

## BELIZE

### 1. General trends

Economic growth decelerated to 0.7% in 2013, following strong growth of 4.0% in 2012. Growth was dampened by lower output in agriculture, the petroleum sector and agro-based manufacturing. This was only partly offset by dynamic activity in tourism, construction and fisheries. Inflation (end of period) increased from 0.8% in 2012 to 1.6% in 2013, reflecting firming of all prices except clothing and footwear and miscellaneous goods and services. Average unemployment fell by 2.3 percentage points to 13%, owing to vibrant growth in tourism, construction and other services.

The economy is projected to improve in 2014, and will grow by 2.5%. The pick-up in activity is expected to be driven by continued strong growth in services, led mainly by tourism and construction, and a modest recovery in agriculture. Stay-over visitor arrivals are projected to increase by 5.0%, reflecting an improved performance in the United States and the European Union, the main source markets. Construction will be buoyed by capital infrastructure projects, including major road improvement in Belize City and work on the Southern Highway and the Macal Bridge. Agriculture will recover thanks to a rebound in sugarcane and citrus output.

The fiscal challenge, which has been a particularly difficult area for Belize has eased with the restructuring of its external commercial debt in 2013. The restructuring, although not as generous as it could have been, has led to an extension of the bond by some nine years to 2038 at a lower interest rate. This achievement, together with significant loan inflows under the PetroCaribe Energy Cooperation Agreement, concluded with Venezuela, has increased the fiscal space for the government. Nevertheless, the government needs to use this space prudently to retire more expensive debt and to focus on development projects that could increase longer-term growth and deflate the debt in the future.

Government finances deteriorated in 2013, with the overall fiscal deficit increasing from 0.8% of GDP in 2012 to 1.1% of GDP in 2013. Although revenues increased, they were outweighed by growth in expenditure, due to higher spending on wages and salaries, goods and services and capital investment. The balance-of-payments current account deficit widened sharply from 1.0% of GDP in 2012 to 4.5% of GDP in 2013. The growing deficit was fuelled by an expansion in the merchandise trade deficit, which cancelled out the effect of the tourism-led improvement in the services account.

Economic activity was expected to slow in the first quarter of 2014. All major export commodities, except marine products registered declines in output, which counterbalanced the dynamic growth in stay-over tourism. Marine products were bolstered by higher shrimp production. Petroleum production contracted by 23% to stand at 169,952 barrels, owing to depleting reserves in the two oil fields. Sugarcane deliveries declined by 33.6%, citrus by 29.9% and banana by 4.7%. Meanwhile, tourism maintained strong growth with stay-over arrivals rising by 10.6% and cruise passenger arrivals up by 22.0%. The central government fiscal deficit more than doubled to 33.4 million Belize dollars (BZ\$) during the first quarter of 2014 owing to a sharp rise in expenditure, which exceeded the increase in revenue. The broad money supply increased by 4.0%, owing to growth in net foreign assets, which offset a decline in domestic credit. The debt overhang continues to constrain credit to the private sector. The trade deficit widened as imports expanded by 20%, while exports were down by 1.4%.

## 2. Economic policy

### (a) Fiscal policy

Fiscal policy in 2013 focused on securing an agreement with creditors to restructure the government's external commercial (superbond) debt and increased outlays on capital works projects to upgrade public infrastructure that could boost growth. A successful debt restructuring was concluded, albeit not on as favourable terms as the authorities had initially hoped. Nevertheless, it has provided significant fiscal space for the government, which had been constrained by high debt servicing costs.

The debt exchange provides a 10% haircut on principal payments, a nine-year extension in the maturity of the bond to 2038 and a reduction in the average interest rate on the debt. The interest rate will be held at 5% for the first five years of the bond, then, subsequently, will be stepped up to 6.678% until maturity.

Central government finances weakened in 2013, with the overall fiscal deficit expanding from 0.8% of GDP to 1.1% of GDP. This reflected a 1.8% increase in expenditure, which offset the 0.8% increase in revenues. Higher expenditure was mainly driven by expanded capital outlays (3.9%) associated with a major road improvement programme, including roadways in Belize City and major highways. Other areas of focus included natural resource and solid waste management and a sustainable tourism project, consisting in upgrading tourism sites. Current expenditure increased by 1.4% to over 23% of GDP, reflecting increased spending on wages and salaries, linked to the payment of annual increments to public servants, and a 10.8% increase in spending on goods and services, largely associated with legal and administrative fees relating to the restructuring of the debt. By contrast, interest payments declined by 37%, owing to deferral of payment on one of the biannual payments on the superbond and a fall in yields on treasury bills.

