INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/92

BELIZE

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELIZE

March 2016

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 2015 Article IV consultation with Belize, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 16, 2015 consideration of the staff report that concluded the Article IV consultation with Belize.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 16, 2015, following discussions that ended on July 17, 2015, 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 September 1, 2015.
- An **Informational Annex** prepared by the IMF staff.
- **Staff Supplements** updating information on recent developments.
- A **Statement by the Executive Director** for Belize.

The documents listed below have been or will be separately released:

Selected Issues

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March 28, 2016

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IMF Executive Board Concludes 2015 Article IV Consultation with Belize

On September 16, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Belize.

Real GDP growth reached 3.6 percent in 2014, up from 1.5 percent in 2013 and well above the five-year average of 2.9 percent. A rebound in agriculture, strong performances in tourism, electricity, construction and services offset the significant decline in oil-related activities. The fall in international oil and food prices pushed headline inflation (y/y) to -0.2 percent as of December 2014. Despite strong tourism receipts, falling exports and relatively strong imports widened the external current account deficit to 7.6 percent of GDP in 2014, up from 4.4 percent of GDP in 2013. PetroCaribe and other official disbursements continued to finance the current account deficit and help build international reserves (equivalent to 5 months of imports at end-December 2014).

The fiscal stance deteriorated significantly in FY 2014/15 (April–March). The primary fiscal balance recorded a deficit of 1.5 percent of GDP, down from a revised deficit of 0.2 percent of GDP in FY 2013/14 and well below the surplus of 1 percent of GDP envisaged in the FY 2014/15 budget. Revenue collection remained in line with budget targets. Spending continued to grow well above budget targets. Financing of the fiscal deficit essentially came from a drawdown of PetroCaribe deposits and official external loans. Relatively strong GDP growth helped maintain public debt around 76 percent of GDP.

Private credit growth recovered and reached 4.7 percent in 2014, up from 3.5 percent in 2013, supported by strong real estate credit and loans to the sugar sector, while broad money grew by 7.9 percent. The banking system remained highly liquid. Non-performing loans (NPLs) declined to 15.7 percent at end-December 2014, down from 17.6 percent at end-2013. The banking system's reported capital adequacy ratio (CAR) stayed above 21 percent. The termination of

[1] Under the 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.

major correspondent banking relationships with Belizean banks has so far had a limited impact on the financial system and economic activity.

Growth over the short-to-medium term would hover around 2.5 percent, in line with the assessment made during the 2014 Article IV Consultation. Inflation would remain subdued owing to the exchange rate peg and moderate inflation in trading partners. However, the fiscal outlook could be worse due to excess spending. The primary fiscal balance would remain in deficit for a while as the political climate further exacerbates spending pressures and hinders revenue-enhancing reforms. Expansionary fiscal policies would increase imports in the context of modest growth of exports, widening the external current account deficit. International reserves could decline to uncomfortable levels, especially if compensation for the nationalized utilities is paid and repatriated.

Executive Board Assessment[2]

Executive Directors noted the recent improvement in economic activity, despite the significant deterioration in the fiscal stance and the widening external current account deficit. Belize's economic outlook is characterized by sluggish growth, weak fiscal stance, and external and financial sector vulnerabilities. They welcomed the settlement reached on one of the two nationalized companies but noted that significant contingent liabilities from these nationalizations remain, which could further raise the already elevated debt levels. Against this backdrop, Directors called for a concerted effort to reduce vulnerabilities, rebuild policy buffers, and accelerate medium-to-long term growth.

Directors underscored the importance of prompt and credible fiscal efforts that would boost investor confidence and private investment. In this context, they urged the authorities to begin to progressively raise the primary balance to levels consistent with debt sustainability. This could be achieved by removing exemptions and zero-ratings from GST, building a stronger revenue administration that contains leakages, and limiting current spending, including through reform of the public officers' pension scheme. Directors agreed that public sector reforms and stronger public financial management, especially internal controls, audits and procurement practices, would reduce low-quality spending and should not be delayed.

Directors welcomed the authorities new Growth and Sustainable Development Strategy (GSDS). In order to ensure credible implementation of the GSDS, Directors recommended that the authorities seek to tap into all available resources, domestic and external. Domestic resources can be mobilized through enhanced domestic revenue collection and spending rationalization, which would create the fiscal space needed for greater investment in human capital. External resources can be mobilized through international partners and well-designed public private partnerships.

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[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.

Directors stressed that the success of any growth strategy would require well functioning financial markets, supporting infrastructure and regulation for key economic sectors such as agriculture and tourism, an attractive business environment, greater liberalization of domestic markets, including labor markets, and greater diversification of export markets.

Directors welcomed continued progress in financial sector reforms, including preparation of a financial crisis management plan and bank resolution templates with technical assistance from the Fund. Directors also welcomed the recent strengthening of banks' balance sheets, but noted that significant vulnerabilities remain and were heightened by the recent termination of some corresponding banking relationships. Directors are encouraged by the authorities' determination to keep the banking system under tight supervision, and reiterated the call for an asset quality review of all banks to fully assess their true strength. Directors noted the challenges in collateral valuation and their weak loss absorption capacity in the context of illiquid markets. Therefore, Directors recommended a gradual increase in provisioning to fully cover all loan losses, secured and unsecured. It is also important to continue preparing financial stability reports, including bank stress tests that fully take shortfalls in provisioning into account.

Directors noted that the deficiencies identified by the Caribbean Financial Action Task Force (CFATF) have been mostly addressed, allowing Belize to recently exit the CFATF follow-up and monitoring process. Important reforms are still needed to ensure effective implementation of Belize's AML/CFT regime in line with recent Financial Action Task Force (FATF) standards. Directors concurred that the recent termination of corresponding banking relationships with Belizean banks and banks in many other countries could have a significant impact on financial stability and economic activity in the affected countries. They urged the authorities regulating international banks that are terminating correspondent banking relationships to better clarify their expectations of how these international banks should deal with local banks they perceive as "high risk."

Belize: Selected Economic Indicators

	2011	2012	2013	2014	Proj. 2015
(Annual percentage change, unless otherwise indicated)					
National income and prices					
GDP at constant prices	2.1	3.8	1.5	3.6	2.2
Nominal GDP (US$ millions)	1,488.9	1,573.9	1,624.3	1,699.2	1,762.8
Gross domestic investment 1/ 2/	13.7	13.7	15.9	16.1	15.8
Gross national savings 1/	12.6	12.5	11.0	8.5	9.6
Consumer prices (end of period)	2.3	0.8	1.6	-0.2	0.7
Consumer prices (average)	1.7	1.2	0.5	1.2	0.1
Real effective exchange rate	-10.0	1.9	-1.0	0.4	…
Money and credit					
Credit to the private sector	-1.2	1.1	3.5	4.7	3.2
Money and quasi-money (M2)	5.6	11.0	1.4	7.9	3.7
(In percent of GDP, unless otherwise indicated)					
Central government 3/					
Revenue and grants	27.7	26.4	27.7	29.2	27.5
Current expenditure	24.0	22.3	23.7	24.6	25.6
Capital expenditure and net lending	4.7	4.6	7.4	8.5	7.0
Primary balance	2.3	1.3	-0.2	-1.2	-2.6
Overall balance	-1.1	-0.5	-3.5	-3.9	-5.2
External sector					
External current account 4/	-1.1	-1.2	-4.4	-7.6	-6.3
Overall balance of payments (US$ millions)	35.1	35.9	116.0	81.8	17.8
Public and publicly guaranteed debt	80.5	75.6	76.1	76.0	78.1
Domestic debt	11.1	10.6	10.2	10.1	12.7
External debt	69.4	65.0	65.9	65.9	65.4
Gross international reserves (US$ millions)	253.1	289.0	405.0	486.8	504.5
In months of imports	3.0	3.2	4.2	5.2	5.2

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.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

September 1, 2015

KEY ISSUES

Outlook and risks. The economic outlook is mainly characterized by sluggish growth and a weak fiscal stance, which have put public debt on an unsustainable path. The widening current account deficit would put strong pressures on international reserves, which could decline to very low levels. Low capital buffers would remain a drag on the financial system. Main risks continue to be a court decision that leads to larger than expected liabilities to the former owners of the nationalized companies and weaknesses in the systemic bank.

Focus of the Consultation. Discussions focused on measures that would signal credible commitment to fiscal consolidation; strengthen the financial system; and boost economic, growth taking into account constraints on human and financial resources.

Key policy advice.

- Improve the primary fiscal balance to about 4.5 percent of GDP in the medium term. Fiscal measures identified during the 2014 Article IV Consultation (widening the tax base, strengthening revenue administration, and containing spending on goods and services, the wage bill, and pensions) would no longer be sufficient and will have to be supplemented for instance with cuts in transfers.
- Address public financial management (PFM) weaknesses, including internal and external controls as well as procurement practices to contain low-quality spending.
- Continue to address banking sector vulnerabilities, including by raising capital buffers and tightening restrictions on the distribution of dividends and lending for banks with the lowest capital buffers.
- Implement a comprehensive medium-term growth strategy, including clear foreign exchange regulations and policies to boost the financial system's role in financing the economy.

Implementation of staff advice. Implementation of staff advice and even the authorities' own commitments remains mixed. The primary fiscal balance has turned negative and is well below the authorities' own commitment during the 2013 debt restructuring (2 percent of GDP). The review of tax exemptions promised in the 2014 budget speech has not yet started. Nonetheless, some bright spots do exist on the financial sector, including preparation of a financial crisis management plan and progress in the modernization of the payment system.

Approved By Charles Enoch and Masato Miyazaki	Discussions took place in Belize City and Belmopan during July 6–17, 2015. The team comprising J. Bouhga-Hagbe (Head), M. Ronci, J. Okwuokei, and K. Tintchev (all WHD) met with Prime Minister Barrow, Finance Secretary Waight, Central Bank of Belize Governor Ysaguirre, other officials and representatives of the private sector, labor unions, sugar farmers and the political opposition. Mr. T. Lessard (OED) participated in some of the meetings. At headquarters, research support was provided by Anayo Osueke, and editorial support provided by Edward Moreno (both WHD).

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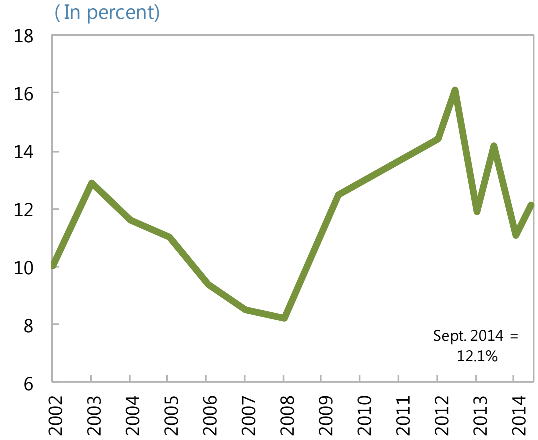
BACKGROUND

1. **The ruling United Democratic Party (UDP) of Prime Minister Dean Barrow won a landslide victory during the municipal elections of March 4, 2015 and now has time to implement the much needed fiscal adjustment.** The UDP captured 62 out 67 seats, up from the 44 seats it held after the 2012 elections. The main opposition party, the People's United Party (PUP) only won 5 seats, losing 18 seats to the ruling party. There is no election in sight before the general elections due in March 2017.

2. **Social and poverty challenges remain significant**. The unemployment rate remains high compared with its 2008 level of 8 percent, despite a reduction to 12.1 percent in September 2014 from 14.2 percent in September 2013 (Text Chart). Per capita GDP remains far below its regional peers (Figure 1). Belize continues to struggle to control violence, and with 39 homicides per 100,000 inhabitants, it has one of the world's highest homicide rates according to the 2013 UN Global Study on Homicide. The 2013 United Nations Development Program Progress Report on the Millennium Development Goals noted progress made in improving access to primary education, and incidents of malaria, but found slower progress in reducing poverty and reaching other targets related to gender inequality and health.

Unemployment Rate
(In percent)



3. **The authorities still have to implement their own fiscal commitments and recent Fund advice (Box 1).** The primary fiscal balance remains well below the authorities' commitment during the 2013 debt restructuring (2 percent of GDP) and has even turned negative in FY 2015 (April–March), moving them further away of their medium-term public debt target of 60 percent of GDP. The review of tax exemptions promised in the 2014 budget speech has not yet started. None of the fiscal measures identified by staff in recent Article IV Consultations to raise the primary fiscal balance has been implemented. Instead, implementation of promises to key segments of the population has been given priority, including spending for the new public bank and sizeable wage increases to public sector employees.

RECENT DEVELOPMENTS

4. **Despite the significant deterioration of the fiscal stance, macroeconomic performance in 2014 was broadly favorable (Figures 1–5):**

- **Real GDP growth reached 3.6 percent in 2014, up from 1.5 percent in 2013 and well above the five-year average of 2.9 percent.** A rebound in agriculture, strong performances in tourism, electricity, construction and services offset the significant decline in oil-related activities. The fall in international oil and food prices pushed headline inflation (y/y) to -0.2 percent as of December 2014. However, core inflation, which excludes transportation, food and utilities, rose modestly from 0.2 percent in December 2013 (y/y) to 1.2 percent in December 2014 (y/y).

- **Despite strong tourism receipts, falling exports and relatively strong imports widened the external current account deficit to 7.6 percent of GDP in 2014, up from 4.4 percent of GDP in 2013**. The contraction in oil exports, reflecting both declining production volumes and world market price, was accompanied by subdued growth in agricultural exports. Nevertheless, PetroCaribe and other official disbursements continued to finance the current account deficit and help build international reserves (equivalent to 5 months of imports at end-December 2014).

- **The fiscal stance deteriorated significantly in FY 2014/15 (April–March).** The primary fiscal balance recorded a deficit of 1.5 percent of GDP, down from a revised deficit of 0.2 percent of GDP achieved in FY 2013/14 and well below the surplus of 1 percent of GDP envisaged in the FY 2014/15 budget. Revenue collection remained in line with budget targets. Spending continued to grow well above budget targets, driven primarily by increases in wages, pensions, teachers' salaries, and capital expenditures. A significant portion of this additional spending, equivalent to 2.6 percent of GDP, was executed outside the normal budget process, and approved by parliament in a revised budget only after its execution. Financing of the fiscal deficit essentially came from a drawdown of PetroCaribe deposits and official external loans. Relatively strong GDP growth helped maintain public debt around 76 percent of GDP.

- **Private credit growth recovered and reached 4.7 percent in 2014, up from 3.5 percent in 2013, supported by strong real estate credit and loans to a new large firm in the sugar sector.** Broad money grew by 7.9 percent, in line with nominal GDP. Abundant liquidity continued to support low T-bill rates and declining lending rates.

- **Banks' balance sheets continued to slowly improve, though vulnerabilities remained** (Text Table and SIP on the financial sector). At end-December 2014, the banking system's ratio of gross non–performing loans (NPLs) to total loans stood at 15.7 percent (6.3 percent net of provisions) compared with 17.6 percent at end-2013 (9.4 percent net of provisions). The banking system's reported capital adequacy ratio (CAR) stayed above 21 percent, though it must be qualified (para. 6). Banks' profitability was mixed. While the return on assets (ROA) of international banks appeared comfortable at 3.2 percent at end-2014, the ROA of domestic banks stood at -1.0 percent at end–2014, mainly because of increased provisioning expenses and domestic banks' inability to make more profitable use of their abundant liquidity.

5. Despite the continuing decline in exports, macroeconomic performance pointed to some encouraging signs in early 2015. Real GDP growth stood at 7 percent (y/y) in the first quarter, lifted by strong performance in the primary sector and continued growth in tourism. Inflation remained low at -0.8 percent (y/y) at end-June 2015 pushed down by the fall in international oil and food prices. However, exports of goods during January−May 2015 declined by

9 percent compared with the same period last year, mainly because of falling petroleum exports. Imports of goods rose by 1.5 percent during the same period, driven largely by higher imports of machinery and equipment. Nonetheless, reserves at end-April stood at the equivalent of about 5 months of imports of goods and services owing to inflows from tourism, Petrocaribe loans and foreign direct investment. Private sector credit grew by 6.0 percent (y/y) in April 2015, driven by real estate credit.

6. **The banking system's financial soundness indicators (FSIs) in early 2015 highlighted remaining vulnerabilities** (Text Table and SIP on the financial sector). At end-March 2015, the banking system's ratio of gross NPLs to total loans rose to 16.1 percent (6.1 percent net of provisions), primarily because of a small increase in NPLs of international banks. Its CAR was 23.7 percent but is very likely inflated because of under-provisioning of NPLs in a few banks. NPLs that are classified as losses, fully collateralized and free of specific provision before December 2011, are only provisioned at 50 percent for domestic banks. Based on this provisioning rule, all domestic banks are now compliant with provisioning requirements, with the exception of the systemic bank (21 percent of the banking system's assets at end-March 2015), which was granted an extension. Banks have until November this year to write off these NPLs, which would seriously erode the capital buffers of two banks (26 percent of the banking system's assets at end March 2015), including the systemic one. The system's ROA stood at 0.5 percent at end-March 2015.

Financial Soundness Indicators 1/
(Domestic and international banks; in percent)

	2008	2009	2010	2011	2012	2013	2014	Mar-15
Capital/risk-weighted assets 2/	20.4	22.2	23.9	24.2	19.8	21.6	21.7	23.7
Capital/total assets	15.6	16.5	16.5	14.7	11.6	12.0	12.1	12.3
Excess statutory liquidity 3/	30.1	33.5	43.8	64.3	83.5	79.1	84.4	94.7
NPLs/total loans	11.7	14.0	18.7	21.4	20.3	17.6	15.7	16.1
Provisions/NPLs	24.1	18.1	15.5	24.4	34.9	42.8	55.1	57.0
Provisions/total loans	2.8	2.5	2.9	5.2	7.1	7.5	8.7	9.2
NPLs net of provisions/capital	40.0	48.2	61.9	66.1	63.6	46.5	30.8	29.6
Return on Assets After Tax	0.1	0.2	0.2	0.1	-0.1	0.4	1.2	0.5
Memorandum items:								
Capital/risk-weighted assets 4/	...	...	...	...	...	20.4	20.9	19.5
NPLs net of provisions/capital 4/	...	...	...	...	...	45.7	33.5	28.8

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.

7. **The systemic bank's balance sheet is slowly strengthening** (Text Table). Its ratio of NPLs to total loans is declining though remains very high at 23.2 percent at end-May 2015 (9.9 percent net of provisions). Its CAR is improving and stood at 16.2 percent at end-May 2015. The sale of a

valuable piece of real estate (US$23 million) did offset the impact of two large expense items on its balance sheet, namely a large tax payment of US$ 4.75 million and a large provision expense of US$7.9 million on a disputed claim against the government. Excluding this disputed claim (US$21.5 million), the bank's CAR would have been lower.

Financial Soundness Indicators 1/
(The systemic bank; in percent)

	2008	2009	2010	2011	2012	Dec-13	2014	Mar-15
Capital/risk-weighted assets 2/	20.6	21.7	22.5	16.3	11.7	13.9	11.2	13.2
Excess liquidity 3/	14.2	2.6	18.2	13.7	19.6	24.7	38.9	62.3
NPLs/total loans	18.8	15.5	31.8	33.8	29.0	25.0	22.3	23.0
Provisions/NPLs	15.1	13.8	13.9	22.0	37.3	41.8	59.9	59.6
NPLs net of provisions/capital	70.9	56.5	123.5	169.2	158.2	112.2	84.6	74.9
Return on Assets After Tax	-0.4	0.3	-0.9	-2.5	-3.1	0.3	-3.3	3.6

Sources: Central Bank of Belize.

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 ratio is 9 percent.

3/ In percent of statutory liquidity requirement. The strong increase in March 2015 is due to the sale of part of the bank's investment portfolio in the US to generate the cash needed to pay out depositors of the bank's international subsidiary that was being wound down.

8. **The termination by Bank of America of a major correspondent banking relationship (CBR) with the systemic bank in early 2015 has so far had a limited impact on the financial system and economic activity (SIP on the financial sector).** The new arrangements that have been put in place with the support of the Central Bank and major credit card companies (Visa and MasterCard) seem to be working as international financial transactions have not been disrupted.

MACROECONOMIC OUTLOOK AND RISKS

9. **Growth over the short-to-medium term would hover around 2.5 percent, in line with the assessment made during the 2014 Article IV Consultation, but the fiscal outlook could be worse due to excess spending.** Real GDP growth in 2015 is expected to fall to 2.2 percent after a strong performance in 2014 as economic activity returns to normal levels. It would accelerate to about 3 percent during 2016–17 as a new large sugar firm starts production. Inflation would remain subdued owing to the exchange rate peg and moderate inflation in trading partners. The primary fiscal balance would remain in deficit for a while as the political climate further exacerbates spending pressures and hinder revenue-enhancing reforms. Hence public debt would continue to rise to unsustainable levels, exceeding 100 percent of GDP in 2016, as staff continues to assume that liabilities related to the nationalized companies (about 20 percent of GDP) are recognized in 2016

(Annex I).[1] Given limited external financing, Belize is expected to rely massively on domestic financing, especially from banks, to meet its gross financing requirements in the medium term, with the potential to significantly reduce banking system liquidity and crowd out some private investment.[2] Expansionary fiscal policies—including large wage increases and new initiatives and projects financed with PetroCaribe resources—would increase imports in the context of modest growth of exports of goods, widening the external current account deficit above levels consistent with external stability (about 3 percent of GDP or less), and contributing to a moderate overvaluation of the exchange rate (Annex II). Without strong external inflows, international reserves could decline to uncomfortable levels, especially if compensation for the nationalized utilities is paid and repatriated.

10. The baseline outlook is subject to substantial downside risks (Annex III). Other banks could also lose their CBRs with global banks with severe impact on international financial transactions. Other risks include a worsening of banking sector vulnerabilities, especially the systemic bank's low capital buffers and banks' exposure to an already over-indebted sovereign, lower-than-projected primary balances, and larger-than-expected compensation payments for the nationalized utilities. Fiscal risks from public enterprises appear limited, while risks from social security liabilities are considerable in the long run (Annex IV). External downside risks, which could lead to faster erosion on the international reserve cushion, include persistent U.S. dollar strength, Cuba's entrance in the Caribbean tourism market, structurally weak growth in key advanced and emerging economies, the end of PetroCaribe financing, and a larger-than-expected drop in sugar prices after the EU reform of its sugar regime takes full effect in 2017 (Annex V and SIP on the sugar sector). On the upside, low international oil prices and growth-enhancing projects that are currently being implemented or envisaged could mitigate the above-mentioned risks.

[1] By law, the liabilities will be in domestic currency. For a discussion of staff's assumptions on the fiscal cost of the nationalized companies, see the staff reports for the 2013 and 2014 Article IV Consultations (IMF country reports nos. 13/227 and 14/280). The Caribbean Court of Justice (CCJ), which is the highest court on the matter, will issue its ruling any time on the constitutionality of the nationalization of one of the companies. It would take another 12–24 months for a ruling on compensation. The legal process for the other nationalized company has not yet started but staff assumes that the government will recognize its liabilities for the two nationalized companies around the same time. An out-of-court settlement is still possible for the two companies.

[2] Banks are expected to maintain their exposure to the government mainly because of lack of alternative investment opportunities in the context of high liquidity and the inclusion of treasury bills in the computation of reserve requirements.

POLICY DISCUSSIONS

Staff encouraged the authorities to: (i) raise the primary fiscal balance to levels that would put public debt on a sustainable path and create credible policy buffers while addressing public financial management (PFM) weaknesses; (ii) continue to address banking sector vulnerabilities; and (iii) implement a comprehensive medium-term growth strategy, taking into account constraints on human and financial resources.

A. A Fiscal Stance that Sends Credible Signals to Investors and Starts to Build Some Policy Buffers

11. Staff advised the authorities to promptly begin to progressively raise the primary fiscal balance to 4−5 percent of GDP so as to signal some commitment to fiscal consolidation and boost investor confidence as well as private investment (Text Table on macro scenarios) Even under this fiscal adjustment scenario, public debt would reach about 85 percent of GDP by 2020, well above the target of 70 percent of GDP recommended during the 2014 Article IV Consultation. The less ambitious debt target for 2020 reflects the sharp deterioration of the fiscal balance in 2014, which is expected to continue in 2015. As argued during the 2014 Article IV Consultation, staff is of the view that primary fiscal surpluses of 4–5 percent of GDP would leave room for growth-enhancing public expenditures and would have a limited impact on growth compared to baseline growth because government spending multipliers are small in the highly open Belizean economy and investors' confidence is likely to recover (para. 30). Moreover, maintaining primary fiscal surpluses of 4–5 percent of GDP beyond 2020 would return public debt to a sustainable path, reaching the authorities' target of 60 percent of GDP by 2030.[3]

[3] International experience highlights that successful large fiscal adjustments depend on political consensus as well as fiscal structural reforms. The recent Fund-supported program for Jamaica is an example of large fiscal adjustment that was sustained for two years. For an assessment of international experience, see G. Tsibouris, M. Horton, M. Flanagan, and W. Maliszewski (2006) "Experience with Large Fiscal Adjustments," Occasional Paper, No. 246, International Monetary Fund.

