

Belize: 30 Year Retrospect and the Challenges Ahead¹

Dr. Ydahlia Metzgen

Prepared for the Central Bank of Belize

September 2012

¹ This paper was prepared by Dr. Ydahlia Metzgen based on data mainly from the Central Bank of Belize, the Statistical Institute of Belize, and the Ministry of Finance of Belize. The paper also draws upon an impressive body of analysis on Belize during the previous 30 years including by the International Monetary Fund, the Inter-American Development Bank, and the Caribbean Development Bank. I extend my thanks to the staff of the Research Department of the Central Bank of Belize for their research papers upon which this assessment draws and their assistance in data collection and provision. The views expressed in this paper are those of the author and do not necessarily represent those of the Central Bank of Belize.

Introduction

Belize has marked its 30th year of independence from Great Britain. As a part of this commemoration, it is timely, to assess developments since that time. In this regard, outcomes and performance have to be assessed against goals and evaluated based on metrics. On goals, these have been articulated in the context of previous development strategies for Belize² and more recently within the National Development Framework for Belize which emphasizes sustainable natural resource management, governance, and education.³ Regarding metrics, there has to be broad consensus on what measures are to be used to evaluate performance as these will heavily influence the direction of future policy and outcomes. “What we measure affects what we do. What a society collectively perceives as societal goals affects what is measured.”⁴ In this vein, there is an intricate relationship between objectives, measures, and actions.

The Central Bank of Belize, established in 1982 shortly after Belize gained its independence from Great Britain, is celebrating its 30th year anniversary. As the institution with primary responsibility for the monetary and financial systems, the Central Bank of Belize follows its precursors, the Monetary Authority of Belize and the Board of Commissioners of Currency. The Central Bank of Belize is responsible for providing economic advice to the Government of Belize (GOB), being a fiscal agent to the Government, and supervising and regulating the country’s financial system.⁵ The Central Bank of Belize’s expressed mission is “to advance the wellbeing of Belize by facilitating sustained economic growth, protecting the value of the Belize dollar, and assuring a safe, sound and efficient financial system.”⁶

These objectives—facilitating sustained economic growth, protecting the value of the Belize dollar, and assuring a safe, sound and efficient financial system—provide a reasonable context for considering the economic development of Belize 30 years since independence and since the establishment of Belize’s modern Central Bank of Belize.⁷ The metrics implied by assessing performance against these objectives are conventional, grounded in economics, and yet they have a broader dimension which also encompasses social progress and change. This broader social dimension is clearly recognized and embraced by governments through the broad global endorsement of the Millennium Development goals and by Belizeans in the context of Horizon 2030. This paper will examine each of these objectives against the backdrop of the developments of the past 30 years including as assessed through economists and government

² The Government’s development agenda is articulated in the National Poverty Eradication Strategy and Action Plan, 2009-2013 (NPESAP) and the Medium-Term Development Strategy, *Building Resilience against Social, Economic and Physical Vulnerabilities* (MTDS, 2010-2013), which is closely linked to the NPESAP. See IBRD, Country Partnership Strategy, (FY2012-FY2015) for Belize, July 2011.

³ See National Development Framework for Belize (Horizon 2030), page 11.

⁴ Stiglitz, Sen, Fitoussi, *The Measurement of Economic Performance and Social Progress Revisited*, 2010.

⁵ Section 6, of the Central Bank of Belize Act gives the objectives of the Bank as “fostering monetary stability, especially as regards stability of the exchange rate, and promoting credit conditions conducive to the growth of the economy of Belize.”

⁶ See Central Bank of Belize, *Mission and Objectives*, at Centralbank.org.bz

⁷ Nigeli Sosa and Christine Velloso, *The Development of the Financial System in Belize (1970-1995)*, October 1996.

officials, policymakers and partner international institutions⁸ as well as in light of the challenges ahead.

In terms of the paper's structure Part I, looks at Belize's economic development during the last 30 years against the backdrop of developments in the region and more broadly. These 30 years saw an impressive structural transformation of the Belizean economy from a mono economy based on sugar and sugar exports, to a more diversified and internationally integrated economy. In Part II, the paper examines the anchor for the economic system—the exchange rate peg of the Belize dollar to the U.S. dollar in the context of Belize's evolving trade regime. The peg to the U.S. dollar has served Belize well facilitating trade diversification and growth. The changes in the Belizean economy and the structure of trade over the 30 year period suggest that there may be merit in revisiting the exchange rate arrangement from the perspective of the original goals articulated when the Belize dollar was pegged to the US dollar. Part III considers the financial system and financial intermediation in the economy and suggests that one of the requirements of sustained growth will be the channeling of financing to investors and entrepreneurs via macro and micro financing strategies. Part IV examines social protection and progress. Indicators of well being suggest mixed outcomes despite expansive incomes policies and significant spending on social services. Finally, Part V draws together the analysis in the first four parts of the paper against the backdrop of Horizon 2030 in considering prospects for Belize going forward.

Part I: Sustainable Economic Growth

The term 'sustainable development' is a comprehensive concept that was used by the Brundtland Commission which coined what has become the most often-quoted definition of sustainable development: development that "meets the needs of the present without compromising the ability of future generations to meet their own needs."⁹ Alternatively, sustainability educator Michael Thomas Needham had a more ambitious definition and referred to 'Sustainable Development' "as the ability to meet the needs of the present while contributing to the future generations' needs."¹⁰ These definitions connote sustainability as a multidimensional phenomenon implicitly mixing economic, social and environmental components of present and future well being.

While there are considerable criticisms of sustainable development in operational terms,¹¹ the concept provides an important context for considering the evolution of Belize as a nation during the last 30 years, given Belize's attributes. That is, in considering Belize's development it is certainly relevant to take into account the needs of the present as well as the potential for positioning future generations to meet their own needs, in particular given that Belize is a resource-based economy. The management of Belize's natural resources including its natural

⁸ Economic Cooperation for Latin America (ECLA), The Inter-American Development Bank (IDB), the World Bank (WB), and the International Monetary Fund (IMF).

⁹ United Nations. 1987. *Report of the World Commission on Environment and Development*, General Assembly Resolution 42/187, 11 December 1987.

¹⁰ M.T. Needham, *A Psychological Approach to a Thriving Resilient Community*. International Journal of Business, Humanities and Technology, 2011, vol. 1 no. 3. NY, USA.: CPI

¹¹There are complexities in measuring sustainability. Measurement of "present" economic performance also includes an assessment of "quality of life". Quality of life includes the full range of factors that make life worth living and so this paper will use imperfect but recognized measures as proxies for well being.

habitats, water ways, and archeological sites is a key feature of sustainability and a societal responsibility with government charged as the steward. Many Belizean citizens also consider the government employer and provider of last resort. It has been noted that “countries that enjoy high living standards today by depleting their inheritance of natural resources – without investing the proceeds – are “robbing” future generations.”¹² But what of countries like Belize with low living standards today? How do Belizean policymakers and more broadly citizens take care of current needs while helping to secure a better future?

It is noteworthy, that this idea of accountability for the needs of future generations is an additional challenge that Belizean policymakers face which now advanced economies did not confront on the path to their economic development. Contemporary politicians in now developing countries are asked to increase GDP, guide the collective actions of society, and are also charged with delivering other aspects of the quality of life—for example, social justice, law and order, clean air and/or the provision of a minimum level of health and education. In the Belizean context, taking into account the needs of future generations has involved questions concerning the exploitation today of natural resources such as oil, the forests, and the reef to help raise the living standard of current generations vs. policies that support conservation aimed at positioning Belize’s future generations for an improved standard of living.

As concerns the vision for Belize for the future and implications for current performance, the National Development Framework for Belize articulates the following for 2030:

“Belize is a country of peace and tranquility, where citizens live in harmony with the natural environment and enjoy a high quality of life. Belizeans are an energetic, resourceful and independent people looking after their own development in a sustainable way.”¹³

This vision encompasses the notion of sustainability for Belize and implies the relevant economic and social goals that have been endorsed. These future goals need to be reflected upon when evaluating economic as well as social progress in Belize during the last 30 years. In addition, when considering the way forward to 2030 this also has implications for expectations of the role for government and state intervention in the Belizean economy and society. It also suggests that the metrics for assessing performance will be more expansive. In this regard, strides have been made in the conception of what well being entails and also in the measures constructed to track performance from a broader perspective. Finally, past and future developments in Belize have to be considered against the backdrop of conditions across the Central American and Caribbean region and more generally in the world. Concerning the latter, the global crisis of 2008 and its aftermath posed additional challenges to Belize’s economic growth and well being as no doubt will future shocks.

As implied, no single measure, or even a limited set of measures, can provide all of the information necessary to assess and manage an economy. Against this backdrop, Appendix Table A.1 provides summary indicators on key economic developments, mainly relative to GDP, the

¹² Stiglitz, Sen, Fitoussi, *The Measurement of Economic Performance and Social Progress Revisited*, 2010.

¹³ *National Development Framework for Belize (Horizon 2030)*, page 2.

measure of broad economic activity, as a starting point for considering Belize's economic progress since 1980. This snapshot, suggests that Belize is a small, highly open, natural resource and services- based, export economy, currently dependent on petroleum, agriculture and tourism services and overburdened with external debt. The state sector in Belize represents about one-third of the economy while the private sector accounts for two-thirds.¹⁴

Exports, and specifically, the exportation of natural resources, is the economic basis for many countries including Belize.¹⁵ To gauge the importance of the contribution of exports to Belize's economy consider the following comparators:

- Australia's exports of agricultural products and mining account for 8 percent of GDP and for 57 percent of exports.
- Suriname's exports of bauxite account for more than 15% of GDP and 70% of export earnings.¹⁶
- Of Russian exports more than 80% are oil, natural gas, metals and timber.¹⁷

In comparison, in 2010, Belize's agricultural and petroleum exports represented about 15 percent of GDP and 26 percent of exports of goods and services. In comparison, agricultural, petroleum, and tourism exports registered 36 percent of GDP and 60 percent of exports of goods and services.

The 30-year period since independence saw an impressive structural transformation of the Belizean economy. Belize evolved from mainly a mono-economy based on agriculture to a more diversified economy based on tourism services and agriculture and more recently oil. In the 1980s, the performance of the agriculture sector was the main source of growth in the Belizean economy—with agriculture averaging 17 percent of real GDP. The growth rate for the sector for the 30-year period averaged just above 6 percent per annum. This growth rate exceeded growth rates for neighboring Latin American and Caribbean countries.¹⁸ In terms of dynamics, real growth in the sector stagnated in the 1980s and declined in the 1990s (Appendix Table A.1). Exports of agricultural products as a share of total exports averaged 22 percent in the 1980s. However, the share fell from 31 percent in 1980 to 17 percent in 1989. There was a short lived revival in agricultural activity, in real terms, in 2000-2006, and a subsequent decline reflecting hurricanes, storms and floods. In comparison, in 2010 agricultural exports registered a modest 8 percent of GDP and 13 percent of total exports of goods and services.

The sustained growth of the agricultural sector was heavily dependent on a few traditional products which were exported to preferential markets. As a result, Belize's main export products—bananas and sugar—were not competitive in open markets. However, with the

¹⁴ Rowland, Durante and Martin. *Belize, A Private Sector Assessment*, (Private Sector Discussion Paper, #6, 2010).

¹⁵ Natural resources are materials or substances that are derived from the environment such as minerals, forests, water, and fertile land that occur in nature and that have economic value. A natural resource is often characterized by amounts of biodiversity and geodiversity existent in various ecosystems. In this paper, tourism is considered to be a natural-resource-based activity because it is based on the reef and rainforest.

¹⁶ CIA, World Factbook, *Suriname*.

¹⁷ Ellman, *Russia's oil and natural gas: bonanza or curse?*, 2006, page 191.

¹⁸ Ministry of Agriculture and Fisheries, *The National Food and Agricultural Policy* (2002-2020), April 2003.

emergence of the World Trade Organization and the North American Free Trade Agreement (NAFTA) the preferential treatment for Belize's exports with Europe under the Lome Convention was phased out. In addition, natural disasters have been one of the major challenges for agricultural development and food & livelihood security. The high level of vulnerability of the agriculture and fisheries sectors was evident in the devastation caused by several hurricanes¹⁹ (Table A.2). Notwithstanding, the agricultural sector remains a key priority for the economy and together with the fisheries sector in 2010 employs about 20 percent of the work force.

Tourism subsequently emerged as one of the main engines of growth in the Belizean economy and the principal source of foreign exchange. The development of Belize's tourism sector was a targeted government strategy²⁰ and represents an example of a successful public-private partnership. In 2010, the sector generated US\$221 million in visitor expenditures accounting for 71% of total services exports and about 20 percent of GDP. This compares with contributions to exports of goods and services of about 10 percent and to GDP of about 6 percent, in 1985. From 1984 to 2010, tourism inflows averaged a steady annual increase of about 7 percent. Tourism became the unambiguous main engine of growth for the Belizean economy until 2005 when petroleum could be exploited for commercial use. By 2011, the tourism's sector's total contribution (direct and indirect) to GDP and employment in Belize registered 45 percent and 41 percent, respectively. These contributions were slightly below those of more mature tourism sectors to GDP and employment (Table 1). These changes in Belize's production and exports illuminate the successful structural transformation of Belize's economy. In this regard, the major contributions of both natural resource based-tourism and oil to Belizean GDP, employment, and trade are relatively new features of Belize's economy.

Table 1. Tourism: Direct and Indirect Contribution to GDP and Employment, 2011
percent share

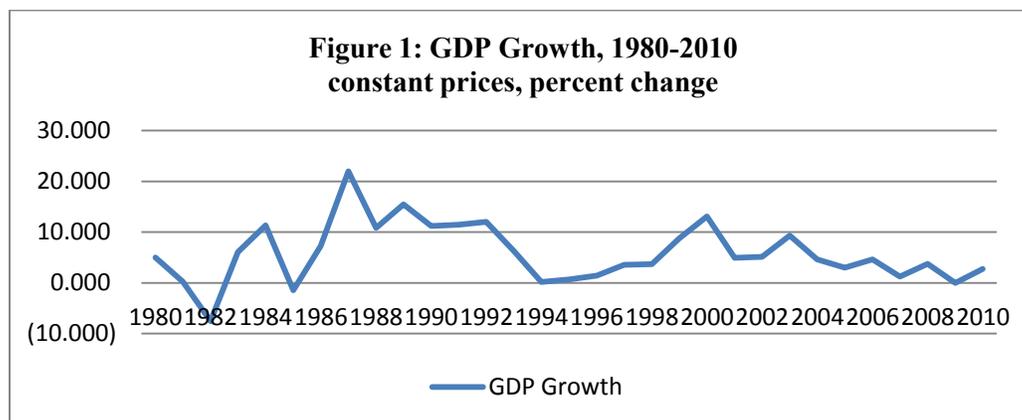
	Contribution to GDP		Contribution to Employment	
	Direct	Indirect	Direct	Indirect
Antigua and Barbuda	17.7	74.9	17.9	69.8
Bahamas	18.5	46.2	25.8	53.8
Barbados	13.0	43.5	13.0	42.7
Belize	12.0	33.2	10.9	30.1
Dominican Republic	4.7	15.1	4.3	14.0
Jamaica	7.6	25.6	7.2	24.0
Mexico	5.6	12.4	6.3	13.7
St. Kitts and Nevis	7.5	28.0	7.4	26.4

Source: World Tourism Association, 2012.

¹⁹ The vulnerability of the agricultural sectors in Belize is not only due to its geo-physical location and hydro-meteorological hazards. There are also challenges arising from the shortcomings of the current disaster risk reduction & response mechanisms to effectively mitigate the impacts. In addition, to its already existing high exposure to natural hazards, Belize is one of the Small Island Development States (SIDS) classified as most vulnerable to climate change.

²⁰ Morgan and Campbell, *Belize, Tourism Industry*, CBB Research Paper, June 1992.

