COUNTRY ECONOMIC REVIEW 2019
BELIZE
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BELIZE ECONOMIC BRIEF 2019

OVERVIEW

In 2019, a severe drought caused a slowdown in economic growth. Agriculture and electricity were the areas most affected, although tourism continued to expand. The external deficit widened, requiring a further drawdown of international reserves. Fiscal performance improved, but further fiscal measures may be necessary to meet the targets set following the debt restructuring in 2017. Public debt remained above 90% of gross domestic product (GDP).

KEY DEVELOPMENTS IN 2019

Economic growth slowed (see Chart 1). Full-year growth was estimated to be 0.3%, down from 2.1% in 2018. Severe drought affected agricultural output and hydropower generation, which provides about half of Belize’s electricity. Corn production was half of its 2018 level; and citrus and fishing output fell. The citrus greening disease negatively affected citrus production. Positively, tourism activity continued to grow, albeit at a slower pace than in the previous year. Overnight arrivals increased by 2.1% to 340,626 in the first 10 months of the year compared with 12.8% growth in 2018, reflecting lower global growth. Cruise ship arrivals were down by 0.4% to 847,926, having increased by 17.9% a year earlier. Manufacturing expanded slightly, but construction activity fell despite a pickup in public sector infrastructure works.

Inflation slowed to 0.2% in 2019 from 0.3% in 2018. The increase in prices of alcoholic beverages and tobacco was less than in the previous year when new excise taxes were introduced. Meanwhile, food price inflation rose as a result of drought conditions.

Unemployment rose following the drought. According to the September Labour Force Survey (LFS), the unemployment rate rose to 10.4% from 7.6% in April (see Chart 2). The female unemployment rate increased from 11% to 15.7%, and was much higher than the male rate, which rose from 5.3% to 6.6%. Youth unemployment (ages...
14-24) was 21.4% (13.9% for young men and 31.5% for young women).

**Belize’s fiscal stance weakened during 2019.** The Government met its 2%-primary surplus target for fiscal year (FY) 2018/19, as required following the commercial debt restructuring in March 2017. However, the target is less likely to be met in FY 2019/20. So far, revenues are below expectations. Expenditure, mainly on wages and public investment, has increased. Notably, public sector investment had been suppressed in recent years. The primary surplus was 0.3% of GDP for the April to September period. Failure to meet the 2%-target would require the Government to make quarterly, rather than semi-annual, interest payments on the restructured debt. The Government also committed to requesting International Monetary Fund (IMF) assistance to determine why the target was missed, and to publishing the findings.

**Public sector debt remained elevated.** The ratio of debt to GDP rose slightly to 93.4% (see Chart 3). Domestic debt rose as the Government increased its overdraft with the Central Bank of Belize (CBB) and issued new one-year Treasury Notes. External financing included bilateral project and budget support, and infrastructure financing from CDB and other multilateral sources. Public debt includes BZ$90 million (mn) to a local bank, related to a government guarantee provided in the 1990s. In 2018, Parliament voted against paying the debt; but following a court decision in January 2019, the bank was able to withhold some tax payments in lieu of the debt not being repaid. In addition, the Government is contesting other legacy claims worth about 5% of GDP.

**Net credit from the banking system increased in 2019. Loan quality improved slightly.** Net domestic credit grew by BZ$159.3 mn (5.9%) in the first eight months of 2019, with increased lending to the Government, public utilities and the private sector. New private sector disbursements (BZ$102.1 mn) were extended mainly for personal consumption, tourism, construction, merchandise distribution, and real estate activities. The gross non-performing loan ratio fell to 5.1% (2.4% net of provisions) at the end of December, from 6.2% at the end of 2018. As a result of the upswing in lending, excess liquid assets and excess cash reserves contracted, but were still comfortably above the legal limits.

**The pressure on correspondent banking relationships (CBRs) continued to ease but commercial banks remain vulnerable.** All banks previously affected by the loss of CBRs found alternative arrangements to process cross-border transactions. However, the number of remaining CBRs is small. One

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1 April to March.
2 Under the restructuring of the US$526 mn bond, interest payable fell, and principal repayments were pushed back to 2030-2034.
international bank lost its CBRs in late 2018 and was placed into liquidation in May 2019. However, it was not regarded as systemic. Belize continues to combat both money laundering and financing terrorism. The CBB has received support in bank resolution and contingency planning.

Gross international reserves fell just below three months of imports (see Chart 4). The merchandise trade deficit deteriorated because of falling exports and rising imports. Both developments were partly attributable to the drought, through its effect on agricultural and electricity production.

This deficit was partially offset by increased tourism receipts. The financial account surplus mainly indicated inward foreign direct investment. The resulting balance of payments deficit was financed by drawing down the international reserves.

**OUTLOOK**

The outlook for Belize has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies. In early 2020 Belize’s tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure. The agriculture sector was already expecting a difficult year, with further drought conditions expected.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

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**Chart 4: Gross Foreign Reserves**

Source: CBB.
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.

<table>
<thead>
<tr>
<th>Selected Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>2.8</td>
<td>0.1</td>
<td>1.9</td>
<td>2.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Average Inflation (%)</td>
<td>-0.9</td>
<td>0.7</td>
<td>1.2</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>10.1</td>
<td>9.6</td>
<td>9.4</td>
<td>9.4</td>
<td>9.0</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>-5.2</td>
<td>-0.6</td>
<td>0.0</td>
<td>2.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Public Sector Debt (% of GDP)</td>
<td>80.8</td>
<td>87.3</td>
<td>95.0</td>
<td>92.9</td>
<td>93.4</td>
</tr>
</tbody>
</table>

Sources: IMF, SIB, CBB, CDB.

Notes: e – estimate (as at February 29, 2020).
Unemployment Data: Between 2015 and 2017, plus 2019 – average of April and September LFS. For 2018 April LFS only.