

## BELIZE

### 1. General trends

Following an exceptional pandemic-induced decline of 13.7% in 2020, the Belizean economy rebounded with growth of 16.3% in 2021. The driving force of the recovery was the services sector — primarily distribution, transport and communication and tourism— which rebounded as border restrictions were lifted and the economy reopened. The recovery was also supported by a pickup in agriculture, owing to favourable weather. Inflation was 4.9% in 2021, up from 0.4% in 2020. Unemployment declined from 13.7% in September 2020 to 9.2% in the same month of 2021. The fiscal deficit narrowed, from 11.5% of GDP in 2020 to 4.2% of GDP in 2021, owing to a recovery in revenues and only modest growth in spending. Public debt-to-GDP eased from 133.1% in 2020 to 111.2% in 2021, as the country benefited from debt restructuring that included a haircut, as well as GDP growth. External payments worsened, with the balance of payments current account deficit widening from 7.5% to 9.2% of GDP, reflecting higher payments for imports, freight and financial services.

Economic growth is expected to be slower at 5.8% in 2022, with a slowdown in all major sectors. Value-added in agriculture is projected to taper off as the boon of favourable weather subsides. Tourism growth is also expected to decelerate but remain healthy, following the substantial rebound that came from the easing of pandemic-related restrictions. These slowdowns will be only partially offset by an increase in secondary sector activity, owing to an uptick in generation of renewable energy. With continued growth in economic activity, job creation in tourism and in construction is expected to lead to lower unemployment. Inflation is expected to continue accelerating, reflecting the pass-through of higher fuel and food prices on international markets. The government has projected a budget deficit of 2.5% of GDP for 2022, as it benefits from debt relief and fiscal consolidation. External payments are expected to deteriorate with the current account deficit widening, owing to an increase in the trade deficit and higher profit repatriation as the position of foreign companies improves. The resumption of debt service payments, following the one-off suspension in 2021, will reduce foreign reserves.

### 2. Economic policy

#### (a) Fiscal policy

Fiscal policy was contractionary in 2021. As a result, the deficit narrowed to 4.2% of GDP, from 11.5% of GDP in 2020. The fiscal outturn was influenced by a home-grown fiscal consolidation programme and a Medium-term Recovery Plan aimed at fiscal consolidation as a platform for higher growth. As part of the Plan, public sector wages were cut by 10.0% for those earning above US\$ 12,000 and debt relief was obtained under a new restructuring arrangement. The ratio of total expenditure to GDP therefore declined by 10.1 percentage points to 32.5%. Current expenditure fell by 5.8 percentage points to 26.0% of GDP, with reduced outlays on wages and salaries and interest payments, the latter reflecting the suspension of debt interest payments, owing to constrained government finances. Total revenue and grants declined marginally from 31.1% of GDP in 2020 to 28.3% of GDP in 2021, largely reflecting GDP growth rather than revenues, which rose only by a nominal 2.9%. With the recovery in economic activity, tax receipts climbed by 8.3% —with higher amounts from general sales tax, taxes on goods and services, import duty and environmental tax— partially reversing the 19.0 % contraction in 2020. Non-tax revenues, however, declined by 18.3%.

In 2021, Belize restructured its 2034 dollar-denominated bond through a debt-for-nature-conservation swap. This resulted in bondholders receiving 55 cents on the dollar, representing a 45.5% haircut on the bond's principal and forgiveness of US\$ 503.3 million in debt. The bond purchase was financed by The Nature Conservancy (TNC) with a "Blue Bond for Ocean Conservation". Under the Agreement, Belize is required to undertake a number of actions, including completing a legally enforceable Marine Spatial Plan and designating up to 30.0% of its territorial sea as Biodiversity Protection Zones within five years of the agreement and to apply to have at least three designated marine protected areas in the country's territorial sea listed as International Union for Conservation of Nature green areas.

Public sector debt-to-GDP contracted significantly by 21.9 percentage points to 111.2%, underpinned by debt restructuring, fiscal consolidation and the recovery in growth. Domestic debt declined by 4.8 percentage points to 36.6% of GDP, while external debt contracted 17.1 percentage points to 74.5% of GDP.

The 2022/23 budget projects an overall deficit of 2.5% of GDP, and the primary surplus is projected at of 0.4% of GDP. The 2022/23 government budget is focused on fiscal consolidation to return public finances to a sustainable path over the medium-term.

#### **(b) Monetary and exchange-rate policy**

Monetary policy was neutral in 2021. The Central Bank of Belize held its statutory liquid asset and cash reserve requirements for domestic commercial banks at 210% and 6.5% of average deposit liabilities, respectively. Monetary developments were marked by a surge in liquidity, boosted by net foreign assets. As a result, the broad money supply expanded by 12.3%, the largest increase since 2008. Narrow money accelerated by 13.6%, on the back of growth in demand deposits. Quasi-money grew by 10.6%, bolstered by an increase in time and savings deposits.

