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PERFORMANCE, STRUCTURE AND POLICY IN THE BELIZE ECONOMY

DESEMPEÑO, ESTRUCTURA Y POLÍTICA EN LA ECONOMÍA DE BELICE

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Abstract

This article examines the Belizean economy since independence in 1981 (excluding the impact of the virus COVID-19). During this time there have been significant changes in structure, especially the increase in the importance of exports of services, while population has expanded rapidly due both to natural increases and net inward migration. Slow economic growth in the first two decades led to an experiment with debt-led growth that ended in failure. The years since the global financial crisis in 2008/9 have proved especially difficult as a result of the debt overhang, the erosion of preferences for commodity exports and the increase in corruption. Belize has therefore found itself in a low-level equilibrium debt trap from which it is hard to escape. The level of poverty unsurprisingly has become severe.

Keywords: Belize, economy, exports, demographics, debt, poverty.

Resumen

Este artículo examina la economía de Belice desde la independencia en 1981 (excluyendo el impacto del virus COVID-19). Durante este tiempo ha habido cambios significativos en la estructura, especialmente el aumento en la importancia de las exportaciones de servicios, mientras que la población se ha expandido rápidamente debido a los aumentos naturales y la migración interna neta. El lento crecimiento económico en las primeras dos décadas condujo a un experimento con un crecimiento impulsado por la deuda que terminó en fracaso. Los años transcurridos desde la crisis financiera mundial en 2008/9 han resultado especialmente difíciles como resultado del sobreendeudamiento, la erosión de las preferencias para las exportaciones de productos básicos y el aumento de la corrupción. Por lo tanto, Belice se ha encontrado en una trampa de deuda de la que es difícil escapar. El nivel de pobreza, como era de esperar, se ha vuelto severo.

Palabras claves: Belice, economía, exportaciones, demografía, deuda, pobreza.

Introduction

Belize became independent on 21 September 1981 after 120 years as a British colony.[1] During that time its economy had performed relatively poorly – especially when comparisons are made with the rest of the Caribbean. Indeed, Belize began life as an independent country ranked 22nd in terms of Gross Domestic Product (GDP) per head among the 28 countries of the Caribbean.[2] This placed her in the bottom quartile and indicated the long distance Belize needed to travel in order to regain the status she enjoyed after the Napoleonic Wars when she had been ranked first in terms of exports per head.[3]

The first part of the article is devoted to production and is concerned with the change in the output of the economy as measured by GDP and GDP per head. The second part is devoted to distribution. This refers to the way in which the fruits of production are divided among the population. The third part explores employment. This is one of the biggest problems throughout the Caribbean and Central America, since these economies have struggled to find jobs for all their citizens of working age. The final part analyses the macroeconomic framework since independence, looking in particular at exchange rate, monetary and fiscal policies.

Production

Belizeans had been in control of most aspects of economic policy for nearly two decades before the end of colonization as a result of internal self-government. However, independence still brought some immediate changes.[4] Belize was now free to join those international institutions where membership was limited to independent countries and these included the United Nations (UN), the World Bank (WB), the International Monetary Fund (IMF), the Inter-American Development Bank (IDB) and the UN Economic Commission for Latin America and the Caribbean (ECLAC). In due course, Belize would also join the Organization of American States (OAS) and the Sistema de Integración Centroamericana (SICA).[5]

Membership of these organizations gave Belize either access to funding that would otherwise have not been available or influence on the world and regional stage. At the same time independence meant that Belize was eligible for the Preferential Trade Agreements (PTAs) that could only be signed by sovereign countries. The first was the Caribbean Basin Initiative (CBI), launched in 1984, that gave Belize duty-free entry to the US on a range of exports.[6] The second was the Lomé Convention that defined the terms under which exports from the Africa-Caribbean-Pacific (ACP) countries could enter the European Community (EC).[7]

For a country that depended on exports for its development, these trading arrangements were important. However, they excluded many goods and all services, so that Belize – together with other countries in the Caribbean – became frustrated at times with the arrangements. This sense of disappointment was then aggravated when the US and EU signed PTAs with other countries and regions that eroded the preferences given to Caribbean states.[8]

