

**Belize: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; 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 2009 Article IV consultation with Belize, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 26, 2009, 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 April 23, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 8, 2009 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Belize.

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

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BELIZE

**Staff Report for the 2009 Article IV Consultation**

Prepared by the Staff Representatives for the 2009 Consultation with Belize

Approved by Gilbert Terrier and Michele Shannon

April 23, 2009

- **Recent developments and outlook.** Belize's economic performance in 2008 was broadly favorable. Despite losses from two tropical storms, real GDP grew by 3 percent. So far, the impact of the global downturn has been small. Real GDP growth is projected at 1 percent in 2009, as the impact of the global slowdown is expected to be partly offset by a recovery in agriculture and an expansion of the energy sector.
- **External stability issues.** The exchange rate appears broadly in line with fundamentals. A sharp widening in the external current account deficit in 2008 was largely due to a surge in FDI-related imports. External reserves at the CBB remain low by international standards and the public debt ratios are high, at about 80 percent of GDP; however, following debt restructuring in 2007, the external debt service profile will remain relatively benign over the next 10 years.
- **Focus of consultation.** The discussions centered on near-term risks associated with the global turmoil; steps to resume fiscal consolidation with the objective of substantially reducing the debt ratios over the medium term; the financial viability of key public sector programs; and reform of domestic liquidity management.
- **Key recommendations:** (i) limit growth in public sector recurrent spending to protect the external position; (ii) develop contingency financing plans to protect the economy; (iii) introduce in FY 2010/11 fiscal measures of 2 percent of GDP to achieve primary surpluses consistent with halving the debt-to-GDP ratio to about 40 percent by 2019 and regaining market access; (iv) strengthen financial viability of key public sector programs; and (v) advance the implementation of liquidity management reforms.
- **Discussions.** The mission, comprising P. Gajdeczka (Head), N. Belhocine, G. El-Masry, and M. Kandil (all WHD) visited Belize during March 17–26, 2009. Mr. McGoldrick (OED) participated in the final discussions.

Contents	Page
I. Background.....	4
II. Recent Developments and Outlook.....	4
III. Policy Discussions .....	5
A. Addressing Near-Term Risks.....	6
B. Policies to Strengthen Fiscal Sustainability.....	8
C. Reforms to Reinvigorate Growth.....	9
D. External Stability Issues.....	10
IV. Staff Appraisal .....	11
 Boxes	
1. Emergency Natural Disaster Assistance .....	13
2. Key Public Sector Programs .....	14
3. Capital Controls .....	15
 Figures	
1. Real Sector Developments .....	16
2. Fiscal Indicators, FY 1998/99–FY 2008/09.....	17
3. Monetary Developments .....	18
4. Current Account and External Vulnerability .....	19
 Tables	
1. Selected Economic Indicators .....	20
2a. Operations of the Central Government (In million of Belize dollars) .....	21
2b. Operations of the Central Government (In percent of GDP) .....	22
3. Operations of the Banking System, 2006–09 (Baseline Scenario) .....	23
4. Balance of Payments, 2006–14 (Baseline Scenario) .....	24
5. Summary of Macroeconomic Scenarios .....	25
6a. Medium-Term Outlook, 2006–14 (Baseline Scenario).....	26
6b. Medium-Term Outlook, 2006–14 (Active Scenario).....	27
 Appendices	
I. Debt Sustainability Analysis.....	28
II. Assessment of External Stability .....	38
II. Background and Summary of Appendices .....	40

### Appendix Tables

I.1. Public Sector Debt Sustainability Framework, 2003–14 (Baseline Scenario) .....	30
I.2. External Debt Sustainability Framework, 2003–14 (Baseline Scenario) .....	32
I.3. Public Sector Debt Sustainability Framework, 2003–14 (Active Scenario).....	34
I.4. External Debt Sustainability Framework, 2003–14 (Active Scenario) .....	36

### Appendix Figures

I.1. Public Debt Sustainability: Bound Tests (Baseline Scenario).....	31
I.2. External Debt Sustainability: Bound Tests (Baseline Scenario).....	33
I.3. Public Debt Sustainability: Bound Tests (Active Scenario).....	35
I.4. External Debt Sustainability: Bound Tests (Active Scenario).....	37

## I. BACKGROUND

1. **Belize's macroeconomic performance has been uneven in recent years.** Belize, a small open economy, with a narrow export base, is vulnerable to exogenous shocks. Since 2005, growth in the traditional sectors of the economy has decelerated, reflecting structural weaknesses and the impact of severe weather-related shocks during 2007–08, which contributed to output losses, mostly in agriculture, and damaged infrastructure (Box 1). Starting in 2006, petroleum extraction has been a major factor contributing to growth, and in 2008 accounted for 5½ percent of GDP. Domestic price inflation, which has been low historically, rose to nearly 10 percent by mid-2008—driven largely by food and fuel prices.
2. **Belize's external financing conditions have evolved in recent years.** A rapid buildup of external debt culminated in a debt restructuring agreement in February 2007. That agreement resulted in a 21 percent NPV reduction in the external debt due to private creditors, with an increase in debt-service obligations in two steps in 2010 and 2012, when the coupon rate on the private restructured debt reaches 8.5 percent, up from 4.5 percent currently. In mid-February, Moody's upgraded Belize's sovereign debt to B3. Although access to private financing has remained constrained, renewed commitment to prudent macroeconomic policies and to improving governance has elicited increased support from official creditors.
3. **In 2008, Belize suffered significant losses from two tropical storms.** The resulting floods caused direct and economic losses estimated at about US\$75 million (5.4 percent of GDP), with a negative balance of payments impact of US\$46 million. To help deal with the impact of the floods, the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) extended assistance of nearly US\$15 million, largely for the rehabilitation of infrastructure. Other donors provided emergency grants, food items, and medical and technical assistance. From the Fund, Belize received US\$6.9 million under the policy on Emergency Natural Disasters Assistance (ENDA).
4. **The new government assumed power on a platform of good governance.** After 10 years in opposition, the United Democratic Party won the elections in February 2008. In order to take stock of the state of the public finances and conduct consultations on budgetary priorities, approval of the 2008 budget was postponed from March to July. The government reaffirmed its commitment to prudent fiscal and monetary policies and strong governance, to sustain economic and social stability. During most of 2008, the issues dominating the authorities' agenda included dealing with the impacts of soaring food and fuel prices and of the floods. The government has also challenged the validity of several contracts signed under the previous administration, alleging excessive profit margins and corruption.