Domestic credit posted meagre growth of 0.2% but declined relative to GDP from 95.9% of GDP in 2020 to 84.8% in 2021. Growth in private sector credit slowed to 2.5% from 3.1% in 2020, with less lending to households and manufacturers offsetting a modest increase to tourism, agriculture and construction. Credit to the public sector contracted by 25.3% as the government embarked on its fiscal consolidation programme and also benefited from debt restructuring. The weighted average interest rate spread widened by 9 basis points to 7.18% in 2021. The average loan rate fell by 10 basis points to 8.43%, owing to declines in rates on personal, commercial and other loans, while the average deposit rate fell by 1.0 basis point to 1.25%, influenced by tighter liquidity conditions in the early part of the year.

#### **(c) Other policies**

The 2022/23 budget fiscal consolidation aims to strengthen government finances, while prioritizing economic and social investment to accelerate economic recovery. The government is attaching great importance to increasing revenues, including by collecting arrears and improving expenditure management to reduce wastage. A new tax recovery unit has been mandated to collect overdue tax.

### **3. The main variables**

#### **(a) The external sector**

Net external payments worsened in 2021, with the balance of payments deficit widening from 7.2% of GDP in 2020 to 8.7% of GDP in 2021. Export receipts expanded by 46.6% to US\$ 423.2 million, buoyed

by higher exports of sugar (+17.5%), molasses (+26.4%), bananas (+4.6%) and marine products (+35.3%). Meanwhile, citrus export volumes declined by 19.3%, partly owing to citrus greening disease. Goods imports grew by 30.7% to US\$ 956.1 million but remained constant as a percentage of GDP at 42.9%, primarily reflecting larger payments for fuel, owing to higher volumes and prices, and increased imports of manufactured goods.

The services account surplus expanded from 16.1% of GDP to 18.2% of GDP, mainly reflecting a firm recovery in tourism receipts with the reopening of the economy, supported by business processing inflows, which offset a rise in transportation payments. Tourism earnings grew by 49.8% to US\$ 112.8 million, bolstered by higher visitor arrivals and spending from major markets. This was reinforced by a US\$ 16.7 million rise in net receipts from other services, with buoyant growth in business processing inflows partly offset by expenses of refinancing the 2034 dollar-denominated bond. The income account deficit widened from 3.7% of GDP in 2020 to 4.3% of GDP in 2021, owing to higher profit repatriations—from the tourism and energy sectors in particular—which surpassed the increase in remittance inflows.

The capital and financial account surplus increased slightly from 12.5% of GDP in 2020 to 12.9% of GDP in 2021. However, the capital account surplus expanded sharply by US\$ 227.1 million, largely because of the debt forgiveness under the debt-for-nature-conservation swap. This was supported by project-related grant inflows of US\$ 24.4 million to upgrade the Philip Goldson Highway and other infrastructure. Foreign direct investment inflows expanded significantly, by 64.7% to US\$ 125.5 million, linked to a recovery in flows for tourism-related construction and real estate, which had been dampened by the pandemic in the previous year. Gross international reserves increased by 19.2% to US\$ 415.1 million, but with imports growing at a faster pace, import cover declined from 5.2 to 4.6 months of goods in 2021.

## **(b) Economic activity**

With the re-opening, as the worse effects of the pandemic abated, the economy rebounded with growth of 9.8% in 2021, following the major contraction of 16.7% in 2020. The services sector, which bore the brunt of the economic effects of the pandemic and contracted by 21.5% in 2020, posted a robust recovery, growing by 10.1% in 2021. The easing of border and domestic public health-related restrictions led to a strong recovery in tourism. Value-added in the hotel and restaurant subsector, which plunged by 69.0% in 2020, expanded by 31.5% in 2021, mainly driven by 59.0% growth in stay-over visitor arrivals and the resumption of cruise arrivals. The wholesale and retail sector rebounded by 22.0%, owing to a pickup in domestic demand and the spillover effect from tourism.

Activity in the primary sector increased by 11.2%. This expansion was buoyed by agriculture, which grew by 11.8%, propelled by a 23.2% rise in sugarcane deliveries to a record 1,863,756 long tons and favourable weather in 2021. Banana production rose by 5.7% to 5.4 million boxes in 2021, partly reflecting a higher average yield. However, citrus output plummeted by 45.3% to 1.4 million boxes, owing to citrus greening disease and drought conditions. Marine production declined by 3.5% to 2.4 million pounds, as farmed shrimp output was affected by acute hepatopancreatic necrosis disease (AHPND) and farmed fish production also contracted.

The secondary sector experienced a marginal decline of 1.2%, as higher value-added in manufacturing and construction was offset by a steep contraction in electricity generation. Manufacturing output increased by 5.7%. Sugar production expanded by 23.5% to 175,065 long tons, owing to the above-mentioned growth in sugarcane deliveries, but citrus juice output contracted by 47.2%, reflecting the lower fruit deliveries.

**(c) Prices, wages and employment**

The year-end rate of inflation rose from 0.4% in 2020 to 4.9% in 2021, fuelled by higher international fuel prices and their knock-on effects on domestic food and transport costs. The unemployment rate fell 4.5 percentage points from 13.7% in 2020 to 9.2% in 2021, owing to job growth in tourism, the wholesale and retail trade and real estate. This decline in unemployment offset an increase in the labour force participation rate from 68.7% in 2020 to 76.1% in 2021.