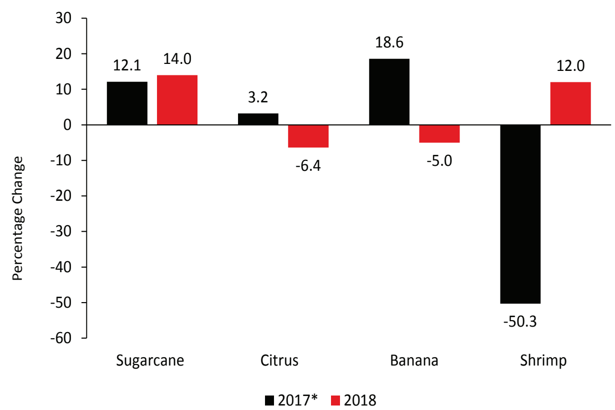
Belize Economic Outlook

Following a 0.5% contraction in 2016, the Belizean economy is poised for a recovery in 2017, with the Statistical Institute of Belize already reporting a preliminary 0.5% expansion up to September.

Looking ahead, the Central Bank of Belize estimates that real GDP should grow between 1.5% and 2.0% in 2018. This expansion hinges on expectations that agricultural output will increase, the three-year decline in "*Fishing*" will be reversed, and tourism will continue to support broad-based growth in the tertiary sector. Downside risks to this forecast emanate from the negative effects of adverse weather on agricultural and tourism activities, difficulties in managing the EMS and citrus greening, as well as loss of traction in the economic growth of the country's major trading partners. The International Monetary Fund projected that economic activities in Belize's largest trading partner, the United States (US), will expand from 2.3% in 2017 to 2.7% and growth will pick-up by 0.8 percentage points to 1.9% in Latin America and the Caribbean.

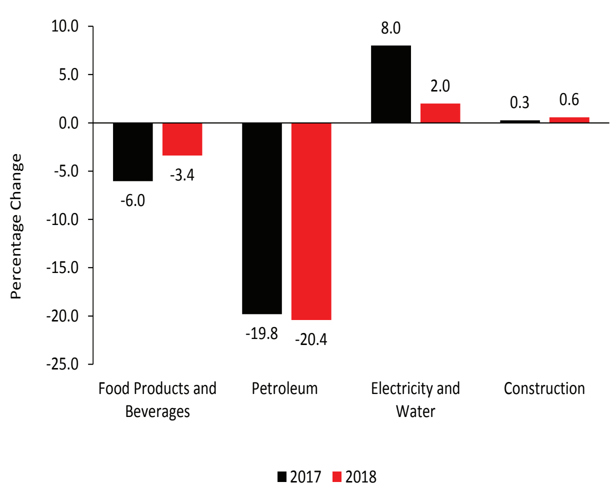
Output in the primary sector is projected to increase by 3.8%, supported by modest growth in "*Agriculture*" and "*Fishing*", as shown in Chart 1. In "*Agriculture*", sugarcane deliveries should expand with a 60.0% increase in production from the Santander group and maintenance in the volume of northern sugarcane deliveries.

Chart 1: Projected Performance of Select Primary (Agricultural and Fishing) Products



*Actual output

Chart 2: Projected Performance of Select Secondary Industries



On the downside, banana production will be set back by the bad weather suffered in late 2017 and early 2018, and a smaller citrus harvest is expected due to the continuing travails with citrus greening. In "*Fishing*", fresh investments in shrimp farms and greater coordination among stakeholders to address high mortality rates should result in increased farmed shrimp production.

Growth in the secondary sector is expected to contract marginally with declines in citrus juice processing and petroleum extraction outweighing increased value-added from sugar, electricity, water and construction activities (see Chart 2).

The tertiary sector is projected to grow by 2.2%, supported by growth across all major services, as shown in Chart 3. An upturn in distribution activities (linked to heightened consumption) and increases in overnight tourist arrivals, cruise ship visitors, domestic bank lending and government spending on public services will provide the uplift to this sector.

In 2018, inflation is expected to remain subdued in the absence of any significant tax increase.

