INTERNATIONAL MONETARY FUND

IMF Country Report No.11/340

BELIZE

2011 ARTICLE IV CONSULTATION

December 2011

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 2011 Article IV consultation with Belize, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on August 26, 2011, 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 5, 2011. 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.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN)

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

October 5, 2011

KEY ISSUES

Context. The economy is projected to expand modestly in 2011, with inflation up somewhat from low levels, due mostly to higher fuel and food prices. Consistent with a continued improvement in the terms of trade, the external current account deficit would remain at around 3 percent of GDP, with the reserve cover at about 3 months of imports by year-end. Liquidity in the banking sector is ample, but nonperforming loans remain at a high level. At the same time, potential growth has fallen, with weaker business and social indicators. Within the relatively weak policy framework, these factors have heightened Belize's vulnerability to shocks.

Fiscal Consolidation. The current fiscal strategy is insufficient to place the public debt ratio firmly on a downward trajectory, and to address the large financing needs that are projected to emerge over the medium term. Fiscal policy should thus be strengthened to rebuild macroeconomic buffers in the context of rising rollover risks and emerging contingencies.

Safeguarding financial sector and monetary stability. Credit risks remain elevated, warranting continued and close monitoring by the central bank. The authorities are using the recommendations of the recent FSAP mission to guide financial sector reforms.

Boosting growth and reducing poverty. Boosting growth will require removing key infrastructure bottlenecks and improving the environment for doing business. While the authorities have strengthened their anti-poverty policies, greater efforts are needed in monitoring and evaluating existing programs relative to their targets and cost efficiencies.

Approved By
Gilbert Terrier and Jan Kees Martjin

Discussions took place in Belize City and Belmopan during August 14-26. Staff representatives comprised G. Peraza (Head), G.P. Nicholls, M. Mansilla (all WHD), and R. Rennhack (MCM). Mr. Sajkunovic (OED) joined the closing meetings.

CONTENTS

RECENT DEVELOPMENTS

1. **Belize has weathered the financial crisis relatively well, when compared with Caribbean Community peers (Figure 1).** Output expanded by 2.7 percent in 2010—owing largely to activity in the electricity, wholesale, and retail trade. Twelve-month inflation was nil in 2010, reflecting primarily continued weakness in domestic demand, and picked up slightly in recent months (0.9 percent y-o-y for the quarter ending in February), driven by higher food and fuel prices. Growth in 2011 is projected at 2.5 percent, supported by expansion in the wholesale and retail trade sectors and in manufacturing.

2. **Belize's external position has strengthened, due in part to a recovery in trading partners' demand and continued improvement in the terms of trade (Figure 2).** The external current account deficit narrowed from 6.1 percent of GDP in 2009 to 3.1 percent in 2010, reflecting the combination of subdued imports and higher exports of petroleum, citrus, and banana. As a result, gross international reserves strengthened to 3¼ months of imports at end-2010, or 300 percent of 2011 external financing needs.

3. **Fiscal consolidation remains a challenge.** The overall deficit widened somewhat in FY 2010/11, to 1.5 percent of GDP. This outcome was, however, better than envisaged in the budget due to exogenous factors, including higher oil revenue (text table and Figure 3). The widening in the overall deficit reflected both weak grant disbursements and higher expenditures. This widening took place despite an increase in the consumption tax (GST) rate from 10 percent to 12½ percent and the strong performance of oil-related revenues. Public debt continues to hover at around 80 percent of GDP.

Belize. Central Government Operations
(In percent of GDP)

	FY 2010/11	
	Budget	Outturn
Total revenues & grants	26.4	27.4
Current Revenue	25.5	27.0
o/w non-tax revenue	2.6	3.8
Capital Revenues	0.2	0.2
Grants	0.7	0.2
Expenditure	28.5	28.9
Wages and salaries	9.5	9.8
Interest payments	3.9	3.4
Other current expenditure	10.1	10.8
Capital Exp. and net lending	5.0	4.5
Primary balance	1.8	1.9
Non-oil, non-grants primary Bal.	-0.6	-0.8
Overall Balance	-2.1	-1.5
Memoradum items:		
Oil revenues	1.6	2.4

Source: Ministry of Finance.

4. **The banking system remains vulnerable (Figure 4).** Liquidity in the banking sector is ample, but nonperforming loans (NPLs) are high. The latest data point to a slight decrease in NPLs, to the equivalent of 19.8 percent of total loans at end-June 2011, from 21.3 percent at end-March 2011—still above the end-December 2010 level. Capital adequacy, which appears high, is overstated for the system as a whole, as provisioning only

covers 28 percent of NPLs and collateral valuation practices do not reflect best international standards.[1] So far, the authorities have made little progress in improving the bank prudential and resolution framework, as the legal process to enact new regulations has advanced slowly.

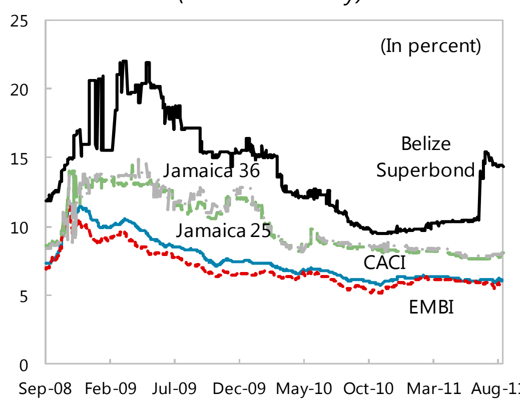
Belize. Financial Soundness Indicators
(Domestic banks; in percent)

	2009	2010	Mar-11	Jun-11
Capital/risk-weighted assets 1/	20.7	22.4	21.8	23.5
Excess liquidity 2/	23.5	35.7	42.3	46.1
NPLs/total loans	12.2	18.4	21.3	19.8
Provisions/NPLs	19.5	18.2	23.9	27.7
NPLs net of provisions/capital	46.5	69.2	79.2	68.9
Net earnings/assets 3/	1.7	0.7	-3.9	-1.3

Sources: Central Bank of Belize; and Fund staff estimates.
1/ The required capital adequacy ratio is 9 percent.
2/ In percent of statutory liquidity requirement.
3/ Net profit after taxes over average assets (annualized).

5. **Despite a cut in cash reserve requirements, bank credit growth has slowed, as fewer investment opportunities and high NPLs continue to constrain new lending.** During 2010, the Central Bank (CBB) replaced most of its standing overdraft facility with the government with market-based instruments (T-bills and notes). To this end, the CBB lowered the non-remunerated cash reserve requirement of banks to 8½ percent from 10 percent of average deposit liabilities, and introduced a Treasury bill holding requirement of 6½ percent (Figure 5).[2] At the same time, the mandatory minimum rate on saving deposits was lowered by 100 basis points, to 3.5 percent in November 2010. Lending rates to the private sector remain relatively high, but they have started to come down, particularly in the mortgage sector.

Belize. Selected Sovereign Bonds
(Yield to Maturity)



Source: Bloomberg.

6. **Nationalizations have affected an already weak investment climate.** Recently, the government re-nationalized the telecommunications company Belize Telemedia (BTL) and nationalized the cash strapped electricity distribution company Belize Electricity Limited (BEL), amidst the threat of possible rolling blackouts. The takeover of BEL triggered a downward revision by S&P of Belize's sovereign credit rating and a sharp drop (25 percent) in the price of the sovereign *Superbond*, which now trades at a 35 percent discount.[3] The government has also

[1] In the largest domestic bank, which accounts for over one fourth of total assets of the banking system, NPLs are equivalent to 25 percent of total loans.

[2] The security requirement was lowered from 6½ percent to 5 percent in January 2011, to 3 percent in April 2011, and eliminated in October 2011.

[3] The *Superbond*, which represents for half of the outstanding public debt, has a 12-year grace period and a 10-year semi-annual repayment period starting in August 2019.

recently proposed to enshrine state majority ownership of three public utilities (water, electricity distribution, and telephone) in the Constitution.[4]

7. **Social indicators have weakened in spite of significant spending in social protection.** A poverty assessment conducted by the authorities revealed that the overall poverty rate rose from 34 percent in 2002 to 41 percent in 2009. Unemployment has also remained high (13 percent in September 2009). The high poverty rate persists despite the significant amount of resources allocated to social protection (about 5.7 percent of GDP in 2009). This spending has not translated into results, as evidenced by the large number of poor families that remain vulnerable in Belize.[5]

OUTLOOK

8. **The macroeconomic outlook for 2011 remains moderately positive.** Output growth is projected at 2.5 percent, reflecting a strong performance in the first quarter. An expansion in manufacturing (sugar, citrus) and electricity, together with a modest recovery in stayover tourist arrivals, would help offset in part a softening in external demand during the second half of this year. Higher food and fuel prices are expected to push inflation slightly above 4 percent by year-end. The external current account deficit is projected to remain at about 3 percent of GDP, due in part to some improvements in the terms of trade and in the balance of factor services. The reserve coverage would also remain at around 3 months of imports by year-end.

9. **Medium-term prospects are, however, uncertain, with risks tilted to the downside.** Staff projects output growth to be subdued (at 2½ percent per annum), constrained by a weakened investment climate and a high public debt burden. External gross financing needs would remain high over the medium term because of a still precarious fiscal position, debt rollover needs, and a weakening in the current account—partly due to the expected gradual contraction in oil output. Fiscal risks are being amplified by the accumulation of contingent liabilities associated with the nationalization of BTL and BEL. If these were to materialize, they could limit even further access to affordable financing. Other downside risks include those linked to a jobless U.S. recovery, a decline in commodity prices, a sluggish recovery in tourist arrivals, uncertainty in the sugar industry, and delays in implementing the public sector investment program. Upside risks are related to possible new oil discoveries and a fuller development of the tourism and agricultural sectors.

[4] At present, all three utilities are government-owned. This proposed constitutional amendment is now subject to a cooling off period, during which public consultations are being held.

[5] World Bank, Country Partnership Strategy (FY 2012–FY 2015) for Belize, July 29, 2010.

POLICY DISCUSSIONS

10. **Despite its gradual economic recovery, Belize continues to face significant challenges, compounded by a tepid global economic outlook.** Fiscal consolidation remains delayed, and very limited progress has been made in reducing credit risks in the banking system. While the level of foreign reserves has improved in recent years, Belize faces low potential growth prospects and high public debt service obligations, and it remains vulnerable to downside risks—including in the financial sector. Against this backdrop, there is a need for an enhanced policy framework that advances fiscal consolidation and reduces vulnerabilities in the financial sector, while strengthening the business environment for boosting potential growth and reducing poverty. Furthermore, this enhanced policy framework needs to be accompanied by a strengthening of technical capacity and coordination among the various ministries, and between the Ministry of Finance and the Central Bank.

A. Fiscal Consolidation

11. **The authorities have adopted a medium-term primary surplus target of 2 percent of GDP, starting in FY 2011/12.** This objective, which is broadly in line with the 2009-11 outturn, would keep the public debt and gross financing needs high over the medium term. For FY 2011/12, staff recommended tightening the fiscal stance to rebuild macroeconomic buffers in light of emerging fiscal contingencies and rising rollover risks. Specifically, staff recommended increasing the primary surplus to 3 percent of GDP (from 2.2 percent of GDP in the budget) by containing spending growth.[6] In particular:

- ***The growing dependence on oil and grant revenues should be addressed, starting in FY 2011/12.*** Staff recommended: (i) strengthening ongoing revenue administration initiatives, including reinforced tax auditing; integrating the two domestic tax departments; and setting a clear timetable for implementing remaining reforms (new customs bill, and amending the GST and income tax legislations); and (ii) streamlining capital spending, in line with implementation capacity and grant disbursements.

- ***There is an important need to develop a clear plan to manage contingent fiscal liabilities (Box 1).*** Total contingent liabilities, including the still-pending compensation for the nationalization of BTL and BEL, are estimated at around

[6] The fiscal anchor is the primary balance including oil and grants. Oil revenues are projected to decline over the medium term.

17 percent of GDP. These call for early action in fiscal consolidation plans. Staff recommends that all explicit contingent fiscal liabilities be recorded in the debt statistics and that the fiscal impact of the operating balance of the nationalized companies be disclosed in the budget presentation. To further protect the fiscal accounts, all dividends earned from the nationalized entities should be saved until the legal status of the nationalized companies has been resolved by the courts. Moreover, compensation plans will need to take into account future needs for ongoing capital investments and include a timetable for compensating former owners.

12. **Over the medium-term, staff recommends targeting a primary surplus of 4 percent of GDP (starting in FY 2013/14) to place the public debt firmly on a downward path and keep financing needs within limits.** The authorities' fiscal path implies increased reliance on external financing over the medium term. In particular, gross financing needs would rise from 4 percent of GDP in 2013 to around 7½ percent by the end of this decade. Securing such financing will be a challenge. Maintaining a primary surplus of 4 percent of GDP over the medium term would help reducing the debt-to-GDP ratio to about 45 percent of GDP and gross financing needs to about 1.2 percent of GDP by 2019 (Box 2). This strategy would help mitigate the debt rollover risks associated with the *Superbond*[7] while rebuilding the fiscal buffers. Staff welcomed the authorities' decision to save a portion of oil-related revenues to service the *Superbond*. Staff encouraged the authorities to make progress in the following three areas:

- ***Fiscal framework.*** Staff recommends further strengthening the fiscal framework by adopting debt targets and a medium-term debt management strategy, and better coordination with the central bank.

- ***Revenue.*** Staff recommends raising additional revenues, including through: (i) gradually raising the GST rate to 15 percent—the regional average; and (ii) reversing tax concessions (½ percent of GDP) granted in the FY 2010/11 budget.

- ***Spending.*** In the expenditure area, staff recommends: (i) reversing the upward trend exhibited by the wage bill since FY 2007/08 (to 10 percent of GDP in FY 2010/11); (ii) reducing the fiscal costs of the civil servants' pension plan, by increasing the retirement age in line with life expectancy, and introducing contributions; (iii) better targeting of social spending; and (iv) creating a policy committee of senior public officers,

[7] On a full-year basis, the scheduled increase in the interest rate on the *Superbond* from 6 percent to 8½ percent in 2012 will represent about 1 percent of GDP in additional spending.

headed by the Ministry of Finance, to better monitor and evaluate capital spending.

Authorities' Views

13. **The authorities noted that the economic slowdown, increased poverty, a surge in crime, and the associated need for increased citizenry security constrained their efforts at more aggressive fiscal consolidation**. They explained that their reform efforts had thus far have been concentrated in the areas of revenue administration, public financial management, and better coordination of capital spending across ministries. They also indicated that they had not been able to press ahead as decisively as expected in reforming the public sector systems because of a lack of adequate resources. They also identified the areas of public financial management and tax system for future reforms.

14. **In the area of revenue administration, the authorities' strategy has been to focus on improving the enforcement of existing tax rules.** This strategy, closely supported by technical assistance (TA) from CARTAC and the CDB, has involved four elements. First, modernization of the customs and excise departments, including with the introduction of ASYCUDA (Automated Systems for Customs Data World). Second, improving tax auditing, through spot checks on businesses and by filling in critical staffing gaps. Increased staff levels have permitted a widening of tax auditing beyond Belize City, thus contributing to an improvement in overall compliance. Third, improving internal business practices and organization, including with the adoption of a code of conduct for staff. The authorities, however, recognize that further operational efficiency gains can be attained, including through integrating the domestic tax departments, and plan on doing so through a gradual process; this would involve a time-consuming process of restructuring units and retaining qualified staff. The authorities explained that further enhancement of these measures could yield up to ½ percent of GDP over the next six months, which could allow for a better primary surplus. Fourth, strengthening the legislative framework. In this area, new legislation governing customs, GST and income tax areas is scheduled to be passed into law in early 2012.

15. **In the area of public financial management, the focus has been on modernizing financial legislation.** In FY 2010/2011, the Fiscal Transparency and Responsibility Regulations were passed by parliament under the Finance and Audit (Reform) Act of 2005. These regulations will increase the transparency and clarity of government's fiscal policy objectives within the context of the multiyear budget framework. They will also provide a basis for assessing fiscal outcomes against publicly announced targets on a regular basis. This framework, in combination with ongoing improvements to

the procurement and audit systems, will help to instil fiscal discipline.

16. **In the area of capital spending, efforts are being made to improve coordination and project selection**. To that effect, a committee of the relevant ministries has been formed. The IDB has provided technical assistance on a best practice framework for PSIP management, including project selection, which is expected to be codified in new legislation soon.

17. **The authorities stated that they are committed to compensating the former owners of the recently-nationalized companies.** They noted that the telephone company was profitable and that the financial position of the electricity distribution company had stabilized since its nationalization in June. The authorities plan to use the dividends from these companies for the servicing of a bond that would be issued in compensation to the former owners. They indicated that they would start such payments (and also record the obligations on the government books) once the Belizean Courts have made their final rulings (a process which could take some time).

18. **In the area of pension reform, the authorities are currently awaiting the findings of a consultancy report by the IDB, before moving forward on this front.** They, however, conceded that the recommendations are unlikely to be fundamentally different from previous actuarial reports, which recommended changes in pension age and worker contributions, all of which have been previously opposed by the trade unions. The authorities noted that, going forward, pension reforms should be linked to wage negotiations.

