

INTER-RELATIONS OF THE FISCAL DEFICIT AND BALANCE
OF PAYMENTS PERFORMANCE IN BELIZE 1979 - 1983

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FOREWORD

This paper was produced in great haste with the willing and generous co-operation of the Research and typing staff of the Bank. A hearty thank you to them.

The bulk of the data used in the paper was compiled by IMF Consultative Missions visiting Belize between 1982 and 1984. The data is used despite serious reservations about the validity of some of the assumptions underlying the figures for two reasons: (i) no other data is currently available; and (ii) the data bears out the general trends perceived in the economy.

There is an appendix containing some tables which could not easily be incorporated into the body of the text, but which simplifies understanding of the issues raised.

All figures used are in Belize dollars. Since 1976
BZ\$1.00 = US\$0.50.

The title of the paper is much more ambitious than the substance. Constraints of time, requisite skill, and computer facilities greatly circumscribed the extent to which a dynamic analysis of the inter-relationships of the fiscal deficits and the balance of payments problems could be treated. The result is a skeletal and impressionistic discussion of the country's deteriorating position on its external accounts and the

role the Central Government's fiscal deficit is believed to have played in creating and reinforcing the adverse situation.

Figure 1 reveals the similarity of the trends between movements in the fiscal deficit and the trade balance. Expansions and contractions on the fiscal accounts mirror those on the trade accounts somewhat. The twin problems of a burgeoning fiscal deficit and deteriorating terms of trade are thus considered within the framework of both the structuralist and the monetary approaches to the balance of payments.

The views in this paper are those of the author alone.

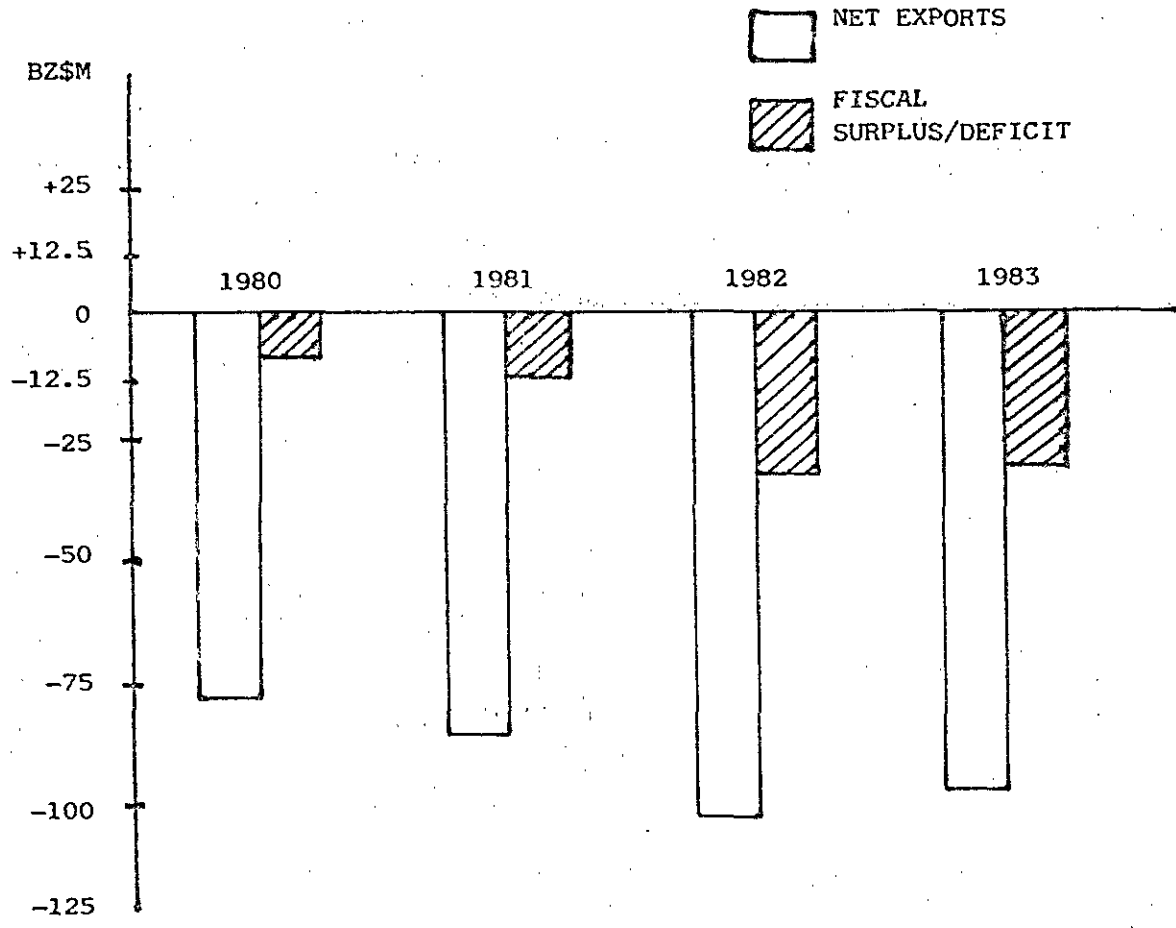


Figure 1: Changes in the fiscal deficit and the trade balance.

BRIEF INTRODUCTION TO THE BELIZEAN ECONOMY

The Belizean economy was founded on and grew around the timber industry. Timber, first logwood and later mahogany, remained the mainstay of the economy until the middle of the present century. In the late 50's declining timber production was offset by a vibrant citrus industry, which found a ready market for its output in the United Kingdom. The citrus industry's lead, however, was short-lived, for with the entrance of the multi-national Tate and Lyle in the mid-60's, sugar emerged as the dominant economic activity and retains that position to the present day. The sugar industry, though floundering and leaving the economy without a viable alternative source of revenue, accounts for 60 percent of value-added in the primary sector, 50 percent of value-added in the secondary sector, 60 percent of export earnings, and 25 percent of Gross Domestic Product.