With the focus on improved tax administration and collections, tax revenues posted modest growth in 2013. However, total revenues grew by only 0.8%, reflecting significant declines in proceeds from the petroleum industry and grants. Tax receipts expanded by almost 8% to BZ\$ 54.3 million, reflecting higher corporate and personal income taxes, which benefited from improved monitoring and reporting. The general sales tax (GST) was bolstered by its imposition on fuel imports, replacing the fixed import duty. Meanwhile, non-tax revenues contracted by 21.5% to BZ\$ 28.2 million, owing to lower dividends from the oil industry and reduced grant receipts.

The steady decline in receipts from the oil sector is of concern and the government may need to explore how it can raise alternative sources of revenue. Also, grant receipts are exogenous and cannot form the basis of stable programmed spending. Hence the need for prudence in the use of the PetroCaribe funds to ensure maximum development impact.

The budget for 2014/2015 provides for a deficit of BZ\$ 57.1 million. This represents a decline in the deficit from 2.3% of GDP in 2013/2014 GDP to 1.7% GDP in 2014/2015. Total revenue and grants are projected to grow by 6%, while total expenditure is expected to increase by 4.0%. The achievement of this target depends on continued improvements in revenue collections and prudent management of expenditure.

Following a three-year decline, public sector debt increased from 76.9% of GDP to 78.9% of GDP. Higher debt was fuelled by concessionary loans under the PetroCaribe Energy Cooperation Agreement, which led to a 5.4% increase in the debt.

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

Monetary policy remained neutral in 2013, as the Central Bank held its policy rate constant, despite the slower pace of growth. Broad money grew by a sluggish 1.4% following robust expansion (11%) in 2012. Deposit inflows were dampened by a fall in export receipts that was related to the slowdown in activity. On the other hand, the Central Bank's reserves were shored up by loan inflows to the government under the PetroCaribe Energy Cooperation Agreement and from other sources.

With the slowdown in economic growth, domestic credit declined by almost 5% in 2013, following a recovery in 2012. In a welcome development, credit to the private sector increased by 2.5%, continuing the growth from 2012. However, this was outweighed by a sharp fall (77.9%) in credit to the public sector. Commercial bank credit continues to favour non-tradable activities such as real estate, residential mortgages and personal loans. Meanwhile, lending to the productive sectors, including agriculture and tourism, accounted for under 16% of commercial bank loans in 2013.

Banks witnessed a sharp increase in excess cash reserves and this placed downward pressure on loan interest rates with the weighted average lending rate declining by 80 basis points to 11.1%, while the weighted average deposit rate fell by 40 basis points to 2.2%, leading to a 30-basis-point reduction in the interest rate spread to 9.0%. Banks wrote off almost BZ\$ 53 million in non-performing loans to tourism, manufacturing and distribution. This contributed to a reduction in this portfolio from 11.0% of total loans to 8.8% of total loans.

#### **(d) Other policies**

The government has embarked upon a reform programme to improve fiscal management and modernize the financial system. Key elements include the implementation of the Inter-American Development Bank's smart stream system to enhance public expenditure management and monitoring of interconnected financial institutions by the Central Bank to reduce inter-party risks.

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

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

The balance of payments current account deficit widened from 1.2% of GDP in 2012 to 4.5% of GDP in 2013. The more than three-fold expansion in the deficit was due to a worsening merchandise deficit, which counterbalanced the tourism-led improvement in the services account. Merchandise imports expanded by 7.1%, boosted by higher demand for domestic consumption and for goods from the commercial free zone. Imports were dominated by machinery and equipment and manufactured goods, which were used for infrastructure projects.

Exports contracted by 2.1% owing to lower export earnings for petroleum (-24.7%) and citrus (-29.1%). Petroleum continued to be affected by falling output from the two maturing wells, while citrus was dampened by citrus greening disease and lower prices. Sugar export receipts were relatively stable at around US\$ 54 million; however, despite higher volumes, receipts were affected by the depreciation of

the euro against the United States dollar, to which the Belize dollar is pegged, and this resulted in a 6.9% fall in the average sugar price.

The services account surplus increased by 8.7%, buoyed by an 18.6% expansion in travel receipts on account of growth in tourist arrivals. This offset higher net payments for transportation and other services. The capital and financial account surplus more than doubled to US\$ 186 million, reflecting significant loan inflows under the PetroCaribe Energy Cooperation Agreement and net foreign direct investment inflows of US\$ 177.2 million into tourism, real estate and petroleum exploration. International reserves expanded by 39% to stand at US\$ 201.4 million, or 5 months of import cover.

