INTERNATIONAL MONETARY FUND

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BELIZE

November 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; DEBIT SUSTAINABILITY ANALYSIS AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELIZE

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 2018 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 November 12, 2018 consideration of the staff report that concluded the Article IV consultation with Belize.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 12, 2018, following discussions that ended on September 20, 2018, with the officials of Belize on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 18, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Belize.

The documents listed below have been separately released.

Selected Issues
Financial Stability System Assessment

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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November 16, 2018

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IMF Executive Board Concludes 2018 Article IV Consultation with Belize

On November 12, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belize.

Belize's economic recovery is strengthening, supported by a favorable global environment. Real GDP is estimated to have increased by 1.4 percent in 2017, and recent data indicate an acceleration in economic activity. This acceleration reflects growth in the tourism and agricultural sectors, on the back of economic expansion in Belize's trade partners, expanded capacity, and foreign direct investment. Unemployment decreased to 9.4 percent in April 2018 from 9.7 percent six months earlier, the current account deficit narrowed to 7.6 percent of GDP in 2017 from 8.4 percent of GDP in 2016, and the financial sector is strengthening. The government delivered a significant fiscal adjustment in FY2017/18, with a primary fiscal balance surplus of 1.3 percent of GDP.

The medium-term outlook remains challenging. Real GDP growth is projected at just below 2 percent in the medium term. The current account deficit is projected to gradually narrow, but remain significant, with international reserves projected below 3 months of imports of goods and services over the medium term. A fiscal stance that is stronger than currently projected would be needed to reduce public debt from its end-2017 level (94 percent of GDP) to prudent levels over the long term and build buffers against shocks. Contested legacy claims, estimated at about 5 percent of GDP, could lead to large public and external financing needs. The risk of renewed pressures on correspondent banking relationships (CBRs) remains. On the upside, additional foreign direct investment, including in connection with the tourism industry's expansion, and a successful implementation of the Growth and Sustainable Development Strategy (GSDS) could result in a sustained rise in growth.

[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.

Executive Board Assessment[2]

Belize's economic recovery is strengthening and Directors welcomed the authorities' progress in restoring fiscal sustainability and financial sector soundness. However, the medium-term outlook remains challenging with elevated government debt and external imbalances. With this background, Directors encouraged the authorities to implement reforms to raise economic growth and resilience, reduce government debt, and strengthen the financial sector.

Structural reforms are key to enhance the business climate and improve medium-term growth prospects. Directors encouraged the authorities to take steps to facilitate access to credit, address labor market rigidities and skill gaps, improve governance, and amplify support for crime prevention. Directors welcomed the Climate Change Policy Assessment, conducted with support from the IMF and the World Bank, and emphasized the need to intensify ongoing efforts to build resilience to natural disasters, through investment in adaptation infrastructure, greater self-insurance, and optimized use of risk management instruments.

Directors welcomed the significant fiscal consolidation achieved in FY2017/18 and further adjustment envisaged in the FY2018/19 budget. Reducing public debt to prudent levels would require additional fiscal reforms. Directors highlighted the need to broaden the tax base, strengthen tax administration, reduce wage spending and undertake pension reform. To support the poverty alleviation strategy, Directors saw merit in strengthening the social safety net by increasing the use of formal targeting mechanisms. They encouraged the authorities to support fiscal adjustment with a well-designed fiscal rule.

Directors noted that the financial system is strengthening but should remain under tight supervision. They encouraged the authorities to fortify the bank resolution legal framework with more effective tools and greater regulatory autonomy, with IMF technical assistance. They also highlighted the need to undertake an asset quality review to assess banks' capital buffers.

Directors welcomed recent progress in strengthening the AML/CFT framework and recommended further steps to enhance its effectiveness and support the recovery of Correspondent Banking Relationships. They underlined the need to strengthen the regulatory, supervisory, and enforcement powers of the International Financial Services Commission. Directors also encouraged the authorities to further develop their capacity to conduct AML/CFT risk-based supervision. They saw merit in conducting a study on the overall benefits as well as the costs and risks of the offshore sector.

[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.

Belize: Selected Social and Economic Indicators, 2015-2022

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2016	103
Population (thousands), June 2018	398.1	Under-five mortality rate (per thousand), 2016	15
GDP per capita, (current US$), 2016	4,811	Unemployment rate (percent), April, 2018	9.4
Life expectancy at birth (years), 2016	70.1	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2015-22

	2015	2016	2017 Prel.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
National income and prices	(Annual percentage changes, calendar year)							
GDP at constant prices	3.4	-0.6	1.4	2.2	2.1	2.0	1.8	1.7
Consumer prices (average)	-0.9	0.7	1.1	1.2	1.5	1.7	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)							
Revenue and grants	28.2	28.9	29.6	29.9	30.1	30.1	30.1	30.2
Current non-interest expenditure	23.1	23.8	24.1	24.0	24.0	24.0	24.0	24.0
Interest payment	2.5	3.3	3.0	3.0	2.9	2.8	2.7	2.6
Domestic	0.4	0.5	0.9	0.9	0.9	0.8	0.8	0.8
External	2.1	2.8	2.2	2.1	2.1	2.0	1.9	1.8
Capital expenditure and net lending	10.2	7.0	6.5	3.9	4.0	4.1	4.1	4.1
Capital expenditure	7.3	6.9	4.0	3.8	4.0	4.1	4.1	4.1
Net lending	2.8	0.1	2.5	0.1	0.1	0.1	0.1	0.1
Primary balance	-5.1	-1.9	-1.1	2.0	2.1	2.0	2.0	2.0
Overall balance	-7.5	-4.2	-3.9	-0.9	-0.8	-0.8	-0.7	-0.7
Public debt	(In percent of calendar year GDP)							
Stock of public debt	79.3	93.3	93.6	94.2	91.8	89.4	86.9	84.5
Domestic debt	14.0	28.3	27.6	30.0	29.1	28.7	28.7	28.9
External debt	65.3	65.0	66.1	64.2	62.7	60.7	58.3	55.7
Principal payment	2.1	2.2	2.4	2.6	2.7	3.3	3.4	4.2
Domestic	0.0	0.0	0.0	0.0	0.0	0.8	0.7	1.7
External	2.1	2.1	2.4	2.6	2.7	2.5	2.6	2.6
Money and credit	(Annual percentage changes, calendar year)							
Credit to the private sector	4.8	-3.0	3.9	3.0	3.0	3.0	3.5	4.5
Money and quasi-money (M2)	7.3	2.6	-0.3	3.4	3.6	3.7	3.8	3.7
External sector	(Annual percentage changes, unless otherwise indicated)							
External current account (percent of GDP) 2/	-9.8	-8.4	-7.6	-6.2	-6.1	-5.8	-5.7	-5.3
Real effective exchange rate (+ = depreciation)	8.6	1.7	-2.1	...	...	...	...	...
Gross international reserves (US$ millions)	437	377	304	299	308	311	305	286
In months of imports	4.8	4.2	3.3	3.1	3.1	3.0	2.9	2.6
Memorandum items								
Primary balance (excluding one-off capital transfer 3/	-5.1	-1.9	1.3	2.0	2.1	2.0	2.0	2.0
Nominal GDP (BZ$ millions)	3,525	3,613	3,725	3,853	3,992	4,141	4,299	4,458

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

1/ Fiscal year (April to March).

2/ Including official grants.

3/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).

BELIZE

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

October 18, 2018

Outlook and risks. The economic recovery is strengthening, supported by a favorable global environment. Public debt remains near 95 percent of GDP, the current account deficit is projected to remain large over the medium term, and international reserves are just above 3 months of imports of goods and services. Growth is projected at just below 2 percent over the medium term. The significant tightening in the fiscal stance in FY2017/18 and the further adjustment in the budget for FY2018/19 are important steps toward debt reduction. Downside risks, including renewed pressures on correspondent banking relationships (CBRs), weaker-than-expected global growth, and natural disasters, could harm growth and weaken financial stability.

Focus of the consultation. Discussions focused on structural reforms to raise growth, fiscal consolidation to ensure debt sustainability, and steps to promote financial stability and strengthen the AML/CFT framework.

Key policy advice:

- Accelerate the implementation of growth-enhancing reforms to improve the business climate, including those identified in the Growth and Sustainable Development Strategy (GSDS), in close collaboration with development partners, and intensify efforts to build resilience to natural disasters through investments into adaptation infrastructure, greater self-insurance, and optimized use of risk management instruments.
- Implement fiscal measures to gradually raise the primary surplus to about 4 percent of GDP and reduce public debt to about 60 percent of GDP over the long term.
- Modernize public financial management (PFM) by adopting new procurement legislation, implementing a new chart of accounts, improving cash balance forecasting, and adopting a fiscal rule based on a debt anchor.
- Address banking sector vulnerabilities by stepping up regulatory oversight, informed by a bank asset quality review, imposing strict and prompt sanctions when necessary, and fortifying the bank resolution framework.
- Further strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework, including by properly regulating and supervising the offshore sector and ensuring that beneficial ownership information of legal persons and arrangements is available without impediments.

Approved By
Patricia Alonso-Gamo (WHD) and Ana Corbacho (SPR)

Discussions took place in Belize City and Belmopan during September 11–20, 2018. The team, comprising Daniel Leigh (head) and Julian Chow (both WHD), Chady El Khoury (LEG), and Laurent Kemoe (STA), met Acting Prime Minister Patrick Faber, Financial Secretary Joseph Waight, Central Bank Governor Amb. Joy Grant, senior officials, representatives of the private sector, the political opposition, and public-sector unions. Patricia Alonso-Gamo (WHD) and David Hart (OED) participated in some of the meetings. Paula Cifuentes Henao, Bennett Sutton, and Rahul Ainapur (all WHD) contributed research assistance and Adriana Veras and Malika El Kawkabi provided editorial support from headquarters.

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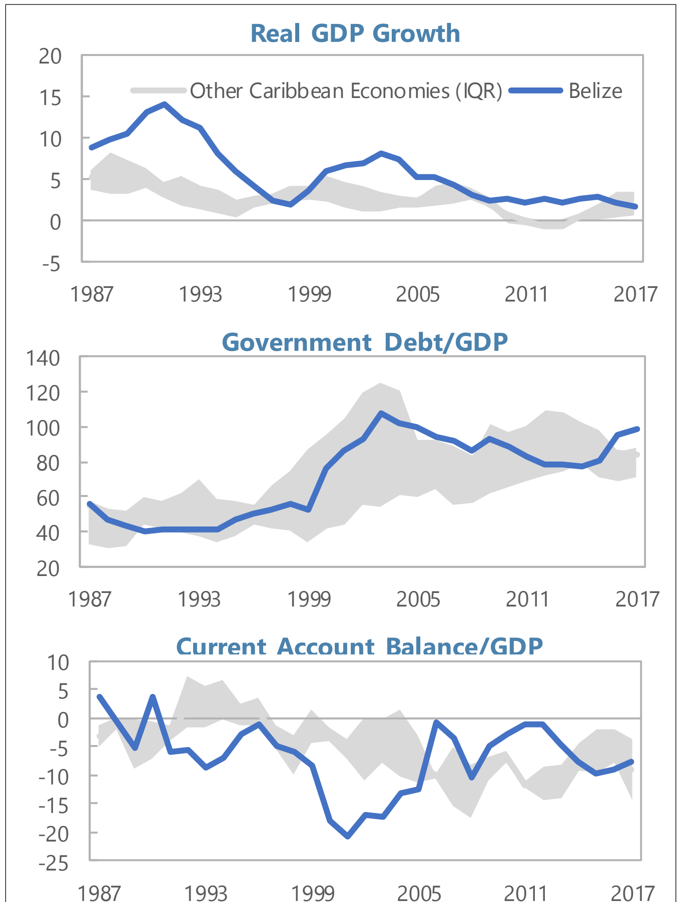
BACKGROUND



Note: IQR=Interquatile range. Chart reports 5-year average growth.

1. Belize's economic growth has slowed over the last five years, following decades of outperforming regional peers. As in other countries in the region, a central challenge is exiting the cycle of low growth and elevated public debt. Belize's 2017 debt rescheduling provided cash flow relief. In March 2017, the government reached a restructuring agreement with private external bondholders on its US$526 million bond (about 30 percent of GDP).[1] As part of the agreement, the authorities committed to tighten the fiscal stance by 3.0 percentage points in FY2017/18 and to maintain a primary surplus of 2.0 percent of GDP for the subsequent three years. The authorities are delivering on these commitments and have made progress in implementing recent Article IV recommendations (Annex I).

2. The ruling center-right United Democratic Party (UDP) of Prime Minister Dean Barrow retains a comfortable parliamentary majority. The UDP won the majority of the March 2018 municipal elections, although the opposition People's United Party (PUP) won the Belize City Council election. The next general election is due by November 2020.

RECENT DEVELOPMENTS

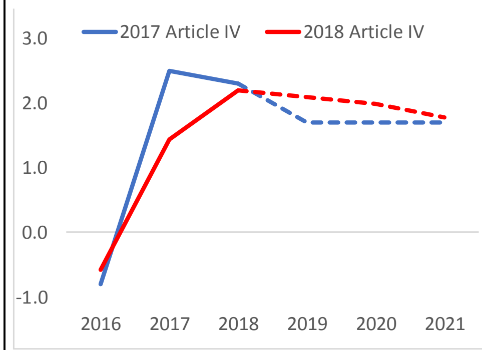
3. Belize's economic recovery from the 2016 recession is strengthening, supported by a favorable global environment.

- *Growth*. The recovery was slower than expected in 2017, with real GDP growth of 1.4 percent, following -0.6 percent in 2016. Producers in the agriculture and fisheries sectors faced continuing disease-related challenges, and the reduction in government capital

[1] The bond's interest rate was reduced to 4.9375 percent (the rate was set to step up from 5 to 6.767 percent in August 2017) and principal repayments were rescheduled 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.

- expenditure was larger than expected, which affected growth. At the same time, recent data indicate an acceleration in economic activity, with growth in 2018Q2 estimated at 5.4 percent (y/y). Tourism arrivals were up 17.1 percent in January–June 2018 compared with a year earlier, reflecting economic expansion in Belize's trade partners and an increased number of flights (Box 1). Agricultural production also rose, especially for sugarcane and bananas, on the back of expanded capacity and foreign direct investment (FDI). The unemployment rate declined to 9.4 percent in April 2018 from 9.7 percent in September 2017, with especially strong job growth in service industries (Figure 1).

Real GDP Growth
(percent)



- *Inflation*. CPI inflation was 1.0 percent in 2017 (y/y), despite higher fuel prices and sales tax increases, and declined to 0.5 percent in July 2018 (y/y), in line with Belize's sustained track record of low inflation in the context of its exchange rate peg to the US dollar.

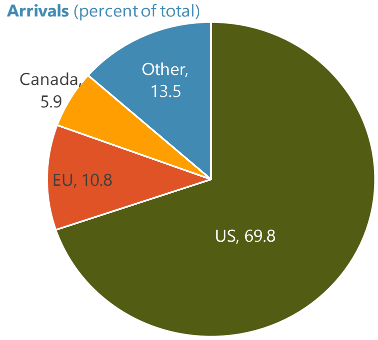
- *Current account*. The current account deficit narrowed to 7.6 percent of GDP in 2017 from 8.4 percent of GDP in 2016 reflecting higher tourism receipts and subdued imports. As of July 2018, the real effective exchange rate had weakened 1.5 percent relative to July 2017, but remained 1.4 percent stronger than its 10-year average.

Box 1. Belize's Tourism Boom

Belize's tourism sector is expanding rapidly. Overnight tourist arrivals during the first half of 2018 rose by 17.1 percent compared with the same period a year earlier, significantly more than for other countries in the region.

Economic expansion in major advanced economies has driven the boom. Tourists arriving from the US and Canada, where growth has accelerated, account for 76 of total stay-over tourists. Air arrivals rose 7.4 percent with additional flights from the US and Canada.

Composition of Stay-Over Tourist Arrivals (percent of total)

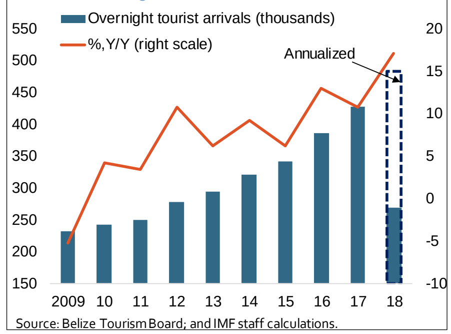


Box 1. Belize's Tourism Boom (concluded)

Belize's tourism industry is set to benefit from FDI by major international hotels. Plans to build a multi-million dollar cruise port off the coast of Belize City have also been announced. These investments will contribute significantly to economic activity, given the small size of Belize's economy.

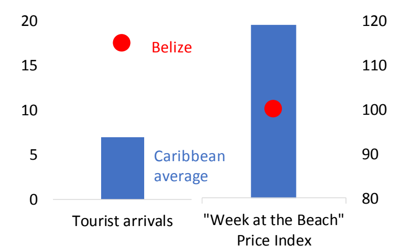
Prices in Belize's tourism sector appear to be competitive compared to those of other Caribbean countries. Staff's "Week-at-the-Beach" index which uses price data on hotels with a comparable rating, as well as the prices of taxis, food and beverages, indicates that the cost of tourism in Belize is lower than in other Caribbean economies. At the same time, tourists appear to be selecting cheaper (non-hotel) accommodation options, and the rise in hotel room bookings in Belize has been below that of overall arrivals.

Belize: Overnight Tourist Arrivals



Source: Belize Tourism Board; and IMF staff calculations.

Belize: Tourism Arrivals and Prices [1/]

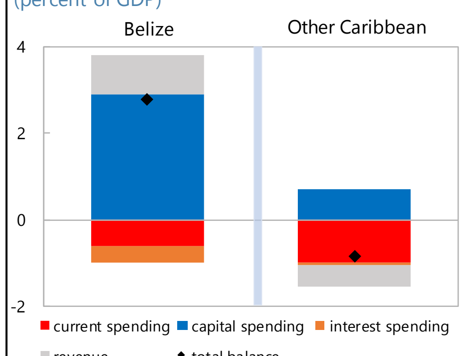


1/ Tourist arrivals refer to the Y/Y change from January to June, 2018 compared to the same period in the previous year. "Week at the Beach Price Index" is based on May 2018 data.

4. **Court rulings against the government have reduced international reserves and increased government debt.** A Caribbean Court of Justice (CCJ) ruling in November 2017 forced the government to pay US$78 million (4.2 percent of GDP) to the former owners of the nationalized Belize Telemedia Limited (BTL) in US dollars. This payment, combined with the still wide current account deficit and dwindling PetroCaribe flows, reduced gross international reserves to US$304 million, or about 3.3 months of imports of goods and services, at end-2017. In addition, the CCJ ruled that the government must pay BZ$92 million (2.5 percent of GDP) to a commercial bank creditor for the settlement of a debt owed by Universal Health Services (UHS), which the government had guaranteed. The CCJ ruling implies that the UHS debt of 2.5 percent of GDP becomes a liability of the government (as guarantor). Parliament has yet to authorize the payment of the liability.

5. **The government delivered a significant fiscal adjustment in FY2017/18.** The fiscal accounts are affected by the CCJ ruling regarding UHS debt. Based on the Government Finance Statistics Manual 2014, this event constitutes debt assumption by the government, as guarantor, and is recorded in November 2017 as a capital transfer from the government to UHS, with the counterpart entry being an increase in government debt. Excluding this one-off capital transfer, the primary fiscal balance increased to a surplus of 1.3 percent of GDP in FY2017/18, a

Fiscal Adjustment in FY2017-18
(percent of GDP)



3.2 percent of GDP turnaround from the FY2016/17 level, above the 3.0 percent of GDP adjustment agreed with bondholders at the time of the 2017 debt restructuring. Including the one-off capital transfer, the FY2017/18 primary and overall fiscal deficits were 1.1 and 3.9 percent of GDP, respectively. The bulk of the fiscal adjustment has been through reduced government investment, which probably affected growth. Tax measures introduced in March 2017 supported revenues, although their yield was lower than anticipated, in part reflecting the slower pace of economic recovery.[2] The wage bill increased slightly as a share of GDP due to a one-time wage increase from a 2014 collective bargaining agreement. The government debt stock reached about 94 percent of GDP at end-2017.

