

Economic Policies for Prosperity and Stability: Thoughts on the Future for Belize

The Inaugural Gian Ghandi Memorial Lecture

University of Belize

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February 25, 2021

This lecture was revised as a result of comments arising out of the presentation; my thanks to everyone who raised issues for discussion and clarification.

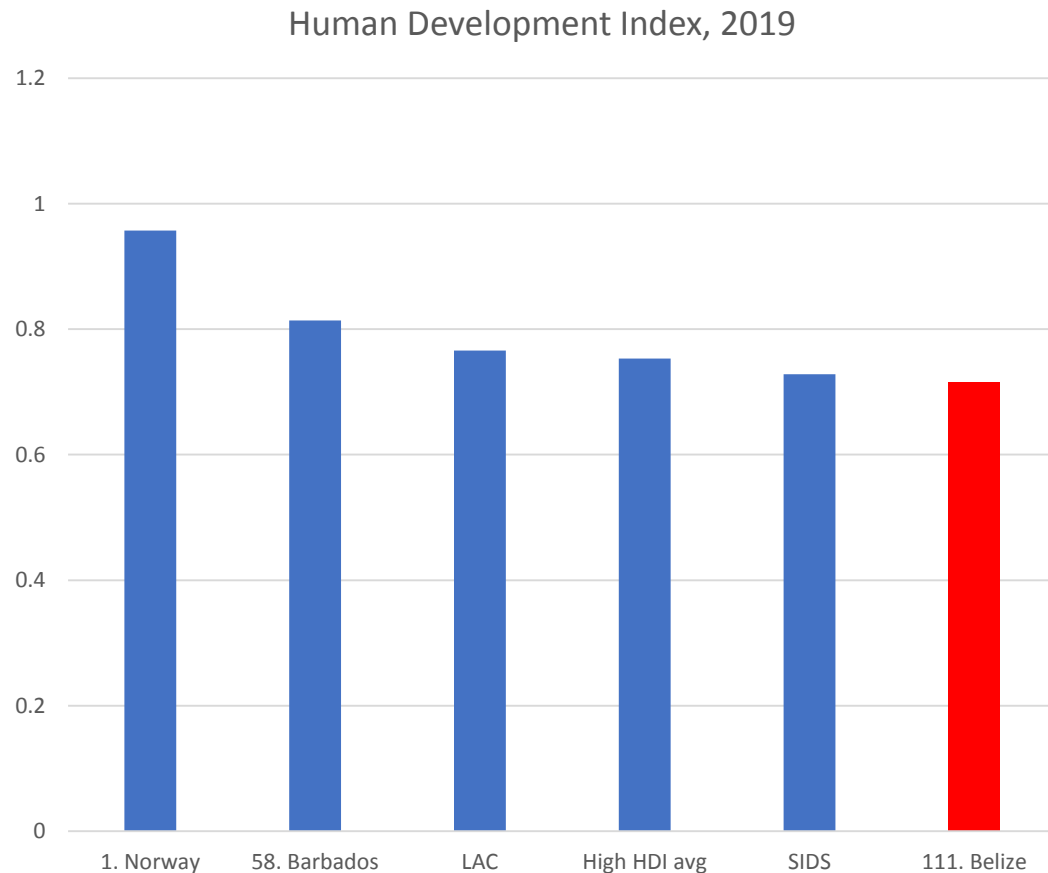
This lecture will cover:

- How does the quality of life in Belize compare internationally?
- A brief discussion of the economic policy mix that works best in small open economies like Belize.
- An analysis of economic growth in Belize over the past 3 decades.
- Suggestions for policy for future economic prosperity.

How does the quality of life in Belize compare internationally?

A comparative analysis of the Human Development Index, published annually by the United Nations Development Programme

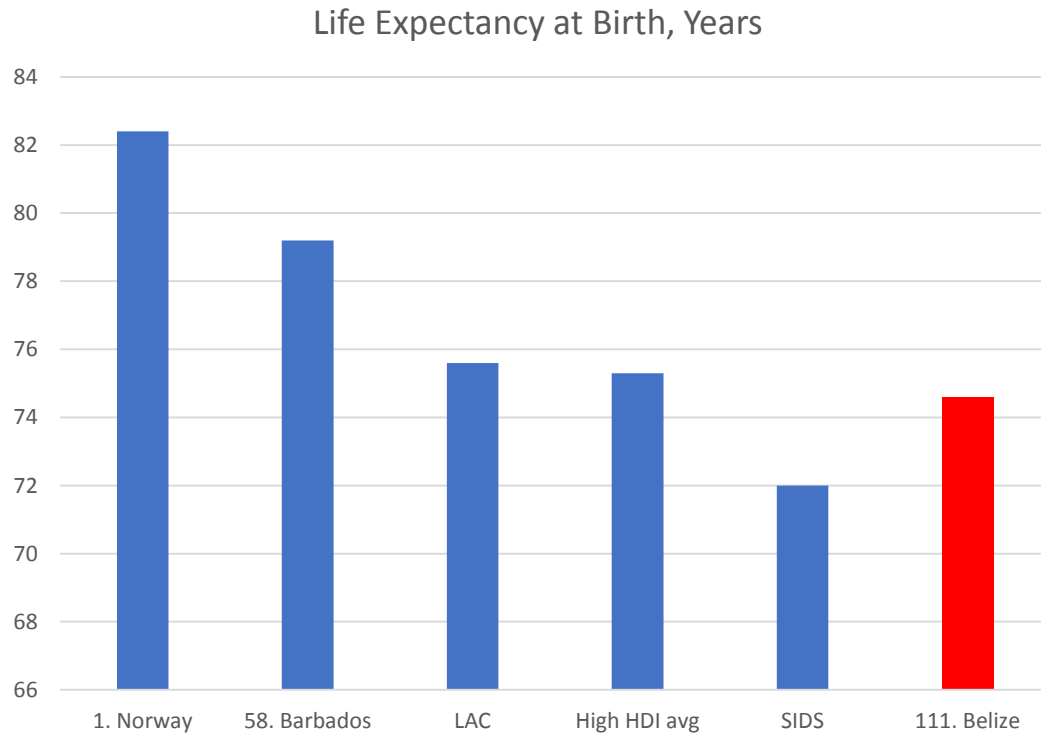
Belize is a relatively prosperous country, by international comparison



