

The Study of Economic Growth of Belize

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ABSTRACT: The objective of this research is to conduct an empirical analysis of the relationship between Economic Growth and Domestic Commercial Lending in Belize. This research is guided along the supply leading and demand following paradigms. Economic growth in this study is measured by annual Gross Domestic Product (GDP) which is employed as the dependent variable. The financial development variables applied are: Commercial Credit to Belize's Primary, Secondary and Tertiary Sectors, Domestic Commercial Credit to the Private and Public Sectors and Interest Rates (lending). These are employed as the independent variables. The results of this research found that (i) Commercial lending in general has a positive effect on overall economic growth, particularly in the secondary and tertiary sectors (ii) Domestic Commercial Credit to the Private Sector has a positive relation on economic growth (iii) Domestic Credit to the Public Sector does not positively affect economic growth (iv) Increase in Lending Rates has not deterred consumer borrowing and furthermore, economic growth. This research is trying to understand possible factors promoting sustainable Economic Growth of Belize.

KEYWORDS: Belize, Commercial Credit, Lending Rates, Private Sector, Public Sector

1. INTRODUCTION

Belize is considered a developing country with an emerging, import - based economy. The country is often dependent on foreign aids. At the same time, a large portion of its GDP is generated by its service sector (Aigner & Chu, 1968). According to the 2019 Annual Central Bank Report, Belize's GDP at current market prices stood at \$3.745B BZD. This represents a minimal growth of 2.7M BZD or 0.08% over 2018 when overall GDP was \$3.742B BZD (Central Bank of Belize, 2019). This ranks Belize at 168 out of 211 countries globally and 18 out of 34 regionally (Central America and the Caribbean) in terms of economic stature.

The tertiary/service industry has accounted for an average of 61.3% of total GDP over the last 10 years followed by the manufacturing and agricultural industry which has accounted for averages of 15.6% and 11.8% of total GDP respectively. Tourism continues to be the country's leading foreign exchange earner and primary source of employment with (1) one in every (8) eight persons employed either directly or indirectly in the industry (Belize Tourism Board, 2018).

Public Debt continues to be a major hindrance plaguing economic growth and development. Central Government is obligated to service the country's debt requirements which stood at 99.7% of GDP in 2019, well above the maximum sustainable level of 60% of GDP (Central Bank of Belize, 2019). External debt which increased by 1.9% from 2019 over 2018 has accounted for an average of 78% of total public debt over the last 10 years. An argument can be made that overall debt has affected the level of Foreign Direct Investment as investors are wary of sovereign and corporate risks.

Belize's Financial System is dominated by the banking industry. The country has five commercial banks spread out across forty-eight branches countrywide. Two of these banks are foreign owned and one is owned by the state - National Bank of Belize. There is a belief that the dominance of the financial system by commercial banks has stifled entrepreneurship and economic growth. The absence of a developed financial market has limited the access of necessary debt and equity capital, compelling corporations to settle for commercial facilities when starting their operations (Morris, 2019). This inevitably causes a strain on businesses as they are forced to use their cash flows to service interest and principal payments for these facilities (Abusharbeh, 2017).

Belize currently has a primary market for short and long-term government securities, although most of these securities are held by the Central Bank of Belize and the five commercial banks. There is no secondary market in place for the trading of these securities (Ajao, 2013). There are only a few private sector debt and equity placements in the market. Private Sector debt includes the Belize City Municipal Bond, Belize City Municipal Paper, Belmopan City Municipal Bond, Corozal Free Zone Infrastructural Bond, St Catherine Academy Educational Bond and Belize Electricity Limited Series Debenture. Equity placements are dominated by the utility companies including the Belize Telemedia Limited Shares, Belize Water Services Limited Shares and Belize Electricity Limited shares. Due to the absence of a secondary market, equity and debt holders of these instruments find it difficult to liquidate their investment in a timely manner if they so choose.

The Study of Economic Growth of Belize

The objective of this research is to determine to what extent, if any, does the increase in commercial bank loans have on the growth of the Belizean economy. First, the researcher will examine the breakdown of commercial bank loans by sectors over the last twenty years. Through this, the researcher will be able to ascertain between funds borrowed for reinvestment in the productive sector by firms and corporations as opposed to

Belizean resident's consumer credit. Furthermore, this research aims to shed light on efficient consumer borrowing that gives Belizeans and corporations the highest possible return. The end goal of this research is providing additional literature as a tool for the continued push for the development of an efficient capital market whereby funds can be appropriately allocated for development. Moreover, seeking credit from cheaper options can significantly reduce the cost of doing business across all sectors, a move which can improve profits thus making it easier to attract private investment sources.

