COUNTRY ECONOMIC REVIEW 2018

BELIZE

OVERVIEW

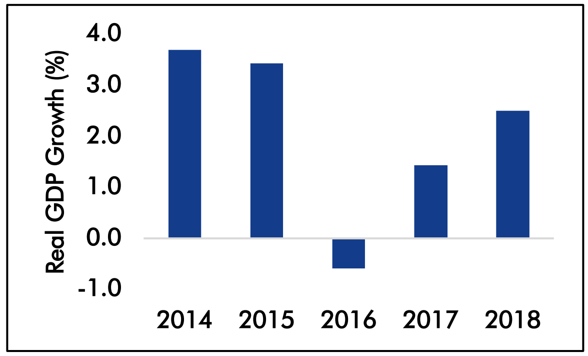
In 2018, economic growth in Belize was led by increased tourism activity. There were increases in overnight and cruise ship visitors. Output from the other main sectors declined. The external deficit narrowed slightly; but there was a further drawdown of international reserves. The fiscal accounts improved, as the Government of Belize (GOBZ) sought to meet the conditions of its 2017 commercial debt restructuring. Debt remained above 90% of gross domestic product (GDP).

Unlocking growth remains a challenge. Higher growth is necessary to rebuild gross international reserves. With limited fiscal space, GOBZ will need to prioritise public expenditure more effectively. Further fiscal consolidation may be necessary.

KEY DEVELOPMENTS IN 2018

Economic growth in 2018 was higher than in the previous year (see Chart 1). Full-year growth is estimated to have been 2.5%, an improvement on 1.4% in 2017. Tourism was again the main contributor. Overnight arrivals increased by 14.6% to 489,261, helped by a new direct flight from Canada. Cruise ship arrivals were up 19.1% to 1,208,137, due to additional ship calls in Belize City and Harvest Caye. However, primary production fell. Sugar output was affected by the 2017 abolition of the European Union's quotas on local production. Citrus and banana returns suffered lower prices and adverse weather conditions, respectively. Marine production fell, mainly due to ongoing problems with early mortality syndrome affecting the shrimp industry. Manufacturing contracted, with notable falls in production of juices and soft drinks.

Chart 1: Real GDP Growth



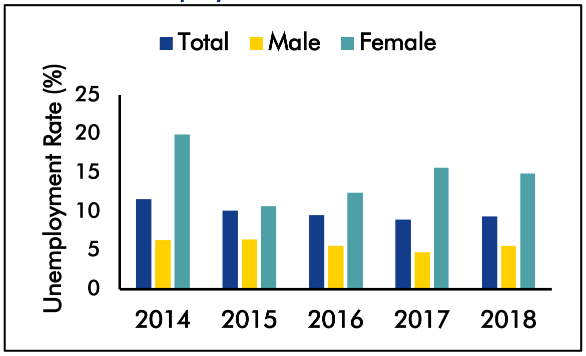
Source: Statistical Institute of Belize (SIB), CDB staff estimates.

Inflation slowed to 0.3%[1] in 2018 from 1.2% in 2017. The price of transport (airfares and fuel) remained relatively unchanged, having increased by 10% in 2017. The cost of housing (including fuels) rose slightly, and the increase in the price of alcoholic beverages was less than in the previous year when new excise taxes were introduced.

Unemployment rose slightly in 2018, and was much higher for women than for men. According to the April Labour Force Survey (LFS), the unemployment rate rose to 9.4% from 9.0% the previous April (see Chart 2). The female unemployment rate fell from 15.6% to 14.9% but was still much higher than the male rate, which increased from 4.8% to 5.6%. Similarly, the rate of underemployment (working less than 18.3 hours per week) was much higher for women (20.2%) than for men (10.3%). Youth unemployment (ages 14-24) was 21.3% - (13.8% for young men and 32.4% for young women).

[1] Average January to October.

Chart 2: Unemployment

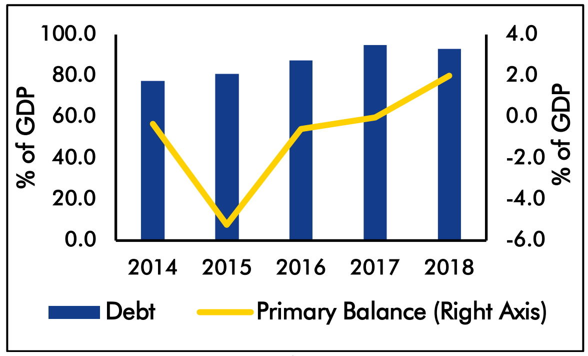


Source: SIB.

Belize's fiscal position continued to improve; but further consolidation may be necessary. Following debt restructuring in March 2017[2], GOBZ committed to tightening its fiscal stance in order to meet primary surplus targets of 2% for Fiscal Year 2018-19[3] and the next two years. New measures outlined in the 2017 and 2018 budgets have improved the primary balance to the 2.0% target. While Central Government (CG) revenue and grants have not risen in line with expectations, expenditure has declined mainly due to a reduction in capital outlays.