Baseline and Active Macro-Scenarios, 2014-20
(Percent of GDP, unless otherwise indicated)

		Projections					
	2014	2015	2016	2017	2018	2019	2020
I. Baseline Scenario							
Real GDP growth	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Inflation, end of period	-0.2	0.7	1.7	2.0	2.1	2.0	2.0
Primary balance 1/	-1.2	-2.6	-1.2	0.1	1.0	1.0	1.0
Overall balance 1/	-3.9	-5.2	-4.1	-4.0	-3.4	-4.5	-4.4
Public debt 2/	76.0	78.1	101.1	98.8	97.9	97.0	96.1
Credit to the private sector (percent change)	4.7	3.2	3.6	3.7	3.4	3.0	2.5
External current account balance	-7.6	-6.3	-7.1	-7.4	-7.0	-6.7	-6.5
Gross official reserves (months of imports)	5.2	5.2	4.9	4.2	3.4	2.7	1.9
II. Active Scenario							
Real GDP growth	3.6	2.2	2.5	2.4	2.7	2.8	2.9
Inflation, end of period	-0.2	0.7	1.5	1.7	1.8	1.6	1.6
Primary balance 1/	-1.2	-2.6	2.0	3.5	4.5	4.5	4.5
Overall balance 1/	-3.9	-5.2	-1.0	-0.6	0.3	-1.0	-0.7
Public debt 2/	76.0	78.1	100.0	95.6	92.2	88.4	84.3
Credit to the private sector (percent change)	4.7	3.2	4.2	4.3	4.2	4.2	4.4
External current account balance	-7.6	-6.3	-7.2	-6.9	-6.5	-5.4	-5.0
Gross official reserves (months of imports)	5.2	5.2	4.9	4.5	4.1	4.0	3.9
Memorandum items:							
Real GDP growth (Plan B) 3/	3.6	2.2	3.2	4.0	4.5	5.0	6.0
Primary balance (Plan B) 1/ 3/	-1.2	-2.6	-0.9	0.5	1.8	1.8	1.8
Public debt (Plan B) 2/ 3/	76.0	78.1	100.9	97.3	93.5	89.0	84.0
Primary surplus (with government valuation of the nationalized companies)	-1.2	-2.6	-1.2	0.1	1.0	1.0	1.0
Public debt path (with government valuation of the nationalized companies)	76.0	78.1	89.1	86.1	84.9	83.8	82.7
Primary balance (2014 Article IV)	1.0	1.0	1.0	1.0	1.0	1.0	...
Public debt (2014 Article IV) 2/	77.4	76.7	97.3	94.1	91.9	89.8	...
Nominal GDP baseline (US$ million)	1,704	1,763	1,841	1,931	2,021	2,114	2,207
GDP growth elasticity to fiscal adjustment	...	...	-0.20	-0.19	0.03	0.08	0.14

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/ "Plan B" is the scenario where the government targets a primary balance close to its commitment during the 2013 debt restructuring (2 percent of GDP) and vigorously implement growth-enhancing structural reforms.

12. **Fiscal measures identified during the 2014 Article IV Consultation would no longer be sufficient and will have to be supplemented for instance with cuts in transfers (Text Table on spending and tax measures).**[4] Recent FAD TA on tax policy suggests that the authorities can

[4] Measures identified during the 2014 Article IV Consultation included freeze in real terms of goods and services, salaries reduction by attrition, contribution of public employees' to their pension fund (10 percent of salaries), and adjusting pensions only with past inflation. These measures yielded annual savings of about 3 percentage points of

(continued)

realistically collect more than 1–2 percent of GDP by removing exemptions and zero-ratings from the general sales tax (GST). Recent FAD TA on revenue administration also shows that strengthening and modernizing tax administration, including enforcing collection of undisputed tax arrears (3 percent of GDP in 2014) and creating an integrated domestic tax department would boost revenue. Spending measures discussed during the 2014 Article IV Consultation would only produce a spending adjustment of 1–2 percentage points of GDP, especially if outlays on goods and services are frozen at their FY 2015 level in real terms instead of their level in FY 2014. Better monitoring of transfers would help reach the desired spending adjustment of 2–3.5 percentage points of GDP. Staff encouraged the authorities to promptly pass a supplementary budget with fiscal consolidation measures in the areas just mentioned.

Spending and Tax Revenue Measures, 2016-20

(Percent of GDP)

	2016	2017	2018	2019	2020
Total spending measures	**2.3**	**2.9**	**2.9**	**3.3**	**3.5**
Reform of Public Officer's pension plan 1/	0.7	0.6	0.6	0.6	0.6
Cuts in wage bill (by attrition), goods and services, and transfers 2/	1.6	2.3	2.3	2.7	2.9
Salaries (attrition)	0.2	0.4	0.6	0.8	1.0
Goods and services (freeze in real terms)	0.0	0.1	0.2	0.2	0.2
Cuts in transfers	1.4	1.7	1.5	1.6	1.7
New revenue-enhancing measures 3/	**0.9**	**0.5**	**0.6**	**0.2**	**0.0**
Total adjustment measures	**3.2**	**3.4**	**3.5**	**3.5**	**3.5**

Source: Fund staff estimates and projections.

1/ Adjustment of pensions according to past inflation, and contributions to the pension plan.

2/ Freezing purchase of goods and services in real terms, and cuts in transfers (excluding teacher's salaries).

3/ Measures include streamlining exemptions and strengthening revenue administration. The projected impact of revenue measures is conservative as they could annually yield as much as the equivalent of 2 percentage points of GDP if implemented vigorously.

13. Staff strongly pressed the above set of measures as necessary to achieve sustainable growth in the long term, but also noted the dangers to the economy of taking no action and urged the authorities, if they found it impossible to carry out the recommended strategy, at least to implement a "plan B" that could rely on a weaker fiscal adjustment but more vigorous growth-enhancing structural reforms (Text Table on macro scenarios). Under this "plan B", the authorities could at least target a primary fiscal surplus of about 2 percent of GDP, which was promised to investors during the 2013 debt restructuring, and implement structural reforms more vigorously (Section C). Such structural reforms will have to lift annual real GDP growth to about

GDP at the time of the 2014 Article IV Consultation. Since then, spending on goods and services and pensions and hiring in the public sector increased. Freezing spending on goods and services, reducing the wage bill by attrition only, and adjusting pensions with inflation would now yield much lower savings because of a higher starting point.

6 percent in the medium term, allowing Belize to reach the debt target of about 84 percent of GDP in 2020 and 60 percent of GDP by 2026. Staff emphasized the significant risks associated with such a "plan B," including the fact that the growth impact of structural reforms takes time to materialize.

14. In any event, staff encouraged the authorities not to delay PFM and public sector reforms, which will help improve the quality of public spending. In particular, staff urged the authorities to implement the recommendations of the recent Public Expenditure and Financial Accountability (PEFA) assessment, including enhancing internal and external controls and audits as well as procurement practices. A more active debt management, including refinancing expensive debt with low-earning deposits (essentially from PetroCaribe), would greatly support fiscal consolidation efforts. The authorities should also consider the reform of the civil service and the public employees' pension system, making the latter contributory.

15. Staff urged the authorities to fully weigh the risks and costs of delaying fiscal adjustment. Staff reminded the authorities that some investors could be very reluctant to continue financing the government in the coming years unless the authorities signal commitment to fiscal consolidation. Unfavorable external developments, which could deplete central bank reserves, could force the government to borrow in international markets at very high interest rates just to rebuild reserves (Annex V). Interest payments alone are now much larger than domestically-financed capital spending and the projected high level of debt would continue to limit the government's ability to spend on growth-enhancing projects or implement counter-cyclical policies. Such a high debt path would also increase the probability of a crisis and translate into even higher debt service going forward, increasing the needed fiscal adjustment over time.

Authorities' views

16. The authorities remain firmly convinced that the true value of the nationalized companies at the time of the nationalization was closer to their valuation, and should courts adopt their valuation, the public debt path would be better than staff's baseline projections. With the authorities' valuation of nationalized companies at about 8 percent of GDP (BZ$281 million), debt would stabilize at about 85 percent of GDP in the medium term under current policies. The authorities also noted that unless achieved through a settlement, compensation for the nationalized utilities will not be decided soon as ongoing litigation could last many more years.

17. The authorities acknowledged the need for a greater fiscal effort to ensure that the path of public debt is sustainable, even if courts were to accept their valuation of the nationalized companies. They do recognize that the public debt outlook has lost some ground subsequent to the 2014 Article IV Consultation and that a sustainable debt path should bring public debt toward 60–65 percent of GDP in the medium-to-long term. As a consequence, they acknowledge that a combination of fiscal adjustment and vigorous growth-enhancing structural reforms is needed.

18. The authorities are committed to returning to primary fiscal surpluses but did not commit to any specific target or measure to kick start fiscal consolidation, and insisted that a

few options for policy adjustment are being considered, including PFM and growth-enhancing structural reforms.

- **Revenue**. As indicated in the Prime Minister's 2014 budget speech, the authorities still plan to set up a committee to review the list of exempted and zero-rated items under the GST. They are committed to fully exploiting insights from the revenue administration monitoring reports that staff helped them prepare and to holding the revenue administration more accountable, especially on the very low effective taxation. They will give due consideration to recommendations of recent IMF TA missions and the revenue-enhancing committee established under the 2013 wage agreement with labor unions, including the need to better collect undisputed tax arrears and modernize revenue administration. They noted that creating an integrated domestic tax department would be difficult and would require amending the existing legislation but they are determined to improving information sharing among different revenue departments. The revenue-enhancing committee will be made permanent so as to continuously monitor revenue performances. The authorities are fully cognizant of the risks of largely relying on revenue measures to achieve significant fiscal consolidation.

- **Expenditures**. The authorities noted that some degree of spending is needed in infrastructure. However, they acknowledged that the 2013 wage agreement has been much costlier than initially envisaged. Nonetheless, they remain of the view that backtracking on their commitments under this agreement would be politically difficult. They agree with staff that future wage agreements will have to be conducted within a framework that takes into account fiscal sustainability and stress that they are still committed to signing a memorandum of understanding with labor unions in this regard. The framework proposed by staff during the 2014 Article IV Consultation remains a good reference point in their view. Recommendations of the cost-saving committee, also established under the 2013 wage agreement, will be considered in due course, and its tasks will be extended to reforms of the pension system. Following the passage of the Petrocaribe Act, which should strengthen the management of Petrocaribe resources, the authorities noted that Petrocaribe resources accumulated until March 2015 will continue to be used for capital spending. However, Petrocaribe resources accumulated between April 2015 and March 2016 will be saved to help pay compensation for the nationalized companies, and those accumulated beyond March 2017 will be allocated to the refinancing of more expensive external debt.

- **PFM**. The authorities acknowledged that delays in submitting financial statements to the Auditor General and then to parliament represent a weakness in controls that needs to be effectively addressed. They are committed to addressing this major PFM weakness and others identified by the recent PEFA mission, though they did not specify any timetable. They acknowledge that adopting a procurement law would enhance transparency in procurement and help improve value for money. They reiterated their commitment to strengthen debt management and will finalize the draft public debt management bill prepared with IMF TA and submit it to parliament as soon as possible.

- **Other growth-enhancing structural reforms**. The authorities intend to vigorously implement the *Growth and Sustainable Development Strategy (GSDS)* and its successful implementation could lift real GDP growth by several percentage points in the medium term and help improve the path of public debt (Section C).

B. A Financial Sector that Continues to Strengthen and Reduce Fiscal Risks

19. Staff supported the authorities' determination to keep the banking system under tight supervision and reiterated its call for an asset quality review (AQR) of all banks to fully assess their true strength. In addition to offsite examinations, the authorities have conducted in 2014 full-scope onsite examinations of two banks, including the systemic bank, and AML-focused onsite examinations of one bank and three credit unions. Staff reminded the authorities that an AQR of all banks will complement such examinations. Quarterly financial stability reports (FSRs) should continue to be prepared, including quarterly stress tests of banks that fully take shortfalls in provisioning into account. Adequate resources should be given to units in charge of preparing such reports. Staff welcomed the authorities' continued monitoring of weaknesses highlighted in the latest FSRs, including the need for some institutional strengthening of capital to build resiliency, the still high liquidity, as well as the high concentration of loans and deposits. With the latest technical assistance from CARTAC on the consolidated supervision framework, staff urged the authorities to start monitoring group risk, group capital adequacy, group governance and regulatory arbitrage.

20. Given challenges faced with collateral valuation in the context of illiquid local markets, staff urged the authorities to raise provisioning requirements to 100 percent on all loan losses (secured and unsecured). Banks with loan losses that are not fully provisioned should be ordered to gradually increase provisioning to 100 percent on these loan losses over a reasonable transition period and during which dividend distribution is strictly forbidden and management fees contained.

21. Staff strongly encouraged the authorities to step up progress in effectively implementing the AML/CFT framework. Although the deficiencies identified by the Caribbean Financial Action Task Force (CFATF) in 2011 have been mostly addressed, allowing Belize to recently exit the CFATF follow-up and monitoring process, this progress relates to technical compliance with the 2003 Financial Action Task Force (FATF) standard. Important reforms are still needed to ensure compliance and effective implementation of Belize's AML/CFT regime in line with the 2012 FATF standard. In particular, the authorities should step up progress in implementing risk-based approaches to AML/CFT supervision, enhance the transparency of legal entities and arrangements and further ensure the operational and effective international cooperation of the financial intelligence unit (see SIP on the financial sector).

22. Staff welcomed the financial crisis management plan the authorities have prepared with IMF TA, including bank resolution templates as well as an updated list of technical partners the authorities may call on at short notice to support their crisis management efforts. Staff also advised the authorities to continue their support for greater coordination and cooperation among regional financial authorities.

23. Staff supported other ongoing financial sector reforms. The draft credit bureau law has been approved by cabinet and will be sent to parliament by the first half of next year. Notable progress was made in modernizing Belize's national payments system as very critical parts of this project, including the draft legal framework, and the Automated Transfer System are near completion. The authorities have allocated resources to hire an in-house legal expert to further strengthen the Central Bank's legal department and are in search of a suitable person with the requisite experience.[5]

Authorities' views

24. The authorities reiterated their commitment to addressing remaining weaknesses in the financial system, including their supervisory framework. In particular, they are considering measures in the following areas:

- **Provisioning shortfalls**. The authorities are of the view that the current provisioning rules are prudent enough to safeguard the reliability of banks' balance sheets, but noted that provisioning requirements of 100 percent on all loan losses (secured or unsecured) were considered in the past. They decided that 50 percent provisioning for fully secured loan losses was prudent after discussions with banks, which were then given a certain number of years to provide for the legacy loans. The authorities are strongly of the view that the value of collaterals for secured loans are inflated and is thus a disincentive to a timely disposal. They greatly appreciated recent IMF TA on loan classification and provisioning and will give due consideration to the TA mission's recommendations.

- **Financial stability reports.** The authorities will continue to prepare financial stability reports including adequate stress tests and stronger analysis of group risks, taking advantage of recent CARTAC TA on consolidated supervision. They noted that recent delays in the completion of financial stability reports were mainly due to capacity constraints which are being addressed. A database that will facilitate production of future reports is being finalized.

25. The authorities strongly emphasized that termination of some correspondent banking relationships with banks in Belize has the potential to destabilize the Belizean financial system and also illustrates the need for greater transparency in advanced countries' regulations and decision-making processes, which should be rules-based. They insisted that neither the international banks that terminated correspondent banking relationships with Belizean banks nor the regulators of these international banks ever provided any explanation for these decisions. They noted that this complete lack of transparency about decisions that have important negative spillovers on other countries is outrageous and should quickly be addressed by the international community. This lack of transparency does not only unjustly affect small open economies like Belize,

[5] See SIP on the financial sector for additional progress.

but also denies the local authorities the opportunity to address the weakness since no information is shared with them.

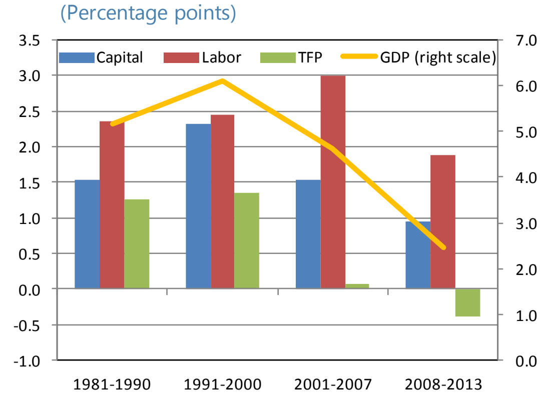
26. The authorities are determined to effectively implement their AML/CFT framework. They insisted that their recent exit from the CFATF follow-up and monitoring process confirms the significant progress Belize has made on AML/CFT. They are strongly of the view that the recent favorable CFATF review of Belize's AML/CFT framework and the termination of correspondent banking relations with Belize do send contradictory messages and called for greater consistency in the assessment of AML/CFT frameworks. They are confident that future rounds of CFTAF mutual evaluations will only confirm the continuous progress Belize is making on AML/CFT.

27. The authorities will continue to update the list of technical partners that could support them if there is a financial crisis. However, as mentioned during the 2014 Article IV Consultation, they reiterated that progress on regional supervision and financial crisis management is being held back due to the refusal of another regional supervisor to address a parallel banking issue with Belize (SIP on the financial sector).

C. A Medium-term National Growth and Development Strategy that Can Realistically Be Implemented

28. Growth in Belize has decelerated sharply in recent years (Text Chart). Annual GDP growth rates in Belize averaged above 5.4 percent during 1981–2007, but declined to about 2.5 percent during 2008–13. Growth accounting estimates suggest that slower total factor productivity (TFP) growth and less investment in fixed capital are the main drivers of the slowdown of GDP growth in Belize after 2008. Staff's analysis suggests that several factors may have contributed to the recent drop in productivity, including remaining deficiencies in infrastructure, human capital and the business environment. This suggests that reforms to raise productivity should be an essential part of any comprehensive medium-term growth strategy.

Belize: Factors' Contribution to Growth
(Percentage points)



Source: Statistical Institute of belize, and Fund staff estimates.

29. In this context, staff welcomed the authorities' new Growth and Sustainable Development Strategy (GSDS) covering 2015–18 (Annex VI). This implementation plan of Belize's long-term development strategy (Horizon 2030) is the nation's primary planning document during 2015–18, providing detailed guidance on priorities and specific actions to be taken to raise growth and productivity. The GSDS does not quantify the growth impact of the structural reforms it envisages but seeks to help achieve real output growth of 5 percent annually over a prolonged period. Staff is of the view that Belize can reach such targets for real GDP growth if appropriate investments are made to fully exploit the country's potential, especially in agribusiness, and strengthen access to neighboring markets, especially Guatemala and Mexico.[6] However, staff noted that financial and human resources needed for a credible implementation of the GSDS remain uncertain. Therefore, staff strongly encouraged the authorities to quickly enhance domestic revenue collection and investment in human capital, while implementing other key reforms (para. 30). Staff also urged the authorities to develop a strategy to tap into all resources available to them through international partners and well-designed public private partnerships (PPPs).

30. Staff urged the authorities to pay particular attention to growth-enhancing reforms identified during the 2014 Article IV Consultation, keeping the following three main themes in mind:

- **Macroeconomic policies that inspire confidence, enhance competitiveness, and support private sector-led and inclusive growth**. Fiscal policies will have to be sustainable and promote inclusive growth as discussed during the 2014 Article IV Consultation. The fiscal tightening recommended by staff is expected to mostly reduce imports, not GDP growth, and boost investor confidence as well as private investment. Staff analysis suggests that the real exchange rate is moderately overvalued (Annex II). Despite the risks to external stability, the costs of a nominal devaluation to facilitate the external adjustment appear high in the context of high government external debt and large pass-through to inflation, as well as the authorities' strong commitment to the exchange rate peg. Therefore, policies could focus on external price competitiveness measures that lower production costs, liberalize the economy and increase the flexibility of labor and product markets. The new Growth and Sustainable Development Strategy considers a range of measures, including cost savings from streamlining of public services and reforms to strengthen the tradable sector by attracting foreign investment, improving export market penetration, and conducting productivity-enhancing reforms in key sectors. Amending labor regulations to provide greater flexibility in working hours could help lower labor costs in the business outsourcing and tourism industries where flexibility is needed. Nevertheless, the short-term benefits of external price competitiveness measures should not be overestimated as they have been difficult to achieve in the past.

- **Financial markets that work for the Belizean economy**. With the recent low credit growth and high liquidity, the financial sector could play a larger role in boosting growth in Belize. Policies should give a greater role to competition in determining interest rates and asset prices and help lenders improve their knowledge of borrowers through a well-functioning credit bureau. Competition can be further enhanced with modern financial market infrastructure and regulations that reduce transaction costs. In this context, the recent regulation that administratively allocates foreign exchange to one importer falls short of best practice. Staff advised against such measures and urged the authorities to request IMF technical assistance to

[6] For example, strengthening agribusiness and trade with Guatemala and Mexico, including through better ports and transport infrastructure, would require less than US$100 million in investments.

strengthen the foreign exchange market. The administrative allocation of foreign exchange does not breach Belize's Article VIII obligations, to the extent that the sale is done at the prevailing market rate. However, staff (LEG) is currently conducting a routine review of Belize's overall foreign exchange regime, and will conclude its assessment after discussions with the authorities.

- **Structural reforms that support key engines of growth**. Staff reviewed progress made in implementing structural reforms identified during the 2014 Article IV Consultation and discussed key sectors that would support economic growth in the coming years, including agriculture, agro-processing, energy and tourism. The required infrastructure will have to be quickly built and appropriate regulations adopted to fully exploit Belize's potential in the above-mentioned sectors. With the expected drop in sugar prices following the full liberalization of the EU sugar market after 2017, enhancing the efficiency and productivity of sugar cane production would help lower overall production costs and strengthen competitiveness (SIP on the sugar sector). Lowering the cost of energy could greatly boost external competitiveness and real GDP growth, promoting the expansion of agro-processing and tourism (SIP on the energy sector). Finally, improving the business environment, including through quicker resolution of contract disputes, simplifying the procedures for starting a new business and registering property, greater liberalization of domestic markets, including labor markets, and greater diversification of export markets, are of utmost importance.

Authorities' views

31. The authorities will actively seek the financial and human resources required for the successful implementation of their GSDS, including through enhanced domestic revenue collection and better design of expenditure policies to boost human capital. They indeed see agro-business, tourism, and energy as key sectors with the highest growth potential and plan to devote even greater attention to them. They noted that the recent amendment of the Sugar Act to allow for more flexibility in the way sugar farmers organize themselves is a major step toward strengthening the sugar sector. In collaboration with sugar farmers and Belize Sugar Industries (BSI), they are also developing a long-term strategic plan for the sugar industry, including liberalization of domestic sugar market. On tourism, they noted that they have prepared and are implementing their tourism master plan, which recently helped increase tourism inflows to Belize. On energy, the authorities are implementing their National Strategic Plan for 2012–17, which aims among other things at improving efficiency and conservation across all sectors by reducing per capita energy intensity by at least 30 percent by 2033.

32. The authorities agreed with the thrust of staff's views on growth and competitiveness. They acknowledged that Belize can only grow faster through increased investment and greater access to foreign markets, and therefore must become more competitive. They concurred with the thrust of staff's external assessment and the need to further strengthen external inflows, though they still did not commit to any specific measure in this regard. They remain of the view that the current account of the balance of payments (BOP) 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. In line with the thrust of staff's advice, including recommendations made during the 2014 Article IV Consultation, they are determined to implement through their strategic developments plans (*Horizon 2030* and the *GSDS*) policies that inspire private sector confidence and support inclusive growth. They agreed that a strong financial sector and vigorous structural reforms should play a greater role in boosting the economy but did not commit to any specific measure in this regard beyond those described above (paras. 18, 23, and31) and envisaged in the GSDS.