On the external front, the gross international reserves is projected to remain almost stable at 3.7 months of merchandise imports. The current account deficit should narrow from 7.7% of GDP in 2017 to 6.4% of GDP in 2018. This improvement reflects increased earnings from tourism that outweigh a modest expansion in the merchandise trade deficit caused by imports rising faster in value than exports. As shown in Chart 4, export revenues are expected to grow by 3.2%, with higher earnings from sugar, molasses and citrus outweighing

Chart 3: Projected Performance of Select Tertiary (Service) Industries

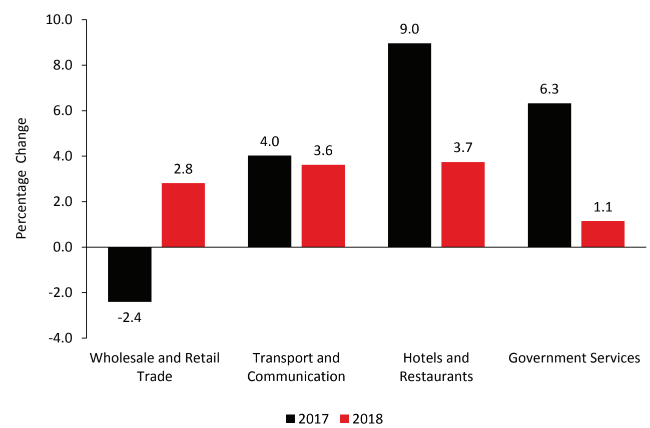
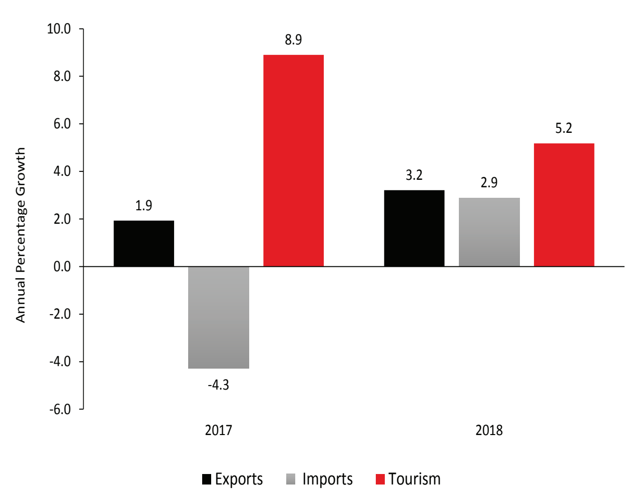


Chart 4: Merchandise Trade and Tourism Earnings



declines in those from banana and petroleum. Concurrently, imports should rise by 2.9% on the back of higher international fuel prices and expansion in aggregate demand.

After completing the write-off of non-performing legacy loans during 2017 in order to meet their loan loss provisioning rules, domestic banks are entering 2018 with healthier balance sheets. At year-end, domestic banks recorded an overall improvement in their return on assets from 0.6% in 2017 to 1.3%. Furthermore, the ratio of domestic banks' non-performing loans (NPL), net of specific provisions, to total loans fell from 3.0% to 2.4%, which rests comfortably below the 5.0% industry benchmark. Domestic banks' profitability should improve, while lending to the private sector is expected to increase by about 2.0% in line with economic growth projections. Liquidity in the banking system will continue to remain well above statutory requirements and will maintain some downward pressure on interest rates during the upcoming year, notwithstanding anticipation of future interest rates hikes in the US.

Meanwhile, Central Government is expected to maintain its fiscal consolidation stance in order to achieve a 2.0% primary surplus for the 2018/2019 fiscal year, which is the minimum level required in its covenant with the 2034 bondholders. Fiscal space will remain constrained by an elevated debt to GDP ratio of around 95.0% during 2018.

Table 1: Financial Indicators for Domestic Banks

	2015	2016	2017[P]
Return on Assets (%)	1.0	0.6	1.3
Capital/Risk-Weighted Assets[(1)]	24.8	24.0	24.2
Excess Liquidity[(2)]	76.3	72.3	44.9
NPLs/Total Loans[(3)]	6.6	3.0	2.4
Provisions/NPLs[(4)]	62.4	79.8	77.6
NPLs (Net of Provisions)/Capital	29.5	13.7	10.4
Credit to the Private Sector ($mn)	1,974.4	2,006.3	2,012.9

[P] - Preliminary
[(1)] The required capital adequacy ratio is 9 percent.
[(2)] In percent of statutory liquidity requirement.
[(3)] Net of specific provisions.
[(4)] General and specific provisions