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## Belize

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### 1. General trends

In 2003 economic performance in Belize benefited from strong upturns in agriculture and tourism, the latter driven by a steep climb in the number of cruise-ship arrivals. The resulting growth rate of 4.4% was slightly higher than the 2002 rate, but did not translate into higher tax revenues. On the contrary, total income dropped significantly and this, combined with increased spending on external debt servicing, widened the fiscal deficit to almost three times the preceding year's figure, from 3.7% of GDP in 2002 to 10.8% in 2003. This forced the authorities to seek external financing, thus increasing the country's external debt stock.

The fiscal deficit put pressure on international reserves, which were further squeezed by the government's disbursement of funds to buy shares in Belize Telecommunications Limited (BTL). Coming on top of a large current account deficit of 18% of GDP (which was similar to the 2002 imbalance), this transaction caused the balance of payments to deteriorate further. The resulting US\$ 30-million drop in international reserves reduced liquidity in the banking system, forcing

the central bank to act as a lender of last resort for commercial banks. Ultimately, the commercial banks raised deposit rates in order to attract more funds.

GDP growth is expected to be in the 4%-to-5% range in 2004, thanks to a substantial increase in cruise-ship arrivals (30%) and upturns in the main agricultural exports. The authorities intend to deal with the fiscal deficit by boosting the efficiency of tax collection and keeping a tight rein on public spending.

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### 2. Economic policy

#### (a) Fiscal policy

The central government recorded a fiscal deficit of 10.8% of GDP in 2003, after having narrowed it to 8.2% in 2001 and 3.7% in 2002. This reversal resulted from an 11% increase in total spending and a 15% drop in income, including grants. The deficit, which was financed primarily with external resources, was one of the factors that drove up the level of public debt. In 2003

the public sector's domestic and external debt expanded by 48% and 30%, respectively, reaching 13% and 76% of GDP.

The downturn in income was due to the behaviour of non-tax revenues, which reflected a decrease in the recovery of old public loans (-59%) and a sharp drop in official grants (-89%). Tax revenues expanded moderately (4.6%), in keeping with the level of economic activity, owing to higher receipts from profit

Table 1  
**BELIZE: MAIN ECONOMIC INDICATORS**

	1995	1996	1997	1998	1999	2000	2001	2002	2003 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	3.8	3.6	4.5	1.8	8.8	13.0	4.2	4.1	4.4
<b>Per capita gross domestic product</b>	1.4	0.8	2.1	-0.9	4.3	8.5	2.4	1.6	2.4
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	7.7	14.3	11.9	-9.2	50.7	7.3	-1.7	3.6	8.6
Mining	7.5	-3.2	-4.1	-4.1	55.3	23.3	3.3	-5.4	1.6
Manufacturing	4.4	0.3	2.7	-2.9	6.2	24.2	-0.7	1.5	-1.9
Electricity, gas and water	3.2	1.9	9.8	13.4	177.4	9.9	0.4	2.3	-2.9
Construction	1.1	-9.5	1.0	-1.7	47.2	38.9	-1.7	5.2	-17.2
Commerce, restaurants and hotels	2.5	-1.4	8.2	6.6	67.0	12.1	7.6	4.0	-0.3
Transport and communications	4.4	5.5	-2.9	2.4	15.0	12.5	11.8	11.2	-2.5
Financial institutions and insurance	4.7	3.4	7.0	9.5	131.4	-2.9	12.9	9.6	2.8
Social services and other services	2.6	2.5	3.6	3.5	84.9	1.6	1.5	1.7	-2.6
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-17.2	-6.6	-31.9	-59.8	-65.7	-131.0	-184.9	-164.6	-181.0
Merchandise trade balance	-66.1	-58.2	-89.5	-104.7	-124.3	-191.4	-213.7	-188.3	-209.3
Exports, f.o.b.	164.6	171.3	193.4	186.2	213.2	212.3	275.0	309.7	316.3
Imports, f.o.b.	230.6	229.5	282.9	290.9	337.5	403.7	488.7	498.0	525.6
Services trade balance	37.9	46.5	46.2	41.5	53.5	52.6	52.7	52.6	73.7
Income balance	-22.3	-26.1	-23.4	-32.1	-43.9	-54.1	-72.1	-75.5	-89.8
Net current transfers	33.1	31.1	34.7	35.6	49.0	61.9	48.2	46.7	44.6
Capital and financial balance <sup>c</sup>	21.4	27.2	33.3	46.2	78.6	87.7	181.4	159.2	150.9
Net foreign direct investment	21.1	10.9	8.1	13.2	47.4	17.7	59.9	24.8	28.5
Financial capital <sup>d</sup>	0.3	16.3	25.2	33.0	31.3	70.0	121.5	134.4	122.5
Overall balance	4.1	20.6	1.4	-13.7	12.9	-43.3	-3.5	-5.5	-30.1
Variation in reserve assets <sup>e</sup>	-4.1	-20.6	-1.4	13.7	-27.5	-51.8	3.2	5.5	30.1
Exceptional financing	0.0	0.0	0.0	0.0	14.6	95.2	0.3	0.0	0.0
<b>Prices</b>									
Variation in consumer prices (December-December)	2.9	6.4	1.0	-0.8	-1.2	0.6	1.1	2.3	2.6
Real deposit rate, weighted average	4.2	-0.2	5.6	6.0	5.8	5.0	4.3	4.4	4.8
Real lending rate, weighted average	13.0	9.2	15.4	16.4	16.5	15.7	15.2	14.2	13.8
<b>Millions of Belize dollars</b>									
<b>Central government<sup>f</sup></b>									
Current income	259.2	283.2	288.0	302.1	337.4	338.8	425.8	425.8	416.5
Current expenditure	233.0	242.2	252.7	264.9	291.3	297.4	334.7	333.4	405.6
Current balance	26.3	41.0	35.2	37.2	46.1	41.4	91.0	92.3	10.9
Net capital expenditure <sup>g</sup>	63.3	51.3	51.8	60.0	97.3	136.9	174.7	224.3	227.2
Primary balance	-13.8	14.7	7.9	1.9	-20.9	-53.9	-31.9	-17.1	-121.4
Overall balance <sup>h</sup>	-37.0	-10.3	-16.5	-22.7	-51.1	-95.5	-83.6	-68.8	-212.9
<b>Percentages of GDP</b>									
<b>Money and credit</b>									
Domestic credit	47.4	49.7	53.7	44.5	47.0	45.6	50.7	52.9	52.0
To the public sector	3.2	3.5	2.4	1.6	2.7	3.7	4.0	3.0	1.9
To the private sector	44.2	46.1	51.3	42.9	44.3	41.9	46.6	49.8	50.1
Money stock and local-currency deposits (M2)	59.8	61.4	68.0	55.7	57.4	58.1	60.0	57.4	55.7

