INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/280

BELIZE

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE

September 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Belize, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 23, 2014, following discussions that ended on May 8, 2014, 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 11, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 23, 2014 consideration of the staff report that concluded the Article IV consultation with Belize.

The following document has been or will be separately released.

Selected Issues Paper

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

June 11, 2014

KEY ISSUES

Outlook and risks. The economy will remain vulnerable over the medium term, with sluggish real GDP growth, rising public debt and widening external current account deficits. International reserves could decline to uncomfortably low levels. The financial system would continue to be hampered by high NPLs and low capital buffers, especially at a systemic bank. Main fiscal risks include a court decision that could lead to a larger than expected compensation to the former owners of the nationalized companies, weaknesses in a systemic bank, and the cost of the new public bank.

Focus of the Consultation. Discussions focused on measures that would place public debt on a sustainable path; address weaknesses in the financial system, particularly in a systemic bank; buttress external sector resilience; and enhance competitiveness and inclusive growth.

Key policy advice.

- Improve the primary fiscal balance to about 4.5 percent of GDP starting in 2015. This could be achieved mainly by allowing spending on goods and services to rise only in line with inflation; containing the expansion in the wage bill; requiring public workers to contribute to their pensions; and by widening the tax base and strengthening revenue administration. Active debt management, including refinancing of expensive debt with low-earning deposits (essentially from PetroCaribe), would support these efforts.
- Address banking sector vulnerabilities through improving capital buffers.
- Improve public financial management (PFM) to contain low-quality spending, strengthen budget formulation, preparation, and execution, and improve the coverage and accuracy of budget documents.
- Further improve the business environment to attract more private investment, boost competitiveness, and enhance job-creating and inclusive growth.

Implementation of staff advice. Implementation of recent staff advice is mixed. The breathing room provided by the debt restructuring was not used to improve the primary fiscal balance. The authorities plan to review exemptions and zero-ratings under the GST.

Approved By
Robert Rennhack and Masato Miyazaki

Discussions took place in Belize City and Belmopan during April 29–May 8, 2014. The team comprising J. Bouhga-Hagbe (Head), J. Okwuokei, M. Ronci, K. Vitola (all WHD), and D. Parker (MCM) met with Prime Minister Barrow, Finance Secretary Waight, Central Bank of Belize Governor Ysaguirre, other officials and representatives of the private sector, labor unions, and the political opposition. Mr. T. Lessard (OED) participated in some of the meetings.

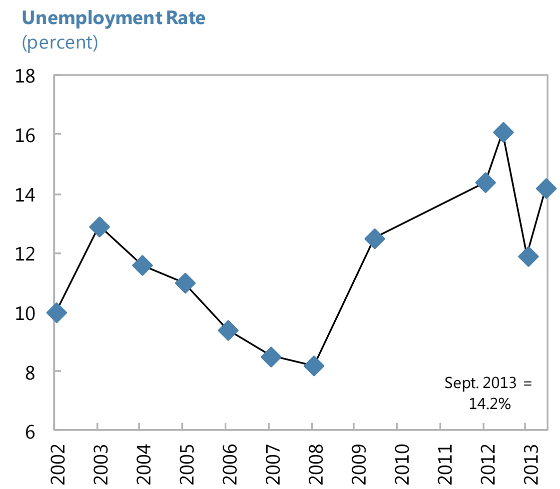
CONTENTS

ANNEXES

BACKGROUND

1. **The political outlook, including the forthcoming municipal elections in March 2015, is building pressure for more government spending.** The government created a new public bank in September 2013 that would essentially provide loans to public employees and teachers on concessional terms. Recently, it announced sizeable wage increases for public employees and committed to allocating half of the annual growth in recurrent revenues to increases in public sector wages during FY2014/15–FY2016/17.

2. **Social challenges remain daunting, adding to spending pressures.** Unemployment stood at 14.2 percent in September 2013 and is on an upward trend since it hit its lowest level in 2008 (Text chart). The latest country poverty assessment (CPA) was conducted in 2009, which showed that poverty increased substantially since the previous assessment in 2002. The share of households living in poverty increased from 25 percent to 33 percent, with the share living in severe poverty rising from 8 to 10 percent. Poverty increased mainly because of stagnating economic growth. According to the 2013 UN Global Study on Homicide, Belize has one of the world's highest homicide rates with 44.7 homicides per 100,000 inhabitants.



3. **The authorities' track record in implementing recent Fund advice has been mixed.** They agreed to large wage increases for public employees, and the fiscal space created by the debt restructuring of March 2013 has not been used to put the fiscal position on a sustainable path. In particular, the primary surplus remains well below levels recommended by staff. On tax reform, the authorities still plan to review the list of exemptions and zero-ratings under the GST.

RECENT DEVELOPMENTS

4. **Macroeconomic performance has weakened (Figures 1–5):**

- **Real GDP growth plummeted to 0.7 percent in 2013, from 4 percent in 2012,** mainly due to continued declines in oil production and weak agricultural output, especially sugarcane and citrus. Average inflation eased to 0.5 percent from 1.3 percent a year ago, as commodity price pressures abated. In March 2014, inflation picked up to 1.4 percent (y/y), mainly as a result of higher prices in the food and housing, water, electricity, gas and other fuels categories.

- **The external current account deficit widened to 4.5 percent of GDP in 2013 up from 1.2 percent in 2012, as exports of oil and agricultural products fell sharply, while imports of fuel and electricity picked up**. In January–February 2014, export revenues fell by 16.5 percent (y/y), as higher receipts from shrimp and lobster could not compensate for lower earnings from citrus, banana, petroleum and sugar. Imports fell by 1.0 percent, mainly due to reductions in electricity imports. International reserves improved to 4.7 months of imports at end-March 2014 (up from 3.3 months at end-2012) mainly owing to PetroCaribe financing and private inflows.

- **The primary surplus for FY2013/14 (fiscal year ends in March) is estimated to have fallen to 1 percent of GDP, from 1.4 percent of GDP in FY2012/13**. Revenue is expected to be better-than-budgeted, as robust tax revenues more than offset the decline in non-tax revenues. However, substantial increases in wages and salaries, transfers and interest payments drove up current expenditure. Capital expenditures were higher than budgeted because of the need to rebuild the infrastructure that was badly damaged by rain.

- **Credit growth and monetary policy continued to be hampered by weaknesses in the financial system, including in a systemic bank.** Private sector credit grew by 3.8 percent (y/y) in March 2014, while broad money grew by 5.2 percent. The banking system remained highly liquid. At end-March 2014, commercial banks' excess cash reserves and liquid assets reserves were respectively 120 percent and 70 percent of requirements. In one domestic bank, excess liquidity is over 200 percent of required reserves, and accounts for 60 percent of system's total. High liquidity levels have helped to keep T-bill rates below 1 percent, and commercial banks' lending rates are slowly declining. While declining, non-performing loans (NPLs) remained high at 16.7percent of total loans at end-March 2014. The banking system's capital adequacy ratio (CAR) improved to 23.4 percent, but still masks weaknesses in a systemic bank. Loan write-offs by the banking system amounted to 2.5 percent of private sector credit in 2013, and total loan write-offs for the last three years represented 3.4 percent of total assets of the banking system at end-2013.

- **The authorities stepped up their efforts to address other weaknesses of the financial system**, including the adoption of new AML/CFT legislation after the Caribbean Financial Action Task Force decided in November 2013 to call for counter measures against Belize due to unresolved AML/CFT deficiencies (Annex I). After the CFATF's November statement, some foreign financial institutions have started to put restrictions on their transactions with Belize, though the impact remains limited. The CFAFT public statement of May 2014 noted that Belize had made significant progress in addressing its AML/CFT deficiencies.

MACROECONOMIC OUTLOOK AND RISKS

5. **Staff's assessment of the medium-term outlook is worse than envisaged during the 2013 Article IV Consultation**. Real GDP growth would be weaker than expected in the near term but hover around 2.5 percent over the medium term as declining oil production would be partially offset by higher output of other commodity exports, tourism and construction. Inflation

would remain low owing to the exchange rate peg and subdued inflation in trading partners. The authorities' medium-term policy plans would maintain the primary surplus around 1 percent of GDP, as in FY2013/14 (Annex II). However, the fiscal outturn in FY2013/14 is considerably worse than expected, and the government's gross financing requirement in 2017–2019 has been revised upward considerably. In this context, the low primary surpluses together with the recognition of debt related to nationalizations (see paragraph 8) would bring the public debt-to-GDP ratio to about 90 percent by FY2019/20, more than 5 percentage points of GDP above projections during the 2013 Article IV Consultation. Debt sustainability would remain uncertain (Annex III). Expansionary fiscal policies, including large wage increases, would fuel higher domestic consumption and upward pressures on the external current account deficit. International reserves would decline substantially to very uncomfortable levels over the medium term as a result of both shortfalls in capital inflows needed to finance the current account deficit and the assumed repatriation of compensation payments for the nationalized companies. PetroCaribe flows will continue to play a major role in the financing of the budget and the external current account deficit. From the perspective of external stability, the exchange rate is estimated to be moderately overvalued, reflecting the current unsustainable policy mix (Annex IV).

6. **Risks continue to be tilted to the downside and the fiscal impact of key new vulnerabilities could reach several percentage points of GDP (Annex V).** Main risks to the baseline include lower-than-projected primary balances; a court decision that leads to a larger than expected compensation to the former owners of the nationalized companies (see paragraph 8); banking sector vulnerabilities, especially the systemic bank's low capital buffers; fiscal risks from state-owned entities (Annex VI); the cost of the new public bank; and the cost of new policy initiatives such as the expansion of the national health insurance scheme (Annex VII). Additional external vulnerabilities could arise from a protracted period of weak growth in advanced economies or the end of PetroCaribe financing, which could lead to faster erosion of the international reserve cushion. New oil discoveries and growth-enhancing projects that are currently being implemented or envisaged could mitigate these risks.

POLICY DISCUSSIONS

Staff urged the authorities to put the fiscal position on a sustainable path and create the buffers needed to address mounting vulnerabilities and emerging risks, while boosting inclusive growth prospects. It also encouraged them to continue strengthening the financial sector and buttressing external sector resilience.

A. A More Ambitious Fiscal Stance to Restore Debt Sustainability and Create Credible Policy Buffers

7. **Staff urged the authorities to set fiscal policy to reduce public debt to 70 percent of GDP by FY2019/20, compared with a target of 75 percent of GDP in last year's Article IV**

Consultation (Text Table 1). The authorities' current fiscal strategy leaves the country in a highly vulnerable position, introduces significant rigidities in the budget, and does not sufficiently provide for growth-enhancing expenditures (Annex II). In this context, staff recommended that the authorities raise the primary surplus to 3.5 percent of GDP in FY2014/15 and then raise it further closer to 4–5 percent of GDP in the medium term to bring debt to about 70 percent of GDP by FY2019/20. Continued efforts afterwards would further reduce debt to below 60 percent of GDP a few years later, a debt target the authorities should adopt for the medium-to-long term.

Text Table 1. Belize: Baseline and Active Scenarios, 2013-19

(In percent of GDP, unless otherwise indicated)

	Est.	Projections					
	2013	2014	2015	2016	2017	2018	2019
I. Baseline Scenario							
Real GDP growth	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Central government 1/							
Primary balance	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Overall balance	-2.3	-1.7	-1.7	-2.1	-3.3	-3.4	-4.6
Public and publicly guaranteed debt 2/	76.4	77.4	76.7	97.3	94.1	91.9	89.8
Current account balance	-4.5	-4.9	-5.5	-5.9	-6.1	-6.4	-6.5
Gross official reserves (months of imports)	4.3	4.7	4.8	4.6	3.1	1.7	0.3
II. Active Scenario							
Real GDP growth	0.7	1.5	1.8	2.6	2.8	3.0	3.2
Central government 1/							
Primary balance	1.0	3.5	4.6	4.4	4.6	4.7	4.7
Overall balance	-2.3	0.7	1.9	1.4	0.5	0.6	-0.6
Public and publicly guaranteed debt 2/	77.5	76.8	73.4	91.6	83.2	77.0	70.6
Current account balance	-4.5	-3.6	-3.3	-2.8	-2.5	-2.9	-3.4
Gross official reserves (months of imports)	4.4	4.7	5.3	5.8	5.3	4.7	4.1

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

1/ Fiscal projections are on a fiscal year basis (April to March).
2/ Includes repayment of additional liabilities resulting from past nationalization of utility companies.

8. **Staff continues to assume that courts would decide in 2016 that the government owes compensation equivalent to about 20 percent of GDP to the former owners of the nationalized companies, including capitalized accrued interest (Text Table 2).**[1,2] The compensation resulting from the nationalization of Belize Telemedia Limited (BTL) and Belize

[1] On May 15, the Court of Appeal ruled that nationalizations of BTL and BEL were constitutional. Both claimants are expected to appeal this decision in the Caribbean Court of Justice, where the final ruling on constitutionality could be issued by March 2015. Settlement on the compensation amounts could take another 12–18 months.

[2] The former owners claim that the government must give them compensation equivalent to almost 35 percent of GDP, including capitalized accrued interest.

Electricity Limited (BEL) constitutes the government's largest contingent liability. Staff assumes that the liability would amount to the mid-point between the government's valuation of the companies at end-2012 (US$85 million) and the former owners' valuation (US$450 million), and adds capitalized accrued interest up to 2016, using an interest rate of about 8 percent. Staff further assumed that compensation would be paid in five installments, staring in 2017, adding to external outflows.

Text Table 2. Belize: Liabilities Related to Nationalizations
(In millions of U.S. dollars)

	Authorities	Claimants	Mid-point
Initial valuation (as of end-2012)	85	450	268
Capitalization of accrued interest (as of end-2016)	56	180	95
Total liabilities (as of end-2016)	**141**	**630**	**363**
In percent of GDP	7.8	34.9	20.1

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

9. **A combination of revenue, expenditure, public financial management, and debt management measures would help achieve credible fiscal consolidation (Text Table 3)**.

- **Revenue measures**. A recent FAD TA report suggests that the authorities can realistically collect more than 1–2 percent of GDP of additional non-oil revenue by removing exemptions and zero-ratings from the GST. Staff also urged the authorities to step up efforts to modernize tax administration, including by making greater use of information technology and by frequently publishing reports that would make revenue administration accountable. Currently, less than a third of active businesses registered with the tax administration are current on their tax filing obligations. The ratio of import duty to total imports and the ratio of GST collected on imports to total imports are both close to 4 percent. Import duty rates range from 10 to 90 percent and the GST rate is 12.5 percent. Exemptions and zero-ratings are unlikely to explain such underperformance in revenue collection.

- **Expenditure measures**. Staff encouraged the authorities to undo their recent commitment to allocate half of the annual growth in recurrent revenue to raise public wages. Staff also encouraged both the authorities and labor unions to adopt a wage negotiation framework that would ensure fiscal sustainability and presented an example of such a framework.[3] Staff noted that primary expenditures can also be contained by freezing spending on goods and services in real terms; limiting the wage bill and wage-related outlays under transfers by letting the public labor force decline through attrition; asking public employees to contribute

[3] See Belize Selected Issues, June 2014.

10 percent of their wages to their pension fund, which is currently noncontributory; and adjusting pensions only with changes in the cost of living. Staff encouraged the authorities to update the legislation on pensions, which should increase flexibility in adjusting parameters of the pension scheme, including contribution rates and the maximum pensionable salary, to support fiscal consolidation and strengthen the actuarial position of pension funds.

- **Public Financial Management (PFM)**. Staff urged the authorities to strengthen PFM in general and procurement in particular, which would help control outlays on goods and services. The government's financial statements for the last three fiscal years must be submitted to the Auditor General and then to parliament so that the related budget review laws can be passed by parliament. Staff commended the authorities for successfully completing the Public Expenditure and Financial Accountability (PEFA) assessment and encouraged them to implement its recommendations, which include strengthening internal controls and the internal audit function. Further progress in this area will also help control low-quality spending.

- **Debt management**. The forthcoming IMF TA mission on debt management will help establish a sound debt management framework and identify effective refinancing and borrowing strategies.

Text Table 3. Belize: Spending and Tax Revenue Measures, 2014-19
(In percent of GDP)

	2014	2015	2016	2017	2018	2019
Total spending measures	**2.3**	**2.9**	**2.9**	**3.3**	**3.6**	**3.6**
Goods and services (freeze in real terms)	0.8	1.1	1.0	1.1	1.2	1.2
Salaries (attrition)	0.2	0.4	0.6	0.8	1.0	1.1
Contr. pension fund (10% of salaries)	1.3	1.3	1.3	1.3	1.2	1.2
Pensions (adjusted by inflation)	0.0	0.0	0.0	0.1	0.1	0.1
Revenue measures	**0.1**	**0.7**	**0.5**	**0.2**	**0.1**	**0.1**
Total adjustment measures	**2.4**	**3.6**	**3.4**	**3.6**	**3.7**	**3.7**

Source: Fund staff estimates and projections.

10. **Staff emphasized the risks of a weak fiscal adjustment.** The path of debt would be well above levels considered as sustainable by staff, undermining the authorities' credibility and investors' confidence. As recent experience elsewhere in Caribbean countries shows, unfavorable developments in the global economy have the potential to quickly deplete Central Bank's reserves and force governments to borrow in international markets at very high interest rates just to rebuild reserves. Finally, a higher debt path would translate into higher debt service going forward, crowding out growth-enhancing spending.

Authorities' views

11. **The authorities noted that Belize's debt should be in the range of 60–65 percent of GDP to be considered sustainable in their view.** They clearly acknowledged that such a debt target will create the policy buffers they need to face adverse shocks requiring public

intervention such as those described by staff (see paragraph 6). This lower debt would also create additional fiscal space by reducing interest payments and would reduce gross financing needs as well as the associated risks. They concurred with staff that achieving such a debt target in the medium term would require an annual primary balance close to 5 percent of GDP.

12. **The authorities did not commit to any specific measure to achieve their debt target of 60-65 percent of GDP.** As indicated in the Prime Minister's 2014 budget speech, the authorities will set up a committee to review the list of exempted and zero-rated items under the GST. They agreed to hold revenue administration more accountable. They were fully cognizant of the risks of largely relying on revenue measures to achieve significant fiscal consolidation. They pointed out that back tracking on their commitments under the February 2014 wage agreement is not politically feasible. However, they were determined to implement a fiscally sustainable wage negotiation framework, and plan to sign a Memorandum of Understanding (MOU) with labor unions on such a framework.[4] The permanent committee established under the 2014 wage agreement will help identify savings in the budget, including through tighter controls on spending on goods and services as well as on recruitments and ghost workers in the public service. The tasks of the permanent committee will be extended to also consider reforms in the pension framework in collaboration with all stakeholders.

13. **The authorities reiterated that the true value of the nationalized companies is closer to the government's valuation and should courts adopt it, the macroeconomic outlook would be better than staff's baseline projections.** With the authorities' valuation of nationalized companies at 8 percent of GDP (BZ$281 million), debt would decline to about 75 percent of GDP by 2019 under current policies and the reserves cover would decline to about 3 months of imports (Text Table 4). With this more favorable outlook on debt and reserves, the fiscal measures the authorities will put forward in the coming months combined with better growth prospects than staff's projections, if upside risks materialize (see paragraph 6), should help them reach their debt target in the medium term.

[4] See Belize Selected Issues, June 2014.

Text Table 4. Belize: Authorities' Scenario, 2013-19
(In percent of GDP, unless otherwise indicated)

	Est. 2013	Projections 2014	2015	2016	2017	2018	2019
Real GDP growth	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Central government 1/							
Primary balance	1.0	1.1	1.0	1.0	1.0	1.0	1.0
Overall balance	-2.3	-1.7	-1.7	-1.8	-2.1	-2.4	-4.0
Public and publicly guaranteed debt 2/ 3/	77.5	78.5	77.8	86.2	80.8	78.1	75.5
Current account balance	-4.5	-5.0	-5.6	-5.8	-5.5	-5.8	-6.2
Gross official reserves (months of imports)	4.2	4.7	4.8	4.7	3.7	3.3	2.9

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

1/ Fiscal projections are on a fiscal year basis (April to March).
2/ Includes repayment of additional liabilities resulting from past nationalization of utility companies.
3/ Assumes lower contingent liabilities.

B. A Stronger Financial System to Reduce Financial Stability and Fiscal Risks

14. **Belize's financial sector continues to strengthen owing to implementation of key recommendations of the 2011 Financial Sector Assessment Program (FSAP).**[5] Progress in strengthening banks' balance sheets is visible as banks' NPLs have been on a declining trend, including because of loan write-offs (Text Table 5). CARs and provisioning of NPLs have also been improving. Since the 2011 FSAP, loan classification strengthened in line with FSAP recommendations and banks have been addressing the resulting shortfalls in provisioning. They have until 2016 to bring the level of provisions up to standards and most banks are on track to meeting their bank-specific deadlines. The new loan classification and provisioning rules force banks to focus more on the borrower's capacity to repay their loan rather than on the value of the loan's collateral. A revised Domestic Banks and Financial Institutions Act addressed a number of gaps identified by the FSAP mission, including related party transactions, consolidated supervision and bank resolution. It also strengthened Central Bank powers, including by raising penalties for violating central bank regulations and guidelines.

