BELIZE

1. General trends

The Belizean economy recovered from stagnation in 2009 to grow by 2.9% in 2010, a rate, which, within the Caribbean Community (CARICOM), was second only to that of Suriname (4.4%). Activity was bolstered by a sharp rise in electricity generation and stronger growth in transport, communication and distributive trade. Tourism demand also improved owing to the nascent recovery in major markets. Despite the upturn in activity, inflation remained flat (0%) and higher employment was expected in recovering sectors. Notwithstanding the challenges presented by high debt levels and rising interest costs, the fiscal situation improved in 2010. Monetary policy sought to stimulate commercial bank lending to the private sector in order to facilitate the economic recovery. Meanwhile, robust growth in exports, combined with a modest rise in imports, led to a narrowing of the current account deficit by more than 50% as a percentage of GDP.

The economy is expected to continue to expand in 2011 with growth of 2.5%, driven by electricity, (due to full operation at the Vaca Dam facility and the cogeneration plant), tourism and sugar production. Inflation is expected to rise to 2.0%, led by higher fuel and other commodity prices, and employment is expected to show a modest improvement. The fiscal deficit is projected to contract marginally to 1.3% of GDP, owing to flat growth in spending and a modest increase in revenue. A fall in service payments due to the downsizing of British military operations in Belize and reduced net exports of goods will contribute to a larger current account deficit.

2. Economic policy

Economic management in 2010 and 2011 focused on supporting the recovery, while ensuring fiscal prudence. The government sought to provide an environment in which the main productive sectors could strengthen their output and productivity. Nevertheless, with the increase in the interest rate on the Super Bond debt from 4.25% to 6.0%, which will result in a corresponding increase in debt service costs, the government was hard pressed to provide direct financial assistance.

(a) Fiscal policy

Fiscal performance benefited from the government's robust revenue-raising measures. The overall deficit shrank from 2.8% of GDP in 2009 to 1.5% of GDP in 2010. Total revenue rebounded by 8.7% following a fairly sharp decline in 2009. Petroleum taxes accounted for 52.9% of the increase in government revenue, reflecting the increase in prices and earnings. In addition, an increase in the general sales tax (GST) rate from 10% to 12.5% fuelled a surge in tax receipts, although these receipts still fell below expectations because of zero-rated items such as food and household appliances. An increase in the business tax rate from 1.5% to 6.5% on the supply of electricity, and the imposition of a social fee on the export processing zone boosted revenue from these sources. Likewise, Belize Telemedia Limited dividend payments and transfers from the Public Utility Commission and Financial Services Commission drove up non-tax receipts by over 17%.

On the other hand, growth in expenditure was more moderate at 3.6%. Current expenditure rose by 2.3%, owing to higher allocations for wages and salaries and goods and services. Government subsidies, principally to the Belize City Council and the Belize Trade and Investment Development

Service (BELTRAIDE), pushed up transfers and subsidies by 6.5%. Interest payments on government debt registered a small decline, due to a sharp fall in government borrowing from the central bank and the use of low-interest government securities debt. Capital expenditure rebounded from the slump of 2009 to grow by 11.2% (BZ$ 13 million). However, most of this increase (BZ$ 10 million) was due to a loan to the Belize Sugar Industries to finance the timely harvesting of the sugar crop. Expenditure on public infrastructure was constrained by implementation problems. Nevertheless, work continued on major projects including the Kendall Bridge and the Belize-Mexico international crossing.

Public-sector debt contracted from 88.9% of GDP in 2009 to 86.8% of GDP in 2010 (but expanded in absolute terms from BZ$ 2.35 billion in 2009 to BZ$ 2.43 billion). The decline was associated with a 0.6% reduction in external debt and reflects higher amortization payments in relation to disbursement and downward valuation adjustments linked to the appreciation of the United States dollar against the special drawing right (SDR) and the euro. Domestic debt (15% of the total) expanded by 13% following a greater issuance of government securities, but the bulk of the proceeds were used to reduce the government's overdraft balance at the central bank.

In its budget for fiscal year 2011/2012, the government projects that the fiscal situation will improve, with the overall deficit declining to 1.57% of GDP from 2.44% of GDP in 2010/2011. Total revenues are projected to increase by 12.1% to BZ$ 843.6 million, buttressed by petroleum tax revenues, while the increase in total expenditure will be limited to 0.8%. Nevertheless, these targets may prove challenging in the context of a nascent international economic recovery.

(b) Monetary and exchange-rate policy

Monetary policy was modestly expansionary in 2010. In the face of a substantial increase in commercial banks' excess liquidity, partly due to inflows from an improved external current account, the central bank moved to sterilize a part of these flows. A new security regulation was introduced, which required commercial banks to hold a minimum of 6.5% of their average deposit liabilities in the form of treasury bills. At the same time, the required cash reserve ratio, a policy rate, was reduced from 10.0% to 8.5% of average deposit liabilities. This reduction provided extra funds to commercial banks, which enabled them to purchase treasury bills. Furthermore, the central bank increased the issuance of treasury bills to BZ$ 75 million to allow these banks to augment their purchases.

Reinforcing the reduction in the cash reserve ratio, the minimum savings deposits rate was lowered from 4.5% to 3.5% to encourage lower cost lending to the private sector. However, despite the considerable excess liquidity in the commercial banking sector, the expected decline in lending rates failed to materialize. In fact, the weighted average lending rate only declined by 20 basis points to 13.78%, while the weighted average deposit rate fell by 51 basis points to 5.61% leading to an increase in the interest rate spread of 31 basis points. In addition, non-performing loans rose sharply from 10.8% in 2009 to 16.1% of total loans in 2010, partly due to problems in the real estate market.