The vicissitudes of the sugar industry determine general economic activity in the open and dependent economy of Belize. For most of the decade of the 70's the Belizean economy, buoyed by premium prices and strong demand for its major exports, experienced average annual growth rates in the region of 5 percent. Growing production of sugar, the bulk of which was sold in guaranteed markets in the EEC and the USA, constituted the major growth sector.

Firm and rising prices along with guaranteed markets for luxury marine products, such as lobster and shrimp, and

growing citrus and banana exports all contributed valuable foreign exchange to the coffers of the nation. The Government, which earns over 50 percent of its revenue from taxes on international transactions, ran a comfortable surplus on its current account during the boom years. Furthermore, with a high and growing ratio of export earnings to pay for imports, domestic economic activity flourished, yielding substantial revenues in the form of taxes on income and property of individuals and business enterprises. Public sector expenditure was also climbing, financed by high tax receipts and large inflows of grants and capital.

By the turn of the decade the picture had been reversed. Recession in the economies of its major trading partners drastically reduced demand and prices for Belize's major export crops. The depressed state of the industrialised economies and tight monetary and fiscal policies resulted in a curtailment of aid and capital flows into Belize. But the decreased export earnings had much more serious ramifications for the economy. With decreased exports came a downturn in activity (Table 1) in all those sectors that previously funnelled revenue to the Government. The process became circular and self-reinforcing, as decreased local revenue forced sharp cut-backs in public sector capital projects and thereby reduced flows of external financing, which is usually granted on a reimbursement, project-related basis. All the chickens came home to roost in the early 80's: depressed prices and demand for primary exports, lagging foreign and local investment, and low turnover of inventories were the

Table 1 : Sectoral Origin of Gross Domestic Product

(BZ\$ M; 1980 prices)

	1979	1980	1981	1982	1983
<u>GDP at factor cost</u>	<u>282.9</u>	<u>295.2</u>	<u>299.5</u>	<u>297.0</u>	<u>299.1</u>
<u>Primary activities</u>	<u>69.8</u>	<u>70.5</u>	<u>75.6</u>	<u>81.9</u>	<u>83.4</u>
Agriculture	53.5	58.3	59.2	61.8	63.2
Forestry	7.6	4.4	4.7	8.4	5.6
Fishing	7.9	7.0	10.9	10.9	13.8
Mining	0.8	0.8	0.8	0.8	0.8
<u>Secondary activities</u>	<u>60.9</u>	<u>67.6</u>	<u>64.0</u>	<u>57.9</u>	<u>59.1</u>
Manufacturing	39.5	44.8	43.3	40.3	41.1
Electricity	3.9	3.9	3.8	4.6	4.6
Construction	17.5	18.9	16.9	13.0	13.4
<u>Services</u>	<u>152.2</u>	<u>157.1</u>	<u>159.9</u>	<u>157.2</u>	<u>156.6</u>
Trade and tourism	52.7	56.7	56.1	50.9	49.6
Transport	25.7	26.7	29.3	30.1	30.7
Finance	11.6	11.5	11.4	11.6	11.7
Real estate	13.7	14.2	14.6	14.9	14.9
Public administration	31.4	30.9	31.7	31.7	31.7
Other services	24.8	25.0	25.4	26.2	26.2
Banking charges	-7.7	-7.9	-8.6	-8.2	-8.2

(Annual percentage change)

<u>GDP at factor cost</u>	<u>3.9</u>	<u>4.3</u>	<u>1.5</u>	<u>-0.8</u>	<u>0.7</u>
<u>Primary activities</u>	<u>-0.3</u>	<u>1.0</u>	<u>7.2</u>	<u>8.3</u>	<u>1.8</u>
Agriculture	-5.6	9.0	1.5	4.4	2.3
Forestry	49.0	-42.1	6.8	78.7	-33.3
Fishing	6.8	-11.4	55.7	--	26.6
Mining	--	--	--	--	--
<u>Secondary activities</u>	<u>3.4</u>	<u>11.0</u>	<u>-5.3</u>	<u>-9.5</u>	<u>2.1</u>
Manufacturing	-5.0	13.4	-3.3	-6.9	2.0
Electricity	11.4	--	-2.6	21.1	--
Construction	26.8	8.0	-10.6	-23.1	3.1
<u>Services</u>	<u>6.1</u>	<u>3.2</u>	<u>1.8</u>	<u>-1.7</u>	<u>-0.4</u>
Trade and tourism	-0.6	7.6	-1.1	-9.3	-2.6
Transport	9.4	3.9	9.7	2.7	2.0
Finance	8.4	-0.9	-0.9	1.8	0.9
Real estate	11.4	3.7	2.8	2.1	--
Public administration	11.0	-1.6	2.6	--	--
Other services	5.1	0.8	1.6	3.1	--
Banking charges	-2.5	2.6	8.9	-4.7	--

SOURCE: Abstract of Statistics, Ministry of Finance 1983.

more obvious symptoms of a dependent and vulnerable economy traumatised by external forces, most significant of which were the Mexican peso devaluations of 1982. This was the inevitable result of the failure to utilise the earnings of the 70's to increase productive capacity to any appreciable degree or to translate growth into a self-sustaining development process.