6. The FY2018/19 budget that Parliament adopted in March 2018 aims to raise the primary fiscal surplus further, to just above 2 percent of GDP. This primary surplus would be consistent with the afore-mentioned agreement with private creditors, and correspond to an overall budget deficit of 0.9 percent of GDP. The planned adjustment is mainly through higher revenues. Parliament approved revenue-enhancing measures amounting to about 0.5 percent of GDP, including broadening the base of the General Sales Tax (GST) by removing zero-rated items; higher excises on fuel; and higher import duties on selected items. These tax policy measures would be supported by stronger tax administration and a 0.1 percent of GDP rise in grants. On the expenditure side, the wage bill and capital spending are expected to decline slightly from last year as a share of GDP. In his budget speech, the Prime Minister underscored the importance of building

FY2018/19 Budget: Revenue Measures

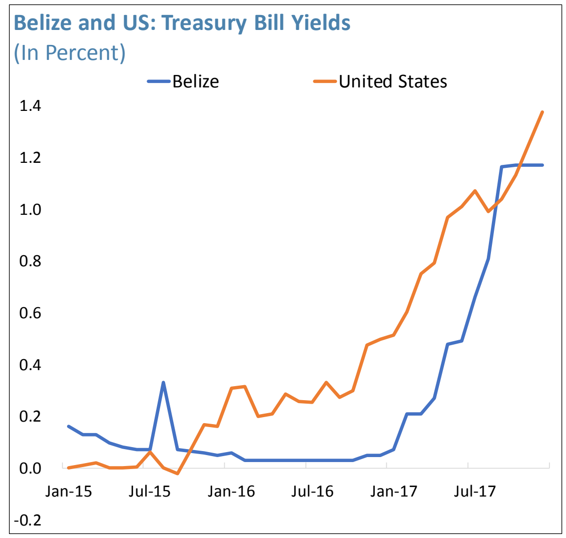
	BZ$ m	% of GDP
Total budgetary impact	**17.60**	**0.46**
Taxes on goods and services:	**14.50**	**0.38**
- Removing GST zero rate on data services by telecom clients.	6.0	0.16
- Ending exemption of GoB contracts, imports and purchases. Applying standard rate.	2.5	0.06
- Applying GST to Business Processing Outsourcing.	1.0	0.03
- Ending exemption on real estate sales.	1.2	0.03
- Ending exemption on butane sales.	0.8	0.02
- Increasing excise taxes for kerosene and fuel oil.	3.0	0.08
Taxes on international trade and transactions:	**3.1**	**0.08**
- Raising "social duty" levied on imports (except cigarettes, liquor and fuel) to CFZs from 1.5% to 3.0%.	3.0	0.08
- Introducing "social duty" of 1.5% on inbound duty free merchandice at PGIA.	0.1	0.00

Source: Belize authorities and Fund staff estimates.

[2] The main revenue measures introduced in the FY2017/18 budget were: (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) base, including lowering the social exemption for household electricity use.

the primary balance to achieve a reduction in public debt to 60 percent of GDP over the longer term.

7. Liquidity in the banking system remains ample but monetary conditions are gradually tightening (Figure 4).[3] The banking system's liquid assets in excess of statutory requirements stood at 44.9 percent at end-2017, down from 73.4 percent a year earlier. The treasury bill yield reached 1.2 percent at end-2017, up from 0.1 percent at end-2016, rising with US treasury bill yields. Domestic banks' credit to the private sector grew 3.9 percent with new loans to sugarcane and banana producers and to home builders.



8. The financial sector is strengthening, supported by the authorities' resolute actions to enhance financial soundness and reduce risks to CBRs.

- *Declining nonperforming loans (NPLs) and recovery in CBRs.* The overall domestic banks' gross NPL-to-total loans ratio fell to 7.5 percent (1.4 percent net of provisions) at end-2017, from 10.4 percent (2.1 percent net of provisions) at end-2016, following a final legacy loan write-off (BZ$88.9 million) that brought all loans in conformity with loan loss provisioning and capital standards. The system's capital adequacy ratio (CAR) remained stable, at 23.7 percent. Profitability improved, with the net earnings-to-asset ratio rising to 1.7 percent in December 2017, from 0.9 percent in December 2016. All banks affected by the loss of CBRs during 2015-16 have found some replacement CBRs and alternative ways of processing cross border transactions (see Selected Issues Paper, SM/18/xx). At the same time, the situation remains vulnerable, with many banks relying on the same correspondent bank.

- *Resolute action to improve financial soundness and integrity.* The CBB placed a troubled offshore bank that had suspended the withdrawal of deposits under enhanced supervision in December 2017. After determining that the bank had failed to provide a satisfactory plan and take sufficient actions to resolve the situation, the CBB revoked the bank's license and placed it into liquidation in June 2018. The bank has filed a challenge to this action with the Supreme Court of Belize and filed an appeal through the Appeal Tribunal. The offshore bank served nonresidents only and is assessed as non-systemic, with no significant links to other Belizean financial institutions or corporations. The CBB also conducted AML/CFT supervision of some domestic banks, offshore banks, credit unions, remittance service providers, and ten moneylenders in 2017. Parliament adopted amendments to improve the transparency of

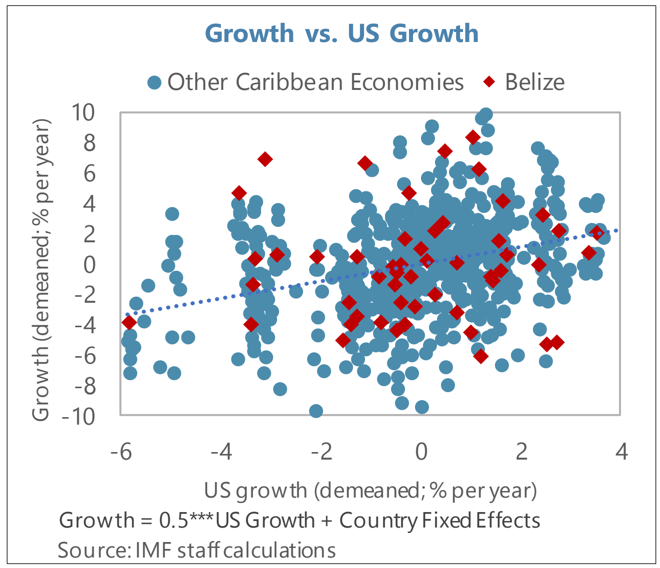
[3] Inward and outward capital transactions (such as FDI, portfolio investments, foreign currency loans and deposits, and overseas investments) require the prior approval of the CBB. Belize maintains a foreign exchange system that is generally liberal with regards to payments and transfers for current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

International Business Corporations (IBCs), including prohibiting the issuance of bearer shares in an IBC and mandating a Register of Directors and a Register of Beneficial Owners for these corporations.

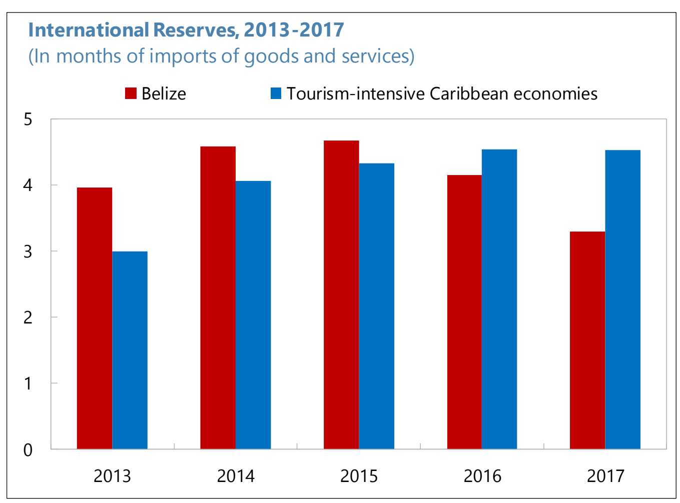
- *Progress in modernizing the national payment system.* The CBB replaced manual check processing with an automated system, enabling the clearing and settlement of checks by the end of the next business day instead of three to seven days.

OUTLOOK AND RISKS

9. Belize's near-term outlook is one of rising growth. Real GDP growth is projected at 2.2 percent in 2018 and 2.1 percent in 2019. The near-term economic expansion in Belize's advanced economy trading partners, especially the US, is supporting economic activity in Belize through an increase in tourism arrivals and remittances. Expanding sugar and citrus production are also expected to support growth. At the same time, the expected tightening in US monetary policy will partly pass through to rising interest rates in Belize, and an appreciation of the US dollar could impact external competitiveness, given Belize's exchange rate peg. Inflation is projected to increase to 1.2 percent in 2018 (average), reflecting higher fuel and import prices. The current account deficit is expected to narrow to 6.2 percent of GDP in 2018.



10. The baseline medium-term macroeconomic outlook is broadly unchanged from the assessment made during the 2017 Article IV Consultation (Tables 1-5). Growth is projected to gradually decline from 2.1 percent in 2019 to 1.7 percent in the medium term, reflecting the expected growth moderation among Belize's advanced economy trading partners, and recent trends. The current account deficit is projected to gradually narrow, but remain large, at about 5 percent of GDP, reflecting structural



challenges. Staff estimates that Belize's external position is weaker than the level consistent with medium-term fundamentals and desirable policy settings (Annex II). The external stability assessment indicates a current account gap of 3.4 percent of GDP (of which fiscal policy gaps account for about 2 percent of GDP) and a REER gap of 10.4 percent. International reserves have weakened compared to neighboring countries, and are projected to average 2.9 months of imports of goods and services over 2018–2023, below standard adequacy metrics (Annex II), including those that consider reserve needs related to vulnerability to natural disasters. A fiscal stance that is stronger than projected in the baseline scenario, which assumes no fiscal adjustment beyond FY2018/19, would be needed to reduce public debt from its end-2017 level (94 percent of GDP) to prudent levels over the medium to long term and build buffers against shocks.

11. Downside risks remain substantial (Risk Assessment Matrix, Annex III). The Government of Belize continues to contest various legacy claims, estimated at about US$100 million (5.2 percent of GDP). These could lead to large public and external financing needs, which may be difficult to meet. Renewed pressures on CBRs are possible and could weaken banks. These vulnerabilities could be exacerbated by external risks, including the possibility of a growth slowdown among Belize's main trading partners, higher energy prices, and increasingly severe natural disasters associated with climate change (see the Climate Change and Policy Assessment (CCPA) pilot, SM/18/xx). A shock to Belize's growth could result in a decline of businesses' bank deposits, rendering banks vulnerable to liquidity risks, as the corporate sector is the largest provider of loanable funds to the banking sector and domestic capital markets are under-developed (Annex IV). Such adverse developments could undermine public support for the government's reforms and endanger debt sustainability (Annex V). On the upside, additional foreign direct investment, including in connection with the tourism industry's expansion, and a successful implementation of the GSDS could result in a sustained rise in growth.

POLICIES

A. Enhancing Growth and Resilience

12. Policies to enhance growth and resilience are essential for addressing Belize's challenges and risks and for improving the economic wellbeing of all Belizeans.

13. Belize faces a number of structural impediments to economic progress. Declining total factor productivity is a central problem (Annex VI). Obstacles to raising productivity, efficiency, and investment include limited access to finance, particularly for small and medium-sized enterprises; labor market rigidities and skill shortages; violent crime; regulatory delays, for example, for starting a business; and recurrent natural disasters (see text figure; for each indicator, greener cells indicate a more favorable cross-country ranking for Belize). These obstacles are exacerbated by the elevated burden of public debt, which crowds out resources available for priority investments. Survey measures of governance perceptions (relating, in particular, to the rule of law) and corruption perceptions also indicate room for improvement, although they need to be interpreted carefully.

14. Improving the business climate remains a central priority. Belize's outlook of rising growth, especially in the tourism, call-center, and agriculture sectors, provides an opportunity to make progress on policies that will strengthen the recovery in the short term and raise long-term growth. Efforts to implement such policies are underway, based on the 2016–19 *Growth and Sustainable Development Strategy* (GSDS) in collaboration with Belize's development partners. Legislative improvements in these areas could be implemented without significant fiscal costs or negative effects on near-term growth. Specific steps, whose effects on growth would be self-reinforcing, include:

- *Facilitating access to credit.* Establishing a Credit Bureau and a credit collateral registry and broadening the types of eligible collateral—the authorities have already made progress in drafting the relevant legislation—would support access to credit to farmers and small and medium enterprises (SMEs) for financing investment. Over the medium term, developing financing instruments such micro-financing and financial literacy programs would further promote financial inclusion.
- *Streamlining regulations.* Accelerating and modernizing procedures for starting a business would support investment, especially by SMEs.
- *Addressing labor market rigidities and skill gaps.* Amending labor legislation to allow greater flexibility in working hours would support labor supply, including for the expanding tourism and call-center industries, where such flexibility is needed. Over the medium term, reforms to further improve education include ensuring primary and secondary education access for all children, and expanding technical training.
- *Improving governance and fighting corruption.* The 2007 Prevention of Corruption Act criminalizes corruption offenses, establishes an Integrity Commission, and requires senior public

Characteristics Relevant for Growth
(Red = least favorable; green = most favorable)

	Belize compared to:	
Possible causes of low growth 1/	Caribbean	Similar income group
High costs of finance?		
Financial constraints (WBES)		
Financial development (GCI)		
Crowding out 2/		
Gross saving		
Getting credit (DB)		
NPLs		
Bank spread		
Investment		
Credit to GDP		
Low social returns?		
Poverty		
Natural disaster vulnerability 3/		
Violent crime		
Emigration		
Skilled emigration		
Education		
Health and primary education (GCI)		
Higher education and training (GCI)		
Government failures?		
Institutions (GCI)		
Bureaucracy (WGI)		
Regulations (WGI)		
Taxation		
Protecting minority investors (DB)		
Public debt		
Enforcing contracts (DB)		
Construction permits (DB)		
Resolving insolvency (DB)		
Trading across borders (DB)		
Trade tariff		
Doing business		
Getting electricity (DB)		
Starting a business (DB)		
Labor tax and contributions		
Registering property (DB)		
Paying taxes (DB)		
Market failures?		
Goods markets (GCI)		
Infrastructure (GCI)		
Labor participation (female)		
Trade connectivity		
Labor participation (male)		
Trade openness		
High-tech export share		
Export diversification		
Labor market (GCI)		
GVC participation		

1/ Based on Hausmann-Rodrik-Velasco (2005) "decision tree" for identifying obstacles to growth. Note: Table reports 2016 or most recent data. WBES = World Bank Enterprise Survey; GCI = Global Competitiveness Report; DB = World Bank Doing Business Report (distance to frontier indicators); WGI = World Governance Indicators (scores). 2/ Government debt/total credit. 3/ IMF (2016) "Small States' Resilience to Natural Disasters and Climate Change - Role for the IMF."

officials to file declarations of their financial affairs. In 2016, Belize acceded to the United Nations Convention Against Corruption (UNCAC) and is currently participating in a voluntary peer review of the strengths and areas for improvements of its anti-corruption legal and institutional framework. Enhancing the effectiveness of the anti-corruption framework requires as a matter of priority implementing the asset declaration regime and rules for conflict of interest for senior public officials, strengthening the capacity of the recently operationalized Integrity Commission to detect and investigate corruption cases, and bolstering enforcement against perpetrators. Such steps, together with measures to raise the efficiency of the court system, including in enforcing contracts, would improve investor confidence in the business environment.

- *Reducing crime*. Recent analysis of crime and violence in Belize by the Inter-American Development Bank (IDB) emphasizes the need to strengthen prevention and juvenile rehabilitation initiatives, such as Belize's Community Action for Public Safety Program (CAPS). Amplifying support for such multi-faceted interventions, which also target "at-risk" youth, would strengthen safety and promote participation in the formal economy at a manageable fiscal cost.[4]

15. Intensifying Belize's ongoing efforts to build resilience to climate change and natural disasters would reduce economic volatility and raise growth over the medium term.[5] On the mitigation front, Belize already has one of the highest shares of renewables in its energy mix among Caribbean countries. Introducing "feebates" could shift demand further towards more energy-efficient vehicles and products and facilitate achieving Belize's emission reduction targets. On the adaptation front, Belize's 2013 *National Climate Resilience Investment Plan* (NCRIP) and the GSDS prescribe numerous resilience-building projects, such as more robust roads, bridges, and seawalls. Costing and prioritizing them, and developing an investment promotion strategy to increase access to grants and climate funds is a priority. For risk management, Belize needs more self-insurance through a natural disaster reserve fund. A fund of about US$20 million (1 percent of GDP), replenished annually, could accelerate the financing of immediate recovery and response costs associated with the projected annual average losses of the government's contingent liabilities associated with flood and hurricane shocks (CCPA pilot). The fund would need a governance framework based on international best practices, including well-enforced national guidelines on which events can trigger disbursements. The remaining risks associated with medium- to high-severity events should be cost-effectively managed through a mix of risk-transfer and risk-retention instruments, such as ex-ante contingent lines of credit and optimized participation in regional insurance options. Belize participates in risk-transfer schemes, such as the Caribbean Catastrophe

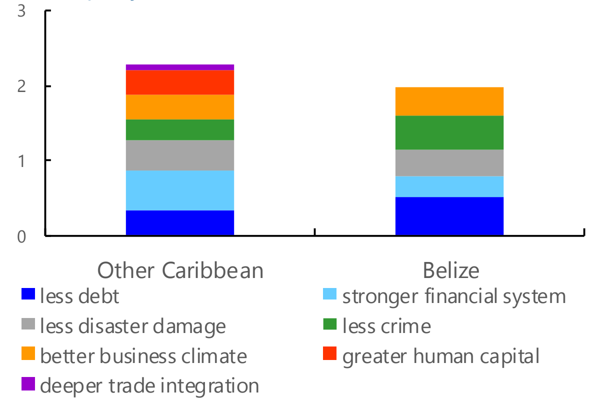
[4] The direct cost of the authorities' first CAPS program (2012-15) was US$5 million (IDB, 2017) and the authorities estimate that it significantly reduced youth crime and recidivism rates.

[5] See Belize Climate Change Policy Assessment (CCPA) pilot (SM/18/xx).

Risk Insurance Facility (CCRIF), and has a robust private non-life insurance industry, but both public and private assets are under-insured.[6]

16. Overall, an illustrative staff analysis suggests that addressing Belize's structural bottlenecks could increase growth by 1-2 percentage points, compared to the baseline, over the long term. The growth gains would facilitate the task of debt reduction and create fiscal space for additional priority spending which could bolster public support for reform. The largest estimated long-term gains could come from reducing crime and government debt (see below), raising resilience to natural hazards, strengthening the financial system, and improving the business climate.[7]

Illustrative Growth Gain
(percent per year)



Source: IMF staff calculations

17. To ensure that growth is inclusive, and to support the authorities' poverty alleviation strategy, reforms to Belize's social safety net are warranted. Belize already has a number of social safety net programs, such as the High School Subsidy Program, Building Opportunities for Our Social Transformation (BOOST), Food Pantry, and the Conditional Cash Transfer (CCT) Program. Increased use of formal targeting mechanisms, informed by an updated country poverty assessment, would increase the programs' effectiveness at reaching the most vulnerable individuals, an important consideration given the possible distributional implications of fiscal and structural reforms.

Authorities' Views

18. The authorities concurred that Belize's economic recovery is gaining strength. They welcomed the CCPA, which they found supportive of their resilience-building efforts and indicated their intension to expand the use of risk management instruments, including contingent lines of credit. They agreed with the need to further enhance the business climate, and broadly concurred with staff's assessment of reform priorities, including establishing a credit bureau and collateral registry once Parliament approves the necessary legislation. They expressed their determination to keep fighting crime through both enforcement and prevention initiatives, including community

[6] The total buffer needed to provide timely financing for the fiscal costs of disasters without endangering debt sustainability is estimated at about 7 percent of GDP (CCPA pilot), inclusive of the natural disaster fund and risk management instruments.

[7] The illustrative scenario involves improvement along each structural dimension to the best quartile of emerging market and developing economies. For government debt, the assumed reduction is to 60 percent of GDP. For crime and natural disaster damage, the reduction is to 50 of existing levels. For details on the statistical analysis, see IMF, 2017, *Unleashing Growth and Strengthening Resilience in the Caribbean* (Chapter 2).

action-based programs. They noted that Belize's targeted social programs are reaching an increasing share of low-income families and plan to update the country's poverty assessment.

B. Building Fiscal Buffers

Belize: Baseline and Active Scenarios, 2018-2028

	2018	2019	2020	2021	2022	2023	2028
Baseline scenario							
Growth (percent)	2.2	2.1	2.0	1.8	1.7	1.7	1.7
Inflation (percent, end of period)	1.6	1.4	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance (percent of GDP)	2.0	2.1	2.0	2.0	2.0	2.0	2.0
Overall fiscal balance (percent of GDP)	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.3
Public debt (percent of GDP)	94.2	91.8	89.4	86.9	84.5	82.1	70.3
External current account balance (percent of GDP)	-6.2	-6.1	-5.8	-5.6	-5.3	-5.0	-4.8
Gross official reserves (US$ million)	299	308	312	306	288	257	315
Gross official reserves (months of imports)	3.1	3.1	3.0	2.9	2.6	2.4	2.3
Active scenario							
Growth (percent)	2.2	1.9	1.9	1.8	1.8	1.9	2.7
Inflation (percent, end of period)	1.6	1.4	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance (percent of GDP)	2.0	2.4	2.8	3.2	3.6	4.0	4.0
Overall fiscal balance (percent of GDP)	-0.9	-0.5	0.0	0.5	1.0	1.4	2.2
Public debt (percent of GDP)	94.2	91.9	88.7	85.2	81.0	76.4	52.5
External current account balance (percent of GDP)	-6.2	-6.0	-5.4	-5.0	-4.5	-3.9	-3.6
Gross official reserves (US$ million)	299	311	323	330	345	359	608
Gross official reserves (months of imports)	3.1	3.1	3.1	3.1	3.1	3.1	4.2
Natural Disaster Fund (percent of GDP)	0.0	0.3	0.7	1.0	1.0	1.0	1.0

19. Reducing public debt to 60 percent of GDP would create a prudent buffer for withstanding shocks but requires additional fiscal consolidation alongside reforms that enhance potential growth. The goal of reducing government debt to below 60 percent of GDP—the long-term objective indicated in the FY2018/19 budget—is appropriate and has been a central pillar of economic reforms elsewhere in the region (in Jamaica, for example). Reducing government debt to below 60 percent of GDP in 10 years would require measures that gradually raise the primary surplus to about 4 percent of GDP from the current projected level of 2 percent of GDP (see text table: active scenario). Reforms that increase potential growth would reduce the primary fiscal surplus needed to achieve the targeted debt reduction. The active scenario conservatively assumes that implementation of the afore-mentioned reforms gradually raises potential growth by 1 percentage point over ten years to about 2½ percent, closer to but below the growth average of previous decades. At the same time, the gradual but steady fiscal consolidation is likely to restrain growth below staff's baseline forecast in the near term (staff assumes near-term multipliers around 0.5, in line with evidence for the region).[8] Focusing on structural reforms with near-term gains and better targeting social safety nets would help mitigate the impact of fiscal consolidation on the

[8] See, for example, Carriere-Swallow, David, and Leigh, 2018, "The Macroeconomic Effects of Fiscal Consolidation in Emerging Economies: Evidence from Latin America," IMF Working Paper 18/142.