Table 1
Sectoral and Final Expenditure Shares of GDP (%), 1980-2018

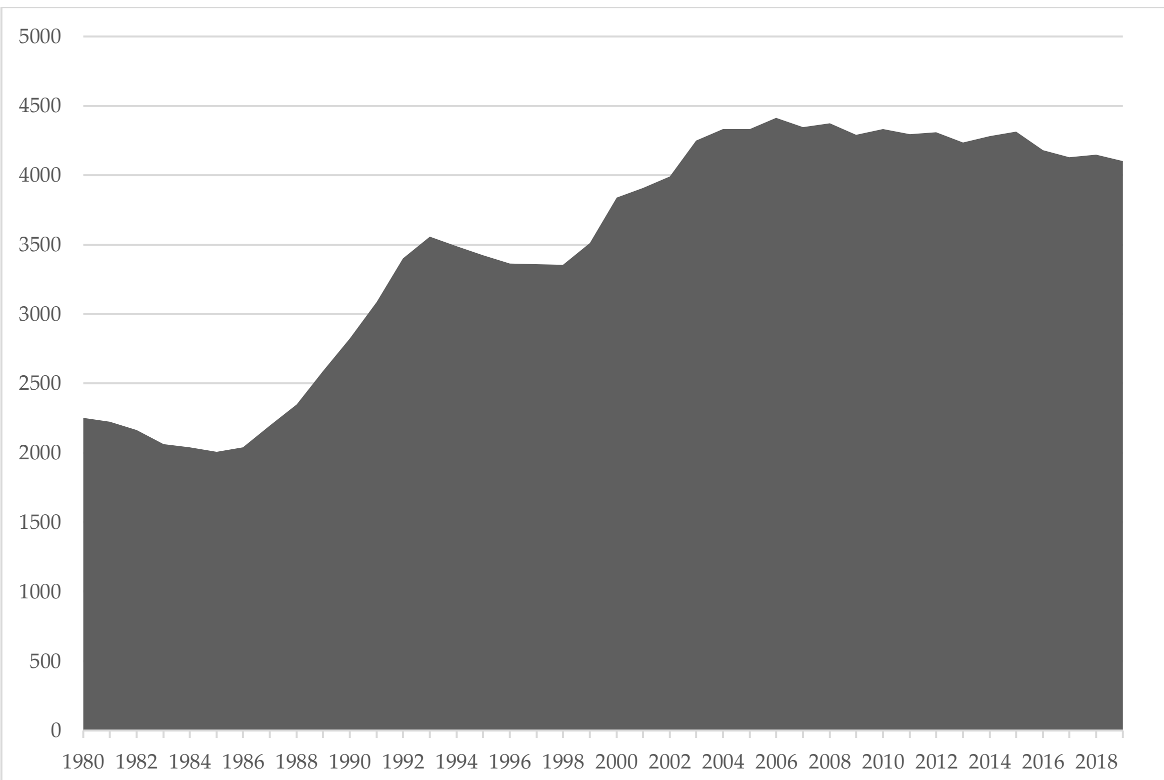
	Primary	Secondary	Services	Exports of Goods & Services	Household Expenditure	Public Expenditure	Investment	Imports of Goods & Services
1980	27.4	30.9	41.7	55.4	71.9	17.2	24.1	68.6
1990	20.0	22.2	57.8	62.2	64.6	12.9	20.4	60.1
2000	17.4	20.6	62.1	53.0	74.1	12.9	31.7	71.7
2010	14.0	21.5	64.5	59.1	70.4	16.2	19.4	59.0
2018	11.9	14.1	74.0	57.7	68.5	17.5	16.6	60.2

Note: Shares are based on GDP at current prices.
Source: World Bank, *World Development Indicators* (WDI) and Belize Statistical Institute (BSI).

Belize had specialized in forestry for much of its life. However, the timber industry had gone into sharp decline after 1950. By the time Belize became independent, the structure of the economy had become similar to other countries in the Caribbean and Central America. Primary activities (mainly agriculture, but also forestry, fishing and mining) accounted for just over one quarter of GDP (Table 1). This was roughly the same as secondary activities (mainly manufacturing, but also construction, electricity and water), but less than services which accounted for some 40 per cent of GDP. Forty years later, however, primary activities were little more than ten per cent, while nearly 75 per cent of GDP was accounted for by services. Secondary activities had fallen to just under 15 per cent.

Belize had therefore become specialized in services – in common with most countries in the Caribbean. Since one of the most important services is tourism, it is no surprise to find that the pattern of final expenditure had also changed. Although household consumption is still the largest item of expenditure, exports of goods and services (Table 1) are now almost as important. However, imports of goods and services are usually an even higher share of GDP than exports with the difference explained by current transfers (mainly remittances) and net capital inflows. Public current spending, on the other hand, accounts for only a small share of final expenditure, while investment has averaged around one-quarter of GDP.

Figure 1
Belizean GDP per head (2010 US$), 1980-2019



Source: own elaboration.

If we take first the whole post-independence period (roughly four decades), the Belizean economy measured by GDP at constant prices has grown at 4.3 per cent per year. Most of this growth, however, is explained by the increase in population so that the annual growth of GDP per head has been a very modest 1.5 per cent.[9] Furthermore, most of the growth took place in the first three decades after independence (Figure 1) with no increase at all since 2010. As a result, Belize ranked 32nd out of the 34 countries of the Caribbean c.2016 in terms of GDP per head at constant prices.[10] Only Haiti and Guyana were poorer and Guyana will soon overtake Belize as a result of the discovery of oil in commercial quantities.