During the review period, GDP growth in Belize (Figure 1) was positive, though volatile, with gains in per capita GDP on average. During the first half of the 1980's the country faced serious economic difficulties, with sluggish GDP growth (about 1.5 percent per annum) owing to a collapse in sugar prices and export revenue.²¹ GDP growth, nevertheless, averaged about 6 percent during the 30 year period with growth higher annually on average in the late 1980s at 12 percent.²² It is noteworthy, that real GDP increased by 60 percent cumulatively between 1998 and 2005, mainly driven by higher domestic demand— consumption (averaging 69 percent of GDP) and public investment (Figure 2). This compares with cumulative growth of 39 percent



Source: IMF, 2012.

During the preceding eight years. In contrast, growth declined during the last decade to about 4 percent on average with cumulative growth of 49 percent in 2000-2009. The volatility of Belize's GDP growth was also higher in the 1980s and subsequently declined in 2000-2010.²³

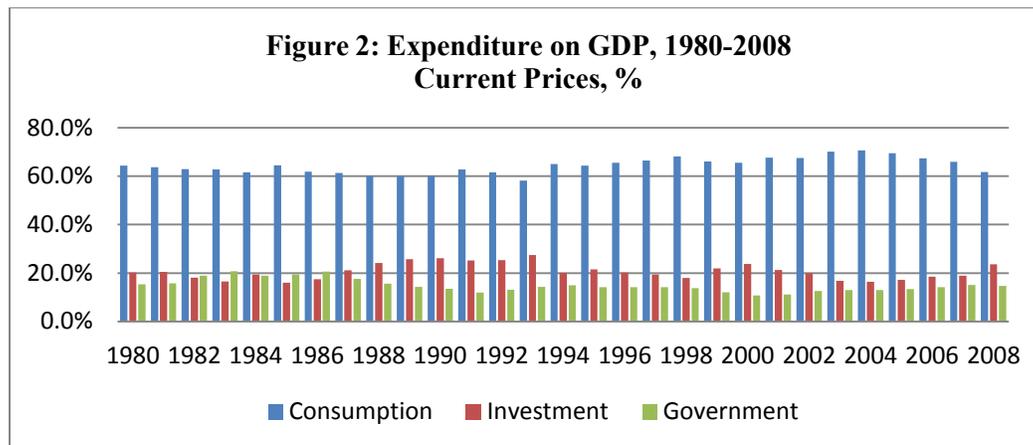
The discovery and exploitation of oil in 2005 bolstered declining GDP growth (see Figure 1). However, the continued impact of the floods of 2008 and the contagion from depressed conditions in major partner countries led to lower growth in 2008 (3.8%), to no growth (0%) in 2009, and subsequently to positive though low growth rates in 2010 and 2011, respectively. Production and export of oil especially helped to offset the impact of hurricane and storm damage and the global crisis in 2008. The primary goods and services sectors took the brunt of the impact of that crisis, with contractions of 2.4% and 1.4%, respectively (see Table A.1). Owing to lower fuel and food prices and sluggish internal demand, Belize experienced deflation of 0.4% in 2009 following price rises in 2008. According to analysis by IMF staff, "potential growth has also steadily declined since 1988, and has now converged to the subdued level of the

²¹ Robinson and Palacio, *Implications of Belize's indebtedness for Sustained Growth*, Central Bank of Belize, Research Department, November 2001, pages 4-10.

²² In 1984, in response to economic pressures arising from a global recession and the depreciation of the Mexican peso in 1982, the Government of Belize implemented an economic adjustment program to address a stagnating economy and worsening balance of payments position. The program was supported by an IMF Stand-by Arrangement from December 1984-June 1986. By 1985 the program proved successful in improving Belize's public finances and international reserves position.

²³ The standard deviation of GDP for the 30 year period is 5.8; however, the volatility of GDP growth has declined to 5 in 2000-2010 from 8.6 in 1980-1989).

rest of the Caribbean.”²⁴ Relatedly, Belize’s “Ease of Doing Business Rank” was 105 out of 185 economies in 2012 an improvement relative to Belize’s rank in 2011 with the category of starting a business with a rank of well above 150.²⁵ The IMF projects output growth for Belize in 2012 of about 2.5 percent reflecting a weakened investment climate and a high public debt burden. Growth in 2013 is forecast at 3.5 percent. Belize remains as one of the better performers in the Caribbean, given the pervasive downturn in that region.



Source: IMF, 2012.

On a per capita basis, GDP in Belize increased from Bze\$1,447 in 1980 to \$8080 in 2010, a yearly increase of about 6 percent on average during the period. Belize’s growth performance during the last 30 years, also on a per capita basis, has been comparatively good. As of 2010, Belize ranked third (after Panama and Costa Rica) among Central American countries, on the basis of per capita GDP.²⁶ In comparison, Belize ranked number 15 of 22 Caribbean and Central American countries on the basis of per capita GDP and ranked number 117 of 226 countries and territories.²⁷

During the review period, there were two distinct episodes of growth identified. These periods saw rapid GDP growth fueled by investment booms followed by periods of austerity and retrenchment. The swings in Belize’s economic growth reflected the underlying volatility of both consumption and fixed investment, and in particular a low, unstable rate of private investment. Private capital formation has ranged between 10 and 16 percent of GDP between 1985 and 2008 on average and represents a low share of gross capital formation as compared to other countries. Capital formation has also depended more on foreign direct investment than other countries in

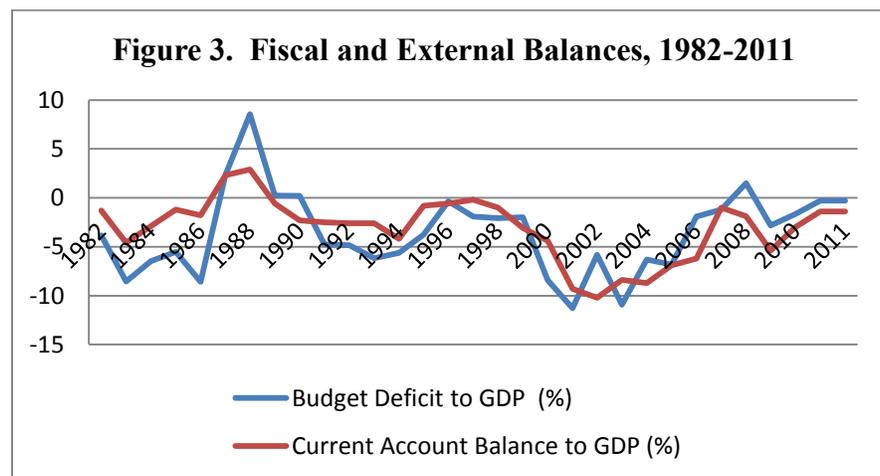
²⁴ IMF, Belize, 2011 Article IV Consultation, December 2011, page 12.

²⁵ Ibid.

²⁶ Per capita GDP is measured in US dollars on a purchasing-power-parity (PPP) basis.

²⁷ International Monetary Fund (IMF) and CIA Factbook. The countries and territories, in rank order from highest to lowest per capita GDP are Cayman Islands, The Bahamas, Barbados, Trinidad and Tobago, Antigua and Barbuda, Puerto Rico, Saint Kits and Nevis, Panama, Costa Rica, St. Lucia, Dominica, St. Vincent and the Grenadines, Grenada, Cuba, Dominican Republic, Belize, Jamaica, El Salvador, Guatemala, Honduras, Nicaragua, and Haiti.

the region as well as other developing countries.^{28 29} During the 30 year period, fixed investment peaked in the early 1990s averaging about 26 percent of GDP in 1988-93, initially reflecting a private investment-led boom, and subsequently fueled by surges in government investment. Since 1980, periods of accelerated growth were linked to expansive fiscal and monetary policies and widening current account deficits (Figure 3). The persistent fiscal deficits (Belize ran budget deficits in 25 of the last 30 years) also reflected a low effort at mobilizing domestic resources through the tax system. Accordingly, Belize's revenue in real terms (averaging 22 percent of GDP from 1981-2010) is one of the lowest in the Caribbean region though this ratio increased materially after 2005, on average, to 27 percent.



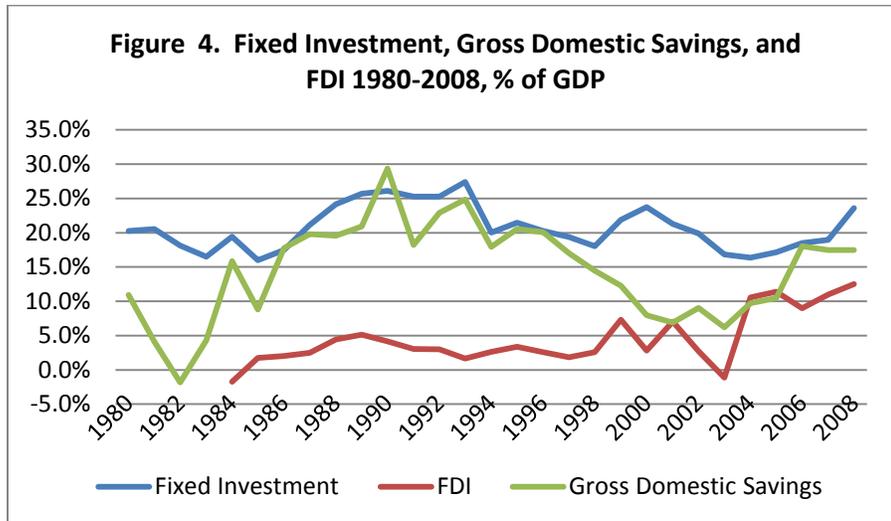
Source: Central Bank of Belize

The first post-independence boom, from 1986-1993 reflected the growth of the tourism sector. As a part of the Government's strategy to diversify economic activity, investment in the tourism sector was promoted. Investment during this period, peaked, also reflecting a boom in foreign direct investment (FDI) from 1986-89 (Figure 4). However, the investment surge translated into domestically-financed fiscal and external deficits that could not be sustained. Accordingly, in the context of a home-grown adjustment program public investment was cut significantly from about 19 percent in 1992 to 6 percent by 1996. Monetary policy was also tightened and after 1993 the fiscal and current account deficits declined on average until 1997. Common to this and the second post-independence boom (see below), gross domestic savings faced a relatively steady decline in real terms reflecting mainly a fall in private savings to a low of 5 percent in 1998 before modestly rebounding in subsequent years.³⁰

²⁸ Rowland, Durante and Martin. *Belize, A Private Sector Assessment*, 2010, pages 10 and 11.

²⁹ In 2005-2007, FDI was equivalent to 46 percent of capital formation in Belize as compared with an average of 13 percent in Central America.

³⁰ Hausmann and Klinger, *Growth Diagnostic: Belize*, IDB, December 2007, pages 6-7 and IMF, *Belize: Staff Report for the 2003 Article IV Consultation*, April 2004.



Source: World Bank national accounts data, and OECD National Accounts data files.

The second growth acceleration period, 1999-2003, was on the back of expansionary government spending in what has been characterized as “not productive investment”, and for the first time financed by external borrowing contracted on commercial terms.³¹ The Government taking office in 1998, sought to accelerate growth by highly expansionary monetary and fiscal policies. GDP growth averaged about 8 percent annually reflecting increases in public investment and consumption, notwithstanding a drag on growth arising from hurricane and storm damage. Growth was also facilitated by steady increases in overnight and cruise ship visitors.

The imbalances which emerged in 2000-2003 were remarkable: fiscal deficits averaged about 9 percent of GDP and current account deficits registered about 19 percent of GDP (see Figure 3). The financing mix included external borrowing with public debt reaching 90 percent of GDP by 2003.³² The resort to large-scale external borrowing on commercial terms set the stage for a future debt payment burden that would compromise economic growth.³³ The substantial borrowing requirement led to increasing difficulties in accessing markets in 2003. Foreign banks cancelled credit lines and borrowing costs increased. Reflecting the material weakening of the external position, and erosion of confidence, the exchange rate peg came under considerable pressure.³⁴ Once again, there was a sharp correction of the fiscal position in the context of a government-initiated adjustment strategy.

³¹ Hausmann and Klinger. About 6 percent of GDP was on lent domestically through the Development Finance Corporation (DFC) to enable it to repay external creditors.

³² The rate of debt accumulation was remarkable with public external debt and external guaranteed debt more than doubling from 1999 to 2003.

³³ See IMF. *Belize: 2008 Article IV Staff Report*, 2009.

³⁴ Ford, *The Implications of Dollarization For Belize*, Central Bank of Belize Research Paper, 2001. In 2000, it was estimated that approximately 21 percent of retained imports were acquired with funds from the parallel market. As an indication of the pressure on the exchange rate, the parallel market spread remained around 10 percent, despite a significant recovery in foreign exchange receipts in 2003, reflecting increasing foreign exchange outflows.

To recap, the second investment boom was distinctive in three respects: the investment was not channeled to productive activities that could generate foreign exchange and growth benefits for the future; gross domestic savings collapsed; and the source of financing was external, and on commercial terms. The resulting debt burden was unsustainable. By 2005, despite the Government's success in reducing the budget deficit—from 8 percent to 5 of GDP—increasing debt service payments, reflecting in turn rising interest rates on debt, placed pressure on Belize's finances. Debt-service payments rose to 35 percent of current revenue and were 2.5 times the size of foreign exchange reserves. Accordingly, on February 2007 Belize completed the restructuring of its private external debt. In total, various instruments with a face value of US\$571 million were exchanged for a single bond, significantly improving Belize's debt servicing profile at no nominal cost for investors.

Belize's debt restructuring has been studied as it was path breaking in two respects. Collective action clauses (CACs) were used to facilitate the restructuring of a bond governed under New York law for the first time. Second, the IMF played a role as a provider of information and technical assistance but did not facilitate the negotiations as has been the practice in restructurings for other countries. Moreover, it was also considered a success given its market-friendly approach, the almost universal participation of creditors in the exchange, and the substantial alleviation of short-term liquidity pressures that it entailed. However, concerns remained, at that time about the medium-term sustainability of Belize's debt. The rating agencies barely upgraded Belize's international bonds. The agencies still warned about a high risk of future default for Belizean debt and this was reflected in interest rate premiums. However, this debt restructuring also has to be assessed against a background of unprecedented global economic growth and unusual buoyancy in international financial markets which substantially facilitated the process. Unfortunately, this environment was followed by a global crisis in 2008 and a subsequent global economic downturn.

As noted, since 2003, there has been a downward trend in Belize's GDP growth. This more modest growth rate has been driven by the petroleum extraction and tourism sectors (tourism-related construction). Per capita GDP has grown on average at an annual rate of 2.2 percent yearly in 2003-2010. Since 2007 a succession of natural disasters, which caused considerable damage to the economy, and the 2008 global crisis, have confounded economic growth. Although Belizean macroeconomic performance has remained resilient by regional standards, Belize like other countries in Central America and the Caribbean has been faced with a low-growth external environment.

Looking ahead, Belize's potential growth has plummeted (Appendix Figure A.1) and the economic outlook is increasingly uncertain. In this regard, in July 2012, the IMF revised its forecast for global economic growth rates downward for 2012 and 2013 to 3.5% and 3.9%, respectively and has hinted recently that the forecast will again be trimmed. The growth diagnostic for Belize undertaken in 2007 characterized Belize's growth 'syndrome' as "that of a highly-indebted state with a crippling debt overhang, arising from periodic spending binges."³⁵

³⁵ A similar assessment was elaborated independently by Central Bank economists in 2007. See Garcia, Novelo, and Vellos, *The Evolution of the Financial Sector in Belize (1996-2007)*, 2007.

The report goes on to identify the binding constraint to growth in Belize to be the high cost of finance, owing to the lack of fiscal discipline and Belize's elevated and rising debt burden. The evidence also suggests that there are other constraints to growth that need to be addressed such as the need for complementary factors of productions like infrastructure, education, and telecommunications.³⁶

Resolution of Belize's high external debt burden is also imperative for growth so that financing for development is available (see Part III). As of 2010, Belize's outstanding external debt amounted to US\$1 billion a reduced yet still large burden on growth and foreign exchange. In 2010, the debt to GDP ratio had decreased but remained high at 72 percent of GDP. The debt-service ratio just exceeds 9 percent. A key parameter in the growth outlook for Belize will be the authorities' ability to institute and internalize a culture of fiscal. This would involve spending prioritization and tracking as well as ex post assessment of public expenditure performance. In addition, there needs to be ongoing effort to increase Belize's revenue performance in nominal and real terms to provide badly needed financing for investment in infrastructure and education. This could be achieved by revisiting the income tax regime and eliminating exemptions for high-growth sectors of the economy. Moreover, taxing new capital as well as existing capital would be important.

