricity plants. Overall developments led to an increase in reserves to US\$ 157.4

BELIZE: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	4.7	1.2	6.0
Per capita gross domestic product	2.4	-0.9	3.8
Consumer prices	2.9	4.1	9.5 ^b
Money (M1)	19.7	14.0	6.8 ^c
Annual average percentages			
Unemployment rate ^d	9.4	8.5	...
Central government overall balance / GDP	-1.9	-1.1	0.7
Nominal deposit rate ^e	5.8	5.9	...
Nominal lending rate ^f	14.2	14.3	...
Millions of dollars			
Exports of goods and services	801	824	900
Imports of goods and services	775	810	930
Current account	-25	-51	-105
Capital and financial account	75	74	158
Overall balance	50	23	53

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

^a Preliminary estimates.

^b Twelve-month variation to August 2008.

^c Twelve-month variation to October 2008.

^d Includes hidden unemployment.

^e Deposit rate, weighted average.

^f Lending rate, weighted average.

million, representing 2.8 months of imports. Due to the global financial crisis it is expected that external payments in 2009 will be affected by reduced tourist arrivals and receipts and lower foreign direct investment, as some investors hold off on projects.