

BELIZE

1. General trends

Economic growth fell from 4.1% in 2014 to 1.2% in 2015, as slower activity later in the year pulled down the average for the year as a whole. The slowdown stemmed mainly from reduced output in the primary and secondary sectors linked to a drop in agriculture and petroleum production. Growth was driven by distribution, government services and transportation. Consumer prices declined by 0.6%, reflecting both lower international fuel prices and sluggish domestic activity.

The policy environment remained challenging, marked by fiscal imbalance and financial sector difficulties. Fiscal policy was expansionary in calendar year 2015 and the deficit expanded to 8.4% of GDP, the widest since 2003. Fiscal developments were influenced by the carry-over effect of the increase in public sector wages, the settlements for the nationalization of Belize Electricity Limited (BEL) and Belize Telemedia Limited (BTL), and relatively sluggish growth in revenues coupled with higher spending.

External payments deteriorated in 2015 and the balance-of-payments current account deficit widened to 9.9% of GDP from 7.9% of GDP in 2014. The merchandise deficit expanded significantly owing to lower output and exports of major commodities and lower services receipts.

Economic activity was expected to remain subdued during the first quarter of 2016. Continued dynamism in tourism was counteracted by weakness in agriculture and manufacturing. Stopover tourism increased by 16.9%, offsetting a 4.5% decline in cruise passenger arrivals. Export earnings from commodities contracted by almost 38% in January and February 2016, owing in part to a fall in the output of fisheries and in the production of papaya, bananas and orange juice.

Marginally slower growth of 0.8% is expected in 2016, reflecting continued sluggishness in agriculture and manufacturing. Agriculture is projected to contract for the third year in a row, as citrus, banana and papaya output continues to decline. By contrast, sugar production is expected to increase, bolstered by the start of operations at the Santander mill. Banana production has not picked up since the closure of one of the largest producers in late 2015.

Manufacturing will be constrained by a reduction in agro-processing and the continued decline in the small petroleum sector. This will be offset partly by some growth in services, bolstered by higher tourist arrivals and spending. Tourist arrivals are projected to rise by about 5%, owing to increased marketing, new airlift services and lower fuel prices, which make long-haul travel cheaper for airlines. The main downside risks to the growth forecast are a higher than expected increase in fuel prices and more sluggish growth in the United States.

The balance-of-payments current account deficit is projected to narrow to almost 9% of GDP, after widening for the last four years. Imports are projected to decline owing to reduced purchases by the commercial free zone and the winding-down of construction in two important projects: the new sugar factory and the Harvest Caye tourism docking facility. The capital and financial account surplus is expected to be eroded by further compensation to BTL. With these developments, official international reserves are expected to decline further to around 3.5 months of merchandise imports.

2. Economic policy

(a) Fiscal policy

Fiscal management remains the most significant policy challenge in Belize. The government has taken steps to reduce its contingent liabilities by arriving at a settlement for BEL and BTL, which were nationalized. The government bought 36.9% of the shares in BEL for US\$ 35 million using PetroCaribe loans. In the case of BTL, the government paid off the outstanding US\$ 48.5 million that the company owed to British Caribbean Bank, as well as a partial settlement of US\$ 32.5 million. However, the size of the final settlement, which is under arbitration, could pose further contingent liability risk for the government.

The government has espoused fiscal consolidation as a policy objective. Nevertheless, this is not expected to be achieved in the near term, as the government continues to face pressures to increase spending in the face of weaker growth in revenues. Fiscal policy remained expansionary in 2015. The fiscal deficit more than doubled from 2.9% of GDP in 2014 to 8.4% of GDP in calendar year 2015, the highest level since 2003, as expenditure grew by 16.6%, owing to higher current spending on wages, salaries, pensions and the loan repayment to British Caribbean Bank, as well as a 39% expansion in capital spending. The government continued with its capital expansion programme, including the completion of the Southern Highway and the Macal Bridge, road works, and the upgrading of historical tourism sites to boost future economic growth.