[5] See Belize Selected Issues, June 2014.

Text Table 5. Belize: Financial Soundness Indicators 1/
(Domestic and international banks; in percent)

	2007	2008	2009	2010	2011	2012	2013	Mar-14
Capital/risk-weighted assets 2/	22.7	20.4	22.2	23.9	24.2	20.5	22.3	23.4
Capital/total assets	16.9	15.6	16.5	16.5	14.7	11.9	12.4	12.0
Excess statutory liquidity 3/	49.2	30.1	33.5	43.8	64.3	83.5	79.1	104.3
NPLs/total loans	6.9	11.7	14.0	18.7	21.4	20.3	17.6	16.7
Provisions/NPLs	31.2	24.1	18.1	15.5	24.4	38.3	46.7	49.7
Provisions/total loans	2.1	2.8	2.5	2.9	5.2	7.8	8.2	8.3
NPLs net of provisions/capital	19.2	40.0	48.2	61.9	66.1	58.5	42.0	36.6
Memorandum items:								
Capital/risk-weighted assets 4/	…	…	…	…	…	…	20.4	21.5
NPLs net of provisions/capital 4/	…	…	…	…	…	…	45.7	39.8

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

1/ Includes BZ$43 million award to Belize Bank Ltd. by the London Court of International Arbitration (LCIA). The amount is being disputed by the government.
2/ The required capital adequacy ratios for domestic and international banks are 9 percent and 10 percent, respectively.
3/ In percent of statutory liquidity requirement.
4/ Excludes BZ$43 million award by the LCIA.

15. **Nonetheless, Belize's financial sector remains vulnerable and merits very close monitoring**. NPLs remain high, especially at a systemic bank (32 and 35 percent of domestic banks' assets and deposits respectively), and capital buffers may be overestimated because provisioning of NPLs is still insufficient. Moreover, banking system stress tests suggests that with the exception of two banks, capital buffers may not be large enough to absorb sizable but plausible losses.

16. **Staff encouraged the authorities to undertake an asset quality review (AQR) of all banks.** The AQR would provide a thorough review of banks' portfolios and complement reviews from the Central Bank's examiners. Staff also urged the Central Bank to go beyond the static banks' portfolios stress tests and start conducting forward-looking ones, in line with those conducted by the 2011 FSAP mission. An update of the 2011 FSAP stress tests that staff has conducted in collaboration with the authorities point to capital shortfalls in some adverse scenarios.

17. **Staff also encouraged the authorities to further strengthen the Central Bank's supervision department.** In particular, examiners specializing in information technologies should be recruited. Staff also urged the authorities to request IMF TA to further strengthen the management of the Central Bank's supervision department and to provide guidance on the classification of loans and their provisioning under IFRS.

18. **Staff encouraged the authorities to step up efforts to address remaining weaknesses in the financial system.** The authorities are using the 2011 FSAP recommendations as a base for their financial sector reforms, and significant progress was highlighted during the 2013 Article IV Consultation. Nonetheless, notable weaknesses remain. The Central Bank should

be able to enforce remedial action on banks without prior consultation with or approval of the Minister of Finance. Improvements are also needed in the frameworks for international banking, credit unions, domestic insurance, financial stability analysis, crisis management and bank resolution, and AML/CFT, notably with regard to transparency and regulation of international business companies (IBCs) and trusts.

Authorities' views

19. **The authorities will continue to strengthen their supervisory and crisis management frameworks.** They agreed with the thrust of banking system stress tests' results that were prepared by staff (see paragraph 16), and they will continue to improve their own stress testing capacity. They took note of the usefulness of asset quality reviews of banks, but they did not commit to undertake them. They emphasized that a Financial Management Plan for Banks and Financial Institutions has been prepared and the various elements of this plan are currently under review, including emergency liquidity assistance to solvent institutions, a deposit insurance scheme, and the resolution process for insolvent institutions.

20. **The authorities reiterated their commitment to addressing remaining weaknesses in the financial system, including their supervisory framework**.

- On **Central Bank independence,** the authorities agreed that ideally, approval from the Ministry of Finance should not be required when the Central Bank has to impose corrective measures to strengthen a weak bank or safeguard the financial system. However, they noted that the Ministry of Finance's approval was introduced in the Domestic Banks and Financial Institutions Act (2012) to prevent abuses and ensure strong policy coordination. They emphasized that for a small economy like Belize, the impact of Central Bank actions can easily be magnified. They insisted that the current Domestic Banks and Financial Institutions Act (2012) was a major improvement on the previous law.

- As per **remaining reforms**, the authorities plan to hire an in-house legal expert to further strengthen the Central Bank's legal capacity. Notable progress was made in laying the groundwork for the establishment of a national credit bureau. The Central Bank has also made further progress in modernizing Belize's national payments system. A very critical part of the project, namely the legal framework, is expected to be completed this year. The authorities agreed to request TA from the IMF as recommended by staff.

C. More Proactive Policies to Buttress External Sector Resilience, and Enhance Competitiveness and Inclusive Growth

21. **Staff urged the authorities to further accelerate the implementation of policies that would buttress external sector resilience, enhance competitiveness and support private-sector-led and inclusive growth**. Such policies and reforms are even more important now that wage increases will likely weaken competitiveness and reduce significantly any projected fiscal

space, leaving little room for growth-enhancing public investment. The fiscal consolidation path proposed by staff would initially have an adverse impact on growth and improve the current account through import contraction (Text Table 1).[6] However, as interest rates decline, banks' balance sheets strengthen and investors' confidence rises with better fiscal management and other reforms described in this section and above, private-sector led growth would pick up, supported by stronger exports and foreign direct investment. Given the small size of the Belizean market, policies will have to significantly rely on foreign markets and investors and diversify the export base. It will be important to reassure investors that additional nationalizations of private companies are not part of the country's development strategy. With its huge land mass (23,000 sq km for a population of only 341,000), Belize could attract greater foreign direct investment, including in agriculture and tourism, well-designed public-private partnerships, and the accompanying human capital and know-how to further develop domestic human and physical capital, raise productivity and gain greater access to foreign markets.

22. **Growth, competitiveness and external sector stability and resilience are intertwined in Belize**. Belize can only grow by attracting foreign investment in the context of macroeconomic stability in general and external stability in particular. Given the small overvaluation of the real effective exchange rate and the importance of preserving the exchange rate peg, policies should aim at enhancing external price competitiveness and at improving the current account balance to levels consistent with external stability (about -3 percent of GDP). Enhancing external price competitiveness could be achieved by further reducing production costs, including the cost of doing business. Fiscal, monetary, and financial sector policies that could help achieve this objective are described below. Other measures include public sector wage policies that take into account the impact of wage policy on competitiveness and fiscal sustainability, quicker judicial resolution of contract disputes and implementation of reforms that make it easier to start a new business and to register property. Greater flexibility in labor markets, especially working hours, and greater liberalization of the economy would foster Belize's competitiveness.

23. **Fiscal policies could better promote inclusive growth**. Tax policy should aim at reducing or eliminating government charges that raise labor costs, especially for low-skilled workers. Measures that would help recoup foregone revenue were discussed during the 2013 Article IV Consultation. They include removing exemptions and zero-ratings on the GST, broadening the base of the business income tax to include capital gains and income from capital, and discontinuing tax and dividend holidays for specific economic zones. On the spending side, the overarching objective should be to enhance human and physical capital, and private sector involvement is crucial given the reduced fiscal space. In particular, education programs have to provide skills needed in the evolving job market, and health program must be means-tested.

[6] The assumed low multipliers (-0.3 in 2014 and -0.2 in 2015) are in line with regional estimates and reflect the openness of the Belizean economy.

Physical infrastructure must be enhanced in agricultural areas. Public spending should also aim at promoting e-government, further improving public safety and reinforcing institutions, including the judiciary and the land registry. Strengthening PFM, including procurement and the budget process itself would help reduce low-quality spending and create more room for pro-growth and pro-poor spending.

24. **Monetary and financial sector policies should be geared toward stronger and affordable credit to the private sector, including farmers and other small businesses that employ low-skilled workers.** There is no reason to maintain an interest rate floor of 2.5 percent on savings deposits. This clearly raises the cost of financial intermediation and negatively impacts the cost of credit. Moreover, with banks' balance sheets already weak and reliable information on borrowers lacking, such a floor on savings deposits very likely contributes to skewing banks' lending away from the riskiest borrowers, who also happen to be farmers and other small businesses employing low-skilled workers. Policies should aim at giving a greater role to competition among banks in determining interest rates. This competition can be enhanced with a modern financial market infrastructure that makes greater use of information technologies to facilitate transactions and reduce transaction costs. Policies could also play a greater role in accelerating disbursement of existing credit lines that have been set up for farmers by international partners. Such lending would greatly improve financing conditions to farmers. Commercial banks currently provide agricultural loans that are tightly linked to crop seasons and come with short maturities and double-digit interest rates.

Authorities' views

25. **The authorities concurred with the thrust of staff's external assessment and the need to further strengthen external net inflows, though they did not commit to any specific measure.** The authorities agreed that the external current account should indeed improve notably to ensure the medium-term external stability of the Belizean economy. They continue to view the nominal exchange rate peg as a key anchor of macroeconomic policies. They noted that their recent decision to review the list of exemptions and zero-ratings on the GST, their efforts to upgrade the road network and attract more FDI, especially in tourism, and agriculture will create a more level playing field that promotes competition, reduce overall production costs and lead to lower producer prices in Belize.

26. **The authorities emphasized that nationalizations are not part of their growth strategy and that recent nationalizations of the electricity and telecommunications utilities were forced by extraordinary circumstances.** They pointed out that the owners of the utilities asked for measures that were not acceptable to the government, including huge increases in tariffs without going through consultation protocols required by law, loan guarantees by the government, and advance payments of government utility bills.

27. **The authorities pointed out that stronger credit to the economy is still hampered by remaining weaknesses in banks' balance sheets, lack of adequate financial market infrastructure, and the reluctance of some businesses to adhere to transparency requirements that a more modern financial market infrastructure would impose.** The authorities noted that their monetary reform included phasing out the floor on interest rates on savings with the view of lowering lending rates. However, they noted that past reductions of this floor did not translate into lower lending rates as banks used the additional profit margins they gained to strengthen their balance sheets, including through greater provisionning. As the transition period for provisionning is coming to an end, banks' lending rates should start declining and the average lending rate on the most recent loans has moved to single digits. As lending rates continue to decline, the phasing out of the interest rate floor will be accompanied by the modernisation of the financial market infrastructure, which would allow participants to sell or buy various financial instruments, including corporate bonds and shares. Steps in this direction include current efforts to modernize of the payments system and set up a credit bureau. They acknowledged that the budget may have to bear the cost of modernizing the financial market infrastructure and this investment would be recouped later on with higher economic growth and tax collection or receipts from user fees. The authorities noted that resistance to the development of capital markets will likely come from businesses themselves, some of which would oppose transparency requirements that will be needed to protect investors.

28. **The authorities emphasized that other policies recommended by staff to promote greater inclusive growth are taken into account in their growth and development strategy (Annex VIII)**. This strategy does indeed deal with the thrust of policies recommended by staff. However, it does not envisage specific reforms on labor markets and the authorities did not commit to specific measures in this area. They have taken steps toward meeting their strategy's objectives, stepping up spending on the road network in 2013, and expanding the National Health Insurance (NHI) scheme beyond the sourthern region. The challenge is to now translate their long term strategy into a set of programmes and activities that can be implemented during the remainder of the current government's term in office, which ends in 2017. A strategy implementation document covering this period is currently being prepared. Financing will be very diffcult given the limited fiscal space.

OTHER

29. **The authorities are closely monitoring spillover risks to and from other countries.** Several of the large financial institutions in the country are part of financial conglomerates owned by foreigners.[7] The authorities are monitoring risks arising from these linkages, and in particular linkages with banks in Antigua that are currently under receivership. In any event, the Central Bank is confident that related local banks will continue to be adequately capitalized should they take some losses from these linkages. The Central Bank is actively supporting efforts to promote stronger cooperation among regional supervisors and has contributed to a new MOU among regional supervisors. This MOU has more stringent requirements for member countries. Most banks in Belize, including the Central Bank, maintain corresponding banking operations with one US bank, pointing to concentration risks. Nonetheless, the authorities see risks from US banks as limited. Trade is another spillover channel given Belize's strong links to the EU and the US for major exports of goods and services, including tourism. This risk would be mitigated through further diversification of the export base and markets.

30. **Data provision is broadly adequate for surveillance.** In general, the quality, coverage, and timeliness of statistics permit an adequate monitoring of economic developments.[8] In the context of 2013 debt exchange, the authorities committed to subscribing to the Fund's Special Data Dissemination Standard. Progress toward this goal has been very slow. Staff encouraged the authorities to address the remaining data provision and capacity issues, including with regard to international investment position (IIP) data.

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[7] There are 6 domestic and 6 international (offshore) banks operating in Belize. One domestic bank is a subsidiary of the Canadian bank Bank of Nova Scotia. Another domestic bank is a branch of First Caribbean International Bank of Barbados, a Canadian bank ultimately owned by the Canadian Imperial Bank of Commerce (CIBC). One other domestic bank is majority–owned by a Honduran holding company (55 percent), Sociededad Nacional de Inversiones, S.A. (SONISA). This bank is in the same group with a domestic insurance company. A systemic bank, which is ultimately owned by a holding company controlled by a prominent investor, also owns an international bank in Belize and is indirectly linked to a bank in Turks and Caicos through a parallel banking structure. A small domestic bank is majority-owned by an international bank (84 percent). Both banks maintain integrated functions and share the same board, management and staff. Meanwhile, the international bank is majority-owned by a private locally incorporated holding company (52 percent), and partly by an international bank in Antigua (38 percent), Antigua Overseas Bank Limited – which itself is ultimately owned by another holding company, ABI Financial Group.

[8] Belize Staff Report for the 2014 Article IV Consultation–Informational Annex, Statistical Issues Appendix, p. 12.

STAFF APPRAISAL

31. **Belize's recent macroeconomic performance has been relatively weak**. In 2013, real GDP growth was weak at only 0.7 percent, hampered by declining oil production and weak agricultural output. Inflation remained subdued, but the external current account significantly widened. The primary fiscal balance fell to 1 percent of GDP. Credit growth remained modest owing to continued weaknesses in the financial system.

32. **The macroeconomic outlook has worsened compared with staff's assessment during the 2013 Article IV Consultation.** The weak GDP growth and fiscal stance combined with recognition of liabilities from nationalizations (20 percent of GDP) would raise debt to about 90 percent of GDP in the medium term, 5 percentage points of GDP above projections during the 2013 Article IV Consultation. International reserves would fall to uncomfortably low levels mainly because of the widening external current account deficits and the assumed repatriation of compensation payments for the nationalized companies. From the perspective of external stability, the exchange rate appears moderately overvalued, reflecting the current policy mix.

33. **Significant risks are looming in the horizon.** In particular, courts may order the government to pay much more than staff's current projected payments for the nationalized companies. Banking sector vulnerabilities are significant. Adverse developments in the global economy could accentuate pressures on the external current account deficit, which may require the government to borrow in international markets to preserve international reserves.

34. **The fiscal strategy should place public debt on a sustainable path and create the policy buffers to guard against these risks**. A primary fiscal balance of 4–5 percent of GDP would reduce public debt to 70 percent of GDP by FY2019/20 and to below 60 percent of GDP a few years later. This could be achieved by bringing many exemptions and zero-ratings under the GST into the tax net. A more accountable revenue administration should reduce revenue leakages. Spending could be reduced by allowing outlays on goods and services to grow only with inflation, containing wage-related outlays by letting the labor force decline through attrition, asking public employees to contribute 10 percent of their wages to their pension system, and adjusting pensions only with changes in the cost of living. Strengthening PFM in general and procurement in particular, would help reduce low-quality spending.

35. **Efforts to strengthen the financial sector should continue.** Given remaining weaknesses in the supervisory framework, banks' actual strength should be reassessed through an asset quality review. The supervision department of the Central Bank must be strengthened with more examiners, including experts in information technologies. Forward-looking stress tests must complement banking system's stress tests currently done at the Central Bank. The Central Bank should be able to take corrective measures against problem banks without approval from the Minister of Finance. The authorities should continue strengthening their AML/CFT framework, notably with regard to transparency of IBCs and trusts.

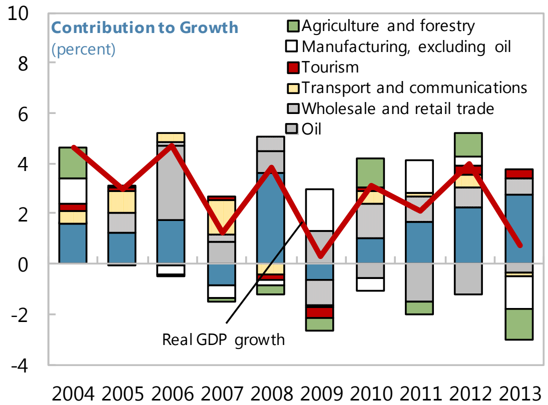
36. **Adequate reforms could enhance Belize's competitiveness and boost GDP growth.** Given the limited fiscal space, greater emphasis should be on the use of private resources including through well-designed public-private partnerships. Promoting an attractive business environment will be essential. Ensuring that growth strategies are inclusive will help reduce poverty, inequality as well as crime. Given Belize's small market size, priority should be given to export sectors and policies should aim at reducing the cost of doing business and enhancing the country's competitiveness, including through better knowledge of foreign markets.

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

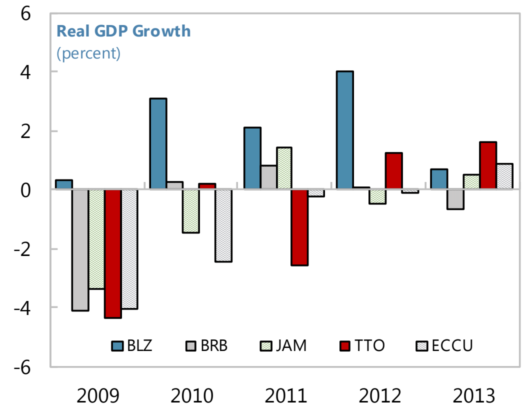
Figure 1. Belize: Real Sector Developments 1/

Macroeconomic developments in 2013 were underpinned by weak growth and low inflation.

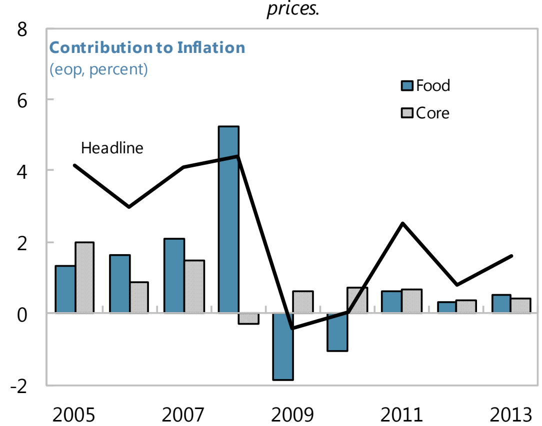
Economic activity slowed down because of declining oil production and weak agricultural output...



... converging to peers' low growth performance.

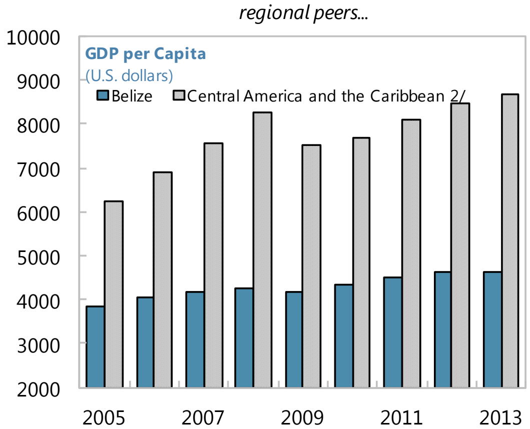


Inflation has remained low reflecting low commodity prices.

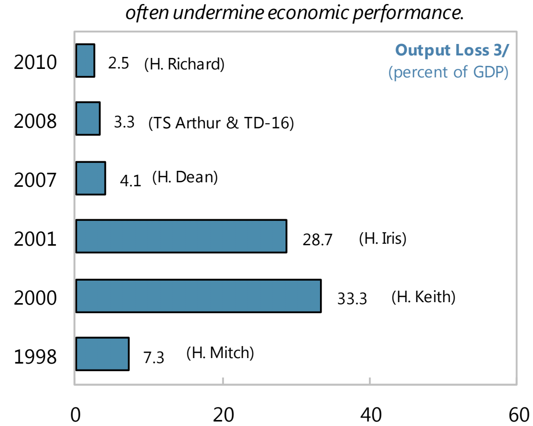


Unemployment remains high, affecting particularly the young and women, and...

