

ECONOMIC OUTLOOK

Prepared at the End of the Third Quarter 1983

by

Edsil Phillips (Co-ordinator)
Ronald Prescod
Carlos Holder
Peter Whitehall
Harold Codrington

October 25, 1983

LEADING ECONOMIC INDICATORS
(\$ Million unless otherwise stated)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Foreign Assets (changes)	29.2	55.7	17.7	23.4	-41.7	65.9	7.0	20.0	30.0
Domestic Credit (changes)									
Private	80.8	18.3	107.4	96.1	166.4	72.6	98.3	123.3	141.0
Government	55.6	38.3	77.7	89.6	125.4	24.7	74.0	70.0	85.0
Monetary Liabilities (changes)	55.6	-20.0	29.7	6.5	41.0	47.9	24.3	53.3	56.0
Other (changes)	45.4	76.6	135.4	125.5	90.6	54.7	63.4	99.0	110.0
Other (changes)	51.0	-2.6	-10.3	-6.0	34.1	83.8	41.9	44.3	61.0
Fiscal Deficit	-85.4	-39.9	-55.4	-51.0	-102.7	-99.9	-114.7	-121.9	-137.6
Domestic Finance	77.1	-13.4	28.7	9.1	73.1	66.9	63.6	79.7	84.9
Banks	55.5	-20.0	29.7	6.4	42.8	47.8	24.3	53.3	56.0
Other	21.6	6.6	-1.0	2.7	30.3	9.2	39.3	26.4	28.9
Foreign	4.6	31.5	22.9	51.8	94.6	26.7	62.0	35.3	42.3
Residual	-2.0	-3.1	-3.8	10.0	-15.0	-6.2	10.9	-7.0	-10.4
BoP Current A/C	-92.1	-62.9	-67.0	-54.0	-182.0	-83.0	-10.0	3.0	6.0
Long term Capital	38.9	44.0	47.0	73.0	198.0	57.0	98.0	77.0	60.0
Short term (including errors)	82.4	74.6	52.0	15.0	-107.0	5.0	-104.0	-86.0	-42.0
Reserves (-increase/+decrease)	-29.2	-55.7	-18.0	-25.0	48.0	-66.0	-7.0	-20.0	-30.0
GDP Nominal Market Prices	949.4	1,112.0	1,348.4	1,724.8	1,905.7	2,010.0	2,211.0	2,500.0	2,830.0
GDP Real Factor Costs	668.4	710.5	765.4	798.7	779.9	743.2	756.3	793.8	823.3
Deflator (% change)	8.3	5.5	12.8	22.5	14.3	11.0	8.0	7.0	7.6
RPI (% change)	8.3	9.5	13.2	14.4	14.6	10.3	8.0	9.0	10.0
Unemployment*	15.7	13.8	13.1	12.6	10.9	13.9	15.0	14.5	13.0
Ratios to GDP at Market Prices									
Imports	57.4	58.7	61.9	60.9	60.3	55.1	50.7	49.3	50.1
Total Monetary Liabilities	51.5	52.7	52.0	47.9	48.1	46.8	45.4	45.4	44.0
Private Sector Credit	38.9	38.0	36.0	33.3	36.7	36.1	36.1	34.8	33.7
Fiscal Deficit	9.0	3.6	4.1	3.0	9.5	5.0	5.2	4.9	4.9
Government Revenue	32.3	30.3	25.2	24.4	23.4	24.2	24.4	23.6	22.9

n.a. - Unavailable
* - average of available quarterly data

Prospects for 1984

Output growth is expected to be stronger in 1984. Thanks largely to a recovery of sugar output (from 85,000 tonnes this year to 110,000 tonnes) and to seven percent anticipated tourism expansion, real GDP should increase by approximately five percent. Stronger growth is expected in the distribution sector (seven percent) and Government services may increase by about one percent. Manufacturing output is expected to turn around, rising by two percent, its strongest showing since 1980. Construction will continue steady growth at about six percent.

The overall deficit on Central Government operations will be larger than in 1983, assuming a 15% increase in the wages bill and a \$20 million rise in capital expenditure in line with revenue growth. However, Government should realise \$20 million savings on current account. Foreign financing will fall sharply under project funding arrangements now in place.. The bulk of Government's financing requirements will fall on the N.I.S., commercial banks and the Central Bank.

The balance of payments position should improve in 1984 with a small surplus on the current account. Export growth, based on good performances for sugar and manufacturing, is estimated at 17%, while total imports are projected to grow by 10%. Reserves are projected to grow by \$20 million.

RECENT ECONOMIC DEVELOPMENTS IN BELIZE

External and internal developments affected the performance of the Belizean economy in the past two years. Economic activity slowed considerably in 1982 with GDP estimated to have declined by about 2 percent. The major production and export commodities suffered from poor prices as the recession abroad led to a slowdown in demand for these goods. On the positive side, however, inflation is reported to have declined. Prices rose by 9.3 percent in 1982 compared with an 11.5 percent rise in 1981.

