

IN BRIEF

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The Belizean Economy in the 21st Century: When and Why Belize Fell Behind and What to Do About It

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This paper analyzes Belize's economic performance in the 21st century, particularly its stagnation in GDP per head, despite recent recovery, and proposes different approaches for pursuing sustainable long-run growth and improved income distribution.

Belize's economy, heavily reliant on tourism, faced a significant downturn in 2020 due to the COVID-19 pandemic. While the government of Belize has expressed satisfaction with the recent economic recovery, citing Belize's 8.2% GDP growth rate in 2024 as the highest in the Western Hemisphere (excluding Guyana), Belize remains one of the poorest countries in the Caribbean and is no longer as well-placed in Central America. GDP per head (adjusted for inflation) in 2024 only returned to its 2007 level. This indicates significant underperformance compared to Caribbean and Central American peers, positioning Belize as the third poorest country in the Caribbean by GDP per head.

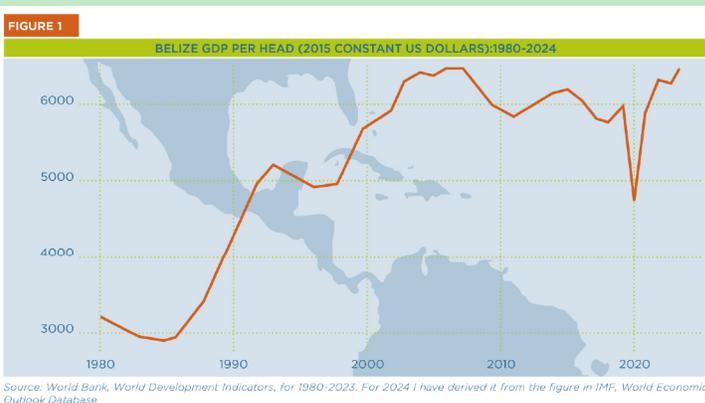
International agencies project a return to much lower GDP growth rates for Belize, barely exceeding population growth, raising concerns about potential shifts towards greater income and wealth inequality. The IMF forecasts annual GDP growth at constant prices of 2.5% in 2026, falling to 2.0% in 2030. However, these forecasts refer to GDP at constant prices, not GDP per head, which is crucial for assessing living standards given Belize's growing population. This study explores alternative economic perspectives and proposes approaches to enhance long-run sustainable GDP per head growth and improve income distribution, utilizing input-output analysis as a novel methodology for Belize.

When Belize Fell Behind

GDP per head at constant prices is the primary proxy for living standards and cross-country comparisons. Belizean authorities (Central Bank of Belize and Statistical Institute of Belize) do not report this metric, necessitating reliance on independent calculations or international agencies like the World Bank and IMF. This paper utilizes the World Bank's "smoothed" population series for consistency due to inconsistencies between decennial census data and intercensal estimates from Belizean authorities.



Using World Bank data, Belize's living standards in 2024 (based on GDP per head at constant 2015 prices) were no higher than their 2003-2007 levels, indicating approximately 20 years of stagnation. This contrasts sharply with the first 25 years post-independence (after 1981), when living standards roughly doubled.



Regional Comparisons

- **Caribbean:** Based on recent three-year averages of GDP per head at constant prices, Belize is the poorest economy in the Caribbean, apart from Jamaica and Haiti. Its position has significantly deteriorated in the last 25 years, falling from seventh from the bottom at the start of the millennium to third from the bottom in 2019-2023.

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- **Central America:** Historically ranking third, behind Costa Rica and Panama, Belize has experienced a relative decline against all other Central American nations. For instance, Belize's GDP per head compared to the average for Central America fell from 134.5% in 1999-03 to 87.7% in 2019-2023.

The conclusion here is that Belize's GDP per head at constant prices has stagnated over the last two decades, leaving it as one of the poorest in the Caribbean and in a weakened relative position in Central America, despite the post-2020 recovery.