... GDP per capita in Belize remains far below its regional peers...



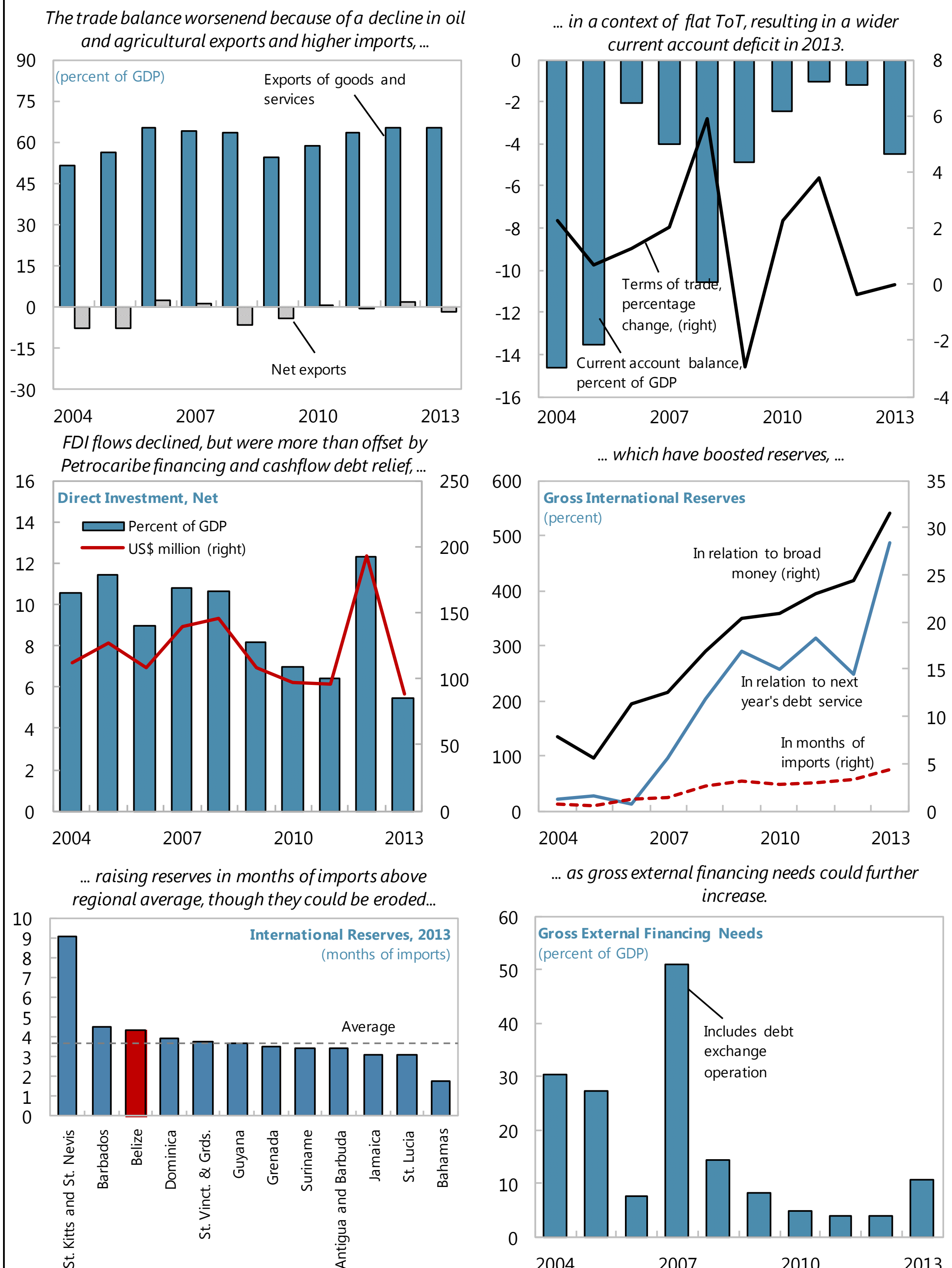
... with frequent exposure to natural disasters, which often undermine economic performance.



Sources: Belize authorities; World Economic Outlook; EM-DAT Database; and Fund staff estimates.
1/ Estimates for 2013.
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.
3/ TS: Tropical Storm. TD: Tropical Depression. H: Hurricane.

Figure 2. Belize: External Sector Developments 1/

Despite a widening current account deficit in 2013, international reserves increased owing to Petrocaribe financing and cashflow relief from the external debt restructuring.

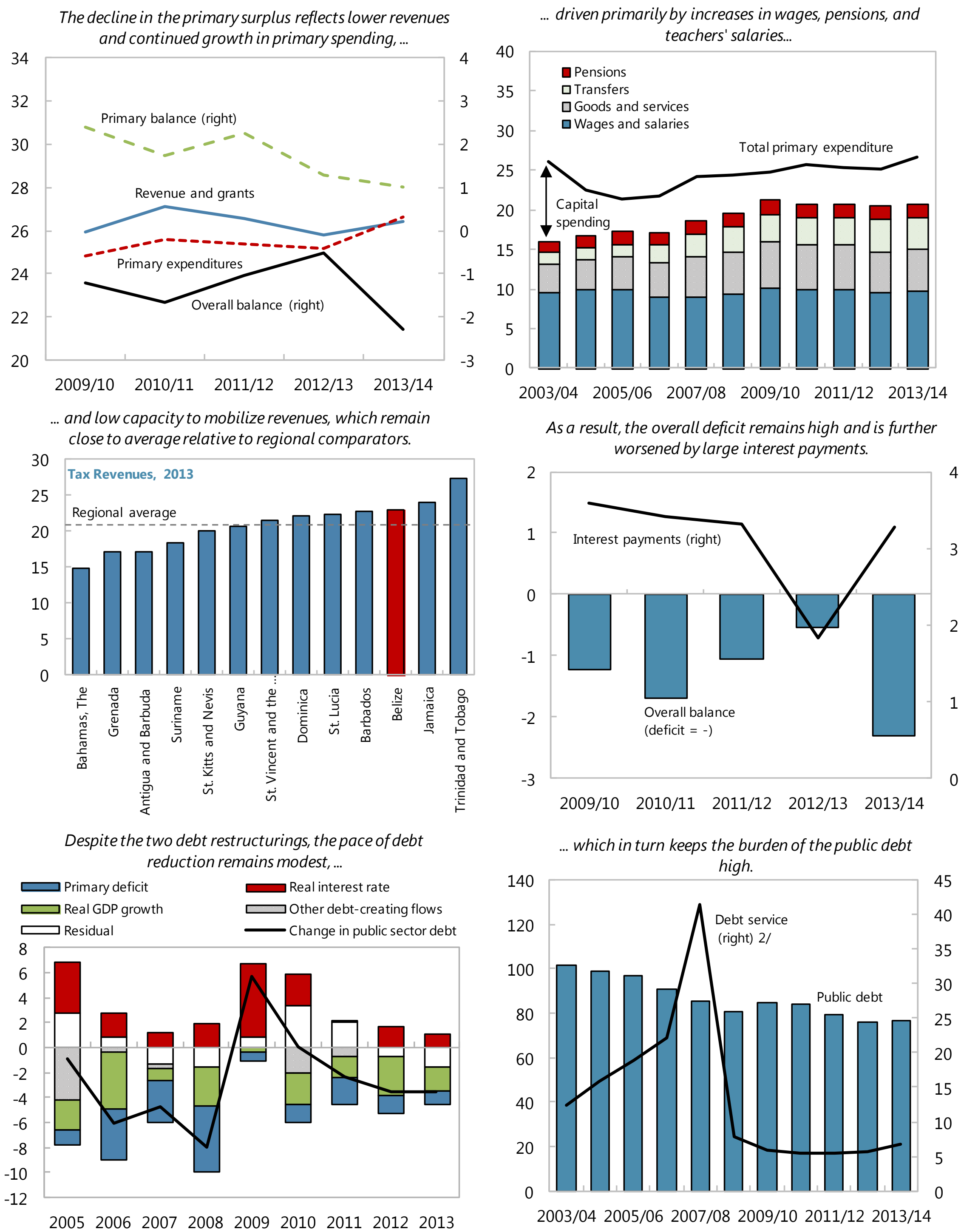


Sources: Central Bank of Belize; and Fund staff estimates.
1/ Estimates for 2013.

Figure 3. Belize: Fiscal Sector Developments 1/

(In percent of FY GDP)

Despite the recent external public debt exchange, a more ambitious fiscal consolidation strategy is warranted to restore debt sustainability and create credible policy buffers.



Sources: Country authorities; and Fund staff estimates.

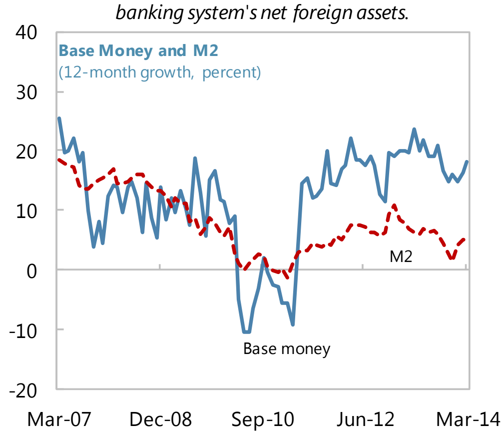
1/ Estimates for 2013/14.

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

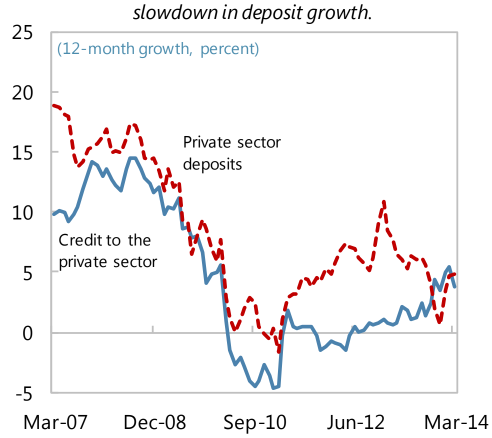
Figure 4. Belize: Monetary and Financial Sector Developments

Excess liquidity and high interest rate spreads hold back financial intermediation in supporting efficiently economic development.

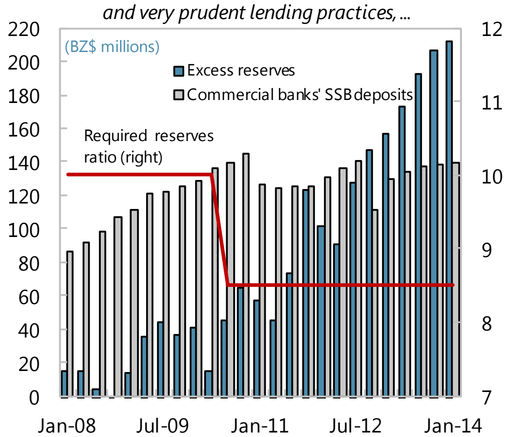
Broad money growth slowed in 2013, as net domestic assets fell, more than offsetting an increase in the banking system's net foreign assets.



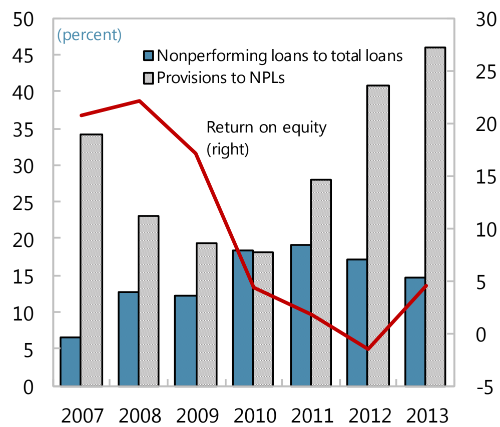
Nevertheless, credit to the private sector continued to improve in the context of a slowdown in deposit growth.



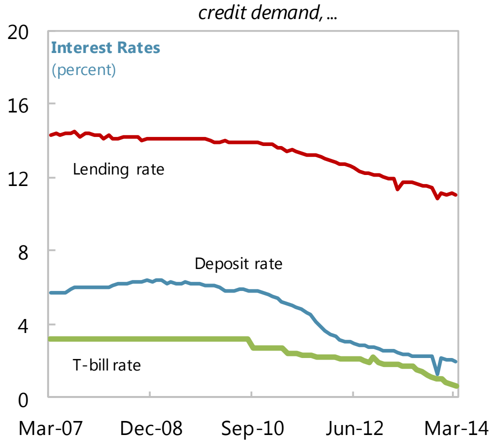
Banks remain highly liquid, reflecting in part a surge in deposits from the Social Security Board and very prudent lending practices, ...



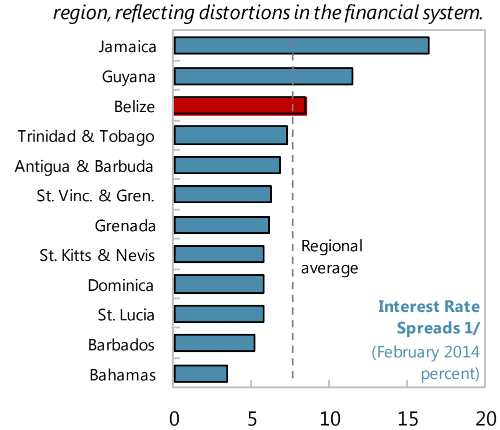
... partly justified by still high (albeit decreasing) NPLs, which continue to erode profitability.



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.



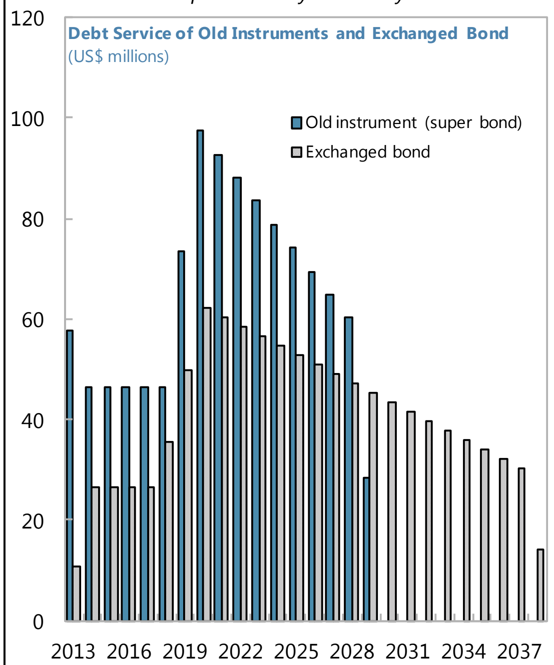
Sources: Central Bank of Belize; IFS; and Fund staff estimates.

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

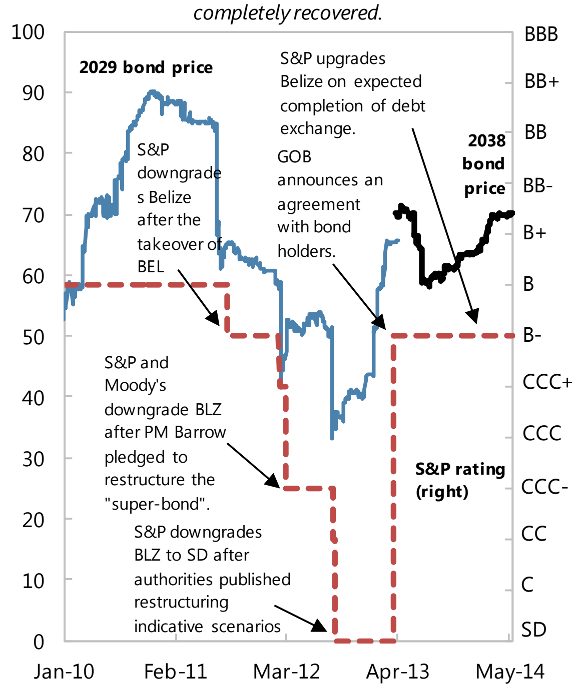
Figure 5. Belize: Debt Markets Developments

Markets' perception of Belize debt remains mixed, essentially cutting off the country from international commercial borrowing.

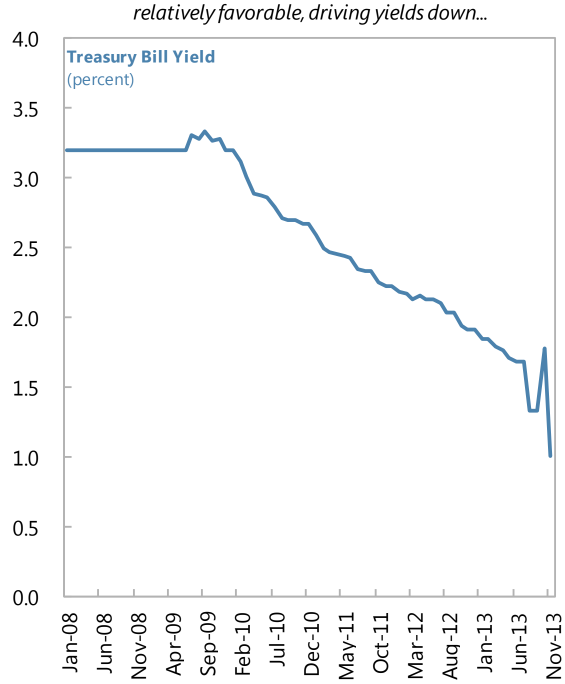
The debt restructuring provided substantial cashflow relief in the near term, but extended financing requirements by about 10 years.



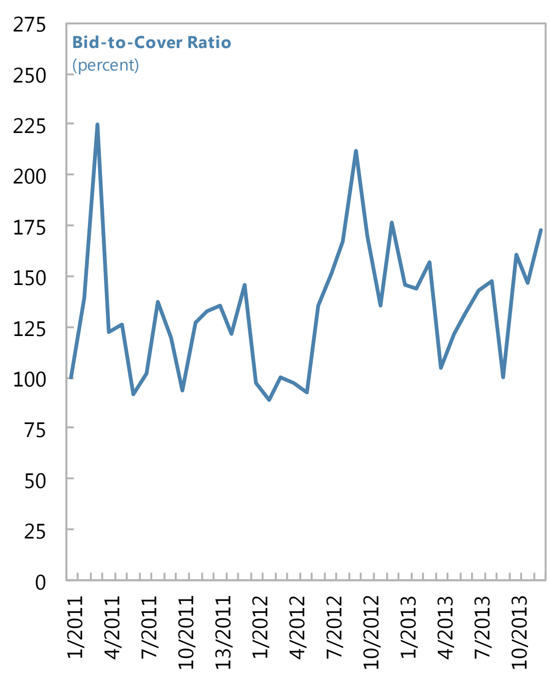
Belize's credit ratings improved after the bond restructuring, but the bond price has not completely recovered.



Domestic markets' perception of Belize paper remains relatively favorable, driving yields down...



... and raising the bid-to-cover ratio.



Sources: Belize authorities; Bloomberg; and Standard and Poor's.

