PN-ABL-076
76764

EVALUATION OF PUBLIC SECTOR FISCAL PERFORMANCE IN BELIZE

PREPARED FOR:

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MARCH 31, 1986

BOOZ·ALLEN & HAMILTON INC.
7315 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

EVALUATION OF PUBLIC SECTOR FISCAL PERFORMANCE IN BELIZE

March 31, 1986

USAID/Belize

BOOZ·ALLEN & HAMILTON INC.

SUITE 1100W • 7315 WISCONSIN AVENUE • BETHESDA, MARYLAND 20814-3274 • TELEPHONE: (301) 951-2200 • TELEX II: 710-826-0552

TABLE OF CONTENTS

		Page Number
I.	INTRODUCTION AND SUMMARY	1
II.	TRENDS IN GROSS DOMESTIC PRODUCT OF BELIZE, 1970-1985	4
III.	MACROECONOMIC DEVELOPMENTS IN 1985 AND OUTLOOK FOR 1986	15
IV.	PERFORMANCE OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR	21
V.	OUTLOOK FOR PUBLIC SECTOR SAVINGS IN 1986/87	33
APPENDIX A	DETAILED GROSS DOMESTIC PRODUCT ESTIMATES FOR BELIZE, 1973-86	A-1

E X H I B I T S

		Following Page
EXHIBIT I-1	REAL GDP AND COMPONENTS	2
EXHIBIT I-2	REVENUES AND EXPENDITURES OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR	2
EXHIBIT I-3	CAPITAL SPENDING OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR	2
EXHIBIT I-4	PUBLIC SECTOR SAVINGS AS PERCENT OF GDP	2
EXHIBIT II-1	REAL GDP OF BELIZE IN CURRENT AND CONSTANT PRICES IN AGGREGATE AND PER CAPITA, WITH IMPLICIT PRICE DEFLATOR	4
EXHIBIT II-2	REAL GDP PER WORKER IN BELIZE, 1970, 1980, AND 1983/84	5
EXHIBIT II-3	GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ECONOMIC ACTIVITY	6
EXHIBIT II-4	GROSS DOMESTIC PRODUCT OF BELIZE: TOTAL AND PERCENTAGE DISTRIBUTION BY TYPE OF FINAL DEMAND, SELECTED YEARS	7
EXHIBIT II-5	SAVING AND INVESTMENT OF BELIZE	8
EXHIBIT II-6	BELIZE EXPORT AND IMPORT PRICE INDEXES, AND TERMS OF TRADE	9
EXHIBIT III-1	SELECTED MONETARY AND BANKING DATA	17
EXHIBIT III-2	BALANCE OF PAYMENTS OF BELIZE	18
EXHIBIT III-3	GROSS DOMESTIC PRODUCT OF BELIZE BY TYPE OF FINAL DEMAND	19
EXHIBIT IV-1	OPERATIONS OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR	21

E X H I B I T S (Continued) -

		Following Page
EXHIBIT IV-2	OPERATIONS OF CENTRAL GOVERNMENT	22
EXHIBIT IV-3	CENTRAL GOVERNMENT REVENUES AND GRANTS	22
EXHIBIT IV-4	CENTRAL GOVERNMENT EXPENDITURES	23
EXHIBIT IV-5	OPERATIONS OF THE SOCIAL SECURITY BOARD	24
EXHIBIT IV-6	OPERATIONS OF THE NONFINANCIAL PUBLIC ENTERPRISES	24
EXHIBIT IV-7	OPERATIONS OF THE BELIZE ELECTRICITY BOARD	25
EXHIBIT IV-8	OPERATIONS OF THE MARKETING BOARD	26
EXHIBIT IV-9	OPERATIONS OF THE BANANA CONTROL BOARD	27
EXHIBIT IV-10	OPERATIONS OF THE BELIZE TELECOMMUNICATIONS AUTHORITY	28
EXHIBIT IV-11	OPERATIONS OF THE PORT AUTHORITY	28
EXHIBIT IV-12	OPERATIONS OF THE WATER AND SEWERAGE AUTHORITY	29
EXHIBIT IV-13	OPERATIONS OF BELIZE MEATS	29
EXHIBIT IV-14	OPERATIONS OF THE RECONDEV	29
EXHIBIT IV-15	PUBLIC SECTOR INVESTMENT PROGRAM	30
EXHIBIT A-1(a)	GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ECONOMIC ACTIVITY	A-1
EXHIBIT A-1(b)	GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ECONOMIC ACTIVITY	A-3
EXHIBIT A-1(c)	GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ECONOMIC ACTIVITY	A-5
EXHIBIT A-2	GROSS DOMESTIC PRODUCT, GROSS AND NET NATIONAL PRODUCT, AND NATIONAL INCOME	A-7
EXHIBIT A-3	GROSS DOMESTIC PRODUCT OF BELIZE BY TYPE OF FINAL EXPENDITURE	A-9

I. INTRODUCTION AND SUMMARY

This study evaluates the performance of the consolidated non-financial public sector of Belize in meeting the savings target of the ESF stabilization program during fiscal year 1985-86. For this assignment, Booz, Allen & Hamilton was asked to perform the following tasks.

- Prepare a sectoral estimate of gross domestic product (GDP) for 1985, trends since 1978, and a projection for 1986
- Analyze trends in revenues and expenditures of the public sector
- Analyze the capital spending of the public sector vs. programmed levels
- Compare public sector savings performance with the targets set under the stablization program
- Analyze the likely public sector savings performance in fiscal 1986/87.

1. ORGANIZATION OF THE REPORT

This report is organized as follows. In this chapter, we review the project methodology and the major findings of the study. Chapter II is a historical review of GDP growth in Belize since 1970, at the aggregate level, and by major components. In Chapter III, the macroeconomic developments in 1985 are analyzed, and a projection for 1986 is presented.

The fiscal performance of the public sector in 1985/86 is analyzed in Chapter IV. Revenues and expenditures of the central government and public enterprises are reviewed separately. In addition, public sector capital expenditures are reviewed.

Finally, in Chapter V, we present the outlook for public sector savings in 1986/87, and the major components of the projection. The chapter concludes with a projection of the overall deficit for 1986/87.

2. PROJECT METHODOLOGY

The data collection and analysis for this project were conducted during a four-week period, most of which was spent in-country. The project team interviewed officials in a number of government agencies, public enterprises, and the Central

Bank, as well as several knowledgeable private sector organizations. Economists in the IMF, World Bank, and USAID were also interviewed.

In general, the project team relied heavily on estimates provided by the Government and the international lending organizations, wherever they were available and consistent with other information collected during the interviews. Minor discrepancies were resolved using best professional judgement.

3. MAJOR FINDINGS

The major findings of the study are summarized below.

(1) Economic Growth Remains Sluggish

GDP increased in real terms by only 1 percent in 1985, and is projected to remain at the same level in 1986. In current prices, GDP increased by 5 percent in 1985, and is projected to increase by 2 percent in 1986. As shown in Exhibit I-1, all major sectors of the economy have remained flat in terms of real growth since 1981.

(2) The Government Is Making Slow But Steady Progress Toward Elimination Of The Budget Deficit

The overall public sector deficit in 1985/86 is estimated at BZ$14 million, less than half of the deficit in 1982/83, and 1983/84. Further reduction, to BZ$11 million is projected for 1986/87. As shown in Exhibit I-2, the budget deficit trend is composed of substantial growth in government revenues and grants and more moderate growth in total expenditures.

(3) Public Sector Capital Spending Has Fluctuated, Showing No Clear Trend

Capital expenditures increased to BZ$40 million during 1985/86, but are projected to decrease to BZ$38 million in 1986/87, as shown in Exhibit I-3. The public enterprises share of capital spending is rising, while General Government's share is decreasing in both absolute and relative terms. The IMF target of 11.2 percent of GDP was not achieved in 1985/86.

(4) Public Sector Savings Are Increasing, And Have Achieved The ESF Target Levels

As illustrated in Exhibit I-4, public sector savings have increased consistently since their low point in 1983/84. For 1985/86, public sector savings are estimated

2'

EXHIBIT I—1
REAL GDP AND COMPONENTS
1978—1986

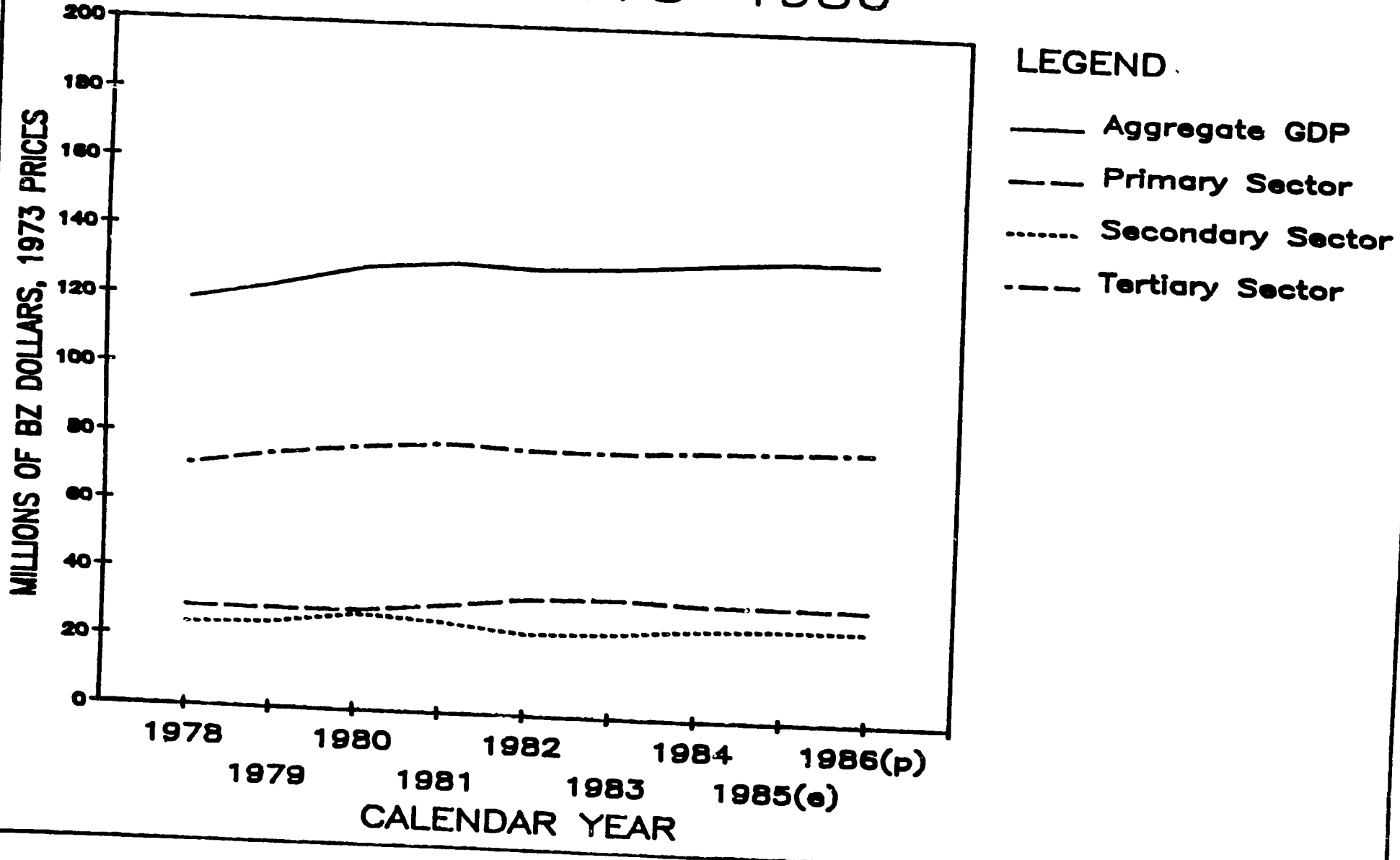
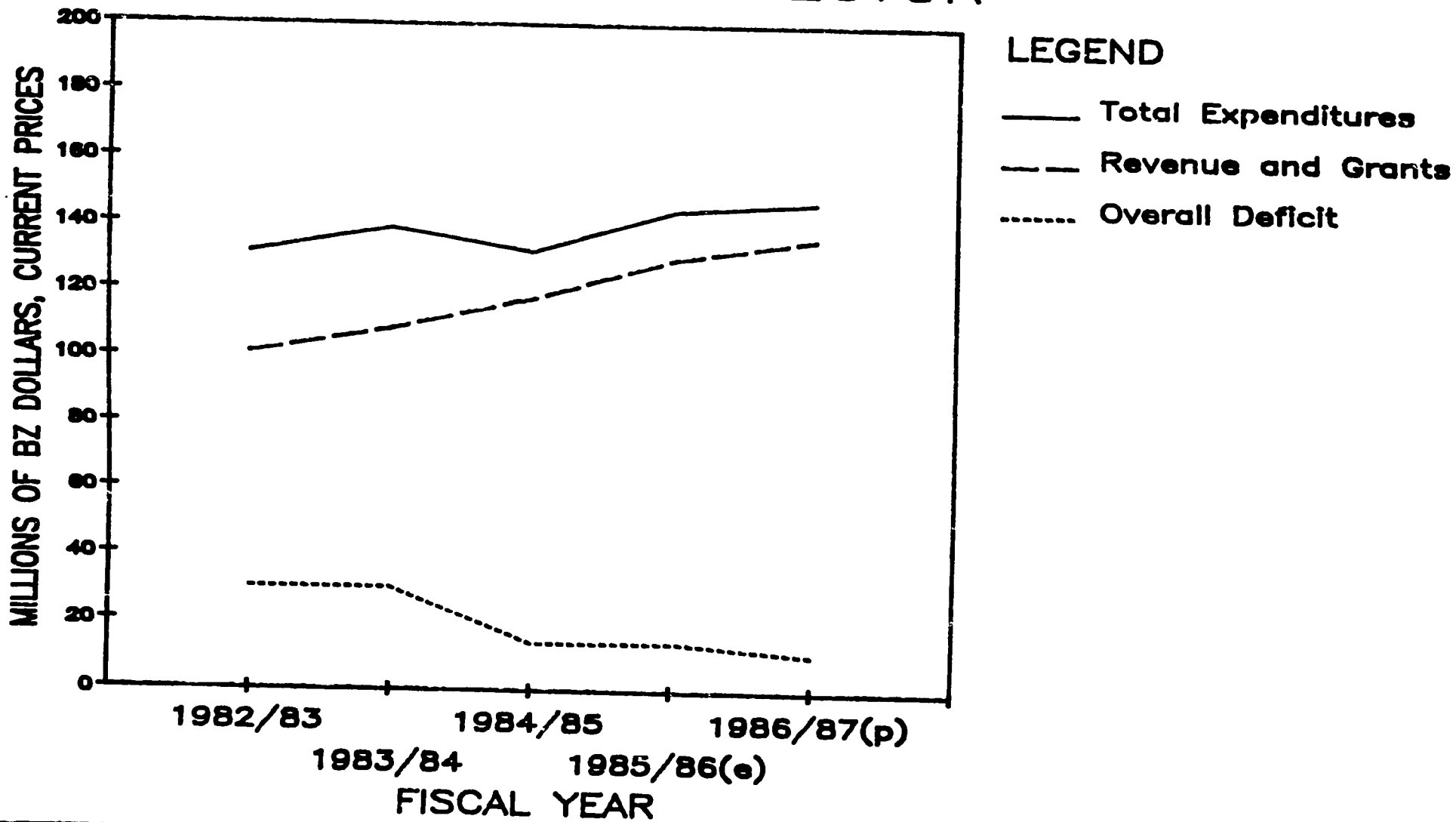
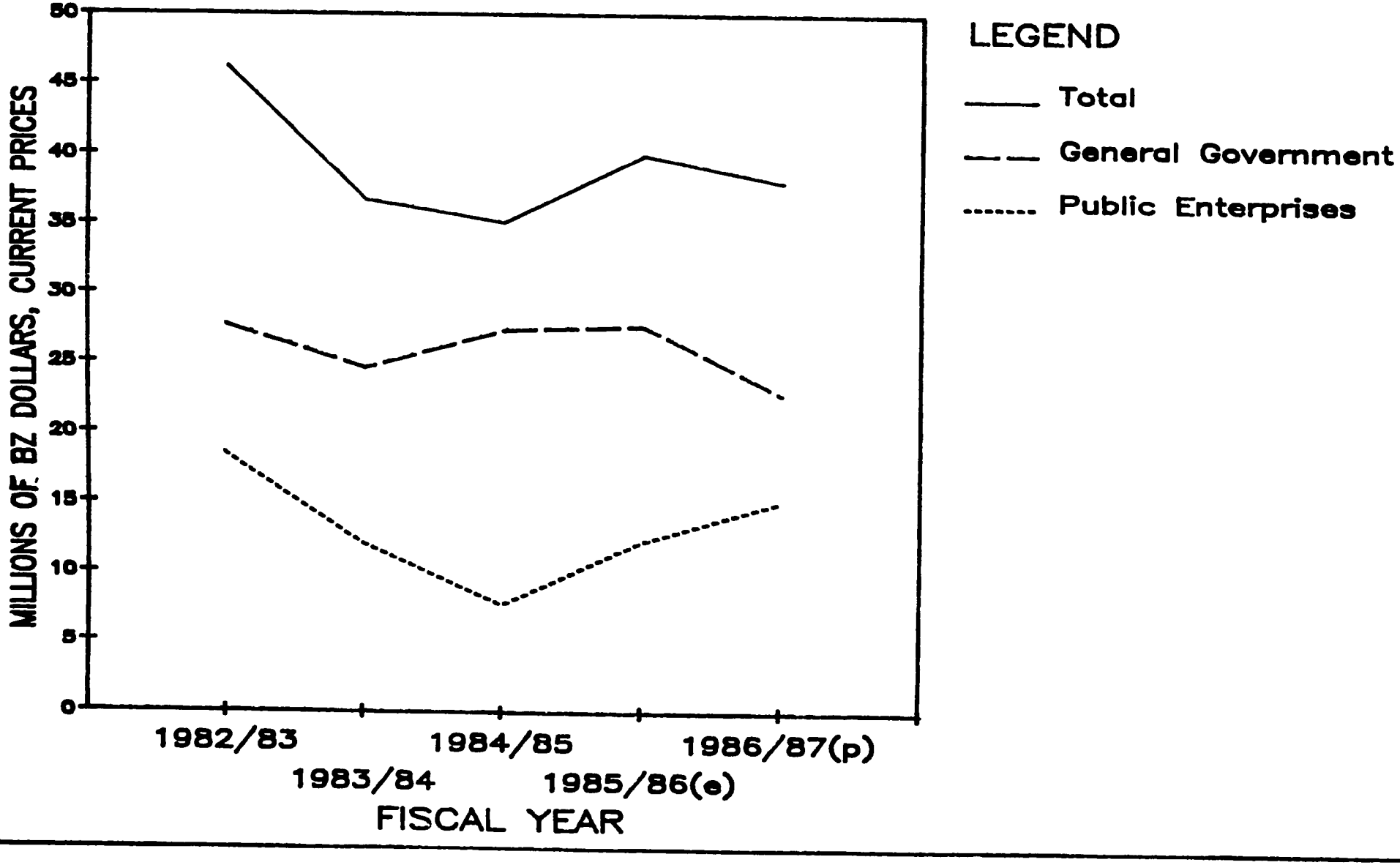