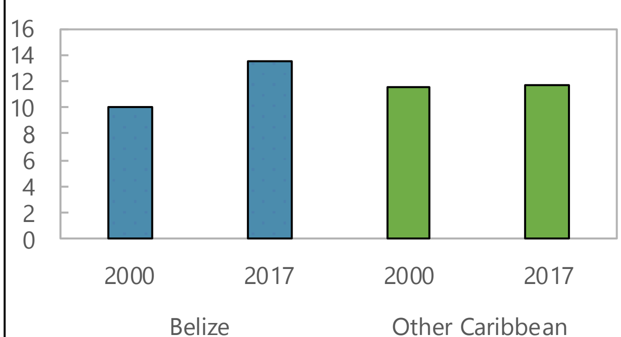
near-term outlook. Given implementation constraints, significant downside economic risks, and possibly large contingent liabilities, preparing fiscal contingency plans is warranted.

20. The fiscal measures introduced in the FY2018/19 budget are a step in the right direction and additional action is needed over the medium term. Further steps could include:

- *Buttressing government revenue*. Further broadening the base of the General Sales Tax (GST) by removing numerous zero-rated items and exemptions and streamlining tax incentives is a near-term priority, including to reduce tax administration costs. Modernizing and further reinforcing the efficiency of tax administration, including by updating IT software and hardware and consolidating the Income Tax and GST Departments is another priority. These reforms could, over time, raise revenues by about 2 percent of GDP. Over the medium term, increasing the standard GST rate from 12.5 percent to the regional average of 15 percent could raise revenue by a further 1–2 percent of GDP. As a contingency plan to ensure the success of their debt reduction efforts, depending on revenue outcomes, the authorities may need to adjust the composition (base-broadening vs. rate increases) and timing of the tax measures. More closely monitoring activity in the Commercial Free Zone, including by requiring all businesses operating there to file tax returns, would enable a cost-benefit analysis of the government revenues foregone, and pave the way for potential revenue-enhancing steps in the future.

- *Restraining current spending*. In the absence of civil service and pension reforms, Belize's large wage and social security sending bills will continue crowding out priority spending, including on infrastructure. Specific options include implementing a 2–5 replacement ratio to gradually reduce the number of public sector employees, and limiting salary increments to the rate of inflation, which could reduce the wage bill by about 1 percent of GDP over the medium term. The public-sector pension plan should be made contributory and the social security contribution rate could be increased to closer to the Caribbean average; the retirement age could be raised to from 55 to 62 years over the medium term; and pensions adjusted in line with inflation. Such pension reforms could yield budgetary savings of 1–2 percent of GDP.[9] Enhancing the transparency and efficiency of procurement of goods and services would generate further savings.

Belize: Wage Bill and Social Security Spending (percent of GDP)



Source: IMF staff calculations

[9] See net yield of pension reform options in Nassar and others, 2016, "National Insurance Scheme Reforms in the Caribbean," IMF Working Paper 16/206.

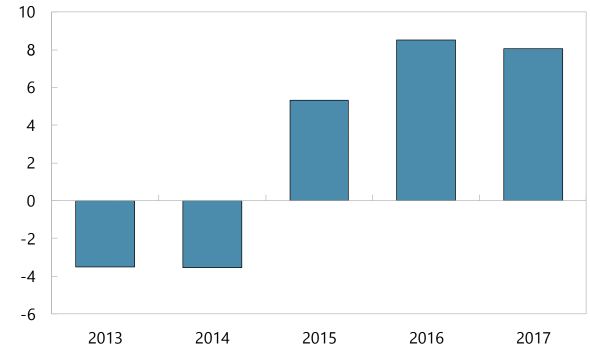
21. Such policies would reduce public debt and create space for priority spending. In the staff's active scenario, the medium-term fiscal consolidation measures, which are conservatively estimated to total 3 percent of GDP, are offset by additional priority spending of 1 percent of GDP, resulting in a 2 percent of GDP rise in the primary fiscal surplus. Belize has maintained adequate resilience-building investment within the existing tight capital expenditure envelope (CCPA pilot) and the active scenario assumes a gradual expansion by ½ percent of GDP to allow the authorities to continue meeting the needs of the NCRIP. The remaining ½ percent of GDP of additional priority spending could finance reforms such as those to alleviate poverty, improve education, and enhance safety. Fiscal consolidation and competitiveness-enhancing reforms would also contribute to addressing Belize's external imbalance by bringing the current account closer to surplus, raising international reserves, and reinforcing the sustainability of the exchange rate peg.

22. A well-designed fiscal rule based on a debt anchor could, if underpinned by a public consensus, support the fiscal adjustment. Rules that target a reduction in public debt to 60 percent of GDP over the long term have had success in putting debt on a clear downward path in several cases in the region (for example, in Grenada and Jamaica). In Belize, adoption by Parliament of such a fiscal rule could help guide the fiscal consolidation effort. The fiscal rule should include limited and well-defined escape clauses, automatic correction mechanisms, and emphasize enhanced fiscal transparency and accountability. It should also accommodate the buildup of the natural disaster fund and its annual replenishment, and include specific clauses linking disbursements from the fund to natural disasters. These should be supported by detailed regulations and financial instructions applicable to all institutions to promote and enforce fiscal discipline with respect to revenues and expenditures, and assets and liabilities.

23. Building on recent steps to strengthen PFM and addressing weaknesses identified by the 2014 Public Expenditure and Financial Accountability (PEFA) assessment would further support debt reduction efforts. Any increase in overall spending beyond the ceilings approved by Parliament should require 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. Less than 10 percent of registered tax payers file or pay their taxes electronically. The authorities plan to adopt CARICOM model procurement legislation in 2018, and implementation of a new chart of accounts is progressing. Preparation of a public debt management bill is well underway. Cash basis IPSAS accounts should be completed up to FY2016-17 and audited. Step are underway to improve cash balance forecasting and implement a stronger program of cash management. Strengthening the monitoring and reporting of publicly guaranteed debt is also needed to facilitate the preparation of consolidated fiscal risk reports.

24. CBB financing of government spending should be phased out. Net CBB credit to the government, which averaged 7 percent of GDP per year during 2016–17, injects liquidity into the market that could, if not sterilized, put pressure on the exchange rate. Such financing of government spending should be replaced by more regular government debt auctions, which would also contribute to developing the domestic capital market.

Central Bank Net Credit to the Central Government
(In Percent GDP)



Source: Central Bank of Belize

Authorities' Views

25. The authorities agreed with the need to continue building a record of fiscal prudence. They noted the significant fiscal adjustment achieved in FY2017/18 and the measures introduced in the FY2018/19 budget and remain committed to maintaining a primary fiscal balance of 2 percent of GDP or more. They concurred with the need for a balanced approach to fiscal adjustment, with both revenue enhancements and expenditure control, alongside reforms to raise productivity. They concurred that reducing government debt to below 60 percent of GDP over the long term would require measures that gradually raise the primary surplus to about 4 percent of GDP. They noted the positive experience with fiscal rules in the region and underscored that to be successful in supporting fiscal adjustment, such rules need to be grounded in a broad social consensus regarding policy objectives. They concurred that Belize's external position is currently weaker than desirable. At the same time, they considered that the projected increase in tourism, agriculture, and other exports, as well as the ongoing reduction in Belize's fiscal deficit, would contribute to narrowing the current account deficit and strengthening Belize's external position.

C. Further Strengthening the Financial System

26. The financial system should remain under tight supervision. In 2017, the CBB conducted on-site examinations of three domestic banks, two offshore banks, and three credit unions to assess compliance with the applicable laws, regulations and mandated requirements, including compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation and guidelines. Continued tight supervision of the financial sector to safeguard stability is needed, and the authorities' decision to maintain restrictions on dividend payments by banks that have not met prudential requirements (including restrictions on profit distribution) is appropriate. Regulations on provisioning should be tightened, taking into consideration the types of assets and minimum operational requirements for collateral in line with the Basel framework.[10] Steps to strengthen the authorities' bank resolution legal framework are needed based on international best practice,

[10] There have been no recent changes in provisioning requirements. Current provisioning requirement are based on days past due for each asset category. As of March 31, 2018, domestic commercial banks' ratio of provisioning to NPLs stood at 75.5 percent, down from 81.7 percent in March 31, 2017.

including with more effective bank-resolution tools that the CBB could deploy at an early juncture, with greater operational autonomy. Furthermore, the authorities could conduct a Financial Sector Stability Review (FSSR) to help identify financial sector vulnerabilities, and to formulate and implement financial sector reform programs, supported by follow-up technical assistance.

27. The authorities have taken steps to strengthen the AML/CFT framework, and additional action could further enhance its effectiveness and support recovery of CBRs. Parliament adopted, in July 2017, amendments to the International Business Corporations (IBCs) Act, which prohibit the issuance of bearer shares in an IBC and provide for a Register of Directors and a Register of Beneficial Owners. Similar amendments to the legislative framework of other types of entities (for example, trusts and LLCs) are warranted. The authorities should ensure that beneficial ownership information of legal persons and arrangements established by IFSC licensed service providers is available without impediments, including by implementing forthcoming Fund TA recommendations. The CBB should further develop its capacity to conduct AML/CFT risk-based supervision of banks and impose strict and prompt sanctions when necessary. Inspections should focus on areas of risks in offshore banks, notably by ensuring their compliance in properly identifying non-resident clients (both physical and legal persons) and having relevant beneficial ownership information available and up-to-date. The CBB should also develop a mechanism to enhance the monitoring of CBRs to promptly detect restrictions or withdrawal of CBRs and identify the drivers. Belize is expected to undergo an assessment of its AML/CFT framework by the Caribbean Financial Action Task Force and the report will be adopted in 2022. If the reform of the AML/CFT framework is not enhanced and the assessment results are poor, the Financial Action Task Force could list Belize on its International Cooperation Review Group and the CFATF could place Belize under its enhanced follow-up process. Such a result could increase pressure on CBRs, impeding Belizean banks' access to global financial markets.

28. Conducting a study on the overall benefits as well as the costs and risks of the offshore center is warranted. The offshore service sector generates relatively limited employment opportunities and fiscal revenue. At the same time, the possibility of licensing non-bank financial institutions with the IFSC with no physical presence, and the lack of transparency regarding the beneficial ownership structure of the offshore sector's complex entities increase risks of misuse and poses reputational risks.

Authorities' Views

29. The authorities agreed that the financial system is strengthening. They welcomed the IMF staff's analysis of the evolution of CBRs, and highlighted steps taken to support the recovery in CBR flows, including the adoption of amendments to the IBC Act and intensified AML/CFT supervision. They highlighted that, owing to Belize's relatively low volume of international transactions, CBRs remain vulnerable, and expressed commitment to mitigating risks by further reinforcing the AML/CFT framework and strengthening the powers of the IFSC. They saw merit in fortifying the bank resolution framework and conducting an asset quality review to assess banks' capital buffers.

STATISTICAL ISSUES

30. **Data quality is broadly adequate for surveillance but the timeliness of compiling final fiscal, real, and external sector outcomes should be improved.** Priorities include addressing remaining statistical weaknesses, including in the compilation of the national accounts, the international investment position, and consolidated public-sector statistics. Participation in the Fund's Enhanced General Data Dissemination System (e-GDDS) with the establishment of a National Summary Data Page could further enhance the international dissemination of Belize's macroeconomic data.

STAFF APPRAISAL

31. **Belize's economic recovery is strengthening, the government is making significant progress toward debt reduction, and the CBB has taken resolute actions to improve financial sector soundness.** The government delivered a significant fiscal adjustment in FY2017/18 and the FY2018/19 budget approved by Parliament raises the primary fiscal surplus further, to just above 2 percent of GDP. The financial sector is strengthening, supported by the authorities' resolute actions to enhance financial soundness and reduce risks to CBRs. All banks affected by the loss of CBRs during 2015-16 have found some replacement CBRs and alternative ways of processing cross border transactions.

32. **The medium-term outlook remains challenging.** Public debt is near 95 percent of GDP, the current account deficit is projected to remain large over the medium term, and international reserves are projected at below standard adequacy metrics. Staff assesses the external position as weaker than the level consistent with medium-term fundamentals and desirable policy settings.

33. **Downside risks are substantial.** Contested legacy claims, estimated at about 5 percent of GDP, could lead to large public and external financing needs. Reputational risks from potential financial misuse of the offshore sector's complex entities, and governance concerns, could weaken investor confidence and renew pressures on CBRs, which would weaken banks. On the upside, additional foreign direct investment, including in connection with the tourism industry's expansion, and a successful implementation of the Growth and Sustainable Development Strategy (GSDS) could result in a sustained rise in growth.

34. **Structural reforms are needed to reinforce medium-term growth, resilience, and economic wellbeing for all Belizeans.** Enhancing the business climate is essential for harnessing Belize's potential in agriculture, call centers, and tourism. Priorities include establishing a credit bureau and a credit collateral registry to support access to credit by farmers and SMEs; accelerating and modernizing procedures for starting a business; amending labor legislation to allow greater flexibility in working hours; increasing support for technical training; improving governance in customs and public procurement; fighting corruption; and amplifying support for crime prevention and juvenile rehabilitation programs. Over the medium term, intensifying Belize's ongoing efforts to

build resilience to natural disasters is crucial, especially through adaptation infrastructure investment, greater self-insurance through a natural disaster reserve fund, and optimized use of risk management instruments.

35. Reducing public debt to prudent levels requires additional fiscal consolidation alongside structural reforms that enhance potential growth. Reducing government debt to below 60 percent of GDP in 10 years would require measures that gradually raise the primary surplus to about 4 percent of GDP. Revenue measures could include further broadening the base of the GST by phasing out zero-rated items and exemptions; modernizing and further reinforcing the efficiency of tax administration; increasing the GST rate to the regional average over the medium term; and more closely monitoring activity in Commercial Free Zones. Civil service and pension reforms are needed to reduce Belize's large wage and social security bills and create space for priority spending. To support the authorities' poverty alleviation strategy, strengthening Belize's social safety net is warranted, including by increasing the use of formal targeting mechanisms. A well-designed fiscal rule based on a debt anchor could, if underpinned by a public consensus, support the fiscal adjustment.

36. The financial system should remain under tight supervision. Regulations on provisioning should be strengthened, taking into consideration the types of lending and minimum operational requirements for collateral. An asset quality review would help assess banks' capital buffers. The bank resolution legal framework should be fortified, including with more effective tools that the CBB could deploy at an early juncture, with greater operational autonomy. CBB financing of government spending should be phased out to prevent risks of exchange rate and inflation pressure and be replaced by more regular government debt auctions.

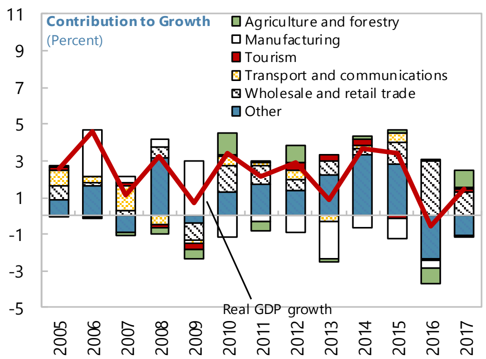
37. Further steps are needed to strengthen the effectiveness of the AML/CFT framework and support the recovery of CBRs. The regulatory powers of the International Financial Services Commission (IFSC) should be strengthened, along with its capacity to properly license, supervise, and, when necessary, enforce sanctions against licensed registered agents and financial services providers. Requiring a physical presence of IFSC licensed institutions is essential. To further reduce money laundering and terrorism financing risks, the authorities should ensure that up-to-date beneficial owner information is made available and easily accessible without impediments. The CBB should further develop its capacity to conduct AML/CFT risk-based supervision of banks and impose strict and prompt sanctions when necessary. Conducting a study on the overall benefits as well as the costs and risks of the offshore sector is warranted.

38. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

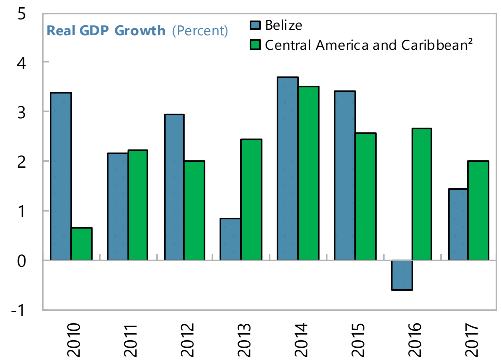
Figure 1. Belize: Real Sector Developments [1/]

Macroeconomic developments in 2017 were characterized by a moderate recovery in output and low inflation.

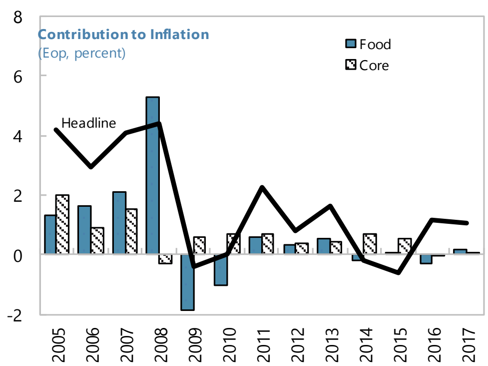
GDP growth was 0.7 percent in 2017...



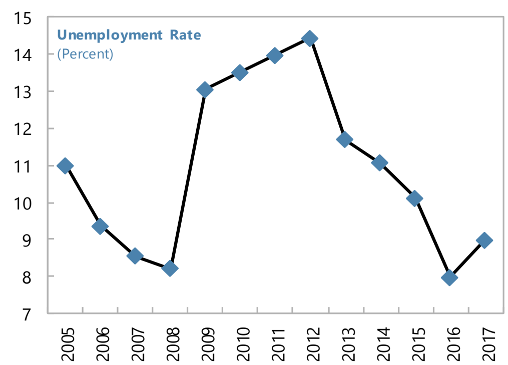
...below that of regional peers.



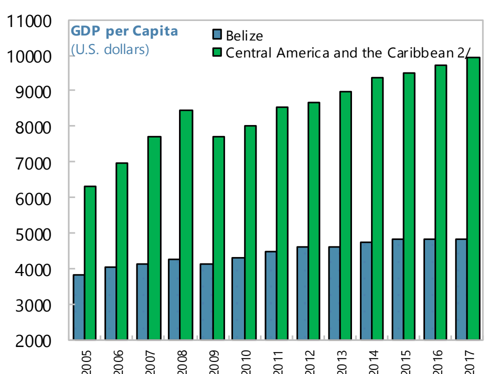
Inflation remains subdued...



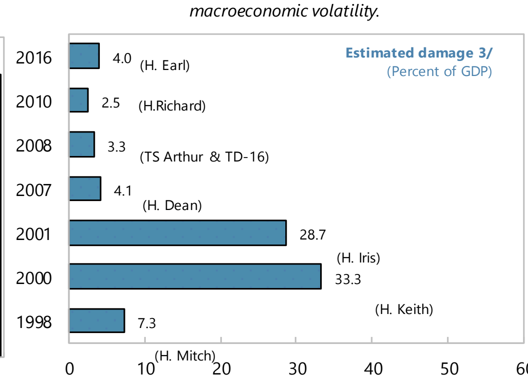
... while unemployment has decreased.



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



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

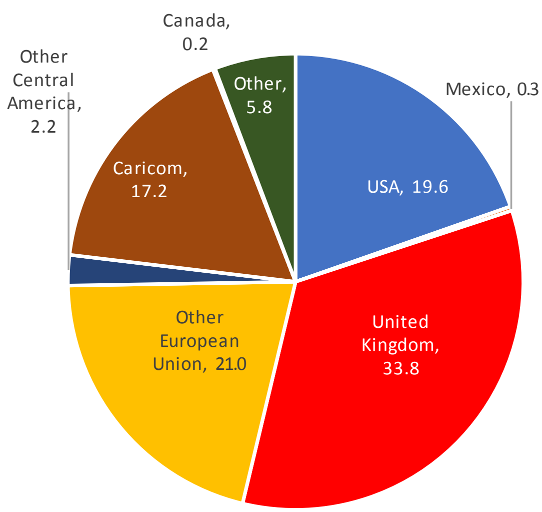


Sources: Belize authorities; World Economic Outlook; EM-DAT database; and Fund staff estimates.
1/ Preliminary data for 2017.
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.
3/ TS: Tropical Storm. TD: Tropical Depression. H: Hurricane.