Table 1. Belize: Selected Social and Economic Indicators, 2009-15

I. Population and Social Indicators

Area (sq.km.)	22,860	Adult literacy rate, 15 and up (percent), 2010	75.1
Arable land (percent of land area)	3.0	Human development index (rank), 2012	96
Population (thousands), 2013 est.	349.7	Unemployment rate, Sep. 2013	14.1
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

II. Economic Indicators, 2008-14

	2009	2010	2011	2012	Est. 2013	Projections 2014	2015
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	0.3	3.1	2.1	4.0	0.7	2.0	2.5
Of which: Oil output	1.3	-0.6	-1.5	-1.2	-0.3	-0.3	-0.4
GDP deflator	-2.5	1.3	4.3	1.5	2.0	1.1	1.5
Consumer prices (end of period)	-0.4	0.0	2.5	0.8	1.6	2.0	2.0
Consumer prices (average)	-1.1	0.9	1.7	1.3	0.5	1.8	2.0
Gross domestic investment 1/2/	17.1	12.8	13.7	13.2	15.4	16.1	15.9
Gross national savings 1/	12.2	10.4	12.6	11.9	10.9	11.3	10.3
External sector							
Exports of goods and services	-16.0	12.1	15.6	8.9	2.8	1.7	2.2
Imports of goods and services	-18.4	3.6	16.7	6.2	7.9	0.8	3.0
Terms of trade (deterioration -)	-2.9	2.3	3.8	-0.4	0.0	-2.9	-1.1
Nominal effective exchange rate	6.5	-1.3	-3.0	3.2	0.7	...	...
Real effective exchange rate	4.4	1.4	-10.0	1.9	-1.2	...	...
Money and credit							
Credit to the private sector	4.8	-3.6	-1.2	1.1	3.5	4.1	4.5
Money and quasi-money (M2)	6.4	-0.4	5.6	11.0	1.4	3.4	4.0
Weighted average lending rate (in percent)	14.0	13.8	13.0	12.0	...	...	...
(In percent of GDP)							
Central government 3/							
Revenue and grants	27.2	27.4	27.7	26.4	27.7	28.4	27.8
Of which: oil revenue	1.5	2.4	3.0	1.5	0.8	0.8	0.4
grants	1.2	0.2	1.1	0.7	1.2	1.4	1.3
Current expenditure	24.7	24.0	24.0	22.3	24.0	25.1	25.1
Capital expenditure and net lending	3.7	5.0	4.7	4.7	6.0	5.0	4.4
Primary balance	2.4	1.7	2.3	1.3	1.0	1.0	1.0
Overall balance	-1.2	-1.7	-1.1	-0.5	-2.3	-1.7	-1.7
External sector							
External current account 4/	-4.9	-2.4	-1.1	-1.2	-4.5	-4.9	-5.5
Public and publicly guaranteed debt	84.6	84.6	80.5	75.6	76.4	77.4	76.7
Domestic debt	7.3	11.9	11.1	10.6	10.2	9.9	9.5
External debt	77.3	72.6	69.4	65.0	66.2	67.5	67.2
Debt service 5/	6.1	5.3	5.7	5.1	7.4	4.8	4.7
In percent of exports of goods and services	11.3	9.0	9.0	7.8	11.3	7.5	7.4
In percent of government current revenue	24.9	20.1	21.6	19.9	28.4	18.1	17.6
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	47	10	35	48	96	52	17
Exports of goods and services	728	816	944	1,028	1,057	1,075	1,099
Imports of goods and services	782	810	945	1,004	1,084	1,092	1,125
Gross international reserves 6/	214	218	253	298	391	442	459
In percent of gross external financing needs	197	317	450	494	230	359	339
In percent of next year's external public debt service	290	256	315	249	485	546	515
In months of imports	3.2	2.8	3.0	3.3	4.3	4.7	4.8
Nominal GDP	1,339	1,398	1,489	1,573	1,615	1,666	1,733
Nominal GDP (BZ$ millions)	2,677	2,797	2,978	3,145	3,231	3,332	3,466

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)

					Est.	Projections		
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue and grants	**736**	**778**	**836**	**837**	**901**	**956**	**975**	**1,005**
Revenue	**702**	**771**	**803**	**816**	**861**	**910**	**929**	**959**
Of which: Non-oil revenue	662	703	712	769	834	885	914	944
Current revenue	697	766	795	811	855	905	923	954
Tax revenue	605	659	670	704	747	784	807	834
Of which : Petroleum Operations	28	51	53	32	18	17	15	15
General Sales Tax	158	195	171	214	237	247	0	0
Nontax revenue	93	107	125	108	108	121	116	120
Of which : Petroleum Operations	12	16	37	15	9	9	0	0
Capital revenue	5	5	8	5	5	5	5	6
Grants	**34**	**7**	**33**	**21**	**40**	**46**	**46**	**46**
Total expenditure	**768**	**825**	**867**	**854**	**975**	**1,013**	**1,035**	**1,081**
Current expenditure	669	682	724	707	780	844	880	923
Wages and salaries	274	279	297	298	312	349	380	387
Pensions	48	45	52	54	55	61	63	64
Goods and services	157	164	172	166	173	197	210	211
Interest payments	97	97	100	58	107	92	95	113
Transfers	93	97	104	131	133	146	133	147
Capital expenditure and net lending	100	143	143	147	194	169	154	159
Capital expenditure	94	126	138	144	191	166	151	155
Domestically financed expenditure (Capital II	54	73	73	66	105	84	105	109
Foreign financed expenditure (Capital III)	41	53	65	78	86	82	46	46
Net lending	5	17	5	3	3	3	3	3
Primary balance	**64**	**50**	**68**	**41**	**33**	**35**	**35**	**37**
Nongrant, non-oil primary balance	**-9**	**-25**	**-55**	**-27**	**-34**	**-36**	**-26**	**-24**
Overall balance	**-33**	**-47**	**-32**	**-17**	**-74**	**-57**	**-60**	**-76**
Financing	**33**	**47**	**32**	**17**	**74**	**57**	**60**	**76**
Privatization (net)	0	55	20	0	0	0	0	0
Domestic	-16	-16	-4	-29	-29	-48	-10	53
Of which: Amortization	8	2	2	2	2	1	1	37
External	49	8	16	46	103	105	70	23
Disbursements	115	62	71	137	255	178	149	115
Amortization	66	54	55	91	152	73	79	92
Memorandum items:								
Nominal GDP	2,707	2,842	3,020	3,167	3,256	3,365	3,502	3,648
Non-interest expenditure	671	728	767	796	868	921	940	969
Oil revenue	40	68	90	47	27	25	15	15

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)

	2009/10	2010/11	2011/12	2012/13	Est. 2013/14	Projections 2014/15	2015/16	2016/17
Revenue and grants	**27.2**	**27.4**	**27.7**	**26.4**	**27.7**	**28.4**	**27.8**	**27.6**
Revenue	**25.9**	**27.1**	**26.6**	**25.8**	**26.4**	**27.0**	**26.5**	**26.3**
Of which: Non-oil revenue	24.5	24.7	23.6	24.3	25.6	26.3	26.1	25.9
Current revenue	25.8	27.0	26.3	25.6	26.3	26.9	26.4	26.1
Tax revenue	22.3	23.2	22.2	22.2	23.0	23.3	23.1	22.9
Of which : Petroleum Operations	1.0	1.8	1.8	1.0	0.6	0.5	0.4	0.4
General Sales Tax	5.8	6.9	5.7	6.8	7.3	7.3	0.0	0.0
Nontax revenue	3.4	3.8	4.1	3.4	3.3	3.6	3.3	3.3
Of which : Petroleum Operations	0.5	0.6	1.2	0.5	0.3	0.3	0.0	0.0
Capital revenue	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.2
Grants	**1.2**	**0.2**	**1.1**	**0.7**	**1.2**	**1.4**	**1.3**	**1.3**
Total expenditure	**28.4**	**29.0**	**28.7**	**27.0**	**29.9**	**30.1**	**29.5**	**29.6**
Current expenditure	24.7	24.0	24.0	22.3	24.0	25.1	25.1	25.3
Wages and salaries	10.1	9.8	9.8	9.4	9.6	10.4	10.8	10.6
Pensions	1.8	1.6	1.7	1.7	1.7	1.8	1.8	1.8
Goods and services	5.8	5.8	5.7	5.2	5.3	5.8	6.0	5.8
Interest payments	3.6	3.4	3.3	1.8	3.3	2.7	2.7	3.1
Transfers	3.4	3.4	3.5	4.1	4.1	4.3	3.8	4.0
Capital expenditure and net lending	3.7	5.0	4.7	4.7	6.0	5.0	4.4	4.4
Capital expenditure	3.5	4.4	4.6	4.5	5.9	4.9	4.3	4.3
Domestically financed expenditure (Capital I	2.0	2.6	2.4	2.1	3.2	2.5	3.0	3.0
Foreign financed expenditure (Capital III)	1.5	1.9	2.2	2.5	2.6	2.4	1.3	1.3
Net lending	0.2	0.6	0.2	0.1	0.1	0.1	0.1	0.1
Primary balance	**2.4**	**1.7**	**2.3**	**1.3**	**1.0**	**1.0**	**1.0**	**1.0**
Nongrant, non-oil primary balance	**-0.3**	**-0.9**	**-1.8**	**-0.9**	**-1.0**	**-1.1**	**-0.7**	**-0.7**
Overall balance	**-1.2**	**-1.7**	**-1.1**	**-0.5**	**-2.3**	**-1.7**	**-1.7**	**-2.1**
Financing	**1.2**	**1.7**	**1.1**	**0.5**	**2.3**	**1.7**	**1.7**	**2.1**
Privatization (net)	0.0	1.9	0.7	0.0	0.0	0.0	0.0	0.0
Domestic	-0.6	-0.6	-0.1	-0.9	-0.9	-1.4	-0.3	1.5
Of which: amortization	0.3	0.1	0.1	0.1	0.1	0.0	0.0	1.0
External	1.8	0.3	0.5	1.4	3.2	3.1	2.0	0.6
Disbursements	4.2	2.2	2.4	4.3	7.8	5.3	4.2	3.2
Amortization	2.4	1.9	1.8	2.9	4.7	2.2	2.2	2.5
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (in BZ$ millions)	2,707	2,842	3,020	3,167	3,256	3,365	3,502	3,648
Non-interest expenditure	24.8	25.6	25.4	25.1	26.6	27.4	26.8	26.6
Oil revenue	1.5	2.4	3.0	1.5	0.8	0.8	0.4	0.4

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, 2009-15

	2009	2010	2011	2012	Est. 2013	Projections 2014	2015
				(In millions of Belize dollars)			
Central Bank of Belize (CBB)							
Net foreign assets 1/	364	376	429	528	763	864	898
Net international reserves	420	431	484	583	818	920	953
Medium-term foreign liabilities 2/	-56	-55	-55	-55	-55	-55	-55
Net domestic assets	65	41	47	39	-105	-183	-189
Credit to the public sector (net)	90	61	43	41	-100	-158	-143
Central government	117	68	45	47	-96	-154	-139
Other public sector	-26	-7	-2	-7	-3	-3	-3
Capital and other assets (net)	-26	-20	4	-2	-5	-5	-5
Base money	429	417	476	568	658	681	708
Currency issue	192	192	211	238	262	264	256
Reserves of commercial banks	237	225	266	329	396	417	452
Commercial banks							
Net foreign assets	130	182	254	356	263	271	256
Net claims on central bank	274	259	305	375	447	462	507
Net domestic assets	1,935	1,887	1,846	1,880	1,900	1,967	2,025
Credit to the public sector (net)	-76	-75	-92	-98	-119	-134	-172
Central government	92	130	130	140	134	134	108
Other public sector	-167	-205	-222	-238	-253	-268	-279
Credit to the private sector	2,036	1,963	1,938	1,959	2,027	2,109	2,203
Other assets (net)	-26	0	-1	19	-7	-7	-7
Liabilities to the private sector	2,338	2,329	2,405	2,611	2,610	2,701	2,788
Monetary survey							
Net foreign assets	494	558	683	884	1,027	1,136	1,154
Net domestic assets	1,999	1,928	1,893	1,920	1,795	1,773	1,861
Credit to the public sector (net)	15	-14	-49	-57	-219	-292	-315
Central government	208	198	174	187	38	-21	-32
Other public sector	-194	-212	-224	-244	-257	-272	-283
Credit to private sector (by comm. banks)	2,036	1,963	1,938	1,959	2,027	2,109	2,203
Other items (net)	-51	-20	4	18	-12	-44	-28
Liabilities to the private sector	2,493	2,486	2,576	2,804	2,822	2,908	3,015
Money and quasi-money (M2)	2,093	2,085	2,201	2,444	2,477	2,561	2,665
Currency in circulation	155	158	171	193	212	219	202
Deposits	1,939	1,927	2,030	2,250	2,265	2,354	2,437
Foreign currency deposits	66	65	86	213	118	122	127
Capital and reserves of commercial banks	400	401	375	360	345	347	351
				(In millions of U.S. dollars)			
Net international reserves of the CBB	210	216	242	292	409	460	476
				(In percent change, unless otherwise indicated)			
Memorandum items:							
Private sector deposits in local currency	6.9	-0.6	5.3	10.9	0.6	3.9	3.5
Base money	11.9	-2.7	14.2	19.2	16.0	3.4	4.0
Credit to private sector (by comm. banks)	4.8	-3.6	-1.2	1.1	3.5	4.1	4.5
Money and quasi-money (M2)	6.4	-0.4	5.6	11.0	1.4	3.4	4.0
Net international reserves to M2 (percent)	20.1	20.7	22.0	23.9	33.0	35.9	35.7
Required cash reserve ratio (percent)	10.0	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	101.5	98.5	91.6	79.5	85.1	85.2	85.9

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, 2009-19

	2009	2010	2011	2012	Est. 2013	Projections 2014	2015	2016	2017	2018	2019
					(In millions of U.S. dollars)						
Current account balance	**-65**	**-34**	**-16**	**-19**	**-72**	**-81**	**-95**	**-107**	**-116**	**-125**	**-133**
Trade balance	-236	-169	-171	-196	-267	-283	-303	-323	-339	-361	-379
Total exports, f.o.b.	384	478	604	622	609	606	611	613	628	647	673
Of which:											
Oil	60	103	146	104	82	66	56	48	42	38	34
Total imports, fob	620	647	775	818	876	889	914	937	967	1,009	1,051
Of which:											
Fuel and lubricants	-105	-105	-120	-124	-138	-134	-131	-127	-126	-126	-127
Services	183	176	169	220	240	266	277	290	301	315	326
Of which:											
Travel	216	212	214	261	311	327	340	356	370	387	400
Income	-91	-133	-98	-118	-118	-141	-148	-154	-160	-163	-166
Of which:											
Public sector interest payments 1/	-39	-39	-45	-39	-22	-39	-41	-42	-44	-53	-53
Current transfers	79	92	84	76	73	77	78	80	82	84	86
Private (net)	81	95	87	80	77	79	81	83	85	87	89
Official (net)	-2	-3	-3	-4	-4	-2	-2	-2	-3	-3	-3
Capital and financial account balance	**139**	**33**	**43**	**85**	**155**	**133**	**112**	**107**	**-22**	**-12**	**-17**
Capital transfers	18	6	24	22	38	20	20	15	15	15	15
Public sector	53	-13	-10	-9	51	51	38	16	-10	-16	-32
Of which:											
Change in assets	0	-9	-7	0	0	0	0	0	0	0	0
Change in liabilities	53	-4	-3	-9	51	51	38	16	-10	-16	-32
Disbursements 2/	102	30	36	36	165	92	78	63	42	40	39
Central government	67	30	35	36	165	92	78	63	42	40	39
Amortization	-43	-35	-40	-41	-98	-42	-40	-47	-53	-56	-71
Central government	-35	-27	-26	-31	-89	-36	-38	-44	-51	-55	-69
Securitisation	-5	0	0	-3	-16	0	0	0	0	0	0
Private sector 3/	68	41	30	71	66	62	54	76	-27	-10	0
Of which:											
Foreign Direct Investment, net	109	97	95	193	89	98	106	106	7	13	24
Of which: Repatriation of compensation 4/		0	0	0	0	0	0	0	101	95	90
Errors and omissions	**-27**	**11**	**8**	**-18**	**14**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**47**	**10**	**35**	**48**	**96**	**52**	**17**	**0**	**-137**	**-136**	**-150**
Financing	**-47**	**-10**	**-35**	**-48**	**-96**	**-52**	**-17**	**0**	**137**	**136**	**150**
Unidentified financing	0	-6	0	0	0	0	0	0	0	**0**	**0**
Change in reserves (- increase)	-47	-4	-35	-45	-93	-51	-17	0	137	136	150
IMF (net)	0	0	0	-3	-4	-1	0	0	0	0	0
Arrears	0	0	0	0	0	0	0	0	0	0	0
					(In percent of GDP, unless otherwise stated)						
Memorandum items:											
Gross international reserves (US$ millions)	213.7	218.0	253.1	298.4	391.4	442.0	458.6	458.5	321.1	184.8	34.5
In percent of gross external financing needs	197	317	450	494	230	359	339	298	191	102	16.9
In percent of next year's total debt service	290	256	315	249	485	546	515	478	294	149	26.2
In months of imports	3.2	2.8	3.0	3.3	4.3	4.7	4.8	4.6	3.1	1.7	0.3
Current account balance	-4.9	-2.4	-1.1	-1.2	-4.5	-4.9	-5.5	-5.9	-6.1	-6.4	-6.5
Trade balance	-17.7	-12.1	-11.5	-12.5	-16.5	-17.0	-17.5	-17.9	-18.0	-18.4	-18.5
Capital and financial account balance	10.4	2.4	2.9	5.4	9.6	8.0	6.5	5.9	-1.2	-0.6	-0.8
Private sector	5.2	2.9	2.3	4.5	4.1	3.7	3.1	4.2	-1.4	-0.5	0.0
Public sector	5.3	-0.6	0.6	0.9	5.5	4.2	3.4	1.7	0.2	-0.1	-0.8
Overall balance	3.5	0.7	2.4	3.1	6.0	3.1	1.0	0.0	-7.3	-6.9	-7.4

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.
4/ Compensation to former owners of nationalized companies.

Table 5. Belize: Medium-Term Outlook, 2009-19

	2009	2010	2011	2012	Est. 2013	Projections 2014	2015	2016	2017	2018	2019
(Annual percentage change)											
Real economy											
GDP at constant prices	0.3	3.1	2.1	4.0	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Of which: Oil output	1.3	-0.6	-1.5	-1.2	-0.3	-0.3	-0.4	-0.2	-0.2	-0.2	-0.2
GDP at current market prices	-2.3	4.5	6.5	5.6	2.7	3.1	4.0	4.1	4.2	4.2	4.2
Prices (GDP deflator)	-2.5	1.3	4.3	1.5	2.0	1.1	1.5	1.6	1.7	1.7	1.7
(In percent of GDP, unless otherwise indicated)											
National accounts											
Consumption	86.9	86.7	86.4	85.3	86.3	84.9	85.7	86.1	86.1	86.5	86.7
Gross domestic investment 1/	17.1	12.8	13.7	13.2	15.4	16.1	15.9	15.8	15.9	15.9	15.9
Net exports	-4.0	0.5	-0.1	1.5	-1.7	-1.0	-1.5	-1.9	-2.0	-2.3	-2.6
Gross national savings	12.2	10.4	12.6	11.9	10.9	11.3	10.3	9.9	9.8	9.5	9.4
Central government 2/											
Revenue and grants	26.1	27.4	27.7	26.4	27.7	28.4	27.8	27.6	26.8	26.5	26.1
Of which : Non-oil revenue	24.5	24.7	23.6	24.3	25.6	26.3	26.1	25.9	25.7	25.5	25.3
Total expenditure	29.0	29.0	28.7	27.0	29.9	30.1	29.5	29.6	30.1	29.9	30.8
Noninterest expenditure	25.4	25.6	25.4	25.1	26.6	27.4	26.8	26.6	25.8	25.5	25.1
Primary balance	0.7	1.7	2.3	1.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest 3/	3.6	3.4	3.3	1.8	3.3	2.7	2.7	3.1	4.3	4.4	5.6
Overall balance	-2.9	-1.7	-1.1	-0.5	-2.3	-1.7	-1.7	-2.1	-3.3	-3.4	-4.6
External sector											
Current account balance	-4.9	-2.4	-1.1	-1.2	-4.5	-4.9	-5.5	-5.9	-6.1	-6.4	-6.5
Of which: Exports of goods and services	54.4	58.4	63.4	65.4	65.4	64.5	63.4	62.2	61.6	61.3	61.0
Of which: Petroleum exports	4.5	7.4	9.8	6.6	5.1	4.0	3.2	2.6	2.2	1.9	1.7
Of which: Imports of goods and services	-58.4	-57.9	-63.5	-63.9	-67.1	-65.6	-64.9	-64.1	-63.6	-63.6	-63.6
Capital and financial account	10.4	2.4	2.9	5.4	9.6	8.0	6.5	5.9	-1.2	-0.6	-0.8
Public sector disbursements	7.6	2.2	2.4	2.3	10.2	5.5	4.5	3.5	2.2	2.0	1.9
Public sector amortization	-3.2	-2.5	-2.7	-2.6	-6.1	-2.5	-2.3	-2.6	-2.8	-2.9	-3.5
Other capital and fin. account transactions 4/	6.1	2.7	3.2	5.7	5.4	4.9	4.3	5.0	-0.6	0.2	0.7
Change in reserves (- increase)	-3.5	-0.3	-2.4	-2.9	-5.8	-3.0	-1.0	0.0	7.3	6.9	7.4
Gross official reserves (in months of imports)	3.2	2.8	3.0	3.3	4.3	4.7	4.8	4.6	3.1	1.7	0.3
Public and publicly guaranteed debt 5/	**84.6**	**84.6**	**80.5**	**75.6**	**76.4**	**77.4**	**76.7**	**97.3**	**94.1**	**91.9**	**89.8**
Domestic	7.3	11.9	11.1	10.6	10.2	9.9	9.5	31.8	31.8	32.9	34.7
External	77.3	72.6	69.4	65.0	66.2	67.5	67.2	65.5	62.3	59.0	55.1

