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Belize: 2002 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Belize

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with Belize, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 1, 2002,** with the officials of Belize on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on October 11, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **October 31, 2002** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its November 1, 2002 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Belize.

The document(s) listed below have been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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BELIZE

Staff Report for the 2002 Article IV Consultation

Prepared by the Staff Representatives for the
2002 Consultation with Belize

Approved by Jorge Marquez-Ruarte and G. Russell Kincaid

October 11, 2002

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EXECUTIVE SUMMARY

Real GDP growth declined from 11 percent in 2000 to 5 percent in 2001, as a result of several hurricanes, terrorist attacks in the United States, and a shrimp-virus epidemic. Confidence was also affected by financing difficulties at the state-owned Development Finance Corporation (DFC) and the widening of the central government deficit from 10 percent of GDP to 12 percent in FY 2001/02 (fiscal year ends March). The fiscal deficit was financed from deposits at the Central Bank of Belize (CBB) that had been built up from earlier external loan disbursements. With this shift to domestic financing, the pace of public and publicly guaranteed external debt accumulation slowed, with external debt reaching 80 percent of GDP at end-2001 or 59 percent excluding publicly guaranteed debt. The expansionary fiscal stance, combined with the unchecked liquidity overhang in the economy, continued to fuel import demand exacerbating the foreign exchange queue, pressuring usable reserves of the CBB, widening the exchange rate spread in the parallel market, and increasing the risk of severe balance of payments difficulties.

The staff urged the authorities to implement measures to prevent such difficulties, noting that the level of usable reserves was at a critically low level. The main recommendations in the fiscal area included limiting the central government deficit to the budgeted 5 percent of GDP in FY 2002/03 by prioritizing government investment, and raising tax revenue to increase government savings in FY 2003/04. The staff also recommended a tightening of monetary policy to eliminate the excess liquidity in the system, while curtailing further DFC lending and reorganizing the entity to prevent further liquidity problems.

The authorities agreed that the fiscal and monetary policies were unsustainable and that a decisive policy shift was necessary and already implemented a number of recommendations during July–August 2002. They began monitoring fiscal performance closely on a monthly basis in line with a detailed quarterly fiscal program prepared by the staff to monitor budget execution and monetary policy. Performance for the first quarter of FY 2002/03 was on track. Nevertheless, in light of existing expenditure pressures, the government's ability to limit expenditure to achieve a budget deficit of 5 percent of GDP is not assured, requiring continued political support at the highest level. The CBB increased cash reserve requirements, while parliament approved an increase in T-bills, effectively eliminating the liquidity overhang in the economy. The authorities also placed a US$125 million international bond (16 percent of GDP) in mid-August and the authorities are committed to using the proceeds entirely for debt refinancing as recommended by the staff.

In April 2002, the authorities legalized the parallel market by allowing the establishment of foreign exchange houses (*cambios*) that can, within limits, buy and sell foreign exchange at rates different from the official peg. The staff noted that this dual regime made the adjustment measures to sustain the peg even more urgent so that the parallel market rate could converge to the official rate. Otherwise a legal and efficient parallel market would erode trading at the official rate and de facto depreciate the currency.

I. Introduction

1. A mission visited Belize in the period June 20–July 4, 2002 to conduct the discussions for the 2002 Article IV consultation.[1] It met with the Prime Minister, the Minister of the Budget, the Governor of the Central Bank of Belize (CBB), senior government officials, and representatives of the private sector. Belize accepted the obligations of Article VIII in 1983, and its last arrangement with the Fund ended in 1986.[2]

2. At the conclusion of the 2001 Article IV consultation on July 9, 2001 (SUR/01/70), Executive Directors expressed concern about the widening of the fiscal and external current account deficits to clearly unsustainable levels, resulting in rapid increases in external public debt and debt service payments. Directors stressed that the heightened vulnerability of the Belizean economy required decisive corrective action. They welcomed the authorities' intention to reduce the fiscal deficit to 1 percent of GDP over the next 3 years, but stressed that substantial efforts would be necessary to enforce the required spending cuts.

II. Background and Recent Developments

3. The current government came to office at the end of 1998 on a program to accelerate economic growth through tax cuts, government investment, expansionary monetary policy, and the provision of subsidized credit to the private sector through the state-owned Development Finance Corporation (DFC). The government's strategy succeeded in accelerating growth from 4 percent in 1999 to 11 percent in 2000,[3] mainly by facilitating private investment for exports and import substituting industries and through government investment, including in particular an ambitious housing program (Table 1). The authorities expected stronger economic growth to help reduce the fiscal deficit and external debt burden. At the same time, they continued to maintain the exchange rate peg, which was established in 1976 at BZ$2 per US$1, to keep inflation low and stable.

4. **Real GDP growth halved to 5 percent in 2001 (Table 1).** The slowdown resulted mainly from effects of Hurricanes Keith and Iris, which destroyed tourist facilities on the coast and sugar and banana plantations, while causing loss of life and extensive damage to

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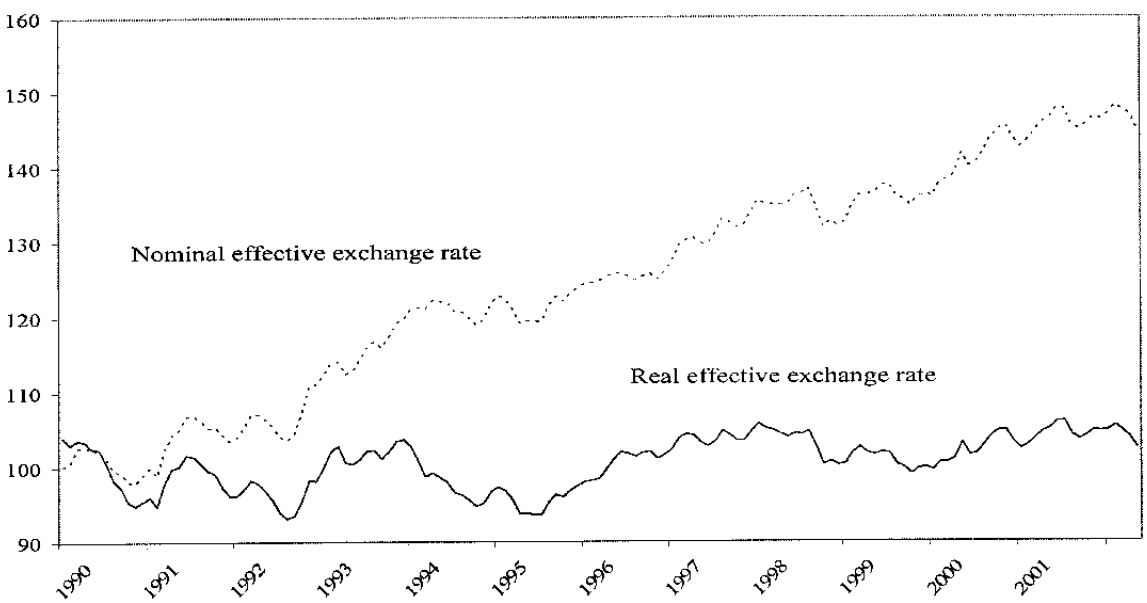
[1] The mission consisted of Messrs. Fritz-Krockow (Head), Adedeji, Espejo, Vesperoni, and Hajdenberg (all WHD). Mr. Kendall, Caribbean Development Bank, worked with the mission. Mr. Nioclas O'Murchu, Alternate Executive Director, participated in the policy discussions.

[2] Relations with the Fund, the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank are presented in Appendices I–IV, respectively.

[3] Economic growth is overestimated in 2000 by about 1–2 percentage points due to the use of an outdated estimation methodology and a 1984 industrial survey. The introduction of a revised methodology is expected for 2003.

roads. In addition, activity was hampered by the impact of the September 11 events on tourism, a shrimp-virus epidemic, and weaker demand for Belize's exports. Growth was sustained through a continued expansionary fiscal policy, while private consumption declined due to a loss in confidence and lack of foreign exchange that reduced import demand. Investment at about 35 percent of GDP remained close to the previous year's ratio, while national savings decreased slightly. Wage pressures remained moderate, while consumer prices increased by 1.2 percent after years of near-price stability. Price increases concentrated in the nontradables sectors, most notably in transportation and communication. The real effective exchange rate, calculated using the official exchange rate, appreciated by about 5 percent from end-1999 to end-2001, but has shown little variation over the course of the past decade and the private sector does not consider the recent appreciation to have affected Belize's external competitiveness materially (Figure 1).[4]

Figure 1. Belize: Effective Exchange Rates
(Indices: 1990 = 100) 1/



Source: Information Notice System.

1/ A decrease (increase) means depreciation.

5. **The expansionary demand policy stance of recent years fueled import demand and eroded the reserve position of the CBB, leading to an increase in the trading volume and the spread in the parallel foreign exchange market** (see Box 1). The spread in the market increased from 4 percent to around 15 percent over the course of 2001. In response, the authorities partially legalized the parallel market in April 2002 by allowing the

[4] Based on the parallel market rate, the real effective exchange rate depreciated by about 5 percent during 2001.

establishment of foreign exchange houses (*cambios*) that can, within limits, buy and sell foreign exchange at rates different than the official peg.

Box 1. The *Cambios*

Parallel foreign exchange market transactions have increased significantly in recent years, but the market remained illegal and highly segmented until recently. Staff estimates suggest that parallel market transactions grew from around 2½ percent of GDP in 1995 to around 11 percent of GDP in 2001. This expansion in the parallel market resulted from the severe foreign exchange rationing by the Central Bank of Belize (CBB) in an environment of expansionary fiscal and credit policies since 1999, combined with export shortfalls resulting from various natural disasters. As the CBB restricted the sale of foreign exchange to debt service and imports deemed essential, other importers were forced into the parallel market. The foreign exchange rationing constitutes an exchange restriction.

In an attempt to capture foreign exchange from the parallel market, and regulate and decriminalize it, the authorities approved new exchange control regulations to establish foreign exchange houses (*cambios*) in December 2001 and authorized their establishment in April 2002. The CBB supervises the *cambios*, which are required to pay an annual fee of US$5,000, report all transactions to the CBB, and sell to the CBB 5 percent of the gross amount purchased at the official exchange rate. The *cambios* are restricted to purchase foreign exchange in the tourism sector and can sell U.S. currency to the public at the official exchange rate plus an adjustable service charge determined by the CBB, effectively capping the permissible flexible exchange rate at a spread of 7.5 percent. The establishment of the *cambios* constitutes a multiple currency practice.

After 12 *cambios* were established in May 2002, mostly in tourism destinations, the parallel market has become increasingly organized. This came despite the fact that the *cambios* have reported only a small volume of transactions in their first three months of operation and the bulk of transactions in the parallel market are still illegal and carried out at exchange rates that exceed the permissible spread. After the establishment of the *cambios*, the parallel market spread declined somewhat. This can in part be attributed to one-off efficiency gains as the parallel market became more integrated and transparent.

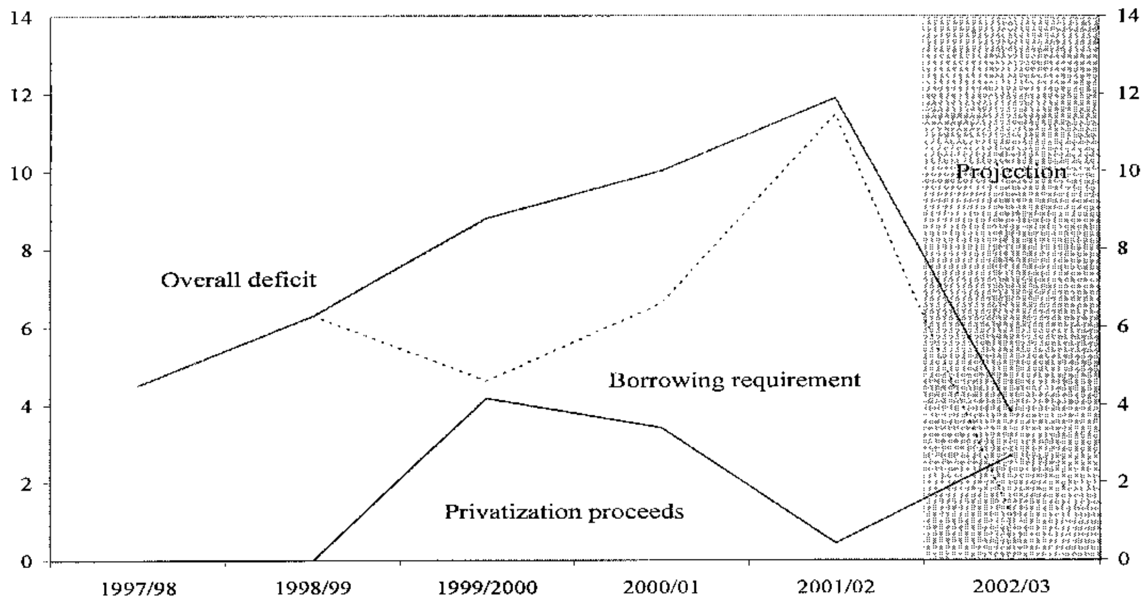
6. **The nonfinancial public sector (NFPS) deficit increased from 10.0 percent of GDP in FY 2000/01 (fiscal year ends March) to 11.9 percent in FY 2001/02** (Table 2), entirely due to an increase in the central government deficit from 9.8 percent of GDP to 11.7 percent (Figure 2). The rest of the NFPS had a small deficit of 0.2 percent of GDP, as a slight improvement in the position of the Social Security Board following a reform of the social security system[5] was offset by higher investment expenditure by the port authority. Central government revenue and grants increased by 0.4 percent of GDP in FY 2001/02, with the variable tax on oil products explaining all of the increase in tax collection.[6] Other than oil tax revenue, there was a lack of buoyancy in the tax regime caused by ample tax holidays granted to leading growth sectors of the economy, e.g., beverages and shrimp farming.