By the time of independence in 1981 Belize had shaken off its dependence on forestry exports. Instead, exports came mainly from a small number of agricultural and marine exports such as sugar, bananas, citrus and shrimp. Indeed, in the year of independence these four products accounted for almost all domestic exports and about two-thirds of merchandise exports.[11] Since their prices were determined in world markets over which Belize had no control, there were bound to be fluctuations in the value of export earnings and this could easily be compounded by changes on the supply side due to the weather. Service exports were still small, accounting for a little over ten per cent of total exports.[12]

Forty years later the main commodity exports are the same, but the situation has changed in other respects.[13] Service exports, as in much of the Caribbean, have become much more significant. By far the most important is tourism (overnight and cruise ship visitors). Belize, as so often before, has therefore re-invented its export sector. However, it has not eliminated the problem of volatility. World commodity prices are still very important, but they have been joined by income fluctuations and exchange rate variations in the countries from which the tourists come. And tourism is almost as susceptible to weather conditions in Belize as agricultural and fisheries exports.

Distribution

We can think of ‘production’ as the cake and ‘distribution’ as the way in which the cake is divided. It can be in equal portions or done very unequally. One distribution may also be economically efficient, but socially very unfair. This in broad terms is what happened in the US in the 30 years after the mid-1970s when the share of income received by the richest one per cent jumped from 10 to 20 per cent. On the other hand, it is possible to give priority to distribution even at the expense of production. This is what happened in Cuba in the 1960s when output rose very slowly, but income inequality declined dramatically.

What has been the situation in Belize? We are limited in what we can say, because until 2002 there were no reliable studies on distribution. At the time of independence, however, all contemporary observers were struck by the lack of extremes in the Belizean distribution of income. There were many poor people, but the rich did not flaunt their wealth and the Prime Minister, George Price, was famous for the austere example that he set. The contrast with the neighbouring countries, where the rich engaged in conspicuous consumption while living in gated communities with high security, could not have been more marked.

Nor, at first, did Belize experience the problem found in many parts of the Caribbean where a large part of production accrued to foreigners, making GNI[14] – the income received by residents – much smaller than GDP. The extreme case was Puerto Rico, where foreign-owned companies were so dominant that GNI had fallen to two-thirds of GDP by the 1980s. However, many Caribbean countries had a similar experience as a result of the presence of key foreign companies in the crucial export sector.

The position in Belize is now much more typical of that found in the rest of the Caribbean and the neighbouring countries. In that narrow sense there is no special cause for alarm. However, Belize has a relatively large number of expatriates from rich countries whose payments of income received in Belize to their own foreign bank accounts are almost certainly not fully captured in the Central Bank figures. Indeed, large parts of the real estate and other businesses are 'under the radar' as far as the authorities are concerned and there is anecdotal evidence that transfer pricing is widespread in the import trade as a way of transferring profits abroad.[15] Thus, 85 per cent is probably a realistic figure for the ratio of GNI to GDP in Belize today.

The first reliable study of poverty and inequality in Belize was not carried out until 2002 and a second one, using the same methodology, was done in 2009. The first year, however, was one of moderate growth while the second coincided with a recession. This needs to be remembered when evaluating the published statistics. Nonetheless, these two studies are of excellent quality and are the first opportunity to address in detail the question of distribution in Belize.

Table 2
Poverty and Distribution as % age of Population, 2002 and 2009

	Indigence	**All Poor**	**Gini**	**Expenditure by Quintile**	
				Top	**Bottom**
2002	10.8	33.8	0.40	na	na
2009	15.8	41.3	0.42	48.8	5.8

Note: Numbers refer to individuals – not households.
Sources: For 2002 data, Government of Belize (2004) and for 2009, Government of Belize (2011).

The 2002 Poverty Assessment Report revealed the extent of extreme poverty (indigence), which happens when an individual's income is insufficient even to purchase the minimum food requirements for their gender and age. The level of indigence was estimated at just over ten per cent (Table 2). The Report then estimated the minimum non-food expenditure needed to avoid poverty and found that a further 23 per cent did not have sufficient income for this. Thus, one-third of all Belizeans were defined as poor in 2002 – despite the fact that the economy had been growing in the previous few years (Figure 1). Income inequality, however, was not severe with a Gini coefficient estimated at 0.4.[16]

The results of the 2002 study suggested that poverty in Belize was comparable to the levels found in other countries with similar incomes per head, while income inequality was a little lower. However, any complacency that might have been suggested by these findings was swept away with the publication of the 2009 Poverty Assessment Report. Although the survey was carried out in a recession year, the results were nonetheless very shocking.