## II. RECENT DEVELOPMENTS

5. **Macroeconomic performance was broadly favorable during 2008.** An FDI-related investment boom and growing oil production boosted growth, outweighing the impact of

continued weakness in agriculture that was compounded by the floods. After a surge in mid-2008, inflation has abated in recent months.

- **Real GDP growth for 2008 is estimated at 3 percent.** Non-oil GDP expanded by 2¼ percent.
  - **Inflationary pressures have abated.** Food and fuel prices pushed 12-month inflation to 9½ percent in mid-year. By February 2009, inflation declined to 1½ percent.
  - **The current account deficit widened sharply in 2008, to 10 percent of GDP.** Imports rose sharply, associated with FDI inflows in the construction and energy sectors, grant-related public investment, and higher prices of imported fuel and food products. Gross international reserves of the Central Bank of Belize (CBB) rose to US\$166 million at end-2008 (two months of imports), and have remained broadly unchanged since then.
  - **So far, Belize's financial system has remained largely insulated from the global downturn.** However, nonperforming loans rose significantly in 2008.
  - **The accounts of the central government are estimated to have registered an overall surplus of 1¼ percent of GDP in FY 2008/09 (April–March).** However, the underlying fiscal position has weakened, as recurrent expenditure has been growing rapidly at a time of rising dependence on volatile revenue sources, such as petroleum and grants.
6. **Belize has received significant commitments of new donor assistance.** Over the past year, in addition to flood-related assistance, the IDB, the CDB, and the World Bank have approved loan programs totaling US\$45 million. In mid-2008, Belize received a US\$50 million line of credit from Taiwan, Province of China.
7. **Ongoing structural reforms are mostly in the areas of tax administration and monetary management.** The ASYCUDA (computerized customs system) was introduced last February, and its full automation will be implemented by end-2009. A plan to reform liquidity management prepared by the CBB is pending approval by the government. A Public Expenditure and Financial Accountability (PEFA) review was completed last January with European Union (EU) support, and a program of implementation is being developed with IDB assistance.

### III. POLICY DISCUSSIONS

8. **Discussions centered on the impact of the global downturn on Belize and on a medium-term strategy and structural reforms.** Declining tourism, remittances, and FDI inflows are expected to adversely affect domestic output. However, real GDP is projected to grow by around 1 percent in 2009 reflecting a 20 percent increase in domestic oil production,

a recovery in agriculture, and an expansion in electricity generation. Twelve-month inflation is projected to ease further, to 2½ percent by year-end. The external current account deficit would contract significantly, as a decline in imports would exceed that of exports, mirroring an expected fall in private capital inflows. The authorities have reaffirmed their commitment to the medium-term fiscal strategy endorsed in the 2008 Article IV consultation, which centered on sustained fiscal consolidation.

### A. Addressing Near-Term Risks

#### 9. **High debt and low reserves highlight Belize's vulnerability to exogenous shocks.**

The authorities and staff agreed that safeguarding international reserves and strengthening the oversight of the financial system are key priorities. The authorities noted that recently-contracted loans provided a balance of payments cushion and protected public expenditure.

#### **Budget implementation**

10. **In FY2009/10, the overall balance of the central government is projected to shift from a surplus to a deficit.** The budget approved in March targets an overall deficit of 1¾ percent of GDP, compared with a surplus of 1¼ percent of GDP in the last fiscal year. Current expenditure, including wages and purchases of goods and services, is projected to continue rising in real terms in FY 2009/10 (Figure 2), and the budgeted increase is larger than the projected revenue increase from partly restored taxes on domestic fuel consumption, and domestically-funded investment would be broadly stagnant in FY 2009/10. Moreover, the primary deficit excluding grants and oil revenue would widen by 1 percent of GDP, highlighting budgetary dependence on volatile revenue sources such as petroleum and grants.

11. **Staff called for expenditure restraint to help ease pressures on the balance of payments.** The team noted that the high debt burden, pegged exchange rate regime, and financing constraints limit the scope for counter-cyclical policies and encouraged the authorities to limit increases in current spending, including the wage bill. Limiting increases in recurrent spending this year, including in public sector wages after large wage increases already granted in 2008 (11 percent on average), would help curtail pressures on the balance of payments, facilitate fiscal adjustment over the medium term, while protecting competitiveness through the demonstrative effect on private sector wages. Staff also encouraged the authorities to protect public investment and spending on flood-related outlays. The authorities noted that budgetary outlays were directed to high priority areas, and that the recently received external assistance would help sustain domestic expenditure.

#### **Financial sector oversight**

12. **Staff and the authorities agreed on the need for the CBB to closely monitor liquidity changes, while developing contingency plans for the banking system.** In mid-2008, significant shifts in public sector funds across banks led to temporary liquidity

13. pressures in some institutions. Staff noted also that new liquidity pressures could emerge in the banking system, reflecting lower exports, remittances, and FDI. The monetary authorities told staff that they stood ready to use their instruments for domestic liquidity management (reserves and liquidity requirements) as needed to achieve their inflation and external reserves objectives. Staff encouraged the authorities to assess the feasibility of introducing new mechanisms and facilities for assisting individual banks which may be faced with temporary liquidity needs.

14. **There is a need to strengthen the supervision of the financial system's asset quality.** Belize's banking system appears broadly stable and with little external exposure (text table below). However, commercial bank credit to the private sector expanded rapidly in recent years, reaching the equivalent of 70 percent of GDP in 2008. In the context of deteriorating overall economic conditions, bank portfolio has deteriorated significantly in recent months. The NPL ratio doubled in 2008. This deterioration reflected largely improvements in loan classifications in two banks (accounting for 46 of total banking assets), following on-site assessments by bank supervisors. The reported strong capital position of one bank should allow it to absorb the associated losses, and the other bank is in the process of recapitalization. In general, capital ratios are high and bank liquidity is ample. The situation of the insurance sector appears sound, as nearly all domestic liabilities are covered by statutory reserves maintained in Belize; the exposure in Belize of a recently-liquidated regional insurance company (CLICO-Bahamas) does not exceed 2 percent of total insurance sector assets; and insurance losses from the recent floods are small. The new AML law passed last February has strengthened the legal framework, but the FIU needs additional resources to make it more effective.