19. **Looking ahead, the priorities would include further strengthening of the fiscal policy framework, including the public financial management practices and the tax regime.** In this light, the authorities agreed with staff on the need for setting specific medium term debt targets, supported consistent fiscal objectives and a coherent debt management strategy. In the area of tax policy, they have requested TA for an assessment of the existing tax regime, including its fairness and efficiency, before contemplating any further adjustments to existing taxes. More broadly, they are also currently negotiating with the CDB a policy based loan, which would help to finance a number of reform initiatives, including strengthening public financial management practices.

B. Safeguarding Financial Sector and Monetary Stability

20. **The Belizean financial sector is facing serious challenges.** The authorities have responded to these challenges by drawing on technical assistance from the Fund, stepping up on-site examinations, intensifying prudential requirements, and announcing planned regulatory reforms.

21. **The recent FSAP identified several aspects that require attention in the short term**: (i) accumulation of NPLs at some domestic banks (particularly in the tourism and construction activities), exacerbated by the uncertain valuation of collateral[8] and presence of large exposures both on the asset and liability side coupled with a lack of consolidated supervision; (ii) minimal reporting requirements and limited oversight of the non-bank offshore sector; and (iii) weak bank resolution and crisis management schemes. In addition, the effectiveness of the banking supervision framework is impacted by resource constraints at the CBB and other financial infrastructure shortcomings. Belize needs to devote more resources to effectively enforce AML/CFT rules in the financial sector, but the resources that are deployed are focused on the protection of the integrity of the banking sector.[9]

22. **Key steps have been taken to safeguard public financial institutions, but more actions may be required.** The new Act of the Development Finance Corporation (DFC) enables the CBB to supervise it, which should help improve its risk management and, over time, help prevent associated fiscal losses. However, the CBB still has to develop a supervisory framework for the DFC. Under similar considerations, non-bank lending decisions by the Social Security Board might require closer follow up by authorities in order to stick to prudential criteria and avoid undue risk taking.

23. **Staff welcomes the authorities' intention to use the FSAP findings as an opportunity to rebuild momentum for financial sector reforms and ease financial sector vulnerabilities (Box 3).** Staff stressed the importance of early action to limit systemic risk, including by improving the on-site supervision of weak banks. In the short term, authorities are moving forward to improve

[8] The information in the land registry is not easily accessible or fully reliable.

[9] The assessment of compliance with the Financial Action Task Force's 40 + 9 Recommendations on Anti-Money Laundering and Combating the Financing of Terrorism was conducted by the Caribbean Financial Action Task Force (CFATF) in April 2010. The resulting Mutual Evaluation Report on Belize's AML/CFT regime was adopted by CFATF in May 2011.

loan classification and provisioning. The new regulations will require close monitoring of banks' capital adequacy, following the introduction of tighter provisioning requirements. Further steps are needed in establishing consolidated supervision to holding companies, and bank affiliates, strengthening the rules relating to bank-related parties and limiting large exposures, and amending the resolution framework to provide for a statutory administrator with sufficient legal power to undertake restructuring transactions as well as a mechanism for orderly liquidation.

24. **This reform strategy should also include strengthening the Central Bank autonomy and providing more resources to the Supervision Department to carry on with expanded responsibilities.** The Central Bank Act could be improved to augment the monetary authority's autonomy, especially in the areas of budget determination, governor's appointment terms, and bank regulation/supervision. In addition, supervisory authorities should take the necessary steps to implement an appropriate scheme of supervision to DFC in order to improve its effectiveness and limit fiscal contingencies from its activities.

25. **The CBB's is pressing ahead with reforms to the monetary policy framework.** Monetary policy is now conducted via market based instruments, and these reforms are also expected to also improve macroeconomic governance, by facilitating the operation of the central bank overdraft within its legal limits. The next step is to phase out existing interest rate controls on savings deposits, and standardizing the methodology used by the banks to calculate deposit interest rates. On October 1, 2011, the authorities reduced the floor on saving deposit interest rate further from 3.5 percent to 2.5 percent. Going forward, the CBB has announced that banks' holdings of Treasury bills could be used to collateralize interbank borrowing and repurchase agreements.

26. **The exchange rate remains broadly in line with its equilibrium level, although vulnerabilities to external stability persist.** The fixed exchange rate (which is pegged to the U.S. dollar) has provided an important anchor for macroeconomic policies. In recent years, the Belizean dollar has depreciated significantly in real effective terms, and it currently stands broadly in-line with fundamentals (Box 4). Over the medium term, a weakening foreign reserve position, and elevated external financing needs would increase Belize's vulnerability to shocks. Staff stressed the need for early corrective actions to keep external financing under manageable levels and gradually raise the level of reserves to about 4 months of imports. Staff noted that the proposed fiscal consolidation would help to achieve these goals.

Authorities' views

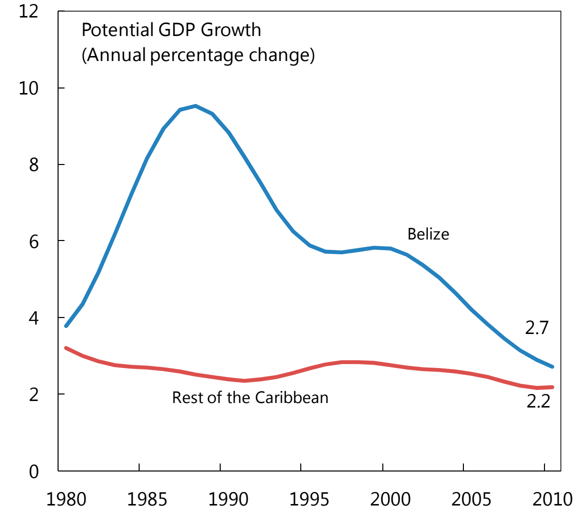
27. **The authorities concurred with the overall assessment provided by the FSAP and indicated their readiness to undertake the necessary steps to implement its recommendations.** They explained that the slow progress in implementing the recommendations from previous TAs was mainly due to limited capacity at the central bank. By end-year, the authorities intend to issue new loan classification and provisioning standards and to further advance the reform of the resolution framework, by submitting a revised draft of the Banks and Financial Institutions Act to the government. In the meantime, the central bank has intensified its surveillance-–including by stepping up on-site examinations. The authorities also requested additional TA in the areas of bank supervision and regulation.

C. Sustainable Growth and Poverty Reduction

28. **Growth in Belize has decelerated sharply in recent years**. Annual GDP growth rates in Belize averaged some 7 percent in the 1980s, but declined to less than 4 percent during the last decade. Potential growth has also steadily declined since 1988, and has now converged to the subdued level of the rest of the Caribbean. Growth accounting estimates suggest that slower total factor productivity (TFP) growth is the main driver of the slowdown

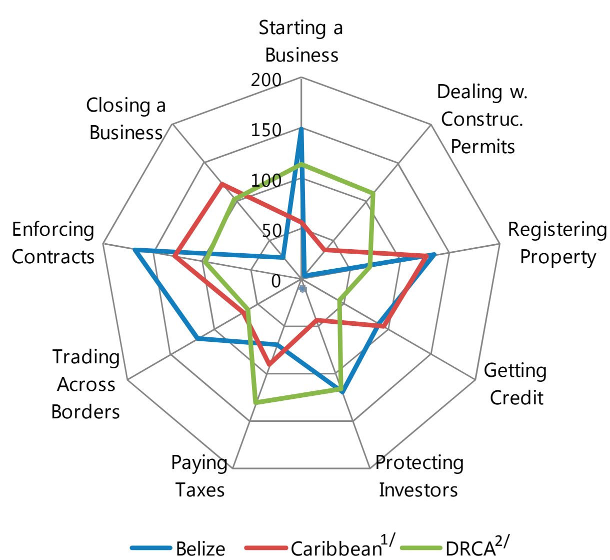
Belize – Potential Output and Investment Climate

Potential growth has steadily declined since late 1980's.



Source: Fund staff estimates.

Enforcement of contracts, trade costs, and the facility of starting businesses seem to be holding Belize back.



Source: World Bank, Doing Business 2011. Ranks go from 1 to 183, with first place being the highest.

1/ Antigua and Barbuda, The Bahamas, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

2/ Costa Rica, Dominican Republic, El Salvador, Guatemala, and Panamá.

of GDP growth in Belize. The results indicate that, while the contribution of capital has been steady at 1.5 percentage points, the expansion of labor has now become more important. By contrast, TFP growth, which was a key contributor to growth in the 1980s (3¼ percentage points), has now become negative.

29. **Improving the business environment will be critical to improving medium term growth prospects.** Against the backdrop of a weak global economic recovery, improving productivity will require significantly strengthening the business environment. Under the World Bank Doing Business Index,[10] Belize lags behind the Central American and Caribbean regions on such key aspects as enforcing contracts, trading across borders, and starting a business. Therefore, a more stable, predictable, and rules–based business environment would be critical to supporting long-term investment and business expansion. In this sense, it will be critical for the government, once the courts have reached a final verdict, to specify clearly the modalities and timetable for compensating the former owners of the recently-nationalized companies. Staff is of the view that the resolution of these issues would be an important step toward improving the business climate.

30. **Other constraints to business development and competitiveness also need to be tackled.** Stakeholders have highlighted a number of bottlenecks: the limitations of infrastructure−such as roads, information and communication technology, port facilities; the limited availability of skilled labor; the presence of a cumbersome tax system (including with the absence of double tax treaties); and the nonexistence of commercial courts. For instance, Belize's cost of export (US$ per container) is about 50 percent higher than in the rest of the Caribbean.[11] Similarly, it takes about 2½ years to recover a commercial debt through the courts, compared with less than two years in other countries of the region. In this context, the mission encouraged the authorities to establish a program for addressing this core set of constraints, including clarifying the focus of the DFC and of the government export-promoting agency Beltraide.

31. **Staff welcomed the authorities' plans for improving the payments system and establishing a credit bureau.** CBB's current plans to upgrade the payment system include putting in place an automated clearing house for processing small payments; a real time gross settlement facility for processing of large payments; and a security settlement system**.** Such additions to the existing financial infrastructure should help improve efficiency,

[10] World Bank, Doing Business 2011, Caribbean States.

[11] World Bank (2011), p. 28.

transparency, risk management, and provide greater access of small- and medium-sized businesses to credit. Staff encourages the authorities to set a feasible timetable for implementing these projects.

32. **Achieving poverty reduction should remain a high priority**. While welcoming the government's focus on tackling poverty, greater efforts are needed in monitoring and evaluating the effectiveness of the various programs relative to their targets and cost. With the recently approved Country Partnership Strategy (FY 2012–15), the World Bank will support the authorities' efforts to adopt a sustainable natural resources base economic model while enhancing the country's resilience to climate change and natural disasters.

Authorities' Views

33. **The authorities did not share staff's view that the investment climate had been adversely impacted by the nationalizations.** They noted that the government's policy of state control was confined to one specific sector—that of public utilities. The authorities further stated that they do not have any plans to undertake additional nationalizations. They highlighted the fact that, since the nationalization of BEL, other investors have continued to express interest in investing in tourism, oil exploration, and telecommunications.

STAFF APPRAISAL

34. **While near term prospects are moderately positive, Belize's medium outlook remains uncertain.** Against the backdrop of a slow global recovery, the pace of growth has been sluggish while inflation has picked up somewhat, driven by higher food and fuel prices. The external position has stabilized, supported mainly by favorable terms-of-trade. Under current policies, gross financing requirements would continue to rise over the medium term, and securing such financing abroad will be a challenge. The accumulation of contingent liabilities has further reduced the space for policy maneuver. At the same time, the banking system remains vulnerable—partly because of protracted financial sector reforms—and the investment climate and social indicators have deteriorated.

35. **Belize's macroeconomic management framework needs to be strengthened.** This should include a coherent strategy for gradual fiscal consolidation, and debt reduction. It should also include a strengthening of technical capacity and coordination among the various ministries, and between the Ministry of Finance and the Central Bank.

36. **Staff urges the authorities to tighten the fiscal stance and rebuild macroeconomic buffers in the context of**

emerging contingencies and rising rollover risks over the medium term. The primary surplus should be gradually raised to steadily reduce the public debt ratio and limit the size of the gross financing needs. This can be achieved by entrenching the reforms to revenue administration; streamlining capital spending in line with implementation capacity and grant disbursements; containing the wage bill growth; improving targeting of social spending; reducing tax concessions, and raising the GST rate; and making the pension system sustainable.

37. **Financial soundness indicators are weak; requiring continued close monitoring by the CBB.** Liquidity in the banking sector is ample, but nonperforming loans remain very high and, with weak provisioning, capital adequacy has been maintained at artificially high levels. The authorities should continue their close monitoring of the weak banks, and stand ready to take additional appropriate corrective measures should near term risks deteriorate further.

38. **Staff commends the authorities for using the findings of the recent FSAP to guide financial sector reform, and recommends a prompt implementation of the needed reforms.** These include improvements in the consolidated oversight and bank resolution frameworks, as well as a new draft loan classification and provisioning guidelines, which have been circulated to commercial banks for comments and are scheduled to be implemented by year-end. In addition, staff highly recommends that the central bank strengthen its supervision department with a view to meeting its enhanced regulatory responsibilities while closely monitoring banks' capital adequacy in the context of the new provisioning requirements. Greater autonomy of the CBB should also be legislated.

39. **The exchange rate remains broadly in line with equilibrium, but external vulnerabilities persist.** The fixed exchange rate has provided an important anchor for macroeconomic policies. Currently, available foreign reserves provides some cushion against near-term risks, but increasing external gross financing needs over the medium-term imply higher vulnerability. To attain a stronger buffer against shocks, it is advisable to gradually raise the level of foreign reserves. This can be achieved through gradual fiscal consolidation over the medium term.

40. **Staff encourages the authorities to begin addressing the factors behind the decline in long-term growth.** Policies to tackle low productivity growth should focus on strengthening the macroeconomic and business environments. This should include setting a timetable for compensating the former owners of the nationalized entities, once the courts have made a final ruling, as well as a coherent and realistic program for improving physical and financial infrastructure,

boosting the availability of skilled labor, and simplifying the tax system.

41. **Achieving poverty reduction should remain a high priority.** While the government's focus on tackling poverty is welcome, greater efforts are needed in monitoring and evaluating the various programs relative to their targets and ensuring that they are cost efficient.

42. It is proposed that the next Article IV consultation with Belize be held on the standard 12-month cycle.

Box 1. Belize: Gross Contingent Fiscal Liabilities

Staff estimates that contingent liabilities stand at 17 percent of GDP. There is still a great deal of uncertainty about the valuation of nationalized companies as the entire process is being challenged in courts.

Contingent fiscal liabilities, which have caused fiscal problems for Belize in the past, are now rising again. In 2007, the obligations of the state-owned Development Finance Cooperation had to be assumed by the central government, as part of an overall restructuring of government's external debt obligations. The authorities also had to pay the debt obligations of domestic private enterprises when guarantees were called. In 2011, total fiscal contingent liabilities are estimated at 17 percent of GDP, with only 0.7 percent of GDP recorded in the official debt statistics. Contingencies comprise four main sources: (a) contingencies arising from nationalized assets, including BTL and BEL; (b) cancelled contracts, including with foreign investors; (c) loan guarantees to the private sector; and (e) pending court judgments, mainly associated with foreign investors (Table).

Belize. Contingent Fiscal Liabilities

(In percent of GDP)

	2011
Total Explicit liabilities 1/	**16.9**
Loan Guarantees	0.7
Nationalized Entities	12.5
Pending Court Judgements	2.7
Cancellation of contracts	1.0
Memorandum items:	
Total Assets	12.6
Explicit assets	12.5
Nationalized Entities	12.5
Outstanding taxes	0.1

Sources: Belize Court records and Fund staff estimates.

1/ Excludes unfunded future obligations of the SSB.

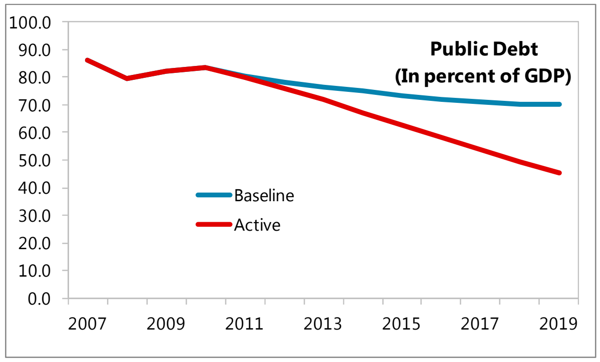
The government of Belize has also accumulated some contingent fiscal assets. For 2011, staff estimates contingent fiscal assets at approximately 12.6 percent of GDP. These comprise two key categories: (i) the net value of nationalized assets (12.5 percent of GDP), including BTL and BEL; and (ii) outstanding tax obligations from the private sector (0.1 percent of GDP), including those of NEWCO (airport concession).

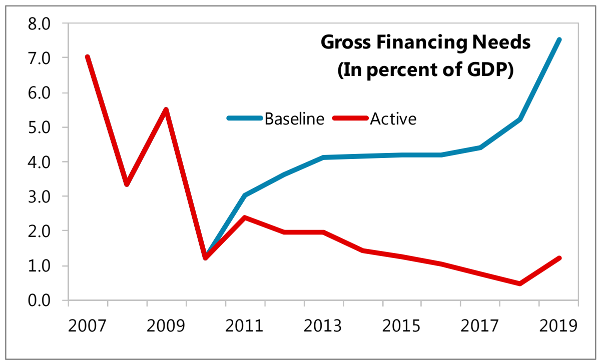
The authorities have taken some actions to address risk associated with fiscal contingencies, but more needs to be done. First, a qualitative fiscal framework and strategy has been adopted to guide medium term fiscal policy. Second, the Finance Act has been strengthened, with severe sanctions for non-compliance. Third, some efforts have been made to record the explicit loan guarantees in debt statistics. Fourth, the proceeds of the partial reprivatization of the BTL have been sequestered to facilitate eventual compensation of the former owners. In addition, the authorities are participating in the Caribbean Catastrophe Insurance Facility (CCRIF), which provides rapid pay outs for covered natural events, including hurricanes and earthquakes meeting a specified intensity threshold.