Importantly, a successful public-private sector partnership aimed at broadening the domestic production base is essential for Belize's sustainable growth going forward. As noted, according to an IDB study, the private sector accounts for about two-thirds of the Belizean economy.³⁷ Expansion of the private sector and reduced reliance on public spending is necessary to improve economic performance and relax public sector budget constraints, respective. These require ongoing efforts on the part of government to improve the business environment and investment climate. A strengthened private sector would provide sources of funds for production as an alternative to public investment. Additional domestic effort by both public and private sector stakeholders could provide an impetus for low-cost multilateral and bilateral finance and grants to help develop infrastructure and information communication technology as well as to provide training and education to help improve the skill level of the labor force.

Overall Belize's growth outlook will depend on addressing the high cost of finance, fiscal discipline, a strong public-private partnership aimed at rejuvenation of the private sector, and the effectiveness of macroeconomic policies in maneuvering Belize's highly open and interdependent economy through a subdued global growth environment. In this regard, Belize's growth will depend on policymaker's ability to implement macroeconomic policies aimed at maintaining export competitiveness while addressing challenges rooted in Belize's high vulnerability to external shocks including adverse movements in the terms of trade, natural hazards and negative impacts of climate change.

³⁶ Hausmann and Klinger, *Growth Diagnostic: Belize*, December 2007, prepared for the IDB.

³⁷ Rowland, Durante, and Martin. *Belize, A Private Sector Assessment*, (Private Sector Discussion Paper, #6, 2010).

Part II: Protecting the Value of the Belize Dollar

Many developing countries, such as Belize, have adopted fixed exchange rates in order to promote price stability and external investment. It is generally acknowledged that there is probably no universally “optimal” regime. Regime choices should reflect the individual properties and characteristics of an economy. Both “fixed” and “flexible” regimes have strengths and weaknesses. There has been an ongoing debate about the costs and benefits of fixed vs. flexible exchange rate arrangements. And no doubt the debate continues because the international system continues to evolve. The upside of a fixed exchange rate regime for Belize is that it is generally seen as the optimal regime for a small open economy because it is transparent and provides a simple anchor for monetary policy. Countries with weak institutions can “import” monetary credibility by anchoring to a currency with a credible central bank. Another conventional view is that a fixed exchange rate has the advantage of reducing transaction costs and exchange rate risk. In countries with less developed financial sectors like Belize, economic agents may not have the financial tools to hedge long-term currency risks. Adjustments under fixed exchange rates can be very gradual and require significant flexibility in prices in the domestic economy, especially in the face of changing capital flows.

The downside for Belize of a pegged arrangement is that the inflexibility of the fixed exchange rate can place an enormous constraint on monetary policy and create pressures in a downturn for pro-cyclical fiscal policies. The exchange rate can become overvalued from relative price changes between the home countries and trading partners and damage export competitiveness leading to trade diversion. This is an important consideration for a country as open as Belize. Finally, as noted, to withstand currency pressures under fixed exchange rate regimes, authorities have an incentive to put in place capital controls which ration the supply of foreign exchange to preferred customers and may thwart economic activity and foreign investment (to be sure, such pressures can exist under flexible regimes as well). In Belize, capital controls have left some room for independent monetary policy.

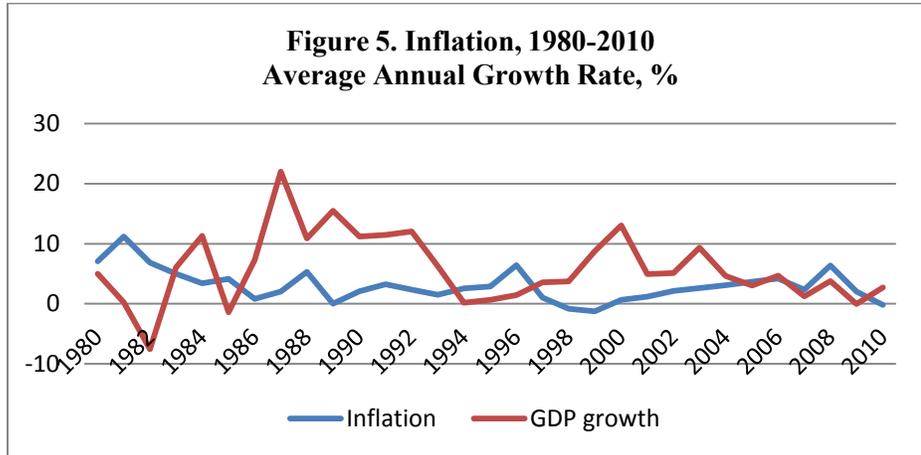
Against this background, Belize is one of 34 countries that peg against a single currency in the current international financial system. The Belize dollar has been pegged to the US dollar since 1976 when the peg was switched from the British pound. The Bahamas and Barbados also fixed the value of their domestic currencies in relation to the US dollar in the mid-1970s.³⁸ A general rationale for pegging to the US dollar can be provided both in terms of size of these economies and also in terms of their production structure. In this regard, the motivation for Belize to peg to the US dollar was because the “United States replaced the United Kingdom as the primary source of Belize’s imports.”³⁹ According to the Central Bank of Belize (2011), “the specific exchange rate was determined by the average level of *foreign reserves maintained by the monetary authorities, patterns of foreign exchange inflows and outflows and expectations of future growth in the domestic economy, as well as exports of goods and services.*”

The idea of protecting the value of the Belize dollar concerns the purchasing power of the Belize dollar. This has two dimensions—protecting the purchasing power of the Belize dollar

³⁸ ECLA, *Exchange Regimes in the Caribbean*, 2003.

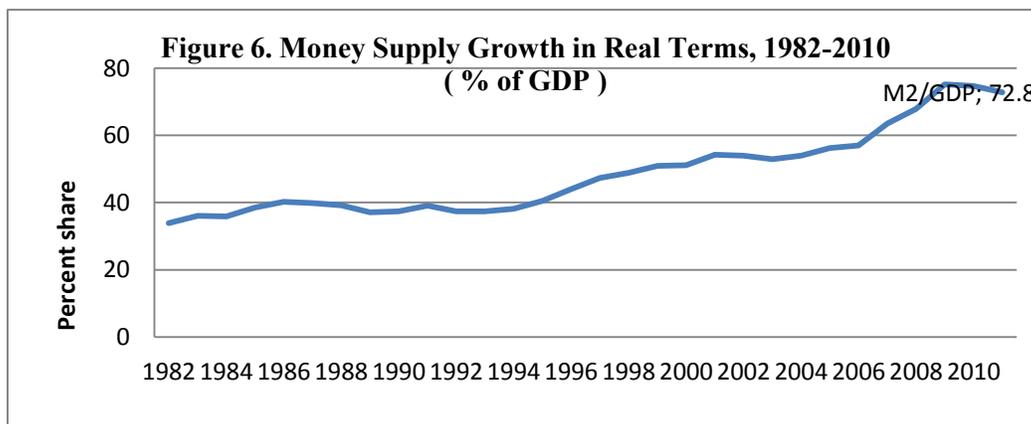
³⁹ Central Bank of Belize, 2011.

domestically through appropriate monetary and fiscal policies that promote price stability; and also protecting the purchasing power of the Belize dollar abroad. As concerns, the value of the Belize dollar domestically, inflation and broad money indicators suggest that monetary policy has provided price stability and preserved purchasing power on average (Figure 5),



Source: IMF

the unresponsive fiscal stance, notwithstanding.⁴⁰ Inflation has not exceeded 7 percent for more than 20 years. In general, broad money as a percent of GDP was relatively stable between 1982 and 1994, and then subsequently grew at an accelerated pace through 2009, consistent with budget financing from the Central Bank of Belize and increased monetization of the economy. It is noteworthy, that from 1976-1992, Belize’s money supply growth was a cause for concern (Figure 6) as it was higher on average than that of other Caribbean countries. Analysis prepared at the time found empirical evidence that the impetus for Belize’s relatively faster money supply growth was mainly from the growth in net foreign assets and to a lesser extent⁴¹ an increased rate of monetization of the economy. The interpretation was that this implied higher investment



Source: IMF

⁴⁰ Palacio, *Inflation in Belize: Concepts, Measurement, and Forecasts*, 1997.

⁴¹ Coye, *The Rate of Expansion of Belize’s Money Supply: Factors Affecting Growth*, 1992.

from abroad and a relatively higher rate of return to investment as compared to other countries in the region. This assessment is consistent with Belize's higher potential growth rate of output as compared to the Caribbean region (see Appendix Figure A.1). The monetary expansion and increase in inflation in 1986-93 was also consistent with the first boom period which was, as noted, fueled by a boom in FDI (see Figures 5 and 6).

Preserving the value of the Belize dollar internationally is also an important requirement. In this regard, Belize's competitiveness as measured by the real effective exchange rate has been maintained since the 1980s (Figure 7). In real effective terms, Belize's currency has only recently appreciated, after a period of steady exchange rate depreciation. From June 2008 to March 2010, for the first time Belize's competitiveness eroded, reflected in an appreciation of the real effective exchange rate (REER) by 3.5 percent, largely driven by a temporary increase in domestic inflation in 2008 and the strengthening of the U.S. dollar. In contrast, Belize's REER had depreciated by 10.2 percent over the preceding 10-year period, reflecting in part low domestic inflation in Belize relative to its trading partners.

A study by Santoya and Soutar (2011), concludes that overall, the value of the real effective exchange rate for Belize currently suggests that Belize's tradable sector is more competitive than a decade ago due to its lower inflation rate as compared to trading partners as well as the slower growth of wage levels relative to productivity.⁴² This conclusion was also supported by two alternative indicators of competitiveness measuring competition between Belize and competitor countries exporting the same commodities as Belize and competitors in tourism. This work provides convincing evidence that Belize's monetary and exchange rate policies have been supportive of export growth and increased openness, important for a country that is highly integrated into the global economy and dependent on international trade for growth. However, increased openness has been accompanied with increased growth potential yet also heightened vulnerabilities.

The overall assessment of the IMF⁴³ is that Belize's exchange rate peg to the U.S. dollar has served the country well and broadly maintained export competitiveness (see Figure 7).⁴⁴ Maintaining the broad competitiveness of the real exchange rate through the 30 year period is a material achievement. This means that exchange rate policy facilitated trade creation. In this regard, the openness of Belize's economy, as measured by Belize's exports of goods and services relative to GDP, registered almost 60 percent in 2010, higher than that for most regional partners in Central America and the Caribbean (Table 2). This degree of openness exceeded the already sizeable share of exports in Belize's GDP—50 percent on average in the early 1990s. Using Belize's aggregate merchandise trade, the sum of exports and imports to GDP, as a measure, Belize's openness averaged 85 percent in the 1980s; fell to 72 percent in the 1990s, before rebounding to 84 percent in 2000-2008.

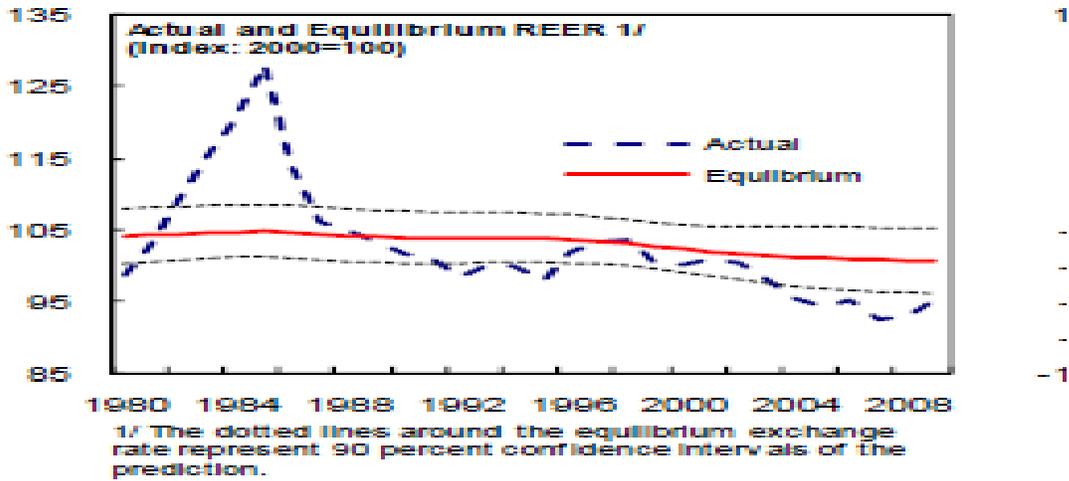
⁴² Santoya and Soutar, *Estimating the Real Effective Exchange Rate (REER) for Belize*, Central Bank of Belize, November 2011.

⁴³ The IMF is charged with overseeing the international monetary system to ensure exchange rate stability and encouraging members to eliminate exchange restrictions that hinder trade.

⁴⁴ IMF, Belize: Article IV Staff Reports, 1998, 2002, 2003, 2005, 2008, 2010, 2011.

On the benefits to the Belizean economy of openness, research shows that “all cases of sustained high growth prominently include a growing export sector as a growth driver and rising fraction of GDP associated with exports and imports”.⁴⁵ The available data show that Belize is on this path. Moreover, there are no examples of sustained growth in the post-war period that do not involve integration in the global economy. From a trade perspective, Belize is highly integrated in the global economy. In 2010, reflecting the continued importance of international trade to Belize’s economy, Belize’s openness (at 80% of GDP) returned to near pre-crisis levels.

Figure 7. Exchange Rate Competitiveness, 1980-2008



Source: IMF. Belize, 2010 Article IV Consultation—Staff Report, January 2011, page 15.

Accordingly, in 2010, Belize could be classified among the group of the most open economies in the world on the basis of exports and/or imports and/or total trade in goods and services as a percentage of GDP (Appendix Figure A.2 and Table A.1).⁴⁶ Belize’s openness as measured on the basis of total exports and imports of goods and services relative to GDP peaked at about 130 percent in 2000 declining to a still high 110 percent in 2010. While as noted, oil and tourism now dominate Belizean exports, in lieu of sugar and citrus, this has led to more export volatility leaving Belize’s output and trade today more linked to international developments.

⁴⁵ Spence, 2007

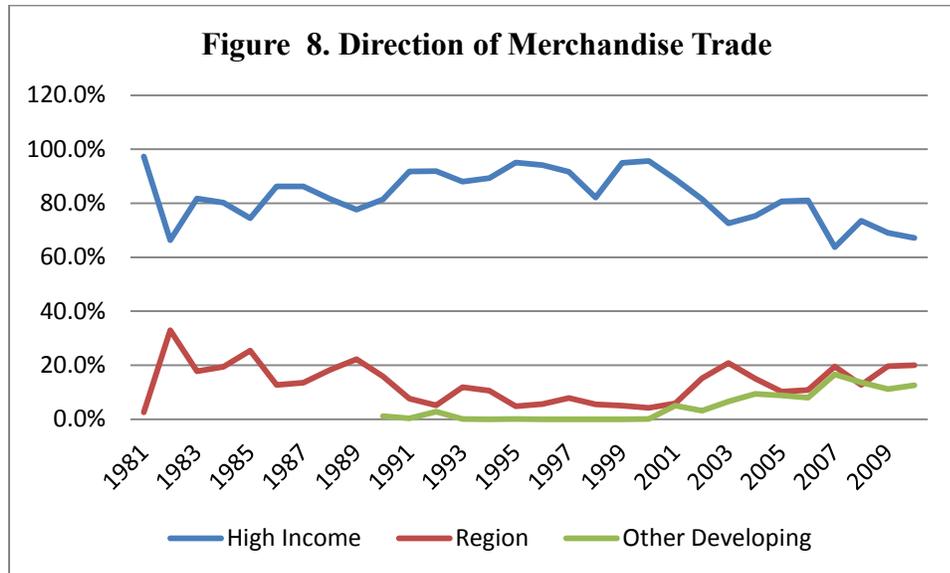
⁴⁶ OECD, Factbook, 2011-2012.