2. RESEARCH METHOD AND DATA

The research examines the impact of commercial bank lending on economic growth in Belize. The research employs annual data over a 20-year period (2000 – 2019). The data is extracted from the annual commercial bank reports produced by the Central Bank of Belize. The data is those of the two largest commercial banks in Belize. Data is firstly selected based on availability. Secondly, the data represents a crucial economic span for Belize where the country has witnessed record levels of increase borrowing across the private and public sectors while experiencing minimal growth in overall production.

3. EMPIRICAL ANALYSIS

The first analysis studies the relation between the country's GDP and Commercial Credit (Table 1). Since there is no secondary market in Belize, the research would expect that commercial credit would be a significant factor affecting the country's GDP.

Table 1. Regression Model for Belize GDP and Total Credit ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	8582731.446	1	8582731.446	260.463	.000 ^a
Residual	593132.224	18	32951.790		
Total	9175863.670	19			

a. Predictors: (Constant), Total Credit

b. Dependent Variable: Total GDP

Source: From this Research

Linear Regression model is created to establish the relationship, if any, between total commercial credit and total GDP. The dependent variable utilized was total annual GDP while total annual commercial credit was used as the independent variable. There is a strong correlation between how much money is borrowed and how much output is created. Since there is no secondary market in Belize, this result is expected.

Second, this research studies the secondary GDP and secondary commercial credit (Table 2). Belize's secondary industry comprises of manufacturing (including mining and quarrying), electricity, water, and construction. Manufacturing, the secondary sector's leading contributor has averaged 43% of total output over the last 5 years. Electricity and water supply and construction are second and third with 36% and 21% respectively.

Construction of home or buildings are capital-intensive projects and often require credit lines for financing. The growth in construction is evidenced by the rise in commercial loans allocated to building as well as the increase in the import of cement. One section of the industry, which is not fully reliant on financing through commercial facilities, is electricity and water supply. Heavy rainfall constitutes to increase in hydroelectric power. Additionally, in terms of manufacturing, demand is one of the main drives for increase output.

The Study of Economic Growth of Belize

Table 2. Regression Model for Secondary Output and Secondary Credit

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	39850.622	1	39850.622	13.153	.002a
Residual					
Total	54535.607	18	3029.756		
	94386.230	19			

a. Predictors: (Constant), Secondary Credit

b. Dependent Variable: Secondary Output

Source: From this Research

Third, this research studies the GDP and private sector debt (Table 3). Development in Belize's banking system is dominated by strong growth in private sector borrowing. Domestic credit to the private sector has averaged ninety-eight (98%) of total loans over the last ten years (2010 – 2019). Monies borrowed from commercial banks are allocated into the three major economic sectors (agriculture, manufacturing and service). In 2019, domestic banks experienced large growth for sugarcane and citrus in the primary sector and construction in the secondary sector. Loans allocated to the tertiary sector were primarily for tourism, personal consumption, real estate, transport and professional services. These are all income generators. In addition to this, commercial bank loans to the private sector are oftentimes curtailed to borrowers presenting solid investment opportunities who stand the best chance of avoiding defaults. This ensures the allocation of funds to quality creditors who are capable of generating output.

Table 3 Regression Model for GDP and Private Sector Debt

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	8583316.678	1	8583316.678	260.738	.000a
Residual					
Total	592546.992	18	32919.277		
	9175863.670	19			

a. Predictors: (Constant), Private Sector Debt

b. Dependent Variable: Total GDP

Source: From this Research

Fourth, this research studies the GDP and lending rate (Table 4). Commercial Banks weighted average lending rate has averaged 10.7% over the last 10 years. In addition, lending rates on personal loans for the same period has averaged 11.25%. These high rates have not deterred borrowing by the Belizean population. Personal loans have averaged 22.9% of total loans in the domestic market over the last ten years (2010 – 2019). This ranks second behind loans allocated for construction at 26.7% over the same period. Spending which leads to economic growth is done across all major sectors, especially the tertiary or service sector.

Table 4. Regression Model for GDP and Lending Rate

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	8184124.803	1	8184124.803	148.541	.000a
Residual					
Total	991738.866	18	55096.604		
	9175863.670	19			

a. Predictors: (Constant), Lending Rate

b. Dependent Variable: Total GDP

Source: From this Research

The Study of Economic Growth of Belize

4. CONCLUSION

Findings proved that high level of commercial bank lending rates does not deter borrowing and to a further extent, economic growth. Consumer loans continue to rise year over year. While there's a consensus that access to cheap credit spurs economic growth, the lack of alternative sources of credit in Belize has not discouraged Belizeans from borrowing. At the same tie, findings proved that domestic credit to the private sector positively contributes to economic growth. Most of the money from commercial credit loaned to agents and stakeholders of the private sectors are redistributed across the secondary and service sectors. Tourism, which is a part of the tertiary sector, is Belize's leading foreign exchange earner. There is a strong and direct correlation of private sector loans to economic growth.

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