The most striking result was the increase in indigence. This had jumped to 15.8 per cent by 2009 (Table 2), meaning that Belize now had the same level of extreme poverty as Guatemala in 2000. Poverty as a whole had climbed to 41.3 per cent, so that 'moderate' poverty had also increased. The survey also estimated that the top quintile was responsible for nearly half of all expenditure while the bottom quintile accounted for only 5.8 per cent (Table 2). The Gini coefficient had increased, but not greatly – a result that some might find surprising in view of the rise in conspicuous consumption since 2002.[17]

The 2009 Poverty Assessment Report, made widely available in 2011, suggested that something had gone seriously wrong in Belize as the country prepared to celebrate 30 years of independence. Indeed, in the Caribbean only Haiti and the Dominican Republic had higher levels of poverty. The Report was also exceptionally useful in identifying the characteristics of indigent and poor households.[18]

The first characteristic identified was the extent to which indigence in particular was associated with rural areas. No less than 80 per cent of indigent households were found in the rural economy. This helps to explain why Belize is different from the rest of the Caribbean, since in Belize the proportion of the population in rural areas is high (55 per cent in 2019) and has been rising. This, in turn, reflects the increase in immigration from Central America – especially Guatemala – since so many of the migrants come from an agricultural background. In the long-run this may prove to be beneficial for Belize, but in the short-run it is a major factor behind the increase in indigence.

A second characteristic has to do with education levels. Among indigent households, only 12 per cent of heads of family had a secondary or post-secondary education compared with 35 per cent for heads of households nationally. In other words, nearly

90 per cent of heads of indigent households left school with only a primary school education – and in a few cases not even that. Secondary school attendance rates in Belize are low by international standards, so it is not surprising that so few heads of indigent households have had access. This is clearly an area where Belize is falling badly behind in comparison with other countries in Central America and the Caribbean.

Unfortunately, no Poverty Assessment Report has been carried out in the last decade. Since income per head at constant prices has been stagnant over these years, it is quite possible that poverty indicators have deteriorated further. A proxy for what might have happened is provided by the data on employment and unemployment, which are collected regularly. It is to this that we now turn.

Employment

Employment has been the Achilles heel of the Caribbean development model in the last half century. The rate of unemployment is high in almost all countries. This is the case of relatively rich countries like Martinique as well as poor countries such as Suriname. Only Cuba has had a very low rate, but this has been due to the existence of high rates of disguised unemployment in the public sector rather than being a true reflection of the state of the labour market. The highest rates of unemployment (in excess of 20 per cent) are found in a number of ex-British colonies such as Dominica and Grenada.

The labour market in Belize is far from satisfactory and that has been true for almost all the period since independence (and, indeed, for many years before it). New entrants to the labour force struggle to find work, while employers complain about the quality of those they hire. Unemployment is high, although just how high depends on how it is measured (the decennial census, for example, uses a definition that is very different from that used in the annual labor market survey).[19] Whatever measure is used, however, cannot disguise the fact that the employment situation in Belize leaves a lot to be desired.

The Belizean labour market has many features in common with other countries in the Caribbean and Central America. However, there are also important differences. This is perhaps not surprising in view of the fact that Belize is the only country that belongs to both regions. We will explore the similarities below, but here we start with the differences.

Most countries of the Caribbean and Central America, including Belize, have experienced net outward migration in the last 30 years. Yet Belize has also experienced high levels of gross **inward** migration since independence. Belizeans may have emigrated, in other words, but at the same time many others have come to Belize to take their place. The 2010 census estimated the foreign-born at 14.8 per cent of the population with over 80 per cent of these migrants having come from Guatemala, El Salvador, Honduras and Mexico.

Most of these immigrants to Belize have come from an agricultural background. Not surprisingly, therefore, they have chosen to work in the agricultural sector. Thus, the proportion of the labor force employed in agriculture has remained high (it was 17.7 per cent in 2019).[20] While in most countries there has been a marked shift in employment from agriculture to industry and services, Belize has experienced a smaller decline in the agricultural share. At the same time there has been a fall in the industrial share (from around 20 per cent in 1993 to 15 per cent in 2019).

Because of the importance of agriculture, Belize has therefore remained a relatively rural country. Indeed, the rural share of the population has remained around 50 per cent throughout the period since independence. This is very different from other countries in the Caribbean and Central America, where rising levels of income per head have been associated with an increase in urbanization. And Belize has not experienced the extreme concentrations in a single city found in many of the countries in these two regions.

These are the main differences and they help to explain the workings of the Belizean labour market. Agriculture is still important and its growth has enabled Belize to become self-sufficient in a number of important foodstuffs such as rice. Industry, especially manufacturing, has suffered from the combination of a small domestic market and declining tariff rates.

There are also many similarities with neighbouring countries. The service sectors have been growing in importance and now account for around two-thirds of all jobs compared with perhaps 50 per cent at the time of independence. This trend seems set to continue with its share increasing in the future at the expense of agriculture rather than industry. This is a result of industry being reduced to a core of activities that have learnt to survive in the face of import competition while many agricultural sectors will struggle to move from self-sufficiency to exports. And existing agricultural export activities, such as sugar and bananas, face very uncertain prospects.

Belize has also experienced the same rise in female participation[21] as other regional countries. While the male participation in Belize has risen slowly to 80 per cent in 2019, the female rate has jumped from around one-quarter at the time of independence to 53 per cent nearly forty years later.[22] As a result, the total participation rate has steadily increased. More Belizeans of working age are therefore in the labour force, although this does not mean they are necessarily employed as they may be seeking work rather in a job.