**Table 2. Exports of Goods and Services
(as a % of GDP)**

Country	2007	2008	2009	2010
Antigua & Barbuda	42	44	44	46
Barbados	59	60	61	47
Belize	65	64	54	59
Costa Rica	49	45	42	38
Dominica	34	34	32	32
Dominican Republic	29	25	22	22
El Salvador	26	27	23	26
Guatemala	26	25	24	26
Honduras	54	51	41	44
Jamaica	39	40	34	26
Mexico	28	28	28	30
Nicaragua	34	34	35	43
Trinidad & Tobago	65	64	n.a.	n.a.

Source: IMF.

The change in the direction of Belize's trade also suggests there has been trade creation on average during the last 30 years. Traditionally, Belize's merchandise exports have been primarily to high income countries, in particular the U.S., the U.K., Canada, and Europe. However, the share of exports to high income countries in total exports has fallen from 97 percent in 1981 to 67 percent in 2010 (Figure 8) in the context of rising export value and volume. Exports to countries in Central America and the Caribbean trended down ward from 1981 to 2000 before subsequently growing to 20 percent of total exports. In comparison, the share of other developing countries in total exports has increased from 1 percent in 1990 to 13 percent in 2010. While the United States remains Belize's major trading partner, the share of exports to the US in total exports has declined from 50 percent in 2000 to 32 percent in 2009. Faster export growth to Central America, Caricom, and to a lesser extent, the U.K. is reflected in higher shares in Belize's exports for these areas. Belize's other major trading partners today, include Mexico, the European Union, Central America, Japan, and China.



Source: World Bank estimates based on IMF Direction of Trade Data.

International trade tends to be more important for countries like Belize that are small in terms of geographic size or population and surrounded by neighboring countries with open trade regimes than for countries that are large, relatively self-sufficient, or geographically isolated. Other factors that help explain differences in the importance of international trade across countries include history, culture, trade policy, and the structure of the economy. In line with this, Belize will necessarily continue to participate actively in the global trade economy including relative to its peers in Central America and the Caribbean. Belize’s high openness will continue to be driven in the foreseeable future by tourism services and with important implications for Belize’s forward looking economic strategies. In this regard, as noted the outlook for 2013 is far more muted global growth than originally forecast.

A more positive growth and export outlook for Belize than implied by the IMF world economic outlook depends on the recovery of demand in trading partners which should boost Belize’s merchandise exports and foster a recovery in tourism. Export growth would also be facilitated by possible new oil discoveries and development of the tourism and agricultural sectors in line with the implementation of the Government strategies for these sectors. Greater diversification of Belize’s service sector—expansion of the growing financial services component would help Belize to weather economic shocks. Importantly, Belize’s export growth would benefit from an upgrading of the export basket via new activities entering the export sector or by introducing more sophistication in export products as observed in other countries.

There is scope for upgrading and expanding Belize’s tourism product in line with the goal of leading Belize into “the future equipped with a dynamic, competitive, and sustainable tourism industry”.⁴⁷ Analysis of the tourism sector shows room for increasing the level of export sophistication as compared to other tourist destinations in Central America and the Caribbean.⁴⁸

⁴⁷ *National Sustainable Tourism Masterplan for Belize 2030*, Executive Summary.

⁴⁸ See Hausmann and Klinger, pages 23-25.

Specifically, Belize's overnight arrivals are the lowest among comparators. As a consequence tourism expenditure per capita in Belize is low relative to these comparators, suggesting that there is scope for expanding the overnight tourism product. Further diversifying Belize's tourism product, as planned, to emphasize its comparative advantage in ecotourism based on Belize's rainforest and Mayan heritage would also be important. Belize is among just a handful of countries with Mayan historical sites as Belize was once the center of the Mayan Empire.⁴⁹ Ecotourism is also a growing industry for Belize and helps to support conservation initiatives consistent with Horizon 2030 vision.

As indicated by the National Sustainable Tourism Master Plan for Belize 2030 the *Caracol Mayan site* (known as the most important of all Belizean Mayan sites) and the *Chiquibul Caves System* (hosting a great network of caves in the Chiquibul) are among Belize's four "unique tourism assets."⁵⁰ Leveraging Belize's Mayan-related heritage together with Belize's rainforest (rich with biodiversity), offers a positive growth area consistent with Belize's goal of low-impact tourism. Evidence suggests that biodiversity has a robust and positive impact on a country's comparative advantage in tourism in developing countries and that biodiversity-oriented tourism is growth friendly.⁵¹ In this regard, the Mt. Pine Ridge area home of Caracol and the Chiquibul Caves System remains relatively unexploited for tourism largely because of a lack of the complementary services for investment—in particular infrastructure such as roads, potable water, power, and telecommunications services. Consistent with analysis on tourism, to improve Belize's competitiveness going forward, policymakers will need to focus on developing Belize's business environment, infrastructure, and regulatory framework.⁵²

Another potential channel for upgrading the tourism basket, concerns expanding the number of origin markets to target overnight visitors from countries with attributes different than those of Belize's main origin market—North America. In this regard, consideration might be given to tapping European and Asia markets for overnight visitors. Research shows that the demand of long-haul travelers for tourism products is less sensitive to income and price changes as compared to short-haul visitors. Most of Belize's tourists are short haul visitors from the U.S. and Canada (Table 3 and Appendix Figure A.3).⁵³ Although European countries (Germany, Netherlands, France, and Italy) were among the top 10 origin countries for Belize's tourist arrivals, their share of total tourist arrivals was only 5 percent, as compared to a 62 percent for

⁴⁹ The Mayan empire stretched through Guatemala and southern Mexico flourishing from 1500 BC until about AD 900.

⁵⁰ NSTM for Belize 2030, pages 4-5.

⁵¹ See Freytag and Vietze, *Biodiversity and International tourism: A Story of comparative Advantage*, Open Political Science Journal, 2009, 2, 23-34.

Further research is necessary to learn more about price and income elasticities for sustainable tourism.

⁵² See Archibald, et. al. *Analysis of Tourism Competitiveness in the Caribbean: A Gravity Model Approach*, Research Dept. Central Bank of Barbados, 2008.

⁵³ Numerous empirical studies on tourism demand elasticity have been published since the early 1970s, including those carried out by Crouch (1995), Song and Witt (2005), and Lim (1997). The general findings of these studies indicate that the income elasticities of tourism demand, are generally greater than one, thus indicating that tourism is a luxury—with the exception of empirical work on the European market where income elasticities are lower. See Metzgen (1989). The own price elasticity is normally negative, but the magnitudes vary considerably depending on the type of tourism (long or short haul) and the time span of the demand under consideration (long-run versus short-run).

the US and 5 percent for the UK.⁵⁴ The share of Europeans in visitor arrivals to Belize increased steadily through the 1990s peaking at about 10 percent of total visitor arrivals before declining below the UK share of 1990 overnight visitor stays.

Table 3. Overnight Visitor Arrivals to Belize

	1990	2000	2008
Numbers of Overnight Arrivals			
Total	216395	384522	245000
Share of Total Arrivals			
US	38.0	41.1	62.3
Canada	3.5	3.7	6.8
UK	4.7	3.2	5.5
Europe	5.4	9.0	5.0
Other	48.4	42.9	21.3
Total Tourism Expenditure (mn. Bze dollars)	\$ 88.9	\$ 221.4	\$ 557.0

Source: Abstract of Statistics, 2002, CBB, and NSTMP.

Clearly there would be potential benefits from diversifying into other origin markets. One benefit is the higher per capita expenditure of long-haul travelers on average as compared to short-haul visitors. Second, because of lower income and price elasticities of tourism demand for long-haul travelers on average, diversification into Europe (and Asia) would also reduce Belize's vulnerability which is currently strongly linked to the US economy. Given the importance of tourism to output and employment growth building an accurate tourism data base to facilitate quantification of the contributions of the tourism sector to the economy as well as to assess the demand elasticities for Belize's tourism products to support the design of marketing strategies is critical.⁵⁵

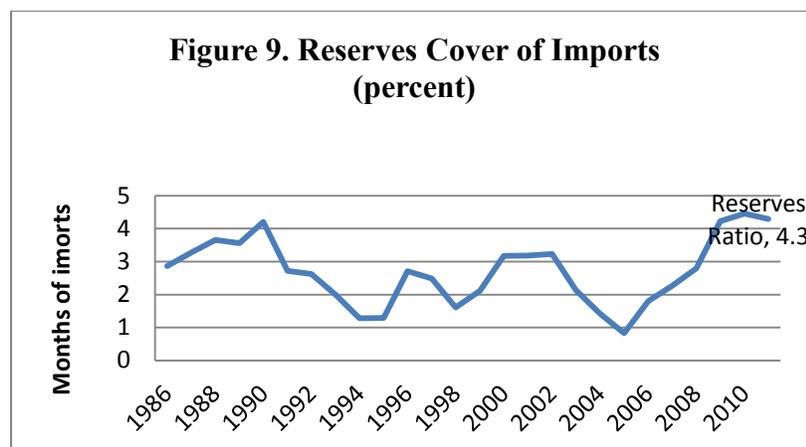
Finally, turning to the outlook for the value of the currency and the peg, the IMF's most recent assessments of Belize's exchange rate policy have been that the exchange rate has remained broadly in line with its equilibrium level, although vulnerabilities to external stability persist (see Figure 7).⁵⁶ Moreover, according to the IMF, Belize's fixed exchange rate has provided an important anchor for macroeconomic policies and for expectations. Over the medium term, a weakening foreign reserve position (Figure 9), and elevated external financing needs have increased Belize's vulnerability to shocks. In line with this, the IMF cautioned that "the stability

⁵⁴ NSTMP for Belize, page 4-9.

⁵⁵ According to the NSTMP for Belize Few reliable estimates for tourism exists and they vary according to the source, page

⁵⁶ Ibid, page 15.

of the exchange regime, however, depends crucially on full implementation of the medium-term fiscal strategy and substantial reduction of the public debt burden.”⁵⁷ This assessment and the external debt overhang—denominated in US dollars—also suggest continuation of the current peg. However, to continue with the current arrangement in the future without reflection on the priorities for Belize would be sanguine.



Source: Central Bank of Belize.

Instead, the changes in the Belizean economy, the direction of trade, and the structure of trade suggest that over the medium to long run there may be merit in revisiting the exchange rate arrangement from the perspective of the original goals articulated for pegging to the U.S. dollar in the first place (page 12). In this regard, an alternative arrangement, for instance, pegging the Belize dollar to a basket of currencies, such as the SDR or a broader composite based on goals for export expansion,⁵⁸ could be a forward looking trade creation and growth stimulating policy in particular with respect to tourism. The exchange rate arrangement could be aligned with expectations of growth in trade—with for instance, Europe and “other” developing countries (see Figure 8)—and foreign exchange inflows as well as consistent with the Government’s priority sectors—agriculture and tourism. The evolving nature of Belize’s production and exports since the 1980s indicates that the exchange rate and exchange rate policy should be assessed within the context of Belize’s growth and tourism strategies and the vision for Belize in the future.

III. Assuring a Safe, Sound and Efficient Financial System

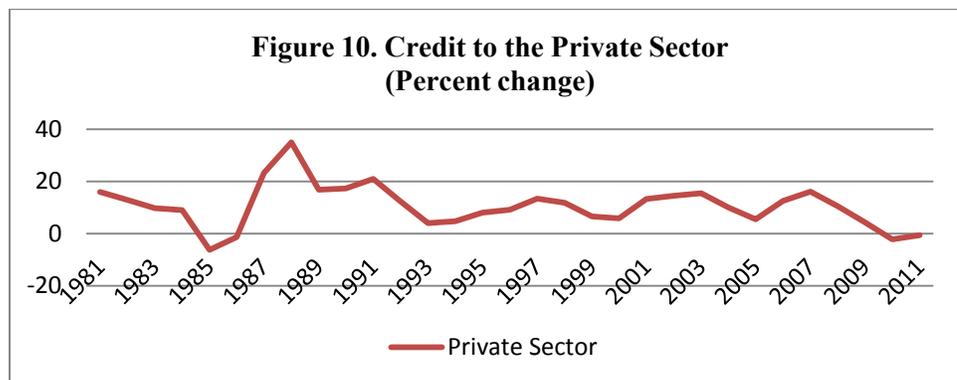
It is increasingly recognized that the financial system plays a crucial role in the process of economic development. The government helps make this possible by adopting sound macroeconomic policies—sound fiscal, monetary, and incomes policies—, providing the prudential regulation of the financial system to assure that risks are adequately assessed, and acting to establish financial markets where they do not yet exist. Economic research has consistently found that the availability of credit is a binding constraint for both macro and micro-enterprises development. While Belize’s financial system has experienced some growth and

⁵⁷ IMF, *Belize: 2008 Article IV Consultation—Staff Report*, March 2008.

⁵⁸ SDR is a composite synthetic currency created by the International Monetary Fund.

diversification since 1980, it is characterized as comparatively underdeveloped⁵⁹ and also high cost. In 2007, in applying a growth diagnostics framework⁶⁰ to Belize, access to finance was evaluated to be the binding constraint to economic growth.

In terms of the policy environment, there seems to be a consensus that the orientation of fiscal policy since 1980 was not one that was enabling to private sector credit growth (Figure 10) and more generally financial intermediation). To review, fiscal policy has been expansive leading to booms followed by subsequent periods of fiscal tightening and growth retrenchment. Monetary policy has generally been subordinate to fiscal policy objectives. The government’s financing requirement put upward pressure on reserve requirements contributing to a high cost of finance including relative to comparator countries.⁶¹ In this regard, Belize’s interest rate spreads continue to be higher on average than comparators in the Caribbean Region.⁶² According to several analyses from just under half to 12 percent of the interest rate spread is due to reserve requirements.⁶³ This has placed upward pressure on reserve requirements contributing to a higher cost of financing, ceteris paribus. There is some evidence of government deficits crowding out private sector investment via higher interest rates in 1985-96.⁶⁴ However, the private sector has had access to credit also through international channels so there is some consensus that crowding out has been minimal.⁶⁵



Source: Central Bank of Belize.

⁵⁹ Garcia, Novelo, and Velloso, *The Evolution of the Financial Sector in Belize (1996-2007)*, page 27.

⁶⁰ The growth diagnostic framework was developed by Hausmann, Rodrik and Velasco at the Center for International Development, Harvard University.

⁶¹ Reserve requirements are unremunerated and therefore a direct and significant tax on financial intermediation which exacerbates the cost of finance.

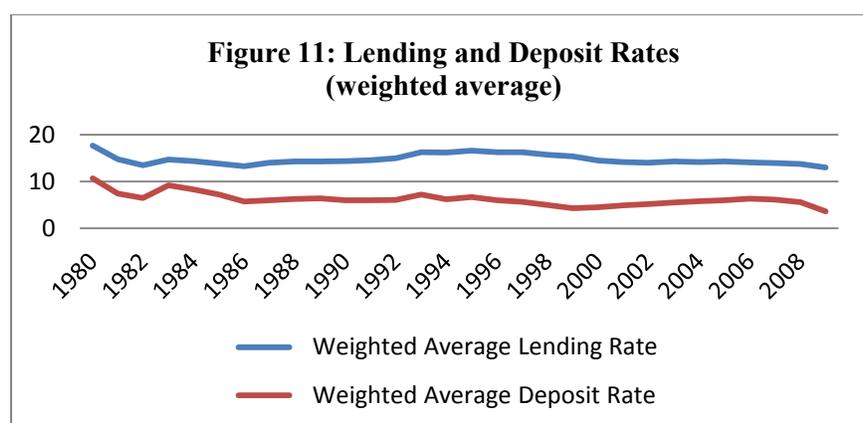
⁶² See Belize: 2011 Article IV Staff Report, page 25.

⁶³ See Perez, *Determinants of Interest Rate Spreads in Belize*, July 2011, Hausmann and Klinger and IMF 2010 Article IV Staff report.

⁶⁴ Strategic Policy Unit, *The Belizean Economy, 1985-1996 Evidence of Crowd Out Effects*, CBB, July 1997.

⁶⁵ B. Bulmer-Thomas and V. Bulmer-Thomas, *The Economic History of Belize, From the 17th Century to Post-Independence*, April 2012 and Hausmann and Klinger. *Growth Diagnostic: Belize*, IDB, December, 2007.