Revenues fell marginally by 0.8% in nominal terms to 28.8% of GDP. The 7.6% increase in tax revenues was offset by a decline of over 79% in grant receipts, which underscores the susceptibility of fiscal performance to fluctuations in grants. Improved tax performance resulted from higher receipts from the general sales tax and taxes on international trade and transactions that benefited from increased imports and a higher import duty on petroleum products. However, this was dampened somewhat by lower petroleum output and the decline in export prices.

The fiscal deficit was funded mainly domestically through government securities as Belize has limited access to the international market, partly because of its low credit rating. As a result, central government debt rose from 75.6% of GDP in 2014 to 78.6% of GDP in 2015. Domestic debt expanded by 31.5% to stand at 14.0% of GDP, reflecting strong domestic deficit financing, while external debt rose by 4.4% to 64.6% of GDP.

The budget for 2016/17 issued in March has projected a sharp fall in the deficit to 1.7% of GDP, however, this ambitious target will be difficult to achieve. Expenditure is projected to decline by 5%, with the winding-down of major government infrastructure projects, while revenue is projected to increase by 5.6%.

(b) Monetary and exchange-rate policy

With no real risk posed to monetary stability or the fixed exchange rate, monetary policy remained neutral in 2015. Monetary developments were underpinned by government borrowing for fiscal programmes and a continued increase in banking sector liquidity, owing in part to weak private sector credit demand. This led to a 7.6% expansion in the broad money supply to 84% of GDP. Net domestic credit expanded by almost 18% and was only partly counterbalanced by a reduction in net foreign assets to finance external payments. There was a surge in government borrowing in order to finance the BEL and BTL settlements and for public programmes. Growth in credit to the private sector was much more

modest at 3.1%, and was channelled into construction, real estate and manufacturing. With greater liquidity in the banking system, weighted average interest rates on new loans and deposits declined by 29 basis points and 25 basis points, respectively, leading to a narrowing of the interest rate spread by 3 basis points to 7.76%. The performance of the banking sector improved by some metrics in 2015, with the capital adequacy ratio up slightly from 23.5% in 2014 to 24.9% in 2015, and the ratio of non-performing loans to total loans falling from 7.0% at the end of 2014 to 6.7% in 2015. Nevertheless the loss of correspondent banking relations by some domestic commercial banks, owing to de-risking, is expected to drive up the costs of trade, foreign direct investment (FDI) and other financial transactions at an already challenging time for Belize.

(c) Other policies

In recognition of the importance of correspondent banking relations for trade, investment, remittance flows and investor confidence in Belize, the government has been exploring different options. These include seeking to establish correspondent banking relations with banks other than Bank of America and Commerzbank and petitioning the United States Department of State and Department of the Treasury to seek a resolution to the matter.

The government continued its public finance management reform programme in fiscal year 2015/16. A new chart of accounts is expected to be rolled out in the 2017/18 budget cycle with a view to improving the accuracy and efficiency of accounting. In addition, the central bank's reform of the national payments system resulted in the automation of payments and improved management of government securities.

3. The main variables

(a) The external sector

An 8.6% fall in exports —reflecting lower export volumes for all commodities, except sugar— and a 3.9% increase in imports led to a larger merchandise trade deficit. Significantly lower outflows of dividends and profits were not enough to prevent a widening of the current account deficit from 7.9% of GDP in 2014 to 9.9% of GDP in 2015. Exports of citrus and marine products declined by 12.3% and 29.1%, respectively, while sugar exports rose by 13.1%. Import payments were higher for transport and equipment and food, while fuel payments declined by 32%, reflecting lower international fuel prices. In addition, export earnings from the commercial free zone fell.

The services account surplus expanded modestly by 1.7%, reflecting a decline in payments for transportation services that was largely counterbalanced by lower receipts from tourism. Despite the 5.9% increase in stay-over visitor arrivals, average visitor expenditure fell by 0.7%, leading to a US\$ 8.0 million fall in travel receipts.