To fully protect the budget, however, the authorities would need to do more. This would include: (i) extending the qualitative fiscal framework to monitor fiscal risks and measure benefits associated with contingent fiscal liabilities, including integrating its management with conventional debt; (ii) integrating the fiscal risks, including contingent liabilities in the budget process and presenting it in the annual budget documents into a single statement of fiscal risks; and (iii) establishing clear guidelines for issuing government guarantees, including limiting the scope and duration of contingent liabilities, through time and terminating clauses for contingent claims.

Box 2. Belize: Illustrative Medium-term Scenarios

This box compares the authorities' fiscal policy stance vis-à-vis the enhanced policy framework recommended by staff. Under the recommended framework, public debt would gradually decline from 80 percent of GDP to 45 percent of GDP by the end of the decade.





In the baseline scenario, policies are those announced in the 2011/12 budget. This scenario projects growth of about 2.5 percent over the medium-term, but with increasing gross financing needs. This scenario is based on a primary balance of 2 percent of GDP, and a weakened business environment, leading to lower investment, including foreign direct investment, than in previous years. By the end of the decade, the public debt ratio would remain high, at about 70 percent of GDP and foreign reserves would decline to about 1.5 months of imports. While domestic financing would remain broadly stable, the authorities' fiscal path implies increased reliance on external financing over the medium term. In particular, gross financing needs would rise from 4 percent of GDP in 2013 to around 7½ percent by the end of this decade (Table 6). Securing such financing will be a challenge. In the context of the recent downgrade of Belize's sovereign debt by S&P, and the widening trading discount on the super bond, this would be unrealistic and hence the need for a higher primary balance.

The alternative fiscal adjustment scenario contemplates strengthened policies. This scenario envisages faster growth and lower external financing needs. In 2013, growth would rise to 3 percent, and then remain at 3½ percent for the remainder of the decade. It is based on sustaining a primary surplus of 4 percent of GDP starting in 2013/14, an assumed reallocation of spending toward capital and social priorities, and increased private investment, including foreign direct investment, that would result from improved business environment. Under this scenario, public debt would gradually decline to 45 percent of GDP and foreign reserves would strengthen to 4 months of imports by the end of this decade. To this end, staff recommended the following fiscal actions:

- **Expenditure:** reversing the upward trend in the wage bill relative to GDP; limiting growth in non-priority spending areas; and making sustainable, the public officer's pension scheme, by introducing contributions on the public officer's pension scheme while introducing a pension contributions, improving the targeting of the social expenditures, and streamlining capital spending in line with available grants, and implementation capacity.

- **Revenue:** consideration could be given to raising the GST rate from 12.5 percent to regional levels around 15 percent or phasing out fully the 2010 tax concessions.

- **Social Security Board (SSB):** starting to gradually implement the parametric actions proposed in the latest actuarial report, to bring generous benefits in line with contributions, with a view to attaining financial viability for the pension scheme for private sector workers, and reducing potential fiscal costs.

Box 3. Belize: Main Finding of the 2011 Financial Sector Assessment Program (FSAP)

At the request of authorities, an FSAP mission visited Belize in July 14–26, 2011, to help in the diagnostic and building of a substantial financial reform agenda in view of existing challenges.[1]

Scope. The mission's scope included the banking sector, both domestic and off-shore, as well as non-bank activities, particularly insurance and credit unions. Issues of financial infrastructure and banking resolution were also examined.

Challenges. The authorities have been facing a challenging environment in the financial system that requires policy action in both the short and the medium term. The CBB has intensified its supervisory efforts in recent years, including through more frequent on-site examinations.

Infrastructure. In order for the enhanced financial supervision and regulation scheme to work, the CBB will require to allocate additional resources to those functions. Resource constraints at the CBB and other financial infrastructure shortcomings—such as the lack of an efficient interbank payment system and a credit bureau—put supervisors at a disadvantage vis-à-vis supervised entities while the market remains opaque.

Stress tests. Despite relatively high capital adequacy levels, stress tests highlighted that the main weaknesses stem primarily from the declining quality of the asset portfolio. The test results also show that the banking system is vulnerable to its exposure to large borrowers. All stress tests incorporated the impact of the proposed tighter loan classification standards, and of a new provisioning proposal.

Key recommendations:

- ***Banking.*** In addition to the more conservative requirements for loan classification and provisioning, incorporate the notion of consolidated supervision in the regulation and introduce stricter limits to large exposures. Regarding off-shore banking activities authorities should seek a greater level of reporting and transparency.

- ***Insurance.*** International insurers based in Belize require continuous prudential supervision. The Office of the Supervisor of Insurance would benefit from stronger autonomy.

- ***Central Bank.*** Enhance the CBB's supervisory and budgetary autonomy and consider making the appointment of the governor more stable.

- ***Bank resolution framework.*** The BFIA needs to strengthen its framework for dealing with problem banks, including the possibility of appointing a statutory administrator and to strengthen the bank liquidation framework. The CBB and the government ought to have clearer procedures for emergency liquidity support and solvency support respectively.

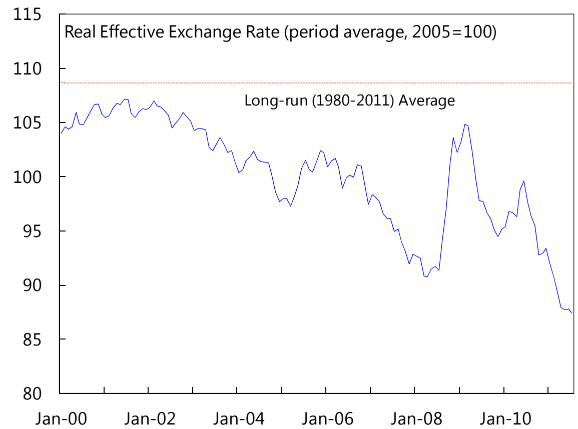
- ***Financial infrastructure.*** Belize needs the legal base for the creation of a credit bureau that would improve risk management, reduce fraud, increase transparency, and help control over-indebtedness at the microcredit/retail level.

[1] Belize—Financial System Sector Assessment (to be issued).

Box 4. Belize—Exchange Rate Assessment and External Stability

The exchange rate is broadly in line with its equilibrium level, and deviations from equilibrium remain moderate (under 10 percent) under alternative approaches.

After a temporary appreciation in real effective terms in 2009, Belize's currency has retaken its depreciation trend. Reflecting the low domestic inflation in Belize relative to its trading partners, the real exchange rate depreciated some 12 percent from June 2010 to July 2011. It has now reached its lowest level since 1980.



On balance, the exchange rate appears to be broadly in line with its equilibrium level. Staff used the external sustainability (ES) and macroeconomic balance (MB) approaches to assess external stability in Belize. Both approaches suggest that the Belize dollar is slightly above its equilibrium value. The ES approach suggests that a modest depreciation (½ percent) would stabilize the net foreign asset position at a stable level, while the MB approach also points to a similar depreciation (2 percent) to bring the projected external current account deficit (6.3 percent of GDP) down to its norm level (5½ percent of GDP) over the medium term. Sensitivity analysis to the key parameters confirmed this assessment, as the deviation from equilibrium will remain moderate (under 10 percent) under the alternative scenarios. The equilibrium real exchange rate (ERER) approach, confirms that the exchange rate is broadly in line with its fundamentals, as it suggests the Belize dollar is moderately (8 ¾ percent) below its equilibrium value at end-2010.

External debt sustainability assessments highlight some vulnerability to Belize's external position (Appendix I). Although the path for the non-interest current account is consistent with a moderately declining external debt ratio over the medium term (to some 60 percent of GDP by 2016), the debt trajectory is vulnerable to shocks. In particular, the external debt ratio is sensitive to depreciation and current account shocks. In addition, annual external financing needs will remain high, at 5–8 percent of GDP, which represents an additional source of vulnerability. Beyond the medium term, the widening of the current account represents another source of risk, as it would drive the decline in reserve coverage to under 2 months of imports by 2019 (Table 5).

Belize - Assessing the Real Exchange Rate Using CGER Methodologies
(in percent of GDP, unless otherwise indicated)

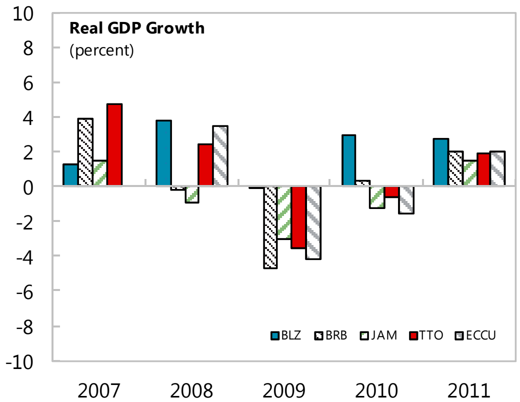
	Macroeconomic Balance approach		External Sustainability approach	
	Baseline Underlying CA balance: baseline 2016 level	**Sensitivity analysis** Underlying CA balance: baseline minus one fourth st.dev.	**Baseline** Stabilizing NFA at its end-2010 level	**Sensitivity analysis** Stabilizing NFA at its 10-year maximum (end-2000)
Equilibrium external current account (CA) 1/	-5.6	-5.6	-6.2	-3.3
Underlying CA balance 2/	-6.3	-8.1	-6.3	-6.3
CA elasticity to REER 3/	-0.37	-0.37	-0.37	-0.37
Implied REER adjustment (in percent, "+" appreciation)	-2.0	-6.9	-0.4	-8.3

1/ Equilibrium external current account corresponds to a CA level that is consistent with a specific set of economic fundamentals. The external sustainability approach assumes the medium/long-term real growth rate of 2.5 percent and inflation of 2.5. The benchmark NFA position is computed based on the updated and extended version of the Lane and Milesi-Ferreti (2007) dataset. For more details on the CGER methodologies for Caribbean countries, see IMF Working Paper 09/78.
2/ External current account in 2016 unless otherwise indicated.
3/ This elasticity is computed using the standard long-run real exchange rate elasticities for imports (0.92) and exports (-0.71), as well as the medium-term values of Belize's exports and imports of goods and services (in percent of GDP).

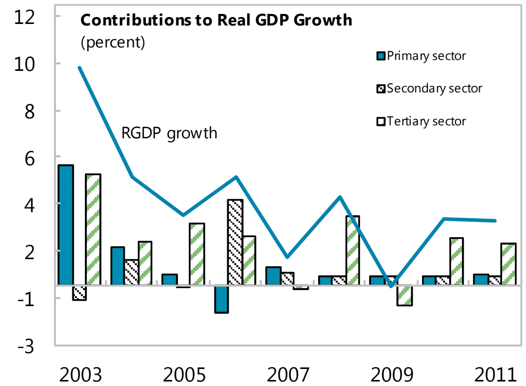
Figure 1. Belize: Real Sector Developments 1/

Main Message: Economic activity has rebounded, while inflation has remained low.

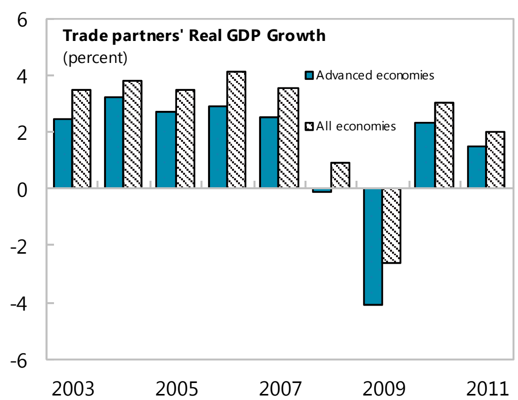
Belize weathered the financial crisis relatively well.



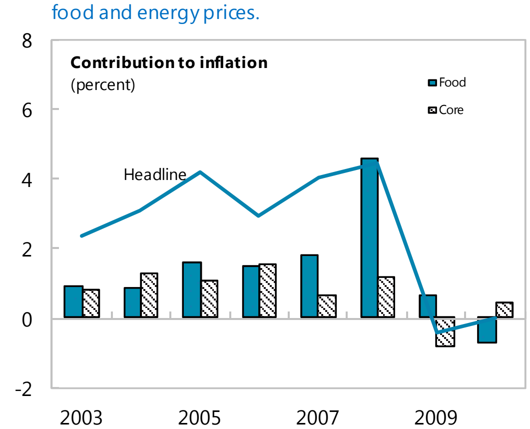
Weak growth reflected the slow down in services including tourism-related activities...



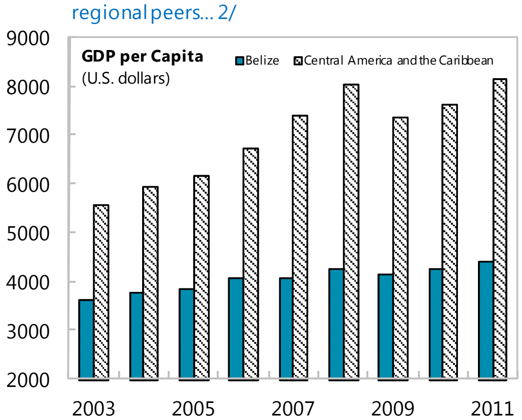
...as Belize's main export markets contracted



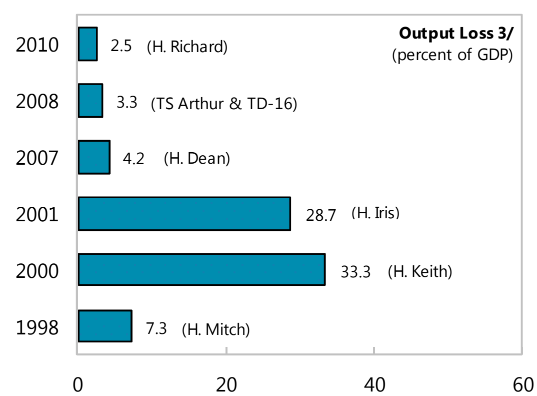
Inflation remains low, in spite of increases in world food and energy prices.



In GDP per capita terms, Belize remains behind its regional peers... 2/



... and the exposure to natural disasters undermines the economic performance.



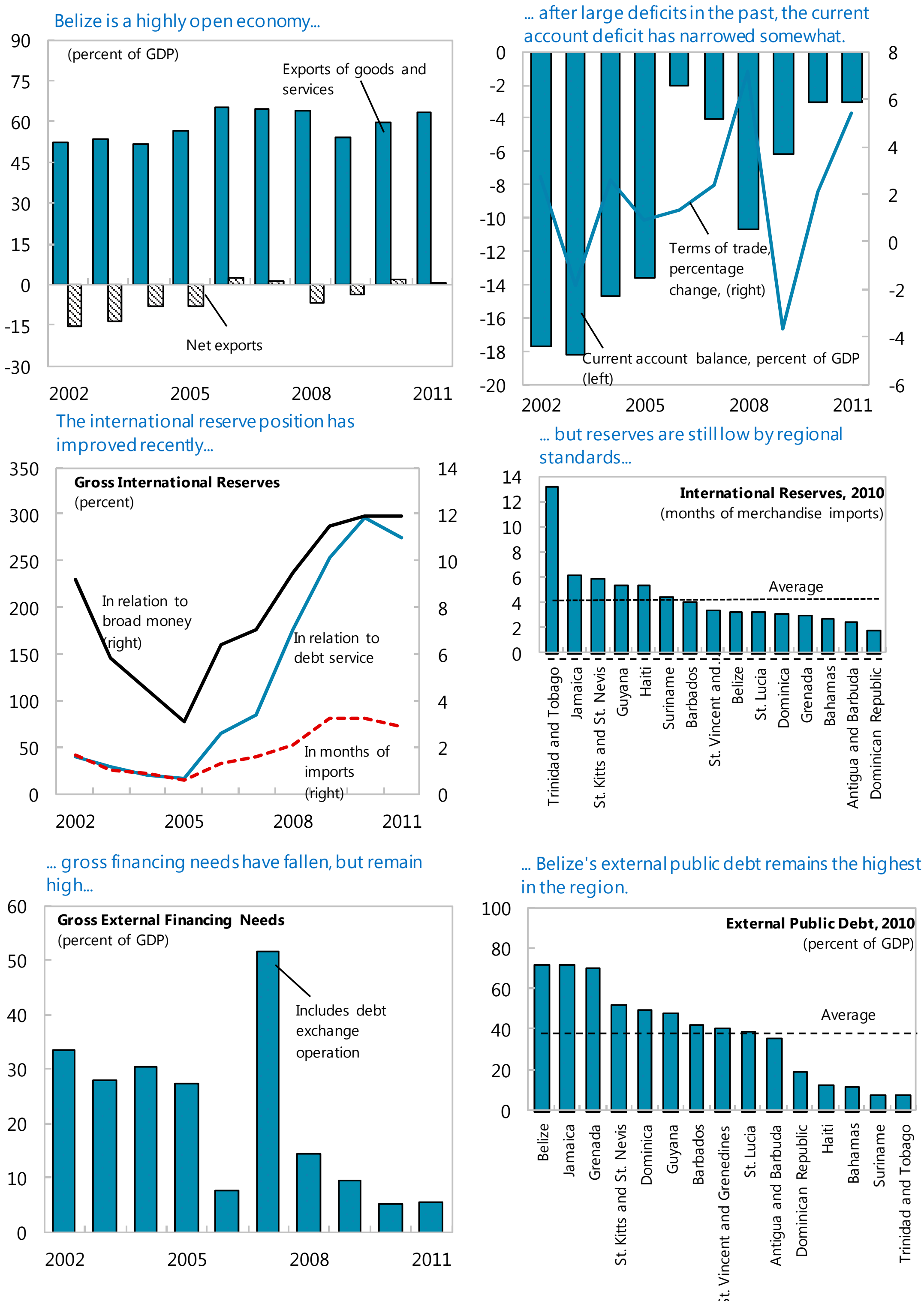
Sources: Belize authorities; World Economic Outlook; EM-DAT Database; and Fund staff estimates.

