INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/286

BELIZE

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELIZE

September 2017

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 2017 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 11, 2017 consideration of the staff report on issues related to 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 11, 2017, following discussions that ended on June 15, 2017, 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 July 13, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Belize.

The following document has been or will be separately released.

- Selected Issues

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September 18, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Belize

On September 11, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belize.

Adverse developments negatively impacted the Belizean economy in 2016, with strong expansion of tourism the only bright spot. Output is estimated to have contracted by 0.8 percent in 2016, reflecting a continued slowdown in oil production and agriculture. Fish and citrus production were hit by diseases, and in August Hurricane Earl caused destruction of crops. Growth in tourism was facilitated by improved airlift, marketing and new FDI projects. Unemployment increased to 11.1 percent in September 2016, from 10.2 percent a year earlier.

The economy continues to face multiple challenges. The macroeconomic outlook remains weak. Public debt remains elevated, at around 100 percent of GDP, despite a recent debt restructuring agreement with private external bondholders. Growth is projected at just under 2 percent over the medium term. The envisaged tightening of the fiscal stance reflected in the budget for FY2017/18, of 4 percentage points of GDP, is an important first step toward fiscal consolidation, but would not be sufficient to put public debt on a decisive downward trajectory. Withdrawal of Correspondent Banking Relationships (CBRs) and low capital buffers in the banking system are key threats to financial stability.

Executive Board Assessment[2]

Executive Directors noted that while Belize’s economic growth is expected to rebound, the medium-term outlook is relatively weak with high debt, and large external imbalances. Directors encouraged the authorities to take advantage of the cash flow relief provided by the recent restructuring of public debt to private external bondholders to focus on restoring fiscal and debt sustainability, strengthening the financial sector, and raising Belize’s growth potential.

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

[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 welcomed the envisaged fiscal tightening reflected in the FY 2017/18 budget, and the effort to raise additional revenue. However, they noted that the adjustment effort on the expenditure side relies on reducing capital spending. While recognizing the difficulties of a more ambitious fiscal adjustment, Directors underscored that further consolidation is necessary to put the debt level on a decisive downward trajectory and mitigate risks, particularly since repeated debt restructurings carry a reputational cost. They highlighted that additional measures should focus on both the revenue and the expenditure side, including a broadening of the base of the General Sales Tax, and reform of the civil service to help stabilize employee headcount and to contain the wage bill. Directors encouraged the authorities to support the fiscal consolidation effort with a well–designed fiscal rule. They also called for steps to improve public financial management.

Directors noted that the financial sector continues to show improvements but emphasized the need for sustained tight supervision. They encouraged the authorities to maintain current restrictions on the banks until they are in a sound financial position, raise provisioning requirements on loan losses, and undertake a review of asset quality for all banks.

Directors recognized that there are multiple factors behind the loss of Correspondent Banking Relationships (CBRs) in Belize and that challenges remain. They welcomed recent progress to strengthen the AML/CFT framework and emphasized that further efforts, in line with best international practices, would help reduce the risk of further CBR losses.

To raise Belize's growth potential, Directors highlighted the importance of carefully prioritizing the projects under the Growth and Sustainable Development Strategy, in close collaboration with development partners. Directors also called for the implementation of key structural reforms to improve the business climate and lay the foundation for private sector–led growth. They also recommended steps to address statistical weaknesses.

Table 1. Belize: Selected Social and Economic Indicators, 2014–2021

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), 2014	101
Population (thousands), Sep. 2015	378.0	Unemployment rate, September, 2016	11.1
GDP per capita, (current US$), 2015	4,698	Number of physicians, 2007	251
		Access to improved drinking water sources	
Life expectancy at birth (years), 2014	73.7	(percent of population), 2012	99.3
Under-five mortality rate (per thousand), 2013	17	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2014-21

	2014	2015	2016 Prel.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
National income and prices								
GDP at constant prices	4.1	2.9	-0.8	2.5	2.3	1.7	1.7	1.7
Consumer prices (end of period)	-0.2	-0.6	1.1	2.4	2.3	2.2	2.1	2.0
Consumer prices (average)	1.2	-0.9	0.6	1.8	2.3	2.2	2.1	2.0
Money and credit								
Credit to the private sector	4.7	4.8	-3.0	2.5	3.0	3.0	3.0	3.5
Money and quasi-money (M2)	7.9	7.6	2.8	4.5	4.7	3.9	3.8	3.8
Weighted average lending rate (in percent)	10.3	10.0	...	...	...	...	...	...
Central government 1/								
Revenue and grants	29.2	28.7	29.9	32.2	31.9	32.0	32.2	32.2
Of which: oil revenue	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: grants	1.1	0.6	1.3	1.3	1.3	1.3	1.3	1.3
Current expenditure	24.2	26.0	27.4	28.0	28.5	28.8	28.8	28.9
Capital expenditure and net lending	7.3	10.3	6.5	4.1	4.5	4.3	4.4	4.3
Primary balance	0.3	-5.2	-1.2	3.1	2.0	2.0	2.0	2.0
Overall balance	-2.4	-7.6	-3.9	0.1	-1.1	-1.1	-1.1	-1.0
Public and publicly guaranteed debt								
Stock of public and publicly guaranteed debt	78.1	82.6	100.4	96.5	92.3	89.8	87.5	85.4
Domestic debt 2/	11.0	14.2	29.4	27.4	25.8	25.5	25.7	27.1
External debt	67.1	68.4	71.0	69.1	66.5	64.3	61.8	58.3
Debt service 3/	4.2	4.3	5.1	4.7	4.7	4.7	4.5	4.6
In percent of exports of goods and services	6.2	6.7	9.4	8.5	8.6	8.5	8.1	8.2
In percent of government current revenue	15.3	15.3	17.9	15.5	15.4	15.3	14.8	15.1
External sector								
External current account, (percent of GDP) 4/	-7.5	-9.9	-9.4	-8.0	-6.6	-6.5	-5.7	-5.2
Exports of goods and services	8.9	-3.7	-14.3	5.8	3.9	3.6	6.5	4.1
Imports of goods and services	11.8	3.3	-11.3	0.1	1.9	3.6	4.8	3.3
Terms of trade (deterioration -)	0.3	0.0	3.0	-2.3	-0.3	-0.1	-0.2	-0.3
Nominal effective exchange rate	1.6	11.0	...	...	...	...	...	...
Real effective exchange rate	0.7	8.5	...	...	...	...	...	...
Overall balance of payments	84	-50	-61	-76	-12	-5	9	-4
Exports of goods and services	1,154	1,112	953	1,007	1,047	1,085	1,155	1,202
Imports of goods and services	1,218	1,258	1,116	1,117	1,138	1,179	1,236	1,276
Gross international reserves 5/	487	437	377	301	288	284	292	288
In percent of gross external financing needs	289	170	182	156	163	156	173	170
In percent of next year's external public debt service	655	489	440	335	312	304	296	292
In months of imports	4.6	4.7	4.0	3.2	2.9	2.8	2.7	2.7
Nominal GDP	1,707	1,743	1,740	1,819	1,905	1,980	2,056	2,134
Nominal GDP (BZ$ millions)	3,413	3,485	3,481	3,638	3,809	3,959	4,111	4,267

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; 2009 Poverty Country Assessment; and Fund staff estimates.

1/ Fiscal year (April to March).
2/ The series have been revised to include overdrafts at the Central Bank of Belize.
3/ Public and publicly guaranteed external debt.
4/ Including official grants.
5/ From 2009, includes the share of Belize in the special and general SDR allocations in the equivalent of SDR 18 m (US$28 million).

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

July 13, 2017

Outlook and risks. The macroeconomic outlook remains weak. Public debt remains elevated, at around 100 percent of GDP, despite a recent debt restructuring agreement with private external bondholders. Growth is projected at just under 2 percent over the medium term. The envisaged tightening of the fiscal stance reflected in the budget for FY2017/18, of 4 percentage points of GDP, is an important first step toward fiscal consolidation, but would not be sufficient to put public debt on a decisive downward trajectory. Withdrawal of Correspondent Banking Relationships (CBRs) and low capital buffers, particularly in a systemic bank, are key threats to financial stability.

Focus of the consultation: Discussions focused on debt sustainability in the wake of the debt restructuring agreement with private external bondholders reached in March 2017, fiscal and external adjustment, financial stability and CBRs, and growth and competitiveness.

Key policy advice:

- Underpin the recent debt restructuring with a credible and sustained program of fiscal consolidation, increasing the primary fiscal balance to about 4-5 percent of GDP in the medium term.
- Strengthen public financial management (PFM), including by enhancing electronic tax filing and payment, improving internal and external controls, and adopting new procurement legislation.
- Address banking sector vulnerabilities, especially weak capital buffers, by maintaining restrictions on lending and distribution of dividends.
- Continue to monitor CBRs and avoid further losses of CBRs by strengthening the AML/CFT framework, including by enhancing entity transparency in the offshore sector and properly supervising licensed entities.
- Develop a financing strategy for the Growth and Sustainable Development Strategy (GSDS) and take steps to improve the business climate.

Approved By
Krishna Srinivasan (WHD) and Daria Zakharova (SPR)

Discussions took place in Belize City and Belmopan during June 6-15, 2017. The team comprising Bert van Selm (head), Chuan Li, Joel Okwuokei, and Kalin Tintchev (all WHD), and Chady El Khoury (LEG) and met Prime Minister Barrow, Minister of State at the Ministry of Finance Barnett, Financial Secretary Waight, Central Bank Governor Grant, other officials and representatives of the private sector, and the political opposition. Mr. David Hart (OED) participated in some of the meetings. At headquarters, editorial support was provided by Adriana Veras and Malika El Kawkabi.

CONTENTS

TABLES

ANNEXES

BACKGROUND

1. **The ruling center-right United Democratic Party (UDP) of Prime Minister Dean Barrow retains a comfortable parliamentary majority, gained in November 2015 elections.** The next general election is due to be held by November 2020, providing time to implement much needed fiscal adjustment ahead of the next election season.

2. **Belize continues to grapple with low growth and high debt and large external deficits, despite a recent debt rescheduling agreement with its external bondholders.** Large wage increases for public workers (25 percent during FY2014/15-FY2017/18) and a slow pace of structural reforms have not helped to get the country out of its high debt/low growth trap. Social spending in recent years, financed by Petrocaribe resources, was targeted at reducing poverty and improving the delicate security situation[1]. There has been some progress in implementing past Article IV recommendations.

Box 1. Implementation of Key Recommendations from the 2016 Article IV Consultation

2016 Article IV Recommendations	Implementation Status
Fiscal consolidation Improve the primary fiscal balance to 4-5 percent of GDP in the medium term with a combination of revenue and expenditure measures, including broadening of the tax base and reducing mandatory expenditure.	**Some progress** The fiscal outturn for 2016/17 was worse than budgeted, with a primary deficit of 1 percent of GDP. Measures taken in the context of the 2017/18 budget to bring about a primary surplus are a step in the right direction. The quality of the adjustment can be improved by broadening the base of the GST, and by addressing spending on wages and pensions.
Financial sector reform 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.	**Broadly consistent** The authorities continue to advance financial sector reforms. Restrictions on the banks (including a major bank) that have not met prudential requirements, remain in place.
AML/CFT including entity transparency reform Improving entity transparency by making beneficial ownership available, and strengthening the Central Bank of Belize (CBB) and the International Financial Services Commission (IFSC) risk based supervision of banks, licensed financial operators in the offshore sector, and registered agents and trust services.	**Some progress** Amendments to the International Business Corporations (IBCs–one out of four types of entities that can be created in Belize) Act to make the beneficial ownership available were tabled in Parliament for adoption. The Central Bank of Belize (CBB) continues to conduct onsite full-scope and AML/CFT examinations of banks and credit unions. A National Risk Assessment has been initiated.

[1] The UN global study on Homicide 2013 ranked Belize among the world's highest in terms of homicide rates–44.7 homicides per 100,000 population, compared to a world average of 6.2.

Box 1. Implementation of Key Recommendations from the 2016 Article IV Consultation (Concluded)

Structural reform	**Limited progress**
Implement a comprehensive medium-term growth strategy and policies to boost the financial system's role in financing the economy. Take steps to improve the business climate.	The government endorsed the Growth and Sustainable Development Strategy (GSDS) in April 2016. Progress is needed in improving the business climate, including by establishing a credit bureau and a credit registry to further strengthen the role of the financial system in financing the economy.

RESTRUCTURING OF COMMERCIAL EXTERNAL DEBT

3. **On March 15, 2017, the Belizean authorities announced that they had reached a restructuring agreement with private external bondholders.** The authorities first announced their intention to restructure this debt (US$526 million, or about 30 percent of GDP) in a press release in November last year, following similar operations in 2007 and 2013, attributing their decision to 'serious economic and financial challenges currently facing the country'. Subsequently Standard and Poor's downgraded Belize's sovereign credit rating in two steps, from B- to CC. The new agreement reduces the interest rate on the bond to 4.9375 percent (the rate was set to step up from 5 to 6.767 percent in August 2017), and amends the amortization schedule by pushing back principal repayments to 2030–34 (instead of semiannual installments beginning in August 2019). The final maturity date of the bond was brought forward from 2038 to 2034. The agreed terms reduce the NPV of the restructured debt by about 28 percent (inclusive of fees, using the exit yield). A coupon payment due February 20, 2017 was made with a delay (but within the 30-day grace period). Following the announcement on March 15, Standard and Poor's briefly downgraded Belize to Selective Default (SD), in accordance with its distressed exchange criteria. Upon the completion of the restructuring, Standard and Poor's upgraded Belize's foreign currency rating back to B-, with a stable outlook. In April, Moody's upgraded Belize from Caa2 to B3.

4. **The agreement with the private external bondholders is anchored by fiscal adjustment.** The authorities have committed to bondholders to tighten the fiscal stance by 3 percentage points in FY2017/18, and to maintain a primary surplus of 2 percent of GDP for the subsequent three years, implying no additional adjustment effort after FY2017/18. The agreement also includes a monitoring mechanism for the fiscal adjustment effort: in case Belize fails to meet the 2018-21 primary surplus target, the authorities will submit a report to the National Assembly to explain why the target was missed. In addition, in this case, Belize commits to requesting an IMF technical assistance mission to (i) determine why the primary surplus target was missed; and (ii) recommend remedial measures. The authorities also commit to publishing the findings of any such IMF TA as well as the annual Article IV Consultation reports. Furthermore, if the primary surplus target is missed, interest payments on the restructured bond will become payable on a quarterly rather than semi-annual basis (for the subsequent 12 months that the target is missed).

5. While the debt restructuring provides meaningful cash flow relief, and the agreed fiscal tightening is a step in the right direction, the agreement is just one element of a more comprehensive package needed to lift Belize out of high debt and low growth. The agreement reduces the cost of servicing a relatively expensive part of external debt, and the NPV gain is significant. However, in the absence of a nominal principal haircut, the overall level of public debt remains elevated, at about 100 percent of GDP. Moreover, the repeated debt restructurings could undermine Belize's credibility and risks loss of access to capital markets for an extended period, in turn hurting prospects for strong and sustainable growth. To lead to lasting gains, the debt restructuring needs to be underpinned by a credible and sustained program of ambitious fiscal consolidation, combined with structural reforms to boost growth—as discussed in greater detail below.

RECENT ECONOMIC DEVELOPMENTS

6. Adverse developments negatively impacted the economy in 2016, with strong expansion of tourism the only bright spot (Figures 1-2):

- Output is estimated to have contracted by 0.8 percent in 2016, reflecting a continued slowdown in oil production and agriculture. Fish and citrus production were hit by diseases, and in August Hurricane Earl caused destruction of crops. The authorities' estimates suggest that total damage caused by the hurricane could amount to 3-4 percent of GDP. Oil production continued to decline in 2016 owing to dwindling reserves, and exploration has come to a halt. Unemployment increased to 11.1 percent in September 2016, from 10.2 percent a year earlier.

- Growth was supported by the expansion of the tourism sector, facilitated by improved airlift (additional and less expensive flights), better marketing, and new FDI-financed projects. Stop-over arrivals increased by 13 percent in 2016, while cruise passenger arrivals increased by 5 percent.

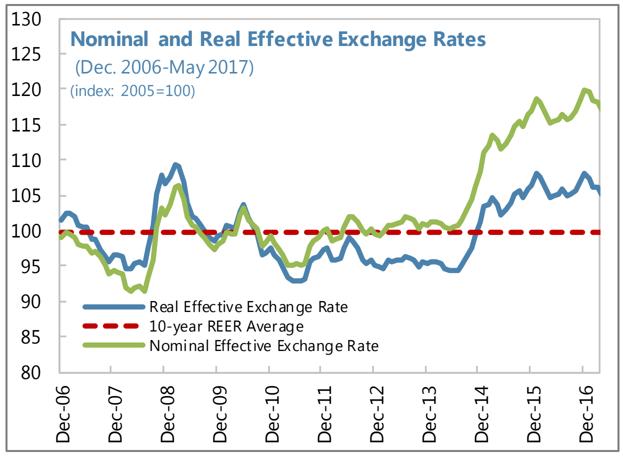
- Higher fuel prices and transportation costs pushed up the inflation rate to 2.2 percent as of April 2017 but inflationary pressures across most other price categories remained muted.

- In June 2016, the Permanent Court of Arbitration (PCA) awarded higher than anticipated compensation for the nationalized Belize Telemedia Limited (BTL).[2] Total compensation payments for this nationalization equal US$275 million, or more than 15 percent of GDP, of which US$175 million was paid in 2016, with the remainder due to be paid during FY2017/18. Of the total amount due in 2016, about US$100 million was paid in foreign currency.

- Low commodity prices and sector-specific shocks weighed on the export performance of agriculture, fisheries and oil. The current account deficit decreased slightly to an estimated

[2] BTL was nationalized in 2009 under the Belize Telecommunications Act passed by Parliament.

9.4 percent of GDP in 2016 due to lower imports and stronger tourism receipts. This deficit, combined with BTL compensation payments, reduced December 2016 gross reserves to US$377 million, or about 4 months of imports coverage. As of May 2017, the real effective exchange rate remained broadly constant relative to May 2016, but was about 5 percent above the 10-year REER average.



7. The fiscal deficit for 2016/17 came in higher than budgeted (Figure 3). Whereas the budget targeted a primary surplus of 1 percent of GDP, the estimated outturn is a deficit of 1 percent of GDP, owing to both expenditure overruns (including on pensions and on capital spending—see Table 2) and revenue shortfalls. This primary deficit corresponds to an overall deficit of 4 percent of GDP, excluding BTL compensation payments. Revenues were supported by fuel tax-related measures introduced in March 2016, which brought in 1.5 percent of GDP in FY2016/17. A 3 percent increase in public wages planned for April 2016, stemming from a February 2014 three-year (FY2014/15 to 2016/17) collective bargaining agreement (and coming on top of the annual 2.5 percent wage 'increment'), was delayed by one year, to April 2017.

8. Pressures on Correspondent Banking Relationships have eased, as all affected banks have found alternative arrangements, albeit of various degrees of stability. Major global banks terminated over two-thirds of CBR accounts in the banking system from mid-2015 to early 2016. The Central Bank of Belize also lost two of its five CBRs in the last two years, including one that was used temporarily to process wires for banks that lost CBRs. As a result, transaction costs and processing times have reportedly increased and access to some financial services was limited. During the second half of 2016, pressure on CBRs eased. All affected banks (domestic and international) have replaced some of the lost CBRs. These are mostly wire arrangements with small, less known financial institutions and non-bank financial service providers. Currently, every bank has at least two CBRs and can process transactions in a timely manner. The situation is still fragile because most of the banks in Belize rely on the same correspondent banks.

9. Liquidity in the domestic banking system remains ample (Figures 4 and 5).[3] Broad money grew by 3 percent at end-December 2016, reflecting expansion of domestic assets supported by strong credit to the government, while private sector credit contracted by 3 percent y/y. Banking systems' liquid assets in excess of statutory requirements stood at 73.4 percent in December 2016.

[3] Inward and outward capital transactions (such as FDI, portfolio investments, foreign currency loans and deposits, and overseas investments) require the prior approval of the Central Bank of Belize (CBB). Belize maintains a foreign exchange system that is generally liberal with regards to payments and transfers for current international transactions.

The statutory and cash reserve requirements remain at 23 percent and 8.5 percent respectively. The treasury bill yield stood at 0.3 percent in mid-May 2017, slightly up from extremely low levels.

10. The banking system's non-performing loans (NPLs) are declining, from elevated levels (see also the discussion in the Selected Issues Paper). The system's ratio of gross non–performing loans (NPLs) to total loans fell to 9.8 percent at end-March 2016 (2.2 percent net of provisions), from 15.8 percent at end-March 2016 (5.7 percent net of provisions), due mainly to loan write-offs and restructuring by a major bank. The reported capital adequacy ratio (CAR) is stable at 23 percent. Profitability ratios are slowly improving with net earnings of 0.2 percent in December. A major bank's ratio of NPLs dropped to 8.1 percent (0.5 percent net of provisions) at end-March 2017, compared to 28.6 percent (13.5 percent net of provisions) a year ago. This improvement primarily reflects loan write-offs (BZ$78 million) and restructuring of legacy loans (BZ$28 million). Its CAR was 14.9 percent. Taking account of the disputed government assets (BZ$36 million) on the bank's balance sheet, CAR reduces to 7.8 percent, below the statutory requirement of 9 percent.

