

BELIZE

1. General trends

In 2022, the recovery in the Belizean economy continued, with buoyant GDP growth of 12.1%, albeit slower than the 15.2% recorded in 2021. The expansion was driven by robust activity in the tertiary and secondary sectors, which expanded by 14.8% and 7.3%, respectively. Inflation increased by 6.7% in 2022 (end of period), following a 5.0% increase in 2021, owing to higher costs of food, transport and communication, reflecting higher international food and fuel prices.

Unemployment fell to the lowest rate on record of 5.0% in October 2022, bolstered by a strong recovery in tourism and distribution. The fiscal deficit contracted from 1.3% of GDP to 0.4% of GDP on a calendar-year basis, as growth in revenues outpaced the expansion in spending and the country benefited from debt forgiveness. The external position worsened, with the current account deficit widening from 6.3% of GDP in 2021 to 8.8% of GDP in 2022, owing to higher imports payments, profit repatriation and an arbitration settlement reached with Belize International Services Limited (BISL).

In 2023, as activity continues to normalize, the economy is projected to grow at a slower pace of 3.5%. All three sectors of activity are expected to contribute to this growth. The primary sector is projected to expand by 2.0%, buoyed by higher sugarcane and livestock production. Growth in the secondary sector is expected to ease to around 4.3%, reflecting a slowdown in manufacturing. Tertiary activity is projected to increase by 3.6%, driven by value added in tourism. Although stayover visitor arrivals are projected to increase by over 13.0%, this growth would be much slower than in the previous year. Higher output in real estate and professional services will also contribute to growth.

Inflation is expected to slow in 2023, as international fuel and food prices fall. Unemployment is projected to trend down somewhat with the continued growth in activity. The fiscal position is also expected to continue improving, with the deficit narrowing to 0.2% of GDP in 2023, underpinned by a tapering of capital expenditure, following the one-off payment for the BISL settlement in 2022. Revenues and grants are projected to increase by 6.3% in nominal terms to reach 22.4% of GDP, while expenditure is forecast to grow by 4.2% to reach 22.6% of GDP. The debt-to-GDP ratio is projected to contract by 2.2 percentage points to 64.2%, reflecting higher economic growth and the moderate fiscal deficit. The balance of payments current account deficit is forecasted to narrow to 5.4% of GDP in 2023, down from 7.9% of GDP in 2022. The current account is projected to improve by over US\$ 68 million, owing to a better trade balance, lower profit outflows and strong tourism receipts.

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary in 2022, as there was a substantial increase in spending, based on calendar-year figures. Despite this, because of strong GDP growth, the fiscal deficit narrowed from 1.3% of GDP in 2021 to 0.4% of GDP in 2022. Total revenues expanded by 20.8% in nominal terms, to 22.6% of GDP, underpinned by buoyant growth in tax and non-tax receipts. Tax revenues expanded by 18.1%, bolstered by a 36.3% increase in taxes on income and profits, reflecting higher business and personal income tax receipts. This was supported by a rise in proceeds from taxes on goods and services and taxes on international trade and transactions. Meanwhile, total expenditure expanded by 16.1%, reaching 23.0%

of GDP. The increase in recurrent spending was mainly driven by higher outlays for goods and services, including medical supplies, fuel and equipment; and the restoration of public sector emoluments following the 10% reduction between 1 June 2021 and 30 June 2022. Capital expenditure, which accounted for 23.6% of total spending, grew by 36.6% to 319.8 million Belize dollars (BZ\$), owing to higher expenditure on road infrastructure and climate and environmental risk mitigation and payment of an arbitration settlement with BISL.

Despite restructuring in 2021, debt remains a challenge for Belize. To reduce the debt burden and maintain it at a level that is sustainable in the long term, the economy will need to grow at above-average rates, accompanied by prudent fiscal policy. In 2022, public debt increased marginally by 1.2% to BZ\$ 4.042 billion, with a BZ\$ 49.3 million rise in external borrowings to finance ongoing and new development projects. Nevertheless, owing to strong growth, the debt-to-GDP ratio declined from 80.1% of GDP in 2021 to 68.5% of GDP in 2022.

The budget for the 2023/24 fiscal year projects a fiscal deficit of 1.41% of GDP. Total revenues and grants are forecast at BZ\$ 1.408 billion and total expenditure at BZ\$ 1.496 billion.

(b) Monetary and exchange-rate policy

Monetary policy was neutral in 2022, as the Central Bank of Belize kept its statutory liquid asset and cash reserve requirements for domestic commercial banks at 21.0% and 6.5% of average deposit liabilities, respectively. Monetary developments in 2022 were marked by 4.7% growth in the broad money supply (M2) to BZ\$ 4.155 billion, while narrow money (M1) expanded by 8.5%, as savings and chequing deposits were reclassified as demand deposits. Also, the currency component of M1 increased by BZ\$ 66.2 million, owing to higher demand for transactions, as consumer demand strengthened with the recovery and higher prices made it necessary to hold larger cash balances.

