



# BELIZE

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

July 2013

The following documents have been released and are included in this package:

- The staff report for the 2013 Article IV Consultation prepared by a staff team of the IMF, following discussions that ended on April 18, 2013, 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 June 5, 2013. 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.
- Public Information Notice (PIN).
- Statement by the Executive Director for Belize.

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# BELIZE

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

June 5, 2013

### KEY ISSUES

**Context.** In March, the government of Belize completed the exchange of its “super-bond” for new U.S. dollar denominated bonds. While the debt exchange is expected to bring substantial cash-flow relief, the public sector debt-to-GDP ratio will remain high. The government may face large financing needs over the medium term, largely associated with potential compensation to the former shareholders of nationalized companies.

**Focus of the consultation.** The discussions centered on how to take advantage of the breathing room provided by the debt exchange. Staff urged the adoption of a fully articulated macroeconomic framework to address vulnerabilities and emerging risks. Such framework should include robust fiscal consolidation, active debt management, steady financial sector reform, and measures to buttress external sector resilience. These efforts need to be complemented with structural reforms to enhance competitiveness and growth prospects.

- **Near-term policies.** Policy should give priority to raising the primary surplus to at least 2 percent of GDP in the current fiscal year, while sustaining the momentum of financial sector reforms.
- **Medium-term strategy.** Staff urged the authorities to strengthen fiscal consolidation by gradually raising the primary balance to 3 percent of GDP and attain a sustainable debt path. Priority should be given to the implementation of a strategic tax reform with a view to attaining growth, promoting fairness, and ensuring sustainable revenues. On growth and employment, staff recommended enhancing structural competitiveness by tackling major impediments to doing business.

Approved By  
**Gian Maria Milesi-Ferretti (WHD) and Masato Miyazaki (SPR)**

Discussions took place in Belmopan and Belize City during November 1–16, 2012 and April 9–18, 2013. The team, comprising G. Peraza (head), M. Kandil, J. Okwuokei, A. Peter, K. Vitola (all WHD), and T. Tsuda and E. Togo (MCM) met with Prime Minister Barrow, Central Bank of Belize Governor Ysaguirre, Finance Secretary Waight, other officials and representatives of the private sector, labor unions, and the political opposition. Mr. Lessard (OED) participated in the meetings.

## CONTENTS

<b>OVERVIEW</b>	<b>4</b>
<b>RECENT ECONOMIC DEVELOPMENTS</b>	<b>4</b>
<b>MACROECONOMIC OUTLOOK AND RISKS</b>	<b>6</b>
<b>POLICY DISCUSSIONS</b>	<b>8</b>
A. Policy Framework to Contain Fiscal Risks and Enhance Debt Management	8
B. Financial Sector—Maintaining Reform Momentum and Addressing Vulnerabilities	11
C. External Stability—Exchange Rate and Competitiveness	13
D. Data Provision	15
<b>STAFF APPRAISAL</b>	<b>15</b>
<b>BOXES</b>	
1. Tax Reform for Growth, Fairness, and Sustainable Revenues	17
2. Medium-Term Debt Strategy	18
3. Financial Sector Reform Agenda	19
4. The Authorities' Response to Past IMF Policy Recommendations	20
<b>FIGURES</b>	
1. Real Sector Developments	21
2. External Sector Developments	22
3. Fiscal Sector Developments	23
4. Monetary and Financial Sector Developments	24
5. Public Debt Portfolio, February 2013	25
<b>TABLES</b>	
1. Selected Social and Economic Indicators, 2008–14	26
2a. Operations of the Central Government (in millions of Belize dollars)	27
2b. Operations of the Central Government (in percent of GDP)	28

3. Operations of the Banking System, 2008–14	29
4. Balance of Payments, 2008–18	30
5. Medium-Term Outlook, 2008–19	31
6. Public and Publicly Guaranteed Debt Simulations, 2008–19	32

### **DSA TABLES**

1. External Debt Sustainability Framework, 2008–2018	41
2. Public Sector Debt Sustainability Framework, 2008–2018	43

### **DSA FIGURES**

1. External Debt Sustainability: Bound Tests	42
2. Public Debt Sustainability: Bound Tests	44

### **ANNEXES**

I. Super-Bond 2.0	33
II. Additional and Contingent Liabilities	36
III. Debt Sustainability Analysis (DSA)	39
A. Macroeconomic Framework	39
B. Assessment	40
IV. Reserve Adequacy, Exchange Rate, and Current Account Assessment	45

## OVERVIEW

1. **The general elections of March 2012 resulted in a sharply reduced parliamentary majority for Prime Minister Dean Barrow's United Democratic Party (UDP).** The UDP won 17 seats in the 31-seat parliament, a thin 3-seat majority and 8 seats less than in the previous parliament. Mr. Barrow, who called the elections almost a year earlier than anticipated, made the restructuring of Belize's 2029 bonds ("super-bond", with a face value of US\$546 million or 30 percent of GDP) a key electoral issue.
2. **On March 20 of this year, the government of Belize completed the exchange of its "super-bond" for new U.S. dollar denominated bonds ("2038 bonds") (Annex I).** While the external public debt restructuring is expected to bring needed cash-flow relief in the near term (about US\$130 million over the next 5 years), public sector debt will decline only marginally upfront as the "net" face value haircut is 3 percent. Staff's calculations suggest that the NPV loss to bondholders ranges from 29 to 31 percent (measured with 9 and 10 percent discount rates). In the end, the government achieved 86 percent of creditor support, which exceeded the 75 percent threshold for the exercise of the collective action clause.<sup>1</sup>
3. **The debt restructuring took place against the backdrop of prolonged legal disputes over the nationalization of two public utility companies and the enforceability of several arbitration awards (Annex II).** Belize faces significant additional claims in relation to the 2009 nationalization of Belize Telemedia Limited (BTL) and the 2011 nationalization of Belize Electricity Limited (BEL). No agreement has been reached yet on the amount of compensation; and the legal dispute may take a few years in court. In addition to these claims, several arbitral awards related to land acquisition, overpayment of taxes, and non-observance of tax agreement have been delivered against the government and are pending enforcement.

## RECENT ECONOMIC DEVELOPMENTS

4. **Macroeconomic developments in 2012 were underpinned by robust output growth but clouded by uncertainties surrounding the debt restructuring and growth prospects of major trading partners.**
  - **Economic activity accelerated thanks to a rebound in agriculture and tourism, despite a sharp decline in oil production (Figure 1).** In 2012, output growth is estimated at 5.3 percent, led by a recovery from the 2011 effects of weather-related damages in commodity exports. Inflation averaged 1.3 percent in 2012, as commodity price pressures abated.

<sup>1</sup> S&P upgraded Belize to non-default rating (B-) on March 20 given expected completion of the debt exchange, followed by an upgrade by Moody's from Ca to Caa2 on April 15, reflecting an improvement in the government's liquidity position.

- **The external current account deficit widened to about 1.7 percent of GDP up from 1.1 percent of GDP in 2011** due to a steep drop in oil exports and higher imports of fuel and electricity. Notwithstanding this deterioration, international reserve coverage is estimated at 3.4 months of imports (up from 3 months in 2011), thanks in part to strong FDI inflows in the sugar sector (Figure 2).
- **The fiscal primary surplus for FY2012/13 is expected to deteriorate to 1.3 percent of GDP compared to 2.3 percent of GDP in 2011 (Figure 3).** This deterioration largely reflects the continued decline in oil-related revenues and an increase in the wage bill, despite robust growth in General Sales Tax (GST) revenue. In addition, the government was able to partly offset the loss of its BTL dividends with a one-off early repayment of an old loan by the company.<sup>2</sup>
- **After two years of decline, credit to the private sector recovered modestly in 2012 (Figure 4).** Loan write-offs and high non-performing loans (NPLs) continue to hold back private sector credit growth, estimated at 1.1 percent, and are eroding banks' net earnings. Broad money grew by 5 percent, mostly driven by expansion in net foreign assets. Persistently high liquidity in the system—albeit unevenly distributed across banks (one bank holds about 75 percent of the excess liquidity over the liquid asset requirement)—combined with limited investment opportunities have driven T-bill rates below 2 percent. Despite an unchanged monetary policy stance,<sup>3</sup> there were across-the-board cuts in lending rates on new loans, notably for residential construction and personal loans, with rates dropping to single digits early this year.
- **The banking system continues to come under stress.** New provisioning and loan classification standards implemented by the central bank at end-2011 have resulted in declining NPLs in the banking system and improving provisioning. Nevertheless, NPLs remain high at 20 percent of total loans at end-2012, with heavy concentration in one domestic and some international banks. In compliance with the new prudential measures, banks have been required to write off bad loans within 3–5 years (US\$18.7 million in 2012). With the exception of some very small ones, credit unions appear to be in good shape with NPLs under 5 percent and ample provisioning.

**Text Table 1. Belize: Financial Soundness Indicators**

(Domestic and international banks; in percent)

	2009	2010	2011	2012
Capital/risk-weighted assets 1/	22.2	23.9	24.2	20.5
Excess statutory liquidity 2/	33.5	43.8	64.3	83.5
NPLs/total loans	14.0	18.7	21.4	20.3
Provisions/NPLs	18.1	15.5	24.4	38.3
NPLs net of provisions/capital	48.2	61.9	66.1	58.5

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

1/ The required capital adequacy ratios for domestic and international banks are 9 percent and 10 percent, respectively.

2/ In percent of statutory liquidity requirement.

**Social conditions have not improved.** Belize GDP per capita, which is low relative to peers in the region, grew at about 1 percent in real terms on average yearly since 2008. The population

<sup>2</sup> The Caribbean Court of Justice decided that the government's share of BTL dividends must be maintained as retained earnings by the company.

<sup>3</sup> Cash reserve requirement of 8.5 percent, liquid asset ratio of 23 percent, and minimum deposit rate of 2.5 percent.

below the poverty line measured 41 percent in 2009, up from 34 percent at the beginning of the last decade, reflecting increasing unemployment, widening income disparity, lagging educational attainment, and rising crime.<sup>4</sup> Unemployment remains high at 16 percent in September 2012, affecting particularly the young (30 percent) and women (22.4 percent). Belize may miss half of the Millennium Development Goals by 2015, including reduction of extreme poverty, women's share of paid employment, and universal primary education.<sup>5</sup>

## MACROECONOMIC OUTLOOK AND RISKS

**5. Staff prepared a baseline scenario to anchor discussions.** The scenario assumes a continuation of current policies and real GDP growth of 2½ percent over the medium term. After a peak in oil production in 2009, oil reserves are estimated to last through the end of this decade, barring new discoveries. Commodity exports, tourism, and construction are expected to balance the decline in crude oil production. Despite persistent high liquidity in the banking system, inflation is expected to remain low in line with those of the main trading partners, reflecting subdued commodity price pressures. The current account is expected to deteriorate owing to the decline in crude oil exports, which could put pressure on international reserves.

**Text Table 2. Belize: Baseline Macroeconomic Scenario, 2011-18**  
(In percent of GDP, unless otherwise indicated)

	2011	2012	Projections					
			2013	2014	2015	2016	2017	2018
Real GDP growth (percent)	1.9	5.3	2.5	2.5	2.5	2.5	2.5	2.5
GDP deflator (percent)	4.4	1.3	1.1	1.5	1.6	1.7	1.7	2.0
<b>Central government 1/</b>								
Overall balance	-1.4	-1.5	-0.8	-1.6	-1.6	-2.4	-2.4	-3.0
Primary balance	2.1	1.5	1.1	1.0	1.0	1.0	1.0	1.0
Public and publicly guaranteed debt 2/	83.0	78.6	75.1	73.5	89.5	87.8	86.3	85.5
Current account balance	-1.1	-1.7	-1.9	-2.8	-3.5	-4.5	-5.4	-5.8
Gross international reserves (months of imports)	3.0	3.4	3.1	2.7	2.4	2.1	1.7	1.4

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

1/ Fiscal projections are on a calendar year basis.

2/ Includes repayment of additional liabilities to the former owners of BTL and BEL (at mid-point valuation between the authorities' assessment and the claims of the former owners of the companies) and land claims in equal installments in 2016-20.

**6. Despite the significant cash flow relief from the debt exchange, the public debt-to-GDP ratio will remain high over the medium term and could become a drag on growth.** Under the baseline scenario, the debt associated with the nationalization of the two public utility companies is recognized at mid-valuation at end-2015 and compensation to previous shareholders

<sup>4</sup> Country Poverty Assessment 2009, [www.belize.gov.bz/public/Attachment/131612504571.pdf](http://www.belize.gov.bz/public/Attachment/131612504571.pdf).

<sup>5</sup> Belize Scorecard and Outlook Report 2010, UNDP, p. 16.

to start in 2016.<sup>6</sup> Accordingly, financing needs could rise to above 6½ percent of GDP, starting in 2016, and to more than 7 percent of GDP after 2018, as compensation to former shareholders falls due as contemplated in the nationalization legislations.

## 7. Risks to this scenario are tilted to the downside:

### **Short term**

- *Spending pressure.* The prospective savings associated with the debt exchange have intensified spending pressure. In addition to the automatic salary adjustment already in place (average annual increase of 3 percent in nominal terms), the government is under pressure to introduce a more generous wage and salary increase, which appears likely to occur and could further tighten the already limited fiscal space. Staff advised the government to resist this pressure, and offer a more realistic remuneration package.
- *Banking sector vulnerabilities.* NPLs remain high, although concentrated in a few domestic and international banks. Further loan write-offs in the near term could impair the capital base of some weak banks, which would require recapitalization. This could entail significant fiscal cost should the government intervene. However, this risk has been somewhat mitigated by the more collaborative approach between the central bank and weak banks and the recent recapitalization of one small bank. This notwithstanding, continued intensive supervision is warranted to contain remaining vulnerabilities.

### **Medium term**

- *Refinancing risk.* The amortization of the 2038 bonds starts in 2019 and poses a refinancing challenge to the government, as the associated debt service is projected to increase by 1 percent of GDP. This reinforces the case for building a strong fiscal buffer well ahead of the rise in financing needs.
- *Additional liabilities.* While there remains uncertainty about the size, modality, and timing of the possible compensation payments to the former owners of the two nationalized utilities companies, additional liabilities will materialize with a very high likelihood. Should the compensation payment turn out to be closer to the upper valuation of the claimants, gross financing needs could soar and debt could climb up to 100 percent of GDP, threatening fiscal sustainability. Further, nonresidents, who account for a significant portion of the compensation claims, would likely not roll over their debt holdings, aggravating government-refinancing risk going forward. To mitigate refinancing risks, the authorities need to intensify fiscal efforts and promote the development of domestic capital market.

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<sup>6</sup> This assumption is based on the advice of the authorities regarding the expected timeframe for the legal process, but it is not prejudging the outcome of the legal claims.



- *Pressure on foreign exchange reserves.* The former shareholders of nationalized companies may try to move out of Belizean dollar-denominated assets once compensation actually takes place. While this may entail capital losses for them, given the thin market for domestic debt securities, there is a high possibility that foreign exchange reserves may come under pressure. With international reserves already below risk-weighted benchmarks and projected further deterioration, more robust fiscal consolidation would help mitigate pressures on the exchange rate peg and buttress external sustainability.
- *External vulnerabilities.* Belize's share of exports to the U.S. (about 46 percent of total exports of goods and services) and to the EU (31 percent) is high. Staff also notes that growth in Belize is highly sensitive to tourist arrivals from major source markets, the U.S. in particular. Thus, a weaker-than-expected U.S. recovery and lingering slow growth in Europe could have potential direct and indirect effects via trade and tourism channels that could undermine growth potential and restrain public finances. Therefore, as this risk has medium likelihood to occur, the authorities should intensify diversification efforts to strengthen Belize's capacity to weather external shocks.

**8. However, there are also moderate upside risks, mainly associated with intensified oil exploration.** In April, a company drilling in the northwest part of the country announced an oil discovery, and is currently conducting further tests to determine whether the find has commercial potential. To build fiscal buffer, staff recommends saving any revenue windfall.

## POLICY DISCUSSIONS

*Staff encouraged the authorities to use the breathing room provided by the debt exchange to adopt a fully articulated macroeconomic framework addressing existing vulnerabilities and emerging risks. In staff's views, this framework should include robust fiscal consolidation (while protecting flagship social programs), active debt management, steady financial sector reform, and measures to buttress external sector resilience. These efforts need to be complemented with structural reforms to boost competitiveness and growth.*

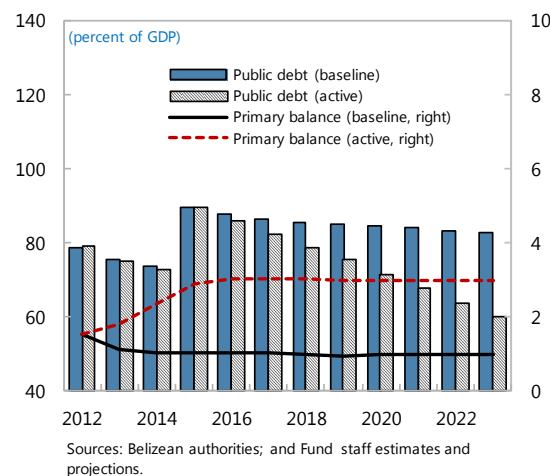
### A. Policy Framework to Contain Fiscal Risks and Enhance Debt Management

**9. The 2013/14 budget seeks a primary surplus target of only 1 percent of GDP, reversing the previously announced commitment to adhere to a 2 percent of GDP target.** Total revenues and grants are projected to increase by 3.2 percent, primarily on account of an expected improvement in tax administration. Wages and salaries and goods and services will be the main drivers of the 4 percent increase in primary current spending. The overall deficit is projected to deteriorate slightly to 1 percent of GDP from a deficit of ½ percent of GDP in FY2012/13, due to higher current spending including interest payments, as the country returns to a full-year debt service payment on the new 2038 bond, despite the lower coupon resulting from the debt exchange.

**10. In staff’s view, the adoption of a lower primary surplus weakens the momentum toward fiscal consolidation and debt sustainability (Annex III).** Over the medium term, while the authorities expect to offset the projected loss of oil revenues by higher tax revenue from ongoing tax administration reforms and expenditure restraint, the baseline scenario illustrates that policy management could become increasingly challenging. In light of the growing financing obligations, which are likely to double in 2016 relative to 2013, staff stressed the importance of a strong fiscal adjustment effort to avoid jeopardizing macroeconomic stability. In particular, with limited access to international capital markets, the authorities could face a challenge to tap an undeveloped domestic capital market to cover such rising financing needs.

**11. The authorities agreed with staff’s assessment that additional fiscal effort may be necessary to address rising financing needs and reduce public debt.** They view the new primary balance target as a base case to be raised back to 2 percent of GDP in 2014, subject to consultations with stakeholders on revenue measures. At the same time, as they assess the impact of the debt associated with the nationalization of the two utility companies based on their own valuation—substantively lower than the mid-point valuation used in staff’s baseline scenario—the authorities feel that the staff’s debt sustainability analysis may be on the pessimistic side. In addition, to ameliorate financing pressures in the domestic debt market, the authorities plan to use the proceeds from previous and future sales of shares, along with annual dividends, to finance the eventual payment of compensation to the shareholders of nationalized companies. Furthermore, the government left the door open to issue a maximum of US\$75 million of 2038 bonds to partially cover the payment of compensation.

**12. Staff encouraged the authorities to adopt a stronger fiscal policy package to ensure debt sustainability.** In line with previous staff assessments, the primary surplus should be raised further to place debt level and financing needs on a faster downward trajectory (Text Table 3). Raising gradually the primary surplus to 3 percent of GDP over the medium term—1 percent of GDP above the average over the last 10 years—would help reduce the debt-to-GDP ratio to less than 60 percent of GDP a decade from now, which staff considers a sustainable level, and to below the long-term value of 50 percent of GDP by mid-2020’s (Annex III). Staff cautioned that an even stronger fiscal adjustment may be warranted if the additional liabilities turn out to be closer to the upper-valuation claimed by former owners, as the gross financing needs are likely to soar. To that end, staff recommended the authorities to make progress in the following areas:



- **In the short term**, the focus of fiscal policy should be on raising the primary surplus to at least 2 percent of GDP in the current fiscal year. This could be achieved by spending restraint—especially moderating wage pressures—and reversing the erosion of the tax revenue base by bringing back many currently zero-rated GST items of domestic consumption into the

tax base.<sup>7</sup> In addition, the government should consider implementing the recommendations of the Auditor General's 2012 report, to enhance accountability and transparency in the use of public funds.<sup>8</sup>

- **Over the medium term**, priority should be given to the implementation of a strategic tax reform to boost growth, promote fairness, and ensure sustainable revenues, in line with the IMF recommendations (Box 1). These reform efforts need to be accompanied by stepping up the modernization of tax administration, as advised by CARTAC. There is also scope for a significant strengthening of fiscal discipline, capitalizing on reforming the Public Financial Management (PFM) system by enhancing budget analysis and forecasts, removing automatic wage and salary increases, and ensuring that fixed-term project contributions do not become recurrent spending. In addition, in light of the uncertainties surrounding the timing and size of additional liabilities, staff recommends saving any revenue windfall (i.e., associated with new oil discoveries).

**Text Table 3. Belize: Selected Fiscal Indicators**  
(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019
<b>Baseline, w/o additional liabilities</b>							
Primary balance	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Debt	75.1	73.5	72.2	70.7	69.4	68.4	67.4
Domestic	12.0	13.0	14.1	15.2	16.3	17.8	19.8
External	63.1	60.5	58.1	55.6	53.1	50.5	47.6
Gross financing requirements	3.4	4.1	3.9	3.8	3.8	4.2	4.6
<b>Baseline</b>							
Primary balance	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Debt	75.1	73.5	89.5	87.8	86.3	85.5	84.8
Domestic	12.0	13.0	27.2	28.1	29.3	31.2	33.7
External	63.1	60.5	62.3	59.6	57.0	54.3	51.1
Gross financing requirements	3.4	4.1	3.9	6.6	6.5	6.9	7.5
<b>Active</b>							
Primary balance	1.8	2.3	2.9	3.0	3.0	3.0	3.0
Debt	74.8	72.2	89.2	85.4	81.8	78.4	75.1
Domestic	11.7	11.3	25.8	24.7	23.8	23.5	23.8
External	63.1	61.0	63.4	60.7	58.0	54.9	51.4
Gross financing requirements	3.1	2.7	3.8	4.6	4.4	4.7	5.1

Sources: Belize authorities; and Fund staff estimates.