Belize's real interest rates have been persistently high not only regionally but also are among the highest in Belize's income group.⁶⁶ This is despite the absence of exchange rate risk given the durability of the exchange rate peg. Historically, Belize's banking system has been characterized by high and relatively stable spreads between lending and deposit rates. In addition to high unremunerated reserve requirements, lending to government at below-market rates to meet liquid asset requirements has constituted an implicit tax on the financial sector. High operating costs and an oligopolistic-type market structure are other factors that might have contributed to wide spreads. Deposit rates are also high suggesting constraints to financial sector development posed by poor financial intermediation. Notwithstanding high interest rates, private savings failed to recover, after collapsing in the 1990s. This suggests an erosion of confidence in public policies and growth pessimism.



Source: Central Bank of Belize

In light of the above assessment, in 2008 recommendations were made to reform domestic liquidity management to enhance its effectiveness.⁶⁷ The main proposal was to introduce market-based instruments of liquidity management aimed at reducing high spreads and improving financial intermediation. Traditionally, monetary policy had been less effective as it was conducted through direct instruments including liquidity asset requirement part of which was held in non-remunerated cash reserve requirements.⁶⁸ Monetary policy is now conducted via market based instruments, and the proposed reforms aimed at improving macroeconomic governance, by facilitating the operation of the central bank overdraft within its legal limits. The security reserve requirement was reduced to zero in 2011. However, bank credit growth declined as fewer investment opportunities and high non-performing loans (NPLs) continued to constrain new lending. Additional recommendations are intended to enhance the central bank's effectiveness in managing liquidity, facilitate the attainment of foreign reserve targets, and reduce the costs of financial intermediation. Following up on the IMF's recommendation to amend the Central Bank act to improve CBB autonomy would also help to constrain fiscal space. In this regard, the recent Financial Sector Assessment Program (FSAP) conducted in 2011, also proposed enhancing the CBB's budgetary autonomy.

⁶⁶ Hausmann and Klinger, *Growth Diagnostic: Belize*, IDB, December 2007, pages 6-7 and IMF, *Belize: Staff Report for the 2003 Article IV Consultation*, April 2004, page 10.

⁶⁷ IMF, *Belize: 2008 Article IV Consultation—Staff Report*, March 2008.

⁶⁸ Direct instruments include credit ceilings, transfer restrictions, reserve requirements and interest rate controls.

On the structure of Belize’s financial sector, though still small and undeveloped, it has evolved since 1980 to include along with commercial banks and credit unions, and the Development Finance Corporation (DFC, a government development bank),⁶⁹ insurance companies and international banks. Currently, there are five commercial banks focused on the domestic economy and seven international banks offering mainly offshore services to non-residents. There was also further financial deepening as the ratio of domestic bank deposit liabilities to GDP rose from 44.1% to 62.7%. in the period 1996-2007.

	1996		2011	
	Number of Institutions	Total Assets	Number of Institutions	Total Assets
Commercial Banks	4	706.5	5	2120.5
Credit Unions	11	105.8	14	414.7
International Banks	0	-	7	357.9
DFC	1	62.5	1	217.2
Insurance Companies	15	52.6	12	148.4

Source: Central Bank of Belize.

The commercial banks have continued as the main financial intermediaries in the Belizean economy. In this regard, commercial bank assets comprised 65 percent of total financial system assets in 2007, down from 76 percent in 1996. Total banking system assets of \$2.1billion in 2007 represented 82 percent of GDP as compared to 55 percent in 1996 reflecting the increased monetization of the economy. According to Garcia, Novelo, and Velloso (2007), while these banks held foreign currency deposits for resident foreign exchange earners, the percentage of foreign currency deposits in the domestic banking system was small representing 3.5 percent of total deposits at the end of 2007.

From 1998-2008, the DFC, the government development bank, was the major cause for concern as it was a major instrument for the Government’s aggressive spending program during this period calling into question Belize’s fiscal and external sustainability. Accordingly, the DFC faced increased indebtedness and issues of non-performing loans began to emerge. Bank prudential indicators further weakened after 2008 with high nonperforming loans (NPLs) and

⁶⁹ The DFC was established in 1961 as a development bank with the mandate to strengthen and expand the Belizean economy through the provision of financing to key sectors. In 1973, the DFC became a statutory body with GOB as the main shareholder.

low provisioning. This reflected the increase in overdue loans in three bank—two domestic banks and one international bank— that account for a sizeable portion of the banking system. Although capital ratios appear adequate, NPLs continued to deteriorate into 2011, posing a risk to banking sector stability. In response, the authorities committed to upgrade the regulatory and bank resolution frameworks. Present plans to improve prudential rules should also help provide banks with better protection against credit risks.

As noted, the Government participated in its first Financial Sector Assessment Program (FSAP). The main recommendations for the banking sector coming out of the FSAP were to introduce more conservative requirements for loan classification and provisioning, incorporate the notion of consolidated supervision in the regulation, and introduce stricter limits to large exposures. It was also recommended that the authorities seek a greater level of reporting and transparency from both domestic and off-shore banking activities. Finally the FSAP advised a strengthening of the framework for dealing with problem banks, including the possibility of appointing a statutory administrator.

Through the review period, the commercial banks, the main source of credit, continued to favor large borrowers. Small borrowers and entrepreneurs seeking to engage in non-traditional developmental projects faced more obstacles. In this regard, credit unions have played an important role in providing financing in Belize since 1943 when the first credit union was established. The credit union movement grew significantly precisely because it provided financial intermediation services to small savers and borrowers including in rural areas. Growth in assets under credit union management increased 11 fold from 1964 to 1980 and membership nearly doubled.⁷⁰ In the mid to late 1980s, credit unions saw material growth in loan activity relative to commercial banks reflecting the “kicking in” function of the credit union. That is during hard times and in periods when commercial banks have had high liquidity and have been unwilling to take deposits, borrowers have substituted into credit unions.⁷¹ By 1991, the 21 credit unions operating accounted for 21 percent of total loans extended in the country and this increased to 43 percent in 1995. However, the number of credit unions declined due to liquidations arising from poor management and supervision. In 2011, there were 13 credit unions capturing 20 percent of total financial system assets. (Table 3)

There have been significant incentives to do business with credit unions rather than with commercial banks in Belize. Most potential borrowers in Belize are small with requirements well within the financing available from credit unions. As noted, credit unions also have represented one of the earliest financial intermediaries in Belize and made inroads in providing financing in rural areas. Credit unions in Belize are also viewed as more personal, providing more generous terms on loans. In Belize, the credit unions have traditionally, drawn members from groups that share similar characteristics such as civil servants and church members.⁷² Regulatory oversight posed challenges to the continued growth of credit unions as financial intermediaries. In this regard, the recent FSAP called for greater regulation and oversight of Belize’s credit unions. The technical cooperation agreement with the IDB for the institutional strengthening of credit unions in Belize is important to the overall goal of continued financial sector improvement.

⁷⁰ Sosa and Vellos, *The Development of the Financial Sector in Belize (1970-95)*, pages 41-44.

⁷¹ Mendoza, *The Impact of Credit Unions in Belize*, November 1992.

⁷² See Novelo, and Vellos, pages 24-28

The newest players in Belize's financial system are the international banks and insurance companies whose combined shares in total system assets were about 24 percent in 2011. Insurance companies date to the early 1990s though there is not much information about their activities. In 1992 there were 20 insurance companies (with gross income of about \$13 million) providing mainly life insurance of which half were branches of foreign companies.⁷³ There was significant growth in the insurance sector: by 2007 there were 13 life insurance companies providing life insurance (29%) and general insurance, and gross income of about \$113 million. According to the IMF, the failure of several insurance companies suggests the need for improved domestic oversight and in this regard, the need for greater autonomy of the Office of the Supervisor of Insurance.⁷⁴

The establishment of Belize's first international bank dates to 1996. The more modest growth of this industry has been attributed to strict Central Bank supervision aimed at safety and transparency from inception. International banks' activities were initially restricted to non-residents although the legal definition of nonresidents was modified with the opening of the export processing and commercial free zones to include Belizean businesses.⁷⁵ In 2011, there were 7 international banks operating in Belize accounting for 17 percent of total financial system assets. Lending activity by international banks has grown on average 31 percent yearly since 1999 with total loans and representing about 11 percent of total commercial bank loans and advances.

Since 1980, commercial bank expansion combined with financing from credit unions has drawn more residents to participate in the formal financial sector. However, much economic activity in developing nations, including Belize, comes from small-scale producers and enterprises. Most are non-corporate, unlicensed, unregistered enterprises, including small farmers, producers, artisans, trades people, and independent traders operating in the informal sector outside the purview of the banking system.⁷⁶ In this regard, a 2009 study estimated that 2.5 billion adults do not use formal services to save or borrow.⁷⁷ Their demands for financial services are unique and outside the purview of even the credit unions. Instead, there has been a proliferation of informal and formal moneylenders in developing countries including Belize.

Microfinance is another option that would be worthwhile to promote as a channel for providing credit to small entrepreneurs and farmers in Belize. It is the supply of credit and other basic financial services made available to non-corporate, poor and vulnerable individuals who might otherwise have no access to funds or could borrow only on highly unfavorable terms. Microfinance includes micro savings and micro insurance as well as microcredit. The underpinning idea is straightforward: by joining together, a group of small borrowers can reduce costs of borrowing, and because the loan is large, can gain access to formal commercial credit. With at least implicit joint liability, group members have a vested interest in the success of the enterprise and therefore exert strong pressure on borrowing members to repay on time. The

⁷³ Mendoza, page 51.

⁷⁴ IMF, *2011 Article IV Staff Report*, page 19.

⁷⁵ See Novelo, and Vellos, pages 26-28.

⁷⁶ See Garcia, Novelo, and Vellos, pages 27-28.

⁷⁷ Aparma Dalal et al. *Half the World is UnBanked*, 2010.

evidence suggests that repayment rates compare favorably with formal-sector borrowers. It would be important to build a sustainable microfinance industry in Belize especially given the small scale of entrepreneurial agricultural and trade operations and the constraints Belize faces in raising financing through institutional channels and financial markets.⁷⁸

Notwithstanding the growth in the number of financial intermediaries, since independence, there was no substantial change in the borrowing and saving channels or financial instruments available to the general public. In this regard, a challenge facing the financial system is to develop financing options and flexibility that would allow Belize to by-pass the current constraint posed by the debt overhang. Belize could be a good example of a developing country that could benefit from establishment of a capital market.⁷⁹ Although there would be costs to establishing either a stock market or bond market the potential benefits are many and material. One major benefit, given the external debt overhang and need for persistent fiscal prudence, would be that in principle, establishment of a capital market would have little impact either on the stock of publicly- debt directly or via the creation of contingent liabilities. The issuance of instruments tied to specific infrastructure and other productive investments complementary to private sector investment could also be considered with targeted placements aimed at tapping Belize's diaspora and growing retirement community. The need for development of a capital market has been a topic of discussion in Belize since 1997.^{80 81} In this regard, a recent CARTAC study concluded that while the prospects for a private capital market were negative, the enabling legal framework should be put in place and the focus should be on trade in government securities. In addition, the development of a primary and secondary market for the trading of the securities of public sector entities would be an important step in deepening Belize's financial sector and fostering financial intermediation. Finally, it would be important to recognize the potential for developing a capital market in the context of the financial sector review of access to finance in Belize.⁸²

IV. Social Protection and Progress

There are marked disparities in many countries between standard measures of performance such as GDP growth, inflation, and employment, and wide spread perceptions of progress. In this regard, strides have been made in the conceptual understanding of what well being entails.⁸³ Related to this, there have been concerted efforts by governments and international institutions to construct and track other aspects of performance through new measures.⁸⁴ Some policies and

⁷⁸ Platteau, *A Caribbean Model for Building a Sustainable Micro Finance Model*, 2010. Presentation at the Caribbean Micro Finance Forum II, Belize City, September 2010.

⁷⁹ E. Perotti, and L. Laeven, *Confidence building in emerging stock markets*, 2001.

⁸⁰ Belize Development Trust, *Internal report on the progress of a Belizean Stock Exchange*, (1997).

⁸¹ According to Garcia, Novelo, and Velloso (2007), page 7, the Government continued to be the chief issuer of securities for budgetary finance. BEL and the DFC also issued bonds with BTL bonds being fully subscribed. Public trading of shares of the companies privatized in (BTL, BEL and BWSL) occurred over the counter with interested buyers and sellers seeking each other out through newspaper advertisements.

⁸² This study is underway and is being supported by the IDB.

⁸³ Amartya Sen: *Well Being, Agency and Freedom: the Dewey Lectures*, 1984, *The Journal of Philosophy*, 82, 169-221,1985.

⁸⁴ The Millennium Development Goals were agreed by countries in the context of an understanding of the need for a broader conception of well being and indicators to measure well being.

economic reforms may increase GDP but have an adverse effect on other dimensions of quality of life such as the distribution of income and poverty, the provision of health and education, environmental conditions, and crime and corruption. For instance, several studies have shown that there is a strong relationship between income and the level of distribution and life expectancy.⁸⁵ These studies show that health is more responsive to changes in income among the least well-off. Environmental conditions are important not only for sustainability, but also because of their immediate impact on the quality of people's lives.

An important change in the structure of many societies around the world is increasing inequality. The distribution of income and wealth determines who enjoys access to the goods and services produced within a society and also who influences political processes currently and in the future. Changes in GDP per capita over time (and differences across countries) often fail to reflect widespread perceptions of such changes because the benefits of growth are unequally distributed and continuing in that direction. High inequality not only produces social strains but can also ultimately retard growth and constrain current and future opportunities. What matters is thus not “just inequality of income or consumption, but inequalities in the opportunities, capacities, and life chances of those born under different circumstances.”⁸⁶

Some of the main social indicators in Belize—income distribution, the poverty rate, employment and compensation indicators, indicators of the level of education and health services provided, the state of the environment, and the level of crime and corruption—suggest mixed outcomes in terms of social progress despite expansive incomes policies and significant spending in social services.⁸⁷ Inequality and high levels of income disparity, as well as low national socioeconomic development⁸⁸ are among the major challenges confronting Belizean policy makers since independence. These problems are particularly severe in Central American countries. The root of this phenomenon lies in the colonial history of the region.

The European conquest and its subsequent rule in Latin America were largely based on exploitation of the indigenous population, and in Belize slave and indentured laborers. The institutions and traditions developed by the colonists became so entrenched over time that the levels of inequality have endured after independence, and have survived notwithstanding the social, political and economic development in the 20th and 21st centuries. Most studies show that inequality has remained undiminished over the Central American region and has even worsened in some areas during the last decade.⁸⁹ The income disparity levels are heavily tilted along racial and ethnic lines which are again a legacy of colonialism.⁹⁰ Income distribution remains a significant problem in Central American and also in Belize. However, Belize's income

⁸⁵ R.G. Wilkinson, *Income Distribution and Life Expectancy*, British Medical Journal, 18 January 1992

⁸⁶ Ibid.

⁸⁷ Metzgen, *Belize: Government Compensation and Employment, 1990-2010*, IDB Study, December 2011.

⁸⁸ The most widely used measure of the comparative status of socioeconomic development is the United Nation Development Program's (UNDP) Human Development Index (HDI). The HDI attempts to rank all countries on a scale of 0 (lowest human development) to 1 (highest human development) based on combining measures of education, health, and real income per capita.

⁸⁹ World Bank Report, “Inequality in Latin America & the Caribbean: Breaking with History?” October 2003

⁹⁰ von Badden, *Income Disparities in Latin America*, School of Doctoral Studies (European Union) Journal, 2010.

distribution has improved relative to developments in other Central American countries, as measured by data available for the 1990s (Table 4).