Belize: FY2017/18 Revenue Measures

	BZ$ M	% of GDP
Total measures	**83.2**	**2.26**
Taxes on international trade and transactions	**25.8**	**0.70**
- Increase on environmental tax from 2% to 3%	15	0.41
- increase in the social fee on cigarette from 6% to 20%	10.8	0.29
Taxes of goods and services	**43.4**	**1.18**
- Increase in excise on mineral waters, aerated water, tax on beer, stout, by 10 cents per bottle	13.4	0.36
- Increase in excise of cement by 5%, paints by 15%, bars of non-alloy steel by 10%	4.8	0.13
- Increase in excise of fuel by 25 cents per US gallon	10	0.27
- Increase in excise of un-denatured ethyl alcohol by about 30%	0.2	0.01
- Lower threshold on electricity consumption from $200 per month to $100	7	0.19
- Increases of stamp duty on foreign exchange permits from 1.25% to 1.75%	8	0.22
Non-tax revenue	**14**	**0.38**
- Increase in the conservation fee from $7.5 to $40	11	0.30
- Statutory bodies contribution of 10% of taxes, fee and levies collected	3	0.08

Source: Belize authorities and Fund staff estimates.

BUDGET 2017/18

11. The budget for 2017/18 aims to tighten the fiscal stance by 4 percentage points of GDP. The budget approved by parliament in March aims for a primary surplus of 3 percent of GDP, consistent with the agreement with private creditors, and corresponding to an overall budget that is broadly in balance (not including the large compensation payment for BTL, equivalent to 5½ percent of GDP in FY2017/18):

- Parliament has passed several revenue-enhancing measures, including (i) higher excises on fuel, beer, sugary drinks, and construction materials; (ii) higher import duties on selected products, including cigarettes; (iii) an increase in an environmental tax (a levy on most imported goods); and (iv) adjustments in the General Sales Tax (GST), including lowering the social exemption for household electricity use. These tax policy measures would be supported by changes in tax administration to improve GST collections.

- On the expenditure side, the authorities are aiming for cuts equivalent to around 2 percent of GDP, mainly from reduced capital spending.

- The sale of government holdings of nationalized companies to domestic investors is projected to contribute 1½ percent of GDP in financing in FY2017/18. Financing from Venezuela under the PetroCaribe program is projected to be ½ percent of GDP, compared to about 2 percent in FY15/16. The bulk of the financing will come from the issuance of domestic debt.

OUTLOOK AND RISKS

12. **The economy is expected to return to positive growth in 2017**. Output is projected to increase by 2½ percent, reflecting a rebound in the agricultural sector combined with continued strong growth in tourism. The current account deficit is expected to narrow to 8 percent of GDP in 2017. Inflation is projected to increase slightly to just over 2 percent in 2017, in line with price developments in major trading partners.

13. **The baseline medium-term outlook remains weak (Tables 1-5).** Growth is projected to average just under 2 percent in the medium term, reflecting reduced public investment and declining oil output.[4] Over the medium term, growth will be supported by the expected further expansion of the tourism sector and the gradual recovery of agriculture. The current account deficit would slowly improve due to a gradual recovery in agriculture and growth in tourism, but would remain significant, reflecting structural weaknesses in the export sector (Annex I on external stability). Staff estimates that the external position is currently substantially weaker than the level consistent with medium term fundamentals and desirable policy settings. The current account deficit is projected to remain 2-3 percent of GDP above the norm by 2022. International reserves are projected to decline below standard adequacy metrics over the medium term and reserve adequacy will remain vulnerable to adverse shocks to the current account and contingent liabilities. The fiscal adjustment projected in the baseline scenario, which assumes no fiscal adjustment beyond FY2017/18, would be insufficient to put public debt on a clear downward trajectory.

14. **The impact of the expected shift in the US policy mix will likely be limited.** The main links to the US economy pertain to tourism and remittances, and higher US growth could boost these, but capital flows and financial integration with the US are limited. Appreciation of the US dollar could have a negative impact on competitiveness, given the exchange rate peg to the US dollar.

15. **The baseline scenario is subject to substantial downside risks** (RAM in Annex II). The Government of Belize continues to contest various legacy claims, for a total of about US$100 million or so (or 5½ percent of GDP)—these could lead to large public and external financing needs, which

[4] The growth projection also takes into account Belize's vulnerability to natural disasters.

may be very difficult to meet. Additional pressure on CBRs is possible and could further weaken banks. These vulnerabilities could be exacerbated by external risks, including the further decline in sugar prices after the EU sugar reform takes full effect in 2017, and natural disasters. On the upside, a successful implementation of the GSDS could help mitigate some of the above-mentioned risks.

POLICY DISCUSSIONS

Staff emphasized the need to promptly take measures to reduce the likelihood of a disorderly fiscal and external adjustment. In particular, the authorities should: (i) raise the primary fiscal balance to levels that would place public debt on a clear downward trajectory and help rebuild investor confidence; (ii) enhance the quality of the fiscal adjustment by broadening the base of the GST and addressing the large and growing public wage and pensions bills; (iii) reduce banking sector vulnerabilities and strengthen the AML/CFT framework including enhancing entity transparency, especially in the offshore sector; and (iv) given the limited fiscal space, design a credible financing strategy for the GSDS and consider growth-enhancing measures that can be implemented at no financial cost. Policy discussions were framed by an active scenario that reflects these recommendations.

A. Strong Fiscal Policy Action

Baseline and Active Macro Scenarios, 2017-25

(Percent of GDP, unless otherwise indicated)

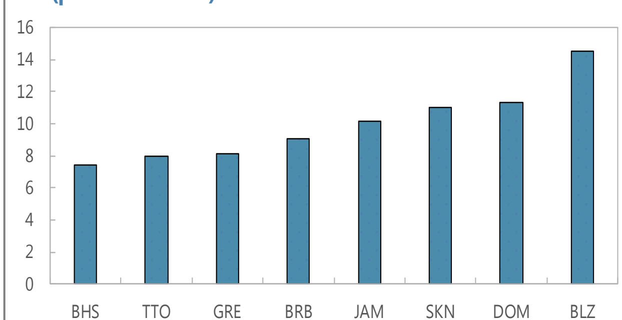
	Projections								
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
I. Baseline Scenario									
Real GDP growth (percent change)	2.5	2.3	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Inflation, end of period (percent change)	2.4	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance 1/	3.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Overall fiscal balance 1/	0.1	-1.1	-1.1	-1.1	-1.0	-1.2	-1.0	-0.9	-0.8
Public debt 2/	96.5	92.3	89.8	87.5	85.4	83.4	81.4	79.4	77.4
External current account balance	-8.0	-6.6	-6.5	-5.7	-5.2	-4.9	-4.9	-4.7	-4.7
Gross official reserves (months of imports)	3.2	2.9	2.8	2.7	2.7	2.6	2.5	2.4	2.3
II. Active Scenario									
Real GDP growth (percent change)	2.5	1.8	1.6	1.8	2.0	2.2	2.3	2.3	2.3
Inflation, end of period (percent change)	2.4	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance 1/	3.1	3.9	4.4	4.4	4.2	4.2	4.2	4.1	4.1
Overall fiscal balance 1/	0.1	0.8	1.4	1.5	1.3	1.5	1.6	1.6	1.7
Public debt 2/	96.5	92.1	87.8	84.0	79.4	73.8	69.0	64.3	59.5
External current account balance	-8.0	-5.7	-5.4	-4.6	-4.2	-4.1	-4.0	-3.8	-3.6
Gross official reserves (months of imports)	3.2	3.2	3.2	3.4	3.5	3.5	3.7	3.7	4.0
Memorandum items:									
Nominal GDP baseline (US$ million)	1,819	1,905	1,980	2,056	2,134	2,215	2,299	2,386	2,477

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

16. A tight fiscal stance will need to be maintained over the medium and long term to put public debt on a clear downward trajectory and mitigate risks to debt sustainability (Annex III: DSA). A primary surplus of 4-5 percent of GDP—several percentage points higher than the surplus that the authorities have committed to in their agreement with bondholders—would need to be maintained over the medium and long run to reduce public debt to 60 percent of GDP by 2025 (see text table: active scenario, and discussion on a fiscal rule in paragraph 19). The fiscal consolidation will help compress imports, leading to an improvement in the current account and the reserve cover ratio. More ambitious structural reforms envisaged under the adjustment scenario are also expected to boost exports. The fiscal contraction will initially have a modest negative impact on growth (with a small multiplier of about 0.3, in line with that of other small open Caribbean economies).[5] In the medium term, reduced government borrowing pressures would support the ensuing fall in interest rates, which combined with greater investor confidence, especially on the fiscal position, could boost private investment and growth.

17. While the measures taken to tighten the fiscal stance in the context of the FY2017/18 budget are a step in the right direction, further fiscal consolidation is necessary. To take the primary balance to the recommended target range, staff called for further measures on both the revenue and the expenditure side. On the revenue side, reform options include broadening the base of the General Sales Tax (GST, by removing zero-rated items and streamlining exemptions), and/or increasing the GST rate from 12.5 percent to the regional average of 15 percent, each of which could yield about 1 percentage point of GDP. On the expenditure side, a civil service reform could help stabilize the number of public employees and contain the wage bill. The public sector pension plan could become contributory and pensions could be adjusted in line with inflation. A three-year (FY2018/9 to FY2020/21) wage freeze could help bring about a reduction in the wage bill as a share of output, which remains very high by any standard, at 11½ percent of GDP (14½ percent, including teachers' wages)[6]; and a 2-5 replacement ratio could be introduced in support of attrition. The retirement age could be gradually increased to 62 from 55 at present. In the absence of decisive measures, the wage and pension bill will continue to increase, and crowd out capital spending.

Caribbean: Wages and Salaries of Selected Countries, 2016/17
(percent of GDP)



18. Staff stressed that ambitious fiscal adjustment is necessary to mitigate risks of disorderly macroeconomic adjustment, and to support the currency peg. In the absence of more forceful adjustment, the sustainability of the fiscal and external position remains in doubt,

[5] See for example Gonzalez-Garcia, Antonio Lemus, and Mico Mrkaic, 2013, "Fiscal Multipliers in the ECCU", IMF Working Paper 13/117 (Washington: International Monetary Fund).

[6] See also Belize--Toward a Fiscally Sustainable Wage Negotiation Framework, Selected Issues, CR 14/281, September 2014.

given substantial downside risks, and notwithstanding the recent debt restructuring and the tightening of the fiscal stance in the context of the budget for FY2017/18.

19. The fiscal adjustment could be supported by a well-designed fiscal rule. A rule that targets a reduction in public debt to GDP to 60 percent over the medium term has been introduced elsewhere in the region (ECCU, Jamaica) and has had notable success in bringing public debt on a clear downward trajectory in several cases (e.g. St. Kitts and Nevis, Grenada, and Jamaica). In Belize, adoption by parliament of a fiscal rule that targets 60 percent debt to GDP by 2025 could help guide the fiscal consolidation effort and broaden the support for it. In addition, successful implementation of such a rule would reduce the risks to debt sustainability, while also allowing for a fiscal buffer to respond to shocks.

20. Staff urged the authorities to strengthen PFM, and address weaknesses identified by the Public Expenditure and Financial Accountability (PEFA) assessment mission. Any increase in overall spending beyond ceilings approved by parliament should require another parliamentary approval in the context of a revised budget. Electronic tax filing and payment could be enhanced, especially in the GST and income tax departments, where less than 10 percent of registered tax payers file or pay their taxes electronically. The authorities plan to adopt CARICOM model procurement legislation in 2017, and implementation of a new chart of accounts is progressing. Preparation of a public debt management bill is well underway.

21. Staff also urged the authorities to phase out the practice of financing government spending with Central Bank (CBB) borrowing and develop securities markets. More than half of domestic public debt is held by the CBB. Financing government spending from the CBB brings excessive liquidity into the market, which, if not sterilized, can put pressure on the exchange rate. Proactive debt management and more regular auctions of government paper would activate the domestic securities markets and could over time generate savings on interest payments.

Authorities' Views

22. The authorities are fully aware that public debt remains elevated despite the recent debt restructuring, and that sustained prudent fiscal policy is necessary to put public debt on a clear downward trajectory. However, they considered that tightening fiscal policy beyond the measures taken in the context of the 2017/18 budget would jeopardize social cohesion. The authorities took note of the contribution that fiscal rules have made elsewhere in the region in maintaining prudent fiscal policy over time. They acknowledged that the 2013-17 wage agreement has resulted in a sharp increase in the wage bill. They also agreed that the repeated debt restructurings risk undermining Belize's credibility, and that the emphasis should now be on sustained prudent macroeconomic policies to establish a solid track record.

A. Strengthening the Financial System

23. Staff supported the authorities' determination to keep the financial system under tight supervision (see Selected Issues Paper). Staff urged the authorities to raise provisioning requirements to 100 percent on loan losses (secured or not) given uncertainties on the values of collateral. An asset quality review of all banks would help assess the real strength of their capital buffers. Staff also encouraged the authorities to keep the current restrictions on the systemic bank, until they are fully confident that the bank is in a sound financial position (the bank has until April 2018 to meet its provisioning requirements, and no profit distribution will be allowed until these requirements are met). Staff stressed the importance of developing capital markets with appropriate safeguards that would allow banks to tap into the current liquidity in the banking system to raise capital.

24. There is no single factor that can explain the loss of CBRs in the region or in Belize, and the challenge will need to be tackled on multiple fronts. Decisions to end CBRs are driven by banks' assessment of the risks and profitability of the CBR. While Belize cannot increase the volume of transactions with correspondent banks to influence their profitability, it could certainly reduce the risks related to transactions related to Belize by improving the AML/CFT framework including the transparency of entities created in Belize. This will ultimately reduce the cost of due diligence by correspondent banks.

25. Effective implementation of the AML/CFT framework would help reduce the risk of further loss of CBRs (see Selected Issues Paper). ML/FT risks related to the service providers licensed by the International Financial Services Commission (IFSC) are significant. The IFSC offers, through a high number of registered agents (98) and their intermediaries abroad, the services of establishing complex entities without a proper mechanism to have the related beneficial ownership information available, accessed, and disseminated in a timely manner. It also licenses service providers (e.g. FX, trading) without the requirement to have a physical presence in Belize. While these services generate relatively low fiscal revenues, their lack of transparency and the possibility for them to hold accounts in offshore banks creates significant reputational risks for Belize, especially as such opacity increases risks of misuse for criminal activities. In this respect, the authorities are recommended to conduct a study on the cost and benefits of the offshore center.

26. Staff strongly encourages the authorities to further strengthen the effectiveness of the AML/CFT framework including enhancing entity transparency in the offshore sector. Staff considered that IFSC's registered agents and service providers should be subject to proper licensing requirements including by having physical presence in Belize and be monitored for compliance with the AML/CFT requirements on a risk basis. In addition, the authorities should amend relevant legislations[7] and the IFSC should supervise registered agents to ensure the beneficial ownership of legal persons and arrangements is available in Belize. Furthermore, entities' registers should immediately publish basic information related to entities created in Belize. Effective and dissuasive sanctions should apply against those that do not comply with the information requirements. This would allow timely access at the domestic level (e.g., banks and law enforcement agencies in Belize) of adequate, accurate, and current information on beneficial ownership of all types of entities created in Belize. The authorities and banks should also step up their efforts in having available, accessing and sharing beneficial ownership information with correspondent banks and relevant foreign authorities in a timely manner. Finally, the authorities should identify, assess, and

[7] Legal entities that could be created in Belize are International Business Corporations, Limited Liability Companies, and foundations. Legal arrangements are trusts. Every type has a separate Act that set the requirements for creation.

understand, among others, the vulnerabilities and the extent to which legal persons and arrangements created in Belize could be misused for money laundering.

27. Enhancing AML/CFT supervision of banks based on risks, especially in the offshore sector, and imposing enforcement measures when breaches are identified is essential. The CBB should enhance its capacity to inspect banks and impose sanctions when necessary. Supervision should focus on risks, especially those related to the offshore sector. Inspections should ensure that banks properly identify their clients and have the beneficial ownership available, especially in relation to entities (companies, foundations, and trusts).

28. It is also important to communicate the results of the efforts to enhance AML/CFT and entity transparency to correspondent banks and their regulators. This can take the form of enhanced communication between correspondent and respondent banks in Belize to foster a common understanding of the risks and outreach between the CBB and foreign regulators.

Authorities' Views

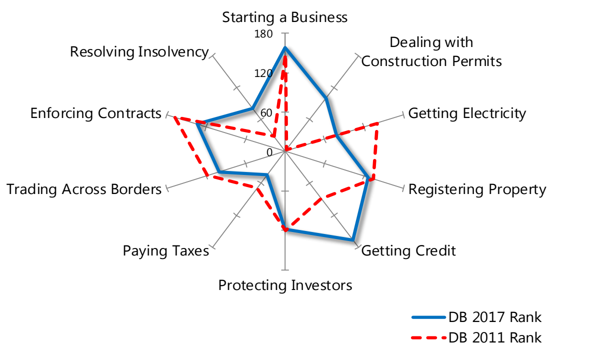
29. The authorities agreed that the financial system needs to be kept under tight supervision, and that there is a need to build on recent improvements in building CBRs. They noted that the restrictions on the systemic bank will remain in place until the bank is in a sound financial position. They agreed with staff on the need for capital market development. They noted recent gains in establishing new CBRs, and concurred with staff on the need to further strengthen the AML/CFT framework, while reiterating that global banks have not provided clear reasons for the withdrawals of CBRs in 2015 and 2016. The authorities introduced a bill with amendments to the international business corporation that is expected to be adopted by parliament in July 2017. The law requires registered agents to have the beneficial ownership information at their premises by July 2018. They have also initiated a national risk assessment that will be finalized early 2018.

B. Boosting Growth

30. Growth remains a major challenge in Belize. Efficient implementation of the Growth and Sustainable Development Strategy (GSDS) could help raise productivity and long term growth. The GSDS aims to alleviate major infrastructure bottlenecks and strengthen export competitiveness by reducing transportation costs. The strategy also aims to broaden access to education and health services. Several projects aim to build climate resilience through disaster risks mitigation and green energy projects. Key priority areas include strengthening the productivity and the resilience to shocks of the export oriented agriculture sector, and increasing the efficiency of financial and labor markets and the utility sector through targeted regulatory improvements. Staff encouraged the authorities to develop concrete action plans, prioritize projects, estimate their cost, and design realistic project financing strategies, taking into account the limited fiscal space, and working closely with development partners.

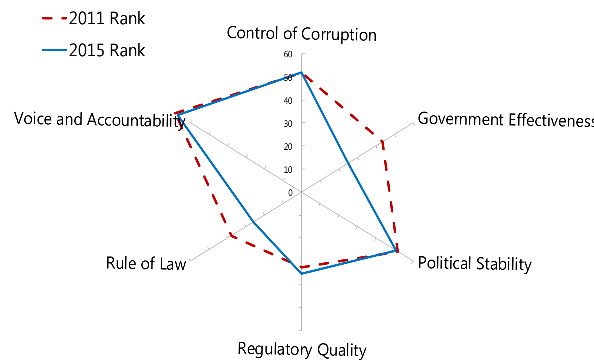
31. Staff urged the authorities to take concrete action to improve the business climate and improve governance. In the 2017 World Bank Doing Business Report, Belize ranked 112 out of 190 countries, down 2 places from its 2016 ranking. There is room for improvement in several areas, notably in starting a business, getting credit, protecting investors, trading across borders and enforcing contracts. The World Bank's governance indicators also reveal some deterioration in the efficiency of the court system and in the quality of public services (see text figure). Legislative improvements in these areas could be implemented without significant financial costs.

Doing Business Indicators, 2011 and 2017 1/
(Rankings out of 190 countries)



Source: Doing Business Report 2011 and 2017.
1/ A high ranking (lower score) on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.

Belize: World Bank Governance Indicators
(Percentile Rank)



Sources: World Bank

32. Staff encourged the authorities to implement growth-enhancing measures that build on Belize's strengths. Belize has a strong potential in agriculture, agri-business, tourism and energy, which could be further developed with assistance from international financial institutions. Reducing the cost of doing business, including cost of inputs, could help attract private investment and expand key export-oriented sectors. Improving the efficiency of financial, labor and utility markets and the legal system could play a key role in this process. Access to affordable credit for farmers and SMEs could be enhanced by establishing a credit bureau and a credit/collateral registry. Amending the labor legislation to allow greater flexibility in working hours could help support growth in tourism and outsourcing sectors, where such flexibility is needed. Introducing legislative changes that promote competition in the utility sector could help lower the cost of energy and telecommunications. Contract enforcement could be further strengthened by measures that improve the efficiency of the court system.

Authorities' Views

33. The authorities indicated that reforms envisaged under the GSDS are expected to support growth over the medium term. They concurred that in light of the tight fiscal envelope, project prioritization is critically important. They expect growth in the agricultural sector to rebound over the coming years, while the tourism sector is expected to continue to expand. They agreed with the need to take further steps to improve the business climate, and noted progress in drafting relevant legislation to establish a credit bureau and a credit registry. The authorities noted several disaster risk mitigation projects financed by the World Bank that will build climate resilient infrastructure and facilitate climate adaptation and sustainable natural resource management.

STATISTICAL ISSUES

34. Staff encouraged the authorities to address remaining statistical weaknesses, including in the compilation of the international investment position and statistics for the consolidated public sector. Data quality is broadly adequate for surveillance but the timeliness of compiling final fiscal, real and external sector outcomes should be improved.