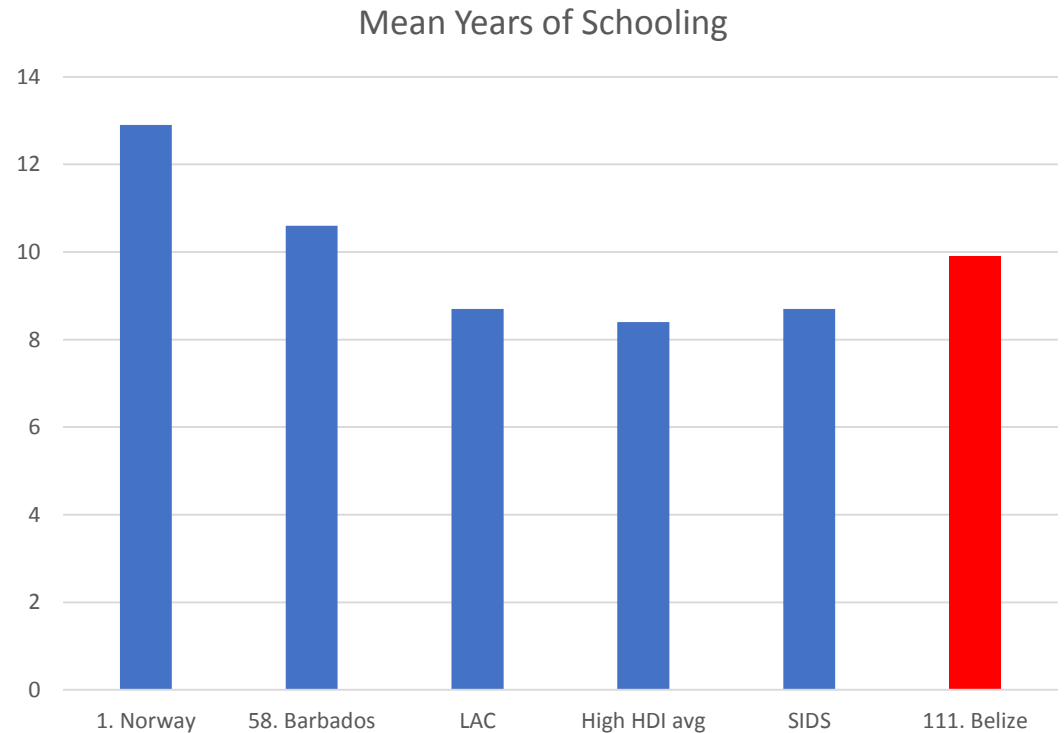
- Belize is grouped as a country with high human development, the 2nd highest category;
- It is on par with LAC and SIDS, and close to the avg of high HDI countries;
- Most Caribbean countries are in the High HDI category;
- Only Barbados and the Bahamas are classed as Very High.

Health services and education contribute most to Belize's high HDI score

Life expectancy matches category avg, 75 years

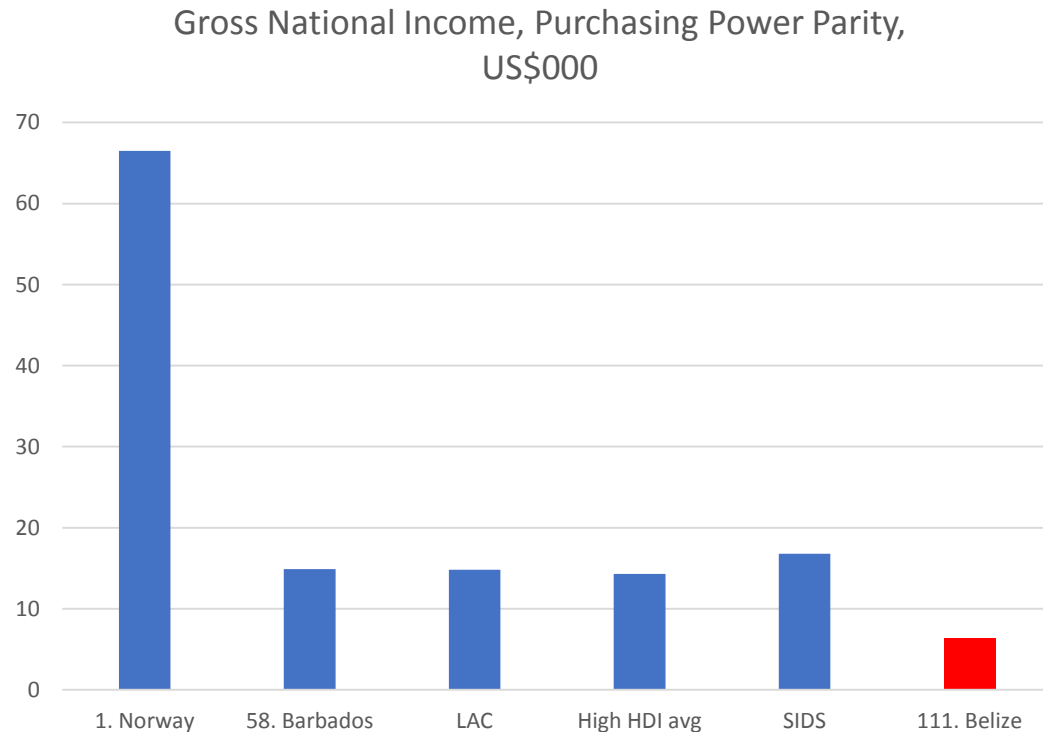


10 yrs of schooling is higher than category avg, LAC and SIDS

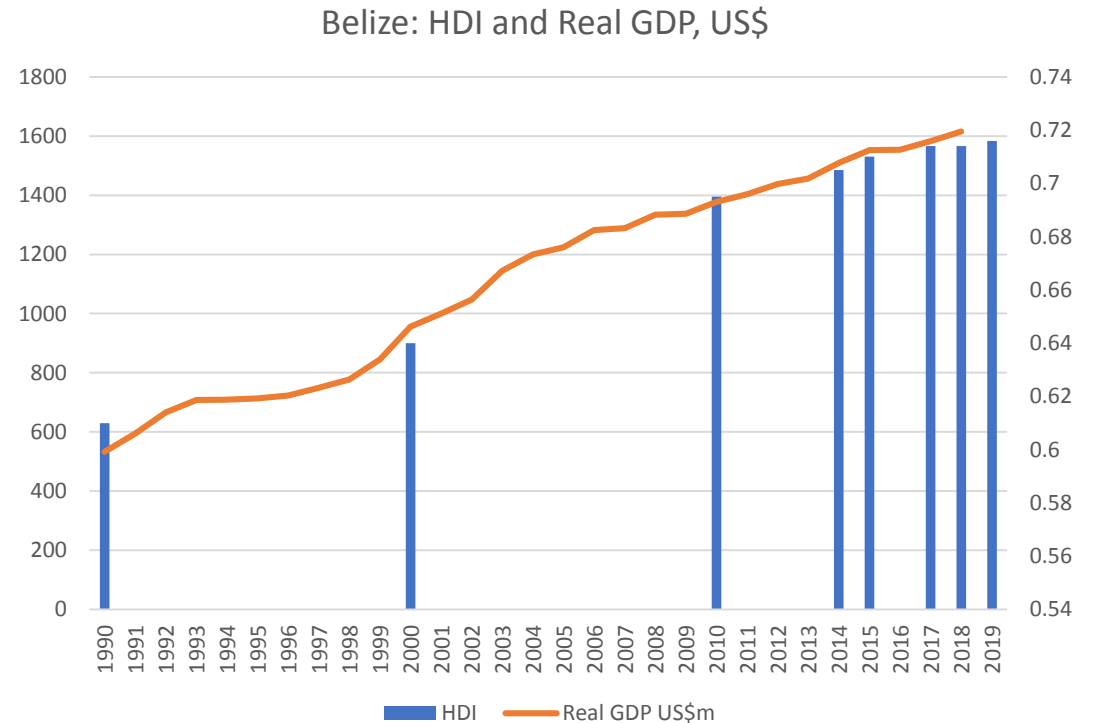


National income has contributed much less to HDI, but it has been important in improving HDI over the past 30 years