Repeating, the economy under examination is open, dependent and vulnerable. Exports on average constitute 50 per cent of GDP, while the figure for imports is closer to 80 per cent. There exists little internal dynamic; instead, there is an almost complete dependence on foreign trade to generate economic activity. Given the dependence and the volatility of price and demand in international commodities' markets for the small mix of primary products exported (Table 2), the economy is rendered extremely susceptible to external shocks. Accompanying the dependence on export earnings is the heavy reliance on every manner of imported goods and services and capital to keep the economy running (Table 3). Added to this external dependence is an underdeveloped and unmanageable financial market providing grossly limiting constraints on any attempt at domestic stabilisation. In short, the balance of payments becomes the ultimate arbiter of economic activity, being influenced itself almost simultaneously by fiscal operations, since given the distorted nature of the economy, structural features exert strong forces on economic activity. We now examine these structural characteristics and analyse their implications for the balance of payments performance (Table 4).

Table 2

Value of Domestic Exports by SITC Category 1979 - 1983

(BZ\$M)

	1979	1980	1981	1982	1983
<u>Total domestic exports</u>	<u>121.6</u>	<u>164.0</u>	<u>149.4</u>	<u>119.6</u>	<u>130.0</u>
Food	92.4	129.6	123.0	100.6	105.0
Beverages and tobacco	-	-	-	-	-
Crude materials	6.6	4.8	3.4	4.4	3.8
Fuels	-	-	-	-	-
Oils and fats	-	-	-	-	-
Chemicals	0.6	0.6	0.4	1.2	1.6
Manufactured goods	-	-	0.2	0.6	0.6
Machinery and transport	-	-	-	-	-
Miscellaneous manufactured goods	21.4	28.8	22.2	12.8	19.0
Miscellaneous	0.6	0.2	0.2	-	-
	<u>(Percent of total)</u>				
Food	76.0	79.0	82.3	84.1	80.8
Beverages and tobacco	-	-	-	-	-
Crude materials	5.4	2.9	2.3	3.7	2.9
Fuels	-	-	-	-	-
Oils and fats	-	-	-	-	-
Chemicals	0.5	0.4	0.3	1.0	1.2
Manufactured goods	-	-	0.1	0.5	0.5
Machinery and transport	-	-	-	-	-
Miscellaneous manufactured goods	17.6	17.6	14.9	10.7	14.6
Miscellaneous	0.5	0.1	0.1	-	-

Source: IMF Memorandum on Belize 1984

Table 3

Value of Imports by SITC Category 1979/83

(BZ\$M)

	1979	1980	1981	1982	1983
<u>Total imports</u>	<u>203.4</u>	<u>241.8</u>	<u>235.4</u>	<u>228.4</u>	<u>220.6</u>
Adjustment <u>1/</u>	-	-	-	34.8	20.2
<u>Recorded imports</u>	<u>203.4</u>	<u>241.8</u>	<u>235.4</u>	<u>193.6</u>	<u>200.4</u>
Food	46.8	55.4	62.8	48.0	51.0
Beverages and tobacco	5.0	4.8	5.4	4.8	5.2
Crude materials	1.2	1.4	1.4	1.8	1.6
Fuels	29.4	48.2	44.0	37.0	38.8
Oils and fats	0.2	0.6	0.4	0.2	0.4
Chemicals	16.8	15.8	19.2	19.0	18.4
Manufactured goods	32.4	38.0	35.4	30.0	30.6
Machinery	50.6	48.8	45.8	37.0	35.8
Miscellaneous manu- factured goods	20.2	27.2	24.4	17.0	18.4
Miscellaneous	0.8	1.6	-3.4	-1.2	0.2
	<u>(Percent of total recorded imports)</u>				
Food	23.0	22.9	26.7	24.8	26.4
Beverages and tobacco	2.5	2.0	2.3	2.5	2.6
Crude materials	0.6	0.6	0.6	0.9	0.8
Fuels	14.4	19.9	18.7	19.1	19.3
Oils and fats	0.1	0.3	0.2	0.1	0.2
Chemicals	8.3	6.5	8.2	9.8	9.2
Manufactured goods	15.9	15.7	15.0	15.5	15.3
Machinery	24.9	20.2	19.4	19.1	17.9
Miscellaneous manu- factured goods	9.9	11.2	10.4	8.8	9.2
Miscellaneous	0.4	0.7	-1.5	-0.6	0.1

Source :IMF Economic Memorandum on Belize 1984.

1/ Adjustment for unrecorded trade from Mexico.

Table 4

Balance of Payments 1979/83

(BZ\$M)

	1979	1980	1981	1982		1983	
				Prel.	Adj. 1	Prel.	Adj. 1
<u>Trade balance</u>	-81.8	-78.2	-85.9	-74.0	-103.9	-70.3	-97.5
Exports, f.o.b.	121.5	163.7	149.5	119.6		130.1	
Imports, c.i.f	-203.3	-241.9	-235.4	-193.6	-223.5	-200.4	-227.6
<u>Services (net)</u>	31.4	26.5	28.1	22.0	22.0	16.9	16.9
Factor income	-2.2	-3.6	-3.7	-9.9		-14.9	
Travel	5.6	5.0	5.4	6.6		8.0	
Other services	28.0	25.1	26.4	25.3		23.8	
<u>Transfers</u>	31.4	30.8	34.6	35.3	35.3	12.8	35.3
<u>Current account balance</u>	-19.0	-20.9	-23.2	-16.7	-46.6	-40.6	-45.3
<u>Capital account</u>	13.6	24.5	18.4	15.7	46.6	31.8	36.5
Official grants	14.0	11.0	11.4	10.0		10.8	
Nonfinancial public sector borrowing (net)	22.6	2.8	10.9	17.2		2.1	
Financial public sector borrowing (net)	1.4	3.9	2.1	3.5		6.1	
Commercial banks (net)	10.8	1.8	3.6	13.8		-5.9	
Other identified private capital	-	-	-	9.5		-5.1	
Other private capital (including- statistical discrepancy)	-35.2	5.0	-9.6	-37.3	-7.4	23.8	28.5
<u>Change in official reserves</u> (increase -)	5.4	-3.6	4.4	-	-	8.8	8.8
Monetary Authority/Central Bank	4.2	-4.6	3.8	0.8		9.8	
Government Savings Bank	-0.2	1.2	-	-		-	
Central Government	1.4	-0.2	0.6	-0.8		-1.0	

SOURCE: IMF Economic Memorandum on Belize, 1984.