**13. While the authorities agreed with a number of staff's policy recommendations, they are yet to set a fiscal policy anchor.** The prolonged negotiation over the debt exchange and the uncertainty surrounding the additional liabilities provided little room to decide an appropriate policy anchor. Going forward, as the additional liabilities are firmed, the authorities plan to calibrate a set of fiscal anchors, including the public debt-to-GDP target, together with the Medium-Term Debt Strategy (MTDS), which is underway. Further, they re-iterated that, the need to combat crime, tackle rising poverty, and address infrastructure deficiencies could limit the scope for more aggressive

<sup>7</sup> The revenue loss from domestic GST zero rating is substantial, and has seriously complicated tax administration. Broad zero-rating provisions are poorly targeted instruments for achieving distributional goals.

<sup>8</sup> <http://www.audit.gov.bz/downloads/AG-Report-2011-FINAL.pdf>.

**14.** fiscal consolidation in the medium term. In this context, they are supportive of a gradual implementation of the IMF tax policy recommendations, particularly because the recently-introduced measures, such as a higher threshold for personal relief from income tax and the elimination of taxes on commissions and royalties paid by nonresidents, have won much political support and thus reversing them may be considered as tax hikes<sup>9</sup>—something that Prime Minister Barrow has promised not to do.

**15. The authorities are under intense pressure to grant more favorable wage adjustments and other concessions to public officers and teachers.** Staff cautioned against the government’s proposal to public officers and teachers to allocate half of the revenues resulting from improvements in tax administration (subject to an annual ceiling) to salary increases, as the plan may be unsustainable under the current circumstances. In addition, the authorities recently announced plans to set up a mortgage bank, to be financed with PetroCaribe funds,<sup>10</sup> with the primary objective of making residential mortgages affordable to public officers and teachers. Staff also cautioned against earmarking funds toward particular spending categories, and the creation of a specialized mortgage bank. However, should the authorities decide to go ahead with the plan, staff strongly advised on the need for an appropriate regulatory and supervisory framework to safeguard public finances, to which the authorities agreed.

**16. Staff welcomed the government’s plans to revamp the debt management framework, in line with the recommendations of an IMF technical assistance (TA) mission (Box 2).** As a first step, the authorities have appointed a high-level debt management task force to produce a reform plan to implement the TA mission’s recommendations. But, given the anticipated increase in gross financing needs, an active debt management framework and a robust MTDS need to be developed. Going forward, priorities should be to pass a comprehensive public debt management legislation, which would include the debt management objectives and the government’s obligation to develop an MTDS.

## **B. Financial Sector—Maintaining Reform Momentum and Addressing Vulnerabilities**

**17. Staff is of the view that continued intensive supervision and additional efforts are required to address the vulnerabilities in the financial sector.** The revised Domestic Banking and Financial Institutions Act (BFIA), which became effective in January 2013, significantly expanded the powers of the central bank in several areas. Among other things, the act established the legal basis for consolidated supervision and strengthened the rules to prevent high loan concentration and limit related party transactions. In staff’s view, operationalization and enforcement of some provisions of the revised act are warranted, and may require further TA mostly from CARTAC. The

<sup>9</sup> Belize recently raised the personal income tax minimum threshold to US\$13,000, a level equivalent to almost three times GDP per capita, leaving only a small portion of employees subject to a significant tax liability.

<sup>10</sup> Belize re-launched the PetroCaribe agreement in September 2012.

central bank has maintained weak financial institutions under intense supervision, and has adopted a collaborative approach with the banking sector in addressing vulnerabilities.<sup>11</sup> Further, staff emphasized the need to establish a legal department at the central bank, including for effective resolution practices. Staff also encouraged the authorities to take advantage of the available TA from the Fund to update the crisis management plan for implementing the bank restructuring and resolution framework established under the BFIA. In the meantime, there is a need for clarity about the scope and modality of government's intervention should a contingency materialize.

**18. The authorities highlighted that recent regulatory decisions are geared toward addressing vulnerabilities, but agreed that continued close monitoring is warranted.** They noted that the provisioning requirements being enforced continue to yield positive results, and most banks are on track to complying with them. In this regard, the central bank pointed out that, excluding one bank, the NPLs of the domestic banking system would be around 6–7 percent. Meanwhile, given the recent pickup in the mortgage market, the provisioning requirement for fully secured loans was relaxed in January this year for domestic banks only, to help the recovery in private sector credit.<sup>12</sup> Although no progress has been made in setting up a legal department, the central bank recognized the need to address this issue, possibly in the near term.

**19. The mission welcomed the authorities' continued commitment to press ahead with the remaining FSAP recommendations (Box 3).** There has been continued progress in several fronts on financial sector reforms. However, progress in improving insurance supervision and amending the insurance act has lagged, while plans to improve the supervision of offshore nonbank financial institutions have not progressed. Additional efforts in credit union regulation, Development Finance Corporation supervision, and central bank autonomy, are required to further strengthen the financial sector.

**20. The authorities noted the progress made on financial sector reforms.** They are on course to revising the credit union and insurance legislations, and plan to establish a credit bureau by end-2013. The newly created Financial Stability Unit (FSU) is laying the foundation to produce its draft financial stability report, which could cover the entire financial sector. In the next steps, the central bank plans to revise the international banking act and the central bank act next year, while the modernization of the national payment system will receive priority attention over the next three years. They also intend to facilitate information sharing among the relevant agencies. The authorities expressed interest to obtain technical assistance to further enhance regulatory and supervisory capacity. With respect to credit unions, the central bank plans to begin publishing their individual financial soundness indicators for the large credit unions.

<sup>11</sup> One domestic bank with capital adequacy ratio close to the legal minimum requirement recently recapitalized via a transfer of undistributed profit from the sister international bank.

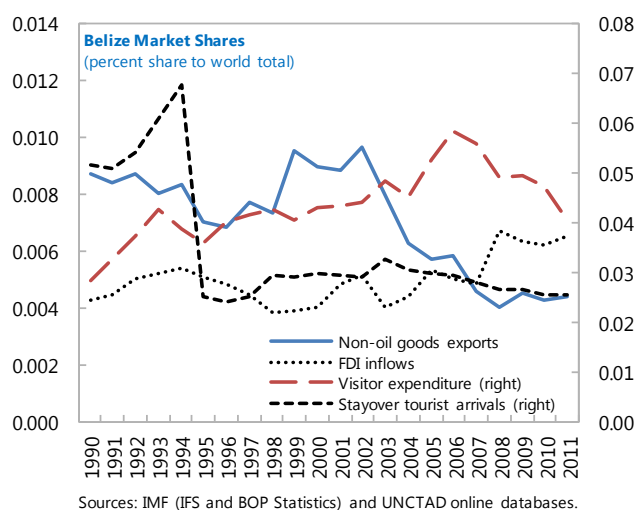
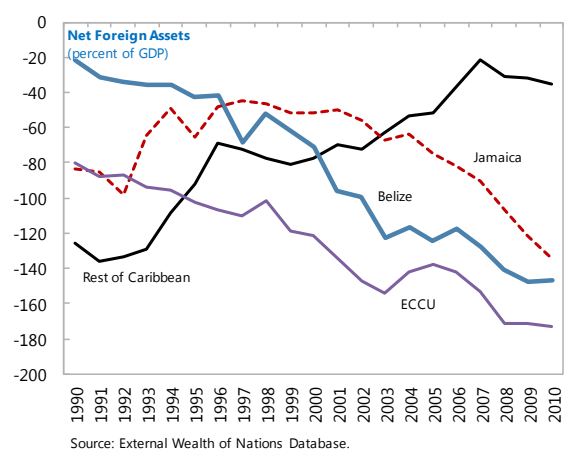
<sup>12</sup> Effective April 1, 2013, specific provisions equivalent to 50 percent (initially 75 percent) of the outstanding loan balance shall be maintained, [https://www.centralbank.org.bz/docs/fss\\_2.2\\_bfia/dbfia-practice-direction-3.pdf?sfvrsn=2](https://www.centralbank.org.bz/docs/fss_2.2_bfia/dbfia-practice-direction-3.pdf?sfvrsn=2).

**21. Staff encouraged the authorities to further strengthen the AML/CFT regime.** The central bank’s ongoing effort to introduce a risk-based approach to AML/CFT supervision, with Fund’s technical assistance, is welcomed. However, weaknesses within the International Financial Services Center (IFSC), particularly the lack of regulation and supervision of the international business companies’ (IBCs) sector, raise significant concerns on their potential misuse for money laundering and terrorist financing both in Belize and abroad. While the authorities shared these concerns, given the private sector’s involvement in the management of the IBC registry, additional actions in this field would require a wholesale change in the legal structure, which the authorities are urged to undertake to further strengthen the overall AML/CFT regime of Belize.

### C. External Stability—Exchange Rate and Competitiveness

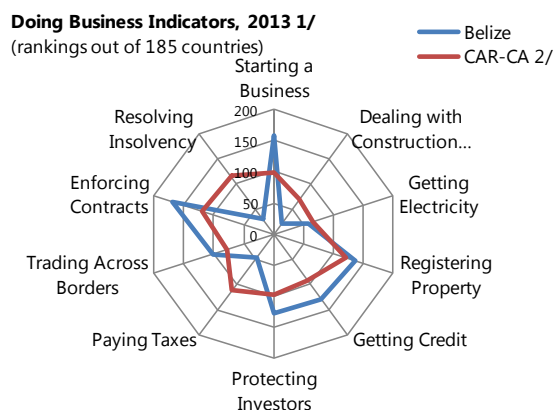
**22. The fixed exchange rate regime continues to serve Belize well.** The exchange rate, which is pegged to the U.S. dollar, has provided an important anchor for macroeconomic policies.

**23. This notwithstanding, Belize’s external position needs to be strengthened in light of the projected widening current account deficit and limited options to obtain external financing.** An improvement in the highly negative net external position (140 percent of GDP at end-2011), is desirable to bolster the country’s resilience against potential adverse external shocks. Fiscal consolidation would help contain import growth and achieve the reduction in the current account deficit needed to bolster external stability. Further, maintaining the real effective exchange rate close to its equilibrium level would help boost export competitiveness and revive economic growth. In addition, risk-weighted measures suggest that international reserves stand below benchmarks (Annex IV). The projected widening of the current account deficit from 1.7 percent of GDP in 2012 to 5.4 percent in 2017, high net external liabilities, rising financing needs, limited external financing, and low international reserves pose risks to Belize’s external stability. This could be even more challenging in the context of a weaker-than-expected U.S. recovery and a protracted period of slow growth in Europe, which could take a toll on external trade volumes and dampen the recovery in tourism.



**24. While the exchange rate appears to be in line with fundamentals (Annex IV), a few indicators suggest that competitiveness has deteriorated along regional trends.**<sup>13</sup> In 2011, the current account deficit narrowed as the Belizean dollar depreciated significantly in real effective terms. However, despite the recent surge in FDI flows, Belize's market share of non-oil goods exports and tourism have steadily declined over the last 10 years.

**25. Staff recommended using the space created by the recent debt exchange to advance not only macroeconomic policies but also structural reforms.** According to the 2013 World Bank Doing Business Report, Belize continues to lag behind regional peers in areas such as enforcing contracts, starting a new business, and registering property. Further, growth is expected to remain subdued over the medium term due to lack of security, weak institutions, poor infrastructure, and high crime rate—the main impediments for doing business in Belize.<sup>14</sup> Therefore, enhancing the business environment, including intensifying efforts to tackle crime, will be critical to attract private sector investment. Further, improving the efficiency of public investment, building a highly skilled work force, and diversifying the export base will be important to improving competitiveness and medium-term growth prospects.



Source: Doing Business Report 2013.

1/ A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.  
2/ Simple average of Caribbean and Central American regions.

**26. The authorities emphasized the need to promote external stability, and pointed out that Belize remains an attractive place for investment.** However, they raised concerns that additional fiscal consolidation could counter initiatives in key areas necessary to boost competitiveness and mobilize international reserves. Further, they defended their continued commitments to enhance transparency, contract enforcement, and land registration. In particular, they noted that the currently operational ASYCUDA system has improved customs administration and trade facilitation.

**27. Further efforts are underway to boost the tourism sector.** The authorities are implementing a National Sustainable Tourism Master Plan 2030, which aims to raise standards of Belize's tourism products, and develop new services sectors. The success of these initiatives hinges on continued investments in capacity building and easing structural bottlenecks. Based on

<sup>13</sup> *Caribbean Small States—Challenges of High Debt and Low Growth*, Policy Papers, February 20, 2013.

<sup>14</sup> World Economic Forum, *Global Competitiveness Report*.

preliminary cruise-ship bookings received so far this year, the tourism board is anticipating a surge of about 40 percent in tourist arrivals in 2014.<sup>15</sup>

## D. Data Provision

**28. Data provision is broadly adequate for surveillance.** In general, the quality, coverage, and timeliness of statistics permit an adequate monitoring of economic developments.<sup>16</sup> In the context of the recent debt exchange, the authorities have committed to make their best effort to initiate subscription to the Fund's Special Data Dissemination Standard.

## STAFF APPRAISAL

**29. Despite the acceleration in economic activity in 2012, output growth is expected to moderate to about 2.5 percent in the medium term.** Economic growth was boosted by a rebound in agriculture and tourism, despite a sharp decline in oil production. Looking ahead, the main risks to growth and financial stability arise from fiscal challenges and a potential weaker-than-expected global recovery that could take a toll on external trade volumes and tourism.

**30. Progress in consolidating the public sector's financial position needs to continue.** The adoption of a lower fiscal primary surplus of 1 percent of GDP, compared to the previous target of 2 percent, weakens the momentum toward fiscal consolidation and debt sustainability. The near-term focus should be on maintaining a primary surplus target of at least 2 percent of GDP. This could be achieved by spending restraint—especially moderating wage pressures—and reversing the erosion of the tax revenue base by bringing back many currently zero-rated GST items of domestic consumption into the tax base.

**31. Over the medium term, the fiscal strategy should aim at lowering debt ratios to a more sustainable level.** Gradually raising the primary surplus to 3 percent of GDP over the medium term would help reduce the debt-to-GDP ratio to less than 60 percent of GDP a decade from now. To achieve this, priority should be given to implementing a strategic tax reform with a view to boosting growth, promoting fairness, and ensuring sustainable revenues. Furthermore, lower debt ratios would reduce gross financing requirements, especially when potential pending liabilities for nationalized companies and the amortization of the U.S. 2038 bond begin to fall due. An even stronger fiscal adjustment may be warranted if additional liabilities turn out to be closer to the upper-valuation claimed by the former owners, as government financing needs are likely to soar.

**32. Rapid progress in fiscal reforms would help ensure the viability of public finances.** Further progress on the reform of the PFM system will help establish fiscal disciplines by enhancing

<sup>15</sup> The impact on the current account of this increase in cruise-ship arrivals is expected to be modest, as the greatest contribution to the sector comes from the stay-over tourism.

<sup>16</sup> Belize Staff Report for the 2013 Article IV Consultation—Informational Annex, Statistical Issues Appendix, p. 12.



budget analysis and forecasting, removing automatic wage adjustments, and ensuring that fixed-term project contributions do not become permanent spending obligations. In this context, staff cautioned against earmarking funds toward particular spending categories, and the creation of a specialized mortgage bank. In addition, the government needs to press ahead with actions to enhance accountability and transparency in the use of public funds.

**33. A solid debt management program needs to be developed.** Policy actions should include strengthening the institutional framework, building capacity to operationalize a medium-term debt management strategy, and developing the domestic debt market. To that end, the plan should consider the scope and capacity to develop market-based financing instruments.

**34. Despite a significant increase in provisions, the banking sector remains vulnerable with high, albeit gradually decreasing, NPL levels.** Continued vigilance is warranted in monitoring the strength of individual institutions and ensuring that their capital base remains adequate. The staff welcomes the recent steps to press ahead with necessary reforms, in line with the 2011 Financial Sector Assessment Program recommendations. Staff encouraged the authorities to take advantage of the available TA from the Fund to update the crisis management plan, and bank restructuring and resolution framework. In the meantime, there is a need for clarity about the scope and modality of government's intervention should a contingency materialize. In addition, staff encourages the authorities to further strengthen the AML/CFT regime.

**35. Although the exchange rate appears broadly in line with fundamentals, some compression of the projected current account deficits is needed to buttress external stability.** External stability will require a strategy to contain widening current account deficits, including by fiscal consolidation and a comprehensive structural reform agenda to enhance productive capacity and increase the country's competitiveness and market share of non-energy exports. To that end, the authorities need to improve the business environment by tackling major impediments to doing business in order to better attract investment, expand exports, and bolster external sustainability.

**36. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

### Box 1. Tax Reform for Growth, Fairness, and Sustainable Revenues

*An FAD General Tax Policy mission visited Belize January 24–February 6, 2013. The mission undertook a diagnostic review of the tax system, with special attention to business and income tax, GST and taxation of excisable goods. The report identifies short-term measures and medium-term reform strategy to mobilize additional revenues from the various taxes. Main findings and recommendations are summarized as follows:*

**Taxes on businesses.** The current business tax system is Belize in narrow-based. The challenge is to convert the system to taxation based on income for businesses, while expanding on the revenue base. To that end, the business tax needs to be transformed into a minimum tax, at a uniform rate in the range of 1.5 percent for most businesses to be credited against the excess of income tax over the minimum tax in future years. Staff also recommends modifying legislation to broaden the base for the business income tax to include capital gains and income from capital, taxed at 15 percent. Reforms should also target the elimination of many exemptions and loopholes and constraining discretionary power to extend additional exemptions. A business tax should be imposed on foreign residents in Belize in line with taxes on residents' income.

**Personal income tax.** The current system entails serious horizontal inequities. To address them, staff recommends aggregating more types of household incomes, including that of professionals and self-employed. More progressivity in the tax system on labor and business income may be introduced by adjusting the level of personal relief and reforming the rate structure. In addition, staff recommends phasing out deductions to be replaced by tax credits.

**General sales tax.** Concerns are rising about continued erosion of the revenue base for GST. Broad zero-rating creates distortions and is not well targeted to protect low income groups and small businesses. To that end, many goods that are currently exempted, whether imported or consumed domestically, and including both output and business inputs, should be taxed at the standard rate. In addition, staff recommends a thorough review of requirements to make the system more conducive to new businesses, while protecting revenues.

**Excises and customs duties.** Reforms should seek to harmonize the tax system between domestic production and imports. To mobilize more revenues, without increasing the cost of consumption and production, staff recommends increases in excises on selected items, including cigarettes, beer, spirits, and soft drinks; introducing an excise on wine; converting specific excises into guaranteed ad valorem excises; and introducing excises on mobile airtime and gaming.

**Special regimes.** Staff recommends phasing out direct and indirect concessions for Commercial Free Zones (CFZ), Export Processing Zones (EPZ), as well as those under the Fiscal Incentives Act (FIA). These concessions should be replaced by best practices such as avoiding renewal of income tax holidays and dividends holidays for CFZ, EPZ, and FIA. Tax incentives, instead, should target the business activity itself, through income tax credits, or accelerated tax provisions in the income tax code.

**Tourism.** The report recommends bringing hotels into the GST net at the standard rate, instead of the current Hotel Tax that should be eliminated. Other tourism services should also remain in the GST net at the standard rate. To compensate for loss of revenues, other own-revenue source should be imposed on the tourism sector to finance the Belize Tourism Board (BTB).

**Extractive industries.** To improve the revenue take, staff recommends two adjustments with respect to future discoveries and existing operations. The bidding process should be improved in the oil sector to govern existing and future exploration rights. Moreover, there is a scope to increase royalties in the minerals sector so that the government captures a greater share from the windfall of existing and future production.

**Property taxes.** Staff recommends pressing ahead with the reform agenda to base taxes on market value country-wide, with assessments performed by a single, professional agency, for both municipal and rural properties. Progress in these reforms will help ensure regular reassessments of property value and improve the reliability of the tax system.

### Box 2. Medium-Term Debt Strategy

*An IMF technical assistance (TA) mission visited Belize City and Belmopan from November 1–16, 2012, to provide a diagnosis on the institutional framework and to assist the authorities to build analytical capacity in developing a debt management strategy and the domestic public debt market.*

**Currently, there is no comprehensive institutional framework for debt management.** The legal basis for debt management is fragmented among different sets of legislation, and the ministry of finance and economic development lacks a debt management unit that ought to be responsible for strategy and analysis, and there is no documented Medium-Term Debt Management Strategy (MTDS). While data are managed relatively well at the central bank, the cost and risks of the total public debt portfolio is not systematically assessed.

**As the public debt portfolio is highly exposed to various market and financial risks (Figure 5), the authorities need to consider implementing more active debt management.** Although the peg to the U.S. dollar has historically worked well, a potential foreign exchange shock could significantly increase the debt levels and debt servicing obligations, given the high share of foreign currency debt in the central government debt portfolio (84 percent). Further, three-month treasury bills account for 52 percent of the domestic debt and require frequent interest rate resetting, thus exposing the debt portfolio to significant rollover and interest rate risks. Going forward, the commencement of amortization of the U.S. 2038 bonds in 2019 and the potential payouts to the former owners of the nationalized companies will push up the future gross financing needs and exacerbate the government refinancing risk.

**An active debt management program should incorporate a policy-oriented strategy in order to achieve the appropriate composition of the debt portfolio.** Staff recommendations include: (i) formation of a high-level National Debt Management Committee, with the robust middle-office function responsible for analyzing the cost and risk of the public debt portfolio; and (ii) submission of a comprehensive Public Debt Management Act to the parliament which would include the debt management objectives, the government's authority to borrow, and its obligation to develop a MTDS. Further, development of domestic public debt market is urgently needed, given that pending potential additional liabilities to nationalized companies need to be paid in domestic currency. Specifically, staff recommended that the authorities introduce a market-based auction system for treasury bonds and establish a comprehensive capital market act that governs securities transactions and businesses.

