CARIBBEAN DEVELOPMENT BANK

BELIZE

ECONOMIC BRIEF

Belize Dollar (BZ$); United States Dollar (US$) US$1 = BZ$2

Overview

The Belizean economy continued its recovery from the COVID-19 pandemic in 2022, posting double-digit growth for a second consecutive year. The robust expansion was primarily propelled by the services sector, including tourism. Consistent with the surge in economic activity, the unemployment rate declined significantly. Meanwhile, the rate of inflation accelerated, reflecting higher imported food and fuel prices. The fiscal position improved with a lower overall deficit. The debt-to-gross domestic product (GDP) ratio continued a downward trend attributable in large part to substantial GDP growth.

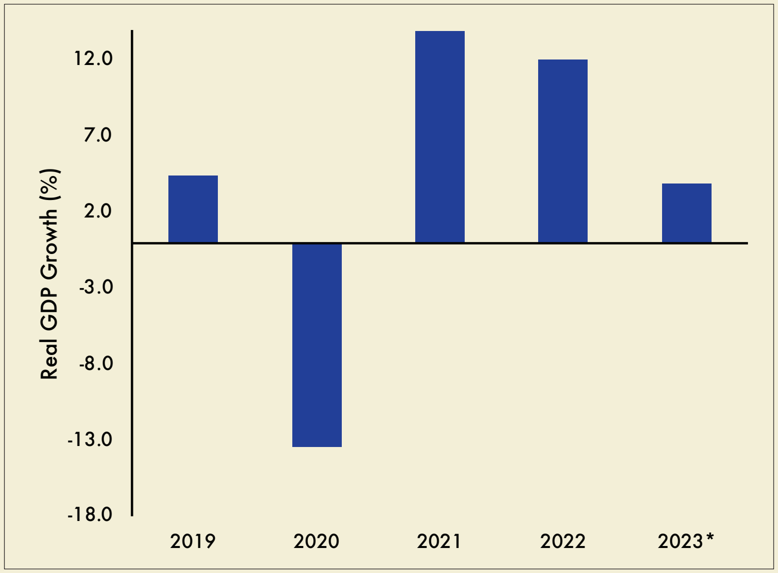
Forecasts suggest a deceleration in economic growth for Belize in 2023 and the medium term as the post-pandemic recovery moderates and economic activity normalises. Significant downside risks to this outlook, including adverse weather and a further slowdown in advanced economies, persist. However, a faster-than-anticipated rebound in tourist arrivals could result in a further surge in economic growth.

KEY DEVELOPMENTS IN 2022

The economy of Belize is estimated to have expanded by 12.1%, building on the 15.2% upswing witnessed in 2021 and propelling the country's real GDP above pre-pandemic levels. Growth in 2022 was underpinned by expansions in accommodation and food services (76.8%), transport (41.8%), and wholesale and retail (22.1%). The growth in these sectors partly reflected a resurgence in the tourism sector, underpinned by a 70.2% increase in stayover arrivals and an almost tripling of cruise passenger arrivals. Although arrivals for both categories still have not rebounded to their pre-pandemic levels, there was an increase in the average expenditure per visitor. The economy's expansion was further supported by growth in electricity (20.0%), construction (6.8%), and manufacturing (4.5%).

Overall economic growth was, however, tempered by declines in primary activity. The agricultural sector shrank by 4.9%, largely attributable to a decrease in the production of traditional crops and livestock. Concurrently, mining activity contracted by 16.4%, fuelled by a reduction in crude oil extraction.