The current account deficit is projected to widen in 2014 as growth in imports, a return to biannual interest payments on the restructured debt and profit outflows outweigh the recovery in merchandise exports and dynamic tourism inflows. The surplus on the capital and financial account is projected to narrow owing to a sharp fall in disbursements under the PetroCaribe Energy Cooperation Agreement and lower grant receipts.

#### **(b) Economic activity**

Economic growth slowed to 0.7% in 2013, following the strong pick-up in activity (4.0%) in 2012. The slowdown in activity resulted from lower output in agriculture, manufacturing, transport and financial services, real estate and business services. These declines were partially offset by strong growth in tourism, electricity gas and water and community and personal services. Real output in agriculture contracted by 1.5% following a 21.9% fall in sugarcane deliveries, owing to froghopper infestation and a sharp fall in citrus production, which was undermined by citrus greening and heavy rains. Banana production also declined partly because of the heavy rains. Manufacturing was affected by a 23% contraction in crude oil production, due to the declining yield of the two ageing fields. Output of marine products maintained strong growth (17.5%), associated with higher production of farmed shrimp following the opening of two additional shrimp farms and a rise in output of whole fish.

Activity in the tourism sector remained dynamic, fuelled by a 5.8% increase in stay-over visitors (to 272,255), a 5.7% increase in cruise passenger arrivals and by higher visitor spending. Growth was boosted by more dynamic marketing and by investment in upgrading the tourism product by the Ministry of Tourism and Culture and the Belize Tourism Board.

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

Inflation increased from 0.8% in 2012 to 1.6% in 2013. This was spearheaded by higher prices of big ticket items, including food, fuel and transportation. However, it reflected the timing of the calculation, as the rise in average fuel prices was more muted, reflecting lower international fuel prices. The unemployment rate fell from 14.4% in 2012 to 11.7% in 2013. Wages were fairly stable in 2013, as there was no increase in wages and salaries of public servants; higher wage costs reflected the payment of increments to teachers and the reclassification of some teachers' salaries. There was a 3.5% rise in employment associated with higher activity in construction, tourism and other services. Nevertheless, the participation rate fell from 65.4% in 2012 to 64.2% in 2013.

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
<b>Annual growth rates b/</b>									
Gross domestic product	3.0	4.7	1.2	3.9	0.3	3.1	2.1	4.0	0.7
Per capita gross domestic product	0.4	2.0	-1.3	1.3	-2.2	0.6	-0.4	1.5	-1.7
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	3.1	-6.5	-20.7	9.9	2.5	6.9	-4.3	6.8	-1.5
Mining and quarrying	-6.5	3.4	15.6	19.2	-11.3	4.5	3.7	8.9	0.7
Manufacturing	0.4	30.4	3.3	4.3	28.1	-8.2	-2.6	-7.6	-11.2
Electricity, gas and water	-0.5	41.3	2.3	4.1	10.2	21.5	-3.5	-7.0	8.2
Construction	-3.6	-1.9	-3.1	15.5	-10.0	-24.7	-2.6	15.1	16.4
Wholesale and retail commerce, restaurants and hotels	5.1	0.9	2.4	2.4	-7.4	9.1	5.8	6.3	5.2
Transport, storage and communications	8.8	3.5	14.0	-3.9	-1.2	4.8	1.4	5.1	-1.5
Financial institutions, insurance, real estate and business services	3.5	8.3	7.9	1.8	9.9	2.5	-0.2	-0.1	-2.4
Community, social and personal services	2.5	-1.6	3.9	3.5	4.4	0.9	0.3	4.9	0.7
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	-1.1	-2.1	4.4	-0.3	4.0	5.4	3.8	3.3	...
Government consumption	4.0	-0.3	10.0	6.0	6.2	-1.6	-1.4	4.3	...
Private consumption	-2.0	-2.4	3.3	-1.6	3.5	7.0	5.0	3.1	...
Gross capital formation	10.2	-7.2	2.3	33.9	-25.1	-36.4	38.8	-5.0	...
Exports (goods and services)	11.2	12.7	-5.3	4.1	-10.1	13.4	0.5	6.0	...
Imports (goods and services)	6.7	0.5	0.4	12.6	-21.5	10.5	11.9	3.6	...
<b>Millions of dollars</b>									
Balance of payments									
Current account balance	-151	-25	-52	-145	-83	-46	-17	-35	-72
Goods balance	-231	-185	-216	-308	-237	-175	-171	-211	-267
Exports, f.o.b.	325	427	426	480	384	478	604	626	609
Imports, f.o.b.	556	612	642	788	621	653	775	837	876
Services trade balance	143	211	230	217	183	176	168	218	240
Income balance	-114	-125	-159	-165	-108	-138	-98	-118	-118
Net current transfers	51	74	93	112	79	92	84	76	73
Capital and financial balance c/	140	75	75	203	130	50	95	180	-79
Net foreign direct investment	126	108	139	167	108	96	94	195	89
Other capital movements	14	-34	-65	36	22	-46	1	-15	-168
Overall balance	-11	49	22	58	47	4	79	145	117
Variation in reserve assets d/	11	-49	-22	-58	-47	-4	-79	-145	-114
Other financing	0	0	0	0	0	0	0	0	-4
<b>Other external-sector indicators</b>									
Net resource transfer (millions of dollars)	25	-51	-84	38	22	-88	-3	61	-201
Gross external public debt (millions of dollars)	970	985	973	958	1,017	1,021	1,032	1,029	1,065
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	4.2	2.9	4.1	4.4	-0.4	0.0	2.6	0.8	1.6
Nominal deposit rate e/	5.4	5.8	5.9	6.2	6.2	5.9	4.7	3.0	2.3
Nominal lending rate f/	14.3	14.2	14.3	14.1	14.1	13.9	13.3	12.3	11.5
<b>Percentajes of GDP</b>									
Central government									
Total revenue	23.9	24.7	30.6	29.3	26.1	28.0	28.4	26.6	28.1
Tax revenue	20.5	21.1	22.4	22.5	21.5	23.6	22.5	22.4	23.3
Total expenditure	30.9	26.6	30.4	27.7	29.0	29.2	29.9	27.2	30.4
Current expenditure	25.2	22.6	23.6	22.6	24.7	24.7	24.5	22.5	24.3
Interest	6.7	5.8	5.2	3.8	3.6	3.5	3.4	1.8	3.3
Capital expenditure	5.7	4.0	6.8	5.2	4.2	4.6	5.4	4.7	6.1
Primary balance	-0.3	3.9	5.4	5.4	0.8	2.2	2.0	1.3	1.0
Overall balance	-7.0	-1.9	0.2	1.5	-2.9	-1.2	-1.4	-0.5	-2.3
Public debt	99.5	92.5	83.6	79.4	82.2	72.3	70.7	72.8	71.3