1/ Preliminary data for 2010 and projections for 2011 and beyond.

2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

Figure 2. Belize: External Sector Developments 1/

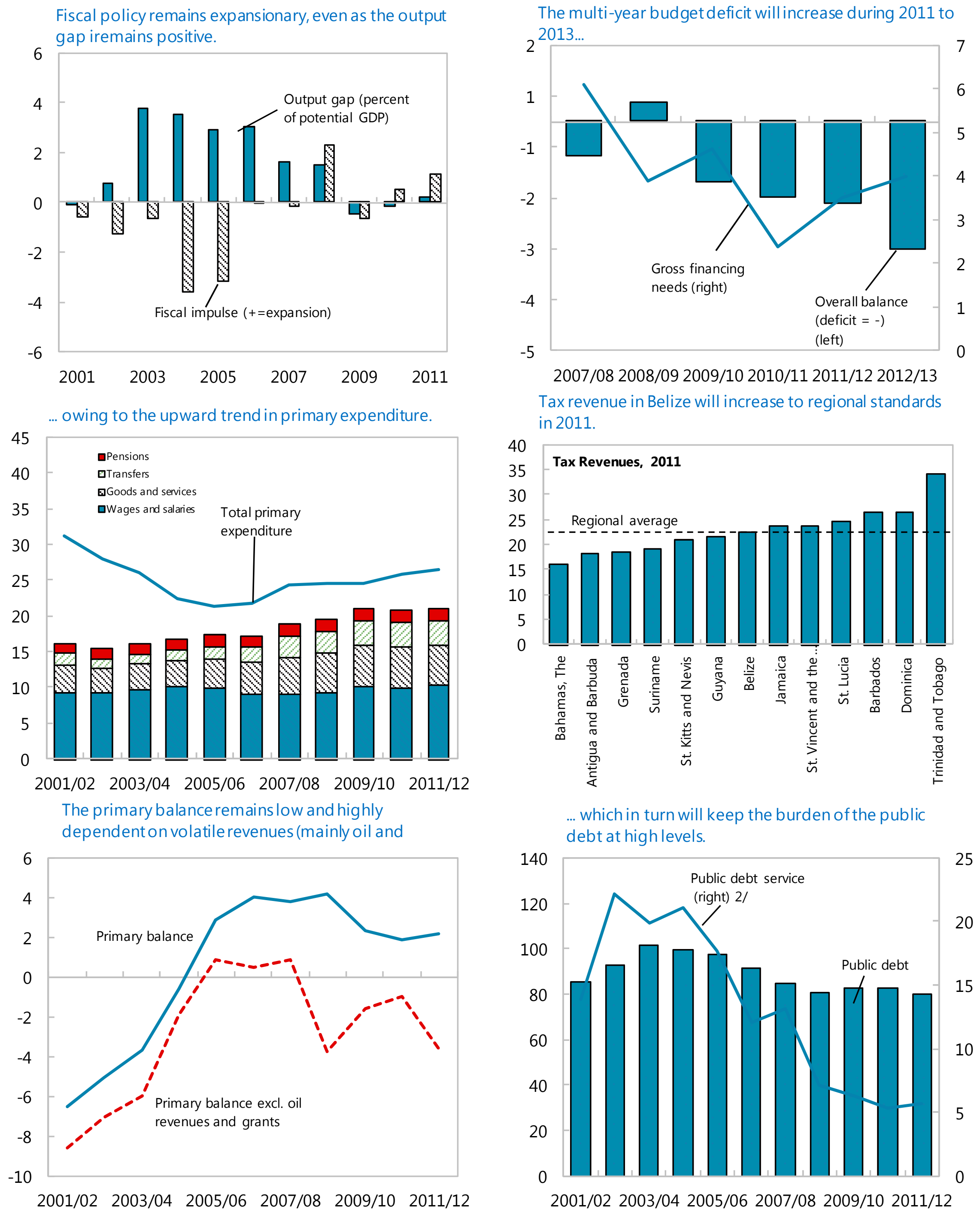
Main Message: The external position has strengthened, but external debt remains high relative to regional peers.



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

Figure 3. Belize: Fiscal Sector Developments 1/
(In percent of GDP)

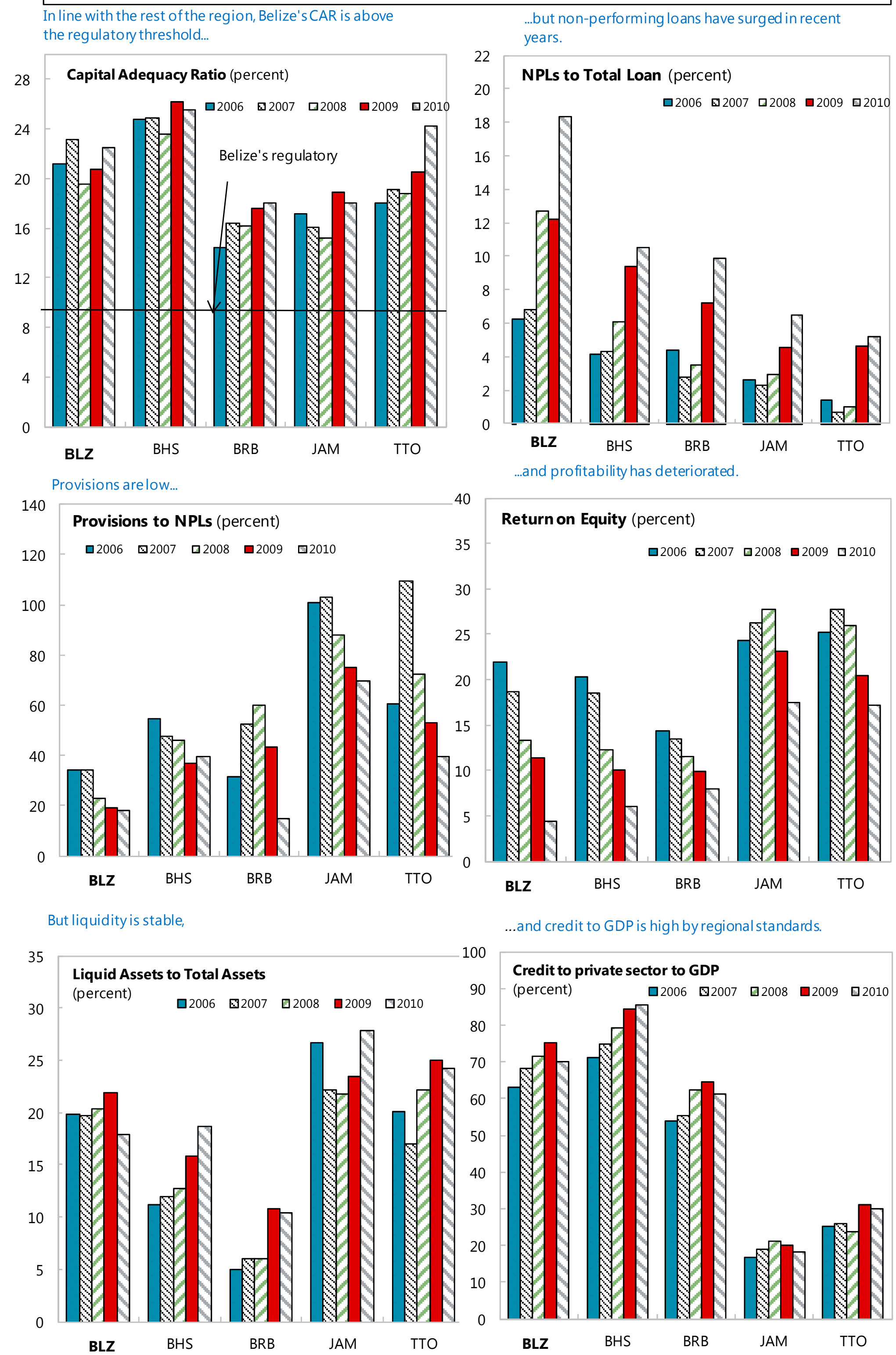
Main Message: Fiscal consolidation will require a tightening of the fiscal stance, and reducing the dependency on oil and grant receipts.



Sources: Country authorities; and Fund staff estimates.
1/ Preliminary data for 2010 and projections for 2011 and beyond.
2/ Excluding amortization and interest payments of the debt exchange operation in 2007.

Figure 4. Banking System Stability

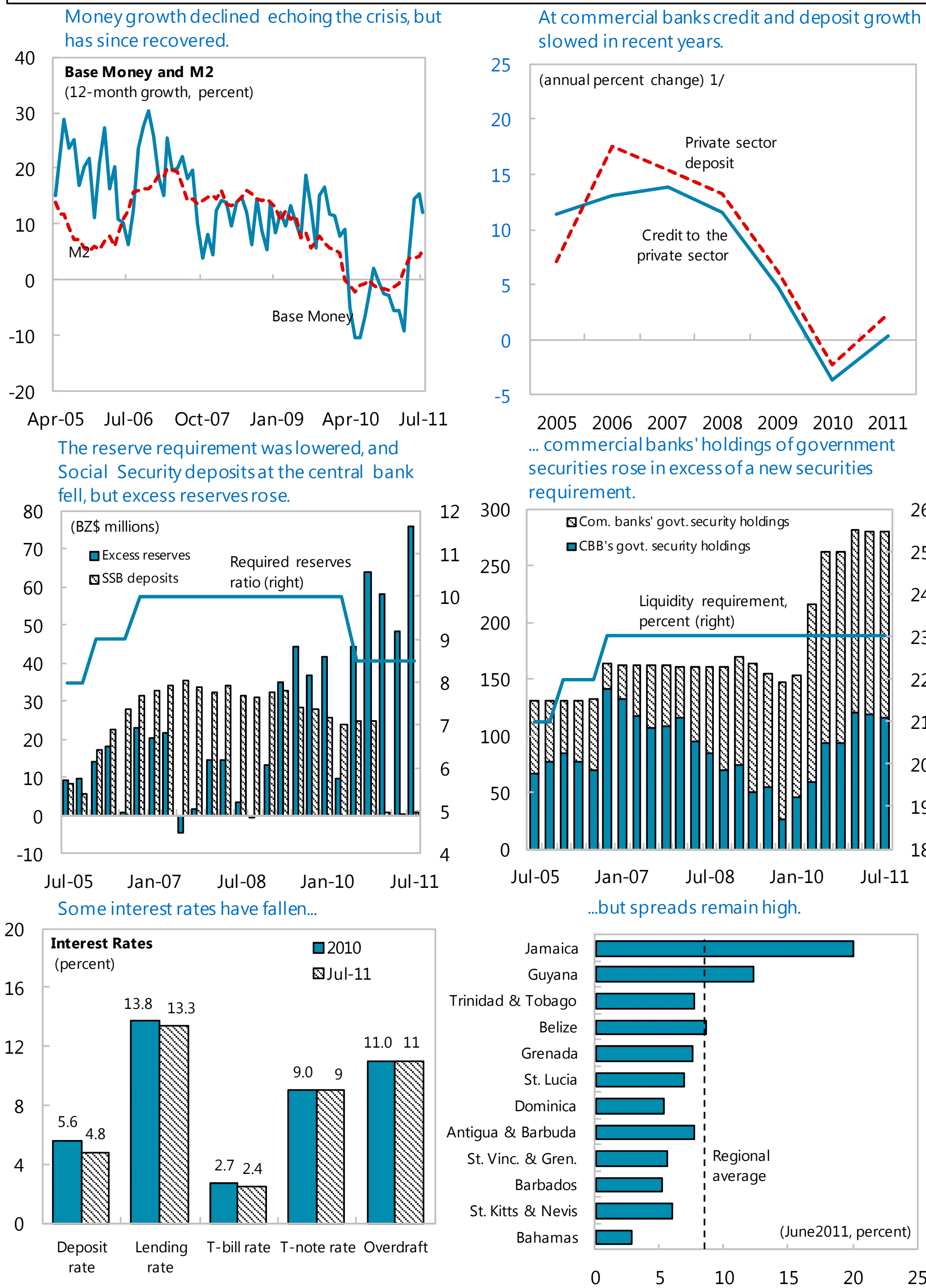
Main Message: Liquidity remains ample and capital ratios appear adequate, but NPLs continue to deteriorate, posing a risk to banking sector stability



Sources: International Financial Statistics; National authorities; and Fund staff estimates.

Figure 5. Belize: Monetary Developments

Main Message: Although reserve requirement was reduced, credit growth declined as commercial banks' lending rates remained high.



Sources: Central Bank of Belize; IFS; Haver; and Fund staff estimates.
1/ Projection for 2011.

Table 1. Belize: Selected Social and Economic Indicators, 2006-12

I. Population and Social Indicators

Area (sq.km.)	22,860	Adult literacy rate, 15 and up (percent), 2010	75.1
Arable land (percent of land area)	3.0	Human development index (rank), 2010	78
Population (thousands), 2010 est.	313.0	Unemployment (percent of labor force), 2009	12.6
GNI per capita, atlas method (current US$), 2010	3,740	Number of physicians, 2007	251
Life expectancy at birth (years), 2010	77	Access to improved drinking water sources (percent of population), 2006	91
Under-five mortality rate (per thousand), 2008	19	Poverty (percent of total population), 2009	41

II. Economic Indicators, 2006-12

					Prel.	Baseline	
	2006	2007	2008	2009	2010	2011	2012
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	4.7	1.3	3.6	0.0	2.7	2.5	2.8
Of which: oil output	3.0	0.9	0.8	1.2	-0.5	-0.1	-0.1
GDP deflator	4.0	4.3	2.6	-1.0	1.1	2.6	2.5
Consumer prices (end of period)	3.0	4.1	4.4	-0.4	0.0	4.2	2.5
Gross domestic investment 1/ 2/	17.7	17.2	26.4	22.0	18.0	19.0	19.0
Gross national savings 1/	15.6	13.1	15.8	15.8	15.0	15.9	14.6
External sector							
Exports of goods and services	26.0	4.3	5.2	-16.0	14.1	12.3	3.0
Imports of goods and services	6.9	6.0	18.2	-18.3	3.3	14.2	4.9
Terms of trade (deterioration -)	-1.2	2.0	3.2	-3.7	2.1	5.4	-1.9
Nominal effective exchange rate (July for 2011)	-1.0	-4.0	-2.0	6.5	-1.3	-2.3	...
Real effective exchange rate (July for 2011)	0.2	-4.9	-0.6	4.5	-3.1	-5.6	...
Money and credit							
Credit to the private sector	12.2	13.9	11.6	4.8	-3.6	0.3	1.5
Money and quasi-money (M2)	17.3	15.0	14.0	5.8	-1.8	4.2	5.0
Weighted average lending rates (in percent; July for 2011)	14.2	14.3	14.1	14.0	13.8	13.3	...
(In percent of GDP)							
Central government 3/							
Revenue and grants	25.8	28.1	28.6	27.0	27.4	28.6	27.4
Of which: oil	0.4	1.0	1.5	1.5	2.4	2.2	2.1
Of which: grants	1.5	1.0	3.2	1.2	0.2	1.8	0.5
Current expenditure	25.1	23.1	23.3	24.5	24.0	24.9	24.6
Capital expenditure and net lending	4.6	5.7	4.9	3.7	4.5	5.4	5.4
Primary balance	4.1	3.8	4.2	2.4	1.9	2.2	1.8
Overall balance	-3.9	-0.7	0.4	-1.2	-1.5	-1.6	-2.5
External sector							
External current account 4/	-2.1	-4.1	-10.6	-6.2	-3.0	-3.1	-4.4
Public and publicly guaranteed debt	92.5	87.6	79.4	82.2	83.3	80.4	78.1
Domestic debt	8.7	8.2	7.4	7.1	11.9	12.1	11.5
External debt	83.9	79.4	72.0	75.0	71.4	68.3	66.6
Debt service 5/ 6/	11.5	10.8	8.8	6.4	5.2	5.5	5.5
In percent of exports of goods and services	17.7	16.7	14.1	11.8	8.8	8.7	9.0
In percent of government current revenue	49.5	42.2	33.7	26.0	20.0	20.5	20.7
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	50	23	58	47	4	4	16
Exports of goods and services	790	824	867	728	830	932	960
Imports of goods and services	764	810	958	782	808	914	967
Gross international reserves 7/	86	109	166	214	218	222	235
In percent of projected 12-month gross external financing needs	93	89	85	168	294	282	234
In percent of projected 12-month external public debt service	61	16	117	249	297	275	273
In months of imports	1.3	1.6	2.1	3.3	3.2	2.9	2.9
Nominal GDP	1,213	1,282	1,364	1,349	1401	1474	1552
Nominal GDP (in BZ$ millions)	2,426	2,563	2,727	2,698	2,802	2,948	3,105

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; and Fund staff estimates.
1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Fiscal year (April to March).
4/ Including official grants.
5/ Public and publicly guaranteed external debt.
6/ Disbursement and amortization are net of the debt exchange operation in 2007.
7/ For 2009, includes the share of Belize in the special and general SDR allocations in the equivalent of SDR 18 million (US$28 million).