Another similarity is the gendered nature of sectoral jobs. Some 85 per cent of female jobs in 2019 were in services with only six per cent in agriculture. Female jobs in industry are also relatively unimportant today, although they were much more important before the collapse of garment exports.[23] By contrast, only 55 per cent of all male jobs were in services in 2019 compared with 25 per cent in agriculture and 20 per cent in industry. If the service sectors continue to be the main drivers of the Belizean economy with a decline in the relative importance of agriculture, this can therefore be expected to favour female over male employment unless jobs become less 'gendered' than in the past.

In 1984, shortly after independence, the Central Statistical Office conducted a labour force survey. Although not strictly comparable with the results of the annual surveys carried out from the 1990s onwards, this was the most thorough attempt to date to understand the workings of the Belizean labour market. One of the most striking features of the survey was what it revealed about unemployment. It estimated the rate at 14 per cent with female unemployment at 24.1 per cent and male at 9.1 per cent. Furthermore, the survey also showed a wide disparity among the six districts with the highest rate (male and female combined) in Stann Creek (23.7 per cent) and the lowest in Corozal (8.4 per cent).[24]

Table 3
Belize Unemployment (%): 1991-2019

	1991	**2000**	**2010**	**2019**
Female	13.1	17.8	17.9	15.4
Male	6.0	7.0	7.7	5.5
Total	8.1	10.6	11.7	9.5
Youth Female	23.3	31.3	29.6	32.6
Youth Male	11.3	13.6	15.3	12.0
Youth Total	15.4	19.9	20.9	19.9

Source: Belize Statistical Institute.

Some of the gap between labour supply and demand could be attributed to the recession that Belize experienced at the time of independence. However, when surveys started to provided annual data in the 1990s, the rate of unemployment was still very high. In 1991, for example, when the economy was growing rapidly, the rate was 8.1 per cent (Table 3) with a female rate of 13.1 per cent and a male rate of 6.0 per cent. The unemployment rate then rose before reaching a peak of 11.7 per cent in 1998. Youth unemployment (Table 3) was roughly twice as high throughout these years.

The unemployment rate in Belize is very sensitive to the business cycle, falling when the economy is booming and rising when it is stagnant. This explains the sharp rise after 2009 when the economy entered a recession. However, the trend rate is flat with the total unemployment rate averaging around 10 per cent (higher for women and lower for men). It has proved very difficult to lower this trend rate despite recognition by policy-makers that unemployment carries huge economic, social and political costs.

The persistence of such high rates of unemployment demands explanations. Minimum wage rates are higher than in neighbouring countries, but this can always be justified if the labour force is more productive. This depends on skills, which in turn are highly correlated with the level of education of the employed population. Unfortunately, despite recognition by all political parties that education should be a priority, the Belizean workforce is not highly skilled. The Belizean population is still very rural and access to secondary schools for pupils outside the main towns is often difficult. In time, with increasing urbanization, this problem will resolve itself. However, Belize does not have the luxury of waiting and the skill levels of the future labour force need to be addressed as a matter of urgency.

There is, however, a big difference between males and females with respect to education. While the 2010 census revealed that there were slightly more boys than girls in pre-school and primary, there were more girls than boys in secondary and tertiary institutions. Indeed, at university level the number of women outnumbered men by two to one. Coupled with the strong presence of women in the service sectors, the prospects for female employment are clearly a lot brighter than for men. This is not, however, peculiar to Belize as similar trends are found in other parts of Central America and the Caribbean.

Faced with high rates of unemployment and poor job prospects, it is not surprising that so many Belizeans have emigrated. This outflow started in the first decade of the 20th century when many Belizeans left for Panama to find work in the Canal Zone. It accelerated after Hurricane Hattie in 1961. It did not stop with independence, some 40,000 leaving in the 1980s. Tighter entry requirements, especially in the US, reduced the outflow in the 1990s when an estimated 25,000 left with an additional 20,000 in the first decade of the 21st century.[25]

Outward migration in the first two decades after independence was so high that it exceeded the large number of immigrants coming to Belize. The rate of gross outward migration was two per cent of the population in each year in the 1980s and a little over one per cent in the 1990s. In these two decades, net births exceeded the change in the population so there was net **outward** migration despite the large numbers coming to Belize as immigrants.

It was only after 2000 that the numbers entering exceeded the numbers leaving. Although the rate of immigration slowed down as a result of improved economic conditions in Central America, emigration became more difficult. And there was an improvement in the average education of the foreign-born population. In the 2000 census 60 per cent had no education at all, while this had fallen to less than one-third by 2010.

The biggest impact of these changes has been on Belizean ethnicity. The Creole population by 2019 had fallen to 22 per cent compared with 53 per cent for the Mestizos (in 1980 the shares had been 39 and 33 per cent respectively). Yet, despite the change in the balance of ethnicities, there was no real prospect of Belize becoming 'just another' Central American country. The children of the foreign-born population were being rapidly assimilated into Belizean culture and these changes – including a largely bilingual population – increased Belize's claim to be a 'bridge' between Central America and the Caribbean.

