BELIZE

1. General trends

The economy of Belize continued to recover in 2012, growing by a strong 5.3% that was well above the 2.3% registered in 2011 and higher than the average for Latin America and the Caribbean. Expansion was driven by a rebound in demand for agricultural products, tourism and construction services. Belize, unlike most of its Caribbean counterparts, is still in the development phase of its tourism life cycle; this, combined with aggressive marketing, led to a marked increase in air arrivals and higher average visitor expenditure. Growth is projected to slow to 2.7% in 2013, due to a weakening in its key drivers from 2012. Agricultural output will return to trend levels as the normal crop cycle is restored. Lower petroleum production will also slow growth.

Despite the pickup in domestic demand, inflation moderated to 1.0% in 2012 from 2.6% in 2011, led by lower costs of household goods and maintenance, fuel and power. Unemployment was expected to be lower, with broad-based growth in a number of sectors. Government finances deteriorated marginally in 2012, with the overall deficit rising to 1.0% of GDP from 0.8% of GDP in 2011 and the primary surplus falling by 0.7 percentage points to 2.0% of GDP. Public sector debt increased in nominal terms but fell by 5.1 percentage points to 76.8% of GDP due to the surge in GDP. Economic management continues to be complicated by a challenging fiscal situation, which led to the government making only a partial payment on the super bond debt in August. On this occasion, the government approached its creditors to restructure the debt in order to achieve more sustainable debt servicing costs, facilitate debt sustainability and provide savings to maintain public investment, especially in growth-propelling infrastructure. The government was able to achieve a successful restructuring of the debt in March 2013. Key features include a 10% (US$ 54.8 million) principal haircut and an increase in maturity by nine years, to 2038.

A pickup in activity fuelled strong growth in imports that led to a widening of the current account deficit to 3.6% of GDP in 2012, relative to 2.2% of GDP in 2011. Growth is expected to slow to 2.7% as the return to normal agricultural output and lower petroleum production offset higher value added in tourism. Inflation is expected to pick up to around 2.5%, linked to growth in activity. The fiscal deficit is projected to moderate to around 0.5% of GDP, reflecting in part the debt restructuring deal. The current account deficit is expected to narrow to 0.5% of GDP benefiting from higher tourism inflows, reduced debt interest payments and an increase in official transfers. The financial account will be boosted by concessional loan disbursements under PetroCaribe.

The economy declined by 0.5% in the first quarter of 2013, compared with growth of 6.3% in the first quarter of 2012. Manufacturing contracted by 19%, mainly reflecting the continued decline in petroleum production owing to falling reserves in the two main oilfields. Agriculture declined by 5.2% partly due to the return to a normal cycle for main crops. These declines were only partly offset by robust growth (17.9%) in construction activity. The fiscal deficit was expected to record a modest increase as the government attempted to nurture growth in activity. The trade deficit expanded by some 46% in the first quarter of 2013, relative to prior-year quarter. Following this pattern, the current account deficit is expected to contract in 2013, as expected higher tourism inflows offset the goods deficit.

2. Economic policy

(a) Fiscal policy

High and unsustainable debt leaves very little fiscal headroom for the government. The government has committed to reform to improve the fiscal position and bring the debt down to manageable levels that do not harm long-term growth. Nevertheless, fiscal consolidation is expected to take place over the medium term as the authorities try to avoid austerity measures in an effort to nurture the economic recovery. Therefore, the fiscal stance was more or less neutral in 2012, with the overall deficit increasing marginally to 1.0% of GDP from 0.8% of GDP in 2011. Primary savings declined by 0.7 percentage points to 2.0% of GDP due to faster growth in expenditure than in revenues. Although growth in current spending was contained with a modest increase in wages and salaries and a marginal rise in outlays on goods and services, total outlays were propelled by a surge in capital spending (32.3%). Interest payments fell by 9.8% due to the government's partial withholding of interest payments on the super bond debt to push for its restructuring. Capital expenditure rebounded after the contraction in 2011, driven by outlays on road infrastructure, including the upgrading of roads in Belize City, education and health facilities. There was also higher spending on social and development projects in Belize City to rehabilitate at-risk youths.

Meanwhile, revenues rose by 6.3% to 27.5% of GDP, despite a 17.1% reduction in proceeds from the petroleum industry owing to the sharp decline in oil production. Revenues were bolstered by higher receipts from the general sales tax, which replaced the fixed import duty on fuel imports. Receipts from import duties also increased as imports climbed. Non-tax revenues were boosted by the one-off loan repayments by Belize Sugar Industries Ltd, Belize Telemedia Limited and the Development Finance Corporation. These more than offset the BZ$ 11.2 million in dividends that the court ordered Belize Telemedia Limited to hold in escrow following its nationalization. Grant receipts were buoyed by higher inflows under the European Union-supported upgrade programmes for banana and sugar production.