33. The authorities also shared some dissenting views on how to make Belize grow faster. As regards the foreign exchange market, they noted that the administrative allocation of foreign exchange to the fuel importer was necessary as some banks had been withholding foreign exchange in violation of their responsibilities as authorized dealers in foreign exchange. They do not see the need for IMF TA to strengthen the functioning of the foreign exchange market. With respect to interest rates, the authorities continue to note that past reductions of the interest rate floor did not produce a comensurate drop in lending rates as banks used most of the additional profit margins they gained to strengthen their balance sheets, including through increased provisioning. Since provision shortfalls remain significant in the banking system, the authorities are convinced that removing the interest rate floor at this juncture will not lower lending rates much further. They stressed that the role of financial markets in supporting growth will be enhanced with adequate financial market infrastructure, including well-functioning capital markets, and greater transparency requirements for businesses. Financial and technical assistance will be needed in these two areas, which are also considered in their strategic development plans.

OTHER

34. The authorities continue to closely monitor spillover risks from other countries. Most banks in Belize still maintain some CBRs with banks in the U.S. and Europe, and the authorities and staff see termination of these remaining CBRs as the greatest spillover risk of the moment. The authorities will continue to strengthen their financial system and AML/CFT framework but do urge international partners to raise awareness of the negative consequences of some prudential regulations that are being implemented in advanced countries. Risks arising from Belize's financial linkages with banks in Antigua and Barbuda that are currently under receivership with total exposures of around US$14million are being contained with greater provisioning. Spillover risks from trade channels are being contained through export diversification.

35. Data provision is broadly adequate for surveillance. In general, the quality, coverage, and timeliness of statistics permit an adequate monitoring of economic developments.[7] The authorities confirmed that they remain committed to strengthening statistics, but acknowledged that progress remains slows. They are still committed to subscribing to the Fund's Special Data Dissemination

[7] Belize Staff Report for the 2015 Article IV Consultation-Informational Annex, Statistical Issues, p. 12.

Standard as promised to investors during the 2013 debt restructuring. They are also preparing consolidated data on the public sector. There is no timetable for completing these two key projects.

STAFF APPRAISAL

36. Belize's macroeconomic performance in 2014 and early 2015 was broadly favorable despite a significant deterioration in the fiscal stance. Real GDP growth reached 3.6 percent in 2014 and 7 percent (y/y) in the first quarter of 2015, owing mainly to strong performances in agriculture and tourism. Inflation remained subdued, but the external current account deficit has widened. The primary fiscal balance deteriorated sharply to a deficit of 1.5 percent of GDP. Credit growth is recovering, driven by loans to the sugar sector and real estate credit.

37. The macroeconomic outlook broadly remains in line with the assessment made during the 2014 Article IV Consultation, but the fiscal outlook is expected to be worse due to excess spending. A weak GDP growth and an expansionary fiscal stance combined with the assumed recognition of liabilities from nationalization in 2016 (about 20 percent of GDP) would push public debt to about 96 percent of GDP in the medium term, more than 6 percentage points of GDP above projections during the 2014 Article IV Consultation. Expansionary fiscal policies would increase imports in the context of modest growth of exports, widening the current account deficit and contributing to a moderate overvaluation of the exchange rate. Without strong external inflows, international reserves would decline to uncomfortable levels, especially if compensation for the nationalized companies is paid and repatriated.

38. Substantial downside risks to the macroeconomic outlook deserve close monitoring. Compensation payments for the nationalized companies could be higher than in staff's projections. Other banks could lose correspondent banking relationships with severe impact on international financial transactions. Cuba's entrance in the Caribbean tourism market, the end of Petrocaribe financing, a significant drop in sugar prices, and a protracted period of weak growth in advanced and emerging economies could accentuate pressures on international reserves.

39. Public debt should credibly be brought back to a sustainable path and fiscal buffers created to safeguard against looming risks. A primary fiscal balance of 4–5 percent of GDP would contain the rise of public debt to 85 percent of GDP by 2020, which would still be unsustainable, and then reduce it about 60 percent of GDP by 2030. This could be achieved by removing exemptions and zero-ratings from the GST, building a stronger revenue administration that contains leakages, and limiting current spending, including through reform of the public officers' pension scheme. More vigorous growth-enhancing reforms could help achieve the public debt targets above with a slightly weaker primary fiscal balance. In any event, PFM and public sector reforms that reduce low-quality spending should not be delayed.

40. Efforts to strengthen the financial sector should continue, with emphasis on strengthening banks' balance sheets. An asset quality review of all banks will complement reviews currently done by the Central Bank and enhance confidence in the quality of banks' books. Given the challenges in collateral valuation in the context of illiquid markets, provisioning on loan losses (secured or unsecured) should be raised to 100 percent. Preparation of financial stability reports must continue, including bank stress tests that fully take shortfalls in provisioning into account. Efforts to effectively implement the AML/CFT framework must be stepped up.

41. The national *Growth and Sustainable Development Strategy (GSDS)* must be vigorously implemented, taking into account constraints on financial and human resources. A strategy to mobilize financial and human resources for the credible implementation of the GSDS should be published. Enhancing revenue collection, tapping into resources available through international partners and well-designed public private partnerships, and boosting human capital, including through better public spending, will be essential. Financial markets that work for the Belizean economy, engines of growth such as agriculture and tourism that are supported with the required infrastructure and regulation, an attractive business environment that reduces the cost of doing business, greater liberalization of domestic markets, including labor markets, and greater diversification of export markets will be key to the success of any growth strategy.

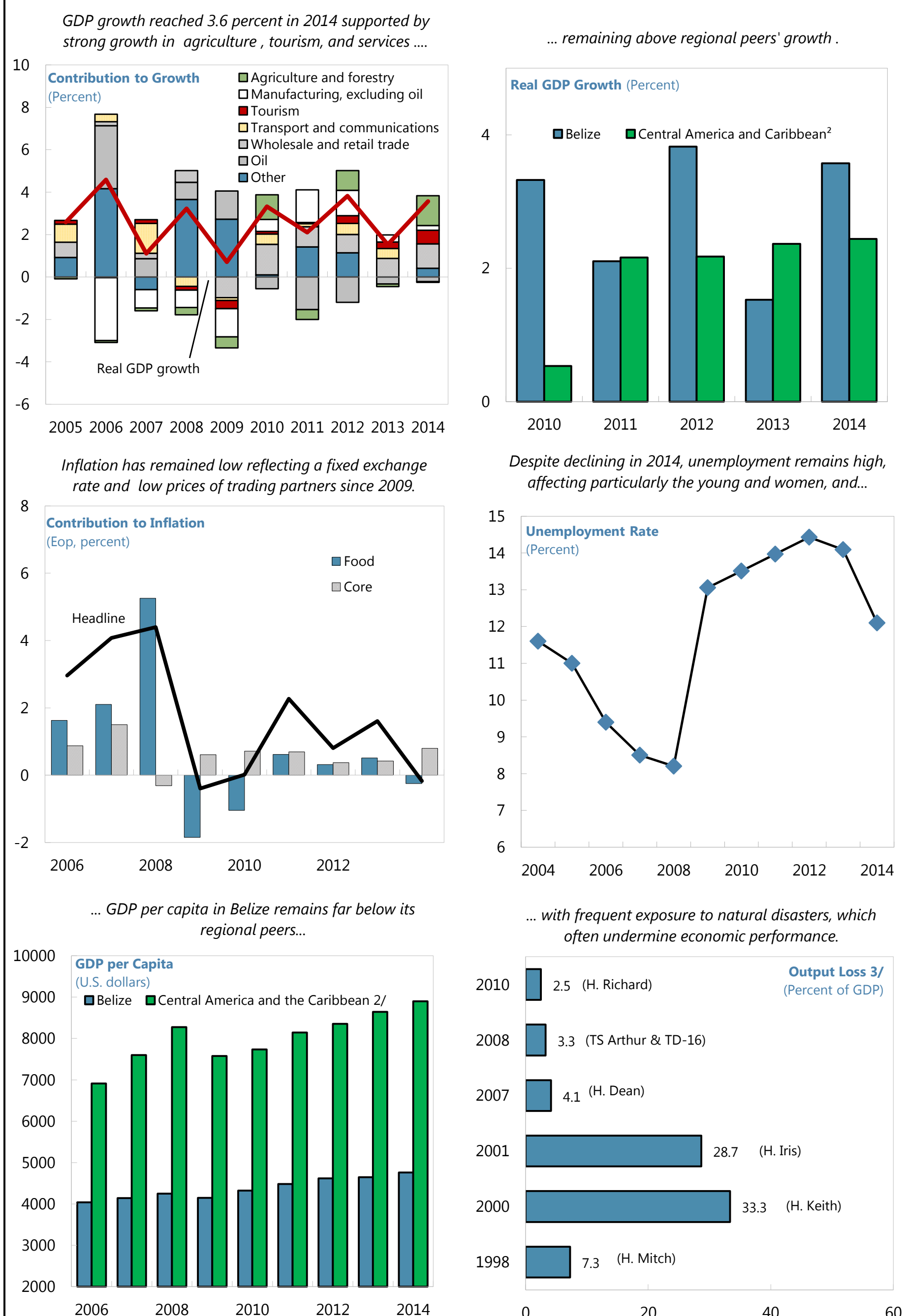
42. It is recommended that the next Article IV be held on the standard 12-month cycle.

Box 1. The Authorities' Response to Key IMF Policy Recommendations

Fiscal consolidation Strengthen fiscal policy to rebuild macroeconomic buffers in the context of rollover risks and emerging contingencies	**Marginally consistent** The outturn for the fiscal primary balance in the fiscal year 2014/15 was well below staff recommendation during the 2014 Article IV Consultation. The projected primary balance for fiscal year 2015/16 falls short of the target recommended by staff. The authorities acknowledged the need for a greater fiscal effort to ensure that the path of public debt is sustainable, but did not commit to any specific fiscal target or measure.
Financial sector reform Closely monitor elevated risks in the financial system and continue to implement the 2011 FSAP recommendations.	**Broadly consistent** The authorities continue to implement key FSAP recommendations. They have prepared a crisis management plan and bank resolution templates with IMF TA. The national payment system is being modernized. The framework for consolidated supervision is being established. They have stepped up efforts to strengthen compliance of their AML/CFT framework with FATF standards. They are determined to addressing remaining weaknesses in the financial sector.
Structural reforms Remove key infrastructure bottlenecks and improve the environment for doing business to boost economic growth.	**Moderately consistent** Bottlenecks persist in port facilities, energy, transportation, and education. Doing business indicators and investor confidence remain low. The authorities have developed a new Growth and Sustainable Development Strategy (GSDS) covering 2015–18 (Annex VI), and are actively seeking the financial and human resources required for its successful implementation. There has been progress recently, most notably in the sugar and energy sectors.

Figure 1. Belize: Real Sector Developments 1/

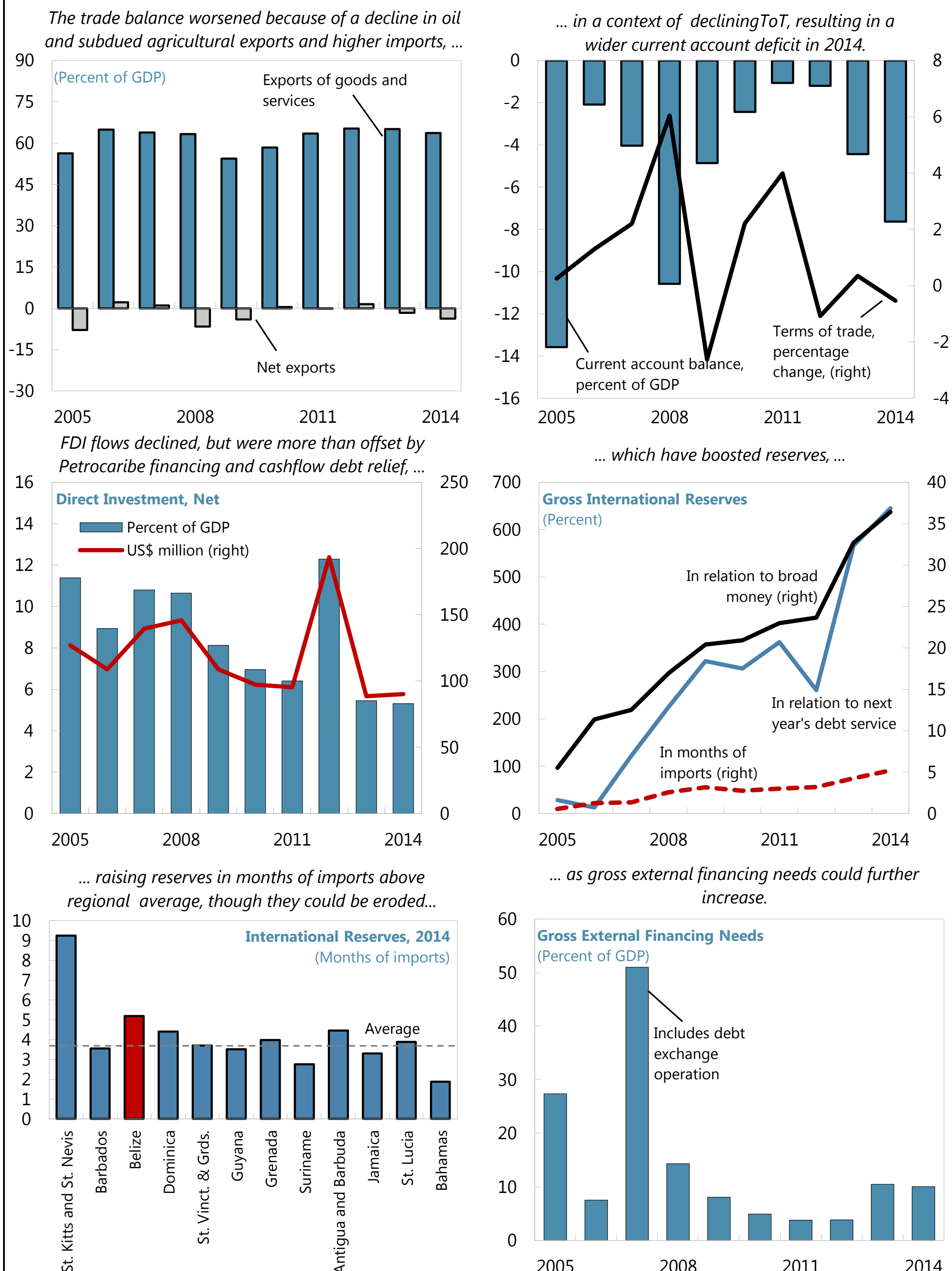
Macroeconomic developments in 2014 were underpinned by strong recovery in growth and low inflation.



Sources: Belize authorities; World Economic Outlook; EM-DAT Database; and Fund staff estimates.
1/ Estimates for 2014.
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 2014, international reserves increased owing to Petrocaribe financing and cashflow relief from the external debt restructuring.



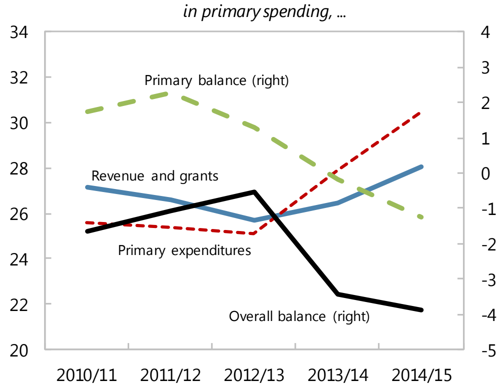
Sources: Central Bank of Belize; and Fund staff estimates.
1/ Estimates for 2014.

Figure 3. Belize: Fiscal Sector Developments 1/

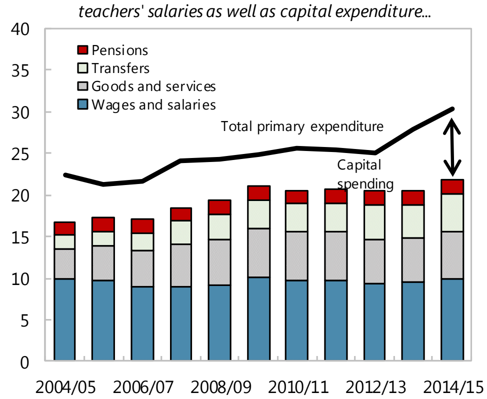
(In percent of FY GDP)

Despite the recent external debt restructuring, the primary fiscal balance and debt sustainability have deteriorated significantly in recent years.

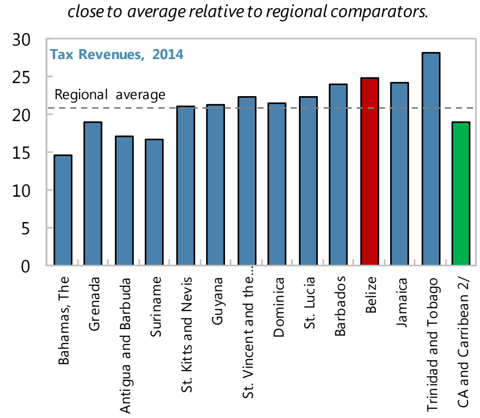
The decline in the primary surplus reflects continued growth in primary spending, ...



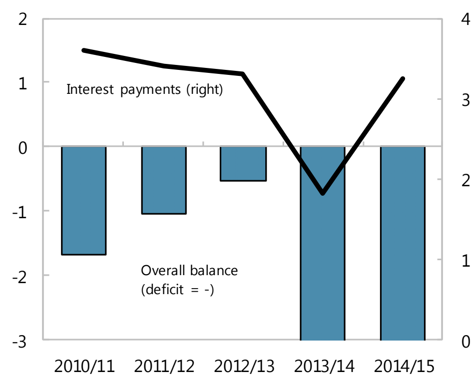
... driven primarily by increases in wages, pensions, and teachers' salaries as well as capital expenditure...



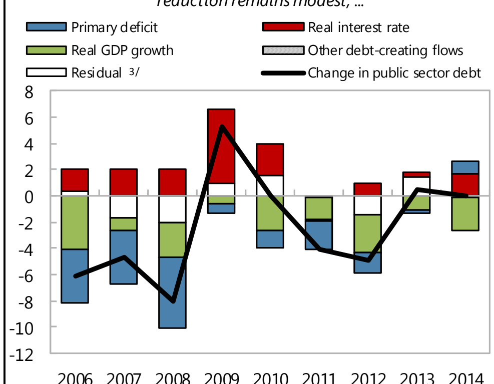
... and low capacity to mobilize revenues, which remain close to average relative to regional comparators.



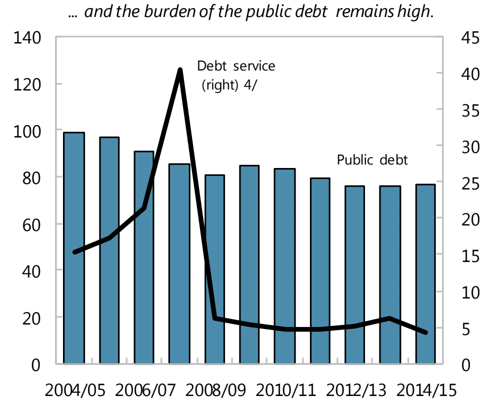
As a result, the overall deficit and interest payments have increased.



Despite the two debt restructurings, the pace of debt reduction remains modest, ...



... and the burden of the public debt remains high.



Sources: Country authorities; and Fund staff estimates.

1/ Estimates for 2014/15.

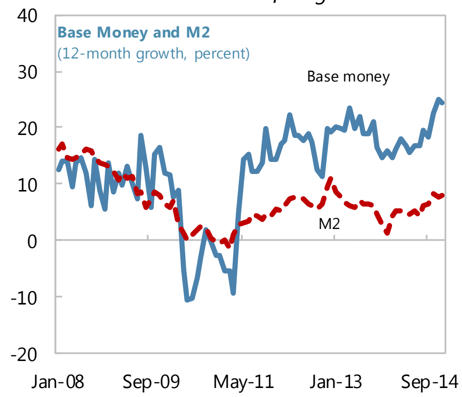
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

3/ Large residuals in 2013 and 2014 are essentialy accumulation of assets financed with PetroCaribe loans.

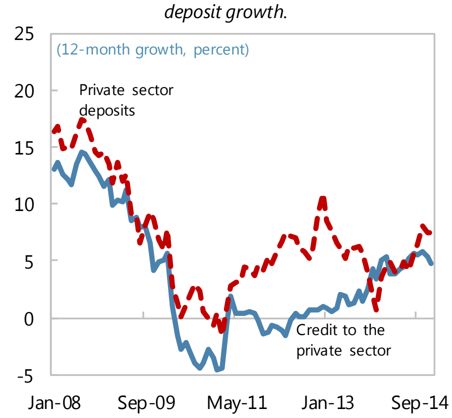
Figure 4. Belize: Monetary and Financial Sector Developments

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

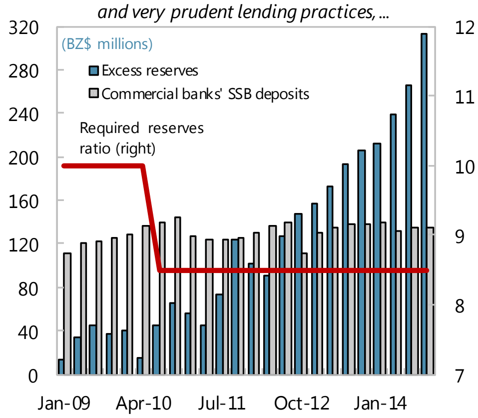
Broad money growth picked up in 2014 as the increase in banks' net foreign assets more



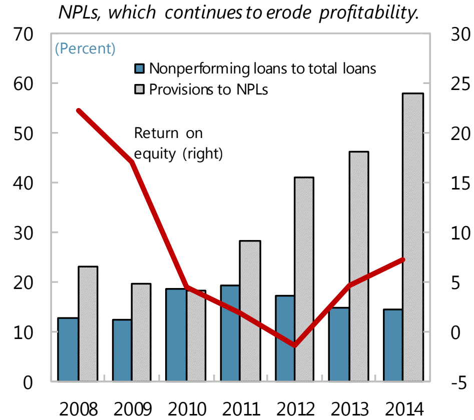
Nevertheless, credit to the private sector continued to improve in the context of a higher deposit growth.



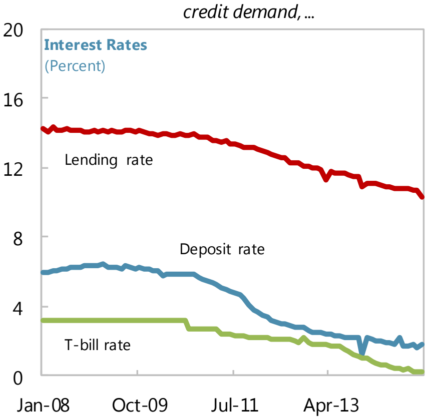
Banks remain highly liquid, reflecting in part a surge in deposits from the Social Security Board and very prudent lending practices, ...



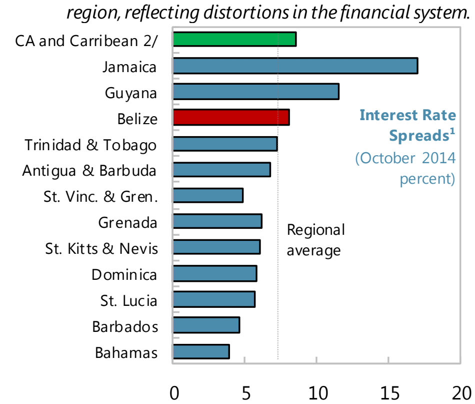
... partly justified by still high (albeit decreasing) NPLs, which continues to erode profitability.