Table 2a. Belize: Operations of the Central Government 1/
(In millions of Belize dollars)

				Prel.	Baseline			Staff Active Scenario		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Revenue and grants 2/	**731**	**778**	**736**	**778**	**855**	**863**	**907**	**812**	**891**	**959**
Revenue	**706**	**691**	**702**	**771**	**800**	**848**	**891**	**786**	**884**	**952**
Of which: Non-oil revenue	680	650	662	703	736	782	817	720	820	883
Current revenue	676	686	697	766	795	843	886	781	879	946
Tax revenue	592	594	605	659	696	742	781	682	760	820
Of which: Petroleum Operations	15	24	28	51	47	49	55	49	47	50
General Sales Tax	174	176	158	195	173	180	185	173	216	228
Nontax revenue	84	92	93	107	99	101	104	98	119	126
Of which: Petroleum Operations	11	17	12	16	17.6	17.9	18.9	18	18	19
Capital revenue	30	4	5	5	5	5	6	5	5	6
Grants	**25**	**87**	**34**	**7**	**54**	**15**	**16**	**26**	**7**	**7**
Total expenditure	**749**	**767**	**768**	**820**	**903**	**942**	**984**	**837**	**915**	**964**
Current expenditure	601	634	669	682	742	773	808	723	774	810
Wages and salaries	234	250	274	279	305	313	319	293	310	326
Pensions	42	48	48	45	50	50	52	49	50	55
Goods and services	133	147	157	165	171	174	182	168	173	182
Interest payments	117	104	97	96	113	137	142	113	135	138
Transfers	76	85	93	97	102	100	113	100	106	110
Capital expenditure and net lending	148	134	100	127	160	169	176	114	141	154
Capital expenditure	134	130	94	111	155	164	171	109	136	149
Domestically financed expenditure (Capital II)	72	79	54	73	51	85	87	34	68	74
Foreign financed expenditure (Capital III)	62	52	41	38	107	82	83	75	68	76
Net lending	13	3	5	17	5	5	5	5	5	5
Unidentified expenditure	0	0	0	11	0	0	0	0	0	0
Primary balance	**99**	**114**	**64**	**53**	**65**	**58**	**65**	**89**	**111**	**132**
Nongrant, non-oil primary balance	**48**	**-14**	**-9**	**-22**	**-53**	**-23**	**-25**	**-4**	**39**	**56**
Overall balance	**-18**	**10**	**-33**	**-43**	**-48**	**-79**	**-78**	**-24**	**-24**	**-5**
Financing	**18**	**-10**	**33**	**43**	**48**	**79**	**78**	**24**	**24**	**5**
Privatization (net)	0	0	0	55	20	0	0	20	0	0
Domestic	-25	-15	3	-13	-6	44	40	-30	-11	-32
External	43	5	30	1	35	35	38	35	35	38
Disbursements	163	86	102	57	98	101	104	98	101	104
Amortization	-120	-81	-72	-56	-63	-66	-66	-63	-66	-66
Memorandum items:										
Nominal GDP	2,594	2,714	2,728	2,838	2,987	3,144	3,303	2,987	3,148	3,328
Non-interest expenditure	633	663	671	725	789	805	842	724	780	827
Oil revenue	26	41	40	68	64	66	74	66	65	69

Sources: Ministry of Finance; Central Bank of Belize; and Fund staff estimates and projections.
1/ Fiscal year ends in March.
2/ Due to data limitations the the table deviates from the GFSM 2001 methodology.

Table 2b. Belize: Operations of the Central Government[1/]

(In percent of GDP; unless otherwise indicated)

				Prel.	Baseline			Staff Active Projection		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Revenue and grants	**28.1**	**28.6**	**27.0**	**27.4**	**28.6**	**27.4**	**27.4**	**27.2**	**28.3**	**28.8**
Revenue	**27.1**	**25.4**	**25.7**	**27.2**	**26.8**	**27.0**	**27.0**	**26.3**	**28.1**	**28.6**
Of which: Non-oil revenue	26.1	23.9	24.3	24.8	24.6	24.9	24.7	24.1	26.0	26.5
Current revenue	26.0	25.2	25.6	27.0	26.6	26.8	26.8	26.1	27.9	28.4
Tax revenue	22.7	21.8	22.2	23.2	23.3	23.6	23.7	22.8	24.2	24.7
Of which: Petroleum Operations	0.6	0.9	1.0	1.8	1.6	1.5	1.7	1.6	1.5	1.5
Of which: General Sales Tax	6.7	6.5	5.8	6.9	5.8	5.7	5.6	5.8	6.9	6.9
Nontax revenue	3.2	3.4	3.4	3.8	3.3	3.2	3.2	3.3	3.8	3.8
Of which: Petroleum Operations	0.4	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capital revenue	1.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	**1.0**	**3.2**	**1.2**	**0.2**	**1.8**	**0.5**	**0.5**	**0.9**	**0.2**	**0.2**
Total expenditure	**28.8**	**28.2**	**28.2**	**28.9**	**30.2**	**29.9**	**29.8**	**28.0**	**29.1**	**29.0**
Current expenditure	23.1	23.3	24.5	24.0	24.9	24.6	24.5	24.2	24.6	24.4
Wages and salaries	9.0	9.2	10.0	9.8	10.2	10.0	9.7	9.8	9.8	9.8
Pensions	1.6	1.7	1.8	1.6	1.7	1.6	1.6	1.6	1.6	1.6
Goods and services	5.1	5.4	5.7	5.8	5.7	5.5	5.5	5.6	5.5	5.5
Interest payments	4.5	3.8	3.6	3.4	3.8	4.3	4.3	3.8	4.3	4.1
Transfers	2.9	3.1	3.4	3.4	3.4	3.2	3.4	3.4	3.4	3.3
Capital expenditure and net lending	5.7	4.9	3.7	4.5	5.4	5.4	5.3	3.8	4.5	4.6
Capital expenditure	5.2	4.8	3.5	3.9	5.2	5.2	5.2	3.6	4.3	4.5
Domestically financed expenditure (Capital II)	2.8	2.9	2.0	2.6	1.7	2.7	2.6	1.1	2.2	2.2
Foreign financed expenditure (Capital III)	2.4	1.9	1.5	1.3	3.6	2.6	2.5	2.5	2.2	2.3
Net lending	0.5	0.1	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Unidentified expenditure	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**3.8**	**4.2**	**2.4**	**1.9**	**2.2**	**1.8**	**2.0**	**3.0**	**3.5**	**4.0**
Nongrant, non-oil primary balance	**1.8**	**-0.5**	**-0.3**	**-0.8**	**-1.8**	**-0.7**	**-0.7**	**-0.1**	**1.3**	**1.7**
Overall balance	**-0.7**	**0.4**	**-1.2**	**-1.5**	**-1.6**	**-2.5**	**-2.3**	**-0.8**	**-0.8**	**-0.2**
Financing	**0.7**	**-0.4**	**1.2**	**1.5**	**1.6**	**2.5**	**2.3**	**0.8**	**0.8**	**0.2**
Privatization (net)	0.0	0.0	0.0	1.9	0.7	0.0	0.0	0.7	0.0	0.0
Domestic	-1.0	-0.6	0.1	-0.4	-0.2	1.4	1.2	-1.0	-0.3	-1.0
External	1.7	0.2	1.1	0.0	1.2	1.1	1.1	1.2	1.1	1.1
Disbursements	6.3	3.2	3.7	2.0	3.3	3.2	3.1	3.3	3.2	3.1
Amortization	-4.6	-3.0	-2.6	-2.0	-2.1	-2.1	-2.0	-2.1	-2.1	-2.0
Memorandum items:										
Nominal GDP (in BZ$ millions)	2,604	2,721	2,728	2,838	2,987	3,144	3,303	2,987	3,148	3,328
Non-interest expenditure	24.3	24.4	24.6	25.5	26.4	25.6	25.5	24.2	24.8	24.8
Oil revenue	1.0	1.5	1.5	2.4	2.2	2.1	2.2	2.2	2.1	2.1

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

1/ Fiscal year ends in March.

Table 3. Belize: Operations of the Banking System, 2006-12

	2006	2007	2008	2009	Prel. 2010	Projections 2011	2012
	(In millions of Belize dollars)						
Central Bank of Belize (CBB)							
Net foreign assets 1/	169	215	329	364	376	384	411
Net international reserves	169	215	329	420	431	439	466
Medium-term foreign liabilities 2/	0	0	0	-56	-55	-55	-55
Net domestic assets	153	121	53	65	41	51	46
Credit to the public sector (net)	144	148	89	90	61	71	65
Central government	179	184	124	117	68	81	77
Other public sector	-35	-37	-35	-26	-7	-10	-11
Capital and other assets (net)	9	-26	-36	-26	-20	-20	-20
Base Money	321	336	383	429	417	434	456
Currency issue	169	186	193	192	192	210	220
Reserves of commercial banks	152	150	190	237	225	225	236
Commercial banks							
Net foreign assets	55	136	95	130	182	227	227
Net claims on central bank	185	183	229	274	259	270	284
Net domestic assets	1,351	1,528	1,699	1,757	1,682	1,670	1,705
Credit to the public sector (net)	-48	-55	-53	-76	-69	-88	-82
Central government	23	47	88	92	136	124	132
Other public sector	-71	-102	-140	-167	-205	-212	-214
Credit to the private sector	1,528	1,740	1,942	2,036	1,963	1,969	1,999
Other assets (net)	-129	-157	-190	-203	-212	-212	-212
Liabilities to the private sector	1,590	1,847	2,024	2,161	2,123	2,167	2,215
Monetary survey							
Net foreign assets	261	351	425	494	558	610	637
Net domestic assets	1,467	1,649	1,753	1,822	1,723	1,721	1,751
Credit to the public sector (net)	96	92	37	15	-8	-17	-17
Central government	202	231	212	208	204	205	208
Other public sector	-106	-138	-175	-194	-212	-222	-225
Credit to private sector (by comm. banks)	1,528	1,740	1,942	2,036	1,963	1,969	1,999
Other items (net)	-157	-184	-225	-229	-232	-231	-231
Liabilities to the private sector	1,728	2,000	2,178	2,316	2,281	2,331	2,388
Money and quasi-money (M2)	1,338	1,539	1,754	1,855	1,822	1,899	1,994
Currency in circulation	137	153	154	155	158	164	173
Deposits	1,201	1,386	1,601	1,701	1,665	1,735	1,822
Foreign currency deposits	68	79	59	60	57	62	65
Capital and reserves of commercial banks	321	382	364	400	401	371	329
	(In millions of U.S. dollars)						
Net international reserves of the CBB	84	108	165	210	216	219	233
	(In percent change, unless otherwise indicated)						
Memorandum items:							
Private sector deposits in local currency	17.3	15.4	15.5	6.3	-2.1	4.2	5.0
Base money	25.9	4.6	13.9	11.9	-2.7	4.2	5.0
Credit to private sector (by comm. banks)	12.2	13.9	11.6	4.8	-3.6	0.3	1.5
Money and quasi-money (M2)	17.3	15.0	14.0	5.8	-1.8	4.2	5.0
Net international reserves to M2 (percent)	12.6	14.0	18.8	22.6	23.7	23.1	23.3
Required cash reserve ratio (percent)	10.0	10.0	10.0	10.0	8.5	8.5	8.5
Loan-deposit ratio	120.4	118.8	117.0	115.6	114.0	109.6	106.0

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

1/ Includes Central Government's foreign assets.
2/ Includes SDR allocation.

Table 4. Belize: Balance of Payments, 2006-16

	2006	2007	2008	2009	Prel. 2010	Projections 2011	2012	2013	2014	2015	2016
	(In millions of U.S. dollars)										
Current account balance	**-25**	**-52**	**-145**	**-83**	**-43**	**-45**	**-68**	**-88**	**-102**	**-111**	**-119**
Trade balance	-185	-216	-308	-237	-169	-168	-203	-211	-224	-236	-254
Total exports, f.o.b.	427	426	480	384	478	567	578	591	606	629	644
Of which:											
Oil	41	71	115	60	103	137	133	133	128	114	102
Total imports, fob	-612	-642	-788	-621	-647	-735	-781	-803	-830	-865	-899
Of which:											
Fuel and lubricants	-107	-110	-136	-105	-114	-152	-151	-154	-155	-157	-160
Services	211	230	217	183	191	186	196	201	216	223	239
Income	-125	-159	-165	-108	-158	-143	-144	-157	-175	-181	-188
Of which:											
Public sector interest payments	-67	-59	-44	-42	-43	-47	-54	-62	-65	-68	-73
Current transfers	74	93	112	79	92	80	83	80	81	82	84
Private (net)	65	78	89	81	95	59	71	72	73	74	75
Official (net)	8	16	23	-2	-3	21	12	8	8	8	9
Capital and financial account balance	**83**	**114**	**216**	**136**	**33**	**49**	**85**	**78**	**94**	**98**	**107**
Capital transfers	9	4	9	18	6	6	6	6	6	6	6
Public sector	17	8	-15	85	-10	1	23	12	25	24	28
Of which:											
Change in assets	0	-2	-2	0	-9	0	0	0	0	0	0
Change in liabilities 1/	17	-9	-13	85	-1	1	23	12	25	24	28
Disbursements 2/	84	65	42	134	30	34	55	50	67	64	68
Central government	84	65	42	64	28	34	55	50	67	64	68
Amortization	-66	-69	-51	-44	-31	-34	-32	-38	-42	-40	-40
Central government	-61	-58	-46	-35	-27	-27	-28	-32	-35	-37	-38
Securitisation	-4	-4	-5	-5	0	0	0	0	0	0	0
Private sector 3/	57	102	222	32	37	42	56	60	64	68	73
Of which:											
Foreign Direct Investment	109	139	167	109	97	90	76	80	84	88	93
Errors and omissions	-8	-39	-13	-5	15	0	0	0	0	0	0
Overall balance	**50**	**23**	**58**	**47**	**4**	**4**	**16**	**-10**	**-8**	**-13**	**-13**
Financing	**-50**	**-23**	**-58**	**-47**	**-4**	**-4**	**-16**	**10**	**8**	**13**	**13**
Change in reserves (- increase)	-50	-23	-58	-47	-4	-4	-13	13	8	13	13
IMF (net)	0	0	0	0	0	0	-3	-4	-1	0	0
	(In percent of GDP, unless otherwise stated)										
Memorandum items:											
Gross international reserves (US$ millions)	**85.6**	**108.5**	**166.4**	**213.7**	**218.0**	**221.8**	**235.2**	**221.9**	**213.5**	**200.1**	**187.2**
In percent of gross external financing needs	93	89	85	168	294	282	234	176	148	132	117
In percent of total debt service	61	16	117	249	297	275	273	220	199	184	166
In months of imports	1.3	1.6	2.1	3.3	3.2	2.9	2.9	2.7	2.5	2.2	2.0
Current account balance	-2.1	-4.1	-10.6	-6.2	-3.0	-3.1	-4.4	-5.4	-5.9	-6.2	-6.3
Trade balance	-15.2	-16.9	-22.6	-17.6	-12.1	-11.4	-13.1	-13.0	-13.0	-13.1	-13.4
Capital and financial account balance	6.9	8.9	15.8	10.0	2.4	3.3	5.4	4.8	5.5	5.4	5.6
Private sector	4.8	8.0	16.3	2.5	2.7	2.9	3.6	3.7	3.8	3.8	3.9
Public sector	2.1	0.9	-0.5	7.6	-0.3	0.4	1.8	1.1	1.7	1.6	1.8
Overall balance	4.1	1.8	4.2	3.5	0.3	0.3	1.0	-0.6	-0.4	-0.7	-0.7

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

1/ Disbursements and amortization are net of the debt exchange operation in 2007.
2/ Includes the general and special SDR allocations in 2009.
3/ Detailed data on private sector flows are not available.