Public sector debt contracted by 5.1 percentage points to 76.8% of GDP due to amortizations on the external debt that outweighed new disbursements. Debt service payments fell by 3.0% to 158 million Belize dollars (BZ$), owing to lower LIBOR rates and a partial interest payment on the super bond.

A fall in expenditure that outpaced the decline in revenues led to a BZ$ 29.0 million reduction in the overall fiscal deficit in the first two months of calendar year 2013 relative to 2012. The decline in spending reflected both lower current and capital outlays. Reduced spending was mainly attributed to the deferral of interest payments on the super bond while the government negotiated its restructuring with creditors. Revenues were squeezed by lower receipts from import duties, petroleum taxes, non-tax levies and grants.

The budget for FY2013/14 has projected an increase in the overall deficit to 1.9% of GDP and a primary surplus of 1.1% of GDP. Revenues are expected to rise marginally, owing to improved collections, as the government has not imposed any new taxes. Total expenditure is projected to increase by 8.2%, driven by higher current spending as capital expenditure will remain relatively stable.

The government was able to secure a restructuring of the super bond debt, although not on as favourable terms as it had hoped for. Nevertheless, the restructuring provides useful fiscal headroom for the government, which, supported by prudential management, can chart a course for debt sustainability. The restructuring entails a 10.0% haircut on principal and extension of the maturity of the debt by nine years, capitalization of unpaid interest payments and a step-up coupon rate at 5.0% for the first four years, then 6.7% for the remaining years to maturity.

The government has started discussions on tax reform to make the tax system more efficient and equitable. This would entail a review of all the major taxes, including the general sales tax, with the goal of widening its base and containing refund claims in addition to improving income tax progressivity.

(b) Monetary and exchange-rate policy

Monetary policy was neutral in 2012 because, in view of the strong recovery, the central bank did not adjust its policy rate or change its security requirement for commercial banks.

Reversing two years of decline, domestic credit grew by 3.0%, driven by a stronger economy. Credit to the private sector increased by 2.2%, despite commercial banks' write-off of over BZ$ 37 million in non-performing loans. Private sector credit was stimulated by a 103 basis-point decline in the average commercial bank lending rate, to 12.0% in 2012. Nevertheless, the bulk of the credit went to the personal sector, residential mortgages and infrastructure with hardly any going to productive activity (tourism, agriculture and manufacturing) due partly to a past history of poor debt servicing in these sectors. Meanwhile, high banking sector liquidity afforded commercial banks the opportunity to make better liability-asset matches by reducing their holdings of more costly time deposits and cutting interest rates on them. This led to a 110 basis-point fall in the weighted average deposit rate to 2.6%, the lowest in 35 years. High non-performing loans and increased loan loss provisioning resulted in banking sector losses for two consecutive years.

Broad money expanded by 11%, bolstered by a substantial increase in net foreign assets, reflecting higher receipts from sugar and tourism, FDI inflows and loan disbursements.

3. The main variables

(a) The external sector

Reversing three years of contraction, the balance of payments current account deficit widened to 3.6% of GDP in 2012, from 2.2% of GDP in 2011. The outcome resulted from a 22.8% expansion in the goods deficit fuelled by sharp growth in imports that offset a more modest rise in exports. Import payments increased by 8.1%, boosted by growth in activity and higher prices for some categories, including fuel. Growth in exports was contained (3.9%), as higher receipts from the commercial free zone were offset by lower proceeds from domestic exports and increased receipts for sugar, citrus and bananas were counterbalanced by a fall in revenues from petroleum and papaya exports.

The deficit on the income account widened, owing to high outflows of labour income due to the employment of more foreign seasonal workers to harvest the larger citrus and banana crops and a drop in fair trade sugar receipts. Meanwhile, the services account surplus expanded by 33.3% to US$ 225.8 million, buttressed by dynamic tourism receipts stemming from higher tourist arrivals and average spending. The surplus on the capital and financial account rebounded, underpinned by dynamic growth in foreign direct investment that more than doubled to US$ 193.4 million. International reserves expanded by 22% to US$ 288.9 million, covering 4.6 months of goods imports.