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



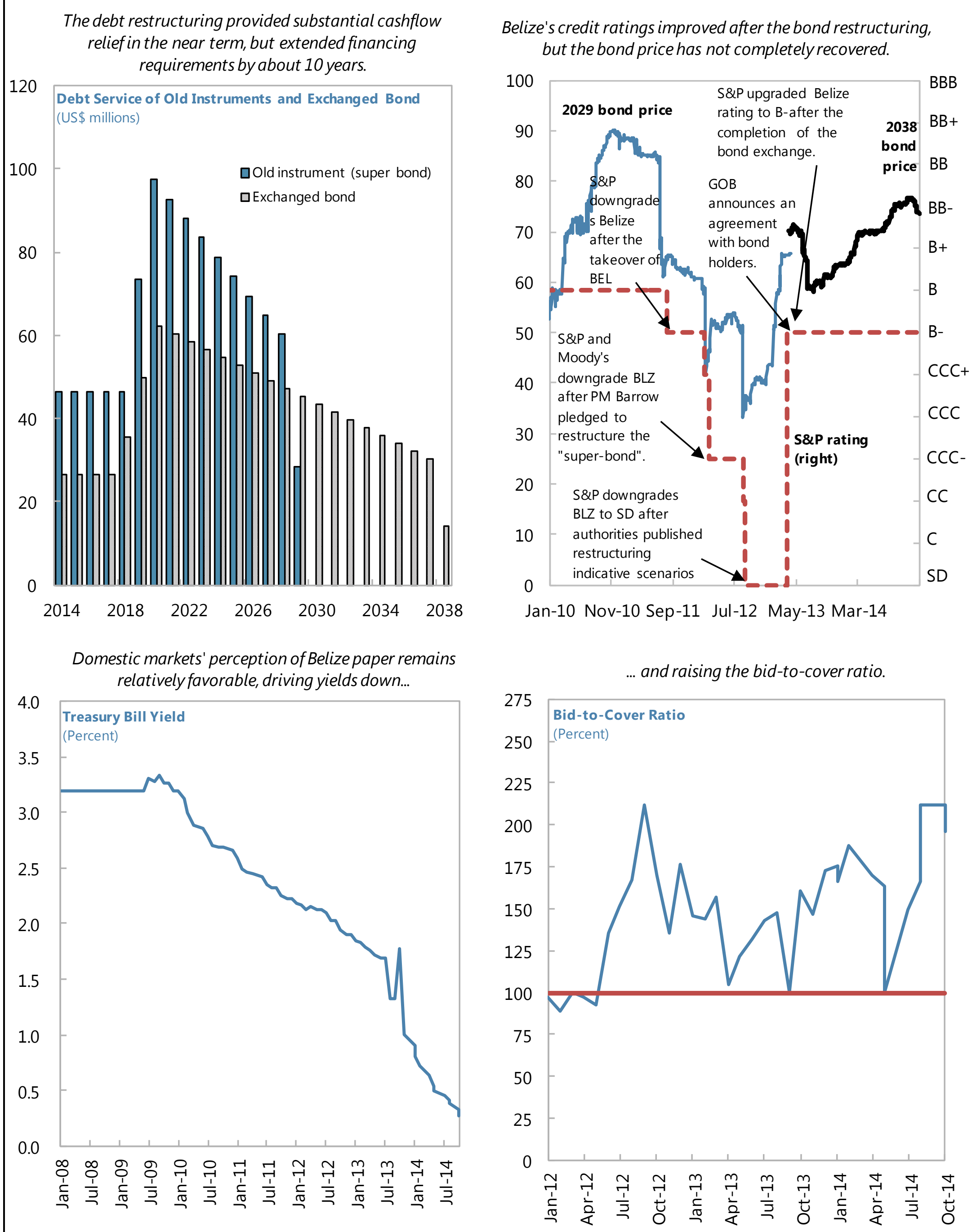
... Belize has one of the highest interest rate spreads in the region, reflecting distortions in the financial system.



Sources: Central Bank of Belize; IFS; and Fund staff estimates.
1/ Refer to the difference between lending and savings rates.
2/ Countries in the region include Barbados, ECCU, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

Figure 5. Belize: Debt Markets Developments

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



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

Table 1. Belize: Selected Social and Economic Indicators, 2010-16

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), 2012	3.4	Human development index (rank), 2013	84
Population (thousands), 2014 est.	356.9	Unemployment rate, Sep. 2014	12.1
GNI per capita, atlas method (current US$), 2013	4,510	Number of physicians, 2007	251
Life expectancy at birth (years), 2013	74	Access to improved drinking water sources (percent of population), 2012	99.3
Under-five mortality rate (per thousand), 2013	17	Poverty (percent of total population), 2009	42

II. Economic Indicators, 2010-16

					Est.	Projections	
	2010	2011	2012	2013	2014	2015	2016
National income and prices							
GDP at constant prices	3.3	2.1	3.8	1.5	3.6	2.2	3.2
Of which: Oil output	-0.6	-1.5	-1.2	-0.3	-0.2	-0.3	-0.2
GDP deflator	1.3	4.3	2.4	1.7	1.0	1.5	1.2
Consumer prices (end of period)	0.0	2.3	0.8	1.6	-0.2	0.7	1.7
Consumer prices (average)	0.9	1.7	1.2	0.5	1.2	0.1	1.2
Gross domestic investment 1/ 2/	12.8	13.7	13.7	15.9	16.1	15.8	15.8
Gross national savings 1/	10.4	12.6	12.5	11.0	8.5	9.6	8.7
External sector							
Exports of goods and services	12.1	15.6	8.9	2.8	2.4	0.7	2.1
Imports of goods and services	3.6	16.7	6.2	7.9	5.8	-1.9	3.5
Terms of trade (deterioration -)	2.2	4.0	-1.1	0.3	-0.5	-4.0	-0.7
Nominal effective exchange rate	-1.3	-3.0	3.2	0.7	1.6	...	...
Real effective exchange rate	1.4	-10.0	1.9	-1.0	0.4	...	...
Money and credit							
Credit to the private sector	-3.6	-1.2	1.1	3.5	4.7	3.2	3.6
Money and quasi-money (M2)	-0.4	5.6	11.0	1.4	7.9	3.7	4.4
Weighted average lending rate (in percent)	13.8	13.0	12.0	11.1	...	...	...
	(In percent of GDP)						
Central government 3/							
Revenue and grants	27.4	27.7	26.4	27.7	29.2	27.5	27.0
Of which: oil revenue	2.4	3.0	1.5	1.1	0.8	0.3	0.2
grants	0.2	1.1	0.7	1.2	1.1	1.1	1.1
Current expenditure	24.0	24.0	22.3	23.7	24.6	25.6	25.7
Capital expenditure and net lending	5.0	4.7	4.6	7.4	8.5	7.0	5.4
Primary balance	1.7	2.3	1.3	-0.2	-1.2	-2.6	-1.2
Overall balance	-1.7	-1.1	-0.5	-3.5	-3.9	-5.2	-4.1
External sector							
External current account 4/	-2.4	-1.1	-1.2	-4.4	-7.6	-6.3	-7.1
Public and publicly guaranteed debt	84.6	80.5	75.6	76.1	76.0	78.1	101.1
Domestic debt	11.9	11.1	10.6	10.2	10.1	12.7	36.5
External debt	72.6	69.4	65.0	65.9	65.9	65.4	64.7
Debt service 5/	4.7	4.8	4.4	6.8	4.2	4.3	4.5
In percent of exports of goods and services	8.1	7.5	6.8	10.5	6.6	6.9	7.4
In percent of government current revenue	18.1	18.1	17.3	26.1	15.3	16.1	17.2
	(In millions of U.S. dollars, unless otherwise indicated)						
Overall balance of payments	10	35	36	116	82	18	-15
Exports of goods and services	816	944	1,028	1,057	1,082	1,089	1,112
Imports of goods and services	810	945	1,004	1,084	1,147	1,125	1,164
Gross international reserves 6/	218	253	289	405	487	505	490
In percent of gross external financing needs	317	450	478	238	286	335	278
In percent of next year's external public debt service	307	362	261	566	645	615	575
In months of imports	2.8	3.0	3.2	4.2	5.2	5.2	4.9
Nominal GDP	1,398	1,489	1,574	1,624	1,699	1,763	1,841
Nominal GDP (BZ$ millions)	2,797	2,978	3,148	3,249	3,398	3,526	3,682

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

					Est.	Projections		
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue and grants	**778**	**836**	**837**	**910**	**1,001**	**980**	**1,007**	**1,042**
Revenue	**771**	**803**	**816**	**870**	**962**	**940**	**966**	**1,002**
Of which: Non-oil revenue	703	712	769	833	935	928	960	995
Current revenue	766	795	811	864	956	935	960	996
Tax revenue	659	670	704	748	849	818	844	875
Of which : Petroleum Operations	51	53	32	21	16	8	6	7
General Sales Tax	195	171	214	237	270	263	0	0
Nontax revenue	107	125	108	117	107	117	116	120
Of which : Petroleum Operations	16	37	15	15	11	4	0	0
Capital revenue	5	8	5	5	6	5	6	6
Grants	**7**	**33**	**21**	**40**	**39**	**41**	**41**	**41**
Total expenditure	**825**	**867**	**854**	**1,023**	**1,134**	**1,165**	**1,161**	**1,198**
Current expenditure	682	724	707	780	842	914	959	1,038
Wages and salaries	279	297	298	312	338	388	397	407
Pensions	45	52	54	55	64	60	61	63
Goods and services	164	172	166	173	199	211	220	231
Interest payments	97	100	58	107	90	91	110	161
Transfers	97	104	131	133	151	164	170	177
Capital expenditure and net lending	143	143	147	243	291	251	202	159
Capital expenditure	126	138	144	240	289	249	199	157
Domestically financed expenditure (Capital II)	73	73	66	111	116	78	66	41
Foreign financed expenditure (Capital III)	53	65	78	129	172	171	133	115
Net lending	17	5	3	3	3	3	3	2
Primary balance	**50**	**68**	**41**	**-6**	**-42**	**-94**	**-44**	**5**
Nongrant, non-oil primary balance	**-25**	**-55**	**-27**	**-83**	**-108**	**-146**	**-91**	**-42**
Overall balance	**-47**	**-32**	**-17**	**-113**	**-133**	**-185**	**-154**	**-155**
Financing	**47**	**32**	**17**	**113**	**133**	**185**	**154**	**155**
Privatization (net)	55	20	0	0	0	0	0	0
Domestic	-18	-4	-29	-26	39	115	90	144
Of which: Amortization	2	2	2	3	2	22	137	340
External	10	16	46	140	93	69	64	11
Disbursements	65	71	137	291	164	147	151	104
Amortization	54	55	91	151	71	78	87	92
Memorandum items:								
Nominal GDP	2,842	3,020	3,173	3,286	3,430	3,565	3,727	3,907
Non-interest expenditure	728	767	796	916	1,043	1,074	1,051	1,037
Oil revenue	68	90	47	37	27	12	6	7

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 2. Belize: Operations of the Central Government (Concluded) 1/ 2/
(In percent of GDP; unless otherwise indicated)

					Est.	Projections		
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue and grants	**27.4**	**27.7**	**26.4**	**27.7**	**29.2**	**27.5**	**27.0**	**26.7**
Revenue	**27.1**	**26.6**	**25.7**	**26.5**	**28.0**	**26.4**	**25.9**	**25.6**
Of which: Non-oil revenue	24.7	23.6	24.2	25.3	27.3	26.0	25.8	25.5
Current revenue	27.0	26.3	25.6	26.3	27.9	26.2	25.8	25.5
Tax revenue	23.2	22.2	22.2	22.8	24.8	23.0	22.7	22.4
Of which : Petroleum Operations	1.8	1.8	1.0	0.7	0.5	0.2	0.2	0.2
General Sales Tax	6.9	5.7	6.7	7.2	7.9	7.4	0.0	0.0
Nontax revenue	3.8	4.1	3.4	3.5	3.1	3.3	3.1	3.1
Of which : Petroleum Operations	0.6	1.2	0.5	0.5	0.3	0.1	0.0	0.0
Capital revenue	0.2	0.3	0.1	0.2	0.2	0.1	0.2	0.2
Grants	**0.2**	**1.1**	**0.7**	**1.2**	**1.1**	**1.1**	**1.1**	**1.0**
Total expenditure	**29.0**	**28.7**	**26.9**	**31.1**	**33.1**	**32.7**	**31.1**	**30.6**
Current expenditure	24.0	24.0	22.3	23.7	24.6	25.6	25.7	26.6
Wages and salaries	9.8	9.8	9.4	9.5	9.9	10.9	10.7	10.4
Pensions	1.6	1.7	1.7	1.7	1.9	1.7	1.6	1.6
Goods and services	5.8	5.7	5.2	5.3	5.8	5.9	5.9	5.9
Interest payments	3.4	3.3	1.8	3.3	2.6	2.6	2.9	4.1
Transfers	3.4	3.5	4.1	4.1	4.4	4.6	4.6	4.5
Capital expenditure and net lending	5.0	4.7	4.6	7.4	8.5	7.0	5.4	4.1
Capital expenditure	4.4	4.6	4.5	7.3	8.4	7.0	5.3	4.0
Domestically financed expenditure (Capital II)	2.6	2.4	2.1	3.4	3.4	2.2	1.8	1.1
Foreign financed expenditure (Capital III)	1.9	2.2	2.5	3.9	5.0	4.8	3.6	2.9
Net lending	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	**1.7**	**2.3**	**1.3**	**-0.2**	**-1.2**	**-2.6**	**-1.2**	**0.1**
Nongrant, non-oil primary balance	**-0.9**	**-1.8**	**-0.8**	**-2.5**	**-3.2**	**-4.1**	**-2.4**	**-1.1**
Overall balance	**-1.7**	**-1.1**	**-0.5**	**-3.5**	**-3.9**	**-5.2**	**-4.1**	**-4.0**
Financing	**1.7**	**1.1**	**0.5**	**3.5**	**3.9**	**5.2**	**4.1**	**4.0**
Privatization (net)	1.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.6	-0.1	-0.9	-0.8	1.1	3.2	2.4	3.7
Of which: Amortization	0.1	0.1	0.1	0.1	0.0	0.6	3.7	8.7
External	0.4	0.5	1.4	4.3	2.7	1.9	1.7	0.3
Disbursements	2.3	2.4	4.3	8.9	4.8	4.1	4.1	2.6
Amortization	1.9	1.8	2.9	4.6	2.1	2.2	2.3	2.4
Memorandum items:								
Nominal GDP (in BZ$ millions)	2,842	3,020	3,173	3,286	3,430	3,565	3,727	3,907
Non-interest expenditure	25.6	25.4	25.1	27.9	30.4	30.1	28.2	26.5
Oil revenue	2.4	3.0	1.5	1.1	0.8	0.3	0.2	0.2

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

	2010	2011	2012	2013	Est. 2014	Projections 2015	2016
				(In millions of Belize dollars)			
Central Bank of Belize (CBB)							
Net foreign assets 1/	376	429	528	763	930	965	936
Net international reserves	431	484	583	818	982	1,017	988
Medium-term foreign liabilities 2/	-55	-55	-55	-55	-52	-52	-52
Net domestic assets	41	47	39	-105	-112	-90	-7
Credit to the public sector (net)	61	43	41	-100	-105	-83	0
Central government	68	45	47	-96	-104	-82	1
Other public sector	-7	-2	-7	-3	-1	-1	-1
Capital and other assets (net)	-20	4	-2	-5	-7	-7	-7
Base money	417	476	568	658	818	875	929
Currency issue	192	211	238	262	286	364	417
Reserves of commercial banks	225	266	329	396	532	511	512
Commercial banks							
Net foreign assets	182	254	356	263	245	256	244
Net claims on central bank	259	305	375	447	581	567	564
Net domestic assets	1,887	1,846	1,880	1,900	1,978	2,073	2,205
Credit to the public sector (net)	-75	-92	-98	-119	-177	-122	-68
Central government	130	130	140	134	125	187	229
Other public sector	-205	-222	-238	-253	-302	-308	-297
Credit to the private sector	1,963	1,938	1,959	2,027	2,123	2,190	2,269
Other assets (net)	0	-1	19	-7	32	5	5
Liabilities to the private sector	2,329	2,405	2,611	2,610	2,803	2,897	3,013
Monetary survey							
Net foreign assets	558	683	884	1,027	1,175	1,222	1,180
Net domestic assets	1,928	1,893	1,920	1,795	1,866	1,922	2,091
Credit to the public sector (net)	-14	-49	-57	-219	-282	-204	-68
Central government	198	174	187	38	21	105	230
Other public sector	-212	-224	-244	-257	-303	-309	-298
Credit to private sector (by comm. banks)	1,963	1,938	1,959	2,027	2,123	2,190	2,269
Other items (net)	-20	4	18	-12	25	-65	-110
Liabilities to the private sector	2,486	2,576	2,804	2,822	3,041	3,143	3,270
Money and quasi-money (M2)	2,085	2,201	2,444	2,477	2,672	2,772	2,895
Currency in circulation	158	171	193	212	237	308	364
Deposits	1,927	2,030	2,250	2,265	2,435	2,526	2,638
Foreign currency deposits	65	86	213	118	109	114	119
Capital and reserves of commercial banks	401	375	360	345	368	371	376
				(In millions of U.S. dollars)			
Net international reserves of the CBB	216	242	292	409	491	509	494
				(In percent change, unless otherwise indicated)			
Memorandum items:							
Private sector deposits in local currency	-0.6	5.3	10.9	0.6	7.5	3.7	4.4
Base money	-2.7	14.2	19.2	16.0	24.2	7.0	6.1
Credit to private sector (by comm. banks)	-3.6	-1.2	1.1	3.5	4.7	3.2	3.6
Money and quasi-money (M2)	-0.4	5.6	11.0	1.4	7.9	3.7	4.4
Net international reserves to M2 (percent)	20.7	22.0	23.9	33.0	36.7	36.7	34.1
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	98.5	91.6	79.5	85.1	83.4	83.0	82.3

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, 2012-20

			Est.	Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(In millions of U.S. dollars)								
Current account balance	**-19**	**-72**	**-130**	**-111**	**-131**	**-142**	**-141**	**-142**	**-144**
Trade balance	-196	-267	-350	-308	-333	-347	-349	-365	-374
Total exports, f.o.b.	622	609	589	561	576	586	608	619	633
Of which:									
Oil	104	70	51	26	24	21	18	15	13
Total imports, fob	818	876	939	869	909	933	957	984	1,007
Of which:									
Fuel and lubricants	-124	-125	-137	-82	-89	-98	-106	-111	-115
Services	220	240	285	272	282	293	318	334	351
Of which:									
Travel	261	311	308	301	315	325	332	351	346
Income	-118	-118	-151	-152	-162	-175	-200	-206	-221
Of which:									
Public sector interest payments 1/	-39	-22	-37	-38	-39	-39	-49	-49	-47
Current transfers	76	73	86	77	83	86	90	96	99
Private (net)	80	77	84	79	85	89	93	97	100
Official (net)	-4	-4	2	-2	-2	-3	-3	-1	-1
Capital and financial account balance	**85**	**155**	**177**	**128**	**117**	**87**	**66**	**66**	**67**
Capital transfers	22	38	36	18	15	15	15	15	15
Public sector	-9	51	68	31	36	13	-23	-41	-55
Of which:									
Change in assets	0	0	0	0	0	0	0	0	0
Change in liabilities	-9	51	68	31	36	13	-23	-41	-55
Disbursements 2/	36	165	86	71	81	60	26	23	22
Central government	36	165	86	71	81	60	26	23	22
Amortization	-41	-98	-41	-40	-45	-47	-49	-64	-77
Central government	-31	-89	-35	-37	-43	-46	-47	-63	-76
Securitisation	-3	-16	23	0	0	0	0	0	0
Private sector 3/	71	66	73	80	66	59	74	92	106
Of which:									
Foreign Direct Investment, net	193	89	90	109	106	72	73	72	71
Of which: Repatriation of compensation ·	0	0	0	0	0	36	36	36	36
Errors and omissions	**-30**	**33**	**34**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**36**	**116**	**82**	**18**	**-15**	**-55**	**-74**	**-76**	**-78**
Financing	**-36**	**-116**	**-82**	**-18**	**15**	**55**	**74**	**76**	**78**
Change in reserves (- increase)	-36	-116	-82	-18	15	55	74	76	78
	(In percent of GDP, unless otherwise stated)								
Memorandum items:									
Gross international reserves (US$ millions)	289.0	405.0	486.8	504.5	489.9	435.2	360.8	285	207
In percent of gross external financing needs	478	238	286	335	278	230	190	138	94
In percent of next year's total debt service	261	566	645	615	575	451	324	232	172
In months of imports	3.2	4.2	5.2	5.2	4.9	4.2	3.4	2.7	1.9
Current account balance	-1.2	-4.4	-7.6	-6.3	-7.1	-7.4	-7.0	-6.7	-6.5
Trade balance	-12.5	-16.5	-20.6	-17.4	-18.1	-18.0	-17.3	-17.3	-16.9
Capital and financial account balance	5.4	9.6	10.4	7.3	6.3	4.5	3.3	3.1	3.0
Private sector	4.5	4.1	4.3	4.5	3.6	3.1	3.7	4.4	4.8
Public sector	0.9	5.5	6.1	2.8	2.7	1.5	-0.4	-1.2	-1.8
Overall balance	2.3	7.1	4.8	1.0	-0.8	-2.8	-3.7	-3.6	-3.5

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

1/ Includes partial coupon payment of US$11.7 million (out of full amount US$23 million) on the "super-bond", paid on September 20, 2012.

2/ Includes the general and special SDR allocations in 2009.

3/ Detailed data on private sector flows are not available.

4/ Compensation to former owners of nationalized companies.

Table 5. Belize: Baseline Medium-Term Outlook, 2012-20

			Est.	Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
(Annual percentage change)									
Real economy									
GDP at constant prices	3.8	1.5	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Of which: Oil output	-1.2	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	0.0
GDP at current market prices	5.7	3.2	4.6	3.7	4.4	4.9	4.7	4.6	4.4
Prices (GDP deflator)	2.4	1.7	1.0	1.5	1.2	1.8	2.0	2.1	2.0
Consumer prices (end of period)	0.8	1.6	-0.2	0.7	1.7	2.0	2.1	2.0	2.0
(In percent of GDP, unless otherwise indicated)									
National accounts									
Consumption	84.8	86.3	87.7	86.2	87.0	86.8	85.7	85.6	85.1
Gross domestic investment 1/	13.7	15.9	16.1	15.8	15.8	15.9	15.9	15.9	15.9
Net exports	1.5	-1.7	-3.8	-2.0	-2.8	-2.8	-1.5	-1.5	-1.0
Gross national savings	12.5	11.0	8.5	9.6	8.7	8.6	8.9	9.2	9.3
Central government 2/									
Revenue and grants	26.4	27.7	29.2	27.5	27.0	26.7	26.3	25.9	25.6
Of which : Non-oil revenue	24.2	25.3	27.3	26.0	25.8	25.5	25.2	24.9	24.7
Total expenditure	26.9	31.1	33.1	32.7	31.1	30.6	29.7	30.5	30.0
Noninterest expenditure	25.1	27.9	30.4	30.1	28.2	26.5	25.3	24.9	24.6
Primary balance	1.3	-0.2	-1.2	-2.6	-1.2	0.1	1.0	1.0	1.0
Interest 3/	1.8	3.3	2.6	2.6	2.9	4.1	4.3	5.5	5.4
Overall balance	-0.5	-3.5	-3.9	-5.2	-4.1	-4.0	-3.4	-4.5	-4.4
External sector									
Current account balance	-1.2	-4.4	-7.6	-6.3	-7.1	-7.4	-7.0	-6.7	-6.5
Of which: Exports of goods and services	65.3	65.1	63.7	61.8	60.4	59.3	59.3	58.3	57.7
Of which: Petroleum exports	6.6	4.3	3.0	1.5	1.3	1.1	0.9	0.7	0.6
Of which: Imports of goods and services	-63.8	-66.7	-67.5	-63.8	-63.2	-62.1	-60.9	-59.8	-58.7
Capital and financial account	5.4	9.6	10.4	7.3	6.3	4.5	3.3	3.1	3.0
Public sector disbursements	2.3	10.2	5.0	4.0	4.4	3.1	1.3	1.1	1.0
Public sector amortization	-2.6	-6.0	-2.4	-2.3	-2.4	-2.4	-2.4	-3.0	-3.5
Other capital and fin. account transactions 4/	5.7	5.4	7.8	5.5	4.4	3.8	4.4	5.1	5.5
Change in reserves (- increase)	-2.3	-7.1	-4.8	-1.0	0.8	2.8	3.7	3.6	3.5
Gross official reserves (in months of imports)	3.2	4.2	5.2	5.2	4.9	4.2	3.4	2.7	1.9
Public and publicly guaranteed debt 5/	**75.6**	**76.1**	**76.0**	**78.1**	**101.1**	**98.8**	**97.9**	**97.0**	**96.1**
Domestic	10.6	10.2	10.1	12.7	36.5	36.4	39.5	43.0	46.8
External	65.0	65.9	65.9	65.4	64.7	62.4	58.5	54.0	49.3