**The authorities are planning to revamp the debt management framework in line with the recommendations of the TA mission.** They are committed to reform the debt management framework and fully implement the recommendations by end-2013. Staff welcomes the progress and stands ready to provide further assistance upon request. Although the authorities do not envisage re-access to international capital markets in the foreseeable future, robust debt management institutions and an investor relations program will help achieve future market access as a long-term goal.

### Box 3. Financial Sector Reform Agenda

*The 2011 Financial Sector Assessment Program (FSAP) identified weaknesses and challenges in several areas of the financial sector and recommended actions for a reform agenda. The authorities are using the FSAP recommendations as bases for their financial sector reforms. While they have made significant progress in implementing the recommendations in some areas, further implementation efforts are needed.*

**Banking sector.** New provisioning and loan classification requirements adopted at end-2011 raised prudential measures to international standards. The revised Domestic Banking and Financial Institutions Act (BFIA) became effective January 2013, and among other things, established the legal basis for consolidated supervision and strengthened the rules to prevent high loan concentration and limit related party transactions. Based on the BFIA, the authorities plan to issue directives regarding: (i) corporate governance; (ii) internal controls; (iii) operational risks; and (iv) valuation of collateral in the banking sector. In a next step, they plan to update the International Banking Act next year.

**Credit unions.** The authorities have started to work on amending the Credit Union Act with further progress expected in 2013. The resolution of troubled/insolvent credit unions has progressed and is expected to be finalized by mid-2013.

**Crisis management and bank resolution framework.** The revised BFIA strengthens the bank resolution framework, inter alia through allowing for the appointment of a statutory administrator. With assistance from the Fund in early 2012, the authorities have established procedures for provision of Emergency Liquidity Assistance by the central bank and solvency support by the government and prepared a Domestic Crisis Management Plan.

**Financial infrastructure.** Plans to establish a credit bureau are progressing well. A draft legislation to establish the legal framework is expected to be passed by mid-year, while a bureau should be in place by end-2013, or early 2014. Plans are also underway to develop the capital market and modernize the national payments system, but the implementation of the latter will span the next three to four years.

**Financial stability.** The central bank has established a Financial Stability Unit (FSU), which is comprised of representatives of the Research and Financial Sector Supervision departments. The bank is currently developing the framework to draft its first financial stability report, which will include macro prudential surveillance, enhancing of its stress testing methodologies as well as developing a contagion matrix to track interconnectedness among the sectors.

**Insurance.** A draft amendment to the Insurance Act to strengthen the autonomy of the Supervisor of Insurance, improve corporate governance in the insurance sector and require insurance companies to publish financial information, is expected to be passed this year. The authorities are preparing a draft legislation to regulate private pensions. However, plans to improve the supervision of international insurance companies have not progressed.

**AML/CFT.** The central bank has developed and is in the process of implementing a risk-based offsite surveillance of banks, which would later be adapted to other sectors.

**Central bank autonomy.** Future amendments to the Central Bank Act could consider the autonomy of the central bank.

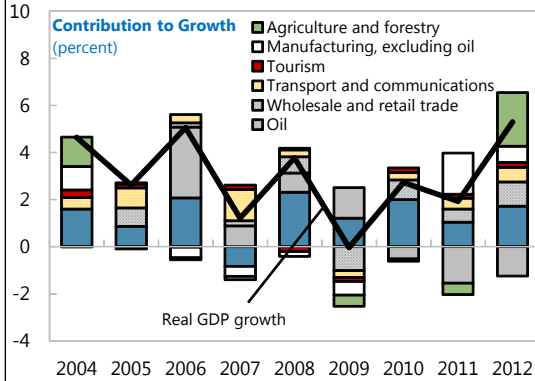
#### Box 4. The Authorities' Response to Past IMF Policy Recommendations

<p><b>Fiscal consolidation</b></p> <p>Strengthen fiscal policy to rebuild macroeconomic buffers in the context of rollover risks and emerging contingencies</p> <p>Clear plan to manage contingent fiscal liabilities.</p>	<p><b>Marginally consistent</b></p> <p>The outturn of the fiscal year 2011/12 was slightly above the budget target, but was below the 2011 Article IV recommendation. The outcome for fiscal year 2012/13 falls short of the envisaged target.</p> <p>The authorities have outlined options for financing additional liabilities owed to former shareholders of nationalized companies.</p>
<p><b>Financial sector reform</b></p> <p>Monitor closely elevated credit risks in the financial system and implement the recommendations from the 2011 FSAP.</p>	<p><b>Broadly consistent</b></p> <p>Considerable progress has been made in implementing FSAP recommendations. The authorities are committed to revamp the International Banking Act and the Credit Unions Act with a scope of implementation by end-2013. Further efforts are required to enhance consolidated supervision and strengthen the still vulnerable banking system.</p>
<p><b>Structural reforms</b></p> <p>Remove key infrastructure bottlenecks and improve the environment for doing business to boost economic growth.</p>	<p><b>Marginally consistent</b></p> <p>Key infrastructure bottlenecks persist (e.g. land registry, port facilities), while doing business indicators and investor confidence remain low.</p>

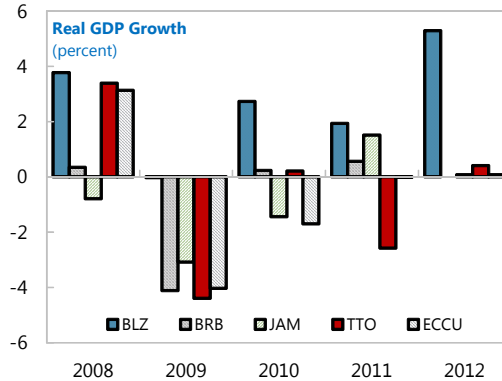
**Figure 1. Belize: Real Sector Developments 1/**

*Macroeconomic developments in 2012 were underpinned by a strong output rebound, despite uncertainties.*

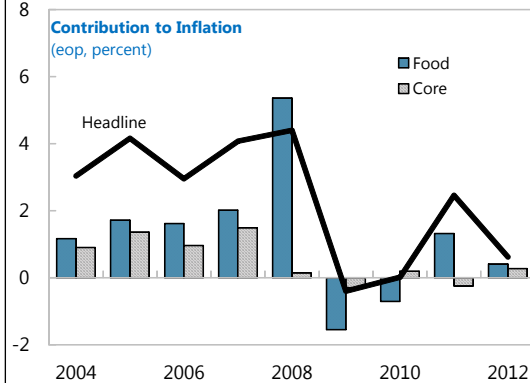
*Economic activity accelerated, thanks to a rebound in agriculture and tourism...*



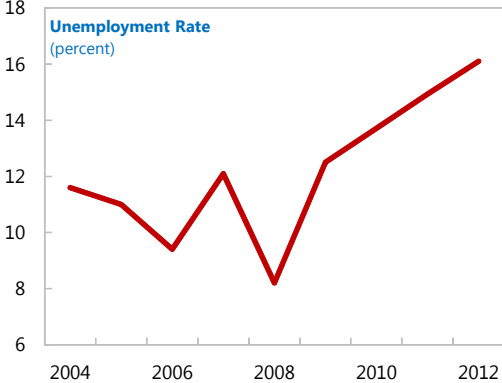
*... exceeding peers' performance.*



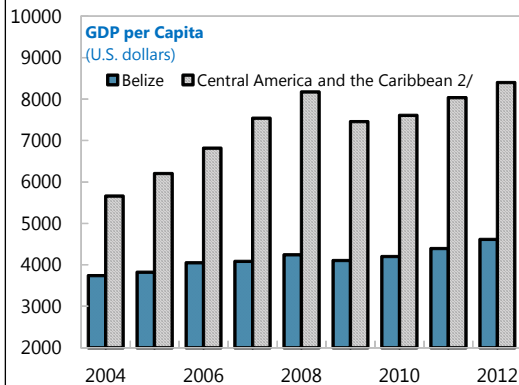
*Inflation has declined, as commodity price pressures have abated.*



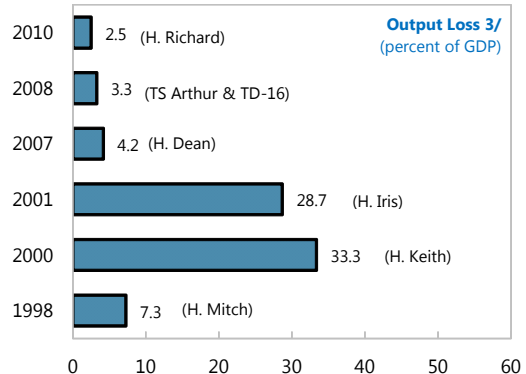
*However, unemployment remains high, affecting particularly the young and women, and...*



*... GDP per capita in Belize remains far below its*



*... with frequent exposure to natural disasters often undermining economic performance.*

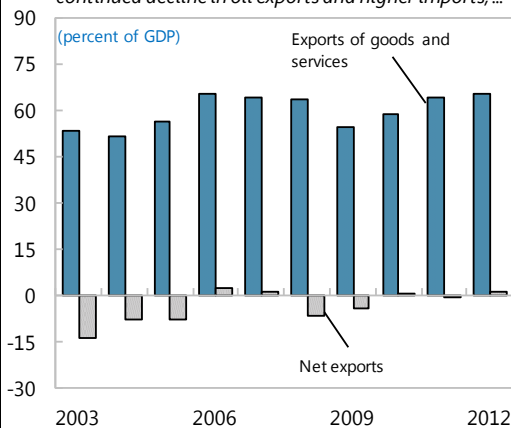


Sources: Belize authorities; World Economic Outlook; EM-DAT Database; and Fund staff estimates.  
 1/ Preliminary data for 2012.  
 2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

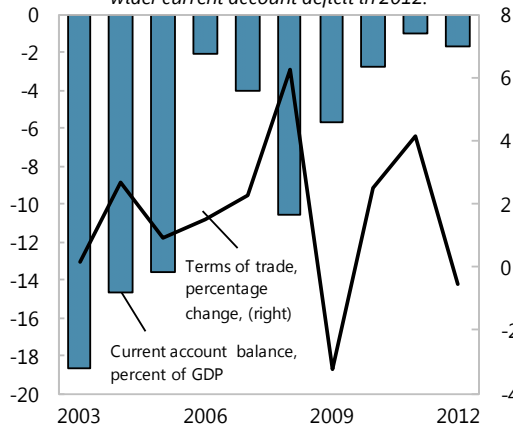
**Figure 2. Belize: External Sector Developments 1/**

*Despite a widening current account deficit in 2012, the external position improved on account of strong FDI flows.*

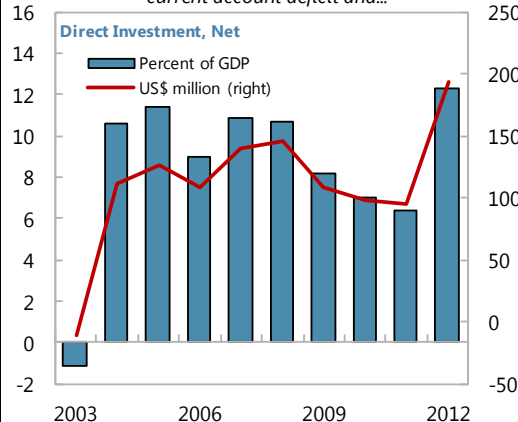
*The trade balance worsened on account of continued decline in oil exports and higher imports, ...*



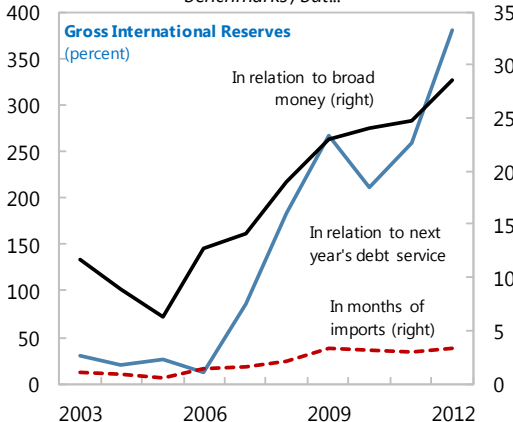
*... and further deterioration in ToT, resulting in a wider current account deficit in 2012.*



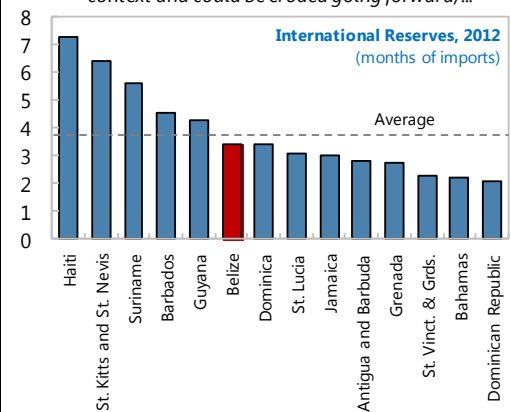
*Robust FDI flows helped finance a widening current account deficit and...*



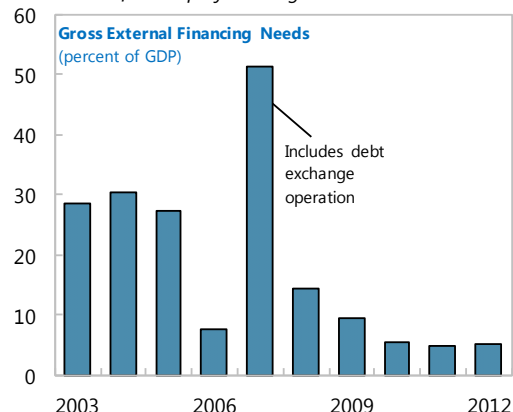
*... have boosted reserves, relative to critical benchmarks, but...*



*... reserves adequacy remains low in a regional context and could be eroded going forward, ...*



*... as gross financing needs could further increase to finance projected higher debt service.*

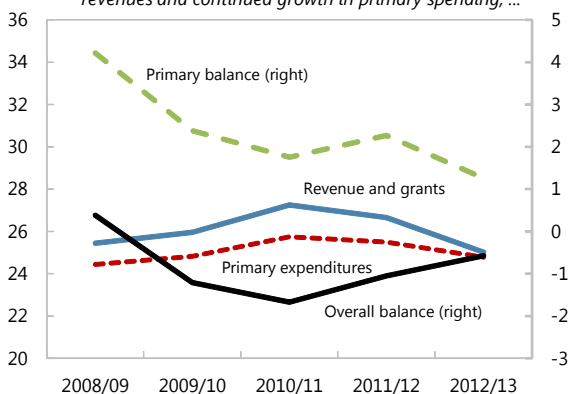


Sources: Central Bank of Belize; and Fund staff estimates.  
1/ Preliminary for 2012.

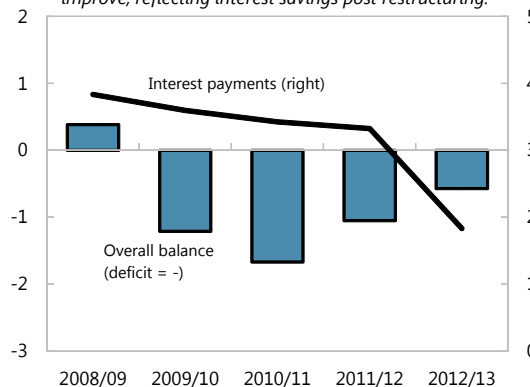
**Figure 3. Belize: Fiscal Sector Developments 1/**  
(In percent of FY GDP)

*Despite recently completed external public debt exchange, a more ambitious fiscal consolidation strategy is warranted to*

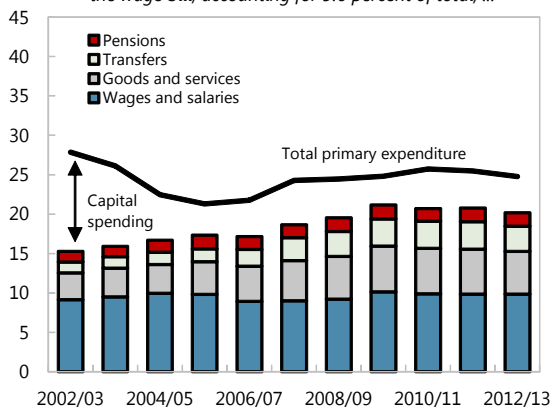
*The projected decline in the primary surplus reflects lower revenues and continued growth in primary spending, ...*



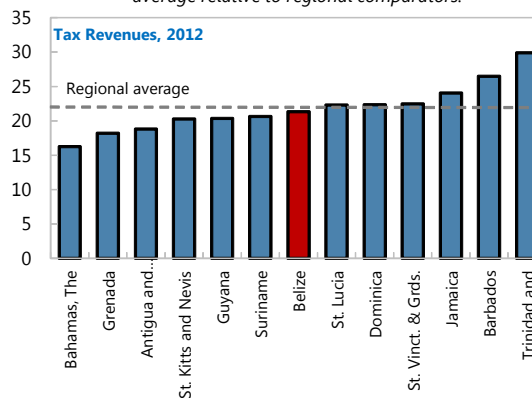
*... however, the overall deficit and gross financing would improve, reflecting interest savings post restructuring.*



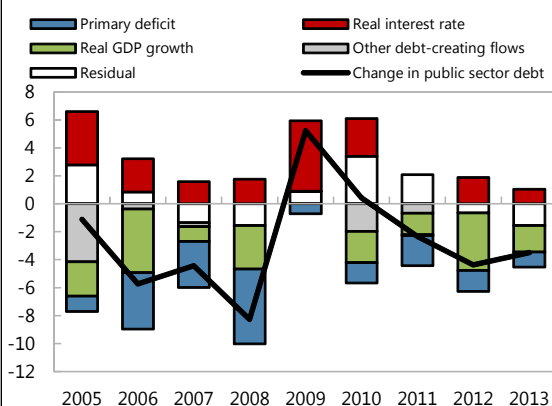
*Underlying higher primary expenditures is the increase in the wage bill, accounting for 9.6 percent of total, ...*



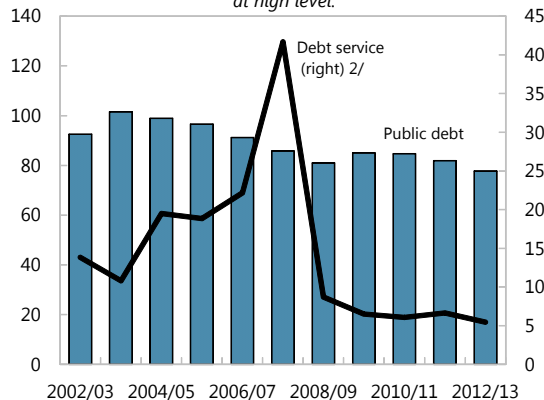
*... and low capacity to mobilize revenues, which remain average relative to regional comparators.*



*Despite the two debt restructurings the pace of debt reduction remains modest: ...*



*... which in turn will keep the burden of the public debt at high level.*



Sources: Country authorities; and Fund staff estimates.

1/ Projections for 2012/13.

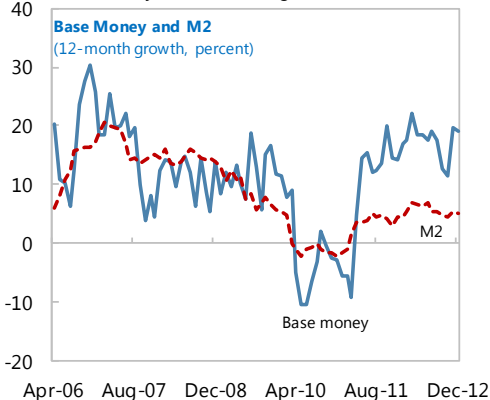
2/ Excluding amortization and interest payments of the debt exchange operation in 2007.



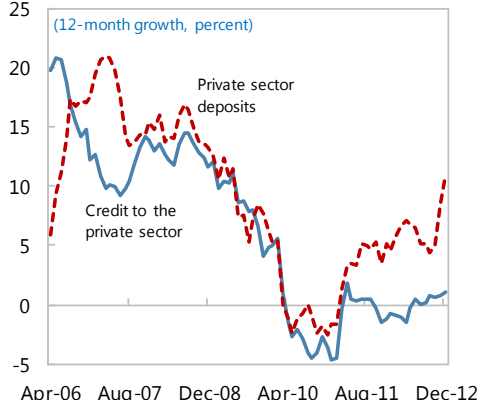
**Figure 4. Belize: Monetary and Financial Sector Developments**

*Excess liquidity and high interest rate spreads counter the effectiveness of financial intermediation.*

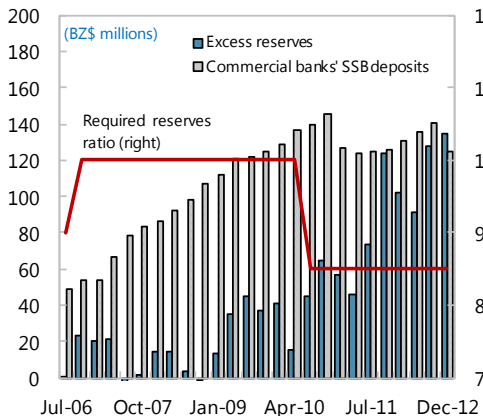
*Monetary growth accelerated in 2012, underpinned by an increase in the banking system's net foreign assets...*



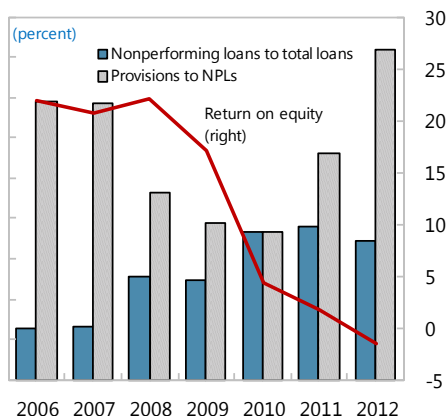
*... and a modest recovery of private sector loan demand.*



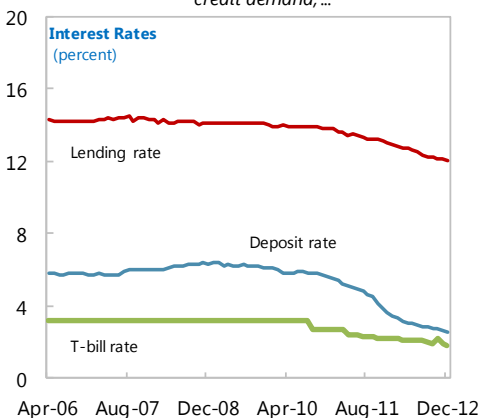
*Banks remain highly liquid, reflecting, in part, a surge in SSB deposits...*



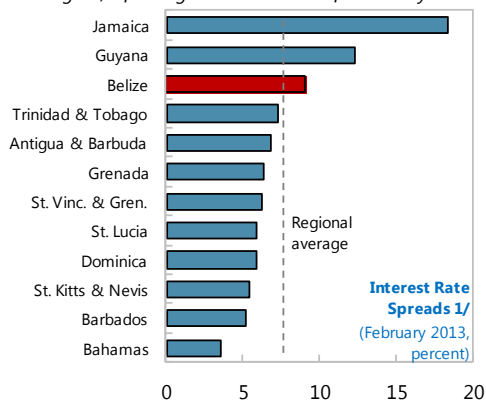
*... but high (albeit decreasing) NPLs continue to erode profitability.*



*Despite a reduction in key interest rates to mobilize credit demand, ...*



*... Belize has one of the highest interest rate spreads in the region, reflecting distortions in the financial system.*



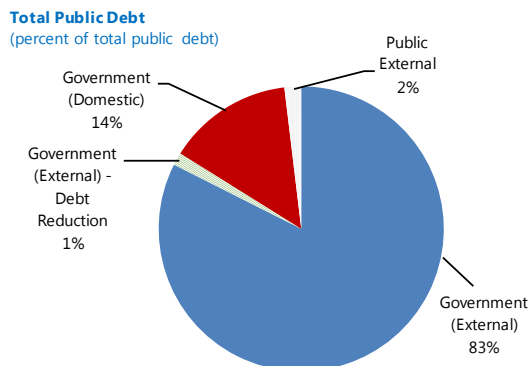
Sources: Central Bank of Belize; IFS; Haver; and Fund staff estimates.

