BELIZE

COUNTRY ECONOMIC REVIEW 2020

Belize dollar (BZ$); United States dollar (US$). **US$1 = BZ$2.00**

OVERVIEW

The COVID-19 pandemic severely impacted the economy in 2020. Tourism activity collapsed in March under the weight of stringent travel restrictions and containment measures designed to curb the spread of the virus. Agriculture was already suffering from a drought in 2019. Public revenues fell dramatically, leading to an increasing deficit and debt rising above 100% of gross domestic product (GDP). Job losses, increased unemployment, and the tragic loss of lives were some of the devastating human and social costs of the pandemic.

Unlocking growth remains a challenge. Prospects for 2021 remain uncertain, depending significantly on the speed and effectiveness of vaccination against COVID-19 in Belize and its trading partners. The new Government has very limited fiscal space to fund development, and will need to prioritise effectively, with possible help from development partners.

KEY DEVELOPMENTS IN 2020

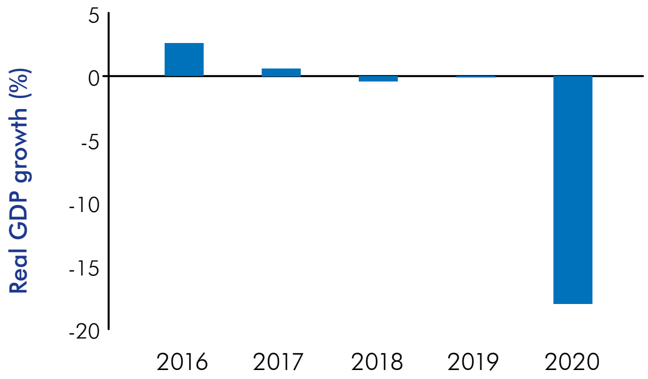
The pandemic has had a devastating toll on Belize. Prior to August, Belize had successfully contained the outbreak and flattened its infection curve, registering fewer than 50 cases. A surge in the pandemic during August to December confirmed just under 11,000 cases by year end and claimed 248 lives.

The economy is estimated to have contracted by 14.1% in 2020 (see Chart 1). The main reason was the COVID-19 pandemic, which affected all of Belize's major trading partners and strongly restricted economic activity within the country.

The pandemic decimated the tourism industry. In March, the Philip Goldson International Airport was closed, and cruise ship calls were halted. Hotel bookings collapsed. The airport reopened in early October, but a reluctance to travel due to continued uncertainty and concerns around contagion, and strict health protocols, meant that passenger numbers remained low. Overnight arrivals fell by 71.2% to 133,583. Cruise ship arrivals were down by 70.7% to 308,003.

The pandemic also affected other industries. Manufacturing fell most significantly due to a fall in alcoholic and soft drinks consumption because of the collapse in tourist numbers. Crude oil extraction continued to decline, and there was also a contraction in construction activity.

Chart 1: Real gross domestic product growth



Sources: *CBB, Barbados Statistical Service (BSS), Caribbean Development Bank (CDB).*

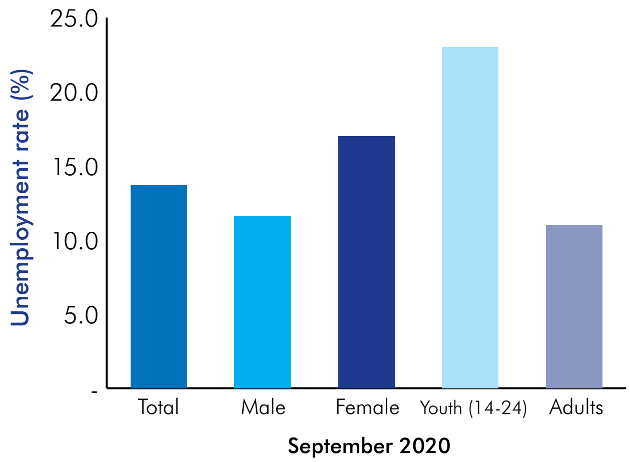
Agricultural output showed a marginal improvement (0.5%), as the sector continued to suffer from the severe drought in 2019. There was a knock-on effect from the decline in tourism, although the greater impact was on food imports. Sugar cane and citrus yields were low early in the year, although both recovered slightly in the third quarter as weather conditions improved. There was also an increase in banana production. Marine production was lower than in 2019, with both shrimp and conch levels down.