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, 2012-20

	2012	2013	Est. 2014	Projections 2015	2016	2017	2018	2019	2020
(In millions of U.S. dollars, unless otherwise indicated)									
1. Public and publicly guaranteed debt									
Total	1,189	1,236	1,292	1,377	1,862	1,907	1,980	2,050	2,121
Other public and publicly guaranteed external debt	58	33	32	31	31	30	30	30	29
Central government	1,132	1,202	1,260	1,345	1,831	1,877	1,950	2,020	2,092
Domestic debt	167	165	172	224	672	703	798	908	1,033
External debt	965	1,037	1,088	1,122	1,159	1,174	1,152	1,112	1,058
Multilateral	253	270	278	283	291	294	293	291	290
Bilateral and export credit	169	240	284	296	290	282	263	242	224
Commercial 1/	542	527	527	527	527	527	527	513	485
New commercial borrowing (net)	0	0	0	17	52	72	70	66	60
In percent of GDP									
Total	75.6	76.1	76.0	78.1	101.1	98.8	97.9	97.0	96.1
Other public and publicly guaranteed external debt	3.7	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
Central government	71.9	74.0	74.2	76.3	99.5	97.2	96.5	95.6	94.8
Domestic debt	10.6	10.2	10.1	12.7	36.5	36.4	39.5	43.0	46.8
External debt	61.3	63.8	64.0	63.6	63.0	60.8	57.0	52.6	47.9
Multilateral	16.1	16.6	16.4	16.0	15.8	15.2	14.5	13.8	13.1
Bilateral and export credit	10.7	14.8	16.7	16.8	15.8	14.6	13.0	11.5	10.1
Commercial 1/	34.5	32.4	31.0	29.9	28.6	27.3	26.0	24.3	22.0
(In percent of GDP, unless otherwise indicated)									
2. Flow of funds									
2.1. Sources of funds	4.8	7.1	4.4	4.7	4.9	6.4	6.7	7.2	7.6
Primary balance	1.5	0.2	-1.0	-2.3	-1.5	-0.2	0.8	0.9	0.9
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified disbursements	3.2	7.0	5.4	7.0	6.4	6.6	5.9	6.3	6.7
Multilateral	1.6	2.4	1.6	1.5	1.7	1.5	1.2	1.1	1.0
Bilateral and export credit	0.7	5.3	3.5	2.6	2.7	1.6	0.1	0.0	0.0
Commercial	0.9	-0.7	0.4	2.9	2.1	3.4	4.7	5.2	5.7
Domestic (net) 2/	0.9	-3.2	0.4	2.9	2.1	3.4	4.7	5.2	5.7
External 3/	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds									
Debt service	4.8	7.1	4.4	4.7	4.9	6.4	6.7	7.2	7.6
Interest payments	2.8	1.6	2.4	2.5	2.6	4.0	4.4	4.3	4.1
Domestic	0.4	0.4	0.3	0.4	0.5	2.0	2.0	2.0	2.0
External 3/	2.4	1.3	2.1	2.1	2.1	2.0	2.4	2.3	2.1
Principal repayments	2.0	5.5	2.0	2.1	2.3	2.4	2.3	3.0	3.5
Multilateral	1.1	1.3	1.1	1.2	1.3	1.4	1.2	1.1	1.1
Bilateral and export credit	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.2	1.1
Commercial, including parastatal	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.7	1.3
Assumptions									
Nominal GDP (US$ millions)	1,574	1,624	1,699	1,763	1,841	1,931	2,021	2,114	2,207
Nominal GDP growth rate (percent)	5.7	3.2	4.6	3.7	4.4	4.9	4.7	4.6	4.4
Real GDP growth rate (percent)	3.8	1.5	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Annual inflation (deflator, in percent)	2.4	1.7	1.0	1.5	1.2	1.8	2.0	2.1	2.0
Assumed domestic borrowing rate (percent)	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)	1.7	1.4	1.3	1.4	2.2	3.2	3.2	3.2	3.2
Six-month LIBOR rate (percent) 4/	0.7	0.4	0.3	0.4	1.2	2.2	2.2	2.2	2.2
Spread over LIBOR rate (percent)	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 GDP)	-1.3	-1.5	-3.4	-4.8	-4.1	-4.2	-3.6	-3.3	-3.2
Implicit nominal interest rate (percent) 5/	3.7	2.3	3.3	3.5	3.4	4.2	4.6	4.5	4.5
Gross financing requirement (percent of GDP)	3.2	7.0	5.4	7.0	6.4	6.6	5.9	6.3	6.7

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. Belize: Debt Sustainability Analysis

Belize's public debt will remain high and unsustainable because of recognition of liabilities and weak fiscal stance, and despite the cash flow relief provided by the March 2013 debt restructuring. The main risk is the amount of compensation that justice courts will order the government to pay for the two nationalized companies. As courts' ruling remains uncertain, 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 to 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 disbursements are projected to gradually decline and external commercial borrowing is expected to be very limited within the projection horizon. 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). The public debt burden underlines the need for ambitious fiscal consolidation, a more robust debt management, and the development of the domestic debt market.

Macroeconomic Framework

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

The recognition of contingent liabilities could raise the level of debt stock by 22 percent of GDP in 2016. Although the Court of Appeals has ruled that the nationalization of two utilities companies was constitutional, the amount of compensation to the former owners of the nationalized companies is still unsettled. The DSA assumes that the government recognizes the additional liabilities at end 2016 and compensation payments at 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. It also assumes that the government utilizes the proceeds from the sale of BTL shares (BZ$75 million) to pay part of the compensation, and pays the remaining balance in five equal payments starting in 2017. The DSA finally assumes that the government also repays US$94 million (2 percent of GDP) in compensation to owners of land appropriated by the government.

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$2,038 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. dollar 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 external commercial borrowing is expected to be very limited 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 assumes that the government uses its assets, mainly international reserves, to pay debt.

Public Debt

The heat map suggests that the risks to debt sustainability remain high (Figure A1.1). Subjecting the baseline to stress testing indicate that Belize's debt burden exceeds the benchmark for emerging markets. The heat map highlights significant risks to the debt profile, including contingent liabilities, 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 chart shows that public debt could reach 140 percent of GDP in the medium term.

There appears to be no systematic projection bias in the macro assumptions in recent years (Figure A1.2). 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. However, projections of the primary balance have been relatively pessimistic, with a median forecast errors of 0.91 percent of GDP during the same period. Nevertheless, 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 (Figures A1.3 and A1.4). Public debt would experience a hike to 101 percent of GDP in 2016 as a result of an assumption that the courts would require that the government recognize liabilities in the amount of 20 percent of GDP to the former owners of the two 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 after 2018) and relatively low growth. At the primary surplus of 1 percent of GDP, it would take about 30 years to bring public debt to 60 percent of GDP, levels seen by the authorities and staff as sustainable. Financing conditions would gradually deteriorate, as public sector gross financing needs would increase to 28 percent of GDP by 2020 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 highly vulnerable to various shocks (Figure A1.5). As 87 percent of total public debt was denominated in foreign currency at end of 2014, 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 107 percent of GDP in 2015. The debt-to-GDP ratio is also highly sensitive to shocks in growth, interest rate, and the primary balance. The fiscal consolidation scenario aiming at a debt-to-GDP ratio of 84 percent by 2020 illustrates the magnitude of the fiscal adjustment needed: 4.5 percent of GDP compared to 0.5 percent on average over the medium term in the baseline scenario. This fiscal adjustment path proposed by staff would imply cyclically adjusted primary balances that are above 3 percent of GDP, putting Belize in the top quartile. The proposed fiscal adjustment is realistic as staff has identified feasible measures that would help achieve it, though the political situation could delay the adjustment.

External Debt

The external debt ratio[1] is projected to gradually decline over the medium term to around 50 percent of GDP by 2020 mainly because of non-debt creating inflows and asset reductions, mostly international reserves (Figure A1.6 and Table A1.1). External current account deficits would continue to put upward pressures on external debt. Bound tests suggest that external debt is mostly sensitive to nominal exchange rate devaluation and current account shocks. In particular, under a 30 percent depreciation of national currency, external debt would surge to 100 percent of GDP in 2016 and remain elevated at 80 percent of GDP in 2020. Further vulnerability stems from a non-interest current account shock that would boost the external debt to above 65 percent of GDP over the medium-term horizon. In light of limited options for external financing, high gross external financing needs—8 percent of GDP on average annually over the next 6 years—pose additional risk to the debt outlook.

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 (0.6 percent of GDP primary surplus on average in the medium term), relatively low growth, and high interest rates. Liquidity conditions would gradually deteriorate, as public sector gross financing needs would increase to 31 percent of GDP by 2020 mainly due to maturing principal of the additional liabilities and high interest rate 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 and external commercial borrowing is expected to be very limited within the projection horizon. 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). Bound tests highlight that the public

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

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.

Strong fiscal consolidation efforts are essential to bringing public debt back to a sustainable long-run level. Recurrent 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. In addition to fiscal adjustment, supporting policies to improve growth, deepen domestic financial market, and improve public debt management will also be essential to improve the debt outlook.

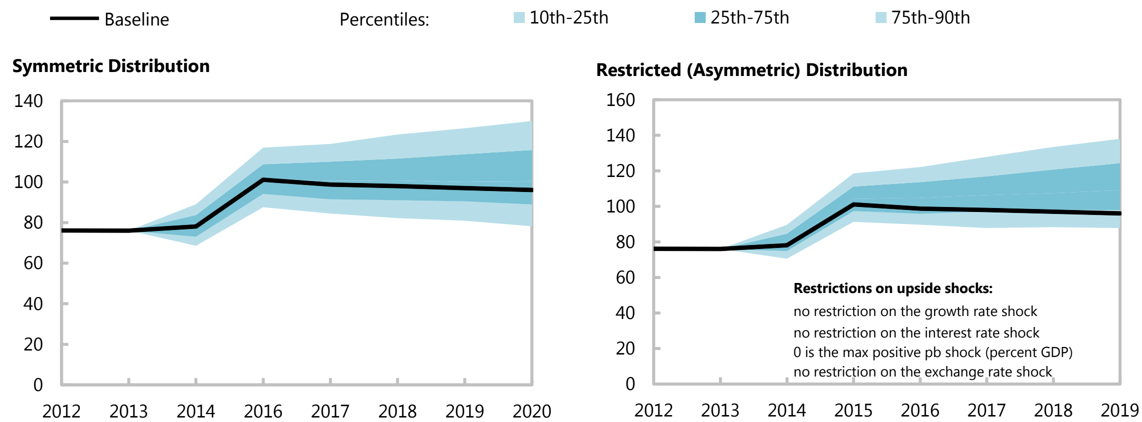
Figure A1.1. Belize Public DSA Risk Assessment

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

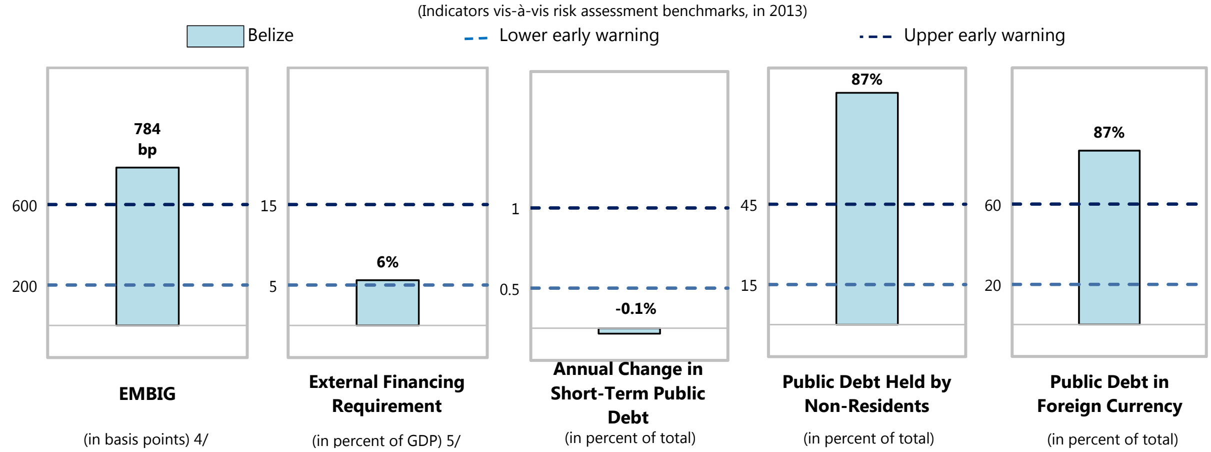
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

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



Source: Fund staff estimates.

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.

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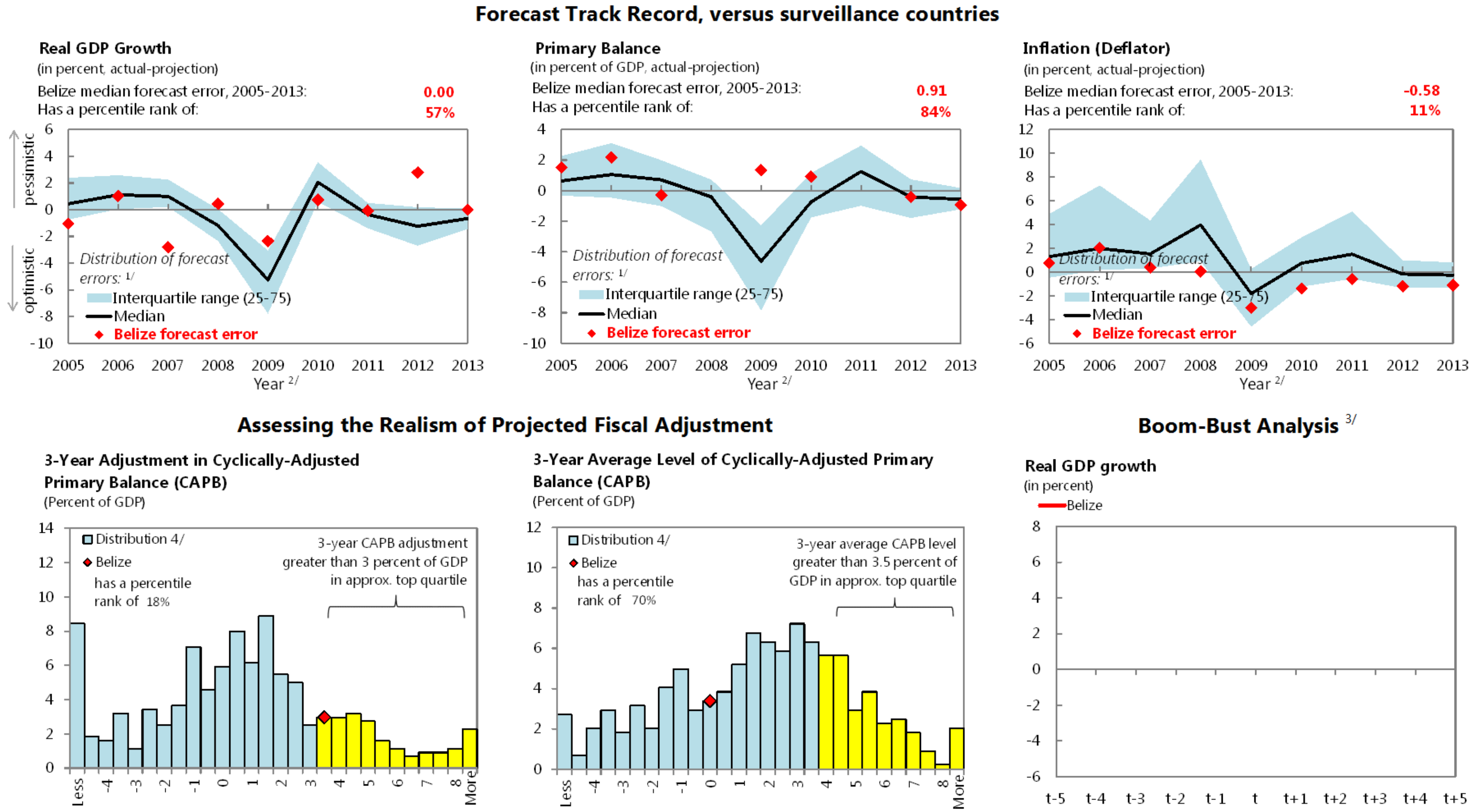
BELIZE

Figure A1.2. Belize Public DSA - Realism of Baseline Assumptions



Source: Fund Staff estimates.

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.

Figure A1.3. Belize Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

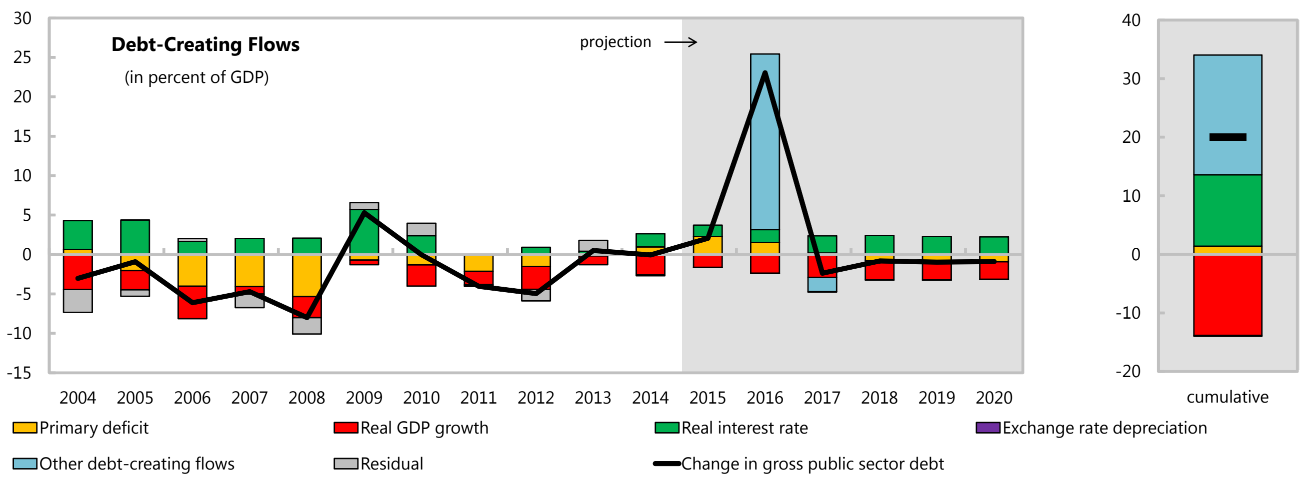
	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	86.8	76.1	76.0	78.1	101.1	98.8	97.9	97.0	96.1
Public gross financing needs	11.3	6.7	5.2	7.0	8.7	14.6	17.9	24.5	31.1
Real GDP growth (in percent)	2.9	1.5	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Inflation (GDP deflator, in percent)	2.3	1.7	1.0	1.5	1.2	1.8	2.0	2.1	2.0
Nominal GDP growth (in percent)	5.3	3.2	4.6	3.7	4.4	4.9	4.7	4.6	4.4
Effective interest rate (in percent) [4/]	5.3	2.3	3.3	3.5	3.4	4.2	4.6	4.5	4.5

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						
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative
Change in gross public sector debt	-2.9	0.5	-0.1	2.1	23.0	-2.4	-0.8	-1.0	-0.9	20.0
Identified debt-creating flows	-2.3	-0.9	0.0	2.1	23.1	-2.3	-0.9	-0.9	-0.9	20.1
Primary deficit (- surplus)	-2.3	-0.2	1.0	2.3	1.5	0.2	-0.8	-1.0	-1.0	1.2
Primary (noninterest) revenue and grants	26.2	27.4	28.8	28.0	27.2	26.8	26.4	26.0	25.6	159.8
Primary (noninterest) expenditure	23.9	27.3	29.8	30.2	28.7	26.9	25.6	25.0	24.7	161.2
Automatic debt dynamics [5/]	0.0	-0.7	-0.9	-0.2	-0.7	-0.7	0.0	0.0	0.0	-1.7
Interest rate/growth differential [6/]	0.0	-0.7	-0.9	-0.2	-0.7	-0.7	0.0	0.0	0.0	-1.7
Of which: real interest rate	2.5	0.4	1.7	1.4	1.6	2.2	2.4	2.3	2.3	12.2
Of which: real GDP growth	-2.5	-1.1	-2.6	-1.6	-2.4	-2.9	-2.4	-2.3	-2.2	-13.9
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows [8/]	0.0	0.0	0.0	0.0	22.3	0.0	0.0	0.0	0.0	22.3
Contingent liabilities	0.0	0.0	0.0	0.0	22.3	0.0	0.0	0.0	0.0	22.3
Residual, including asset changes [9/]	-0.7	1.4	-0.1	0.0	0.0	-1.8	0.0	0.0	0.0	-1.9

debt-stabilizing primary balance [10/]
0.0



Source: Fund staff estimates.

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 2016, refers to liabilities resulting from past nationalization of utilities.

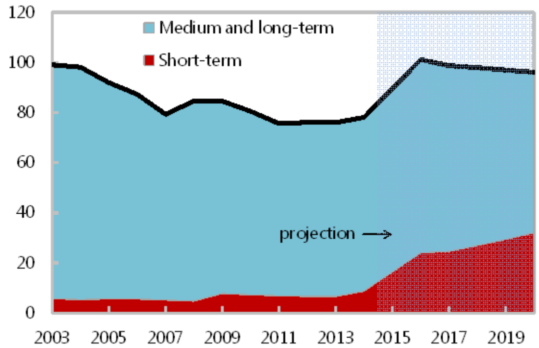
9/ Large residuals in 2013 and 2014 are essentially accumulation of assets financed with PetroCaribe loans. Data for 2017, refers to use of government deposits to pay for part of the compensation of nationilized utilities.

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.

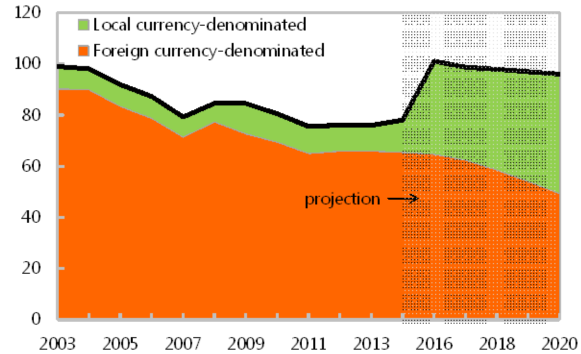
Figure A1.4. Belize Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



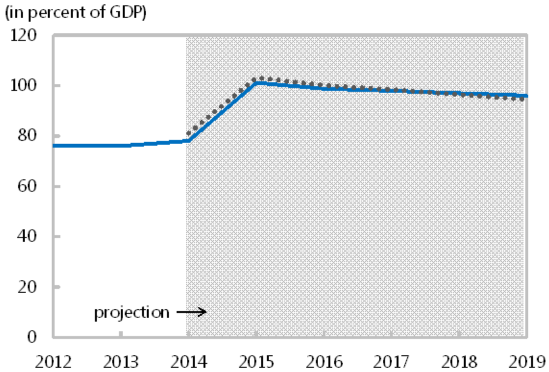
By Currency
(in percent of GDP)



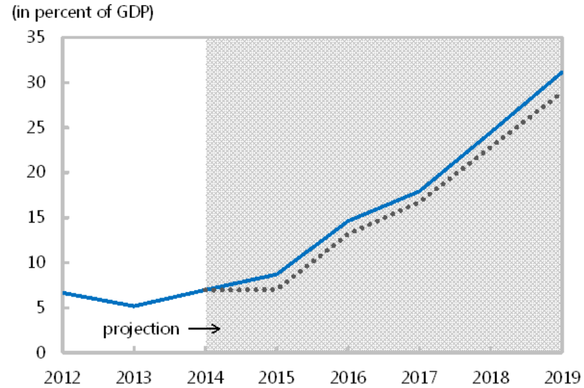
Alternative Scenarios

Baseline Historical

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

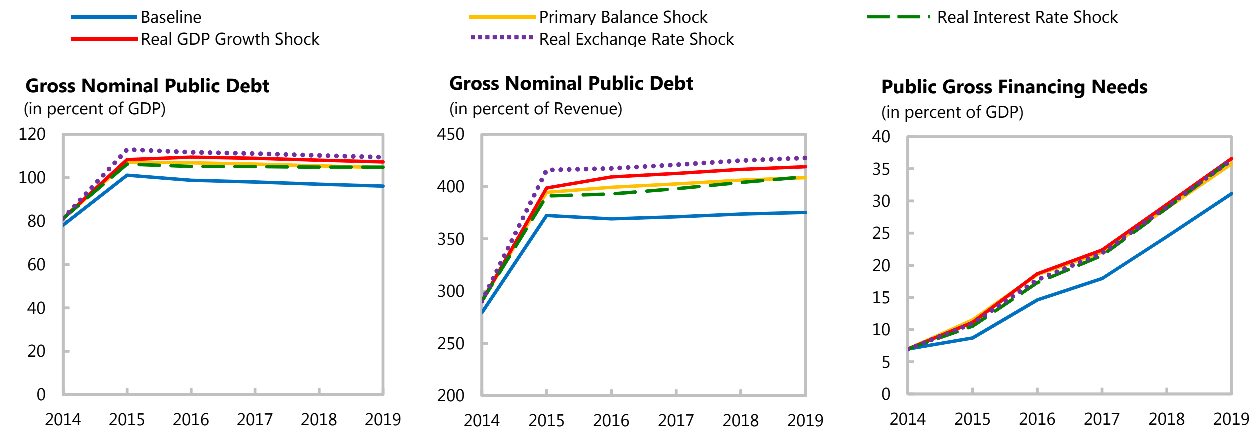
	2014	2015	2016	2017	2018	2019
Baseline Scenario (assumes constant primary balance)						
Real GDP growth	2.2	3.2	3.0	2.6	2.5	2.4
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary Balance	-2.3	-1.5	-0.2	0.8	0.9	0.9
Effective interest rate	3.5	3.4	4.2	4.6	4.5	4.5

	2014	2015	2016	2017	2018	2019
Historical Scenario						
Real GDP growth	2.2	2.7	2.7	2.7	2.7	2.7
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary Balance	-2.3	2.0	2.0	2.0	2.0	2.0
Effective interest rate	3.5	3.4	4.2	4.6	4.6	4.5

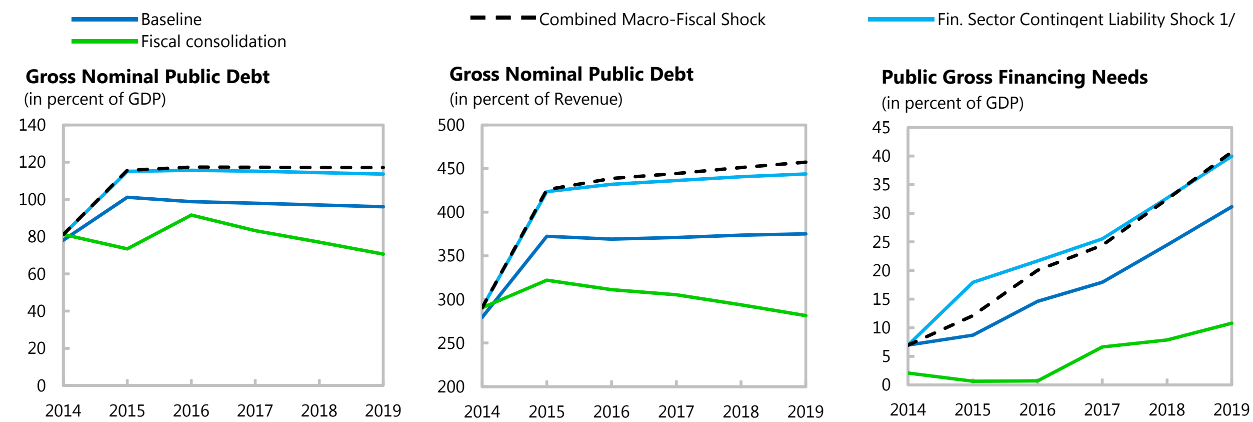
Source: Fund staff estimates.