The capital and financial account surplus narrowed significantly, reflecting a decline in net FDI, due in part to the government's BEL and BTL settlements and the repayment of the BTL loan to British Caribbean Bank. As the surplus shrank, the current account deficit was financed by running down international reserves by 10.3%, to BZ\$ 900 million, equivalent to 5 months of merchandise imports. In 2016, reserves are projected to decline further to 4.9 months of merchandise imports.

(b) Economic activity

Economic growth slowed significantly to 1.2% in 2015 from 4.1% in 2014. Activity weakened on the heels of a decline in agriculture and manufacturing, which represented 12.0% and 8.0%, respectively, of total GDP. Output in agriculture contracted by 13.1%, a substantial turnaround from modest growth of 2.6% in 2014. All the major crops posted a decline in output, except sugar cane. Citrus production was down by 2.4% to 4.5 million boxes, while banana output fell by 3.8% to 98,842 metric tons, owing to drought conditions in the first half of the year and the closure of an important producer. Papaya production contracted by 10% and shrimp output declined sharply, owing in part to bacterial infection.

Output in manufacturing was hit as petroleum production contracted by over 17% to 527,741 barrels. This was partly offset by a 25.3% increase in sugar output to 151,795 long tons and a higher output of citrus juice owing to an increased juice conversion rate per box of fruit.

Value added in tourism increased by almost 3%, fuelled by a 5.9% rise in stay-over visitor arrivals, which totalled 314,878. Growth in arrivals was spurred by strong overseas marketing efforts and increased airlift, with inaugural flights by Southwest Airlines and Copa Airlines in the last quarter of 2015. This helped to offset a 1.0% decline in cruise passenger arrivals, which fell to 862,178.