EXHIBIT I–2
REVENUES AND EXPENDITURES OF THE CONSOLIDATED NON–FINANCIAL PUBLIC SECTOR



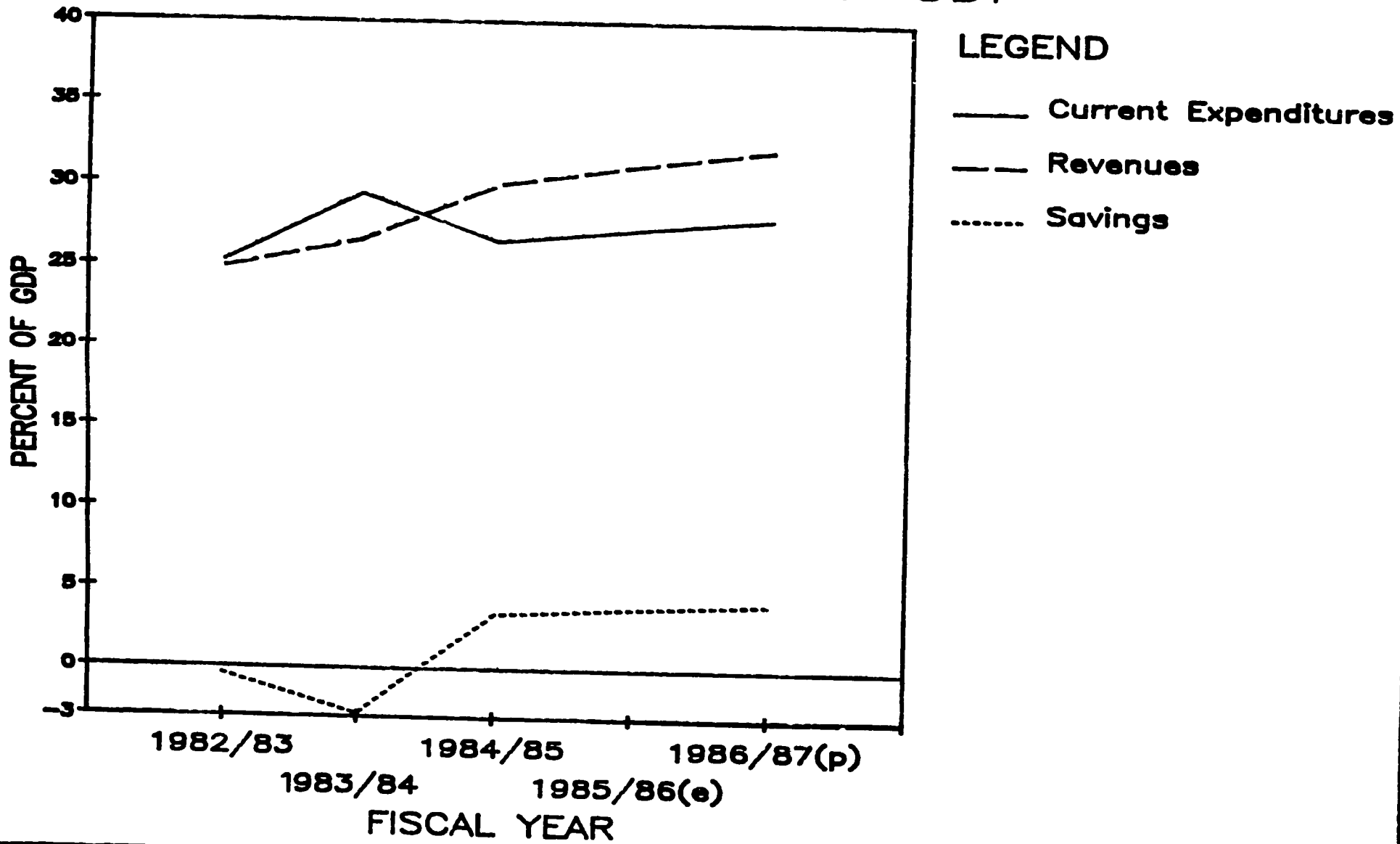
4.

EXHIBIT I–3
CAPITAL SPENDING OF THE CONSOLIDATED NON–FINANCIAL PUBLIC SECTOR



5

EXHIBIT I–4
PUBLIC SECTOR SAVINGS AS PERCENT OF GDP



at 3.9 percent of GDP, and a level of 4.2 percent of GDP is projected for 1986/87. The ESF target for 1985/86 was 3.5 percent of GDP.

Both revenues and current expenditures are increasing relative to GDP. Public sector revenues now constitute more than 31 percent of GDP, and are projected to exceed 32 percent of GDP in 1986-87.

Although our scope of work was restricted to estimates and projections as summarized above, the following additional points became evident during our research.

- Improvements are needed in the Government's systems for programming and monitoring public sector capital expenditures. In particular, increased coordination with the public enterprises is needed to identify worthwhile projects and potential external funding sources, and to resolve administrative and contractual problems.

- Further progress in deficit reduction and public sector savings will be dependent upon the success of the Government and public enterprises in controlling the total wage bill, and more specifically, reducing total public sector employment. Recent progress toward fiscal targets has been achieved largely through increases in utility rates to reflect cost of service including debt retirement. The utility rates in Belize are now among the highest rates in LDC's and developed countries. Further increases in these rates could severely inhibit foreign investment and economic development, particularly in industries that are major users of electric power and water.

II. TRENDS IN GROSS DOMESTIC PRODUCT OF BELIZE, 1970-1985

In this chapter, we describe the trends in gross domestic product (GDP) and in their composition since 1970. The chapter begins with a discussion of aggregate GDP growth rates from 1970 to 1985. Following this general discussion are analyses of GDP trends by industry group and final expenditure, and a discussion of factors affecting GDP growth trends. The last section describes the data sources used for the analysis, the quality of the various sources, and the statistical methods for estimating various GDP components. Detailed estimates of GDP are presented in tabular form in Appendix A.

1. AGGREGATE GDP GROWTH RATES, 1970-85

Between 1970 and 1980, the real GDP of Belize grew strongly at an average annual rate of about 4 percent. It is reported that the 1960's were also a period of substantial growth. Between 1980 and 1985, however, there was a dramatic slowdown to an average rate of less than one percent a year, as shown in Exhibit II-1. The economy is also expected to remain sluggish in 1986, as discussed in the next chapter.

On a per capita basis, real GDP grew at a two percent average annual rate during the 1970's. But between 1980 and 1985, real GDP per capita actually declined at a two percent annual rate, reflecting the slower aggregate growth and a somewhat higher rate of population increase. In current market prices, there was a minor increase between 1980 and 1985 in GDP per capita, reaching BZ$2,042 in 1985.

Along with the strong growth trend of the 1970's, there was a substantial degree of general price inflation, averaging 12.6 percent a year, as measured by the implicit price deflator (IPD) for GDP. The slowdown in growth between 1980 and 1985 was accompanied by a major deceleration in the inflation rate to an average of two percent annually. The IPD understates the domestic rate of inflation, however, since it reflects changes in export prices, which declined by more than 25 percent over the five years. The consumer price index (CPI) rose by an average of 6 percent a year from 1980 to 1984, but slowed to less than four percent between 1984 and 1985.

(1) Productivity Trends, 1970-1985

The GDP growth rates can be checked by comparing their trend with the growth in working population (including proprietors and self-employed as well as employees).

EXHIBIT II-1

REAL GDP OF BELIZE IN CURRENT AND CONSTANT PRICES
IN AGGREGATE AND PER CAPITA, WITH IMPLICIT PRICE DEFLATOR *

	1970	1973	1980	1985	Annual Percent rate of change 1970 to 1980	1973 to 1980	1980 to 1985
Gross domestic product (BZ$ Millions)							
Current prices		101.34	295.16	340.0		16.5	2.9
Constant 1973 prices	87.84	101.34	128.91	133.70	3.9	3.5	0.7
Implicit price deflator		100.0	229.0	254.3	12.6	12.6	2.1
Population (000)	119.93	124.80	145.35	166.5	1.9	2.2	2.8
GDP per capita (BZ$)							
Current prices		812.02	2,030.68	2,042.20		14.0	0.1
Constant prices	732.42		886.89	803.00	2.0	1.3	-2.0

Calculated from Exhibit A-1

Source: Central Statistical Office (CSO) and preliminary 1985 GDP estimates by the authors

* 1BZ$ = US$.50

Assuming that errors in the real GDP and worker estimates are not major and/or tend to be offsetting, the ratio of the two time series provides a rough measure of productivity.

Exhibit II-2 compares the levels and rates of growth of GDP, labor force, and working population. The labor force and working population data were derived from the decennial censuses, and from a special labor force survey covering the period November 1983 - January 1984. For consistency of timing with the labor force data, we have averaged the real GDP estimates for 1983 and 1984, and converted them to 1985 prices.

As the Exhibit shows, while real GDP grew at an average annual rate of 3.9 percent between 1970 and 1980, the working population grew at a 2.4 percent rate. Thus, the estimated annual rate of increase in real GDP per worker was the difference between the two rates, or 1.5 percent--a rate that compares favorably with that achieved by many other countries, including the United States. In the subsequent 3-1/2 year period the working population grew slightly faster than real GDP, which had not fully recovered from the contraction of 1982. Productivity was thus fractionally lower in 1983 than in 1980. Many other countries were also showing slow or no growth in productivity in the early 1980's. In fact, the productivity slowdown had started in the mid-1970's in most industrialized countries. So on the face of it, the productivity implications of the GDP estimates seem plausible.

It should be noted that the simple productivity ratio, real GDP per worker, represents operating surplus and capital consumption, in addition to labor compensation. According to the labor force survey, the average income of employees was nearly BZ$ 6,000, about 78 percent of GDP per worker in 1983/4.

(2) Labor Force and Unemployment, 1970-85

Average annual labor force growth also declined dramatically from 3.5 percent in the 1970-80 period to .53 percent between 1980 and 1985. The decrease probably reflected withdrawals from the labor force, and possibly, out-migration, as unemployment continued through 1984 at around 14 percent of the labor force, only slightly lower than the 1980 level. Despite the strong growth of employment from 1970 to 1980, unemployment rose significantly during this period as labor force grew much faster than population. This reversed the trends of the 1960's, when

EXHIBIT II-2

REAL GDP PER WORKER IN BELIZE,
1970, 1980, AND 1983/84

	1970	1980	1983/84	AVG. ANNUAL % RATES OF CHANGE 1970-80	1980-83/4
Real GDP at factor cost (Millions of 1985 BZ$)	208.2	305.5	311.5	3.9	0.56
Labor force (000)	32.8	46.5	47.3	3.5	0.53
Working population (000)	31.5	39.8	40.7	2.4	0.64
Real GDP per worker (BZ$)	6,609	7,676	7,654	1.5	-0.08

Source: Calculated from Central Statistical Office data

labor force growth was well under that of population, and the average annual increase in employment of 3.9 percent reduced the unemployment rate to around 4 percent of the 1970 labor force.

2. GDP BY INDUSTRY GROUPS

Primary industries, predominantly agriculture, accounted for almost one-fourth of GDP at factor cost in 1973, as shown in Exhibit II-3 below. Manufacturing contributed 10 percent, with construction and electric and water utilities bringing the secondary industry sector up to about one-sixth of the total. The remaining 60 percent was comprised of service industry groups, the largest of which was trade and tourism, with more than one-sixth of total GDP. Public administration represented about 10 percent.

Changes in the industry composition of GDP at factor cost in current prices reflect relative changes in both prices and quantities produced. For example, from 1970 to 1980, agricultural production increased slightly faster than real GDP. Due to the strong farm prices in 1980, the share of agriculture rose to almost 20 percent. Between 1980 and 1985, however, agricultural production increased by an average of only 1.1 percent annually, due to sluggish demand and a decline in sugar production after 1983. Banana production also declined through 1984, but citrus and some other types of production increased gradually as the GOB sought to diversify agriculture.

Although the growth of agricultural production remained slightly above the aggregate economic growth rate of 0.7 percent a year, major declines in agricultural prices reduced the share of agriculture to less than 15 percent in 1984, with a further drop estimated for 1985. Because of relative increases in the volume and value of production of forestry and fisheries, however, the decline in the primary sector's share of GDP was held to about 3 percentage points.

Manufactures grew strongly in the 1970's, as the primary processing industries expanded, and as new enterprises entered import substitution areas such as beer and cigarettes. The manufacturing share of GDP grew to 15 percent by 1980, but receded somewhat by 1984. The manufacturing output growth rate slowed to 2 percent annually. The slowdown should probably be attributed to the decline in export prices, which lowered the value of production.

Electricity and water utility output rose sharply throughout the period, almost doubling its share of GDP from 1.1 percent in 1970 to 2.0 percent in 1984. Construction advanced strongly during the 1970's, but fell back to less than 6 percent of GDP by 1984, as new investment declined after 1980.