1. Figures adjusted to include unrecorded trade and flows of funds through Mexico.

STRUCTURAL FACTORS UNDERLYING THE BALANCE OF PAYMENTS DISEQUILIBRIUM

Belize exhibits most of the structural deficiencies that typify the majority of the Caribbean economies:

- i) chronically high levels of under- and unemployment though alleviated somewhat by the escape valve the USA provides;
- ii) low levels of income, savings and investment;
- iii) dysjuncture between production, which is for export, and consumption of imports;
- iv) undeveloped financial market and consequent shortage of capital;
- v) Production of a few primary products
- vi) vibrant distributive sector and weak manufacturing sector.

Belize's is essentially a mono-crop export economy.

The data for exports (food category, Table 2) reveal that primary products, mainly sugar, fish, citrus and bananas comprise the major exports. The manufacturing sector remains weak and consists for the most part of processing of sugar and citrus. Besides several small, high-cost, inefficient import-substituting industries, there is a large garment factory, a subsidiary of a US-based multi-national, assembling garments for export to Europe and North America. Like most other primary producers Belize finds itself in the unfavorable position of receiving ever-contracting revenues for its constant or expanding exports, simultaneously

as its import bill grows by alarming proportions. With food, fuel, and raw materials and machinery each averaging nigh 25 percent of import costs, and food also comprising over 80 percent of exports, the irrational dysjuncture between production and consumption is highlighted. One seemingly obvious remedy to correct what would be described as deteriorating terms of trade, that is, to expand exports and contract imports, is not so readily applicable in practise. Conditions of production and sale of sugar are such as to mitigate against any attempt to expand production or to increase total earnings consequent to such expansion. Costs of production of sugar in Belize are high and capacity to expand either output of sugarcane or of sugar processed is itself circumscribed by the availability of foreign exchange to import the necessary services, equipment, and materials needed to facilitate such increased output. Furthermore the current depressed state of the international sugar market augurs ill for the economy both in the short and long-term.

Exports, de facto, constitute the income of the economy, defining the standards of living the society will enjoy. As very little of domestic production is intended for domestic consumption, imports bought with export earnings sustain the economy. Compounding the situation is the fact that Belize is a price-taker for both its imports and its exports in the international arena and comes out the loser on both counts. Supply constraints in a general scenario of low incomes, chronically high unemployment, shortage of capital, and apparent

scarcity of investment opportunity undermine capacity to increase export earnings, already buffeted by volatile external demand and prices. Lack of adequate foreign exchange earnings from exports further curtail growth because of the tremendous reliance on imported investment goods to maintain production.

Given the context of an economy extremely dependent upon international transactions, the implications for fiscal policy stand out sharply. As export earnings expand, so too, do imports, and in turn, so does revenue accruing to the Government. Reviewing Table 5, which details Central Government operations, we see that taxes on international transactions provide over 50 percent of Government's revenue. An export boom as experienced in 1980 also creates a ripple effect throughout the economy. Growing export earnings generate an expansion of economic activity with consequent increases in taxes on property and income of both individuals and business enterprises. A strong performance in the export sector connotes a fiscal surplus with savings being high both in the public and private sectors. A vibrant export sector, if it is growing faster than imports, also implies expanding reserves. Increasing reserves, accompanied by rising bank deposits, may facilitate greater productive credit expansion.

In contrast to the above picture, an export recession as seen in 1982, tells a sorry tale of a deflated economy with