Figure 2. Belize: External Sector Developments

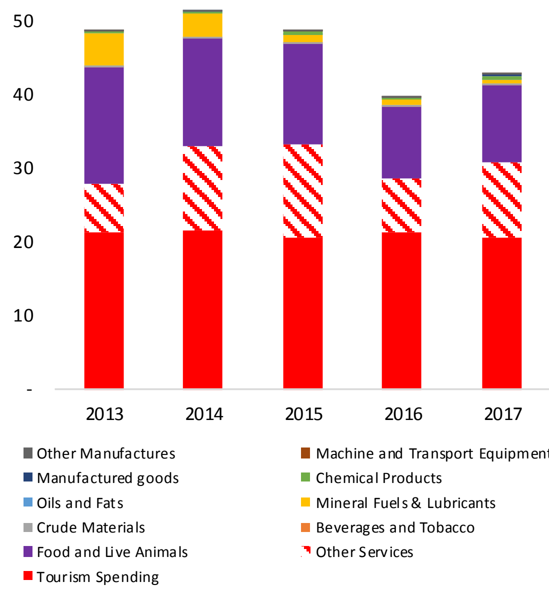
Europe and the US are the main goods exports destinations.

Goods Exports by Major Trading Partners, 2017 (percent of total)



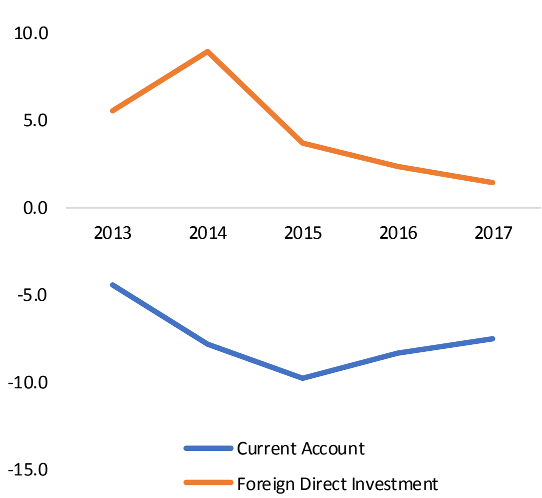
Tourism exports dominate total exports.

Total Exports (in percent of GDP)



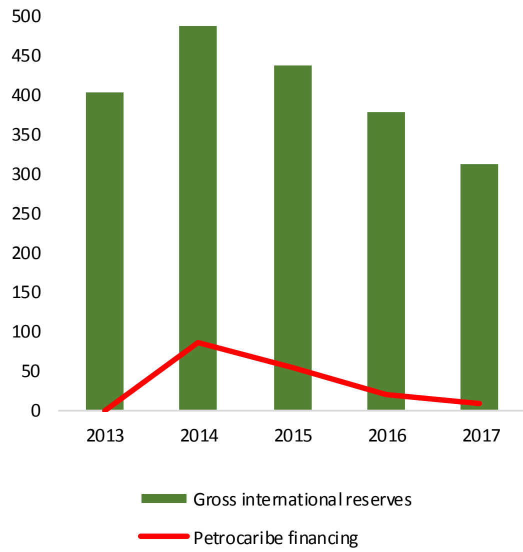
The current account deficit is narrowing but large, and FDI is declining …

Current Account and Foreign Direct Investment (in percent of GDP)



… prompting, together with the dwindling of Petrocaribe financing, a decline in international reserves.

Gross international reserves and Petrocaribe Financing (in US$ million)

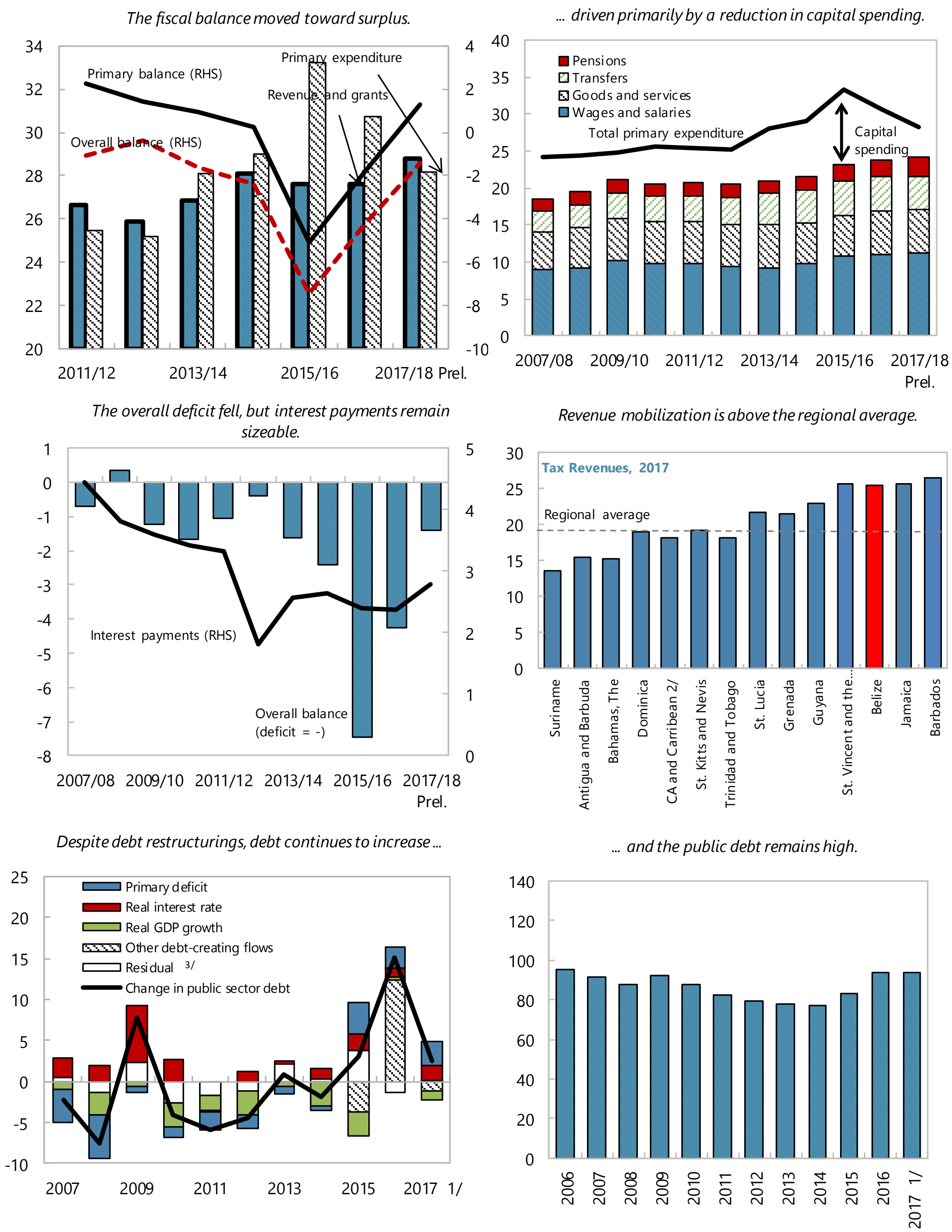


Sources: Central Bank of Belize; Statistical Institute of Belize, The World Travel and Tourism Council

Figure 3. Belize: Fiscal Sector Developments

(In percent of FYGDP)

The fiscal accounts adjusted significantly in FY 2017/18, but debt remains high.



Sources: Country authorities; and Fund staff estimates.

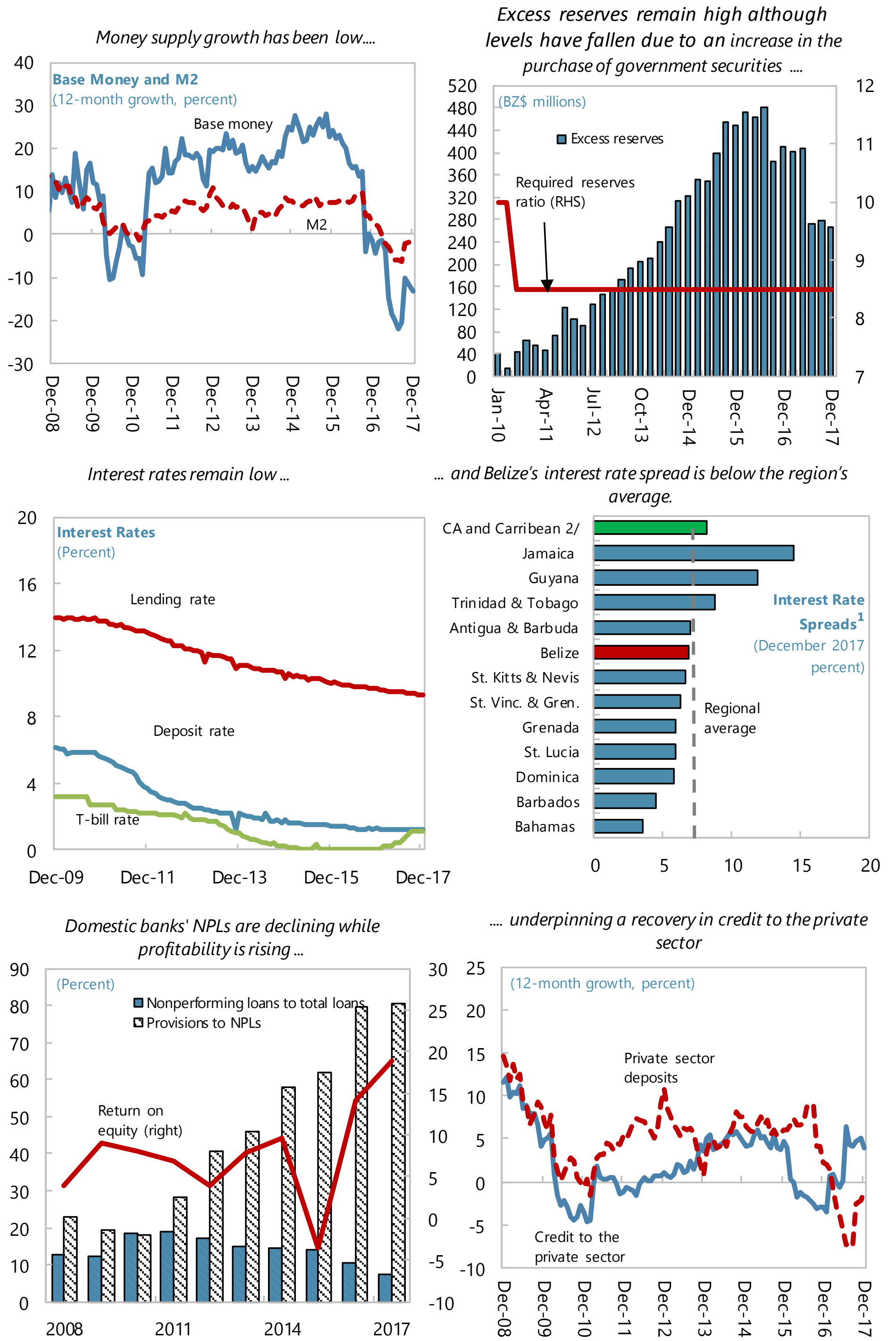
1/ Preliminary data for 2017/18.

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).

Figure 4. Belize: Monetary and Financial Sector Developments

Financial sector is strengthening while monetary conditions are gradually normalizing.



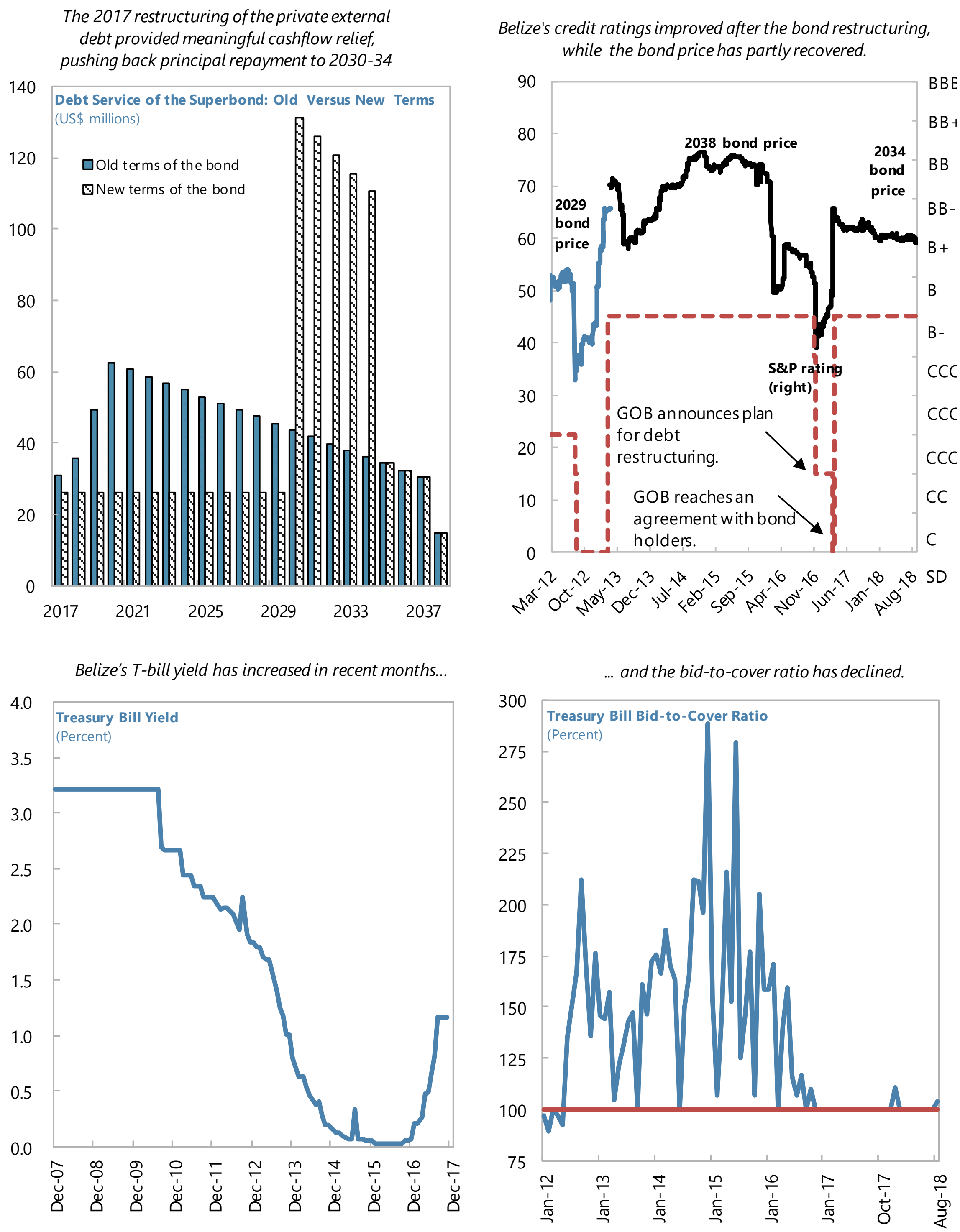
Sources: Central Bank of Belize; IFS; and Fund staff estimates.

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

Market perceptions of Belize have improved since the 2017 debt restructuring.



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

Table 1. Belize: Selected Social and Economic Indicators, 2015–2022

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2016	103
Population (thousands), June 2018	398.1	Under-five mortality rate (per thousand), 2016	15
GDP per capita, (current US$), 2016	4,811	Unemployment rate (percent), April, 2018	9.4
Life expectancy at birth (years), 2016	70.1	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2015-22

	2015	2016	2017 Prel.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
National income and prices	(Annual percentage changes, calendar year)							
GDP at constant prices	3.4	-0.6	1.4	2.2	2.1	2.0	1.8	1.7
Consumer prices (average)	-0.9	0.7	1.1	1.2	1.5	1.7	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)							
Revenue and grants	28.2	28.9	29.6	29.9	30.1	30.1	30.1	30.2
Current non-interest expenditure	23.1	23.8	24.1	24.0	24.0	24.0	24.0	24.0
Interest payment	2.5	3.3	3.0	3.0	2.9	2.8	2.7	2.6
Domestic	0.4	0.5	0.9	0.9	0.9	0.8	0.8	0.8
External	2.1	2.8	2.2	2.1	2.1	2.0	1.9	1.8
Capital expenditure and net lending	10.2	7.0	6.5	3.9	4.0	4.1	4.1	4.1
Capital expenditure	7.3	6.9	4.0	3.8	4.0	4.1	4.1	4.1
Net lending	2.8	0.1	2.5	0.1	0.1	0.1	0.1	0.1
Primary balance	-5.1	-1.9	-1.1	2.0	2.1	2.0	2.0	2.0
Overall balance	-7.5	-4.2	-3.9	-0.9	-0.8	-0.8	-0.7	-0.7
Public debt	(In percent of calendar year GDP)							
Stock of public debt	79.3	93.3	93.6	94.2	91.8	89.4	86.9	84.5
Domestic debt	14.0	28.3	27.6	30.0	29.1	28.7	28.7	28.9
External debt	65.3	65.0	66.1	64.2	62.7	60.7	58.3	55.7
Principal payment	2.1	2.2	2.4	2.6	2.7	3.3	3.4	4.2
Domestic	0.0	0.0	0.0	0.0	0.0	0.8	0.7	1.7
External	2.1	2.1	2.4	2.6	2.7	2.5	2.6	2.6
Money and credit	(Annual percentage changes, calendar year)							
Credit to the private sector	4.8	-3.0	3.9	3.0	3.0	3.0	3.5	4.5
Money and quasi-money (M2)	7.3	2.6	-0.3	3.4	3.6	3.7	3.8	3.7
External sector	(Annual percentage changes, unless otherwise indicated)							
External current account (percent of GDP) 2/	-9.8	-8.4	-7.6	-6.2	-6.1	-5.8	-5.7	-5.3
Real effective exchange rate (+ = depreciation)	8.6	1.7	-2.1	...	...	...	...	...
Gross international reserves (US$ millions)	437	377	304	299	308	311	305	286
In months of imports	4.8	4.2	3.3	3.1	3.1	3.0	2.9	2.6
Memorandum items								
Primary balance (excluding one-off capital transfer) 3/	-5.1	-1.9	1.3	2.0	2.1	2.0	2.0	2.0
Nominal GDP (BZ$ millions)	3,525	3,613	3,725	3,853	3,992	4,141	4,299	4,458

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/ Including official grants.
3/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).

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

(In millions of Belize dollars)

	2015/16	2016/17	2017/18		2018/19		Projections 2019/20	2020/21	2021/22	2022/23
			Budget	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**1,000**	**1,052**	**1,187**	**1,111**	**1,183**	**1,163**	**1,215**	**1,260**	**1,308**	**1,357**
Revenue	**980**	**1,006**	**1,140**	**1,081**	**1,138**	**1,127**	**1,178**	**1,222**	**1,269**	**1,316**
Current revenue	974	1,004	1,134	1,079	1,135	1,126	1,176	1,220	1,267	1,314
Tax revenue	864	925	1,033	967	1,023	1,013	1,059	1,099	1,141	1,184
Income and profits	256	262	271	270	277	271	290	300	312	323
Goods and services	354	489	552	533	569	566	587	609	632	655
General Sales Tax	270	292	440	292	…	317	329	341	354	367
Taxes on international trade	249	167	204	158	170	170	177	184	191	197
Nontax revenue	109	79	101	112	112	112	117	121	126	130
Capital revenue	6	3	6	2	3	2	2	2	2	2
Grants	**20**	**45**	**47**	**30**	**45**	**35**	**36**	**38**	**39**	**41**
Total expenditure	**1,264**	**1,206**	**1,180**	**1,258**	**1,209**	**1,197**	**1,247**	**1,294**	**1,339**	**1,388**
Current expenditure	904	953	1,030	1,013	1,051	1,045	1,084	1,120	1,159	1,201
Wages and salaries	384	403	422	426	432	436	451	468	486	504
Pensions	77	83	79	95	91	98	101	105	109	113
Goods and services	197	216	236	215	238	222	230	239	248	257
Interest payments	85	87	109	105	112	112	117	117	118	121
Transfers	161	164	184	173	178	178	184	191	199	206
Capital expenditure and net lending	360	253	150	245	157	152	163	173	180	186
Capital expenditure	260	251	147	151	155	149	160	171	177	184
Domestically financed expenditure (Capital II)	100	114	66	59	62	66	74	81	84	88
Foreign financed expenditure (Capital III)	161	137	81	92	93	83	86	89	93	96
Net lending	100	3	2	95	2	2	2	2	3	3
Primary balance	**-179**	**-68**	**116**	**-42**	**87**	**78**	**85**	**84**	**87**	**90**
Overall balance	**-264**	**-155**	**7**	**-147**	**-25**	**-34**	**-33**	**-33**	**-31**	**-31**
Financing	**264**	**155**	**7**	**147**	**-25**	**34**	**33**	**33**	**31**	**31**
Privatization (net)	-135	-196	…	-153	…	0	0	0	0	0
Domestic	302	269	…	250	…	28	9	29	42	63
Of which: Amortization	1	1	…	0	…	0	9	33	42	76
External	98	82	…	50	…	6	24	5	-12	-32
Disbursements	173	162	…	141	…	107	129	111	102	90
Amortization	75	80	…	91	…	101	105	106	114	122
Memorandum items:										
Primary balance (excluding one-off capital transfer) 3/	**-179**	**-68**	**116**	**50**	**87**	**78**	**85**	**84**	**87**	**90**
Structural primary balance 3/	-99	-60	…	62	…	86	89	85	88	92
Nominal GDP (in BZ$ millions)	3,547	3,641	3,684	3,760	3,902	3,887	4,029	4,180	4,340	4,500
Public sector debt 4/	2,796	3,372	…	3,488	…	3,629	3,667	3,702	3,737	3,769
Domestic	494	1,022	…	1,027	…	1,155	1,163	1,190	1,233	1,287
External	2,302	2,350	…	2,461	…	2,475	2,504	2,513	2,505	2,482

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/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).
4/ On calendar year basis.