The purchasing power of Belize's national income is way below the category average



However, growth in real income has contributed very significantly to the improvement in the HDI since 1990

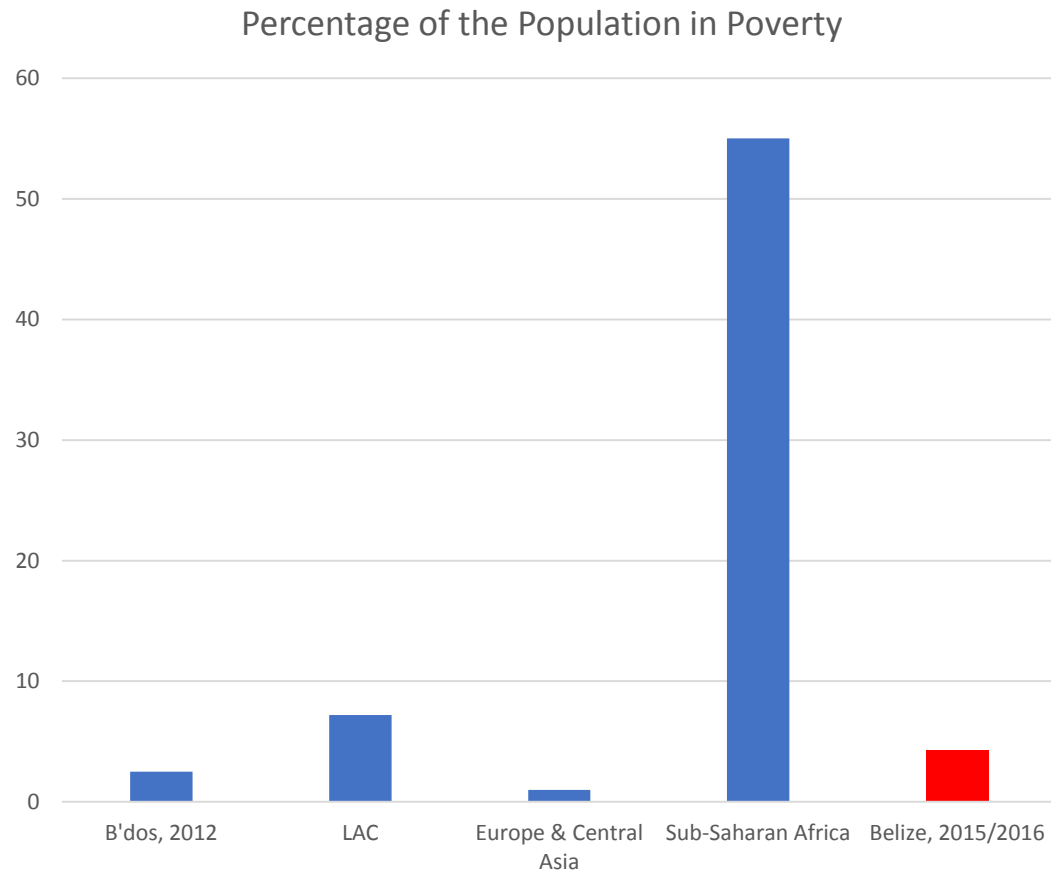


The HDR 2020 includes information on measures of inequality



- Levels of inequality in Belize are significantly above the average for countries with high HDI;
- They are also notably higher than in Barbados;
- The degree of inequality is about equal to the average for LAC;
- Belize fares better than the SIDS average, with respect to inequality.

There is also information on poverty levels



- The quality of lives in Sub-Saharan Africa is dramatically worse than in all other regions, because of the extraordinarily high percentage (55%) that lives in poverty;
- In contrast, the figure for Europe and Central Asia is only 1%;
- 4.3% of Belize's population lives in poverty, 70% higher than for B'dos, but 40% lower than the LAC average.

Data provided by Victor Bulmer-Thomas shows that poverty and inequality worsened in the first decade of the 21st century

Poverty and Distribution as Percentage of Population			
	Indigence	All Poor	Gini Coefficient
2002	10.8	33.8	0.40
2009	15.8	41.3	0.42

Source: Bulmer-Thomas (2021), Table 20.2

- Bulmer-Thomas attributes the increase to the high percentage of the population (55%) which resides in rural areas. The increase in immigration from Central America has contributed to this high percentage.
- A second contributing factor mentioned is low secondary school rates in Belize.

Other data provided in HDR 2020 reveal health and education indicators in which Belize lags behind its peers

	Indicators of the Quality of Human Development				
	Physicians	Hospital	Pupil/teacher	Trained Primary	Rural Electrification
	per 10,000	beds	Primary Sch	Teachers	%
		per 10,000		%	
Norway	29.2	35	9	n.a.	100.0
B'dos	24.8	60	14	76	100.0
<i>Belize</i>	<i>11.2</i>	<i>10</i>	<i>20</i>	<i>79</i>	<i>100.0</i>
High HDI	17.0	31	19	n.a.	98.8
LAC	22.7	18	21	n.a.	93.0
SIDS	23.1	25	19	93	62.5

Bear in mind, as we proceed, that we will be discussing the economy; to translate economic potential into prosperity Belize must:

- Maintain and improve its health and educational services;
- Measure and assess the level of economic inequality in the society, and ensure that economic gains are shared fairly;
- Identify and eliminate absolute poverty, and take effective measures to provide a basic essential quality of life for all; and
- Provide effective Government regulations, incentives, subsidies and other support for sustainable economic development, monitor their implementation, and adjust to ensure the objectives of sustainable development are met.

The economic policy mix that works best in small open economies like Belize

A focus on external competitiveness and a balance of inflows and outflows of foreign exchange.

Policies to maintain and enhance international competitiveness are key to unlocking Belize's economic growth potential

- Small modern economies grow by producing goods and services they can sell anywhere in the world at prices that are remunerative to the producers.
- Because of size limitations, they will have the capacity to produce only a small number of such products. That is not a problem, because they may sell as much as they can produce of these products.
- With the money they earn from international sales, they can buy the vast array of products and services needed to sustain modern lifestyles, very few of which can be produced locally at affordable prices.
- Therefore the key to growth is internationally competitive domestic production.

Investment drives growth in Belize, and there is always adequate finance for sound commercial projects

- There is no limit to the international demand for Belizean products and services that offer value for money to foreign consumers.
- Equally, there is never a shortage of finance for investments which are clearly profitable, undertaken by companies with strong balance sheets.
- Whether such investment is initiated by local or foreign enterprise, it will attract needed funds, from domestic or foreign financial institutions or from local or foreign investors, business partners and associates.