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	63.2	64.3	69.4	70.5	74.8	69.5	64.3	62.7	58.5
To the public sector	9.3	8.7	8.8	7.4	7.6	6.7	5.5	5.8	1.3
To the private sector	54.0	55.6	48.8	63.1	67.2	62.8	58.8	56.9	57.3
Monetary base	11.5	13.2	13.0	14.0	16.0	14.9	16.0	18.0	20.5
Money (M1)	23.2	25.4	27.3	25.8	26.6	25.3	28.2	35.1	35.0

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Weighted average rate of deposit rates.

f/ Rate for personal and business loans, residential and other construction loans; weighted average.

Table 2  
**BELIZE: MAIN QUARTERLY INDICATORS**

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	4.4	5.0	3.6	3.0	0.1	0.8	0.5	1.5	...	...
Goods exports, f.o.b. (millions of dollars)	172	158	154	138	163	170	147	129	...	...
Goods imports, c.i.f. (millions of dollars)	183	227	207	220	...	...	...	...	...	...
Gross international reserves (millions of dollars)	240	255	276	286	302	336	366	399	411	432 c/
Consumer prices (12-month percentage variation)	1.8	1.9	0.9	0.7	0.3	-0.1	0.6	1.3	1.7	...
Nominal interest rates (annualized percentages)										
Deposit rate d/	3.3	3.0	2.8	2.7	2.5	2.3	2.3	2.2	2.0	...
Lending rate e/	12.7	12.5	12.2	11.9	11.8	11.6	11.5	11.2	11.1	10.9
Interbank rate	6.5	6.5	6.5	3.6	4.2	4.0	4.0	4.1	3.5	2.8 f/
Monetary policy rates	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Sovereign bond spread, Embi Global (basis points to end of period) g/	1,665	1,691	2,399	2,245	789	872	872	807	724	754
Domestic credit (variation from same quarter of preceding year)	-1.1	0.3	0.7	2.4	0.3	-1.2	-3.6	-5.7	-3.2	-3.2 c/
Non-performing loans as a percentage of total credit	...	...	...	11.0	...	...	...	...	...	...

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Figures as of May.

d/ Weighted average rate of deposit rates.

e/ Rate for personal and business loans, residential and other construction loans; weighted average.

f/ Figures as of April.

g/ Measured by J.P.Morgan.