Macroeconomic Policy

After independence, Belize was in theory free to determine its own policies. However, Belize soon discovered that its freedom of action could still be restricted in various ways. The balance of payments crisis at the beginning of the 1980s forced the People's United Party (PUP) government to seek a loan from the IMF and the loan came with numerous strings attached. The Fund would later apply pressure to Belize through its regular Article IV consultation process and the same would happen through other international agencies when they wanted a change in policy.[26]

These pressures could come not only from multilateral institutions, but also from foreign governments. The British government in the mid-1990s, for example, used the bilateral tax treaty between the two countries to ensure that the United Democratic Party (UDP) government did not end the fiscal privileges extended to the companies owned by Michael Ashcroft, a British citizen, by the 1990 International Business Companies (IBC) Act.[27] The US government, for its part, used its unilateral drugs certification process to pressure Belize into signing other bilateral treaties that may in some cases have had nothing to do with the trade in narcotics.[28]

Governments in Belize have also faced external challenges to their economic policies from the judicial system, since the court of appeal is composed mainly of non-Belizean judges while the final court of appeal until recently was the judicial committee of the Privy Council in London (it is now the Caribbean Court of Justice in Trinidad & Tobago). The nationalization in 2009 of Belize Telemedia Ltd (BTL) was challenged in this way, as was the ninth amendment to the Constitution in 2011 mandating that public utilities should have a majority government stake.[29]

Economic policy in Belize, therefore, has had to be shaped taking into account external realities. However, the domestic constraints have been even more important and at the centre of the macroeconomic framework since independence has been exchange rate policy. Indeed, the mandate of the Central Bank of Belize, established in 1982, could not make this clearer since Clause 6 of the Bank Act states:

Within the context of the economic policy of the Government, the Bank shall be guided in all its actions by the objectives of fostering monetary stability especially as regards stability of the exchange rate and promoting credit conditions conducive to the growth of the economy of Belize.

'Stability of the exchange rate' in the above quote refers to the peg of the Belize dollar against the US dollar. This had been set in 1976 when the newly established Belize Monetary Authority broke the link with sterling set on 31 December 1949. Belize therefore once again linked its currency to the US dollar, as it had first done in 1894, but this time at 2:1 rather than at parity.

The main economic argument for linking the Belize to the US dollar rather than the pound sterling was the overwhelming importance of the US in the country's external trade. The US was already the most important partner before 1976 and its importance subsequently increased even further. However, the US share of Belize's trade peaked in the early 1990s and then declined. The latest figures suggest that the US is now responsible for only one-third of merchandise imports and exports and it is likely to account for a similar share of service trade.

Belize is a small open economy and it can be argued that the exchange rate peg has served the country well. By avoiding devaluation, Belize has escaped the fate of Guyana, Jamaica, Nicaragua, Suriname and many others where exchange rate collapse led to very high rates of inflation. Furthermore, it is widely assumed that it would be suicidal for any political party when in government to devalue. However, there are other exchange rate pegs available, including to a basket of currencies, and at some point in the future it may be necessary to change.

In addition to maintaining stability of the exchange rate against the US dollar, the Central Bank of Belize has responsibility for monetary stability. This was almost virgin territory for Belize when the Bank began operations in 1982. When the Belize (British Honduras) dollar came into existence for the first time in 1894, monetary stability was guaranteed by a currency board that required 100 per cent backing by sterling of any notes and coins issued.[30] The Belize Monetary Authority, established in 1976, was able to take a slightly more active role. However, the monetary system that the Central Bank was asked to regulate and supervise in 1982 was still extremely primitive.

All this changed rapidly after independence as Belize acquired a modern financial system. The most significant change was the steady 'financial deepening' of the country, as the ratio of the money supply (broadly defined) to GDP rose from around one-quarter at the time of independence to nearly three-quarters forty years later.[31] Indeed, the money supply has expanded in almost every single year. This is all the more remarkable in view of the fact that the annual change in the money supply is heavily influenced by the change in net foreign assets, which has fluctuated greatly in Belize from year to year and has often been negative.[32]

One feature of the monetary system that has **not** changed, however, has been the enormous spread between lending and deposit rates by banks. The high spread in 1980 could be attributed to the 'shallow' financial system under the colonial currency board system, but the spreads have persisted and have become a source of major concern to the authorities as high lending rates by banks undermines investment and make the return on capital needed by new firms extremely challenging.[33]

There are many explanations given for the high spreads. However, the most compelling is the oligopolistic nature of the banking system where one bank (the Belize Bank) accounts for nearly 40 per cent of all deposits and loans. This makes the Belize Bank the market leader and allows it to set rates that other financial institutions are only too happy to follow. And, as the market leader, the Belize Bank has been able to pass on to its customers the increased costs associated with the rise in non-performing loans after 2006.[34] Other explanations include the problems caused by US banks no longer providing corresponding banking services to some Belize banks as a result of the high cost of compliance associated with new rules on money-laundering.