[5] See Chapter IV of the 2001 "Selected Issues and Statistical Appendix" (SM/01/182) for a discussion of the social security system and its reform.

[6] The revenue replacement duty is a variable levy on oil products that captures the difference between retail prices, fixed by the government, and import prices. The fall in international oil prices during 2001 generated a revenue windfall, as the authorities did not adjust retail prices.

Central government current expenditure increased by 1.0 percent of GDP due to higher interest payments and outlays on wages and pensions, while capital expenditure increased by 1.1 percent of GDP from already very high levels (Table 3).[7] Excluding hurricane reconstruction expenditure, the investment budget increased from 11.4 percent of GDP in FY 2000/01 to 13.7 percent of GDP.

Figure 2. Belize. Operations of the Nonfinancial Public Sector
(In percent of GDP)



Source: Belizean authorities; and Fund staff projections.

7. **The central government deficit was financed mainly through a drawdown of deposits at the CBB of 6.9 percent of GDP**, stemming mostly from a disbursement of an external loan at the end of the previous fiscal year. In addition, the central government contracted new external commercial credits for about 4.6 percent of GDP in FY 2001/02. As a result, **public and publicly guaranteed external debt increased from 71 percent of GDP at end-2000 to 80 percent at end-2001,** while total public debt increased to 85 percent (Figure 3). However, the pace of external debt accumulation slowed significantly after March 2001, as the government drew down its deposits at the CBB and the state-owned DFC curtailed its lending operations.[8] External funding of the central government has increasingly

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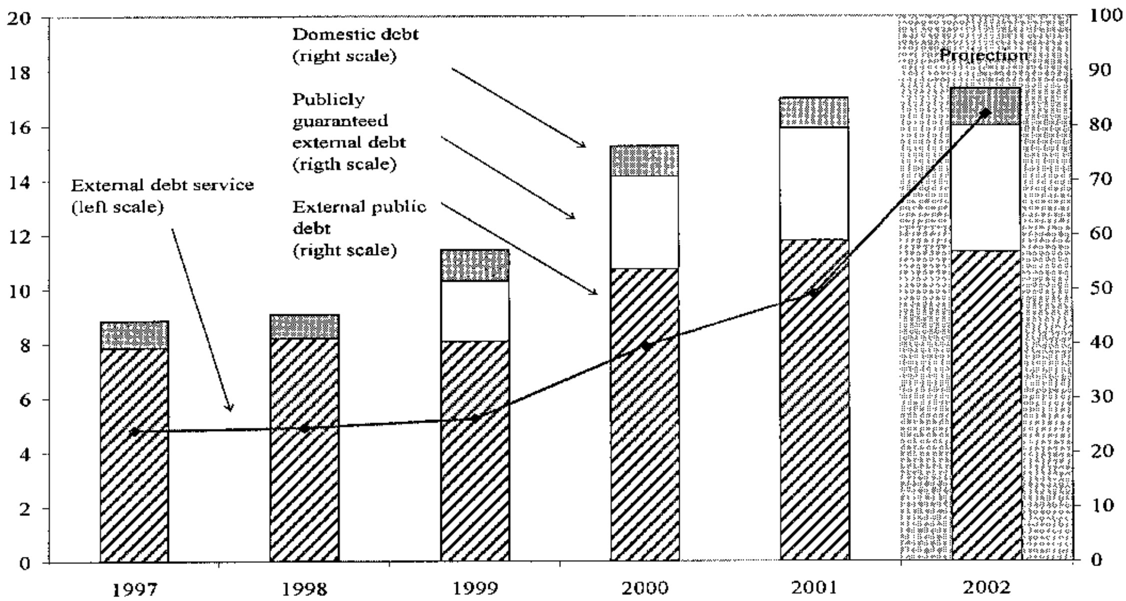
[7] Expenditure amounting to about 1.5–3.0 percent of GDP that is classified as capital expenditure by the authorities should more correctly be classified as current expenditure as it comprises outlays for wages, salaries, and maintenance.

[8] The DFC had been financing the rapid expansion of its loan portfolio through external commercial borrowing secured by the cashflow of its domestic loan portfolio and a government guarantee.

concentrated on foreign commercial bank borrowing, which has grown from 14 percent of total debt at end-1999 to 40 percent at end-2001.

Figure 3. Belize: Public and Publicly Guaranteed Debt
(In percent of GDP)



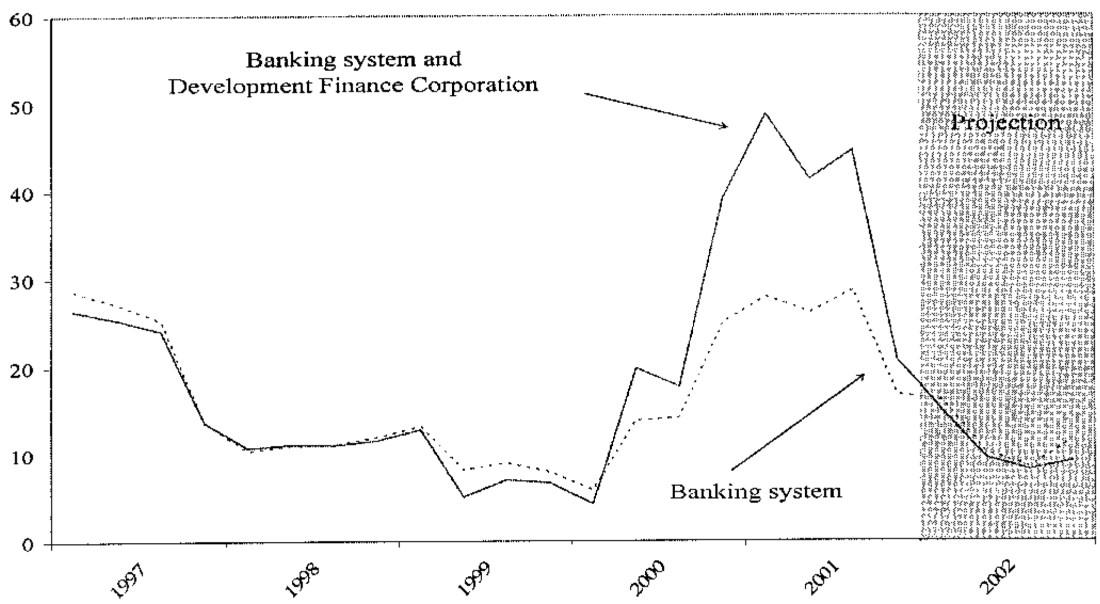
Sources: Belizean authorities; and Fund staff projections.

8. **The DFC slowed its lending activity in 2001 due to acute liquidity problems.** The DFC loan portfolio, which increased by 10 percent of GDP in 2000, grew by 4 percent of GDP in 2001, with most of the increase occurring during the first four months of the year (Table 4). Since early 2002, the DFC has also begun to sell assets (mainly houses, building materials, and vacant lots) to meet its debt service obligations. Housing construction remains at the center of DFC activities, but in 2001 the DFC also invested in the refurbishment and expansion of a soy mill for later sale. Loan delinquency continues to be a problem, with nonperforming loans accounting for 21.5 percent of total loans at end-2001, up from 17.7 percent a year ago. Corrected for problems of loan classification and inadequate provisioning, it is estimated that the DFC has zero or negative equity.

9. **Monetary policy continued to accommodate the expansionary fiscal policy stance.** The net domestic assets of the CBB increased by BZ$32 million in 2001 (28 percent of the currency issue at end-2000) as the government drew down its deposits at the CBB (Table 5). Currency issue expanded by 8.7 percent and demand deposits increased by 9.4 percent, reflecting continued strong growth in broad money. Commercial banks expanded credit to the private sector by 13 percent, as liquidity remained abundant and credit at below market rates from the DFC became unavailable (Figure 4). The excess liquidity of commercial banks increased somewhat to 6.5 percent of domestic deposits, continuing to

finance credit expansion and fueling demand for foreign exchange.[9] Nominal lending rates fell to about 15 percent, despite the fact that credit from the DFC became unavailable, but commercial bank spreads remained at around 11 percent.

Figure 4. Belize: Credit to the Private Sector
(12-month percentage change)



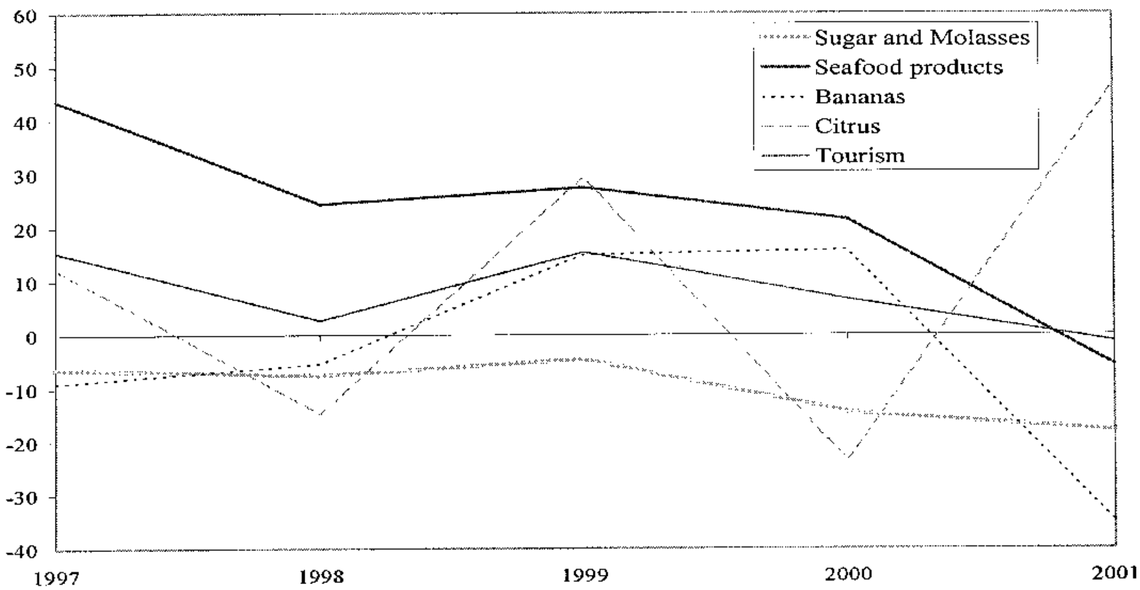
Source: Belizean authorities; and Fund staff projections.

10. **The external current account deficit increased from 20 percent of GDP in 2000 to 21.8 percent of GDP in 2001**, mainly due to a reduction in exports attributable to sluggish external demand, lower export prices, hurricane damage, and the shrimp-virus epidemic (Table 6). Exports of bananas were particularly affected, falling by 26 percent in volume terms as Hurricane Iris destroyed plantations. Imports remained flat in nominal terms, reflecting the lack of foreign exchange in the official market and the depreciation of the currency in the parallel market. A modest increase in tourism revenue did not compensate for an increase in interest payments abroad and a fall in transfers (Figure 5). Net capital inflows fell by US$80 million, reflecting mainly a reduction in the net external borrowing of the central government from US$210 million in 2000 to US$120 million in 2001. Overall, net international reserves of the CBB declined by US$10 million to US$205 million. However, most reserves are held as guarantees against foreign loans at commercial banks abroad or are otherwise not freely available. Usable reserves increased marginally to US$17 million at end-2001, but fell from 34 percent of prospective 12-month external debt service obligations at end-2000 to 24 percent at end-2001. The CBB continued to face difficulties in providing foreign exchange to service public sector external debt obligations and the sales of foreign

[9] During most of the 1990s, commercial banks maintained virtually no excess reserves.

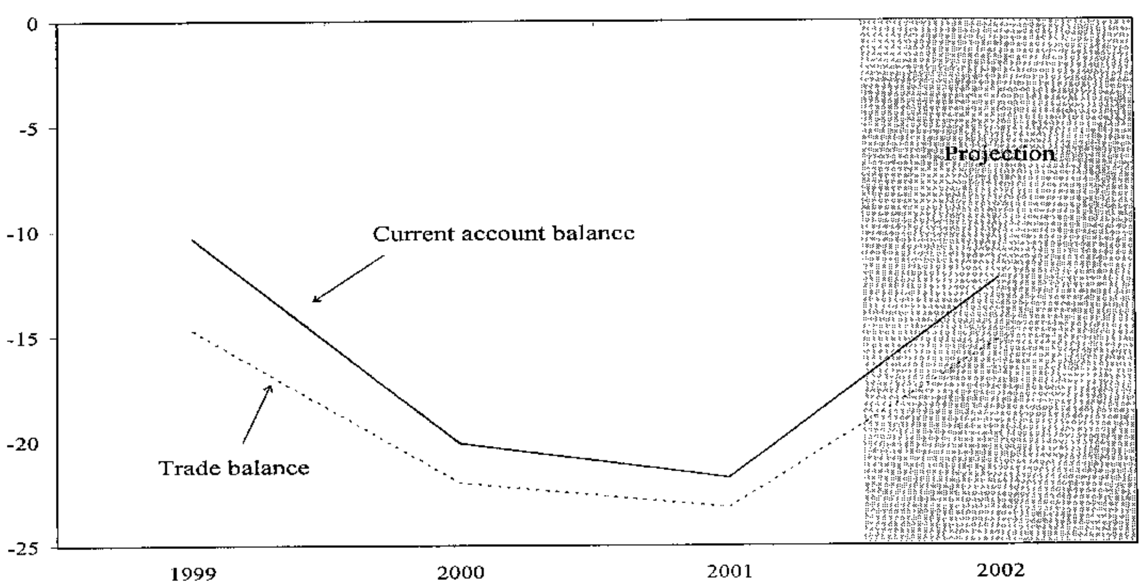
exchange to the private sector have declined markedly, contributing to the increase in the spread in the parallel market and its trading volume.

Figure 5a. Belize: Exports by Type
(In annual percentage change)



Source: Belizean authorities.

Figure 5b. Belize: Trade and Current Account Balance
(In percentage of GDP)



Source: Belizean authorities; and Fund staff projections.