Box 2. Growth and Sustainable Development Strategy

The GSDS aims to improve the quality of life for all Belizeans. It rests on four "critical success factors (CSFs)":

Optimal national income and investment. This CSF aims to raise long-term GDP growth by increasing productivity and competitiveness, focusing in particular on six conditions:

- *Penetrating export markets*. The GSDS aims to maintain a positive growth 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.
- *Attracting foreign investments.* The GSDS aims to bring FDI back to the levels achieved in the three-year period prior to the global crisis. Belize's attractiveness to foreign investors could be improved by reducing the cost of doing business and combating crime. Raising sugar farmers' field productivity could stimulate the expansion of the foreign sugar refinery BSI. Lowering the cost of inputs (energy, telecommunications) by promoting competition and improvements in physical and legal infrastructure, could contribute to a more business-friendly environment.
- *Effective industrial policy.* The GSDS plans to raise productive efficiency by overcoming the small scale and scope of production, developing priority sectors (agriculture, agro-processing, tourism and energy), and investment in green technologies.
- *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.
- *Adequate infrastructure.* The policies in this category aim to improve the transportation infrastructure, as well as to promote investment in electricity generation capacity and renewable energy, and to strengthen the investment climate and improve regulation of the telecommunications sector. Improvements in the transportation network will be guided by a new Transportation Masterplan developed by IDB. A key project is the rehabilitation of the transportation link with Mexico that will be financed with grants from the U.K. Caribbean Infrastructure Fund.
- *Adequate human capital.* Attaining universal primary and secondary education and higher rates of successful school completion through increased school enrollment, improved teaching effectiveness and quality, and better alignment of the school curriculum with labor market needs.

Enhanced social cohesion and resilience. This CSF seeks to eradicate poverty by 2030 and reduce homicides to fewer than 10 per 100,000 inhabitants, including through improvements in access to healthcare and education, optimizing social security and social protection, improvements in working conditions and social inclusion.

Sustained or improved health of natural, environmental, historical and cultural assets. This CSF seeks to ensure adequate management of natural resources, disaster risk, climate change and the environment.

Enhanced governance and improved citizen security. This CSF focuses on improving governance, addressing the social causes of crime and strengthening law enforcement and border control.

STAFF APPRAISAL

35. The Belizean economy continues to face multiple challenges. Public debt remains elevated, at around 100 percent of GDP, despite the recent debt restructuring agreement with private external bondholders. The current account deficit is projected to decrease slowly but remain high over the medium term. Staff assesses that the external position is currently substantially weaker than the level consistent with medium term fundamentals and desirable policy settings. The loss of CBRs has posed significant challenges for the economy.

36. Downside risks are substantial. Contested legacy claims, for a total of about US$100 million (or 5½ percent of GDP), could lead to large public and external financing needs. Additional loss of CBRs or wire transfer arrangements is possible. These vulnerabilities could be exacerbated by external risks, including the expected decline in sugar prices after the EU sugar reform takes full effect in 2017, and natural disasters.

37. The fiscal savings created by the recent debt restructuring must be reinforced by more comprehensive package to lift Belize out of high debt and low growth. The agreement reduces the cost of servicing a relatively expensive part of external debt, and the NPV gain is significant. However, the repeated debt restructurings could undermine Belize's credibility and risks a loss of access to capital markets for an extended period, in turn hurting prospects for strong and sustainable growth. To lead to lasting gains, the debt restructuring needs to be underpinned by a credible and sustained program of fiscal consolidation, combined with structural reforms to boost growth.

38. Further fiscal consolidation (beyond measures taken in the context of the FY2017/18 budget) is necessary to put debt/GDP on a decisive downward trajectory, and to mitigate risks. While the fiscal tightening in the context of the FY2017/18 is a step in the right direction, a large part of the adjustment is in the form of a reduced budget for capital spending, which could hurt medium and long term growth prospects. The large and growing public wage and pensions bills have not been not addressed. On the revenue side, the adjustment effort does not address weaknesses in the tax system, such as the large number of exemptions and zero-rated items under the GST.

39. The adoption by parliament of a fiscal rule that targets 60 percent debt to GDP by 2025 could help underpin the fiscal consolidation effort and broaden the support for it. A primary surplus of 4-5 percent of GDP would need to be maintained over the medium and long run to put debt on a path towards 60 percent of GDP by 2025. On the revenue side, reform options include broadening the base of the General Sales Tax (by removing zero-rated items and streamlining exemptions), and/or increasing the GST rate from 12.5 percent to the regional average of 15 percent, each of which could yield about 1 percentage point of GDP. On the expenditure side, a civil service reform could help stabilize the number of public employees and contain the wage bill, the public sector pension plan could become contributory, and pensions could be adjusted in line with inflation.

40. **Weaknesses in PFM need to be addressed.** More transparent and efficient procurement practices could restrain outlays on goods and services. Stronger monitoring of government-supported entities, especially their payroll, could generate savings on transfers.

41. **Government financing by the Central Bank (CBB) should be phased out and replaced by financing using securities markets**. More active debt management and more regular auctions of government paper would activate the securities markets and generate savings on interest payments over time.

42. **The financial system must be kept under tight supervision.** The banking system remains vulnerable, with non-performing loans as a share of total bank loans still high. Given uncertainties on the values of collateral, provisioning requirements should be raised to 100 percent on loan losses (secured or not). An asset quality review of all banks would help assess the real strength of their capital buffers.

43. **Structural policies should focus on raising the economy's growth potential and improving social inclusion.** This could be achieved through strengthening the business climate to lay the groundwork for private sector-led growth, building resilience in the export sector through productivity-enhancing reforms, and investment in education, health and disaster risk mitigation. Given the limited fiscal space, GSDS projects should be carefully prioritized and financed in close collaboration with development partners.

44. **More effective implementation of the AML/CFT framework might help reduce the risk of further loss of CBRs**. The adoption by banks and trust and company services providers of more rigorous customer due diligence (CDD) and transaction monitoring systems that can share information with correspondent banks in a timely manner is important. This should be coupled with enhanced risk-based AML-CFT supervision, in particular of the offshore sector, as well as enhanced communications of efforts put in place by authorities and Belizean banks.

45. **It is recommended that the next Article IV be held on the standard twelve-month cycle.**

Figure 1. Belize: Real Sector Developments 1/

Macroeconomic developments in 2016 were characterized by a decline in output and low inflation.

GDP contracted by 0.8 percent in 2016 dragged down by primary and oil sectors and damage from Hurricane Earl...

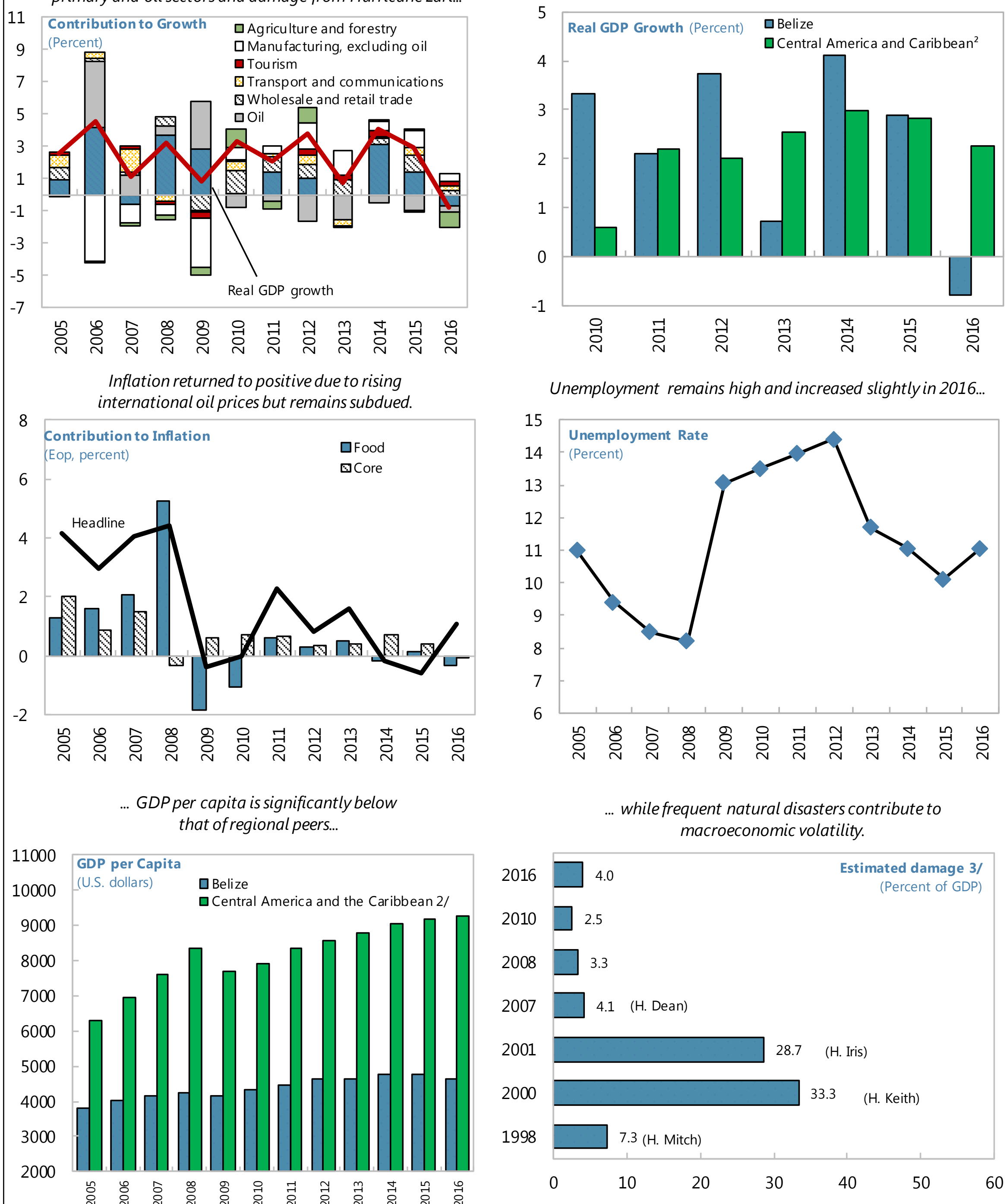
...declining significantly below regional peers' growth.

Inflation returned to positive due to rising international oil prices but remains subdued.

Unemployment remains high and increased slightly in 2016...

... GDP per capita is significantly below that of regional peers...

... while frequent natural disasters contribute to macroeconomic volatility.



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

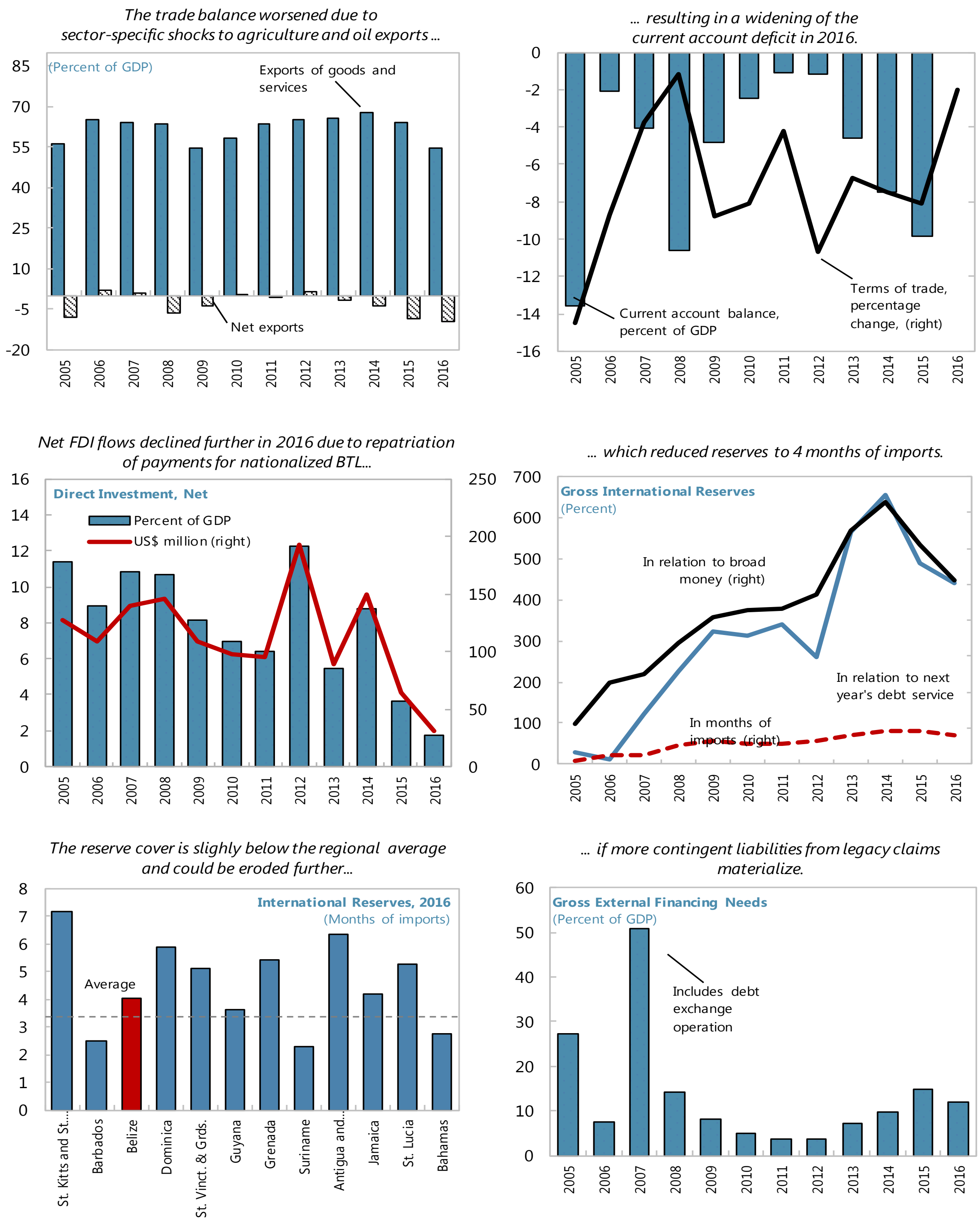
1/ Preliminary data for 2016.

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/

A large current account deficit and compensation payments for previously nationalized telecommunications company reduced international reserves in 2016.



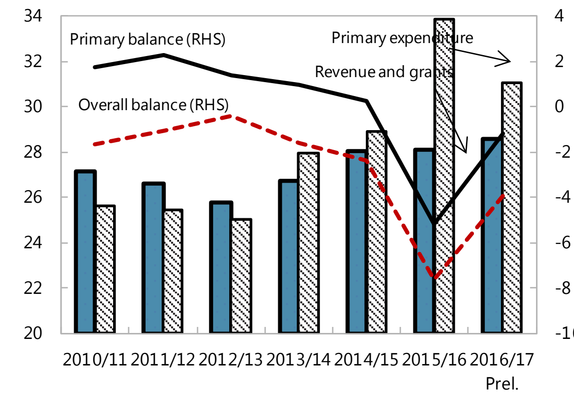
Sources: Central Bank of Belize; and Fund staff estimates.
1/ Preliminary data for 2016.

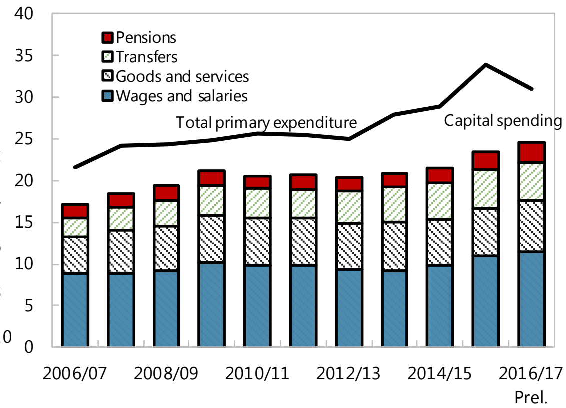
Figure 3. Belize: Fiscal Sector Developments 1/

(In percent of FY GDP)

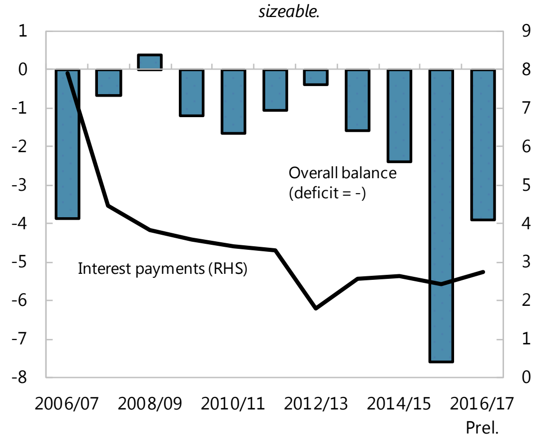
Reflecting weak fiscal stance, the primary fiscal balance and debt sustainability have deteriorated significantly in recent years

Primary deficits falls but expenditure remains elevated .

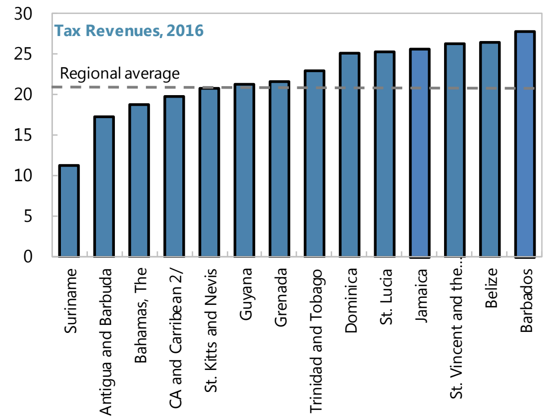




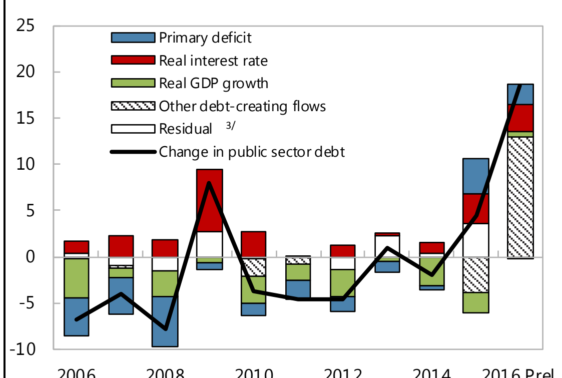
The overall deficit falls and interest payments remained sizeable.



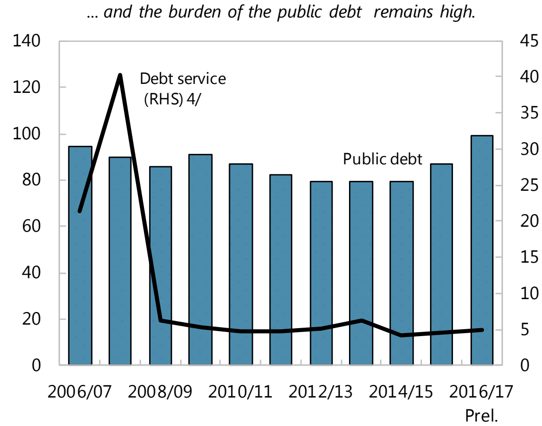
Revenue mobilization is higher than the regional average.



Despite debt restructurings, debt continues to increase ...



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

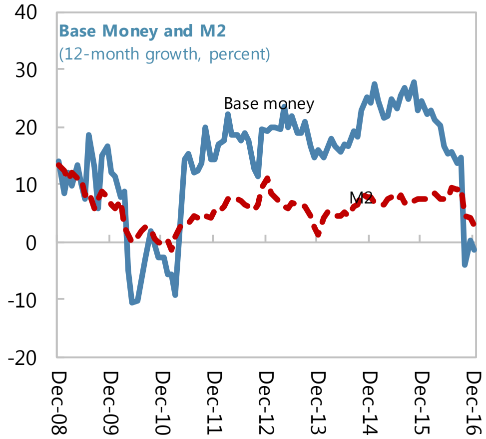


Sources: Country authorities; and Fund staff estimates.
1/ Preliminary data for 2016/17.
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.
3/ Large residual in 2015 reflects recognition of contingent liabilities (compensation payments for BEL/BTL).
4/ Excluding amortization and interest payments of the debt exchange operation in 2007

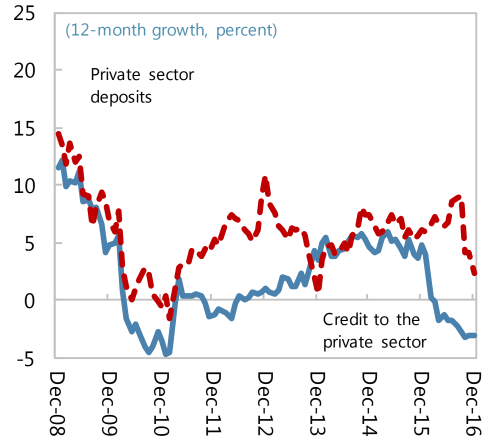
Figure 4. Belize: Monetary and Financial Sector Developments

High NPLs and high interest rate spreads hold back financial intermediation from supporting efficiently economic development.