	Year	Gini Index	GDP Growth
Belize	1993	0.60	
	1999	0.53	8.7%
Costa Rica	1990	0.44	
	2002	0.49	2.0%
El Salvador	1995	0.50	
	2001	0.52	2.0%
Guatemala	1989	0.57	
	2002	0.54	1.1%
Honduras	1990	0.61	
	2002	0.60	0.1%
Nicaragua	1993	0.58	
	2001	0.58	0.1%
Panama	1991	0.59	
	2002	0.56	2.1%

Source: Human Development Report

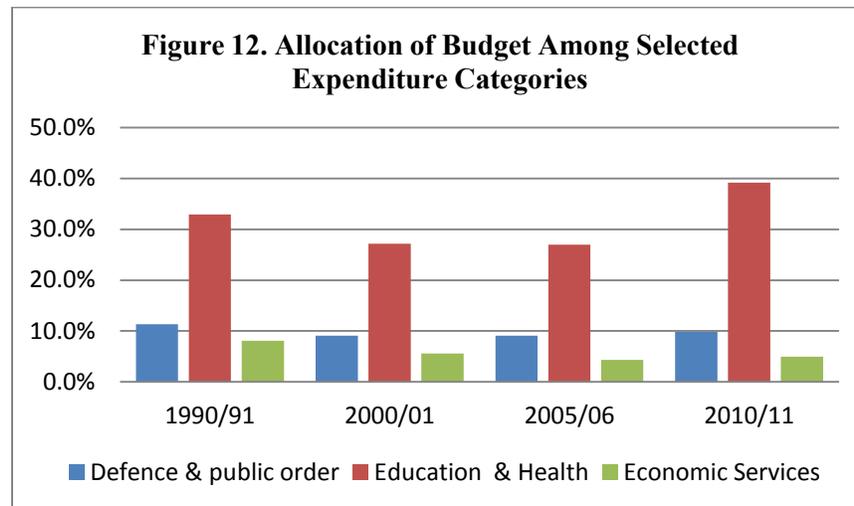
Since independence, Belize has been a society marked by persistent differences in the distribution of income and wealth. High inequality not only generates social strains but also ultimately retards growth.⁹¹ In Belize, the fraction of income held by the top 20 percent of the population fell from 63 percent in 1993, to 58 percent in 1999. However, the share of the bottom 20 percent of the population increased marginally—by less than a quarter of a percentage point over the same period to 3.2 percent. Belize’s Gini coefficient—another measure of income inequality—also remained in the range identified as highly unequal income distribution (typically between .50 and .70).

However, because of the small size of Belize's population and the intimate scale of social relations, the social distance between the rich and the poor, while significant, is not as vast as in Central American and the Caribbean. Indeed, Belize lacks the violent class and racial conflict that has figured so prominently in the social life of its Central American neighbors.⁹² Still, political and economic power remains vested in the hands of a small local elite. The high poverty rate persists in Belize despite the relatively significant amount of resources allocated to social protection, about 39 percent of the budget in 2010/11 (Figure 12). A recent and oft quoted poverty assessment report conducted by the authorities with the support of the CDB revealed that

⁹¹ Economists measure income inequality using Kuznet ratios and Gini coefficients. The first measure is a size distribution and the latter is an aggregate numerical measure of income inequality ranging from 0 (perfect equality) to 1 (perfect inequality).

⁹² Rutheiser, *Structure of Belizean Society*, 1992.

the overall poverty rate rose from 34 percent in 2002 to 41 percent in 2009.⁹³ Moreover, increased spending on education and health has not been translated into improved performance, as evidenced by the large number of poor families that remain vulnerable in Belize.⁹⁴



Source: Ministry of Finance.

Another measure that captures social progress in Belize concerns the intensity of poverty in the country. The 2010 Human Development Report introduced the Multidimensional Poverty Index (MPI), identifies multiple deprivations in the same households in education, health and standard of living.⁹⁵ The most recent survey data that were publically available for Belize’s MPI estimation refer to 2006. In Belize 5.6 per cent of the population suffer multiple deprivations while an additional 7.6 per cent are vulnerable to multiple deprivations. The breadth of deprivation (intensity) in Belize, which is the average percentage of deprivation experienced by people in multidimensional poverty, is notable at 42.6 percent.

Employment and labor market participation is another dimension of well being. High unemployment and discouraged workers pose economic costs for society and for individuals which go well beyond the loss of income to which it gives rise. Belizean employment and labor force participation have seen modest gains since independence. The unemployment rate decreased steadily from 1990-1994 and again in 1998-2000 consistent with the accelerated economic activity during the two post-independence boom periods (Figure 13).⁹⁶ However, high unemployment has been enduring, registering double digits in 15 of the 20 years between 1990

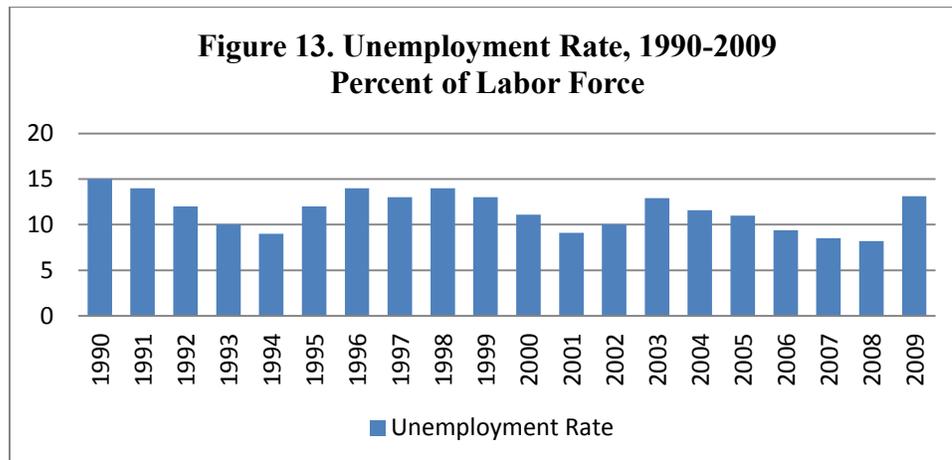
⁹³ CDB, *Belize, 2009 Country Poverty Assessment*, August 2009.

⁹⁴ World Bank, *Country Partnership Strategy (FY 2012–FY 2015) for Belize*, July 29, 2010.

⁹⁵ The education and health dimensions are based on two indicators each while the standard of living dimension is based on six indicators. All of the indicators needed to construct the MPI for a household are taken from the same household survey. The indicators are weighted, and the deprivation scores are computed for each household in the survey.

⁹⁶ Employment, unemployment and labor participation data are available as of 1990. Compensation data include grants from the Ministry of Finance to the Ministry of Education for wages.

and 2009 reflecting also a relatively low skilled work force.⁹⁷ In this regard, Belize’s shortage of skilled labor and technical personnel across sectors is a material constraint to growth. It is noteworthy that from 2004 to 2008, Belize saw a material reduction in the unemployment rate by 3.5 percentage points to 8.2 percent in 2008 before jumping to 13 percent in 2009 reflecting, in part, the impact of the global recession. Labor force participation has hovered around 60 percent



Source: Statistical Institute of Belize and IMF.

from 2000 to 2008. From 2000-2009 the employed labor force steadily grew in numbers by 4.1 percent yearly to reach 120,500 in 2009. During this period, Government’s share in employment increased from 5 to 8 percent, reflecting a rate of increase in public sector employment of 10.5 percent annually.

The Government of Belize has had an expanding role in employment and compensation since 1990. Reflecting this feature, the government’s wage bill is high inter-temporally and by regional and international standards (Table 5). In this regard, Belize’s wage bill fluctuated from over 11 percent of GDP in the mid-1990s before edging down to an average of 10.8 percent of GDP in 2000-2010. In comparison, in 2000-2008, employee compensation as a share of GDP averaged about 5.2 percent of GDP for low income countries.

Belize’s wage bill also absorbed a significant share of the budget. The wage bill exceeded 52 percent of central government expenditures during 1990-2003, which was the highest out of 52 countries considered by Glenday and Shukla.⁹⁸ In 2000-2010, Belize’s wage bill declined materially to average a still high 45 percent of recurrent expenditure and nonwage expenditure rose to exceed the wage bill on average as a percent of GDP and recurrent expenditure. Nevertheless, Belize’s wage bill remains large including relative to that for low income countries (29 percent of expenditure) and for countries in the Western Hemisphere (31 percent of

⁹⁷ See Bulmer-Thomas, April 2011.

⁹⁸ Glenday, Graham and Shukla, *Belize: A Review of Public Expenditures*, October 2006, IDB

Table 5. Government Compensation of Employees¹

Country Groups	% of	% of	% of
	GDP	Government Expenditures	Government Revenues
Africa	6.5	30.4	29.5
Asia and Pacific	5.1	26.2	23.1
Europe	5.7	17.4	17.5
Western Hemisphere	8.2	31.0	29.6
Belize	10.5	45.1	47.5
Middle East and Central Asia	7.1	28.9	24.8
European Union	5.2	15.9	16.3
Low-Income Countries	5.2	28.6	27.9
Middle-Income	7.3	27.6	26.0
High Income	6.1	20.4	18.6

Source: GFS database, IMF staff estimates, and Belize, Ministry of Finance Budget data.

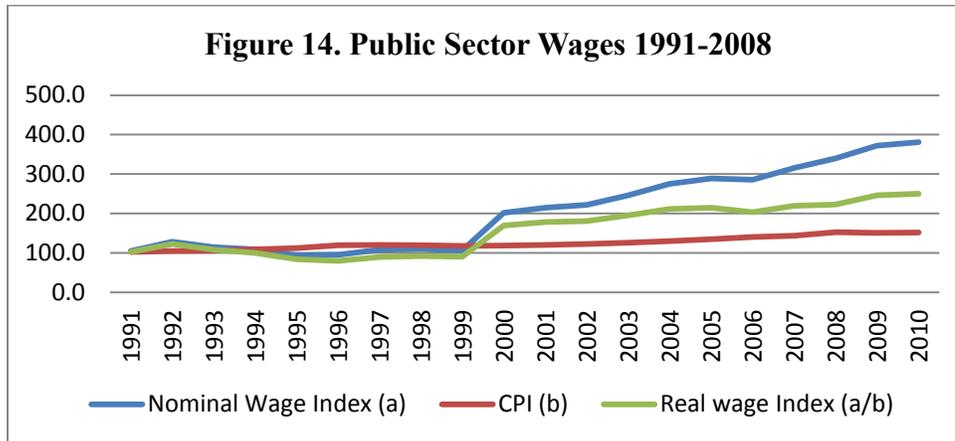
expenditure) for the 2000-2008 period.⁹⁹ In the absence of expanding revenue, the growth in the wage bill poses a threat to Belize's long-term fiscal sustainability and also is persistently crowding out more productive nonwage expenditure including for social services and investment.

Notwithstanding, the rapidly rising wage compensation, through the last two decades, real wages in Belize have declined in recent years. However, wage gains on average have been in favor of public sector employees. A comparison between the growth in private sector as compared to public sector nominal and real wages shows relative gains for public sector employees. Two collective bargaining agreements and annual increments in salaries of about 2.5-3 percent yearly helped bolster public sector real wages which registered significant growth from 1995-2004 in relative and absolute terms (Figure 14). In 2009, public sector real wages declined by 8.4 percent as compared to their average level in 2000-2004.¹⁰⁰

In comparison, private sector employees suffered erosion in purchasing power reflecting sluggish adjustments in the minimum wage in 2000s. In 1999-2004 private sector real wages grew on average by 2.2 percent, followed by a real wage decline of 21 percent in 2009 relative to the average for 2000-2004. In this regard, Belize's minimum monthly wage fell in 2008 and 2009 also relative to developments in real minimum monthly wages in countries in Central America

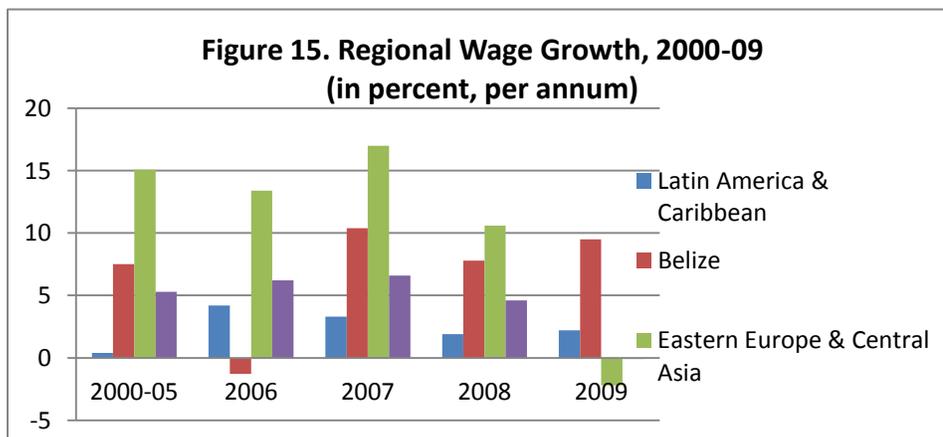
⁹⁹ See *Evaluating Government Employment and Compensation*, Clements, et. al. 2010.

¹⁰⁰ Inflation has recently more than outpaced the increase in both private sector and public sector wages. See Metzgen (December 2012).



Source: IMF

and the Caribbean.¹⁰¹ However, wage growth in Belize was higher on average as compared to countries in Latin America and the Caribbean (Figure 15).



Source: ILO, Global Wage Report, 2010.

Education and health spending appear to have the greatest effects upon the level and changes in income inequality in Central America, the Dominican Republic and Mexico.¹⁰² In this regard, the allocations of national income to education and health as well as compensation are important indicators of current and/or future social progress. In Belize, as indicated, government expenditure on social services has dominated budget expenditure at the expense of spending on economic services and public defense and order (see Figure 11). In addition, the allocations for compensation to the social services have been high in real terms by international standards. For example, the education and health sector wage bills amounted to about 91 and 51 percent, of

¹⁰¹ Minimum wage growth declined in Belize in 2008 and 2009 by 6 and 2 percent, respectively.

¹⁰² Hammill, *Income Inequality in Central America, Dominican Republic, and Mexico: Assessing the Importance of Individuals and Household Characteristics*, CEPAL, December 2005.

total sectoral expenditure, respectively, from 2000-2008 and were well above the average for low income countries (Table 6).

Reflecting the fact that education has been a priority since 1980, returns to education in Belize have been rising slightly, but they remain under 10 percent per year—lower than the return in Mexico, but higher on average than the returns to education in neighboring Central American countries. As of 2004, a larger percentage of Belize’s labor force had completed tertiary education (9 percent) as compared to Costa Rica, El Salvador, and Nicaragua.¹⁰³ However, the social rate of return to investment in education is highest for investment in primary and secondary, rather than tertiary education and the rate of return on women’s education is higher than that on men’s education in most developing countries.¹⁰⁴

Table 6. Education & Health Sector Wage Bills, 2001-08
(Percent of Sectoral Expenditures)

Country Groups	Education Wage Bill	Health Wage Bill
Africa	66.7	40.6
Asia and Pacific	64.7	45.1
Europe	65.2	43.5
Western Hemisphere	75.2	64.6
Belize	90.6	51.3
Middle East and Central Asia	76.1	55.5
European Union	69.2	45.6
Low-Income Countries	65.6	42.9
Middle-Income	73.8	52.1
High Income	61.4	43.5

Source: GFS database and IMF staff estimates; Evaluating Government Employment and Compensation, Clements et.al.

¹Central Government averages for 2000-08.

The Human Development Index (HDI) for Belize provides a comprehensive and more positive assessment of developments in Belize since 1980. Belize’s HDI value for 2011 is 0.699—in the high human development category—positioning the country at 93 out of 187 countries and territories. Between 1980 and 2011, Belize’s HDI value increased from 0.619 to 0.699, an increase of 13 percent or an average annual increase of about 0.4 percent. Table 7 reviews Belize’s progress in each of the HDI indicators. Between 1980 and 2011, Belize’s life expectancy at birth increased by 5.9 years, mean years of schooling increased by 0.7 years and expected years of schooling increased by 1.8 years. Belize’s gross national income per capita, increased by about 62 percent cumulatively between 1980 and 2011.

Table 8, shows Belize’s standing as compared to selected comparator countries in the Central America and the Caribbean. Belize’s 2011 HDI of 0.699 is below the average of 0.741 for countries in the high human development group and below the average of 0.731 for countries in

¹⁰³ P. M. Auerbach et. al *Social Security Coverage and the Labor Market in Developing Countries*. IZA Discussion Paper #2979.