12

EXHIBIT II-3

GROSS DOMESTIC PRODUCT AT FACTOR COST
BY KIND OF ECONOMIC ACTIVITY
(RATES OF CHANGE AND PERCENTAGE DISTRIBUTIONS)

INDUSTRY GROUP	PERCENTAGE RATES OF CHANGE IN REAL GDP		PERCENTAGE DISTRIBUTION		
	1970-80	1980-85	1973	1980	1984
Agriculture	4.4	1.1	18.1	19.7	14.6
Forestry	-1.0	4.6	3.0	1.5	2.1
Fishing	-1.0	13.4	2.5	2.4	4.1
Mining	4.3	0	0.2	0.3	0.2
Primary Sector Total	3.3	2.7	23.8	23.9	21.0
Manufacturing	6.2	2.0	10.0	15.2	14.6
Electricity & water	9.3	5.8	1.1	1.3	2.0
Construction	7.4	-4.4	5.3	6.4	5.8
Secondary Sector Total	7.0	-0.5	16.4	22.9	22.4
Trade & tourism	3.1	-2.0	17.6	19.2	17.5
Transport & commun.	7.4	3.4	7.1	9.0	11.0
Finance & insurance	1.1	0	7.6	3.9	4.5
Real estate & business services	2.2	1.2	7.5	4.8	6.1
Public administration	6.7	0.5	9.8	10.5	10.4
Other services	2.9	0.9	10.2	8.5	10.5
Tertiary Sector Total	3.9	0.4	59.8	55.9	60.1
Less Bank charges	0	1.4	0	-2.7	-3.5
Gross domestic product	3.9	0.7	100.0	100.0	100.0

Source: Exhibit A-1(a)

Source: Central Statistical Office, Abstract of Statistics, 1985, and earlier reports

Overall, secondary industry production increased to about 23 percent of GDP in 1980, and fell back only fractionally in the first half of the 1980's.

The tertiary industry sector increased its real gross product in line with the growth of total real GDP between 1970 and 1980, but its share of the current dollar total declined to about 56 percent because of a decline in average service prices relative to commodity prices. The situation reversed in the first half of the 1980's. Despite a somewhat smaller increase in tertiary output than in total real GDP, prices of services rose relative to commodity prices and the sector's share of GDP in current prices recovered to around 60 percent by 1984.

Trade and tourism (primarily hotels and restaurants) was the only tertiary industry group that declined in production from 1980 to 1985 and in share of GDP from 1980 to 1984. Trade was adversely affected in 1982 by the financial crisis in Mexico, the devaluations of the peso, and the virtual cessation of the previously flourishing entrepot commerce. Despite its potential, tourism languished in the absence through 1984 of strong developmental and promotional efforts.

Transport and communications grew strongly throughout both periods. Public administration grew relative to total GDP between 1970 and 1980, as government employment expanded. Its share stayed about the same between 1980 and 1984, largely because government wage and salary increases have been confined since 1981 to annual in-grade step raises of approximately 3 percent, plus some bracket-creep.

3. GDP BY TYPE OF FINAL EXPENDITURE

In this section, we describe changes in the composition of GDP in current prices by major types of demand. Final expenditure data in constant prices are not available for some years. Exhibit II-4 summarizes GDP trends by final demand from 1973 to 1985. Further detail is provided in Exhibit A-3 in the Appendix.

(1) Foreign Trade

Two major points are noteworthy with respect to trends in the foreign trade composition of GDP. First, the ratio of total foreign trade (exports plus imports) to GDP rose to 183 percent in 1978, but declined to 116 percent in 1985, largely reflecting the decline in unit value of exports. Second, the resource gap (imports less exports) reached 24 percent of GDP in 1976, but has remained between 12 and 19 percent since then. To some extent, the decrease in the relative influence of foreign trade reflects the

EXHIBIT II-4

GROSS DOMESTIC PRODUCT OF BELIZE
TOTAL AND PERCENTAGE DISTRIBUTION BY TYPE
OF FINAL DEMAND, SELECTED YEARS

	1973	1980	1985
Gross domestic product (Millions of BZ$)	114.8	340.2	382.6
As percent of GDP:			
Net exports of goods and nonfactor services	-12.2	-14.0	-13.6
Exports	55.0	64.5	51.4
Imports	-67.2	-78.5	-64.9
Gross domestic expenditures	112.2	114.0	113.6
Consumption	83.6	86.7	96.8
Private	69.3	68.7	70.7
Public	14.4	18.0	25.1
Fixed capital formation	23.5	25.9	17.5
Private	15.3	12.8	7.1
Public	8.3	13.1	10.5
Change in inventories	5.0	1.4	0.3

Source: Exhibit A-3

development of the domestic economy and its increasing capacity to satisfy local demands.

(2) Domestic Expenditure, Savings, and Investment

With the slowing in growth of income and product since 1980 and the decline in private saving, total consumption increased from 87 percent of GDP in 1980 to 97 percent of GDP in 1985. Private consumption expenditures rose from 69 percent of GDP in 1980, to 71 percent in 1985. The largest component of the increase, however, was in public consumption. Government purchases of goods and services on current account increased steadily from 14.4 percent of GDP in 1973 to 18 percent in 1980, and further to 25 percent in 1985.

The influence of the overall public sector (including public enterprises) has increased substantially since 1973. Combined current and capital expenditures increased from 22 percent of GDP in 1973, to 31 percent in 1980, and to more than 35 percent in 1985.

Total fixed capital formation in Belize increased from 24 percent of GDP in 1973 to an average of 29 percent of GDP in the 1975-79 period. Most of the expansion occurred in the private sector, where investment was at least twice that of the public sector. During the 1980's, the share of gross fixed investment in GDP gradually declined to a low of 16.8 percent in 1984, with a small increase estimated for 1985. The bulk of the decline was in private investment. In 1980, private and public gross investment were each around 13 percent of GDP. By 1981, private investment was only 7.1 percent of GDP, compared with 10.5 percent for public investment. It is our judgment that these estimates probably overstate the decline in private investment. Nevertheless, it seems clear that new investment was stagnating due in part to cutbacks in foreign direct investment and high real domestic interest rates.

Exhibit II-5 summarizes savings and investment trends from 1973 to 1985. As the exhibit shows, the decline in gross domestic investment since 1980 has been accompanied by an increase in capital consumption, as the capital stock has aged. Net national investment, which is defined as gross investment less capital consumption, has declined severely. By 1984, and continuing in 1985, capital consumption offset approximately half of gross fixed investment, and net investment fell below ten percent of GDP.

16

EXHIBIT II-5

SAVING AND INVESTMENT OF BELIZE
(MILLIONS OF BZ$ AND PERCENTAGES)

	1973		1980		1985	
	BZ$M	% of GDP	BZ$M	% of GDP	BZ$M	% of GDP
Gross domestic product	114.8	100.0	340.2	100.0	382.6	100.0
Gross domestic investment	32.7	28.5	92.7	27.3	68.0	17.8
Capital consumption	9.5	8.3	29.6	8.7	35.0	9.1
Net national investment	23.2	20.2	63.1	18.6	33.0	8.7
Saving from abroad	14.2	12.4	7.4	2.2	24.3	6.4
Gross national saving	18.5	16.1	85.3	25.0	43.7	11.4
Public sector	3.3	2.9	14.6	1.4	15.0	3.9
Private sector	15.2	13.2	70.7	23.7	28.7	7.5
Net national saving	9.0	7.8	55.7	16.4	8.7	2.3

Source: Calculated from Central Statistical Office estimates, and adjusted for 1985

A low level of net investment means that the total capital stock is expanding slowly. In the extreme case of zero net investment, capital stock is not growing, and increases in capacity are thus restricted to increases in productivity embedded in the newer technology, as capital is replaced. Given the saving/investment identity, it is possible to estimate the major sources of savings that have financed domestic investment. Mirroring the negative current payments balance, savings from abroad have generally financed more than one-third of gross domestic investment, although 1980 and 1981 were exceptions on the low side.

As shown in Exhibit II-5, public sector saving has usually not exceeded five percent of GDP. In 1984 and 1985, public sector savings contributed over 20 percent of gross domestic investment. After rising in the 1970's, the private sector saving rate declined in the 1980's, as individuals and families sought to maintain their standard of living, and as business profits were constrained by sluggish demand conditions.

Net national saving, defined as gross saving less capital consumption, has been declining since 1980, due to the decrease in gross saving since 1980, and the increase in capital consumption. By 1985, net saving declined to 2.2 percent of GDP, its lowest recorded level. The components of net saving in 1985 are a public sector savings level of 3.9 percent of GDP, and a negative private sector saving level of 1.6 percent of GDP, in that capital consumption exceeded private sector savings in 1985.

4. FACTORS AFFECTING THE TRENDS

Due to the openness of the Belizean economy, domestic developments have tended to reflect conditions in the world economy, as well as factors peculiar to Belize. Thus, strong growth in the 1960's and early 1970's in Belize reflected vigorous expansion of the world economy, while the levelling out of real GDP during the 1974-76 period reflected economic recessions in the United States and other major trading partners, triggered by the increase in world oil prices. But the Belizean economy recovered more quickly than most of the developed countries, resuming strong expansion between 1976 and 1980. The sugar industry continued to expand production and exports, and foreign trade conditions were generally favorable.

As Exhibit II-6 shows, the terms of trade improved dramatically between 1977 and 1980. The excess of imports over exports of goods and services fell from 24 percent of GDP in 1976 to 14 percent in 1980. Further, capital formation was strong in the latter 1970's. A number of infrastructure projects were completed. Several new industries were

18

EXHIBIT II-6

BELIZE EXPORT AND IMPORT PRICE INDEXES, AND
TERMS OF TRADE (1980=100)

	1977	1981	1983	1984	1985	1986
A. Export price index	53.1	98.4	80.2	81.9	72.8	64.0
B. Import price index	76.8	109.4	102.6	109.2	112.6	118.2
C. Terms of trade (A÷B)	69.1	89.5	78.1	75.0	64.7	54.1

Notes: e = preliminary estimates based on three quarters

p = projection

Source: Central Bank of Belize Quarterly Review, Vol. 9 No. 3, September 1985

established, including export-oriented garment firms, and import-substitution firms in industries such as cigarettes, beer, flour milling and fertilizer mixing.

The expansion slowed markedly in 1980-81, however, and real GDP declined by almost 5 percent in 1982, reflecting the worldwide recession. Recovery since 1982 has been sluggish, as in many other countries. Perhaps the most important factor in GDP growth has been the deterioration in terms of trade and the absolute decline in production and export of sugar in recent years. The latter decline was due in part to several reductions in the U.S. sugar quota for Belize and the closing in 1985 of one of the country's two sugar mills. After 1980, a good sugar year, the overall terms of trade deteriorated steadily, reaching a level in 1985 of about 65 percent of the 1980 ratio, as shown in Exhibit II-6.

Despite some recovery after 1982, receipts from exports and nonfactor services were more than 10 percent lower in 1985 than in 1980. Yet the physical volume of exports required to produce the export receipts was at least 20 percent higher, given the decline in export prices. Current dollar outlays for imports were also lower in 1985 than in 1980, but the continued rise in average import prices implies that the physical volume of imports had declined by 20 percent or so over the period. These facts help explain the decline in per capita real income since 1980.

The overall balance of payments deficit on current account rose from less than BZ$10 million in 1979-80 to more than BZ$25 million in 1982. After some improvement in 1983, when the value of exports increased relative to imports, the deficit has continued close to BZ$25 million in 1984 and 1985. Reductions in net international reserves after 1980, despite substantial capital inflows, brought reserves to precariously low levels by the end of 1984. This prompted a tighter monetary policy by the Central Bank and substantial increases in interest rates in 1985, which appear to have reversed the decline in net reserves.

The decline in foreign trade and the general sluggishness in the economy contributed to rather flat revenues for the consolidated nonfinancial public sector from FY 1980/81 through 1983/84. But total expenditures and the net operating deficit of public enterprises rose substantially, especially in 1981, when a 25 percent general wage increase was granted government (and public enterprise) employees. The overall deficit doubled from less than BZ$15 million in 1980/81 to more than BZ$30 million in 1982/83 and 1983/84. The rising budget deficits caused major increases in public debt and debt service payments. In particular, increases in internal financing resulted in higher domestic debt service payments.

20

In early 1984, the government of Belize (GOB) instituted a stabilization program to reverse the unfavorable fiscal trend. Tax increases were introduced in March and June, along with better tax collection procedures to reduce arrears. Penalties were increased for nonpayment of taxes. The growth of current expenditure was contained, and no general wage increases were granted. Efforts were begun to increase the operating efficiency of the public enterprises, and where necessary, to increase charges in order to reduce or eliminate deficits. As a result, the overall nonfinancial public sector deficit was reduced to less than BZ$15 million in 1984/85 and 1985/86.

Another depressing influence on the economy since 1980 has been a marked decline through 1984 in gross and net capital formation, both public and private, particularly the latter. Given the fiscal problems of government, developmental outlays were an easy target for curtailment. Yet it is generally agreed that inadequate infrastructure is an impediment to development in Belize. One of the objectives of the U.S.AID Economic Stabilization Fund loan was to help fund an increase in public capital outlays, and at the same time to encourage increased saving by the nonfinancial public sector. Preliminary estimates for 1985/6 suggest that some progress is being made towards these objectives.

5. NATIONAL ECONOMIC ACCOUNTS OF BELIZE

National and domestic income and product accounts are designed to provide a summary empirical representation of an economy by major types of transactions and transactors. The accounts are an important tool for analyzing economic trends and relationships, and are useful as background for projections and planning by governments and enterprises.

Economic accounts for Belize were first developed in the mid-1970's by the Central Planning Unit of the Ministry of Finance and Economic Planning. They are presented and described in several Ministry publications, including: National Accounts Statistics, Sources and Methods, (1976); National Accounts Statistics, Annual Estimates, (1976 and 1978); and Economic Accounts of the Public Sector (1976). Subsequent estimates through 1984 were provided by the Central Statistical Office, together with a preliminary estimate of real GDP by sector for 1985 prepared in conjunction with the International Monetary Fund (IMF).

The concepts and definitions underlying the estimates are generally those set forth in the United Nations publication A System of National Accounts, Series F No. 2, Revision 3 (1968), which is scheduled to be revised again in 1986. The component estimates by industrial sector of origin, types of final demand, and saving and investment are in terms of major

21'

categories, without the detailed breakdowns found in the accounts of most developed countries. Some of the detail presented in the reports referred to above appears to have been subsequently abandoned. The estimates are of uneven quality, and subject to considerable margins of error, as indicated by the following brief review.

By industry groups, the best estimates are for primary industries, particularly agriculture, for which there was a Census in 1973-4. From 1973 to present, the data for quantities produced and average prices received are reasonably good. Data are also available on consumption of intermediate products, permitting estimates of value added as the difference between value of production and intermediate consumption.

For the secondary industry group, data are available on quantities and value of production for major commodities. Surveys (conducted in early 1981) of establishments in manufacturing, trade, and selected services provided data on intermediate consumption and value added. Data on the electric and water utilities from the public enterprises appear reasonably good. For construction, value added was estimated by applying percentages to the value of construction materials as reported in import statistics and surveys of domestic production, adjusted for trade and transport margins. The estimates obtained by these procedures are obviously only rough approximations.

The weakest estimates are those for the predominant tertiary industry group. Where available, output measures or indicators were used, e.g. those relating to tourism, transport, telecommunications, and certain financial transactions. In some areas, survey results were available, but response rates were generally low. Where no output information was available, employment or other input indicators were used. For example, this approach was used to estimate output in public administration, for which outputs are difficult to define, and even more difficult to measure. To the extent that productivity increased in these services, the input measures understate increases in output.

In private industries, value added in current prices was obtained as the sum of labor compensation, operating surplus and capital consumption allowances. Gross product in public administration is mainly labor compensation, in that no charge is made for property services. The increase in the implicit price deflators, obtained as quotients of gross product in current and constant prices, are overstated for both private industry and public administration outputs.

The annual estimates for gross product at factor cost in current and constant prices, by industry groups, and the overall implicit price deflator are shown in Appendix Table

A-1. The data shown in Exhibit II-2 on population, labor force and employment were devised from census data and from a special labor force survey that was conducted in 1983/84 with technical assistance from the International Labor Organization. These estimates permit calculation of real GDP per capita, and the implied changes in productivity defined as real GDP per worker.

To estimate GDP by type of final demand, it is necessary to convert GDP at factor cost to GDP at market prices. This requires adding indirect business taxes, less subsidies, to the factor cost estimates, as shown in Exhibit A-2. Annual estimates of other significant aggregates are also shown in Table A-2. Gross national product (GNP) is derived by adding net factor income from abroad to GDP at market prices. Since net factor income from abroad is negative for Belize, GNP is lower than GDP at market prices.