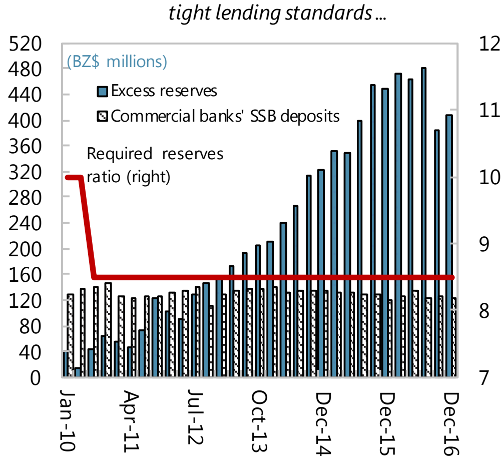
Money growth has slowed in recent months owing to reduction in central bank's credit to public sector.



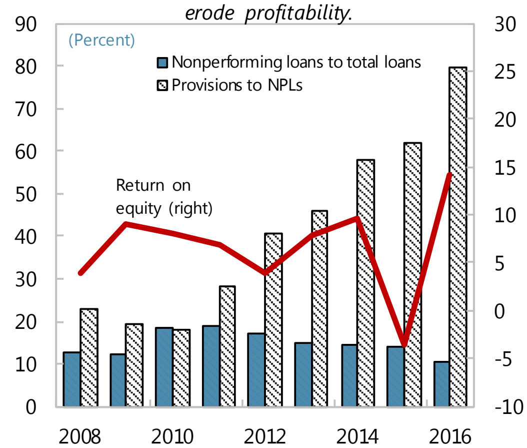
....while credit to the private sector declined.



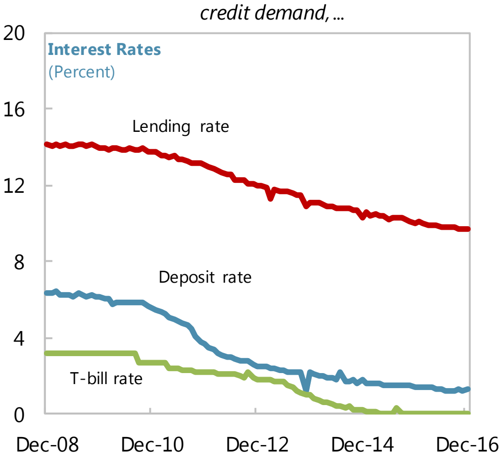
Banks' excess reserves are high, on account of tight lending standards...



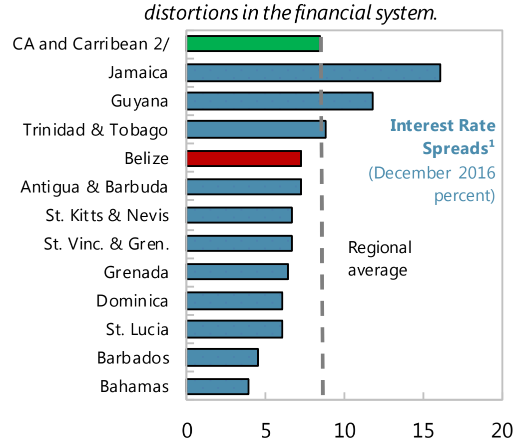
... partly justified by still high (albeit decreasing) NPLs in domestic banks, which continues to erode profitability.



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



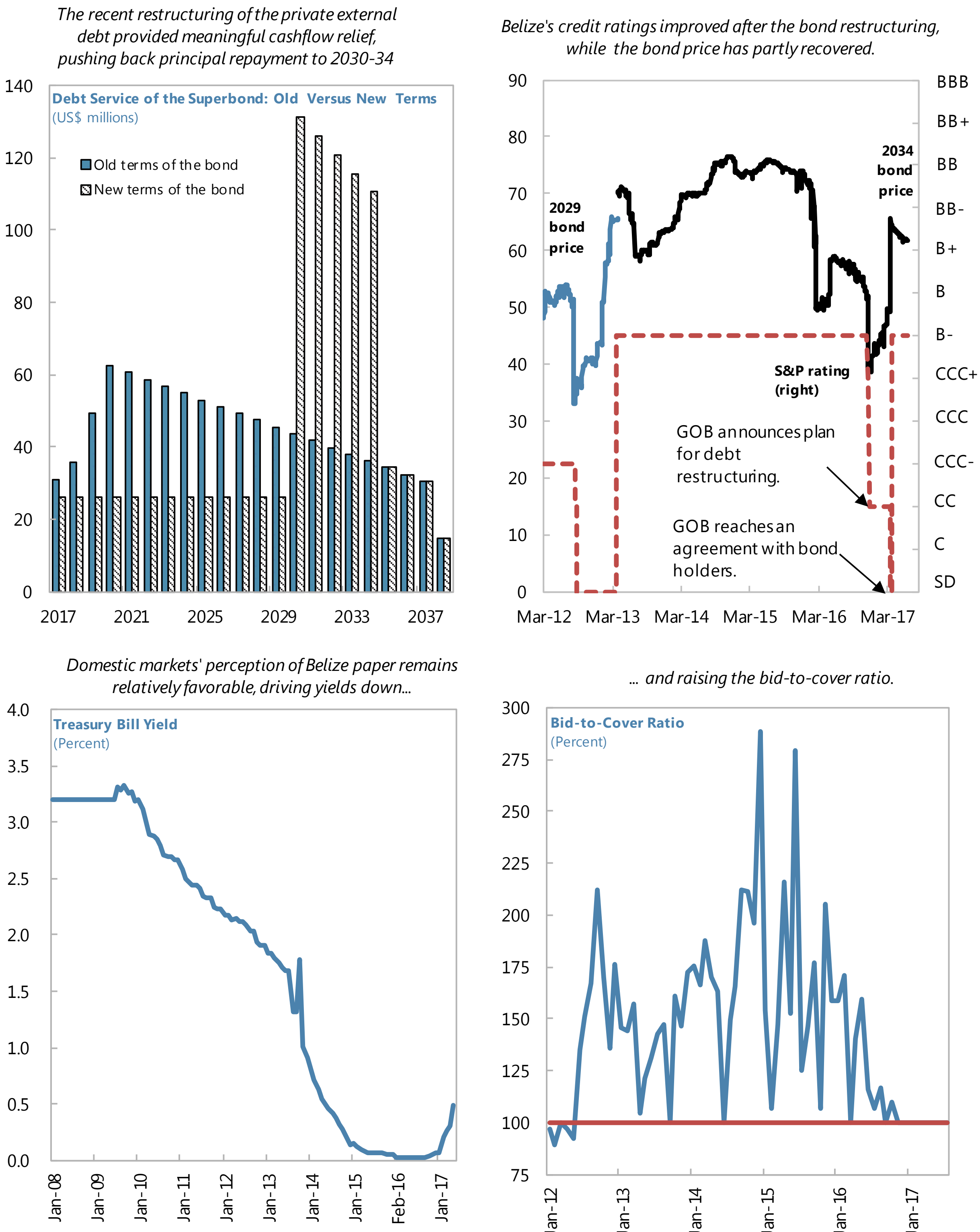
... Belize's interest rate spread is still sizable, reflecting distortions in the financial system.



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, 2014–2021

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), 2014	101
Population (thousands), Sep. 2015	378.0	Unemployment rate, September, 2016	11.1
GDP per capita, (current US$), 2015	4,698	Number of physicians, 2007	251
		Access to improved drinking water sources	
Life expectancy at birth (years), 2014	73.7	(percent of population), 2012	99.3
Under-five mortality rate (per thousand), 2013	17	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2014-21

	2014	2015	2016	2017	2018	2019	2020	2021
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices								
GDP at constant prices	4.1	2.9	-0.8	2.5	2.3	1.7	1.7	1.7
Consumer prices (end of period)	-0.2	-0.6	1.1	2.4	2.3	2.2	2.1	2.0
Consumer prices (average)	1.2	-0.9	0.6	1.8	2.3	2.2	2.1	2.0
Money and credit								
Credit to the private sector	4.7	4.8	-3.0	2.5	3.0	3.0	3.0	3.5
Money and quasi-money (M2)	7.9	7.6	2.8	4.5	4.7	3.9	3.8	3.8
Weighted average lending rate (in percent)	10.3	10.0	…	…	…	…	…	…
Central government 1/								
Revenue and grants	29.2	28.7	29.9	32.2	31.9	32.0	32.2	32.2
Of which: oil revenue	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: grants	1.1	0.6	1.3	1.3	1.3	1.3	1.3	1.3
Current expenditure	24.2	26.0	27.4	28.0	28.5	28.8	28.8	28.9
Capital expenditure and net lending	7.3	10.3	6.5	4.1	4.5	4.3	4.4	4.3
Primary balance	0.3	-5.2	-1.2	3.1	2.0	2.0	2.0	2.0
Overall balance	-2.4	-7.6	-3.9	0.1	-1.1	-1.1	-1.1	-1.0
Public and publicly guaranteed debt								
Stock of public and publicly guaranteed debt	78.1	82.6	100.4	96.5	92.3	89.8	87.5	85.4
Domestic debt 2/	11.0	14.2	29.4	27.4	25.8	25.5	25.7	27.1
External debt	67.1	68.4	71.0	69.1	66.5	64.3	61.8	58.3
Debt service 3/	4.2	4.3	5.1	4.7	4.7	4.7	4.5	4.6
In percent of exports of goods and services	6.2	6.7	9.4	8.5	8.6	8.5	8.1	8.2
In percent of government current revenue	15.3	15.3	17.9	15.5	15.4	15.3	14.8	15.1
External sector								
External current account, (percent of GDP) 4/	-7.5	-9.9	-9.4	-8.0	-6.6	-6.5	-5.7	-5.2
Exports of goods and services	8.9	-3.7	-14.3	5.8	3.9	3.6	6.5	4.1
Imports of goods and services	11.8	3.3	-11.3	0.1	1.9	3.6	4.8	3.3
Terms of trade (deterioration -)	0.3	0.0	3.0	-2.3	-0.3	-0.1	-0.2	-0.3
Nominal effective exchange rate	1.6	11.0	…	…	…	…	…	…
Real effective exchange rate	0.7	8.5	…	…	…	…	…	…
Overall balance of payments	84	-50	-61	-76	-12	-5	9	-4
Exports of goods and services	1,154	1,112	953	1,007	1,047	1,085	1,155	1,202
Imports of goods and services	1,218	1,258	1,116	1,117	1,138	1,179	1,236	1,276
Gross international reserves, 5/	487	437	377	301	288	284	292	288
In percent of gross external financing needs	289	170	182	156	163	156	173	170
In percent of next year's external public debt service	655	489	440	335	312	304	296	292
In months of imports	4.6	4.7	4.0	3.2	2.9	2.8	2.7	2.7
Nominal GDP	1,707	1,743	1,740	1,819	1,905	1,980	2,056	2,134
Nominal GDP (BZ$ millions)	3,413	3,485	3,481	3,638	3,809	3,959	4,111	4,267

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; 2009 Poverty Country Assessment; and Fund staff estimates.

1/ Fiscal year (April to March).
2/ The series have been revised to include overdrafts at the Central Bank of Belize.
3/ Public and publicly guaranteed external debt.
4/ Including official grants.
5/ From 2009, includes the share of Belize in the special and general SDR allocations in the equivalent of SDR 18 m (US$28 million).

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

	2014/15	2015/16	2016/17		Projections				
					2017/18	2018/19	2019/20	2020/21	2021/22
			Budget	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**1,001**	**1,000**	**1,089**	**1,052**	**1,187**	**1,227**	**1,280**	**1,334**	**1,388**
Revenue	**962**	**980**	**1,047**	**1,007**	**1,140**	**1,178**	**1,229**	**1,282**	**1,334**
Current revenue	956	974	1,041	1,004	1,134	1,172	1,223	1,275	1,327
Tax revenue	849	864	937	925	1,033	1,069	1,115	1,164	1,211
Income and profits	274	256	256	262	271	283	294	305	317
Goods and services	346	354	366	490	552	565	587	615	642
General Sales Tax	270	270	285	292	309	312	324	342	359
Taxes on international trade	224	249	309	166	204	215	228	237	246
Nontax revenue	107	109	104	79	101	103	107	111	116
Capital revenue	6	6	6	3	6	6	6	7	7
Grants	**39**	**20**	**42**	**46**	**47**	**49**	**51**	**52**	**54**
Total expenditure	**1,083**	**1,264**	**1,151**	**1,190**	**1,182**	**1,271**	**1,322**	**1,379**	**1,434**
Current expenditure	831	904	959	963	1,032	1,098	1,150	1,197	1,247
Wages and salaries	338	384	403	403	422	441	458	476	494
Pensions	64	77	67	83	79	86	93	97	100
Goods and services	188	197	224	216	237	247	255	266	277
Interest payments	90	85	100	97	110	122	124	128	133
Transfers	151	161	166	164	184	202	220	230	243
Capital expenditure and net lending	251	360	192	227	150	174	172	182	187
Capital expenditure	249	260	189	224	147	171	170	179	184
Domestically financed expenditure (Capital II	116	100	93	114	66	75	70	73	81
Foreign financed expenditure (Capital III)	132	161	96	111	81	97	100	107	104
Net lending	3	100	3	3	2	2	2	2	3
Primary balance	**9**	**-179**	**37**	**-41**	**115**	**78**	**82**	**84**	**88**
Nongrant, non-oil primary balance	**-57**	**-206**	...	**-88**	**66**	**28**	**30**	**30**	**32**
Overall balance	**-82**	**-264**	**-63**	**-138**	**5**	**-44**	**-43**	**-45**	**-45**
Financing	**82**	**264**	**-63**	**138**	**-5**	**44**	**43**	**45**	**45**
Privatization (net)	0	-135	...	-196	-153	0	0	0	0
Domestic	-20	302	...	258	110	25	34	61	101
Of which: Amortization	2	1	...	1	4	45	113	78	155
External	102	98	...	76	38	19	9	-16	-56
Disbursements	173	173	...	157	132	119	113	92	61
Amortization	70	75	...	81	94	100	104	108	117
Unidentified financing	0	0		0	0	0	0	0	
Memorandum items:									
Structural primary balance	1.0	-98	...	-30	120	77	83	85	90
Nominal GDP	3,431	3,484	3,728	3,520	3,684	3,847	3,997	4,150	4,308
Non-interest expenditure	992	1,179	...	1,093	1,072	1,150	1,198	1,251	1,300
Wages and salaries before reclassification	330	330	...	330	330	330	330	330	330
Oil revenue	11	5	...	2	2	1	1	1	1
Public sector debt 3/	2,665	2,879	...	3,493	3,511	3,515	3,556	3,599	3,645
Domestic	376	494	...	1,022	998	981	1,010	1,059	1,156
External	2,289	2,385	...	2,471	2,513	2,533	2,546	2,541	2,489

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.

3/ On the calendar year basis (e.g. 2015/16 column shows debt stock at end-2015).

Table 2. Belize: Operations of the Central Government (Concluded) 1/ 2/

(In percent of GDP; unless otherwise indicated)

	2014/15	2015/16	2016/17		2017/18	2018/19	2019/20	2020/21	2021/22
					Projections				
			Budget	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**29.2**	**28.7**	**29.2**	**29.9**	**32.2**	**31.9**	**32.0**	**32.2**	**32.2**
Revenue	**28.0**	**28.1**	**28.1**	**28.6**	**30.9**	**30.6**	**30.7**	**30.9**	**31.0**
Of which: Non-oil revenue	27.3	27.9	...	28.5	30.9	30.6	30.7	30.9	30.9
Current revenue	27.9	27.9	27.9	28.5	30.8	30.5	30.6	30.7	30.8
Tax revenue	24.8	24.8	25.1	26.3	28.0	27.8	27.9	28.0	28.1
Income and profits	8.0	7.3	6.9	7.4	7.3	7.3	7.3	7.3	7.3
Goods and services	10.1	10.2	9.8	13.9	15.0	14.7	14.7	14.8	14.9
General Sales Tax	7.9	7.8	7.6	8.3	8.4	8.1	8.1	8.2	8.3
Taxes on international trade	6.5	7.1	8.3	4.7	5.5	5.6	5.7	5.7	5.7
Nontax revenue	3.1	3.1	2.8	2.2	2.7	2.7	2.7	2.7	2.7
Capital revenue	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Grants	**1.1**	**0.6**	**1.1**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**
Total expenditure	**31.6**	**36.3**	**30.9**	**33.8**	**32.1**	**33.0**	**33.1**	**33.2**	**33.3**
Current expenditure	24.2	26.0	25.7	27.4	28.0	28.5	28.8	28.8	28.9
Wages and salaries	9.9	11.0	10.8	11.4	11.5	11.5	11.5	11.5	11.5
Pensions	1.9	2.2	1.8	2.4	2.1	2.2	2.3	2.3	2.3
Goods and services	5.5	5.7	6.0	6.1	6.4	6.4	6.4	6.4	6.4
Interest payments	2.6	2.4	2.7	2.7	3.0	3.2	3.1	3.1	3.1
Transfers	4.4	4.6	4.4	4.7	5.0	5.3	5.5	5.5	5.6
Capital expenditure and net lending	7.3	10.3	5.1	6.5	4.1	4.5	4.3	4.4	4.3
Capital expenditure	7.2	7.5	5.1	6.4	4.0	4.5	4.2	4.3	4.3
Domestically financed expenditure (Capital I	3.4	2.9	2.5	3.2	1.8	1.9	1.8	1.8	1.9
Foreign financed expenditure (Capital III)	3.9	4.6	2.6	3.1	2.2	2.5	2.5	2.6	2.4
Net lending	0.1	2.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	**0.3**	**-5.2**	**1.0**	**-1.2**	**3.1**	**2.0**	**2.0**	**2.0**	**2.0**
Nongrant, non-oil primary balance	**-1.7**	**-5.9**	...	**-2.5**	**1.8**	**0.7**	**0.8**	**0.7**	**0.8**
Overall balance	**-2.4**	**-7.6**	**-1.7**	**-3.9**	**0.1**	**-1.1**	**-1.1**	**-1.1**	**-1.0**
Financing	**2.4**	**7.6**	**-1.7**	**3.9**	**-0.1**	**1.1**	**1.1**	**1.1**	**1.0**
Privatization (net)	0.0	-3.9	...	-5.6	-4.1	0.0	0.0	0.0	0.0
Domestic	-0.6	8.7	...	7.3	3.0	0.7	0.8	1.5	2.4
Of which: Amortization	0.0	0.0	...	0.0	0.1	1.2	2.8	1.9	3.6
External	3.0	2.8	...	2.2	1.0	0.5	0.2	-0.4	-1.3
Disbursements	5.0	5.0	...	4.5	3.6	3.1	2.8	2.2	1.4
Amortization	2.1	2.2	...	2.3	2.6	2.6	2.6	2.6	2.7
Memorandum items:									
Structural primary balance	0.0	-2.9	...	-0.8	3.2	2.0	2.1	2.1	2.1
Nominal GDP (in BZ$ millions)	3,431	3,484	3,728	3,520	3,684	3,847	3,997	4,150	4,308
Non-interest expenditure	28.9	33.9	...	31.1	29.1	29.9	30.0	30.1	30.2
Oil revenue	0.3	0.1	...	0.0	0.0	0.0	0.0	0.0	0.0

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: Balance of Payments, 2013-22

	2013	2014	2015	2016 Prel.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
				Projections						
Current account balance	**-74**	**-128**	**-172**	**-163**	**-145**	**-126**	**-129**	**-116**	**-110**	**-109**
Trade balance	-267	-350	-423	-473	-435	-441	-452	-445	-459	-468
Total exports, f.o.b.	609	589	538	443	483	503	527	576	599	628
Of which:										
Oil	70	51	18	11	13	12	10	8	7	5
Total imports, f.o.b.	876	939	961	916	918	944	980	1,021	1,057	1,096
Of which:										
Fuel and lubricants	141	151	113	94	125	127	127	129	132	136
Services	238	286	277	310	326	349	358	364	384	398
Of which:										
Travel	311	334	324	338	378	405	424	433	451	472
Income	-118	-138	-96	-109	-114	-117	-119	-124	-127	-131
Of which:										
Public sector interest payments 1/	-22	-37	-37	-51	-39	-40	-41	-41	-41	-40
Current transfers	73	74	70	108	78	82	85	88	91	92
Private (net)	77	78	73	105	79	83	86	89	93	96
Official (net)	-4	-4	-4	3	-1	-1	-1	-1	-1	-4
Capital and financial account balance	**170**	**229**	**100**	**85**	**69**	**114**	**124**	**125**	**106**	**101**
Capital transfers	38	44	9	17	15	15	15	15	15	15
Public sector	66	66	54	42	20	9	5	-3	-26	-35
Of which:										
Change in assets	0	-1	-1	-1	0	0	0	0	0	0
Change in liabilities	66	67	54	43	20	9	5	-3	-26	-35
Disbursements 2/	122	84	140	86	68	60	58	50	32	24
Central government	122	84	140	86	68	60	58	50	32	24
Amortization	-41	-41	-86	-43	-48	-51	-53	-53	-59	-60
Central government	-32	-35	-86	-41	-47	-49	-52	-52	-58	-59
Securitisation	-16	23	0	0	0	0	0	0	0	0
Private sector 3/	66	120	38	26	34	90	104	113	117	122
Of which:										
Foreign Direct Investment, net	89	150	64	31	64	105	109	113	117	122
Of which: Repatriation of compensation 4/	0	0	-68	-98	-53	0	0	0	0	0
Other private flows	-22	-30	-27	-5	-30	-15	-5	0	0	0
Commercial banks	46	-10	-13	21	0	0	5	5	5	5
Other private nonbanks	-69	-20	-14	-25	-30	-15	-10	-5	-5	-5
Errors and omissions	**19**	**-17**	**23**	**18**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**114**	**84**	**-50**	**-61**	**-76**	**-12**	**-5**	**9**	**-4**	**-7**
Financing	**-114**	**-84**	**50**	**61**	**76**	**12**	**5**	**-9**	**4**	**7**
Memorandum items:										
Gross international reserves (US$ millions)	403	487	437	377	301	288	284	292	288	281
In percent of gross external financing needs	350	289	170	182	156	163	156	173	170	167
In percent of next year's total debt service	563	655	489	440	335	312	304	296	292	315
In months of imports	4.0	4.6	4.7	4.0	3.2	2.9	2.8	2.7	2.7	2.6