	2006	2007	2008
Regulatory capital/risk-weighted assets	21.4	22.9	18.5
Excess statutory liquidity 1/	20.8	16.3	20.6
Provision for loan losses/total loans	2.2	2.2	2.9
Nonperforming loans/total loans	6.2	6.8	12.7
Net earnings/assets 2/	3.5	3.4	2.6
Ratio of foreign assets to total assets	9.5	9.5	9.7
Ratio of foreign liabilities to total liabilities	6.6	3.1	5.8

Source: Central Bank of Belize.

1/ In percent of the statutory liquidity requirement.

2/ Net profit after taxes over average assets (annualized).

### Contingency financing

15. **Given Belize's high vulnerability to exogenous shocks, staff encouraged the authorities to develop plans for contingency external financing.** The authorities noted that they had secured significant new commitments from donors, and that external financing assurances seemed adequate. Staff noted that deterioration in the global environment could have an adverse impact on Belize's external accounts and that, given the relatively low level of Belize's foreign reserves; the authorities might be well advised to seek additional commitments from foreign donors.

## B. Policies to Strengthen Fiscal Sustainability

16. **The authorities and staff agreed that the fiscal strategy should aim at substantially reducing public debt ratios to regain policy flexibility.** The authorities recognized the need to resume fiscal adjustment. They concurred that, absent fiscal consolidation, the debt ratios would decline only marginally, leaving Belize vulnerable to exogenous shocks and threatening debt sustainability as demonstrated in the Debt Sustainability Assessment (Appendix I). The authorities also agreed that the overall strategy endorsed in the 2008 Article IV consultation remained valid, and that this strategy will require raising and diversifying revenue sources and enhancing expenditure management. They are planning to discuss specific measures to achieve these objectives in the context of the FY2010/11 budget.

17. **Revenue and expenditure measures are needed to resume fiscal consolidation.** The central government primary surplus would need to rise from 2 percent of GDP in FY2009/10 to above 4 percent of GDP by 2011 and to stay at that level in subsequent years in order to halve the debt-to-GDP ratio by 2019. The authorities recognize the need to tighten the fiscal position, in part because of rising interest payments on the restructured private debt.

- **Fiscal measures of 2 percent of GDP would be needed in FY 2010/11.** A partial freeze on recurrent expenditure and an increase in the sales tax rate by 2½ percent (to 12½ percent), would help bring the central government primary surplus to that level (see Table 5). Continued expenditure restraint in FY 2011/12 would help the primary surplus rise above 4½ percent of GDP, after taking into account an increase in public sector capital investment in both years.
- **Petroleum revenues will remain fully integrated in the budget.** Previous plans for the establishment of an oil fund have been discarded, as the return on the investments of this fund would likely be less than the cost of additional borrowing.

18. **The authorities emphasized their commitment to advance key fiscal reforms.** Discussions focused on the following areas:

- **Revenue administration.** Plans to enhance the performance of tax departments (reorganization and computerization) will need to be implemented as envisaged. External support will be essential to increase the authorities' capacity for tackling contraband, including through regional anti-drug trafficking efforts.
- **Oil revenues.** Accountability and transparency of oil revenues need to be improved, in particular with regard to tax write-offs for exploration and investment. Staff supported the authorities in their endeavors to enhance the transparency of budget revenues from petroleum extraction, subject them to regular audits, and publish the data.

- **Public financial management.** The authorities intend to promptly implement key recommendations stemming from the EU-sponsored review of public expenditure and financial accountability, including in the areas of budgetary transparency, policy-based budgeting, budget execution, accounting and reporting, and increased external audit. Staff welcomed the publication of the audits of government financial statements, as required under the Finance and Reform Act of 2005.

19. **Ensuring the financial viability of key public sector programs is essential for fiscal sustainability (Box 2).** Absent necessary reforms, key public programs—social security, public servants’ pension fund, National Health Insurance, and Development Finance Corporation (DFC)—may turn out to be substantial liabilities to the government and undermine the authorities’ debt strategy. The Social Security Board (SSB) and the pension plan for civil servants will require a combination of new participant contributions and modification of benefits to put them on a sound financial footing. The extension of the National Health Insurance (NHI) to the entire country has been delayed pending identification of sustainable funding sources. The Development Finance Corporation has been reactivated with new governance safeguards, but its mandate needs to be clearly defined and financing provided to cover its operating costs until it becomes financially self-sufficient. With respect to the SSB and the NHI, the authorities did not present a specific timetable for advancing with the needed reform program.

### C. Reforms to Reinvigorate Growth

20. **Belize faces the challenge of raising its medium-term growth potential.** Trade and infrastructure bottlenecks, together with high cost of domestic financing, hinder the competitiveness of key sectors. As a result of insufficient maintenance and lack of new investment, Belize’s infrastructure is inadequate and raises the cost of agricultural exports and tourism. Most recently, growth has been boosted by oil discoveries, but overall performance has weakened, reflecting problems in several sectors.

- **Development strategy.** Jointly with multilateral donors and the private sector, the government is planning to develop a medium-term strategy to boost growth in tourism and agriculture. The staff team strongly supported the authorities’ plans to seek financing for projects consistent with their fiscal strategy.
- **Private sector investment.** Mobilization of private sector resources will be a key factor in determining Belize’s medium-term growth potential. The authorities’ emphasis on good governance should help improve the investment climate further, particularly when accompanied by sustained fiscal consolidation, enforcement of the rule of law, and the respect of contracts.
- **Natural disaster management.** The National Emergency Management Organization of Belize has joined the World Bank’s initiative for Central American Probabilistic

Risk Assessment (CAPRA), which should enhance Belize's capacity to deal with natural disasters.

