

Belize

According to the most recent official estimate, economic growth of 2.7% is expected for Belize in 2006.¹ GDP in the first half of 2006 was only 0.9% higher than in the first half of 2005, but the quarterly calculations do not include new oil production and are based on partial information in the tourist sector. The high growth rates of the period from 2001 to 2004, which were accompanied by a sharp increase in external debt, were not sustainable. In addition to incurring direct debt to finance reconstruction work after the passage of several hurricanes, the government had to absorb the debts of state enterprises and privatized public utility companies. Adjustment had begun in 2005, with public spending cuts and tax increases giving rise to more moderate growth (3.5%). At the same time, a successful international bond issue improved the management of external accounts, but a general strike weakened the government's position and revenue collection diminished.

In 2006 there was virtually no access to new international capital and the government encountered great difficulty with debt servicing, despite the primary surplus achieved by maintaining and extending the fiscal adjustment measures which it had begun to apply in the previous year. At times, international reserves were less than the equivalent of one month of imports. Solidarity-based assistance, first from Taiwan province of China and then from the Government of the Bolivarian Republic of Venezuela, helped Belize to avoid having to suspend payments. In August, the government announced that it would seek cooperation from private creditors for debt restructuring, as it would not be possible to comply with the 2007 payments schedule; negotiations are expected to begin before the end of the year. Economic activity continued to grow slowly, thanks to the onset of oil production, demand for tourist services and high prices for agricultural exports.

Fiscal policy was mainly oriented to tackling the high level of public debt. Spending, especially capital spending, grew more slowly and a series of measures was adopted to make revenue collection more efficient. In July a new 9% general sales tax was established, one percentage point higher than the tax it replaced. The

primary surplus is expected to rise from 1.3% in 2005 to 3% in 2006 as a percentage of GDP. The global deficit will probably stand at 3.3% of GDP in 2006, compared to deficits of over 10% a few years previously and close to 6% in 2004 and 2005. The fiscal adjustment was not backed by a loan from the International Monetary Fund, but assistance in the form of policy-based lending is being requested from the Inter-American Development Bank and the Caribbean Development Bank.

Monetary policy was intended to temper demand, in order to slow imports and reduce the balance-of-payments current-account deficit. The legal reserve requirement was raised twice, by one percentage point each time. The commercial banking system reacted as expected, offering foreign currency to the central bank. The central bank also acquired treasury bills in order to resell them to the commercial banks and thereby have more control over liquidity. Domestic credit fell slightly as a percentage of GDP.

As for foreign-exchange policy, the fixed parity of two Belize dollars for one United States dollar was maintained, but the central bank gave greater facilities to tourist service providers in terms of accounts in foreign

¹ Government of Belize, *Economic and Financial Update*, August 2006.

currency. The authorities understand that devaluation of the Belize dollar would not help to solve the problem of debt payment. It would not benefit tourism, as it would bring prices down but also destabilize society, thereby increasing insecurity. Nor would it contribute significantly to improving the competitiveness of sugar or bananas, among other commodities. A recent mission from the International Monetary Fund also concluded that Belize does not have an urgent problem in terms of price competitiveness.

Fiscal and monetary contraction was reflected in the modest economic performance. One notable exception was the beginning of oil production at Spanish Lookout by Belize Natural Energy Ltd. Electricity production increased by 27% thanks to the commissioning of the hydroelectric plant in Chalillo. The completion of the dam meant a drop in construction activity. Primary production showed varying results: output of sugar cane increased, while citrus fruits and banana production fell. Price trends, however, were favourable in these subsectors.

Consumer prices showed an upward trend, influenced by fuel prices. The 12-month variation to August 2006 was 4.9%, which is much higher than usual in Belize. An open unemployment rate of 9.4% is estimated for April 2006, which is much lower than the 11% of the previous year. This result is due in part to a reduction in the labour participation rate, from 59.4% to 57.6%, and in part to the creation of some 4,000 new jobs.

External accounts benefited from the favourable sugar and citrus prices, in addition to the beginning of oil exports, which amounted to US\$ 60 million, or 15% of total exports in the first half of the year. Crude was

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	4.6	3.5	2.7
Consumer prices	3.1	3.7	4.9
Money (M1)	4.1	7.4	9.5 ^b
Annual average percentages			
Unemployment rate ^c	11.6	11.0	9.4 ^d
Central government			
overall balance/GDP	3.1	24.3	16.1
Nominal deposit rate	5.2	5.4	5.8 ^e
Nominal lending rate	13.9	14.3	14.2 ^e
Millions of dollars			
Exports of goods and services	542	620	681
Imports of goods and services	629	716	758
Current account	-150	-152	-144
Capital and financial account	119	170	117
Overall balance	-31	18	-26

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

^a Preliminary estimates.

^b Year-on-year average variation, January to August.

^c Includes hidden unemployment.

^d Data refer to April.

^e Data for February, annualized.

sold to Central America, significantly expanding trade relations with that subregion. The value of external sales of goods increased by almost 30% in the first half of 2006, compared to the same period in the previous year. Income from tourist services also showed a positive trend and remittances increased. Nevertheless, the balance-of-payments current account deficit continued to be high. In view of the fact that almost no new international loans were disbursed, the net inflow to the financial account declined sharply, which led the government to meet with creditors to restructure the debt.