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, 2009-19

					Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(In millions of U.S. dollars, unless otherwise indicated)											
1. Public and publicly guaranteed debt											
Total	1,132	1,182	1,199	1,189	1,235	1,289	1,329	1,756	1,771	1,803	1,837
Other public and publicly guaranteed external debt	96	74	68	58	33	32	31	31	30	30	30
Central government	1,036	1,109	1,131	1,132	1,201	1,257	1,297	1,725	1,740	1,773	1,807
Domestic debt	98	167	166	167	165	164	164	574	598	645	710
External debt	938	942	965	965	1,036	1,093	1,133	1,152	1,143	1,128	1,097
Multilateral	220	226	251	253	270	282	290	282	261	240	220
Bilateral and export credit	175	173	172	169	240	249	247	241	225	207	189
Commercial 1/	543	543	543	542	527	527	527	527	527	527	512
New commercial borrowing	0	0	0	0	0	35	70	102	130	154	176
In percent of GDP											
Total	84.6	84.6	80.5	75.6	76.4	77.4	76.7	97.3	94.1	91.9	89.8
Other public and publicly guaranteed external debt	7.2	5.3	4.6	3.7	2.1	1.9	1.8	1.7	1.6	1.5	1.4
Central government	77.4	79.3	75.9	72.0	74.4	75.5	74.9	95.6	92.5	90.4	88.4
Domestic debt	7.3	11.9	11.1	10.6	10.2	9.9	9.5	31.8	31.8	32.9	34.7
External debt	70.1	67.3	64.8	61.4	64.1	65.6	65.4	63.8	60.7	57.5	53.7
Multilateral	16.4	16.2	16.8	16.1	16.7	16.9	16.7	15.6	13.9	12.3	10.8
Bilateral and export credit	13.1	12.4	11.5	10.7	14.9	15.0	14.2	13.3	12.0	10.6	9.2
Commercial 1/	40.6	38.8	36.4	34.5	32.6	31.6	30.4	29.2	28.0	26.8	25.1
(In percent of GDP, unless otherwise indicated)											
2. Flow of funds											
2.1. Sources of funds	6.2	5.5	5.2	4.8	7.2	4.8	4.9	5.1	7.0	7.3	7.7
Primary balance	0.7	1.3	2.1	1.5	1.1	1.0	1.0	1.0	1.0	1.0	0.9
Privatization proceeds	0.0	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified disbursements	5.5	2.2	2.4	3.2	6.1	3.8	3.9	4.1	6.0	6.3	6.8
Multilateral	2.6	1.4	1.6	1.6	2.4	1.9	1.7	0.9	0.3	0.2	0.2
Bilateral and export credit	2.3	0.7	0.8	0.7	5.3	3.6	2.8	2.6	1.9	1.8	1.7
Commercial	0.6	0.1	0.0	0.9	-1.6	-1.7	-0.6	0.7	3.7	4.2	4.9
Domestic (net) 2/	0.6	0.1	0.0	0.9	-4.1	-1.7	-0.6	0.7	3.7	4.2	4.9
External 3/	0.1	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds											
Debt service	6.2	5.5	5.1	4.8	7.2	4.8	4.9	5.1	7.0	7.3	7.7
Interest payments	3.6	3.5	3.3	2.8	1.7	2.7	2.7	2.7	4.2	4.5	4.3
Domestic	0.9	0.9	0.5	0.4	0.4	0.4	0.4	0.4	1.9	1.8	1.7
External 3/	2.7	2.6	2.9	2.4	1.3	2.3	2.3	2.3	2.3	2.7	2.6
Principal repayments	2.6	2.0	1.8	2.0	5.5	2.2	2.2	2.5	2.7	2.8	3.4
Multilateral	0.9	1.0	0.9	1.1	1.3	1.2	1.2	1.3	1.4	1.3	1.2
Bilateral and export credit	1.4	0.9	0.9	0.9	0.9	1.0	0.9	1.1	1.3	1.5	1.5
Commercial, including pararstatal	0.3	0.0	0.0	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.7
Assumptions											
Nominal GDP (US$ millions)	1,339	1,398	1,489	1,573	1,615	1,666	1,733	1,805	1,881	1,961	2,044
Nominal GDP growth rate (percent)	-2.3	4.5	6.5	5.6	2.7	3.1	4.0	4.1	4.2	4.2	4.2
Real GDP growth rate (percent)	0.3	3.1	2.1	4.0	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Annual inflation (deflator, in percent)	-2.5	1.3	4.3	1.5	2.0	1.1	1.5	1.6	1.7	1.7	1.7
Assumed domestic borrowing rate (percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal external multilateral/bilateral borrowing rate (percent)	2.1	1.5	1.5	1.7	1.4	1.4	1.8	2.9	3.9	3.9	3.9
Six-month LIBOR rate (percent) 4/	1.1	0.5	0.5	0.7	0.4	0.4	0.8	1.9	2.9	2.9	2.9
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
Memorandum items:											
Overall central government balance (calendar year, percent of GD	-2.9	-2.2	-1.2	-1.3	-0.6	-1.6	-1.7	-1.7	-3.2	-3.5	-3.4
Implicit nominal interest rate (percent) 5/	4.5	4.4	4.2	3.7	2.3	3.6	3.6	3.7	4.5	4.9	4.8
Gross financing requirement (percent of GDP)	5.5	2.2	2.4	3.2	6.1	3.8	3.9	4.1	6.0	6.3	6.8

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 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.

3/ 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.

4/ Latest World Economic Outlook assumptions.

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

Annex I. Remaining Gaps in AML/CFT Framework

The Belizean authorities further accelerated their efforts to address remaining gaps in their anti-money laundering and combating the financing of terrorism (AML/CFT) framework, after the Caribbean Financial Action Task Force (CFATF) called on its member countries in November 2013 to "consider implementing counter measures to protect their financial systems from on-going money laundering and terrorist financing risk that could be emanating from Belize." New important laws and regulations were adopted in February 2014. Carrying out an effective plan to enforce them will be critical for satisfactorily completing its Action Plan with the CFATF and developing a robust AML/CFT regime that meets the requirements of the Financial Action Task Force (FATF) recommendations.

In 2011, the CFATF conducted an evaluation of the AML/ CFT regime of Belize and identified a number of deficiencies. The 2011 Mutual Evaluation Report (MER) summarized the AML/CFT measures in place, set out Belize's level of compliance with FATF recommendations, and suggested certain aspects of the regime that could be strengthened, including preventive measures, supervision of financial and non financial institutions, operational independence of the financial intelligence unit (FIU), and transparency of legal persons and arrangements.

In November 2011, the CFATF listed Belize as a jurisdiction with significant strategic deficiencies in its AML/CFT regime and worked with the country to develop an Action Plan to address the deficiencies identified. The Action Plan covered measures notably related to (i) customer due diligence (CDD) requirements, (ii) implementation of the CFT framework, (iii) extension of the AML/CFT framework to designated non-financial businesses and professions (DNFBPs), (iv) operational independence of the FIU, and (v) prohibition of dealings with shell banks. The authorities took some steps to address the supervision of financial institutions. An AML Unit was established within the Financial Sector Supervision Department of the Central Bank of Belize (CBB) that year, and is staffed with three examiners, one of whom is a Certified Anti-Money Laundering Specialist. On-site AML compliance examinations of one credit union and two international banks were completed in 2011. Thereafter, examinations of five credit unions, two domestic banks and three international banks were completed in 2012 and in 2013.

In May 2013, the CFATF issued a public statement noting that Belize was making insufficient progress in addressing identified deficiencies. It recommended that Belize enact legislation and issue relevant guidelines to address the deficiencies. Between January and October 2013, the authorities made several legislative amendments. Nevertheless, a number of deficiencies remained and the CFATF issued a statement in November 2013, calling on member countries to consider taking counter measures against Belize. The CFATF planned to refer Belize to the Financial Action Task Force (FATF) International Cooperation Review Group (ICRG) if sufficient progress was not made in implementing the agreed Action Plan by May 2014.

In February 2014, Belize approved six laws and three regulations, including (i) comprehensive amendments to the Money Laundering and Terrorism Prevention Act (MLTPA), which included the establishment of the National Anti-Money Laundering Committee as a statutory body to advise the Minister of Finance and co-ordinate national AML/CFT efforts;[9] (ii) Amendments to the Financial Intelligence Unit Act to strengthen its operational independence, enhance security of tenure for the FIU Director and minimise opportunity for political interference; and (iii) New regulations to more fully articulate the supervisory regime applicable to Designated Non Financial Business Professionals (DNFBPs) and to set out details regarding the constitution and procedures of the National Anti-Money Laundering Committee. Other reforms contributed indirectly to the objectives of the program.[10]

Following the enactment of the new legislation, the CFAFT public statement of May 2014 noted that Belize had made significant progress in addressing its deficiencies. The public statement recommends that Belize continue to work with the CFATF to ensure that its reform process is completed, by addressing its remaining deficiencies, and continue implementing its Action Plan. Belize will be required to report on further progress to the CFATF in November 2014.

Belize received AML/CFT technical assistance (TA) from the Fund through the AML/CFT Topical Trust Fund. The overall objective of the project was to assist the CBB to (i) strengthen its AML/CFT regulatory and supervisory framework and practices for domestic and offshore banks by the introduction of a risk-based approach (RBA) to AML/CFT supervision and (ii) enhance the analytical and operational capability of the FIU. With respect to work undertaken with the FIU, staff drafted guidance for reporting entities on suspicious transaction indicators, developed a financial analysis operations manual, a template for financial intelligence products and policies and procedures for the financial intelligence function. Staff also assisted the FIU and CBB in drafting a memorandum of understanding to facilitate collaboration and information exchange on AML/CFT issues. Due to limited resources and capacity, not much progress has been made in implementing the reforms that were initiated under the TA project, in particular in terms of RBA supervision and the development of the operational capacity and independence of the FIU.

The authorities are encouraged to continue strengthening and effectively implementing their AML/CFT framework. If the authorities are to effectively implement the changes brought about by the recently introduced laws and regulations, it will be important to ensure that the CBB, the FIU and all agencies that play a part in national AML/CFT arrangements are properly resourced. In addition, transparency and regulation of international business companies and trusts should be strengthened.

[9] Other amendments to the MLTPA included: (i) strengthening customer due diligence, record keeping, compliance and reporting obligations for financial institutions; (ii) enhancing compliance with CFT obligations; (iii) strengthening and clarifying the sanctions regime, including implementation of a comprehensive administrative penalty regime; and (iv) extending the AML/CFT framework to DNFBPs.

[10] The Domestic Banking and Financial Institutions Act was amended to specifically prohibit formation of and dealing with shell banks. Shareholders or owners of international financial service providers are now subject to a fit and proper test by virtue of an amendment to the International Financial Services Commission (Licensing) Regulations. The Companies Act was amended to ensure that information on the beneficial ownership of registered companies is maintained in the Companies Register.

Annex II. The 2014/15 Budget and the Medium-Term Fiscal Framework

The 2014/15 budget and the underlying medium-term fiscal framework further increase budget rigidity by scaling up spending on rigid wage-related items. Little room is left for growth-enhancing capital expenditure. The medium-term path of the primary balance is not ambitious. Efficiency gains from ongoing PFM reforms will not be sufficient to bring the fiscal position on a sustainable path.

The fiscal stance and underlying policies

The policies described in the FY2014/15 budget and in the authorities' medium-term fiscal framework introduce greater budget rigidities and leave little room for growth-enhancing capital expenditure (see budget table below). Most spending outlays will be allocated to rigid current expenditure items. The projected improvement in the primary surplus for FY2015/16 and FY2016/17 would require a drastic cut in capital expenditure, which would clearly hamper the development of production capacity. Cuts in subsidies and transfers would be difficult as most of these outlays help pay for teachers' salaries in government-supported private schools. The improvement in the primary balance is thus likely unrealistic. Given the weak domestic-supply response of the Belizean economy, which itself stems from weak domestic production capacity, recent increases in current expenditures would mostly translate into greater imports, and have a dubious impact on GDP growth. Under the authorities' current expenditure polices, staff projections suggest that the primary balance surplus would hover around 1 percent of GDP, which would be insufficient to reduce the high public debt and vulnerability to shocks.

In the budget speech, the authorities have committed to salary increases in addition to the automatic annual salary adjustments of about 2.5 percent that have been taking place for years. Specifically, half of the growth in *actual* recurrent revenue collection between successive fiscal years will be allocated to these additional salary increases, and the first took effect on 1st April 2014, bringing the overall salary increase to about 7.5 percent in FY2014/15. In turn, the salary increases will trigger automatic increases in pensions, and transfers. With the exception of support to municipalities that have to rehabilitate their infrastructure damaged by the rainy season, budget allocations to growth-enhancing capital projects would remain relatively low.

The budget does not explicitly introduce any new revenue measure, and would rely mostly on improved tax administration and robust performance of the newly acquired ship registries. A review of exemptions could take place with a view to bringing some exempted or zero-rated items into the tax net, in line with recommendations of recent IMF TA on the tax system. The authorities hope to mobilize additional revenue from the current major taxes without having to resort to new ones. No timeline is provided for these planned tax reforms.

Public financial management

A second Public Expenditure and Financial Accountability (PEFA) Assessment was conducted at end-2013 by the European Union, as scheduled. The authorities are committed to addressing remaining weaknesses identified by the PEFA mission, including: (i) the lack of transparency in the system of fiscal transfers to municipal governments; (ii) the fiscal risks posed by state-owned enterprises and municipal governments; (iii) the insufficient development of forward expenditure estimates, a pre-requisite for the development of a medium term perspective in budgeting, and, within this, the effective introduction of program budgeting; (iv) weaknesses in procurement, including the legal framework, the lack of justification for use of limited competition, insufficient transparency, and ineffective appeals process; (v) shortcomings in internal controls as indicated in the annual reports of the Auditor General; and (vi) challenges in preparing annual financial statements, which lead to their insufficient comprehensiveness and accuracy, as well as delays in submitting the statements to the Auditor General.

Belize: Summary of Authorities' Proposed FY14/15 Budget and Projections for FY15/16-FY16/17

	Actual 2012/13	Budget 2013/14	Projected Outturn 2013/14	Proposed Budget 2014/15	Projection 2015/16	Projection 2016/17
			(In millions of Belize dollars)			
Total revenue	837	872	901	956	982	1,017
Of which: Taxes	704	727	747	784	818	853
Of which: Grants	21	41	40	46	46	46
Total expenditure	854	934	975	1,013	882	884
Current expenditure	707	778	780	822	787	797
Capital expenditure	147	156	194	191	96	88
Primary surplus	41	35	33	35	192	225
Overal balance	-17	-61	-74	-57	99	132
Amortization	-61	-64	-64	-69	-74	-74
Gross financing	78	126	138	126	-25	-58
			(In percent of GDP)			
Total revenue	26.5	25.9	27.9	28.4	28.1	27.9
Of which: Taxes	22.2	21.6	23.1	23.3	23.4	23.4
Of which: Grants	0.7	1.2	1.2	1.4	1.3	1.3
Total expenditure	27.0	27.7	30.2	30.1	25.2	24.3
Current expenditure	22.3	23.1	24.1	24.4	22.5	21.9
Capital expenditure	4.7	4.6	6.0	5.7	2.7	2.4
Primary surplus	1.3	1.0	1.0	1.0	5.5	6.2
Overal balance	-0.5	-1.8	-2.3	-1.7	2.8	3.6
Amortization	-1.9	-1.9	-2.0	-2.1	-2.1	-2.0
Gross financing	2.5	3.7	4.3	3.8	-0.7	-1.6

Source: Belizean authorities.

Annex III. Belize—Debt Sustainability Analysis

Belize's public debt will remain high and unsustainable because of recognition of liabilities and a weak fiscal stance, despite the cash flow relief provided by the March 2013 debt restructuring. The main risk is the size of the compensation that justice courts will order the government to pay for the nationalized companies. This remains uncertain and staff continues to assume the mid-point valuation of these companies. Other important risks include additional contingent liabilities from the financial sector, the fiscal cost of rebuilding central bank reserves, and shocks on the primary balance, the exchange rate and GDP growth. Belize is expected to rely massively on domestic financing as well as asset reductions to meet its gross financing requirements in the medium term as official external disbursement is projected to gradually decline. Refinancing risks are expected also to increase with rising gross financing requirements. External debt would gradually decline over the medium term mainly because of non-debt creating inflows and asset reductions (mostly reserves). External financing would remain a challenge. The public debt burden underlines the need for further fiscal consolidation, more robust debt management, and the development of the domestic debt market.

Macroeconomic Framework

Economic growth is projected to remain relatively low at 2.5 percent in the medium term. Commodity exports, tourism, and construction, coupled with low inflation will support real output growth, offsetting the decline in oil production. However, growth will remain vulnerable to external and weather-related shocks that could further deteriorate the debt outlook. Enhancing the business environment and attracting FDI will be critical to improving growth prospects.

Belize is expected to rely massively on domestic financing as well as asset reductions to meet its gross financing requirements in the medium term. Although the authorities may opt to issue new US$ 2038 bonds up to a maximum US$75 million to pay part of the compensation, the DSA has assumed no new issuance of new U.S. bonds given the uncertainties regarding the demand for these bonds. As a result, the bulk of projected financing would need to be covered by domestic borrowing, as official external disbursements are projected to gradually decline and very limited external commercial borrowing is expected within the projection horizon. Nominal interest of domestic borrowing is expected to increase (assumed between 5 and 8 percent) as public debt rises, increasing the nominal debt service burden. The DSA also assumes that the government uses its assets, mainly international reserves, to service debt.

Public Debt

Total public debt was 76.4 percent of GDP (US$1,235 million) at end of 2013, of which 85 percent is external debt and 15 percent domestic debt. Public external debt amounted to 66 percent of GDP at end of 2013, of which 25 percent was multilateral, 22 percent bilateral and 53 percent commercial (US$ 2038 bonds). Venezuela has become an important bilateral creditor through PetroCaribe, accounting for about 7 percent of total external debt (5.5 percent of GDP).

The recognition of liabilities related to the nationalization of two utilities could raise the level of debt by 22 percentage points of GDP in 2016. Although the Court of Appeals has ruled that the nationalization of the two utilities was constitutional, the amount of compensation to the former owners of these companies is still unsettled. The DSA assumes that the government recognizes the additional liabilities at end 2016, with compensation payments of about BZ$726 million (20 percent of GDP)—the mid-point valuation between the authorities' assessment and the former owners' claims, including capitalized accrued interests since 2011 and assuming interest rates in the range 6-8 percent. The DSA also assumes that the government utilizes the proceeds from the sale of one of the utilities' shares (BZ$75 million) to pay part of the compensation, and pays the remaining balance in five equal payments starting in 2017. It finally assumes that the government also repays US$94 million (2 percent of GDP) in compensation to owners of land appropriated by the government.

The heat map suggests the risks to debt sustainability remain high (Annex III. Figure 1). Subjecting the baseline to stress testing indicates that Belize's debt burden exceeds the benchmark for market access countries. The heat map highlights significant risks to the debt profile, including when it comes to market perception (high spreads), external financing requirements, the residency of debt holders, and the currency composition of Belize's debt. The increasing share of short-term debt in total debt is not yet a major source of concern as its level is relatively low. The fan charts show the possible evolution of debt over the medium term under both symmetric and asymmetric distributions of risk. The asymmetric fan chat shows that risks to the debt outlook are on the upside.

There appears to be no systematic projection bias in the macro assumptions in recent years (Annex III. Figure 2). In the past, staff projections of GDP growth and inflation have been on average close to outcomes, with the median forecast errors of 0 and -0.58 respectively percent during 2005–13, though inflation forecast errors have a percentile rank of 11 percent, suggesting that forecast errors have been high relative to pears. Projections of the primary balance have been relatively pessimistic, with a median forecast errors of 0.91 percent of GDP during the same period. Nonetheless, staff's projections of the primary balance have been more accurate in recent years.

Under the baseline scenario, Belize's public debt will remain high and unsustainable because of recognition of liabilities and a weak fiscal stance (Annex III. Figures 3 and 4). Public debt would experience a hike to 97 percent of GDP in 2016 as a result of an assumption that the courts would require the government to recognize liabilities in the amount of 20 percent of GDP to the former owners of the nationalized utility companies. Debt is projected to decline slowly, owing to weak fiscal efforts under the baseline (primary surplus of only about 1 percent of GDP in the medium term) and relatively low growth. At the current primary surplus of 1 percent of GDP, it would take about 60 years to bring public debt to 60 percent of GDP, levels seen by staff as sustainable. Financing conditions would gradually deteriorate, as public sector gross financing needs would increase to 20 percent of GDP in 2019 mainly due to the maturing principal of the additional liabilities from the nationalizations and high interest rates charged on domestic financing. Moreover, short-term debt is assumed to represent an increasing share of debt as the perceived riskiness of government paper increases. Finally, financing needs would rise even more starting in 2019, when the amortization of the new external bond starts.

Stress tests highlight the fact that that the public debt trajectory is vulnerable to various shocks (Annex III. Figure 5). As 86 percent of total public debt was denominated in foreign currency at end of 2013, the debt profile is particularly sensitive to an exchange rate shock: a 10 percent real depreciation in 2014 combined with the baseline assumption of the recognition of additional liabilities related to nationalization (20 percent of GDP) would boost total public debt to 105 percent of GDP in 2016. A financial sector contingent liability shock that increases public spending by the equivalent of 10 percent of banking sector's assets associated with recapitalization needs of a few banks would raise total public debt to 120 percent of GDP in 2015. The debt-to-GDP ratio is also sensitive to shocks in growth, interest rate, and the primary balance. The fiscal consolidation scenario aiming at a debt-to-GDP ratio of 70 percent in 2019 illustrates the magnitude of the fiscal adjustment needed: 4.5 percent of GDP compared to 1 percent in the baseline scenario. This fiscal adjustment path proposed by staff would imply cyclically adjusted primary balances that are well above 3 percent of GDP, putting Belize in the top quartile of historical cross-country outturns. It is nonetheless realistic as staff has identified feasible measures that would help achieve it.