Inflation remained muted in 2020, slowing to 0.1% from 0.2% in 2019. Linked to the pandemic's effect on tourism activity, there were falls in the prices of alcoholic beverages and tobacco, transport, and restaurants and accommodation services. There was a slight increase in food price inflation.

Unemployment is high. A redefined Labour Force Survey (LFS) showed that 13.7% of the labour force (23,175 persons) was unemployed in September 2020[1] (see Chart 2). Revisions to definitions have resulted in the reclassification and removal of certain forms of work, and subgroups from the employed labour force, including some subsistence farmers, unpaid trainees, interns, and volunteer work. In addition, persons "not looking for work" are no longer classified amongst the unemployed. As such, the 2020 estimates are not comparable to prior years. Under the old methodology, the unemployment estimate would have been 29.6%, up from 10.4% the previous September. The September 2020 female rate (17.0%) was higher than the male rate (11.6%).

The pandemic had far-reaching impacts on the labour force. In the period March to August, there were 38,909 persons without work (unemployed and out of the labour force) because of COVID-19. One in three of these worked in the tourism sector, and about 65% were males. Of those still employed, one in four suffered a reduction in wages. The largest proportion, or 28.2% of those, were between 25 to 34 years old. Notably, about two thirds of these persons who lost their job due to COVID-19 were not looking for work and were therefore not classified as unemployed.

Chart 2: Unemployment



Source: *SIB.*

Public policy focused on measures to alleviate the fallout. Temporary unemployment relief was provided through cash transfers to 87,000 workers and self-employed persons adversely affected. Food assistance was also provided, supplementing the existing Food Pantry Programme. Nearly 40,000 households qualified. The existing Conditional Cash Transfer (CCT) programme was also enhanced, and a new temporary CCT was implemented to reach poor and vulnerable households countrywide.

Belize's already weak fiscal position was severely affected by the pandemic. The public primary balance in fiscal year 2019/2020[2] was -1.4%, below the 2% target required following the commercial debt restructuring in March[3]. Worse was to follow as the pandemic undermined fiscal

1 Revisions were made to key definitions, relating to the employed, labour underutilisation, and the classification of different forms of work, in accordance with international standards adopted in 2013.

2 April to March.

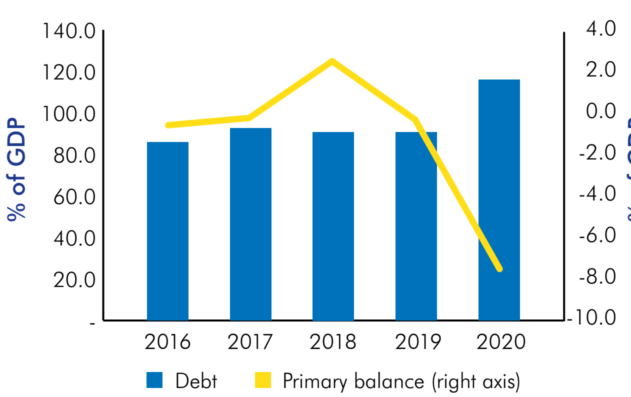
3 Under the restructuring of the US$526 mn bond, interest payable fell and principal repayments were pushed back to 2030-2034.

outcomes during the remainder of 2020, resulting in a primary balance of -7.7%.

The collapse in economic activity caused a sharp fall in government revenues. Current revenue in the calendar year was 20% lower than 2019. Against this backdrop, the Government faced expenditure pressures to support the health sector to deal with the pandemic, and to provide income support for those who lost their jobs. Some repurposing of expenditure was possible. Spending on goods and services fell by 15.6%, and the Government secured agreement to capitalise interest payments that were due on the commercial superbond. Despite agreement to postpone payments of bonuses to public servants, spending on wages and salaries was 1.4% higher. With capital expenditure also increasing, the overall deficit was BZ$356 million (mn), nearly three times its equivalent in 2019. Funding support was provided by development partners, including CDB, and through borrowings from the Central Bank of Belize (CBB).

Public debt rose well above 100%. The ratio of public debt to GDP rose rapidly to 115.9% (see Chart 3). Domestic debt rose to BZ$1.3 billion (bn), from BZ$1.1 bn at the end of 2019, as the Government increased its borrowing from CBB. External debt was BZ$2.7 bn, 9.3% more than at the end of 2019. This included the capitalised interest on the commercial bond, plus the first US dollar bond issued by CBB (US$30 mn).