III. Policy Discussions

11. Policy discussions took place against a background of an increased risk of severe balance of payments difficulties. This risk was fueled by the continued high fiscal deficit and the accommodative monetary policy, and exacerbated by the solvency problems of the DFC and the adverse exogenous shocks. The staff urged the authorities to implement immediately forceful measures to reduce the fiscal deficit and eliminate the liquidity overhang in the economy. The authorities agreed that current policies were unsustainable and that policy corrections were necessary to prevent severe balance of payments difficulties and maintain the exchange rate peg. However, they pointed to the need to avoid harsh adjustment measures that could incur significant social costs. The staff pointed out that the demand dampening implications of the policy adjustment would coincide with a significant recovery in export activity that would underpin economic growth, while a reduction in central government investment expenditure would help reduce import demand. Also, the social and economic costs associated with a potential crisis would be greater than the costs associated with orderly, well-designed adjustment measures.

12. The authorities agreed that a frontloaded reduction of the central government deficit over a 2-year period was necessary, combined with an immediate tightening of monetary policy to eliminate the excess liquidity in the system. Under this framework, the current account deficit would decline sharply during 2002 and usable reserves would increase somewhat. External debt would remain about unchanged in relation to GDP, but external debt service indicators would improve in 2003.

A. Fiscal Policy

13. **The authorities agreed to implement a strong fiscal adjustment.** The FY 2002/03 budget approved by parliament envisages a reduction of the central government deficit to 5 percent from 11.7 percent of GDP in FY 2001/02, consistent with a reduction in the NFPS deficit to 3.8 percent of GDP from 11.9 percent of GDP. Two-thirds of this adjustment would be achieved with a reduction of the investment program as ad hoc projects were completed. Central government investment levels would decline to a level comparable to their 1985–2000 average. In addition, the authorities expected revenue from the sale of crown lands of about 1 percent of GDP. Current primary expenditure would decline in terms of GDP, while interest payments would increase in relation to GDP.

14. **Noting the authorities' intention to stay within the budget for FY 2002/03, the staff observed that previous years' budget execution differed markedly from the budget approved by parliament.** The staff also expressed concern that budget control mechanisms were inadequate to monitor developments as evidenced by the long delays in reconciling financing with revenue and expenditure data. In response, the authorities pointed to the budget speech where the prime minister underscored the importance of limiting expenditure to the approved budget. In this respect, the staff urged the authorities to closely monitor budget execution and refrain in particular from initiating investment projects that had not

been budgeted, and to strengthen controls on budget execution, not only in order to secure the necessary fiscal adjustment, but also to reinforce the role of the budget in allocating public resources. The authorities agreed to closely monitor budget execution. At the request of the authorities, the staff prepared a quarterly financial plan for FY 2002/03 with fiscal and monetary targets (Table 7) jointly reviewed by the ministry of finance and the CBB. Preliminary data suggest that budget execution complied with the fiscal target for the first quarter of FY 2002/03.

15. **The deficit for FY 2002/03 is expected to be financed mainly through privatization receipts of 2.7 percent of GDP and net domestic financing of 2.1 percent.** The authorities were confident that privatization receipts from the port and from the sale of crown lands (included as capital revenue) would materialize fully and did not foresee the need to curtail expenditure ex ante to provide for a shortfall. They agreed, however, that any shortfall in privatization receipts or sales of crown lands would necessitate additional measures.

16. **The authorities also indicated that they would not seek net external financing, but that they would seek to refinance high-cost and short-term external debt.** The authorities agreed with the staff that a prospective US$125 million bond financing would be used to refinance short-term external debt obligations.[10] The staff recommended that the external obligations of the DFC be included in the refinancing operation,[11] and that a sinking fund for future external bullet maturities be established. The staff prepared a detailed recommendation on the use of the bond proceeds, estimating that on this basis debt service through 2005 could be reduced by an annual average of 2.4 percent of GDP. The authorities agreed with most of the staff's recommendations, but did not commit to refinancing all external liabilities of the DFC at this stage.

17. **The rest of the NFPS is expected to record a higher surplus in FY 2002/03.** The improvement would reflect mainly the absence of the large investment expenditure by the port and the continuation of the surplus of the Social Security Board. With the privatization of the port to be completed shortly, only the airport authority remains to be privatized. The authorities are in discussion with an European airport service company to place the Belize City airport under a long-term management contract in FY 2002/03.

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[10] The bond was placed in mid-August as a 10-year international private placement bond with a coupon rate of 9.50 percent and a yield to maturity of 9.65 percent. The spread over U.S. treasuries was 625 basis points.

[11] Retiring all external debt of the DFC through a long-term loan from the government would eliminate the currency mismatch and would reduce the maturity mismatch in the DFC's balance sheet. It would also reduce the threat of new liquidity shortfalls at the DFC that would necessitate new government lending.

18. **The policy discussions also focused on tax issues.** The staff highlighted the lack of buoyancy in the tax system that was related to pervasive tax privileges and exemptions.[12] The staff provided the authorities with a list of tax policy measures that could improve collection performance, including a revision of the business tax, the elimination of exemptions on sales and business taxes, and the revision of excise duties and tax privileges. The authorities stated that they would welcome Fund technical assistance in this area, preferably after an IDB report on tax policy had been completed. The mission suggested that tax revenue measures should be designed and enacted during 2002 in order to increase tax revenue and buoyancy beginning in FY 2003/04.

B. Monetary Policy

19. **Monetary policy instruments in Belize are limited.** The staff and the authorities agreed that the domestic capital markets are too thin for an effective use of more flexible market-based instruments, such as open market operations. The only instruments that the central bank has at its disposal to conduct monetary policy, besides foreign exchange market intervention, are direct credit to the public sector and cash and liquidity requirements for banks.[13] At present, the CBB imposes nonremunerated cash requirements on demand, savings, and time deposits as a monetary policy instrument, and liquidity requirements (including the cash requirements, commercial bank holdings of T-bills, and foreign exchange deposits) as a form of prudential requirement to compensate for supervisory deficiencies.

20. **Central to monetary policy was the need to reduce excess liquidity in the banking system to dampen credit supply and reduce pressure on the foreign exchange market.** Since 1998, the CBB has provided direct credit to the central government and the DFC and also lowered the cash and liquidity requirements and expanded the range of qualifying liquid assets. The authorities agreed to tighten liquidity conditions through a combination of higher cash requirements and an increase in T-bills outstanding. During July–August 2002, the authorities increased the cash reserve requirements for all types of deposits by 2 percentage points and introduced a bill in parliament to increase the legal limit for the issuance of T-bills. These measures are expected to have eliminated excess liquidity in the system in October 2002. On this basis, the net domestic assets of the CBB would increase by 3.5 percent of GDP (BZ$56 million), based on the projected increase in credit to the central government, and a similar loss of net international reserves. However, usable reserves are projected to increase from US$17.6 million at end-2001 to US$32.6 million at end-2002.

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[12] Excluding the increase in collection due to the revenue replacement duty referred to above, tax collection in FY 2001/02 declined from 19.4 percent of GDP in FY 2000/01 to 19.0 percent in FY 2001/02.

[13] Increases in the limits of government securities require parliament approval.

21. The authorities expect that absorbing liquidity via issuance of T-bills would help to narrow the spread between deposit and lending rates, which has increased gradually in recent years to about 11 percent at end-2001, partly as a reflection of the large nonremunerated excess reserves held at the CBB. The mission recommended moving eventually towards a single reserve requirement rather than a separate cash and liquidity requirements. This could only be envisaged once the adjustment policies have become effective, banking supervision has been improved, and it is assured that the commercial banking system has adequate capacity to deal with sharp deposit fluctuations.

22. **After experiencing a severe liquidity shortage in mid-2001, the DFC halted new lending except in relation to asset sales, and embarked on an aggressive program to sell its assets or parts thereof.** The authorities indicated that this effort would be reinforced under a new DFC management in order to prevent further cash shortages at the DFC. The staff welcomed this change in policy aimed at correcting the severe imbalances that had emerged in the past, but also expressed the view that the DFC and the government should work towards eliminating the currency and maturity mismatches at the DFC, and that the DFC should be subject to standard banking sector regulations and supervision.

C. External Sector

23. **With the implementation of demand management policies, the external current account deficit is projected to narrow to about 12 percent of GDP in 2002 from 22 percent last year** as demand for imports contracts as a result of lower public sector investment activity, and exports rebound as the country recovers from hurricane damage and the shrimp-virus epidemic. Tourist receipts are expected to rise as tourist arrivals recover after Hurricane Iris and the aftermath of the September 11, 2001 attacks. With the sharp reduction in net public sector borrowing, net capital inflows are projected to fall by 10 percent of GDP. Overall, it is projected that the balance of payments would record a deficit of around US$24 million (2.5 percent of GDP), up from US$10 million in 2001 (1.4 percent of GDP). However, while official net international reserves would decline, usable reserves would increase from US$17 million at end-2001 to around US$32 million at end-2002 (24 percent of prospective 12-month debt service and 80 percent, respectively). Based on these developments, the external public and publicly guaranteed debt would remain at about 80 percent of GDP (Tables 8 and 9).

24. **The authorities consider the maintenance of the exchange rate peg a primary policy objective and expect the tightening of demand management policies to help eliminate the spread in the parallel market.** They noted that the fixed exchange regime had served the country well in the past, but recognized that the expansionary fiscal and credit policies, combined with the external shocks, had led to foreign exchange shortages and central bank rationing of foreign exchange. Furthermore, major exporters did not consider external competitiveness to be a problem. The staff noted that the establishment of foreign exchange houses had legalized an existing practice, and pointed out that the incorporation of these houses had led to an increase in transparency and trading volume in the entire parallel market. In the absence of sufficiently forceful demand management policies, this would lead

to a de facto depreciation of the exchange rate. The authorities agreed that the sustainability of the exchange rate peg depended, in the short run, on a credible tightening of policies, and, over the medium term, on maintaining sustainable and consistent fiscal and monetary policies. The staff also noted that the establishment of the *cambios* constitutes a multiple currency practice that could create incentives for fraud and inefficiencies in the allocation of foreign exchange. It further noted that the multiple currency practice and the exchange restriction created by the foreign exchange queuing system were subject to Fund approval. Such approval would only be forthcoming once the authorities had devised a timetable for the elimination of these restrictions and the multiple currency practice.

D. Structural Policies

25. After privatizing the port authority and negotiating a private sector management contract for the airport authority,[14] the authorities are also considering placing the administration of agricultural extension services and prison management under private sector management. The only statutory bodies that would remain under public ownership and management would be the Belize Marketing Board, an entity importing and marketing agricultural products subject to quantitative import restrictions, and the Border Management Authority, for which privatization or liquidation plans are not being considered at this stage. The telecommunications monopoly will end in December 2002, and competitors are already being established. The authorities expect that increased competition will reduce the cost of doing business in Belize and provide improved service. In the area of electricity generation, the authorities are studying the environmental impact of a hydroelectric power project and a project for bagasse-burning cogeneration in the sugar industry; both projects could significantly reduce imports of electricity and eliminate supply disruptions.

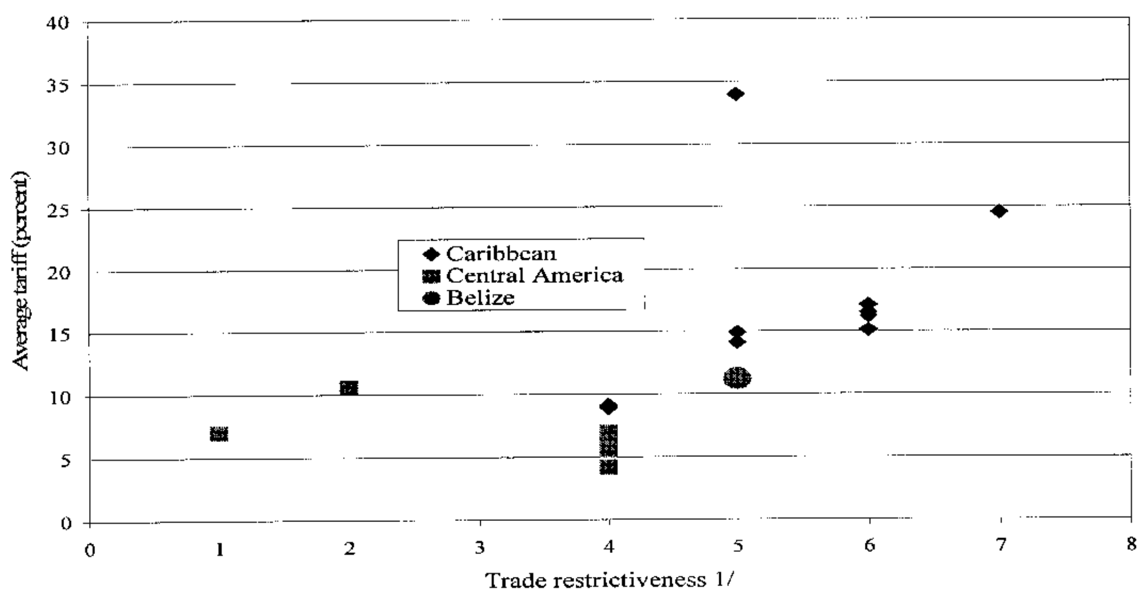
26. **Belize's trade regime has a lower average tariff and is less restrictive than that of other CARICOM countries, but it has a higher average tariff and is more restrictive than that of other Central American countries** (Figure 6).[15] The authorities implemented the last stage of the CARICOM common external tariff reduction in April 2000 by reducing the maximum rates from 25 percent to 20 percent. Nonetheless, the trade system remains fairly restrictive as the country maintains quantitative import restrictions (QRs) for 29 groups of goods, mainly agricultural products and foodstuffs. The staff pointed out that replacing the QRs with tariffs would improve resource allocation, generate additional fiscal revenue, and reduce the cost of public administration. The staff welcomed the decision taken by the authorities early this year to eliminate the ministerial discretion to grant import duty exemptions, but noted that extensive duty and tax concessions remain that distort resource

[14] The port was sold to a group of local investors for BZ$46 million (2.8 percent of GDP) during 2002. The investors agreed to assume an additional liability of BZ$20 million to cover part of the dredging operations for the port carried out during FY 2001/02.

