INTERNATIONAL MONETARY FUND
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RODRIGO DE RATO Y FIGAREDO
MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

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To the Members of the International Financial Community:

At the request of the Government of Belize, I would like to inform you of recent economic developments in Belize and the country's relationship with the International Monetary Fund.

Over the past two years, the authorities have made commendable strides in correcting serious macroeconomic imbalances based on their adjustment strategy. Tax measures and primary expenditure cuts have led to a sharp improvement in the central government's primary balance, which has moved from a deficit of 3 percent of GDP in FY2003/04 (April to March) to a surplus of 3 percent of GDP in FY2005/06. At the same time, monetary policy was tightened through the sterilization of social security deposits and increases in reserve requirements. These measures have contributed to a narrowing of the country's large current account deficit.

However, these efforts alone will not be sufficient to bring the economy back onto a sustainable path, and for this reason the authorities are undertaking further adjustment efforts during FY2006/07 and beyond. Accordingly, they are targeting a further increase in the primary fiscal surplus to 3½ percent of GDP in FY 2006/07 and to 4-4½ percent of GDP in subsequent years. This fiscal improvement would be achieved by saving the bulk of projected revenues from oil production, enhancing non-oil revenue collection, and restraining current expenditures. A prudent monetary policy stance will be maintained in order to underscore the authorities' commitment to the fixed exchange rate regime. Structural reforms are envisaged to support macroeconomic tightening. These reforms center on the fiscal area (e.g., tax reform, pension reform, public debt management), monetary policy implementation, financial sector regulation and supervision, and improved economic statistics.

Even with this additional adjustment effort, as well as the additional official financing that is being provided by multilateral and bilateral lenders, large fiscal and balance of payments financing gaps would remain in 2007 and beyond. It is against this background that Belize has sought to engage with its external private creditors to achieve an orderly and cooperative debt restructuring. High participation by private creditors in the debt exchange offer that was launched on December 18, 2006 would help support orderly macroeconomic adjustment, restore fiscal and external sustainability, and establish the conditions for strong economic growth.

The International Monetary Fund has welcomed the progress the authorities have made in addressing Belize's serious macroeconomic imbalances in the context of a home-grown adjustment strategy. Nonetheless, Belize's situation will remain vulnerable for quite some time, allowing little room for slippage in implementing the policy framework. We stand ready to continue to assist the authorities in implementing and monitoring their financial and structural adjustment policies, and to provide technical assistance as needed.

Sincerely yours,