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Exchange Rates and Belize's Trade Performance: The Implications of the Fixed BZD-USD Peg for Imports, Exports, and the Persistent Trade Deficit

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Abstract

Belize operates a fixed exchange rate regime since May 1976, fixing the value of Belize Dollar at BZ\$2.00/US\$1.00. It is a small open economy and a net importer of energy and manufactured products. It thus faces a chronic trade deficit, averaging approximately US\$850 million between 2015 and 2024. In this paper, we analyse the effects of Belize's fixed exchange rate on import demand, export supply, and trade balance using secondary data from credible sources such as the Central Bank of Belize, Statistical Institute of Belize, World Bank WITS, and OEC data between 2015 and 2024. Graphical analysis and descriptive statistics, along with a simple open economy framework, reveal that a fixed exchange rate anchors inflation in Belize, averaging below 3 percent in most years. However, it contributes to a trade deficit since a real appreciation in the currency arises either due to differential inflation or productivity differences, and import demand increases due to domestic income effects. Major findings include fuel and machinery imports comprising approximately 50 percent of total imports, and agriculture and marine products dominating total exports.

Keywords: exchange rate peg, trade balance, Belize economy, imports, exports, fixed currency regime, net energy importer

Abbreviations: BZD (Belize dollar), USD (United States dollar), TB (trade balance), CBB (Central Bank of Belize), REER (real effective exchange rate)

INTRODUCTION

Belize's fixed exchange rate regime has facilitated low inflation and boosted investors' confidence for nearly five decades but is accompanied by a persistent merchandise trade balance deficit due to the country's heavy dependence on energy, machinery, and consumer goods imports (Central Bank of Belize, 2024). The pertinent problems in the present scenario include the increase in energy costs worldwide, the import sector's revival after the COVID-19 pandemic, and the lack of diversity in the country's exports, all of which are subject to the unchanged nominal exchange rate regime. The research aims to examine the impact of the exchange rate peg on the country's trade balance, specifically its role as a net energy importer.

Materials and Methods

The study is based on the analysis of secondary data from 2015 to 2024 on the country's exports, imports, and trade balance from the World Bank's WITS platform, OEC, Macro trends, and the CBB's annual reports. The study further incorporates the theoretical analysis of the exchange rate peg

based on the Mundell-Fleming model in the case of a fixed exchange rate and perfect capital mobility, and the basic trade balance equation:

$$TB = X - M$$

where $X = X(Y^*, \frac{P}{P^*} \cdot \epsilon)$ (exports depend on foreign income and real exchange rate) and $M = M(Y, \frac{P}{P^*} \cdot \frac{1}{\epsilon})$ (imports rise with domestic income Y and fall with real depreciation). With nominal $\epsilon = 2$ fixed, adjustments occur only through relative prices or reserves:

$$\Delta R = TB + KA$$

where ΔR is change in international reserves required to defend the peg.

Results and Discussion Figure 1 illustrates the widening gap between imports and exports. Imports consistently exceed exports, producing an average deficit of US\$868 million.

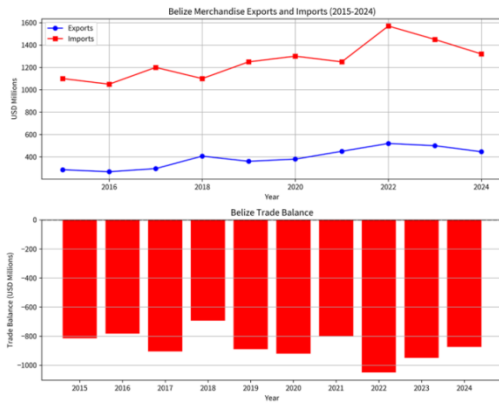


Figure 1: Belize Merchandise Exports and Imports (blue line) and Trade Balance (bars), 2015–2024 (USD millions). Data synthesized from WITS, OEC, and CBB reports; persistent negative balance evident despite modest export growth.

The peg maintains the stability of the nominal exchange rate but allows for real effective appreciation in the face of domestic inflation outpacing trading partners and/or domestic productivity growth falling behind, making exports less competitive and imports in BZD cheaper. As a net energy importer, fuel comprises approximately 22% of imports:

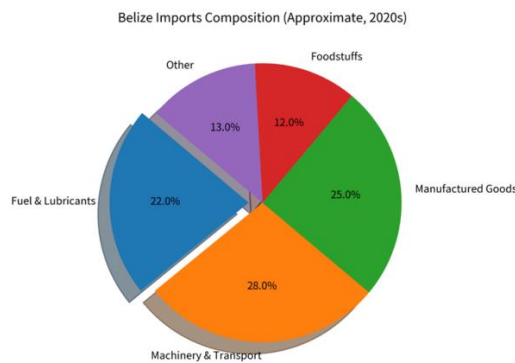


Figure 2: Approximate composition of Belize imports (2020s average). Fuel and machinery dominate, underscoring exposure to global commodity shocks under the fixed peg.

Export structure remains concentrated:



Figure 3: Main export/earnings categories (% contribution). Agriculture and services provide foreign exchange but cannot offset goods imports.

Combining results and discussion, we note that the fixed rate prevents correction through depreciation (as in floating regimes) but has successfully limited inflation and provided tourism/service credits that offset part of the goods deficit (net goods+services balance narrower). However, reserve drain from $TB < 0$ requires continuous capital inflow or fiscal restraint to maintain the 40% external asset cover required by CBB. Mundell-Fleming theory is also supported by empirical evidence: fiscal policy increases Y and thus M , worsening TB , for which exchange rate adjustments are needed to restore equilibrium. Recent data (2024) indicate exports \approx US \$446 million and imports \approx US \$1,320 million, thus validating our theory that this imbalance remains, in spite of the stability provided by the fixed peg.

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