Figure A1.5. Belize Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

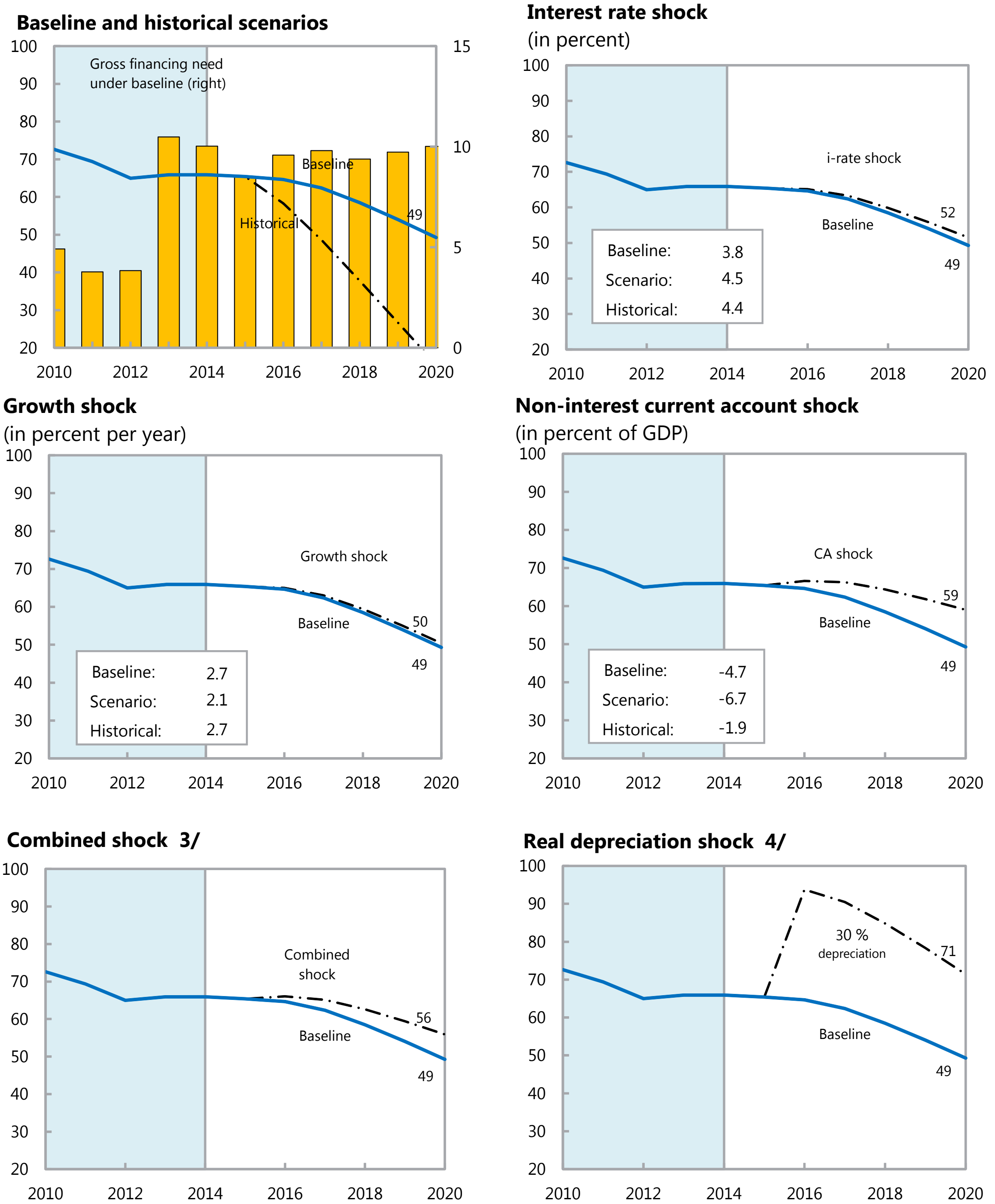
	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	2.2	3.2	3.0	2.6	2.5	2.4
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary balance	-2.3	-2.5	-1.2	0.8	0.9	0.9
Effective interest rate	3.5	3.4	4.1	4.5	4.4	4.3
Real Interest Rate Shock						
Real GDP growth	2.2	3.2	3.0	2.6	2.5	2.4
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary balance	-2.3	-1.5	-0.2	0.8	0.9	0.9
Effective interest rate	3.5	3.4	4.3	5.0	5.0	5.1
Combined Shock						
Real GDP growth	2.2	1.9	1.7	2.6	2.5	2.4
Inflation	1.5	0.9	1.5	2.0	2.1	2.0
Primary balance	-2.3	-2.5	-1.2	0.8	0.9	0.9
Effective interest rate	3.5	3.6	4.2	4.9	5.0	5.1
Fiscal consolidation						
Real GDP growth	1.5	1.8	2.6	2.8	3.0	3.2
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary balance	3.5	4.6	4.4	4.6	4.7	4.7
Effective interest rate	3.5	3.5	4.3	4.9	4.9	4.9

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	2.2	1.9	1.7	2.6	2.5	2.4
Inflation	1.5	0.9	1.5	2.0	2.1	2.0
Primary balance	-2.3	-2.0	-1.0	0.8	0.9	0.9
Effective interest rate	3.5	3.4	4.1	4.5	4.4	4.3
Real Exchange Rate Shock						
Real GDP growth	2.2	3.2	3.0	2.6	2.5	2.4
Inflation	1.5	1.2	1.8	2.0	2.1	2.0
Primary balance	-2.3	-1.5	-0.2	0.8	0.9	0.9
Effective interest rate	3.5	3.6	4.0	4.5	4.4	4.3
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	2.2	1.9	1.7	2.6	2.5	2.4
Inflation	1.5	0.9	1.5	2.0	2.1	2.0
Primary balance	-2.3	-8.6	-0.2	0.8	0.9	0.9
Effective interest rate	3.5	3.6	4.2	4.6	4.5	4.4

Source: Fund staff estimates.
1/ One-time increase in non-interest expenditures equivalent to 10% of banking sector assets.

Figure A1.6. 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.

Table A1.1. Belize: External Debt Sustainability Framework, 2010-2020
(In percent of GDP, unless otherwise indicated)

	Actual				Est.			Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	72.6	69.4	65.0	65.9	65.9			**65.4**	**64.7**	**62.4**	**58.5**	**54.0**	**49.3**	**-3.4**
Change in external debt	-4.7	-3.2	-4.4	0.9	0.0			-0.5	-0.8	-2.3	-3.9	-4.5	-4.7	
Identified external debt-creating flows (4+8+9)	-5.8	-7.7	-10.7	1.2	0.1			0.2	1.6	3.1	2.7	2.4	2.1	
Current account deficit, excluding interest payments	-0.2	-1.8	-1.2	3.2	5.5			4.1	5.0	5.3	4.5	4.4	4.4	
Deficit in balance of goods and services	-0.5	0.1	-1.5	1.7	3.8			2.0	2.8	2.8	1.5	1.5	1.0	
Exports	58.4	63.4	65.3	65.1	63.7			61.8	60.4	59.3	59.3	58.3	57.7	
Imports	57.9	63.5	63.8	66.7	67.5			63.8	63.2	62.1	60.9	59.8	58.7	
Net non-debt creating capital inflows (negative)	-4.8	-4.4	-7.8	-1.2	-4.6			-4.7	-3.6	-2.4	-2.7	-2.9	-3.2	
Automatic debt dynamics 1/	-0.9	-1.5	-1.7	-0.7	-0.8			0.7	0.1	0.2	0.9	0.9	0.9	
Contribution from nominal interest rate	2.6	2.9	2.4	1.3	2.1			2.1	2.1	2.0	2.4	2.3	2.1	
Contribution from real GDP growth	-2.5	-1.4	-2.5	-1.0	-2.3			-1.4	-2.0	-1.9	-1.5	-1.4	-1.2	
Contribution from price and exchange rate changes 2/	-1.0	-3.0	-1.6	-1.1	-0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.2	4.5	6.3	-0.3	-0.1			-0.7	-2.3	-5.3	-6.6	-6.8	-6.8	
External debt-to-exports ratio (in percent)	124.4	109.5	99.5	101.3	103.5			105.9	107.0	105.1	98.6	92.7	85.4	
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	4.9	3.8	3.8	10.5	10.0			8.5	9.6	9.8	9.4	9.7	10.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**65.4**	**58.3**	**48.6**	**37.8**	**26.7**	**15.6**	**-7.2**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.3	2.1	3.8	1.5	3.6	2.7	1.3	2.2	3.2	3.0	2.6	2.5	2.4	
GDP deflator in US dollars (change in percent)	1.3	4.3	2.4	1.7	1.0	2.2	2.1	1.5	1.2	1.8	2.0	2.1	2.0	
Nominal external interest rate (in percent)	3.6	4.2	3.7	2.0	3.4	4.4	1.5	3.4	3.4	3.3	4.0	4.1	4.1	
Growth of exports (US dollar terms, in percent)	12.1	15.6	8.9	2.8	2.4	7.7	11.1	0.7	2.1	3.0	4.6	2.7	3.4	
Growth of imports (US dollar terms, in percent)	3.6	16.7	6.2	7.9	5.8	6.7	10.1	-1.9	3.5	3.0	2.6	2.7	2.6	
Current account balance, excluding interest payments	0.2	1.8	1.2	-3.2	-5.5	-1.9	3.9	-4.1	-5.0	-5.3	-4.5	-4.4	-4.4	
Net non-debt creating capital inflows	4.8	4.4	7.8	1.2	4.6	7.2	3.8	4.7	3.6	2.4	2.7	2.9	3.2	

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 II. External Stability Assessment

The external stability assessment suggests that the real exchange rate is moderately overvalued. The overvaluation seems to reflect largely fiscal policy gaps that are projected to generate widening current account deficits and net external indebtedness. International reserves appear at a comfortable level at present but are projected to decline below standard adequacy thresholds by 2018–19.

External stability is assessed using two different approaches: external stability (ES) and external balance (EBA-lite).These external stability tools are highly indicative for small countries like Belize and the results should be interpreted with caution. The ES approach assumes a gradual strengthening of the NFA position from -114 percent of GDP at end-2014 to -100 percent of GDP by 2024 in the baseline scenario and to -90 percent by 2024 in the alternative scenario. These NFA levels appear consistent with debt paths that are sustainable. Stabilizing NFAs at these levels would imply maintaining current account deficits of -3.2 percent of GDP per year in the baseline scenario and of -2.2 percent of GDP in the alternative scenario (Text Table). This implies an average overvaluation of about 10 percent in the baseline scenario and 12 percent in the alternative scenario (calculated as the average of the minimum and maximum REER adjustment needed during the period to align the current account with the norm).

Assessment of the Real Exchange Rate Using CGER and EBA-lite Methodologies

(In percent of GDP, unless otherwise indicated)

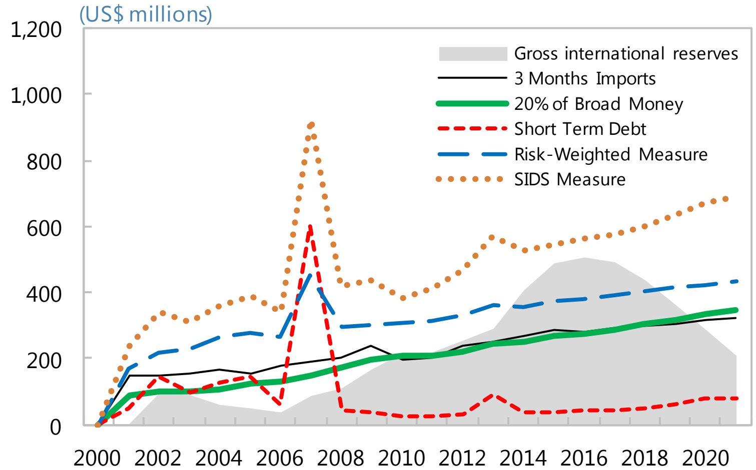
	External Sustainability Approach (ES)		External Balance Assessment (EBA-lite)
	Baseline Reducing NFA to below -100 percent of GDP by 2024	Alternative scenario Reducing NFA to below -90 percent of GDP by 2024	Baseline
Equilibrium external current account (CA) 1/	-3.2	-2.2	-2.2
Underlying CA balance 2/	[-6.3 -7.4]	[-6.3 -7.4]	-6.3
CA elasticity to REER 3/	-0.4	-0.4	-0.4
Implied REER adjustment 4/ (in percent, "+" appreciation)	[-8 -11.7]	[-10.5 -14.4]	-11.5

1/ Equilibrium CA is defined as the CA that will bring NFA to the desired level in the ES approach and as the CA norm in the EBA-lite approach.
2/ The values in brackets show the minimum and maximum projected current acount deficits in the 2015-20 period.
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).
4/ The brackets indicate the mininum and maximum adjustment needed to bring the current account in line with the norm in the 2015-20 period.

The external balance approach broadly confirms these results. The EBA-lite results point to a real exchange overvaluation of 11.5 percent, which is broadly consistent with the ES baseline result. EBA-lite is based on a multilateral approach that aims to identify the policy gaps contributing to the misalignment, which for Belize appear largely related to fiscal policy.

Both traditional and risk-weighted metrics indicate that reserves would decline below the adequacy thresholds in a few years. Standard non-risk based adequacy metrics suggest that without a policy adjustment, reserves would fall below 3 months of imports and below 20 percent cover of broad money by 2019 (see Text Table below). The two risk-weighted adequacy metrics suggest that reserves would fall below the comfortable adequacy region at end-2018. The first risk-weighted measure indicates that despite their current comfortable levels, reserves would represent only 87 percent of the adequate level at end-2018. The second risk-weighted measure, adjusted for small island developing states (SIDS), reveals a similar trend – although comfortably above the 75 percent benchmark at end-2014, reserve coverage would decline to 57 percent in 2018. These reserve pressures are to some extent generated by the expected increase in capital outflows from 2017 onward to cover the increase in external debt service and potential repatriation of compensation payments for the two nationalized companies. In light of the projected widening of the current account deficit and limited access to external financing, the decline in reserves after 2017 poses risks as the authorities would have to borrow at high interest rates to rebuild reserves.

Gross International Reserves and Adequacy Metrics
(US$ millions)



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

	Risk-Weighted Measure [1/]	SIDS Measure [2/]	3 months of Imports	20% of Broad Money	Short Term Debt
2013	114	77	149	164	1,169
2014	131	89	170	182	1,301
2015	133	90	179	182	1,175
2016	124	85	168	169	1,071
2017	107	73	145	143	916
2018	87	57	117	114	574
2019	67	43	90	86	373
2020	48	30	64	60	272
Adequate Region	100-150	75-100	100	100	100

[1/] Risk-Weighted Measure = 30% of STD at remaining maturity + 15% of other portfolio liabilities + 10% of broad money + 10% of exports (goods).

[2/] SIDS = 95% of STD at remaining maturity + 10% of broad money + 35% of exports (goods and services).

Annex III. Risk Assessment Matrix

Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy measures
1. Fiscal policy implementation: the adoption of a lower fiscal primary balance will leave the country in a highly vulnerable position.	**High** • Declining petroleum revenue, the increases in compensations for civil servants, and the rolling out of the national health insurance scheme and other spending pressures stemming from the political environment 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 over the medium term. Securing such financing would be a challenge due to undeveloped domestic market and limited external market access.	• Carry out fiscal consolidation gradually raising the fiscal primary balance to 4-5 percent of GDP by cutting non-essential spending, improving PFM, and raising more revenue by reducing exemptions and strengthening revenue administration.
2. Distress in the banking system.	**High** • Major Belizean banks have already received termination of correspondent banking relationships with U.S. banks and finding replacement correspondents is very difficult. • 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** • Financial intermediation could be damaged and seriously disrupt economic activity. • Absorption of the financial cost of recapitalizing distressed banks by the government could entail significant fiscal costs, putting additional pressure on public finances.	• Temporarily allow banks to use the central bank platforms to process international transactions, while ensuring that appropriate AML/CFT due diligence measures are effectively implemented for these transactions by the banking sector as a whole.. • Order undercapitalized banks to raise more capital, perform asset quality review of all banks, and maintain tight supervision.

Risk Assessment Matrix (continued)			
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 about 30 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.	• Support external stability by strengthening the competitiveness of key export sectors (sugar, banana, citrus, marine products). • Strengthen the business environment and improve physical infrastructure to attract greater domestic and foreign investment and support the development of small-and-medium-sized enterprises. • Create fiscal buffers through fiscal consolidation (see point 1).
4. Structurally week growth in key advanced and emerging economies	**High** • Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to low medium-term growth and accumulation of financial imbalances.	**High** • Decline in tourism and exports. A weak recovery in advanced economies, especially in Europe could significantly undermine growth in Belize, restrain public finances, and put pressures on the BOP and reserves. Belize's share of exports to Europe is very high.	• Strengthen resilience to external demand shocks by diversifying the export mix to include a larger share of CARICOM countries. • Build fiscal and external buffers to offset a potential shock. • Broaden the sources of growth by diversifying into economic sectors that are less vulnerable to cyclical external shocks.

Risk Assessment Matrix (concluded)			
5. Persistent U.S. dollar strength	**High** • As the currency is pegged to the U.S. dollar, the real exchange rate would appreciate.	**High** • Export of goods and services would decline, and the external current account deficit would widen.	• Carry out fiscal consolidation and reforms to boost external competitiveness and curb real exchange appreciation through external price competitiveness measures..
6. Persistently low energy prices	**Medium** • The external current account deficit would narrow, but PetroCaribe soft financing would likely come to an end.	**Medium** • A sustained decline in oil prices would lower the oil import bill, but the positive impact on BOP would be partially offset by lower PetroCaribe financing.	• Use savings from lower oil prices to build reserves and enhance external stability. Ensure a reliable pass through of lower international oil prices to domestic prices to stimulate demand and enhance competitiveness.

Annex IV. Social Security and Pension Plan for Public Officers

Left unreformed, the two public pension systems will continue to significantly drain the budget and pose additional rapidly rising fiscal risks.

There are two public pension schemes in Belize: the Social Security Scheme, and the pension plan for public officers (PPPO).

The general Social Security System (SSS) is a contributory, partially-funded, defined benefit scheme that is based on a scaled premium system. Contributions are adjusted over time to cover the expected cost of benefits and administration. It provides retirement pensions from age 60, drawing on contributions of at least 10 years, up to a maximum of 60 percent of the highest three years of earnings in the 15-year period preceding retirement. The 2012 actuarial report recommended that contributions and other parameters of the system, such as income ceilings and the retirement age, be adjusted to ensure the system's sustainability.

Left unreformed, Social Security reserves would vanish by 2029, and the government would have to pay all pensions by a combination of budget allocations, sharp rise in contribution rates, and drastic cuts in pensions and benefits. This would obviously have deep social and political repercussions, affecting mostly the poorest part of the population. A reform of social security parameters raising the retirement pension age to 65 and contribution rated from 8 percent to 9.5 percent, combined with a reduction in administrative cost from 30 percent of total cost to 20 percent would rebuild Social Security reserves and reduce substantially pension and benefits,[1] turning Social Security financially sustainable (Figure A4. 1).

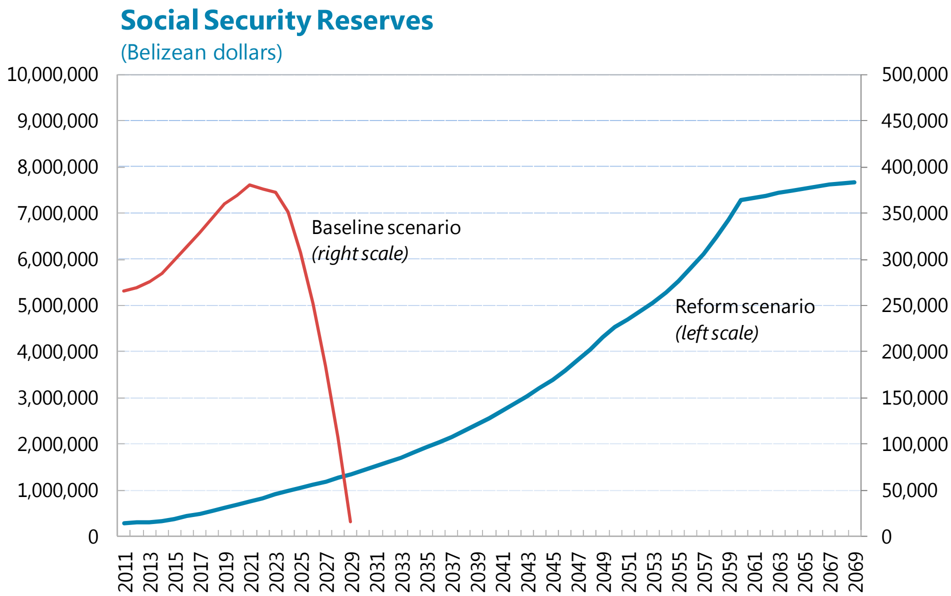
The PPPO is an unfunded, noncontributory defined benefit scheme. It provides retirement pensions from age 55 to public officers with at least 10 years of service, up to a maximum of 67 percent of the average earnings of the last three years of service. Pension benefits are adjusted in line with public employee salaries by the government. All expenses are covered by the central government budget. PPPO expenses amount to about 1.5 percent of GDP. By combining benefits from the SSS and PPPO, some categories of public officers may obtain combined replacement rates of more than 100 percent of their average salary.