**21. Promoting financial sector development will also help enhance economic growth.**

Early introduction of market-based instruments of liquidity management, as recommended by Fund technical assistance, would help address some of the distortions prevalent in the financial system, such as high spreads between deposit and lending rates. It would also contribute to the development of an active interbank market. Later this year, the CBB plans to auction a limited amount of Treasury bills, which at present are not marketable and are subject to interest ceilings. Based on this experience, the CBB will decide how to best proceed with the intended securitization of the government overdraft account.

#### **D. External Stability Issues**

**22. The authorities stated that Belize's fixed exchange arrangement is a crucial anchor for financial and macroeconomic stability.** In the current global environment, this arrangement limits macroeconomic policy options, given Belize's low reserves and relatively high debt. More generally, tight fiscal policy is crucial for maintaining exchange rate stability and mitigating associated risks to external debt sustainability (Appendix I). The authorities agreed with the staff's position, noting that, in addition to their strategy of fiscal consolidation, existing capital controls could be more tightly enforced to provide additional protection against destabilizing capital flows, thereby further supporting the exchange rate peg (Box 3).

**23. Staff's analysis suggests that Belize's exchange rate remains broadly in line with fundamentals (Appendix II).** In real terms, the exchange rate was broadly stable during 2008, after some decline in recent years from the 1990 levels. The authorities agreed with the staff's assessment, noting that their future policies and envisaged structural reforms aim at strengthening productivity and Belize's international competitiveness.

**24. The external current account deficit is expected to narrow to 6¾ percent of GDP in 2009.** Staff and the authorities agreed that, while the overall assessment of external stability has not changed fundamentally since the last Article IV consultation, short-term external risks have increased considerably, and policies should be geared at mitigating exposure to exogenous shocks.

- **Trade balance.** Belize's trade balance is expected to improve sharply in 2009, as the surge in imports in 2008 was related mostly to the floods and large investments in tourism-related construction and electricity generation. As new electricity-generating capacity comes on stream in 2009-10, electricity imports from neighboring Mexico will be significantly reduced.

- **External financing.** As noted, staff encouraged the authorities to assess their external financing needs and assess the possible use of contingency financing arrangements from international financial institutions.
- **External reserves.** Raising international reserves to at least three months of imports would provide an important cushion against external shocks, and help further support Belize's fixed exchange rate arrangement.

25. **Staff's assessment of economic developments and external stability remains constrained by data weaknesses.** Data provision has some shortcomings, but is **broadly adequate** for surveillance. Information on private external assets and liabilities is not complete, and data on private capital flows are available with significant lags. The authorities are following up on the recommendations of the multi-sector statistics mission in 2008. The Statistical Institute of Belize is preparing the release in early 2010 of a new CPI, based on an updated consumption basket.

#### IV. STAFF APPRAISAL

26. **Belize's economic performance in 2008 was broadly favorable.** Despite the losses associated with two tropical storms, real GDP rose by 3 percent, boosted by growing oil extraction and FDI-related investments. Inflation has slowed down considerably in recent months, after the surge of last summer, and international reserves have increased, benefiting from robust FDI inflows and external aid disbursements.

27. **A tighter fiscal stance would help protect the external position.** The global slowdown is expected to adversely impact Belize's economy through lower tourism receipts and remittances, and a substantial decline in FDI inflows. As a result, reduced foreign exchange inflows may weaken the external position and contribute to liquidity pressures in the domestic banking system. To address these risks, it would be advisable to restrain growth in public expenditure, including through wage moderation, thereby reducing pressures on the balance of payments and helping safeguard external reserves. However, outlays for reconstruction and other investment should be protected, given their positive supply-side effects.

28. **Oversight over the financial system needs to be further strengthened.** In recent years, credit growth has been rapid and the deterioration in nonperforming loans is cause for concern. Close monitoring of the banking system, including with respect to credit and liquidity risks, will be warranted to help preserve the stability of the domestic financial system. At the same time, vigilant oversight over domestic insurance companies should continue. In view of the risks to Belize's economy stemming from the global downturn, the authorities are encouraged to develop contingency plans for the financial system as well as a framework for the provision of liquidity to address temporary pressures. The recent strengthening of the AML legislation is welcome, and adequate resources should be provided for the FIU to enable its satisfactory implementation.

29. **Fiscal policies aimed at lowering debt ratios substantially over the medium term are key to strengthening Belize’s debt sustainability.** The fiscal strategy endorsed in the 2008 Article IV consultation—aimed at cutting the debt ratio by about half by 2019—remains valid. Significant adjustments to the fiscal position will be required to help meet rising debt service obligations on private debt restructured in 2007. Tax revenue measures together with strict control on the growth of recurrent spending would help raise the primary surplus of the central government to the desired levels beginning in the next fiscal year. These measures would also help reduce the budget’s reliance on volatile revenue sources.

30. **Financial stability of key public sector programs needs to be strengthened and transparency of the taxation regime for the petroleum industry enhanced to underpin sustained fiscal consolidation.** The Social Security Board and the pension plan for civil servants may require a combination of new participant contributions and modification of benefits to put both systems on a sound financial footing. The proposed extension of the NHI scheme should only proceed once it has been adequately funded. And the mandate of the DFC needs to be clearly defined and financial backing identified to cover its operating costs. Finally, petroleum revenues should remain integrated in the budget, published, and subject to regular audits.

31. **Mobilization of private and public resources is needed to raise Belize’s medium-term growth potential.** The authorities are rightly focused on preparing a policy framework that will guide development of key sectors such as tourism, agriculture, and petroleum extraction. Preparation of this strategy should draw on the contribution of the private sector as well as the support of multilateral donors. Public sector financing for the related projects needs to be consistent with the authorities’ fiscal strategy. Progress in introducing a more flexible domestic liquidity management framework could help reduce the cost of domestic financing. The authorities’ emphasis on good governance and fiscal consolidation and their commitment to enforce the rule of law and respect contracts should help improve the investment climate.