(c) Prices, wages and employment

Consumer prices declined by 0.6%, resulting in the first recorded deflation since 2009, owing mainly to the pass-through effects of lower international fuel prices. Nevertheless, inflation increased by 0.1% year-on-year in April 2016 due partly to higher prices for hotels and restaurants and health services. Despite lower overall growth, unemployment declined marginally from 11.6% to 10.1%, reflecting job growth in services, including tourism and distribution. Wages increased in line with government's wage settlement with public servants and teachers.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 a/ |
|---|-------|------|-------|-------|-------|-------|-------|-------|---------|
| Annual growth rates b/ | | | | | | | | | |
| Gross domestic product | 1.1 | 3.2 | 0.8 | 3.3 | 2.1 | 3.7 | 1.3 | 4.1 | 1.2 |
| Per capita gross domestic product | -1.5 | 0.6 | -1.7 | 0.9 | -0.3 | 1.4 | -0.9 | 1.9 | -1.0 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -19.9 | 9.5 | 1.6 | 5.3 | -4.2 | 6.5 | 5.5 | 2.6 | -13.3 |
| Mining and quarrying | 14.8 | 20.0 | -12.0 | 5.0 | 3.7 | 8.9 | -5.9 | -14.1 | 0.0 |
| Manufacturing | 3.2 | 4.4 | 28.1 | -8.2 | -2.6 | -7.6 | -19.4 | -7.5 | 4.1 |
| Electricity, gas and water | 2.4 | 4.1 | 12.3 | 21.0 | -3.4 | -8.5 | 10.1 | 3.8 | 3.9 |
| Construction | -3.1 | 15.5 | -10.1 | -24.7 | -2.6 | 15.1 | 4.2 | 20.6 | -0.5 |
| Wholesale and retail commerce, restaurants and hotels | 2.4 | 1.9 | -7.4 | 9.3 | 5.6 | 6.6 | 6.2 | 3.9 | 2.9 |
| Transport, storage and communications | 14.0 | -3.9 | -1.2 | 4.8 | 1.4 | 5.1 | 2.6 | 1.4 | -48.4 |
| Financial institutions, insurance, real estate and business services | 7.9 | 1.7 | 9.9 | 2.5 | -0.2 | -1.1 | -3.4 | 4.4 | -1.0 |
| Community, social and personal services | 3.9 | 3.5 | 4.4 | 0.9 | 0.3 | 4.9 | -1.1 | 5.3 | -28.6 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Final consumption expenditure | 4.4 | -1.0 | 4.0 | 5.4 | 3.6 | 3.6 | 4.6 | 1.4 | ... |
| Government consumption | 10.0 | 3.5 | 3.1 | 3.8 | -1.4 | 4.3 | 0.7 | 5.5 | ... |
| Private consumption | 3.3 | -1.9 | 4.2 | 5.7 | 4.7 | 3.5 | 5.4 | 0.6 | ... |
| Gross capital formation | 2.4 | 33.9 | -25.1 | -36.4 | 38.8 | -5.0 | 20.7 | 22.9 | ... |
| Exports (goods and services) | -5.4 | 4.0 | -9.8 | 14.0 | 0.5 | 8.7 | -0.3 | 2.6 | ... |
| Imports (goods and services) | 0.4 | 13.2 | -21.3 | 10.3 | 11.8 | 4.5 | 9.7 | 5.8 | ... |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -52 | -145 | -83 | -46 | -20 | -33 | -73 | -136 | -175 |
| Goods balance | -216 | -308 | -237 | -171 | -175 | -209 | -268 | -337 | -423 |
| Exports, f.o.b. | 426 | 480 | 384 | 476 | 604 | 628 | 608 | 589 | 538 |
| Imports, f.o.b. | 642 | 788 | 621 | 647 | 778 | 837 | 876 | 926 | 961 |
| Services trade balance | 230 | 217 | 183 | 191 | 169 | 218 | 240 | 270 | 274 |
| Income balance | -159 | -165 | -108 | -158 | -98 | -118 | -118 | -143 | -95 |
| Net current transfers | 93 | 112 | 79 | 92 | 84 | 76 | 73 | 74 | 70 |
| Capital and financial balance c/ | 75 | 203 | 123 | 51 | 38 | 89 | 190 | 221 | 71 |
| Net foreign direct investment | 139 | 167 | 108 | 95 | 95 | 193 | 92 | 138 | 59 |
| Other capital movements | -65 | 36 | 14 | -45 | -57 | -105 | 98 | 82 | 12 |
| Overall balance | 22 | 58 | 40 | 5 | 18 | 55 | 117 | 85 | -104 |
| Variation in reserve assets d/ | -22 | -58 | -47 | -5 | -18 | -53 | -114 | -84 | 104 |
| Other financing | 0 | 0 | 7 | 0 | 0 | -3 | -4 | -1 | 0 |
| Other external-sector indicators | | | | | | | | | |
| Net resource transfer (millions of dollars) | -84 | 38 | 22 | -107 | -60 | -32 | 68 | 77 | -24 |
| Gross external public debt (millions of dollars) | 973 | 958 | 1,017 | 1,021 | 1,032 | 1,029 | 1,083 | 1,127 | 1,177 |
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 4.1 | 4.4 | -0.4 | 0.0 | 2.6 | 0.8 | 1.6 | -0.4 | -0.6 |
| Nominal deposit rate e/ | 5.9 | 6.2 | 6.2 | 5.9 | 4.7 | 3.0 | 2.3 | 1.8 | 1.6 |
| Nominal lending rate f/ | 14.3 | 14.1 | 14.1 | 13.9 | 13.3 | 12.3 | 11.5 | 10.9 | 10.3 |
| Percentajes of GDP | | | | | | | | | |
| Central government | | | | | | | | | |
| Total revenue | 29.7 | 28.6 | 27.3 | 28.0 | 28.5 | 26.7 | 28.3 | 29.3 | 29.6 |
| Tax revenue | 22.4 | 22.5 | 21.6 | 23.6 | 22.6 | 22.5 | 23.3 | 25.0 | 24.8 |
| Total expenditure | 29.9 | 28.0 | 28.7 | 29.2 | 29.9 | 27.1 | 30.0 | 31.6 | 34.7 |
| Current expenditure | 23.1 | 23.2 | 25.0 | 24.7 | 24.5 | 22.5 | 22.7 | 23.5 | 25.3 |
| Interest | 4.3 | 3.7 | 3.8 | 3.7 | 3.4 | 1.9 | 2.7 | 2.7 | 2.7 |
| Capital expenditure | 6.8 | 4.9 | 3.7 | 4.6 | 5.4 | 4.6 | 7.3 | 8.1 | 9.4 |
| Primary balance | 4.2 | 4.3 | 2.4 | 2.5 | 2.0 | 1.5 | 0.9 | 0.4 | -2.5 |
| Overall balance | -0.2 | 0.6 | -1.5 | -1.2 | -1.4 | -0.4 | -1.8 | -2.3 | -5.2 |
| Non-financial public sector debt | 83.6 | 79.4 | 82.2 | 72.3 | 70.7 | 72.8 | 78.5 | 75.6 | 79.1 |