TABLE 5

Central Government Operations 1979/-1983/84

BZSM					
	1979	1980/81	1981/82	1982/83	1983/84
<u>Total Revenue and Grants</u>	<u>78.4</u>	<u>94.5</u>	<u>97.0</u>	<u>94.4</u>	<u>91.1</u>
<u>Total Revenue</u>	<u>64.4</u>	<u>81.6</u>	<u>84.7</u>	<u>79.2</u>	<u>78.6</u>
Current Revenue	63.7	81.3	83.4	78.9	77.5
Tax Revenue	57.1	73.8	71.1	67.1	68.0
Income Tax	(14.4)	(23.0)	(16.6)	(18.6)	(15.2)
Taxes on property	(0.5)	(0.6)	(0.7)	(0.6)	(1.3)
Taxes on goods & services	(5.6)	(7.3)	(9.0)	(8.2)	(8.5)
Taxes on Intl. trade & transactions	(36.1)	(41.5)	(45.8)	(38.1)	(42.0)
Import duty	/27.7/	/31.9/	/31.9/	/25.5/	/26.3/
Export duty	/1.9/	/2.5/	/2.1/	/1.9/	/2.2/
Other	/6.5/	/8.0/	/11.8/	/10.7/	/13.5/
Other Taxes	(0.5)	(1.4)	(1.0)	(1.6)	(1.0)
Non tax revenue	6.6	7.5	10.3	11.8	9.5
Capital Revenue	0.2	0.3	0.3	0.3	1.1
Grants	14.0	12.9	13.3	15.2	12.5
<u>Total Expenditure</u>	<u>81.5</u>	<u>102.7</u>	<u>110.8</u>	<u>127.0</u>	<u>122.8</u>
Current Expenditure	51.3	64.8	76.2	91.3	95.3
Wages and Salaries	(24.3)	(27.6)	(33.8)	(41.9)	(42.8)
Interest Payments	(1.7)	(3.6)	(4.7)	(4.1)	(1.9)
Goods and Services	(18.0)	(25.0)	(24.1)	(27.7)	(29.0)
Subsidies & Current transfers	(3.4)	(3.8)	(6.1)	(10.3)	(12.1)
Other	(3.9)	(4.8)	(6.0)	(5.3)	(4.7)
Capital Expenditure	30.2	37.9	34.6	35.7	27.5
Development Expenditure	(26.2)	(34.9)	(31.9)	(27.6)	(24.5)
Transfer to public enterprises and net lending	(4.0)	(3.0)	(2.7)	(8.1)	(3.0)
Recurrent Deficit/Surplus	12.4	16.5	7.2	-12.4	-17.8
Overall Deficit/Surplus	-3.1	-8.2	-13.8	-32.6	-31.7
Change in arrears	-	-	-	-	7.9
<u>Financing</u>	<u>3.1</u>	<u>8.2</u>	<u>13.8</u>	<u>32.6</u>	<u>23.8</u>
External (net)	1.8	1.9	3.2	10.3	4.6
External borrowing (net)	(0.8)	(0.9)	(2.8)	(11.1)	(5.6)
Change in foreign assets	(1.0)	(1.0)	(0.4)	(-0.8)	(-1.0)
Domestic (net)	1.3	6.3	10.6	22.3	19.2
Central Bank	(5.2)	(-2.2)	(13.6)	(0.4)	(17.9)
Commercial Banks	(-4.7)	(7.6)	(-2.9)	(21.7)	(0.4)
Other	(0.8)	(0.9)	(0.1)	(0.2)	(0.9)

Source: IMF Economic Memorandum on Belize 1984

1) On Commitment basis

2) Excludes external payments arrears

both public and private sectors in a slump. A contracting export sector produces lower revenues for Government and a greater deficit on the balance of payments. In the context of an economy already plagued by high levels of under- and unemployment and where the Government is, besides being a major employer, expected to produce a wide range of goods and services for the populace, it becomes extremely problematic for the Government to attempt to match its expenditures with its falling revenue. Further compounding the problem is the high incidence of project-related grants doled out on a reimbursement basis. To maintain some degree of buoyancy in the economy the Government appears to have no choice but to operate on a deficit, which is sure to be reflected in further deterioration on the balance of payments. While "belt-tightening" presents itself as an immediate alternative, it seems an anathema at the worst and a last resort at the best in an already impoverished and underdeveloped economy. Yet, unless inexhaustible sources of foreign financing can be identified, or export earnings recover quickly, some effort must be made to bring expenditure into line with income.

The evidence indicates that the problem in the economy is one of fundamental disequilibrium, brought about by structural impediments in the economy. Before making any definitive statements, however, we examine the adequacy of the monetary approach, which postulates that the imbalance is a temporary phenomenon induced by monetary factors.

THE MONETARY APPROACH TO THE BALANCE OF PAYMENTS

APPLIED TO THE BELIZE EXPERIENCE

The monetary approach ignores structural constraints to the smooth corrective functioning of the balance of payments and explains the issue exclusively in terms of domestic monetary disequilibrium. The monetary approach points out that the nominal supply of money is the product of the money multiplier and the monetary base, with the latter comprising of a domestic component consisting of domestic credit created by the monetary authorities and an international component consisting of the domestic holdings of international reserves.

Given a tendency towards equilibrium in the monetary section of the economy and assuming a constant money multiplier, it then follows that a change in the reserves strictly reflects any imbalance between the change in the domestic demand for money and the change in the supply of credit. An excess demand for money therefore leads to a net inflow of reserves or, in other words, a balance of payments surplus, whereas an excess of credit will translate into a payments deficit.

Of import in the Belize context is the transmission mechanism through which domestic credit expansion will affect the balance of payments. While there are a number of possibilities, the Belizean experience appears to be that the creation of credit at a rate in excess of the growth in

the demand for money has the immediate effect of creating excess cash balances which are disposed of in a manner that depletes reserves. Between 1979 and 1983 credit grew by 91 percent, M1 by 18 percent and M2 by 64 percent (Table 6). Burgeoning credit produced two effects. There was a tendency to convert some portion of excess cash balances into domestic financial assets, namely fixed deposits, which grew by 180 percent over the review period. There was, however, a more damaging impact on reserves, which contracted by 63 percent during the comparative period. The point being made here is that given the high propensity to import evidenced in the economy, there is an almost automatic mechanism whereby excess money supply impacts on reserves. Of note here also is that the channelling of excess cash into domestic real assets with a view to raising and diversifying real output is minimal. Thus the economy is kept in its time-worn mold of primary exporter with a large distributive sector. Neither is there a marked tendency for excess cash balances to raise the domestic price level. The consumer price index (Table 1 in the appendix) showed a modest inflation rate of 30 percent between 1980 and 1983. Besides inflation in Belize is for the most part imported, albeit aggravated by local mark-ups and some degree of wage inflation. The overriding evidence suggests therefore that excess cash balances most often produce further deterioration of the current account of the balance of payments.