Net national product (NNP) is obtained by deducting capital consumption allowances from GNP. National income (factor cost) is equal to NNP less net indirect taxes, or it may be calculated by adding net income from abroad to GDP at factor cost, and deducting capital consumption. The estimates for the various reconciliation items appear to be reasonable. During the mid-1970's, the Central Planning Unit also provided estimates of disposable personal income (DPI). DPI is a useful aggregate, because it equals personal consumption plus personal saving. DPI estimates, however, have not been made in recent years for the Belize economy.

The estimates for the segments of final demand, like those for the components of GDP at factor cost, are of uneven quality. The best are those for government expenditures (current consumption and capital formation), and for exports and imports of goods and, to a lesser degree, of services. The estimates of private fixed capital formation are fair. The producers durable equipment component is based on the relevant import statistics for machinery and transportation equipment, but there are problems in deducting items for repair, and allocating the final capital goods among the major purchasers--government, private enterprises, and consumers. The data on imports of construction materials are good, but there are difficulties in estimating local markups, and the value added in new construction and major alterations.

The estimates for private (personal) consumption are residuals, and are therefore subject to significant margins of error. The least reliable estimates are those for the change in inventories, which are based on incomplete surveys.

Exhibit II-5 shows the savings counterpart of gross domestic investment. Ex post, the latter is equal to gross national saving plus net saving from abroad. The estimates for saving

from abroad were taken from the balance of payments accounts. New and improved estimates for 1984 and 1985 (preliminary) have been prepared by the Research Department of the Central Bank of Belize, and are reproduced in Chapter III. Earlier estimates by the Central Statistical Office and the IMF are less accurate. Net saving from abroad is basically equal to the balance in current account with sign reversed. In Belize, savings from abroad have been positive throughout the period under review. Debit balances for merchandise and investment income (invisibles) have not been fully offset by positive net balances for services and unilateral (unrequited) transfers. Consequently, part of domestic investment has been financed from abroad.

The public sector portion of gross national saving can be estimated from the consolidated economic accounts of the nonfinancial public sector. Public sector savings are equal to the revenue (exclusive of grants) less current expenditures of the Central Government, Social Security Board, and parastatals. Public sector savings can also be viewed as public sector capital expenditures, less the overall deficit, less grants.

Private sector saving is calculated as the difference between gross national saving and public saving. Accordingly, it reflects the net effect of errors in the other savings estimates and in the gross domestic investment estimates.

In February 1986, an advisor from the United Kingdom will be joining the staff of the Central Statistical Office for a two-year period sponsored by the CFTA. The purpose of the mission will be to strengthen the statistical system of Belize generally, and the national economic accounts in particular. Successful execution of this assignment, in our opinion, would require expansion of the scope of occasional economic censuses, improvement of the average quality of annual surveys, and improvement in the methodology for estimating national income accounts. It is our judgement that this effort represents a worthwhile investment, in view of the weaknesses in the current system of economic accounts. More accurate and detailed economic accounts are needed to provide a better background for policy decisions by the Central Government authorities.

24

III. MACROECONOMIC DEVELOPMENTS IN 1985 AND OUTLOOK FOR 1986

In this chapter, we estimate GDP for 1985 and project GDP for 1986. Next, we discuss government fiscal and monetary policy, and their effects on economic growth. The final section contains a discussion of the final demand components of our aggregate GDP estimate for 1985 and projection for 1986.

1. GDP AT CONSTANT AND CURRENT PRICES

For 1985, we accept the preliminary estimate prepared by an IMF team last fall that real GDP increased by about one percent over 1984. To that, we have added a 3.9 percent increase in the implicit price deflator based on price data for most of the year--particularly the official consumer price index through November 1985. In total, we estimate that GDP at market prices increased 4.9 percent from BZ$364.7 million in 1984 to BZ$382.6 million in 1985.

This preliminary estimate seems reasonable in view of the significant drop in sugar production and exports, and a lack of buoyancy in most other sectors due in part to a sharp tightening of monetary policy in January 1985, and a neutral to slightly looser fiscal policy in fiscal year (FY) 1985/86. Macroeconomic policy is discussed in the next section, followed by a review of changes in the components of final demand.

For purposes of revenue projections, the Ministry of Finance is, in effect, assuming no change in real GDP in 1986, as is also the Central Bank in its projections of the balance of payments. Based on our own analysis of macroeconomic policies and the components of final demand, we are also projecting no change in real GDP between 1985 and 1986. Although the CPI levelled out after the first quarter of 1985, import prices continue to rise, which should be at least partially reflected in the CPI in 1986. We project that the implicit price deflator will increase by two percent, thus bringing GDP at market prices up to BZ$390 million for 1986. This compares with BZ$392 million used by the GOB for FY 1986/87 in its preliminary budget program--a negligible difference.

2. MACROECONOMIC POLICIES

(1) Fiscal Policy

Preliminary estimates for the consolidated nonfinancial public sector in FY 1985/86 indicate that revenues plus grants have increased by BZ$12.1 million over

25

the prior fiscal year, while expenditures have increased by BZ$12.5 million. The overall deficit on a commitment basis has increased by only BZ$0.4 million to BZ$14.3 million, remaining well below the BZ$33.3 million recorded in 1983/84. The elimination of arrears in 1985/86 brought the cash deficit to BZ$18.5 million.

A budget deficit of this magnitude would normally have had an expansionary effect on the economy. Monetary policy, however, offset the effects of fiscal policy. Due to a ceiling placed on domestic bank loans to government in the prior fiscal year, the entire cash deficit was financed externally. The Central Bank was able to increase its foreign assets in 1985, instead of selling foreign assets to help finance deficits, as was done in prior years. To prevent deterioration in the balance of payments, however, the Bank took actions to reduce liquidity and prevent an increase in credit to the private sector, offsetting the increase in aggregate demand resulting from the deficit of the public sector. Thus, restrictive monetary policy cancelled out any economic growth stimulus that would have been created from the budget deficit. The details of the tightening of monetary policy are discussed below.

The projections of government operations in FY 1986/87, discussed in Chapter V, indicate that revenue will increase more than will expenditures, with the cash deficit falling to approximately 11.0 BZ$ million. Although a reduction in the deficit is desirable from the perspective of fiscal stability and balance of payments, the effect on the economy could well be increasingly restrictive, assuming that the Central Bank continues to pursue a tight monetary policy.

(2) Monetary Policy

In response to the economic contraction of 1982, the Central Bank eased monetary policy to promote recovery. The basic money supply, which had dropped in 1982, expanded significantly through early 1985. But the monetary authorities became increasingly concerned with the large government deficits and the deteriorating net international reserve position of the banking system.

On November 1, 1984, the required minimum ratio of commercial bank average cash balances with the Central Bank to their average deposit liabilities was increased from 5

to 7 percent. This soon eliminated excess reserves. In addition, the banks were required to maintain average minimum holdings of approved liquid assets of 20 percent of average deposit liabilities. The definition of approved liquid assets was narrowed. In 1984, substantial excess liquidity had permitted the banks to finance a substantial increase in loans and advances, by selling Treasury bills. The new policies resulted in a decline in excess liquidity during 1985.

Further, in 1985 the Central Bank ceased lending to commercial banks through the discount window except to meet emergencies. Finally, in February 1985, the Central Bank raised minimum deposit rates by 3 percentage points and lending rates by 2 percentage points. The rate increases were intended to encourage savings, and by reducing the spread, to make lending less attractive, especially for higher-risk borrowers or projects. Average lending rates did not quickly reflect the rate increase, given the existing outstanding loans at fixed rates.

As a result of these measures, commercial bank loans and advances, which had risen by BZ$11.6 million in 1984, declined by almost BZ$4 million through November 1985. The declines affected all sectors except manufacturing and citrus. As shown in Exhibit III-1, total net domestic credit of the banking system fell by more than BZ$4 million, due mainly to a decline in private sector credit. Time deposits increased by BZ$9 million, but demand deposits were virtually unchanged. The total money supply (M_1) declined slightly, while M_2 rose by 5.4 percent.

If the income velocity of money rises in 1986, as seems likely in view of higher interest rates, our forecast of a two percent (nominal) increase in GDP is not implausible, even if M_1 again shows no increase--particularly if M_2 continues to rise. The velocity of money increased in 1980 and 1981 when interest rates rose sharply from 1979 levels, and then declined gradually from 1981 through 1984 as interest rates declined.

However, a continued tight monetary policy in conjunction with the more restrictive fiscal policy discussed earlier could bring on an economic contraction in 1986. While we do not rule out the possibility of a contraction, we think the odds favor stable aggregate demand until such time as reductions in the government budget deficit and balance of payments deficit permit an easier monetary policy, and economic growth can be resumed.

27

EXHIBIT III-1
SELECTED MONETARY AND BANKING DATA

	DEC 1984	SEPT 1985	DEC 1985
A. Interest rates (percent)			
Treasury bill rates	9.76	12.59	12.59
Weighted lending rates: Total	13.5	14.5	
Personal	14.1	14.9	
Commercial	14.1	15.9	
Mortgage	13.0	14.1	
Other	12.5	12.5	
Weighted deposit rates: Total	6.5	9.2	
Saving	5.0	7.9	
Time	9.0	12.1	
B. Banking statistics (BZ$millions)			
Net domestic credit	190.3	185.8	186.1
Public Sector	69.5	68.7	68.3
Private Sector	136.2	128.3	127.0
Other	-15.4	-11.2	-9.2
Net international reserves	-4.8	7.5	7.5
Central bank currency issue	28.1	24.9	28.0
Commercial bank liabilities to the private sector:	139.3	145.3	148.6
Demand deposits	26.7	26.7	26.8
Time deposits	69.4	75.8	78.5
Savings deposits	31.9	31.2	31.5
Commercial bank loans & advances (Nov.)	153.0		149.2
C. Money supply:			
M_1	50.9	48.4	50.4
Quasi-money	101.2	107.0	110.0
M_2	152.2	155.4	160.4

Source: Central Bank of Belize

2. SEGMENTS OF FINAL DEMAND

(1) The Foreign Sector

Our preliminary estimates of exports and imports of goods and nonfactor services and other elements in the Belize balance of payments, as well as our projections for 1986, are based on worksheets provided by the Central Bank. As Exhibit III-2 shows, the trade balance is projected to deteriorate further in both 1985 and 1986, as exports decline in current values, and imports remain stable. These movements reflect the continuing deterioration in terms of trade in 1985 and projected for 1986 (See Exhibit II-6 above), as well as stagnant domestic demand conditions. The trade balance estimates also take account of the continuing decline in sugar production and exports. The U.S. sugar quota for Belize was cut from 24,500 long tons annually in 1984/85, to 16,500 long tons in 1985/86. Further, the older of the two sugar mills, which produced about 40 percent of the total output, was closed down after the 1984/5 season. Despite increased production at the remaining mill, production and exports will decline further in calendar year 1986.

The current account deficit is estimated to have increased by little more than BZ$1 million in 1985. Net credits for unrequited transfers were about the same in 1985 as in 1984, and the net debit on investment income dropped enough to offset most of the increase in net exports. A substantial expansion in the capital inflow from abroad, chiefly from public agencies, permitted the Central Bank to increase its net official reserves by around BZ$4 million.

The Bank is less sanguine about the outlook for 1986. It appears that the further decline in the net export balance will increase the current account deficit by as much as BZ$13 million. Since public sector capital inflows are expected to decline, with little change in private capital flows, there could well be a renewed decline in net official reserves. This prospect contributes to the resolve of the Central Bank to continue to pursue a restrictive monetary policy.

(2) Investment

It is generally recognized that inadequate infrastructure is a major impediment to continued strong economic development in Belize. There is currently a variety of on-going public investment projects in the areas of agriculture, transportation by land, sea, and water,

EXHIBIT III-2

BALANCE OF PAYMENTS OF BELIZE
(MILLIONS OF BZ$)

	1984			1985 (est.)			1986 (proj.)		
	Credit	Debit	Bal.	Credit	Debit	Bal.	Credit	Debit	Bal.
Merchandise	137.2	213.7	-76.5	137.5	221.4	-83.9	122.3	220.0	-97.7
Services	65.6	34.7	30.9	59.0	27.0	32.0	64.2	26.7	37.4
Invisibles	2.2	21.8	-19.6	1.1	15.7	-14.6	1.6	19.3	-17.7
Unrequited transfers	62.0	19.8	42.2	59.6	17.4	42.2	58.0	17.4	40.6
Current account balance	266.9	290.0	-23.1	257.2	281.5	-24.3	246.1	283.5	-37.4
Capital account	17.8	20.5	-2.7	56.1	23.8	32.3	45.8	22.7	23.1
Private	1.2	12.9	-11.7	8.4	8.0	0.4	8.0	8.0	0
Public	16.6	7.6	9.0	47.7	15.8	31.9	37.8	14.7	23.1
Change in arrears			2.4			-12.6		)	
Change in reserves			14.4			-8.2		)	14.3
Errors & ommissions			9.0			-11.5		)	

Source: Central Bank of Belize, Worksheet

electric and water utilities, housing, health, education, and other. Foreign support for investment projects is provided primarily by the World Bank and Carribean Development Bank. In October 1985, a revised draft of the "Five Year Macro-economic Plan for Belize: 1985-89" was completed. The plan contains programs for both public and private investment. The speed with which new projects can be initiated and on-going projects implemented depends not only on physical limitations but also on financial limitations. In particular, the continuing fiscal problems discussed earlier may limit the volume of counterpart funds that the GOB can make available in order to be able to draw on external sources of finance.

As shown in Exhibit III-3, public sector capital expenditures increased from BZ$35.4 million in 1984 to approximately BZ$40 million in 1985, with most of the increase concentrated in the public enterprises. For 1986, however, it appears that there may be a slippage of at least BZ$2 million in the level of public investment, which will bring it back slightly below ten percent of GDP.

Prospects for private investment were improved by the establishment in early 1985 of the Belize Export and Investment Promotion Unit (BEIPU). This unit is a cooperative activity involving the GOB office of Economic Development and the Belize Chamber of Commerce and Industry, with support from USAID. In order to attract new private investment the government offers a number of fiscal and other incentives, which are set forth in the Belize Investment Code issued by BEIPU. These incentives include a tax holiday for up to 15 years; exemption from import duties of machinery and equipment, and certain materials and spare parts; exemption from taxes of dividends paid from profits during the tax holiday up to the amount of the investment; guaranteed repatriation; carry-forward of net losses; and concessionary rentals of factory shells in industrial parks.

Preferential market access to the Caribbean through CARICOM, the ECC under Lome III, and the USA under CBI is also an inducement for outside firms. The length and scope of market concessions depend on the extent of local value added and materials used, foreign exchange earnings or savings, enterprise profitability and employment opportunities created. Projects that bring in new technology and skill training, are export-oriented, or are located in rural areas are viewed favorably.

A few new projects were begun in 1985, but the BEIPU program will not have a significant impact until later in 1986 and beyond. The Unit already has a list of 25

EXHIBIT III-3

GROSS DOMESTIC PRODUCT OF BELIZE
BY TYPE OF FINAL DEMAND

	1984		1985		1986	
	BZ$M	% of GDP	BZ$M	% of GDP	BZ$M	% of GDP
Gross domestic product	364.7	100.0	382.6	100.0	390.0	100.0
Net exports of goods and nonfactor services	-45.6	-12.5	-51.9	-13.6	-60.3	-15.5
Exports	202.8	55.6	196.5	51.4	186.5	47.8
Imports	248.4	68.1	248.4	64.9	246.8	63.3
Gross domestic expenditures	410.3	112.5	434.5	113.6	450.3	115.5
Consumption	351.7	96.4	366.5	95.8	380.8	97.6
Private	263.7	72.3	270.4	70.7	279.7	71.7
Public	88.0	24.1	96.1	25.1	101.1	25.9
Fixed capital formation	61.4	16.8	67.0	17.5	67.5	17.3
Private	26.0	7.1	27.0	7.1	29.5	7.6
Public	35.4	9.7	40.0	10.5	38.0	9.7
Change in inventories	-2.8	-0.8	1.0	0.3	2.0	0.5

Source: Exhibit A-3

projects involving an estimated eventual investment of around BZ$35 million, almost 2,400 new jobs in 1986, and BZ$1.3 million in exports. Based on our talks with BEIPU officials and businessmen, it is our judgment that total private investment increased modestly in 1985, and will rise more in 1986. Part of the new investment is financed from foreign sources, and several new lending institutions has been created in Belize. These include the National Development Foundation, which makes loans to small businesses, and the Commercial Bank Discount Fund, which has almost BZ$4 million to disburse during the next several months. Once real lending rates decline again, private investment could provide a locomotive for renewed economic growth, assuming the GOB carries out its plans for improving and expanding the necessary infrastructure.