[15] Belize has a rating of 5 in the trade restrictiveness index of the Fund.

allocation and reduce tax buoyancy. The authorities were confident that the banana industry would remain competitive after the change in the global quota and tariff regime in 2006 as agreed between the European Union and the United States. To help assure competitiveness, the European Union is supporting productivity-enhancing investments in the industry. Belize is negotiating bilateral and multilateral trade agreements with several countries, including Mexico, Central American countries, and the United States.

Figure 6. Belize: Trade Indicators in Central America and the Caribbean



Sources: Belizean authorities; and Fund database on trade restrictions.

1/ The Fund's Trade Restrictiveness Index combine the average level of tariffs and the coverage of nontariff barriers on a scale with 10 as the most restrictive and 0 the least.

27. **The authorities intend to establish a National Health Insurance system** to provide basic health care services under a self-financed insurance scheme. A pilot project has been carried out in the south of Belize City and an initial report will be prepared in the coming months. The authorities are considering the introduction of payroll contributions to finance the scheme. The staff cautioned against instituting a system that is not self-financed and urged that its financial position be closely monitored to avoid the need for budgetary support.

28. **The staff urged that the supervision of both onshore and offshore financial institutions be strengthened,** also to support the country's efforts to prevent money laundering. Nonperforming loans in the banking system accounted for around 5 percent of total loans as of end-December 2001 (Box 2). The CBB's supervisory department is severely understaffed and lacks the administrative and legal capacity, as well as the political independence to enforce existing prudential norms. In addition, credit unions, building

societies, and the DFC are not effectively regulated or supervised.[16] The staff recommended that the CBB strengthen the administrative capacity of the banking supervision department, including through technical assistance, and enhance its independence.

Box 2. Financial Vulnerability

Despite the fact that the current exchange rate peg is a primary policy objective of the authorities in Belize, prudence and the recent pressures on the balance of payments and the parallel exchange rate make it necessary to measure the possible impact of exchange rate changes on the balance sheets of financial institutions. As noted by Blaschke et al. (2001),[1] a country that has a fixed exchange rate regime should have financial institutions regularly run stress tests to estimate the potential effect of an exchange rate change on their capital base.

In the case of Belize, the net spot open foreign exchange position of commercial banks was used to measure foreign exchange exposure and to examine the sensitivity of commercial banks' capital to theoretical exchange rate shocks. The net open position of commercial banks amounted to about 21 percent of their capital as of end-December 2001. Using this data, devaluations ranging from 10 percent to 25 percent would generate foreign exchange losses ranging from about 5 to 10 percent of the commercial banks' capital base. The implications of a devaluation on the creditworthiness of commercial bank borrowers would be small as there is no domestic lending in foreign currency. Using a similar methodology, the banking supervision department could regularly determine if the exchange rate risk for each commercial bank could be considered reasonable. In the case of the DFC, which has substantive medium- and long-term foreign liabilities, a devaluation of 8 percent would eliminate its capital base.

1/ Blaschke, Winfrid J., Matthew T. Jones, Giovannie Majnoni, and Soledad Martinez Peria, 2001, "Stress Testing of Financial Systems: An Overview of Issues, Methodologies, and FSAP Experiences," IMF Working Paper 01/88 (Washington: International Monetary Fund).

29. **The offshore sector is small by international standards, consisting of 2 banks and about 15,000 registered international corporations.** The authorities are of the view that this sector could contribute significantly to economic growth and are aware that weaknesses exist in the supervision of both onshore and offshore financial entities. The authorities noted that a bill to amend the Offshore Banking Act would be introduced to parliament shortly to address some of the prudential concerns, e.g., the role of the minister, on-site inspections, and the exchange of information. In addition, Belize has recently agreed with the OECD on a phased program to improve transparency and exchange information. The Fund carried out a review of the regulatory and supervisory environment of the domestic and offshore financial sectors and the insurance industry in the context of an Offshore Financial Center module II assessment in September 2001, covering the regulatory and supervisory environment of the domestic and offshore financial sectors and the insurance industry. Belize also responded to a questionnaire on the anti-money laundering legislation and practices in 2002. In reviewing the questionnaire, LEG found that the legal framework was adequate and recommended the

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[16] A new Credit Union Act that provides for improved provisions for the supervision and management of credit unions was approved in early 2002.

establishment of a Financial Intelligence Unit, which became operational in July 2002 (Box 3).

Box 3. Anti-Money Laundering

The Legal Department of the Fund reviewed the authorities response to a questionnaire on the regulations and practices regarding anti-money laundering and combating the financing of terrorism (AML/CFT) in Belize in March 2002. The AML/CFT provisions criminalize money laundering, provide for customer due diligence, and authorize confiscation of the proceeds of money laundering. In 2002, Belize amended the Money Laundering Prevention Act of 2000 to improve provisions to combat terrorism, freeze assets, and facilitate international cooperation in investigation and prosecution.

The responsibility for ensuring compliance with AML/CFT regulations lies with the CBB, while other agencies also have some responsibilities (these include the International Financial Services Commission and the Anti-Money Laundering Unit in the Police Force). In order to improve the regulatory compliance, assist in the investigation and prosecution of money laundering offenses, and facilitate the cooperation with other countries, Belize established a Financial Intelligence Unit in July 2002.

E. Statistical Issues

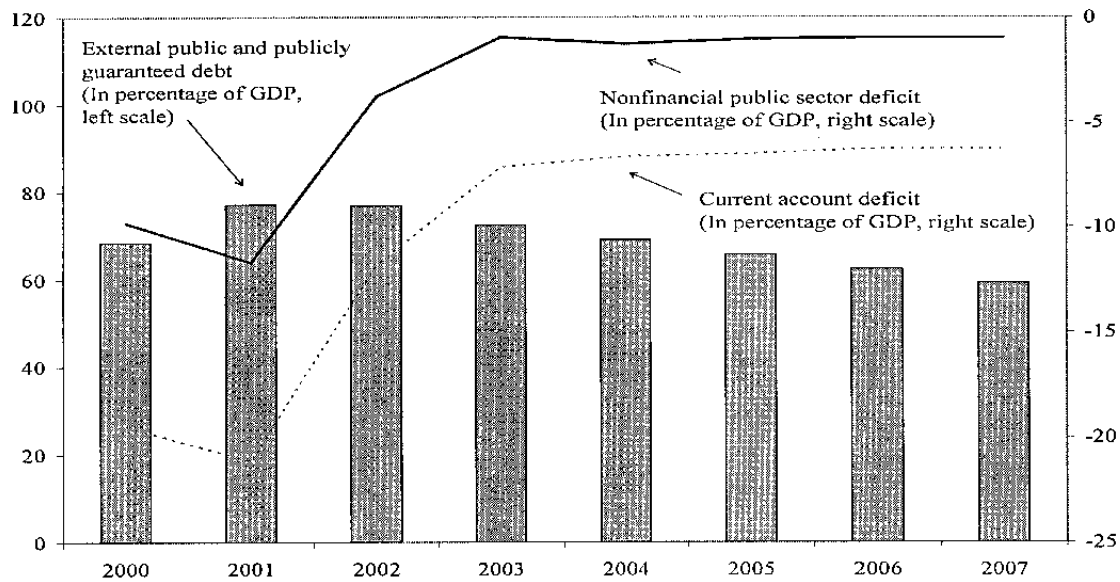
30. **Belize's statistical information is not adequate to monitor economic developments on a timely basis in a number of areas.** Belize reports economic data with long delays and with a quality and frequency that render some economic statistics inadequate for surveillance purposes (Appendix V). The national income accounts are based on a 1984 survey and are only available on a calendar-year basis, while the consumer price index is prepared only quarterly and is based on an outdated consumption survey. Data on the operations of the public sector outside the central government and a financial survey that includes the DFC and credit unions are sometimes unavailable or only reported with long delays. The data on central government investment include outlays that should be classified as current expenditure. The authorities attribute these difficulties to the low number and high turnover of qualified staff in the public sector and the lack of funds to improve and expand surveys. They expressed their appreciation for the technical assistance that the Fund has provided and welcome further assistance to help improve the quality of their economic statistics.

F. Medium-Term Outlook

31. The staff prepared a medium-term scenario based on projected annual growth rates of real GDP of around 4½ percent beginning 2003 and a return to a sustainable fiscal and external situation under the assumption that the current exchange rate peg is maintained (Table 10). Assuming a recovery from exogenous shocks and a containment of domestic demand during 2002 and 2003 as envisaged by the authorities, the economy resumes a long-term sustainable growth path. It is assumed that the NFPS deficit would be reduced from the current 10 percent of GDP to around 1 percent beginning in FY 2003/04 through the adjustment measures already taken and revenue measures to be implemented in FY 2002/03. In addition to the measures already implemented, it is assumed that tax revenues are raised by 3 percent of GDP based on the elimination of the extensive tax holidays, the consolidation

of the business and sales taxes, an increase in excise taxes, and a broadening of the base of the income tax. Under this scenario, public and publicly guaranteed external debt would decline from 80 percent of GDP at end-2001 to around 60 percent at end-2007 (Figure 7), while net international reserves would gradually increase to 3 months of imports. Conditioned on demand policy implementation, the external current account deficit would decline to around 6 percent of GDP in 2003 from 22 percent in 2001, with the savings-investment gap of the private sector accounting for most of the deficit. The tighter domestic demand management policies and the recovery of exports would eliminate the spread between the official and parallel market exchange rates and help eliminate the queuing system for foreign exchange in the official market.

Figure 7. Belize: Medium-Term Outlook



Source: Belizean authorities; and Fund staff projections.

32. The main risk to the medium-term scenario derives from a weak corrective policy adjustment, in particular if the authorities do not reduce the fiscal imbalance to a sustainable position within the projected timeframe. Indeed, continuation of past policies (10-year average) would lead to a gradual but unsustainable increase in debt ratios (see Table 10), while the debt dynamics would deteriorate sharply if the economy was subjected to shocks. Specifically, debt would increase beyond 100 percent of GDP in 2004 if the noninterest current account deficit were to deteriorate sharply in 2003 and 2004 (10-year average minus 2 standard deviations), or if the currency was devalued by more than 20 percent.

IV. Staff Appraisal

33. **Economic growth decelerated in 2001 as a result of natural disasters, other exogenous shocks, and a fall in confidence as the fiscal and external current account deficits continued to widen threatening the emergence of a balance of payments crisis.**

Usable reserves remained at critically low levels, while external public and publicly-guaranteed debt continued to increase and debt service payments strained the public finances, the DFC, and the reserves of the central bank. At the same time, the accommodative monetary policy led to a large excess liquidity in the system and the imposition of foreign exchange restrictions and a multiple currency practice, thus undermining the sustainability of the current exchange rate peg.

34. The authorities recognized that macroeconomic policies were unsustainable and that the economy was headed towards severe balance of payments difficulties. In an effort to avoid the disruptive social and economic costs of a crisis and pressure on the exchange rate, the authorities adopted strong corrective policies. The staff commends the authorities for these policies, particularly in the run-up to municipal and parliamentary elections.

35. **The staff welcomes the authorities' FY 2002/03 budget, which seeks to reduce the central government deficit to 5 percent of GDP.** This target is consistent with a financeable path towards medium-term fiscal sustainability. It also supports the authorities' decision to disallow new extrabudgetary projects, and to monitor budget execution closely with the help of quarterly targets. In this context, the staff welcomes the efforts undertaken during the first fiscal quarter, which show a marked decline in the monthly central government deficits from the previous year. However, the staff is concerned that political pressures and ineffective monitoring may undermine the authorities' efforts to contain expenditure, and recommends that they design and introduce measures that would boost tax collection and the buoyancy of the tax system.

36. **After rapidly increasing its loan portfolio in recent years, the state-owned DFC has accumulated substantial foreign debt, and built up significant nonperforming assets and a maturity and currency mismatch in its balance sheet**. Its operations also have contributed to the liquidity overhang and served to reduce bank intermediation. The staff welcomes the decisions to sharply curtail its operations and reorganize its management. The authorities should carry out a thorough reorganization of the DFC, bar it from further external borrowing, and subject it to banking supervision and to the prudential regulations applicable to commercial banks.

37. **The staff considers it critical to reduce the excess liquidity in the system in order to help achieve an orderly reduction in the excess demand for foreign exchange**. In this regard, the staff welcomes the recent policy measures to mop up the excess liquidity through an increase in the commercial banks' cash requirements and the issuance of additional treasury securities.

38. **The central bank needs to strengthen its capacity to oversee commercial banks.** For this purpose, the staff urges the authorities to strengthen the independence of the supervisory authority and seek additional technical assistance.

39. **The level of public and publicly guaranteed external debt and its maturity profile pose a serious threat to the viability of the balance of payments**. The staff

welcomes the authorities' decision to refrain from any further net external financing of the budget, and strongly urges them to refrain from using new external financing for purposes other than debt refinancing that falls due over the next few years, retiring high-cost debt, or building a sinking fund for future maturities. In this context, the staff recommends that all the external obligations of the DFC be included in the government's refinancing plans, which would also help remove the DFC's currency and maturity mismatch from its balance sheet.

40. **Belize maintains tariffs that are on average lower than those of other Caribbean countries,** albeit above those of other Central American countries. In this context, the staff welcomes the removal of the ministerial discretion to grant import duty exemptions, but notes that Belize still maintains extensive tax and duty exemptions that contribute to a misallocation of resources. Belize maintains 29 groups of goods under protectionist quantitative nontariff barriers, mainly foodstuffs produced in the country. The staff recommends that these import restrictions be converted into tariffs to improve resources allocation, increase revenue, and reduce administrative costs.