Gov't plays a vital role, providing funding and incentives for social and economic infrastructure which may not offer a market return

- Investments in infrastructure, health, education, public order and other public services may not offer opportunities for private investors to make a competitive rate of return.
- However, these are all desirable investments that impact the country's economic competitiveness.
- Therefore, Government's revenue, expenditure and financing policies play a vital role in the growth strategy, through providing the investment incentives, infrastructure and public services that by their nature cannot attract private investment.

Investment is not limited by domestic saving, and increasing domestic saving will not affect investment

- If the enterprise is well established and competitive, which is to say that the producers pay good wages and make decent profit, with prices which attract international customers, it will invariably attract all the funding it needs.
- Most of that funding will be in foreign currency, because foreign currency is what is needed to procure fuels, construction materials, equipment and supplies for investment projects.
- Funding provided from domestic savings can be used for wages and other local investment expenses; for everything in excess of local costs, domestic savers must first buy foreign exchange. Foreign finance can be used to pay wages if local finance is insufficient, but local currency cannot be used to purchase imported inputs.

Government policies affect competitiveness and investment

- Policies to reduce economic uncertainty promote investor confidence: a stable exchange rate, adequate FX reserves, interest rates in line with international trends, modest fiscal current account surpluses, and borrowing directed to physical and social infrastructure.
- Policies to ensure social stability, the rule of law, personal and physical security and other factors also affect the investment climate.
- Policies should support innovation and improved quality of products and services, as well as promising new activities which are already emerging.
- Policies of support and subsidy for SMEs are also needed.

Policies to reduce investment uncertainty

- A stable exchange rate is essential: because the economy depends on buying and selling abroad, anything that affects the US dollar purchasing power of income creates an avoidable risk.
- The peg is affected by the demand and supply of FX: the supply is provided by foreign earnings from tourism, exports, investment and foreign borrowing; to adjust the demand, Gov't must tailor its own spending and borrowing, since the demand from businesses and households cannot be effectively restrained.
- An effective framework of cooperation between the Ministry of Finance and the Central Bank of Belize would facilitate the management of public finances to maintain the balance of supply and demand for FX, and ensure an adequate, but not excessive, reserve of FX is held at the Central Bank.

Policies to stimulate quality, innovation and small business

- Maintaining competitiveness requires continuous innovation and improvements in quality and scope, such as the further development of Belize's heritage tourism potential. The market returns to innovation are often well below their potential rewards in the longer term; in such cases Gov't incentives, financing and other support are essential.
- Renewable energy and other environmentally sustainable investments are another area of considerable potential where Gov't assistance is essential, for similar reasons.
- SMEs play a vital role in distributing the gains from economic growth throughout the population. However, their mortality rate is high, and there is an ongoing need to stimulate new businesses. Gov't support is essential.
- In all these areas, Gov't should identify promising entrepreneurs, and all assistance should be conditional on the achievement of agreed production targets.

The financing of Government expenditures matters for competitiveness and investment

- How the deficit is financed may affect foreign reserves and the stability of the exchange rate.
- Government borrowing causes a fall in foreign reserves when Government needs more financing than private lenders at home and abroad are willing to provide.
- If Gov't is able to fully finance public investment with a combination of domestic and foreign borrowing, from official institutions and by the issue of domestic and foreign currency bonds, financiers will be happy to buy bonds at competitive interest rates that remain affordable, thanks to a favourable "investment grade" credit rating.

An aside on debt and debt restructuring

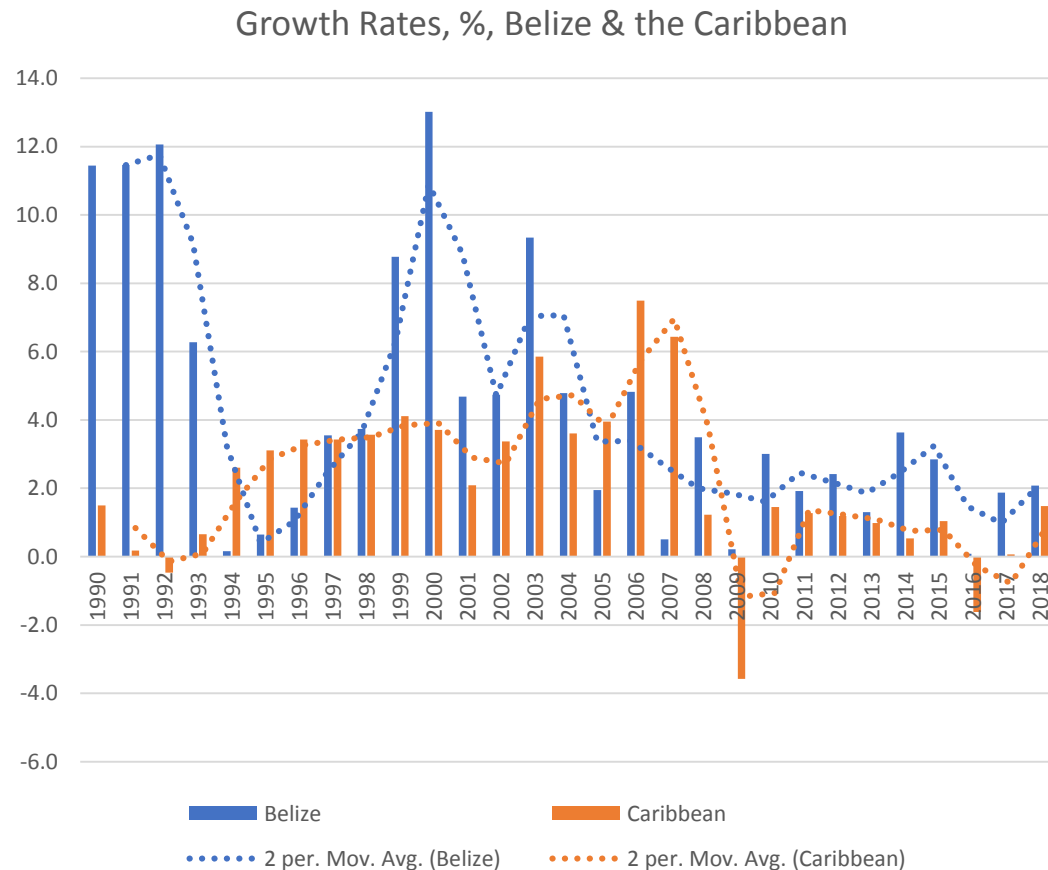
- The level of debt, or its ratio to GDP, tells you nothing about the sustainability of Government finances. The best indicator of fiscal sustainability is the level of FX reserves.
- Debt restructuring should be avoided, if at all possible. It does permanent harm to the country's creditworthiness, and increases the costs of borrowing for government and businesses.
- The restructuring of debt is not an alternative to making difficult choices about government spending, efficiency and priorities. Fundamental changes should accompany the rescheduling, to ensure that the circumstances which occasioned it are avoided in the future.
- As in all negotiation, the best outcome is one that is considered the best that can be done under the circumstances, by all parties.