1/ Refer to the difference between lending and savings rates.

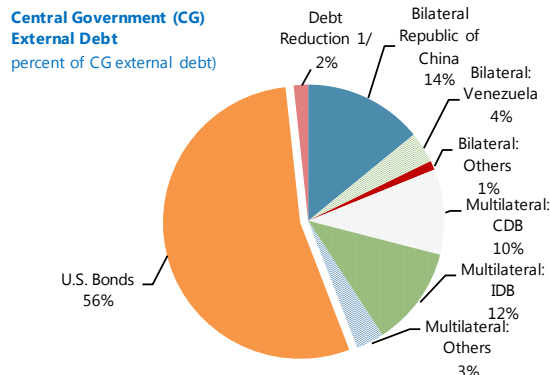
**Figure 5. Belize: Public Debt Portfolio, February 2013**

*Public debt is characterized by the dominance of U.S. dollar-denominated bonds and an underdeveloped domestic market.*

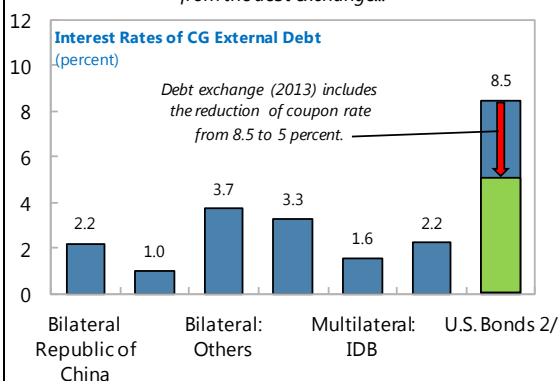
*Government external debt is dominant in public debt portfolio.*



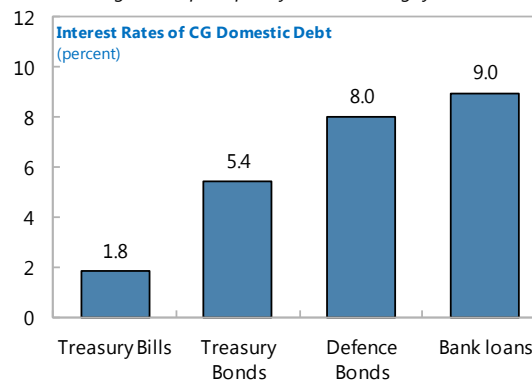
*U.S. bonds account for more than half of the total central government external debt...*



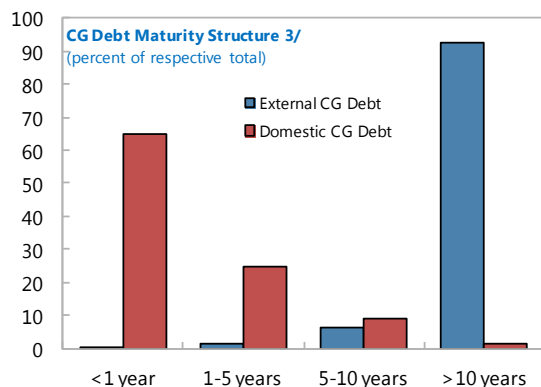
*... and its high interest rate has been somewhat relieved from the debt exchange...*



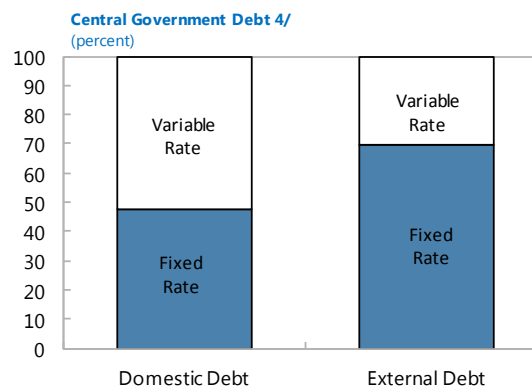
*... market-priced Treasury bills bear low interest rate given ample liquidity in the banking system.*



*External debt consists mainly of long maturity instruments, while domestic debt faces high refinancing risk...*



*... and interest rate risk is significant for both domestic and external debt.*



Source: Belize authorities.

1/ Face value haircut net of overdue interest payments.

2/ New US2038 bonds bear 5 percent of coupon and stepped up to 6.767 percent in 2018.

3/ On a remaining maturity basis.

4/ Three-month Treasury Bills are classified as variable rate instruments in domestic debt.

**Table 1. Belize: Selected Social and Economic Indicators, 2008-14**

<b>I. Population and Social Indicators</b>							
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), 2011	93				
Population (thousands), 2012	342.6	Unemployment rate, 2012	16.1				
GNI per capita, atlas method (current US\$), 2010	3,740	Number of physicians, 2007	251				
Life expectancy at birth (years), 2011	76	Access to improved drinking water sources (percent of population), 2006	91				
Under-five mortality rate (per thousand), 2009	18	Poverty (percent of total population), 2009	42				
<b>II. Economic Indicators, 2008-14</b>							
	2008	2009	2010	2011	2012	Projections	
						2013	2014
(Annual percentage change, unless otherwise indicated)							
<b>National income and prices</b>							
GDP at constant prices	3.8	0.0	2.7	1.9	5.3	2.5	2.5
<i>Of which:</i> Oil output	0.8	1.3	-0.5	-1.5	-1.2	-0.4	-0.3
GDP deflator	2.5	-1.7	1.2	4.4	1.3	1.1	1.5
Consumer prices (end of period)	4.4	-0.4	0.0	2.5	0.6	2.0	2.0
Consumer prices (average)	6.4	-1.1	0.9	1.5	1.3	1.3	2.0
Gross domestic investment 1/ 2/	26.1	22.0	18.0	19.0	19.0	19.5	19.8
Gross national savings 1/	15.8	17.1	15.2	17.9	17.3	17.6	16.9
<b>External sector</b>							
Exports of goods and services	5.2	-16.0	12.1	15.6	10.4	1.0	2.4
Imports of goods and services	18.2	-18.4	3.6	16.7	8.4	3.3	2.2
Terms of trade (deterioration -)	6.2	-3.2	2.5	4.1	-0.5	-1.2	-1.8
Nominal effective exchange rate	-2.0	6.5	-1.3	-3.0	3.2	...	...
Real effective exchange rate	-0.5	4.5	-2.8	-9.4	2.0	...	...
<b>Money and credit</b>							
Credit to the private sector	11.6	4.8	-3.6	-1.2	1.1	2.1	2.6
Money and quasi-money (M2)	14.0	5.8	-2.1	4.7	5.1	3.8	4.2
Weighted average lending rate (in percent)	14.1	14.0	13.8	13.0	12.0	...	...
(In percent of GDP)							
<b>Central government 3/</b>							
Revenue and grants	28.6	27.2	27.5	27.8	26.0	26.4	26.1
<i>Of which:</i> oil revenue	1.5	1.5	2.4	3.0	1.4	1.3	1.0
grants	3.2	1.2	0.2	1.1	1.0	1.2	1.3
Current expenditure	23.3	24.7	24.1	24.1	22.0	22.7	23.1
Capital expenditure and net lending	4.9	3.7	5.1	4.7	4.6	4.7	4.7
Primary balance	4.2	2.4	1.8	2.3	1.3	1.0	1.0
Overall balance	0.4	-1.2	-1.7	-1.1	-0.6	-1.1	-1.6
<b>External sector</b>							
External current account 4/	-10.6	-4.9	-2.8	-1.1	-1.7	-1.9	-2.8
Public and publicly guaranteed debt	79.6	84.9	85.3	83.0	78.6	75.1	73.5
Domestic debt	7.8	7.5	12.1	11.2	12.2	12.0	13.0
External debt	71.9	77.3	73.2	71.8	66.4	63.1	60.5
Debt service 5/	9.3	6.8	5.8	7.0	5.8	4.6	5.0
In percent of exports of goods and services	14.7	12.5	9.8	10.9	8.7	7.2	8.0
In percent of government current revenue	35.9	27.5	21.8	26.2	22.9	18.4	20.4
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	58	47	5	18	53	-10	-28
Exports of goods and services	867	728	816	944	1,042	1,043	1,068
Imports of goods and services	958	782	810	945	1,025	1,049	1,071
Gross international reserves 6/	166	214	218	236	289	273	244
In percent of gross external financing needs	85	190	290	327	370	336	260
In percent of next year's external public debt service	183	267	211	259	384	318	299
In months of imports	2.1	3.3	3.2	3.0	3.4	3.1	2.7
Nominal GDP	1,364	1,339	1,392	1,481	1,579	1,637	1,703
Nominal GDP (in BZ\$ millions)	2,727	2,678	2,784	2,962	3,159	3,274	3,406
Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; 2009 Poverty Country Assessment; 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/ 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 1/2/**  
(In millions of Belize dollars)

	2008/09	2009/10	2010/11	2011/12	2012/13	Projections		
						2013/14	2014/15	2015/16
<b>Revenue and grants</b>	<b>778</b>	<b>736</b>	<b>778</b>	<b>836</b>	<b>830</b>	<b>872</b>	<b>898</b>	<b>925</b>
<b>Revenue</b>	<b>691</b>	<b>702</b>	<b>771</b>	<b>803</b>	<b>798</b>	<b>831</b>	<b>853</b>	<b>876</b>
<i>Of which:</i> Non-oil revenue	650	662	703	712	752	787	819	848
Current revenue	686	697	766	795	793	826	848	871
Tax revenue	594	605	659	670	680	727	754	781
<i>Of which:</i> Petroleum Operations	24	28	51	53	31	31	24	19
General Sales Tax	176	158	195	171	201	218	227	236
Nontax revenue	92	93	107	125	113	99	94	90
<i>Of which:</i> Petroleum Operations	17	12	16	37	15	12	11	9
Capital revenue	4	5	5	8	5	5	5	5
<b>Grants</b>	<b>87</b>	<b>34</b>	<b>7</b>	<b>33</b>	<b>33</b>	<b>41</b>	<b>45</b>	<b>49</b>
<b>Total expenditure</b>	<b>767</b>	<b>768</b>	<b>825</b>	<b>867</b>	<b>848</b>	<b>907</b>	<b>954</b>	<b>990</b>
Current expenditure	634	669	682	724	701	751	793	825
Wages and salaries	250	274	279	297	313	335	345	356
Pensions	48	48	45	52	54	55	57	59
Goods and services	147	157	164	172	173	181	186	192
Interest payments	104	97	97	100	58	70	91	102
Transfers	85	93	97	104	103	110	113	116
Capital expenditure and net lending	134	100	143	143	147	156	161	165
Capital expenditure	130	94	126	138	144	153	158	163
Domestically financed expenditure (Capital II)	79	54	73	73	65	67	69	71
Foreign financed expenditure (Capital III)	52	41	53	65	79	86	89	91
Net lending	3	5	17	5	3	3	3	3
<b>Primary balance</b>	<b>114</b>	<b>64</b>	<b>50</b>	<b>68</b>	<b>40</b>	<b>34</b>	<b>35</b>	<b>37</b>
<b>Nongrant, non-oil primary balance</b>	<b>-14</b>	<b>-9</b>	<b>-25</b>	<b>-55</b>	<b>-38</b>	<b>-51</b>	<b>-44</b>	<b>-40</b>
<b>Overall balance</b>	<b>10</b>	<b>-33</b>	<b>-47</b>	<b>-32</b>	<b>-18</b>	<b>-36</b>	<b>-56</b>	<b>-65</b>
<b>Financing</b>	<b>-10</b>	<b>33</b>	<b>47</b>	<b>32</b>	<b>18</b>	<b>36</b>	<b>56</b>	<b>65</b>
Privatization (net)	0	0	55	20	0	0	0	0
Domestic	-22	-13	47	42	19	59	14	66
<i>Of which:</i> Amortization	19	8	2	2	2	3	2	19
External	12	46	1	-10	-1	-23	43	-1
Disbursements	96	111	62	72	79	58	123	79
Amortization	84	65	62	82	80	81	81	80
<b>Memorandum items:</b>								
Nominal GDP	2,715	2,705	2,828	3,011	3,188	3,307	3,441	3,585
Non-interest expenditure	663	671	728	767	790	838	863	888
Oil revenue	41	40	68	90	45	44	34	28

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 table deviates from the GFSM 2001 methodology.

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

(In percent of GDP; unless otherwise indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13	Projections		
						2013/14	2014/15	2015/16
<b>Revenue and grants</b>	<b>28.6</b>	<b>27.2</b>	<b>27.5</b>	<b>27.8</b>	<b>26.0</b>	<b>26.4</b>	<b>26.1</b>	<b>25.8</b>
<b>Revenue</b>	<b>25.4</b>	<b>26.0</b>	<b>27.3</b>	<b>26.7</b>	<b>25.0</b>	<b>25.1</b>	<b>24.8</b>	<b>24.4</b>
<i>Of which:</i> Non-oil revenue	23.9	24.5	24.9	23.7	23.6	23.8	23.8	23.7
Current revenue	25.3	25.8	27.1	26.4	24.9	25.0	24.6	24.3
Tax revenue	21.9	22.4	23.3	22.2	21.3	22.0	21.9	21.8
<i>Of which:</i> Petroleum Operations	0.9	1.0	1.8	1.8	1.0	0.9	0.7	0.5
General Sales Tax	6.5	5.8	6.9	5.7	6.3	6.6	6.6	6.6
Nontax revenue	3.4	3.4	3.8	4.1	3.5	3.0	2.7	2.5
<i>Of which:</i> Petroleum Operations	0.6	0.5	0.6	1.2	0.5	0.4	0.3	0.3
Capital revenue	0.2	0.2	0.2	0.3	0.1	0.2	0.2	0.1
<b>Grants</b>	<b>3.2</b>	<b>1.2</b>	<b>0.2</b>	<b>1.1</b>	<b>1.0</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
<b>Total expenditure</b>	<b>28.3</b>	<b>28.4</b>	<b>29.2</b>	<b>28.8</b>	<b>26.6</b>	<b>27.4</b>	<b>27.7</b>	<b>27.6</b>
Current expenditure	23.3	24.7	24.1	24.1	22.0	22.7	23.1	23.0
Wages and salaries	9.2	10.1	9.9	9.9	9.8	10.1	10.0	9.9
Pensions	1.8	1.8	1.6	1.7	1.7	1.7	1.7	1.6
Goods and services	5.4	5.8	5.8	5.7	5.4	5.5	5.4	5.4
Interest payments	3.8	3.6	3.4	3.3	1.8	2.1	2.7	2.8
Transfers	3.1	3.4	3.4	3.5	3.2	3.3	3.3	3.2
Capital expenditure and net lending	4.9	3.7	5.1	4.7	4.6	4.7	4.7	4.6
Capital expenditure	4.8	3.5	4.5	4.6	4.5	4.6	4.6	4.5
Domestically financed expenditure (Capital II)	2.9	2.0	2.6	2.4	2.0	2.0	2.0	2.0
Foreign financed expenditure (Capital III)	1.9	1.5	1.9	2.2	2.5	2.6	2.6	2.5
Net lending	0.1	0.2	0.6	0.2	0.1	0.1	0.1	0.1
<b>Primary balance</b>	<b>4.2</b>	<b>2.4</b>	<b>1.8</b>	<b>2.3</b>	<b>1.3</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>Nongrant, non-oil primary balance</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.5</b>	<b>-1.3</b>	<b>-1.1</b>
<b>Overall balance</b>	<b>0.4</b>	<b>-1.2</b>	<b>-1.7</b>	<b>-1.1</b>	<b>-0.6</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-1.8</b>
<b>Financing</b>	<b>-0.4</b>	<b>1.2</b>	<b>1.7</b>	<b>1.1</b>	<b>0.6</b>	<b>1.1</b>	<b>1.6</b>	<b>1.8</b>
Privatization (net)	0.0	0.0	1.9	0.7	0.0	0.0	0.0	0.0
Domestic	-0.8	-0.5	1.6	1.4	0.6	1.8	0.4	1.8
<i>Of which:</i> amortization	0.7	0.3	0.1	0.1	0.1	0.1	0.0	0.5
External	0.4	1.7	0.0	-0.3	0.0	-0.7	1.2	0.0
Disbursements	3.5	4.1	2.2	2.4	2.5	1.8	3.6	2.2
Amortization	3.1	2.4	2.2	2.7	2.5	2.4	2.3	2.2
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
Nominal GDP (in BZ\$ millions)	2,715	2,705	2,828	3,011	3,188	3,307	3,441	3,585
Non-interest expenditure	24.4	24.8	25.7	25.5	24.8	25.3	25.1	24.8
Oil revenue	1.5	1.5	2.4	3.0	1.4	1.3	1.0	0.8

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 table deviates from the GFSM 2001 methodology.

Table 3. Belize: Operations of the Banking System, 2008-14

	2008	2009	2010	2011	2012	Projections	
						2013	2014
(In millions of Belize dollars)							
<b>Central Bank of Belize (CBB)</b>							
Net foreign assets 1/	329	364	376	429	528	515	486
Net international reserves	329	420	431	484	583	570	541
Medium-term foreign liabilities 2/	0	-56	-55	-55	-55	-55	-55
Net domestic assets	53	65	41	47	39	75	128
Credit to the public sector (net)	89	90	61	43	41	76	130
Central government	124	117	68	45	47	84	138
Other public sector	-35	-26	-7	-2	-7	-8	-9
Capital and other assets (net)	-36	-26	-20	4	-2	-2	-2
Base money	383	429	417	476	568	589	614
Currency issue	193	192	192	211	238	246	255
Reserves of commercial banks	190	237	225	266	329	344	359
<b>Commercial banks</b>							
Net foreign assets	95	130	182	254	356	366	374
Net claims on central bank	229	274	259	305	375	389	408
Net domestic assets	1,699	1,757	1,676	1,619	1,632	1,684	1,745
Credit to the public sector (net)	-53	-76	-75	-92	-98	-127	-136
Central government	88	92	130	130	140	115	112
Other public sector	-140	-167	-205	-222	-238	-242	-248
Credit to the private sector	1,942	2,036	1,963	1,938	1,959	1,999	2,051
Other assets (net)	-190	-203	-212	-227	-230	-188	-170
Liabilities to the private sector	2,024	2,161	2,117	2,178	2,362	2,440	2,527
<b>Monetary survey</b>							
Net foreign assets	425	494	558	683	884	881	860
Net domestic assets	1,753	1,822	1,717	1,666	1,671	1,759	1,878
Credit to the public sector (net)	37	15	-14	-49	-57	-51	-6
Central government	212	208	198	174	187	198	250
Other public sector	-175	-194	-212	-224	-244	-249	-257
Credit to private sector (by comm. banks)	1,942	2,036	1,963	1,938	1,959	1,999	2,051
Other items (net)	-225	-229	-232	-223	-231	-189	-167
Liabilities to the private sector	2,178	2,316	2,275	2,349	2,555	2,640	2,738
Money and quasi-money (M2)	1,754	1,855	1,817	1,901	1,998	2,075	2,163
Currency in circulation	154	155	158	171	193	200	206
Deposits	1,601	1,701	1,659	1,730	1,805	1,875	1,952
Foreign currency deposits	59	60	57	73	196	204	212
Capital and reserves of commercial banks	364	400	401	375	360	361	362
(In millions of U.S. dollars)							
Net international reserves of the CBB	165	210	216	242	292	285	271
(In percent change, unless otherwise indicated)							
<b>Memorandum items:</b>							
Private sector deposits in local currency	15.5	6.3	-2.5	4.3	4.4	3.8	4.1
Base money	13.9	11.9	-2.7	14.2	19.2	3.8	4.2
Credit to private sector (by comm. banks)	11.6	4.8	-3.6	-1.2	1.1	2.1	2.6
Money and quasi-money (M2)	14.0	5.8	-2.1	4.7	5.1	3.8	4.2
Net international reserves to M2 (percent)	18.8	22.6	23.7	25.5	29.2	27.5	25.0
Required cash reserve ratio (percent)	10.0	10.0	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	117.0	115.6	114.4	107.5	97.9	96.2	94.7
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, 2008-18