41. **The partial legalization of the parallel exchange market makes the implementation of demand policy measures all the more urgent.** A transparent, efficient, and legal parallel market could rapidly erode trading at the official exchange rate and lead to a de facto depreciation of the currency. The maintenance of the ad hoc rationing of foreign exchange by the central bank constitutes an exchange restriction and the introduction of a limited flexible exchange rate regime under the *cambios* system constitutes a multiple currency practice. Both are subject to Fund approval under Article VIII. As the authorities have no firm plans or timetable for their removal, approval is not recommended.

42. Belize statistical data is poor and does not provide timely and accurate information to monitor macroeconomic developments for surveillance purposes. The authorities' efforts to improve the coverage, timeliness, and accuracy of economic statistics are welcome and the Fund staff is prepared to provide technical assistance.

43. The next Article IV consultation is expected to be held on the standard 12-month cycle.

Table 1. Belize: Selected Economic Indicators, 1999-2003

	1999	2000	2001	Proj. 2002	Proj. 2003
(Annual percentage changes)					
National income and prices					
GDP at constant prices	3.8	11.1	5.1	3.7	4.5
Consumer prices (end-of-period)	-1.0	0.7	1.2	1.5	1.5
External sector (U.S. dollars)					
Exports 1/	8.1	10.1	-6.1	8.5	11.6
Imports 1/	3.4	26.1	-0.2	-7.9	3.6
Terms of trade (deterioration -)	-10.8	-3.9	-1.4	1.2	...
Nominal effective exchange rate	3.2	5.5	1.8	...	...
Real effective exchange rate	-0.3	3.5	1.2	...	...
(Annual changes in percent of liabilities to the private sector at beginning of period)					
Money and credit					
Net domestic assets	4.9	20.9	25.9	-12.7	2.5
Credit to the private sector 2/	7.4	22.1	16.2	9.4	6.6
Money and quasi-money (M2)	10.4	12.2	7.9	2.4	4.1
(In percent of GDP)					
Nonfinancial public sector 3/					
Central government overall balance	-10.2	-9.8	-11.7	-5.0	-2.3
Overall balance	-8.8	-10.0	-11.9	-3.8	-0.9
Privatization	4.2	3.4	0.4	2.7	0.0
NFPS borrowing requirement	4.6	6.6	11.5	1.1	0.9
Foreign financing	4.5	13.1	5.6	0.0	0.6
Domestic financing 4/	-1.8	-6.7	5.8	1.1	0.4
Savings and investment					
Gross domestic investment	32.3	34.2	34.6	32.7	30.7
Gross national savings	21.9	14.1	12.8	20.5	23.2
External current account 5/	-10.3	-20.1	-21.8	-12.2	-7.5
External debt					
Public and publicly guaranteed external debt 6/	51.5	70.6	79.5	80.0	76.6
Public external debt 6/	40.4	53.6	58.9	56.8	56.4
Debt service 7/	4.9	6.6	8.2	12.6	8.6
In percent of exports of goods and services	8.2	11.5	14.6	20.9	13.8
In percent of government current revenue	21.9	31.2	36.9	54.2	38.5
(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	27.3	51.7	-10.5	-24.0	20.0
Gross official reserves 6/	64.2	114.7	103.9	79.9	99.9
Usable reserves 6/	15.7	12.3	17.4	32.6	72.6
In percent of projected 12-month external public debt services	47.7	33.7	23.7	79.6	165.3
In months of imports	0.4	0.2	0.4	0.7	1.5

Sources: Belize authorities; and Fund staff estimates and projections.

1/ Change in balance of payments methodology starting in 1999. Growth rate in 1999 excludes reexports.
2/ Comprises credit by commercial banks and the Development Finance Corporation.
3/ Fiscal year starts on April 1.
4/ Includes sale of mortgages.
5/ Including official grants.
6/ End-of-period.
7/ Public external debt.

Table 2. Belize: Consolidated Operations of the Nonfinancial Public Sector, 1999/2000-2003/04

(In percent of GDP)

			Prel.	Proj.	
	1999/2000	2000/01	2001/02	2002/03	2003/04
Total revenue and grants	**27.4**	**26.8**	**28.1**	**29.0**	**29.9**
Revenue	**25.7**	**25.0**	**26.8**	**27.9**	**28.8**
Current revenue	25.2	24.2	26.1	26.4	28.0
General government	24.2	23.8	25.8	26.2	27.8
Central government	21.9	21.5	22.5	22.9	24.6
Social Security Board	2.4	2.3	3.3	3.3	3.2
NFPE's current surplus	0.9	0.4	0.4	0.2	0.2
Capital revenue	0.5	0.8	0.6	1.5	0.8
Grants	**1.7**	**1.8**	**1.3**	**1.2**	**1.1**
Total expenditure 1/	**36.2**	**36.8**	**39.1**	**32.8**	**30.9**
Current expenditure	**22.2**	**20.2**	**22.0**	**21.8**	**21.8**
General government	22.2	20.2	22.0	21.8	21.8
Central government	20.5	18.9	20.0	20.1	20.2
Social Security Board	1.6	1.3	2.0	1.7	1.6
Capital expenditure	**14.0**	**16.6**	**17.1**	**11.1**	**9.0**
General government	13.0	14.8	15.6	10.8	8.9
Central government	12.7	14.7	15.2	10.5	8.6
Social Security Board	0.2	0.1	0.4	0.3	0.2
Public enterprises	1.0	1.8	1.5	0.3	0.2
Unidentified expenditure	1.0	0.3	0.9	0.0	0.0
Overall balance	**-8.8**	**-10.0**	**-11.9**	**-3.8**	**-0.9**
Privatization	4.2	3.4	0.4	2.7	0.0
Borrowing requirement	**4.6**	**6.6**	**11.5**	**1.1**	**0.9**
External	**4.5**	**13.1**	**5.6**	**0.0**	**0.6**
Domestic	**-1.8**	**-6.7**	**5.8**	**1.1**	**0.4**
Banking system	-1.6	-4.3	6.5	0.7	0.2
Central bank	-3.8	-5.2	6.9	0.5	0.1
Commercial banks	2.2	0.9	-0.3	0.3	0.1
Development Finance Corporation	-0.1	-0.1	-0.1	-0.1	-0.1
Private sector bonds	-0.1	-0.1	0.0	0.0	0.0
Other	0.1	-2.2	-0.6	0.5	0.3
Exceptional financing 2/	**1.9**	**0.2**	**0.0**	**0.0**	**0.0**
Memorandum item:					
Savings	4.7	5.8	5.5	5.8	7.3
Central government	3.0	4.4	3.9	4.0	5.5
Social Security Board	0.7	1.0	1.3	1.6	1.5
Nonfinancial public enterprises	0.9	0.4	0.4	0.2	0.2

Sources: Ministry of Finance; CBB; and Fund staff estimates and projections.

1/ Includes unidentified expenditure.
2/ Sale of mortgages.

Table 3. Belize: Operations of the Central Government, 1999/2000-2003/04

(In percent of GDP)

	1999/2000	2000/01	Prel. 2001/02	Proj. 2002/03	2003/04
Revenue and grants	**24.1**	**24.1**	**24.5**	**25.6**	**26.5**
Revenue	**22.4**	**22.3**	**23.1**	**24.4**	**25.4**
Current revenue	21.9	21.5	22.5	22.9	24.6
Tax revenue	18.7	19.4	20.3	20.9	22.4
Nontax revenue	3.2	2.1	2.2	2.0	2.2
Capital revenue	0.5	0.8	0.6	1.5	0.8
Grants	**1.7**	**1.8**	**1.3**	**1.2**	**1.1**
Expenditure	**33.3**	**33.6**	**35.2**	**30.6**	**28.8**
Current expenditure	20.5	18.9	20.0	20.1	20.2
Wages and salaries	10.5	9.7	10.0	9.9	10.0
Pensions	1.5	1.2	1.4	1.4	1.4
Goods and services	4.4	3.9	3.8	3.7	3.9
Interest payments	2.1	2.6	3.2	3.6	3.4
Domestic	0.8	0.8	0.7	0.8	0.8
Foreign	1.3	1.8	2.4	2.7	2.6
Transfers	2.0	1.5	1.6	1.6	1.5
Capital expenditure and net lending	12.7	14.7	15.2	10.5	8.6
Capital expenditure	12.7	14.7	14.6	10.2	8.6
Capital II expenditure	5.5	3.4	3.8	3.7	3.5
Environmental expenditure	0.0	0.0	0.3	0.3	0.2
Capital III expenditure	7.2	8.0	5.8	5.5	4.9
Hurricane reconstruction	0.0	3.3	2.4	0.6	0.0
Off-budget capital expenditure 1/	0.0	0.0	2.3	0.3	0.0
Net lending	0.0	0.0	0.6	0.2	0.0
Unidentified expenditure	1.0	0.3	0.9	0.0	0.0
Overall balance	**-10.2**	**-9.8**	**-11.7**	**-5.0**	**-2.3**
Privatization	4.2	3.4	0.4	2.7	0.0
Central government borrowing requirement	**6.0**	**6.4**	**11.2**	**2.3**	**2.3**
Domestic	-0.3	-6.6	6.7	2.1	1.4
Banking system	-0.2	-6.5	6.9	2.0	1.5
Central bank	-2.2	-6.5	6.9	0.5	0.1
Commercial banks	2.0	0.0	0.0	1.5	1.4
Nonbank	-0.1	-0.1	-0.2	0.1	-0.1
SSB	0.0	0.0	0.0	0.0	0.0
DFC	-0.1	-0.1	0.0	-0.1	-0.1
Other	0.0	0.0	-0.2	0.2	0.0
External 2/	4.4	12.8	4.6	0.2	0.9
Exceptional financing 3/	1.9	0.2	0.0	0.0	0.0
Memorandum items:					
Primary balance	-8.1	-7.2	-8.5	-1.4	1.1
Overall balance	-10.2	-6.5	-9.3	-4.4	-2.3

Sources: Ministry of Finance; CBB; and Fund staff estimates and projections.

1/ Includes central government financing for the dredging of the access channel to the port, and other projects.

2/ Includes other changes in deposits abroad.

3/ Sale of mortgages.

Table 4. Belize: Development Finance Corporation

(In millions of Belize dollars)

	1997	1998	1999	2000	Est. 2001
Balance sheet					
Assets	**70.5**	**80.3**	**144.0**	**378.3**	**568.8**
Loan principal	60.0	66.0	96.2	205.1	313.4
Nonperforming loans 1/	7.4	10.2	15.4	36.4	67.4
Unassigned performing loans	52.6	55.8	45.1	84.9	166.8
Assigned performing loans 2/	0.0	0.0	35.7	83.8	79.2
Assets held for resale 3/	0.0	0.0	3.5	85.7	140.1
Investments	1.6	1.6	1.6	1.6	1.6
Sinking fund for debt repayment	0.0	0.0	23.7	64.0	70.9
Cash and deposits	3.2	1.6	11.4	10.2	20.6
Other assets	5.6	11.1	7.6	11.7	22.2
Liabilities	**70.5**	**80.3**	**144.0**	**378.3**	**568.8**
Current liabilities	5.5	9.5	5.8	23.1	73.1
Deferred income	0.4	0.3	32.3	77.7	69.8
Long-term loans	47.3	50.9	60.9	183.6	324.0
Sinking fund for debt repayment	0.0	0.0	23.7	64.0	70.9
Other liabilities	0.0	0.6	0.1	-0.3	-1.1
Capital, reserves, undistributed profits	17.3	18.9	21.2	30.2	32.1
Profit and loss statement					
Net interest income	3.4	4.0	3.6	2.9	3.7
Interest income	6.0	6.9	6.9	10.0	18.9
Interest paid	2.5	2.9	3.3	7.1	15.2
Fee and other income	1.2	1.4	2.4	5.2	5.4
Operating expenses	4.2	4.3	5.6	5.8	7.2
Financial operations expenses	0.4	0.2	0.7	0.0	0.0
Overhead	3.8	4.2	4.9	5.8	7.2
Operating profit cash basis	**0.5**	**1.1**	**0.3**	**2.3**	**1.9**
Accounting income 4/	0.2	-0.2	0.8	-0.3	0.1
Operating result (net earnings)	**0.7**	**1.0**	**1.1**	**2.0**	**2.0**
Memorandum items:					
Nonperfoming loan ratio 1/5/	12.3	15.5	16.0	17.7	21.5
Interest income/loan portfolio	10.0	10.4	7.1	4.9	6.0

Source: DFC financial statements.

1/ Nonperforming loans might be overstated as the DFC assigns the last payment by a debtor to the last payment due and not to the oldest overdue payment.

2/ Part of loan portfolio against which DFC borrowed under receivables securitization.

3/ Includes construction-related lending.

4/ Comprises mainly accrued income from receivables securitization.

5/ Nonperfoming loans in percent of total loans.