Although public sector debt fell in 2018, it remains elevated and could rise again. The ratio of debt to GDP fell from 95.0% to 92.9% (see Chart 3). New bilateral financing included budget support from the Republic of China/Taiwan and from the Petrocaribe initiative. Multilateral resources funded infrastructure projects. In addition, GOBZ recognised an increase in debt, following a 2017 Caribbean Court of Justice ruling that it should pay $90 million (mn) to a local bank, related to a government guarantee provided in the 1990s. As of December 2018, the payment had not been made. In addition, GOBZ is contesting legacy claims worth about 5% of GDP, and which could lead to large public and external financing needs.

Chart 3: Fiscal and Debt Performance



Source: The Central Bank of Belize (CBB).

Net credit from the banking system increased. Loan quality worsened slightly but banks were stronger. Net credit to CG declined by $10.7 mn in the 10 months to October, but increased by $40.7 mn for the wider public sector, mainly due to funding for Belize Telemedia Limited's network expansion. Domestic banks' private sector net credit was up $44.5 mn. This included the booking of a $40 mn loan facility for a beverage manufacturer. The ratio of gross non-performing loans to total loans was 6.5% at the end of September (2.9% net of provisions), slightly higher than 6.4% at the end of 2017 (2.4% net of provisions). In the same period, the banks' reported that the capital adequacy ratio improved from 24.2% to 25.2%.

The pressure on Correspondent Banking Relationships (CBRs) continued to ease but commercial banks remain vulnerable. All banks previously affected by the loss of CBRs have found alternative arrangements to process cross-border transactions. However, the situation is still fragile, since most of the banks in Belize rely on the same overseas correspondent bank. While the authorities

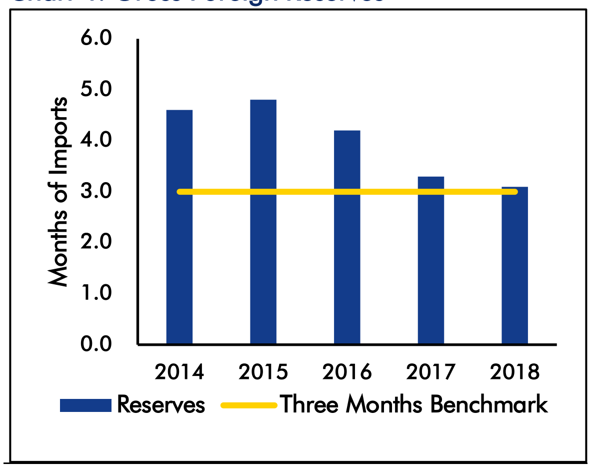
[2] Under the restructuring of the US$526 mn bond, interest payable fell, and principal repayments were pushed back to 2030-2034.

[3] April to March.

have taken measures to strengthen the Anti-Money Laundering/Combating the Financing of Terrorism Framework, further measures may be necessary to protect the banks' access to global markets.

Gross international reserves fell to just above the benchmark of three months of imports (see Chart 4). The current account deficit improved only slightly to 6.2% of GDP. The merchandise trade deficit widened because of falling exports and rising imports, especially fuel.

Chart 4: Gross Foreign Reserves



Source: The International Monetoray Fund (IMF), CBB.

This deficit was partially offset by increased tourism receipts. The financial account surplus mainly reflected inward foreign direct investment. The overall balance of payments deficit was financed by drawing down US$5 mn of reserves. Going forward, improved export performance will be necessary to help rebuild reserves, and protect the economy from external shocks.

OUTLOOK

CDB projects growth of 2.3% in 2019 but there are downside risks. Tourism activity will likely continue to grow, and a recovery in agriculture is expected. Construction is anticipated to increase as the tourism product expands and diversifies, with some larger global brands entering the market for the first time. The external deficit is expected to narrow; but international reserves could fall below the benchmark. Further fiscal measures will be required if growth is insufficient to reduce debt below 90% of GDP, or if the terms of the debt restructuring are not met. These measures may, in turn, negatively impact growth. Other risks include a slowdown in U.S. growth and extreme weather events.

Enhanced growth is vital. A better business environment will help achieve this. Belize ranks 125th out of 190 countries in the 2019 World Bank Doing Business index. Energy costs need to come down, and improvements are needed in the speed of getting construction permits, and trading across borders. Resilient economic infrastructure will also enable growth. Financing from CDB and the United Kingdom Caribbean Infrastructure Partnership Fund will support investment in road infrastructure from 2019. In addition, CDB will lend for investments in agriculture, energy, water, and small business development. With limited fiscal space, GOBZ will need to prioritise further development expenditure.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. With the exception of unemployment, the 2018 data are estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	0.9	3.7	3.4	-0.6	1.4	2.5
Average Inflation (%)	0.5	1.2	-0.9	0.7	1.2	0.3
Unemployment (%)[4]	12.7	11.6	10.1	9.6	9.0	9.4
Primary Balance (% of GDP)	0.7	-0.3	-5.2	-0.6	0.0	2.0
Public Sector Debt (% of GDP)	78.5	77.6	80.8	87.3	95.0	92.9

Sources: IMF, SIB, CBB, CDB.

Notes: e – estimate.

[4] Between 2013 and 2017 average of April and September LFS. For 2018 April LFS only.