Unlike most regional producers, Belize's sugar production rose 8.4 percent in 1982. This expansion continued into 1983 when a record production of 114,024 tons was reached. Sharp declines in world sugar prices in the last two years, however, has reduced gross earnings from \$87.9 million in 1981 to an estimated \$70 million for 1983. The industry was also affected when, in late 1982, sugar exports to the United States became subject to quota. As a result, Belize had to sell some sugar in 1982 on the world market at prices that were below production costs. It is being anticipated that a review of the quota will substantially increase the amount that Belize can sell to the USA.

Given the sharp declines in the industry's earnings in the last three years, the Belize Sugar Industry (BSI), a subsidiary of the Tate and Lyle group, has approached the Government about a review of the distribution of net sugar proceeds between BSI and cane farmers and the possibility of Tate and Lyle reducing its shareholdings in the company from 97 percent to 15 percent.

The citrus industry suffered similar setbacks. For the past three crops, growers and processors have failed to resolve a dispute over the price paid to growers. The dispute, further aggravated by technical and financial difficulties, resulted in the 1982/83 crop not opening until December (after two months delay) and consequently, in a production drop of almost 30 percent for oranges and 75 percent for grapefruits. In another major agricultural industry, banana production and exports dropped 5 percent in 1982. Earnings also declined, affected by the depreciation of sterling vis-à-vis the US dollar. Towards the end of 1982, a new agreement was reached with the European buyers and prices were renegotiated in Belize dollars. Up to June 1983, 271,308 boxes valued at \$2.5 million had been exported; export earnings for the first half of 1983 had already surpassed 1981 and 1982's.

In other export industries, marine exports dropped 12 percent to \$12.6 million in 1982 due to lower prices. Exports of garments also fell - from \$22 million to \$13 million. Only export of wood products showed an increase to \$3.6 million.

With the major export industries performing poorly domestic export earnings dropped 20 percent to \$120 million in 1982. On the other hand, there was a substantial decline in imports to \$185 million and the trade deficit narrowed. Preliminary data for the first half of 1983 indicate that trade continued to slow. The deficit for this period reached \$39 million with \$50 million for the comparative period in 1982 but should widen in the remaining months of 1983.

Three successive devaluations in Mexico during 1982 have virtually wiped out Belize's intransit trade with that country. For 1982, the

trade dropped 23 percent to \$88 million; estimates for the first six months of 1983 value the trade at approximately \$8 million (compared with million in the first half of last year). The devaluations also resulted in Belizean households shifting their purchases from local to Mexican traders to take advantage of the price differentials (this shift is also cited as a significant factor in the decline in the inflation rate). Domestic prices in Mexico have been adjusting since and it has been reported that in addition to a marked slowdown in Belize's imports from Mexico, the Mexicans have begun, once again, to buy goods on the Belize market.

The deterioration in export earnings together with the collapse of the re-export trade put heavy pressure on Government finances and, consequently, led to a cutback in locally-financed capital expenditures and an expansion in the public sector's domestic borrowing. Of the \$30 million increase in the banking system's credit to the domestic system last year, 58 percent was lending to the public sector for budgetary support and to make overdue payments to foreign creditors. Bank liquidity being extremely tight in 1982, a large percentage of new credit, to both the public and the private sectors, was provided for by Eurodollar loans from their Head Offices.

Domestic credit continued to rise in 1983. Of the \$11 million increase in the first half of 1983, \$7 million was to the public sector. A large percentage of this new credit was obtained through additional issues of treasury bills.

Unlike 1982, the banking system has been very liquid this year.

Injections into the system included the receipt of US\$4.6 million being the public sector's portion of the Caribbean Basin Initiative in late December BZ\$ 7.8 million in June under the IMF's compensating Financing Facility for export shortfalls in 1982, US\$5.3 million from the World Bank for infrastructure and loans from the Commonwealth Development Corporation for the sugar and citrus industries. Negotiations are presently underway for another soft loan to Belize under the CBI - US\$5 million for on-lending to the private sector. Deposit growth in the first six months of this year approached 17 percent compared with 11 percent for the whole of 1982 and 6 percent for the corresponding months in 1982. Bank loans, on the other hand, rose by less than 1 percent in the six months to June (22 percent in 1982; 4.3 percent in the first half of the year).

Despite the high levels of liquidity this year, economic activity remains dormant. The business community has not sought their customary refinancing for stock replenishment (the rate of stock liquidation was virtually halted as consumers shifted their demands to the Mexican market). In a bid to boost domestic activity and in response to the downward trend in international interest rates, rates were reduced in Belize twice this year - in January and August. Since the end of 1982, the prime lending rate has dropped four percentage points to 14 percent.

The strengthening of the financial system has been reflected in a sharp recovery in foreign reserves. For most of 1982, international reserves were under constant pressure, being boosted only at year end with the receipt of the CBI funds. Thereafter,