Despite the upturn in activity, the broad money supply (M2) declined by 0.1%, owing to a contraction in net domestic credit related to a large one-off payment from one company. Thus, loans to the private sector declined for the first time in 24 years. Buoyed by strong exports, net foreign assets soared by 11.3% but mainly contributed to banks' excess reserves in the context of the decline in credit. The exchange rate remained fixed at BZ$ 2.00 to US$ 1.00.

3. The main variables

(a) Economic activity

Economic activity picked up in 2010 with growth reaching 2.9% compared with 0% growth in 2009. This impetus came from a substantial increase in electricity generation, owing to the full operation of the Vaca Dam and the bagasse plant belonging to Belize Cogeneration Energy Limited (BELCOGEN). Agriculture recovered marginally from the decline in 2009. Sugarcane deliveries expanded by 22.3% to 1,122,765 long tons due partly to an extended crop season. Papaya output rose sharply thanks to higher yields, while output of most of the other major crops including citrus and bananas diminished.

After solid growth in 2009, manufacturing declined by 4.7% in 2010. Despite the addition of a new well, low productivity from existing wells led to a 5.9% decline in petroleum production to 1.51 million barrels. Sugar production was also lower because the cane/sugar ratio worsened from 9.93 in 2009 to 12.73 in 2010, owing to the continuation of harvesting into the rainy season. Similarly, citrus juice output contracted due to lower deliveries and a lower yield of juice per box of fruit.

The services sector, including tourism and distribution turned around from the decline of 2009 to grow by 3.7%. Tourism recovered to grow by 5.5% amid the fledgling recovery in major markets. The high-spending stay-over arrivals were up by 2.2% to 222,632, while cruise passenger arrivals rose by 8.4%. Net tourism receipts were up by 5.7% to stand at US$ 228 million, reflecting an increase in visitor arrivals. Activity in wholesale and retail trade, transport and communication, and government services were up, buoyed by the recovery in tourism.

The economy is projected to grow by 2.5% in 2011. Activity will be driven by higher citrus, sugar and papaya production. Citrus production is projected to increase by over 10%, while sugar production will rebound thanks to improved productivity. On the downside, petroleum output is forecast to drop by more than 3%, reflecting reduced productivity at ageing wells.

(b) Prices, wages and employment

In spite of the rally in demand and higher foreign prices, year-end inflation remained flat (0%) in 2010, following deflation in 2009. The prices of food and beverages and household goods and maintenance fell by 2.1% and 2.7% respectively, following the removal of import duties and general sales tax (GST) on basic food and household goods. This reduction outweighed higher price impulses from imported fuel, which pushed up the cost of transport and communication (3.2%) and distribution. In the context of the debt situation and the need for tight fiscal management, public sector wages were contained in 2010 with only the usual salary increments provided to public servants. A labour force survey was not undertaken in 2010; however, employment was expected to pick up in the more dynamic sectors, including tourism and wholesale and retail trade. Inflation is expected to increase to 1.5% in 2011, propelled by the continued high fuel prices and rising domestic demand.

(c) The external sector

The balance of payments continued to improve, with the current account deficit halved from 6.1% of GDP in 2009 to 2.9% of GDP in 2010. The trade deficit narrowed by over 26%, owing to dynamic growth in exports and contained growth in imports. Export earnings were up for most products, including petroleum, citrus, banana and papaya. A fall in citrus production in Florida pushed up the value of citrus exports by 28.8% to US$ 46.9 million. Banana exports also benefited from higher prices offered by the distributor Fyffes for the exclusive right to sell Belize's bananas. Exports of petroleum, the main export, expanded by 71% to BZ$ 103.1 million, reflecting higher export volumes and stronger oil prices linked to increased demand and lower inventories in developed countries.

Bolstered by strengthened economic activity, imports increased by 4.7% after contracting in 2009. Growth in imports was fuelled by the recovery in the cross-border trade in the Corozal Free Zone. Outlays on imports of minerals, fuels and lubricants rose by US$ 8.5 million, owing to the spike in international fuel prices. With respect to the direction of trade, there is a noticeable shift to trade with China, partly on account of the affordability of its products.

Driven by the recovery in tourism, transport, and business, professional and government services, the services account surplus expanded by 9.5% to US$ 200 million. Transport also benefited from growth in tourism. The income account deficit widened as lower payments to foreign seasonal workers were offset by higher net outflows of investment income, linked to steeper debt interest payments and profit remittances from the oil sector. Buoyed by Fair Trade receipts for the sugar industry and other private inflows that outweighed the decline in family remittances, current transfers improved in 2010.

The capital and financial account surplus shrank by almost two thirds to US$ 44.9 million. Foreign direct investment (FDI) inflows slumped by over 10% to US$ 97.5 million with the tapering off of investments in tourism, agriculture and petroleum. This decline was reinforced by net loan repayments by the government and the private sector. Nevertheless, gross international reserves rose marginally to US$ 218.1 million, equivalent to 4.5 months of imports.

The balance-of-payments current account deficit is projected to widen to 4% of GDP in 2011, since the trade deficit will increase and the service account will be weakened by the reduction in the British military presence in Belize, while public-sector interest payments will be higher following the rate increase on the super bond debt to 6.0%. These developments will be offset by a modest increase in foreign direct investment and remittances and loan inflows to the public sector.