Inventory accumulation is estimated to be very small in both 1985 and 1986, under the low and no real growth scenarios. High interest rates tend to hold down inventory purchases, but some accumulation may occur involuntarily if demand falls below expectations, as occurred in 1982.

(3) Consumption

Public consumption expenditures are estimated to have increased by about BZ$8 million in 1985, and are projected to increase by BZ$5 million more in 1986. The latter increase largely reflects an expected wage boost for government employees--the first in 5 years. The levels of public consumption outlays in the economic accounts are somewhat lower than those in the budgets presented in the next chapters in that some outlays shown in the budgets are not for currently produced goods and services.

In real terms, private consumption declined in 1985, and private saving increased. In 1986, we expect this trend to reverse. Real private consumption is expected to increase by more than two percent, and private sector saving will decline, reflecting decreased business profits and retained earnings. We also expect to see a decline in the household saving component of private saving, as individuals and families seek to preserve their living standards while real per capita GDP declines.

IV. PERFORMANCE OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR

This chapter reviews the performance of the consolidated non-financial public sector of Belize through the end of the current fiscal year (March 31, 1986). The consolidated non-financial public sector (henceforth "public sector") consists of the general government and the eight statutory non-financial public enterprises ("public enterprises", or "NFPE's".)

The revenue and expenditure estimates presented in this chapter are based on data provided by the Ministry of Finance, financial statements and additional supporting information provided by the NFPE's, recent IMF and World Bank reports on Belize, and Booz Allen estimates for the purpose of reconciling discrepancies between sources. In addition, capital expenditure information was provided by the Ministry of Foreign Affairs and Economic Development.

A summary of public sector operations is presented in Exhibit IV-1. As the exhibit shows, the overall deficit of the public sector has increased slightly from BZ$13.9 million in 1984/85 to BZ$14.3 million in 1985/86, or 3.7 percent of GDP. The stability of the overall deficit reflects an increase in total revenues and grants of BZ$12.1 million, and an equivalent increase in total expenditures of BZ$12.5 million.

The estimated deficit for 1985/86 is BZ$5.2 million less than the level programmed by the Government, which was BZ$19.5 million. The difference reflects substantially higher revenues than originally programmed, due to higher grant amounts, increased central government revenues, and better performance of the NFPE's than expected. Total expenditures also exceeded the programmed level.

Public sector savings, defined as revenues (including NFPE operating surpluses, and excluding grants) less current expenditures (including NFPE operating deficits), improved somewhat from 1984/85 to 1985/86, but did not meet the programmed level. Public sector savings in the current year are BZ$15.0 million, or 3.9 percent of GDP, compared with BZ$12.6 million (3.5 percent of GDP) in the previous year. The programmed level was BZ$18.5 million or 4.7 percent of GDP.

Capital expenditures increased substantially from BZ$35.1 million to BZ$40.0 million, or 10.5 percent of GDP, but fell short of the programmed level of BZ$43.9 million.

Exhibit IV-1
Operations of the Consolidated Nonfinancial Public Sector

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Total Revenue and Grants	108.5	117.9	121.8	130.0	136.1
Revenue	92.4	109.3	115.9	119.3	125.4
Central Government	77.8	92.4	98.2	100.2	104.0
Social Security Board	10.4	10.4	10.3	10.3	10.3
Public enterprises' operating surplus	4.2	6.5	7.4	8.8	11.1
Grants	16.1	8.6	5.9	10.7	10.7
Total Expenditure	138.8	131.8	141.3	144.3	147.1
Current expenditure	102.1	96.7	97.4	104.3	109.1
General government	89.2	94.8	97.4	103.6	108.6
Central government	87.5	93.2	95.0	101.3	106.3
Social Security Board	1.7	1.6	2.4	2.3	2.3
Public enterprises' operating deficit	12.9	1.9	0.0	0.7	0.5
Capital expenditure	36.7	35.1	43.9	40.0	38.0
General government	24.6	27.4	34.3	27.7	22.8
Central government (inc. net lending)	24.4	27.2	34.0	27.7	22.8
Social Security Board	0.2	0.2	0.3	0.0	0.0
Public enterprises	12.1	7.7	9.6	12.3	15.2

Exhibit IV-1
Operations of the Consolidated Nonfinancial Public Sector

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Overall balance (- deficit)	-30.3	-13.9	-19.5	-14.3	-11.0
Change in external arrears	3.9	-0.4	-4.2	-4.2	0.0
Overall deficit (cash basis)	-26.4	-14.3	-23.7	-18.5	-11.0
Financing (net)	26.4	14.3	23.7	18.5	11.0
External financing (net)	8.3	12.6	24.7	18.8	14.0
Domestic financing (net)	18.1	1.7	-1.0	-0.3	-3.0
Banking system	16.9	1.7	-1.0	0.0	0.0
Central Bank	14.0	13.5	-5.0	0.0	0.0
Commercial banks	2.9	-11.8	4.0	0.0	0.0
Other	1.2	.0	0.0	-0.3	-3.0
Memorandum Items					
Public sector savings	-9.7	12.6	18.5	15.0	16.3
GDP	347.8	364.7	392.0	382.6	390.0
	(As percent of GDP)				
Revenue	26.6	30.0	29.6	31.2	32.2
Grants	4.6	2.4	1.5	2.8	2.7
Total expenditure	39.9	36.1	36.0	37.7	37.7
Current expenditure	29.4	26.5	24.8	27.3	28.0
Public sector savings	-2.8	3.5	4.7	3.9	4.2
Capital expenditure	10.6	9.6	11.2	10.5	9.7
Overall deficit (com. basis)	-8.7	-3.8	-5.0	-3.7	-2.8
External financing	2.4	3.5	6.3	4.9	3.6
Domestic financing	5.2	0.5	-0.3	-0.1	-0.8
Change in external arrears	1.1	-0.1	-1.1	-1.1	0.0

The components of the total public sector performance are described in detail in the pages that follow.

1. REVENUES AND EXPENDITURES OF THE GENERAL GOVERNMENT

The General Government in Belize consists of the Central Government and the Social Security Board. The Government manages the finances of the Social Security Board and has been borrowing most of its surplus since the Board was established.

(1) Operations Of The Central Government

The operations of the Central Government are summarized in Exhibit IV-2. The overall deficit of the Central Government, on a commitment basis, increased from BZ$23.4 million in 1984/85 to BZ$36.4 million in 1985/86. On a cash basis, the deficit was BZ$40.6 million, reflecting an increase in net outstanding intragovernment arrears of the NFPE's of BZ$4.2 million. As a percent of GDP, the overall deficit (commitment basis) increased from 6.4 percent to 9.3 percent. The deficit exceeded the programmed level by BZ$1.4 million.

Total revenues and grants increased only slightly from BZ$98.0 million in 1984/85 to BZ$101.6 million in 1985/86. The revenue component, however, increased substantially from BZ$92.4 million to BZ$100.2 million, whereas grants decreased from BZ$5.6 million to BZ$1.4 million, largely offsetting the revenue gains.

Further detail on Central Government revenues is presented in Exhibit IV-3. As the exhibit shows, the revenue gains were approximately equally distributed between tax revenue increases and non-tax revenue increases. The gains in tax revenues were partially offset by a decrease in capital revenues consisting of sale of crown lands.

Tax revenue increases are expected in 1985/86 as a result of rate increases against several tax sources, promulgated in January, 1986. Among the increased tax rates are:

- Increase in stamp duties in customs from 10 to 12 percent ad valorem.
- Increase in the top corporate income tax rate from 45 to 49.5 percent of taxable income.
- Increased excises on locally produced rum, beer, and cigarettes. An earlier increase in excise tax rates in mid-1984 did not produce the expected revenue increases, because of the

Exhibit IV-2
Operations of Central Government

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Revenue and grants	90.9	98.0	102.9	101.6	105.4
Revenue	77.8	92.4	101.5	100.2	104.0
Tax	67.8	81.8	87.2	86.2	90.0
Nontax	9.7	9.1	13.7	13.6	13.6
Capital	0.3	1.5	0.6	0.4	0.4
Grants	13.1	5.6	1.4	1.4	1.4
Total expenditure	115.2	121.4	137.9	138.0	133.1
Current expenditure	87.5	93.2	97.6	101.3	106.3
Capital expenditure, transfers and net lending	27.7	28.2	40.3	36.7	26.8
Of which: development expenditure	24.4	23.6	32.3	26.0	21.1
Overall deficit (-)	-24.3	-23.4	-35.0	-36.4	-27.7
Change in outstanding arrears	3.9	-0.4	-4.2	-4.2	0.0
Overall deficit (cash basis)	-20.4	-23.8	-39.2	-40.6	-27.7
Memo item					
GDP	347.8	364.7	392.0	382.6	390.0

Exhibit IV-2
(As percent of GDP)

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
Revenue and grants	26.1	26.9	26.3	26.6	27.0
Of which: revenue	22.4	25.3	25.9	26.2	26.7
Tax revenue	19.5	22.4	22.2	22.5	23.1
Nontax revenue	2.8	2.5	3.5	3.6	3.5
Total expenditure	33.1	33.3	35.2	36.1	34.1
Current expenditure	25.2	25.6	24.9	26.5	27.3
Capital expenditure	8.0	7.7	10.3	9.6	6.9
Of which: development expenditure	7.0	6.5	8.2	6.8	5.4
Overall deficit (-)	-7.0	-6.4	-8.9	-9.5	-7.1

Exhibit IV-3
Central Government Revenues and Grants

	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(in millions of Belize dollars)			
Total revenue and grants	98	102.9	101.6	105.4
Total revenue	92.4	101.5	100.2	104
Tax revenue	81.8	87.2	86.2	91.9
Income Tax	20.5	19	19	19.4
Taxes on property	1	1.2	1.2	1.2
Taxes on goods and services	11.7	13.9	11.5	14.9
Excise on spirits and beer	5.6	7	5.1	6.5
Excise on cigarettes	0.9	0.8	0.8	1.4
Excise on soft drinks	1.2	2	2.2	2.2
Entertainment tax	0.1	0.1	0.1	0.1
Hotel occupancy tax	0.3	0.3	0.3	0.3
Licenses	1.8	1.9	1.9	2.4
Other	1.8	1.8	1.1	2
Taxes on int. trade & trans.	47.6	52.2	53.1	54.5
Import duty	26.6	27.5	27.1	27.1
Revenue replacement duty	7.1	7.7	7.7	7.7
Stamp duties (customs)	7.2	9.1	10	11
Bonds in transit charge	1.4	2.1	3.4	3.8
Export duties	2.3	2.4	1.7	1.7
Travel tax	0.3	0.7	0.7	0.7
Taxes on for. curr. transac.	2.7	2.7	2.5	2.5

Exhibit IV-3
Central Government Revenues and Grants

Other taxes	1	0.9	1.4	1.9
Stamp duties (oth. dept.)	1	0.9	1.4	1.9
Fire rate	0	0	0	0
Nontax revenue	9.1	13.7	13.6	11.7
Property income	2.9	3.2	4	4
Contributions to pens. fund	0.1	0.1	0.1	0.1
Other	4.9	5.9	5.1	5.1
Extrabudgetary revenue	1.2	1.2	1.2	1.2
Transfers from NFPE's	0	3.3	3.2	1.3
Capital revenue	1.5	0.6	0.4	0.4
Sale of crown land	1.5	0.6	0.4	0.4
Grants	5.6	1.4	1.4	1.4

general economic slowdown and devaluations of the Mexican peso and Guatemalan quetzal.

A 25 percent increase in motor vehicle licenses.

Increased administrative charges for in-transit goods from 3 to 4 percent ad valorem

In addition, postal rates were increased in the January 1986 revenue measure.

Nontax revenue increases in 1985/86 resulted from increased property income and transfers from the NFPE's, chiefly the Port Authority and the Belize Telecommunications Authority.

Central Government expenditures, shown in Exhibit IV-4, increased from BZ$121.4 million in 1984/85 to BZ$138.0 million in 1985/86. The increase was approximately equally distributed between current and capital expenditures. More than half of the current expenditure increase occurred in the interest payments account, which increased from BZ$8.4 million to BZ$13.1 million. Increased interest payments have resulted from increasing outstanding debt, and refinancing at higher rates of interest.

Current expenditure increases also include subsidies and current transfers, which grew from BZ$9.3 million in 1984/85 to BZ$13.0 in 1985/86. Within this amount are: foreign subsidies (to the University of the West Indies and contributions to International Organizations), which increased from BZ$1.0 million to BZ$2.3 million; subsidies to the domestic private sector (chiefly to privately operated primary and secondary schools), which increased from BZ$5.5 to BZ$6.9 million; and transfers to the NFPE's for payment of interest on their debts, which increased from BZ$2.8 million to BZ$3.8 million.

Direct capital expenditures of the Central Government increased from BZ$23.6 in 1984/85 to BZ$26.0 million in 1985/86. Capital transfers to the NFPE's grew from BZ$1 million in 1984/85 to BZ$9 million in 1985/86, the bulk of this transfer going to the Belize Electricity Board as part of the debt restructuring of the BEB. This account also includes payment of principal on external loans on behalf of the NFPE's.

Partially offsetting these increases in capital expenditures was a decrease in net capital lending from BZ$3.6 to BZ$1.7 million. In the current expenditure accounts, the total bill for goods and services also decreased from BZ$27.8 million to BZ$27.2 million. The

Exhibit IV-4
Central Government Expenditures

	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)			
Total Expenditure	121.4	137.9	138	133.1
Current expenditure	93.2	97.6	101.3	106.3
Wages and Salaries	43.4	42.9	43.4	48.4
Pensions	4.3	4	4.6	4.6
Goods and services	27.8	28.3	27.2	27.2
Interest payments	8.4	11.5	13.1	13.1
Domestic	7.3	8.9	9.9	9.9
Foreign	1.1	2.6	3.2	3.2
Subsidies & curr. transfers	9.3	10.9	13	13
Foreign	1	2.1	2.3	2.3
Domestic private sector	5.5	6.2	6.9	6.9
Nonfinancial public enterprise	2.8	2.6	3.8	3.8
Other				
Capital expenditure & net lending	28.2	40.3	36.7	26.8
Development expenditure	23.6	32.3	26	21.1
Transfers to NFPE's	1	6.3	9	4
Net lending	3.6	1.7	1.7	1.7
Memorandum item:				
Change in outstanding arrears on interest and current transfers	-0.4	-4.2	-3.6	-3.6

Government also achieved its plan to hold the total wage bill constant through reduction in total number of employees to offset the effects of step increases and promotions, which together average 3 to 4 percent increase per employee per year.

(2) Operation Of The Social Security System

The Social Security Board operates the national Social Security System. Because the system was newly created when Belize achieved independence, its revenues, consisting of employee contributions and interest, currently exceed its operating expenditures. The Central Government borrows most of the operating surplus, with the remainder invested in commercial debt instruments.

As shown in Exhibit IV-5, the system's expenditures increased from BZ$1.6 million in 1984/85 to BZ$2.3 million in 1985/86, as new retirees began to draw pensions. With the reduction in Government employment, a slight decrease in revenues also occurred. There was no new capital spending by the system in 1985/86, compared with BZ$0.2 million in 1984/85. The net effect is a reduction in the operating surplus from BZ$8.6 million in 1984/85 to BZ$8.0 million in 1985/86.

2. OPERATIONS OF THE NON-FINANCIAL PUBLIC ENTERPRISES

The non-financial public enterprises in Belize consist of eight statutory boards and authorities:

- Belize Electricity Board (BEB)
- Belize Marketing Board (BMB)
- Banana Control Board (BCB)
- Belize Telecommunications Authority (BTA)
- Port Authority
- Water and Sewerage Authority (WASA)
- Belize Meats Ltd. Company
- Redevelopment Construction Corporation (RECONDEV)

In total, the NFPEs have constituted a net cash drain on the government budget in recent years.

A brief description and summary of the financial operations of each NFPE is presented below. Exhibit IV-6 summarizes the combined operations of the NFPEs. As the exhibit shows, the combined net operating surplus of the NFPE's increased from BZ$4.6 million in 1984/85 to BZ$8.1 million in 1985/86.