	2008	2009	2010	2011	2012	Projections					
						2013	2014	2015	2016	2017	2018
(In millions of U.S. dollars)											
<b>Current account balance</b>	<b>-145</b>	<b>-65</b>	<b>-39</b>	<b>-16</b>	<b>-28</b>	<b>-32</b>	<b>-47</b>	<b>-63</b>	<b>-83</b>	<b>-104</b>	<b>-117</b>
Trade balance	-308	-236	-169	-171	-209	-231	-235	-256	-284	-309	-322
Total exports, f.o.b.	480	384	478	604	628	633	646	658	672	690	712
<i>Of which:</i>											
Oil	115	60	103	146	104	92	83	71	62	54	47
Total imports, fob	788	620	647	775	837	864	881	915	957	999	1,034
<i>Of which:</i>											
Fuel and lubricants	-136	-105	-105	-120	-130	-131	-127	-125	-124	-125	-126
Services	217	183	176	169	226	225	232	236	245	249	261
<i>Of which:</i>											
Travel	238	216	212	214	262	263	269	274	285	291	304
Income	-165	-91	-138	-98	-120	-105	-127	-128	-132	-136	-150
<i>Of which:</i>											
Public sector interest payments 1/	-44	-43	-44	-47	-41	-26	-39	-40	-44	-44	-55
Current transfers	112	79	92	84	76	79	83	85	89	91	94
Private (net)	89	81	95	87	80	60	61	62	64	65	66
Official (net)	23	-2	-3	-3	-4	19	22	24	25	26	27
<b>Capital and financial account balance</b>	<b>215</b>	<b>139</b>	<b>33</b>	<b>43</b>	<b>96</b>	<b>22</b>	<b>20</b>	<b>44</b>	<b>58</b>	<b>76</b>	<b>87</b>
Capital transfers	9	18	6	24	22	21	5	5	5	5	5
Public sector	-16	46	-15	-10	0	1	-3	-3	-4	-5	-4
<i>Of which:</i>											
Change in assets	-2	0	-9	-7	0	0	0	0	0	0	0
Change in liabilities	-15	46	-6	-3	0	1	-3	-3	-4	-5	-4
Disbursements 2/	41	99	30	37	36	50	43	39	39	39	39
Central government	41	64	30	36	36	50	43	39	39	39	39
Amortization	-51	-48	-36	-56	-50	-49	-46	-42	-43	-44	-44
Central government	-46	-39	-29	-42	-40	-40	-40	-40	-41	-42	-42
Securitisation	-5	-5	0	0	0	0	0	0	0	0	0
Private sector 3/	221	74	42	29	74	0	18	42	56	75	86
<i>Of which:</i>											
Foreign Direct Investment	146	109	97	95	193	88	87	85	84	82	81
<b>Errors and omissions</b>	<b>-12</b>	<b>-27</b>	<b>11</b>	<b>-9</b>	<b>-15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance</b>	<b>58</b>	<b>47</b>	<b>5</b>	<b>18</b>	<b>53</b>	<b>-10</b>	<b>-28</b>	<b>-19</b>	<b>-25</b>	<b>-28</b>	<b>-30</b>
<b>Financing</b>	<b>-58</b>	<b>-47</b>	<b>-5</b>	<b>-18</b>	<b>-53</b>	<b>10</b>	<b>28</b>	<b>19</b>	<b>25</b>	<b>28</b>	<b>30</b>
Unidentified financing	0	0	-1	0	0	0	0	0	0	0	0
Change in reserves (- increase)	-58	-47	-4	-18	-50	14	29	19	25	28	30
IMF (net)	0	0	0	0	-3	-4	-1	0	0	0	0
Arrears	0	0	0	0	0	0	0	0	0	0	0
(In percent of GDP, unless otherwise stated)											
<b>Memorandum items:</b>											
Gross international reserves (US\$ millions)	166	214	218	236	289	273	244	226	201	172	142
In percent of gross external financing needs	85	190	290	327	370	336	260	216	160	117	89
In percent of next year's total debt service	183	267	211	259	384	318	299	261	227	174	126
In months of imports	2.1	3.3	3.2	3.0	3.4	3.1	2.7	2.4	2.0	1.7	1.4
Current account balance	-10.6	-4.9	-2.8	-1.1	-1.7	-1.9	-2.8	-3.5	-4.5	-5.4	-5.8
Trade balance	-22.6	-17.7	-12.1	-11.5	-13.2	-14.1	-13.8	-14.4	-15.4	-16.0	-16.0
Capital and financial account balance	15.7	10.4	2.4	2.9	6.0	1.3	1.2	2.5	3.1	3.9	4.3
Private sector	16.3	5.7	3.1	2.2	4.7	0.0	1.1	2.3	3.1	3.9	4.3
Public sector	-0.5	4.7	-0.7	0.6	1.4	1.3	0.1	0.1	0.1	0.0	0.0
Overall balance	4.2	3.5	0.4	1.2	3.3	-0.6	-1.6	-1.0	-1.3	-1.5	-1.5
Sources: Central Bank of Belize; and Fund staff estimates and projections.											
1/ Includes partial coupon payment of US\$11.7 million (out of full amount US\$23 million) on the "super-bond", paid on September 20, 2012.											
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, 2008-19

	2008	2009	2010	2011	2012	Projections						
						2013	2014	2015	2016	2017	2018	2019
(Annual percentage change)												
<b>Real economy</b>												
GDP at constant prices	3.8	0.0	2.7	1.9	5.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<i>Of which: Oil output</i>	0.8	1.3	-0.5	-1.5	-1.2	-0.4	-0.3	-0.4	-0.2	-0.2	-0.2	-0.2
GDP at current market prices	6.4	-1.8	3.9	6.4	6.7	3.6	4.0	4.1	4.2	4.2	4.5	4.5
Prices (GDP deflator)	2.5	-1.7	1.2	4.4	1.3	1.1	1.5	1.6	1.7	1.7	2.0	2.0
(In percent of GDP, unless otherwise indicated)												
<b>National accounts</b>												
Consumption	80.3	82.0	81.5	81.1	79.9	80.9	80.5	81.4	82.4	83.1	83.0	83.4
Gross domestic investment 1/	26.1	22.0	18.0	19.0	19.0	19.5	19.8	19.8	19.8	20.0	20.0	20.0
Net exports	-6.7	-4.0	0.5	-0.1	1.1	-0.4	-0.2	-1.1	-2.1	-3.1	-3.0	-3.4
Gross national savings	15.8	17.1	15.2	17.9	17.3	17.6	16.9	16.2	15.3	14.6	14.2	13.9
<b>Central government 2/</b>												
Revenue and grants	29.4	26.1	26.9	27.7	26.3	26.3	26.2	25.9	25.9	25.8	25.6	25.4
<i>Of which: Oil revenue</i>	1.6	0.9	2.2	2.9	1.8	1.3	1.1	0.8	0.9	0.8	0.6	0.4
Total expenditure	27.8	29.1	28.7	29.1	27.8	27.1	27.8	27.5	28.3	28.2	28.6	28.5
Noninterest expenditure	24.0	25.4	25.6	25.6	24.8	25.2	25.1	24.9	24.9	24.8	24.6	24.4
Primary balance	5.4	0.7	1.3	2.1	1.5	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Interest 3/	3.9	3.6	3.5	3.5	2.9	1.9	2.7	2.6	3.4	3.4	4.0	4.1
Overall balance	1.4	-2.9	-2.2	-1.4	-1.5	-0.8	-1.6	-1.6	-2.4	-2.4	-3.0	-3.1
<b>External sector</b>												
Current account balance	-10.6	-4.9	-2.8	-1.1	-1.7	-1.9	-2.8	-3.5	-4.5	-5.4	-5.8	-6.1
<i>Of which: Exports of goods and services</i>	63.6	54.4	58.6	63.7	66.0	63.7	62.7	61.6	60.8	59.9	59.4	58.7
<i>Of which: Petroleum exports</i>	8.4	4.5	7.4	9.9	6.6	5.6	4.9	4.0	3.3	2.8	2.3	1.9
<i>Of which: Imports of goods and services</i>	-70.2	-58.4	-58.2	-63.8	-64.9	-64.1	-62.9	-62.7	-62.9	-63.0	-62.4	-62.1
Capital and financial account	15.7	10.4	2.4	2.9	6.0	1.3	1.2	2.5	3.1	3.9	4.3	3.7
Public sector disbursements	3.0	7.4	2.2	2.5	2.3	3.1	2.5	2.2	2.1	2.0	2.0	1.9
Public sector amortization	-3.7	-3.6	-2.6	-3.8	-3.2	-3.0	-2.7	-2.4	-2.3	-2.3	-2.2	-2.7
Other capital and fin. account transactions 4/	16.5	6.6	2.8	4.2	7.0	1.3	1.3	2.6	3.3	4.2	4.5	4.6
Change in reserves (- increase)	-4.2	-3.5	-0.3	-1.2	-3.2	0.8	1.7	1.0	1.3	1.5	1.5	2.4
Gross official reserves (in months of imports)	2.1	3.3	3.2	3.0	3.4	3.1	2.7	2.4	2.1	1.7	1.4	0.8
<b>Public and publicly guaranteed debt 5/</b>												
Domestic	7.8	7.5	12.1	11.2	12.2	12.0	13.0	27.2	28.1	29.3	31.2	33.7
External	71.9	77.3	73.2	71.8	66.4	63.1	60.5	62.3	59.6	57.0	54.3	51.1

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

1/ Excludes discrepancy in external savings from the balance of payments.

2/ Fiscal projections are on a calendar year basis.

3/ Excludes arrears in amount of missed coupon payment (US\$11.3 million) on the "super-bond" in 2012.

4/ Includes errors and omissions.

5/ Includes repayment of additional liabilities to the former owners of BTL and BEL (at mid-point valuation between the authorities' assessment and the claims of the former owners of the companies) and land claims in equal installments in 2016-20.



Table 6. Belize: Public and Publicly Guaranteed Debt Simulations, 2008-19

	2008	2009	2010	2011	2012	Projections						
						2013	2014	2015	2016	2017	2018	2019
(In millions of U.S. dollars, unless otherwise indicated)												
<b>1. Public and publicly guaranteed debt</b>												
Total	1,086	1,137	1,187	1,229	1,241	1,229	1,251	1,588	1,622	1,662	1,721	1,786
Other public and publicly guaranteed external debt	70	96	74	68	58	48	42	40	38	37	35	34
Central government	1,015	1,040	1,113	1,160	1,183	1,181	1,209	1,548	1,584	1,626	1,686	1,752
Domestic debt	106	101	169	166	193	197	222	483	520	565	628	710
External debt	910	939	945	995	991	985	987	1,065	1,064	1,061	1,058	1,042
Multilateral	197	219	226	266	270	285	294	299	302	302	303	305
Bilateral and export credit	163	173	172	174	171	167	162	157	153	150	146	144
Commercial 1/	550	547	547	555	550	533	531	609	609	609	609	593
<b>In percent of GDP</b>												
Total	79.6	84.9	85.3	83.0	78.6	75.1	73.5	89.5	87.8	86.3	85.5	84.8
Other public and publicly guaranteed external debt	5.2	7.2	5.3	4.6	3.7	2.9	2.5	2.3	2.1	1.9	1.7	1.6
Central government	74.5	77.7	80.0	78.4	74.9	72.2	71.0	87.3	85.7	84.4	83.7	83.2
Domestic debt	7.8	7.5	12.1	11.2	12.2	12.0	13.0	27.2	28.1	29.3	31.2	33.7
External debt	66.7	70.1	67.9	67.2	62.7	60.2	58.0	60.1	57.5	55.1	52.5	49.5
Multilateral	14.5	16.4	16.2	17.9	17.1	17.4	17.3	16.9	16.3	15.7	15.0	14.5
Bilateral and export credit	11.9	12.9	12.3	11.7	10.8	10.2	9.5	8.9	8.3	7.8	7.2	6.8
Commercial 1/	40.3	40.9	39.3	37.5	34.8	32.5	31.2	34.3	32.9	31.6	30.2	28.2
(In percent of GDP, unless otherwise indicated)												
<b>2. Flow of funds</b>												
<b>2.1. Sources of funds</b>												
Primary balance	8.1	6.6	5.6	6.4	5.5	4.5	5.1	4.9	7.6	7.5	8.0	8.5
Privatization proceeds	5.4	0.7	1.3	2.1	1.5	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Identified disbursements	0.0	0.0	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	2.8	5.8	2.3	3.6	4.1	3.9	2.0	3.0	0.8	0.4	0.2	0.2
Bilateral and export credit	0.9	2.6	1.4	1.7	1.6	2.4	1.9	1.4	0.8	0.4	0.2	0.2
Commercial	2.1	2.1	0.7	0.8	0.7	1.6	0.1	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-0.3	1.1	0.2	1.1	1.8	0.0	0.0	1.6	0.0	0.0	0.0	0.0
External 2/	-1.4	1.1	0.2	1.1	1.8	0.0	0.0	1.6	0.0	0.0	0.0	0.0
Unidentified external borrowing	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified domestic borrowing	0.0	0.0	0.0	0.0	0.0	-0.9	0.6	0.8	1.3	1.7	1.7	1.7
	0.0	0.0	0.0	0.0	0.0	0.3	1.5	0.1	4.5	4.5	5.0	5.7
<b>2.2. Use of funds</b>												
Debt service	8.0	6.6	5.6	6.4	5.5	4.5	5.1	4.9	7.6	7.5	8.0	8.5
Interest payments	3.9	3.6	3.5	3.5	2.9	1.9	2.7	2.6	3.4	3.4	4.0	4.1
Domestic	0.9	0.9	0.9	0.5	0.5	0.4	0.4	0.5	1.2	1.2	1.4	1.6
External 2/	3.0	2.7	2.6	3.0	2.5	1.5	2.2	2.1	2.3	2.2	2.6	2.5
Principal repayments	4.1	2.9	2.1	2.9	2.6	2.6	2.4	2.3	4.2	4.1	3.9	4.4
Domestic 3/	0.8	0.4	0.1	0.1	0.1	0.1	0.1	0.0	2.0	1.9	1.9	1.8
Multilateral	1.0	0.9	1.0	1.2	1.3	1.5	1.4	1.3	1.4	1.5	1.4	1.3
Bilateral and export credit	2.0	1.4	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.7	0.7	0.6
Commercial, including parastatal	0.2	0.3	0.0	0.7	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.8
<b>Assumptions</b>												
Nominal GDP (US\$ millions)	1,364	1,339	1,392	1,481	1,579	1,637	1,703	1,773	1,849	1,926	2,014	2,105
Nominal GDP growth rate (percent)	6	-2	4	6	7	4	4	4	4	4	5	5
Real GDP growth rate (percent)	4	0	3	2	5	3	3	3	3	3	3	3
Annual inflation (deflator, in percent)	3	-2	1	4	1	1	2	2	2	2	2	2
Assumed domestic borrowing rate (percent)	8.0	8.0	8.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Nominal external multilateral/bilateral borrowing rate (percent)	4.0	2.1	1.5	1.5	1.7	1.5	1.6	1.7	2.3	3.5	3.5	3.5
Six-month LIBOR rate (percent) 4/	3.0	1.1	0.5	0.5	0.7	0.5	0.6	0.7	1.3	2.5	2.5	2.5
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	1.0
<b>Memorandum items:</b>												
Overall central government balance (calendar year, percent of GD	1.4	-2.9	-2.2	-1.4	-1.5	-0.8	-1.6	-1.6	-2.4	-2.4	-3.0	-3.1
Implicit nominal interest rate (percent) 5/	4.8	4.5	4.3	4.4	3.8	2.5	3.7	3.7	4.0	4.0	4.8	5.0
Gross financing requirement (percent of GDP)	2.8	5.8	2.3	3.6	4.1	3.4	4.1	3.9	6.6	6.5	6.9	7.5
Sources: Belizean authorities; and Fund staff estimates and projections.												
1/ Amortization of the "Superbond" commences in 2019 according to the initial repayment terms.												
2/ Includes partial coupon payment of US\$11.7 million (out of full amount US\$23 million) on the "super-bond", paid on September 20, 2012.												
3/ Includes repayment of additional liabilities to the former owners of BTL and BEL (at mid-point valuation between the authorities' assessment and the claims of the former owners of the companies) and land claims in equal installments in 2016-2020.												
4/ Latest World Economic Outlook assumptions.												
5/ Interest on government debt in previous year divided by stock of debt.												

## Annex I. Super-Bond 2.0

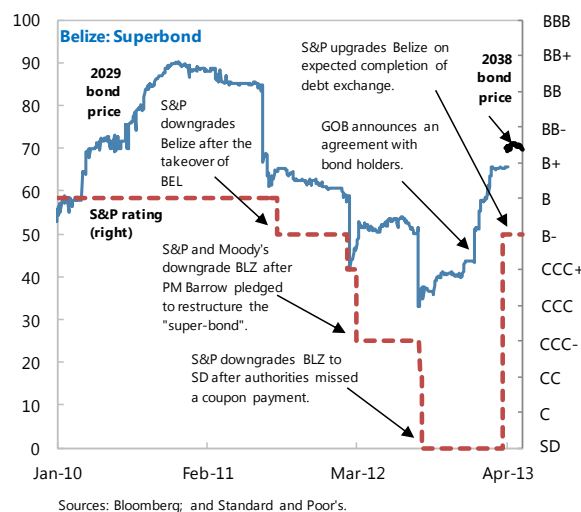
On March 20, the government of Belize closed the exchange of its “super-bond” for new U.S. dollar denominated bonds that will mature in 2038. The exchange offer was launched on February 15, following intense negotiations between the authorities and the Creditor Committee representing investors holding more than 62 percent of outstanding bonds. Significantly more bonds were tendered than the 75 percent required for restructuring the entire stock of old bonds. This exchange took place outside the framework of a Fund program, and was characterized by close collaboration with the Creditor Committee.

### 1. The government of Belize announced the successful completion of the exchange offer.

On February 15, Belize launched the offer to exchange its sole external bond (“super-bond”), which had final maturity in 2029 for new U.S. dollar denominated bonds (“2038 bonds”). Following the launch of the offer, the chair of the Creditor Committee said that “The Committee appreciates the [Belize government’s] willingness to negotiate in good faith and to adhere to what was in the end a fair and transparent process.” The Creditor Committee represented investors accounting for more than 62 percent of the original super-bond’s face value. In the end, the government achieved 86 percent of creditor support, which exceeded the 75 percent threshold for the exercise of the collective action clause. The exchange was closed on March 20, 2013 with the issuance of the new bonds and retirement of the old bonds.

### 2. For creditors, the exchange offer represented a substantial improvement from the government’s original proposal.

In August 2012, the government published a first set of “indicative scenarios” that entailed a face value haircut of around 45 percent and estimated recovery net present value in the 20–25 percent range, an offer that was viewed by creditors as not justified by fundamentals as well as non-collaborative. Subsequently, the bond price plunged to nearly 30 percent of par. In November 2012, the government published a new exchange proposal with a lighter haircut and higher interest rate, which remained unacceptable to the Creditor Committee. Soon afterward, however, intensive negotiations began between the authorities and the committee. Finally, in late December 2012, Prime Minister Barrow announced that a framework agreement had been reached with the Creditor Committee. This led to a recovery in the price of the “super-bond” to



its pre-August level. Staff calculations suggest that the NPV losses to bond holders will be around 29–31 percent (assumed exit yield of 9 to 10 percent).<sup>1 2</sup>

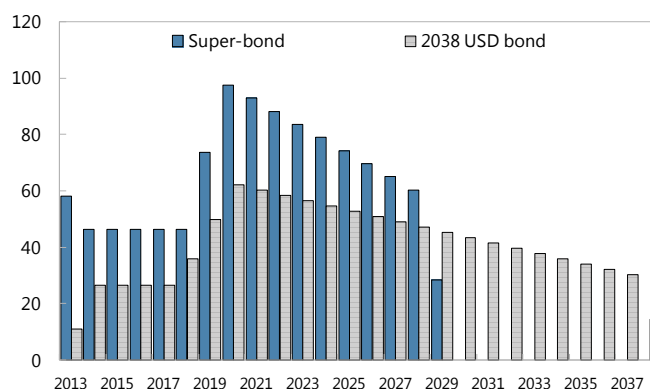
### 3. The restructuring financial terms are the following:

- **Principal haircut.** Approximately US\$530 million of new 2038 bonds will be issued. The original “super-bond” (approximately US\$546 million) will be subject to a 10 percent face value haircut, but overdue interest will be added to the face value of the new bond (approximately 7 percent of the original principal).<sup>3</sup> As a result, the “net” face value haircut is about 3 percent.
- **Coupon rate reduction.** The new bond will pay a step-up coupon of 5 percent through 2017 (for 4.5 years) and 6.767 percent thereafter, compared with the original 8.5 percent through maturity.
- **Maturity extension.** The final maturity will be February 2038 (instead of 2029 under the original “super-bond” terms), with the first amortization falling due in August 2019.

**4. The new bonds include several new legal terms, which were agreed between the government and the committee.** In particular, the new legal terms include bondholders’ committee engagement provisions, a contingency account for trustee indemnification, principal reinstatement in the event of a future default, and a most favored creditor provision. In addition, the government has committed to improved data transparency, including its “best effort” to begin to subscribe to the Special Data Dissemination Standard (SDDS).

**5. The deal will provide substantial cash-flow relief.** The principal haircut and reduced coupon would result in debt service relief of US\$47 million (including the missed interest payments) in 2013 (2.9 percent of GDP) and about US\$20 million (1.1 percent of GDP) per year from 2014 to 2017. Over the remaining 16-year life of the super-bond, total cash flow relief will be US\$384 million.

**Belize: Impact of Debt Exchange on Debt Service**  
(in millions of US\$)



Sources: Belize authorities and staff calculations.

<sup>1</sup> The NPV haircut is calculated as  $1 - (\text{present value of new debt} / \text{present value of old debt})$ , using the same discount rate (exit yield).

<sup>2</sup> Additionally, when using a discount rate equal to Belize’s projected medium-term nominal GDP growth rate of 4.5 percent, the NPV reduction in public debt is only about 20 percent.