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

(In percent of GDP; unless otherwise indicated)

	2015/16	2016/17	2017/18		Projections				
					2018/19	2019/20	2020/21	2021/22	2022/23
			Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**28.2**	**28.9**	**32.2**	**29.6**	**29.9**	**30.1**	**30.1**	**30.1**	**30.2**
Revenue	**27.6**	**27.6**	**30.9**	**28.8**	**29.0**	**29.2**	**29.2**	**29.2**	**29.3**
Current revenue	27.5	27.6	30.8	28.7	29.0	29.2	29.2	29.2	29.2
Tax revenue	24.4	25.4	28.0	25.7	26.1	26.3	26.3	26.3	26.3
Income and profits	7.2	7.2	7.4	7.2	7.0	7.2	7.2	7.2	7.2
Goods and services	10.0	13.4	15.0	14.2	14.6	14.6	14.6	14.6	14.6
General Sales Tax	7.6	8.0	11.9	7.8	8.2	8.2	8.2	8.2	8.2
Taxes on international trade	7.0	4.6	5.5	4.2	4.4	4.4	4.4	4.4	4.4
Nontax revenue	3.1	2.2	2.7	3.0	2.9	2.9	2.9	2.9	2.9
Capital revenue	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**0.6**	**1.2**	**1.3**	**0.8**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Total expenditure	**35.6**	**33.1**	**32.0**	**33.5**	**30.8**	**31.0**	**30.9**	**30.9**	**30.8**
Current expenditure	25.5	26.2	28.0	26.9	26.9	26.9	26.8	26.7	26.7
Wages and salaries	10.8	11.1	11.5	11.3	11.2	11.2	11.2	11.2	11.2
Pensions	2.2	2.3	2.1	2.5	2.5	2.5	2.5	2.5	2.5
Goods and services	5.6	5.9	6.4	5.7	5.7	5.7	5.7	5.7	5.7
Interest payments	2.4	2.4	3.0	2.8	2.9	2.9	2.8	2.7	2.7
Transfers	4.5	4.5	5.0	4.6	4.6	4.6	4.6	4.6	4.6
Capital expenditure and net lending	10.2	7.0	4.1	6.5	3.9	4.0	4.1	4.1	4.1
Capital expenditure	7.3	6.9	4.0	4.0	3.8	4.0	4.1	4.1	4.1
Domestically financed expenditure (Capital II)	2.8	3.1	1.8	1.6	1.7	1.8	1.9	1.9	1.9
Foreign financed expenditure (Capital III)	4.5	3.8	2.2	2.4	2.1	2.1	2.1	2.1	2.1
Net lending	2.8	0.1	0.1	2.5	0.1	0.1	0.1	0.1	0.1
Primary balance	**-5.1**	**-1.9**	**3.1**	**-1.1**	**2.0**	**2.1**	**2.0**	**2.0**	**2.0**
Overall balance	**-7.5**	**-4.2**	**0.2**	**-3.9**	**-0.9**	**-0.8**	**-0.8**	**-0.7**	**-0.7**
Financing	**7.5**	**4.2**	**0.2**	**3.9**	**0.9**	**0.8**	**0.8**	**0.7**	**0.7**
Privatization (net)	-3.8	-5.4	...	-4.1	0.0	0.0	0.0	0.0	0.0
Domestic	8.5	7.4	...	6.6	0.7	0.2	0.7	1.0	1.4
Of which: Amortization	0.0	0.0	...	0.0	0.0	0.2	0.8	1.0	1.7
External	2.8	2.3	...	1.3	0.2	0.6	0.1	-0.3	-0.7
Disbursements	4.9	4.4	...	3.8	2.8	3.2	2.7	2.4	2.0
Amortization	2.1	2.2	...	2.4	2.6	2.6	2.5	2.6	2.7
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3/	**-5.1**	**-1.9**	**3.1**	**1.3**	**2.0**	**2.1**	**2.0**	**2.0**	**2.0**
Structural primary balance 3/	-2.8	-1.6	...	1.7	2.2	2.2	2.0	2.0	2.1
Nominal GDP (in BZ$ millions)	3,547	3,641	3,684	3,760	3,887	4,029	4,180	4,340	4,500

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/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).

Table 3a. Belize: Balance of Payments, 2015–22 (in millions of US dollars)

	2015	2016	2017	2018	2019	2020	2021	2022
				Projections				
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of US dollars)								
Current account balance	**-174**	**-152**	**-141**	**-119**	**-122**	**-121**	**-122**	**-119**
Trade balance	-423	-432	-389	-410	-406	-417	-438	-458
Total exports, f.o.b.	538	443	457	472	512	537	554	567
Of which: Oil	18	11	15	0	0	0	0	0
Total imports, f.o.b.	961	875	846	882	918	954	992	1,026
Of which: Fuel and lubricants	134	107	130	175	177	172	168	166
Services	276	293	293	330	336	351	369	386
Income	-95	-111	-118	-117	-128	-134	-134	-130
Of which: Public sector interest payments	-37	-51	-40	-41	-41	-42	-41	-40
Current transfers	70	98	72	78	76	80	82	83
Private (net)	73	95	78	82	83	85	86	88
Official (net)	-4	3	-5	-4	-7	-4	-4	-5
Capital and financial account balance	**124**	**75**	**68**	**115**	**132**	**124**	**115**	**100**
Capital transfers	9	16	16	15	15	15	15	15
Public sector	55	29	47	10	12	7	-9	-26
Change in assets	1	1	-1	0	0	0	0	0
Change in liabilities	55	28	48	10	12	7	-9	-26
Disbursements	140	69	95	55	67	61	50	33
Central government	140	65	88	51	64	60	50	33
Amortization	-88	-41	-44	-43	-53	-52	-57	-58
Central government	-86	-41	-43	-41	-53	-52	-57	-57
Private sector 1/	60	30	5	90	105	101	109	111
Foreign Direct Investment, net	64	42	25	120	94	91	101	99
Of which: Repatriation of compensation 2/	0	-98	-131	0	0	0	0	0
Other private flows	-4	-12	-20	-31	11	11	7	11
Commercial banks	-5	23	2	-14	3	3	-1	3
Other private nonbanks	0	-35	-22	-16	8	8	9	9
Errors and omissions	**0**	**16**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-50**	**-60**	**-73**	**-5**	**9**	**3**	**-6**	**-19**
Financing	**50**	**60**	**73**	**5**	**-9**	**-3**	**6**	**19**
Memorandum items:								
Gross international reserves	437	377	304	299	308	311	305	286
In percent of gross external financing needs	167	196	164	184	175	180	170	162
In percent of next year's total debt service	481	435	328	311	323	313	307	252
In months of imports	4.8	4.2	3.3	3.1	3.1	3.0	2.9	2.6

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

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

2/ Compensation to former owners of nationalized companies.

Table 3b. Belize: Balance of Payments, 2015–22 (in percent of GDP)

	2015	2016	2017 Prel.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
				Projections				
(In percent of GDP, unless otherwise stated)								
Current account balance	**-9.8**	**-8.4**	**-7.6**	**-6.2**	**-6.1**	**-5.8**	**-5.7**	**-5.3**
Trade balance	-24.0	-23.9	-20.9	-21.3	-20.3	-20.2	-20.4	-20.6
Total exports, f.o.b.	30.5	24.5	24.5	24.5	25.7	25.9	25.8	25.4
Of which: Oil	1.0	0.6	0.8	0.0	0.0	0.0	0.0	0.0
Total imports, f.o.b.	54.5	48.4	45.4	45.8	46.0	46.1	46.2	46.0
Of which: Fuel and lubricants	7.6	5.9	7.0	9.1	8.8	8.3	7.8	7.5
Services	15.6	16.2	15.7	17.1	16.8	16.9	17.2	17.3
Income	-5.4	-6.1	-6.3	-6.1	-6.4	-6.5	-6.2	-5.8
Of which: Public sector interest payments	-2.1	-2.8	-2.2	-2.1	-2.1	-2.0	-1.9	-1.8
Current transfers	4.0	5.4	3.9	4.0	3.8	3.9	3.8	3.7
Private (net)	4.2	5.3	4.2	4.2	4.2	4.1	4.0	3.9
Official (net)	-0.2	0.2	-0.3	-0.2	-0.4	-0.2	-0.2	-0.2
Capital and financial account balance	**7.0**	**4.2**	**3.7**	**5.9**	**6.6**	**6.0**	**5.4**	**4.5**
Capital transfers	0.5	0.9	0.9	0.8	0.8	0.7	0.7	0.7
Public sector	3.1	1.6	2.5	0.5	0.6	0.4	-0.4	-1.2
Change in assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	3.1	1.5	2.6	0.5	0.6	0.4	-0.4	-1.2
Disbursements	7.9	3.8	5.1	2.8	3.3	3.0	2.3	1.5
Central government	7.9	3.6	4.7	2.7	3.2	2.9	2.3	1.5
Amortization	-5.0	-2.3	-2.4	-2.3	-2.7	-2.5	-2.7	-2.6
Central government	-4.9	-2.3	-2.3	-2.1	-2.7	-2.5	-2.6	-2.6
Private sector 1/	3.4	1.7	0.3	4.6	5.3	4.9	5.1	5.0
Foreign Direct Investment, net	3.6	2.3	1.4	6.3	4.7	4.4	4.7	4.5
Of which: Repatriation of compensation 2/	0.0	-5.4	-7.0	0.0	0.0	0.0	0.0	0.0
Other private flows	-0.3	-0.7	-1.1	-1.6	0.5	0.5	0.3	0.5
Commercial banks	-0.3	1.3	0.1	-0.7	0.1	0.1	-0.1	0.1
Other private nonbanks	0.0	-1.9	-1.2	-0.9	0.4	0.4	0.4	0.4
Errors and omissions	**0.0**	**0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**-3.3**	**-3.9**	**-0.3**	**0.5**	**0.1**	**-0.3**	**-0.8**
Financing	**2.8**	**3.3**	**3.9**	**0.3**	**-0.5**	**-0.1**	**0.3**	**0.8**
Change in reserves (- increase)	2.8	3.3	3.9	0.3	-0.5	-0.1	0.3	0.8

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

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

2/ Compensation to former owners of nationalized companies.

Table 4. Belize: Operations of the Banking System, 2015–22

	2015	2016	Prel. 2017	2018	2019	Proj. 2020	2021	2022
	(In millions of Belize dollars)							
Central Bank of Belize (CBB)								
Net foreign assets 1/	875	752	629	517	535	541	528	491
Net international reserves	825	704	578	568	586	592	579	542
Medium-term foreign liabilities 2/	-50	-48	-51	-51	-51	-51	-51	-51
Net domestic assets	192	301	295	438	454	485	537	614
Credit to the public sector (net)	206	312	308	456	646	867	1,118	1,370
Central government	207	328	319	467	657	877	1,126	1,375
Other public sector	-2	-16	-11	-11	-11	-10	-8	-5
Capital and other assets (net)	-14	-10	-13	-17	-191	-381	-580	-756
Base money	1,067	1,053	924	955	990	1,027	1,066	1,105
Currency issue	395	418	434	479	528	580	636	694
Reserves of commercial banks	672	636	489	476	462	447	429	411
Commercial banks								
Net foreign assets	275	234	231	260	254	249	252	247
Net claims on central bank	726	694	547	535	523	509	494	475
Net domestic assets	1,991	2,117	2,261	2,305	2,405	2,509	2,614	2,723
Credit to the public sector (net)	-182	-70	102	5	-170	-357	-558	-749
Central government	107	205	291	189	7	-186	-392	-588
Other public sector	-289	-275	-189	-184	-177	-172	-166	-161
Credit to the private sector	2,224	2,158	2,241	2,308	2,377	2,449	2,534	2,648
Other assets (net)	-51	29	-83	-8	198	417	638	824
Liabilities to the private sector	2,992	3,045	3,039	3,100	3,182	3,267	3,359	3,446
Monetary survey								
Net foreign assets	1,150	986	859	776	790	791	780	738
Net domestic assets	2,183	2,418	2,555	2,743	2,860	2,994	3,151	3,338
Credit to the public sector (net)	23	241	410	461	475	509	559	621
Central government	314	533	610	655	664	691	733	786
Other public sector	-291	-291	-199	-195	-188	-182	-174	-166
Credit to private sector (by comm. banks)	2,224	2,158	2,241	2,308	2,377	2,449	2,534	2,648
Other items (net)	-65	19	-95	-26	7	36	58	69
Liabilities to the private sector	3,333	3,404	3,415	3,520	3,650	3,785	3,932	4,075
Money and quasi-money (M2)	2,924	2,998	2,990	3,093	3,205	3,324	3,451	3,579
Currency in circulation	341	359	376	420	467	518	572	629
Deposits	2,583	2,639	2,614	2,673	2,737	2,806	2,879	2,950
Foreign currency deposits	114	103	99	101	103	106	109	111
Capital and reserves of commercial banks	409	406	424	427	445	461	481	496
Memorandum items:								
Private sector deposits in local currency	6.1	2.2	-0.9	2.2	2.4	2.5	2.6	2.5
Base money	22.6	-1.3	-12.3	3.4	3.6	3.7	3.8	3.7
Credit to private sector (by comm. banks)	4.8	-3.0	3.9	3.0	3.0	3.0	3.5	4.5
Money and quasi-money (M2)	7.3	2.6	-0.3	3.4	3.6	3.7	3.8	3.7
Net international reserves to M2 (percent)	28.2	23.5	19.3	18.4	18.3	17.8	16.8	15.1
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	82.5	78.7	82.6	83.2	83.7	84.1	84.8	86.5

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, 2015–22

	2015	2016	2017 Prel.	2018	2019	2020	2021	2022
				Projections				
	(Annual percentage change)							
GDP and prices								
GDP at constant prices	3.4	-0.6	1.4	2.2	2.1	2.0	1.8	1.7
GDP at current market prices	4.1	2.5	3.1	3.4	3.6	3.7	3.8	3.7
Prices (GDP deflator)	0.7	3.1	1.6	1.2	1.5	1.7	2.0	2.0
Consumer prices (end of period)	-0.6	1.1	1.0	1.6	1.4	2.0	2.0	2.0
	(In percent of GDP, unless otherwise indicated)							
National accounts								
Consumption	84.9	89.7	87.5	84.3	82.5	82.7	83.2	83.2
Gross domestic investment 1/	23.5	18.1	17.6	19.9	21.0	20.5	20.1	20.0
Net exports	-8.4	-7.7	-5.1	-4.1	-3.5	-3.2	-3.2	-3.2
Gross national savings	12.6	10.8	10.1	13.7	14.9	14.7	14.4	14.7
Central government 2/								
Revenue and grants	28.2	28.9	29.6	29.9	30.1	30.1	30.1	30.2
Total expenditure	35.6	33.1	33.5	30.8	31.0	30.9	30.9	30.8
Noninterest expenditure	33.3	30.7	30.7	27.9	28.0	28.1	28.1	28.1
Primary balance	-5.1	-1.9	-1.1	2.0	2.1	2.0	2.0	2.0
Interest	2.4	2.4	2.8	2.9	2.9	2.8	2.7	2.7
Overall balance	-7.5	-4.2	-3.9	-0.9	-0.8	-0.8	-0.7	-0.7
External sector								
Current account balance	-9.8	-8.4	-7.6	-6.2	-6.1	-5.8	-5.7	-5.3
Of which: Exports of goods and services	63.9	52.5	52.6	53.2	54.1	54.4	54.2	53.9
Of which: Petroleum exports	1.0	0.6	0.8	0.0	0.0	0.0	0.0	0.0
Of which: Imports of goods and services	-72.3	-60.2	-57.7	-57.3	-57.7	-57.6	-57.4	-57.1
Capital and financial account	7.0	4.2	3.7	5.9	6.6	6.0	5.4	4.5
Public sector disbursements	7.9	3.8	5.1	2.8	3.3	3.0	2.3	1.5
Public sector amortization	-5.0	-2.3	-2.4	-2.3	-2.7	-2.5	-2.7	-2.6
Other capital and fin. account transactions 3/	4.1	2.6	1.0	5.3	5.9	5.6	5.7	5.6
Change in reserves (- increase)	2.8	3.3	3.9	0.3	-0.5	-0.1	0.3	0.8
Gross official reserves (in months of imports)	4.8	4.2	3.3	3.1	3.1	3.0	2.9	2.6
Public debt	**79.3**	**93.3**	**93.6**	**94.2**	**91.8**	**89.4**	**86.9**	**84.5**
Domestic	14.0	28.3	27.6	30.0	29.1	28.7	28.7	28.9
External	65.3	65.0	66.1	64.2	62.7	60.7	58.3	55.7

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/ Includes errors and omissions.

Annex I. Implementation of 2017 Article IV Consultation Recommendations

2017 Article IV Recommendation	Implementation
Fiscal consolidation Raise 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 current expenditure.	**Significant progress** The government delivered a 3.2 percentage points of GDP increase in the primary fiscal balance in FY2017/18 to 1.3 percent of GDP (excluding a one-off capital transfer). Parliament approved a further adjustment in the FY2018/19 budget to a primary surplus of just above 2 percent of GDP, with tax base broadening measures.
Financial sector reform Keep the financial system under tight supervision and continuing addressing banking sector vulnerabilities, including by raising provisioning requirements, maintaining restrictions on a systemic bank, and conducting an asset quality review of all banks to assess the strength of their capital buffers.	**Significant progress** The Central Bank of Belize (CBB) took resolute action in revoking the license of a troubled offshore bank and putting it into liquidation. It conducted on-site examinations on a number of domestic banks, offshore banks, and credit unions to assess compliance with regulations, including on AML/CFT. All loans have been brought into conformity with the central bank's 2011 loan loss provisioning standards. For banks (including a systemic bank) that have not met prudential requirements, the CBB kept restrictions in place.
AML/CFT reforms Improve entity transparency by making beneficial ownership available and strengthen the 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** Parliament adopted, in July 2017, amendments to the International Business Corporations (IBCs) Act, which prohibits the issuance of bearer shares and provides for a Register of Beneficial Owners. Such amendments were not yet introduced for other legal persons and arrangements, including limited liability companies (LLCs) and trusts. Work on the National Risk Assessment continued in 2017 and the CBB conducted AML/CFT supervision of some banks, credit unions, remittance service providers, and moneylenders.
Structural reform Implement growth-enhancing measures and take steps to improve the business climate, including reducing the cost of doing business and establishing a credit bureau and a credit/collateral registry.	**Limited progress** The government endorsed the Growth and Sustainable Development Strategy (GSDS) in April 2016. A credit bureau and a credit/collateral registry have not been established, although the authorities have made progress in drafting the relevant legislation.

Annex II. External Stability Assessment

The external stability assessment indicates that Belize's external position is weaker than the level consistent with medium-term fundamentals and desirable policy settings. The analysis reveals fiscal and structural policy gaps. The debt restructuring and fiscal policy adjustment agreed with external bondholders in March 2017 eased debt service burden and provided some cash flow relief, but compensation payments to former owners of BTL in November 2017 reduced international reserves to 3.3 months of imports at end-2017, from 4.2 months at end-2016. Reserves are projected to remain below the adequacy thresholds of risk-weighted metrics over the medium term. The external position is thus vulnerable to adverse shocks to global growth and a materialization of contingent liabilities. Additional fiscal and structural reforms would increase reserves to more prudent levels over the medium term.

1. Analysis based on the external stability (ES) approach indicates continued weakness in the external position under the staff's baseline medium-term macroeconomic assumptions. The ES approach assumes adjusting the NFA position from -133 percent of GDP at end-2017 to - 100 percent of GDP by 2027 in the first scenario and to -90 percent by 2027 in the alternative scenario. Achieving these debt-stabilizing NFA levels would require reducing the current account deficit to 2.7 percent of GDP in the first scenario and to 1.9 percent of GDP in the alternative scenario (Table 1).[1] The current account deficit remains above these levels under staff's baseline assumptions, giving rise to REER gaps. The REER gap peaks in 2018 at about 11 percent in the first scenario and 13 percent in the alternative scenario and declines to about 6 percent and 9 percent, respectively, at end-2023. In the absence of additional reforms, including fiscal consolidation, the current account and REER gaps persist and the external position remains vulnerable to adverse shocks.

