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SUMMARY OF FINANCIAL MARKETS IN BELIZE: SECONDARY SOURCE SURVEY

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NOTE

This document was prepared by Arthur Young and summarizes existing literature describing the country. Secondary sources were obtained from the International Monetary Fund, the World Bank, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the United Nations, and other relevant commercial sources.

BELIZE

SUMMARY OF FINANCIAL MARKETS SURVEY

A. ENVIRONMENT

1. Stable political history

   a. Belize has enjoyed a stable political history, led for over 20 years by the People's United Party (PUP), under the leadership of George Price, until 1984 when the United Democratic Party (UDP) took power.

   b. Belize gained independence from Britain in September, 1981. Independence had been delayed about 15 years due to an unresolved claim by Guatemala to approximately half of Belize's territory which dates back to 1859. UN, British and US support finally made independence possible. The Guatemala issue is still unresolved, and Britain maintains military forces in Belize to ensure Belizean autonomy.

   c. Future political stability is uncertain, as the constituencies of the major political parties, PUP and UDP are divided along racial lines; the former appealing primarily to the Mayas and Mestizos, and the latter to the Creoles and Garifuna. Latent racial unrest is a barrier to political stability.

2. Economic conditions

   Belize is a small country with a population of 162,000 and a land area of 22,963 square km. The Belizean economy is unstable, subject to major fluctuations in growth. Instability is due, in part, to the small size of the economy and the resulting magnified impact of fluctuations in the major industry, sugar. The sugar industry accounts for 25% of GDP. Revenues from sugar have fallen 35% since 1980; GDP has declined 2.2% in real terms in the same period.

   Another factor contributing to the country's economic instability is its dependence on imports for consumption and capital goods.

3. Unstable social conditions

   a. The Belizean population is very diverse, comprised of Spanish-speaking Mestizos, English-speaking West Indian blacks (Creoles and Garifuna), and an indigenous Maya population. The population was predominantly black until recently, when the influx of refugees (primarily Salvadoreans and persecuted Mayas from Guatemala) upset the racial and cultural balance. The official language is English, however approximately half the population is Spanish-speaking as a result of recent immigrations.

   b. Racial relations are tense. Tensions broke into riots just before independence because blacks feared that the government would negotiate cession to Guatemala as part of an independence agreement. Guatemala has a history of racial prejudice toward blacks.

4. International assistance

   Caricom
   CDB
   CIDA
   Economic Commission for Latin America
   EEC
   UK
   UN
   USA
   IMF

Trade agreements

   Lome Agreement
   International Sugar Agreement

B. ECONOMY

1. The softening of the international sugar market has seriously hurt the Belizean economy. Sugar accounts for 25% GDP; sugar prices have dropped approximately 35% since 1980. Current account balance of payments deficits have responded to fluctuations in sugar export earnings. In 1975 the deficit was equal to 5.4% of GDP; in 1979 it soared to 19.8%; since then it has averaged about 13%.

2. Predominantly a private sector-based economy, although the GOB has played an active role in development. Public sector activities account for approximately 30% of GDP (1984.) The private sector generates about 70% of total savings.

   The public sector is comprised of:

   - The GOB

   - Two financial institutions (discussed in Section E)
     - Central Bank
     - Development Finance Corporation

   - Nine parastatals
     GOB finances are generally managed well; those of the parastatals are not, and show deficits for the last five years. This is due primarily to the operational deficits incurred by the major public entities: the Belize Marketing Board, the Belize Electricity Board, and the Banana Control Board.

     - Belize Marketing Board
       Purchases and sells locally produced rice, corn, beans, and sorghum. Where profit margins are small or negative, the Marketing Board provides subsidies to growers. Subsidies have represented substantial costs to this agency; subsidies to corn growers amounted to US$0.5 million in FY1981/82 and US$0.7 million in FY1982/83.

     - Belize Electricity Board (BEB)
       The electricity system is fragmented and inefficient, causing substantial and costly energy losses. Estimates for FY1982/83 indicate a financial loss of US$1 million.

- Banana Control Board (BCB)
  BCB controls all banana exports and virtually all banana production in the country. BCB finances have been negatively impacted by two factors: (1) the level of activity is too small to make the industry profitable; and (2) export earnings have been hurt by the depreciation of the Pound Sterling because sales are in sterling, but costs are in US dollars. The BCB experienced losses in excess of US$1 million in 1981 and 1982.

- Water and Sewerage Authority

- Telecommunications Authority

- Belize Meats Ind.

- Port Authority

- Social Security

- Reconstruction and Development Corporation & Housing (RECONDEV)

3. Labor force analysis

   a. Population: 162,000 (1984)
      Population growth rate: approximately 2%

   b. Literacy: estimated 90% (1984)

   c. Unemployment
      Unemployment is a problem in Belize, estimated at 14.3% in 1980. Unemployment is most acute in Belize City and among the young (67% of the unemployed are between the ages of 15 and 19; more than half live in Belize City.)

      The unemployment problem is complicated by the fact that the expectations and the training of a significant portion of the population are in areas other than agriculture. This results in an unusual combination of high unemployment amidst seasonal agricultural labor shortages in rural areas.

4. The bulk of Belize's trade is with the UK and the US, although trade with neighboring countries, especially Mexico and Guatemala, has been increasing.

5. IMF standby agreement signed in 1984, which requires the deficit to be reduced by increasing public sector savings and taxation.