Table 5. Belize: Operations of the Banking System, 1999-2003

				Proj.	
	1999	2000	2001	2002	2003
(In millions of Belize dollars)					
I. Central Bank					
International reserves (net)	126.4	227.7	205.5	157.4	197.4
Net domestic assets	-22.7	-112.5	-80.2	-24.6	-51.3
Credit to the public sector (net)	46.3	-14.7	61.3	19.4	28.3
Central government	58.3	-13.0	62.9	37.0	69.5
Rest of the public sector	-12.1	-1.8	-1.6	-17.6	-41.2
Net position of commercial banks	-38.8	-81.8	-83.0	-50.0	-53.7
Development Finance Corporation	-9.2	80.6	35.9	81.3	81.3
Medium and long-term external liabilities	-0.6	-84.0	-93.5	-50.5	-50.5
Capital and other assets (net)	-20.3	-12.6	-0.9	-24.6	-56.7
Currency issue	103.8	115.2	125.3	132.8	146.1
II. Consolidated Banking System and DFC					
Net foreign assets	119.5	235.9	186.9	110.8	128.8
Net domestic credit	762.9	938.3	1,187.8	1,052.3	1,080.2
Public sector (net)	96.6	49.7	103.7	-58.4	-62.7
Central government (net)	140.5	63.8	118.3	-10.6	31.6
Social Security Board	-17.1	-8.3	-12.8	-27.8	-34.4
Rest of public sector	-26.8	-5.7	-1.8	-20.0	-59.9
Credit to private sector	740.8	926.2	1,081.7	1,181.6	1,255.5
Medium and long-term external liabilities	42.8	212.5	309.9	50.5	50.5
Official capital and other assets (net)	-39.9	2.0	53.5	-30.0	-37.4
Liabilities to the private sector	839.6	961.7	1,064.9	1,112.6	1,158.5
Money and quasi-money (M2)	726.8	829.2	905.0	930.6	976.6
Foreign currency deposits	22.7	18.7	26.3	32.5	32.5
Capital and reserves	90.1	113.8	133.6	149.4	149.4
(Annual changes in percent of liabilities to the private sector at beginning of period)					
Net international reserves	9.4	13.9	-5.1	-7.1	1.6
Net domestic assets	4.9	20.9	25.9	-12.7	2.5
Credit to the public sector	0.0	-5.6	5.6	-15.2	-0.4
Credit to the private sector	7.4	22.1	16.2	9.4	6.6
Money and quasi-money (M2)	10.4	12.2	7.9	2.4	4.1
(Annual percentage change)					
Credit to private sector	8.0	25.0	16.8	9.2	6.3
Liabilities to private sector	13.6	14.5	10.7	4.5	4.1
Money and quasi-money	11.9	14.1	9.1	2.8	4.9
(In percent of GDP, unless specified otherwise)					
Domestic credit	55.4	60.7	73.8	62.8	61.5
Credit to the public sector	7.0	3.2	6.4	-3.5	-3.6
Of which					
Central government	10.2	4.1	7.3	-0.6	1.8
Credit to the private sector	53.8	59.9	67.2	70.5	71.4
Velocity (M2)	2.0	2.0	1.9	1.8	1.8

Sources: Central Bank of Belize; Fund staff estimates and projections.

Table 6. Belize: Balance of Payments, 1999-2003

			Prel.	Proj. 1/	
	1999	2000	2001	2002	2003
(In millions of U.S. dollars)					
Current account balance	**-71.1**	**-155.4**	**-175.2**	**-102.4**	**-65.5**
Trade balance	-101.3	-170.1	-186.7	-126.9	-107.8
Exports, f.o.b.	264.8	291.5	273.8	297.1	331.4
Reexports 2/	86.3	112.7	114.9	121.9	129.3
Other exports	178.5	178.9	158.8	175.2	202.1
Imports, fob	-366.1	-461.6	-460.5	-424.0	-439.2
Reexports 2/	-50.3	-73.0	-73.2	-103.0	-109.3
Domestic imports	-316.8	-388.6	-387.4	-321.0	-329.9
Services	32.8	17.3	38.4	55.4	64.4
Of which					
Transportation	-35.1	-44.0	-42.5	-36.5	-37.9
Travel	69.4	77.3	81.4	91.1	98.4
Income	-43.6	-63.0	-76.4	-80.9	-81.1
Public sector interest payments	-16.6	-27.8	-42.5	-49.6	-47.0
Interest on public debt	-14.4	-18.4	-29.7	-31.5	-42.6
Interest on securitization	-2.2	-9.5	-12.8	-18.1	-4.4
Public sector interest receipts	3.2	7.5	9.7	9.7	7.7
Private sector	-30.1	-42.6	-43.5	-41.0	-41.9
Transfers	41.0	60.3	49.5	50.0	59.0
Capital and financial account balance	**111.7**	**230.5**	**156.6**	**78.4**	**85.5**
Public sector	82.6	210.9	119.3	42.4	37.5
Disbursements	45.6	204.7	108.9	203.0	91.2
Amortization	-19.4	-33.0	-36.6	-73.5	-41.0
Privatization proceeds	22.3	0.0	24.8	23.0	0.0
Securitization and other	34.1	39.2	22.2	-110.0	-12.7
Private sector	29.1	19.6	37.4	36.0	48.0
FDI and portfolio investment	32.4	23.3	23.4	12.0	25.0
Other private	11.9	7.0	0.6	10.0	12.0
Commercial banks	-15.2	-10.7	13.4	14.0	11.0
Errors and omissions	**-13.3**	**-23.4**	**8.1**	**0.0**	**0.0**
Overall balance	**27.3**	**51.7**	**-10.5**	**-24.0**	**20.0**
(In percent of GDP)					
Current account balance	**-10.3**	**-20.1**	**-21.8**	**-12.3**	**-7.6**
Trade balance	-14.7	-22.0	-23.2	-15.2	-12.4
Capital and financial account balance	**16.2**	**29.8**	**19.5**	**9.4**	**9.9**
Public sector	12.0	27.3	14.8	5.1	4.3
Private sector	4.2	2.5	4.6	4.3	5.5
Overall balance	**4.0**	**6.7**	**-1.3**	**-2.9**	**2.3**
Public and publicly guaranteed external debt (end-of-period)	**51.5**	**70.6**	**79.5**	**80.0**	**76.6**

Sources: CBB; and Fund staff estimates and projections.

1/ Based on the authorities' budget and normative Fund staff projections. Includes assumptions about debt refinancing at the end of 2002.

2/ Includes trade in the Corozal Free Zone.

Table 7. Belize: Quarterly Fiscal and Monetary Projections, FY 2002/03

(in units as indicated)

	Actual	Jun. 02		Proj.		
	Mar. 02	Proj.	Prel.	Sep. 02	Dec. 02	Mar. 03
Central government deficit quarterly						
In millions of Belize dollars	...	18.5	16.6	25.6	28.0	13.8
In percent of GDP	...	1.1	1.0	1.5	1.7	0.8
Central government deficit cumulative						
In millions of Belize dollars	...	18.5	16.6	44.1	72.1	86.0
In percent of GDP	...	1.1	1.0	2.6	4.3	5.0
CBB NDA						
In millions of Belize dollars	-40.7	-69.1	-62.1	-48.4	-24.6	-39.1
CBB NIR						
In millions of Belize dollars	163.7	187.0	194.0	167.2	157.2	169.4

Source: Belize authorities.

Table 8. Belize: Public and Publicly Guaranteed External Debt

	1999	2000	Prel. 2001	Proj. 1/ 2002	2003
(In millions of U.S. dollars)					
Debt outstanding (end-of-period)	**354.3**	**546.0**	**639.7**	**667.4**	**665.2**
Public sector debt	277.8	414.6	473.8	474.0	489.2
Central government	192.9	305.2	337.4	352.6	378.2
Rest of the public sector	46.1	17.2	19.8	18.8	15.7
Financial public sector	38.8	92.2	116.6	102.6	95.3
Publicly guaranteed debt	76.5	131.4	165.9	193.4	176.0
Securitization (DFC)	45.4	102.0	124.1	152.2	136.0
Privatized public enterprises	31.1	29.4	41.8	41.3	39.9
Transactions during the period 2/					
Debt disbursements	45.6	204.7	108.9	78.0	56.2
Debt service	33.8	51.4	66.3	105.0	74.6
Amortization	19.4	33.0	36.6	73.5	41.0
Interest	14.4	18.4	29.7	31.5	33.6
Securitization disbursements	56.8	23.0	42.0	0.0	0.0
Securitization service	2.2	9.7	12.7	32.1	33.2
Amortization	0.0	0.2	0.8	14.0	16.2
Interest	2.2	9.5	11.8	18.1	17.1
(In percent of GDP)					
External debt	**51.5**	**70.6**	**79.5**	**80.0**	**76.6**
Nonfinancial public sector	34.7	41.7	44.4	44.5	45.4
Financial public sector	5.6	11.9	14.5	12.3	11.0
Publicly guaranteed debt	11.1	17.0	20.6	23.2	20.3
Securitization (DFC)	6.6	13.2	15.4	18.2	15.7
Privatized public enterprises	4.5	3.8	5.2	4.9	4.6
Debt service 2/	**4.9**	**6.6**	**8.2**	**12.6**	**8.6**
Amortization	2.8	4.3	4.5	8.8	4.7
Interest	2.1	2.4	3.7	3.8	3.9
Securitization service 2/	**0.3**	**1.3**	**1.6**	**3.8**	**3.8**
Amortization	0.0	0.0	0.1	1.7	1.9
Interest	0.3	1.2	1.5	2.2	2.0
(In percent of export of goods and nonfactor services)					
Debt service 2/	**8.2**	**11.5**	**14.6**	**20.9**	**13.8**
Amortization	4.7	7.4	8.1	14.6	7.6
Interest	3.5	4.1	6.5	6.3	6.2
Securitization service 2/	**0.5**	**2.2**	**2.8**	**6.4**	**6.1**
Amortization	0.0	0.0	0.2	2.8	3.0
Interest	0.5	2.1	2.6	3.6	3.2
Memorandum items: 3/					
Sinking funds (in millions of US dollars)	8.0	28.7	48.7	48.7	48.7
Sinking funds (in percent of GDP)	1.2	3.7	6.0	5.8	5.6

Sources: Central Bank of Belize; and Fund staff estimates and projections.

1/ Does not include debt refinancing in 2002.

2/ Excludes service on publicly guaranteed debt.

3/ Deposits held abroad as collateral of securitization operations (end-of-period).

Table 9. Belize: Indicators of External Vulnerability

	1999	2000	Prel. 2001	Proj. 1/ 2002	2003
Exchange rate indicators					
Real effective exchange rate (+ appreciation, end-of-period)	-0.2	3.4	1.0	...	...
Exchange rate (per U.S. dollar, period average)	2.0	2.0	2.0	2.0	2.0
Trade indicators					
Exports (percent change, 12-month basis in U.S. dollars)	10.5	10.1	-6.1	8.5	11.6
Imports (percent change, 12-month basis in U.S. dollars)	14.5	26.1	-0.2	-7.9	0.8
Terms of trade (percent change, 12-month basis)	-10.8	-3.9	-1.4	1.2	...
Debt indicators					
Total external public debt in percent of GDP	51.5	70.6	79.5	80.0	76.6
Public debt	40.4	53.6	58.9	56.8	56.4
Publicly guaranteed debt	11.1	17.0	20.6	23.2	20.3
Total external public debt in percent of exports 2/	85.8	122.0	141.1	132.6	122.7
Public debt	67.3	92.7	104.5	94.2	90.3
Publicly guaranteed debt	18.5	29.4	36.6	38.4	32.5
Public debt service in percent of GDP 3/	4.9	6.6	8.2	12.6	8.6
Amortization	2.8	4.3	4.5	8.8	4.7
Interest	2.1	2.4	3.7	3.8	3.9
Public debt service in percent of exports	8.2	11.5	14.6	20.9	13.8
Amortization	4.7	7.4	8.1	14.6	7.6
Interest	3.5	4.1	6.5	6.3	6.2
Public debt service in percent of current government revenue 3/	21.9	31.2	36.9	54.2	38.5
Amortization	12.5	20.0	20.4	37.9	18.9
Interest	9.3	11.1	16.5	16.2	19.6
International reserves indicators					
Gross official reserves (US$ million)	64.2	114.7	103.9	79.9	99.9
In months of imports	1.6	2.3	2.1	1.7	2.1
In percent of amortizations due in the following year	194.6	313.2	141.2	194.7	227.3
In percent of base money	90.1	116.4	99.7	65.1	74.2
In percent of base money and public sector securities	58.2	81.0	70.2	48.0	56.0
Available gross official reserves (US$ million) 4/	15.7	12.3	17.4	32.6	72.6
In months of imports	0.4	0.2	0.4	0.7	1.5
In percent of amortizations due in the following year	47.7	33.7	23.7	79.6	165.3
In percent of base money	22.1	12.5	16.7	26.6	54.0
In percent of base money and public sector securities	14.3	8.7	11.8	19.6	40.7
Balance of payments					
Current account balance	-10.3	-20.1	-21.8	-12.3	-7.6
Capital and financial account balance	16.2	29.8	19.5	9.4	9.9
Public sector	12.0	27.3	14.8	5.1	4.3
Private sector	4.2	2.5	4.6	4.3	5.5

Sources: Central Bank of Belize; Ministry of Finance; and Fund staff estimates and projections.

1/ Does not include debt refinancing in 2002.
2/ Exports of goods and nonfactor services.
3/ Excludes debt service on publicly guaranteed debt.
4/ Net of CBB collateral deposits in creditor banks.