Gov't policies for equity and efficiency

- The graduated income tax is Government's most powerful tool in moderating the level of economic inequity, if carefully used.
- Government and its agencies should publish annual reports in timely fashion, with meaningful statistics on performance and finances, as a means of improving efficiency. Belize, like the rest of the Caribbean, scores poorly on available international measures of public sector performance. Inefficient government hurts international competitiveness and diminishes the quality of life in Belize through substandard public services.

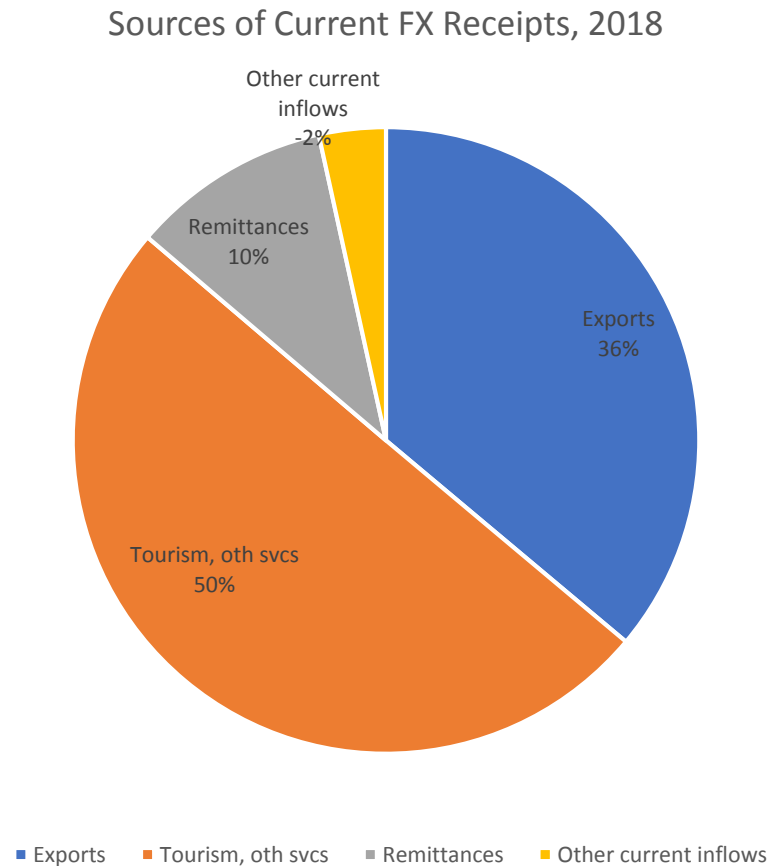
Economic growth in Belize over
the past 3 decades.

Belize's economic growth in the last 3 decades was above the Caribbean average



- Belize's growth rate was consistently above the average, on occasion above 10%, usually above 2% per annum.
- Belize avoided a slump in output in the wake of the First Gulf War (1990-1991), the Global Recession of 2008-2009, and most recently in 2015.

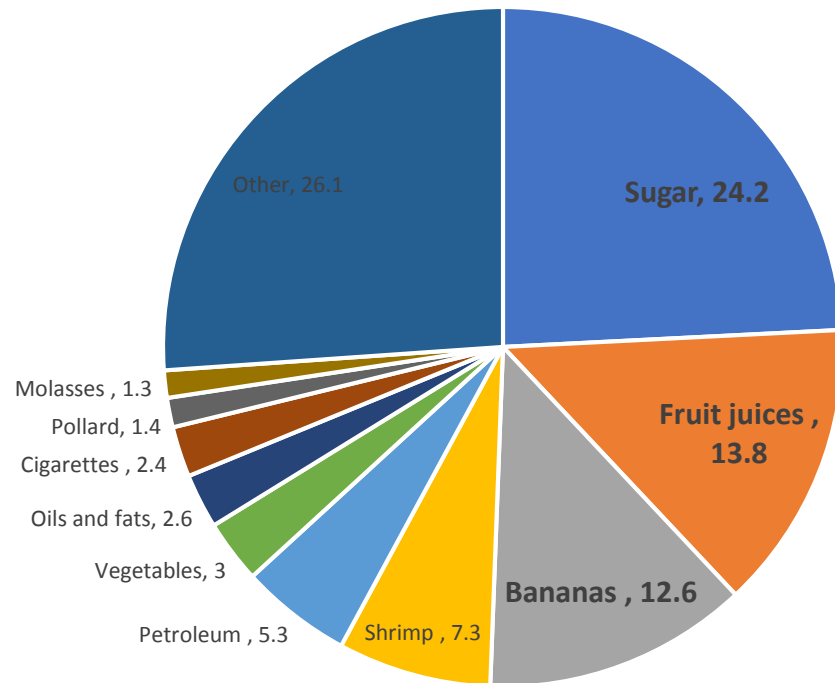
Tourism and agricultural exports are the main drivers of growth in Belize



- Tourism provided half of the country's foreign currency earnings in 2018, and exports accounted for another 36 percent.
- The only other source of foreign earnings of any significance was migrants' remittances, with 10 percent.