2. The results of the external balance (EBA-lite) approach are broadly consistent with those of the ES analysis, and suggest that external imbalances are related to fiscal and structural policy gaps. The EBA-lite methodology identifies policy gaps that contribute to external imbalances. The EBA-lite results indicate a current account gap of 3.4 percent and a REER gap of 10.4 percent, which are mainly attributable to fiscal policy gaps (2 percent of GDP). The residual (1.4 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 and the scenario's more ambitious structural reforms would significantly reduce the structural policy gap.

3. Adverse shocks to the financial account could reinforce downside risks and put pressure on reserves. The reduced debt service burden following the debt restructuring and fiscal policy adjustment agreed with bondholders in March 2017 has alleviated pressures on international reserves. However, large compensation payments (US$78 million) to the former owners of nationalized Belize Telemedia Limited (BTL) in November 2017 reduced reserves to 3.3 months of imports at end-2017, from 4.2 months at end-2016. Downside risk remain, including further contingent liabilities materializing over the medium term. Additional legacy claims are estimated at around US$100 million (5.4 percent of GDP). Moreover, financial inflows under the PetroCaribe agreement declined to macroeconomically negligible levels in 2017.

[1] The ES approach is based on staff's baseline GDP growth assumptions.

Table 1. Belize: 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 2027	Alternative scenario Reducing NFA to below -90 percent of GDP by 2027	Baseline
Equilibrium external current account (CA) 1/	-2.7	-1.9	-4.2
Underlying CA balance 2/	[-4.8 -6.2]	[-4.8 -6.2]	-7.6
CA elasticity to REER 3/	-0.33	-0.33	-0.33
Implied REER adjustment 4/ (in percent, "+" appreciation)	[-7.2 -8.8]	[-9.6 -11.2]	-10.4
Memo items			
Current account gap			-3.4
of which fiscal policy gap			-2.0

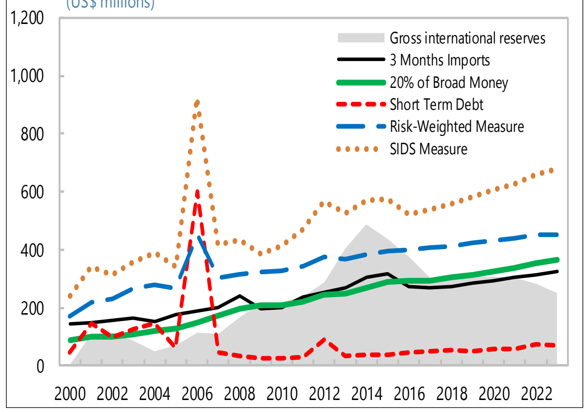
1/ Equilibrium CA is defined as the CA that will bring NFA to the desired level in the ES approach and as the CA norm in the EBA-lite approach.

2/ The values in brackets show the minimum and maximum projected current account deficits in the 2018-23 period for the ES approach and the estimated current account balance to GDP in 2017 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 2018-23 period.

Figure 1. Belize: Gross International Reserves and Adequacy Metrics
(US$ millions)



4. **Both traditional and risk-weighted adequacy metrics suggest that international reserves may decline to uncomfortably low levels in the baseline scenario without additional policy adjustment.** In the baseline scenario, reserves fall slightly below the traditional benchmark levels of 3 months of imports in 2021 and 20 percent cover of broad money in 2018 (Figure 1 and Table 2). Reserves also remain below two risk-weighted adequacy metrics over the medium term. The first risk-weighted measure indicates that reserves would decline to 72 percent of the level considered adequate at end-2018 and 55 percent of that level by 2023. The second measure, calibrated for small island developing states (SIDS), indicates that reserves would be at 54 percent of the adequacy threshold at end-2018, and at 37 percent at end-2023.[2]

[2] The SIDS metric combines different reserve needs taking into account small state specificities, including vulnerability to natural disasters.

Table 2. Belize: Ratios of Reserves to Optimal Reserves Based on Various Measures
(In percent)

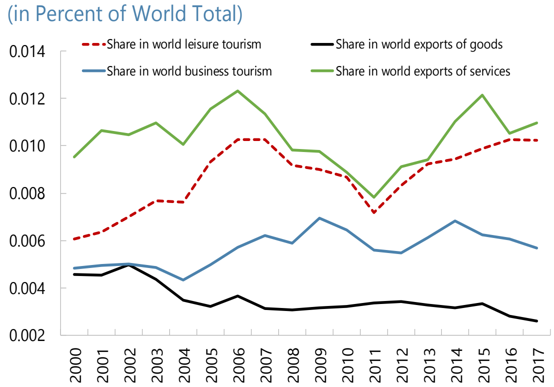
	Risk-Weighted Measure 1/	SIDS Measure 2/	3 months of Imports	20% of Broad Money	Short Term Debt
2015	111	76	161	152	1,137
2016	95	72	140	128	849
2017	75	57	111	103	611
2018	72	54	105	98	564
2019	73	53	104	98	593
2020	71	51	101	95	544
2021	69	48	96	89	528
2022	63	43	87	80	389
2023	55	37	79	68	352
Adequate 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, narrowing the policy gaps requires fiscal adjustment and structural reforms to strengthen productivity and external competitiveness.** 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. A combination of fiscal adjustment and structural reform measures as illustrated in the active scenario will improve the reserve adequacy metrics, strengthen the country's external position, and reinforce the sustainability of the exchange rate peg.

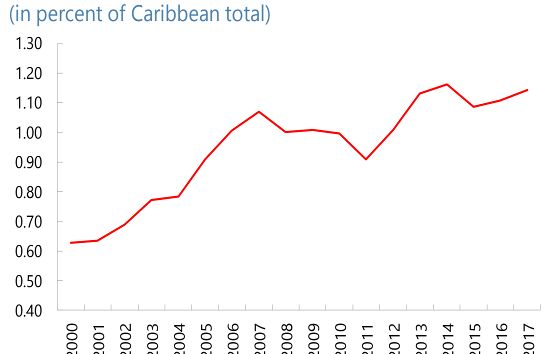
6. **Belize's competitiveness in goods exports has been declining, but it is gaining market share in services exports, particularly leisure tourism.** Belize's share of the Caribbean tourism market has been rising steadily since 2000 and has been associated with relatively competitive prices, as reflected in the lower cost of a one-week vacation based on the Fund staff's "Week at the Beach" Index.[3]

Belize: Selected Competitiveness Indicators
(in Percent of World Total)



Sources: World travel & tourism council, UNCTADstat and Fund staff calculations.

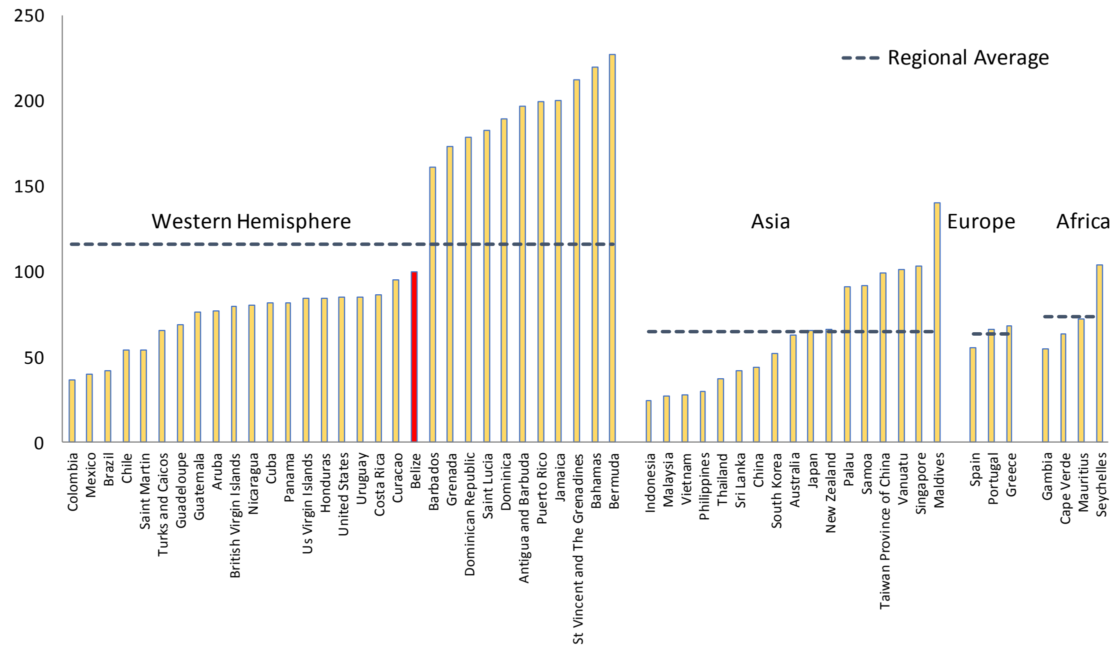
Belize: Market Share in Tourism 1/
(in percent of Caribbean total)



Sources: World Travel and Tourism Council (WTCC) and Fund staff calculations.
1/ Tourism includes leisure and business tourism.

[3] See Laframboise, Mwase, Park and Zhou (2014) for more details on the compilation of the "Week-at-the-Beach" index.

Week-at-the-Beach Index—Expedia, May 2018
(3–5 star hotel average, Belize=100)



Sources: UNDP/UN Daily Subsistence Allowance Rates; and IMF staff calculations.
Note: Room rate: see https://www.travelocity.com, https://www.trivago.com; taxi, meals, water, beer, coffee: see https://www.numbeo.com/cost-of-living/ and https://www.worldcabfares.com/index.php. Total cost without tax = 7 x (3-star hotel) + 2 x (average taxi ride from main international airport to capital city) + 7 x (1 inexpensive meal + 2 mid-range meals) + 7 x (2 liters water) + 7 x (0.5 liter beer) + 7 x (coffee). Data labels in figure use International Organization for Standardization (ISO) country codes.

Annex III. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Impact	Policy Response
Global Risks			
Weaker-than-expected global growth, particularly in the US and major advanced economies.	M	H	• Build fiscal and external buffers to offset potential shocks. • Accelerate structural reforms to support investment and growth.
Sharp tightening of global financial conditions causing higher debt service and refinancing risk.	H	H	• Fiscal consolidation and structural reforms to increase fiscal buffers, boost external competitiveness, reduce external imbalances, and build international reserves. • Keep the financial sector under tight supervision.
Sizeable deviations from baseline energy prices, particularly risks from a sharp rise in oil prices.	H	H	• Normalize interest rates to mitigate any associated second-round inflationary pressures. • Reprioritize spending toward conditional cash transfers to support the most vulnerable individuals.
Country-specific Risks			
Higher-than-expected public contingent liabilities as the government continues to contest legacy claims.	M	H	• Build fiscal buffers through fiscal consolidation.
Reduced financial services by correspondent banks.	M	H	• Continue strengthening and implementing the AML/CFT framework, including ensuring entity transparency in the offshore business sector. • Support regional efforts to address challenges posed by withdrawal of CBRs.
A significant deterioration in the quality of domestic banks' credit portfolio.	L	H	• Strengthen capital and provisioning requirements and risk-based supervision. • Introduce emergency liquidity assistance and strengthen bank resolution framework.
Extreme weather conditions.	H	H	• Invest in climate resilient infrastructure, set up natural disaster fund, optimize risk management.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" indicates a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. Low (L), Medium (M), High (H).

Annex IV. Inter-Sectoral Balance Sheet Analysis

Nonfinancial corporations are the principal net suppliers of loanable funds in Belize with banks serving as the center of linkages to other domestic sectors. In stock terms, nonfinancial corporations provided around 37 percent of GDP of funds to the banking sector in 2017. The government is the largest borrower, amounting to 85.8 percent of GDP, on a net basis. Its external financing amounted to a net 70.8 percent of GDP, while domestic financing from the CBB and commercial banks were 7.1 percent and 7.9 percent of GDP, respectively. Households borrowed 18.6 percent of GDP from the banking sector.

Belize: Balance Sheet Analysis Matrix, 2017 Net Positions

(In percent of GDP)

	Government	Central Bank	Banks	NBFIs	NFCs	HHs	ROW
Government		7.1	7.9				70.8
Central Bank	-7.1		14.8	0.03	-0.3	8.9	-15.3
Banks	-7.9	-14.8	-0.3	9.5	36.7	-18.6	-5.6
NBFIs		-0.03	-9.5				
NFCs		0.3	-36.7				
HHs		-8.9	18.6				
ROW	-70.8	15.3	5.6				
Total	**-85.8**	**-1.1**	**0.3**	**9.6**	**36.5**	**-9.7**	**49.9**

Sources: IMF (International Investment Position (IIP), Monetary and Financial Statistics (MFS))

NBFIs: Non-bank financial insitutions; NFCs: Nonfinancial corporations; HHs: Households; and ROW: Rest of the world

Annex V. Debt Sustainability Analysis

Despite the significant fiscal adjustment in FY2017/18 and the external bond restructuring agreed with bondholders in March 2017, public debt remains high and its sustainability subject to risks, including shocks to GDP growth, the interest rate, and the primary balance. The restructuring provided cash flow relief and NPV reductions, not face value reductions.[1] *Reflecting fiscal consolidation already implemented by the authorities and their plans for additional adjustment reflected in the staff's baseline scenario, debt is projected to decline over the medium term. Reducing the debt-to-GDP ratio to prudent levels over the long term will require further structural reforms to boost growth, combined with additional fiscal consolidation over the medium term. 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.*

Macroeconomic Framework

1. **The baseline macroeconomic outlook remains weak.** Growth is projected to average 1.7 percent over the medium-term baseline scenario, broadly in line with recent trends. The current account deficit is projected to narrow but remain large over the medium term. International reserves are projected to remain at just under 3 months of imports of goods and services in the baseline scenario, below adequate levels. Significant fiscal adjustment in FY2017/18, and the additional adjustment reflected in the FY2018/19 budget, are important step toward restoring fiscal sustainability, and further reforms are needed to reduce the still very high public debt.

2. **The authorities are expected to continue relying on mainly domestic financing and loans contracted with multilateral and bilateral development partners to meet gross financing requirements.** The debt sustainability analysis (DSA) assumes no new issuance of external commercial debt given the recent debt restructuring. Nominal interest rates on government borrowing are expected to gradually rise over the medium term from their low levels, which reflect a substantial share of concessional debt and the interest rate relief from the 2017 debt restructuring. Over the medium term, gross financing needs are expected to remain below their 2016–17 levels, reflecting improvements in the fiscal stance, and the cash flow relief from the restructuring of the Superbond.

3. **There appears to be little systematic bias in the macroeconomic projections during 2009–17 (Figure 2).** The median forecast error (MFE) for GDP was -0.07 percentage point (corresponding to the 67th percentile of the sample of surveillance-case economies) although growth projections in recent years have been optimistic. The MFE for inflation projections was -0.58 percentage point (corresponding to the 39th percentile) with recent projections being close to the outcomes. The MFE for the primary fiscal balance was -1.37 (25th percentile) with forecasts being optimistic in recent years.

[1] On March 23, 2017, the authorities completed restructuring of the private external commercial debt (US$526 million, 30 percent of GDP) which reduced 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 amended the amortization schedule by pushing back principal repayments to 2030-34 (instead of semiannual installments beginning in August 2019). See 2017 Belize Article IV Staff Report, IMF Country Report 17/286 for further details.

Public Debt

4. Based on the staff's baseline macroeconomic assumptions, Belize's public debt is projected to decline but remain elevated over the medium term (Figure 3 and 4). Public debt is projected to increase by about 0.6 percentage points of GDP to 94.2 percent of GDP in 2018. By 2023, public debt is projected to fall to 82.1 percent of GDP, reflecting the government's commitment to maintaining a primary fiscal surplus of 2.0 percent of GDP, as well as and automatic debt dynamics.

5. 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), and the currency composition of Belize's debt. Risks to gross financial requirements and to the residency of debt holders have moderated owing to the 2017 debt restructuring. The share of short-term debt in total debt decreased by 0.9 percent in 2017. The fan charts indicate the possible evolution of debt over the medium term under both symmetric and asymmetric distributions of risk. Symmetric and asymmetric fan charts show that public debt could exceed 100 percent of GDP in the medium term with a probability of more than 25 percent.

6. Public debt continues to be exposed to adverse developments as highlighted by stress tests (Figure 5). The debt trajectory is particularly sensitive to an exchange rate shock, since 71 percent of total public debt was denominated in foreign currency at end-2017. A 10 percent real depreciation in 2019 would increase total public debt to 98 percent of GDP in 2019, and the debt-to-GDP ratio would remain close to 90 percent of GDP over the medium term. If GDP growth were to decline by one standard deviation during 2019 and 2020, total public debt would average 94.2 percent of GDP during this period, before declining to 87 percent of GDP in the medium term. 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 99 percent of GDP in 2019. The Government of Belize also continues to contest various legacy claims, estimated at about US$100 million (5.4 percent of GDP). These contingent liabilities could lead to large public and external financing needs.

7. Belize's debt outlook is especially vulnerable to the impact of natural hazards and climate change. To illustrate this vulnerability, the staff scenario (Figure 5) assumes that a natural disaster causes 6 percent of GDP in economic damages, about half the size of the economic damage inflicted by Hurricane Earl in 2016. Following a disaster of such magnitude, real GDP is assumed to decline by 3 percent in the year of the disaster, compared to baseline, by a further 1 percent in the next year, and to accelerate by ½ percentage point in the following two years (reflecting reconstruction activity).[2] The scenario assumes that the cost borne by the government is, based on historical accounting, ⅔ of the economic damage, corresponding here to 4 percent of GDP. The associated government recovery and reconstruction expenditure is assumed to be spread over 3 years: 2 percent of GDP in the first year, and 1 percent of GDP in each of the next two years, respectively. The shock would have a material impact on government debt, shifting the entire trajectory up by around 7 percent of GDP above the baseline, with government debt at 88.8 percent of GDP by end-2023. Belize is also, as other Caribbean countries, exposed to adverse effects of climate change, which could weaken potential growth over the longer

[2] These assumptions are consistent with estimates of the relation between growth and natural disasters in IMF (2017) (Chapter 2).

term and increase pressure on the government debt-to-GDP ratio. To prepare for the prospect of more frequent and intense natural disasters, Belize should increase self-insurance through a natural disaster reserve fund and manage remaining risks cost-effectively managed through a mix of risk-transfer and risk-retention instruments, such as ex-ante contingent lines of credit and optimized participation in regional insurance options.

External Debt

8. The external debt-to-GDP ratio is projected to gradually decline over the medium term from 64.2 percent of GDP in 2018 to 52.4 percent of GDP by 2023 (Figure 6 and Table 1).[3] Bound tests suggest that external debt is mostly sensitive to exchange rate and current account shocks. Under a hypothetical 30 percent depreciation of the national currency in 2018, external debt would rise to 91.3 percent of GDP in 2019, and remain elevated at 76 percent of GDP over the medium term. Further vulnerability stems from a non-interest current account shock that would keep the external debt at 61 percent of GDP over the medium term. An extreme two-standard deviation shock on growth would raise external debt to 69 percent of GDP by 2023. A combined one-quarter standard deviation shock would keep the external debt at 58 percent by 2023. The residuals (2-3 percent of GDP) that account for most of the decline in the external debt-to-GDP ratio over the medium term reflect the expected use of reserves to service debt.

Assessment

9. Under the baseline scenario, Belize's public debt is projected to decline over the medium term, reflecting the tightening of the fiscal stance and modest gains from automatic debt dynamics. Nonetheless, debt will remain elevated and the baseline scenario is vulnerable to adverse developments. The 2017 debt restructuring eased the debt service burden, and refinancing risks are expected to remain low. External debt is expected to gradually decline over the medium term, mainly reflecting non-debt creating inflows. Results from bound tests highlight the exposure of external public debt to various shocks, especially to the exchange rate.

10. Structural reforms to raise growth over the medium term, and additional fiscal consolidation, beyond the reflected in the FY2018/19 budget, are needed to mitigate vulnerabilities and further improve the debt outlook. Staff recommends gradually raising the primary surplus to about 4 percent of GDP over the medium term to reduce public debt to prudent levels over the long term (see staff active scenario). Reforms to improve public debt management are also needed.