Table 5. Belize: Medium-Term Outlook, 2006-19

					Prel.	Projections								
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(Annual percentage change)													
Real economy														
GDP at constant prices	4.7	1.3	3.6	0.0	2.7	2.5	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Of which: oil output	3.0	0.9	0.8	1.2	-0.5	-0.1	-0.1	-0.1	-0.2	-0.6	-0.5	-0.5	-0.4	-0.4
GDP at current market prices	8.8	5.7	6.4	-1.1	3.9	5.2	5.3	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Prices (GDP deflator)	4.0	4.3	2.6	-1.0	1.1	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP, unless otherwise indicated)													
National accounts														
Consumption	80.2	81.7	80.3	82.0	80.4	79.8	81.5	81.1	80.7	80.9	81.0	80.6	80.8	81.1
Gross domestic investment 1/	17.7	17.2	26.4	22.0	18.0	19.0	19.0	19.5	19.8	19.8	19.8	20.0	20.0	20.0
Net exports	13.4	1.1	-6.7	-4.0	1.6	1.2	-0.5	-0.6	-0.4	-0.7	-0.8	-0.6	-0.8	-1.1
Gross national savings	15.6	13.1	15.8	15.8	15.0	15.9	14.6	14.1	13.8	13.6	13.4	13.6	13.2	12.5
Central government 2/														
Revenue and grants	24.8	29.1	29.4	25.9	26.7	28.3	27.7	27.5	27.1	26.8	26.6	26.3	26.1	26.0
Of which : oil revenue	0.2	0.9	1.6	0.9	2.2	2.2	2.1	2.3	2.0	1.7	1.4	1.2	1.0	0.9
Total expenditure	26.5	30.3	26.2	28.9	28.1	29.5	29.4	29.5	29.2	28.9	28.6	28.7	28.8	29.1
Noninterest expenditure	20.7	25.0	24.0	25.2	25.0	26.1	25.8	25.5	25.2	24.8	24.5	24.4	24.2	24.0
Primary balance	4.0	4.1	5.4	0.7	1.7	2.2	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Interest	5.8	5.3	2.2	3.7	3.0	3.4	3.7	4.1	4.1	4.1	4.2	4.4	4.7	5.1
Overall balance	-1.8	-1.2	3.2	-3.0	-1.3	-1.2	-1.8	-2.2	-2.1	-2.1	-2.2	-2.4	-2.7	-3.2
External sector														
Current account balance	-2.1	-4.1	-10.6	-6.2	-3.0	-3.1	-4.4	-5.4	-5.9	-6.2	-6.3	-6.4	-6.8	-7.5
Of which: exports of goods and services	65.1	64.3	63.6	54.0	59.3	63.3	61.8	60.6	59.7	59.3	58.3	57.9	56.8	56.1
Of which: petroleum exports	3.4	5.5	8.4	4.5	7.4	9.3	8.6	8.1	7.5	6.4	5.4	4.6	4.0	3.4
Of which: imports of goods and services	-63.0	-63.2	-70.2	-58.0	-57.7	-62.0	-62.3	-61.3	-60.2	-59.9	-59.1	-58.5	-57.6	-57.2
Capital and financial account	6.9	8.9	15.8	10.0	2.4	3.3	5.4	4.8	5.5	5.4	5.6	6.0	6.4	6.9
Public sector disbursements 3/	6.9	5.1	3.1	10.0	2.1	2.3	3.5	3.1	3.9	3.6	3.6	3.8	4.7	7.0
Public sector amortization 3/	-5.5	-5.4	-3.7	-3.3	-2.2	-2.3	-2.1	-2.3	-2.5	-2.2	-2.1	-2.0	-2.6	-4.4
Other capital and fin. account transactions 4/	5.4	9.2	16.5	3.4	2.4	3.3	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.2
Change in reserves (- increase)	-4.1	-1.8	-4.2	-3.5	-0.3	-0.3	-0.9	0.8	0.5	0.7	0.7	0.4	0.4	0.6
Gross official reserves (in months of imports)	1.3	1.6	2.1	3.3	3.2	2.9	2.9	2.7	2.5	2.2	2.0	1.9	1.7	1.5
Public and publicly guaranteed debt	92.5	87.6	79.4	82.2	83.3	80.4	78.1	76.5	74.9	73.4	72.1	71.0	70.4	70.2
Domestic	8.7	8.2	7.4	7.1	11.9	12.1	11.5	12.0	11.7	11.7	11.8	11.8	11.7	11.7
External	83.9	79.4	72.0	75.0	71.4	68.3	66.6	64.5	63.2	61.7	60.3	59.3	58.6	58.5

Source: Authorities, and Fund staff projections.

1/ Excludes discrepancy in external savings from the balance of payments.
2/ Fiscal projections are on a calendar year basis.
3/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.
4/ Includes errors and omissions.

Table 6. Belize: Public and Publicly Guaranteed Debt Simulations, 2006-19

					Projections									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(In millions of US dollars, unless otherwise indicated)									
1. Public and publicly guaranteed debt														
Total	1,123	1,123	1,083	1,108	1,167	1,184	1,212	1,247	1,284	1,322	1,363	1,412	1,469	1,539
Other public and publicly guaranteed external debt	107	107	74	72	57	57	57	57	57	57	57	57	57	57
Central government	1,016	1,016	1,009	1,035	1,110	1,127	1,155	1,190	1,226	1,265	1,306	1,354	1,412	1,481
Domestic debt	105	105	101	96	167	178	179	196	200	211	223	234	245	256
External debt	910	912	909	939	943	949	976	994	1,026	1,053	1,083	1,121	1,167	1,225
Multilateral	172	198	197	219	224	233	257	272	284	287	284	268	250	233
Bilateral and export credit	208	161	162	173	172	170	173	162	148	132	117	103	89	78
Commercial	531	552	550	547	547	547	547	547	547	547	547	547	547	519
New commercial borrowing	0	0	0	0	0	0	0	14	47	87	135	203	281	395
In percent of GDP														
Total	92.5	87.6	79.4	82.2	83.3	80.4	78.1	76.5	74.9	73.4	72.1	71.0	70.4	70.2
Other public and publicly guaranteed external debt	8.8	8.3	5.4	5.4	4.1	3.9	3.7	3.5	3.3	3.2	3.0	2.9	2.7	2.6
Central government	83.7	79.3	74.0	76.8	79.2	76.5	74.4	73.0	71.6	70.3	69.0	68.2	67.6	67.5
Domestic debt	8.7	8.2	7.4	7.1	11.9	12.1	11.5	12.0	11.7	11.7	11.8	11.8	11.7	11.7
External debt	75.1	71.1	66.6	69.7	67.3	64.4	62.9	61.0	59.9	58.5	57.3	56.4	55.9	55.9
Multilateral	14.2	15.5	14.5	16.3	16.0	15.8	16.5	16.7	16.6	16.0	15.0	13.5	12.0	10.6
Bilateral and export credit	17.1	12.6	11.9	12.8	12.3	11.5	11.1	9.9	8.6	7.3	6.2	5.2	4.3	3.6
Commercial	43.8	43.1	40.3	40.6	39.0	37.1	35.2	33.5	31.9	30.4	28.9	27.5	26.2	23.7
New commercial borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	2.8	4.9	7.2	10.2	13.4	18.0
2. Flow of funds					(In percent of GDP, unless otherwise indicated)									
2.1. Sources of funds														
Primary balance	4.0	4.1	5.4	0.7	1.7	2.2	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Privatization proceeds 2/	0.2	0.3	0.0	0.0	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified disbursements	6.9	7.0	3.3	5.5	1.2	3.0	3.6	3.3	2.2	2.0	1.7	1.0	0.8	0.8
Multilateral	1.3	2.9	0.9	2.6	1.3	1.5	2.5	2.0	1.9	1.3	1.1	0.5	0.3	0.3
Bilateral and export credit	5.4	1.8	2.1	2.1	0.7	0.8	1.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Commercial	0.2	2.3	0.4	0.8	-0.8	0.7	0.1	1.0	0.3	0.6	0.6	0.6	0.5	0.5
Domestic (net)	0.0	0.4	-1.4	0.8	-0.8	0.7	0.1	1.0	0.3	0.6	0.6	0.6	0.5	0.5
External 1/	0.1	1.9	1.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds														
Debt service 1/	10.8	11.4	7.1	6.2	4.9	5.2	5.6	6.0	6.2	6.2	6.2	6.4	7.2	9.5
Interest payments	5.8	5.3	2.2	3.7	3.0	3.4	3.7	4.1	4.1	4.1	4.2	4.4	4.7	5.1
Domestic	0.9	1.0	0.9	1.0	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8
External	4.9	4.3	1.3	2.7	2.6	2.9	3.2	3.5	3.5	3.5	3.5	3.7	4.0	4.4
Principal repayments	5.0	6.1	5.0	2.6	1.9	1.9	1.8	2.0	2.1	2.1	2.0	2.0	2.5	4.4
2.3. New financing requirement 2/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**	**2.0**	**2.2**	**2.5**	**3.4**	**4.4**	**6.8**
Assumptions														
Nominal GDP (US$ millions)	1,213	1,282	1,364	1,349	1,401	1,474	1,552	1,631	1,713	1,800	1,891	1,987	2,088	2,193
Nominal GDP growth rate (percent)	8.8	5.7	6.4	-1.1	3.9	5.2	5.3	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Real GDP growth rate (percent)	4.7	1.3	3.6	0.0	2.7	2.5	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Annual inflation (deflator, in percent)	4.0	4.3	2.6	-1.0	1.1	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Assumed domestic borrowing rate (percent)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Nominal external commercial borrowing rate (percent)	13.8	8.6	7.7	7.3	7.2	7.5	8.4	9.4	9.8	10.0	10.2	13.0	13.2	13.5
Assumed 10-year U.S. T-Bond (percent)	4.8	4.6	3.7	3.3	3.2	3.5	4.4	5.4	5.8	6.0	6.2	6.5	6.7	7.0
Spread over 10-year U.S. T-Bond (percent)	9.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	6.5	6.5	6.5
Nominal external multilateral/bilateral borrowing rate (percent)	6.3	6.3	4.0	2.1	1.5	1.4	1.5	1.6	2.1	2.1	2.1	3.8	4.1	4.3
Six-month LIBOR rate (percent) 3/	5.3	5.3	3.0	1.1	0.5	0.4	0.5	0.6	1.1	1.1	1.1	1.3	1.6	1.8
Spread over LIBOR rate (percent)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.5	2.5	2.5
Memorandum items:														
Overall central government balance (calendar year, percent of GDP)	-1.8	-1.2	3.2	-3.0	-1.3	-1.2	-1.8	-2.2	-2.1	-2.1	-2.2	-2.4	-2.7	-3.2
Implicit nominal interest rate (percent) 4/	6.4	6.0	2.6	4.6	3.8	4.2	4.9	5.5	5.6	5.8	6.0	6.4	7.0	7.7
Gross financing requirement (percent of GDP)	6.9	7.0	3.3	5.5	1.2	3.0	3.6	4.1	4.2	4.2	4.2	4.4	5.2	7.5

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

1/ Flows exclude the results of the debt exchange operation in 2007.

2/ Includes interest on new borrowing.

3/ Latest World Economic Outlook assumptions.

4/ Interest on government debt in previous year divided by stock of debt.

APPENDIX I—DEBT SUSTAINABILITY ANALYSIS (DSA)

The results of the DSA are broadly in line with those of the 2010 Article IV consultation. While this assessment projects slightly lower public debt ratios over the medium term due to a somewhat stronger fiscal performance and lower world interest rates, debt remains high and vulnerable to shocks

A. Macroeconomic framework

1. **The fiscal balance is expected to deteriorate moderately over the medium term.** While the primary balance will stay at some 2 percent of GDP, the overall fiscal deficit will widen by 1 percentage point of GDP by 2016 driven by the step-up interest rate on restructured debt (which represented 47 percent of total public debt at end-2010).

2. **Economic growth will remain subdued.** Feeble growth among Belize's main trading partners and a weak investment climate will constrain growth rates at 2.5 percent over the medium-term.

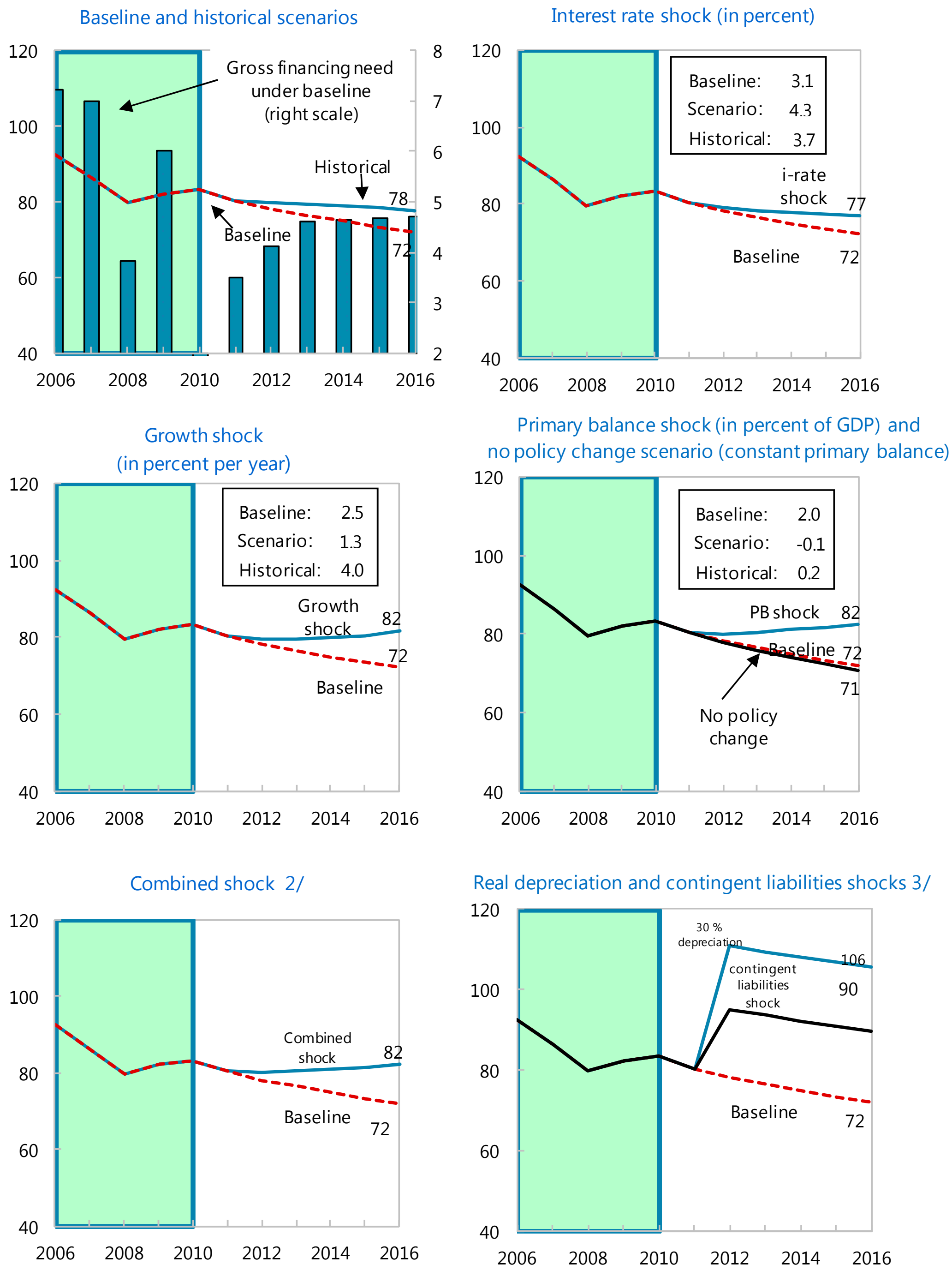
3. **The main financing assumptions are as follows:** domestic debt is broadly constant; multilateral and bilateral loans are borrowed at LIBOR plus 100 bps; and that projected financing needs will be covered primarily by external commercial creditors at market interest rates. In particular, the spread over the U.S. T-Bond is assumed at 400 bps over the medium-term, and at 650 bps over the second half of the decade. FDI inflows will remain below historical levels.

B. Assessment

4. **Under the baseline scenario, public debt would decline moderately to 72 percent of GDP by 2016.** Despite the positive effects of the steady economic growth and primary balance on lowering the debt ratio, public sector financing needs will increase by 1.2 percentage points of GDP by 2016 (4.2 percent of GDP) due to the step-up in coupon rates and a heavier reliance on commercial debt. For the remainder of the decade, the debt ratio would stay broadly stable, but financing needs will further increase to 7½ percent of GDP by 2019, due to the start of the amortization payments on restructured debt (Table 5).

5. **Bound tests highlight that the public debt trajectory is vulnerable to standards shocks.** Since about 85 percent of total public debt was denominated in foreign currency in 2010, the debt ratio is particularly sensitive to the depreciation shock—with a 30 percent depreciation, total debt would climb to about 111 percent of GDP and then follow a similar trajectory to that of the baseline. The debt ratio is also highly sensitive to shocks in growth and the primary balance. Further, a 17 percent of GDP shock to contingent liabilities (Box 1) would cause a proportional increase in debt levels, while financing needs would expand by some 1.5 percentage point of GDP over the medium-term.