32. **Strong macroeconomic policies are necessary to underpin Belize’s fixed exchange rate arrangement.** The exchange rate peg has served Belize well, as an important anchor for macroeconomic policies and for expectations. At present, the Belize dollar appears broadly in line with its medium-term fundamentals. However, given high public debt and relatively low international reserves, and Belize’s vulnerability to exogenous shocks, the credibility of this exchange rate arrangement crucially depends on sustaining fiscal consolidation. Over the medium term, fiscal prudence should help raise international reserves to at least three months of imports, an important cushion in the event of external shocks. In the short run, however, Belize is encouraged to develop plans for access to external financing to protect against the impact of a sharper-than-anticipated deterioration in its external accounts.

33. **The next Article IV consultation is expected to be held on the standard 12-month cycle.**

### Box 1. Belize: Emergency Natural Disaster Assistance

**Belize is highly vulnerable to weather-related natural disasters.** Since 1998, Belize has suffered from seven tropical storms or hurricanes of powerful magnitudes. During the 2008 hurricane season, two tropical systems caused losses estimated at nearly 5.4 percent of GDP. This came a year after Hurricane Dean inflicted damages that reached 3.7 percent of GDP.

**In 2008, Tropical Storm Arthur and Tropical Depression 16 caused massive flooding across Belize and loss of lives and property.** The damage to agriculture, which ruined the crops of bananas, corn, papaya, and sugarcane, was substantial. Flood waters undermined roads and destroyed or weakened many bridges.

More than 1,700 buildings were inundated, destroying private household items and private and public housing infrastructure. About one-sixth of Belize's population was affected.

**The balance of payments' impact of the two floods is estimated at US\$46 million (3.3 percent of GDP).** Most of the export losses occurred during 2008 in the tourism, citrus, and banana sectors, while losses in sugar exports will be principally reflected in 2009. About two thirds of the impact on imports will come from purchases of reconstruction-related materials, with most of the remainder in the form of agricultural inputs. The combined impact of the floods over 2008–09 is equivalent to nearly one third of end-2008 external foreign reserves.

**Belize made a purchase under the Fund's policy on Emergency Assistance for Natural Disasters (ENDA) equivalent to 25 percent of quota (SDR 4.7 million).** Fund financing partly offset the balance of payments impact from both floods, at a time when Belize's official reserves were relatively low (2 months of imports).

**The international community is also providing assistance.** The CDB and IDB are providing US\$15 million for infrastructure rehabilitation. The International Red Cross, PAHO, UNICEF, UNDP, and USAID provided emergency grants (US\$0.5 million), food items, and medical and technical assistance.

Recent Natural Disasters and their Economic Impact  
(In percent of GDP)

Name	Date	Estimated Damages
Tropical Depression 16	Oct-08	2.9
Tropical Storm Arthur	May-08	2.5
Hurricane Dean	Aug-07	3.7
Hurricane Iris	Oct-01	28.7
Tropical Storm Chantal	Aug-01	3.4
Hurricane Keith	Oct-00	33.3
Hurricane Mitch	Oct-98	7.3

Sources: National Emergency Management Office; Belize National Meteorological Center; The OFDA/CRED International Disaster Database.

### **Box 2. Belize: Key Public Sector Programs**

Key public sector programs in Belize include four public pension schemes: the Social Security, the pension plan for public officers (PPO), the National Health Insurance (NHI), and the Development Finance Corporation (DFC).

**The general Social Security System (SSS) is a contributory, partially-funded, defined benefit scheme that is based on a scaled premium system.** Contributions are adjusted over time to cover the expected cost of benefits and administration. It provides retirement pensions from age 60, drawing on contributions of at least 10 years, up to a maximum of 60 percent of the highest three years of earnings in the 15-year period preceding retirement. The 2008 actuarial report recommended that contributions and other parameters of the system, such as income ceilings and the retirement age, be adjusted to ensure the system's sustainability.

**The PPO is an unfunded, noncontributory defined benefit scheme.** It provides retirement pensions from age 55 for public officers with at least 10 years of service, up to a maximum of 67 percent of the average earnings of the last three years of service. Pension benefits are adjusted on an ad-hoc basis by the government. All expenses are covered by the central government budget. PPO expenses have been growing annually by 15 percent over the last six years, which will require additional annual budget contributions of about ½ percent of GDP over ten years. By combining benefits from the SSS and PPO, some categories of public officers may obtain combined replacement rates of more than 100 percent of their average salary.

**The NHI was established in 2001, following a pilot project.** It currently serves 73,000 people in Belize City and in the southern districts of Stann Creek and Toledo. In 2007, the government decided to extend the NHI to the entire population of Belize. Two strategic approaches are considered: (i) a gradual, geographic-based expansion; and (ii) a gradual expansion targeting specific population groups, to progressively cover the whole country.

**DFC was created in 1963 to stimulate economic growth through subsidized credit to the private sector.** Its operations were funded by the government of Belize, and borrowing mainly from the CDB and the Social Security Board. All of DFC's debt is guaranteed by the government. After a period of rapid expansion and a significant increase in nonperforming assets, DFC was declared bankrupt. In July 2005, a new Board of Directors was appointed to wind down the operations of DFC, focusing on collecting its outstanding debt in an orderly manner, while minimizing any subsidy from the government. In February 2009, at the initiative of the new government, Parliament approved the new DFC Act to reactivate the lending function, initially funded by a CDB loan.