External Debt

The external debt ratio[11] is projected to gradually decline over the medium term to around 55 percent of GDP by 2019 mainly because of non-debt creating inflows and asset reductions, mostly international reserves (Annex III. Figure 6 and Table 1). External current account deficits would continue to put upward pressures on external debt. Bound tests suggest that the 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 100 percent of GDP in 2016 and remain elevated at 84 percent of GDP in 2019. Further vulnerability stems from a non-interest current account shock that would boost the external debt to above 68 percent of GDP over the medium-term horizon. In light of limited options for external financing, high gross external financing needs—8.5 percent of GDP on average annually over the next 5 years — pose additional risk to the debt outlook.

[11] In the absence of data on private external debt, the external DSA was limited to external public debt.

Summary Assessment

Under the baseline scenario, Belize's public debt will remain high and unsustainable because of the recognition of liabilities and a weak fiscal stance. Debt reduction is projected to be slow, owing to weak fiscal efforts under the baseline (1 percent of GDP primary surplus in the medium term) and relatively low growth and high interest rates. Liquidity conditions would gradually deteriorate, as public sector gross financing needs would increase to 20 percent of GDP in 2019 mainly due to maturing principal of the additional liabilities and high interest rates charged on domestic financing. Belize is expected to rely massively on domestic financing as well as asset reductions to meet its gross financing requirements in the medium term as official external disbursement is projected to gradually decline. Refinancing risks are expected also to increase with rising gross financing requirements. External debt would gradually decline over the medium term mainly because of non-debt creating inflows and asset reductions (mostly reserves). External financing would remain a challenge. Bound tests highlight that the public debt trajectory is highly vulnerable to various shocks, especially on the exchange rate and contingent liabilities, including compensation for nationalized utilities and potential recapitalization needs of a few banks.

Further fiscal consolidation efforts are essential to bringing public debt back to a sustainable path. The repeated debt restructuring episodes suggests that the country's current debt level is not sustainable debt and it would be prudent for the authorities to adopt a more ambitious target around 50–60 percent of GDP for the medium to long term. Policies to improve growth, deepen domestic financial market and improve public debt management will be also critical to improve the debt outlook.

Authorities' views

The authorities noted that the debt sustainability assessment is significantly driven by staff's assumption on the compensation for the nationalizations. They agreed with staff's analysis of the risks to debt sustainability.

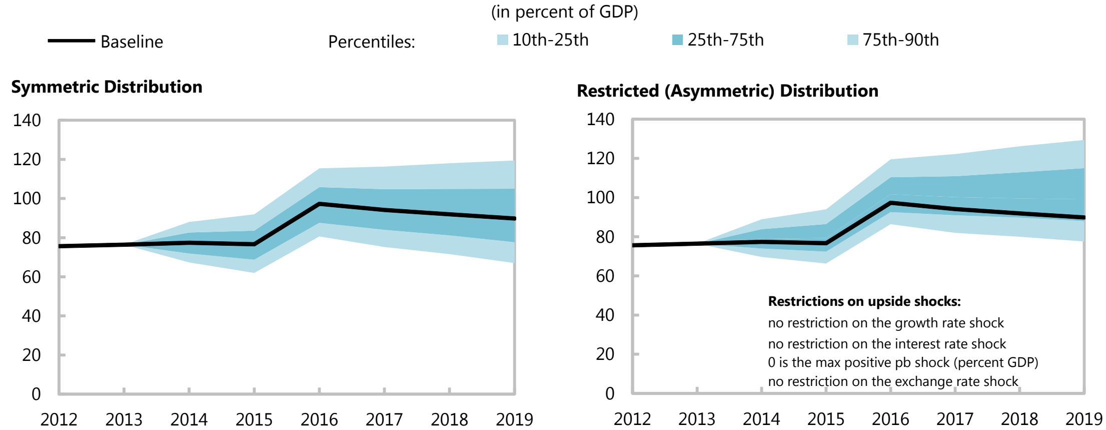
Annex III. Figure 1. Belize Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

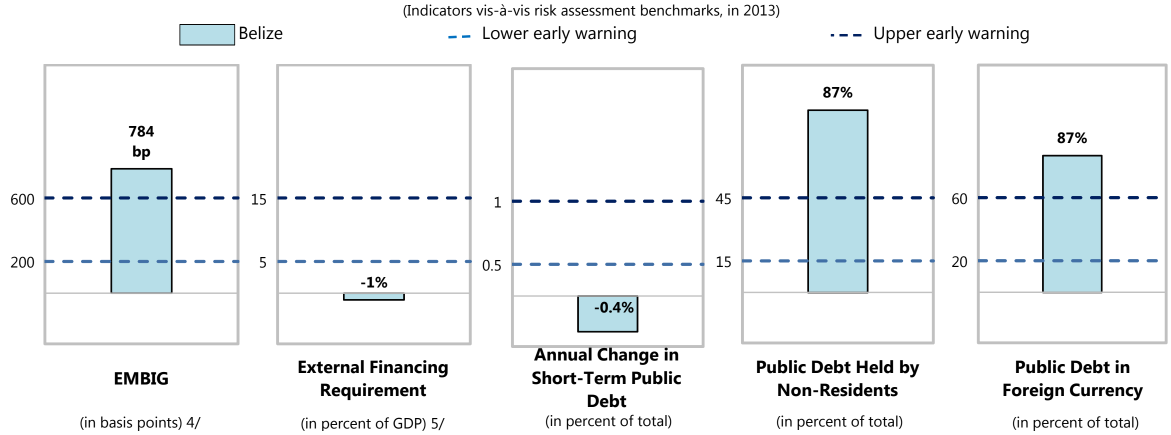
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

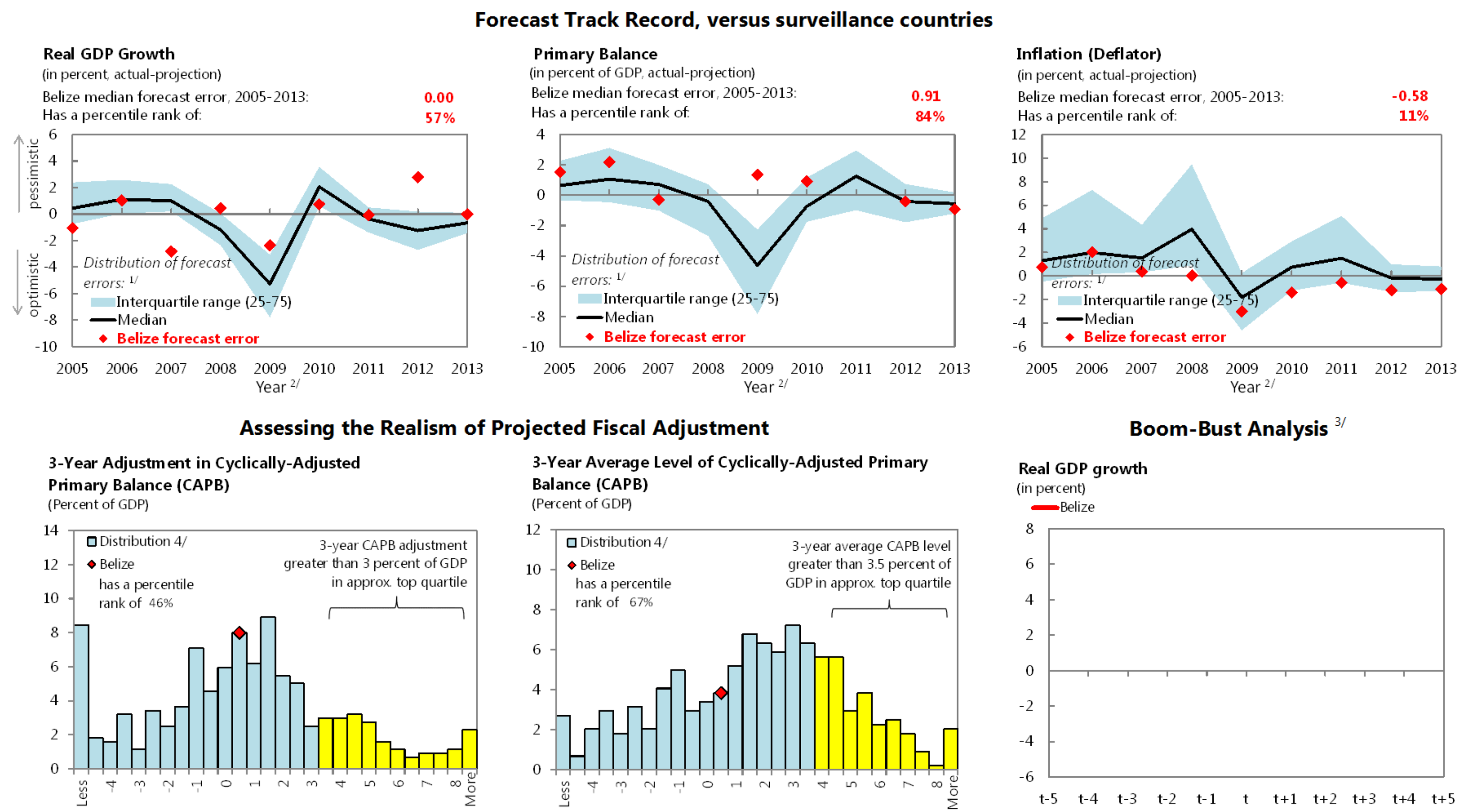
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 18-Dec-13 through 18-Mar-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex III. Figure 2. Belize Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Belize.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex III. Figure 3. Belize Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

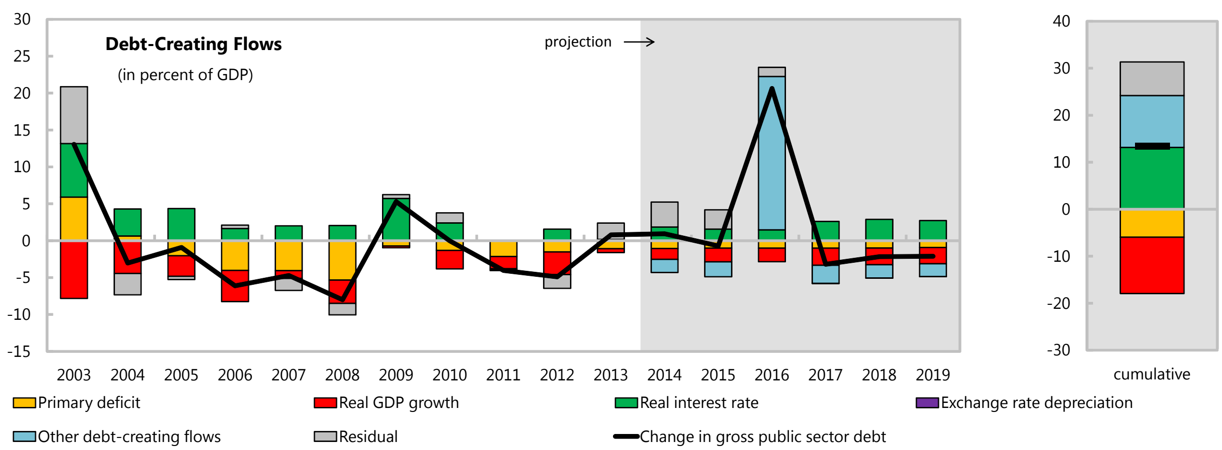
	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	89.7	75.6	76.4	77.4	76.7	97.3	94.1	91.9	89.8
Public gross financing needs	13.8	3.6	6.3	3.8	3.9	4.2	10.3	14.5	19.7
Real GDP growth (in percent)	3.6	4.0	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	1.8	1.5	2.0	1.1	1.5	1.6	1.7	1.7	1.7
Nominal GDP growth (in percent)	5.4	5.6	2.7	3.1	4.0	4.1	4.2	4.2	4.2
Effective interest rate (in percent) [4/]	5.5	3.7	2.3	3.6	3.6	3.7	4.5	4.9	4.8

As of March 18, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		726
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Caa2	Caa2
S&Ps	B-	B
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections						
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative
Change in gross public sector debt	-0.9	-4.9	0.8	0.9	-0.7	20.6	-3.2	-2.2	-2.1	13.4
Identified debt-creating flows	-1.3	-3.0	-1.4	-2.4	-3.3	19.4	-3.2	-2.2	-2.1	6.2
Primary deficit (- surplus)	-1.5	-1.5	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-0.9	-6.0
Primary (noninterest) revenue and grants	25.6	26.6	27.4	28.3	28.0	27.6	27.0	26.6	26.2	163.7
Primary (noninterest) expenditure	24.2	25.1	26.3	27.2	27.0	26.6	26.0	25.6	25.3	157.7
Automatic debt dynamics [5/]	0.1	-1.5	-0.3	0.4	-0.3	-0.4	0.3	0.6	0.5	1.2
Interest rate/growth differential [6/]	0.1	-1.5	-0.3	0.4	-0.3	-0.4	0.3	0.6	0.5	1.2
Of which: real interest rate	3.2	1.6	0.2	1.9	1.6	1.5	2.6	2.9	2.7	13.1
Of which: real GDP growth	-3.1	-3.1	-0.5	-1.5	-1.9	-1.8	-2.3	-2.3	-2.2	-12.0
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…
Other identified debt-creating flows	0.0	0.0	0.0	-1.8	-2.0	20.8	-2.4	-1.8	-1.7	11.1
Contingent liabilities [8/]	0.0	0.0	0.0	0.0	0.0	22.7	0.0	0.0	0.0	22.7
Residual, including asset changes [9/]	0.4	-1.9	2.2	3.4	2.6	1.2	0.0	0.0	0.0	7.2

debt-stabilizing primary balance [10/]
-1.2

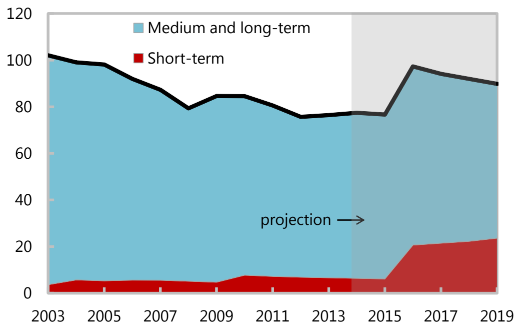


Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Data for 2015, refers to liabilities resulting from past nationalization of utilities.
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
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.

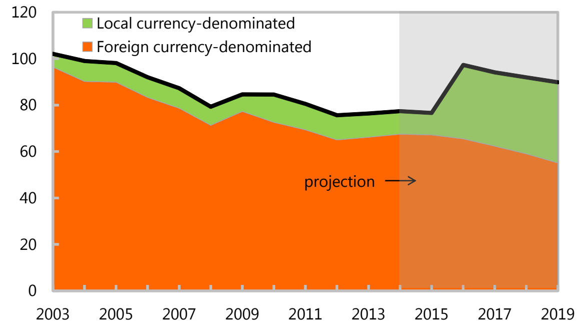
Annex III. Figure 4. Belize Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



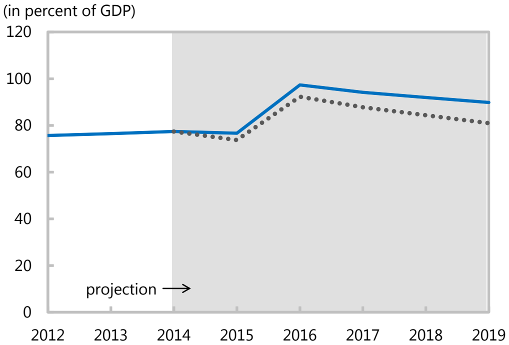
By Currency
(in percent of GDP)



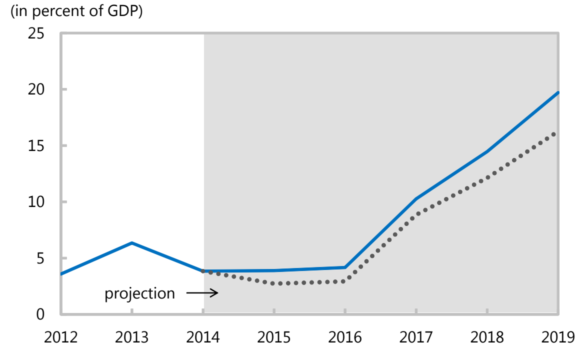
Alternative Scenarios

Baseline   Historical

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

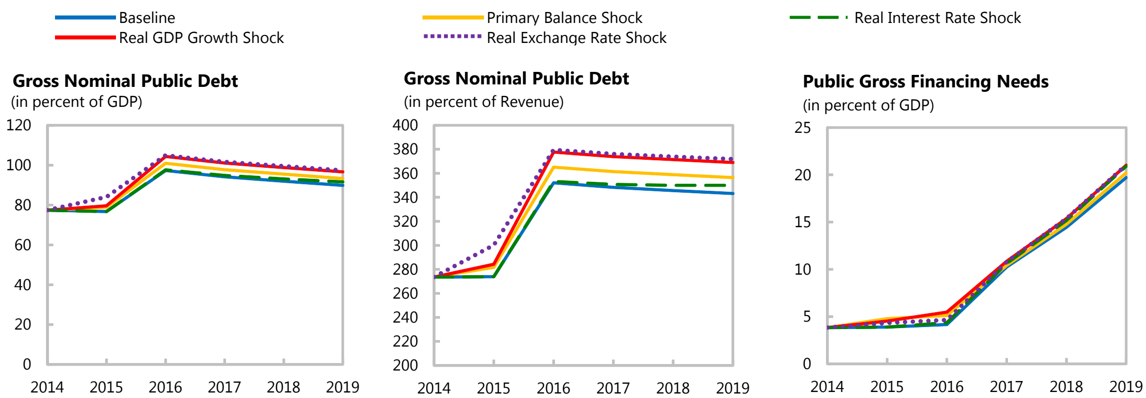
	2014	2015	2016	2017	2018	2019
Baseline Scenario (assumes constant primary balance)						
Real GDP growth	2.0	2.5	2.5	2.5	2.5	2.5
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary Balance	1.0	1.0	1.0	1.0	1.0	0.9
Effective interest rate	3.6	3.6	3.7	4.5	4.9	4.8

	2014	2015	2016	2017	2018	2019
Historical Scenario						
Real GDP growth	2.0	2.8	2.8	2.8	2.8	2.8
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary Balance	1.0	2.2	2.2	2.2	2.2	2.2
Effective interest rate	3.6	3.6	3.7	4.7	5.1	5.1

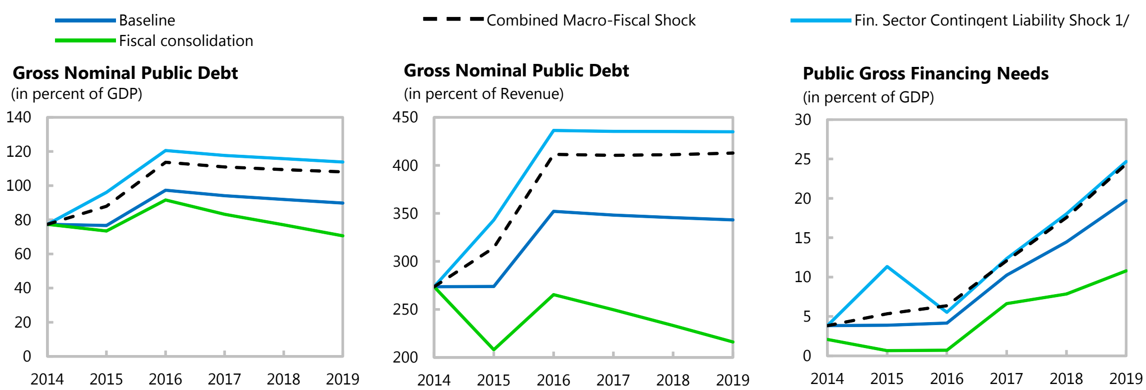
Source: IMF staff.