(b) Economic activity

Economic growth accelerated to 5.3% in 2012, from 2.3% in 2011. Growth was propelled by the agriculture, tourism, construction and telecommunications subsectors, which offset the sharp decline in petroleum output. This was one of the highest growth rates in the Caribbean region. Agriculture rebounded to grow at a robust 20.3%, driven by a 26.8% increase in sugar production due to favourable weather conditions and improved productivity and efficiency. As a result, sugar production surpassed the 100,000 long ton benchmark for the first time since the 2005/06 crop. Citrus and banana output also rebounded after suffering storm damage in the previous year, but also benefited from improved farm management. Marine products posted dynamic growth of 13.5% as the partial sale of Belize Aquaculture Limited to a foreign investor led to an increase of more than 15% in farmed shrimp production. This was supported by increases in the production of whole fish and conch.

The tourism sector posted a welcome recovery, marked by increased stay-over arrivals and higher average visitor spending. Overnight visitors increased by 10.3% to 257,291, bolstered by aggressive marketing and the upgrading of standards for tourism facilities by the Belize Tourism Board. However, cruise passenger arrivals declined by 11.9%, owing to inadequate docking and tendering facilities. Partly reflecting the government's policy of upgrading growth-inducing public infrastructure and lower loan interest rates, construction activity picked up, centred on roads and bridges, residential housing and condominiums. Meanwhile, manufacturing contracted by 4.2%, as lower petroleum production offset the rise in agro-based manufacturing. Petroleum production plunged by 26.8% to 1,029,938 barrels, stemming from declines at both oilfields. Sugar production expanded by 16.3% to 114,536 long tons, as the spike in sugar cane output offset the modest decline in productivity. Citrus juice production increased by 28.3%, reflecting the surge in fruit deliveries.

The sugar industry seems set on a course to better realize its potential after Belize Sugar Industries was taken over by American Sugar Refining. The latter has upgraded plant operations and processing, leading to increased productivity in the industry along with management and organisational expertise. American Sugar Refining is targeting 180,000 long tons of sugar as its benchmark, substantially more than what has been produced in the past.

(c) Prices, wages and employment

Reflecting the softening of some international prices, inflation moderated to 1.0% from 2.6% in 2011. The costs of household goods and maintenance declined by 1.1%, while fuel costs eased by 0.2%, partly reflecting the sourcing of fuel products under the more cost-effective PetroCaribe deal. Food prices increased by 1.0%, reflecting higher United States feed prices due to the drought in the United States that pushed poultry costs up. Wage levels remained stable as both the public and private sectors sought to contain costs, but the public sector wage bill increased due to the payment of regular increments to public servants. Unemployment increased from 13.1% in 2009 (when the most recent labour force survey was undertaken) to 14.4% in 2012. Nevertheless, it is likely that unemployment has declined relative to 2011, as broad-based growth in agriculture, tourism and construction would have led to increased employment levels.

