Overview of the Domestic Economy

Upswings in export agriculture, construction and overnight tourism led to an acceleration in GDP annual growth to 5.3% in 2012 as compared to the 1.9% increase in the previous year. Additional boosts came from the re-opening of Belize Aquaculture Limited (BAL), the country's largest shrimp farm, and buoyancy in distributive trade, transportation and communication that reflected the heightening of demand from the construction sector and tourist service providers as well as the necessity of moving larger harvest volumes. On the downside, manufacturing contracted as higher citrus juice and sugar production was eclipsed by a sharper than anticipated downturn in crude oil extraction. Low rainfall in the catchment areas also led to a reduction in hydroelectricity output. Domestic price pressures moderated in the meanwhile with an average Consumer Price Index (CPI) increase of 1.3% as compared to 1.5% in 2011. The rise in prices was led by health, food, transportation and recreation, while those for housing, utility services, clothing, footwear, household maintenance, communication and education declined.

There was a slight widening of the external current account deficit (from 1.1% to 1.8% of GDP) as a larger trade deficit and profit repatriation by the tourism industry outweighed higher net earnings from services. The gap was financed by a capital account surplus and robust financial inflows, particularly in the form of foreign direct investments, which doubled. The latter facilitated a spike in private sector loan repayments as well as a 22.4% rise in the gross international reserves to $577.8mn that is equivalent to 3.8 months of merchandise imports.

Central Government's 2012 operations yielded a primary surplus of 2.0% of GDP while its overall deficit widened slightly to 1.0% of GDP. Expenditure growth slightly outpaced revenues at 7.0% and 6.4%, respectively, notwithstanding the fact that the latter was boosted by higher receipts from the General Sales Tax (GST), taxes on international trade, one-off loan repayments from Belize Sugar Industries Limited (BSI) and Belize Telemedia Limited (BTL), and foreign grants. While all categories of current expenditure increased, except for interest payments, the overall growth in spending was dominated by capital outlays for projects that were externally financed. Financing for the overall deficit was dependent on domestic and external sources and in this regard, Central Government's domestic debt rose by 2.4% to $389.9mn (12.4% of GDP), reflecting direct borrowing from the Central Bank through the overdraft facility and loans from a commercial bank. In the case of the external debt of the entire public sector, disbursements were outweighed by amortization payments, resulting in a 0.4% decline to $2,035.7mn (64.4% of GDP). Interest payments declined by 12.1% to $77.9mn due to a fall in rates on loans that are tied to LIBOR (London Interbank Offered Rate) and the government's withholding of a portion of the interest payment due on the super bond during the debt restructuring negotiations.

Robust foreign exchange inflows and a modest upturn in credit underpinned an 11.0% expansion in broad money during the year. Supported by inflows from tourism and foreign direct investment, commercial bank liquidity continued its upward trajectory and by year-end, holdings of cash and statutory liquid balances exceeded requirements by 81.6% and 61.3%, respectively. The 3.0% upturn in net credit included loan disbursements to Central Government, statutory bodies and the private sector. However, this was also simultaneous with the commercial banks' continuation of loan write-offs and increased provisioning aimed at strengthening balance sheets in accordance with the prudential standards required for institutional soundness and stability. The banking system consequently posted a second consecutive year of losses. Against this backdrop, the decline in interest rates tended to be slower for lending than deposit rates, particularly in view of the rigidities of existing loan contracts and customer passivity with respect to the seeking of refinancing alternatives. In comparison with a 110 basis points decline in the weighted average deposit rate to 2.55%, the weighted average lending rate fell by 103 basis points to 11.99%. When the focus is narrowed to new loans only, the weighted average rate in December stood at 10.33%, which is 146 basis points lower than that of December 2011 and 403 basis points below that of December 2010.

Looking ahead to 2013, inflationary pressures are expected to remain benign as fuel and energy prices, while highly unpredictable, are projected to fall as increased supplies lead to a build-up of global inventories. GDP growth is expected to decelerate to 2.7% in 2013 due to the lessening impact of the factors that boosted activity in 2012. The tertiary sector is likely to be the main driver of growth with continued buoyancy in the overnight tourism segment resulting in heightened activity in "Wholesale & Retail Trade", "Hotels and Restaurants", and "Transport and Communication". The primary sector should return to low single digit growth of around 2.0% largely due to a return to normal crop cycles and a forecasted downturn in citrus output. Despite the continued momentum in construction arising from ongoing infrastructural projects and increased output of electricity from domestic suppliers, the secondary sector is expected to contract by 1.0% as a result of the projected downturn in petroleum extraction and agro-manufacturing.

Turning to the external sector, a notable performance improvement is expected, with the current account of the balance of payments (BOP) projected to narrow to 0.5% of GDP as lower interest payments due to the successful restructuring of the super bond, improved earnings from tourism and higher official transfers offset a larger trade deficit. The capital account should post a larger positive balance due to an increase in grant receipts, while concessional loan disbursements under the Petrocaribe arrangement will also bolster net financial inflows. On the other hand, a deceleration in foreign direct investments is likely since sizeable strategic investments such as those made into the sugar industry and for land purchases in 2012 are not currently on the horizon. Even so, the net result should be an overall surplus that boosts the official foreign reserves.

With net foreign assets continuing to exhibit an upward trend, the liquidity of the banking system should remain elevated in 2013. This would contribute to the continuation of downward pressure on domestic interest rates and encourage credit growth, notwithstanding the impact of the next phase of loan write-offs by the banks that are drawing nearer to completing the cycle of adjustments necessary for operational soundness and resiliency.