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

Figure 1. Belize Public DSA Risk Assessment

Heat Map

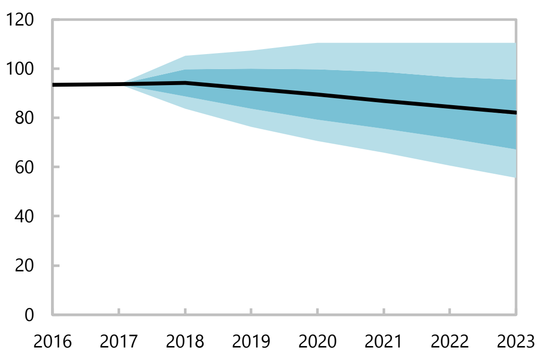
Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	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

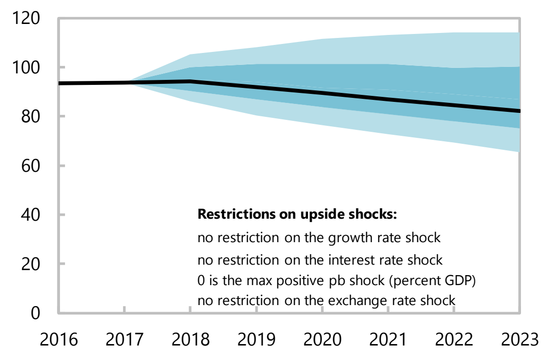
(in percent of GDP)

Baseline   Percentiles: 10th-25th   25th-75th   75th-90th

Symmetric Distribution



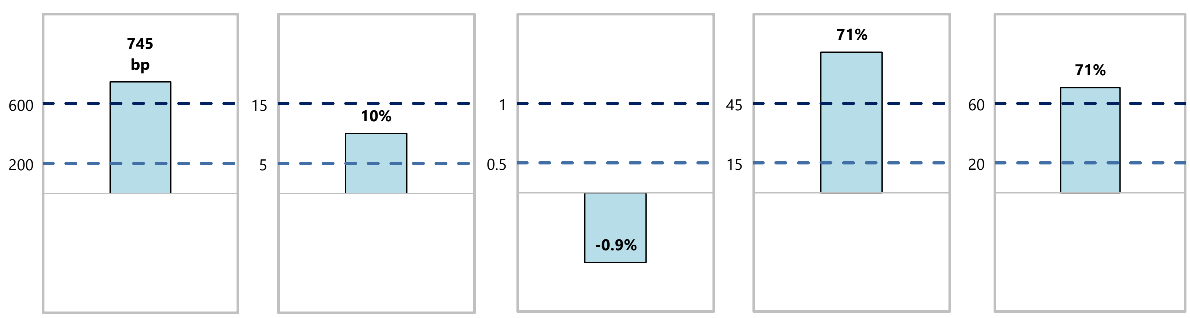
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)

Belize   Lower early warning   Upper early warning



EMBIG	**External Financing Requirement**	**Annual Change in Short-Term Public Debt**	**Public Debt Held by Non-Residents**	**Public Debt in Foreign Currency**
(in basis points) 4/	(in percent of GDP) 5/	(in percent of total)	(in percent of total)	(in percent of total)

Source: IMF staff.

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

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

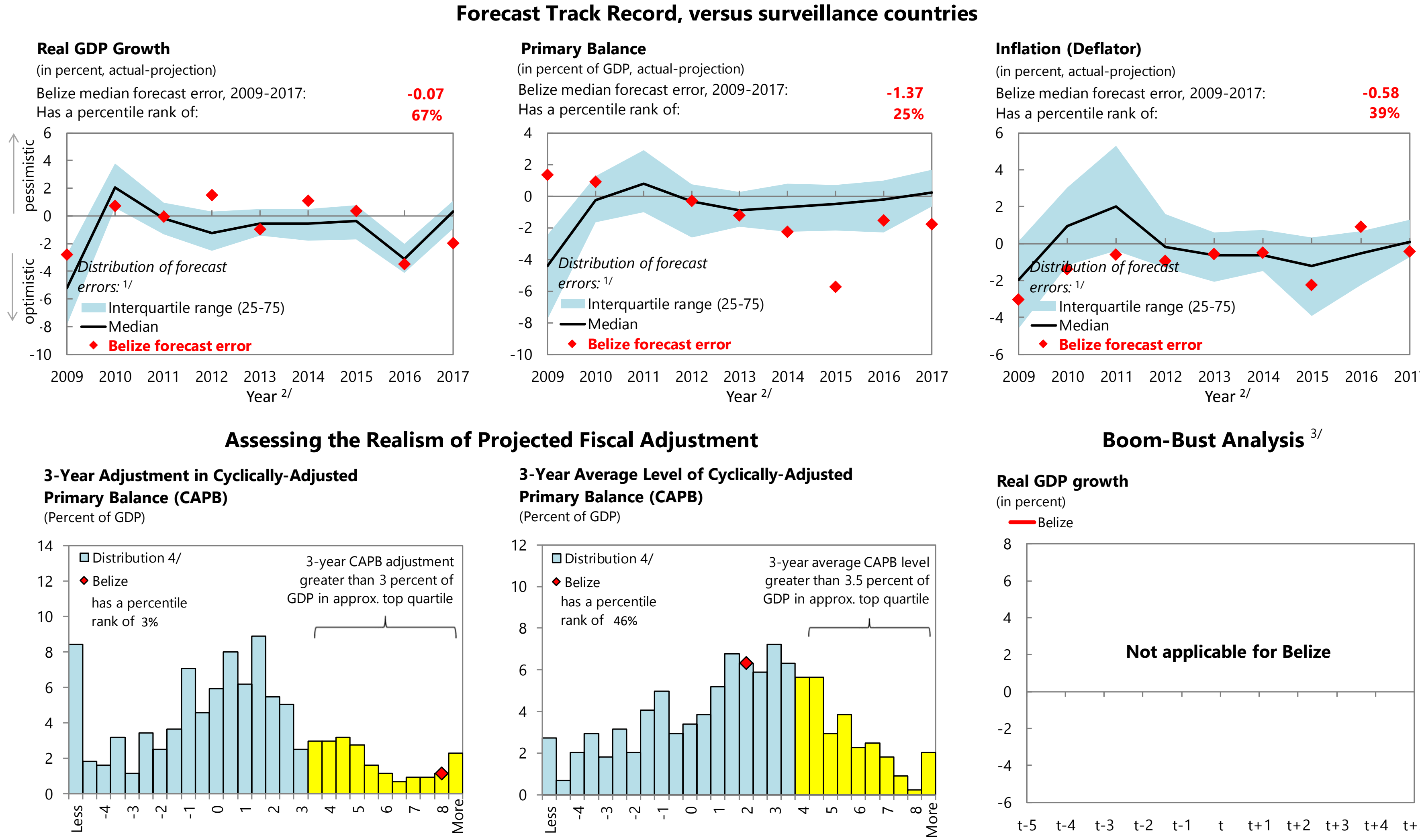
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 10-May-18 through 08-Aug-18.

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 : IMF Staff.

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

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

3/ Not applicable for Belize, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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)

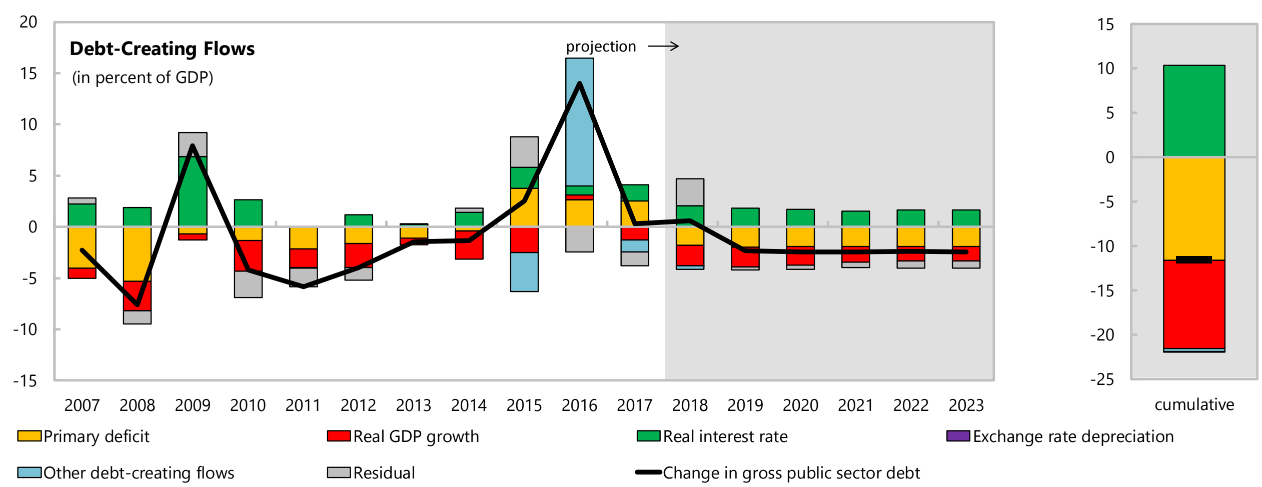
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	84.4	93.3	93.6	94.2	91.8	89.4	86.9	84.5	82.1
Public gross financing needs	9.9	8.1	8.0	3.8	4.8	5.1	5.9	6.5	7.1
Real GDP growth (in percent)	2.4	-0.6	1.4	2.2	2.1	2.0	1.8	1.7	1.7
Inflation (GDP deflator, in percent)	1.8	3.1	1.6	1.2	1.5	1.7	2.0	2.0	2.0
Nominal GDP growth (in percent)	4.2	2.5	3.1	3.4	3.6	3.7	3.8	3.7	3.7
Effective interest rate (in percent) [4/]	4.3	4.2	3.4	3.5	3.6	3.7	3.8	4.0	4.0

As of August 08, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		750
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B-	B-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.8	14.0	0.3	0.6	-2.4	-2.4	-2.5	-2.4	-2.4	-11.5	
Identified debt-creating flows	-1.8	16.5	1.6	-2.1	-2.1	-2.0	-2.0	-1.7	-1.7	-11.5	
Primary deficit	-1.4	2.7	2.5	-1.8	-2.0	-2.0	-1.9	-1.9	-1.9	-11.6	0.2
Primary (noninterest) revenue and grants	28.0	28.7	29.3	29.8	30.0	30.1	30.1	30.1	30.0	180.1	
Primary (noninterest) expenditure	26.5	31.4	31.8	28.0	28.0	28.1	28.2	28.2	28.1	168.5	
Automatic debt dynamics [5/]	0.1	1.3	0.2	0.1	-0.1	0.0	0.0	0.2	0.2	0.4	
Interest rate/growth differential [6/]	0.1	1.3	0.2	0.1	-0.1	0.0	0.0	0.2	0.2	0.4	
Of which: real interest rate	2.1	0.9	1.5	2.0	1.8	1.7	1.5	1.6	1.6	10.4	
Of which: real GDP growth	-1.9	0.5	-1.3	-2.0	-1.9	-1.8	-1.5	-1.4	-1.4	-10.0	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.4	12.5	-1.1	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3	
Privatization and drawdown of deposits (negative)	-0.8	-0.6	-1.9	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3	
Contingent liabilities	0.4	13.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.1	-2.4	-1.3	2.7	-0.3	-0.4	-0.5	-0.7	-0.7	0.0	



Source: IMF staff.

1/ Public sector is defined as the Central Government and Other Public Sector.

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/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

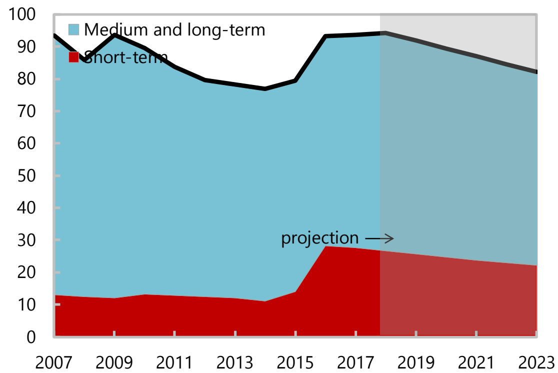
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

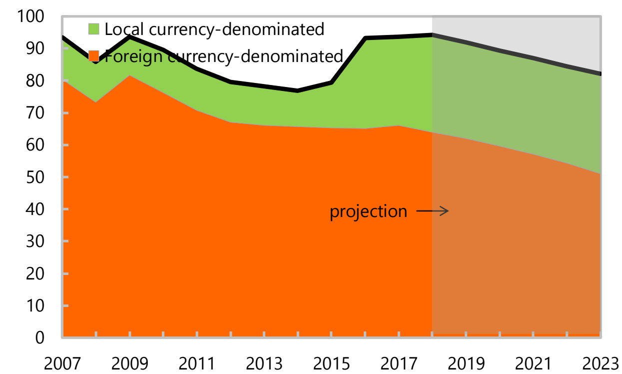
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

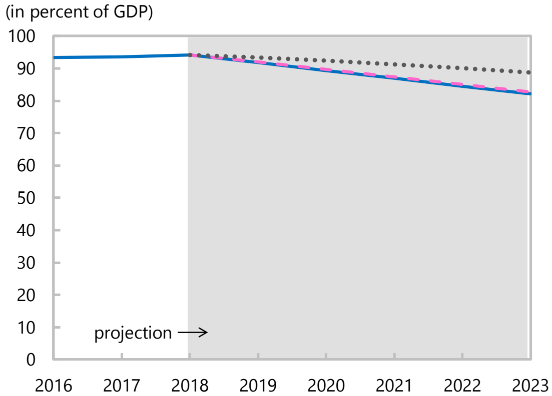


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

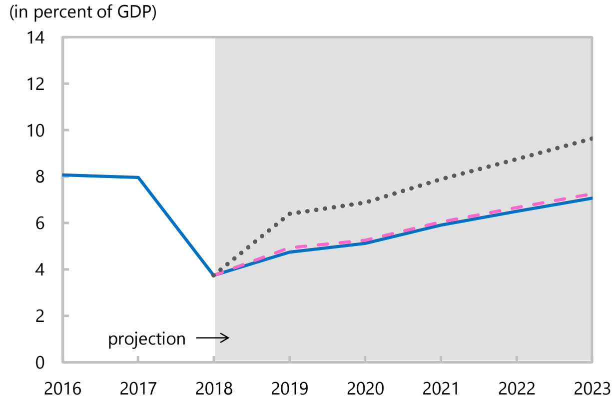
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

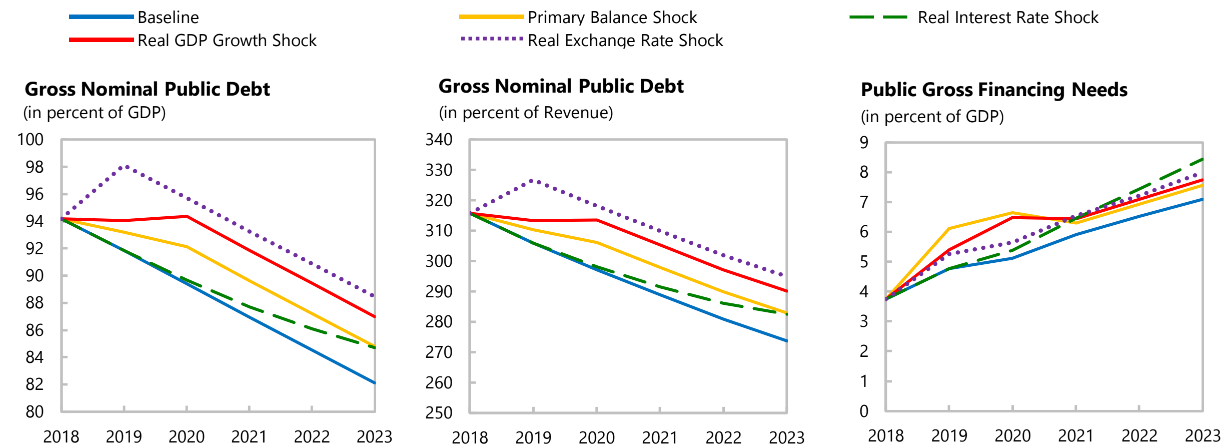
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary Balance	1.8	2.0	2.0	1.9	1.9	1.9
Effective interest rate	3.5	3.6	3.7	3.8	4.0	4.0
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary Balance	1.8	1.8	1.8	1.8	1.8	1.8
Effective interest rate	3.5	3.6	3.7	3.8	4.0	4.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	2.1	2.1	2.1	2.1	2.1
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary Balance	1.8	0.4	0.4	0.4	0.4	0.4
Effective interest rate	3.5	3.6	3.7	3.8	4.0	4.0

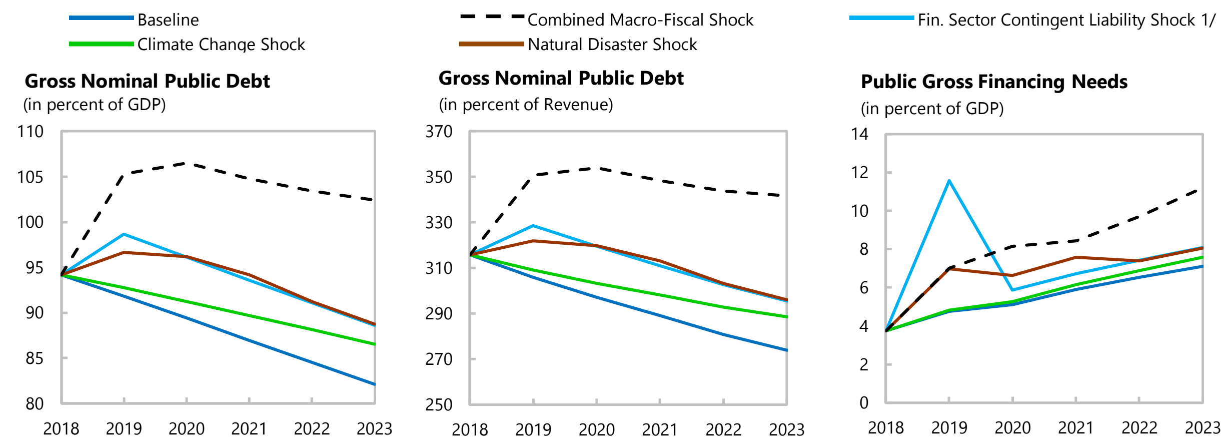
Source: IMF staff.

Figure 5. Belize Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



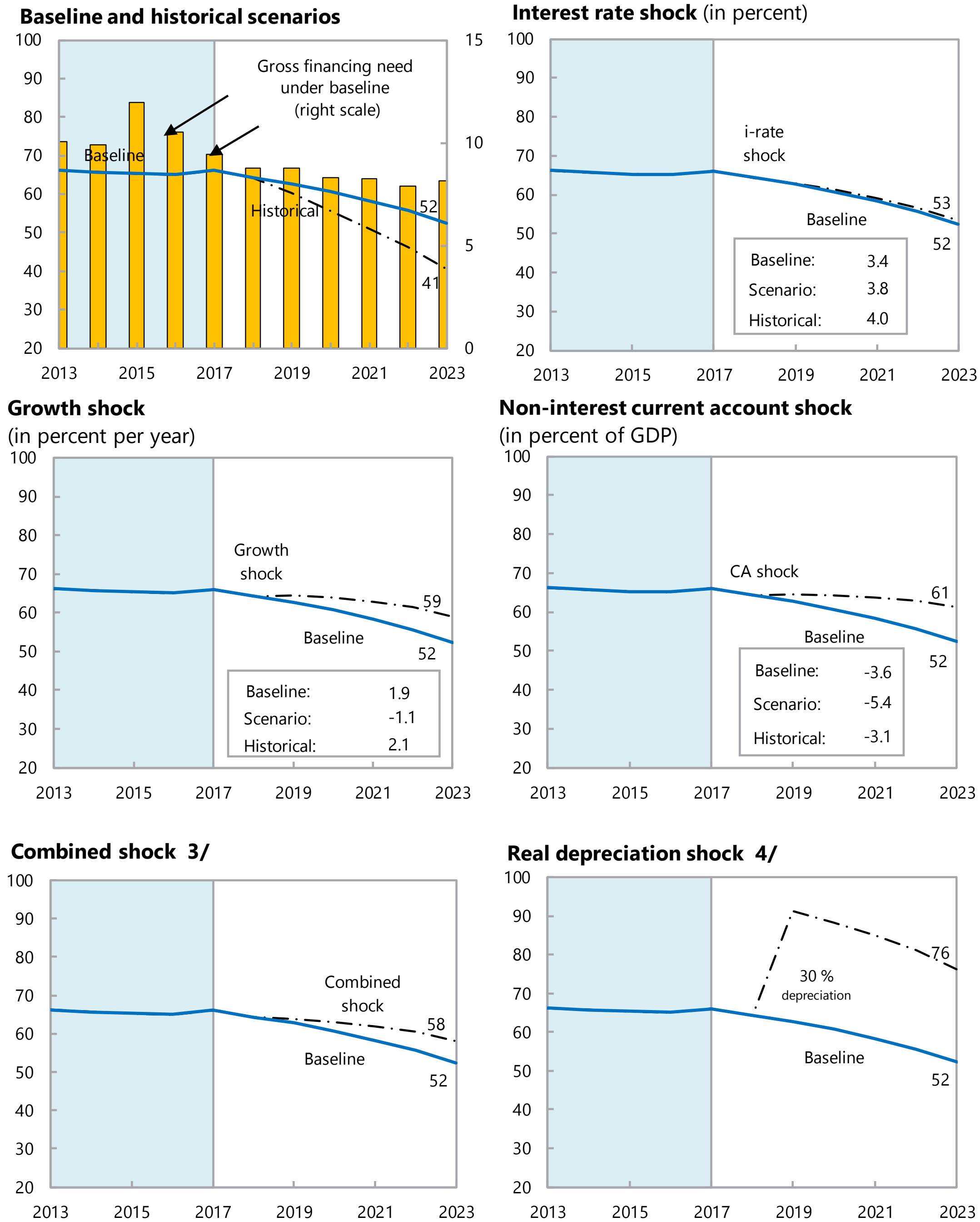
Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary balance	1.8	0.7	0.6	1.9	1.9	1.9
Effective interest rate	3.5	3.6	3.7	3.8	4.0	4.0
Real Interest Rate Shock						
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary balance	1.8	2.0	2.0	1.9	1.9	1.9
Effective interest rate	3.5	3.6	4.0	4.4	4.9	5.3
Combined Shock						
Real GDP growth	2.2	0.6	0.5	1.8	1.7	1.7
Inflation	1.2	1.1	1.3	2.0	2.0	2.0
Primary balance	1.8	0.7	0.6	1.9	1.9	1.9
Effective interest rate	3.5	3.9	4.1	4.5	5.0	5.4

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.2	0.6	0.5	1.8	1.7	1.7
Inflation	1.2	1.1	1.3	2.0	2.0	2.0
Primary balance	1.8	1.5	0.9	1.9	1.9	1.9
Effective interest rate	3.5	3.6	3.7	3.8	4.0	4.0
Real Exchange Rate Shock						
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	5.5	1.7	2.0	2.0	2.0
Primary balance	1.8	2.0	2.0	1.9	1.9	1.9
Effective interest rate	3.5	3.9	3.7	3.8	3.9	4.0
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	2.2	2.1	2.0	1.8	1.7	1.7
Inflation	1.2	1.5	1.7	2.0	2.0	2.0
Primary balance	1.8	-4.6	2.0	1.9	1.9	1.9
Effective interest rate	3.5	3.8	3.6	3.7	3.9	3.9

Source: IMF staff.