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 3. Belize: Balance of Payments, 2013-22 (Concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections						
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of GDP, unless otherwise stated)										
Current account balance	**-4.6**	**-7.5**	**-9.9**	**-9.4**	**-8.0**	**-6.6**	**-6.5**	**-5.7**	**-5.2**	**-4.9**
Trade balance	-16.6	-20.5	-24.3	-27.2	-23.9	-23.1	-22.8	-21.6	-21.5	-21.1
Total exports, f.o.b.	37.7	34.5	30.9	25.4	26.5	26.4	26.6	28.0	28.1	28.3
Of which:										
Oil	4.3	3.0	1.0	0.6	0.7	0.6	0.5	0.4	0.3	0.2
Total imports, f.o.b.	54.3	55.0	55.2	52.6	50.5	49.6	49.5	49.7	49.6	49.5
Of which:										
Fuel and lubricants	8.8	8.8	6.5	5.4	6.9	6.7	6.4	6.3	6.2	6.2
Services	14.7	16.7	15.9	17.8	17.9	18.3	18.1	17.7	18.0	18.0
Of which:										
Travel	19.3	19.6	18.6	19.4	20.8	21.3	21.4	21.1	21.2	21.3
Income	-7.3	-8.1	-5.5	-6.2	-6.2	-6.1	-6.0	-6.0	-6.0	-5.9
Of which:										
Public sector interest payments 1/	-1.3	-2.2	-2.1	-2.9	-2.2	-2.1	-2.0	-2.0	-1.9	-1.8
Current transfers	4.5	4.3	4.0	6.2	4.3	4.3	4.3	4.3	4.3	4.2
Private (net)	4.8	4.6	4.2	6.0	4.3	4.3	4.3	4.3	4.3	4.3
Official (net)	-0.3	-0.2	-0.2	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Capital and financial account balance	**10.5**	**13.4**	**5.7**	**4.9**	**3.8**	**6.0**	**6.3**	**6.1**	**5.0**	**4.6**
Capital transfers	2.3	2.6	0.5	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Public sector	4.1	3.9	3.1	2.4	1.1	0.5	0.3	-0.1	-1.2	-1.6
Of which:										
Change in assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	4.1	3.9	3.1	2.5	1.1	0.5	0.3	-0.1	-1.2	-1.6
Disbursements 2/	7.6	4.9	8.0	4.9	3.7	3.1	3.0	2.4	1.5	1.1
Central government	7.6	4.9	8.0	4.9	3.7	3.1	3.0	2.4	1.5	1.1
Amortization	-2.5	-2.4	-4.9	-2.5	-2.6	-2.7	-2.7	-2.6	-2.8	-2.7
Central government	-2.0	-2.0	-4.9	-2.3	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7
Securitisation	-1.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector 3/	4.1	7.0	2.2	1.5	1.9	4.7	5.2	5.5	5.5	5.5
Of which:										
Foreign Direct Investment, net	5.5	8.8	3.7	1.8	3.5	5.5	5.5	5.5	5.5	5.5
Of which: Repatriation of compensation 4/	0.0	0.0	-3.9	-5.6	-2.9	0.0	0.0	0.0	0.0	0.0
Other private flows	-1.4	-1.8	-1.5	-0.3	-1.6	-0.8	-0.3	0.0	0.0	0.0
Commercial banks	2.9	-0.6	-0.8	1.2	0.0	0.0	0.3	0.2	0.2	0.2
Other private nonbanks	-4.2	-1.2	-0.8	-1.5	-1.6	-0.8	-0.5	-0.2	-0.2	-0.2
Errors and omissions	**1.2**	**-1.0**	**1.3**	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**7.1**	**4.9**	**-2.9**	**-3.5**	**-4.2**	**-0.7**	**-0.2**	**0.4**	**-0.2**	**-0.3**
Financing	**-7.1**	**-4.9**	**2.9**	**3.5**	**4.2**	**0.7**	**0.2**	**-0.4**	**0.2**	**0.3**
Change in reserves (- increase)	-7.1	-4.9	2.9	3.5	4.2	0.7	0.2	-0.4	0.2	0.3

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 4. Belize: Operations of the Banking System, 2012–2021

	2012	2013	2014	2015	Prel. 2016	2017	2018	Proj. 2019	2020	2021
	(In millions of Belize dollars)									
Central Bank of Belize (CBB)										
Net foreign assets 1/	528	763	930	825	704	552	527	518	536	527
Net international reserves	583	818	982	875	752	600	576	566	584	575
Medium-term foreign liabilities 2/	-55	-55	-52	-50	-48	-48	-48	-48	-48	-48
Net domestic assets	39	-105	-112	192	301	498	572	625	651	705
Credit to the public sector (net)	41	-100	-105	206	312	502	650	840	1,061	1,312
Central government	47	-96	-104	207	328	518	666	856	1,076	1,325
Other public sector	-7	-3	-1	-2	-16	-16	-16	-16	-15	-13
Capital and other assets (net)	-2	-5	-7	-14	-10	-3	-77	-214	-409	-606
Base money	568	658	818	1,017	1,005	1,051	1,100	1,143	1,187	1,232
Currency issue	238	262	286	345	370	413	468	515	573	626
Reserves of commercial banks	329	396	532	672	636	638	632	628	614	606
Commercial banks										
Net foreign assets	356	263	245	274	234	234	234	224	214	204
Net claims on central bank	375	447	581	726	694	695	695	689	680	670
Net domestic assets	1,880	1,900	1,978	1,992	2,116	2,232	2,347	2,460	2,570	2,688
Credit to the public sector (net)	-98	-119	-177	-182	-70	-128	-262	-415	-578	-721
Central government	140	134	125	107	205	159	21	-140	-311	-463
Other public sector	-238	-253	-302	-289	-275	-287	-284	-275	-266	-258
Credit to the private sector	1,959	2,027	2,123	2,224	2,158	2,212	2,278	2,346	2,417	2,501
Other assets (net)	19	-7	32	-50	29	149	332	528	731	907
Liabilities to the private sector	2,611	2,610	2,803	2,992	3,044	3,161	3,276	3,372	3,464	3,561
Monetary survey										
Net foreign assets	884	1,027	1,175	1,099	938	786	761	742	750	731
Net domestic assets	1,920	1,795	1,866	2,184	2,417	2,730	2,920	3,085	3,221	3,393
Credit to the public sector (net)	-57	-219	-282	23	241	373	387	425	483	591
Central government	187	38	21	314	533	677	687	716	765	862
Other public sector	-244	-257	-303	-291	-291	-304	-300	-291	-282	-271
Credit to private sector (by comm. banks)	1,959	2,027	2,123	2,224	2,158	2,212	2,278	2,346	2,417	2,501
Other items (net)	18	-12	25	-64	18	146	255	314	322	301
Liabilities to the private sector	2,804	2,822	3,041	3,283	3,355	3,517	3,681	3,827	3,971	4,124
Money and quasi-money (M2)	2,444	2,477	2,672	2,874	2,954	3,088	3,233	3,360	3,489	3,622
Currency in circulation	193	212	237	291	311	356	405	455	507	562
Deposits	2,250	2,265	2,435	2,583	2,643	2,732	2,828	2,906	2,982	3,059
Foreign currency deposits	213	118	109	114	104	108	112	115	118	121
Capital and reserves of commercial banks	360	345	368	409	401	429	448	467	481	502
Memorandum items:										
Private sector deposits in local currency	10.9	0.6	7.5	6.1	2.3	3.4	3.5	2.8	2.6	2.6
Base money	19.2	16.0	24.2	24.3	-1.2	4.5	4.7	3.9	3.8	3.8
Credit to private sector (by comm. banks)	1.1	3.5	4.7	4.8	-3.0	2.5	3.0	3.0	3.0	3.5
Money and quasi-money (M2)	11.0	1.4	7.9	7.6	2.8	4.5	4.7	3.9	3.8	3.8
Net international reserves to M2 (percent)	23.9	33.0	36.7	30.4	25.5	19.4	17.8	16.9	16.7	15.9
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	79.5	85.1	83.4	82.5	78.5	77.9	77.5	77.7	78.0	78.6

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

1/ Includes Central Government's foreign assets.

2/ Includes SDR allocation.

Table 5. Belize: Baseline Medium-Term Outlook, 2012-21

	2012	2013	2014	2015	Projections 2016 Prel.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
					(Annual percentage change)					
GDP and prices										
GDP at constant prices	3.7	0.7	4.1	2.9	-0.8	2.5	2.3	1.7	1.7	1.7
Of which: Oil output	-1.6	-1.6	-0.5	-1.0	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1
Domestic demand (contribution to growth)	0.9	6.3	5.9	5.1	…	…	…	…	…	…
Net exports (contribution to growth)	2.8	-5.6	-1.8	-2.2	…	…	…	…	…	…
GDP at current market prices	5.8	2.5	5.8	2.1	-0.1	4.5	4.7	3.9	3.8	3.8
Prices (GDP deflator)	2.0	1.8	1.6	-0.7	0.7	2.0	2.3	2.2	2.1	2.1
Consumer prices (end of period)	0.8	1.6	-0.2	-0.6	1.1	2.4	2.3	2.2	2.1	2.0
					(In percent of GDP, unless otherwise indicated)					
National accounts										
Consumption	84.8	86.9	85.0	86.4	88.7	87.1	84.0	84.6	84.0	83.2
Gross domestic investment 1/	13.7	15.0	18.8	22.0	20.7	18.9	20.8	20.1	19.9	20.3
Net exports	1.5	-1.8	-3.7	-8.4	-9.4	-6.0	-4.8	-4.8	-3.9	-3.5
Gross national savings	12.5	10.4	11.3	12.1	11.3	11.0	14.1	13.6	14.3	15.1
Central government 2/										
Revenue and grants	26.4	28.9	29.2	28.7	29.9	32.2	31.9	32.0	32.2	32.2
Of which : Non-oil revenue	24.3	25.6	27.3	27.9	28.5	30.9	30.6	30.7	30.9	30.9
Total expenditure	26.8	30.5	31.6	36.3	33.8	32.1	33.0	33.1	33.2	33.3
Noninterest expenditure	25.0	28.0	28.9	33.9	31.1	29.1	29.9	30.0	30.1	30.2
Primary balance	1.4	1.0	0.3	-5.2	-1.2	3.1	2.0	2.0	2.0	2.0
Interest 3/	1.8	2.6	2.6	2.4	2.7	3.0	3.2	3.1	3.1	3.1
Overall balance	-0.4	-1.6	-2.4	-7.6	-3.9	0.1	-1.1	-1.1	-1.1	-1.0
External sector										
Current account balance	-1.2	-4.6	-7.5	-9.9	-9.4	-8.0	-6.6	-6.5	-5.7	-5.2
Of which: Exports of goods and services	65.3	65.7	67.6	63.8	54.7	55.4	55.0	54.8	56.2	56.3
Of which: Petroleum exports	6.6	4.3	3.0	1.0	0.6	0.7	0.6	0.5	0.4	0.3
Of which: Imports of goods and services	-63.8	-67.5	-71.4	-72.2	-64.1	-61.4	-59.8	-59.5	-60.1	-59.8
Capital and financial account	5.4	10.5	13.4	5.7	4.9	3.8	6.0	6.3	6.1	5.0
Public sector disbursements	2.3	7.6	4.9	8.0	4.9	3.7	3.1	3.0	2.4	1.5
Public sector amortization	-2.6	-2.5	-2.4	-4.9	-2.5	-2.6	-2.7	-2.7	-2.6	-2.8
Other capital and fin. account transactions 4/	5.7	5.5	10.9	2.6	2.4	2.7	5.5	6.0	6.2	6.2
Change in reserves (- increase)	-3.3	-7.1	-4.9	2.9	3.5	4.2	0.7	0.2	-0.4	0.2
Gross official reserves (in months of imports)	3.2	4.0	4.6	4.7	4.0	3.2	2.9	2.8	2.7	2.7
Public and publicly guaranteed debt 5/	**79.0**	**80.0**	**78.1**	**82.6**	**100.4**	**96.5**	**92.3**	**89.8**	**87.5**	**85.4**
Domestic 6/	12.4	12.0	11.0	14.2	29.4	27.4	25.8	25.5	25.7	27.1
External	66.6	68.0	67.1	68.4	71.0	69.1	66.5	64.3	61.8	58.3

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.
6/ The series have been revised to include overdrafts at the Central Bank of Belize.

Annex I. External Stability Assessment

The external stability assessment indicates that Belize's external position is substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. The analysis revealed fiscal and structural policy gaps. The reduced debt service burden following the recent debt restructuring and the fiscal policy adjustment agreed with bondholders would help alleviate immediate pressures on reserves. Nevertheless, large compensation payments to the former BTL owners already reduced reserves to 4 months of imports at end-2016 from 4.7 months at end-2015 and projected further compensation payments for 2017 could bring them close to the 3-month threshold by end-2017. The fiscal adjustment projected in the baseline would be insufficient to bring reserves to more comfortable levels. Reserves are projected to remain below the adequacy thresholds of risk-weighted metrics and to fall below standard adequacy metrics over the medium term. Therefore, the external position will continue to be vulnerable to downside risks from adverse shocks to commodity prices and larger-then-expected contingent liabilities. A more ambitious fiscal consolidation as envisaged in the active scenario could help increase reserves to more comfortable levels over the medium term.

1. External stability was assessed through the external stability (ES) and external balance (EBA-lite) approaches.

The ES analysis indicates continued weakness in the external position under the policy adjustment envisaged in the baseline. The ES approach assumes strengthening of the NFA position from -135 percent of GDP at end-2016 to -100 percent of GDP by 2026 in the first scenario and to -90 percent by 2026 in the alternative scenario. To achieve these debt-stabilizing NFA levels would require reducing the current account deficit to 2.6 percent of GDP per annum in the first scenario and 1.8 percent of GDP in the alternative scenario (Text Table).[1] However, the current account deficit remains above these levels under the baseline assumptions, giving rise to REER gaps. The REER gap peaks in 2017 at about 16 percent in the first scenario and 18 percent in the alternative scenario and declines to about 7 percent and 9 percent at end-2022. Hence, in the absence of more ambitious fiscal consolidation, the current account and REER gaps will persist and the external position will remain vulnerable to adverse shocks.

2. The results of the external balance (EBA-lite) approach are broadly consistent with the ES analysis and suggest that external imbalances are related to fiscal and structural policy gaps. The EBA-lite methodology helps identify policy gaps that contribute to external imbalances. The EBA-lite results indicate a current account gap of 4.2 percent and a REER gap of 12.4 percent, which are attributable to fiscal policy gaps (0.9 percent of GDP). The residual (about 3 percent of GDP) could be attributed to structural policy gaps. The fiscal policy adjustment recommended by staff in the active scenario would close the gap related to fiscal policy while the scenario's more ambitious structural reforms would help reduce significantly the structural policy gap.

[1] The ES approach is based on the GDP growth rates assumed in the baseline.

External Stability Assessment (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 2026	Alternative scenario Reducing NFA to below -90 percent of GDP by 2026	Baseline
Equilibrium external current account (CA) 1/	-2.6	-1.8	-5.2
Underlying CA balance 2/	[-4.9 -8.0]	[-4.9 -8.0]	-9.4
CA elasticity to REER 3/	-0.34	-0.34	-0.34
Implied REER adjustment 4/ (in percent, "+" appreciation)	[-6.7 -15.8]	[-9.2 -18.3]	-12.4
Memo items			
Current account gap			-4.2
of which fiscal policy gap			-0.9

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.

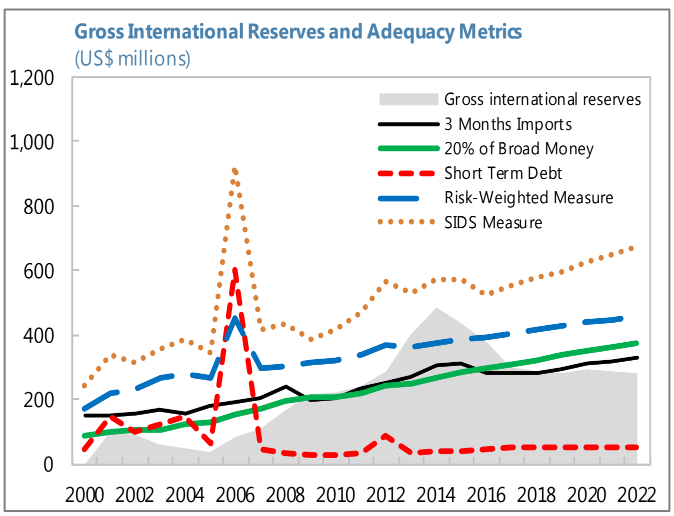
2/ The values in brackets show the minimum and maximum projected current account deficits in the 2017-22 period for the ES approach and the estimated current account balance to GDP in 2016 for the EBA-lite approach.

3/ This elasticity is computed using the standard long-run real exchange rate elasticities for imports (0.92) and exports (-0.71), as well as the medium-term values of Belize's exports and imports of goods and services (in percent of GDP).

4/ The brackets indicate the minimum and maximum adjustment needed to bring the current account in line with the norm in the 2017-22 period.

3. **Although the recent debt restructuring will provide some cash flow relief, there are downside risks from adverse shocks to the financial account.** The March 2017 debt restructuring decreased the debt service burden, providing some cash flow relief. Nevertheless, the compensation payments to the former BTL owners in 2016 reduced the reserve cover to 4 months of imports from 4.7 months at end-2015. There is a risk of further contingent liabilities materializing over the medium term. Additional compensation payments in foreign currency to the former BTL owners may be due in 2017 pending a court decision and there are additional legacy claims estimated at about US$ 100 million (5½ percent of GDP). Future financial inflows under the PetroCaribe agreement appear uncertain and are projected to come to a halt in 2017.

4. **The reserve adequacy analysis indicates that the planned policy adjustment under the baseline would be insufficient to help increase reserves to more comfortable levels over the medium-term.** The two risk-weighted indicators imply that reserves would remain below the adequacy range over the medium term. The first risk-weighted measure indicates that reserves would drop to 74 percent of the level considered adequate at end-2017 and will represent 61 percent of that level by 2022. The second measure, adjusted for small island developing states (SIDS), also reveals that reserves would remain below the adequacy threshold of 75 percent, dropping to 42 percent by 2022. In 2019, reserves are projected to fall below the standard 3-month of imports adequacy threshold and to represent 84 percent of the level considered an adequate cover of broad money.



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
2015	113	77	139	152	1,137
2016	96	72	135	127	810
2017	74	54	108	97	610
2018	69	50	101	89	556
2019	66	47	96	84	541
2020	67	47	95	84	557
2021	64	44	90	80	549
2022	61	42	85	75	535
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).

5. **In the absence of nominal exchange rate flexibility, the policy gaps should be filled by fiscal policy adjustment and structural reforms that strengthen external competitiveness.** Structural policies should aim to raise productivity and efficiency in order to strengthen competitiveness and help the economy weather global headwinds from lower commodity prices. The room for nominal exchange rate adjustment is constrained by the peg and high foreign currency denominated debt. In this context, a nominal exchange rate adjustment could significantly increase the debt burden and require an even steeper fiscal adjustment to restore external balance.

Annex II. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy measures
External Risks			
Weaker-than-expected global growth, particularly structurally weak growth in key advanced and emerging economies	**High/Medium** • The potential growth path and the degree of slack for the US economy could be lower than estimated for structural reasons, and capacity constraints could hold back near term growth. • The Euro area could face an extended period of low growth, reflecting weak domestic demand due to high real interest rates and inadequate structural reforms.	**High** • Stagnation 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.	• 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.
Tighter global financial conditions–in particular, a significant further strengthening of the US dollar and higher international interest rates	**High** • As the currency is pegged to the U.S. dollar, the real exchange rate would appreciate, eroding Belize's external competitiveness. • With imperfect capital controls, domestic interest rates could increase, thus further raising the debt service burden.	**High** • Export of goods and services would decline, and the external current account deficit would widen. • There would be less fiscal space for public investment and the low investor confidence would further reduce private investment and growth.	• Implement credible fiscal consolidation and structural reforms to increase fiscal space, boost external competitiveness and curb real exchange appreciation through external price competitiveness measures.
Reduced financial services by correspondent banks	**High** • Major Belizean banks have lost significant correspondent banking relationships with global banks in the past two years, and despite finding replacement CBRs lately, the risk of further losses are evident.	**High** • Further losses could impair financial intermediation, curtail cross-border payments, increase cost of doing business, and disrupt economic activity	• Effective implementation of AML/CFT framework, including stronger mechanism to ensure entity transparency in the offshore business sector • Support regional efforts to address challenges posed by withdrawal of CBRs.