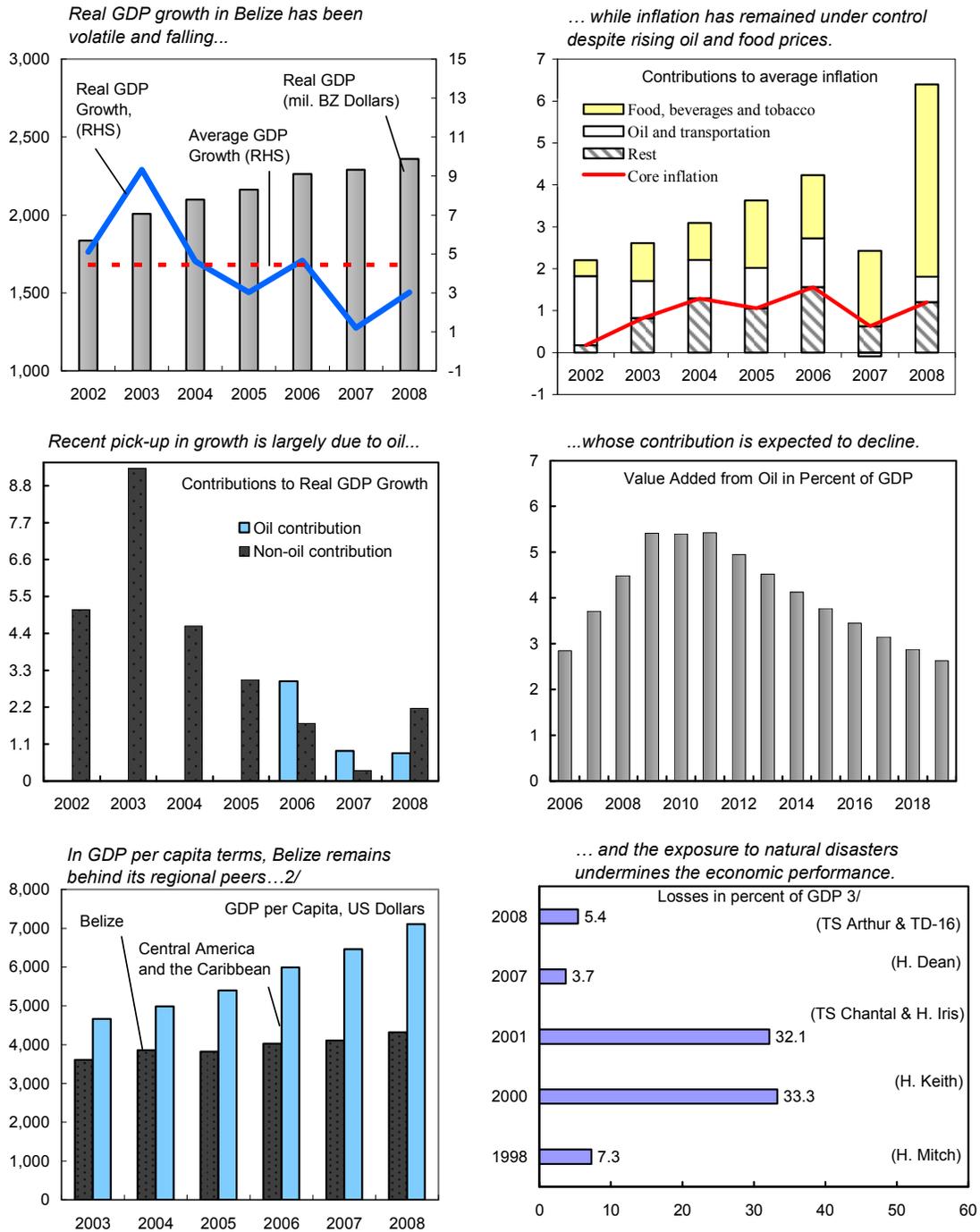
### Box 3. Belize: Capital Controls

**Exchange system.** Since 1976, the Belize dollar has been pegged to the U.S. dollar at the rate of BZ\$2=US\$1. Commercial banks and other authorized dealers are allowed to buy and sell foreign exchange at the official rate. Belize accepted the obligations of Article VIII, Sections 2, 3, and 4 on June 14, 1983. It maintains an exchange system free of restrictions on the making of payments and transfers for current account transactions. This system is administered by commercial banks and all *bona fide* transactions are approved.

**Capital controls.** All capital transfers require the approval of the Central Bank of Belize (CBB), although these are normally administered liberally. Such controls apply to the contracting of foreign capital and money market instruments; derivatives; and credit, including guarantees, sureties, and financial backup facilities. Transactions that are subject to controls include:

- **Loans.** All foreign borrowings by private persons and business entities require CBB approval. Payments of interest on these loans require approval by the CBB in such cases when clearance from the Commissioner of Income Tax is required. However, developers and businesses operating in the export processing zone (EPZ) and the commercial free zone (CFZ) may obtain loans or advances of up to US\$1 million from offshore banks without prior CBB approval. Loans and advances beyond that amount require written CBB approval.
- **Direct investment.** All outward investment requires approval by the CBB. Registration of inward foreign direct investment with the CBB is encouraged, to facilitate the subsequent repatriation of funds or associated profits. The transfer of profits and dividends requires approval by the CBB when clearance by the Commissioner of Income Tax is required.
- **Real estate and other personal transactions.** All inward or outward real estate transactions require clearance by the CBB. The settlement of personal loans and the transfer of gifts, endowments, inheritances, or other assets also require CBB approval. The outward transfer of gambling proceeds by residents and nonresidents also requires clearance by the CBB.

Figure 1. Belize: Real Sector Developments 1/  
(In percent, unless noted otherwise)

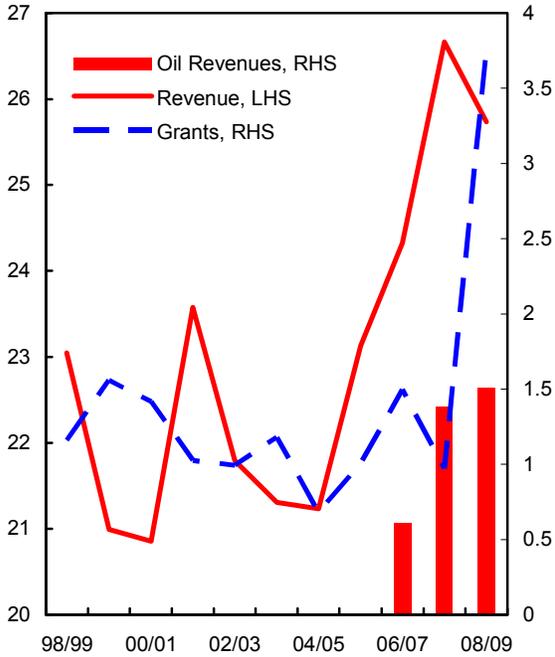


Sources: Country authorities, Fund staff estimates, World Bank Institute and The OFDA/CRED International Disaster Database.