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 2019.

Table 1. Belize: External Debt Sustainability Framework, 2013–2023

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017	10-Year Historical Average	10-Year Standard Deviation	2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	66.2	65.7	65.3	65.0	66.1			**64.2**	**62.7**	**60.7**	**58.3**	**55.7**	**52.4**	**-4.3**
Change in external debt	-1.0	-0.4	-0.4	-0.3	1.0			-1.8	-1.5	-2.0	-2.4	-2.6	-3.3	
Identified external debt-creating flows (4+8+9)	-3.1	-3.6	3.9	5.1	3.7			-1.5	0.1	0.2	-0.1	-0.1	0.0	
Current account deficit, excluding interest payments	2.9	5.5	7.7	5.5	4.8			4.0	4.0	3.7	3.6	3.4	3.2	
Deficit in balance of goods and services	1.7	4.1	8.4	7.7	5.1			4.2	3.5	3.2	3.2	3.2	3.3	
Exports	65.7	68.0	63.9	52.5	52.6			52.6	53.6	53.8	53.7	53.3	53.0	
Imports	67.4	72.1	72.3	60.2	57.7			56.8	57.1	57.0	56.8	56.5	56.4	
Net non-debt creating capital inflows (negative)	-5.7	-8.2	-3.3	-1.7	-1.4			-6.3	-4.7	-4.4	-4.7	-4.5	-4.1	
Automatic debt dynamics 1/	-0.3	-0.9	-0.4	1.3	0.3			0.8	0.9	0.9	0.9	0.9	0.8	
Contribution from nominal interest rate	1.5	2.4	2.2	2.9	2.3			2.2	2.2	2.1	2.0	1.9	1.8	
Contribution from real GDP growth	-0.6	-2.3	-2.2	0.4	-0.9			-1.4	-1.3	-1.2	-1.0	-0.9	-0.9	
Contribution from price and exchange rate changes 2/	-1.3	-1.0	-0.4	-2.0	-1.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.1	3.1	-4.3	-5.3	-2.7			-0.4	-1.6	-2.3	-2.3	-2.5	-3.3	
External debt-to-exports ratio (in percent)	100.7	96.7	102.2	123.8	125.6			122.1	117.0	112.8	108.6	104.4	98.7	
Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	10.0	9.9	12.0	10.5	9.4			8.8	8.8	8.3	8.2	7.9	8.1	
Scenario with key variables at their historical averages 5/								**64.2**	**60.1**	**55.5**	**51.0**	**46.2**	**40.6**	**-6.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.9	3.7	3.4	-0.6	1.4	2.1	1.5	2.2	2.1	2.0	1.8	1.7	1.7	
GDP deflator in US dollars (change in percent)	2.0	1.5	0.7	3.1	1.6	1.6	1.9	1.2	1.5	1.7	2.0	2.0	2.0	
Nominal external interest rate (in percent)	2.4	3.8	3.5	4.6	3.6	4.0	0.7	3.5	3.5	3.5	3.4	3.3	3.3	
Growth of exports (US dollar terms, in percent)	2.8	8.9	-2.1	-15.8	3.2	2.3	10.8	3.5	5.5	4.2	3.5	3.1	3.2	
Growth of imports (US dollar terms, in percent)	7.9	12.6	4.5	-14.6	-1.2	3.7	12.3	1.7	4.2	3.5	3.5	3.2	3.5	
Current account balance, excluding interest payments	-2.9	-5.5	-7.7	-5.5	-4.8	-3.1	3.6	-4.0	-4.0	-3.7	-3.6	-3.4	-3.2	
Net non-debt creating capital inflows	5.7	8.2	3.3	1.7	1.4	6.6	3.9	6.3	4.7	4.4	4.7	4.5	4.1	

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

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

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

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

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

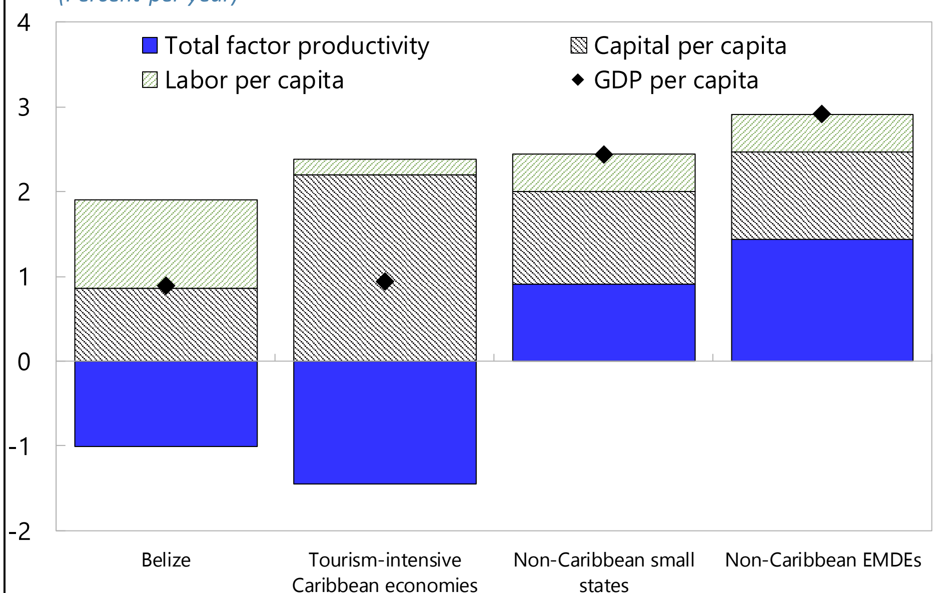
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex VI. Growth Analysis and Data Sources

Growth Decomposition

A feature of growth in Belize and Caribbean tourism-intensive economies, compared with growth in other regions, has been the weak contribution of total factor productivity (TFP), which measures the overall productivity of both labor and capital, and reflects such elements as technology. A simple growth decomposition exercise suggests that TFP growth since 2000 has been negative, unlike for non-Caribbean small states and other EMDEs (text chart).[1] On average, during 2000–15, TFP growth contributed –1 percentage points to annual growth for Belize, compared with positive contributions for non-Caribbean small states and EMDEs. This finding is consistent with other studies that point to falling or stagnating productivity in the Caribbean (for example, Ruprah, Melgarejo, and Sierra 2014; Thacker and others 2013) and with a recent study of productivity and innovation at the level of small and medium-sized Caribbean enterprises (Dohnert, Crespi, and Maffioli 2017).

Contributions to Average GDP Growth Per Capita, 2000-15
(Percent per year)



Source: IMF staff estimates.

[1] The analysis adjusts the usual approach for estimating TFP by accounting for the destructive effects of natural disasters on the capital stock (see IMF, 2017, *Unleashing Growth and Strengthening Resilience in the Caribbean*, Chapter 2). Without this adjustment, the analysis would attribute disaster damage to TFP growth, resulting in even weaker TFP growth.

Data Sources for Growth Diagnostic and Decomposition Analysis

Table 1. Belize: Data Sources

Indicator	Source and Notes
High costs of finance	
Financial constraints (WBES)	WBES; percent of firms identifying access to finance as a major constraint
Getting credit (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Financial development (GCI)	Global Competitiveness Index 8th pillar: financial market development (1-7)
NPLs	WDI, augmented by data collected for (IMF, 2017, Chapter 11)
Bank spread	WDI; interest rate spread (lending rate minus deposit rate, %)
Gross saving	WDI; gross savings (% of GDP)
Investment	WDI; gross capital formation (% of GDP)
Credit-to-GDP ratio	WDI; domestic credit to private sector (% of GDP)
Crowding out	WDI, IMF WEO; public debt/domestic credit to private sector
Low social returns	
Violent crime	WDI; homicides per 100,000 inhabitants
Natural disaster vulnerability	EM-DAT; damage from natural disasters (% of GDP)
Skilled emigration	IAB brain-drain data set; share of nationals with tertiary education living abroad
Education	PWT, Barro-Lee (2013) data set; years of schooling scaled by assumed rate of return to education based on Mincer education estimates (Psacharopoulos 1994)
Health and primary education (GCI)	Global Competitiveness Index 4th pillar: health and primary education (1-7)
Higher education and training (GCI)	Global Competitiveness Index 5th pillar: higher education and training (1-7)
Poverty	WDI, augmented by data collected for IMF Article IV staff reports
Government failures	
Public debt	WEO; general government debt in percent of GDP
Taxation	WEO; general government tax revenue divided by nominal GDP
Trade tariff	WDI; average trade tariff (percent)
Institutions (GCI)	Global Competitiveness Index 1st pillar: institutions (1-7)
Bureaucracy (WGI)	Worldwide Governance Indicators; score
Regulations WGI)	Worldwide Governance Indicators; score
Rule of law (WGI)	Worldwide Governance Indicators; score
Corruption perception (WGI)	Worldwide Governance Indicators; score
Corruption Risk Index	Verisk Maplecroft
Doing business	World Bank Ease of Doing Business Index distance to frontier (0-100)
Starting a business (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Construction permits (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Getting electricity (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Registering property (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Protecting minority investors (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Paying taxes (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Trading across borders (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Enforcing contracts (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)
Resolving insolvency (DB)	World Bank Ease of Doing Business Index distance to frontier (0-100)

Table 1. Belize: Data Sources (Concluded)

Indicator	Source and Notes
Market failures	
Infrastructure (GCI)	Global Competitiveness Index 2nd pillar: infrastructure (1-7)
Trade openness	WDI; imports + exports (% of GDP)
Trade connectivity	IMF (2017)
GVC participation	IMF (2017)
High-tech export share	WDI, percent
Export diversification	IMF Diversification database; index
Goods markets (GCI)	Global Competitiveness Index 6th pillar: goods market efficiency (1-7)
Labor market (GCI)	Global Competitiveness Index 7th pillar: labor market efficiency (1-7)
Labor participation (male)	WDI; Labor force participation rate, male (% of male population ages 15+)
Labor participation (female)	WDI; Labor force participation rate, female (% of female population ages 15+)
Growth decomposition	
Real PPP GDP	PWT, extended based on WEO
Population	WEO
Capital Stock	PWT, extended based on WEO
Labor	PWT, extended based on WEO

Note: Data are 2017 or latest available. For natural disasters, distribution for 2010-15 is used. EM-DAT = International Disasters Database; GVC = global value chain; IAB = Institute for Employment Research (Brücker, Capuano, and Marfouk 2013); NPLs = nonperforming loans; PPP = purchasing power parity; PWT = Penn World Tables; WBES = World Bank Enterprise Survey; WEO = IMF, World Economic Outlook; WDI = World Bank, World Development Indicators. IMF (2017) = "Cluster Report—Trade Integration in Latin America and the Caribbean." IMF Country Report 17/66, Washington, DC.

BELIZE

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 18, 2018

Prepared By	Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of August 31, 2018)

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	20.11	112.35

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		
	2018	2019	2020	2021	2022
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. The exchange regime is free of restrictions and multiple currency practices.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on September 11, 2017 (IMF Country Report No. 17/286). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- 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.
- FAD advised on developing regulations and treasury instructions to support the Public Financial Management (PFM) law in June 2017.
- FAD advised on building capacity in data analysis and cross-matching in July 2017.
- FAD advised on draft PFM legislation in September 2017.
- FAD advised on developing a framework to establish a joint Large Taxpayer Office (LTO) in September 2017.
- Joint MCM-LEG advised on jurisdictional review of the foreign exchange system in December 2017.
- FAD advised on establishing a data analytics function in tax administration in January 2018.
- FAD advised on reviewing and selecting a robust alternative IT system to replace SIGTAS for Tax Administration in January 2018.

CARTAC Technical Assistance to Belize FY2018

- In FY2018, CARTAC delivered approximately 25 field person weeks of TA to Belize, comprising deliveries in Customs and Public Financial Management.

Description	Start Date	End Date
Customs		
Strengthening Risk Management	8/7/17	8/14/17
Strengthening Risk Management	10/23/17	11/3/17
Developing Post Clearance Audit (PCA) capacity	1/8/18	1/19/18
Creating a framework for Advance Rulings (FY19)	5/14/18	5/25/18
Public Financial Management		
IPSAS accounting (completed for years 2013-14 and 2014-15; work on 2015-16 and 16-17 started)	12/1/2016	Ongoing
Cash management	Nov. 2016	ongoing
Development of Financial Instructions	Sept. 2017	Dec. 2018
Banking Transaction Agreement with Banks	Jan. 2017	Sept. 2018

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- As of August 31, 2018, Belize has collaborations with The World Bank Group, Inter-American Development Bank, and Caribbean Development Bank.

- Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The World Bank Group	http://www.worldbank.org/en/news/infographic/2017/05/30/wbg-country-partnership-strategy-belize
Inter-American Development Bank	https://www.iadb.org/en/countries/belize/overview
Caribbean Development Bank	http://www.caribank.org/about-cdb/member-countries/regional-members/belize

STATISTICAL ISSUES

(As of August 31, 2018)

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 September 28, 2018)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	9/28/2018	9/28/2018	D	D	D
International Reserve Assets and Liabilities of the Monetary Authorities 1/	9/12/2018	9/26/2018	W	W	W
Reserve/Base Money	9/12/2018	9/26/2018	W	W	W
Broad Money	9/12/2018	9/26/2018	W	W	W
Central Bank Balance Sheet	8/31/2018	9/13/2018	M	M	M
Banking System Balance Sheet	6/30/2018	7/4/2018	M	M	M
Interest Rates 2/	7/31/2018	9/18/2018	M	M	M
Consumer Price Index	8/31/2018	9/26/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing — Central Government 3/	6/30/2018	9/18/2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt 4/5/	7/31/2018	9/18/2018	M	M	M
External Current Account Balance	2018Q2	9/18/2018	Q	Q	Q
Exports/Imports of Goods and Services	2018Q2	9/18/2018	Q	Q	Q
GDP/GNP	2018Q2	8/29/2018	Q	Q	Q
Gross External Debt (Central Government only)	7/31/2018	9/18/2018	A, M	A, M	NA
International Investment Position 6/	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing — General Government	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. Louise Levonian, Executive Director for Barbados
Ms. Anne Marie McKiernan, Alternate Executive Director
Mr. David Hart, Advisor to the Executive Director
November 12, 2018

Our Belizean authorities thank the mission team for the consultations, valuable analysis, and constructive exchange of views. They largely share staff's assessment of the economic outlook and policy priorities for the period ahead. They also welcome the recognition of the good progress that has been made since last year's staff report. This progress reflects an ongoing effort by our authorities to enhance their policy and regulatory frameworks, supported by technical assistance from partners such as the Fund.

Our authorities are encouraged by the renewed focus on enhancing growth and climate change resilience. These issues are a top priority for our Belizean policymakers and regulators, and they welcome the report's policy recommendations focused on achievable, well-sequenced reforms in these areas. The remainder of this statement will highlight a few key points.

Belize's economy is strengthening after a difficult couple of years that included setbacks from, among other things, natural disasters, the loss of major correspondent banking relationships (CBRs), and adverse legal rulings. Tourism remains the bright spot, complemented by a rebound in agriculture and the services sector. Inflation is low and stable, and the current account deficit narrowed. Prospects for significant foreign investments in tourism and agriculture are also encouraging, which in turn could generate higher growth, employment and foreign exchange.

That said, the relatively positive outlook remains subject to significant risks. Like many countries in the region, Belize is grappling with high public debt, modest potential growth, weak competitiveness, and a vulnerability to natural disasters and other external economic shocks. In the face of these challenges, policy priorities to support sustainable, inclusive growth include: climate-resilient infrastructure; a sound, more inclusive financial sector; supportive business climate; and a reduction in crime and poverty.

Our authorities have taken decisive steps to strengthen fiscal resilience, notably via measures that contributed to a fiscal adjustment of 3.2 percent of GDP in 2017/18. In addition to meeting commitments to their external private creditors, this major effort allowed Belize to generate a primary surplus (after one-offs) of 1.3 percent. Debt service costs have also been reduced via a shift towards concessional borrowing from multilateral and bilateral partners.

However, our authorities recognize that further fiscal prudence is required. In his 2018/19 budget speech, the Prime Minister targeted a gradual reduction in public debt to 80 percent of GDP in five years (from 94 percent this year), and 60 percent of GDP over the long run. To that end, the budget outlines additional measures to raise the primary surplus to about 2 percent of GDP, mainly through broadening the tax base, higher excise taxes on fuel, higher import duties on targeted items, and stronger tax administration. This should be sufficient to place public debt on a steady downward trajectory. Any additional fiscal adjustment will need to be gradual in order to maintain the social consensus and leave room for adverse developments. Our authorities are also open to learning more about fiscal rules, drawing on the experience of other countries in the region.

Fiscal responsibility will be complemented by measures to support stronger, more inclusive growth under the Growth and Sustainable Development Strategy. We welcome staff's analysis and the constructive dialogue with our authorities on identifying and prioritizing measures with lowest cost and highest impact. Along these lines, work on developing a credit bureau and credit collateral registry will continue, as will efforts to strengthen and expand Belize's targeted, effective social assistance programs.

The Central Bank of Belize (CBB) continues its close supervision of the banking sector. Domestic bank balance sheets are relatively sound, NPLs continue to decrease, profitability is improving, credit growth is recovering, and the modernization of the payments system continues. Building upon the successful resolution of a troubled offshore bank, the CBB is seeking to strengthen its risk-based supervision and develop a bank resolution framework in line with international best practice. Fund technical assistance to support this work would be welcomed and valued by the CBB, who have submitted a formal request to this effect.

While the CBR situation has stabilized, it remains subject to considerable risks. We welcome the Fund's recognition that the problem goes beyond AML/CFT considerations to include factors beyond our authorities' control. The Fund's analysis of this dynamic is welcome, but we encourage staff and management to continue to use the Fund's convening power to foster a pragmatic, solutions-oriented dialogue with relevant actors on this critical issue, building on the recent roundtable discussion in The Bahamas.

Our authorities are committed to continue to strengthen their AML/CFT and anti-corruption frameworks, as well as oversight of the offshore sector. The International Business Corporations Act was amended in July 2017 to enhance transparency requirements, and further amendments to the Act are being considered. Belize is also undergoing a peer review under UNCAC. Meanwhile, the offshore non-bank regulator is working to strengthen its human capital and relevant regulations. This will be further supported by a Fund technical assistance mission in late November. With respect to the specific concern flagged by staff around cryptocurrencies, our authorities note that many countries are struggling with how to approach and regulate this sector (helpfully supported by the framework set out in the Bali

Fintech Agenda) and would emphasize the importance of being evenhanded in their assessments of this topic.

Finally, our authorities welcome the joint IMF-World Bank Climate Change Policy Assessment (CCPA). Natural disasters are a macro-critical threat for Belize, and close collaboration between IFIs in this space is required. The report rightly recognizes the good work being undertaken already, noting that further efforts are needed to build *ex ante* climate resilience. However, financing this effort (e.g., via resilient infrastructure or tailored financial instruments) is very expensive. This presents a major challenge for countries with limited fiscal space, like Belize. Therefore, our authorities would welcome the IMF and World Bank's assistance to help leverage the CCPA to improve coordination with the international donor community and unlock the necessary financing for much-needed climate investment and insurance on sustainable terms. More generally, our authorities support the shift in emphasis by the Fund towards building resilience in countries vulnerable to natural disasters. They look forward to further discussing how to make progress in this area at the upcoming IMF-WBG conference on Nov 26th.