Chart 1: Real Gross Domestic Product Growth



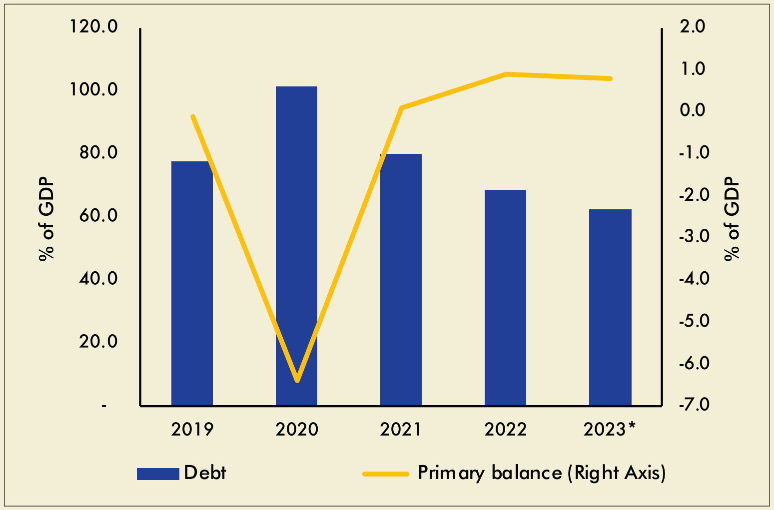
Source: *Statistical Institute of Belize (SIB). *Caribbean Development Bank (CDB) estimate.*

The rate of inflation accelerated reflecting the rise in imported commodity prices. Headline inflation increased to an almost historic peak of 6.3%, from 3.2% in 2021. Inflationary pressures were driven by increases in the price of transport (18.2%), food and non-alcoholic beverages (7.8%), and housing, water, electricity, gas, and other fuels (2.1%) among other contributing sub-indices.

The expansion in economic activity contributed to an improvement in labour market conditions. The unemployment rate dipped to 5.0% in October 2022, down from an average rate of 10.2% in 2021. The unemployment rate stood at 4.0% for males, 6.8% for females, and 11.8% for youth, more than double the national rate.

The fiscal position improved in 2022. Budgetary operations yielded a smaller overall deficit of $43.9 million (mn) (0.7% GDP), down from $67.2 mn (1.3% of GDP) in 2021. The improved performance was associated with a 21.9% increase in total revenue and grants which outpaced the 18.6% growth in total expenditure. The increase in revenue, mainly supported by the expansion in economic activity, was widespread across most major revenue categories. Expenditure growth was fuelled by higher levels of spending in both current and capital expenditure. A considerable portion of the rise in current expenditure was attributable to salaries and wages, largely due to the rollback of a 10% salary cut that was implemented in 2021 as part of the Government's cost-containment strategy in response to the significant pandemic-related expenditures. The deficit was mainly financed from external sources.

Chart 2: Fiscal and Debt Performance

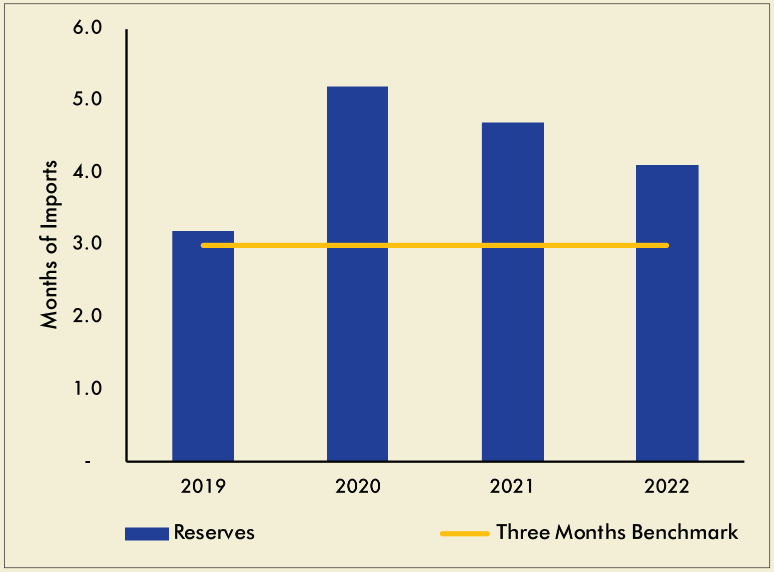


Source: *Central Bank of Belize (CBB). *CDB's estimate.*

Total public debt ticked up, but debt to GDP contracted. Public sector debt rose by $49.1 mn to $4,041.8 mn in 2022, reflecting an increase in external debt. However, due to vigorous growth in nominal GDP, the debt-to-GDP ratio declined to 68.5% in 2022 from 80.1% in the preceding year.