¹⁰⁴ Haddad et. al. *Education and Development: Evidence for New Priorities*, World Bank, pp.12-15.

Latin America and the Caribbean. From Latin America and the Caribbean, countries which are close to Belize in 2011 HDI population size and rank are Bahamas and Jamaica which have HDIs ranked 53 and 79, respectively.

Table 7. HDI Indicators 1980-2011

	Life Expectancy At Birth	Expected years of Schooling	Mean years of Schooling	GNI per capita (2005 PPP\$)	HDI Value
1980	70.2	10.7	7.3	3,582	0.619
1985	71.5	10.7	7.6	3,057	0.620
1990	72.5	10.7	8.0	4,354	0.651
1995	73.1	10.7	8.5	4,568	0.662
2000	73.5	10.9	8.1	5,149	0.668
2005	74.5	12.6	7.7	5,753	0.689
2010	75.9	12.4	8.0	5,811	0.698
2011	76.1	12.4	8.0	5,812	0.699

Source: UNDP, Human Development Report, 2012.

Turning to the outlook, social indicators and progress toward achieving the Millennium Development Goals are mixed. According to the 2010 United Nations Development Programme (UNDP) Scorecard and Outlook Report, Belize is on track to meet MDG targets with respect to child mortality, major diseases, and the environment. However, it is not on track to meet targets related to poverty, education, gender, maternal health, and debt management. Belize is in last

Table 8: HDI: Regional Country Comparisons

Country	Value	HD Level
Barbados	0.793	Very high
Mexico	0.770	High
Trinidad & Tobago	0.760	High
Jamaica	0.727	High
Belize	0.699	High
El Salvador	0.674	Medium
Honduras	0.625	Medium

Source: UNDP, Human Development Report, 2012.

position (131st) on the Global Gender Gap Index¹⁰⁵ in the area of political empowerment of women, along with Saudi Arabia, Qatar and Brunei.

¹⁰⁵ Hausmann, Tyson, and Zahidi, Editors (2010). *The Global Gender Gap Report 2010*. World Economic Forum, Geneva, Switzerland.

A final assessment of Belize's social and economic progress concerns, two more recent challenges—changes in the environment and the level of crime. Regarding the environment, the old notion of “development versus environment” has given way to a new view in which better environmental stewardship is essential to sustain development.¹⁰⁶ As noted, environmental conditions are important because of their immediate impact on the quality of people's lives. First, they affect human health both directly (through air and water pollution, hazardous substances and noise) and indirectly (through climate change, biodiversity loss and natural disasters that affect the health of ecosystems). Secondly, people benefit from environmental services, such as access to clean water and natural habitats, and their rights in this have been increasingly recognized. Third, people value environmental amenities and these valuations affect their actual choices (e.g. of where to live). One of the most pressing problems facing Belize today, with negative implications for economic growth, is deforestation and drought. With agriculture and tourism development, as two of four pillars of the Government's growth strategy, current environmental policies may call into question economic sustainability if more concerted action does not continue on this front. In this regard, Belize serves as a leader in protected area management in establishing the National Protected Areas System Plan and the Protected Areas Conservation Trust and in this context elaborating a protected area policy for the country.

Notwithstanding Government's relatively *avant garde* actions, Belize's national forest cover has declined in 2011, more than 1 percentage point to an estimated at about 62 percent.¹⁰⁷ Almost a third of the roughly 1 million acres of agricultural land in Belize occurs on land classified as marginal or unsuitable for agricultural activity. Almost a tenth of agricultural activity occurs on steep slopes prone to erosion. Moreover, 4 percent of all agricultural land is located in areas at extreme risk of erosion, should there be sufficient rainfall (such as in a storm event). Where land conversion is a major cause of land degradation, it is also worth noting that available data indicate that half a million acres (almost a tenth) of the nation's land have been deforested in the past thirteen years.¹⁰⁸ Most of the clearings occurred in central Belize, particularly in the Belize River watershed, which could have potential future impacts on drinking water quality should the trend continue.

In comparison, drought may affect a greater proportion of Belize's agricultural lands. According to Meerman and Cherrington (2012), almost two-thirds of all Belize's agricultural lands overlie limestone prone to desiccation. In addition, almost forty percent of all agricultural land in Belize is in low-rainfall prone areas. These factors combine to put almost a third of Belize's agricultural land in drought-prone areas.¹⁰⁹ A challenge in addressing land degradation and drought will be to ensure that Belize meets its commitment to its population in maintaining ecosystem services, and its commitments to national and international biodiversity conservation while, nevertheless, facilitating economic development today. These developments suggest that a priority ahead is the review and reinvigoration of Belize's national policy for protected areas.

¹⁰⁶ World Bank, *World Bank Atlas*, 1997.

¹⁰⁷ Meerman and Cherrington *Forest Cover and Deforestation in Belize, 2010-2012*, 2012.

¹⁰⁸ While most of the deforestation was clearing of broadleaf forest (~96% of clearing), also alarming is that mangrove forest was cleared at a rate of ~234 acres a year from 2010-2012, when the overall rate of clearing for 1980-2010 was only 125 acres per year, and the rate of clearing for 2004-2010 was 172 acres per year.

¹⁰⁹ Meerman and Cherrington, *Preliminary Survey of Land Degradation in Belize*, 2005.

Regarding the crime rate, the increase in the drug trade via Belize, the economic slowdown, increase in unemployment (especially among youth) and the increased poverty rate have been associated with a surge in crime. In 2011, Belize had the 6th highest homicide rate globally. Most recently, Belize City was listed among the top ten worst cities in the world because of the level of crime. The increase in crime also appears to be a byproduct of a faltering education system and generates demand for increasing allocations for domestic security.¹¹⁰ Additional pressure on social services and crime has come from the increase in immigration mainly from the neighboring Central American Republics. The prevalence of crime in Belize threatens one of its main sectors—tourism—and more generally, GDP growth. Combating crime is essential and this has high financial costs and also involves a significant distraction from the more positive activities that help to raise the standard of living and promote well being.

IV. Challenges Ahead: A Case for Optimism?

The 30 years since independence have been marked by the transformation of the Belizean economy in the context of public policy and articulated goals. The main lessons from this 30 year period are that policies matter and in particular policies aimed at macroeconomic stability, human capital development and public-private partnership focused on economic development. On the economic front, as noted, in the 1980s a key economic concern for Belize was diversification of Belize's output and exports. The economic structure was successfully transformed from a mono economy based mainly on sugar and sugar exports, to a more diversified and open system based on tourism, other (financial) services,¹¹¹ agricultural products and more recently petroleum exploitation. This transformation was based on a policy decision "to grow" the tourism sector with the attendant support for the private sector. However, this new structure together with Belize's high import dependence has left Belize more open and integrated into the global economy with the attendant benefits and also costs including greater vulnerability to external shocks. There has also been a relatively mixed and spontaneous social transformation with progress in some key area such as income distribution relative to Central American neighbors and in the reorientation of budget spending on education and health. Yet, new pressures have emerged—deteriorating educational performance, environmental degradation, increased crime, and growing immigration with pressures on social safety nets and increased social conflict.

GDP growth in Belize has been positive during the 30 year period, though volatile, averaging about 6 percent per annum though trending downward since 2003. However, the volatility of Belize's GDP growth was higher in the 1980s and has subsequently declined in 2000-2010. The continued impact of the floods of 2008 and the contagion from recessionary conditions in major markets led to slower growth after 2008. Similarly, there have been gains in per capita GDP on average during this period which also saw yearly average increases of 6 percent during the period. Belize's per capita growth performance during the last 30 years has been comparatively good, averaging annual increases of 6 percent. As of 2010, Belize ranked third (after Panama

¹¹⁰ Barnett, *Education and Good Governance—Imperatives to Social and Economic Development*, October 2009.

¹¹¹ This period also saw the development of a small international banking sector, while telecommunications expanded strongly due to investments.

and Costa Rica) among Central American countries, on the basis of per capita GDP.¹¹² In comparison, Belize ranked number 15 of 22 Caribbean and Central American countries on the basis of per capita GDP and ranked number 117 of 226 countries and territories.¹¹³

Macroeconomic policy performance since independence has been mixed. The evidence suggests that monetary policy has been broadly supportive of the peg to the US dollar and export competitiveness. The maintenance of Belize's external competitiveness has facilitated Belize's goal to expand and diversify trade and stimulate growth. However, the lack of fiscal discipline placed the economy on a "stop and go" growth path such that Belize has not realized its potential growth which initially far exceeded that of Caribbean peers and has in recent years converged to low levels. This, in turn, threatens future growth because of the resulting debt overhang, low domestic savings, and faltering investment. The low tax rate leaves Belize ill positioned to provide the infrastructure that is important to private sector development.

Expansionary fiscal policy and deficit spending combined with an oligopolistic banking sector structure have also led to greater taxation on financial intermediation resulting in a higher cost of capital in Belize. The small size and oligopolistic structure of Belize's financial sector may also help to explain the persistently high spreads between deposit and lending rates. Although high-potential sectors for investment¹¹⁴ have been identified in the context of several studies on investment, diminished access to both government finance and international financial markets has retarded greater investment and does not augur well for the future.

There have been reforms in monetary policy to help address the problems that persistent fiscal deficits have posed for financial intermediation. Monetary policy is now conducted via both reserve requirements and market based instruments. This will help to improve macroeconomic governance, by facilitating the operation of the central bank overdraft within its legal limits. These reforms should enhance the central bank's effectiveness in managing liquidity, facilitate the attainment of foreign reserve targets, and reduce the costs of financial intermediation. Following up on the IMF's recommendation to amend the Central Bank act to improve CBB autonomy would also help to constrain fiscal space.

On the social front, social progress has been mixed since 1980, including in terms of positioning Belize to achieve the MDGs. Inequality and high levels of income disparity, as well as more broadly low national socioeconomic development¹¹⁵ continue to be among the major challenges confronting the policy makers and people of Belize. That is, the main social indicators in Belize—income distribution, the poverty rate, education and training, employment and

¹¹² Per capita GDP is measured in US dollars on a purchasing-power-parity (PPP) basis.

¹¹³ International Monetary Fund (IMF) and CIA Factbook. The countries and territories, in rank order from highest to lowest per capita GDP are Cayman Islands, The Bahamas, Barbados, Trinidad and Tobago, Antigua and Barbuda, Puerto Rico, Saint Kits and Nevis, Panama, Costa Rica, St. Lucia, Dominica, St. Vincent and the Grenadines, Grenada, Cuba, Dominican Republic, Belize, Jamaica, El Salvador, Guatemala, Honduras, Nicaragua, and Haiti.

¹¹⁴ The 2001 and 2004 investment guides for Belize list agriculture and agro-processing, tourism, mariculture, and forestry-based financial services and ICT industries as high potential sectors.

¹¹⁵ The most widely used measure of the comparative status of socioeconomic development is the United Nation Development Program's (UNDP) Human Development Index (HDI). The HDI attempts to rank all countries on a scale of 0 (lowest human development) to 1 (highest human development) based on combining measures of education, health, and real income per capita.

compensation indicators, and other well-being measures—suggest mixed outcomes in terms of social progress despite expansive incomes policies and significant spending on social services, in particular on education.¹¹⁶ The high poverty rate persists, exacerbated by increased migration from Central America, notwithstanding the relatively significant amount of resources allocated to social protection since 2007. And there are new challenges posed by increased crime and corruption associated with the economic downturn and the drug traffic. According to the 2010 United Nations Development Programmed (UNDP) Scorecard and Outlook Report, Belize is on track to meet MDG targets with respect to child mortality, major diseases, and the environment. However, it is not on track to meet targets related to poverty, education, gender, maternal health, and debt management.

More broadly Belize’s aggregate HDI—and health and education components—have increased relative to peers in Central America. However, social progress lags that of Caribbean partners. In Belize, education and health have been a priority area using spending as the criteria. Specifically, in 2010, 39 percent of the recurrent budget went to spending on education and health as compared to an average of 31 percent in 2000-2006. The bulk of budget spending for education (91 percent) went to compensation in 2000-2008. The budget allocations to education have been high also in real terms by international standards, and similarly, this has not been translated into improved outcomes. As indicated in the Horizon 2030 report, a significant portion of the population is not being educated to a basic standard of literacy.¹¹⁷ However, there is societal consensus that improving education is a priority—it is the second pillar—Education for Development, Education for Life—of the Horizon 2030 long-term development framework for Belize.

A final word is in order, regarding rising immigration that has come with benefits and also put pressure on Belize’s fragile social safety net and an already overburdened budget. Belize has long been a country of immigrants. British pirates turned timber-cutters were among the first immigrants and they in turn imported African slaves in the 18th century. Escaped slaves from Jamaica and St. Vincent and the Grenadines, the descendants of Arawak, Carib, and West African people, are also among the earlier immigrants. In the 1840s, Mexican Mayans escaped to Belize because of civil war (the Caste Wars). More recently, North American and British retirees have discovered Belize’s cayes and the Placencia Peninsula. The latest migration wave is from neighboring Central American countries. Thousands of Salvadoran refugees and Honduran immigrants arrived in the 1980s escaping the wars and genocide in their original countries. More recently, Guatemalans have come seeking better economic activities. In this regard, immigrants are also driving a different population migration dynamic in Belize. While in the rest of Central American and more broadly the developing world, people in Belize are moving from the countryside to cities, since 2000, driven by immigration, the share of Belize’s population in rural areas has increased.¹¹⁸

The immigration boom brings relief and strain. Most migrants are of working age, and keep the sugar, banana and citrus industries competitive by working for low wages in difficult conditions. But there are also strains on the budget and increasing degradation of the environment. With

¹¹⁶ Metzgen, *Belize: Government Compensation and Employment, 1990-2010*, IDB Study, December 2011.

¹¹⁷ *National Development Framework for Belize Horizon 2030*, page 20.

¹¹⁸ The urban share of Belize’s population has fallen from 47% to 44%, as immigrants have set up border towns.

Belize’s current unemployment rate estimated at about 23 percent (as reported in the 2010 Population Census officials) not all Belizeans welcome immigration including because of the relative ease with which immigrants gain access to land and receive economic benefits as compared to Belizeans. Integrating traditional Belizean values including implementation of rule of law and environmental preservation within the education curriculum should help to bring respect for law and the environment at an individual level. In general, immigrants have been welcomed to Belize and both the country and immigrants are benefiting from integration into Belizean society. Integrating this latest group of immigrants effectively into economic life and the society at large will augur well for economic growth and social progress in Belize in the future.

Looking ahead, the optimistic case for Belize’s future rests on building upon the positive economic and social progress elaborated above, resolution of material challenges which emerge from this assessment of developments since independence (Table 9) and importantly on the apparent broad consensus on the way forward. On the latter, the way forward is spelled out in the Horizon 2030 report which recognizes key challenges ahead with a focus on building upon the positive performance of the key tourism and agricultural sectors, broadening the production base, improving fiscal discipline, governance and public sector efficiency as well as education performance and also achieving environmental sustainability. In addition, this current assessment suggests that building upon the tourism sector model and identifying another sector—such as ICT—as the focus for a concerted public-private sector initiative is paramount. A robust debt restructuring is also key in setting the stage for sustainable economic growth.

Table 9. Belize: Main Challenges Toward Sustained Economic Development
Address the debt overhang via a robust restructuring and instituting fiscal discipline.
Diversify further the production and export bases for tourism and agricultural sectors and develop the statistical database to assess the contributions of key sectors—tourism, agriculture, and financial services—to growth and employment.
Building upon the tourism sector model, agree on a sectoral “winner” such as ICT for the focus of a concerted public-private initiative including the provision of relevant required training for the sector.
Develop a strong public-private partnership aimed at increased private sector production, exports and employment.
<i>Effectively</i> invest in Education by introducing quality control and ex post performance assessment.
Institute public service reform aimed at increasing public sector efficiency
Review and strengthen NPASP/PACT.