Agricultural products accounted for most of Belize's exports

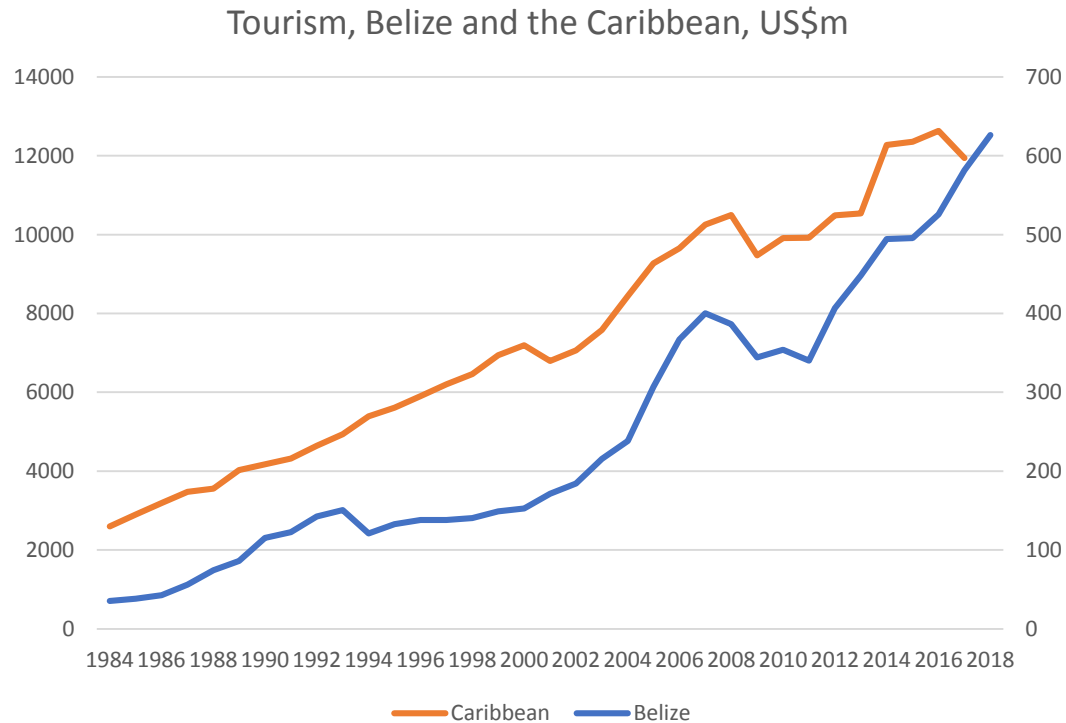
Principal Exports, % of total



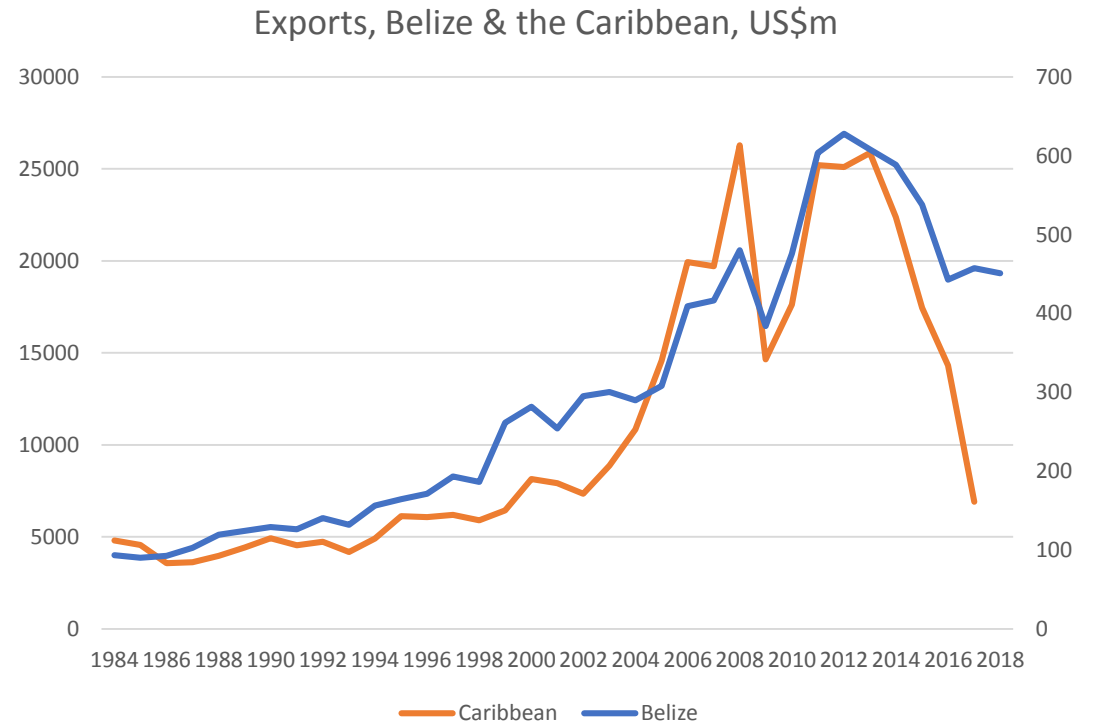
- Sugar, the most significant item, contributed 24% of exports and 9% of total FX earnings;
- Fruit juices – 14% (5%);
- Bananas – 13% (5%);
- All other items were less than 10%

Both tourism and exports remained competitive with other Caribbean countries

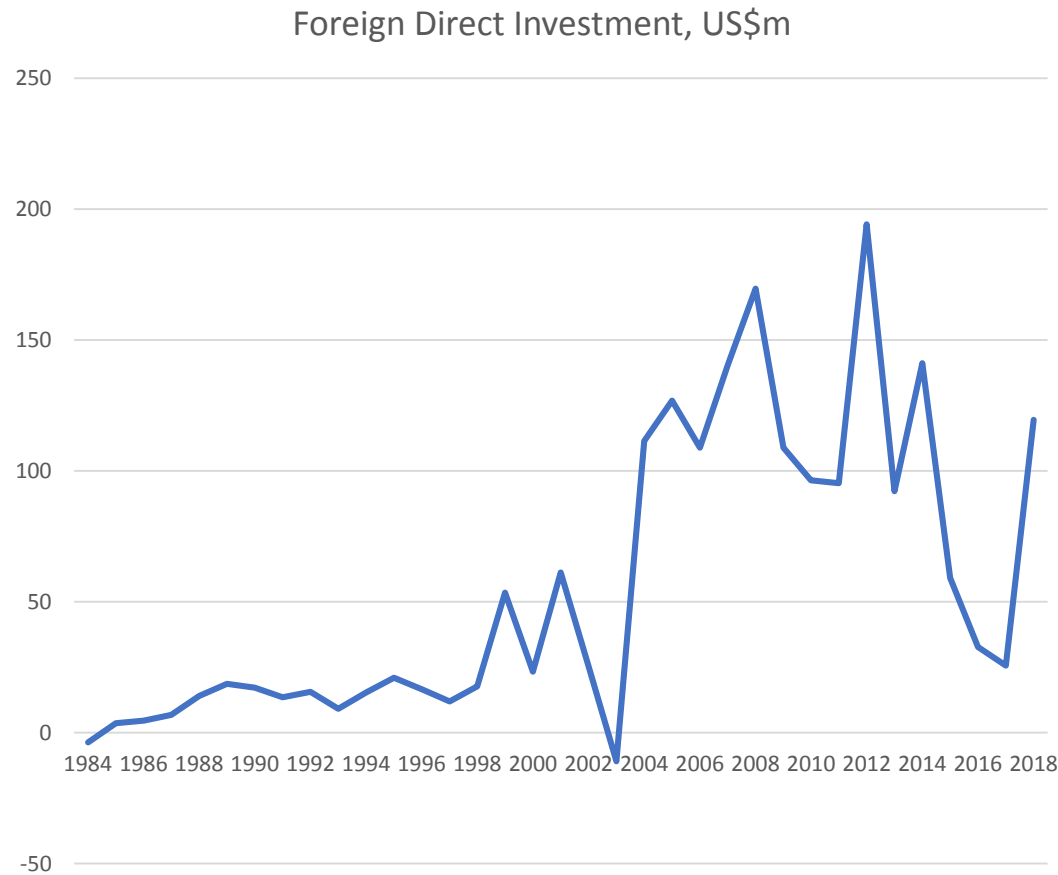
Except for the period 1994-2000, Belize tourism kept pace with the Caribbean



Exports also kept pace, and Belize avoided the recent slump in exports seen elsewhere in the region