<sup>3</sup> Following the announcement of the debt exchange, the government missed one-half coupon payment in August 2012 and one payment in February 2013 for a total value of about US\$35 million.

**6. Despite the significant cash-flow relief, debt sustainability concerns remain.** Preliminary calculations suggest that the debt exchange would reduce the debt-to-GDP ratio by around 8 percent in 2018. Although the debt path would be *ceteris paribus* more favorable after the restructuring, the debt burden would likely remain high, on account of compensation to the former owners of the two nationalized utilities companies and continuing slow fiscal adjustment. Adherence by the authorities to an active fiscal adjustment will help contain growing financing needs and achieve a faster downward debt trajectory.

## Annex II. Additional and Contingent Liabilities

*The compensation resulting from the nationalization of BTL and BEL constitutes the largest share of the additional liabilities. While Fund staff has not assessed or verified the amounts presented by the government nor by the former owners (“claimants”), staff has adopted the mid-point valuation of the nationalized companies for debt sustainability analysis, and the authorities’ projections for the schedule of compensation. Staff does not take a view on the merits of the court cases, the timing or the amount of compensation.*

### **Nationalized Companies’ Valuations Cover a Wide Range**

**1. The different valuations for BTL and BEL commissioned by the government (from NERA Economic Consulting) and by the claimants result in a wide range of additional debt values.** The valuation of the companies ranges from about 6 percent of GDP (government valuation) to about 30 percent of GDP (claimants’ valuation). Further, the compensation would entail the accrued interests since the nationalization, in accordance with the national legislation (See below “Rules for Compensation”).

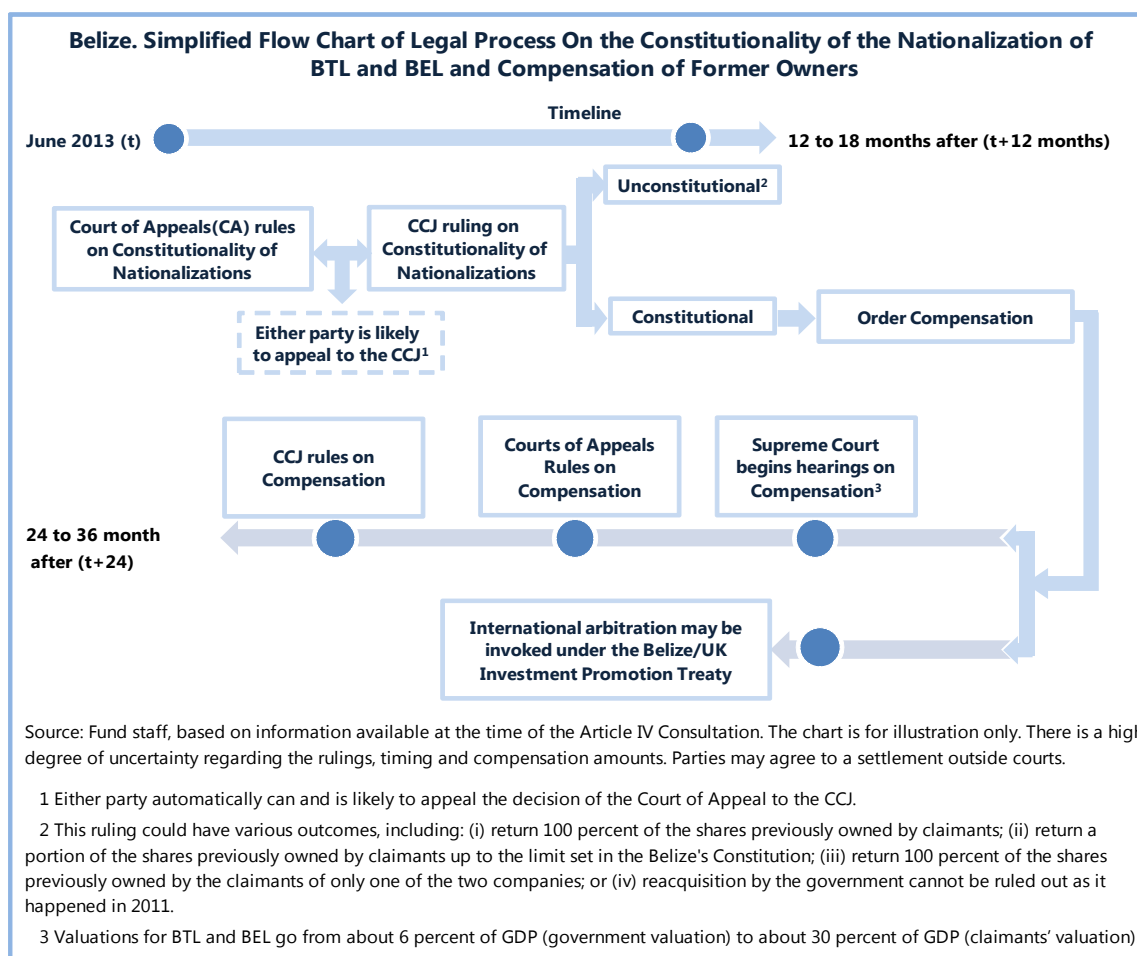
**2. The government made compensation offers to the former shareholders of BTL and BEL in October 2011 and January 2012, respectively, based on NERA Economic Consulting valuations.** A formal response to the government’s offers is still awaited. The authorities are of the view that between the offer dates and the settlement dates the accrued interests should be applied only to the amount that exceeds the government’s offered value, on the grounds that the claimants cannot benefit from tactically delaying the process.

**3. If no agreement on compensation is reached, the amount of compensation will likely be settled by either the court system or international arbitration.** The timing of such settlement is also unclear. The Court of Appeal is expected to make a decision by end-June 2013 on the constitutionality of the nationalizations, then likely followed by the proceeding in the Caribbean Court of Justice (CCJ) that may take another 12 months. To settle the compensation amount, the former owners or the government may turn to the Supreme Court. Alternatively they may resort to international arbitration in accordance with the U.K.-Belize Bilateral Investments Promotion and Protection Treaty (Figure).

### **Rules for Compensation**

**4. According to Belize Telecommunications (Amendment) Act, the compensation to the former owners of BTL may be paid either in cash or by issuing the claimants Treasury Notes,** for an amount that equals the ruled compensation to be redeemable within a period not exceeding five years from the date of issue. Compensation shall bear interest at the rate paid by commercial banks in Belize on fixed deposits on the date of acquisition.

**5. In the case of BEL, the Belize Electricity (Amendment) Act does not specify explicitly the period of compensation.** Although, similar to the rule for BTL, the compensation may be paid either in cash or by the issue of Treasury Notes, the authorities hold a view that the court's ruling will be guided by the precedent of BTL. In which case, the compensation period will not exceed five years and the compensation shall bear accrued interests.



**6. To alleviate the financing pressure in the domestic debt market, the government may opt for other sources for the payment of compensations.** Currently, the government has accumulated BZ\$75 million from the sale of the BTL shares in 2011. In addition, the government may further sell the BTL and BEL shares up to the constitutional limit of 51 percent majority. Furthermore, the U.S. 2038 bond indenture recognizes the government's option to issue maximum US\$75 million of the new bond if the former owners agree to receive it. Finally, the authorities estimate that BTL and BEL could pay BZ\$7 million and 0.4 millions of annual dividends, respectively. In aggregate, mobilization of these financing sources could add up to approximately 11 percent of GDP.

**7. The authorities are of the view that the entire compensation amount (including accrued interests) will be settled by the legal system in 2015, at the earliest.** Hence, staff

undertakes the debt sustainability analysis (DSA) based on the assumption that the debt is recognized at end 2015, followed by the compensation in equal installments over 2016–2020. The DSA also uses mid-point valuation for the outstanding BTL/BEL nationalization compensation (approximately 17 percent of 2015 GDP including accrued interests) and adopts the authorities' assumptions regarding accrued interests, use of other financing sources, and amortization schedule of domestic debt.

***Other additional liabilities and contingent liabilities***

**8. Also included in the additional liabilities is the estimated amount of about 3 percent of GDP as the result of land acquisitions for public purposes since 1980—for which the authorities claim to have been making interest payments.** A small arbitration award of about 0.3 percent of GDP due to the termination of an airport concession is also included in the additional liabilities.

**9. Finally, the government faces several arbitration awards that are pending to be enforced.** These arbitration awards, estimated at about 4 percent of GDP, are primarily associated with claims for damages related to overpayment of taxes, nonobservance by the government of an accommodation agreement, and guarantees issued by the government. These claims are currently being contested in courts.<sup>1</sup>

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<sup>1</sup> Belize, Offering Memorandum, February 15, 2013, p. 154.

## Annex III. Debt Sustainability Analysis (DSA)

*Although the recent debt exchange provided a near-term liquidity relief, its impact on debt stock reduction was modest. Coupled with the recognition of the additional liabilities and weak fiscal efforts, the debt level will remain high. The high public debt burden will highlight the need for further fiscal consolidation, a more robust debt management, and the development of the domestic debt market.*

### A. Macroeconomic Framework

**1. The debt exchange provided cash flow relief, but the impact on the current debt stock was modest.** Fiscal balance would be slightly more favorable than the pre-exchange projection, thanks to reduced coupon rate from 8.5 percent to 5–6.8 percent. However, because the past overdue interest payments were added (“clawed-back”) to the face value of the new 2038 bond, the net haircut was only 3 percent of the face value of original super-bond.

**2. Despite the 2012 rebound, economic growth is projected to remain subdued over the medium term.** Commodity exports, tourism, and construction, coupled with low inflation will support real output growth around 2.5 percent over the medium term. However, growth is still vulnerable to external shocks (including weather related) and could contribute to deterioration of future debt trajectory. Enhancing the business environment will be critical to improving growth prospects.

**3. The recognition of the additional liabilities would push up the level of debt stock by 17 percent of GDP in 2015.** The amount of compensations to the former owners of the nationalized companies is still unsettled. For illustration, the DSA assumes that the government recognizes the additional liabilities at end 2015 with a mid-point valuation between the authorities’ assessment and the former owners’ claims, plus accrued interests. Staff also assumes that the government fully utilizes its potential financial resources for reducing the debt burden, including: (i) the proceeds from the sale of BTL shares (BZ\$75 million); (ii) proceeds from potential sales of the companies’ shares to up to the constitutional floor of 51 percent; and (iii) annual dividends of BZ\$7.4 million.

**4. The country will need to rely heavily on domestic financing in the medium term, pushing up nominal debt service burden.** While it is assumed that the authorities may opt to issue new U.S. 2038 bonds of maximum US\$75 million as part of the compensation, the bulk of projected financing needs would be covered by domestic borrowing, as official disbursement is projected to gradually decline and no external commercial borrowing is expected within the projection horizon. Nominal interest of domestic borrowing could be high (assumed 5 percent) and even higher should the supply of debt stock continue to rise. Further, increased domestic financing warrants policy actions to develop the domestic public debt market; otherwise, illiquidity in the market with captive investors could distort the market pricing and effective credit intermediation.



## B. Assessment

### 5. Under the baseline scenario, public debt would experience a hike to 90 percent of GDP in 2015, and remain high during the projection horizon.

Despite the positive effects of the steady economic growth, the debt reduction is projected to be slow, owing to weak fiscal efforts under the baseline (1 percent of primary surplus in the medium term). Liquidity condition would gradually deteriorate, as public sector gross financing needs could increase to 7.6 percent of GDP in 2019 mainly due to maturing principal of the additional liabilities and high interest rate charged on domestic financing. Moreover, beyond the projection horizon, financing needs would increase even more from 2019, when the amortization of the new bond starts.

**6. Further fiscal consolidation efforts are warranted to bring back the debt to the long-run level.** The repeated debt exchange episodes may indicate that the country's current debt level is over the maximum sustainable debt level. Such a maximum sustainable debt level is derived in a country-specific matter but can be given as a range of 63–78 percent of GDP.<sup>1</sup> Going forward, in order to have a sufficient fiscal space and mitigate adverse impacts that could stem from the debt overhang, Belize is encouraged to go beyond the maximum sustainable level and try to achieve the long-run debt level, which can be as low as 49–58 percent for emerging market economies.<sup>2</sup>

### 7. Bound tests highlight that the public debt trajectory is vulnerable to various shocks.

Since more than 80 percent of total public debt was denominated in foreign currency in 2012, the debt profile is particularly sensitive to an exchange rate shock—with a 30 percent real depreciation in 2014, total debt would climb to nearly 120 percent of GDP in 2015, combined with the realization of additional liabilities. The debt ratio is also highly sensitive to shocks in growth, interest rate, and the primary balance. Further, contingent liabilities shocks (19 percent of GDP) would cause a proportional increase in debt levels. The contingent liabilities shock include (i) an additional amount in 2015 equivalent to the difference between the mid-point and the upper bound valuations of the additional liabilities associated with nationalized companies;<sup>3</sup> (ii) other ongoing disputes; and (iii) potential recapitalization needs of a few banks, stemming from the generic/migration shocks in the authorities' bank stress test.

<sup>1</sup> *Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis*, Policy Papers, August 5, 2011.

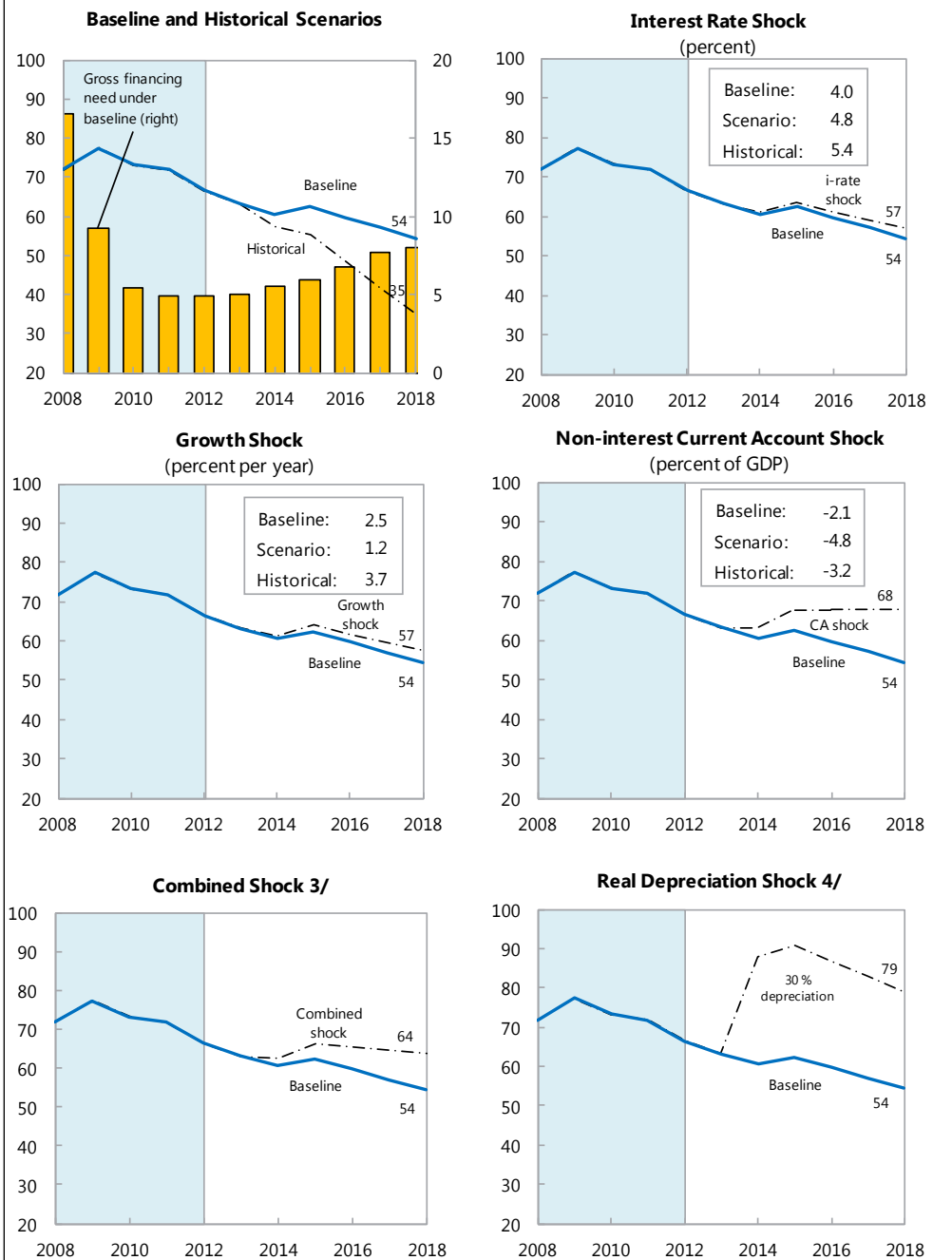
<sup>2</sup> The maximum sustainable debt level is the level beyond which a debt distress event is likely or inevitable. The long-run debt level is the level to which the debt-to-GDP ratio converges over the long run, as long as the actual debt-to-GDP ratio does not rise above the maximum sustainable level.

<sup>3</sup> Of which (i) represents close to ¾ of the total contingent liabilities shock.

**DSA Table 1. Belize: External Debt Sustainability Framework, 2008-2018**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -3.9	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
<b>Baseline: External debt</b>	71.9	77.3	73.2	71.8	66.4	<b>63.1</b>	<b>60.5</b>	<b>62.3</b>	<b>59.6</b>	<b>57.0</b>	<b>54.3</b>		
Change in external debt	-7.4	5.5	-4.2	-1.4	-5.4	-3.3	-2.6	1.9	-2.7	-2.6	-2.7		
Identified external debt-creating flows (4+8+9)	-8.9	0.4	-5.0	-7.7	-10.6	-1.2	-0.3	0.1	0.6	1.0	0.5		
Current account deficit, excluding interest payments	7.6	3.0	0.2	-1.9	-0.7	0.4	0.6	1.4	2.2	3.2	3.2		
Deficit in balance of goods and services	6.7	4.0	-0.5	0.1	-1.1	0.4	0.2	1.1	2.1	3.1	3.1		
Exports	63.6	54.4	58.6	64.1	65.4	63.7	62.7	61.6	60.8	59.9	59.4		
Imports	70.2	58.4	58.2	64.2	64.3	64.1	62.9	62.7	62.9	63.0	62.5		
Net non-debt creating capital inflows (negative)	-14.7	-6.6	-4.9	-4.4	-7.9	-1.5	-1.5	-2.0	-2.4	-2.9	-4.0		
Automatic debt dynamics 1/	-1.8	4.0	-0.3	-1.4	-2.0	-0.1	0.7	0.7	0.8	0.8	1.3		
Contribution from nominal interest rate	3.0	2.7	2.6	3.0	2.5	1.5	2.2	2.1	2.3	2.2	2.6		
Contribution from real GDP growth	-2.8	0.0	-2.0	-1.3	-3.6	-1.6	-1.5	-1.5	-1.5	-1.4	-1.4		
Contribution from price and exchange rate changes 2/	-2.0	1.3	-0.9	-3.1	-0.9	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	1.5	5.0	0.9	6.3	5.3	-2.1	-2.4	1.7	-3.3	-3.7	-3.2		
External debt-to-exports ratio (in percent)	113.1	142.3	124.8	111.9	101.6	99.0	96.4	101.2	98.1	95.1	91.3		
<b>Gross external financing need (in billions of US dollars) 4/</b>	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2		
in percent of GDP	16.6	9.3	5.4	4.9	4.9	10-Year	10-Year	5.0	5.5	5.9	6.8	7.7	8.0
<b>Scenario with key variables at their historical averages 5/</b>						<b>63.1</b>	<b>57.2</b>	<b>55.3</b>	<b>48.7</b>	<b>41.6</b>	<b>35.2</b>	<b>-7.7</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						<u>Historical</u>	<u>Standard</u>						
						<u>Average</u>	<u>Deviation</u>						
Real GDP growth (in percent)	3.8	0.0	2.7	1.9	5.3	3.7	2.6	2.5	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	2.5	-1.8	1.2	4.4	1.3	1.7	2.5	1.1	1.5	1.6	1.7	1.6	2.0
Nominal external interest rate (in percent)	4.0	3.7	3.5	4.4	3.7	5.4	1.7	2.3	3.7	3.7	3.8	3.8	4.8
Growth of exports (US dollar terms, in percent)	5.2	-16.0	12.1	16.3	8.7	8.4	11.0	1.0	2.4	2.3	2.9	2.7	3.7
Growth of imports (US dollar terms, in percent)	18.2	-18.3	3.5	17.4	6.8	5.5	10.9	3.3	2.1	3.8	4.6	4.4	3.7
Current account balance, excluding interest payments	-7.6	-3.0	-0.2	1.9	0.7	-3.2	5.3	-0.4	-0.6	-1.4	-2.2	-3.2	-3.2
Net non-debt creating capital inflows	14.7	6.6	4.9	4.4	7.9	7.7	3.3	1.5	1.5	2.0	2.4	2.9	4.0
<p>1/ Derived as <math>[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)</math> times previous period debt stock, with <math>r</math> = nominal effective interest rate on external debt; <math>r</math> = change in domestic GDP deflator in US dollar terms, <math>g</math> = real GDP growth rate, <math>e</math> = nominal appreciation (increase in dollar value of domestic currency), and <math>a</math> = share of domestic-currency denominated debt in total external debt.</p> <p>2/ The contribution from price and exchange rate changes is defined as <math>[-r(1+g) + ea(1+r)] / (1+g+r+gr)</math> times previous period debt stock. <math>r</math> increases with an appreciating domestic currency (<math>e &gt; 0</math>) and rising inflation (based on GDP deflator).</p> <p>3/ For projection, line includes the impact of price and exchange rate changes.</p> <p>4/ Defined as current account deficit plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.</p> <p>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.</p> <p>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.</p>													

**DSA Figure 1. Belize: External Debt Sustainability: Bound Tests 1/2/**  
(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