The PPPO must be reformed to become fiscally sustainable. The government should carry out an awareness campaign explaining the risks of an unfunded pension for fiscal sustainability, and negotiate with the public sector unions a package of reform, including contributions that are in line with those in other countries and a higher retirement age.

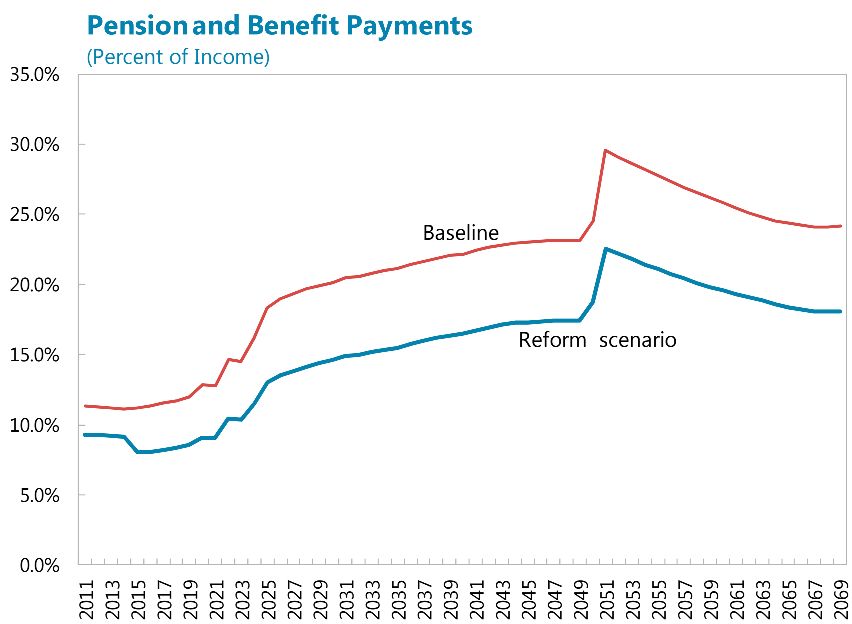
[1] Staff used the same actuarial and demographic assumption as in Hernando Pérez Montás 2012 Actuarial Review of the Social Security Scheme, July 2013 for the baseline scenario.

Figure A4.1. Belize: Bring Social Security Back to Financial Sustainability

Left unreformed Social Security's reserves would vanish by 2029. Parameter and administrative reforms would rebuild Social Security reserves …



…and reduce substantially pension and benefits, turning Social Security financially sustainable.



Sources: Fund staff estimates.

Annex V. BOP Stress Tests

Although international reserves appear presently at a comfortable level, Belize is exposed to downside risks to external stability in the medium term. This annex assesses the resilience of the external position to large but plausible shocks to tourism, exports, oil prices, and a discontinuation of PetroCaribe financing. The results indicate that the external position is vulnerable to these shocks, which could worsen the external current account deficit on average by 4–9 percentage points compared to the baseline and largely deplete reserves by 2017–18.

Although the current level of reserves appears comfortable at 5 months of imports as of end-2014, the import cover is projected to decline below the standard adequacy threshold of 3 months of imports by 2019 under the baseline barring significant changes in current policies.

External risks under the baseline stem from sluggish growth of Belize's agricultural exports (sugar, banana, citrus) against the backdrop of a steady decline in oil exports and strong demand for imports. The strengthening U.S. dollar could fuel real appreciation, while lower oil prices would reduce PetroCaribe financing. Expected shocks to the balance of payments in 2017 would also increase Belize's external financing needs. First, the current account could be negatively affected by changes to regulations of the EU sugar market, which would make Belize's sugar exports less competitive. Second, higher external debt service payments and a potential repatriation of compensation payments for the two nationalized utility companies would increase capital outflows from 2017 onward and would exert downward pressure on the capital and financial accounts.

Low export diversification is a source of risk to external stability. Foreign exchange earnings depend heavily on tourism, which represented about 35 percent of total exports in 2014. Tourism revenues are sensitive to developments in major source markets such as the U.S., which accounted for about two thirds of total tourist arrivals. In 2014, Belize's largest export markets were the U.S. (35 percent) and the U.K. (29 percent). Export concentrations in the U.S. and U.K. markets render exports revenues exposed to cyclical fluctuations in these countries. Belize's merchandise exports are concentrated in commodities, notably sugar (9 percent), banana (8 percent), marine products (9 percent), citrus (7 percent) and oil (8 percent) and are thus sensitive to commodity price fluctuations.

In light of the vulnerabilities above, the analysis examines four negative shock scenarios (deviations from the baseline) to Belize's balance of payments. The first scenario applies a shock to the growth rate of tourism, triggered by a slowdown in the U.S. The second scenario assumes a broad-based slowdown across Belize's export markets leading to a sharp decline in merchandise exports. The shocks reduce the baseline growth rate by 1.5 standard deviations in 2015 and 2016 (standard deviations are based on 5 years of historical data) and then revert to the baseline growth rate. The third scenario tests the BOP resilience to oil price shocks, which would increase the growth rate of international oil prices by 1.5 standard deviations in 2015 relative to 2014 and maintain oil prices unchanged afterward. The fourth scenario assumes that PetroCaribe financing is discontinued in 2015.

The results suggest that the external position is highly vulnerable to these negative shocks. The current account deficit widens notably under the tourism and export shock scenarios and reserves are largely depleted by 2017–18 (Text Table). Out of the four scenarios, the export shock leads to the largest deterioration in the external current account and reserves. The current account deficit widens to 16 percent of GDP under this scenario, and the import cover falls below 3 months of imports in 2016. The oil price shock also widens the current account deficit but the impact on reserves is mitigated somewhat by the resulting increase in Petrocaribe financing. The estimates also point to a significant negative impact of a withdrawal of Petrocaribe financing on international reserves.

Current Account Balance
(In percent of GDP)

	2015	2016	2017	2018	2019	2020
Baseline	-6.3	-7.1	-7.4	-7.0	-6.7	-6.5
Tourism shock	-9.0	-14.2	-14.4	-14.0	-13.7	-13.3
Exports shock	-15.6	-16.3	-16.2	-15.7	-15.2	-14.9
Oil price shock	-10.3	-11.2	-11.7	-11.1	-10.8	-10.6

Gross International Reserves
(In months of next year's imports)

	2015	2016	2017	2018	2019	2020
Baseline	5.2	4.9	4.2	3.4	2.7	1.9
Tourism shock	4.7	3.1	1.2	-0.9	-3.0	-5.1
Exports shock	3.5	1.6	-0.7	-3.0	-5.5	-7.8
Oil price shock	4.1	3.2	1.9	0.4	-1.0	-2.4
Discontinuation of PetroCaribe financing	4.9	4.2	3.2	2.0	0.9	-0.3

Source: Fund staff estimates.

Annex VI. Belize's Growth and Sustainable Development Strategy 2015–18

The Belizean authorities' new Growth and Sustainable Development Strategy (GSDS) is a detailed implementation plan that translates the vision articulated in the long-term national development framework for 2010−30 (Horizon 2030) into specific goals and policy actions for the period 2015–18. The GSDS rests on three key pillars: a proactive role for the state, tapping into global markets, and innovative social policy.

Belize has undertaken the role of a "pilot country" within the United Nations (UN) system in sustainable development planning. Hence, the GSDS incorporates for the first time poverty reduction and long-term sustainable development issues, which are at the forefront of the UN newly developed "Sustainable Development Goals (SDGs)".

The GSDS represents an integrated system of factors, conditions, and policy actions, centered on a single overarching objective—to improve the quality of life for all Belizeans both in the short-term and in the long-term. This objective is anchored in four "Critical Success Factors (CSF)" each linked to a set of "Necessary Conditions (NC)". In order to ensure effective implementation, the GSDS proposes concrete policy actions linked to measurable targets:

CSF1: Optimal national income and investment. The first CSF aims to lift long-term GDP growth to 5 percent by improving productivity and competitiveness. Six related NCs seek to build workers' capacity, use more efficient technology and operations, and achieve economies of scale and scope:

- *NC1: Penetrating export markets.* The GSDS aims to maintain a positive growth trend in exports over the medium term by exploiting more fully market access agreements, enhancing market intelligence, improving compliance with export standards, increasing access to export financing, and improving export promotion.

- *NC2: Attracting foreign investments.* The GSDS sets the objective of bringing FDI back to levels achieved in the three-year period prior to the global crisis and sustaining a positive real FDI growth thereafter. Belize's attractiveness to foreign investors could be improved by reducing the cost and ease of doing business, including costs of inputs (energy, transportation and telecommunications); and combating crime. The GSDS places a special emphasis on raising field productivity in the sugar sector and aligning tax incentives with World Trade Organization agreements.

- *NC3: Effective industrial policy based on Belize's strengths.* The GSDS plans to raise productive efficiency by among other things overcoming the small scale and scope of production, introducing new economic activities, developing priority sectors (agriculture, agro-processing, tourism and energy), improving access to financing, promoting inclusive growth, encouraging innovation and investment in green technologies.

- *NC4: Enhancing market efficiency*. The policies in this category focus on strengthening the regulatory framework of the utilities sector, reducing the informal sector, improving labor market flexibility, strengthening the financial system, and reducing the cost of financing.

- *NC5: Adequate infrastructure.* The policies in this category aim to improve the road network, the sea ports, and airport infrastructure, as well as to promote investment in electricity generation capacity and renewable energy, and to strengthen the investment climate and regulation of the telecommunications sector.

- *NC6: Adequate human capital.* The GSDS aims at attaining universal primary and secondary education and higher rates of successful school completion through increased school enrollment, enhancements in teaching effectiveness and quality, and better alignment of the school curriculum with labor market needs.

CSF2: Enhanced social cohesion and resilience. The second CSF seeks to eradicate poverty by 2030 and reduce homicides to fewer than 10 per 100,000 inhabitants, among other goals, including through improvements in access to healthcare and education, optimizing the provision of social security and social protection, improvements in working conditions and social inclusion.

CSF3: Sustained or improved health of natural, environmental, historical and cultural assets. The objective of the third CSF is to ensure adequate management of natural resources, disaster risk, climate change and protection of the environment.

CSF4: Enhanced governance and improved citizen security. The fourth CSF focuses on improving technical and political governance, addressing the social causes of crime and strengthening law enforcement and border control.

Implementation of the GSDS is coordinated by the Ministry of Finance and Economic Development. Monitoring is managed by inter-ministerial Working Groups chaired by the Statistical Institute of Belize and based on a set of performance indicators. The GSDS also introduces a prioritization framework that will evaluate the urgency, impact, availability of resources, and systemic contribution of policies to guide the budget allocations.

The GSDS considers both internal and external resource mobilization. Internal financing options include improving spending efficiency and revenue generation.

In order to strengthen GSDS implementation, a detailed follow-up plan could spell out specific measures to mobilize human and financial resources, both internal and external. The external financing strategy could usefully identify projects with high growth potential and propose concrete steps to mobilize resources available from international partners and through public-private partnerships.

BELIZE

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 1, 2015

Prepared By

Western Hemisphere Department

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FUND RELATIONS

(As of July 31, 2015)

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

Implementation of Post-Catastrophe Debt Relief (PCDR): 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.

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 23, 2014 (SM/14/149). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- 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.
- Joint MCM-LEG advised on developing a medium-term debt management strategy and reviewed drafting of amendments to the Public Debt Legal Framework in July 2014.
- FAD advised on revenue administration in October 2014.
- MCM advised on loan loss provisioning under IFRS in April 2015.
- MCM advised on debt management in April 2015.

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

(As of July 2015)

A. Bank-Fund Collaboration Under the JMAP

1. **The World Bank's program in Belize is guided by a four-year Country Partnership Strategy (CPS) for FY 2012–2015**. 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 FY 2009–11.

2. **The overall size of the envelope during the CPS period is around US$45 million**. Activities include a US$15 million municipal development loan and a US$30 million climate resilient infrastructure loan, approved by the World Bank Board on September 16, 2010 and August 27, 2014 respectively.

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 inclusive growth and social prospects**. In particular, the teams agree on the need to enhance banking system stability, to bring debt back to a sustainable path, 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 assist

[2] Updated in August 2015.

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 continue to support Belize in adopting a sustainable natural resources based economic model while enhancing its resilience to climate change and natural hazards. A range of 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, 2015–2016

Title	Products	Provisional Timing of Missions	Expected Delivery Dates
Bank Work Program	Municipal Development Project		November 2016
	Improving Children's Health		January 2016
	Climate Resilience Infrastructure		August 2019
	Marine Conservation and Climate Adaptation		March 2020
	Management and Protection of Key Biodiversity Areas		September 2019
	Promoting Sustainable Natural Resource-based Livelihoods		November 2016
Fund Work Program	Staff Visit	January 2016	
	Article IV Consultation	April/May 2016	June 2016

B. Financial Relations with the World Bank Group

(As of June 2015)

IBRD Operations

(In U.S. dollars)

	IBRD
Original Principal	131,200,000.00
Cancellations	5,703,327.73
Disbursed	91,401,934.63
Undisbursed	34,094,737.64
Repaid	77,585,011.10
Due	13,816,923.53
Exchange Adjustment	0.00
Borrower Obligation	13,816,923.53

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	2015
Disbursements	0.7	0.0	0.0	0.0	0.0	1.1	0.7	4.5	1.0	3.4
Repayments	4.5	4.9	4.9	4.7	4.3	4.5	2.0	1.7	1.8	1.1
Net	-3.8	-4.9	-4.9	-4.7	-4.3	-3.3	-1.3	2.8	-0.8	2.2
Interest	1.7	1.8	1.6	1.0	0.4	0.2	0.1	0.1	0.3	0.3
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
* Estimated Debt Service.										

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of July 31, 2015)

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 two approvals to date under this strategy: (i) Education Quality Improvement Program for US$10 million; and (ii) George Price Highway Rehabilitation Program for US$27 million. One new US$15 million investment loan, Sustainable Tourism Program II, is in the 2015 pipeline.

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 solid waste projects, to develop a Crime Information System for Belize, to support trade and tax policy 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 coming year.

4. Recent and ongoing analytical work

- Rekindling Economic Growth in Belize
- Belize's Regional Integration Options
- Belize's Taxation and Trade Policy: Impact on Agriculture
- Belize's Taxation and Trade Policy: Assessment of Reform Options
- Labor Market Performance in Belize
- Challenges and Opportunities in the Belize Education Sector
- Public-Private Partnerships in Belize
- Public Employment and Pay Policy in Belize
- Citizen Security in Belize
- Water and Sanitation in Belize
- Transport Sector in Belize
- Efficiency of Public Expenditure on Health in Belize

5. 2015 program. One lending operation, Sustainable Tourism Program II, is in the pipeline for 2015. The Bank will support Belize through new technical assistance in the following areas: transportation master plan; transport prefeasibility studies; taxation and trade policy review; agricultural trade and food safety; and sustainable growth of Belize City.

6. Current portfolio (in US$ million). The loan portfolio consists of four investment loans for US$52 million, of which US$38.7 million (74 percent) remain undisbursed. One of the four loans is expected to exit the portfolio in 2015.

Loan	Approved	Undisbursed
Belize City Flood Mitigation Infrastructure Program	10.0	2.9
George Price Highway Rehabilitation Program	27.0	27.0
Community Action for Public Safety	5.0	1.1
Education Quality Improvement Program	10.0	7.7
Total	**52.0**	**38.7**

7. Loan transactions (in US$ million)

	2009	2010	2011	2012	2013	2014	2015*
Net flows	**4.9**	**-2.0**	**2.9**	**4.7**	**1.4**	**-1.8**	**-1.2**
Gross disbursements	12.9	5.7	10.2	12.8	9.7	7.4	8.2
Amortization	4.2	4.3	4.3	6.0	6.6	7.4	7.8
Interest and charges	3.8	3.1	1.8	1.9	1.7	1.8	1.6

*Projected.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of July 31, 2015)

A. Loan Portfolio Under Implementation and Transactions

Loan Portfolio Under Implementation

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Bridge Rehabilitation – Tropical Storm Arthur	8.8	2.0
Sixth Consolidated Line of Credit	10.0	0.1
Belize River Valley Rural Water Project	3.5	0.2
The Belize Social Investment Fund II	15.0	6.7
Fourth Road Project – Santa Elena – San Ignacio Bypass	24.7	15.7
Detailed Designs – Expansion of Water and Sewerage Facilities Ambergris Caye	0.7	0.6
TA - Education Sector Reform	2.0	1.6
Road Safety Project	7.2	2.0
Youth and Community Transformation Project	5.2	5.2
Fifth Road project – Philip S. W. Goldson Highway Upgrading	29.7	29.6
Seventh Consolidated Line of Credit	10.5	10.5
Road Safety Project – Add Loan	4.6	4.6
Belize Education Sector Reform Program II	35.0	35.0
TOTAL	**168.2**	**124.9**

Loan Transactions

(In millions of U.S. dollars)

	2009	2010	2011	2012	2013	2014	Jan–Jul 2015
Net flows	**10.0**	**1.5**	**(3.8)**	**(15.7)**	**(3.2)**	**(3.5)**	**(5.6)**
Gross disbursements	21.0	15.0	8.7	6.4	10.7	10.6	4.9
Amortization	6.4	7.6	7.8	16.0	9.8	9.8	7.1
Interest and charges	4.8	5.4	4.7	6.1	4.1	4.3	3.4

B. Economic and Sector Work

7. The Caribbean Development Bank (CDB) has continued to support the government of Belize (GOB) in pursuing its development goals within the context of the Bank's country strategy for Belize for the period 2011 to 2015. New loan and grant approvals have closely mirrored the indicative project pipeline identified in the country strategy. In addition, despite a relatively slow disbursement rate that has seen net (loan) flows to Belize turn negative since 2011, satisfactory progress has been made in implementing these and other projects in the portfolio under implementation.

8. The bulk of this portfolio reflects CDB's efforts to expand, rehabilitate or reconstruct critical transportation and water infrastructure. In terms of transportation, work has progressed on the reconstruction of the Kendall (Sittee River) and Mullins River bridges, which were destroyed by floods generated from the passage of tropical storm Arthur. Work has already been completed on the Kendall Bridge, with the Mullins River Bridge set for completion in July 2016. Meanwhile, completion of the Fourth Road project, which commenced construction in 2012, has been delayed until early 2017. The Fifth Road loan for upgrading of the Philip S. W. Goldson (formerly Northern) Highway was approved in May 2014 and work should commence in the last quarter of 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 its investments in transportation infrastructure, CDB approved a loan in 2012 to assist GOB in enhancing road safety along a demonstration corridor on the Western Highway from Belize City to Belmopan. With positive initial results from implementation to date, an additional loan was approved in October 2014 to expand the scope of the project.

9. With respect to water sector infrastructure, construction activity is complete on a potable water supply system to serve nine villages in the Belize River Valley and final disbursement on the project should be made in 2016. In addition, a loan was approved in 2012 to finance detailed designs for the expansion of water and sewerage on Ambergris Caye, building on an earlier feasibility study. The designs should be completed in the last quarter of 2015, when appraisal of the capital project is scheduled to begin. This project is viewed as important to sustain and boost tourism activity in the area and to protect the sensitive environment.

10. CDB's support for private sector development in Belize is mainly through lines of credit managed by the Development Finance Corporation (DFC), which on-lends the funds to the agriculture, industry, housing, and education sectors. The sixth such line of credit was fully committed as at end-2013. Consequently, a seventh was approved in July 2014, which included a small grant for a pilot project to support renewable energy/energy efficiency initiatives by private sector entities. A small TA grant was also provided for institutional strengthening of DFC in 2014, and implementation of the consultant's report is ongoing. CDB also supports the private sector in Belize through its Caribbean Technological Consultancy Services (CTCS) network, under which micro, small and medium-sized enterprises (MSMEs) benefit from grant-funded technical assistance.

11. CDB has also provided significant levels of concessional lending and grant funding for social programmes aimed at poverty reduction. 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. Grant funding has been provided through the Basic Needs Trust Fund (BNTF) currently in its 8th cycle. Belize's allocation under the 7th cycle of US$6.1 million is still under implementation and the 8th cycle allocation of US$1.6 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, health, and infrastructure to facilitate community access. The CDB funds also allow for the development of a comprehensive results-based monitoring and evaluation system.

12. With grant assistance provided by CDB in 2010, GOB formulated a comprehensive Education Sector Strategy. Based on this work, in 2012, CDB approved a Technical Assistance loan for Education Sector Reform, which sought to underpin the success of the strategy in enhancing learning outcomes across all levels of the education sector through institutional strengthening. Under this project, a comprehensive school location plan was developed, which then informed the Belize Education Sector Reform Programme II approved in May 2015. This capital loan aims to significantly expand the school plant in Belize and provide other supporting services in order to increase access to quality education, in line with the objectives of the Education Sector Strategy.

13. The Youth and Community Transformation Project was approved in 2012 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 toward building human capital, particularly among youth and children from poor communities in Belize City, as part of an attempt to reduce socially deviant behavior. Project implementation is scheduled for completion by the end of 2017.

STATISTICAL ISSUES

(As of July 31, 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 July 31, 2015)

	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	6/30/2015	7/29/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ —General Government 4/	3/31/2015	7/6/2015	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ —Central Government	3/31/2015	7/6/2015	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt 5/	3/31/2015	7/6/2015	M	M	NA
External Current Account Balance	2015Q1	7/6/2015	Q	Q	Q
Exports/Imports of Goods and Services	2015Q1	7/6/2015	Q	Q	Q
GDP/GNP	2015Q1	7/6/2015	Q	Q	Q
Gross External Debt	3/31/2015	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).

INTERNATIONAL MONETARY FUND

BELIZE

September 11, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By: Charles Enoch and Jacques Bouhga-Hagbe

This note reports on information that has become available since the Staff Report (SM/15/234) was circulated to the Executive Board and does not alter the thrust of the staff appraisal.

Recent Developments and Prospects

1. **The baseline fiscal outlook is slightly more favorable following an out-of-court settlement between the authorities and the owners of one of the two nationalized companies (Tables on valuations and macro scenarios).** On September 4, 2015, parliament approved the deed of settlement between the government and the former owners ("Fortis") of one of the two companies (Belize Electricity Limited or "BEL") that were nationalized in 2011.[1] The government compensated "Fortis" with cash (US$35 million or about 2 percent of GDP) and by returning some BEL shares (with end-2014 book value of US$59 million or 3.4 percent of GDP). Staff's projected compensation payments for the other nationalized company (Belize Telemedia Limited or BTL) remain unchanged. Compared with projections in the staff report, the projected path of public debt has shifted downward by about 6 percentage points of GDP and staff now projects public debt to reach about 89 percent of GDP in 2020, closer to the baseline medium-term debt level envisaged during the 2014 Article IV Consultation (SM/14/149).[2] The path of gross financing needs has also shifted down by 2–5 percentage points of GDP over 2017-2020, and gross financing needs are now projected to reach about 26 percent of GDP by 2020.

[1] The deed of settlement was signed on August 28, 2015.

[2] The debt ratio is measured on a gross basis and the BEL settlement was financed by running down assets rather than by accumulating new debt. The cash payment reduced reserves while the share return reduced the government's financial assets. The revision to the gross debt-to-GDP ratio overstates the impact on net public finances, which benefited by just 1.4 percent of GDP relative to the staff report.

2. Nonetheless, significant contingent liabilities from the two nationalized companies remain, with a potential impact on the medium-term path of international reserves (Table on Macro Scenarios). The deed of settlement on BEL contains a clause ("Put Option") that allows "Fortis" (or its transferees) to sell the newly reacquired BEL shares back to the government after August 2019 (or earlier if some clauses of the deed are violated). In this case, the government will have to repurchase these shares at their book value. Payment will have to be made available to "Fortis" (or its transferee) within 24 months after the date of the "Put Notice". It will have to be in US dollars and made by wire transfer to a bank account outside Belize, free of all taxes, duties, fees, imposts and deductions. The revised baseline assumes that "Fortis" will not exercise the "Put Option" after August 2019 and will keep the shares as BEL's recent good performances are assumed to continue.3 However, staff notes that this "Put Option" is a non-negligible downside risk to the baseline as public debt could jump at end-2019 by 3.4 percentage points of GDP and reserves drop by US$75 million (one month of imports) if "Fortis" (or its transferee) exercise this "Put Option." Moreover, as noted in the staff report, the legal proceedings for BTL are continuing and justice courts could impose compensation payments for BTL that are larger than amounts envisaged in the staff report (13 percent of GDP in 2016 payable in five years).