DSA Figure 1. Belize: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



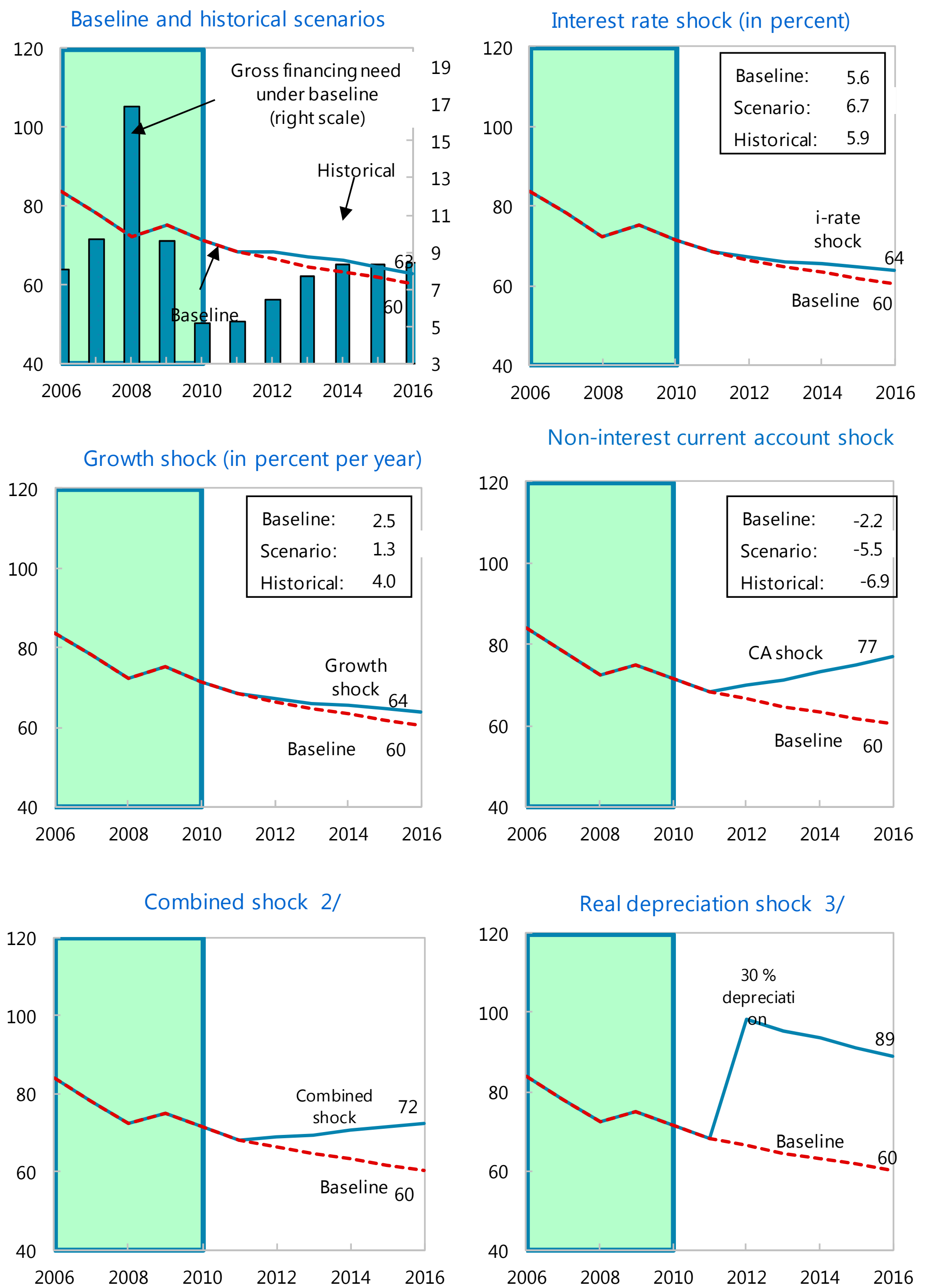
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 17 percent of GDP shock to contingent liabilities occur in 2012, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

DSA Table 1. Belize: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	2006	2007	2008	2009	2010	Projections 2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	92.5	87.6	79.4	82.2	83.3	80.4	78.1	76.5	74.9	73.4	72.1	**0.7**
o/w foreign-currency denominated	83.8	79.4	72.0	75.0	71.4	68.3	66.6	64.5	63.2	61.7	60.3	
Change in public sector debt	-6.2	-4.9	-8.2	2.7	1.2	-3.0	-2.3	-1.6	-1.6	-1.5	-1.4	
Identified debt-creating flows (4+7+12)	-6.6	-4.0	-8.5	3.8	-3.8	-3.6	-2.3	-1.6	-1.6	-1.5	-1.4	
Primary deficit	-4.0	-3.3	-5.4	-0.7	-1.9	-2.2	-1.9	-1.9	-2.0	-2.0	-2.0	
Revenue and grants	24.8	29.1	29.4	25.9	26.7	28.3	27.7	27.5	27.1	26.8	26.6	
Primary (noninterest) expenditure	20.7	25.8	24.0	25.2	24.8	26.1	25.8	25.5	25.2	24.8	24.5	
Automatic debt dynamics 2/	-2.2	-0.4	-3.1	4.5	0.1	-0.8	-0.3	0.3	0.4	0.5	0.7	
Contribution from interest rate/growth differential 3/	-2.2	-0.4	-3.1	4.5	0.1	-0.8	-0.3	0.3	0.4	0.5	0.7	
Of which contribution from real interest rate	2.0	0.7	-0.1	4.5	2.3	1.2	1.8	2.2	2.2	2.3	2.4	
Of which contribution from real GDP growth	-4.2	-1.2	-3.0	0.0	-2.2	-2.0	-2.1	-1.9	-1.8	-1.8	-1.7	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	-0.4	-0.3	0.0	0.0	-2.0	-0.7	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.4	-0.3	0.0	0.0	-2.0	-0.7	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.5	-0.9	0.3	-1.1	4.9	0.7	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	373.5	300.9	270.5	316.8	311.8	283.5	281.7	278.6	276.0	273.6	271.3	
Gross financing need 6/	6.7	6.5	3.3	5.5	1.2	3.0	3.6	4.1	4.2	4.2	4.2	
in billions of U.S. dollars	0.08	0.08	0.05	0.07	0.02	0.04	0.06	0.07	0.07	0.08	0.08	
Scenario with key variables at their historical averages 7/						80.4	79.9	79.5	79.0	78.6	78.1	**-0.2**
Scenario with no policy change (constant primary balance) in 2011-2016						80.4	77.8	75.9	74.1	72.5	70.9	**0.7**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.7	1.3	3.6	0.0	2.7	2.5	2.8	2.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 8/	6.4	5.2	2.6	4.6	4.0	4.2	4.9	5.5	5.6	5.8	6.0	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.4	0.9	0.0	5.6	2.9	1.6	2.4	3.0	3.1	3.3	3.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.0	4.3	2.6	-1.0	1.1	2.6	2.5	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.7	26.1	-3.6	5.0	1.1	7.9	1.4	1.4	1.0	1.2	1.2	
Primary deficit	-4.0	-3.3	-5.4	-0.7	-1.9	-2.2	-1.9	-1.9	-2.0	-2.0	-2.0	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

DSA Figure 2. Belize: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2012.

DSA Table 2. Belize: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	2006	2007	2008	2009	Prel 2010	Projections 2011	2012	2013	2014	2015	2016	Debt-stabilizing non-interest current account 6/
Baseline: External debt	83.9	79.4	72.0	75.0	71.4	**68.3**	**66.6**	**64.5**	**63.2**	**61.7**	**60.3**	**-3.3**
Change in external debt	-7.0	-4.4	-7.4	3.0	-3.6	-3.1	-1.7	-2.1	-1.3	-1.5	-1.4	
Identified external debt-creating flows (4+8+9)	-14.0	-10.1	-11.2	0.0	-4.6	-1.5	-1.0	0.1	0.7	0.9	1.0	
Current account deficit, excluding interest payments	-2.8	-0.3	8.5	3.6	0.5	0.1	1.2	1.9	2.5	2.7	2.8	
Deficit in balance of goods and services	-2.1	-1.1	8.0	4.2	-1.6	-1.2	0.5	0.6	0.4	0.7	0.8	
Exports	65.1	64.3	62.2	53.8	59.3	63.3	61.8	60.6	59.7	59.3	58.3	
Imports	63.0	63.2	70.2	58.0	57.7	62.0	62.3	61.3	60.2	59.9	59.1	
Net non-debt creating capital inflows (negative)	-8.7	-9.6	-16.2	-7.1	-4.9	-2.9	-3.6	-3.7	-3.7	-3.8	-3.8	
Automatic debt dynamics 1/	-2.5	-0.2	-3.5	3.5	-0.2	1.2	1.4	1.9	1.9	2.0	2.1	
Contribution from nominal interest rate	4.9	4.3	1.3	2.7	2.6	2.9	3.2	3.5	3.5	3.5	3.5	
Contribution from real GDP growth	-3.9	-1.1	-2.7	0.0	-2.0	-1.7	-1.8	-1.6	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	-3.5	-3.4	-2.0	0.8	-0.8	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	7.0	5.7	3.8	3.0	1.0	-1.6	-0.8	-2.2	-1.9	-2.4	-2.4	
External debt-to-exports ratio (in percent)	128.8	123.6	115.7	139.3	120.5	108.0	107.6	106.3	105.9	104.1	103.4	
Gross external financing need (in billions of US dollars) 4/	0.10	0.12	0.23	0.13	0.07	0.08	0.10	0.13	0.14	0.15	0.16	
in percent of GDP	8.1	9.6	16.8	9.6	5.3	5.3	6.5	7.7	8.4	8.4	8.4	
Scenario with key variables at their historical averages 5/						**68.3**	**68.4**	**67.1**	**65.9**	**64.2**	**62.5**	**-7.7**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.7	1.3	3.6	0.0	2.7	2.5	2.8	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	4.0	4.3	2.6	-1.0	1.1	2.6	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	5.8	5.4	1.7	3.7	3.6	4.3	4.9	5.5	5.6	5.8	6.0	
Growth of exports (US dollar terms, in percent)	26.0	4.3	3.0	-14.4	14.4	12.3	3.0	3.0	3.5	4.2	3.4	
Growth of imports (US dollar terms, in percent)	6.9	6.0	18.2	-18.3	3.3	13.1	5.8	3.3	3.2	4.7	3.6	
Current account balance, excluding interest payments	2.8	0.3	-8.5	-3.6	-0.5	-0.1	-1.2	-1.9	-2.5	-2.7	-2.8	
Net non-debt creating capital inflows	8.7	9.6	16.2	7.1	4.9	2.9	3.6	3.7	3.7	3.8	3.8	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 5, 2011

Prepared By	Western Hemisphere Department

CONTENTS

ANNEX I. FUND RELATIONS

(as of August 31, 2011)

I. Membership status. Joined: March 16, 1982.

II. General Resources Account	**SDR Million**	**Percent Quota**
Quota	18.80	100.00
Fund holdings of currency (Exchange Rate)	19.26	102.46
Reserve Tranche Position	4.24	22.55

III. SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.09	112.28

IV. Outstanding Purchases and Loans	**SDR Million**	**Percent Quota**
Emergency Assistance	4.70	25.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec 03, 1984	May 31, 1986	7.13	7.13

VI. Projected Payments to the Fund (in SDR Million)[1/]

			Forthcoming		
	2011	2012	2013	2014	2015
Principal		1.76	2.35	0.59	
Charges/Interest	0.02	0.06	0.03	0.00	0.00
Total	0.02	1.82	2.38	0.59	0.00

1/ Based on existing use of resources and present holdings of SDRs. When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Exchange Rate Arrangement: 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. Belize has accepted the obligations of

Article VIII, Sections 2, 3, and 4, and does not maintain exchange restrictions or multiple currency practices.

XI. Last Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on October 15, 2010 (IMF Country Report No. 11/18). Belize is on the standard 12-month consultation cycle.

XII. Recent Technical Assistance:

- MFD long-term consultant assisted on banking supervision in early 2004–June 2005.
- LEG/MFD advised on strengthening of AML/CFT regime in March 2005.
- MCM advised on design of monetary policy instruments in December 2006.
- FAD reviewed domestic tax and customs systems and advised on governance regime for the revenue administrations in February 2007. Belize has been receiving TA on tax administration from CARTAC.
- STA assessed quality of macroeconomic statistics in March 2007—national accounts, consumer price, government finance, monetary, and balance of payments.
- STA advised on national accounts statistics in August 2008.
- MCM advised on bank supervision and regulations in September–October 2008.
- STA followed up on national accounts, supply and use tables; on price statistics; and on balance of payments and international investment position statistics in July 2009.
- MCM advised on development of bank resolution framework in April 6–12, 2010 and in September 6–9, 2010.
- MCM advised on forensic auditing in January and March 2011.
- LEG advised on improvements to the Banks and Financial Institutions Act in February 2011.
- MCM and WB conducted the first FSAP in July 2011.

ANNEX II. BELIZE: BANK—FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE BANK

A. Bank-Fund Collaboration under the JMAP

1. **The teams of the Fund and the World Bank met on November 3, 2010 and February 4, 2011 to coordinate the work on Belize for the next 12 months.** This coordination meeting occurred in the context of the 2011 Article IV consultation and the preparation of a new four-year Country Partnership Strategy (CPS) presented to the Board (World Bank) on September 8, 2011.

2. **The overall size of the envelope during the new CPS period is likely to be around US$20–28 million.** The Interim Strategy (March 2009–March 2011) re-established the Bank as a development partner in Belize through Analytical and Advisory Activities (AAA) and modest investment lending. Such lending includes a US$15 million municipal development loan, approved by the Board on September 16, 2010. The focus of the CPS is to support the Government's efforts to adopt a sustainable natural resource based economic model while enhancing the country's resilience to climate change and natural hazards.

3. **The teams agreed that Belize's main macroeconomic challenges are to enhance the economy's resilience to shocks and strengthen growth and social prospects.** In particular, the teams discussed the need to enhance banking system stability and debt sustainability, and to strengthen the policy framework, while reinforcing the implementation capacity of the Belizean authorities.

4. **The work of the teams will be organized along the following lines:**

- **Banking system stability:** The Fund is providing TA (LEG and MCM) in the areas of forensic auditing and bank resolution framework.

- **Governance and budget framework:** The Bank is providing assistance on a project aimed at developing and sustaining institutional capacity in the areas of external audit and public procurement, with focus on the Audit Department and the Contractor-General's Office.

- **Social protection:** The Bank will assist in the design of a conditional cash transfer program that would target urban and rural vulnerable groups and give cash in return for the beneficiaries engaging in activities such as immunization, school attendance, and health and family education.

- **Infrastructure**. The Bank will, through the Municipal Development Project, improve access to basic municipal infrastructure and enhance municipal management in selected town and city councils of Belize.

- **National accounts.** The Fund will continue to provide TA on the launching of a revised Consumer Price Index (CPI). While the Statistical Institute of Belize has, in collaboration with CARTAC, developed a new basket of items, pending tasks relate to the collection of price data and the compilation of the CPI on a monthly basis.

Belize: Bank and Fund planned activities November 2010–October 2011			
Title	**Products**	**Provisional Timing of Missions**	**Expected Delivery Dates**
Bank Work Program	Interim Strategy Note	December 2010	
	Municipal Development Project		Approved by the Board on September 2010
	Conditional Cash Transfer		2011Q1
	Country Strategy Partnership		Board Discussion September 2011
Fund Work Program	Staff Visit	April 2011	April 2011
	Article IV Consultation	August 2011	October 2011
	MCM TA (Forensic accounting)	December 2010 February 2011	December 2010 March 2011
	LEG TA (Bank resolution framework)	February 2011	
Joint Work	FSAP/FSSA	July 2011	October 2011

B. Financial Relations with the World Bank Group

IBRD Operations
(In U.S. dollars)

	IBRD
Original Principal	101,200,000
Cancellations	5,703,328
Disbursed	81,728,003
Undisbursed	13,768,670
Repaid	70,981,034
Due	10,746,968
Exchange Adjustment	-11,042
Borrower Obligation	10,735,926

Gross Disbursements and Debt Service During Fiscal Year (July 1–June 30)
(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012*	2013*
Disbursements	0.7	0.0	0.0	0.0	0.0	1.2	2.0	3.0
Repayments	4.5	4.9	4.9	4.7	4.3	4.5	2.0	1.7
Net	-3.8	-4.9	-4.9	-4.7	-4.3	-3.2	0.0	1.3
Interest	1.7	1.8	1.6	1.0	0.4	0.2	0.1	0.1
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Estimated Debt Service. Reflects estimated disbursements for US$15mn municipal development project.

ANNEX III. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(as of July 31, 2011)

1. **Country Strategy with Belize (2008–2012).** The draft Country Strategy has four development objectives: (i) Ensure sound fiscal management and public sector transparency; (ii) Create conditions for and restore sustainable, private sector led growth; (iii) Improve human resource development and social protection; and (iv) Rehabilitation of basic infrastructure. Approvals to date under this strategy have reached US$72 million (nine projects). The approved program includes 6 investment loans that will contribute towards tourism, agriculture and infrastructure development, land management. A US$15 million policy based loan targeting reforms in the education, health and fiscal policy sectors was concluded in April 2011.

2. **Numerous technical cooperation projects** include efforts to support fiscal transparency and responsibility, an assessment of the pension system, institutional strengthening of credit unions, assistance with competitiveness and investment promotion, and natural disaster risk management. Strategy results to date include the introduction of a medium-term fiscal framework in the 2010/11 budget; approval of an amendment to the Education Act establishing the creation of the National Teaching Services Commission; and reconstruction and localized repairs of the road network, replacement and repair of culverts, and replacement of bridges and crossings damaged by the floods of 2008.