The Government stands out as the villain of the piece

MONETARY SURVEY

End of Period	Foreign Assets (Net)	Domestic Credit			Money Supply M1			Quasi Money			M 2
		Public Sector	Private Sector	Total	Currency with the Public	Demand Deposits (ADJ)	Total	Savings Deposits	Time Deposits	Total	
1979											
Mar.	34915	18260	62552	80812	16125	20948	37073	28052	33197	61249	98322
Dec.	21360	20754	76469	97223	16675	21596	38271	29837	30230	60067	98338
1980											
Mar.	26654	23162	71530	94692	17181	21088	38269	28025	31657	59682	97951
Dec.	30499	27620	82692	110312	17506	25283	42789	31573	36701	68274	111063
1981											
Mar.	39719	28709	89025	117734	19008	25544	44552	30064	47091	77155	121707
Dec.	25546	38031	95946	133977	19009	22894	41903	27835	53787	81622	123525
1982											
Mar.	24204	40379	96991	137370	18457	21598	40055	27420	57152	84572	124627
Dec.	29138	55254	108338	163592	20607	21314	41921	26615	66962	93577	135498
1983											
Mar.	38622	59785	112146	171931	23062	23786	46848	28741	72748	101489	148337
Dec.	26614	67972	118010	185982	21526	23615	45141	30994	85120	116114	161255
1984											
Mar.	29611	72904	118738	191642	22694	26928	49622	31777	83635	115412	165034
Dec.											

Source: Central Bank of Belize

in this regard. Looking at Table 6, which gives details of credit expansion, we see that the primary recipient of expanded domestic credit has been the public sector. Since 1981 the Government has increasingly resorted to the domestic financial system for financing of its operations. Because such a high proportion of Government expenditure is used to meet current payments (averaging 68 percent for the five-year review period), of which wages and salaries form a high proportion, there is usually only a very small lag before the impact is felt on imports and hence on the balance of payments deficit.

Up until 1981 the fiscal deficit was usually of manageable proportions, with the bulk of the funding provided by grants. The picture changed in 1981|82, however, as large expenditures for the country's attainment of independence in late 1981 created a serious distortion between changes in revenue collection and expenditures. Upon gaining its independence, Belize forfeited the right to automatic financing of its deficit by Great Britain. The problem was also compounded by recession in the industrial countries, forcing declines in capital inflows into Belize. Domestic financing, as detailed in Table 7, was increasingly utilized to fill the lacuna created by a growing fiscal deficit and contracting capital inflows. Domestic financing as a proportion of total deficit financing went up from 35 percent in 1980|81 to 60 percent in 1983|84.

As described in the last section, the Government's

Table: 7
Domestic Financing of the Central Government

March 1979 - March 1984

(BZ\$000)

Year	Treasury Bills			Other Securities <u>1/</u>	Net Credit		Total
	Central Bank	Commercial Banks	Total <u>1/</u>		Central Bank	Commercial Banks	
Mar 1979	3,788	83,000	12,200	4,743	-	-1,042	15,901
Dec 1979	7,180	300	7,700	7,524	2,963	546	18,733
Mar 1980	8,840	600	6,000	7,493	3,482	1,173	18,148
Dec 1980	7,430	7,350	15,000	7,379	2,306	1,637	26,322
Mar 1981	5,786	8,150	15,000	7,651	4,379	1,231	28,261
Dec 1981	14,448	2,300	16,885	7,624	7,292	3,964	35,765
Mar 1982	14,648	2,100	16,885	7,626	9,280	4,418	38,209
Dec 1982	17,078	1,800	19,000	9,084	10,187	13,716	51,987
Mar 1983	8,558	12,800	21,500	9,086	14,093	15,613	60,292
Dec 1983	16,206	16,700	37,630	9,014	13,394	14,983	75,021
Mar 1984	16,006	18,400	39,130	9,085	13,265	17,400	78,880

Source: Central Bank of Belize and Accountant General's Office

1/ Including holdings of private sector and Social Security Board.

fiscal operations went into sharp deficit in 1981|82, as export earnings were adversely hit by a drastic fall in world sugar prices. This was reflected in an increase in the debt-service ratio from 1.7 percent in 1979 to 8.8 percent in 1982. Under normal circumstances the serious imbalance between recurrent revenue and expenditure should have precipitated grave curtailment of economic activity.

But an undynamic state sector, more often reacting to, rather than directing, economic trends, found itself in a position to tap excess liquidity in the banking system to finance its deficit operations.

The Mexican peso devaluations of 1982 effected a transfer of purchasing across the Northern border, leaving the Belizean merchants experiencing low inventory turnover with large idle balances which were converted into fixed deposits. Also contributing to the massive pool of liquid funds was the Social Security Board, which since its foundation in 1980 had been accumulating large surpluses each year, which were not employed in any investment portfolios. The Government was thus able to soak up some of the excess liquidity of the system by selling an ever-increasing volume of Treasury bills. The commercial banks were eager to convert large and expensive fixed deposits into high interest yielding Treasury bills, and the Central Bank was always there to pick up any slack created by the commercial banks. So there was a general burying of heads in the sand about the fact that the legal stipulations circumscribing the volume of Treasury

bills that should be outstanding at any one point in time was violated in late 1983. The legal maximum governing outstanding issues is 30 percent of Government's estimated revenue in any fiscal year. At the end of 1983 Treasury bills outstanding at \$37.6 million were thus substantially above the then limit of \$29.2 million.