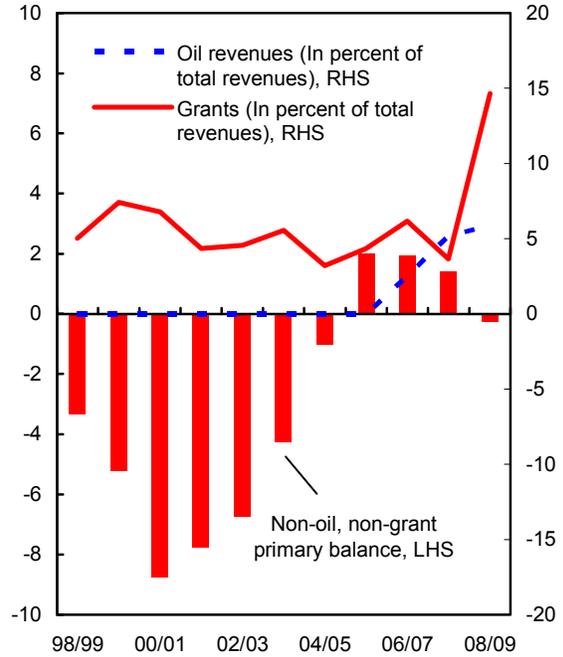
1/ 2008 figures are preliminary estimates.  
 2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.  
 3/ TS: Tropical Storm. TD: Tropical Depression. H: Hurricane.

Figure 2. Belize: Fiscal Indicators, FY 98/99 - FY 08/09  
(In percent of GDP)

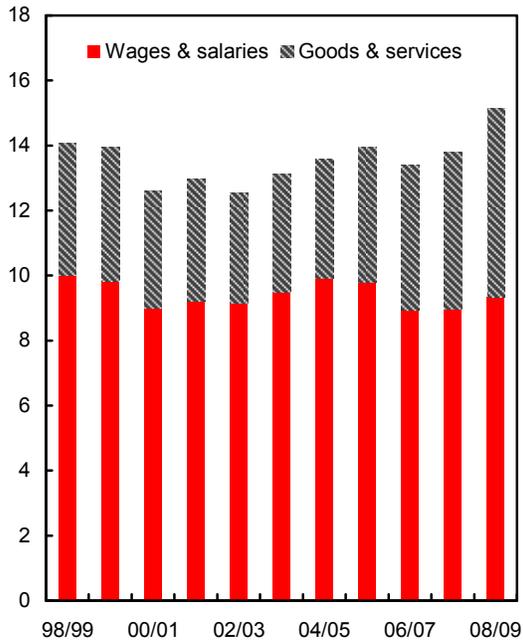
*FY 08/09 revenue performance is projected to improve, boosted by oil revenues and a surge in grant support...*



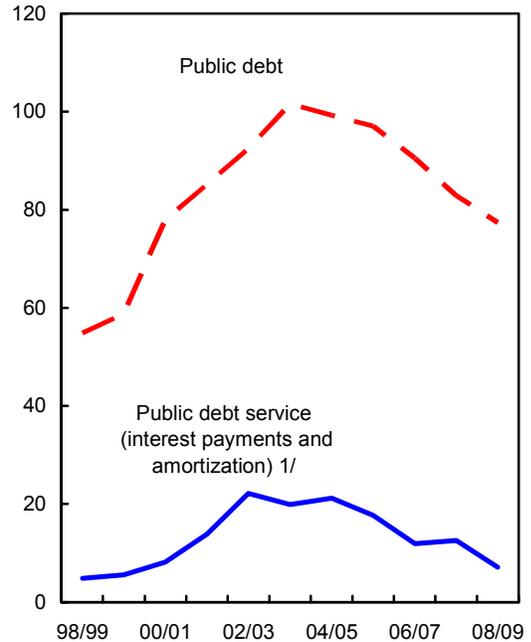
*...resulting in a growing dependency on oil and grants,...*