Domestic Risks			
Fiscal policy implementation	**High** • Fiscal policy credibility is low because of failures to implement announced fiscal target in the past amid persistent fiscal deficits and high debt. • In the FY2017/18 budget, the authorities aim to tighten the fiscal stance, as agreed with bondholders.	**High** • In the absence of fiscal consolidation, debt would 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.	• Additional fiscal consolidation, gradually raising the fiscal primary balance to 4-5 percent of GDP by a combination of revenue enhancing and expenditure reducing measures.
Distress in the banking system	**High** • 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.	• Order undercapitalized banks to raise more capital, and maintain tight supervision.
Contingent liabilities	**High** • The government continues to contest various legacy claims, estimated at US$100 million, or 5½ percent of GDP.	**High** • Debt could increase further because of these contingent liabilities, jeopardizing debt sustainability and aggravating refinancing risks.	• Create fiscal buffers through fiscal consolidation.
Extreme weather conditions	**High** • Belize's geographical location makes it vulnerable to natural disasters, notably hurricanes and floods, which have been frequent in the past.	**High** • Hurricanes could cause significant damage to infrastructure and output.	• Investing in climate resilient infrastructure could mitigate disaster risk.

Annex III. Debt Sustainability Analysis

Despite cash flow relief and NPV reduction obtained under the recent external commercial debt restructuring, public debt remains high, and its sustainability subject to risks, including shocks to GDP growth, the exchange rate and the primary balance. Reflecting fiscal consolidation announced by the authorities, and modest gains from automatic debt dynamics, public debt is projected to decline under the baseline scenario. To achieve durable gains, the debt restructuring needs to be underpinned by a credible and sustained program of fiscal consolidation, combined with structural reforms to boost growth. Refinancing risk is low due to the reprofiling of the external commercial debt. Belize is expected to depend on domestic financing for the most part to meet its gross financing requirements in the near–medium term, as access to external financial markets will be limited. External debt is projected to gradually decline. The high public debt burden underlines the need for additional fiscal consolidation efforts.

Macroeconomic Framework

1. The macroeconomic outlook remains weak. Growth is projected to average just under 2 percent over the medium term, reflecting declining productivity, competitiveness and public investment. The current account deficit would slowly improve due to a gradual recovery in agricultural exports, growth in tourism, as well as some import compression stemming from the projected fiscal consolidation, but would remain significant, reflecting structural weaknesses in the export sector. International reserves are projected to remain at about 3 months of imports in the baseline scenario, but any negative shocks could push reserve cover under that level. The fiscal adjustment reflected in the FY2017/18 budget would be insufficient to significantly reduce the very high public debt.

2. The authorities are expected to continue relying mainly on domestic financing as well as asset sales to meet gross financing requirements in the near term. The DSA assumes no new issuance of external bonds given the recent debt restructuring and official external disbursements are projected to be limited. The authorities have sold shares of public utility companies to help reduce the gross financing needs. Nominal interest rates on domestic borrowing are expected to fall, as public debt declines, reducing the nominal debt service burden. Over the medium term, gross financing needs will decline, reflecting improvements in the fiscal stance, and the cash flow relief from the restructuring of the Superbond.

3. There appears to be no systematic bias in the macro projections (Figure 3). The median forecast errors (MFE) for GDP and inflation projections were -0.07 and -0.56 percentage points respectively (corresponding to 69th and 26th percentiles), during 2007-15, with recent projections being close to the outcomes. The MFE for the primary fiscal balance was -0.31 (57th percentile), although recent projections tended to be optimistic.

Public Debt

1. On March 23, 2017, the authorities completed restructuring of the private external commercial debt (US$526 million, 30 percent of GDP), following similar operations in 2007 and 2013. On November 9, the authorities announced their intention to restructure the debt, followed with a consent solicitation to private external bondholders on January 12. The new agreement, reached on

March 15, reduces the coupon rate on the bond to 4.9375 percent (the rate under the existing contract was set to step up from 5 to 6.767 percent in August 2017), and amends the amortization schedule by pushing back principal repayments to 2030-34 (instead of semiannual installments beginning in August 2019). It also brought forward the final maturity date of the bond from 2038 to 2034. The agreed terms reduce the NPV of the external bond debt by 28 percent, including fees (based on the exit yield of 9.1043 percent on March 15[1]).

2. **The agreement with private external bondholders is anchored by fiscal adjustment.** The authorities have committed to private external bondholders to tighten the fiscal stance by 3 percentage points in fiscal year 2017/18, and to maintain a primary surplus of 2 percent of GDP for the subsequent three years, implying no additional adjustment effort after FY2017/18. The agreement also includes a monitoring mechanism for the fiscal adjustment effort: in case Belize fails to meet the 2018-21 primary surplus target, the authorities will submit a report to the National Assembly to explain why the target was missed. In addition, in this case, Belize commits to requesting an IMF technical assistance mission to (i) determine why the primary surplus target was missed; and (ii) recommend remedial measures. The authorities have also committed to publish the findings of any such IMF TA as well as the annual Article IV Consultation reports. Furthermore, if the primary surplus target is missed, interest payments on the bond will become payable on a quarterly rather than semi-annual basis (for the subsequent 12 months that the target is missed).

3. **While the debt restructuring provides meaningful cash flow relief, and the agreed fiscal tightening is a step in the right direction, the agreement is just one element of a more comprehensive package needed to lift Belize out of high debt and low growth**. The agreement reduces the cost of servicing a relatively expensive part of external debt, and the NPV gain is significant. However, in the absence of a principal haircut, the overall level of public debt remains very high. Moreover, the repeated efforts to restructure debt could undermine Belize's credibility and risks a loss of access to capital markets for an extended period, in turn hurting prospects for strong and sustainable growth. To lead to lasting gains, the debt restructuring needs to be underpinned by a credible and sustained program of fiscal consolidation, combined with structural reforms to boost growth.

4. **The Permanent Court of Arbitration's (PCA) final ruling on June 28, 2016, has cleared the uncertainty regarding the timing and compensation amount for Belize Telemedia Limited (BTL), nationalized in 2009.** The ruling awarded the claimants compensation that amounted to US$221 million (12.2 percent of GDP), about 2 percentage points of GDP higher than staff's projections during the 2016 Article IV Consultation. On July 13, 2016, the government paid the equivalent of US$98 million about (about 5.5 percent of GDP) to the former owners, by issuing domestic debt, in addition to "good faith" payments (US$32.5 million) made toward the compensation in late 2015. The remaining balance, equivalent to US$104 million (5.6 percent of GDP) must be paid by July 2017. However, there is a disagreement about the currency composition of the BTL payment, with the former owners requesting full payment in US dollars, which would have significant impact on international reserves. The authorities regard this request as inconsistent with the settlement deed and will contest it at the Caribbean Court of Justice. The baseline assumes that only half of the balance would be paid in US dollars. It further incorporates the part of BTL and Belize Electricity Limited (BEL) shares sold to finance the compensation in 2017, while still retaining the majority ownership, thereby reducing the financing needs.

[1] Using (1-NPV new/FV existing. The NPV reduction is 17.5 percent using (1-NPV new/NPV existing).

5. Under the baseline scenario, Belize's public debt is projected to decline but will remain elevated (Figure 3 and 4). Public debt is projected to decline to 95.8 percent of GDP in 2017, mainly driven by fiscal consolidation and sale of assets of nationalized utility companies (about 1.5 percent of GDP). In the medium term, public debt is projected to fall further to 83 percent of GDP, as fiscal consolidation continues, in addition to gains from automatic debt dynamics.

6. The risks to debt sustainability remain high (Figure 1). Subjecting the baseline scenario to stress testing indicate that Belize's debt burden exceeds the benchmark for emerging markets in several areas. The heat map highlights significant risks to debt sustainability arising from changes in market perceptions (high spreads), the residency of debt holders, and the currency composition of Belize's debt. Risks to gross financial requirements have moderated owing to the recent debt restructuring. Contingent liabilities are also a source of risks for the level of debt and the financing needs. The share of short-term debt in total debt, although not a major concern, increase to 19.2 percent in 2016 from 11.2 percent in 2015. The fan charts indicate 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 exceed 100 percent of GDP in the medium term with confidence interval of 75th-90th.

7. Public debt continues to be exposed to adverse developments as highlighted by stress tests (Figure 5). As 70 percent of total public debt was denominated in foreign currency at end of 2016, the debt trajectory is particularly sensitive to an exchange rate shock. A 10 percent real depreciation in 2017 would boost total public debt to 103 percent of GDP in 2018. 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 106 percent of GDP in 2019. The debt-to-GDP ratio is also highly sensitive to shocks in GDP growth, interest rate, and the primary balance.

External Debt

8. The external debt ratio[2] is projected to gradually decline over the medium term from 70 percent of GDP to about 54 percent by 2022 (Figure 6 and Table 1). Bound tests suggest that external debt is mostly sensitive to nominal exchange rate devaluation and current account shocks. Under a 30 percent depreciation of national currency, external debt would surge to 102 percent of GDP in 2017 from 71 percent in 2016, and remain elevated at 87 percent of GDP over the medium term. Further vulnerability stems from a non-interest current account shock that would keep the external debt at 69 percent of GDP over the medium term. A combined ¼ SD shock could reduce external debt to 66 percent by 2021.

Summary Assessment

9. Under the baseline scenario, Belize's public debt is projected to decline, reflecting tightening of the fiscal stance and modest gains from automatic debt dynamics. Nonetheless, the debt level will remain elevated and is susceptible to adverse developments. The recent debt restructuring has eased the debt service burden. However, the authorities are expected to depend on domestic financing as well as asset reductions to meet its gross financing requirements in the near–medium term as official external disbursement is projected to gradually decline and no external commercial borrowing is expected. Refinancing risks are expected to be low. External debt would gradually decline over the medium term

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

mainly because of non-debt creating inflows. Results from Bound tests highlight the exposure of external public debt to various shock, especially the exchange rate.

10. Additional fiscal consolidation efforts are necessary to mitigate vulnerabilities and further improve the debt outlook. The planned tightening of the fiscal stance will need to be sustained to keep the debt ratio on a declining path. Staff recommends raising the primary balance gradually to 4-5 percent of GDP over the medium term. In addition to fiscal adjustment, supporting policies to promote growth, deepen domestic financial market, and improve public debt management will also be essential to improve the debt outlook.

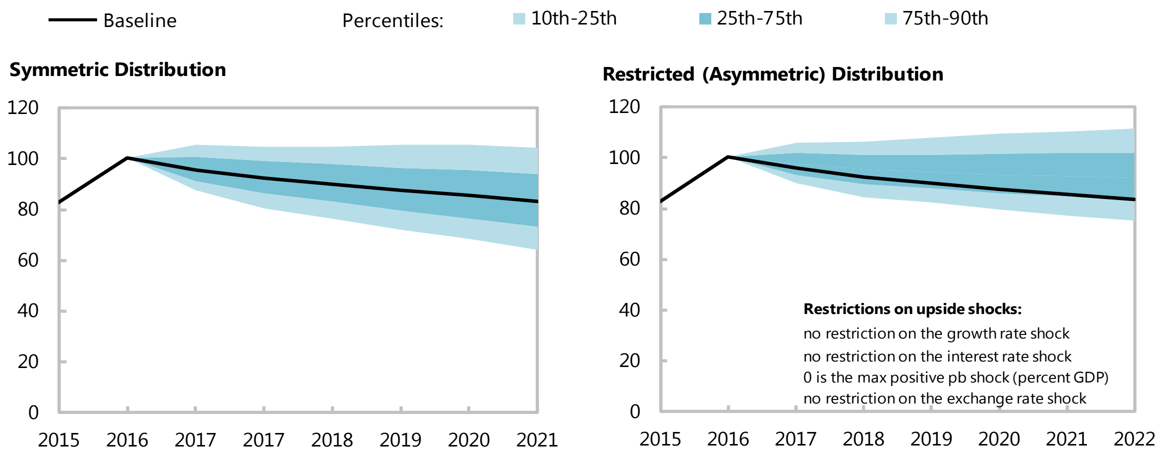
Figure 1. Belize: Public DSA Risk Assessment

Heat Map

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

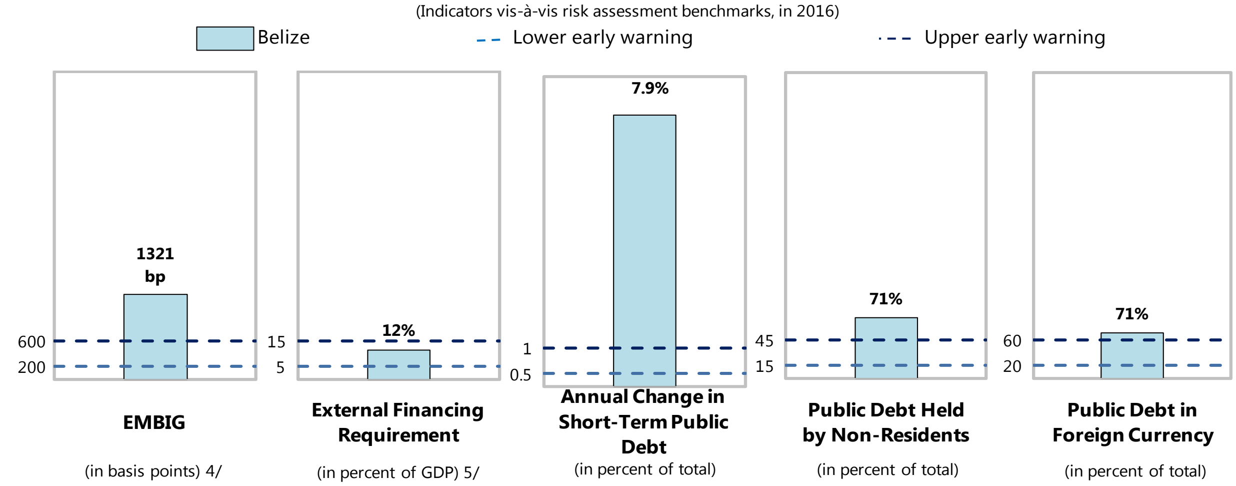
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



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.

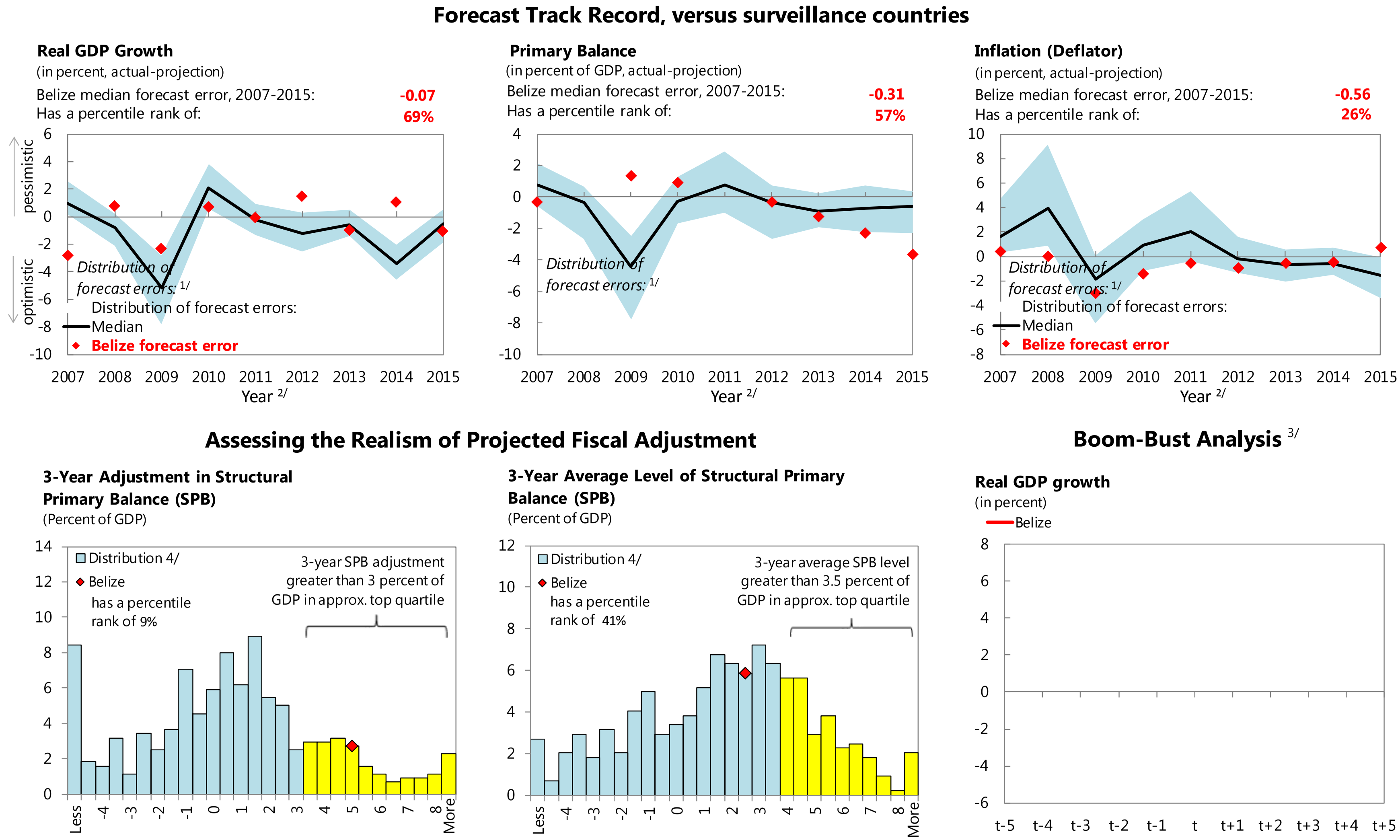
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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-Jan-17 through 18-Apr-17.

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.

Figure 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 3. Belize: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

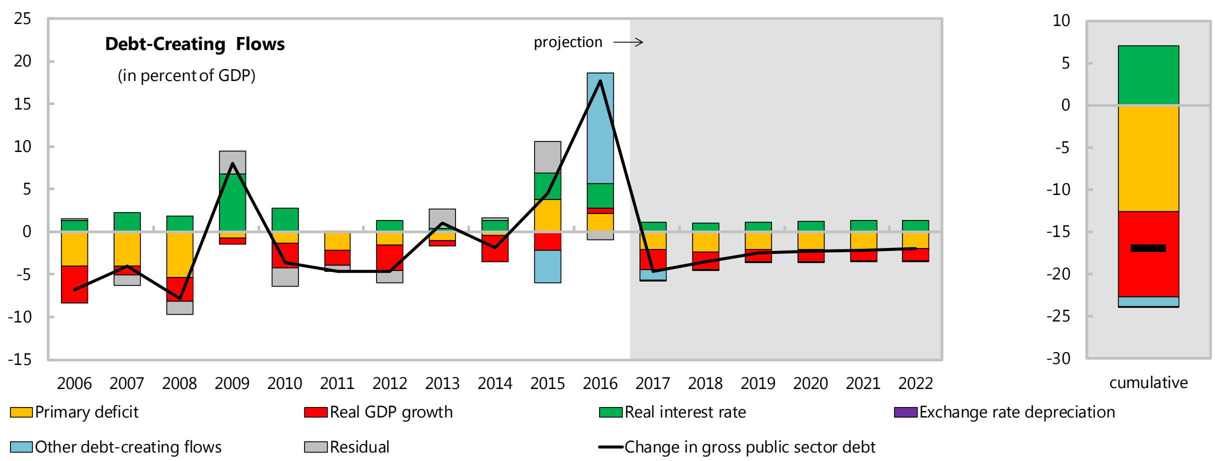
	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	85.8	82.6	100.4	95.8	92.3	89.8	87.5	85.4	83.4
Public gross financing needs	8.8	8.1	7.3	9.7	4.0	7.3	5.0	7.9	6.7
Real GDP growth (in percent)	2.6	2.9	-0.8	2.5	2.3	1.7	1.7	1.7	1.7
Inflation (GDP deflator, in percent)	2.2	-0.7	0.7	2.0	2.3	2.2	2.1	2.1	2.1
Nominal GDP growth (in percent)	4.9	2.1	-0.1	4.5	4.7	3.9	3.8	3.8	3.8
Effective interest rate (in percent) [4/]	4.6	3.3	4.1	3.2	3.5	3.5	3.6	3.7	3.8