3. **Current portfolio (in US$ million)**

Loan	Approved	Undisbursed
Solid Waste Management	11.2	9.1
Sustainable Tourism	13.3	11.6
Land Management Program III	2.5	1.8
Agricultural Services Program	5.0	3.8
Community Action for Public Safety	5.0	5.0
Water and Sanitation Program – Placencia	5.0	5.0
Belize City Flood Mitigation Infrastructure	10.0	10.0
Total	**52.0**	**46.3**

4. **Loan transactions (in US$ million)**

	2007	2008	2009	2010	Proj. 2011
Net flows	**12.3**	**-6.6**	**4.9**	**-0.3**	**10.2**
Gross disbursements	20.2	2.7	12.9	8.0	18.4
Amortization	3.9	4.2	4.2	4.4	4.3
Interest and charges	4.5	5.1	3.8	3.9	3.9

ANNEX IV. RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

A. Loan Portfolio under Implementation and Transactions

Loan Portfolio under Implementation

(As of August 31, 2011, in millions of U.S. dollars)

Loan	Approved	Undisbursed
Second Water Project	13.8	0.3
Health Sector Reform Program	5.6	0.6
Belize Social Investment Fund	7.1	0.2
Modernization of Customs and Excise Department	2.5	0.3
NDM – Bridge Rehabilitation	8.8	5.5
Feasibility Study – Water/Ambergris Caye	0.3	0.1
Sixth Consolidated Line of Credit	10.0	4.3
Belize River Water Project	3.5	3.5
Belize Social Investment Fund II	15.0	14.8
Fourth Road Project – Santa Elena – San Ignacio Bypass	24.7	24.7
NDM – Immediate Response – Hurricane Richard	0.8	0.8
Total	**91.1**	**55.1**

Loan Transactions

	2005	2006	2007	2008	2009	2010	Year to August 2011
Net flows	**4.0**	**(1.7)**	**3.3**	**(0.4)**	**10.5**	**2.0**	**(2.7)**
Gross disbursements	9.4	3.9	20.0	14.9	21.3	14.5	6.2
Amortization	5.4	5.6	12.2	10.1	6.4	7.6	5.8
Interest and charges	4.5	4.7	4.5	5.2	4.4	4.9	3.1

B. Economic and Sector Work

1. Projects approved and implemented from 2007–10 were all consistent with CDB's strategy for Belize (2007–09). Total loan approvals during the period 2007–10 amounted to one hundred and three point five million United States dollars (US$103.5 million), while approvals of grants amounted to US$3.5 million, including US$2.8 million under the Basic Needs Trust Fund (BNTF) V and VI Projects. Generally, CDB's strategy was successful with respect to the attainment of the immediate objectives. As part of the strategy, CDB supported Belize's adjustment efforts through a Policy Based Loan (PBL). The loan of US$25 million was instrumental in the success that Belize had with its adjustment efforts. The first disbursement of the PBL was made in 2007, while the second disbursement was made during the first quarter of 2009. Further, parallel to the PBL, Technical assistance (TA) was extended to Belize under three projects namely: the Modernisation of Customs and Excise Department Project; Institutional Framework for Conducting Macroeconomic Management; and Modernisation and Revision of Financial Regulations. The latter two were small grants while assistance under the first project (which is still ongoing) was through a loan.

2. To support the environment for growth, in 2007 CDB approved a loan of US$12.6 million to Belize for the upgrading of the 33.4 kilometres Placencia Road, including the reconstruction of some sections. The Placencia Peninsula is an important and growing area for tourism activity. The project was successfully completed in 2010 under budget. Further, in 2008, CDB approved a loan of US$8.8 million to Belize for the reconstruction of the Kendall (Sittee River) and Mullins River bridges, which were destroyed by floods generated from the passage of tropical storm Arthur. The reconstruction of these economically important bridges started in 2010 and is ongoing. In recognition of the importance of infrastructure to the economic development of Belize, a fourth road loan of US$24.7 million was approved in 2010 for a bypass road through the reconstruction of Loma Luz Boulevard and Joseph Andrews Drive, and for connecting these two existing streets with a new road and bridge crossing the Macal River. The project is expected to contribute to sustaining and increasing economic activity in and through the area which is important for tourism, the transportation of crude oil and for trade with Guatemala.

3. In 2010, CDB approved a loan of US$1.6 million to conduct a feasibility study for the expansion of water and sewerage facilities on Ambergris Caye. Ambergris Caye is an important area of concentrated tourism activity for Belize. The improvement of the water and sewerage system is thought to be important to sustain and boost tourism activity in the area. The objective of this intervention was the production of a feasibility study and phased capital works investment programme for Ambergris Caye to guide Belize Water Services Limited (BWSL).

4. To support private sector development, in 2009 CDB approved a line of credit of US$10 million to the Government of Belize (GOBZ), for the financing of projects in the sectors of agriculture, industry, housing and education. The funds are being managed by Development Finance Corporation (DFC) on an agency basis. CDB also provided a TA

Grant for institutional strengthening of DFC and the institution has started implementing recommendations from the Consultant's report.

5. With respect to critical social sector investments, approximately US$3.3 million was approved by CDB in 2010, for GOBZ to establish a potable water supply system in Belize River Valley, to serve nine villages, by installation of pipeline, storage tanks, pumps and boreholes and connect the system to BWSL mains. The project is expected to contribute to a reduction of risks to food and water-borne diseases and, in general, will contribute to the reduction in poverty and an improvement in the general quality of life of residents.

6. Additionally, through a US$15 million loan, approved in 2010, CDB will make resources available to the Belize Social Investment Fund (BSIF) to fund small sub-projects in poor under-served communities. The sub-projects, to be selected on a demand-driven basis, will be in the following areas: water and sanitation; education; health; economic infrastructure; social infrastructure; and organization strengthening. The project is expected to help improve living conditions and enhance social capital in poor communities in Belize. Interventions under BSIF are an integral component of Belize's poverty reduction strategy and action plan. CDB's funds will also allow for the development of a comprehensive results-based monitoring and evaluation system. This is the second loan approved by CDB to fund projects through BSIF, which was established by legislation to appraise, finance and supervise sub-projects in poor communities throughout Belize. The first loan was approved in 2003 and amounted to USD7.07 mn.

7. With respect to human resource development, CDB approved grant funding of US$260,000 in 2010 for the payment of consultancy services to assist GOBZ with the formulation of a policy and strategic framework for the education sector. This involves the development of a comprehensive education sector strategy, including a school location plan. The assignment will also assist GOBZ with the development of a proposal for a comprehensive investment programme for CDB's consideration.

8. CDB has in place a new strategy for the period 2011 to 2015. Given the need to enhance growth as an anchor for poverty reduction, it is proposed that the CDB assists Belize to strengthen the environment and the institutional framework for sustainable growth. Hence, the proposed interventions under the strategy are designed to contribute to: the maintenance of a stable macroeconomic environment; improving public financial management; and enhancing environment for output growth. Further, recognizing that growth by itself may not be sufficient to reduce poverty, it is proposed that the CDB assists Belize to close the growth-poverty gap by improving the opportunities for persons to escape poverty, increase inclusivity and reduce vulnerability. Among the specific interventions, CDB proposes: PBLs amounting to US$50 million to encourage Belize to maintain a stable macroeconomic environment and to support policy developments in the areas of improving public sector financial management; managing for results and critical human resource capacity building; investments to improve road, water and

sewerage infrastructure; other investments to enhance private sector development with focus on the financial sector; investments to improve access to and the quality of education; and other social interventions targeted at poor and vulnerable groups. The overall proposed lending programme amounts to a total value of US$172.8 million.

ANNEX V. STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data are broadly adequate for surveillance. In general, the quality, coverage, and timeliness of statistics permit an adequate monitoring of economic developments. However, the multi-sector statistics report of July 2007 listed shortcomings in national accounts, prices, external trade, government finance, and labor statistics. Data concerning the balance sheet of the DFC also requires improving.

Real sector: Priorities for the period ahead include establishing a user advisory committee, updating the SNAPC-Belize application to account for changes in the structure of the economy, modifying the concept of government industrial activity in line with the 1993 SNA, rebasing the national accounts to 2006, including electricity imports in the merchandise trade statistics, conducting a survey of activity in the commercial free zone, disaggregating the imports of the export processing zone, undertaking an inventory of data sources, updating the register of establishments, annotating all GDP tables to distinguish the various revision stages, and collecting data on informal activity. The statistical office (SIB) is assessing the reliability of the establishment survey conducted for 2006, given the low response rate--conducting a new survey for reference years 2006–08 is an alternative option, but would result in delays on the current time frame; other options include using general sales tax (GST) and income taxpayers' data to validate cost coefficient assumptions.

Prices and labor statistics: The CPI is calculated for February, May, August, and November, and released to the public with a lag of about three months. With the assistance of the Fund, the basket of goods and services has been updated. The SIB is compiling a monthly CPI for food and fuels that will be tentatively released in the fourth quarter 2011 with data from December 2010. Labor market statistics are scarce and available at irregular intervals.

Fiscal accounts: Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector; evaluating each statutory body to determine its proper sectorization; compiling GFS for the social security fund; including the social security fund and the extra budgetary units in the coverage of debt data; treating all government transactions in line with the guidelines of the GFSM 2001, ensuring that annual financial statements for budgetary central government are audited in a timely manner; disseminating the statistics for central government aggregates and debt in accordance with the GDDS recommendations; and disseminating the available monthly data on budgetary central government revenue, expenditure and financing.

Balance of payments: There is a need to improve and expand the compilation and dissemination of external sector statistics. The authorities are refining the process for collecting relevant data that is enabling regular quarterly presentation. International

Investment Position (IIP) Statistics are not compiled. Additional staff and relevant training is highly recommended. Recommended priorities for the period ahead include modifying several of the annual balance of payments survey forms to improve data collection.

Development Finance Corporation (DFC): Priorities ahead include recording the financial support provided by the government to DFC in recent years; and renewing efforts to collect balance sheet data from the DFC using principles outlined in the GFSM 2001 and the draft Public Sector Debt Guide being prepared by STA and aligned with it (the GFSM 2001).

B. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since September 27, 2006.

No data ROSC is available.

C. Reporting to STA

International Investment Position (IIP) statistics are not compiled. No fiscal data are being reported for publication in the Government Finance Statistics Yearbook or in the IFS.

Belize: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	8/16/2011	8/16/2011	M	N/A	NA
International ReserveAssets and Liabilities of the Monetary Authorities 1/	3/31/2011	8/9/2011	W	W	NA
Reserve/Base Money	3/31/2011	8/9/2011	W	W	NA
Broad Money	3/31/2011	8/9/2011	W	W	NA
Central Bank Balance Sheet	3/31/2011	8/9/2011	W	W	NA
Banking System Balance Sheet	3/31/2011	8/9/2011	M	M	NA
Interest Rates 2/	3/31/2011	8/9/2011	M	M	NA
Consumer Price Index	3/31/2011	5/31/2011	Q	Q	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —General Government 4/	3/30/2003	12/30/2003	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —Central Government	6/31/2011	8/9/2011	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt 5/	5/31/2011	8/9/2011	M	M	NA
External Current Account Balance	3/31/2011	8/9/2011	Q	Q	A
Exports/Imports of Goods and Services	3/31/2011	8/9/2011	M	M	NA
GDP/GNP	2011Q1	7/13/2011	A	A	NA
Gross External Debt	5/31/2011	8/9/2011	A, M	A, M	NA
International Investment Position 6/	N/A	N/A	N/A	N/A	N/A

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ Consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 11/131
FOR IMMEDIATE RELEASE
October 31, 2011

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

IMF Executive Board Concludes 2011 Article IV Consultation with Belize

On October 21, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Background

Belize has weathered the financial crisis relatively well when compared with Caribbean Community peers. Output expanded by 2.7 percent in 2010 owing largely to activity in the electricity and wholesale and retail trade. Twelve-month inflation was nil in 2010, reflecting primarily continued weakness in domestic demand, and picked up slightly in the quarter ending in May driven by higher food and fuel prices. The external position strengthened, as a narrowing in the current account deficit (from 6.1 percent of GDP in 2009 to 3 percent in 2010) underpinned an increase in foreign reserves to 3.25 months of imports at end-2010, equivalent to 300 percent of 2011 external financing needs. Public debt rose to 83 percent of Gross Domestic Product (GDP).

In Fiscal Year 2010/11, the overall fiscal deficit widened by 0.3 percentage point of GDP to 1.5 percent of GDP, reflecting an increase in expenditure and weak grant disbursements. This outturn was, however, better than envisaged in the budget. Meanwhile, bank prudential indicators have remained weak, with high nonperforming loans (NPLs) and low provisioning. Bank liquidity remains ample. In July, the authorities participated in their first Financial Sector Assessment Program (FSAP). Despite a cut in reserve requirements, bank credit growth has slowed as fewer investment opportunities and high NPLs continue to constrain new lending.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Improvements in social indicators have been protracted, despite the allocation of significant resources to social protection.

The macroeconomic outlook for 2011 remains moderately positive. Output growth is projected at 2.5 percent, reflecting a strong performance in the first quarter—supported by an expansion in manufacturing and electricity sectors, and a modest recovery in stayover tourist arrivals. Higher food and fuel prices are expected to push inflation slightly upward. The external current account deficit is projected to remain at about 3 percent of GDP in the context of some improvement in the terms of trade. The reserve coverage would remain at around 3 months of imports by year-end.

Executive Board Assessment

Executive Directors commended the authorities for their macroeconomic management, which enabled Belize to weather the financial crisis relatively well. While the near-term outlook is positive, challenges arise from the uncertain global environment, vulnerabilities in the banking system, rising gross financing needs of the public sector, and the weak investment climate. The recent rise in poverty is also a cause for concern. Against this backdrop, Directors encouraged the authorities to strengthen the policy framework and advance the reform agenda.

Directors emphasized the need to further tighten the fiscal stance and rebuild macroeconomic buffers. A gradual increase in the primary surplus would keep financing needs manageable and place the public debt on a downward path. Directors cautioned that growing contingent liabilities could put an additional burden on public finances, requiring close monitoring over the medium term. Welcoming the authorities' intention to strengthen tax administration, Directors stressed the importance of improving overall tax collections, including a reduction in tax concessions. They also highlighted the need to contain the growth of the wage bill, and streamline capital spending in line with implementation capacity and grant disbursements.

Directors endorsed the authorities' emphasis on developing social programs aimed at reducing poverty. They underscored that these programs should be cost effective and better monitored and targeted.

Directors agreed that safeguarding financial sector stability should be a high priority. They welcomed the authorities' plans to use the findings of the recent FSAP to guide their reform agenda and strengthen the financial sector. Noting the high level of non-performing loans, Directors stressed the importance of issuing revised loan classification and provisioning guidelines by year-end as planned, and of closely monitoring bank's capital adequacy. They encouraged the authorities to follow through on recommendations to enhance the bank's supervisory capacity and reinforce the bank resolution and consolidated supervision frameworks. Directors also called for greater autonomy of the central bank. They welcomed the ongoing efforts to revamp the monetary policy framework.

Directors noted that the fixed exchange rate has provided an important anchor for macroeconomic policies. Given that rising gross external financing needs over the medium-term would increase vulnerability, they recommended building a higher level of foreign reserves as a buffer against shocks.

Directors emphasized the need to strengthen the macroeconomic framework and the business climate to tackle Belize's low productivity growth. They called for timely compensation to former owners of the nationalized entities, once the courts have reached a final verdict. Improving the long-term conditions for growth would also require the implementation of steady programs to enhance physical and financial infrastructure, promoting the formation of skilled labor, and reforming the tax system. Directors stressed the importance of close collaboration between the Fund and development partners in these areas.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Belize: Selected Economic Indicators

	2007	2008	2009	Prel. 2010	Proj. 2011	Proj. 2012
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
GDP at constant prices	1.3	3.6	0.0	2.7	2.5	2.8
Nominal GDP (US$ millions)	1,282	1,364	1,349	1,401	1,474	1,552
Gross domestic investment 1/ 2/	17.2	26.4	22.0	18.0	19.0	19.0
Gross national savings 1/	13.1	15.8	15.8	15.0	15.9	14.6
Consumer prices (end of period)	4.1	4.4	-0.4	0.0	4.2	2.5
Real effective exchange rate (July for 2011)	-4.9	-0.6	4.5	-3.1	-5.6	…
Money and credit						
Credit to the private sector	13.9	11.6	4.8	-3.6	0.3	1.5
Money and quasi-money (M2)	15.0	14.0	5.8	-1.8	4.2	5.0
	(In percent of GDP, unless otherwise indicated)					
Central government 3/						
Revenue and grants	28.1	28.6	27.0	27.4	28.6	27.4
Current expenditure	23.1	23.3	24.5	24.0	24.9	24.6
Capital expenditure and net lending	5.7	4.9	3.7	4.5	5.4	5.4
Primary balance	3.8	4.2	2.4	1.9	2.2	1.8
Overall balance	-0.7	0.4	-1.2	-1.5	-1.6	-2.5
External sector						
External current account 4/	-4.1	-10.6	-6.2	-3.0	-3.1	-4.4
Overall balance of payments (US$ millions)	22.9	57.9	47.2	4.3	3.9	16.1
Public and publicly guaranteed debt	87.6	79.4	82.2	83.3	80.4	78.1
Domestic debt	8.2	7.4	7.1	11.9	12.1	11.5
External debt	79.4	72.0	75.0	71.4	68.3	66.6
Gross international reserves (US$ millions) 5/	108.5	166.4	213.7	218.0	221.8	235.2
In months of imports	1.6	2.1	3.3	3.2	2.9	2.9

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

1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Fiscal year ends in March. Budget projection for 2010
4/ Including official grants.
5/ For 2009, includes the share of Belize in the IMF Special and General SDR allocations in the equivalent of SDR 18 million (US$28 million).