The Belize Bank, renamed as such after the purchase of the Royal Bank of Canada by Michael Ashcroft, has been the main beneficiary of the tax concessions given to Public Investment Companies (PICs) by the International Business Companies Act in 1990. These tax concessions, although no longer as generous as they once were, allowed the bank to build market share at the expense of its competitors through aggressive promotion of its services. The dominant market position it acquired then enabled it to maintain the high spread between borrowing and lending rates that should have declined sharply with financial deepening. The high spreads in Belize are therefore a direct consequence of the generous tax concessions granted in 1990.

Tax concessions have an impact on government revenue, which brings us to fiscal policy in Belize. Governments know only too well that fiscal policy can undermine a fixed exchange rate despite the best efforts of central banks to pursue monetary stability. Thus, the gap in Belize between public revenue and expenditure – the central government surplus/deficit – has been subject to careful scrutiny.[35]

Public revenue in Belize comes mainly from indirect taxation. This used to be derived largely from taxes on external trade. However, concessions on import duties to numerous companies, coupled with zero tariffs on imports from CARICOM, have reduced the importance of this source of income. The main source of revenue is now taxes on goods and services closely followed by taxes on income and profits. There are also non-tax revenue streams, which normally represent a little over ten per cent of the total.

There has been no strong tendency for revenue to increase as a share of GDP despite the growth of GDP since independence. This is in contrast to what normally happens as countries become richer. This might not matter if public expenditure, including investment, had moved in line with revenue. However, as in all democracies, public expenditure has been subject to strong upward pressure (especially before elections) so that deficits on public spending have been the normal practice.

The deficit at the time of independence could be attributed to the impact of the recession on public revenue, but the large deficits in some years in the 1990s and between 2000 and 2006 could not be explained away so easily. These were years of high public investment, which were particularly important when the PUP was in power.[36] The deficits have had to be financed and the central government has resorted to both internal and external borrowing to meet its requirements, although the main source has been external. This led to a big increase in public sector external indebtedness. In addition, the central government guaranteed the borrowing of public sector institutions leading to a further increase in the public external debt.

The ratio of public sector external debt to GDP was kept below 60 per cent until the late 1990s. This is the ratio that is often regarded as prudent, as it avoids the need for a high proportion of public expenditure to be spent on external debt servicing. However, by 2003 the ratio was above 100 per cent and external debt servicing became increasingly onerous for Belize. As Belize struggled to meet its external obligations, there was even a risk of devaluation. Belize was forced to restructure its external public debt in 2006, but the instrument used (the 'super bond') is like a ticking bomb as it carries an interest rate that increases over time.[37]

Fiscal policy has been the weakest part of the macroeconomic framework in Belize since independence and it invites the question of whether it could have been improved. There is no denying that there are numerous fiscal concessions for companies. Indeed, it is hard to find a company that is paying the full range of taxes that in theory apply to firms, since most qualify for concessions under either the Fiscal Incentives Act, the Export Processing Zone Act, the Commercial Free Zone Act or – in the case of the Belize Bank – the International Business Companies Act.[38] In addition, Belize collects very little from cruise ship visitors and the high tax threshold for individuals (BZ$20,000) means that most pay no income tax at all.

Conclusions

The performance of the Belize economy since independence has been very mixed. Macroeconomic stability has been preserved with low rates of inflation and responsible monetary policies. GDP growth for the first three decades was in line with the Caribbean average, but GDP per head has fallen since 2008. The proportion of households living in poverty has almost certainly increased since the last survey in 2009 while the rate of unemployment has remained a concern. Most worrying has been the high rate of external indebtedness, making it very difficult for the Belize government to invest in the programmes that might improve labour productivity and allow the country to end the stagnation in GDP per head.

The Belizean economy has therefore been caught in a debt trap that prevents it from growing - not poor enough to qualify for debt relief, but not rich enough to find the resources to restructure its economy in a more sustainable way. The playing field for the private sector is not level with small companies unable to compete with those large firms able to access funds abroad and with the leverage to secure substantial tax reductions. At the same time Belize's reputation has been damaged by the endless cycle of litigation brought against the government by Michael Ashcroft's companies in the last decade, deterring other foreign investors and distracting the government.

Notes

1 Belize had been a British settlement since 1763 subject to Spanish sovereignty. It became the colony of British Honduras in 1862 and changed its name to Belize in 1973 eight years before independence.

2 Defined as all the islands plus the three Guianas and Belize.

3 See Bulmer-Thomas, (2012), Figure 4.1, p. 79.

4 Belize was already a member of the Caribbean Community (CARICOM).

5 OAS membership was not possible immediately after independence because of Guatemalan objections.

6 The CBI would be expanded in later years to include more goods.

7 The EC would become the European Union (EU) in 1993, while the Lomé Convention would be replaced by the Cotonou Convention in 2000. Finally, in 2008 the preferential trade arrangements were replaced by an Economic Partnership Agreement (EPA) between the EU on the one hand and CARIFORUM on the other with the latter consisting of all CARICOM states together with the Dominican Republic.