Exhibit IV-5
Operations of the Social Security Board

	1983/84	1984/85	1985/86 Prog.	1985/86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating Balance	8.7	8.8	7.9	8.0	8.0
Operating Revenue	10.4	10.4	10.3	10.3	10.3
Operating Expenditure	1.7	1.6	2.4	2.3	2.3
Development Expenditure	0.2	0.2	0.3	0.0	0.0
Overall Balance	8.5	8.6	7.6	8.0	8.0

Exhibit IV-6

Operations of the Nonfinancial Public Enterprises

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-8.7	4.6	11.2*	8.1	10.6
Operating Revenue	38.0	53.0	56.6	54.8	61.2
Operating Expenditure	46.7	48.4	45.4	46.7	50.6
Nonoperating Revenue	10.6	11.6	13.7	14.3	13.3
Current Transfers	1.9	1.4	2.5	2.8	0.4
Capital transfers	6.4	6.2	1.9	1.9	3.6
Grants	1.3	4.0	9.3	9.3	9.3
Other	1.0	0.0	0.0	0.3	0.0
Development expenditure	12.1	7.7	9.4	12.3	15.2
Transfers to Central Government	0.0	0.3	2.0	3.2**	1.3
Overall deficit(-)					
Including nonoperating revenue	-10.2	8.2	13.1	6.9	7.4
Excluding nonoperating revenue	-20.8	-3.4	-0.6	-7.4	-5.9

*We were not able to resolve a discrepancy between the total of the individual programmed operating balances of the NFPE's shown in the government's tables with the government's own programmed total, shown in Table IV-1.

**Similarly, the total shown here is the government's estimate. We were not able to reconcile this total with the individual NFPE transfers, which total $2.5 million.

(1) Belize Electricity Board

The Belize Electricity Board produces and distributes electric power throughout Belize. The BEB operates a total of nine power stations, all of which use diesel generators.

The BEB's rates are uniform for all customers, currently a flat rate of BZ$43¢ per kwh, with a minimum monthly charge of BZ$4.00 per customer. These high rates are necessary to cover the BEB's unusually high cost of generation (due to use of diesel generators) and distribution.

Distribution system losses have been estimated at approximately 35 percent, of which 10 to 12 percent are inherent in the low density of rural power use. The remainder of the losses result from inefficient configuration of the distribution system ("technical" losses) and widespread theft of power ("diversion" losses) through illegal meter bypasses.

In 1983/84, before the BEB raised its rates, the system incurred an operating loss of BZ$8.9 million, shown in Exhibit IV-7. In 1984/85, through rate increases and improved operating efficiencies, the operating deficit was reduced to BZ$0.4. For 1985/86, the BEB expects an operating surplus of BZ$2.4 million, after depreciation charges and payment of interest on external debt.

At the end of FY 1984/85, the BEB's intragovernment debt was restructured to improve the Board's financial condition so that it would be eligible for further external financing. The Central Government accepted equity in the BEB in exchange for a portion of the BEB's intragovernment debt, which had accumulated as a result of the BEB's past inability to service its external debt. The remainder of the intragovernment debt was offset against the government's accumulated unpaid electricity bill. In mid-1985, the BEB began payment of its monthly external interest charges. The Government however, is still paying the principal portion of the BEB's external debt service, which amounted to more than BZ$6 million in 1985/86, and will exceed BZ$3 million in 1986/87. It has not yet been decided how the Government will treat this new intragovernment liability as it accrues. The ultimate goal is for the BEB to be able to service all of its external debt from its operating revenues.

The BEB is currently negotiating an external loan to be financed jointly by the World Bank, Caribbean Development Bank, and the Commonwealth Development Corporation. The project, called the "World Bank Power

Exhibit IV-7
Operations of the Belize Electricity Board

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-8.9	-0.4	2.8	2.4	4.5
Operating Revenue	16.6	22.6	22.6	24.0	25.5
Operating Expenditure	25.5	23.0	19.8	21.6	21.0
Nonoperating Revenue	5.5	5.4	1.5	1.2	3.2
Current Transfers	0.9	0.4	1.5	1.2	0.0
Capital transfers	4.6	5.0	0.0	0.0	3.2
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	1.5	1.8	1.8	1.2	3.2
Transfers to Central Government	0.0	0.0	0.0	0.0	0.0
Overall balance (- deficit)					
Including nonoperating revenue	-4.9	3.2	2.5	2.4	4.5
Excluding nonoperating revenue	-10.4	-2.2	1.0	1.2	1.3

Project," will be funded at US$15.1 million, of which U.S. $13.0 million will be loaned by the three development banks, and the balance funded through BEB internal cash generation. The purpose of the project is to study, improve and expand the distribution system, add generation capacity, provide spare parts and improved maintenance capability, provide training and technical assistance, and study use of renewable energy sources (e.g., hydro).

(2) Belize Marketing Board

The Belize Marketing Board operates as an intermediary between agricultural producers and consumers. Its activities include commodity price stabilization as well as food processing, importing and distribution. Commodities traded by the BMB include imported canned milk (for which it has a monopoly position), rice, red kidney beans, corn, and other domestically produced farm products. The BMB also operates a rice mill.

Because of substantial operating losses in 1981/82 and 1982/83, totalling almost BZ$3 million for the two years together, the BMB substantially reduced its scope of operations. As Exhibit IV-8 shows, in 1983/84, the BMB's operating loss was reduced to BZ$0.1 million, and a surplus of BZ$0.3 million was achieved in 1984/85. The devaluation of the Mexican peso, however, has put downward pressure on agricultural prices in Belize during the current year, and the resulting revenue reductions have created a loss of BZ$0.1 million for 1985/86.

(3) Banana Control Board

The role of the Banana Control Board (BCB) has changed during the past year. Through the end of FY 1984/85, the BCB and the Government owned a total of 650 hectares of privately operated banana farms. The ownership of the farms had been taken over by the Government shortly after Independence, when the banana farms were unable to service their external debt. At the beginning of FY 1985/86, the BCB sold all of the farms to eight banana farmers for a total of BZ$1.7 million, all of which the Government loaned interest free to the farmers. The farmers are retiring the loan principal through the proceeds of banana production. The BCB continues to be liable for the external debt of the banana farms.

In its new role, the BCB acts as a marketing and distribution agent for the banana farmers. It also continues to serve to some extent as a joint fiscal agent, although this role is envisioned as a temporary one until the external debt has been retired.

49

Exhibit IV-8
Operations of the Marketing Board

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-1.0	0.3	0.7	-0.1	0.1
Operating Revenue	-0.1	5.6	6.0	5.4	5.4
Operating Expenditure	0.9	5.3	5.3	5.5	5.3
Nonoperating Revenue	1.0	0.0	0.0	0.1	0.0
Current Transfers	0.0	0.0	0.0	0.0	0.0
Capital transfers	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Other	1.0	0.0	0.0	0.1	0.0
Development expenditure	0.0	0.0	0.0	0.0	0.0
Transfers to Central Government	0.0	0.3	0.7	0.0	0.1
Overall deficit(-)					
Including nonoperating revenue	0.0	0.0	0.0	0.0	0.0
Excluding nonoperating revenue	-1.0	0.0	0.0	-0.1	0.0

The BCB has a ten-year supply contract with Fyffe's (UK), a subsidiary of the United Fruit Company. The price is renegotiated annually. The BCB also signed a ten-year management contract in 1982 with Riversdale Services Ltd. of Honduras, a subsidiary of Fyffe's. Riversdale provides inspection, grading, packing, and shipment of the entire banana harvest by barge to Honduras, and then by freighter to the UK and Europe. Fyffe's deducts from the contract price (currently BZ$11.50 per box plus a quality bonus of BZ85 cents) fees for the services it performs, and also deducts debt service on its loans that have been assumed by the BCB.

The BCB pays a guaranteed price per box to the farmers. This leaves a small margin per box for the BCB to defray its operating costs, including interest on the external debt. The BCB, as a result, has incurred operating deficits, which have declined each year as the contract price and the harvest have increased. The deficit for calendar 1985, shown in Exhibit IV-9, is estimated at BZ$.5 million, down from BZ$.7 million in 1984. The cash drain on the government, however, is considerably higher, because the Government has also had to pay the principal portion of the external debt service, which exceeded BZ$1.0 million in 1985/86. The BCB expects to retire all of its external debt by mid-1987.

According to BCB accounting personnel, the BCB continues to show the entire revenue and cost streams of Belize banana production and sale in its financial statements, although it is now nominally only a marketing and distribution agent. The project team was not able to obtain any recent written financial information from the BCB or its auditors, and consequently was not able to segregate the Board's operating revenues and costs from the pass-through revenues to the banana farmers. All data shown were obtained from the Ministry of Finance and informal interviews with BCB personnel.

(4) <u>Belize Telecommunications Authority (BTA)</u>

The Belize Telecommunications Authority is responsible for internal and external telecommunication in Belize, including regulation of radio and television, and provision of telephone service throughout the country.

The BTA has approximately 7 thousand customers, two-thirds of whom are residential. The government is the largest customer of the BTA. A flat rate of BZ15 cents is charged per 30-second call unit.

Exhibit IV-9
Operations of the Banana Control Board

	1983	1984	1985 Prog.	1985 Est.	1986 Proj.
	(In millions of Belize dollars)				
Operating Balance	-1.7	-0.7	-0.1	-0.5	0.0
Operating Revenue	5.7	6.7	7.2	6.3	10.6
Operating Expenditure	7.4	7.4	7.3	6.8	10.6
Nonoperating Revenue	1.3	0.7	1.4	1.6	0.8
Current Transfers	0.4	0.4	0.4	0.4	0.4
Capital transfers	0.9	0.3	1.0	1.0	0.4
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.2	0.0
Development expenditure	0.0	0.0	0.0	0.0	0.6
Transfers to Central Government	0.0	0.0	0.0	0.0	0.0
Overall deficit(-)					
Including nonoperating revenue	-0.4	.0	1.3	1.1	0.2
Excluding nonoperating revenue	-1.7	-0.7	-0.1	-0.5	-0.6

The BTA has consistently achieved an operating surplus since Independence. In 1985/86, the surplus is estimated at BZ$5.6 million, up from BZ$5.4 million in 1984/85, as shown in Exhibit IV-10. Revenues declined by BZ$0.3 million, and expenditures were reduced by BZ$0.5 million.

The Government has been servicing the BTA's external debt, and in the current year, transferred BZ$1.2 million from the BTA to reimburse itself partially. The Government has also exchanged some intragovernment debt for equity in the BTA.

The BTA is currently engaged in a process of review of operating efficiency in order to identify cost reduction opportunities. There is also a study underway by British Teleconsul focusing on opportunities to finance expansion of the system, which is currently saturated.

(5) Belize Port Authority

The Belize Port Authority operates the Belize City Port, and the Commerce Bight Port. It also is responsible for the general superintendence of all of the harbors in the country, search and rescue operations, examination of seagoing vessels, pilotage, navigational aids, and investigation of shipwrecks.

After incurring annual operating deficits of BZ$0.3 million in 1982/83 and 1983/84, the Port Authority achieved an operating surplus of BZ$0.8 million in 1984/85, as shown in Exhibit IV-11. In 1985/86, the surplus is estimated to be BZ$0.3 million, although a surplus of BZ$1.4 million had been anticipated earlier. Revenues increased somewhat over the 1984/85 level, but did not achieve the programmed level. Operating expenditures also increased substantially from BZ$3.2 million in 1984/85 to BZ$3.9 million in 1985/86. The Port Authority has accordingly undertaken to control operating costs, and port charges have recently been increased by the Government.

The government transferred BZ$1.3 million from the Port Authority in 1985/86 for past servicing of debt.

(6) Water And Sewerage Authority (WASA)

The Water and Sewerage Authority operates water systems in nine locations throughout Belize, and the newly installed sewerage system in Belize City. WASA is currently beginning the second stage of a large capital improvement project for the City of Belize financed by the Canadian International Development Agency (CIDA). In stage I, funded through a 40-year no-interest loan of BZ$15

Exhibit IV-10
Operations of the Belize Telecommunications Authority

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	4.2	5.4	6.8	5.6	5.6
Operating Revenue	9.5	10.6	12.0	10.3	10.3
Operating Expenditure	5.3	5.2	5.2	4.7	4.7
Nonoperating Revenue	0.0	0.0	0.0	0.0	0.0
Current Transfers	0.0	0.0	0.0	0.0	0.0
Capital transfers	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	2.6	1.7	1.2	0.6	0.6
Transfers to Central Government	0.0	0.0	0.0	1.2	1.2
Overall deficit(-)					
Including nonoperating revenue	1.6	3.7	5.6	3.8	3.8
Excluding nonoperating revenue	1.6	3.7	5.6	3.8	3.8

Exhibit IV-11
Operations of the Port Authority

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-0.3	0.8	1.4	0.3	0.9
Operating Revenue	3.4	3.9	4.6	4.2	4.7
Operating Expenditure	3.7	3.1	3.2	3.9	3.8
Nonoperating Revenue	1.5	1.5	1.5	1.5	0.0
Current Transfers	0.6	0.6	0.6	0.6	0.0
Capital transfers	0.9	0.9	0.9	0.9	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	1.6	0.4	0.9	0.1	0.1
Transfers to Central Government	0.0	0.0	1.3	1.3	0.0
Overall deficit(-)					
Including nonoperating revenue	-0.4	1.9	0.7	0.4	0.8
Excluding nonoperating revenue	-1.9	0.4	-0.8	-1.1	0.8

million and a grant of BZ$4.4 million, a sewage lagoon was built and sewers installed in part of the City. Stage II, financed by a grant of approximately BZ$40 million and local counterpart funds of BZ$15 million, will include completion of the sewer system, construction of a water treatment plant and potable water distribution system, and a garbage disposal system, including buildings and equipment. The project is scheduled for completion in 1988.

WASA raised its water supply rates from BZ$6 to BZ$8 per thousand gallons at the beginning of the current fiscal year. As a result, operating revenues increased from BZ$3 million in 1984/85 to BZ$4 million in 1985/86, as shown in Exhibit IV-12. Operating expenditures declined slightly from BZ$3.6 million to BZ$3.5 million. WASA is thus able to show an operating surplus of BZ$0.5 million for 1985/86. The government is paying WASA's external debt service on the CIDA loan by offsetting payments against its water bill.

(7) Belize Meats Ltd. Company

The Government owns a majority interest in this slaughterhouse operation, the remainder being owned by a U.S. firm that is supplying management and technical assistance and investing in plant rehabilitation.

The project team did not interview this public enterprise directly. It is our understanding that through increased management efficiencies, the operating deficit of Belize Meats was cut from BZ$0.2 million in 1984/85 to BZ$0.1 million in 1985/86, as shown in Exhibit IV-13.

(8) RECONDEV

It is our understanding from USAID that the Redevelopment Construction Corporation, a housing financing agency, has essentially ceased all new lending operations, and is now serving only as an intermediary in repayment of housing loans to external lenders. There is no current net effect of RECONDEV operations on Government finances, or cash flow, according to the Ministry of Finance, as shown in Exhibit IV-14.

3. CAPITAL EXPENDITURES - THE PUBLIC SECTOR INVESTMENT PROGRAM

The Government has made some progress toward achieving its capital spending program, but fell short of the target for this year. Total capital expenditure and net lending are BZ$40.0 million for 1985/86, compared with BZ$35.1 million for 1984/85, and a programmed level of BZ$43.9 million. The achieved level of BZ$40.0 million represents 10.5 percent of GDP. The World Bank has set a target of 12 percent of GDP.