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

<sup>a</sup> Preliminary figures. <sup>b</sup> From 2001, based on figures in local currency at constant 2000 prices. Up to 2000, at constant 1979 prices. <sup>c</sup> Includes errors and omissions. <sup>d</sup> Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. <sup>e</sup> A minus sign (-) denotes an increase in reserves. <sup>f</sup> In the period 1995-2001 the figures refer to the fiscal year; from 2002 onward they refer to the calendar year. <sup>g</sup> Includes grants. <sup>h</sup> Includes interest.

and income taxes and from levies on goods and services. By contrast, receipts from international transactions taxes were limited by the wide range of exemptions granted to firms operating in free trade zones. The government is therefore seeking to strengthen tax collection in 2004 through measures such as an increase in the sales tax (to 9%) as from February.

The increase in government spending in 2003 reflected higher current spending (22%), since capital expenditure decreased by 3.2%. Current spending expanded to 14% of total expenditure, driven mainly by payments of interest on the public debt. Expenditure on wages and salaries was also higher than in 2002, rising by 10% and accounting for 28% of total spending. This was a result of pay increases awarded to several categories of civil servants, including police officers, teachers and members of the armed forces. Spending on goods and services was also up, exceeding the 2002 figure by 20%.

Trends in capital spending showed a decline in capital III expenditure (-27%); this more than offset the net loan to the Development Finance Corporation, which pushed up capital II spending by 11%. Capital expenditure was channelled into infrastructure improvement and natural disaster preparedness, among other areas.

### **(b) Monetary policy**

The supply of both narrow and broad money expanded slightly in 2003, by 1% and 3.6%, respectively, owing to a contraction in net external assets (-48%) that more than outweighed the effects of

increased net domestic credit to the economy (19%). This credit went mainly to the construction (15.3%), banana (23.5%) and mining (50%) industries and to the tertiary sector (22.5%).

Net international reserves shrank, reflecting payments of interest on external obligations and a down payment made in the framework of the BTL acquisition. Another factor in this decrease was the transfer of financial transactions from local commercial banks to offshore banks by firms operating in free trade zones. This erosion of international reserves affected the banking system's liquidity position. After expanding in the first quarter of the year, liquidity began to decline, and by October had reached its lowest level in six years, forcing the central bank to act as a lender of last resort. Overall, by the end of 2003 liquid assets had fallen 15% below their level at the start of the year.

Given these circumstances, commercial banks narrowed the interest-rate spread by raising their rates on time deposits and lowering their lending rates, with a view to increasing the financial system's liquidity. These measures brought the weighted nominal rates on loans for business and real estate investment from 14.3% and 13.3% in 2002 to 13.9% and 12.4% in 2003, respectively, while the weighted nominal rate on deposits rose from 6.5% to 7.2%. The bank spread therefore narrowed from 10% to 9.3% in this period. In April 2004 the authorities took this policy stance a step further and intervened to increase bank liquidity by lowering local banks' legal reserve requirement by 5 percentage points (from 24% to 19%). For the purposes of this measure, mortgage assets were excluded from the category of liquid assets.