Annex III. Figure 5. Belize Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	2.0	2.5	2.5	2.5	2.5	2.5
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary balance	1.0	0.1	0.1	1.0	1.0	0.9
Effective interest rate	3.6	3.6	3.6	4.5	4.9	4.8
Real Interest Rate Shock						
Real GDP growth	2.0	2.5	2.5	2.5	2.5	2.5
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary balance	1.0	1.0	1.0	1.0	1.0	0.9
Effective interest rate	3.6	3.6	3.9	4.9	5.5	5.6
Combined Shock						
Real GDP growth	2.0	0.9	0.9	2.5	2.5	2.5
Inflation	1.1	1.1	1.2	1.7	1.7	1.7
Primary balance	1.0	0.1	-0.1	1.0	1.0	0.9
Effective interest rate	3.6	4.0	4.0	5.0	5.5	5.6
Fiscal consolidation						
Real GDP growth	1.5	1.8	2.6	2.8	3.0	3.2
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary balance	3.5	4.6	4.4	4.6	4.7	4.7
Effective interest rate	3.6	3.8	4.1	5.2	5.9	5.9

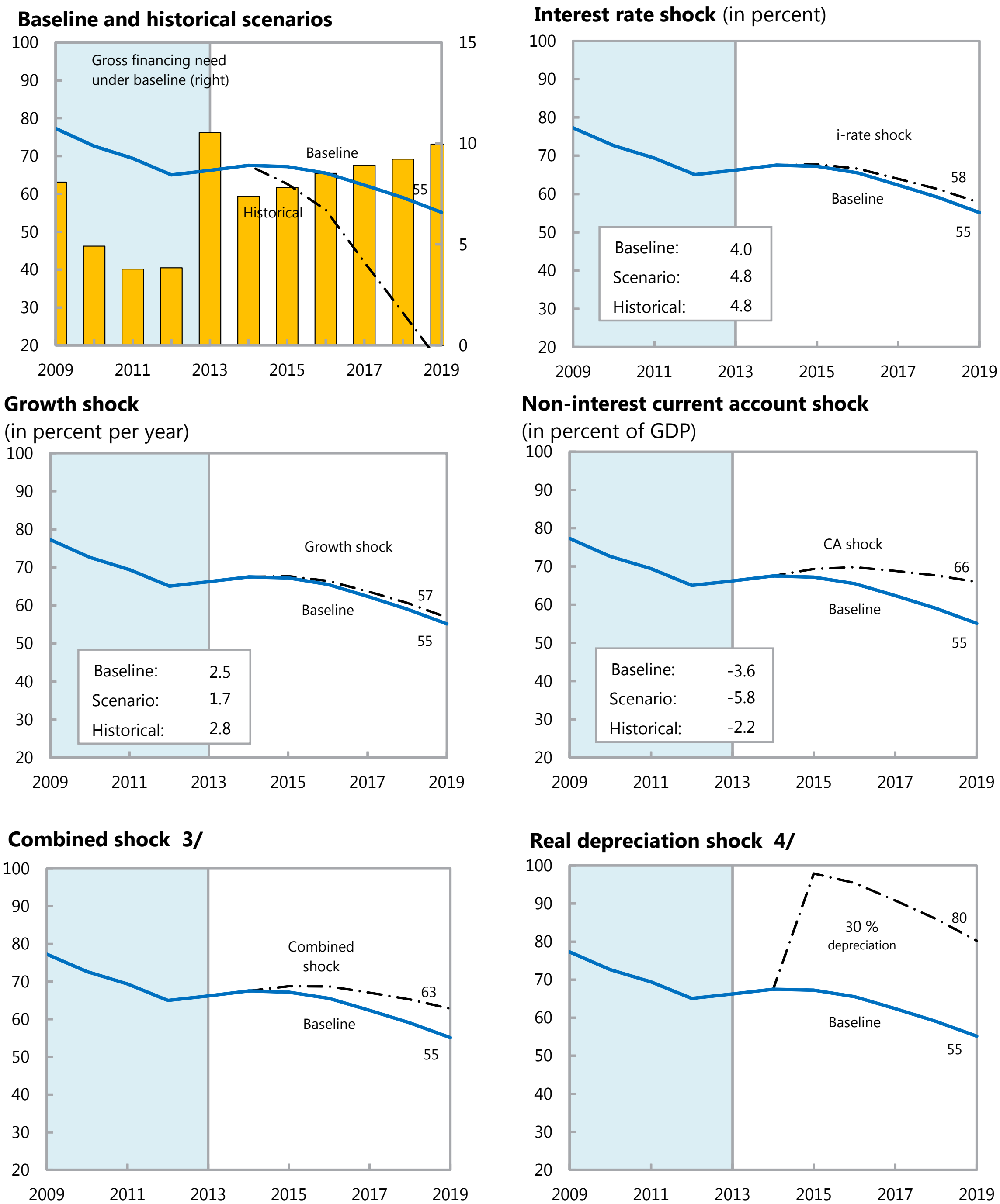
	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	2.0	0.9	0.9	2.5	2.5	2.5
Inflation	1.1	1.1	1.2	1.7	1.7	1.7
Primary balance	1.0	0.5	-0.1	1.0	1.0	0.9
Effective interest rate	3.6	3.6	3.6	4.5	4.9	4.8
Real Exchange Rate Shock						
Real GDP growth	2.0	2.5	2.5	2.5	2.5	2.5
Inflation	1.1	1.5	1.6	1.7	1.7	1.7
Primary balance	1.0	1.0	1.0	1.0	1.0	0.9
Effective interest rate	3.6	4.0	3.6	4.5	4.9	4.8
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	2.0	0.9	0.9	2.5	2.5	2.5
Inflation	1.1	1.1	1.2	1.7	1.7	1.7
Primary balance	1.0	-6.2	1.0	1.0	1.0	0.9
Effective interest rate	3.6	3.9	4.2	4.8	5.1	5.0

Source: IMF staff.

1/ One-time increase in non-interest expenditures equivalent to 10% of banking sector assets.

Annex III. Figure 6. 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 2010.

Annex III. Table 1. Belize: External Debt Sustainability Framework, 2009-2019

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
Baseline: External debt	77.3	72.6	69.4	65.0	66.2			**67.5**	**67.2**	**65.5**	**62.3**	**59.0**	**55.1**	**0.9**
Change in external debt	6.0	-4.7	-3.2	-4.4	1.2			1.3	-0.3	-1.7	-3.2	-3.3	-3.9	
Identified external debt-creating flows (4+8+9)	0.2	-5.7	-7.7	-10.3	1.5			-0.4	0.2	0.9	6.6	6.1	5.8	
Current account deficit, excluding interest payments	2.1	-0.2	-1.8	-1.2	3.2			2.6	3.2	3.6	3.8	3.7	3.9	
Deficit in balance of goods and services	4.0	-0.5	0.1	-1.5	1.7			1.0	1.5	1.9	2.0	2.3	2.6	
Exports	54.4	58.4	63.4	65.4	65.4			64.5	63.4	62.2	61.6	61.3	61.0	
Imports	58.4	57.9	63.5	63.9	67.1			65.6	64.9	64.1	63.6	63.6	63.6	
Net non-debt creating capital inflows (negative)	-6.3	-4.8	-4.4	-7.8	-1.2			-4.0	-3.7	-3.4	2.0	1.3	0.7	
Automatic debt dynamics 1/	4.4	-0.7	-1.5	-1.3	-0.4			1.0	0.7	0.7	0.7	1.2	1.2	
Contribution from nominal interest rate	2.7	2.6	2.9	2.4	1.3			2.3	2.3	2.3	2.3	2.7	2.6	
Contribution from real GDP growth	-0.2	-2.3	-1.4	-2.6	-0.4			-1.3	-1.6	-1.6	-1.6	-1.5	-1.4	
Contribution from price and exchange rate changes 2/	1.9	-1.0	-3.0	-1.1	-1.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	5.8	1.0	4.5	5.9	-0.3			1.7	-0.5	-2.6	-9.8	-9.4	-9.7	
External debt-to-exports ratio (in percent)	142.1	124.4	109.5	99.5	101.2			104.6	106.0	105.3	101.2	96.4	90.4	
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.1	0.1	0.2			0.1	0.1	0.2	0.2	0.2	0.2	
in percent of GDP	8.1	4.9	3.8	3.8	10.5			7.4	7.8	8.5	8.9	9.2	10.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**67.5**	**62.6**	**55.8**	**42.0**	**28.6**	**15.0**	**-7.4**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.3	3.1	2.1	4.0	0.7	2.8	1.6	2.0	2.5	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	-2.6	1.3	4.3	1.5	2.0	2.2	2.1	1.1	1.5	1.6	1.7	1.7	1.7	
Nominal external interest rate (in percent)	3.7	3.6	4.2	3.7	2.0	4.8	1.7	3.6	3.6	3.6	3.7	4.5	4.5	
Growth of exports (US dollar terms, in percent)	-16.0	12.1	15.6	8.9	2.8	7.7	11.1	1.7	2.2	2.2	3.2	3.7	3.8	
Growth of imports (US dollar terms, in percent)	-18.4	3.6	16.7	6.2	7.9	5.6	10.8	0.8	3.0	2.8	3.4	4.3	4.2	
Current account balance, excluding interest payments	-2.1	0.2	1.8	1.2	-3.2	-2.2	4.3	-2.6	-3.2	-3.6	-3.8	-3.7	-3.9	
Net non-debt creating capital inflows	6.3	4.8	4.4	7.8	1.2	7.3	3.7	4.0	3.7	3.4	-2.0	-1.3	-0.7	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. External Stability Assessment

The exchange rate is estimated to be moderately overvalued from the perspective of external stability. The overvaluation reflects a policy mix that is projected to generate rising current account deficits and net external indebtedness. International reserves appear comfortable at the moment, but are projected to fall to uncomfortably low levels.

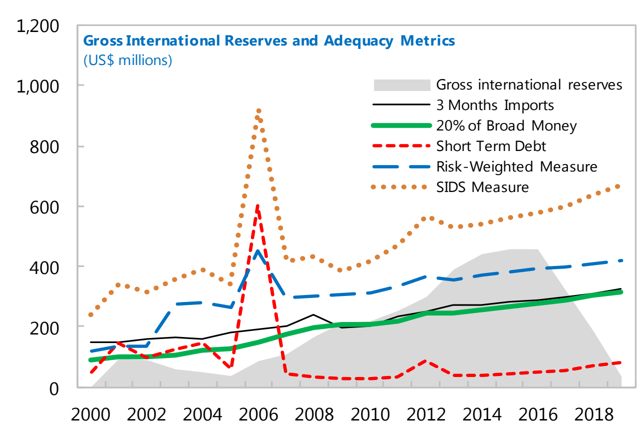
External stability tools used by staff are highly suggestive for small countries like Belize. External stability in Belize was assessed applying external stability (ES), macroeconomic balance (MB), and equilibrium real exchange rate (ERER) approaches. The ES approach assumes a gradual strengthening of the NFA position from -119 percent at end-2011 to -100 percent of GDP by 2024, a path consistent with the sustainable financing required to stabilize the NFA-to-GDP ratio. This would imply an external current account deficit of -2.9 percent of GDP per year. From this perspective, the real exchange rate is estimated to be overvalued by about 10 percent. The MB and ERER approaches point to smaller misalignments and imply equilibrium current account deficits of 6-7 percent of GDP. These last two approaches do not capture developments in the capital and financial account of the balance of payments. In the case of Belize, such flows would be influenced by the assumed repatriation of compensation payments for the nationalized companies and would matter significantly for external stability.

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

	Equilibrioum Real Exchange Rate Approach	Macroeconomic Balance Approach		External Sustainability Approach	
	Baseline Underlying CA balance: baseline 2014 level	Baseline Underlying CA balance: baseline 2019 level	Sensitivity analysis Underlying CA balance: baseline minus one fourth st.dev.	Baseline Reducing NFA to below -100 percent of GDP by 2024	Sensitivity analysis Reducing NFA to below -90 percent of GDP by 2024
Equilibrium external current account (CA) 1/	-6.3	-7.0	-7.0	-2.9	-1.9
Underlying CA balance 2/	-4.9	-6.5	-7.8	[-4.9 -6.5]	[-4.9 -6.5]
CA elasticity to REER 3/	-0.4	-0.4	-0.4	-0.4	-0.4
Implied REER adjustment (in percent, "+" appreciation)	3.5	1.3	-2.0	[-5.3 -9.5]	[-7.8 -12.0]

1/ Equilibrium external current account corresponds to a CA level that is consistent with a specific set of economic fundamentals. In the ERER approach, all variables refer to 2014 as this approach estimates misalignment at end 2014.
2/ External current account in 2014 for the ERER approach, in 2019 for the MB approach and in 2014-24 for the 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).

Traditional and risk-weighted metrics suggest that reserves would fall below the comfortable adequacy region in the medium term. Reserves are projected to fall below three months of imports and below twenty percent cover of broad money in 2018 to respectively reach 59 percent and 61 percent of the adequate level under these two metrics (see Text Table below). Likewise, the first risk-weighted measure



suggests that while reserves stood at 110 percent at end-2013, above the lower bound of the adequacy region of 100–150 percent, they are expected to decline below the threshold in 2017 and be almost depleted at just 8 percent by 2019. The second risk-weighted measure, adjusted for small island developing states (SIDS), signals a similar trend—with a current ratio of 74 percent, just below the lower benchmark and a projected decline of the ratio to 5 percent by 2019. In light of the expected widening of the current account deficit and limited access to external financing, the low level of international reserves and their projected depletion over the medium term pose a risk to Belize's external stability and the budget as the authorities would have to borrow to rebuild reserves.

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

	Risk-Weighted Measure	SIDS Measure	3 months of Imports	20% of Broad Money	Short Term Debt
2013	110	74	144	158	1,092
2014	120	82	162	173	1,176
2015	120	82	163	172	1,033
2016	117	79	159	165	899
2017	80	53	107	111	587
2018	45	29	59	61	266
2019	8	5	11	11	43
Adequate Region	100-150	75-100	100	100	100

Annex V. Risks Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized
1. Fiscal policy implementation: the adoption of a lower fiscal primary balance will leave the country in a highly vulnerable position.	**High** • Under current policies, the primary surplus for 2013/14 will likely be about 1 percent of GDP, well below the previously announced target of 2 percent. Declining petroleum revenue, the announced increases in compensations for civil servants, and the rolling out of the national health insurance scheme have reduced the likelihood of a significant improvement in the primary balance. Moreover, the authorities are of the view that deteriorating social, infrastructure, and security conditions constrain Belize from tightening the fiscal stance beyond the primary surplus target of 1 percent of GDP.	**High** • Debt will continue to increase in an unsustainable manner. Gross financing needs would rise sharply and continue to rise over the medium term. Securing such financing would be a challenge due to undeveloped domestic market and limited external market access.
2. Distress in the banking system.	**Medium** • While declining, non-performing loans remain high, and while improving, provisioning remains relatively low. Some domestic banks, including the largest bank, which is of systemic proportions, still have low capital buffers, and raising new capital to avoid a deterioration of their capital adequacy ratios could be a challenge, increasing the risk of public sector intervention.	**High** • Credit intermediation could be damaged, and absorption of the financial cost of recapitalizing distressed banks by the government could entail significant fiscal costs, putting additional pressure on public finances.
3. Surge in contingent liabilities.	**High** • Courts still have to rule on the size, modality, and timing of the compensation the government has to pay to the former owners of the two nationalized utility companies. Payments could turn out to be closer to the claimants'(upper) valuation of 35 percent of GDP. Moreover, nonresidents, who account for a significant portion of the compensation claims, would likely not roll over their debt holdings. • In addition to a possible intervention for the financial sector, the government may have to incur more external liabilities, just to build up reserves and support the current exchange rate peg should BOP pressures become more severe than envisaged.	**High** • Debt could suddenly increase by tens of percentage points of GDP because of the compensation for the nationalized companies, further threatening fiscal sustainability and aggravating refinancing risks as nonresident debt holders pull out. • Even though additional external borrowing was envisaged at the time of the 2013 debt restructuring, new external lending to Belize will likely be very costly. It will also further weaken debt sustainability and undermine investors' confidence in the Belizean economy and the currency peg.
4. Further decline in tourism and exports related to a protracted period of slower growth in advanced economies (owing to larger than expected deleveraging, negative surprises on potential growth, or geopolitical risks).	**Medium** • A protracted period of weak demand could take a toll on productive capacity across advanced economies. In Europe in particular, the risk of deflation has increased, and the adverse impact of public and private sector deleveraging on the real economy may be larger than currently expected. The growth impact of increasing geopolitical tensions surrounding Russia/Ukraine on advanced countries is expected to be temporary.	**High** • A weak recovery in advanced economies, especially the US and Europe could significantly undermine growth in Belize, restrain public finances, and put pressures on the BOP and reserves. Belize's share of exports to the US and the EU is very high. Growth in Belize is also very sensitive to tourist arrivals from major source markets, the US in particular.

Annex VI. Fiscal Risks from State-Owned Enterprises

Operational risks of State-Owned Enterprises (SOEs) to the budget appear limited at the moment, but are clearly on a rising trend. Balance sheet risks are much more important mainly because of recent nationalizations.

The consolidated balance of the three largest SOEs shows large volatility, pointing to a large deficit in FY2010/11 and a small surplus in FY 2011/12, underlying the SOEs' risk to the public sector fiscal balance. Overall revenues have been stagnant, while expenditures have increased. By far, Belize Electricity Limited (BEL) has posted the largest deficits, although declining. BEL is particularly vulnerable to weather conditions, which could reduce the domestic production of electricity and increase energy imports from Mexico. Belize Telemedia Limited (BTL) has posted declining surpluses, while Belize Water Services (BWS) has turned into surplus in FY2011/12.

Belize: Operations of Statement Owned Enterprises 1/ 2/

	2009/10	2010/11	2011/12
(In millions of Belize dollars)			
Revenue	**382.6**	**377.5**	**377.8**
Other revenue	382.6	377.5	377.8
Expenditure	**379.1**	**396.3**	**375.2**
Expense	351.1	368.1	388.6
Net acquisition of nonfinancial assets	28.0	28.3	-13.4
Gross operating balance	**31.5**	**9.4**	**-10.8**
Net lending (+) / borrowing (-)	**3.5**	**-18.8**	**2.6**
(In percent of GDP)			
Revenue	**14.1**	**13.3**	**12.5**
Other revenue	14.1	13.3	12.5
Expenditure	**14.0**	**13.9**	**12.4**
Expense	13.0	13.0	12.9
Net acquisition of nonfinancial assets	1.0	1.0	-0.4
Gross operating balance	**1.2**	**0.3**	**-0.4**
Net lending (+) / borrowing (-)	**0.1**	**-0.7**	**0.1**

Sources: Ministry of Finance; Central Bank of Belize; and Fund staff estima

1/ Fiscal year ends in March; Belize Electricity Limited, which annual repo ends December, was adjusted to be consistent with the other SOEs.

2/ The public enterprises cover Belize Telemedia Limited, Belize Electricity Limited and Belize Water Services Ltd.

In addition to the direct operational risks to the public budget, Belize faces significant additional claims in relation to the 2009 nationalization of the BTL and the 2011 nationalization of the BEL. No agreement has been reached yet on the amount of compensation; and the legal dispute may take a few additional years in courts. The judicial timeline presented in the 2013 Article IV Staff report still holds. In addition to these claims, several arbitral awards related to land acquisition, overpayment of taxes, and non-observance of tax agreement have been ruled against the government and are pending enforcement.

Annex VII. National Health Insurance[12]

Following the inability of the Social Security Board to finance the expansion of the national health insurance program beyond its pilot phase, the authorities have decided to finance this expansion with budget resources, thus creating significant and rigid new outlays in the budget.

The goal of developing a national health insurance program is to provide affordable and accessible quality care to the population. A pilot project was established in the south side of Belize City in 2001 and was expanded to the southern region of Belize in 2006. A separate agency within the Social Security Board has been established to oversee the financing and purchasing duties for the NHI fund, while the Ministry of Health remains in charge of the regulatory and policy-making functions. An important component of the NHI program is the implementation of a pay for performance system that provides financial incentives for meeting specified quality performance standards. The authorities plan to expand the NHI program throughout Belize.

In the first phase, the pilot project was financed by the Social Security Board, which incurred a substantial financial burden (about BZ$40 millions). Since late 2006, in view of the inability of the Social Security Board to provide additional funds for the rollout of the program to additional geographical areas, the government started to transfer funds from the budget to finance the program. Currently the pilot NHI project is being entirely financed with transfers from the Ministry of Health at a cost of about 0.5 percent of GDP each year. Containing the costs of the NHI as well as introducing a separate contribution to finance it will be a challenge.

Belize: National Health Insurance Fund Operations
(In millions of Belize dollars)

	2009	2010	2011	2012
Government transfers	12.8	14.2	14.0	14.0
Total revenues	**12.8**	**14.2**	**14.0**	**14.0**
Benefits	11.1	13.4	13.4	12.6
Operating expenses	0.7	0.8	0.9	0.7
Total expenditure	**11.8**	**14.1**	**14.3**	**13.3**
Balance	**1.0**	**0.1**	**-0.3**	**0.7**
Percent of GDP	0.04	0.004	-0.01	0.03
Memorandum items:				
NHI Reserves	2.0	2.1	1.8	2.5
Nominal GDP	2,389	2,462	2,514	2,615

Source: Hernando Perez Montas, 2012, Belize: Actuarial Review of the Social Security Scheme.

[12] Sources: Ministry of Health, Health Initiatives, National Health Insurance. Retrieved February 3rd, 2014 from: http://health.gov.bz/www/health-projects/national-health-insurance; Social Security Board, Financial Statements for Years ended December 31, 2012 and 2011, and Independent Auditors' Report; and Hernando Perez Montas, 2012, Belize: Actuarial Review of the Social Security Scheme.

Annex VIII. The National Development Framework for Belize 2010–2030

The Belizean authorities' growth and development strategy is anchored by a national plan (Horizon 2030) that centers around governnance, education, health, ecoomic resilience, and the environment. Operationalizing this strategy through annual budgets remains a challenge.