Why Belize Fell Behind: Deconstructing GDP Components

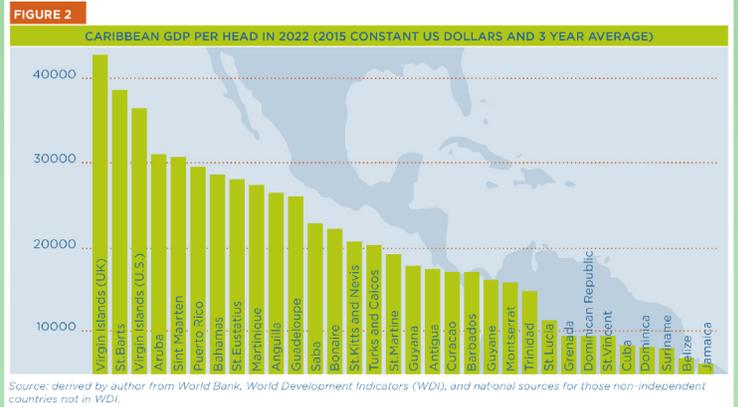
Belize's economic underperformance is attributed to the failure of various GDP components to increase at rates conducive to raising living standards.

- **Exports:** Belize is a significant under-exporter. In 2023, actual exports per head were 25.9% below the predicted US\$3,752. While exports constitute over 50% of Belize's GDP, this ratio is lower than its past and many other small Caribbean economies, suggesting room for improvement.
- **Investment:** Gross Fixed Capital Formation (GFCF) is crucial for rising living standards, but labour productivity in Belize has been falling over the last 20 years. The average investment ratio (GFCF to GDP) in Belize has been low, less than 20%, whereas countries with rising living standards typically have ratios well above 20%. Private sector investment, averaging 11.2% of GDP, is deemed too low for substantial economic growth. Foreign Direct Investment (FDI) has been respectable but volatile and focused on large projects with frequent disputes.



- **Imports:** Belize's actual imports per head are 40% below what a cross-section model predicts, suggesting import substitution is not the primary reason for falling behind. However, the rising share of imports in GDP over the last 20 years, despite stagnant GDP per head, points to a structural change, most plausibly an increase in income inequality, as richer households tend to consume more imports.

- **Public Consumption and Taxation:** Public consumption is slightly higher than some regional countries. However, high fixed costs for public services



due to a small population suggest the state may be too small to meet demand for quality public services. The IMF suggests Belize has been under-taxed, with potential revenue increases by broadening the General Sales Tax (GST) base and raising excise taxes. Under-collection of income and business taxes also indicates a failure to raise sufficient revenue, contributing to stagnant living standards.

What to Do About It: Input-Output Analysis and Economic Stimulation

To achieve higher sustainable long-run growth for GDP per head, a comprehensive approach is needed, starting with a robust understanding of the export-led economy.

- **Input-Output Model:** Developing an input-output model to simulate the impact of various policy interventions is crucial. The model reveals that different export sectors (primary, tourism, non-tourism services) have distinct impacts on economic factors like gross output, imports, wages, profits, and employment. The data for informing this model exists in Belize.

- **Prioritize Economic Outcomes:** The author advocates for using this analytical framework to identify and prioritize economic outcomes, such as increasing exports per capita, boosting private domestic investment, reducing inequality, improving public services, and exploring import substitution.

- **Strategic Government Support:** This data-driven approach should guide government support for projects, moving beyond "silver bullet" solutions or large-scale projects that may not align with Belize's economic realities. Prioritizing clear objectives and communicating them to all economic actors, including donors, is crucial for sustainable long-term growth.

In conclusion, Belize's economic stagnation over the past two decades is evident in its stagnant GDP per head, weakened regional standing, and issues with exports, investment, and increasing income inequality. Addressing these challenges will require strategic policy decisions, informed by detailed economic analysis like the input-output framework, to stimulate growth and improve living standards for all Belizeans.