6. Belize is the second largest supplier of marijuana to the US, with an estimated 850 tons exported in 1984. The US is pressuring GOB to spray fields with paraquat, intimating that US$18 million in potential aid will be withheld as leverage. This would be difficult for GOB politically , as many prominent businessmen are involved in the drug trade, and a similar campaign in 1983 contributed to the fall of the PUP in the 1984 elections. Further, it is likely that the revenues from 850 tons of marijuana significantly exceeds US$18 million.

C. GOVERNMENT ATTITUDES

1. GOB encourages foreign private investment with a relatively liberal currency exchange system; regulations which are administered flexibly and fairly; and a fixed exchange rate policy enhanced by a consistent monetary policy. Belize's traditionally strong ties with the UK are being replaced by the US.

2. The GOB public sector investment program gives priority to the development of the country's infrastructure - electricity, roads, and ports.

3. Currently less than 15% of arable land is farmed. In an attempt to encourage agricultural development, GOB has implemented an open immigration policy to attract agricultural workers; has made government-owned land easily available and inexpensive, contingent upon its being productive; and has instituted a new land tax on the unimproved value of privately owned agricultural land.

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D. REGULATORY CLIMATE

1. Foreign exchange controls are relatively liberal.

   a. Only the Central Bank and authorized dealers (which include the commercial banks) can exchange foreign currency.

   b. The official exchange rate is US$1 = Bz$2.

   c. There are no limits to the amount of capital which may be repatriated.

   d. Borrowing abroad is permitted with prior authorization; the borrower must repay interest and principal with foreign currency supplied by the Central Bank.

   e. Permits are required for exports; re-exporters must demonstrate that foreign currency will be sold to the Central Bank within a reasonable timeframe, usually within 6 months.

2. Price controls

   a. Price control of locally produced goods consists of maximum prices. GOB authorization is required prior to any price increase of a locally produced commodity; this process can be lengthy.

   b. Price control of imported commodities consists of controls of price margins. The maximum mark-up allowed for imports varies according to type of commodity; and are applied automatically, avoiding the long delay for GOB authorization. Low mark-ups are set for basic commodities (e.g. foodstuffs): 5-15% for the importer, plus 10-25% for the retailer. Luxury goods, however, can carry a profit margin of 25-45% for the importer plus 20-25% for the retailer. This system of import pricing favors imports over local production.

   c. The price control system has not been strictly applied. Enforcement of the controls would require the establishment of a costly organization (there are currently only four inspectors in the country.) Further, many price controls can be avoided without necessarily breaking the law.

3. Control of import volume

   a. Belize has adopted the CARICOM Common External Tariff (CET), which increases import duties with the degree of processing. This discriminates against agriculture by reducing the terms of trade of agriculture relative to other commodities.

   b. Import licenses are required for 75 commodities, 42 of which are food products. Imports under license in 1981 was equivalent to 18% of total imports.

      Import licences are not used effectively for the purposes intended by GOB. The licence system is supposed to ease balance of payments constraints, yet import duty exemptions (amounting to 50% of total import duties in 1981) tend to nullify that effect. Also, the licensing system is claimed to be used to protect local producers, but this effect is neutralized by duty exemptions and price controls designed to protect local consumers.

4. Development incentives
   GOB has granted development incentives in order to promote certain industries. Incentives consist of exemptions from income tax (granted for a maximum of 15 years,) and from import duties on capital goods and occassionally on raw materials.

E. FINANCIAL SYSTEM

1. Financial institutions

   a. Central Bank
   The Central Bank was established in November, 1982, and has power over other financial institutions re. controls on liquidity; volume, terms, and condition of credit; and control on interest rates. The Central Bank also controls the exchange rate.

   As set out in the Central Bank Act, the Central Bank is required to maintain an external asset reserve of at least 40% of the aggregated amount of currency in circulation and the Bank's liabilities for sight and time deposits. Outstanding loan advances to GOB may not exceed 15% of the estimated current revenue of the government for the current year.

   b. Commercial banks
   There are four foreign commercial bank branches: Atlantic Bank, Bank of Nova Scotia (Scotiabank,) Barclays Bank International, and Royal Bank of Canada.

   c. Development Finance Corporation (DFC)
   DFC is a semi-autonomous development bank providing medium- to long-term development loans, and equity investment in selected cases. DFC loans have gone to agriculture (41% of total,) housing (30%,) tourism (8%,) manufacturing (7%,) fishing (4%,) and services (10%.)

   In 1984 outstanding loans amounted to 17% of Belize's financial system. DFC loan conditions are more favorable than those offered by the commercial banks; DFC charges 9-12% while commercial banks charge 19-20% per annum (1984.) DFC financing comes from international donors and the GOB.

   d. There are about 50 credit unions; not all are currently operating.

2. The money supply has been increasing at an irregular rate, due primarily to a fixed exchange rate policy in an economy which experiences sharp changes in nominal income.

3. Belize has no stock exchange; therefore no data on secondary markets are available. In addition, no information was available as to the types of securities offered. The volume of primary securities trade is low and falling; dropping from an all-time high of Bz$15.4 million in 1982 to Bz$6.5 million in 1983.

F. TAX SYSTEM

1. Import duties are the most important source of current revenue for the GOB, providing 35% of total revenues.

2. Direct taxes account for 20% of current revenue. Direct taxes are comprised of:

   a. Income tax
      Personal: variable rate up to 50% of taxable annual income
      Company: flat 45% rate on income

   b. Land tax
      Rates vary with type of land, increasing when near roads or the coastline.

   c. Other taxes
      - export duties
      - excise duties on spirits, beer, and cigarettes
      - stamp duties
      - fees on goods in transit

NOTE:

No sources were located with information pertaining to the accounting system of Belize.