There are other critical reports in existence¹¹⁹ and also underway that will help fill in the flesh of the comprehensive Horizon 2030 steering report and position Belize to meet the current key challenges including: the study assessing the access to finance in Belize and the high cost of finance; the Private Sector Assessment Report for Belize aimed at identifying obstacles to private sector development and facilitating the elaboration of a national private sector development strategy for Belize; and the review of Belize’s National Protected Areas System Plan. It would also be essential to ensure the delivery of quality and relevant education and in this regard to develop and implement “a national human resource development strategy to respond to Belize’s development goals for the next 20 years.”¹²⁰

As articulated in the Horizon 2030 report, if these challenges are met, reforms will yield tangible results. Implementation is the key to achieving the improvement in the quality of life of citizens as articulated in the vision for Belize for the year 2030. This will require an approach that transcends political, ethnic, and class divisions. The optimistic scenario is based on faith and hope in going beyond possibility to create a new Belize and this, in turn, rests squarely on human capacity and development—at all levels—including that of the individual, public service, private and corporate sectors, and government. History clearly demonstrates the impact of the individual in changing the course of developments in countries. Importantly this also concerns personal responsibility and a realistic understanding of what government can and cannot provide as well as civil action when necessary to hold leaders accountable for policies and results. In this regard, the optimistic case for Belize depends on the efforts and results of individual Belizeans and also rests on the support of partnerships between Government and the private sector, NGOs, bilateral relationships—traditional and new, and the international financial institutions. The Horizon 2030 report supports the case for optimism in pointing out that the “majority of Belizeans believe the situation can be fixed”.¹²¹

Alternatively, the pessimistic case will be driven by myopic political, economic, and social fragmentation and alienation.

¹¹⁹ There are development strategies for the agricultural sector through 2020, for the tourism sector through 2030 and for addressing poverty as referenced earlier in this paper.

¹²⁰ *Ibid*, page 21.

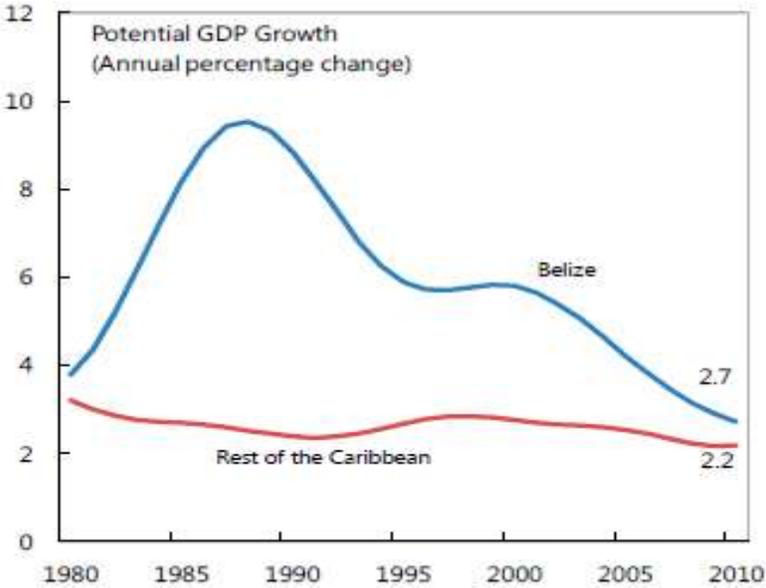
¹²¹ *Horizon 2030*, page 13.

Appendix Table 1 (please see attachment)

Table A.2: Recent Natural Disasters: Impact on Agriculture Sector.

Name of the Event	Date & Year	Agriculture sector damage cost (BZD)
Hurricane Dean	August 21, 2007	The total losses to this sector is approximately 131.1 million (\$40.40 in direct damage and \$90.70 in indirect loss)
Tropical Storm Arthur	May 31, 2008	\$25 million. This includes direct loss to the farmer (damage assessment), which is estimated at around \$11.7 million, and other losses.
Tropical Depression (TD)-16	October 30, 2008	\$7.8 million (papaya and rice -30% of total major crops)
Hurricane Richard	October 21, 2010	Direct damages to the agricultural sector is \$34.68 million

Appendix Figure A.1 Potential Output and Investment Climate



Source: IMF, 2011 Article IV Staff Report, page 13.

Figure A.2. International imports and exports in goods and services
As percentage of GDP, 2010 or latest available year

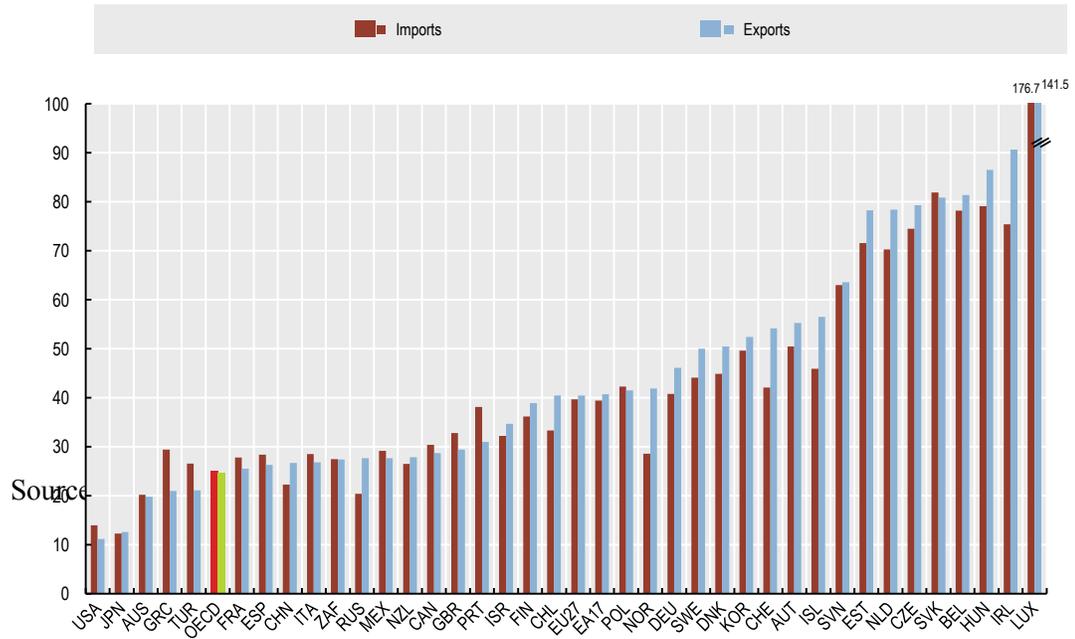
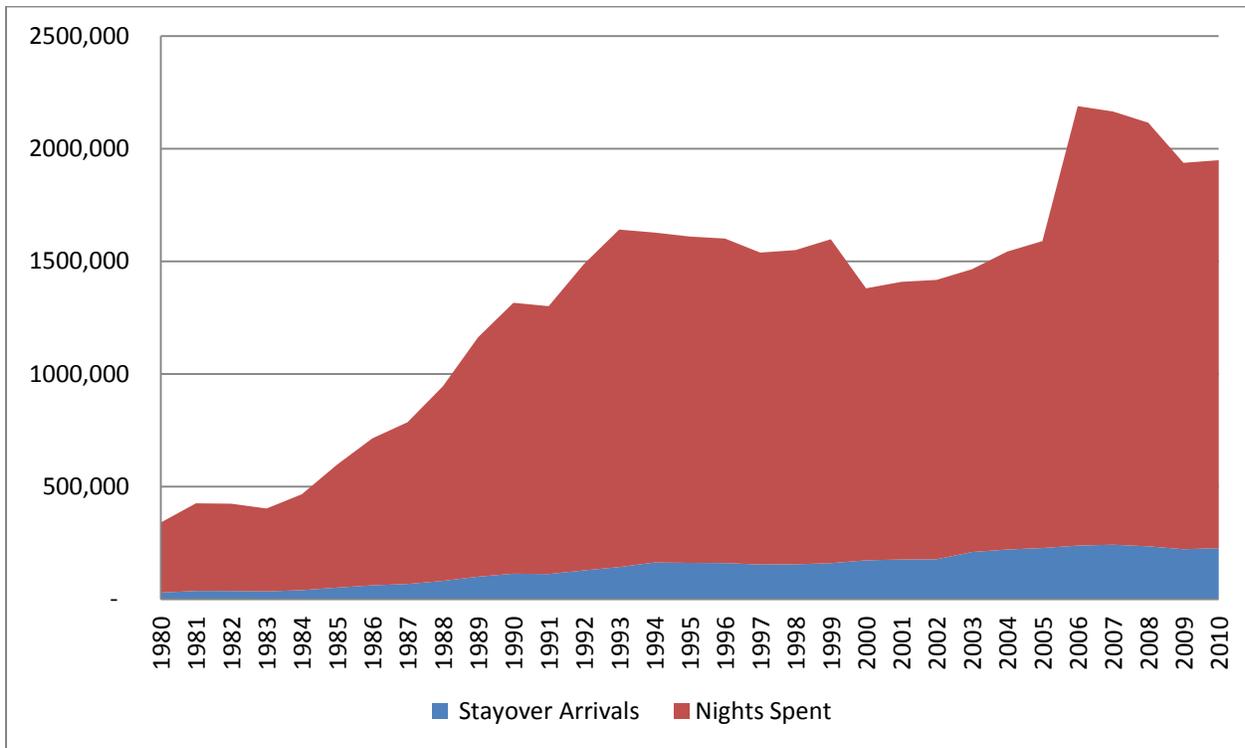


Figure A.3: Overnight Visitor Arrivals and Nights Spent



REFERENCES

- Amartya Sen. *Well Being, Agency and Freedom: the Dewey Lectures, 1984*. The Journal of Philosophy, 82, 169-221, 1985.
- Aparna Dalal et al. *Half the World is UnBanked*, 2010.
- Archibald, Xiomara et. al. *Analysis of Tourism Competitiveness in the Caribbean: A Gravity Model Approach*, Research Dept. Central Bank of Barbados, 2008.
- Auerbach, P.A. et. al *Social Security Coverage and the Labor Market in Developing Countries*. IZA Discussion Paper #2979.
- Barnett, Carla. Education and Good Governance—Imperatives to Social and Economic Development, October 2009.
- Barnett, Carla. Looking Beyond the Year 2000: The Implications of Developments in Belize’s Economy in the 1980s and 1990s. Fifth Annual Signa Yorke Memorial Lecture.
- Belize Chamber of Commerce and Investments (BCCI), *Investments in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship, and Private Sector Development*, 2012.
- Belize Development Trust. *Internal report on the progress of a Belizean Stock Exchange*, 1997.
- CDB. *Belize, 2009 Country Poverty Assessment*, August 2009.
- Bulmer-Thomas, Barbara and Victor Bulmer-Thomas. *The Economic History of Belize, From the 17th Century to Post-Independence*, April 2012.
- Central Bank of Belize. Mission and Objectives, at Centralbank.org.bz
- CIA, World Factbook, Suriname.
- Chris Coye. *The Rate of Expansion of Belize’s Money Supply: Factors Affecting Growth*, CBB Research 1992.
- Clements et, al. Evaluating Government Employment and Compensation, 2010, IMF Research Paper.
- ECLA. *Economic Survey of Latin America and the Caribbean*, 2009-2010
- ECLA. Structural Change for Equality, An Integrated Approach to Development, 2012.
- Belize Development Trust. *Internal report on the progress of a Belizean Stock Exchange*, 1997.
- ECLA, *Exchange Regimes in the Caribbean*, 2003.
- Ellman, Michael. *Russia’s oil and natural gas: bonanza or curse?* 2006.

Ford, E. *The Implications of Dollarization for Belize*, Central Bank of Belize (CBB) Research Paper, 2001.

Freytag, Andreas and Christopher Vietze. *Biodiversity and International tourism: A Story of comparative Advantage*, Open Political Science Journal, 2009, 2, 23-34.

Garcia, Gloria, & Azucena Novelo, and Christine Vellos. *The Evolution of the Financial Sector in Belize (1996-2007)*, CBB Research Paper, 2007.

Glenday, Graham and Gangadhar Shukla. *Belize: A Review of Public Expenditures*. October 2006, IDB

Haddad, Wadid, et. al. *Education and Development: Evidence for New Priorities*, World Bank, 2009.

Hammill, Matthew. *Income Inequality in Central America, Dominica Republic, and Mexico: Assessing the Importance of Individuals and Household Characteristics*, CEPAL, December 2005.

Hausmann, Ricardo and Bailey Klinger. *Growth Diagnostic: Belize*, IDB, December, 2007.

Hausmann, Ricardo, and Laura D. Tyson, Saadia Zahidi, Editors (2010). *The Global Gender Gap Report 2010*. World Economic Forum, Geneva, Switzerland.

IMF, *Belize: Article IV Consultation Staff Reports*, 1998, 2003, 2004, 2008, 2010, 2011.

Meerman, J. C & Emil A. Cherrington. *Forest Cover and Deforestation in Belize, 2010-2012*, 2012.

Meerman J. C & Emil A. Cherrington. *Preliminary Survey of Land Degradation in Belize*, 2005.

Mendoza, Patricia. *The Impact of Credit Unions in Belize*, November 1992.

Platteau, Stefan. *A Caribbean Model for Building a Sustainable Micro Finance Model*, 2010. Presentation at the Caribbean Micro Finance Forum II, Belize City, September 2010.

Metzgen, Ydahlia. *Belize: Government Compensation and Employment, 1990-2010*, IDB Study, December 2011.

Metzgen, Ydahlia. *Estimating the Demand for International Tourist Services: Theory, Empirics, and Policy Perspectives*, (Ph.D. Dissertation).

Ministry of Agriculture and Fisheries. *The National Food and Agricultural Policy (2002-2020)*, April 2003.

Morgan, Murna and Sydney Campbell, *Belize, Tourism Industry*, CBB Research Paper, June 1992.

National Development Framework for Belize (Horizon 2030), 2012.

National Sustainable Tourism Master Plan of Belize, Executive Summary (Draft), 2011.

Needham, M. T. (2011). *A Psychological Approach to a Thriving Resilient Community*. International Journal of Business, Humanities and Technology, vol. 1 no. 3. NY, USA.: CPI

Novelo, Azucena Quan, Jair Santoya, and Rasiel Vellos, *Assessing the Direct Economic Impact of Cruise Tourism on the Belizean Economy*, Central Bank of Belize, November 2007.

OECD. *Environmental Performance Reviews OECD Environmental Performance Reviews: Norway 2011, 2012*.

OECD. Fact book, 2011-2012

Palacio, Marion. *Inflation in Belize: Concepts, Measurement, and Forecasts*, 1997.

Perez, Paula. *Determinants of Interest Rate Spreads in Belize*, CBB Research Paper, July 2011.

Perotti, E. and L. Laeven, *Confidence building in emerging stock markets*, 2001.

Robinson, Melissa and Marion Palacio. *Implications of Belize's indebtedness for Sustained Growth*, Central Bank of Belize, Research Department, November 2001.

Rowland, Ben, Juan Jose Durante, and Dougal Martin. Belize, A Private Sector Assessment, (Private Sector Discussion Paper, #6, 2010.

Rutheiser, Charles C. *The Structure of Belizean Society*, 1992.

Santoya, Jair and Candace Soutar. *Estimating the Real Effective Exchange Rate (REER) for Belize*, Central Bank of Belize, November 2011.

Sosa, Nigeli and Christine Vellos, *The Development of the Financial System in Belize (1970-1995)*, October 1996.

Strategic Policy Unit. *The Belizean Economy, 1985-1996 Evidence of Crowd Out Effects*, CBB, July 1997.

Stiglitz, Sen, Fitoussi. *The Measurement of Economic Performance and Social Progress, Revisited*, 2010.

United Nations. *Report of the World Commission on Environment and Development*. General Assembly Resolution 42/187, December 1987.

von Badden, Erik. *Income Disparities in Latin America*, School of Doctoral Studies (European Union) Journal, 2010.

Wilkinson, R. G. *Income Distribution and Life Expectancy*, British Medical Journal, 18 January 1992.

World Bank. *Country Partnership Strategy (FY 2012–FY 2015) for Belize*, July 29, 2010.

World Bank. *Country Partnership Strategy (FY 2012–FY 2015) for Belize*, July 29, 2010.

World Bank. *Country Partnership Strategy, (FY2012-FY2015) for Belize*, July 2011.

World Bank Report. *Inequality in Latin America & the Caribbean: Breaking with History?* October 2003.