Exhibit IV-12

Operations of the Water and Sewerage Authority

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-0.8	-0.6	-0.3	0.5	-0.4
Operating Revenue	2.3	3.0	3.6	4.0	4.1
Operating Expenditure	3.1	3.6	3.9	3.5	4.5
Nonoperating Revenue	1.3	4.0	9.3	9.9	9.3
Current Transfers	0.0	0.0	0.0	0.6	0.0
Capital transfers	0.0	0.0	0.0	0.0	0.0
Grants	1.3	4.0	9.3	9.3	9.3
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	6.3	3.7	5.5	10.4	10.7
Transfers to Central Government	0.0	0.0	0.0	0.0	0.0
Overall deficit(-)					
Including nonoperating revenue	-5.8	-0.3	3.5	0.0	-1.8
Excluding nonoperating revenue	-7.1	-4.3	-5.8	-9.9	-11.1

Exhibit IV-13
Operations of Belize Meats

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	-0.2	-0.2	-0.1	-0.1	-0.1
Operating Revenue	0.6	0.6	0.6	0.6	0.6
Operating Expenditure	0.8	0.8	0.7	0.7	0.7
Nonoperating Revenue	0.0	0.0	0.0	0.0	0.0
Current Transfers	0.0	0.0	0.0	0.0	0.0
Capital transfers	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	0.1	0.1	0.0	0.0	0.0
Transfers to Central Government	0.0	0.0	0.0	0.0	0.0
Overall deficit(-)					
Including nonoperating revenue	-0.3	-0.3	-0.1	-0.1	-0.1
Excluding nonoperating revenue	-0.3	-0.3	-0.1	-0.1	-0.1

Exhibit IV-14
Operations of the Recondev

	1983/84	1984/85	1985 /86 Prog.	1985 /86 Est.	1986/87 Proj.
	(In millions of Belize dollars)				
Operating balance	0.0	0.0	0.0	0.0	0.0
Operating Revenue	0.0	0.0	0.0	0.0	0.0
Operating Expenditure	0.0	0.0	0.0	0.0	0.0
Nonoperating Revenue	0.0	0.0	0.0	0.0	0.0
Current Transfers	0.0	0.0	0.0	0.0	0.0
Capital transfers	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Development expenditure	0.0	0.0	0.0	0.0	0.0
Transfers to Central Government	0.0	0.0	0.0	0.0	0.0
Overall deficit(-)					
Including nonoperating revenue	0.0	0.0	0.0	0.0	0.0
Excluding nonoperating revenue	0.0	0.0	0.0	0.0	0.0

Exhibit IV-1 and IV-4 show a breakdown of capital spending by major accounts. The Central Government spent BZ$26.0 million. The public enterprises spent BZ$12.3 million, of which BZ$10.4 million was spent by WASA. The remaining item, "net lending", shown as BZ$1.7 million, is chiefly constituted by payments from the Government into a fund to retire the Government's debt to sugar farmers, that was incurred several years ago when the Government borrowed money from the sugar stabilization fund.

A detailed breakdown of capital spending for 1985/86 by investment sector is presented in Exhibit IV-15. As the table shows, transportation, agriculture and water are the priority sectors, claiming a combined total of almost ninety percent of public investment funds.

Total capital spending has been less than the programmed level for several reasons. Several projects were cancelled for lack of external or domestic funding. Included among these were the Toledo Rural Development Project (II), the Belcast educational project, and the Toledo Timber Project. Several other projects have been delayed because of contractual or administrative difficulties. These include the World Bank Power Project, the Belize International Airport Terminal and Runway, hospital equipment and vehicle purchases, and rural road and bridge construction. In addition, several small projects have failed to win approval by the Assembly, including projects in education, power and energy, and agriculture.

It should be noted that the capital expenditures estimate shown in this report is subject to some question. Exhibit IV-15 was constructed by the Booz Allen project team by reviewing and updating each of the line items in a public sector investment table, compiled by the World Bank in 1984, with personnel from the Ministry of Foreign Affairs and Economic Development and the Ministry of Finance. The table was further updated using AID project expenditure data for the first six months of FY 1985-86. No written detailed breakdown of capital spending was made available by the Government to the project team. The Ministry of Finance had originally estimated a total of BZ$43.2 million for capital spending, based on consultation with the Central Bank concerning drawdown of capital accounts. After some discussion of the discrepancy between the Government's estimate and the project team's line item analysis, Ministry personnel and the project team agreed on a revised estimate of BZ$40.0 million for combined capital spending and net lending for 1985/86.

The project team questions the inclusion of "net lending" under capital expenditure, as the funds expended are apparently not being used for purposes that are normally included in the definition of capital items. It should also be noted that approximately BZ$6.6 million in road and street maintenance are included in the Government's capital spending accounts (Exhibit IV-15).

Exhibit IV-15
Public Sector Investment Program

Ongoing Projects	1985/86 Total	1985/86 External	1985/86 Local	1986/87 Total	1986/87 External	1986/87 Local
	(in thousands of Belize dollars)					
Agriculture						
Crop diversification	10611	6917	3694	4036	3550	486
Of which: U.S. AID:	0	0	0	1000	750	250
Agriculture training school	350			1000		
Agriculture R & D	100	100	0	150	150	0
Caricom Farms Ltd. (CARDI)	416	416	0	0	0	0
Rural access to roads and bridges	890	890	0	890	890	0
Of which U.S. AID:	3200	2880	320	1896	1760	136
Toledo rural roads	2000			1000		
Livestock development	1431	1431	0	0	0	0
Of which U.S. AID:	3000	1200	1800	0	0	0
Land purchase	119					
Of which: U.S. AID	1500	0	1500	0	0	0
U.S. AID: Survey equipment	801	0	801			
Equipment & vet lab	18	0	18			
Others	6	0	6			
	50	0	50	100	0	100
Power and Energy						
Mini hydro scheme	1200	0	1200	3650	3050	600
Hydro electricity feasibility study	0	0	0	350	300	50
World Bank power project	0	0	0	100	50	50
	1200	0	1200	3200	2700	500

61

Exhibit IV-15
Public Sector Investment Program

Ongoing Projects	1985/86 Total	1985/86 External	1985/86 Local	1986/87 Total	1986/87 External	1986/87 Local
	(in thousands of Belize dollars)					
Transportation						
Airport terminal & runway	13002	10792	2210	9986	7038	2948
Big Creek Port	0	0	0	1500	1500	0
Southern Highway bridges	0	0	0	500	500	0
Western Highway (0-15)	1000	1000	0	0	0	0
Of which: U.S. AID	5000	5000	0	3700	3700	0
Road maintenance unit	1089	0	1089			
Road maintenance program	992	992	0	0	0	0
Street maintenance - main towns	4800	3800	1000	2050	810	1240
Replacement - vehicles & equipment	100	0	100	150	0	150
Maintenance -streets and drains	600	0	600	750	0	750
Airport fire tenders	150	0	150	180	0	180
Belize Port - replacement of equipment	0	0	0	1056	528	528
U.S. A.I.D.: Hummingbird Highway	100	0	100	100	0	100
Control tower - B.I.A.	215	0	215			
Control tower - M.A.	20	0	20			
	25	0	25			
Health						
Hospital equipment	22	0	22	320	320	0
Public health vehicles	0	0	0	160	160	0
U.S. AID: Primary health care	0	0	0	160	160	0
Repairs - medical building	15	0	15			
	7	0	7			

Exhibit IV-15
Public Sector Investment Program

Ongoing Projects	1985/86 Total	1985/86 External	1985/86 Local	1986/87 Total	1986/87 External	1986/87 Local
	(in thousands of Belize dollars)					
Housing						
Venezuela program	326	50	276	0	0	0
U.S. AID : Housing development	250	50	200	0	0	0
	76	0	76	0	0	0
Education						
Museum archives	1055	900	155	1560	1230	330
Vocational training center	0	0	0	100	100	0
Public sector training center	0	0	0	200	200	0
Expansion of Rural Education & Agricultural Program	0	0	0	100	100	0
National vocational training center	110	100	10	110	100	10
Educational television project	110	100	10	160	140	20
UNICEF - Toledo water & sanitation	0	0	0	390	390	0
UK scholarships	500	500	0	0	0	0
Others	200	200	0	200	200	0
U.S. AID: Equipment - B.T.C.	100	0	100	300	0	300
- B.J.S.S.	2	0	2			
New secondary school	3	0	3			
Primary school	26	0	26			
	4	0	4			

Exhibit IV-15
Public Sector Investment Program

Ongoing Projects	1985/86 Total	1985/86 External	1985/86 Local	1986/87 Total	1986/87 External	1986/87 Local
	(in thousands of Belize dollars)					
Communications						
BTA-replacement of equipment	600	0	600	600	0	600
Water						
Water & sewerage project (II)	10450	9250	1200	10700	9300	1400
Others						
Mission admin./ funds - CIDA	689	680	9	680	680	0
Rawinsonde weather station	180	180	0	180	180	0
UK technical assistance	100	100	0	100	100	0
U.S.AID: Ministry of Works - furniture	400	400	0	400	400	0
Errors and Omissions	9	0	9			
TOTAL ONGOING PROJECTS	345	0	345			
	38300	28589	9711	31532	25168	6364

Exhibit IV-15
Public Sector Investment Program

NEW PROJECTS

Basic human needs project
Colonel English Creek bridge
School of Agriculture (Western Highway)
Land use capability survey
Citrus research project
Forest industries project
U.S. AID: Increased productivity for better health
Training for employment & Productivity

4. PUBLIC SECTOR SAVINGS

Public sector savings are BZ$15.0 million in 1985/86, or 3.9 percent of GDP. The government appears to be making progress toward its targets for public sector savings, which the World Bank had set on a long-term basis at 5 percent of GDP, and the ESF stabilization program had set at 3.5 percent of GDP for 1985/86. As shown in the exhibit below, the Government achieved its 1985/86 ESF target, but fell short of its own programmed level of 4.7 percent of GDP.

PUBLIC SECTOR SAVINGS

	1982/83	1983/84	1984/85	1985/86 ESF TARGET	1985/86 PROGRAMMED	1985/86 REVISED ESTIMATE
Savings (BZ$ million)	-1.0	-9.7	12.6		18.5	15.0
As Percent of GDP	-0.4	-2.8	3.5	3.5	4.7	3.9

Government and public sector enterprise operations for 1985/86 were analyzed in detail earlier in this chapter. Nevertheless, a brief summary of the reasons for the gap between programmed and estimated savings is presented below.

The major fiscal gains in 1985/86 were achieved by reducing the NFPE operating deficits and increasing the net combined operating surplus of the NFPE's. The only serious disappointment was the performance of the Marketing Board, which incurred a slight deficit instead of the expected surplus of BZ$0.7 million.

On the other hand, the Central Government exceeded its current spending target by BZ$6.3 million, largely because of higher interest charges than anticipated, and greater subsidies and transfers. In exceeding the programmed expenditure level, the Government had relied on increased excise tax revenues, which were not actually realized. When the shortfall became apparent in mid-year, the Government responded by increasing tax rates, and some of the shortfall in revenues is consequently expected to be eliminated.

In summary, the Government has generally exerted discipline on its own operations and those of the public enterprises, directing all agencies and NFPE's to reduce spending. The Government's efforts have largely met with success, despite some minor setbacks and unforeseen impediments. In particular,

the public enterprises, formerly a major drain on Government finances, appear well on the road to being fully self-supporting, including servicing of external debt. Some further discussion of the NFPE's appears in Chapter V.

V. OUTLOOK FOR PUBLIC SECTOR SAVINGS IN 1986/87

Based on 1986 GDP and price level projections and our analysis of trends in public sector expenditures, we are projecting an improvement of BZ$1.3 million in public sector savings, to a level of BZ$16.3 million in FY 1986/87, or 4.2 percent of GDP. The components of our projection are shown in Exhibit IV-1.

The major assumptions underlying our projection are as follows:

- Central Government revenues will increase by BZ$3.8 million as a result of the recent tax increases.
- Current expenditures of the central government will increase by BZ$5.0 million to BZ$106.3 million because of an expected general wage increase.
- The combined NFPE net operating surplus will increase by BZ$2.5 million to BZ$10.6 million.

Each of these assumptions is discussed below.

1. CENTRAL GOVERNMENT REVENUES

Further increases in revenues are projected in 1986/87 in the tax sources for which rates were raised in January 1986, in that the effects of the higher rates will be experienced over a full year of operation (as opposed to only two months during FY 1985/86). Increased revenues will be achieved in income tax, various excises, the bonds in transit charge, and stamp duties. Transfers from NFPE's will drop from BZ$3.2 to BZ$1.3 million, in that only the BTA is expected to transfer funds to the Government. The other NFPE's have either discharged or been relieved of their intragovernment debt, or will not have funds available to transfer in 1986/87.

2. CURRENT EXPENDITURES OF THE CENTRAL GOVERNMENT

Current expenditures of the Central Government are projected to remain constant, with the exception of wages and salaries. If no general wage increase is granted, the total wage and salary bill should remain constant, as reductions in total Government employment offset the effects of promotions and step increases. A general wage increase of approximately ten percent is projected as a worst case scenario. It is unlikely that the increase will be larger than ten percent, and

it could be as low as five percent. It is also possible that it will not be effective as early as the beginning of the fiscal year.

3. COMBINED NET OPERATING SURPLUS OF THE PUBLIC ENTERPRISES

The operating balances of the public enterprises, projected in Exhibits IV-6 through IV-14, should continue to show improvement in 1986/87. The combined net surplus is projected at BZ$10.6 million, up by BZ$2.5 million from 1985/86. The Government has served notice to the NFPE's that it will not subsidize their operations in the coming year. With the exception of the Water and Sewerage Authority, the NFPE's should be able to survive without further operating subsidies.

WASA will require Government assistance to meet the higher operation and maintenance costs of the expanded system during the interim while new water and sewer connections are being installed and further restructuring of rates is being accomplished. In addition, WASA will need some Government financing assistance to meet its counterpart fund commitments to the CIDA project and to finance residential water and sewer connections for the approximately 50 percent of the Belize City population that cannot afford to pay the assessment. No funds, however, have been budgeted for sewer connections in the government's capital expenditure plans, and CIDA is prevented by its charter from funding this type of activity. This appears to be a major problem that will require resolution in the near future to avoid adverse financial consequences for WASA.

The Banana Control Board and Marketing Board are projecting elimination of their operating deficits. The BTA, Port Authority, and BEB are all projecting sizable surpluses. The BTA's operations will be similar to those of the current year, with no expansion of service. The Port Authority will benefit from the increased port charges effected in January, 1986.

Projected improvement in the BEB's operating balance accounts for most of the net improvement projected for the NFPE combined operating balance. The BEB expects to achieve BZ$1.5 million in increased revenues and BZ$0.6 million in decreased costs through implementation of its program to eliminate diversion of electricity. Should this program not be implemented, or should it fail to achieve its goals, there will be little if any net improvement in the combined NFPE operating balances over the current year.

Continued improvement in the NFPE operating balances will be necessary to alleviate the government's debt service burden on behalf of the NFPE's, and to create reserves for capital improvements. In the interviews with the project team, several of the NFPE's indicated that their equipment is in need of increased maintenance or replacement, and that service interruptions may become a serious problem if budgets are not increased for these activities.

4. OVERALL DEFICIT OF THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR

As shown in Exhibit IV-1, the overall public sector deficit in 1986/87 is projected at BZ$11.0 million on both a commitment and a cash basis. (The Government has retired all of its external arrears and is expected to remain current during 1986/87.)

The projected deficit represents a BZ$3.3 million improvement over the current year on a commitment basis, and a BZ$7.5 million improvement on a cash basis. The deficit will be 2.8 percent of GDP, the least it has been since Independence. Viewed from another perspective, approximately 70 percent of the 1986/87 capital budget will be financed through public sector savings and grants.

It is noteworthy, also, that both revenues and current expenditures, the components of public sector savings, are increasing as a share of GDP. Total revenues will exceed 32 percent of GDP in 1986-87. Continued growth of the public sector is somewhat disturbing in view of the zero growth projection for GDP.