Table 1

BELIZE: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Annual growth rates b/								
Gross domestic product	4.7	3.0	4.7	1.2	3.9	0.3	3.9	2.3	5.3
Per capita gross domestic product	2.3	0.7	2.5	-0.9	1.7	-1.7	1.8	0.3	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.5	3.1	-6.5	-20.7	9.9	2.5	6.9	-4.3	20.3
Mining and quarrying	5.7	-6.5	3.4	15.6	19.2	-11.3	4.5	3.5	-4.2
Manufacturing	12.4	0.4	30.4	3.3	4.3	28.1	-8.2	4.1	-4.2
Electricity, gas and water	-1.5	-0.5	41.3	2.3	4.1	10.2	21.5	0.6	-8.4
Construction	4.5	-3.6	-1.9	-3.1	15.5	-10.0	-24.8	-3.2	9.8
Wholesale and retail commerce, restaurants and hotels	1.7	5.1	0.9	2.4	2.4	-7.4	9.5	4.0	6.9
Transport, storage and communications	5.0	8.8	3.5	14.0	-3.9	-1.2	4.4	1.3	4.9
Financial institutions, insurance, real estate and business services	5.5	3.5	8.3	7.9	1.8	9.9	2.5	0.0	2.1
Community, social and personal services	2.1	2.5	-1.6	3.9	3.5	4.4	0.9	-0.9	2.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.3	-1.1	-2.1	4.4	-0.3	4.0	5.3	4.5	…
Government consumption	-0.9	4.0	-0.3	10.0	6.0	6.2	1.0	-2.8	…
Private consumption	-0.2	-2.0	-2.4	3.3	-1.6	3.5	6.3	6.1	…
Gross capital formation	-1.0	10.2	-7.2	2.3	33.9	-25.1	-36.4	38.4	…
Exports (goods and services)	5.7	11.2	12.7	-5.3	4.1	-10.1	14.4	3.8	…
Imports (goods and services)	-7.5	6.7	0.5	0.4	12.6	-21.5	10.5	9.2	…
Balance of payments	**Millions of dollars**								
Current account balance	-155	-151	-25	-52	-145	-83	-40	-16	-29
Goods balance	-172	-231	-185	-216	-308	-237	-169	-171	-210
Exports, f.o.b.	308	325	427	426	480	384	478	604	627
Imports, f.o.b.	481	556	612	642	788	621	647	775	837
Services trade balance	88	143	211	230	217	183	176	169	226
Income balance	-117	-114	-125	-159	-165	-108	-139	-98	-120
Net current transfers	46	51	74	93	112	79	92	84	76
Capital and financial balance c/	124	140	75	75	203	130	44	34	81
Net foreign direct investment	111	126	108	139	167	108	96	93	72
Other capital movements	12	14	-34	-65	36	22	-52	-59	9
Overall balance	-31	-11	49	22	58	47	4	18	53
Variation in reserve assets d/	31	11	-49	-22	-58	-47	-4	-18	-53
Other external-sector indicators									
Net resource transfer (millions of dollars)	7	25	-51	-84	38	22	-94	-64	-39
Gross external public debt (millions of dollars)	913	970	985	973	958	1 016	1 009	1 398	1 457
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	3.1	4.2	2.9	4.1	4.4	-0.4	0.0	2.6	1.0
Nominal deposit rate e/	5.2	5.4	5.8	5.9	6.2	6.2	5.9	4.7	3.0
Nominal lending rate f/	13.9	14.3	14.2	14.3	14.1	14.1	13.9	13.4	12.5
Central government	**Percentajes of GDP**								
Total revenue	24.5	23.9	24.7	30.6	29.3	26.1	27.8	28.0	26.6
Tax revenue	19.8	20.5	21.1	22.4	22.5	21.5	23.6	22.4	21.6
Total expenditure	30.6	30.9	26.6	30.4	27.7	29.0	29.5	29.0	27.1
Current expenditure	22.1	25.2	22.6	23.6	22.6	24.7	24.4	24.3	22.2
Interest	5.7	6.7	5.8	5.2	3.8	3.6	3.5	3.3	1.8
Capital expenditure	8.5	5.7	4.0	6.8	5.2	4.2	5.1	4.8	4.9
Primary balance	-0.3	-0.3	3.9	5.4	5.4	0.8	1.8	2.3	1.3
Overall balance	-6.1	-7.0	-1.9	0.2	1.5	-2.9	-1.7	-1.1	-0.5
Public debt	…	99.5	92.5	83.6	79.4	82.2	72.3	70.7	77.6

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	64.0	63.2	64.3	69.4	70.5	74.8	69.6	64.1	62.0
To the public sector	10.6	9.3	8.7	8.8	7.4	7.6	6.7	5.5	5.7
To the private sector	53.4	54.0	55.6	60.6	63.1	67.2	62.9	58.7	56.3
Monetary base	10.9	11.5	13.2	13.0	14.0	16.0	14.9	15.9	17.8
Money (M1)	59.0	59.7	61.8	67.3	71.8	78.2	74.6	73.7	76.8

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

	2011				2012				2013	
	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/	7.8	0.4	2.4	-1.1	6.1	6.7	4.4	3.7	-0.5	...
Goods exports, f.o.b. (millions of dollars)	154	164	142	155	179	164	162	147	161	...
Goods imports, c.i.f. (millions of dollars)	176	204	199	196	183	227	207	220	...	...
Gross international reserves (millions of dollars)	207	224	235	242	243	262	272	289	312	338 c/
Consumer prices (12-month percentage variation)	0.9	1.0	2.3	2.6	2.2	1.6	0.5	1.0	-0.1	...
Nominal interest rates (annualized percentages)										
Deposit rate d/	5.4	5.0	4.7	3.9	3.3	3.0	2.8	2.7	2.5	...
Lending rate e/	13.6	13.5	13.2	13.1	12.8	12.6	12.3	12.1	11.9	...
Interbank rate	6.0	6.1	6.4	6.5	6.5	6.5	6.5	3.6	4.2	4.0 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/	680	938	1 308	1 391	1 665	1 691	2 399	2 245	789	872
Domestic credit (variation from same quarter of preceding year)	-2.8	-0.6	-1.0	-2.0	-1.1	0.3	0.7	2.4	0.3	-1.0 c/
Non-performing loans as a percentage of total credit	...	...	...	14.5	...	...	...	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.