External financing of the deficit, on the other hand, had the effect of providing increased liquidity for the public, thereby creating excess demand. The net effect, therefore, was to raise gross reserves in one period and to precipitate a fall in net reserves in the succeeding period. This was particularly evident between 1981 and 1983 (Table 8). In 1981 the Golden Handshake of £44 million received from Britain at the end of the year gave the illusion of healthy reserves, as did the \$9.2 million in balance of payments support received from the CBI package towards the end of 1982. The \$7.6 million received from the IMF in mid-1983 under the Compensatory Financing Facility to cover shortfalls in export earnings in 1982 was quickly dissipated, leaving the true picture to be seen at the end of 1983. With reserves so low the issue has taken on a great degree of urgency, and the search for solutions, both in the short and long term intensifies.

Table 8

Net Official International Reserves 1979/83

(BZ\$000)

	1979	1980	1981	1982	1983
<u>Net official international reserves</u>	<u>23.4</u>	<u>27.0</u>	<u>22.4</u>	<u>22.0</u>	<u>8.6</u>
Assets	24.2	27.8	22.8	22.4	22.4
Liabilities	-0.8	-0.8	-0.4	-0.4	-13.8
<u>Central Bank</u>	<u>19.8</u>	<u>24.4</u>	<u>20.4</u>	<u>19.2</u>	<u>9.6</u>
Assets	20.6	25.2	20.8	19.6	18.6
Liabilities	-0.8	-0.8	-0.4	-0.4	-9.0
<u>Government Savings Bank</u>	<u>1.8</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Assets	1.8	0.6	0.6	0.6	0.6
<u>Central Government</u>	<u>1.8</u>	<u>2.0</u>	<u>1.4</u>	<u>2.2</u>	<u>-1.6</u>
Assets	1.8	2.0	1.4	2.2	3.2
Joint Consolidated Fund	(0.8)	(0.6)	(-)	(0.2)	(0.2)
Sinking funds	(1.0)	(1.4)	(1.4)	(2.0)	(3.0)
Liabilities <u>1/</u>					

Source: Central Bank of Belize

1/ External payment arrears

RESOLUTION OF THE DILEMMA

It would appear from the evidence that the structural problems in the economy provide a closer explanation of the self-reinforcing and simultaneous interactions of the balance of payments and fiscal deficits. Cause and effect are difficult to establish, nullifying the tenets of the monetary approach to the balance of payments. The money supply displays only a small secular rise over time, leaving the brunt of the impact of the deficit to be borne by the contracting reserves. Neither is there a marked rise in the level of inflation, as cheap goods imported from Mexico and restrictive wage policies have tended to offset any inflationary pressures resulting from any expansion of credit.

One questions whether the Government's decision to run a deficit to retain some semblance of normalcy in the economy is laudable. After the agricultural sector, the public sector represents the largest employer in the economy. As mentioned before, wages and salaries constitute a large proportion of Government's recurrent expenditure. Like the situation that obtains in most ex-colonial societies, the Government is expected to be a substantial provider of goods and services for a generally low-income population. It would be very unpopular if it attempted to divest itself of this role. And even with more efficient management, the structural deficiencies in the economy undermine the scope for the Government to execute more corrective, rather than accommoda-

tive, policies in the short term.

Viewed from a medium to long-term perspective, however, the Government is seen in a less favourable light. The problems of low productivity, mono-crop primary producer, and low food production - the substantive problems underlying the adverse terms of trade and the dependent nature of the economy - have not been tackled seriously. The high growth in recurrent costs simply reduces the amount of resources available for the expansion of directly productive and economically profitable investment needed to expand taxable capabilities. What is needed is a development plan (that will be adhered to) that not only increases demand, but also increases the supply of goods and services to meet that demand. Productive capacity must be raised to increase the resilience of the economy and to create a more active and beneficial role for the Government through growth of taxable incomes.

Undoubtedly, the Government must provide a great proportion of the infrastructure needed to increase the economy's productive capacity. But, in addition, attempts should be made to establish some income-generating projects to ensure that the country is able to meet the capital costs, in terms of loan repayments, for infrastructural projects, and the recurrent costs of maintenance of the projects, so as to reduce the disparity between recurrent revenues and expenditures. Furthermore, acknowledging that the availability of foreign exchange is

a serious constraint on development and that irrational restriction of imported materials and capital equipment could reduce resources available to promote exports, thereby widening, instead of narrowing, the balance of payments deficit in the longer term, it is still postulated that the Government needs to take steps to rationalise the import mix and to allocate scarce foreign exchange to priority sectors of the economy in such a way as to enhance its long-term productive capacity. Lastly, the Government and people of Belize have to be ready to execute those actions that are unavoidable if they truly desire a developed, internally-propelled economy.

TABLE 1

Consumer Price Index, 1980/83

	Weight	February 1980	July 1980	November 1980	February 1983	July 1983	November 1983
<u>Total</u>	<u>1,000</u>	<u>100.0</u>	<u>104.4</u>	<u>109.2</u>	<u>134.4</u>	<u>135.4</u>	<u>136.0</u>
Goods	426	100.0	108.8	111.3	124.9	124.9	124.0
Of which: Groceries	(274)	(100.0)	(108.6)	(114.2)	(130.2)	(128.3)	(126.7)
Clothing and footwear	131	100.0	109.3	114.7	139.7	142.1	142.7
Housing, household goods and fuels	195	100.0	103.3	108.3	138.3	138.5	138.4
Miscellaneous items <u>1/</u>	248	100.0	105.0	110.0	118.6	122.6	122.0

Source: Central Statistical Office, Ministry of Finance.

1/ Medical, personal and leisure.