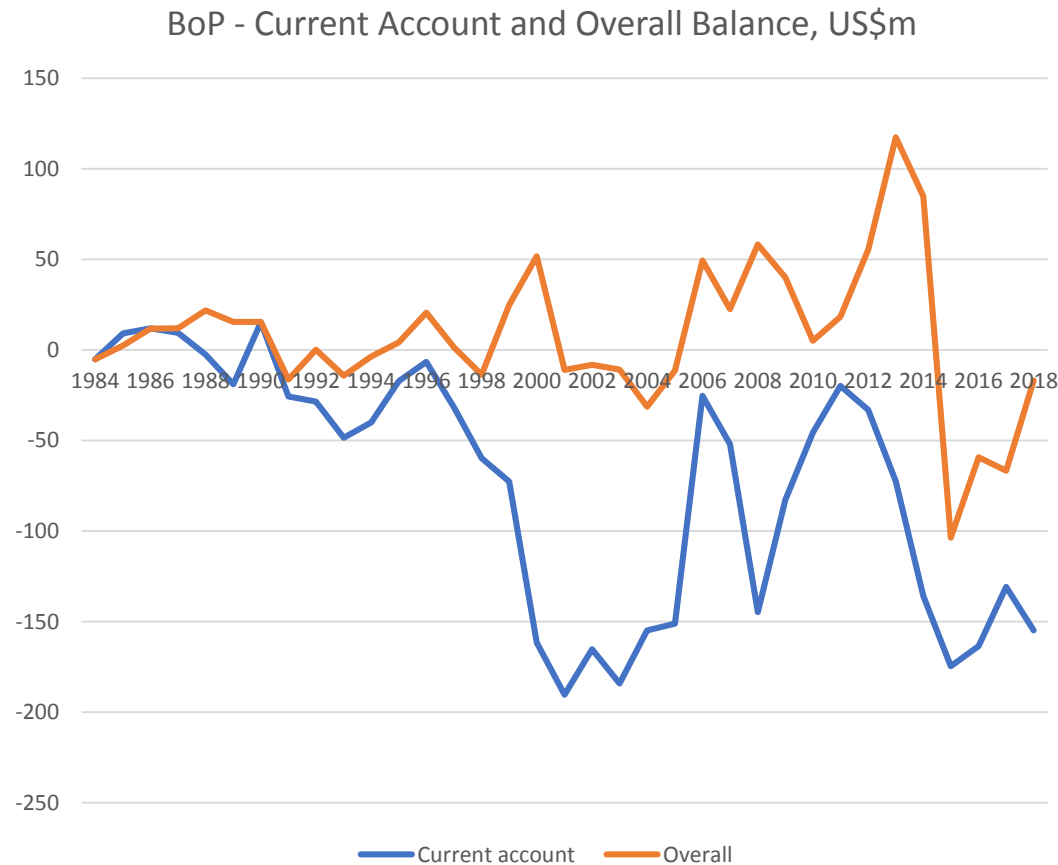


There was a big surge in foreign direct investment after 2005



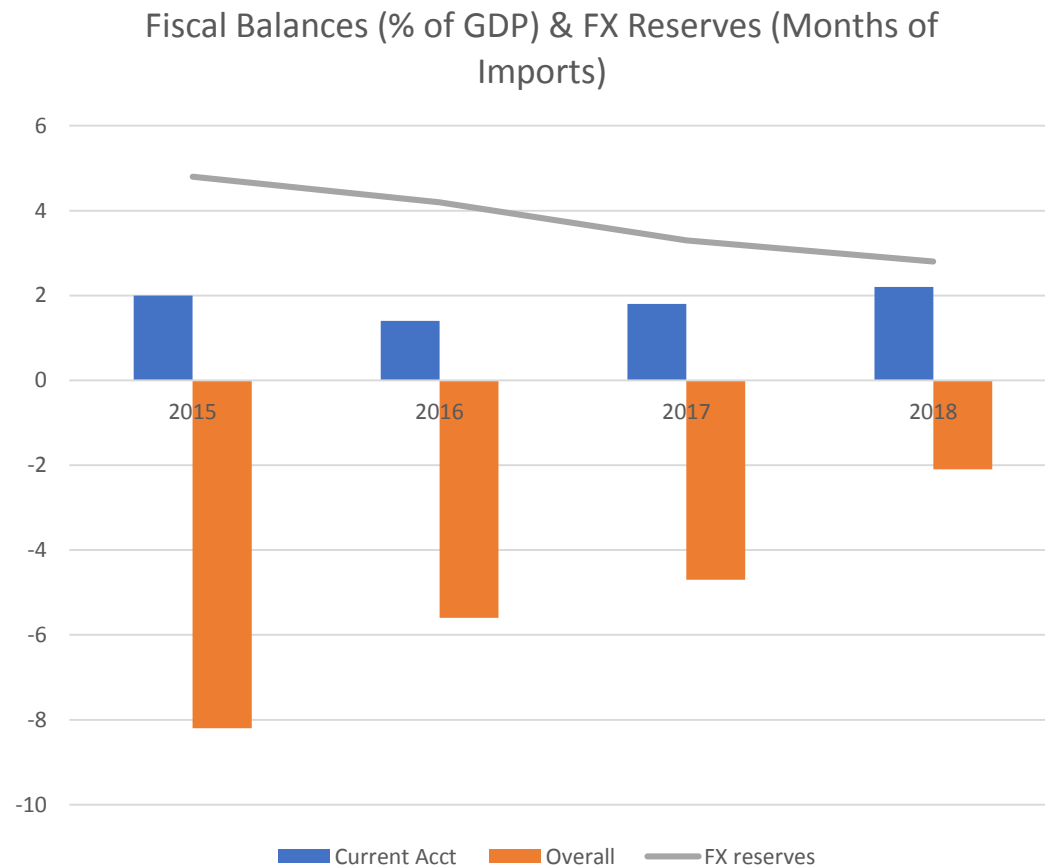
- Belize was one of a handful of Caribbean countries which witnessed a surge of investment in response to new provisions for residency and citizenship.

A sustainable balance has been maintained between inflows and outflows of FX, over economic cycles