Table 1 (concluded)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 a/ |
|-----------------------|---|------|------|------|------|------|------|------|---------|
| Money and credit | Percentages of GDP, end-of-year stocks | | | | | | | | |
| Domestic credit | 69.7 | 70.6 | 74.9 | 69.6 | 64.4 | 62.5 | 57.6 | 56.5 | 64.8 |
| To the public sector | 9.2 | 7.4 | 7.6 | 6.7 | 5.5 | 5.6 | 1.2 | 0.6 | 8.7 |
| To the private sector | 58.5 | 63.1 | 67.3 | 62.9 | 58.9 | 56.9 | 56.4 | 55.9 | 56.1 |
| Monetary base | 13.0 | 14.0 | 16.0 | 14.9 | 16.0 | 18.0 | 20.2 | 23.8 | 28.8 |
| Money (M1) | 27.3 | 25.8 | 26.7 | 25.3 | 28.2 | 35.0 | 34.5 | 38.2 | 43.3 |

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

| | 2014 | | | | 2015 | | | | 2016 | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|--------|---------|
| | 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/ | -1.0 | 9.6 | 6.4 | 1.6 | 6.9 | -2.1 | -0.6 | 0.8 | -2.0 | ... |
| Gross international reserves (millions of dollars) | 122.3 | 108.1 | 107.9 | 136.1 | 113.2 | 103.8 | 118.5 | 147.4 | ... | ... |
| Consumer prices (12-month percentage variation) | 1.4 | 1.5 | 0.9 | -0.2 | -0.9 | -0.8 | -0.7 | -0.6 | 0.1 | 1.0 c/ |
| Nominal interest rates (average annualized percentages) | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 e/ |
| Deposit rate d/ | 11.1 | 10.9 | 10.8 | 10.7 | 10.5 | 10.4 | 10.3 | 10.1 | 10.0 | 9.9 e/ |
| Lending rate f/ | 3.5 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.7 | 2.4 | 2.5 | 2.5 c/ |
| Interbank rate | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 e/ |
| Monetary policy rates | | | | | | | | | | |
| Sovereign bond spread, Embi Global (basis points to end of period) g/ | 724.0 | 765.0 | 695.0 | 819.0 | 784.0 | 736.0 | 804.0 | 822.0 | 1460.0 | 1285.0 |
| Domestic credit (variation from same quarter of preceding year) | -3.4 | -3.0 | -0.2 | 4.3 | 4.0 | 4.9 | 9.0 | 17.5 | 19.4 | 19.9 e/ |
| Non-performing loans as a percentage of total credit | ... | ... | ... | 7.0 | ... | ... | ... | 6.7 | ... | ... |

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 2008 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Non-adjustable 90-360 day operations.

f/ Measured by J.P.Morgan.