The authorities growth and poverty reduction strategy is guided by Belize's national development framework covering the period 2010-30 (Horizon 2030).[13] The Horizon 2030 framework covers several thematic areas that are organized under four main pillars:

- *Democratic governance for effective public administration and sustainable development*. This pillar aims to ensure citizen participation in the development strategy, accountability of political leaders and effective management of public resources to meet public needs. Among other goals, the authorities intend to make the Senate an elected body with the capacity to hold the government accountable; clarify in law and regulations the roles and responsibilities at the various levels of government; raise the qualification requirements for police officers and implement a more rigorous recruitment process; implement key infrastructural improvements to strengthen investigative capabilities of the Police Department; provide on-going training opportunities for magistrates and police officers; strengthen laws regarding oversight of government ministries; implement multi-year planning of activities and budgets and require regular reporting on clear and measurable objectives; enforce regulations for the transparent and fair hiring of public officers; and streamline government processes to achieve efficient and cost effective delivery of services.

- *Education for development-Education for life*. Recent data indicates that more than 11,000 primary school age children are not attending school and that almost 60 percent of the secondary school age population is not enrolled in school. The authorities' most important goal is to provide quality education that is free and compulsory to at least the secondary school level. Their second education goal is to ensure delivery of quality and relevance in the curriculum by integrating the expressive arts, sports and physical education, science and technology, environmental education, and entrepreneurship. Their third goal is to create an education system that is inclusive, reflecting Belize's multi-ethnic, multi-cultural, multilingual society. They plan to reform the system for allocating financial resources to primary and secondary schools to provide equitable access to education for children across the country; expand teacher education and develop a salary and incentives package to attract and retain qualified managers and counselors within the education system; expand the number of secondary school places,

[13] Available at: http://www.belize.gov.bz/index.php/government-initiatives/horizon-2030

especially in rural communities; develop alternate mechanisms for delivery of education, using TV, radio, and the internet; expand the schools feeding programmes; provide apprenticeship and mentorship programmes for children who require additional out-of-school support; and expand the national library system so that it can be a more active partner in promoting reading and language skills.

- *Economic resilience-Generating resources for long-term development*. Under this pillar, the authorities essentially plan to increase agricultural production in a sustainable way and increase local value added through the development of agro-processing, and ensure a sustainable and profitable tourism sector. In particular, they plan to increase government investment in technology, irrigation, development of seeds and green pesticides and provide technical support to farmers through rebuilding of demonstration plots across the country; develop agricultural insurance options to cover crop losses; create support mechanisms to pool resources and investment capital for entrepreneurs including cooperatives and credit unions; develop a support system for small business that includes market information, management support, planning advice; simplify the tax structure and make the system more equitable; enact appropriate legislation to protect and regulate microfinance; implement a coordinated credit referral system or credit bureau; and make key public investments in economic infrastructure, especially the road network and transportation system.

- *The bricks and the mortar-Healthy citizens and a healthy environment*. Under this fourth pillar, the authorities plan to implement a comprehensive natural resources and environmental policy that includes planning for climate change and its effects. They also plan to provide incentives for reforestation; increase the number of Belizean professionals specializing in environmental issues, including coastal zone management; provide incentives to promote energy saving and investment in production and use of renewable energy in the areas of wind, solar, biomass, geo-thermal and hydroelectricity; set up renewable energy purchase arrangements for those who have excess to sell to the main grid; provide tax and other incentives for households to more easily adopt "green" technologies and impose penalties for the use of hazardous materials; expand the National Health Insurance (NHI) scheme countrywide; improve access to health services for rural communities including proper staffing and equipping of clinics that have been constructed; and invest more in primary healthcare and on preventive health strategies.

INTERNATIONAL MONETARY FUND

BELIZE

June 11, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By: Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2014)

Membership status. Joined: March 16, 1982.

General Resources Account	**SDR Million**	**Percent Quota**
Quota	18.80	100.00
Fund holdings of currency (Exchange Rate)	14.56	77.46
Reserve Tranche Position	4.24	22.55

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.02	111.87

Outstanding Purchases and Loans

None

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)[1]

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Implementation of HIPC Initiative: Not Applicable

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

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

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 June 21, 2013 (SM/13/139). 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.
- MCM advised on bank resolution, and crisis preparedness and management in May 2014.

BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE WORLD BANK[2]

(As of May 2014)

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. 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 stability framework and preparation of its first financial stability report. The Fund is ready to

[2] Updated in May 2014

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.

- **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.

Belize: Bank and Fund ongoing and planned activities, 2014–2015			
Title	**Products**	**Provisional Timing of Missions**	**Expected Delivery Dates**
Bank Work Program	Municipal Development Project		November 2015
	Improving Children's Health		July 2015
	Climate Resilience Infrastructure		August 2019
	Marine Conservation and Climate Adaptation		In pipeline for FY15
	Management and Protection of Key Biodiversity Areas		November 2016
Fund Work Program	Staff Visit	November 2014	
	Public Financial Management		Several short-term visits are planned in FY14
	Medium-Term Debt Management		Ongoing
	Article IV Consultation	April 2015	June 2015

B. Financial Relations with the World Bank Group

(As of May 2014)

IBRD Operations

(In U.S. dollars)

	IBRD
Original Principal	101,200,000.00
Cancellations	5,703,327.73
Disbursed	87,543,031.01
Undisbursed	7,953,641.26
Repaid	76,060,281.10
Due	11,482,749.91
Exchange Adjustment	0.00
Borrower Obligation	11,482,749.91

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

(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Disbursements	0.7	0.0	0.0	0.0	0.0	1.1	0.7	4.5	1.0
Repayments	4.5	4.9	4.9	4.7	4.3	4.5	2.0	1.7	1.8
Net	-3.8	-4.9	-4.9	-4.7	-4.3	-3.3	-1.3	2.8	-0.8
Interest	1.7	1.8	1.6	1.0	0.4	0.2	0.1	0.1	0.3
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Estimated Debt Service.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 14, 2014)

1. Country Strategy with Belize (2013–2017). The Country Strategy aims to support the Government of Belize in improving public expenditure efficiency and effectiveness and promoting private sector development and sustainable export-led growth, by concentrating on four priority areas: (i) education; (ii) tourism; (iii) transport; and (iv) trade and tax policy. There have been no approvals to date under this strategy, two new investment loans are in the 2014 pipeline, one for the education sector and one for a road rehabilitation project.

2. Technical cooperation operations (grants) in execution include efforts to advance the implementation of the Tourism Master Plan, to finance feasibility studies for several transportation and water and sanitation projects, to enhance public financial management, to develop a Crime Information System for Belize, to analyze pension reform, and to support teacher training and improved education governance, credit unions, cocoa farmers, competitiveness and investment promotion, and natural disaster risk management.

3. Strategy results: The strategy is in an early stage of implementation; initial results are expected in the medium-term.

4. Recent and ongoing analytical work

- Belize's Regional Integration Options Trade Policy Scope and Taxation Study in Belize
- Integration and Trade in Belize
- Labor Market Performance in Belize
- Challenges and Opportunities in the Belize Education Sector
- Public Employment and Pay Policy in Belize
- Citizen Security in Belize
- Water and Sanitation in Belize
- Transport Sector in Belize
- Water and Sanitation in Belize

5. 2014 program. Two lending operations are in the pipeline for 2014, one on the education sector and another one on the transportation sector. The Bank will support Belize through new technical assistance in the following areas: education, tourism, fiscal management, and road maintenance.

6. Current portfolio (in US$ million). The loan portfolio consists of five investment loans for US$34.9 million, of which US$21.3 million (61 percent) remain undisbursed. Three of the five loans are expected to exit the portfolio in 2015.

Loan	Approved	Undisbursed
Solid Waste Management	11.2	2.3
Agricultural Services Program	3.7	1.1
Community Action for Public Safety	5.0	3.5
Water and Sanitation Program–Placencia	5.0	4.9
Belize City Flood Mitigation Infrastructure	10.0	8.1
Total	**34.9**	**21.3**

7. Loan transactions (in US$ million)

	2009	2010	2011	2012	2013	2014*
Net flows	**4.9**	**-2.0**	**2.9**	**4.7**	**1.4**	**-3.5**
Gross disbursements	12.9	5.7	10.2	12.8	9.7	6.6
Amortization	4.2	4.3	4.3	6.0	6.6	7.5
Interest and charges	3.8	3.1	1.8	1.9	1.7	1.8

*Projected

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of May 31, 2014)

A. Loan Portfolio Under Implementation and Transactions

Loan Portfolio Under Implementation

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
TA - Modernization of Customs and Excise Department	2.5	0.3
NDM – Bridge Rehabilitation	8.8	2.4
Sixth Consolidated Line of Credit	10.0	0.4
Belize River Valley Rural Water Project	3.5	1.5
Belize Social Investment Fund II	15.0	7.8
Fourth Road Project – Santa Elena – San Ignacio Bypass	24.7	19.7
TA - Education Sector Reform Project	2.0	1.9
Road Safety Project	7.2	6.4
Youth and Community Transformation Project	5.2	5.2
Fifth Road Project – Philip S.W. Goldson Highway	29.1	29.1
Total	**108.1**	**74.7**

Loan Transactions

(In millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	Jan-May 2014
Net flows	**(0.9)**	**10.0**	**1.5**	**(3.8)**	**(15.7)**	**(3.2)**	**(3.2)**
Gross disbursements	15.0	21.0	15.0	8.7	6.4	10.7	4.0
Amortization	10.0	6.4	7.6	7.8	16.0	9.8	5.0
Interest and charges	5.7	4.8	5.4	4.7	6.1	4.1	2.2

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, as the Bank's country strategy for Belize for the period 2011 to 2015 remains under implementation.

8. CDB has been supporting efforts to expand, rehabilitate or reconstruct critical transportation 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. 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 commenced in 2012, with completion slated for early 2015, 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. Building on a previous loan to conduct a feasibility study and detailed designs for the upgrade of the Northern Highway, the Fifth Road loan for US$29.1 million was approved in May 2014, which should see work commence on the Philip S. W. Goldson (formerly Northern) Highway in 2015. The intervention seeks to reduce congestion and climate change vulnerability and improve road safety on this economically important road, while also enhancing the capacity of GOB and Belizean contractors to address gender equality and social inclusion in current and future projects. Complementing the significant investments in road infrastructure, 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.

9. In 2012, the CDB approved a loan of US$0.7 million to enable GOB to 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. Procurement activities have been completed.

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 line of credit was fully committed as at end-2013. The CDB also provided a TA grant for institutional strengthening of DFC, and implementation of recommendations from the consultant's report is ongoing. With regard to the public sector, a technical assistance loan for the modernization of the Customs and Excise Department is practically complete, pending submission of the Final Report on the project.

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 to serve nine villages in the Belize River Valley. The project consists of installation of pipeline, storage tanks, pumps and boreholes for the system, as well as connection of the system to BWSL mains. It 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 activities are ongoing, with works expected to be completed in 2014.

12. The Belize Social Investment Fund (BSIF) was established by legislation in 1996, to appraise, finance, and supervise small and medium-sized sub-projects in underserved poor communities. CDB has made US$15 million available to BSIF through a second loan approved in 2010, following on from a loan of US$7 million approved in 2003. Belize has also been the beneficiary of grant funding from the CDB through the Basic Needs Trust Fund (BNTF). All resources under the 6th cycle of the BNTF (US$3 million) have been committed and implementation of interventions is nearing completion. Belize's allocation under the 7th cycle of US$6.1 million is currently being programmed. 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 programs 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 seeks to address institutional strengthening processes to underpin the success of the Education Sector Strategy. In this regard, activities have commenced on five of 12 planned consultancies. These include the development of a comprehensive school location plan, which will guide infrastructural development in the short to medium term, and which is nearing completion.

14. In December 2012, CDB approved a loan of US$5.2 million to the GOB, for a Youth and Community Transformation Project, based on a previous CDB-financed feasibility study. In accordance with the priority that GOB has given to strategies to reduce crime and improve citizen security, the aim of the project is to contribute towards building human capital, particularly among youth and children from poor communities in Belize City, as part of an attempt to reduce socially deviant behavior. Conditions precedents to first disbursement were met during 2013 and the project is currently in the initial stages of implementation.

STATISTICAL ISSUES

(As of May 15, 2014)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, labor, and fiscal sector statistics.	
Real sector: 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 2014, which will provide the basis for the completion of the Statistical Business Register and the compilation of supply and use tables. **Price and labor statistics**: 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.	
Fiscal accounts: 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 needs to be improved.	
Monetary and financial statistics: 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 offshore sector, while the information on the activities of domestic insurance companies are not publicly available.. 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.. Instead, the Central Bank classifies the entity as other non-financial public corporation, and includes its claims (deposits) on the banking system as part of broad money. Plans are ongoing to improve the availability of statistics..	
Balance of payments: 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 International Investment Position (IIP) statistics for 2009 and 2010, which excludes off-shore financial sector, and are in the process of reconciling the discrepancies between the balance of payments flows and the stock position on "currency and deposits" on the IIP for those years before publication and dissemination. Upon completion, authorities plan to produce annual and quarterly IIP for 2011-2013 during the second half of this year. While the current sourcing of FDI data appears adequate, survey responses are very low. Frequency could be improved.	
II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since September 27, 2006.	No data ROSC is available.
III. Reporting to STA	
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
(As of May 20, 2014)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	4/30/2014	5/2/2014	M	M	M
International Reserve Assets and Liabilities of the Monetary Authorities 1/	3/31/2014	5/2/2014	W	W	W
Reserve/Base Money	3/31/2014	5/2/2014	W	W	W
Broad Money	3/31/2014	5/2/2014	W	W	W
Central Bank Balance Sheet	3/31/2014	5/2/2014	M	M	M
Banking System Balance Sheet	3/31/2014	5/2/2014	M	M	M
Interest Rates 2/	3/31/2014	5/2/2014	M	M	M
Consumer Price Index	3/31/2014	5/2/2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ —General Government 4/	3/31/2014	4/9/2014	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —Central Government	3/31/2014	4/9/2014	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt 5/	12/31/2013	4/29/2014	M	M	NA
External Current Account Balance	2013Q4	5/2/2014	Q	Q	Q
Exports/Imports of Goods and Services	2013Q4	5/2/2014	Q	Q	Q
GDP/GNP	2013Q4	4/30/2014	Q	Q	Q
Gross External Debt	12/31/2013	4/29/2014	A, M	A, M	NA
International Investment Position 6/	NA	NA	NA	NA	NA

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

Press Release No. 14/415
FOR IMMEDIATE RELEASE
September 4, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Belize

On June 23, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Belize.

Real GDP growth plummeted to 0.7 percent in 2013, from 4 percent in 2012, mainly due to continued declines in oil production and weak agricultural output, especially sugarcane and citrus. Unemployment stood at 14.2 percent in September 2013 and is on an upward trend since it hit its lowest level in 2008. Average inflation eased to 0.5 percent from 1.3 percent in 2012, as commodity price pressures abated. The external current account deficit widened to 4.5 percent of GDP in 2013 up from 1.2 percent in 2012, as exports of oil and agricultural products fell sharply while imports of fuel and electricity picked up. International reserves improved to 4.7 months of imports at end-March 2014 (up from 3.3 months at end-2012) mainly owing to PetroCaribe financing and private inflows.

The primary surplus for FY2013/14 (fiscal year ends in March) is estimated to have fallen to 1 percent of GDP, from 1.4 percent of GDP in FY2012/13. Revenue is expected to be better-than-budgeted, as robust tax revenues more than offset the decline in non-tax revenues. However, substantial increases in wages and salaries, transfers and interest payments drove up current expenditure. Capital expenditures were higher than budgeted because of the need to rebuild the infrastructure that was badly damaged by rain. Credit growth and monetary policy continued to be hampered by weaknesses in the financial system. Private sector credit grew by 3.8 percent (y/y) in March 2014, while broad money grew by 5.2 percent. The banking system remained highly liquid. While declining, non-performing loans (NPLs) remained high at 16.7percent of total loans at end-March 2014. The banking system’s capital adequacy ratio (CAR) improved to 23.4 percent. The authorities stepped up their efforts to address other weaknesses of the financial system, including the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

adoption of new anti money laundering and combating the financing of terrorism (AML/CFT) legislation.

The medium-term outlook is worse than envisaged during the 2013 Article IV consultation. Real GDP growth would be weaker than expected in the near term but hover around 2.5 percent over the medium term as declining oil production would be partially offset by higher output of other commodity exports, tourism and construction. Inflation would remain low owing to the exchange rate peg and subdued inflation in trading partners. The authorities' policy plans would maintain the primary surplus around 1 percent of GDP in FY14/15 and in the medium term. Low primary surpluses together with the assumed recognition of debt related to nationalizations will increase the public debt-to-GDP ratio. Expansionary fiscal policies, including large wage increases, would fuel higher domestic consumption and upward pressures on the external current account deficit. International reserves could decline substantially over the medium term, especially if compensation for the nationalized companies adds to external outflows.

Executive Board Assessment[2]

Directors noted that Belize's macroeconomic performance has weakened on the back of decelerating growth and increasing fiscal and external imbalances. The outlook is clouded by significant risks, including contingent compensation payments for nationalized companies and banking sector vulnerabilities, while adverse global developments could put pressure on international reserves and greatly increase Belize's gross financing needs. Directors agreed that a vigorous policy response is needed to reduce vulnerabilities, rebuild policy buffers, and accelerate reforms that would further strengthen the financial sector, enhance competitiveness, and boost inclusive growth.

Directors emphasized the need to renew fiscal consolidation efforts to ensure debt sustainability and create policy buffers in case downside risks materialize. Most Directors agreed that the uncertainty surrounding contingent liabilities suggests it would be prudent to frontload the necessary consolidation, but a number of other Directors considered a gradual adjustment more appropriate in light of cyclical conditions. Directors agreed that strong measures are necessary to moderate goods and services and wage-related outlays, reform the public employees' pension system, and broaden the base for the general sales tax. At the same time, spending on infrastructure, public safety, and flagship social programs should be protected. Directors concurred that strengthening public financial management, and procurement in particular, is key to improve spending quality. They supported the

[2] 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.

authorities' efforts to strengthen debt management and looked forward to the design and implementation of a medium-term debt management strategy.

Directors welcomed progress in financial sector reform. They agreed that, in light of remaining vulnerabilities, bank asset quality should be reassessed through a comprehensive review. They called for strengthening central bank supervision, including through hiring of additional examiners and broadening the stress test methodology to include forward-looking analysis. Directors encouraged the authorities to finalize the crisis management plan, including the bank restructuring and resolution framework, making use of technical assistance from the Fund.

Directors commended the authorities for their recent efforts to address remaining gaps in the AML/CFT framework to comply with international standards. They encouraged the authorities to fully implement the revised AML/CFT framework, including the laws and regulations recently approved.

Directors concurred that adequate reforms are needed to address the widening current account deficit and boost job-creating and inclusive growth. In this regard, a more attractive business environment would encourage private sector investment, enhance external competitiveness, and help diversify exports.

Belize: Selected Economic Indicators

	2010	2011	2012	2013	Proj. 2014
(Annual percentage change, unless otherwise indicated)					
National income and prices					
GDP at constant prices	3.1	2.1	4.0	0.7	2.0
Nominal GDP (US$ millions)	1,398.4	1,488.9	1,572.6	1,615.3	1,665.8
Gross domestic investment 1/ 2/	12.8	13.7	13.2	15.4	16.1
Gross national savings 1/	10.4	12.6	11.9	10.9	11.3
Consumer prices (end of period)	0.0	2.5	0.8	1.6	2.0
Consumer prices (average)	0.9	1.7	1.3	0.5	1.8
Real effective exchange rate	1.4	-10.0	1.9	-1.2	...
Money and credit					
Credit to the private sector	-3.6	-1.2	1.1	3.5	4.1
Money and quasi-money (M2)	-0.4	5.6	11.0	1.4	3.4
(In percent of GDP, unless otherwise indicated)					
Central government 3/					
Revenue and grants	27.4	27.7	26.4	27.7	28.4
Current expenditure	24.0	24.0	22.3	24.0	25.1
Capital expenditure and net lending	5.0	4.7	4.7	6.0	5.0
Primary balance	1.7	2.3	1.3	1.0	1.0
Overall balance	-1.7	-1.1	-0.5	-2.3	-1.7
External sector					
External current account 4/	-2.4	-1.1	-1.2	-4.5	-4.9
Overall balance of payments (US$ millions)	10.3	35.1	48.1	96.5	51.5
Public and publicly guaranteed debt	84.6	80.5	75.6	76.4	77.4
Domestic debt	11.9	11.1	10.6	10.2	9.9
External debt	72.6	69.4	65.0	66.2	67.5
Gross international reserves (US$ millions)	218.0	253.1	298.4	391.4	442.0
In months of imports	2.8	3.0	3.3	4.3	4.7

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

1/ In percent of GDP.

2/ Including inventory accumulation.

3/ Fiscal year ends in March.

4/ Including official grants.