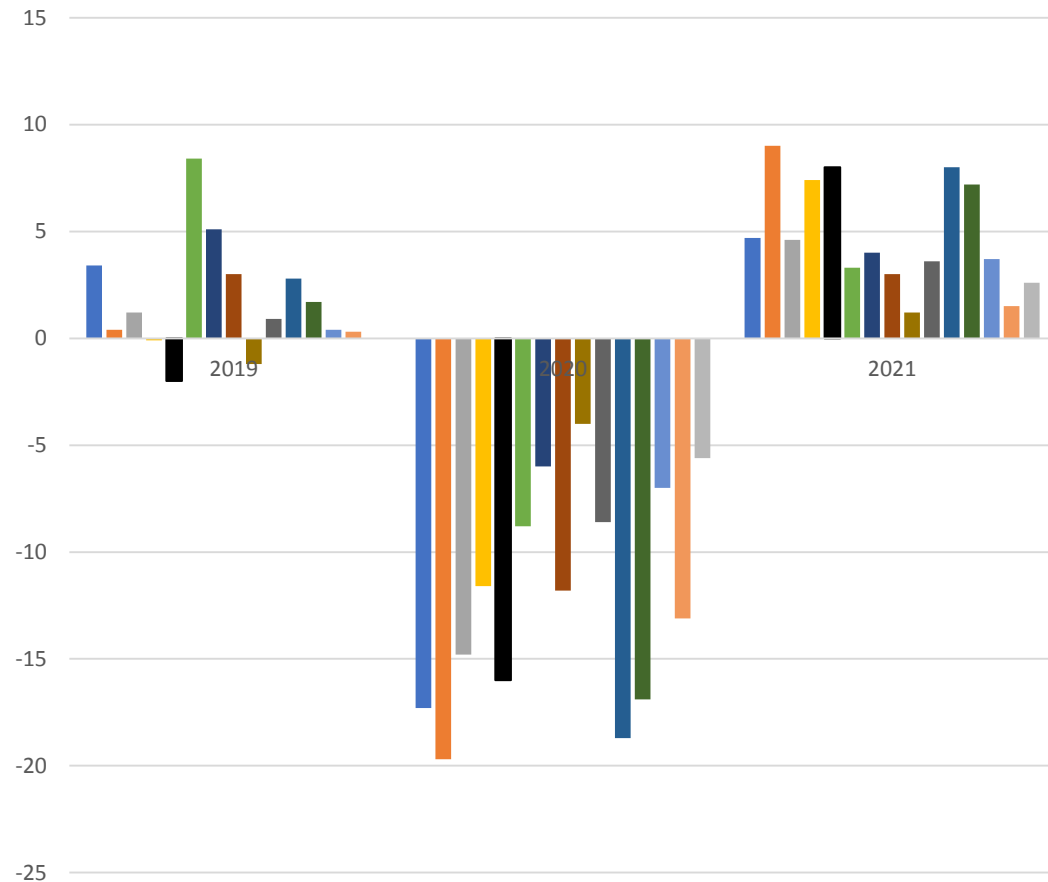
- The only overall deficit before 2015 was in 2004, and that was quickly corrected.
- It has taken longer to recover from the FX reserve losses of 2015-2017, and Covid would have been a major setback.
- The fact that the overall balance remained healthy when there was a bulge in the current account deficit in 2000-2005 reflects the surge in FDI.

Fiscal policy appears to have been sustainable, prior to Covid



- The 2% surplus on current account which has been maintained is a rule of thumb for prudent fiscal management.
- There appears to have been a policy to reduce the large fiscal deficit of 2015 gradually over time.
- Foreign reserve cover has been falling, but not precipitously, suggesting that markets are reasonably confident in the appropriateness of the fiscal strategy.

The impact of Covid-19, IMF projections, Oct 2020



- The IMF forecast that Belize's GDP would fall by 16%, the fifth worst impact in the Caribbean. 20% was the worst forecast, for Aruba.
- Belize was expected to recover half the loss, 8%, in 2021.
- At the time of this October forecast, the winter surge in North American Covid infections was not expected, so the prognosis for 2021 may well prove over-optimistic.

Suggestions for policy for future
economic prosperity.

The immediate priority is to tame the Covid epidemic and reopen the economy to tourism

- To suppress the virus, the WHO advises comprehensive testing, tracing the contacts of persons with Covid, mask-wearing and social distancing, isolation of actual and suspected Covid positives, and vaccination.
- The recovery of tourism depends on international agreement on protocols and procedures for airlines, ships, airports and seaports, border control procedures, hotels, restaurants and places of entertainment. Caribbean Gov'ts, including Belize, should take the lead in securing agreements on these matters through the relevant international bodies.

In the longer term, Belize must strengthen its health system against future pandemics. McKinsey & Co has suggested the following:

- The health system needs to be alert for the emergence of contagious diseases, and ready to spring into action at a moment's notice;
- Health workers should be trained and equipped to detect infections from their early symptoms, and there should be swift and effective systems of reporting;
- Vaccination facilities should be universally available;
- The health system should be designed to rapidly mobilise personnel, equipment and facilities to meet a surge in infections, without compromising essential health services.
- Belize should participate in global research on infectious diseases through PAHO and global networks of collaboration.

Opening the path to renewed growth after Covid

- Gov't should consider a thorough-going reform of the delivery of public services, to achieve set quantitative targets for performance, and accountability through timely publication of annual reports, with statistics on performance and finances.
- Raising public services to international standards is the single most important policy for increasing competitiveness, and it would also serve to improve health and education indicators in the HDI.
- Fiscal incentives and support should be aligned with the competitive strengths of Belize's tourism and exports.

Belize's growth will continue to be led by its attractive tourism services and competitive exports; remittances will continue to supplement foreign inflows

- Tourism and agricultural exports will continue to be the main drivers of growth; official policy should provide incentives and support for private initiatives to enrich product offerings and add value.
- Remittances will continue to be an important source of FX; migration from small economies is inevitable and desirable, because of the limited range of possibilities which the small economy offers for the realization of individual talents. As the increasing worldwide flows of remittances demonstrate, migration is a source of foreign revenue for the sending country, and, simultaneously, a productivity benefit to the receiving country.

Renewable energy offers a possibility to improve growth rates by saving the FX now spent on fossil fuel imports

- Belize could now provide all the electricity it uses from renewable sources, using affordable, well established technologies such as hydro, wind, solar and biofuels. Belize has a head start, already generating 50% of electricity from hydro. Costa Rica leads the way, generating almost 100% of electricity from renewables.
- The savings could be even greater with the use of electric vehicles, of which there are now a considerable variety. Norway leads the world in EV sales; 75% of cars sold last year were pure electric or plug-in hybrids.
- Sunshine, wind energy and falling water are now more valuable natural resources than fossil fuels, because they are inexhaustible.
- Realising the potential for renewables requires a fully articulated medium term strategy, specifying the elements of the energy mix, setting 3 to 5 year intermediate targets for implementation, review and adjustment, and with widespread public information and engagement.

To achieve Belize's prosperous future, renewed growth is not enough

- The policies suggested should assure Belize of renewed economic growth for the medium term, provided they continue to be underpinned by a fiscal policy that maintains a current account surplus of around 2%.
- The benefits of this growth will be greatly magnified, if public sector reform results in higher life expectancy, and improved schooling outcomes.
- The real improvement in livelihoods would be even greater than the HDI shows if an efficient graduated income tax, support for SMEs and other measures are implemented, ensuring that the benefits of growth are widely shared.

To summarise, economic policy to put Belize on the path to future prosperity would include

- Engaging with the international tourism industry to restart the sector;
- A strategy for strengthening health systems as a priority;
- Reform of public services to raise performance to international standards;
- Targetted support for maintaining and strengthening the international competitiveness of tourism and exports;
- A fully articulated strategy to achieve 100% use of renewable energy within a demanding but realistic time frame;
- Fiscal management characterized by borrowing to create durable public goods; and
- Fiscal policies designed to ensure the benefits of economic growth are widely shared.