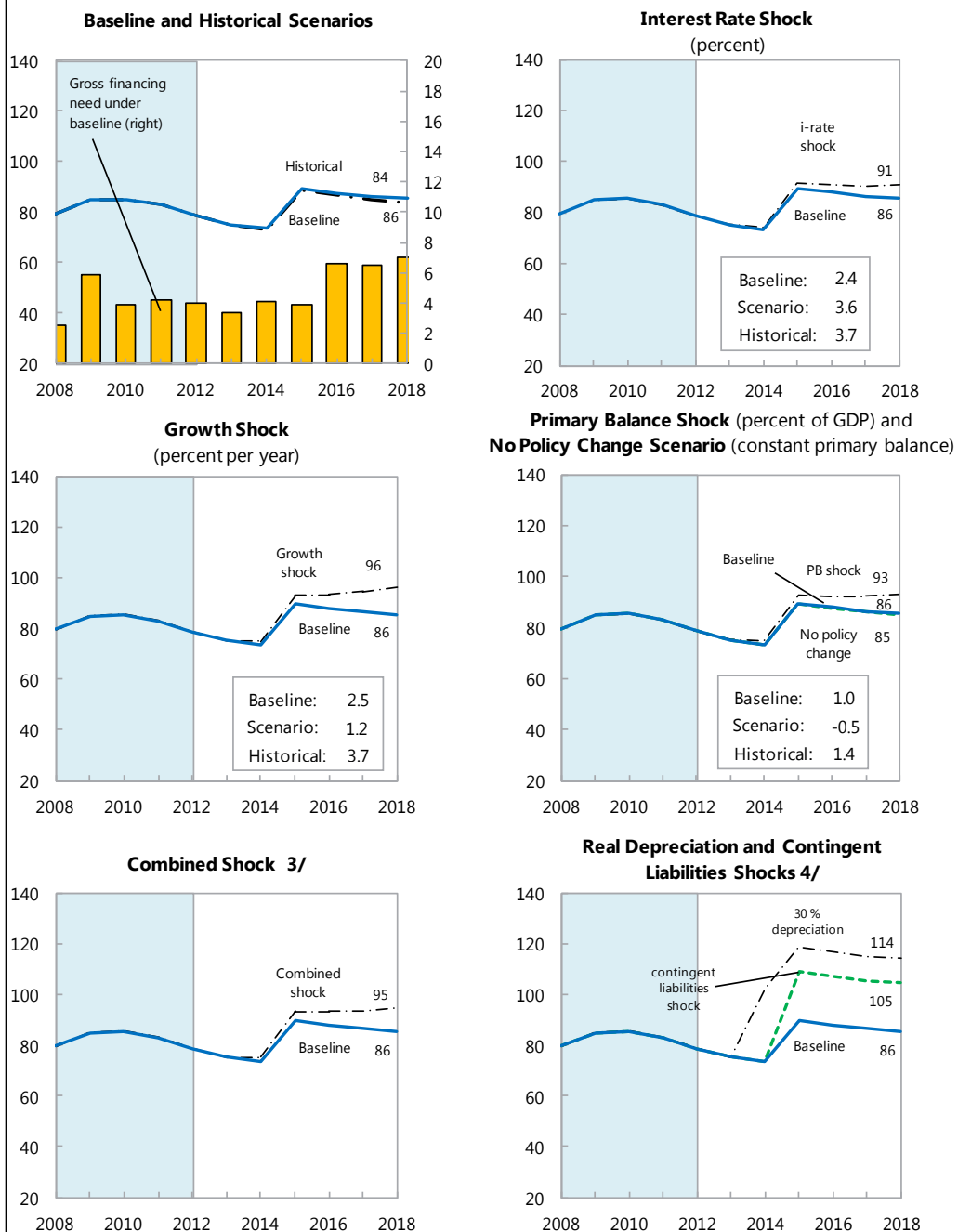
4/ One-time real depreciation of 30 percent occurs in 2014.

**DSA Table 2. Belize: Public Sector Debt Sustainability Framework, 2008-2018**

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 10/ 0.2
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
<b>Baseline: Public sector debt 1/</b>	79.6	84.9	85.3	83.0	78.6	<b>75.1</b>	<b>73.5</b>	<b>89.5</b>	<b>87.8</b>	<b>86.3</b>	<b>85.5</b>	
o/w foreign-currency denominated	71.9	77.3	73.2	71.8	66.4	63.1	60.5	62.3	59.6	57.0	54.3	
Change in public sector debt	-8.3	5.2	0.4	-2.3	-4.4	-3.5	-1.6	16.1	-1.8	-1.4	-0.8	
Identified debt-creating flows (4+7+12)	-6.7	4.4	-3.0	-4.4	-3.7	-1.9	-1.3	16.0	-1.2	-1.1	-0.7	
Primary deficit	-5.4	-0.7	-1.5	-2.1	-1.5	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	
Revenue and grants	29.4	26.1	26.9	27.7	26.3	26.3	26.2	25.9	25.9	25.8	25.6	
Primary (noninterest) expenditure	24.0	25.4	25.4	25.6	24.8	25.2	25.1	24.9	24.9	24.8	24.7	
Automatic debt dynamics 2/	-1.4	5.1	0.5	-1.6	-2.2	-0.8	-0.3	-0.3	-0.2	-0.2	0.2	
Contribution from interest rate/growth differential 3/	-1.4	5.1	0.5	-1.6	-2.2	-0.8	-0.3	-0.3	-0.2	-0.2	0.2	
Of which contribution from real interest rate	1.8	5.0	2.7	-0.1	1.9	1.1	1.5	1.5	1.9	1.9	2.3	
Of which contribution from real GDP growth	-3.1	0.0	-2.2	-1.5	-4.1	-1.9	-1.8	-1.8	-2.1	-2.1	-2.1	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	-2.0	-0.7	0.0	0.0	0.0	17.3	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-2.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.3	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) 6/	-1.6	0.9	3.4	2.1	-0.7	-1.6	-0.3	0.0	-0.6	-0.3	-0.1	
Public sector debt-to-revenue ratio 1/	271.2	325.0	317.2	299.2	298.6	285.5	280.8	345.9	338.8	334.4	333.6	
<b>Gross financing need 7/</b>	2.5	5.9	3.9	4.2	4.1	3.4	4.1	3.9	6.6	6.5	7.0	
in billions of U.S. dollars	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
<b>Scenario with key variables at their historical averages 8/</b>						<b>75.1</b>	<b>73.3</b>	<b>88.8</b>	<b>86.8</b>	<b>85.1</b>	<b>83.6</b>	<b>0.0</b>
<b>Scenario with no policy change (constant primary balance) in 2013-2018</b>						<b>75.1</b>	<b>73.4</b>	<b>89.4</b>	<b>87.6</b>	<b>86.0</b>	<b>85.1</b>	<b>0.2</b>
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	3.8	0.0	2.7	1.9	5.3	2.5	2.5	2.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 9/	4.8	4.5	4.5	4.4	3.8	2.5	3.7	3.7	4.0	4.0	4.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.2	6.2	3.3	0.0	2.5	1.4	2.2	2.1	2.3	2.4	2.8	
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)	2.5	-1.8	1.2	4.4	1.3	1.1	1.5	1.6	1.7	1.6	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.5	5.8	2.8	2.6	2.2	4.1	2.2	1.4	2.6	2.2	1.9	
Primary deficit	-5.4	-0.7	-1.5	-2.1	-1.5	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	
<p>1/ Gross public sector debt. Public sector refer to the central government.</p> <p>2/ Derived as <math>(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)</math> times previous period debt ratio, with <math>r</math> = interest rate; <math>p</math> = growth rate of GDP deflator; <math>g</math> = real GDP growth rate; <math>a</math> = share of foreign-currency denominated debt; and <math>e</math> = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).</p> <p>3/ The real interest rate contribution is derived from the denominator in footnote 2/ as <math>r - \pi(1+g)</math> and the real growth contribution as <math>-g</math>.</p> <p>4/ The exchange rate contribution is derived from the numerator in footnote 2/ as <math>ae(1+r)</math>.</p> <p>5/ This reflects the government's recognition of additional liabilities mainly associated with nationalized companies using the mid-point valuation.</p> <p>6/ For projections, this line includes exchange rate changes.</p> <p>7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.</p> <p>8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.</p> <p>9/ Derived as nominal interest expenditure divided by previous period debt stock.</p> <p>10/ 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.</p>												

**DSA Figure 2. Belize: Public Debt Sustainability: Bound Tests 1/2/**  
(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

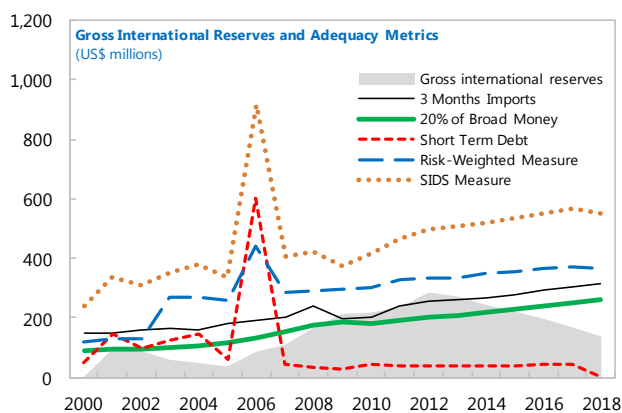
4/ One-time real depreciation of 30 percent and 21 percent of GDP shock to contingent liabilities occur in 2014, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

## Annex IV. Reserve Adequacy, Exchange Rate, and Current Account Assessment

### Reserve Adequacy

**1. The reserve adequacy is assessed based on traditional measures and two recently introduced risk-weighted metrics.** Gross international reserves in Belize have more than tripled since 2000, and stood at around US\$286 million at end-2012. Over the first half of the last decade, reserves were depleted pronouncedly on account of natural disasters and ensuing subdued tourist arrivals. Upon discovery of oil in 2005 and recovery in tourism activity, reserves accelerated as of 2007, boosted by the 2009 SDR allocation, with estimated peak in 2012. Against the backdrop of declining production and exports of oil, and limited scope to mobilize non-oil exports, reserves are projected to decline by about 40 percent over the next five years to US\$172 million at end-2017.

**2. Traditional metrics suggest that reserves would fall below the comfortable adequacy threshold in the medium term.** Based on the three months of imports, twenty percent cover of broad money, and full cover of short-term debt for a year, reserves are currently above the adequacy benchmark. However, reserves are projected to fall below three months of imports in 2014 and below twenty percent cover of broad money in 2016 to reach 57 percent and 69 percent, respectively, of the adequate level by 2017.



**3. New metrics point to a shortfall in reserves with the gap projected to widen over the medium term.** The first risk-weighted measure suggests that reserves stood at 86 percent in 2012, below the lower bound of adequacy threshold of 100–150 percent, and are expected to decline to 46 percent by 2017. The second risk-weighted measure, adjusted for Small Island Developing States (SIDS) metric signals a similar trend—with current 57 percent ratio below the lower benchmark and projected decline to 30 percent by 2017. In light of expected widening of the current account deficit and limited access to external financing, the low level of international reserves and projected

Ratios of Reserves to Optimal Reserves based on Various Measures  
(In percent)

	Risk-Weighted Measure	SIDS Measure	3 months Import	20% of Broad Money	Short Term Debt
2002	68	29	56	92	91
2007	38	27	54	70	244
2012	86	57	113	143	707
2017	46	30	57	69	410
Adequate Region	100-150	75-100	100	100	100

depletion over the medium term poses a risk to Belize's external stability.

### **Exchange Rate and Current Account**

**4. Under alternative approaches, the exchange rate on balance appears to be broadly in line with fundamentals.** External stability in Belize was assessed by applying the standard approaches:

- **Macroeconomic balance (MB).** The MB approach points to a need to align the projected external current account deficit (-5.4 percent of GDP) with its estimated medium-term norm level of -5.1 percent of GDP. Fiscal consolidation, coupled with maintaining the exchange rate at its equilibrium level entailing some moderate real depreciation, would help curb import growth and boost non-oil export competitiveness towards sustaining external stability and confidence in the exchange rate peg.
- **External stability (ES).** The widening current account deficit has been financed by record inflows that have increased Belize's negative net foreign assets (NFA) position to nearly -140 percent of GDP at end-2011. To ensure external stability and adequate financing, staff calculated the external current account deficit (-2.7 percent of GDP per year) that would reduce the required NFA for financing to below -110 percent of GDP by 2023. A narrower deficit would be consistent with a gradual real depreciation of up to 9.2 percent. Sensitivity analysis supports this assessment, as the deviation from equilibrium will remain moderate under the alternative scenarios.
- **Equilibrium real exchange rate (ERER).** The ERER approach finds that the exchange rate is broadly in line with its fundamentals, as it suggests moderate (5.3 percent) undervaluation of the Belize dollar at end-2012.

Assessment of the Real Exchange Rate Using CGER Methodologies  
(In percent of GDP, unless otherwise indicated)

	Macroeconomic Balance Approach		External Sustainability Approach	
	Baseline	Sensitivity analysis	Baseline	Sensitivity analysis
	Underlying CA balance: baseline 2017 level	Underlying CA balance: baseline minus one fourth st.dev.	Reducing NFA to below -110 percent of GDP by 2023	Reducing NFA to below -100 percent of GDP by 2023
Equilibrium external current account (CA) 1/	-5.1	-5.1	-2.7	-1.7
Underlying CA balance 2/	-5.4	-7.0	[-1.9 -6.2]	[-1.9 -6.2]
CA elasticity to REER 3/	-0.38	-0.38	-0.38	-0.38
Implied REER adjustment (in percent, "+" appreciation)	-0.9	-5.2	Up to -9.2	Up to -12

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 percent.

2/ External current account in 2017 for MB approach and in 2013-23 for ES approach.

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).

**5. An assessment of external debt sustainability highlights vulnerabilities to Belize's external position (Annex III).** While the external debt ratio is projected to gradually decline over the medium term (to around 54 percent of GDP by 2018), the debt trajectory is vulnerable to shocks. Bound tests suggest that external debt is mostly sensitive to nominal exchange rate devaluation and

current account shocks. In particular, under a 30 percent depreciation of domestic currency, external debt would surge to 88 percent of GDP in 2014 and remain elevated at 79 percent of GDP in 2018. Further vulnerability stems from a non-interest current account shock that would boost the external debt to around 68 percent of GDP over the medium-term horizon. In light of limited options for external financing, high gross financing needs—6.8 percent of GDP on average annually over the next 5 years—pose additional risk.<sup>24</sup> The projected widening of the current account deficit highlights vulnerability in the medium term and beyond, as the reserves coverage would dwindle below 2 months of imports by 2017 and pose a challenge to maintaining the exchange rate peg.

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<sup>24</sup> Over the period 2013-2017 loan repayments of commercial banks and other private sector are assumed to exceed new disbursements, reversing in 2018 and thus explaining improvement in non-debt creating capital flows.





# BELIZE

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 5, 2013

Prepared By

Western Hemisphere Department

### CONTENTS

FUND RELATIONS _____	2
BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE WORLD BANK _____	4
RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK _____	7
RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK _____	9
STATISTICAL ISSUES _____	12

## FUND RELATIONS

(As of March 31, 2013)

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

<b>General Resources Account</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	18.80	100.00
Fund holdings of currency (Exchange Rate)	16.91	89.96
Reserve Tranche Position	4.24	22.55

<b>SDR Department</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	17.89	100.00
Holdings	20.03	111.94

<b>Outstanding Purchases and Loans</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Emergency Assistance	2.35	12.50

### 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

### Projected Payments to the Fund (in SDR Million)<sup>1</sup>

	<u>Forthcoming</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal	1.76	0.59			
Charges/Interest	0.02	0.00	0.00	0.00	0.00
<b>Total</b>	<b>1.78</b>	<b>0.59</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

**Implementation of HIPC Initiative:** Not Applicable

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

<sup>1</sup> 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.

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

**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.

**Last Article IV Consultation:** The last Article IV consultation was concluded by the Executive Board on October 21, 2011 (IMF Country Report No. 11/340). Belize is on the standard 12-month consultation cycle.

**Recent Technical Assistance:**

- 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.
- MCM/LEG advised on contingency planning in March 2012.
- MCM conducted workshop on network analysis in April 2012.
- MCM advised on debt management strategy development in November 2012.
- FAD advised on tax policy in February 2013.
- LEG advised on structures and tools for AML/CFT supervision in April 2013.

# BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE WORLD BANK<sup>2</sup>

## A. Bank-Fund Collaboration Under the JMAP

**1. The World Bank's program in Belize is guided by a new four-year Country Partnership Strategy (CPS) for FY2012–2015.** Under the CPS, the focus is on assisting Belize to achieve inclusive and sustainable natural resource-based growth and enhanced climate resilience. The CPS builds on lessons learned from the implementation of the Interim Strategy Note (ISN) for FY2009–2011.

**2. The overall size of the envelope during the new CPS period is around US\$20–28 million.** Activities include a US\$15 million municipal development loan, approved by the World Bank Board on September 16, 2010, and a non-lending technical assistance on Belize's BOOST Conditional Cash Transfer and Human Development Program. Under the CPS, an investment lending operation is planned to support the improvement and/or development of climate resilient infrastructure.

**3. The IMF and World Bank teams agree 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 agree on 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 teams of the Fund and the World Bank meet on a regular basis to coordinate the work on Belize. Going forward, the work of the teams will be organized along the following lines:**

- **Public Financial Management (PFM).** The Fund is assisting in the reform of PFM processes and institutions by optimizing the use of available information technology to ensure that future ICT is geared to sound and best practice business processes.
- **Medium-Term Debt Management.** The Fund will continue assisting the authorities in building analytical capacity for developing a debt management strategy and enhancing the domestic public debt market.
- **Banking Sector.** The Fund, through CARTAC, plans to continue assisting the authorities in the preparation of guidance on corporate governance, internal controls, operational risks, and valuation of collateral. CARTAC also plans to assist the central bank to develop its financial

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<sup>2</sup> Updated in November 2012

stability framework and preparation of its first financial stability report. The Fund is ready to assist the authorities in updating the crisis management plan, as well as bank restructuring and resolution framework. The Fund is also assisting in the enhancement of the regulatory and supervisory framework of the central bank to support the proper adoption, development, and implementation of a risk-based approach to AML/CFT.

- **Social Protection.** The Bank is assisting in the design of a conditional cash transfer program that targets urban and rural vulnerable groups by providing cash conditional on active engagement of the beneficiaries in certain activities such as immunization, school attendance, and health and family education.
- **Infrastructure.** Through the ongoing Municipal Development Project, the Bank supports improved access to basic municipal infrastructure and enhanced municipal management in selected town and city councils of Belize.
- **Natural Resource Management.** The Bank will support Belize in adopting a sustainable natural resources based economic model while enhancing its resilience to climate change and natural hazards. A range of potential activities include: i) policies and strategies for mainstreaming of natural resources and climate resilience; ii) institutional capacity strengthening for natural resource management and climate change; and iii) investments to strengthen climate resilience.

<b>Belize: Bank and Fund ongoing and planned activities, 2013–2015</b>			
<b>Title</b>	<b>Products</b>	<b>Provisional Timing of Missions</b>	<b>Expected Delivery Dates</b>
<b>Bank Work Program</b>	Municipal Development Project		November 2015
	Conditional Cash Transfer & Human Development NLTA		Expected to close in 2013
	Climate Resilience Infrastructure		November 2013
	Marine Conservation and Climate Adaptation		October 2013
	Management and Protection of Key Biodiversity Areas		July 2013
<b>Fund Work Program</b>	Staff Visit	September/October 2013	
	Public Financial Management		Several short-term visits are planned in FY14
	Medium-Term Debt Management		Ongoing
	Corporate governance, internal controls, operational risks, and valuation of collateral guidance	Second half of 2013	
	Financial stability framework	Second half of 2013	
	AML/CFT	May 2013	Ongoing

## B. Financial Relations with the World Bank Group

### IBRD Operations

(In U.S. dollars)

	<b>IBRD</b>
Original Principal	101,200,000
Cancellations	5,703,328
Disbursed	82,884,966
Undisbursed	12,611,706
Repaid	72,960,751
Due	9,924,213
Exchange Adjustment	0
Borrower Obligation	9,924,213

### Gross Disbursements and Debt Service During Fiscal Year (July 1–June 30)

(In millions of U.S. dollars)

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012*</b>	<b>2013*</b>
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.

# RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of March 15, 2013)

**1. Country Strategy with Belize (2008–2012).** The 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, land management, infrastructure development, and citizen security. A US\$15 million policy-based loan targeting reforms in the education, health, and fiscal policy sectors was concluded in April 2011. Preparation of a new Country Strategy for the period 2013–2017 is underway, with approval expected in the fourth quarter of 2013.

**2. Technical cooperation operations** (grants) in execution include efforts to support fiscal transparency and responsibility, pension reform, teacher training, credit unions, cocoa farmers, competitiveness and investment promotion, and natural disaster risk management.

**3. 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; the formulation of a tourism master plan and infrastructure improvement of tourist destinations; 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.

#### **4. Recent and ongoing analytical work**

- The Pension System of Belize: Assessment and Policy Options
- Belize Government Compensation and Employment Study
- Belize Tax Expenditures and Incentives
- Private Sector Assessment Report
- Access to and Cost of Finance
- Belize Tertiary Education Study
- Institutional Assessment of the Education Sector in Belize

**5. 2013 program.** No lending operations are expected in 2013. The Bank will support Belize through new technical assistance in the following areas: education, tourism, energy, and execution support in the areas of infrastructure and citizen security.

**6. Current portfolio (in US\$ million).** The loan portfolio consists of seven investment loans for US\$50.7 million, of which US\$26.8 million (53%) remain undisbursed.