Table 10. Belize: Medium-Term Projections

		Projections					
	2001	2002	2003	2004	2005	2006	2007
I. Output and Prices							
(Annual percentage changes)							
GDP at constant prices	5.1	3.7	4.5	4.4	4.5	4.4	4.4
Consumer prices	1.2	1.5	1.5	1.5	1.5	1.5	1.5
(In percent of GDP)							
II. Savings and Investment							
Gross domestic investment	34.6	32.7	30.7	29.7	29.7	29.7	29.7
Private sector 1/	18.7	20.6	21.0	20.4	20.4	20.4	20.4
Public sector	15.9	12.1	9.7	9.4	9.4	9.4	9.4
Gross national saving	12.8	20.5	23.2	22.8	22.9	23.2	23.2
Private saving	6.5	13.4	15.2	15.2	15.2	15.2	15.2
Public saving	6.3	7.1	8.1	7.6	7.8	8.0	8.0
External current account balance	-21.8	-12.2	-7.5	-6.9	-6.8	-6.5	-6.5
Private sector	-12.2	-7.2	-5.9	-5.2	-5.2	-5.2	-5.2
Public sector	-9.6	-5.0	-1.6	-1.7	-1.6	-1.3	-1.3
III. Central Government and Nonfinancial Public Sector 2/							
Revenue and grants	28.1	29.0	29.9	31.0	31.0	31.0	31.0
Expenditure	39.1	32.8	30.9	32.2	32.0	31.9	31.9
Current expenditure	22.0	21.8	21.8	23.2	23.0	22.9	22.9
Capital expenditure	17.1	11.1	9.0	9.0	9.0	9.0	9.0
NFPS overall balance	-11.9	-3.8	-0.9	-1.3	-1.0	-1.0	-1.0
NFPS borrowing requirement	11.5	1.1	0.9	1.3	1.0	1.0	1.0
External	5.6	0.0	0.6	0.7	0.4	0.4	0.4
Domestic 3/	5.8	1.1	0.4	0.6	0.6	0.6	0.6
Central goverment overall balance	-11.7	-5.0	-2.3	-2.8	-2.6	-2.6	-2.6
IV. Balance of Payments							
External current account balance	-21.8	-12.2	-7.5	-6.9	-6.8	-6.5	-6.5
Capital and financial account balance	19.5	9.4	9.7	8.9	9.2	8.4	8.0
Overall balance	-1.3	-2.9	2.3	2.0	2.3	1.9	1.4
V. Public and Publicly Guaranteed External Debt							
Public sector external debt	79.5	80.0	76.6	72.2	68.7	65.2	61.5
VI. Sensitivity Analysis for External Debt-to-GDP Ratio							
1. If interest rate, real GDP growth rate, US$ GDP deflator growth, noninterest current account, and nondebt flows (in percent of GDP) in 2003-07 are at average of past 10 years.		80.0	82.6	84.6	86.2	87.9	89.0
2. If interest rate in 2003 and 2004 is average plus two standard deviations, others at baseline.		80.0	79.3	76.6	72.4	68.4	64.3
3. If real GDP growth rate in 2003 and 2004 is average minus two standard deviations, others at baseline.		80.0	82.6	84.9	80.6	76.5	72.3
4. If US$ GDP deflator in 2003 is average minus two standard deviations, others at baseline.		80.0	82.2	78.6	74.4	70.5	66.3
5. If noninterest current account (in percent of GDP) in 2003 and 2004 is average minus two standard deviations, others at baseline.		80.0	93.9	106.5	101.9	97.6	93.0
6. Combination of 2-5 using one standard deviation shocks.		80.0	92.6	104.3	99.7	95.4	90.8
7. One time 30 percent depreciation in 2003, others at baseline.		80.0	115.0	111.0	106.3	101.9	97.3

Source: Fund staff estimates and projections.

1/ Includes changes in inventories.
2/ Fiscal year beginning April 1.
3/ Includes sale of mortgages.

BELIZE: FUND RELATIONS
(As of August 16, 2002)

I. Membership Status

(a)	Date of membership:	March 16, 1982
(b)	Status:	Article VIII (6/14/83)

A. Financial Relations

II. General Department

(a)	Quota:	SDR 18.8 million
(b)	Total Fund holdings of Belize dollars:	SDR 14.56 million or 77.5 percent of quota
(c)	Reserve tranche position:	SDR 4.24 million or 22.5 percent of quota

III. Stand-By Arrangements and Special Facilities

Stand-By Arrangement:

(i)	Duration:	December 3, 1984 to May 31, 1986
(ii)	Amount:	SDR 7.13 million
(iii)	Utilization:	SDR 7.13 million

IV. SDR Department

(a)	Net cumulative allocation:	None
(b)	Holdings:	SDR 1.37 million

V. Financial Obligations to the Fund

Based on existing use of resources and present holding of SDRs: None

B. Nonfinancial Relations

VI. Exchange System

Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Since the second quarter of 1995, the central bank has been resorting to the rationing of its sales of foreign exchange to commercial banks on an ad hoc basis, except for some essential import items, which has given rise to restrictions on the making of payments and transfers for current international transactions. These restrictions were not approved by the Executive Board. The central bank has allowed the establishment of foreign exchange houses that are allowed to buy and sell foreign exchange at rates other than the official rate. This constitutes a multiple currency practice.

VII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 9, 2001 (EBM/01/70; the relevant documents were SM/01/181 and SM/01/182). Belize is on the standard 12-month consultation cycle.

VIII. Technical Assistance

- During November 1994–June 1995, an FAD panel expert visited Belize on four occasions to assist the authorities with the implementation of the VAT.
- In December 1995, another mission from FAD visited Belize to provide technical assistance to strengthen tax administration.
- Mr. Krysl (MAE consultant) visited Belize in February 1998 to advise the authorities on banking supervision.
- Mr. Albrecht (MAE consultant) visited Belize during March 19–30, 2001 to start a series of visits aimed at improving onshore and offshore banking supervision.
- Mr. Fontaine (STA) visited Belize in April 2001 to advise the authorities on balance of payments statistical issues.
- Mr. Nun (MAE consultant) visited Belize in July 2001 to conduct a review and assessment of the Development Finance Corporation.
- Mr. Grant (MAE consultant) visited Belize in September 2001 to conduct an OFC assessment.
- Mr. Murad (CARTAC) visited Belize in January 2002 to advise the Central Statistical Office on improving National Income Accounting.
- Messrs. Bradshaw and dos Santos (CARTAC) visited Belize in January 2002 to assess the country's needs in terms of technical assistance to be provided by CARTAC.

Belize: Relations with the World Bank Group

(As of August 1, 2002)

I. Projects

A five-year Country Assistance Strategy (CAS) was completed for Belize in August 2000 (Report No. 20708-BEL), which identified only modest project assistance. The Bank currently has two active projects in Belize, both loans with total net commitments of approximately US$21 million. It is also preparing a *Community-Managed Sarastoon-Temash Conservation Project*, expected to become effective in September 2002, for US$0.8 million to be financed with grant funds from the Global Environmental Facility.

The two loans finance: a *Social Investment Fund* (SIF) which supports poverty reduction in Belize by increasing access for poorer communities to small-scale basic social and economic infrastructure through small, targeted subprojects; and a *Roads and Municipal Drainage Project* designed to rehabilitate or construct drainage infrastructure in six municipalities to reduce flooding caused by hurricanes, provide institutional strengthening of services to relevant ministries, and support the formation of a Transport and Road Safety Strategy. The Bank approved a US$1.4 million supplemental loan for SIF in March 2001, in response to the extensive damage caused by Hurricane Keith in some of Belize's poorest communities.

II. Financial Relations

IBRD/IDA/IFC Operations

(In millions of U.S. dollars)

IBRD loans	**Disbursed**	**Undisbursed**
Roads and Municipal Drainage	8.2	4.8
Social Investment Fund	6.4	2.0
Other instruments		
Community-Managed Sarastoon-Temash Conservation (GEF)	0.0	0.8
Memorandum item:		
Total approved loans (including five closed loans)	74.4	6.8
Of which		
Repaid to the Bank	27.9	
Unpaid	46.5	
IFC investments		
Nova-Ambergris	4.8	0.0
BAL	10.0	0.0
Nova-Bluewater	6.0	0.0

BELIZE: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of August 15, 2002)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Southern Highway	16.0	2.7
Land Administration II	7.0	5.9
Modernization of Agricultural Health Services	3.6	2.3
Hurricane Reconstruction and Emergency Preparedness	21.3	15.3
Tourism Development Project	11.0	5.7
Health Sector Reform Project	9.8	7.8
Hurricane Keith Emergency Reconstruction Facility	20.0	1.4
Total	**88.7**	**41.1**

II. Loan Transactions

	1997	1998	1999	2000	2001	2002(*)
Net flows	**0.3**	**0.4**	**3.5**	**10.3**	**16.3**	**13.6**
Gross disbursements	0.4	0.7	3.9	11.1	18.3	15.6
Amortization	0.0	0.0	0.0	0.0	0.0	0.0
Interest and charges	0.1	0.3	0.4	0.8	2.0	2.0

III. Economic and Sector Work

The country strategy paper on Belize was approved by the IDB Board in October 1999 and updated in May 2002. The three-year strategy covers the agriculture, agribusiness, tourism, environment, regulatory framework (enabling environment), and social sectors, and is expected to increase significantly the Bank's exposure in Belize.

In the last four years, the IDB Board approved seven large projects. In January 1998 it approved the Southern Highway Project, in July 1999 it approved the Modernization of Agricultural Services Project, in October 1999 it approved the Hurricane Reconstruction and Emergency Preparedness Projects, in June 2000 the Tourism Development Project, in October 2000 the Health Sector Reform Project, in November 2000 the Hurricane Keith Emergency Reconstruction Project, and in June 2001 the Land Administration II.

(*) Projected.

BELIZE: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK
(As of June 30, 2002)

I. Current Portfolio
(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Second Water and Sewerage Project	13.8	3.1
Fifth Line of Credit	7.3	1.6
Disaster Management	8.5	7.6
Enhancement of Technical and Vocational Education	13.1	13.1
Health Sector Reform Program	5.6	5.6
Orange Walk Bypass	9.5	9.5
Airport Improvements	7.6	0.5
Southern Highway Rehabilitation	1.8	1.2
Fourth Line of Credit	6.5	0.5
Fifth Line of Credit—Special Mortgage Program	2.5	0.4
Rural Development	3.4	3.1
Immediate Response—Iris	0.5	0.5
Regional Tourism Emergency Program	0.2	0.2
Total	**80.3**	**46.8**

II. Loan Transactions

	1997	1998	1999	2000	2001	June 2002
Net flows	**6.6**	**9.0**	**3.0**	**3.4**	**1.4**	**(-1.6)**
Gross disbursements	10.4	13.6	9.5	9.0	8.9	2.1
Amortization	2.0	2.1	3.6	2.3	3.4	1.8
Interest and charges	1.8	2.5	2.9	3.3	4.1	1.9

III. Economic and Sector Work

The Caribbean Development Bank Country Strategy Paper on Belize was presented to the Board in May 2000. The Strategy covers the period 2000–02 and proposes an allocation of US$39.5 million to projects in tourism development, bridge construction and rehabilitation, Development Finance Corporation line of credit, human resource development, and health sector reform. It also includes approximately US$0.4 million for technical assistance.
In 2001, two new projects were approved:

(i) Immediate Response Loan;
(ii) Tourism Promotion Emergency Program

There are no loan approvals for 2002.

Belize: Statistical Issues

1. Outstanding statistical issues

In general, the quality, coverage, and timeliness of Belize's statistical information do not permit an adequate monitoring of economic developments. There are shortcomings in national accounts, prices, external trade and debt, government finance, and labor statistics. The authorities have indicated that they would be interested in receiving technical assistance in all these areas. The Central Bank of Belize publishes a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest.

2. External debt

There are discrepancies between the data reported by the central bank and those reported by the ministry of finance, particularly with respect to gross external disbursements of the central government. In addition, the data reported by the central bank and the ministry of finance on the external debt of the public enterprises are incomplete and inconsistent with the information provided by the public enterprises. The authorities are seeking to reduce the discrepancies and inconsistencies by fostering greater cooperation among the agencies involved.

3. Balance of payments

The compilation of Belize's balance of payments is based on the fifth edition of the *Balance of Payments Manual* and date on this basis is published from 1999 onwards. The authorities are refining the process for collecting relevant data that will enable the presentation of quarterly balance of payments statistics. As for the coverage, currentness and reporting of data for publication in the *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*, Belize has reported annual data on balance of payments statistics albeit with some lags.

4. Real sector

National accounts are produced only annually. The quality of estimates at constant prices is doubtful. The base year for the compilation of national accounts (1984) is obsolete. The CPI market basket is based on a household expenditure survey conducted from June 1990 through March 1991 and needs to be updated, as does the reference base which currently is November 1990. Also, the CPI is calculated only four times a year (February, May, August, and November), with a lag of about three months. Labor market statistics are scant and available at irregular intervals.

5. Fiscal accounts

Classification of expenditure into current and capital does not conform to international standards. Belize has not been reporting government finance (GF) statistical information since 1997 to STA for its inclusion in the GFS Yearbook and IFS publications. To report GF data to STA is highly recommended.

6. Development Finance Corporation

The accounts of the DFC, which is a major instrument of the government's economic policy, are not integrated into monetary or fiscal accounts and are not regularly published.

Belize: Core Statistical Indicators
(As of August 27, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance 1/	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed	4/24/02	6/30/02	6/30/02	6/30/02	5/31/02	6/02	12/01	2001	12/01	2001	2001
Date Received	n.a.	5/23/02	8/5/02	8/5/02	8/5/02	8/5/02	8/20/02	3/01/02	2/02	2/28/02	3/04/02	3/01/02
Frequency of Data	n.a.	D	W	W	W	M	Q	M	A	M	A	A
Frequency of Reporting	n.a.	D	W	W	W	M	Q	M	A	M	A	A
Source of Data 1/	n.a.	CB	CB	CB	CB	CB	CSO	CB	CB	MoF	CSO	CB
Mode of Reporting	n.a.	E-mail	E-mail	E-mail	E-mail	C	C	C	C	C	C	C
Confidentiality 2/	n.a.	D	D	D	D	D	D	D	D	D	D	D
Frequency of Publication	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1/ CB = Central Bank; MoF = Ministry of Finance; CSO = Central Statistical Office.
2/ D = Embargoed for a specific period and are thereafter for unrestricted use.

Statement by the IMF Staff Representative
November 1, 2002

This statement provides information that has become available to the staff since the circulation of the staff report. This information does not alter the thrust of the staff appraisal.

1. **Fiscal deficit:** According to preliminary data, the overall fiscal deficit for the first 6 months of the fiscal year (April–September 2002) amounted to BZ$54 million or 3.4 percent of GDP. This would exceed the target set out in Table 7 of the staff report by about 0.8 percent of annual GDP.

2. **Privatization:** The privatization of the port, scheduled to be completed by end-August, has been postponed to end-November, as the group of local investors are still in the process of securing external financing for the second and final payment.

3. **External debt:** Using the proceeds of the recent bond placement, the authorities retired about US$100 million in external debt, of which US$55 million were external liabilities of the Development Finance Corporation (about half of its external liabilities). The remainder of the bond proceeds was placed in a term deposit abroad to finance a sinking fund to retire a US$25 million bond maturing in 2005. As a result of the debt refinancing operation, which also freed central bank foreign deposits held as collateral against some of the loans, usable reserves increased from US$17 million at end-2001 to US$52 million at end-October.