Performance on the external account was mixed. The external current account deficit expanded by 64.1% to $518.2 mn in 2022, primarily due to a 36.6% surge in the merchandise trade deficit to $1.46 billion (24.7% of GDP) and an increase in profit repatriation. However, tourist receipts increased, exceeding pre-pandemic levels, and there was greater inflow of remittances. On the capital account, net inflows stabilised at $58.9 mn, down from $482.9 mn in 2021 when substantial inflows from the issuance of a blue bond buoyed inflows. The financial account returned to a net borrowing position, recording a deficit of $360.7 mn from a surplus of $98.7 mn in 2021, which had been associated with the reduction in public debt and a notable accumulation of net foreign assets. Nevertheless, the financial account was supported by an increase in direct investment inflows. Amid these developments, the country's stock of official reserves grew by $116.9 mn to $ 964.9 mn, representing an estimated 4.1 months of merchandise imports.

Chart 3: Gross International Reserves



Source: *CBB.*

The financial sector remained well capitalised and highly liquid, but asset quality declined. Domestic banks, which accounted for 65.7% of total financial system assets, attained a capital adequacy ratio of 15.1%, above the regulatory requirement of 9.0% but below 19.2% in 2021. However, domestic banks' Non-performing Loans to Total Gross Loans rose from 5.3% at the end of 2021 to 6.9%, exceeding the 5.0% prudential limit. Banks continued to maintain high levels of liquidity, far exceeding their obligatory requirements, but profitability declined. The financial system witnessed an expansion in net domestic credit of 5.7%, propelled by an increase in credit extended to both the Government and the private sector.

2023 OUTLOOK

The 2023 forecast predicts slower economic growth as the post-pandemic recovery phase stabilises. Real GDP is projected to increase by 3.9% driven by the tourism sector and its positive impact on other sectors. Manufacturing and construction will contribute to economic activity, while agriculture is expected to remain weak. Investment inflows are expected to remain robust, supported by efforts to enhance the business climate as set out in the Government's medium-term development strategy. Inflation is forecasted to slow down reflecting global trends. The labour market is expected to remain strong as the economy expands. Initial findings from the April 2023 labour force survey indicate that the unemployment rate declined to a historic low of 2.8% from the 5.0% registered in October 2022.

Fiscal conditions are expected to improve over the medium term. The primary balance is forecasted to remain in surplus at about 0.8% of GDP. Revenues will be boosted by economic growth and the restoration of fuel taxes, which were previously removed as part of the Government's cost of living strategy. Expenditure will increase due to the reinstatement of pay increments which recommenced April 1, 2023, but reforms to the pension plan will help contain costs. Planned legislative reforms, including public finance management and tax administration reforms will help to strengthen the macro-fiscal framework. Debt to GDP is forecasted to decline.

The outlook faces downside risks. Among these are slower economic expansion in advanced economies, adverse weather conditions affecting agriculture and tourism, and rising food and fuel prices impacting consumers. On the positive side, a more rapid recovery in tourist arrivals could boost the tourism industry and the overall economy. Fiscal reforms and climate change mitigation initiatives will enhance resilience in the medium-to-long term.

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 at the time of publication. 2023 data are estimates and are subject to revision.

Selected Economic Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	4.5	-13.4	15.2	12.1	3.9
Average Inflation (%)	0.2	0.1	3.2	6.3	4.1
Unemployment (%)	9.0	13.7	10.2	5.0	2.8
Primary Balance (% of GDP)	-0.1	-6.4	0.1	0.9	0.8
Overall Balance (%) of GDP	-2.7	-8.8	-1.3	-0.7	-0.8
Public Sector Debt (% of GDP)	77.5	101.4	80.1	68.5	62.3

Sources: *SIB, Ministry of Finance, CBB, the International Monetary Fund, CDB.*

Note: e-estimate.