Net domestic credit grew by 5.7% (BZ\$ 173.4 million), a substantial increase on the growth of BZ\$ 7.5 million in 2021. Net credit to the central government expanded by BZ\$ 26.0 million to BZ\$ 713.2 million, reflecting higher borrowing from the central bank, as liabilities to commercial banks contracted by BZ\$ 46.2 million. Credit to the private sector recovered strongly, growing by 4.5 % (BZ\$ 104.0 million), the second largest annual increase between 2013 and 2022, just behind the 5.6% rise in 2019. This lending was mainly to the merchandise trading, agriculture, and transport sectors. The weighted average interest rate spread widened by 12 basis points to 6.71%, as a 2 basis point decline in the average lending rate was more than offset by a 15 basis point fall in the average deposit rate to 1.9%.

(c) Other policies

The government has planned legislation to improve public finance management and administration, including the new Public Procurement and Asset Disposal Act, which will centralize government procurement and disposal of assets in line with international best practices relating to accountability, transparency and value for money. New tax administration legislation will also be implemented, aimed at amending the Income and Business Tax Act, the General Sales Tax Act and the Tax Administration and Procedure Act, with the goal of making the tax system more efficient, effective, transparent and equitable.

The government has also embarked on a pension reform. In 2023 and 2024, pension payments are expected to amount to BZ\$ 95 million and BZ\$ 100 million, respectively, putting them at over 77% of GDP. To address concerns about the sustainability of future pension liabilities, the government met with unions representing civil servants and secured an agreement for phased implementation of a contributory

pension scheme, beginning with persons entering public service from 1 July 2023 onward. The intended reforms will also entail an increase in the retirement age and a reduction in the replacement rate, which is individual net pension entitlement as a share of net pre-retirement earnings.

3. The main variables

(a) The external sector

Belize's net external position worsened in 2022, with the current account deficit of the balance of payments widening by 2.5 percentage points to 8.8% of GDP. The larger deficit was driven by a rebound in merchandise imports, higher profit repatriation and the arbitration settlement with BISL. Merchandise imports expanded by 28.0% (US\$ 267.5 million), reflecting higher payments for fuel (up 46.0%), machinery and transport equipment and other products. Exports rose by 22.6% to US\$ 517.4 million, on account of higher receipts from sugar, lobster and some non-traditional exports. The services account expanded sharply by 57.9% to US\$ 517.1 million, owing to a substantial recovery in the tourism sector. Net tourism receipts grew by 60.3% to US\$ 538.6 million. Meanwhile, the capital account and financial account surplus rose from 6.3% of GDP in 2021 to 7.4% of GDP in 2022. Net inflows on the capital account normalized from the previous year's exceptional growth that stemmed from debt forgiveness by the Nature Conservancy. Net foreign direct investment increased by 7.2% to US\$ 132.4 million. Gross international reserves increased by 1.4% to US\$ 241.3 million, covering 4.1 months of imports.

(b) Economic activity

In 2022, growth in the Belizean economy slowed to a still buoyant 12.1%, following the rebound of 15.2% in 2021, as the economy reopened with the easing of pandemic restrictions. In fact, in 2022, GDP topped the level recorded in 2019, before the pandemic. Growth was driven by a 14.8% expansion in the services sector. The strong value added in the tertiary sector stemmed mainly from growth of 76.8% in tourism and 41.8% in transport services. Stayover arrivals grew by 62.6% to 345,728 visitors, representing 74.5% of the pre-pandemic level in 2019. Cruise passenger arrivals expanded by 191.4% to 551,280 visitors, with the number of passengers per ship increasing by 12.9% to 2,034. This buoyant growth in the services sector was accompanied by firm growth of 7.3% in the secondary sector, on account of higher renewable energy production and increased manufacturing output. In manufacturing, sugar production increased by 0.6% to 176,089 long tons, while citrus juice production rose by 5.2%. These increases were partially offset by a decline in the primary sector, owing to a 4.1% contraction in sugarcane deliveries to 1,787,488 tons and lower banana and fisheries output.

(c) Prices, wages and employment

The rate of inflation (end of period) rose from 4.9% in 2021 to 6.7% in 2022. The hike in domestic prices was driven by higher international fuel and food prices, owing to the impact of the conflict in Ukraine and supply chain disruptions. The cost of food and non-alcoholic beverages increased by 13.8% in 2022, relative to 3.3% in 2021. Reflecting the spike in fuel prices, the cost of transport rose by 12.5%, while the cost of household equipment and maintenance increased by 3.7%. Some offset came from lower prices of recreation and cultural services and clothing and footwear.

The rate of unemployment fell to a historic low of 5.0% in 2022, relative to 9.2% in 2021. The strong economic recovery boosted job growth in tourism and related services. The number of persons unemployed fell by 45.3% to 9,644, down from 17,644 in 2021. Working hours averaged 43 per week and the average monthly income was BZ\$ 1,357.0, an increase of BZ\$ 189.0 since September 2021.