10

APPENDIX A

DETAILED GROSS DOMESTIC PRODUCT ESTIMATES FOR BELIZE, 1973-86

EXHIBIT A-1(a)

Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Millions of BZ$, Current Prices)

Industry	1973	1974	1975	1976	1977	1978	1979
1. Agriculture	18.41	34.28	44.22	30.74	40.54	44.97	44.17
2. Forestry and Logging	3.00	4.31	3.77	3.59	3.55	3.91	6.66
3. Fishing	2.51	3.03	4.52	4.71	5.10	6.20	7.90
4. Mining & Quarrying	.20	.31	.43	.47	.46	.58	.73
Sub-Total: Primary	24.12	41.94	52.94	39.50	49.79	55.83	59.46
5. Manufacturing	10.16	18.76	23.00	18.75	26.70	29.84	32.89
6. Electricity & Water	1.12	1.40	1.46	1.10	1.92	1.80	3.13
7. Construction	5.30	8.95	11.40	13.00	10.58	15.12	16.32
Sub-Total: Secondary	16.58	29.11	35.85	32.81	39.20	46.77	52.35
8. Trade, restaurants & hotels	17.88	22.67	27.20	29.19	32.95	38.17	45.13
9. Transport, Storage & Communication	7.22	9.41	10.74	13.03	14.99	17.79	22.38
10. Finance & Insurance	7.70	7.65	7.41	8.16	8.16	7.74	7.58
11. Real Estate, Ownership of dwellings & business services	7.63	8.08	8.69	9.06	10.04	9.74	12.35
12. Public Administration	9.89	11.13	14.99	18.68	20.76	23.05	27.34
13. Other Community, Social & Personal Services	10.31	11.26	12.64	12.94	16.76	18.27	22.08
Sub-Total: Tertiary	60.63	70.20	81.67	91.06	103.27	114.64	138.35
14. Less imputed banking service charges					4.87	5.18	5.87
Total: Gross Domestic Product	101.34	141.25	170.47	163.37	187.4	212.1	244.3

EXHIBIT A-1(a) (Continued) -
Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Millions of BZ$, Current Prices)

Industry	1980	1981	1982	1983	1984	1985e	1986P
1. Agriculture	58.28	55.60	44.32	47.55	46.02		
2. Forestry and Logging	4.40	5.47	8.60	6.39	6.58		
3. Fishing	7.02	12.55	11.16	12.80	12.83		
4. Mining & Quarrying	.73	.76	.76	.76	.76		
Sub-Total: Primary	70.47	74.39	64.84	67.84	66.20		
5. Manufacturing	44.84	46.43	37.15	40.86	46.03		
6. Electricity & Water	3.87	5.11	5.63	5.91	6.71		
7. Construction	18.94	17.04	15.34	16.11	18.40		
Sub-Total: Secondary	67.66	68.60	58.12	62.88	70.52		
8. Trade, restaurants & hotels	56.66	56.09	50.48	51.50	55.04		
9. Transport, Storage & Communication	26.71	32.80	36.73	38.57	34.75		
10. Finance & Insurance	9.05	11.49	12.67	13.94	14.23		
11. Real Estate, Ownership of dwellings & business services	14.23	16.74	18.78	19.16	19.76		
12. Public Administration	30.85	32.58	32.50	32.50	32.71		
13. Other Community, Social & Personal Services	24.99	28.81	30.83	32.68	33.03		
Sub-Total: Tertiary	164.96	179.71	183.28	188.64	188.92		
14. Less imputed banking service charges	7.93	9.74	10.45	10.67	11.0		
Total: Gross Domestic Product	295.16	312.96	295.79	308.27	322.20r	340.0	347.0

Source: Central Statistical Office 1973-1984; with preliminary estimate for 1985 and projection of 1986 by the authors.
IPD, 1973=100

P - Provisional r = revised

EXHIBIT A-1(b)

Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Millions of BZ$, 1973 Prices)

Industry	1973	1974	1975	1976	1977	1978	1979
1. Agriculture	18.41	19.09	18.17	18.26	21.70	23.43	22.07
2. Forestry & Logging	3.00	4.31	3.02	2.26	2.70	2.41	3.52
3. Fishing	2.51	2.95	3.07	2.97	2.58	2.55	2.72
4. Mining & Quarrying	.20	.24	.29	.36	.32	.37	.37
Sub-Total: Primary	24.12	26.59	24.55	23.85	27.31	28.77	28.70
5. Manufacturing	10.16	11.81	10.86	10.23	11.47	12.59	11.40
6. Electricity & Water	1.12	1.09	1.16	1.26	1.27	1.49	1.65
7. Construction	5.30	6.32	7.64	9.37	7.88	9.93	11.74
Sub-Total: Secondary	16.58	19.22	19.66	20.86	20.63	24.02	24.80
8. Trade, restaurants & hotels	17.88	20.06	19.90	17.87	18.34	20.53	20.31
9. Transport, Storage & Communication	7.22	8.21	8.92	9.06	10.04	11.22	12.17
10. Finance & Insurance	7.70	7.47	7.18	7.60	6.62	7.08	7.60
11. Real Estate, Ownership of dwelling & business services	7.63	7.84	8.28	8.37	8.43	7.63	8.45
12. Public Administration	9.89	10.39	11.22	11.81	11.41	12.62	13.89
13. Other Community & Social Services	10.31	10.37	10.90	11.03	11.56	12.01	12.50
Sub-Total: Tertiary	60.63	64.34	66.40	65.73	66.42	71.12	74.94
14. Less imputed banking service charge					5.47	5.25	5.25
Total: Gross Domestic Product	101.34	110.14	110.60	110.45	110.24	118.93	123.54

EXHIBIT A-1(b) (Continued)
Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Millions of BZ$, 1973 Prices)

Industry	1980	1981	1982	1983	1984	1985e	1986P
1. Agriculture	24.09	24.63	25.59	26.33	25.46	2.55	
2. Forestry & Logging	2.08	2.24	3.96	2.72	2.67	2.6	
3. Fishing	2.42	3.86	3.78	4.86	4.65	4.6	
4. Mining & Quarrying	.38	.38	.38	.38	.38	0.4	
Sub-Total: Primary	28.98	31.12	33.72	34.30	33.18	33.1	33.0
5. Manufacturing	13.06	12.91	12.32	12.57	13.51	14.4	
6. Electricity & Water	1.66	1.65	2.05	2.07	2.15	2.2	
7. Construction	12.90	11.54	9.23	9.50	10.35	10.3	
Sub-Total: Secondary	27.62	26.11	23.61	24.14	26.02	26.9	26.6
8. Trade, restaurants & hotels	21.90	21.65	19.49	19.00	19.38	10.8	
9. Transport, Storage & Communication	12.69	13.91	14.20	14.48	14.99	15.0	
10. Finance & Insurance	7.58	7.45	7.45	7.50	7.50	7.6	
11. Real Estate, Ownership of dwelling & business services	8.76	9.09	9.27	9.27	9.27	9.3	
12. Public Administration	13.72	14.06	14.00	14.00	14.12	14.1	
13. Other Community & Social Services	12.65	12.84	13.10	13.10	13.25	13.2	
Sub-Total: Tertiary	77.33	79.03	77.52	77.36	78.50	79.0	79.5
14. Less imputed banking service charge	5.04	5.47	5.25	5.25	5.39	5.4	5.4
Gross Domestic Product	128.90	130.80	129.60	130.56	132.31	133.7	133.7

Source: Central Statistical Office

P - Provisional

EXHIBIT A-1(c)

Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Percentage Distribution)

Industry	1973	1974	1975	1976	1977
1. Agriculture	18.1	24.3	25.9	18.8	21.6
2. Forestry and Logging	3.0	3.1	2.2	2.2	1.9
3. Fishing	2.5	2.1	2.7	2.9	2.7
4. Mining & Quarrying	0.2	0.2	0.3	0.3	0.3
Sub-Total: Primary	23.8	29.7	31.1	24.2	26.6
5. Manufacturing	10.0	13.3	13.5	11.5	14.3
6. Electricity & Water	1.1	1.0	0.8	0.7	1.0
7. Construction	5.3	6.3	6.7	7.9	5.6
Sub-Total: Secondary	16.4	20.6	21.0	20.1	20.9
8. Trade, restaurants & hotels	17.6	16.0	16.0	17.9	17.6
9. Transport, storage & Communication	7.1	6.7	6.3	8.0	8.0
10. Finance & Insurance	7.6	5.4	4.3	6.3	8.0
11. Real Estate, Ownership of Dwellings and Business Services	7.5	5.7	5.1	5.5	4.1
12. Public Administration	9.6	7.9	8.8	11.4	11.1
13. Other Community, Social & Personal Services	10.2	8.0	7.4	7.9	11.1
Sub-Total: Tertiary	59.8	49.7	47.9	55.7	55.1
14. Less-imputed Banking Service Charges					-2.6
Total	100.0	100.0	100.0	100.0	100.0

EXHIBIT A-1(c) (Continued) -
Gross Domestic Product At Factor Cost By Kind of Economic Activity
(Percentage Distribution)

Industry	1978	1979	1980	1981	1982	1983	1984	1985e
1. Agriculture	21.2	18.1	19.7	17.8	15.0	15.4	14.6	
2. Forestry and Logging	1.8	2.7	1.5	1.7	2.9	2.1	2.1	
3. Fishing	2.9	3.2	2.4	4.0	3.8	4.2	4.1	
4. Mining & Quarrying	0.3	0.3	0.3	0.2	0.2	0.2	0.2	
Sub-Total: Primary	26.3	24.3	23.9	23.7	21.9	21.9	21.0	20.0
5. Manufacturing	14.1	13.5	15.2	14.8	12.5	13.2	14.6	
6. Electricity & Water	0.9	1.3	1.3	1.6	1.9	2.0	2.0	
7. Construction	7.1	6.6	6.4	5.4	5.2	5.2	5.8	
Sub-Total: Secondary	22.1	21.4	22.9	21.9	19.6	20.4	22.4	22.7
8. Trade, restaurants & hotels	18.0	18.5	19.2	17.9	17.1	16.7	17.5	
9. Transport, storage & Communication	8.4	9.2	9.0	10.5	12.4	12.5	11.0	
10. Finance & Insurance	3.6	3.7	3.9	4.0	5.0	4.6	4.5	
11. Real Estate, Ownership of Dwellings and Business Services	4.6	5.0	4.8	5.3	6.4	6.2	6.1	
12. Public Administration	10.9	11.2	10.5	10.5	11.0	10.6	10.4	
13. Other Community, Social & Personal Services	8.6	9.0	8.5	9.2	10.1	10.6	10.5	
Sub-Total: Tertiary	54.1	56.6	55.9	57.5	62.0	61.2	60.1	
14. Less-imputed Banking Service Charges	-2.5	-2.4	-2.7	-3.1	-3.5	-3.5	-3.5	-3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office

EXHIBIT A-2

Gross Domestic Product, Gross and Net National Product, and National Income
(Millions of BZ$, Current Prices)

	1973	1974	1975	1976	1977	1978	1979
Gross domestic product (GDP) at factor cost	101.3	141.3	170.5	163.4	187.4	212.1	244.3
+ Net indirect taxes	13.4	17.4	22.6	22.0	24.2	29.3	38.1
GDP at market prices	114.8	158.6	193.1	184.4	211.6	241.4	282.4
+ Net factor income from abroad	-3.8	-13.5	-16.7	-4.5	-5.5	-7.5	-2.2
Gross national product (GNP) at market prices	111.0	145.2	176.4	180.9	206.1	233.9	280.2
- Capital consumption	9.5	12.8	15.3	13.7	20.1	22.7	27.6
Net national product	101.5	132.4	161.10	167.2	196.0	211.2	252.6
- Net indirect taxes	13.4	17.4	22.6	22.0	24.2	29.3	38.1
National income	88.1	115.0	138.5	145.2	171.8	181.9	214.5
Real GDP at 1980 prices	231.3	251.9	253.0	252.5	284.4	309.5	326.5
Implicit price deflator (1980=100)	43.8	56.1	67.4	64.7	74.4	78.0	86.5

EXHIBIT A-2 (Continued) -
Gross Domestic Product, Gross and Net National Product, and National Income
(Millions of BZ$, Current Prices)

Industry	1980	1981	1982	1983	1984	1985[e]	1986[p]
Gross domestic Product (GDP) at factor cost	295.2	313.0	295.8	308.3	322.3	340.0	347.0
+ Net indirect taxes	45.0	48.7	35.1	39.4	42.4	42.6	43.0
GDP at market prices	340.2	361.7	330.9	347.8	364.7	382.6	390.0
+ Net factor income from abroad	-3.7	-3.7	-9.8	-11.1	-19.6	-14.6	-3.4
Gross national product (GNP) at market prices	336.5	358.0	321.2	336.7	345.1	368.0	386.6
- Capital consumption	29.6	32.3	31.2	32.6	33.4	35.0	35.6
Net national product	306.9	325.7	290.0	304.1	311.7	333.0	351.0
- Net indirect taxes	45.0	48.7	35.1	39.4	42.4	42.6	43.0
National income	261.9	277.0	254.9	264.7	269.3	290.4	308.0
Real GDP at 1980 prices	340.2	342.6	325.3	330.6	334.8	338.3	338.3
Implicit price deflator (1980=100)	100.0	105.6	101.7	105.2	108.9	113.1	115.3

Source: Based on estimates by Central Statistical Office for 1973-1984, with preliminary estimate from 1985 and projection for 1986 by the authors.

EXHIBIT A-3

Gross Domestic Product of Belize By Type of Final Expenditure
(Millions of BZ$, Current Prices)

	1973	1974	1975	1976	1977	1978	1979
Gross domestic Product	114.8	158.6	193.1	185.4	211.6	241.4	282.4
Net indirect taxes							
nonfactor services	-14.0	-4.2	-11.6	-45.0	-41.4	-30.6	-48.2
Exports	63.1	111.4	150.1	113.9	155.7	205.9	177.4
Imports	-77.1	-115.5	-161.7	-159.0	-196.3	-236.5	-225.6
Gross domestic expenditures	128.8	162.9	204.7	230.4	253.0	272.0	330.6
Consumption	96.0	121.9	143.7	161.2	183.5	199.6	239.4
Private	79.5	99.8	118.6	132.5	155.6	165.7	186.4
Public	16.5	22.1	25.1	28.7	29.5	33.9	53.0
Fixed capital formation	27.0	38.6	53.0	58.0	62.9	69.1	81.0
Private	17.6	25.1	40.0	44.6	42.0	50.9	51.3
Public	9.5	13.5	13.0	13.4	20.9	18.2	29.7
Change in inventories	5.7	4.2	8.0	11.2	5.0	3.3	10.2
	(As percent of GDP)						
Net exports of goods &							
nonfactor services	-12.2	-2.6	-6.0	-24.3	-19.6	-12.7	-17.1
Exports	55.0	70.2	77.7	61.4	73.6	85.3	62.8
Imports	-67.2	-72.8	-83.7	-85.8	-92.8	-98.0	-79.9
Gross domestic expenditures	112.2	102.7	106.0	124.3	119.6	112.7	117.1
Consumption	83.6	76.9	74.4	86.9	86.7	82.7	84.8
Private	69.3	62.9	61.4	71.5	73.5	68.6	66.0
Public	14.4	13.9	13.0	15.5	13.9	14.0	18.8
Fixed capital formation	23.5	24.3	27.4	31.3	29.7	28.6	28.7
Private	15.3	15.8	20.7	24.1	19.8	21.1	18.2
Public	8.3	8.5	6.7	7.2	9.9	7.5	10.5
Change in inventories	5.0	2.6	4.1	6.0	2.4	1.4	3.6

EXHIBIT A-3 (Continued)
Gross Domestic Product of Belize By Type of Final Expenditure
(Millions of BZ$, Current Prices)

Industry	1980	1981	1982	1983	1984	1985[e]	1986[p]
Gross domestic Product	340.2	361.7	330.9	347.8	364.7	382.6	390.0
Net indirect taxes							
nonfactor services							
Exports	-47.6	-54.1	-61.5	-50.2	-45.6	-51.9	-60.3
Imports	219.4	206.4	172.7	186.3	202.8	196.5	186.5
Gross domestic expenditures	-267.0	-260.5	-234.2	-236.5	-248.4	-248.4	-246.8
Consumption	387.8	415.8	392.4	398.0	410.3	434.5	450.3
Private	295.1	328.9	314.9	331.7	351.7	366.5	380.8
Public	233.7	255.3	234.9	246.9	263.7	270.4	279.7
Fixed capital formation	61.4	73.6	80.0	84.8	88.0	96.1	101.1
Private	88.1	83.5	72.7	65.6	61.4	67.0	67.5
Public	43.5	39.8	27.0	26.4	26.0	27.0	29.5
Change in inventories	44.6	43.7	45.7	39.2	35.4	40.0	38.0
	4.6	3.4	4.8	0.7	-2.8	1.0	2.0
	(As percent of GDP)						
Net exports of goods & nonfactor services							
Exports	-14.0	-15.0	-18.6	-14.4	-12.5	-13.6	-15.5
Imports	64.5	57.1	52.2	53.6	55.6	51.4	47.8
Gross domestic expenditures	-78.5	-72.0	-70.8	-68.0	-68.1	64.9	-63.3
Consumption	114.0	115.0	118.6	114.4	112.5	113.6	115.5
Private	86.7	90.9	95.2	95.4	96.4	95.8	97.6
Public	68.7	70.6	71.0	71.0	72.3	70.7	71.7
Fixed capital formation	18.0	20.3	24.2	24.4	24.1	25.1	25.9
Private	25.9	23.1	22.0	18.9	16.8	17.5	17.3
Public	12.8	11.0	8.2	7.6	7.1	7.1	7.6
Change in inventories	13.1	12.1	13.8	11.3	9.7	10.5	9.7
	1.4	0.9	1.5	0.2	-0.8	0.3	0.5