<b>Loan</b>	<b>Approved</b>	<b>Undisbursed</b>
Solid Waste Management	11.2	4.4
Sustainable Tourism	13.3	1.8
Land Management Program III	2.5	0.5
Agricultural Services Program	3.7	1.1
Community Action for Public Safety	5.0	4.6
Water and Sanitation Program–Placencia	5.0	4.9
Belize City Flood Mitigation Infrastructure	10.0	9.5
<b>Total</b>	<b>50.7</b>	<b>26.8</b>

**7. Loan transactions (in US\$ million)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Proj.2013</b>
<b>Net flows</b>	<b>-6.6</b>	<b>4.9</b>	<b>-2.0</b>	<b>4.1</b>	<b>4.9</b>	<b>1.4</b>
Gross disbursements	2.6	12.9	5.7	10.2	12.8	9.7
Amortization	4.2	4.2	4.3	4.3	6.0	6.6
Interest and charges	4.8	3.8	3.1	1.8	1.9	1.7



# RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

## A. Loan Portfolio Under Implementation and Transactions

### Loan Portfolio Under Implementation

(As of September 30, 2012, in millions of U.S. dollars)

Loan	Approved	Undisbursed
Second Water Project	13.8	0.2
Health Sector Reform Program	5.6	0.4
Modernization of Customs and Excise Department	2.5	0.3
NDM – Bridge Rehabilitation	8.8	2.7
Sixth Consolidated Line of Credit	10.0	3.6
Belize River Water Project	3.5	3.4
Belize Social Investment Fund II	15.0	11.9
Fourth Road Project – Santa Elena – San Ignacio Bypass	24.7	24.7
NDM – Immediate Response – Hurricane Richard	0.8	0.8
Education Sector Reform Project	2.0	2.0
Road Safety Project	5.4	5.4
Feasibility Study and Detailed Design – Northern Highway	0.4	0.4
Detail Design – Expansion of Water and Sewage – Ambergris Caye	0.7	0.7
<b>Total</b>	<b>93.5</b>	<b>56.5</b>

### Loan Transactions

	2006	2007	2008	2009	2010	2011	Year to Sept 2012
<b>Net flows</b>	<b>(1.7)</b>	<b>3.1</b>	<b>(0.9)</b>	<b>10.1</b>	<b>1.5</b>	<b>(3.8)</b>	<b>(7.4)</b>
Gross disbursements	3.9	20.0	14.9	21.3	14.5	8.7	3.5
Amortization	5.6	12.2	10.1	6.4	7.6	7.8	6.0
Interest and charges	4.7	4.7	5.7	4.8	5.4	4.7	4.9

## B. Economic and Sector Work

- 7.** To support the government of Belize (GOB) in achieving its development objectives, the Caribbean Development Bank (CDB) has continued to provide financing for a number of important projects, and the implementation of the Bank's country strategy for Belize for the period 2011 to 2015 is now well underway.
- 8.** To support the environment of growth, the CDB has been supporting efforts to expand, rehabilitate or reconstruct critical road and water infrastructure. In that regard, work has progressed on the US\$8.8 million project 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 strategically important bridges started in 2010 and work has already been completed on the Kendall bridge. 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 twin towns of Santa Elena and San Ignacio and a new road and bridge crossing the Macal River. The project, on which construction activity is anticipated to commence by late 2012, 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. To continue addressing needs in the road sector, the CDB approved a loan of US\$5.4 million in 2012 to assist GOB in enhancing road safety along a demonstration corridor on the Western Highway from Belize City to Belmopan. Further, a loan of US\$0.4 million was approved to conduct a feasibility study and detailed designs for the upgrade of the Northern Highway—an economically important road.
- 9.** In 2012, the CDB approved a loan of US\$0.7 million to enable GOB undertake detailed designs for the expansion of water and sewerage on Ambergris Caye. This builds on a 2010 feasibility study that was funded by the CDB. 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 and to protect the sensitive environment.
- 10.** To support private sector development in 2009, the CDB approved a line of credit of US\$10 million to the GOB, for the financing of projects in agriculture, industry, housing, and education sectors. The funds are being managed by the Development Finance Corporation (DFC) on an agency basis. The CDB also provided a TA grant for institutional strengthening of DFC, and implementation of recommendations from the consultant's report is ongoing.
- 11.** With respect to critical social sector investments, approximately US\$3.3 million was approved by the CDB in 2010, for GOB 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 facilitate the reduction of poverty and general living conditions of residents. Construction activity is expected to commence by early 2013.
- 12.** Additionally, through a US\$15 million loan, approved in 2010, the CDB has made resources available to the Belize Social Investment Fund (BSIF), which was established by legislation in 1996, to

appraise, finance, and supervise small and medium-sized sub-projects in underserved poor communities. This is the second loan approved by the CDB to fund project through the BSIF. The first loan of US\$7 million was approved in 2003. Belize was the beneficiary of grant funding from the CDB through the Basis Needs Trust Fund Sixth Programme (BNTF 6) in the sum of US\$3 million. As of September 30, 2012, all resources under the BNTF 6 have been committed and implementation of interventions is scheduled to be completed by the end of 2013. Interventions under the BSIF and the BNTF are community-based, and are usually concentrated in the areas of water and sanitation, education, and health. Interventions under these programmes are an integral component of Belize's poverty reduction strategy and action plan. Sub-projects financed through loan and grant resources are expected to help improve living conditions and enhance social capital in poor rural communities in Belize. The CDB funds will also allow for the development of a comprehensive results-based monitoring and evaluation system.

**13.** With grant assistance from the CDB in 2010, GOB formulated a policy and strategic framework for the education sector. This involved the development of a comprehensive education sector strategy. Based on this work, in 2012, the CDB approved a loan to GOB of US\$2.0 million (Education Sector Reform Project). The objective of the project is to enhance learning outcomes across all levels of the education sector in the country. The project will address institutional strengthening processes to underpin the success of the Education Sector Strategy. These include the development of a comprehensive school location plan, which will guide infrastructural development in the short to medium term.

**14.** The CDB, in 2011, approved a grant of US\$280,000 to the GOB, to undertake a feasibility study with respect to a proposed Youth and Community Transformation Project. The aim of the project is to contribute towards building a human capital particularly among youth and children from poor communities in Belize City, as part of an attempt to reduce socially deviant behavior. In accordance with the priority that GOB has given to strategies to reduce crime and improve citizen security, and based on the findings of the feasibility study, the CDB may consider providing further support to implementation of the project.

**15. Loan transactions (in US\$ million)**

	2007	2008	2009	2010	2011	Proj.2012
<b>Net flows</b>	<b>12.3</b>	<b>-6.6</b>	<b>4.9</b>	<b>-2.0</b>	<b>4.1</b>	<b>4.9</b>
Gross disbursements	20.2	2.6	12.9	5.7	10.2	12.7
Amortization	3.9	4.2	4.2	4.3	4.3	5.9
Interest and charges	4.5	4.8	3.8	3.1	1.8	1.9

## STATISTICAL ISSUES

<b>Belize—Statistical Issues Appendix</b>	
As of May 2, 2013	
<b>I. Assessment of Data Adequacy for Surveillance</b>	
<p><b>General:</b> Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, labor, and fiscal sector statistics.</p>	
<p><b>Real sector:</b> The accuracy and reliability of the data are affected by inadequate source data. The Statistical Institute of Belize (SIB) continues to face human and financial limitations for undertaking surveys and processing the data. Lack of reliable data on expenditure components hampers estimation of national savings and domestic investment. To address these shortcomings the SIB is planning to conduct a comprehensive business census in 2013, which will provide the basis for the completion of the Statistical Business Register and the conduct of annual surveys of establishments; strengthening capacity in the use of administrative data sources from the tax authorities and Customs Department; and rebasing GDP series.</p>	
<p><b>Price and labor statistics:</b> Labor market statistics are scarce and available at irregular intervals, the SIB plans to conduct the labor force survey twice a year going forward. The SIB is in the process of developing its new website, with plans to make metadata on the CPI as well as other statistics available online.</p>	
<p><b>Fiscal accounts:</b> Data on the consolidated operations of the public sector are unavailable. Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector including extra budgetary units. Also, difficulties persist in the compilation of capital expenditure as a number of Capital II (government-funded capital and project expenditures) items that started life as fixed-term project contributions have become permanent funding allocations. Authorities are aware of this shortcoming and are advising ministries to examine the continuing need and authority for such expenditures. In addition, the current accounting practices follow neither a cash basis nor an accrual basis of accounting, which contributes to an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses. Finally, domestic debt data recording is weak and often prone to errors; thereby further verification effort is needed.</p>	
<p><b>Monetary and financial statistics:</b> Data on financial soundness indicators of individual banks are available on quarterly basis. However, there is very limited data on non-bank financial institutions, especially the insurance sector. There is need to classify offshore banks as part of Other Financial Corporation's (OFC) subsector. Also, the Social Security Board (SSB) is not treated as part of the general government in contrast with the standard. Plans are ongoing to improve the availability of statistics. The central bank would start to publish the FSIs of the large credit unions soon.</p>	
<p><b>Balance of payments:</b> Official grant and loan disbursements and repayments are generally well recorded, but strengthening inter-agency coordination in information sharing between the MOF and CBB would be warranted. The authorities have compiled preliminary International Investment Position (IIP) statistics, which excludes off-shore financial sector. The compilation of FDI data remains a challenge, as survey responses are very low. Frequency could be improved.</p>	
<b>II. Data Standards and Quality</b>	
Participant in the General Data Dissemination System (GDDS) since September 27, 2006.	No data ROSC is available.
<b>III. Reporting to STA</b>	
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	3/31/2013	4/9/2013	M	N/A	NA
International Reserve Assets and Liabilities of the Monetary Authorities 1/	3/31/2013	4/18/2013	W	W	NA
Reserve/Base Money	3/31/2013	4/18/2013	W	W	NA
Broad Money	3/31/2013	4/18/2013	W	W	NA
Central Bank Balance Sheet	3/31/2013	4/18/2013	W	W	NA
Banking System Balance Sheet	3/31/2013	4/18/2013	M	M	NA
Interest Rates 2/	3/31/2013	4/18/2013	M	M	NA
Consumer Price Index	1/31/2013	3/22/2013	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —General Government 4/	3/31/2013	4/9/2013	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —Central Government	3/31/2013	4/9/2013	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt 5/	3/31/2012	4/9/2013	M	M	NA
External Current Account Balance	12/31/2012	April 2013	Q	Q	A
Exports/Imports of Goods and Services	12/31/2012	April 2013	M	M	NA
GDP/GNP	2012Q4	3/4/2013	Q	Q	NA
Gross External Debt	3/31/2013	4/9/2013	A, M	A, M	NA
International Investment Position 6/	N/A	N/A	N/A	N/A	N/A
<p>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.</p> <p>2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p>3/ Foreign, domestic bank, and domestic nonbank financing.</p> <p>4/ Consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.</p> <p>5/ Including currency and maturity composition.</p> <p>6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.</p> <p>7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).</p>					



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Draft Public Information Notice (PIN) No. 13/xx  
FOR IMMEDIATE RELEASE  
July 15, 2013

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

### **IMF Executive Board Concludes 2013 Article IV Consultation with Belize**

On June 21, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.<sup>1</sup>

#### **Background**

In March 2013, the government of Belize completed the exchange of its “super-bond” for new U.S. dollar denominated 2038 bonds bringing substantial cash-flow relief (about US\$130 million over the next 5 years). The debt restructuring took place against prolonged legal disputes over the nationalization of two utility companies, Belize Telemedia Limited (BTL) and Belize Electricity Limited (BEL). No agreement has yet been reached over compensation payments; and the legal dispute may take a few years in court.

In 2012, output growth is estimated at 5.3 percent, led by a recovery from the 2011 effects of weather-related damages in commodity exports. Inflation averaged 1.4 percent, as commodity price pressures abated. The external current account deficit widened to about 1.7 percent of Gross Domestic Product (GDP) due to a steep drop in oil exports and higher imports of fuel and electricity. Notwithstanding this deterioration, international reserve coverage is estimated at 3.4 months of imports up from 3 months in 2011, thanks in part to strong FDI inflows in the sugar sector. Unemployment remains high at 16 percent.

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<sup>1</sup> 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>.

The fiscal primary surplus for FY2012/13 is expected to deteriorate to 1.3 percent of GDP compared to 2.3 percent of GDP in 2011. This deterioration largely reflects the continued decline in oil-related revenues and an increase in the wage bill, despite robust growth in General Sales Tax (GST) revenue.

After two years of decline, credit to the private sector recovered modestly in 2012. High non-performing loans (NPLs) in the banking system—20 percent of total loans at end-2012—and loan write-offs continue to hold back private sector credit growth, estimated at 1.1 percent, and are eroding banks' net earnings. Broad money grew by 5 percent, mostly driven by expansion in net foreign assets. New provisioning and loan classification standards implemented by the central bank at end-2011 have resulted in declining NPLs in the banking system and improving provisioning.

Despite the acceleration in economic activity in 2012, output growth is expected to moderate to about 2.5 percent in the medium term. The primary surplus is projected at 1 percent of GDP in FY13/14, with public debt expected to decline to about 75 percent of GDP at end-2013, reflecting, in part, the net face value haircut of 3 percent from the recent debt exchange. The government may face large financing needs over the medium term largely associated with compensation to the former shareholders of nationalized companies, pending legal rulings. The external current account deficit is projected to widen to about 1.9 percent of GDP owing to the continued deterioration in crude oil exports and rising imports. The reserve coverage would remain at around 3 months of imports by end-2013.

### **Executive Board Assessment**

Directors congratulated the authorities on the strong economic performance last year and the successful completion of the external debt exchange. These positive developments notwithstanding, Directors noted that Belize's economy still faces substantial challenges and vulnerabilities. They encouraged the authorities to take advantage of the existing breathing space to rebuild policy buffers, pursue active debt management, accelerate financial sector reform, and buttress the economy's resilience to external shocks.

Directors underscored the need to sustain the momentum of fiscal consolidation while protecting spending in such priority areas as infrastructure, internal security, and social programs. They stressed that raising the primary surplus to levels consistent with debt sustainability would require strong adjustment efforts, including moderating wage increases and broadening the base for the general sales tax. Over the medium term, it will be important to strengthen public financial management and implement a tax reform that promotes growth and fairness. Directors recommended that the authorities avoid the earmarking of funds, and put in place appropriate safeguards for public resources should they be used for the creation of a specialized mortgage bank. Given uncertainties surrounding the potential liabilities associated with the nationalization of public companies and other contingent liabilities, Directors

encouraged the authorities to take additional measures as necessary, with a view to ensuring fiscal sustainability.

Directors welcomed the authorities' plans to revamp the debt management framework. They encouraged continued efforts to develop a more robust debt management, strengthen the institutional framework, and build capacity to operationalize a medium-term debt management strategy. Options to develop the domestic debt market should also be explored to mobilize domestic financing.

Directors welcomed progress on financial sector reforms. However, given the remaining vulnerabilities, including the still high nonperforming loans, they called for continued vigilance, close monitoring of individual institutions, and intensified efforts to implement the remaining recommendations of the 2011 FSAP. It will also be important to update the crisis management plan and the bank restructuring and resolution framework, making use of technical assistance from the Fund. Directors also saw a need to further strengthen the AML/CFT framework.

Directors concurred that, while the fixed exchange rate has provided an important anchor for macroeconomic policies, efforts are needed to tackle Belize's widening current account deficits and relatively low international reserves. They called on the authorities to advance structural reforms, focusing on removing impediments to private investment, boosting competitiveness and jobs, and promoting inclusiveness and the diversification of exports and energy sources.

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### Belize: Selected Economic Indicators

	2009	2010	2011	2012	Proj. 2013
(Annual percentage change, unless otherwise indicated)					
<b>National income and prices</b>					
GDP at constant prices	0.0	2.7	1.9	5.3	2.5
Nominal GDP (US\$ millions)	1,339.2	1,392.0	1,480.8	1,579.4	1,636.9
Gross domestic investment 1/ 2/	22.0	18.0	19.0	19.0	19.5
Gross national savings 1/	16.3	15.2	17.9	17.3	17.6
Consumer prices (end of period)	-0.4	0.0	2.5	0.6	2.0
Real effective exchange rate	4.5	-2.8	-9.4	2.0	...
<b>Money and credit</b>					
Credit to the private sector	4.8	-3.6	-1.2	1.1	2.1
Money and quasi-money (M2)	5.8	-2.1	4.7	5.1	3.8
(In percent of GDP, unless otherwise indicated)					
<b>Central government 3/</b>					
Revenue and grants	27.2	27.5	27.8	26.0	26.4
Current expenditure	24.7	24.1	24.1	22.0	22.7
Capital expenditure and net lending	3.7	5.1	4.7	4.6	4.7
Primary balance	2.4	1.8	2.3	1.3	1.0
Overall balance	-1.2	-1.7	-1.1	-0.6	-1.1
<b>External sector</b>					
External current account 4/	-4.9	-2.8	-1.1	-1.7	-1.9
Overall balance of payments (US\$ millions)	47.3	5.2	18.1	52.8	-10.0
Public and publicly guaranteed debt	84.9	85.3	83.0	78.6	75.1
Domestic debt	7.5	12.1	11.2	12.2	12.0
External debt	77.3	73.2	71.8	66.4	63.1
Gross international reserves (US\$ millions) 5/	213.7	218.0	236.1	288.9	272.5
In months of imports	3.3	3.2	3.0	3.4	3.1

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

1/ In percent of GDP.

2/ Including inventory accumulation.

3/ Fiscal year ends in March.

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).

**Statement by Thomas Hockin, Executive Director  
and Trevor Lessard, Advisor to the Executive Director  
June 21, 2013**

Our authorities thank the staff for their report, frank dialogue, and the mission chief's emphasis on providing value-added presentations, etc., during staff visits. This type of outreach is particularly useful for small states that are committed to steady progress on their reform agenda and we hope this template for staff visits continues to be the norm going forward. Similarly, we welcome past and upcoming Technical Assistance (TA), which continues to assist in overcoming certain policy weaknesses and building financial and macroeconomic resilience. Although we may not agree on every policy recommendation we are firmly of the belief that this open dialogue has been mutually beneficial.

After prolonged and extensive negotiations with its external creditors, our authorities successfully negotiated a mutually agreeable debt restructuring that will provide Belize with substantial debt relief. As staff calculations indicate, the restructuring of the Super Bond has resulted in an NPV reduction of approximately 29-31 percent, assuming an appropriate discount rate. Moreover, the restructured bond has provided much needed fiscal space in the near term, allowing the authorities the flexibility to tackle endemic barriers to growth resulting from high crime, security challenges, poverty alleviation, and inadequate infrastructure, all of which require fiscal outlays.

Our authorities wish to emphasize and reiterate their steadfast commitment to servicing the restructured Super bond, exemplified by their willingness to include a clause of principal reinstatement in the highly unlikely event of a future default, and their commitment to improving debt management. In this regard, the authorities are thankful for the TA provided by the Fund and, led by senior officials who are members of the debt management task force, have already embarked upon the process of improving their debt management capacity. The multi-pronged reform strategy will improve back-office (e.g. recording of debt obligations), mid-office (e.g. forecasting and scenario analysis) and front-office (e.g. strategic direction from senior officials) debt management and will complement parallel reforms in the financial sector and public financial management.

We note that even under what we would perceive as relatively pessimistic projections, Belize's debt-to-GDP ratio continues to decline in the medium term. This is in spite of the challenges of a weak global economy and the difficulty of maintaining a primary surplus while oil revenues sharply decline. The report rightly highlights the contingent liabilities and our authorities are mindful that the resolution of these liabilities will result in some level of compensation. We appreciate staff's clarity that they have not assessed or verified the amounts presented by Belize or the former shareholders of BTL and BEL, and have intentionally remained neutral by selecting the mid-point valuation for the DSA. Nevertheless, my authorities remain of the view that the mid-point is more than what the fair value compensation is expected to be. Also, staff correctly indicates that the authorities view settlement through the legal system to be, at the earliest, end-2015, but we would mention that the earliest is not the most likely. Although the authorities continue to bargain in good faith and desire a quick resolution of the contingent liabilities, it is extremely difficult to forecast when a court mediated solution could occur.

As a result of these two unknowns (e.g. the timing and the size of the settlement of the two contingent liabilities), the DSA contains significant (and unavoidable) uncertainty. Moreover, the DSA does not by its nature incorporate the dynamic effects of the authorities commitment to readjust the fiscal stance should the compensation be larger (or sooner) than currently envisioned.

We have had engaging discussions with staff on the view that a more aggressive fiscal stance, achieved through a significant increase in the primary balance, could make the debt trajectory more downward sloping and lessen medium-term financing needs. Nevertheless, additional fiscal consolidation carries with it considerable opportunity cost and may not necessarily achieve the forecasted benefits. As staff rightly notes, the 2013 World Bank Doing Business Report emphasizes security risks, poor infrastructure and high crime as the main impediments for doing business in Belize. To unlock the growth potential of the economy it is imperative that fiscal expenditures be undertaken to address these barriers to sustainable growth, and with oil revenues potentially coming to an end soon, the authorities believe it is best to use some fiscal space to immediately tackle these impediments. The authorities remain committed to a primary surplus that will result in a downward sloping debt trajectory, and will adjust the fiscal stance once the liabilities resulting from the nationalizations have crystallized, but do not agree that raising the primary balance immediately to 3 percent is economically or socially optimal at this juncture. With a weak global economy, deteriorating social indicators, and the need to bolster non-oil exports, the right balance between fiscal consolidation and growth-improving investments needs to be struck.

We agree with staff that although significant progress has been made in the financial sector and many FSAP recommendations have been implemented, the task remains incomplete. We agree with staff that NPLs remain at a level higher than desired, but it is important to keep in mind the achievements made in recent years. NPLs have declined significantly from a very high level and provisioning against these loans has also markedly improved. Moreover, with the exclusion of one bank, the domestic banking sector's NPL is approximately 6 percent, well below the average when the troubled bank is included. With regard to that particular bank, the authorities have adopted an increasingly collaborative approach to returning it to viability and have developed a pragmatic, case-specific, plan to nurse it back to health. Extensive effort is also being made to improve the central bank's crisis management capacity and bank restructuring/resolution framework. Also, following up on the April/2013 staff visit to Belize, the authorities are working on enhancing the regulatory and supervisory frameworks to create a more effective, risk-based, approach to AML-CFT.

The fixed exchange rate continues to serve Belize well, resulting in low and steady inflation. The peg to the US dollar provides an important policy anchor, macroeconomic stability and central bank credibility. The authorities are aware that a widening current account deficit, mainly a result of declining oil exports, and a decline in foreign exchange reserves, could threaten the peg. As a result, the authorities are actively promoting the expansion of other export sectors, such as tourism, agriculture, and sustainable import substitution via the diversification of energy production into renewable sources, which will contribute to external stability and offset the loss of exports resulting from declining oil production.

As has been their practice, our Belizean authorities intend to publish the staff reports.