Overview

The second restructuring of Belize’s external commercial debt (i.e. the super bond) was successfully concluded in 2013 even though it was essentially a solo effort by the government in the face of several obstacles, some of which were created by the previous owners of Belize Telemedia Limited (BTL) and Belize Electricity Limited (BEL), who engineered and financed an international lobbying campaign against the debt restructuring. As a result of the successful closure of the US$547.5mn debt exchange offer on 8 March, the net present value of the super bond was reduced by 43.3% and annual debt servicing (principal and interest payments) was placed on a more sustainable footing. In supporting the agenda for national development, the Central Bank participated in the debt restructuring initiative and continued to focus its efforts on prudential monitoring to reduce vulnerabilities and build financial system resiliency. The Bank’s resources were also devoted to the implementation of projects to strengthen and modernize Belize’s financial infrastructure.

Externally, the world economy maintained momentum, however, the Statistical Institute of Belize (SIB) issued preliminary estimates indicating that growth in the domestic economy slowed to 0.7% due to shrinking petroleum extraction and an agricultural downturn induced by adverse weather and crop disease. On the positive side, the sustained momentum of overnight visitor arrivals and rebound in the cruise ship segment boosted activity in “Wholesale and Retail Trade” and “Hotels and Restaurants”. Construction was another growth area with the ramping up of public sector projects to develop municipalities and improve road infrastructure as well as various private sector projects. The fishing subsector also expanded with a strong resurgence in farmed shrimp production, and domestic output of hydroelectricity received an upward boost from heavy and prolonged rainfall during the second half of the year.

After averaging 15.3% in 2012, the unemployment rate fell to an average of 13.0% with job creation concentrated in the construction and tourism sectors. However, even as the number of job opportunities rose, the labour force participation rate dropped, signalling imbalances in expectations and the supply and demand of skilled and unskilled labour. Inflationary pressures continued to be held in check by the fixed exchange rate with the domestic price level rising by an annual average of 0.5% compared to its 1.3% increase in 2012.

Central Government’s expenditure outpaced revenue, causing its overall deficit to increase marginally to 1.1% of GDP while its primary surplus shrank from 2.2% of GDP in 2012 to 0.8% of GDP. Of note, if the February interest payment on the super bond had not been capitalized, as agreed to under the terms of the debt restructuring, the overall deficit would have risen to 2.5%
Overview continued

of GDP. Current and capital spending rose by 1.4% and 3.9%, respectively, while revenues edged upward by 0.8% as tax revenue buoyancy compensated for a sharp contraction in grants and non-tax receipts. Notwithstanding the slight widening of its overall deficit, the Government’s domestic debt declined by 1.2% as it was able to rely on the rather sizeable loan disbursements received under the Venezuelan Petrocaribe Agreement (VPCA) that also contributed significantly to the 6.7% increase in the public sector external debt to $2,162.9mn (66.9% of GDP) during the year.

On the external front, lower exports that coincided with an upsurge in imports caused the merchandise trade deficit to widen by 36.0% to $534.6mn. This wasn’t fully compensated for by higher tourism receipts and the current account deficit consequently rose from 1.2% of GDP in 2012 to 4.5% of GDP in 2013. The gap was financed by surpluses on the capital and financial accounts that were also sufficient to boost the gross official reserves by $227.7mn to $805.4mn (equivalent to five months of merchandise imports). The net surplus on the capital account stood at $75.4mn due to the 10.0% principal haircut on the restructured bond and grant receipts, while net inflows on the financial account rose to $268.8mn, mostly due to loan disbursements to Central Government from Venezuela and the Republic of China/Taiwan (ROC/Taiwan).

Commercial bank loans to the private sector accelerated slightly during the year with a net increase of 2.5% notwithstanding additional loan write-offs that summed to $52.7mn as further steps were taken to repair and strengthen balance sheets. The level of non-performing loans (NPL) in the domestic banks consequently declined by 11.7% to $274.0mn. Provisions to cover loan losses were increased from 40.8% of NPL in 2012 to 46.0%, and the ratio of NPL (net of specific provisions) to total loans fell from 11.0% in 2012 to 8.8%.