3. Raising the primary fiscal balance to 4–5 percent of GDP will significantly improve the debt trajectory and bring it closer to debt targets recommended during the 2014 Article IV Consultation (SM/14/149). As emphasized in the staff reports for the 2014 and 2015 Article IV Consultations, staff maintains its recommendation that the authorities promptly begin to progressively raise the primary fiscal balance to 4–5 percent of GDP. Under this fiscal adjustment scenario, public debt would reach about 77 percent of GDP in 2020 and the authorities' public debt target of 60 percent of GDP by 2023.

[3] The book value of BEL shares has risen from US$ 2.07 per share at end-2011 to US$ 2.565 per share at end 2014 (8 percent growth per year on average). With an annual book value growth of say 5 percent, the book value of BEL shares would amount to US$ 3.274 per share at end-2019. A "Put Option" at end-2019 could then cost about US$ 75.3 million to the government (or 3.4 percent of GDP).

Belize: Liabilities Related to Nationalizations (staff report vs. BEL settlement) 1/

(In millions of U.S. dollars, unless otherwise indicated)

	Valuation in the IMF staff baseline (2015 Art. IV Staff report)	BEL valuation in the deed of settlement	Valuation in the revised IMF staff baseline
BTL	243.6	...	243.6
Of which: Capitalization of accrued interest	75.6	...	75.6
BEL	119.5	94.0	0
Of which: Capitalization of accrued interest	19.5	...	0
Of which: Shares returned at book value 2/	...	59.0	...
Of which: Cash payments	...	35.0	...
Total liabilities from nationalized companies	**363.1**	...	**243.6**
In percent of GDP	19.7	...	13.2
Memorandum item			
Public Debt at end-2016 (percent of GDP)	101.1	...	94.7

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

1/ In the staff report, staff assumed that the nationalization liabilities will be recognized for both companies end-2016 (first column). With the settlement, the government has already recognized and paid compensation for BEL. In the revised baseline, staff continues to assume that nationalization liabilities for BTL will be recognized at end-2016, with payments over fiver years.

2/ Returned shares are valued at their book value at end-2014.

Baseline and Active Macro-Scenarios, 2014-20

(Percent of GDP, unless otherwise indicated)

		Projections					
	2014	2015	2016	2017	2018	2019	2020
I. Baseline Scenario							
Real GDP growth	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Inflation, end of period	-0.2	0.7	1.7	2.0	2.1	2.0	2.0
Staff Report							
Primary balance 1/	-1.2	-2.6	-1.2	0.1	1.0	1.0	1.0
Overall balance 1/	-3.9	-5.2	-4.1	-4.0	-3.4	-4.5	-4.4
Public debt 2/	76.0	78.1	101.1	98.8	97.9	97.0	96.1
Gross financing requirements	5.5	7.0	8.7	14.6	17.9	24.5	31.1
Gross official reserves (months of imports)	5.2	5.2	4.9	4.2	3.4	2.7	1.9
After BEL setlement							
Primary balance 1/	-1.2	-2.6	-1.2	0.1	0.9	1.0	1.0
Overall balance 1/	-3.9	-5.2	-4.0	-3.6	-3.0	-4.3	-4.1
Public debt 2/	76.0	78.1	94.7	92.2	91.3	90.3	89.4
Gross financing requirements	5.5	9.0	8.7	13.0	15.1	20.6	26.3
Gross official reserves (months of imports)	5.2	4.8	4.6	3.9	3.1	2.4	1.6
II. Active Scenario							
Real GDP growth	3.6	2.2	2.5	2.4	2.7	2.8	2.9
Inflation, end of period	-0.2	0.7	1.5	1.7	1.8	1.6	1.6
Staff Report							
Primary balance 1/	-1.2	-2.6	2.0	3.5	4.5	4.5	4.5
Overall balance 1/	-3.9	-5.2	-1.0	-0.6	0.3	-1.0	-0.7
Public debt 2/	76.0	78.1	100.0	95.6	92.2	88.4	84.3
Gross financing requirements	5.5	7.0	6.4	9.7	10.4	14.4	18.5
Gross official reserves (months of imports)	5.2	5.2	4.9	4.5	4.1	4.0	3.9
After BEL setlement							
Primary balance 1/	-1.2	-2.6	2.0	3.5	4.4	4.5	4.5
Overall balance 1/	-3.9	-5.2	-0.9	-0.2	0.6	-0.8	-0.5
Public debt 2/	76.0	78.1	93.4	88.8	85.3	81.4	77.3
Gross financing requirements	5.5	9.0	6.4	8.0	7.5	10.3	13.4
Gross official reserves (months of imports)	5.2	4.8	4.9	4.5	4.1	4.0	3.9
Memorandum items:							
Primary balance (2014 Article IV)	1.0	1.0	1.0	1.0	1.0	1.0	...
Public debt (2014 Article IV) 2/	77.4	76.7	97.3	94.1	91.9	89.8	...
Nominal GDP baseline (US$ million)	1,704	1,763	1,841	1,931	2,021	2,114	2,207
GDP growth elasticity to fiscal adjustment	. . .	. . .	-0.20	-0.19	0.03	0.08	0.14

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.

INTERNATIONAL MONETARY FUND

BELIZE

September 16, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By	Charles Enoch and Jacques Bouhga-Hagbe

This note updates staff's assessment of Belize's medium-term outlook, taking into account additional information that has become available since the Staff Report (SM/15/234) and supplementary information (SM/15/234, Sup. 2) were circulated to the Executive Board. It does not alter the thrust of the staff appraisal.

Recent Developments and Prospects

1. **The authorities have reached an out-of-court settlement on one of the two nationalized companies and have signed an agreement with the former owners of the other:**

- The **deed of settlement on Belize Electricity Limited (BEL)** was signed on August 28, 2015 and approved by parliament on September 4, 2015. The government compensated the former owners of BEL ("Fortis") with cash (US$35 million or about 2 percent of GDP) and by returning some BEL shares (with end-2014 book value of US$59 million or 3.4 percent of GDP).

- The **settlement agreement on Belize Telemedia Limited (BTL)** was signed on September 11, 2015 and must be approved by parliament into a legislation that must be published by September 18, 2015 ("BTL settlement legislation"). Under the agreement:

    - The former owners of BTL ("Dunkeld") will stop their legal challenge to the constitutionality of the nationalization of BTL.
    - The government recognizes liabilities (about US$ 48.5 million or 2.8 percent of GDP) associated with a loan that was extended to BTL many years ago ("British Caribbean Bank Loan").[1] One business day following the enactment of the "BTL settlement

[1] The loan was extended to BTL almost 10 years ago. The original amount was US$ 22 million, but an arbitration court ruled that the liability is now about US$ 48.5 million, including interest and other costs. British Caribbean Bank

(continued)

"legislation", the government will pay off "British Caribbean Bank Loan" in US dollars by wire transfer, free of all taxes or other government charges or counterclaims.

- One business day following the enactment of the "BTL settlement legislation", the government will make a down payment of about US$ 32.5 million (1.9 percent of GDP) to "Dunkeld" toward compensation for the nationalized BTL.
- The government will recognize the ruling of the permanent court of arbitration on compensation for the nationalization of BTL ("Final award"). A hearing was held in April 2015.[2] Within 10 business days of the issuance of the "Final award", the government will pay 50 percent of the "balance" on the award (i.e. amount in the "Final award" minus the down payment of about US$32.5 million mentioned above). The remaining 50 percent will be paid on the 12 month anniversary of the issuance of the "Final award".
- Almost all payments related to the "Final award" will be free of all taxes or other government charges and can be taken out of Belize free of foreign exchange restrictions and controls.

2. **In the revised baseline, the early repayment of debt related to nationalizations has improved the public debt trajectory but significantly worsened near-term projections of gross financing needs and central bank reserves (Tables on valuations and macro scenarios).** Compared with projections in the staff report, the projected path of public debt has shifted downward by about 9 percentage points of GDP. Staff now projects public debt to reach about 87 percent of GDP in 2020, closer to the baseline medium-term debt level envisaged during the 2014 Article IV Consultation (SM/14/149).[3] Near term gross financing needs have worsened by 2–5 percentage points of GDP but improved by similar amounts in the medium term. Central bank reserves would significantly drop (by 1–3 months of imports) compared with projections in the staff report and would be wiped out by 2020, especially if BTL compensation amounts in the "Final award" are close to or higher than staff's assumptions. Staff assumes that the permanent court of arbitration will issue its ruling on BTL compensation by the end of 2016 (at staff mid-point valuation). As envisaged in the settlement agreement on BTL, the government will make the first

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Limited, which is incorporated in Turks and Caicos and is owned by "Dunkeld", is the entity that holds the rights to that loan and will receive the payment.

[2] For the ruling on the "British Caribbean Bank Loan", arbitration courts took nine months after hearing the case to issue their ruling.

[3] The debt ratio is measured on a gross basis and the BEL settlement was financed by running down assets rather than by accumulating new debt. Payments for the "Dunkeld loan" (US$ 48.5 million) and the down payment of US$ 32.5 million toward compensation for the nationalization of BTL are also made by running down assets rather than by accumulating new debt. These cash payments reduced reserves while the share return in the BEL settlement reduced the government's financial assets. The revision to the gross debt-to-GDP ratio overstates the impact on net public finances, which benefited by just 1.4 percent of GDP relative to the staff report.

payment in 2016 (one day after the ruling) and the second and last one in 2017. Staff assumes that both payments will be made by accumulating new debt.

3. **Significant contingent liabilities from the two nationalized companies remain and have heightened risks to Belize's external stability (Table on Macro Scenarios).** The deed of settlement on BEL contains a clause ("Put Option") that allows "Fortis" (or its transferees) to sell the newly reacquired BEL shares back to the government after August 2019 (or earlier if some clauses of the deed are violated). In this case, the government will have to repurchase these shares at their book value. Payment will have to be made available to "Fortis" (or its transferee) within 24 months after the date of the "Put Notice". It will have to be in US dollars and made by wire transfer to a bank account outside Belize, free of all taxes, duties, fees, imposts and deductions. The revised baseline assumes that "Fortis" will not exercise the "Put Option" after August 2019 and will keep the shares as BEL's recent good performances are assumed to continue.[4] However, staff notes that this "Put Option" is a non-negligible downside risk to the baseline as public debt could jump at end-2019 by 3.4 percentage points of GDP and reserves drop by US$75 million (one month of imports) if "Fortis" (or its transferee) exercise this "Put Option." Moreover, as noted in the staff report and above, the legal proceedings for BTL are continuing and the permanent court of arbitration, which is now the only court to rule on BTL compensation, could impose compensation payments that are larger than amounts envisaged in the staff report (13 percent of GDP in 2016 payable in five years). Such compensation payments now have to be made over a much shorter period of time (within 12 months of the ruling) and could seriously deplete central bank reserves.

4. **Raising the primary fiscal balance to 4–5 percent of GDP would signal commitment to fiscal consolidation, enhance investor confidence, and start to create the buffers needed to help contain looming risks.** As emphasized in the staff reports for the 2014 and 2015 Article IV Consultations, staff maintains its recommendation that the authorities promptly begin to progressively raise the primary fiscal balance to 4–5 percent of GDP. Under this fiscal adjustment scenario, public debt would reach about 74 percent of GDP in 2020 and the authorities' public debt target of 60 percent of GDP by 2023. The enhanced investor confidence would boost private investment and the much needed foreign exchange inflows associated with greater foreign direct investment. The fiscal buffers that would be created would allow the government to borrow in external markets to help rebuild central bank reserves if required.

[4] The book value of BEL shares has risen from US$ 2.07 per share at end-2011 to US$2.565 per share at end 2014 (8 percent growth per year on average). With an annual book value growth of say 5 percent, the book value of BEL shares would amount to US$ 3.274 per share at end-2019. A "Put Option" at end-2019 could then cost about US$ 75.3 million to the government (or 3.4 percent of GDP).

Belize: Liabilities Related to Nationalizations (staff report vs. BEL and BTL settlements) 1/

(In millions of U.S. dollars, unless otherwise indicated)

	Valuation in the IMF staff baseline (2015 Art. IV Staff report)	BEL valuation in the deed of settlement	Valuation in the revised IMF staff baseline
BTL	243.6	…	105.6
Of which: Capitalization of accrued interest	75.6	…	37.8
BEL	119.5	94.0	0
Of which: Capitalization of accrued interest	19.5	…	0
Of which: Shares returned at book value 2/	…	59.0	…
Of which: Cash payments	…	35.0	…
Total liabilities from nationalized companies 3/	**363.1**	…	**105.6**
In percent of GDP	19.7	…	5.7
New borrowing to pay for BTL compensation 3/	…	…	**105.6**
In percent of GDP	…	…	5.7
Memorandum item			
Public Debt at end-2016 (percent of GDP)	101.1	…	91.5

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

1/ In the staff report, staff assumed that the nationalization liabilities will be recognized for both companies end-2016 (first column). With the settlement, the government has already recognized and paid compensation for BEL. In the revised baseline, staff continues to assume that nationalization liabilities for BTL will be recognized at end-2016, with payments over fiver years.

2/ Returned shares are valued at their book value at end-2014.

3/ Staff assumes that the ruling on the amount of compensation for BTL will issued by the end of 2016. As envisaged in the BTL settlement agreement, the government will pay 50 percent of this amount net of the down payment of US$ 32.5 million made in 2015. The remainder will be paid on the 12 month anniversary of this ruling.

Baseline and Active Macro-Scenarios, 2014-20
(Percent of GDP, unless otherwise indicated)

		Projections					
	2014	2015	2016	2017	2018	2019	2020
I. Baseline Scenario							
Real GDP growth	3.6	2.2	3.2	3.0	2.6	2.5	2.4
Inflation, end of period	-0.2	0.7	1.7	2.0	2.1	2.0	2.0
Staff Report							
Primary balance 1/	-1.2	-2.6	-1.2	0.1	1.0	1.0	1.0
Overall balance 1/	-3.9	-5.2	-4.1	-4.0	-3.4	-4.5	-4.4
Public debt 2/	76.0	78.1	101.1	98.8	97.9	97.0	96.1
Gross financing requirements	5.5	7.0	8.7	14.6	17.9	24.5	31.1
Gross official reserves (months of imports)	5.2	5.2	4.9	4.2	3.4	2.7	1.9
After BEL and BTL setlements							
Primary balance 1/	-1.2	-2.6	-1.2	0.1	0.9	1.0	1.0
Overall balance 1/	-3.9	-5.2	-4.0	-3.4	-2.5	-4.0	-3.9
Public debt 2/	76.0	76.7	91.5	91.0	89.6	88.3	87.2
Gross financing requirements	5.5	10.8	12.9	19.3	19.1	22.4	25.9
Gross official reserves (months of imports)	5.2	4.0	2.6	1.3	0.9	0.5	0.1
II. Active Scenario							
Real GDP growth	3.6	2.2	2.5	2.4	2.7	2.8	2.9
Inflation, end of period	-0.2	0.7	1.5	1.7	1.8	1.6	1.6
Staff Report							
Primary balance 1/	-1.2	-2.6	2.0	3.5	4.5	4.5	4.5
Overall balance 1/	-3.9	-5.2	-1.0	-0.6	0.3	-1.0	-0.7
Public debt 2/	76.0	78.1	100.0	95.6	92.2	88.4	84.3
Gross financing requirements	5.5	7.0	6.4	9.7	10.4	14.4	18.5
Gross official reserves (months of imports)	5.2	5.2	4.9	4.5	4.1	4.0	3.9
After BEL and BTL setlements							
Primary balance 1/	-1.2	-2.6	2.0	3.5	4.4	4.5	4.5
Overall balance 1/	-3.9	-5.2	-0.8	-0.1	0.6	-0.7	-0.4
Public debt 2/	76.0	76.7	88.2	85.6	82.1	78.4	74.3
Gross financing requirements	5.5	9.0	4.0	5.9	6.9	9.7	12.8
Gross official reserves (months of imports)	5.2	4.0	2.7	1.6	1.6	1.8	2.0
Memorandum items:							
Primary balance (2014 Article IV)	1.0	1.0	1.0	1.0	1.0	1.0	...
Public debt (2014 Article IV) 2/	77.4	76.7	97.3	94.1	91.9	89.8	...
Nominal GDP baseline (US$ million)	1,704	1,763	1,841	1,931	2,021	2,114	2,207
GDP growth elasticity to fiscal adjustment	. . .	. . .	-0.20	-0.19	0.03	0.08	0.14

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.

Statement by Trevor. Lessard, Advisor for Belize
and Michael McGrath, Alternate Executive Director
September 16, 2015

Our Belizean authorities would like to express their appreciation to the staff for their frank assessment of their economy and the helpful research conducted during the Article IV consultation. We agree with staff that the main policy issues facing Belize are ensuring financial stability, preserving external sustainability, and placing debt on a more firm downward path. However, in some instances our authorities continue to disagree with staff on what is the optimal policy mix to achieve these goals.

Fiscal Policy and Debt Sustainability

Similar to last year, our authorities are perplexed and disappointed that the report refers to Belize's debt as unsustainable and they would strongly encourage staff to be more factual, and less editorial, in their assessments going forward. At 78.1 percent of GDP, the debt-to-GDP ratio is higher than the authorities (and staff) would consider prudent in the long term, but it is significantly lower than many other developing (and advanced) economies whose debt has been deemed sustainable by the Fund. Unfortunately, again this year staff seems to conflate having a debt-to-GDP above the desired level as equivalent to it being unsustainable, which it is not. While our authorities agree with staff that debt vulnerabilities are high over the medium term, and absent corrective action financing pressures could be exceptional, these risks are not sufficient to conclude debt is unsustainable at this point. Seemingly in contrast to staff's conclusion, Belize's debt path is downward sloping in every year of the projection scenarios put forth by staff, except of course for the year(s) that the costs associated with the nationalized entities are recognized.

With respect to the costs associated with the nationalizations, our authorities remain firmly of the view that staff's passive assumption to use the midpoint valuation of the contingent liabilities for DSA purposes erroneously inflates Belize's debt. The recent settlement of BEL at a level significantly below the mid-point valuation is evidence in support of this view. Given the importance such a determination by the Fund can have, every effort should be made to ensure accuracy and consistency across the membership. Moreover, when significant uncertainty is present, as is the case here, staff should more explicitly highlight these unknowns and exercise caution in reaching a definitive judgment.

Our authorities recognize the need for fiscal consolidation and have already started taking action. To begin, the relatively large fiscal expansion that accommodated increased infrastructure spending, financed at favourable rates with the support of funding from the Petro-Caribe arrangement, has run its course. Going forward, the Government of Belize has committed to use any additional financing available through Petro-Caribe to lower the debt burden on Belizeans through either a debt-buyback or to compensate the former owners of the nationalized companies. This is only a first step as our authorities are reviewing various revenue and expenditure measures, such as the structure of the GST and ways to rationalize the public wage bill, which will improve the primary balance and place debt on an even steeper downward trajectory.

Notwithstanding our authorities' commitment to fiscal consolidation over the medium term, they once again strongly disagree with staff's recommendation to engage in harsh fiscal austerity to achieve a primary balance of 4-5 percent. They continue to have legitimate concerns that such an exceptional amount of front-loaded fiscal austerity carries with it considerable opportunity costs in an economy requiring significant investment in physical and human capital to achieve its growth potential. Moreover, staff's 'gradual' consolidation path, which still envisages a substantial frontloading of greater than 4 percent of GDP fiscal adjustment in a single year, is considered by our authorities to be economically disastrous as well as socially and politically destabilizing, which could in itself undermine securing much needed medium term multi-annual adjustment. Given recent high profile discussions within and outside the Fund on what is an achievable fiscal adjustment path and what are realistic estimates of fiscal multipliers, our authorities would have welcomed a more considered, country-specific, and achievable fiscal adjustment path to anchor staff's active scenario. It is all the more surprising that staff did not explore a more growth-friendly medium-term path given the relatively negligible difference in debt-to-GDP between the austerity driven active scenario and the growth focused Plan B as evidenced by the end-point results shown in the table on page 12 of the report.

Financial Sustainability

We thank the staff for highlighting the continued progress that has been made in repairing the financial sector and bolstering financial regulatory and supervisory frameworks. While staff rightly highlight remaining vulnerabilities in the financial sector related to NPLs, it is important to place these levels into context. NPLs have continued their multi-year trend decline while simultaneously banks have complied with the Central Bank of Belize's mandate to increase loan-loss provisions, the results of which are clearly illustrated in Figure 4 of the staff report. Similarly steady progress has been made in addressing FSAP recommendations and the recent exit from CFATF's follow-up and monitoring progress confirms the progress Belize has made on AML/CFT and other issues.

The recent and unexplained termination of correspondent banking relationships (CBR) for some banks operating in Belize has the potential to destabilize the financial system and have large negative spillovers, largely contained at present, for the real economy. The lack of justification for terminating these CBRs, and lack of transparency on what is required for their reactivation, is particularly problematic since it denies local authorities and domestic banks the opportunity to address the concerns that may have brought the termination of the CBR. Our authorities wish to highlight that this issue is not unique to

Belize, with banks (and central banks) in several developing economies losing these important business relationships, thus leaving policy makers struggling in the dark with how to respond. Our authorities hold the view that the termination of the CBR is the unintended consequence of large financial institutions responding to a rapidly changing regulatory environment and supervisory enforcement in their home jurisdictions. In rightly addressing regulatory deficiencies, the relevant policy makers and authorities do not consider the appropriate treatment of CBR, the current situation could worsen the too-big-to-fail (TBTF) issue as it is small and medium-size domestic banks that are struggling to maintain relations and stay active, not large multinational financial conglomerates. This hollowing out of the financial sector in developing economies could bring with it not only important risks to financial stability, but also affect the real economy as it is often smaller banks and credit unions who are more willing to extend credit to SMEs and the productive sectors in their economy.

The Fund has a clear role to play in resolving the correspondent banking issue, which is affecting several of its members and has the potential to quickly worsen. *We understand that a working group has been created within the Fund to address this issue and would invite staff to provide Directors with additional information on this group.* Our authorities would like to stress that the Fund, not only as the leading international institution in this area but also as a spokesperson for many of its small and developing members who are not able to get the international attention this issues deserves alone, needs to be proactive in this area. Our authorities believe that the Fund’s role needs to go beyond researching the topic and monitoring its effects. Rather, we strongly encourage the Fund to engage collaboratively with affected members, large financial institutions, and systemically important regulators to develop a set of concrete rules based benchmarks that can assist policymakers in safeguarding and restoring normal financial relationships between domestic banks and international markets.

Growth and Prosperity

While Horizon 2030 sets the long-term objectives that will guide development efforts in Belize, the new Growth and Sustainable Development Strategy (GSDS) for the period 2015-2018 transforms these objectives into specific goals and policy actions for the next couple of years. With support from the UN, the GSDS is intended to be operational, rather than aspirational, and explicitly takes into account the fiscal and economic realities in Belize. As mentioned by staff one goal of the GSDS is to lift growth to an ambitious, but achievable average real output growth of 5 percent - a point acknowledged by staff in their alternative scenario analysis. Achieving this goal will require a multi-faceted approach that includes improving the investment and business climate, targeted growth-inducing investments in physical and human capital, maximizing the support from official sector partners, and targeting sectors such as agribusiness that have strong growth prospects. Actioning this achievable growth strategy as well as fostering and nurturing confidence in the economic prospects will be critical to its success. In this regard, our authorities are very much aware of the role that communications of the current situation and their plans will play in this regard.

External Sector

The fixed exchange rate regime has served Belize well, providing an important macroeconomic anchor and price stability. Our authorities are closely monitoring developments in the current account and the medium-term risks that are resulting from declining oil exports and consistent current account deficits. Authorities recognize the need to close the current account deficit in the coming years, which is why expanding export markets and attracting foreign investments are explicitly highlighted as necessary conditions for the success of the GSDS. The change in the current account will not occur instantly, and our authorities are aware that an alternative path of austerity and import compression as advocated by staff yield quicker results on the Balance of Payments, but they remain of the view that this is not a lasting or sensible solution nor does it help Belize meet its development and poverty reduction goals.

Concluding Remarks

Our authorities are in agreement with staff on the main vulnerabilities facing the Belizean economy, although long-standing disagreements on the policy actions required in some areas between themselves and staff remain. This should not be surprising given it mirrors a larger unsettled debate within the discipline of economics. That said, our authorities do feel that the Fund could better serve its role of a Trusted Advisor if more effort was made to take into account the need for small poor countries such as Belize to focus extra attention on growth and economic transformation through a well thought out structural reform agenda. Similarly, fiscal policy discussions could be improved, and traction potentially increased, if staff explored alternative fiscal scenarios instead of the unnecessarily harsh austerity path that has been put forth year after year and rejected as unrealistic and not conducive to achieving a sustainable shift in Belize's growth trajectory.