4. **Monetary policy:** The excess liquidity in the banking system was virtually eliminated in early October, falling to 0.7 percent of total deposits from 6.5 percent a year ago.

5. **Monetary targets:** Net domestic assets of the central bank amounted to -BZ$77.7 million at end-September compared to the target of -BZ$48.4 million set out in Table 7 of the staff report. Net international reserves exceeded the target by about BZ$26.7 million.

6. **Exchange rate:** According to the central bank, the parallel market exchange rate has appreciated in recent months, resulting in a narrowing of the spread between the official and the parallel market rates from around 10 percent to around 6 percent. The central bank attributes this to the tighter demand polices and a recovery in export activity and foreign direct investment.

INTERNATIONAL MONETARY FUND
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Public Information Notice (PIN) No. 02/131
FOR IMMEDIATE RELEASE
November 14, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Belize

On November 1, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Background

The current government came to office at the end of 1998 on a program to accelerate economic growth through tax cuts, government investment, expansionary monetary policy, and the provision of subsidized credit to the private sector through the state-owned Development Finance Corporation (DFC). While pursuing these policies, the authorities remain committed to maintaining the present exchange rate peg, which they consider a primary policy objective.

Growth accelerated to 11 percent in 2000 but declined to 5 percent in 2001 as a result of several hurricanes, terrorist attacks in the United States, and a shrimp-virus epidemic. Confidence was also affected by financing difficulties at the DFC and the continued widening of the central government deficit from 10 percent of GDP to 12 percent in FY 2001/02 (fiscal year ends March). The deficits were financed mainly through privatization receipts and external borrowing, mostly on commercial terms, while the DFC financed its lending operations through external commercial borrowing. As a result, public and publicly guaranteed external debt increased to 80 percent of GDP at end-2001, or 59 percent excluding publicly guaranteed debt. However, debt accumulation has slowed considerably since mid-2001, as the government

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the November 1, 2002 Executive Board discussion based on the staff report.

financed its operations through a drawdown of deposits at the central bank and the DFC substantially reduced its new lending after suffering severe liquidity shortages. The continued expansionary fiscal stance and the expansionary monetary policy increased the liquidity overhang in the economy and created pressures in the foreign exchange market. With the rapid increase in imports resulting from public investment demand and a fall in exports due to various exogenous shocks, the current account deficit increased to 20 percent of GDP during 2001, leading to a fall in reserves and increasing the risk of severe balance of payments difficulties.

To reduce such a risk, contain the rapid increase in external debt obligations, and safeguard the exchange rate regime, the authorities have decided to implement corrective fiscal and monetary measures. They will reduce the government deficit to 5 percent of GDP during FY 2002/03, while the central bank tightened monetary policy in recent months. In addition, the authorities have placed an international bond to refinance short-term and high-cost external debt, further reducing pressure on the balance of payments, while refraining from any new net external financing of the budget. The government also intends to reorganize the DFC in light of its deteriorating loan portfolio and subject it to banking sector supervision.

Executive Board Assessment

Directors noted that economic growth in Belize fell sharply in 2001, due largely to exogenous shocks, while inflationary pressures remained moderate. Directors expressed concern at the deterioration in the fiscal and the external current account positions in 2001, which added to the external debt, created pressure on usable reserves and the exchange rate, and prompted the authorities to impose ad hoc exchange restrictions and introduce a multiple currency practice. An accommodative monetary policy led to large excess liquidity in the banking system. Against this background, Directors welcomed the policy shift announced by the authorities in April 2002, which seeks to sharply reduce the budget deficit in fiscal year 2002/03 and tighten monetary policy to forestall the emergence of serious balance of payments problems. Looking ahead, Directors urged the authorities to adhere to the sound macroeconomic policy stance they have chosen, and to push ahead with structural reforms.

Directors considered that the budget stance adopted for FY 2002/03 is consistent with medium-term fiscal sustainability. They expressed disappointment, however, that the deficit for the second quarter of the fiscal year exceeded the target. Directors urged the authorities to give high priority to monitoring budget implementation closely and to resist political pressures to spend more, thereby correcting the historical tendency toward slippages in implementation. In particular, the authorities should be rigorous in adhering to their commitment to disallow new extra-budgetary projects. Directors cautioned against instituting a national health insurance scheme that is not self-financing. In addition, the authorities should give priority to mobilizing tax revenue by taking further steps to boost tax collection, reduce exemptions, and strengthen the buoyancy of the tax system. Budget execution should be monitored closely on a quarterly basis.

Directors supported the authorities' decision to curtail sharply the operations of the DFC and to reorganize its management. They urged the authorities to carry out a thorough reorganization of the DFC, bar it from further external borrowing, and subject it to the supervision and prudential regulations applied to commercial banks.

Directors commended the authorities for their decisive action to mop up the excess liquidity in the banking system through an increase in the commercial banks' cash requirements and the placement of additional treasury securities, and urged them to be vigilant in maintaining a tight rein on monetary policy. They welcomed the harmonization of the commercial bank cash requirements and the action taken and proposed by the authorities to strengthen onshore and offshore banking supervision. They recommended further action to these ends and to increase the independence of the central bank. They suggested that technical assistance from the Fund and other donors for this purpose would be helpful. Directors also welcomed the recent measures taken to combat money laundering and the financing of terrorism, including the strengthening of the legal and regulatory framework and the establishment of a Financial Intelligence Unit.

In view of Belize's high and potentially problematic level of external public and publicly-guaranteed debt, Directors welcomed the authorities' decision to refrain from any further net external financing of the budget and strongly recommended that they abstain from using new external financing for purposes other than debt refinancing. In this context, they supported the recent placement of a bond for the purpose of retiring high-cost debt and refinancing short-term debt, noting that this has increased the usable reserves of the central bank and will reduce external interest payments.

Regarding trade policy, Directors welcomed the removal of the ministerial discretion to grant import duty exemptions, but noted that Belize still maintains extensive tax and duty exemptions, and 29 groups of goods under protectionist quantitative nontariff barriers. Directors recommended that these import restrictions be converted into tariffs to improve resource allocation, increase revenue, and reduce administrative costs.

Directors considered that the fixed exchange rate system has served Belize well, while helping to keep inflation low. They welcomed the steps taken by the authorities to begin integrating the parallel and official foreign exchange markets, but stressed that this makes the implementation of sound policies all the more urgent. In this context, Directors urged the authorities to persevere in the implementation of adjustment measures to avoid a widening of the gap between the parallel market rate and the official rate, which could render the peg unsustainable. Directors also recommended eliminating the restrictions imposed on the recently established foreign exchange trading houses in order to increase the efficiency and transparency of the market.

Directors expressed concern about the quality of Belize’s statistical information, especially in the areas of national accounts and government finance statistics. They encouraged the authorities to seek technical assistance to improve the statistical database.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Belize: Selected Economic Indicators

	1998	1999	2000	2001	Proj. 2002
(Annual percentage changes)					
National income and prices					
GDP at constant prices	3.3	3.8	11.1	5.1	3.7
Consumer prices (end of period)	-0.9	-1.0	0.7	1.2	1.5
Real effective exchange rate	0.8	-0.3	3.5	1.2	...
(Annual changes in percent of liabilities to the private sector at beginning of period)					
Money and credit					
Credit to the private sector 1/	10.7	7.4	22.1	16.2	9.4
Money and quasi-money (M2)	8.3	10.4	12.2	7.9	2.4
(In percent of GDP)					
Central government 2/					
Primary balance	-2.4	-10.2	-9.8	-11.7	-5.0
Overall balance	-4.5	-8.8	-10.0	-11.9	-3.8
Central government borrowing requirement	4.5	4.6	6.6	11.5	1.1
External sector					
External current account 3/	-6.2	-10.3	-20.1	-21.8	-12.2
Public and publicly guaranteed external debt 4/	38.6	51.5	70.6	79.5	80.0
Debt service 5/	4.9	4.9	2.2	2.5	2.3
In percent of exports of goods and services	9.6	8.2	11.5	14.6	20.9
In percent of government current revenue	18.9	21.9	31.2	36.9	54.2

Sources: Belize authorities; and IMF staff estimates and projections.

1/ Comprises credit by commercial banks and the Development Finance Corporation.
2/ Fiscal year starts on April 1.
3/ Including official grants.
4/ End of period.
5/ Public external debt.

Statement by Nioclas O'Murchú, Executive Director for Belize
November 1, 2002

My Belizean authorities would like to thank Mr. Fritz-Krockow and his colleagues, both for their candid and balanced report on Belize and for their helpful and constructive policy advice, much of which is already being acted upon.

Background: The government's growth strategy was knocked off-track by a combination of factors, including a succession of natural disasters (mainly weather-related) in 2000 and 2001 which are estimated to have cost the economy about $500 million or over 60 percent of one year's GDP. On entering 2002, the pace of growth had slackened to about 3½ percent compared with 11 and 5 percent in 2000 and 2001, respectively. Moreover, in terms of percentage of GDP, the overall deficit of the central government had reached almost 12 percent, the current balance of payments deficit was close to 22 percent, and government and government-guaranteed external debt amounted to 80 percent. However, on the positive side, inflation remained very low at an annual rate of 1¼ percent, the hurricane reconstruction effort was nearly complete, the tourism sector was recovering, the banana industry was coming back into production, and the farmed shrimp industry was overcoming its problem with a shrimp virus epidemic.

Fiscal Policy: Realising that the fiscal and external imbalances were unsustainable, the authorities have taken action to correct them, in a way which supports the positive trends emerging in the real economy. The budget for FY2002/03 provided for a reduction of more than half (to 5 percent of GDP) in the overall government deficit. Current expenditure is being strictly curtailed, discretionary exemptions from import duties have been virtually eliminated, and tax administration and collection is being strengthened. On the capital side, expenditure is to be brought down to its average level of 1985-2000, and the Development Finance Corporation is being restructured and its inventory of real estate assets sold. Over-arching these measures are firm government commitments to implement the budget with little or no supplementary or extra-budgetary expenditure, to monitor its implementation closely and carefully, and to take further corrective measures should the achievement of the fiscal target require it.

This year's budget is the first step in a determined medium-term strategy designed to consolidate the public finances, to restore balance in the economy, and to promote sustainable economic and social development. A critical part of this strategy will be a thorough review of the tax system with a view to ensuring buoyancy commensurate with the growth in the economy. For this, the authorities await the results of a study which the IDB is currently conducting. In the transition to a more sustainable fiscal balance, deficits will be financed largely from domestic and concessionary borrowing, while in FY2002/03 the proceeds of privatisation will also contribute. Helping this transition will be the use, on the advice of staff, of the proceeds of a recent bond issue exclusively to refinance expensive short-term external debt obligations, which will reduce debt service by some 2½ percent of GDP a year over the next several years.

<u>Monetary and Financial Issues:</u> Monetary policy has accommodated the expansionary thrust of fiscal policy with the result that a sizeable liquidity overhang accumulated. This, in turn, has led to mounting pressures in the foreign exchange markets. Given their resolute commitment to the official peg to the US$ (see below), the authorities recently acted on staff advice to mop up this liquidity. Specifically, they increased the Treasury Bill limit from BZ$70 million to BZ$100 million, and raised and unified the cash reserve requirement for all types of deposits. As a result, the excess liquidity in the system was virtually eliminated in early October.

In order to remedy supervisory weaknesses, the Financial Sector Supervision Department of the Central Bank is currently being strengthened through the addition of five young professionals and two managers. The Bank is also seeking technical assistance from the IDB and CARTAC for further strengthening bank supervision. In addition, the authorities recently amended the Offshore Banking Act by incorporating several of the recommendations of a recent assessment by the Fund of the regulatory and supervisory standards in the financial sector. Moreover, several amendments are being proposed for the Banks and Financial Institutions Act which would address outstanding issues as they relate to the Basel Core Principles, as well as to recommendations made by the aforementioned Fund assessment.

These measures will also complement the steps outlined in the staff report which Belize has recently taken to strengthen its legal and regulatory provisions against money laundering and the financing of terrorism. In this context, it is to be noted that the Fund's Legal Department has found that the legal framework in Belize for AML/CFT is adequate. Furthermore, a Financial Intelligence Unit to improve regulatory compliance and cooperation with other jurisdictions has also been set up.

On staff advice, the authorities have applied a portion of the proceeds of the recent bond issue to restructure about 30 percent of the external liabilities of the DFC, which has reduced significantly the currency and maturity mismatches of the DFC's short-term debt portfolio. The authorities are also actively considering the question of subjecting the DFC to standard banking sector regulation and supervision.

<u>Exchange Rate</u>: It is the strong view of the authorities that, for Belize as a small, open economy, the maintenance of a fixed exchange-rate peg is essential to sustaining the confidence of economic agents, and to maintaining economic stability, especially through the assurance of continuing low inflation. Moreover, against a background of a high propensity to import, a high level of external debt and no perception of a lack of competitiveness, a devaluation of the currency would serve only to undermine confidence and exacerbate present imbalances in the economy. The existence of a parallel exchange market in Belize is a symptom of these imbalances but the authorities are confident – and in this they are fortified by the views of staff and experience elsewhere – that their policy of fiscal and monetary consolidation will ensure the free availability of foreign exchange at the official rate for current transactions.

Structural Policy: The government has vigorously implemented a policy of privatisation, with the result that, by end-2002, only one economically-significant body, the Belize Marketing Board, will remain in state ownership. The focus of the government's structural policy is now to enhance further the already favourable environment for private sector involvement in all sectors of the economy. Particular emphasis is being placed on investment in human and physical capital, which is critical to economic and social development in the long-term. In addition, it is the government's hope that, on the basis of a recent proposal brokered by the OAS, the long-running border difficulty with Guatemala will be resolved, thereby removing a big impediment to private sector development, particularly foreign direct investment.