As of April 18, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		670
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B-	B-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections						
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative
Change in gross public sector debt	-2.7	4.5	17.7	-4.6	-3.5	-2.4	-2.3	-2.1	-2.0	-17.0
Identified debt-creating flows	-2.5	0.9	18.6	-4.6	-3.5	-2.4	-2.4	-2.1	-2.0	-17.0
Primary deficit (- surplus)	-2.3	3.8	2.2	-2.1	-2.4	-2.1	-2.0	-2.1	-2.1	-12.8
Primary (noninterest) revenue and grants	27.5	28.7	29.9	31.7	31.9	31.9	32.1	32.2	32.2	191.9
Primary (noninterest) expenditure	25.2	32.5	32.0	29.6	29.6	29.9	30.0	30.1	30.1	179.4
Automatic debt dynamics [5/]	-0.2	0.9	3.5	-1.3	-1.1	-0.4	-0.2	-0.1	0.0	-3.1
Interest rate/growth differential [6/]	-0.2	0.9	3.5	-1.3	-1.1	-0.4	-0.2	-0.1	0.0	-3.1
Of which: real interest rate	2.0	3.1	2.8	1.1	1.0	1.1	1.2	1.3	1.4	7.0
Of which: real GDP growth	-2.2	-2.2	0.6	-2.4	-2.1	-1.5	-1.4	-1.4	-1.4	-10.1
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…
Other identified debt-creating flows [8/]	0.0	-3.8	12.9	-1.2	0.0	0.0	0.0	0.0	0.0	-1.2
Privatization and drawdown of deposits (negati	0.0	-7.7	-0.6	-1.9	0.0	0.0	0.0	0.0	0.0	-1.9
Contingent liabilities	0.0	3.9	13.5	0.7	0.0	0.0	0.0	0.0	0.0	0.7
Residual, including asset changes [9/]	-0.2	3.6	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	-0.1

debt-stabilizing primary balance [10/]
0.0



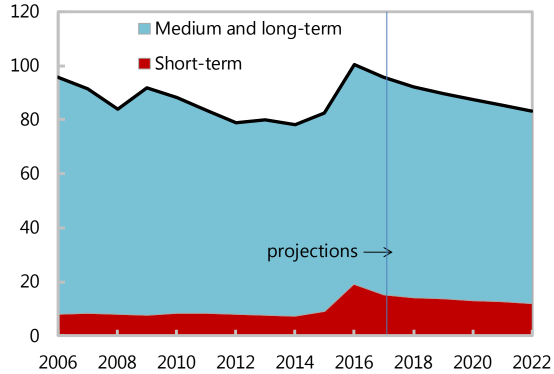
Source: Fund staff estimates.
1/ Public sector is defined as central government and includes public guarantees
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Data for 2015-2016, refers to past nationalization of utilities.
9/ Large residual in 2015 is essentially accumulation of assets financed with PetroCaribe loans.
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 4. Belize: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

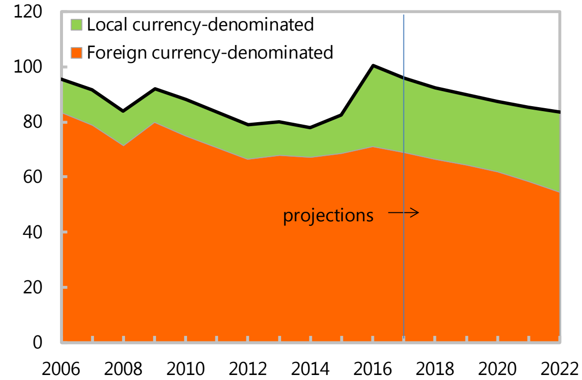
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

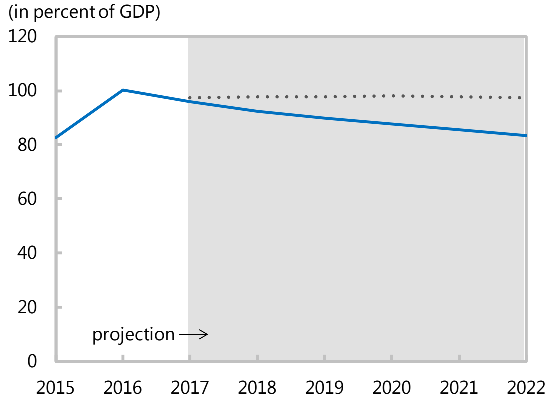


Alternative Scenarios

Baseline   Historical

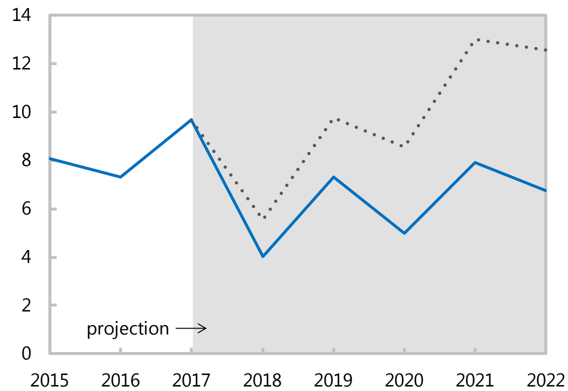
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

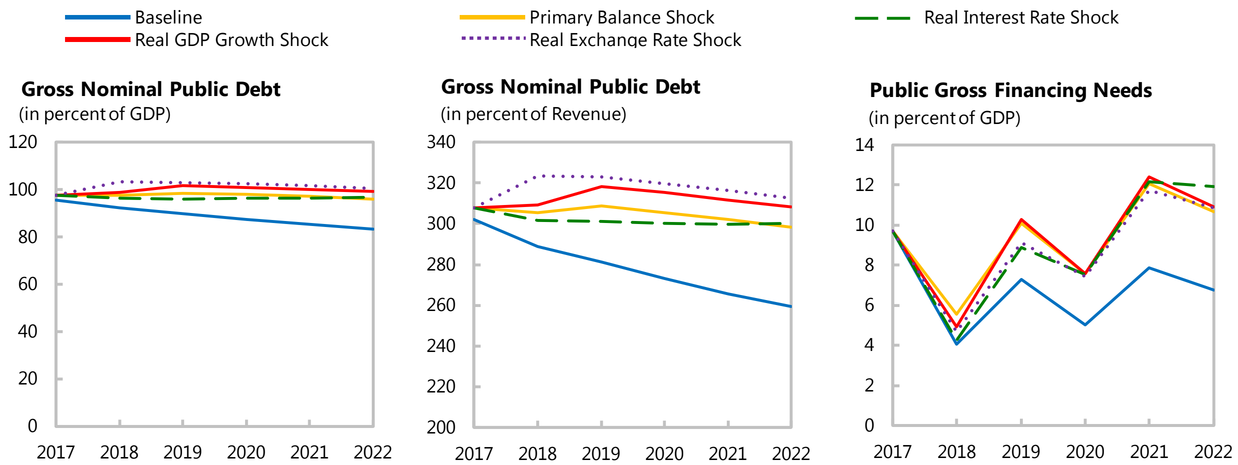
	2017	2018	2019	2020	2021	2022
Baseline Scenario (assumes constant primary balance)						
Real GDP growth	2.5	2.3	1.7	1.7	1.7	1.7
Inflation	2.0	2.3	2.2	2.1	2.1	2.1
Primary Balance	2.1	2.4	2.1	2.0	2.0	2.0
Effective interest rate	3.2	3.5	3.5	3.6	3.7	3.8

	2017	2018	2019	2020	2021	2022
Historical Scenario						
Real GDP growth	2.5	2.1	2.1	2.1	2.1	2.1
Inflation	2.0	2.3	2.2	2.1	2.1	2.1
Primary Balance	2.1	1.1	1.1	1.1	1.1	1.1
Effective interest rate	3.2	3.5	3.6	3.9	4.1	4.4

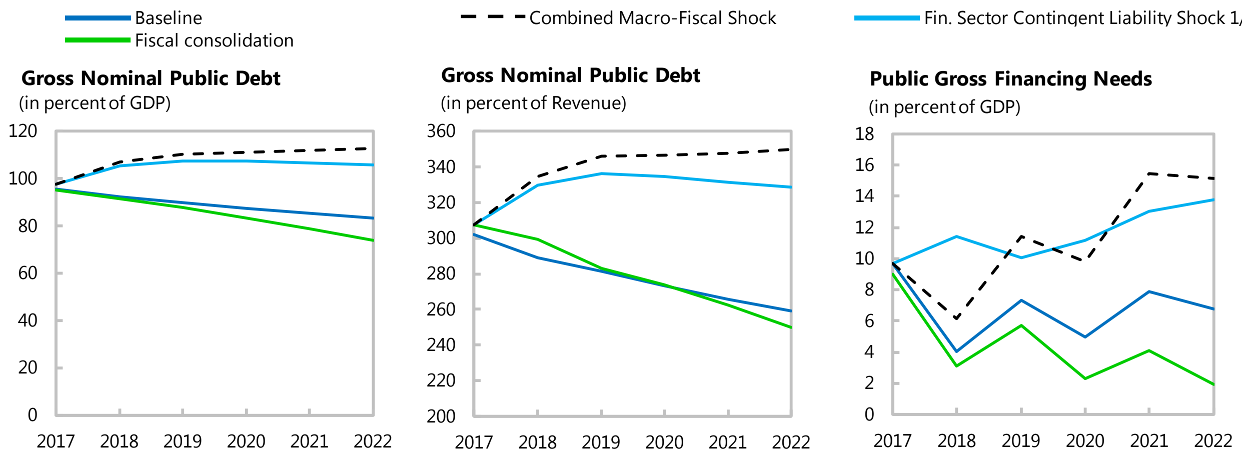
Source: Fund staff estimates.

Figure 5. Belize: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

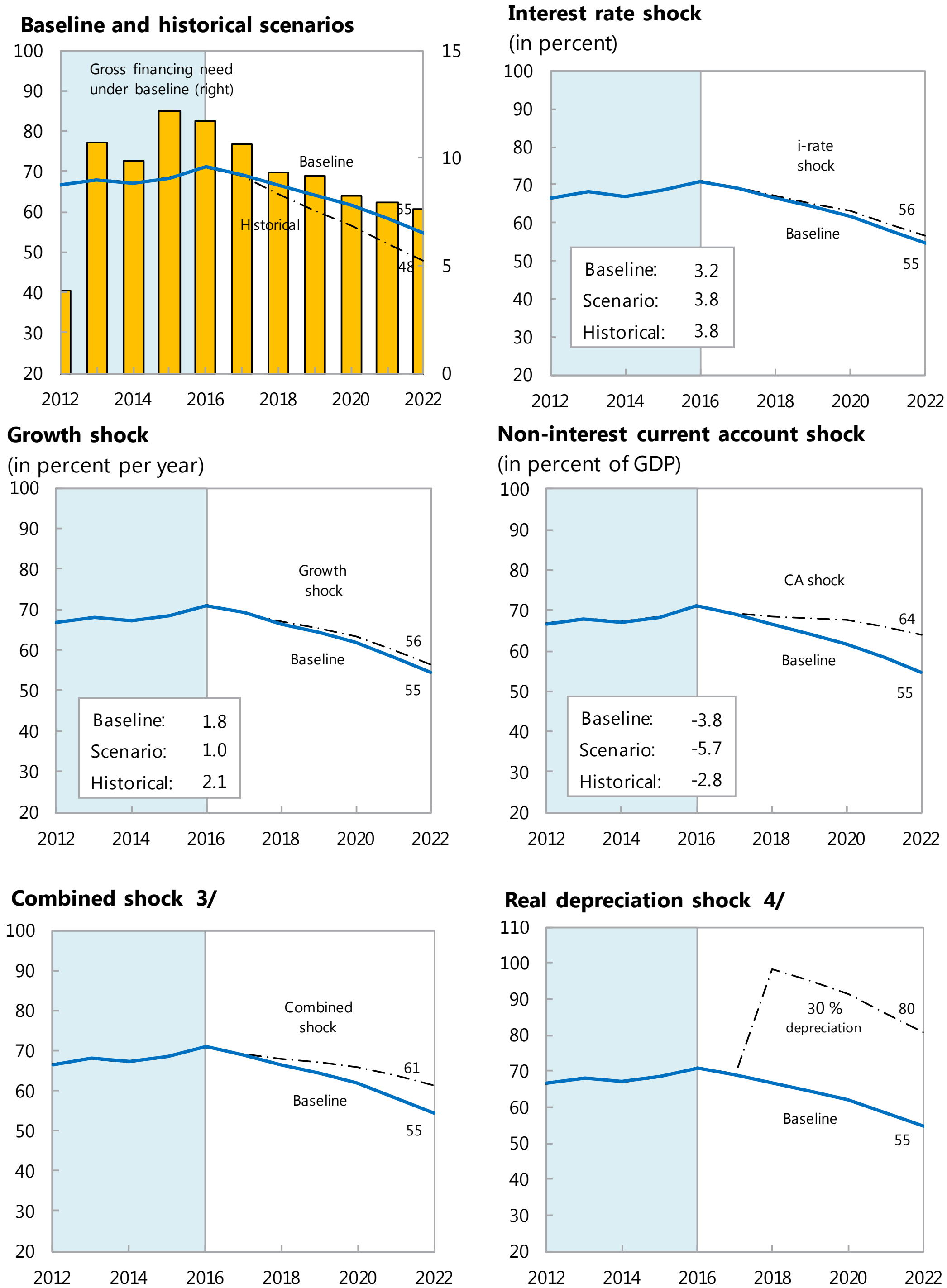
	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	2.5	2.3	1.7	1.7	1.7	1.7
Inflation	2.0	2.3	2.2	2.1	2.1	2.1
Primary balance	2.1	1.0	0.7	2.0	2.0	2.0
Effective interest rate	3.2	3.5	3.6	3.7	3.9	4.0
Real Interest Rate Shock						
Real GDP growth	2.5	2.3	1.7	1.7	1.7	1.7
Inflation	2.0	2.3	2.2	2.1	2.1	2.1
Primary balance	2.1	2.4	2.1	2.0	2.0	2.0
Effective interest rate	3.2	3.5	3.8	4.5	5.0	5.5
Combined Shock						
Real GDP growth	2.5	0.7	0.1	1.7	1.7	1.7
Inflation	2.0	2.0	1.9	2.1	2.1	2.1
Primary balance	2.1	1.0	0.7	2.0	2.0	2.0
Effective interest rate	3.2	3.7	3.9	4.7	5.2	5.7
Fiscal consolidation						
Real GDP growth	-0.8	2.5	1.8	1.6	2.0	2.2
Inflation	1.2	2.4	2.0	2.0	2.0	2.0
Primary balance	3.1	3.3	3.9	4.4	4.4	4.2
Effective interest rate	3.2	3.5	3.5	3.6	3.7	3.8

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	2.5	0.7	0.1	1.7	1.7	1.7
Inflation	2.0	2.0	1.9	2.1	2.1	2.1
Primary balance	2.1	1.8	0.9	2.0	2.0	2.0
Effective interest rate	3.2	3.5	3.6	3.7	3.9	4.0
Real Exchange Rate Shock						
Real GDP growth	2.5	2.3	1.7	1.7	1.7	1.7
Inflation	2.0	2.3	2.2	2.1	2.1	2.1
Primary balance	2.1	2.4	2.1	2.0	2.0	2.0
Effective interest rate	3.2	3.7	3.5	3.6	3.8	4.0
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	2.5	0.7	0.1	1.7	1.7	1.7
Inflation	2.0	2.0	1.9	2.1	2.1	2.1
Primary balance	2.1	-4.5	2.1	2.0	2.0	2.0
Effective interest rate	3.2	3.7	4.0	4.1	4.0	4.2

Source: Fund staff estimates.

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

Figure 6. Belize: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Table 1. Belize: External Debt Sustainability Framework, 2012–2022
(In percent of GDP, unless otherwise indicated)

	Actual				Est.			Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
Baseline: External debt	66.6	68.0	67.1	68.4	71.0			**69.1**	**66.5**	**64.3**	**61.8**	**58.3**	**54.6**	**-5.7**
Change in external debt	-4.3	1.4	-1.0	1.4	2.5			-1.9	-2.6	-2.2	-2.5	-3.5	-3.7	
Identified external debt-creating flows (4+8+9)	-10.5	1.7	-3.8	5.6	9.2			4.4	0.4	0.5	-0.6	-1.1	-1.4	
Current account deficit, excluding interest payments	-1.2	3.3	5.4	7.8	6.5			5.8	4.5	4.5	3.7	3.3	3.1	
Deficit in balance of goods and services	-1.5	1.8	3.7	8.4	9.4			6.0	4.8	4.8	3.9	3.5	3.2	
Exports	65.3	65.7	67.6	63.8	54.7			55.4	55.0	54.8	56.2	56.3	56.3	
Imports	63.8	67.5	71.4	72.2	64.1			61.4	59.8	59.5	60.1	59.8	59.5	
Net non-debt creating capital inflows (negative)	-7.8	-1.2	-7.6	-2.9	-0.3			-1.9	-4.7	-5.0	-5.3	-5.3	-5.4	
Automatic debt dynamics 1/	-1.5	-0.4	-1.6	0.7	3.0			0.4	0.6	1.0	0.9	0.9	0.9	
Contribution from nominal interest rate	2.4	1.3	2.1	2.1	2.9			2.1	2.1	2.0	2.0	1.9	1.8	
Contribution from real GDP growth	-2.5	-0.5	-2.6	-1.9	0.5			-1.7	-1.5	-1.1	-1.0	-1.0	-0.9	
Contribution from price and exchange rate changes	-1.4	-1.2	-1.1	0.5	-0.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.2	-0.3	2.9	-4.2	-6.6			-6.3	-3.0	-2.7	-1.9	-2.4	-2.3	
External debt-to-exports ratio (in percent)	102.0	103.6	99.2	107.3	129.7			124.7	121.0	117.4	110.0	103.5	96.9	
Gross external financing need (in billions of US dollar	0.1	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	3.8	10.7	9.9	12.2	11.7			10.6	9.3	9.2	8.2	7.9	7.6	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**69.1**	**64.5**	**60.1**	**56.4**	**52.1**	**47.7**	**-6.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.7	0.7	4.1	2.9	-0.8	2.1	1.6	2.5	2.3	1.7	1.7	1.7	1.7	
GDP deflator in US dollars (change in percent)	2.0	1.8	1.6	-0.7	0.7	1.5	2.3	2.0	2.3	2.2	2.1	2.1	2.1	
Nominal external interest rate (in percent)	3.6	2.0	3.3	3.2	4.2	3.8	1.2	3.1	3.2	3.2	3.2	3.2	3.2	
Growth of exports (US dollar terms, in percent)	8.9	3.1	8.9	-3.7	-14.3	2.4	10.6	5.8	3.9	3.6	6.5	4.1	3.8	
Growth of imports (US dollar terms, in percent)	6.2	8.5	11.8	3.3	-11.3	4.5	11.5	0.1	1.9	3.6	4.8	3.3	3.2	
Current account balance, excluding interest payments	1.2	-3.3	-5.4	-7.8	-6.5	-2.8	3.8	-5.8	-4.5	-4.5	-3.7	-3.3	-3.1	
Net non-debt creating capital inflows	7.8	1.2	7.6	2.9	0.3	6.1	4.4	1.9	4.7	5.0	5.3	5.3	5.4	

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.

INTERNATIONAL MONETARY FUND

BELIZE

July 13, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of June 30, 2017)

Membership status. Joined: March 16, 1982.

General Resources Account	**SDR Million**	**Percent Quota**
Quota	26.70	100.00
Fund holdings of currency (Exchange Rate)	20.49	76.73
Reserve Tranche Position	6.21	23.27

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.03	111.94

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	June 1, 1986	7.13	7.13

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

			Forthcoming		
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangement: Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize has accepted the obligations of Article VIII, Sections 2, 3, and 4.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on September 21, 2016 (IMF Country Report No. 16/334). 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.

CARTAC Technical Assistance to Belize FY2017

In FY2017, CARTAC delivered approximately 34.3 field person weeks of TA to Belize, with Customs, Financial Sector Supervision and Public Financial Management accounting for just over two thirds of TA delivered.

Description	Start Date	End Date
Public Financial Management		
IPSAS Follow up	1/9/2017	1/13/2017
Continue Strategic Budget Reform	2/4/2016	2/5/2016
Continue Strategic Budget Reform	2/4/2016	2/12/2016
Chart of Accounts Reform	1/25/2016	1/30/2016
Public Financial Management Action Plan	6/1/2016	6/9/2016
Strategic Budgeting	11/2/2016	11/11/2016
Internal Audit	11/2/2016	11/4/2016
Customs		
Strengthening capacity for risk management	1/25/2016	2/5/2016
Deliver on-the-job post clearance audit training and mentoring of staff	4/4/2016	4/15/2016
Strengthen capacity in the risk management unit and develop a work plan and KPIs	5/3/2016	5/9/2016
Deliver on the job post clearance audit training and mentoring to other staff members	11/28/2016	12/9/2016
Strengthen effectiveness in risk Management	1/16/2017	1/27/2017
Training and guidance to strengthen effectiveness in risk management	1/16/2017	1/19/2017
Tax Administration		
Introduction and next steps in integrating domestic tax operations	11/23/2016	11/25/2016
Financial Stability		
Review and Update of National Crisis Management Plan	2/15/2016	2/19/2016
Financial Soundness Indicators for Credit Unions	3/14/2016	3/18/2016
Financial Sector Supervision		
Basel II Implementation	9/5/2016	9/5/2016
Basel II Implementation	9/6/2016	9/9/2016
Development of Financial Stability and Health Template and Indicators	10/17/2016	10/21/2016
Risk-based Capital for Insurance	11/28/2016	12/2/2016
Real Sector Statistics		
National Accounts	3/20/2017	3/31/2017

BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE WORLD BANK[1]

(As of May 2017)

A. World Bank Support to Belize

1. **The World Bank's program in Belize is expected to grow and a new strategy is expected to be launched in summer 2017**. In April 2016, the World Bank disseminated the first Systematic Country Diagnostic (SCD) for Belize. The SCD analyzed the constraints and opportunities faced by Belize to return to a path of sustainable growth that would support the country in making greater strides to reduce extreme poverty and improve the wellbeing of the most vulnerable population. The new Country Partnership Framework (CPF) will guide the World Bank Group's support to Belize in the medium-term from July 2017 until June 2022. The CPF will carry forward the existing portfolio which is focused on infrastructure resilience to climate change and sustainable natural resource management, and enhance Bank support to Belize's financial inclusion and social resilience efforts.