8 The North American Free Trade Agreement (NAFTA) was especially problematic, as it gave Mexico unrestricted access to the US across a whole range of goods in which the Caribbean could only compete with preferences.

9 The population, some 400,000 in 2019, is estimated based on births, deaths and net migration since the last census in 2010. It is therefore subject to a large margin of error and will be revised after the 2020 census is published.

10 Because of constitutional changes in the Dutch- and French-speaking countries, there are now six more countries in the Caribbean than in 1980.

11 Merchandise exports are the sum of domestic exports and re-exports.

12 Total exports are the sum of merchandise exports and service exports.

13 Oil started to be exported in 2006, but the value peaked in 2011 and has declined sharply since then.

14 GNI is Gross National Income; it adjusts GDP by adding income from abroad and subtracting income paid abroad.

15 Transfer pricing occurs if a merchant pays a higher price for imports than necessary, the excess being then paid into a foreign bank account owned by the merchant. It is also a way of reducing tax liability.

16 The income reported in the survey should include remittances from abroad. It is likely that these favour the poorer groups in Belize society and this may help to explain the relatively low Gini.

17 The Gini coefficient shown in Table 2 is based on income as reported by those sampled. All groups tend to under-report their income, but the degree of under-reporting is often greatest among the rich.

18 The Poverty Assessment Reports have much less to say about the characteristics of the rich. In general, however, the top decile – in Belize and elsewhere - receives less of its income from wages and salaries and more from rents, distributed profits and bank interest. These non-labor sources of income are not heavily taxed in Belize so that fiscal policy contributes very little to the distribution of income.

19 In 2000, for example, the census suggested a rate of unemployment of 20.3 per cent while the annual survey estimated it at 10.6 per cent.

20 Agriculture is defined here to include forestry and fishing, although forestry today is unimportant. If we compare the figure for agriculture alone (i.e. excluding forestry), it was 29 per cent in 1946 (see Carey-Jones (1953), p.97). Thus, Belize has experienced a much smaller decline in the share of agricultural employment in the last 70 years than almost any other country.

21 The participation rate is defined as the ratio of those aged 15 and above in work to the total population of that age.

22 See Belize Statistical Institute (2019).

23 In the 1990s industrial jobs accounted for between 10 and 13 per cent of all female employment.

24 In every district, the female unemployment rate was much larger than the male rate.

25 See Straughan (n.d.), which is a wide-ranging survey of Belizean emigration based on the secondary literature.

26 One example was the sustained campaign by the Organization of Economic Cooperation and Development (OECD) at the end of the 1990s against Belize's offshore financial industry.

27 The 1990 IBC Act, drafted by Michael Ashcroft's lawyers, authorized the establishment of Public Investment Companies (PICs) with major fiscal concessions. Only two PICs were established before the Act was amended in 1995, the most important being Ashcroft's holding company that has changed

names several times since it was created. The 1995 amendment preserved the tax privileges of the two PICs already established.

28 In a presentation to a US/CARICOM summit in May 1997, Dean Barrow – at the time Deputy Prime Minister – stated: "The suspicion, too, can never be far from our minds that certification is a form of pressure to force us to sign certain treaties……….that ……., in individual clauses, require modification to bring them into conformity with our Constitutions."

29 Both judicial challenges were led by Michael Ashcroft's associates, leading to the media coining the phrase 'Ashcroft Alliance'.

30 See Bulmer-Thomas and Bulmer-Thomas (2012), p.103.

31 The money supply can be narrowly defined (current accounts, notes and coins only – M1) or broadly defined (to include time and saving deposits – M2). Whichever definition is used, 'financial deepening' refers to the ratio of the money supply to GDP.

32 Broad money, i.e. M2, represents the liabilities of the consolidated banking system and is therefore equal by definition to the sum of the banks' domestic and foreign assets. Thus, the **change** in M2 is equal to the **change** in net domestic assets ('money of internal origin') and the **change** in net foreign assets ('money of external origin'). In Belize the change in money of external origin has often been negative, which makes the growth in the money supply in almost every year all the more notable.

33 There was a significant decline in lending rates in 2011, but deposit rates fell as well leaving the spread roughly the same as it was before.

34 These jumped sharply, as the economy slowed down and eventually went into recession in 2009.

35 See, for example, Martin and Manzano (2010), Chapter 2.

36 The World Bank became so exercised by this that it cancelled its programme for Belize in 2001 on the grounds of 'fiscal and governance concerns'. It re-established its programme in 2011.

37 The interest rate started at 4.25%; it rose to 6.0% in 2010 and to 8.5% in 2012. The principal was due to be repaid from 2019, but the United Democratic Party (UDP) government, in power since 2008, was able to negotiate an extension.

38 For more details, see also Jenkins and Kuo (2006).

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