Overview of the Domestic Economy

The external environment took a slight downturn in 2011 as the growth momentum of the United States and other advanced economies decelerated. However, while growth in the domestic economy also slowed from 2.7% to 2.0%, this was principally due to bad weather and crop diseases with disputes at the managerial level and financial insolvency adding to the difficulties. Offsetting this were buoyant distribution activities, increased stay-over tourist arrivals, which translated into greater value added in hotel, restaurant, transportation and communication activities, and a rebound in manufacturing that reflected productivity hikes in sugar and citrus juice processing. On the downside, construction declined for a second consecutive year, the sugarcane harvest was the lowest in 23 years, banana yields fell due to storm damages, fishing output declined with the closure of the largest shrimp farm, and petroleum production decreased in line with the downturn in output of the major oilfield.

Domestic price pressures picked up slightly, underpinned by higher fuel acquisition costs. Even with the removal of the 12.5% general sales tax (GST) on fuel imports and its replacement with a fixed rate of import duty in March, the annual average inflation rate rose from 0.9% to 1.5%. Except for "Household Goods and Maintenance" and "Clothing and Footwear" which recorded price declines, increases were across the board with the largest occurring in “Personal Care” and "Transportation and Communications", the latter being due to higher prices at the pump for diesel and gasoline.

The current account deficit of the balance of payments narrowed for the third consecutive year, falling to 2.5% of GDP, as a notable reduction in profit repatriation masked a small increase in the merchandise trade deficit as well as lower net inflows from services and transfers. The surplus on the capital and financial account was larger as official capital flows helped to offset a marginal decrease in foreign direct investment and the twin effects of a reduction in commercial banks' foreign liabilities and an increase in their foreign asset holdings abroad. The net result was a $36.2mn increase in the gross international reserves to $472.2mn, which was equivalent to 4.3 months of merchandise imports.

Constrained by the heavy public sector debt overhang, Central Government continued to excercise fiscal restraint and its overall deficit consequently shrank from 1.7% of GDP to 0.3% of GDP, while the primary surplus rose from 1.8% to 3.3% of GDP. Heightened receipts from the petroleum industry and import duties contributed to a 5.1% growth in revenues. Expenditure rose by a marginal 0.1%, as a fall in capital outlays almost matched increased current spending. The latter included a 4.6% rise in the wage bill and 8.1% increase in interest payments that was due to the stepping up in the interest rate applied to the super bond from 4.5% to 6.0%.

Since its receipts from the oil industry were sequestered in a special account to meet payments on the super bond and funds from the sale of Belize Telecommunications Limited (BTL) shares were also being set aside to meet a pending settlement with the previous owner, Central Government relied on financing from the Central Bank's overdraft facility in order to meet current outlays. Its domestic debt consequently rose by 3.7% to $381.2mn (13.2% of GDP). The reclassification of $23.1mn from private to public sector debt following the nationalization of Belize Electricity Limited (BEL) in June was the predominant factor in a 1.2% rise in the public sector's external debt to $2,045.5mn (70.7% of GDP).

Broad money supply (M2) expanded by 5.6% and commercial bank liquidity maintained an upward trend during the year that reflected subdued credit demand and above average foreign inflows. While the banking system's net foreign assets ratcheted upward by 19.9%, net domestic credit contracted by 1.5%. The credit downturn was led by Central Government as the build-up in its deposits outweighed the increase in its borrowing. Credit to the private sector registered a marginal decline as a modest rise in commercial bank loan disbursements fell short of the quantum of their non-performing loan write-offs, which was one of the measures being taken to strengthen their balance sheets.

Against the backdrop of expanded liquidity that included statutory and cash holdings that were respectively some 46.8% and 54.8% in excess of requirements, interest rates began to gradually decline. This downward trend was reinforced by the Central Bank's decision to further lower the minimum interest rate on savings deposits from 3.5% to 2.5% in October. Annual declines of 196 basis points and 76 basis points were consequently recorded in the weighted average deposit and lending rates, respectively.

Developments in the banking system were framed by Central Bank measures to safeguard the system's stability given the continuing doldrums of the domestic construction and real estate sectors. In July, Belize underwent its first financial sector assessment programme (FSAP) and arising from this were several recommendations for improvements to the legislation and regulations applicable to commercial banks. Among the most important were upgrades to the standards for loan provisioning, loan classification and collateral valuation aimed at reducing systemic risks. For the banks, the year was therefore one of necessary adjustments, some of which resulted in short term losses that should ultimately reduce the difficulty and size of adjustments in the medium and long term.

Currently, the economy's near term outlook is cautiously optimistic. GDP is forecasted to grow between 2.0% and 2.5% in 2012 spurred by a turnaround in agricultural production and supplemented by continued buoyancy in tourism and free zone trade as well as an increase in domestic electricity generation. The main downside risks are the continued fragility of the tourism industry, rising cost of inputs and a sharper than anticipated decline in petroleum extraction. On the fiscal front, success in renegotiating the terms of the super bond could set the debt on a more sustainable path and provide some fiscal headroom to invest in the maintenance and, in some cases, the rebuilding of infrastructure that have been crumbling due to a lack of financial resources.

Assuming normal weather conditions, the primary sector is expected to expand by 4.2% reflecting increases in output of the major export crops.

Assuming citrus greening is kept under control, the citrus industry should continue to benefit from higher international prices and a recovery from the lingering effects of hurricane damage. The banana harvest is also expected to fully recover from the storm-related damages of 2011 while sugarcane production is expected to rebound from its twenty-three year low. Following three consecutive years of contraction, marine production is forecasted to increase by 3.6% as the anticipated reopening of one of the larger shrimp farms supplements increases in farmed fish, conch and lobster output.

Growth in services is projected at around 3.0%, sustained by heightened cross border trade in the Commercial Free Zone (CFZ) as well as continued buoyancy in tourism with the latter being buttressed by increases of 3.6% in stay over tourists and 9.4% in cruise ship visitors. Transportation should be growing in tandem with activity in agriculture and tourism, while communication services are slated to expand due to the national telephone company's investment in the 4G broadband network. The outlook for the secondary sector is mixed since crude oil production is expected to continue its decline, whereas the domestic production of electricity should be boosted by a full year of uninterrupted operation by the cogeneration plant.

The balance of payments position is forecasted to deteriorate slightly in 2012 with the current account deficit increasing to 3.3% of GDP in response to an upswing in imports, increased profit repatriation by the tourism industry and the further hike in public sector interest payments attributable to the increase in the coupon rate on the super bond from 6.0% to 8.5%. The surplus on the capital and financial account is also projected to decline by 35.0% due to lower net official transfers. Consequently, the financing of the current account deficit will require the drawing down of official reserves thus reducing import coverage to 3.8 months of merchandise imports. There is however a possibility for improvement in the external sector picture though this is partly contingent on the realization of cost savings derived from a successful renegotiation of the terms of the super bond.