Chart 3: Fiscal and debt performance



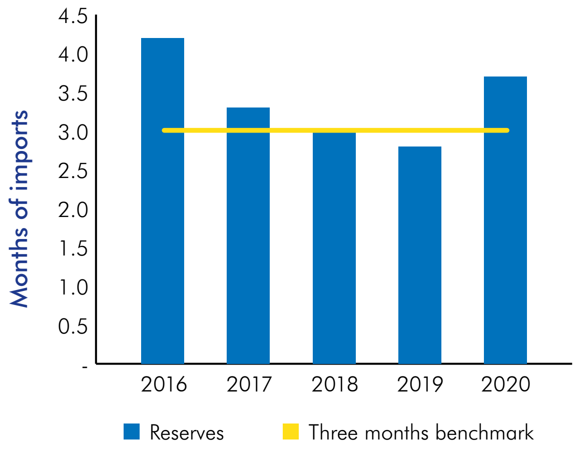
Source: CBB.

At the start of the pandemic, CBB eased monetary policy, relaxed supervisory guidelines, and commercial banks were encouraged to institute relief measures to assist distressed borrowers. Measures included reducing statutory cash reserve requirements, extending the period to classify loans as non-performing, and reducing risk weights for loans in the tourism sector. As a result, lending to the private sector expanded by 3.1%, less than the 5.6% increase one year previous, mainly to support the tourism and banana sectors. Provisions for expected credit losses were applied mainly against personal (BZ$13.4 mn), construction (BZ$2.3 mn), and real estate (BZ$0.8 mn). COVID-19 loan forbearances totalled BZ$723.6 mn, representing 31.8% of domestic banks' aggregate loan portfolio.

Scotiabank exited the market. In November, CBB approved the sale of Scotiabank's operations in Belize to the Caribbean Investment Holdings Limited, owners of Belize Bank Limited (BBL). This consolidation made BBL the largest operator in the market, with approximately 50% of assets.

The trade deficit narrowed as imports declined. The merchandise trade deficit between January and October narrowed because the fall in exports (BZ$38. 5 mn) was outweighed by a decline in imports (BZ$387.3 mn), some of which were due to import controls to protect the level of foreign reserves. There was a collapse in visitor expenditure, partly offset by an embargo on profit repatriation. Remittances from overseas increased, as did external COVID-related aid from abroad. A rise in net financial inflows stemmed from additional government borrowings to address the pandemic. Consequently, gross international reserves rose to 3.7 months of merchandise imports (see Chart 4).

Chart 4: Gross foreign reserves



Source: *CBB.*

OUTLOOK

CDB projects a small increase of 1.9% for 2021, but the forecast is subject to uncertainty. The development and approval of new vaccines against COVID-19 has raised hopes for a return to near normality, but logistical issues need to be overcome to ensure a sufficiently wide roll-out of about 70% of the population to attain herd immunity. In the more developed countries, this might not happen until the second half of the year. Roll-out has begun in the United States of America, Belize's major source market for tourism. However, roll-out will not be completed in time for the traditionally busiest months of the tourist season, January to April. Health protocols are likely to remain in place and there could be new ones, such as the requirement of proof of vaccination to travel.

Fiscal adjustment measures will be necessary but could hinder a strong growth recovery in the short-to-medium term. The new Government has appointed an Economic Recovery Advisory Team (ERAT), comprising leaders from the key productive sectors, the public service, and the unions. The ERAT is tasked with making recommendations to increase growth and employment. These recommendations will be against a background of unsustainable debt, which needs to be brought down through fiscal consolidation and a gradual increase in the primary surplus. Without fiscal adjustment, the primary deficit would remain elevated, and funding options would be very limited. Reforms to the business environment and to address structural impediments would help to strengthen growth.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available as at March 5, 2021. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	0.0	1.8	2.9	1.8	-14.1
Average inflation (%)	0.7	1.2	0.3	0.2	0.1
Unemployment (%)	9.6	9.4	9.4	9.0	13.7
Primary balance (% of GDP)	-0.6	0.3	2.4	-0.1	-7.7
Public sector debt (% of GDP)	85.9	92.7	90.8	90.6	115.9

Sources: *International Monetary Fund, SIB, CBB, CDB.*

Note: e – estimate (as at March 31, 2021)
Unemployment data: For 2016, 2017 and 2019 – average of April and September LFS. For 2018 April LFS only. For 2020, September LFS only, with a new methodology employed.

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