2. **The overall size of the envelope during the CPS period was around US$45 million**. Current activities under implementation are guided by the Country Partnership Strategy (CPS) FY12- 15 that focused on assisting Belize to achieve inclusive and sustainable natural resource-based growth and enhanced climate resilience. 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. In addition, the current portfolio and pipeline also include grant-funded projects focused on natural resource management, environmental conservation, and energy sector resilience.

3. **The IMF and World Bank teams agree that Belize's main economic challenges are to strengthen the economy's resilience to shocks, as well as to make progress on the inclusiveness of growth**. In particular, strengthening fiscal sustainability, by bringing debt and fiscal balances to more manageable levels, and enhancing the stability of the financial system are key priorities. Other priorities include strengthening the policy framework while reinforcing the implementation of institutional reforms.

4. **The World Bank supports Belize in the following areas:**

- **Infrastructure**. Through the Climate Resilience Infrastructure Project, the Bank supports road infrastructure resilience against flood risk and impacts of climate change, as well as Belize's capacity to respond promptly and effectively to eligible crises.

[1] Updated in May 2017.

- **Environment**. The Bank's Marine Conservation and Climate Adaptation project and the Key Biodiversity Areas project support the implementation of priority ecosystem-based conservation and climate adaptation measures.

- **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 the mainstreaming of natural resources and climate resilience; ii) institutional capacity strengthening for natural resource management and climate change adaptation; iii) investments to strengthen climate resilience; (iv) promotion of viable and sustainable natural resource-based livelihoods for participating communities; and (v) strengthening of natural resource management and biodiversity conservation.

Belize: Bank and Fund Ongoing and Planned Activities, 2016–2017

Title	Products	Provisional Timing of Missions*	Expected Delivery Dates
Bank Work Program	Climate Resilience Infrastructure	Biannually/quarterly	August 2019
	Marine Conservation and Climate Adaptation	Biannually	March 2020
	Management and Protection of Key Biodiversity Areas	Biannually	September 2019
	Promoting Sustainable Natural Resource-based Livelihoods	Biannually	May 2019

*Missions for some projects can be conducted quarterly or as needed.

B. Financial Relations with the World Bank Group

(As of April 2017)

IBRD Operations (In U.S. dollars)	
	IBRD
Original Principal	131,200,000.00
Cancellations	5,812,580.50
Disbursed	96,942,373.06
Undisbursed	28,445,046.44
Repaid	81,095,357.00
Due	15,847,016.06
Exchange Adjustment	0
Borrower Obligation	15,847,016.06

Gross Disbursements and Debt Service During Fiscal Year (July 1–June 30) (In millions of U.S. dollars)										
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016***
Disbursements	0.0	0.0	0.0	0.0	1.3	2.6	2.8	1.9	2.9	4.5
Repayments	4.9	4.9	4.7	4.3	3.4	1.7	1.7	1.4	1.4	1.7
Net	-4.9	-4.9	-4.7	-4.3	-2.1	1.7	1.1	0.5	1.5	2.8
Interest	1.7	1.3	0.8	0.2	0.1	0.1	0.2	0.2	0.3	0.4
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0

* Data as of April 2017

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of June 2017)

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. To date the IDB has approved four loans under this strategy, for a total of US$62 million: (i) Education Quality Improvement Program for US$10 million; (ii) George Price Highway Rehabilitation Program for US$27 million; (iii) Sustainable Tourism Program II for US$15 million and (iv) Solid Waste Management Program II for US$10 million.

2. **Technical cooperation operations** (grants) in execution include: i) efforts to advance the implementation of the Tourism Master Plan; ii) the preparation of a national transportation master plan; iii) feasibility studies for several road infrastructure projects; iv) citizen security studies; v) support for trade and tax policy reform; vi) teacher training and improved education governance; vii) implementation of a food safety program for agricultural trade; and viii) action plan and pre-investment studies for urban sustainability of Belize City.

3. **Strategy results:** The strategy is in its fifth year of implementation.

4. **Recent and ongoing analytical work**

- Rekindling Economic Growth in Belize.
- Belize's Regional Integration Options.
- Citizen Security in Belize.
- Measuring the Impact of De-risking on Remittances and Trade Financing in Belize.
- Support for Improvement of the National Statistics System.
- Belize Donor Assistance and Coordination Report.
- Employability Training Provision: Gap Analysis.

5. **2017 program**. The 2017 pipeline includes one lending operation, *Climate Vulnerability Reduction Program* for US$ 10 million. The Bank plans to support Belize through new technical assistance in the following areas: public health supply chain management to increase expenditure efficiency; climate vulnerability reduction in key economic sectors; sustainable development plan for the Caracol Region; tax reform; support for the National Statistical System; and repurposing free zones.

6. **Current portfolio (in US$ million)**. The loan portfolio consists of four investment loans for US$62 million, of which US$56.2 million (90 percent) remains undisbursed.

Loan	**Approved**	**Undisbursed**
George Price Highway Rehabilitation Program	27.0	26.8
Education Quality Improvement Program	10.0	4.7
Sustainable Tourism Program II	15.0	14.7
Solid Waste Management Program II	10.0	9.8
Total	**62.0**	**56.0**

Loan Transactions
(In US$ million)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017[1]**
Net flows	**-1.8**	**-4.1**	**5**	**1.4**	**-1.8**	**-2.1**	**-7.1**	**-5.0**
Gross disbursements	5.7	10.2	12.8	9.8	7.4	8.5	4.7	7.2
Amortization	4.3	4.3	6.0	6.5	7.4	8.8	8.9	9.4
Interest and charges	3.1	1.8	1.9	1.8	1.8	1.8	2.8	2.8

[1] Projected.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of May 18, 2017)

A. Loan Portfolio Under Implementation and Transactions

Loan Portfolio Under Implementation as of May 18, 2017 (In millions of U.S. dollars)		
Loan	**Approved**	**Undisbursed**
BRIDGE REHABILITATION - TROPICAL STORM ARTHUR	8.8	0.6
BELIZE RIVER VALLEY RURAL WATER PROJECT	3.5	0.0
THE BELIZE SOCIAL INVESTMENT FUND II	15.0	1.5
FOURTH ROAD PROJECT - SANTA ELENA - SAN IGNACIO BYPASS	24.7	6.1
DETAILED DESIGNS - EXPANSION OF WATER AND SEWERAGE FACILITIES, AMBERGRIS CAYE	0.7	0.3
TA - EDUCATION SECTOR REFORM	2.0	1.2
ROAD SAFETY PROJECT	7.2	0.1
YOUTH AND COMMUNITY TRANSFORMATION PROJECT	5.2	3.4
FIFTH ROAD PROJECT - PHILIP S. W. GOLDSON HIGHWAY UPGRADING	29.7	21.6
SEVENTH CONSOLIDATED LINE OF CREDIT	10.5	3.3
ROAD SAFETY PROJECT - ADD. LOAN	4.6	1.9
NDM IMMEDIATE RESPONSE – HURRICANE EARL	0.8	0.8
YOUTH RESILIENCE AND INCLUSIVE SOCIAL EMPOWERMENT (RISE) PROJECT	0.9	0.9
TA – CROOKED TREE ROAD AND CAUSEWAY UPGRADING	0.3	0.3
BELIZE EDUCATION SECTOR REFORM PROGRAMME II	35.0	34.1
SIXTH POWER PROJECT – ELECTRICITY SYSTEM	11.2	9.9
TA – MODERNISATION OF CUSTOMS AND EXCISE	2.5	0.3
EIGHTH CONSOLIDATED LINE OF CREDIT*	20.0	20.0
THE BELIZE SOCIAL INVESTMENT FUND III*	10.0	10.0
TA – PLACENCIA WASTEWATER MANAGEMENT PROJECT*	0.6	0.6
TOTAL	**193.2**	**116.9**

Loan Transactions (In millions of U.S. dollars)							
	2010	2011	2012	2013	2014	2015	2016
Net flows	**1.5**	**(3.8)**	**(15.7)**	**(3.2)**	**(3.5)**	**5.5**	**5.9**
Gross disbursements	15.0	8.7	6.4	10.7	10.6	19.0	20.8
Amortization	7.6	7.8	16.0	9.8	9.8	9.3	10.5
Interest and charges	5.4	4.7	6.1	4.1	4.3	4.3	4.4

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 during this period closely mirrored the indicative project pipeline identified in the country strategy. In addition, net loan flows to Belize, which had been negative since the start of the CSP period, turned positive in 2015, as progress was made in implementing the projects in the portfolio. A new country strategy for Belize was approved by CDB's Board in October 2016.

8. **The bulk of this portfolio reflects CDB's efforts to expand, rehabilitate or reconstruct critical transportation and water infrastructure**. In terms of transportation, the Fourth Road project, which commenced construction in 2012, should be completed in 2017. The Fifth Road loan for upgrading of the Philip S. W. Goldson (formerly Northern) Highway was approved in May 2014 and work commenced in the first quarter of 2016. 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. With support from the United Kingdom Caribbean Infrastructure Partnership Fund (UKCIF), the improvements to the Highway will be extended to the Mexican border, and there will be upgrades to the Manatee highway. 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.** In addition, detailed designs for the expansion of water and sewerage on Ambergris Caye are expected in 2017, 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 seventh such line of credit was approved in July 2014. All of the funds provided for education have been exhausted, and support has been provided for energy efficiency/renewable energy projects in the private sector. Additionally, a small TA grant was provided for institutional strengthening of DFC in 2014, resulting in the preparation of a strategic development plan which will enable DFC to reposition itself to provide credit support to priority sectors. The eighth line of credit was approved in December 2016. 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 programs 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 approved a third loan of US$10 for BSIF in December 2016, following on from the previous loan of US$15 million approved in 2010. Grant funding has been provided through the Basic Needs Trust Fund (BNTF) currently going into its 9th cycle. Belize's allocations under the 7th and 8th cycles (US$5.0 million and US$1.5 million) are still under implementation, and the 9th cycle allocation of US$5.4 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. The Youth Resilience and Inclusive Social Empowerment Project (RISE) was launched in spring 2017.

STATISTICAL ISSUES

(As of May 31, 2017)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance.

Real sector: The Statistical Institute of Belize (SIB) publishes on its website a variety of real sector statistics (GDP, CPI, population and labor force/employment statistics, social indicators). The timeliness and frequency of the statistics is generally adequate for surveillance with the exception of social indicators related to poverty and literacy, which are available with large lags. This is largely due to capacity limitations at the SIB, which constrain the process of undertaking surveys and processing the data. There is room to further strengthen the compilation of GDP on expenditure basis, which is currently available only at annual frequency and with a significant lag. Future work will be concentrated on the methodology and source data for compiling the supply and use tables (SUT), improving the robustness of measurements of economic activity in export processing zones and the commercial free zone, including informal activity in GDP estimates, and rebasing the GDP to 2014. The SIB could also utilize data compiled by the Social Security Board (SSB) to strengthen the quality of labor statistics.

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. The Social Security Board 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. 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.

Balance of payments: The SIB publishes trade data at monthly frequency on its website with a one month lag and monthly press releases, which discuss key trends and driving factors. The data, however, do not cover services, which constrains the assessment of the overall external position as tourism revenue represents a large share of total exports. The usefulness of the dataset for surveillance could be improved if it is expanded to cover also trade in services and the international investment position. The Central Bank of Belize is responsible for producing the Balance of Payments, which is compiled on a quarterly and annual basis in BPM6 format.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since September 27, 2006.	No data ROSC is available.

III. Reporting to STA

No fiscal data are being reported for publication in the Government Finance Statistics Yearbook or in the IFS.

Belize: Table of Common Indicators Required for Surveillance
(As of May 31, 2017)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	5/31/2017	6/1/2017	M	M	M
International Reserve Assets and Liabilities of the Monetary Authorities 1/	3/31/2017	3/31/2017	W	W	W
Reserve/Base Money	4/30/2017	5/12/2017	W	W	W
Broad Money	4/30/2017	5/12/2017	W	W	W
Central Bank Balance Sheet	4/30/2017	5/30/2017	M	M	M
Banking System Balance Sheet	4/30/2017	5/30/2017	M	M	M
Interest Rates 2/	4/30/2017	5/30/2017	M	M	M
Consumer Price Index	3/30/2017	5/25/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ — Central Government	3/31/2017	5/30/2017	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt 4/5/	3/31/2017	5/30/2017	M	M	NA
External Current Account Balance	2016Q3	5/30/2017	Q	Q	Q
Exports/Imports of Goods and Services	2016Q3	5/30/2017	Q	Q	Q
GDP/GNP	2016Q3	3/30/2017	Q	Q	Q
Gross External Debt (Central Government only)	3/31/2017	5/30/2017	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).

Statement by Ms. Nancy Horsman, Executive Director for Belize and Mr. David Hart, Advisor to the Executive Director September 11, 2017

Our Belizean authorities thank the mission team for their report and productive consultations. They value the open and candid dialogue with Fund staff and will use the report's conclusions to inform their deliberations. They broadly concur with staff's view on the outlook and challenges facing the economy, and with many of the policy recommendations.

Economic Performance and Outlook

Belize's economy is projected to return to positive growth of about 2.5 percent of GDP in 2017, largely on the back of strong performance in the tourism sector. This follows a difficult year in 2016 where growth contracted by an estimated 0.8 percent, due in part to Hurricane Earl and poor agricultural output resulting from disease (although the decline was less severe than the -1.5 percent projected in last year's staff supplemental report). Inflation has increased slightly but is projected to stabilize at around 2 percent.

Despite this economic rebound, the medium-term growth outlook is relatively weak at just under 2 percent of GDP per year. The outlook is also subject to important downside risks, including further unexpected withdrawals of correspondent banking relationships, a decline in sugar prices after the EU sugar reform takes full effect, and natural disasters. On the upside, the steady recovery in advanced economies could support stronger than expected growth in the tourism industry, while further infrastructure improvements could support stronger exports from the primary goods sector. The authorities are cautiously optimistic regarding a rebound in some agricultural exports, following a very difficult 2016.

Debt Restructuring

In March 2017, the government of Belize reached a debt restructuring agreement with their private external bondholders on the single externally held bond instrument (representing about 30 percent of GDP). The authorities sought out a new agreement based on the recognition that the previous restructuring was not sufficient to place Belize's debt on sustainable footing. Following the revised agreement, the interest rate will be fixed at 4.9375 percent, thereby avoiding the step-up to 6.767 percent that was scheduled for August 2017. The deal also adjusts the amortization schedule so that principal repayments will take place in five bullet payments over 2030-34 (instead of semi-annual instalments starting August 2019). The result is an estimated net present value debt reduction of about 28 percent.

This provides important cash flow relief, but our authorities recognize that repeated restructurings carry a reputational cost. They also recognize that it is their responsibility to follow through with an appropriate level of fiscal adjustment. As part of the agreement, the authorities agreed to tighten their fiscal stance by 3 percent of GDP this fiscal year (2017-18) and maintain a primary surplus of at least 2 percent over the subsequent three years. If Belize fails to meet its primary surplus targets during 2018-2021, the authorities are committed to submit a report to the National Assembly to explain why the targets were missed, and will request an IMF technical assistance mission to determine the cause and recommend remedial measures. The authorities have also committed to publishing the findings of any such mission.

Fiscal Outlook

Our authorities are currently undertaking a significant fiscal adjustment to ensure that public debt remains sustainable and on a steady downward trajectory. The 2017-18 budget targets a primary surplus of 3 percent of GDP. This would represent a shift of 4 percent of GDP, even greater than that which was committed to as part of the agreement with private bondholders. Achieving the target involves a mix of revenue-enhancing measures (2 percent of GDP) and expenditure reductions (2 percent of GDP), the latter mainly from reduced capital spending. Further improvements are aimed at enhancing revenue administration and mobilization. Our authorities acknowledge that a reduction in capital spending is not ideal for Belize's long-term growth potential, but it is critical to maintain the social consensus during what is already a significant fiscal adjustment planned for this coming year.

Looking ahead, the authorities plan to maintain a primary surplus of at least 2 percent of GDP through 2019-2020, but will consider further adjustments if required. The authorities will take under consideration staff's suggestion to introduce a fiscal rule to guide the fiscal consolidation effort. Work is also underway to strengthen public financial management. Preparation for a new public debt management bill is making good progress, as is the implementation of a new chart of accounts. And as noted in the staff report, Belize's authorities plan to adopt CARICOM model procurement legislation in 2017.

Financial Sector

The health of the financial sector continues to improve as reforms are showing results. Bank balance sheets are strengthening and non-performing loans (NPLs) have declined to about 10 percent (2 percent net of provisions). Capital adequacy ratios are adequate and profitability ratios are improving. There remains a disagreement with staff over whether banking sector provisioning should be raised to 100 percent, but the authorities agree to maintain restrictions on the systemic bank until it is on sound financial footing.

There is ample liquidity in the domestic banking system, but the flow of credit to the private sector (and SMEs in particular) is hampered by weak bank balance sheets and gaps in the financial information framework. Our authorities generally agree with staff's recommendations in this area, as well as on the need to develop a domestic capital market. However, capacity issues are a meaningful constraint, so the sequencing of reforms will be important.

The Central Bank of Belize (CBB) is firmly committed to enhancing financial sector stability and modernizing the country's financial architecture. The CBB has revamped its Financial Stability Report (FSR) and recently completed a FSR covering the 2015-2016 period. The Moneylenders legislation was amended in December 2016 to modernize the regulatory regime, introduce greater transparency and enhance the CBB's supervisory and enforcement powers. In addition, the Automated Payment and Securities Settlement System was launched in October 2016, which will facilitate electronic payments, facilitate electronic auction and registration of government paper, and improve the ease of doing business in Belize more generally. Accompanying legislation for the national payments system was passed by the National Assembly in February 2017.

Correspondent Banking Relationships (CBRs)

There have been positive developments in terms of CBRs in Belize over the last year, although challenges remain. Whereas in 2016 the situation was severe (the CBB had lost two of five CBRs and some domestic banks were left with no CBRs at all), now all affected banks have at least two CBRs. However, the new arrangements are more costly, reflected in higher transaction fees, lengthy processing times, more limited access to financial services and increased expenses related to due diligence.

There are multiple factors behind the loss of CBRs in Belize, some of which are clearly outside of the authorities' control. Nevertheless, the authorities are committed to continue to reform the country's AML/CFT framework to bring it line with international best practice. The authorities particularly welcomed staff's assessment that there are no major AML/CFT risks in the Belizean domestic banking sector, but will remain vigilant to monitoring risks through regular supervision of banks, credit unions and money service providers.

Belize is taking a proactive approach to building trust with the international financial community. In August, the CBB adopted SWIFT's sanction screening solution to help combat financial crime by scanning incoming and outgoing messages against the latest sanctions lists. Further, a National Risk Assessment (NRA), part of the preparation for Belize's next CFATF Mutual Evaluation, is expected to be completed in 2018. The NRA will assist in identifying high risk sectors and business activities and improve the allocation of scarce supervisory resources. Rather than wait until the final report, the National Anti-Money Laundering Committee will take steps to address any weaknesses identified by the NRA as they are identified.

The authorities are also taking steps to improve regulation and supervision of the offshore sector. In July, the National Assembly approved a bill amending the International Business Corporation Act to require registered agents to have beneficial ownership information at their premises by July 2018. The authorities will consider staff's advice to expand this requirement to Limited Liability Companies, foundations and trusts.

Recognizing that further work is needed to strengthen AML/CFT supervision, the authorities have submitted a request to the Fund for technical assistance in this area. Specifically, assistance is being sought for: (i) updating the CBB's AML risk module, supported by training; (ii) the development of risk-based tools related to beneficial ownership information; (iii) the development of manuals, procedures and training for off-site AML/CFT surveillance and on-site examination; and (iv) the development of monitoring tools and reporting requirements for banks and non-bank financial institutions.

The authorities appreciate the Fund's valuable analysis and ongoing assistance in supporting Belize with this challenging issue. However, our authorities continue to view the CBR problem as going beyond simplistic assumptions about AML/CFT risks. The withdrawal of first-tier global bank CBRs from Belize reflects a changing cost-benefit dynamic that is partly the result of unintended consequences from regulations in systemically important economies. The impact of this dynamic, although varied, is being felt across the Caribbean region and beyond. Therefore, our authorities urge the Fund to continue to take a proactive role in convening relevant public and private actors on the CBR issue to advocate for concrete, practical, and durable solutions.

Supporting Growth and Sustainable Development

Raising the economy's long-term potential growth is vital for achieving our authorities' economic and social objectives and the Growth and Sustainable Development Strategy (GSDS) is the guiding framework for Belize's development plans. The GSDS outlines a multi-pronged approach to improve infrastructure, investment and competitiveness, generate better social outcomes, while enhancing environmental resilience.

A key challenge for the GSDS is prioritizing and funding new projects, particularly given the government's tighter fiscal stance. Our authorities are working with multilateral and bilateral development partners (e.g., the World Bank Group and IDB) to help develop and finance key projects, such as improved transportation networks with neighboring countries. Legislation for the establishment of a credit bureau and credit registry is also under development. Our authorities take note of staff's advice to examine other low or zero cost approaches to strengthening the business climate.

Conclusion

Our Belizean authorities highly value their ongoing dialogue with the Fund on policies and the economic outlook. There is broad agreement on the overall conclusions of the report, including a shared understanding on the need for Belize to maintain its debt on a downward trajectory through prudent fiscal policy. However, our authorities intend to implement and sequence their fiscal consolidation so as to maintain social consensus. They welcome the Fund's support for strengthening Belize's AML/CFT regulatory framework and encourage further efforts to support sustainable CBR solutions for the country and region.