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## **3. The main variables**

### **(a) Economic activity**

Economic activity continued to expand at a pace similar to the one observed in 2002 (4.4% and 4.1% in 2002 and 2003, respectively). The primary sector's growth, which leapt from 0.7% in 2002 to 37% in 2003, was attributable to a large jump in fishing activity (100%), particularly the production of farmed shrimp. Agriculture (8.6%) benefited from a stronger upturn in the grain harvest, which compensated for a lower output of sugar cane (-6.7%) and citrus fruits (-4.2%). The decline in the sugar crop was a result of both climatic

and phytosanitary factors, since international prices were up by 12%. Banana production rose by 60% thanks to an 8% increase in the area under cultivation and a shift in the harvest period to take advantage of cyclical trends in international prices on the European market. The production of shrimp, beef, molluscs and citrus fruits is expected to climb strongly in 2004.

The decline in manufacturing, from 1.5% in 2002 to -1.9% in 2003, was due to a drop in the production of sugar (-6.2%), which caused delays in the delivery of this commodity, and to inefficient harvesting practices. Juice manufacturing rose by 3.4% despite the downturn

in the output of citrus fruits, thanks to higher productivity and technical improvements that enhanced the industry's efficiency. Competitiveness is one of the manufacturing sector's main concerns, particularly in view of the tariffs imposed on food processing inputs. In addition, the absence of standardized rules in CARICOM is deemed a de facto non-tariff barrier that hampers Belize's manufactures exports to the rest of the Caribbean.

After expanding modestly (by 2.4%) in 2002, tourism activity grew by 8.8% in 2003. In particular, there was explosive growth in tourist arrivals by sea. Cruise-ship arrivals numbered almost half a million in 2003, representing an 80% increase over the 2002 figure and far outnumbering long-stay tourists, of whom there were 197,746 in 2002.

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

The rate of inflation remained practically unchanged, edging up from 2.3% in 2002 to 2.6% in 2003. This behaviour was in keeping with the level of economic activity, the monetary liquidity squeeze and price stability in the United States. Inflation did not fully reflect the rise in the international price of petroleum, since the government passed only part of the increase in fuel costs on to consumers.

A breakdown of the price index shows transport and communications, the largest category, posting the fastest rate of increase (5%), followed by rent, water and fuel (3.1%). The latter category was strongly affected by the government's decision to raise the price of butane gas and to change the unit of measurement for water from gallons to cubic metres.

The unemployment rate rose from 10% to 13% because the labour force expanded by 9%, while employment rose by only 5%. Higher output in the primary sector (fishing and banana production) did not translate into an equivalent increase in job creation. The highest levels of employment were found in agriculture, commerce and tourism, with job growth of 19%, 17% and 11%, respectively.

### **(c) The external sector**

Belize's external position continued to be marred by a large current account deficit, which widened from 17% of GDP in 2002 to 18% in 2003 and could not be fully covered by the surplus on the capital and financial account, which declined from 17% of GDP to 15% in

this period. The consequent loss of net international reserves was equivalent to US\$ 30 million.

In 2003 the trade balance failed to make good the negative result of the preceding year, as it showed a deficit of 21% of GDP for the second year running. This was due to a combination of decreased exports from the Corozal commercial free zone (-20.7%), which offset growth in traditional exports (21.7%), and a higher level of imports in line with the expansion of economic activity and the increase in the price of petroleum. The downturn in free-zone exports, most of which are re-exports, reflected the better prices that firms in Mexico were able to offer as a result of tax cuts, which diverted trade away from Belize.

Exports were up, buoyed by strong sales of fish and shellfish, which rose by 58%. In particular, shrimp, which came to represent a quarter of total exports, replaced citrus juices as the country's leading export product. Citrus exports accounted for 21% of the total, and sustained a drop of 2.4% owing to a decline in international prices. Sugar, the country's third-ranking export product, climbed in value (by 7.9%) because of a rise in the international price, which was more than enough to make up for a 6.6% decline in export volume. This performance was partly due to a large jump in Belizean sugar sales within its CARICOM exports (119%). The banana sector showed signs of recovering from the damage caused by hurricane Iris in 2001 (which resulted in declines of 22% and 57% in 2002 and 2003, respectively), owing in part to a government strategy for enhancing its external competitiveness. This strategy includes the introduction of a two-band price system and the imposition of fines for the sale of low-quality bananas.

The pattern of goods imports primarily reflected petroleum imports, whose value rose by 16% as a result of higher international prices; the purchase of equipment (10%) for setting up a new telephone company; and the expansion of processing plants for citrus fruits and shrimp feed. The robust performance of the tourism sector boosted the services trade surplus from US\$ 53 million to US\$ 74 million.

The capital account recorded a large outflow of resources, amounting to US\$ 48 million, as a result of the government's down payment on the purchase of shares in BTL. By contrast, the surplus on the financial account increased to US\$ 192 million, mainly as a result of a US\$ 100-million bond issue and bank loans.