In consonance with 2013’s modest increase in economic activity, growth in the broad money supply decelerated to 1.4%. While the Central Bank’s net foreign assets rose significantly with the
heightening of inflows to the government, the commercial banks experienced a 26.0% contraction due to the slight uptick in private sector credit and widening of the current account deficit. This led in turn to the ending of five consecutive years of expansion in excess holdings of statutory liquid assets although excess cash reserves continued to climb upward. The system remained highly liquid with holdings of cash reserves by the banks more than doubling the legal requirement and their statutory liquid assets exceeding requirements by 56.3%. Interest rates therefore maintained a downward trajectory and in December, the weighted average interest rate on new loans stood at 9.02%, which was 131 basis points lower than it was twelve months earlier. With the weighted average interest rate on new deposits falling by 55 basis points over the year, the spread accruing to the banks tightened further to 6.47%.

Looking ahead to 2014, it is expected that the global economy will continue to gradually improve and that this will support domestic economic activity through trade and investment. Growth in GDP is projected to range between 2.0% and 2.5%, underpinned by the sustained momentum of the services sector and a return to positive, albeit, modest growth in the primary sector. Construction activity is likely to maintain its current pace as the winding down of municipal projects is offset by an expansion in government’s capital programme. The downside risks to this forecast include potentially adverse movements in commodity prices (food and fuel), crop exposure to weather and disease shocks and possible weakening of the economic recovery in the developed countries that are Belize’s trade partners.

A moderate 1.5% increase is being projected for the Consumer Price Index (CPI) based on the anticipation of higher supplies from non-OPEC countries that will keep a lid on crude oil prices, which is one of the main drivers of inflation. Upward pressures on the local cost of basic food commodities should be moderated by the continued increase in domestic production of grains and fresh meats. The outlook is positive for other developments in the financial system. Given the high level of liquidity in the system, credit growth is expected to remain healthy with disbursements that at least match the level achieved in 2013. Further improvements in the commercial banks’ balance sheets are slated to materialize as efforts continue to increase operational soundness and meet agreed timelines for loan loss provisioning that should translate to additional write-offs of between $30.0mn and $40.0mn.

In the real economy, tourism will continue to be the main driver of growth with stay-over visitors projected to grow by 5.0% due to the stronger economic performances of Belize’s main source markets. The Belize Tourism Board (BTB) indicates that cruise ship disembarkations are likely to
increase by approximately 3.0%. Government services are also likely to be boosted by the roll out of several large projects to improve road infrastructure and sporting facilities.

The recovery of the major agricultural crops and increased grain production should contribute to a moderate expansion in the primary sector during the year. Despite the late start to the harvest cycle, the 2013/2014 sugarcane crop looks promising, and with the 2014/2015 crop expected to start in November or December 2014, annual production seems likely to exceed that of 2013. Citrus is also expected to rebound, although the extent of this is partly contingent on the containment of citrus greening. Modest increases are also projected for shrimp and whole fish production. Meanwhile, notwithstanding stable output of domestic electricity, increases in the agro-processing of sugar and citrus juices and the continuation of construction projects, the secondary sector is forecasted to record a fifth consecutive year of contraction as the downturn in petroleum extraction continues to be a drag on activity.

Turning to the external sector, a further widening of the current account deficit on the balance of payments is expected, as increased imports, profit repatriation and a return to biannual interest payments on the restructured bond outweigh a rebound in exports and tourism receipts. Capital and financial inflows are projected to decline as a result of lower grants and a substantial reduction in loan disbursements under the VPCA. The current account deficit will consequently need to be financed by drawing down the international reserves. However, while this will lead to a dip in the import coverage ratio, the latter should nevertheless remain well above the international benchmark of three months of import coverage.