Table 2
Belize's Re-export Trade
1979 - 1983

Year	BZ\$M			
	MEXICO		Other	Total
	Value	% of Total		
1979	47	78	13	60
1980	46	79	12	58
1981	81	92	7	88
1982	60	88	8	68
1983 (3)	11	58	8	19

Source: 1) Trade Report, Ministry of Finance
 2) Central Statistical Office Estimates
 3) Central Bank of Belize Estimates

Table 3

Consolidated Operation of
the Nonfinancial Public Sector 1/

(BZ\$ M)

	1979	1980/81	1981/82	1982/83	Prel. 1983/84 <u>2/</u>
<u>Total revenue and grants</u>	78.4	94.5	99.7	101.5	101.3
Revenue	64.4	81.6	86.4	84.5	85.2
Central Government	(64.4)	(81.6)	(83.7)	(79.2)	(78.6)
Social Security Board	(--)	(--)	(2.7)	(5.3)	(6.6)
Grants	14.0	12.9	13.3	17.0	16.1
<u>Total expenditure</u>	104.1	108.3	122.1	132.4	134.1
Current expenditure	52.7	66.0	78.0	91.0	99.9
General Government	(51.3)	(64.8)	(76.5)	(86.1)	(92.3)
Central Government	/51.3/	/64.8/	/76.2/	/85.3/	/90.6/
Social Security Board	/--/	/--/	/0.3/	/0.8/	/1.7/
Public enterprises' operating deficit	(1.4)	(1.2)	(1.5)	(4.9)	(7.6)
Development expenditure	51.4	42.3	44.1	41.4	34.2
General Government	(26.2)	(34.9)	(31.9)	(27.8)	(24.7)
Central Government	/26.2/	/34.9/	/31.9/	/27.6/	/24.5/
Social Security Board	/--/	/--/	/--/	/0.2/	/0.2/
Public enterprises	(25.2)	(7.4)	(12.2)	(13.0)	(8.0)
Other <u>3/</u>	(--)	(--)	(--)	(0.6)	(1.5)
<u>Overall deficit (-)</u>	<u>-25.7</u>	<u>-13.8</u>	<u>-22.4</u>	<u>-30.9</u>	<u>-32.8</u>
Change in outstanding arrears	--	--	--	--	6.9
<u>Financing (net)</u>	25.7	13.8	22.4	30.9	25.9
External (net)	23.6	8.6	12.9	18.3	4.7
External borrowing (net)	(22.6)	(7.6)	(12.5)	(19.1)	(5.7)
Disbursement	/23.5/	/8.6/	/13.8/	/21.2/	/9.5/
Amortization	/-0.9/	/-1.0/	/-1.3/	/-2.1/	/-3.8/
Change in foreign assets	(1.0)	(1.0)	(0.4)	(-0.8)	(-1.0) <u>4/</u>
Domestic (net)	2.1	5.2	9.5	12.6	21.2
Banking system	(1.3)	(4.3)	(9.6)	(12.4)	(20.4)
Central Bank	/5.2/	/-2.2/	/13.6/	/0.4/	/17.9/
Commercial banks	/-3.9/	/6.5/	/-4.0/	/12.0/	/2.5/
Other	(0.8)	(0.9)	(-0.1)	(0.2)	(0.8)

Source: IMF Economic Memorandum on Belize 1984

1/ Prior to 1980 the financial year coincided with the calendar year; since 1980 the fiscal year runs from April 1 through March 31.

2/ Expenditure on a commitment basis.

3/ Residual.

4/ Excludes external payments arrears.

Table 4

Summary of External Debt Operations

(BZ \$000)

	1979	1980	1981	1982	1983
<u>Debt Outstanding at end of period</u>	<u>79530</u>	<u>89128</u>	<u>102124</u>	<u>120794</u>	<u>132920</u>
<u>Transactions during period 1/</u>					
<u>Medium and Long-term borrowing 1/</u>	<u>25774</u>	<u>8068</u>	<u>10996</u>	<u>22670</u>	<u>8326</u>
<u>Central Government</u>	<u>702</u>	<u>784</u>	<u>4008</u>	<u>12298</u>	<u>4934</u>
Drawings	1444	1552	4604	13096	5876
Amortization	-666	-636	-614	-710	-878
Valuation adjustment	-76	-132	18	-128	-64
<u>Rest of Nonfinancial Public Sector</u>	<u>23490</u>	<u>3512</u>	<u>5762</u>	<u>7398</u>	<u>-1122</u>
Drawings	20070	3214	8124	10018	2656
Amortization	-228	-314	-606	-1020	-3196
Valuation Adjustment	1648	612	-878	-1600	-1704
<u>Financial Public Sector</u>	<u>1582</u>	<u>3772</u>	<u>1226</u>	<u>2974</u>	<u>5636</u>
Drawings	1496	4212	2446	4018	6766
Amortization	-132	-262	-390	-566	-710
Valuation Adjustment	218	-170	-830	-478	-420
<u>Short-term borrowing (net)</u>	<u>--</u>	<u>2000</u>	<u>2000</u>	<u>-4000</u>	<u>3800</u>
<u>Interest Payments</u>	<u>1916</u>	<u>1904</u>	<u>3502</u>	<u>5286</u>	<u>7076</u>
<u>Debt Service Payments</u>	<u>2942</u>	<u>3116</u>	<u>5112</u>	<u>15542</u>	<u>12860</u>
	(In Percent)				
Outstanding Debt/GDP	28.0	26.0	27.9	36.4	37.8
Debt Service/GDP 1/	1.0	0.9	1.4	4.7	3.7
Debt Service/Exports of goods and nonfactor services	1.7	1.4	2.5	8.8	6.9

Source: IMF Economic Memorandum on Belize 1984.

1/ Transactions on a cash basis; debt service ratios include interest arrears of Bz\$3.8 million and principal arrears of BZ\$1.0 million.

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