*...when recurrent spending is on the rise,...*



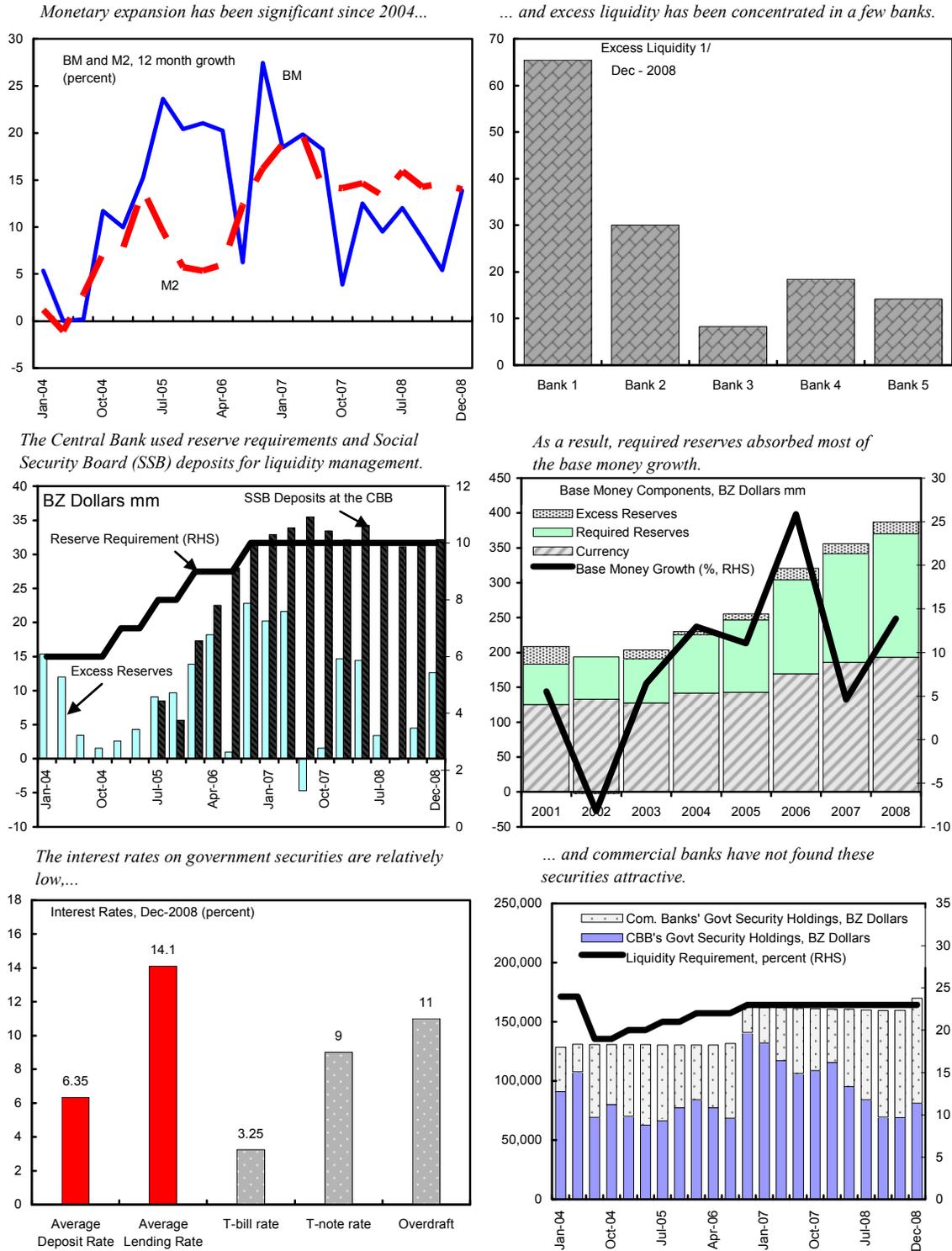
*...and the debt burden remains high.*



Sources: Country authorities; and Fund staff estimates.

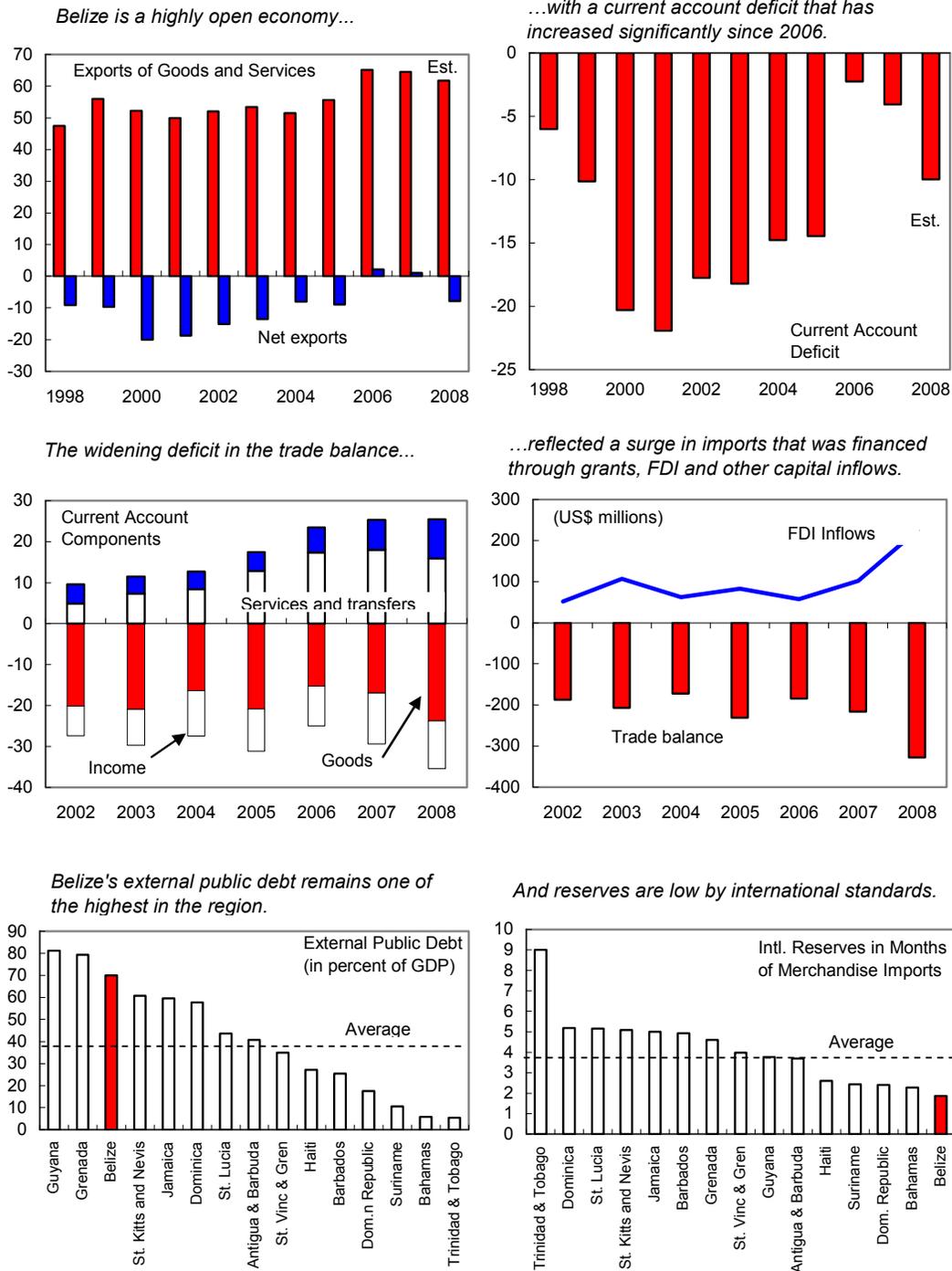
1/ Excluding amortization and interest payments of the debt exchange operation in 2007.

Figure 3. Belize: Monetary Developments



Sources: Central Bank of Belize and Fund staff estimates.  
 1/ Expressed in percent of the statutory liquidity requirement.

Figure 4. Belize: Current Account and External Vulnerability  
(In percent of GDP, unless otherwise noted)



Sources: Central Bank of Belize and Fund staff estimates.

Table 1. Belize: Selected Economic Indicators, 2004–09 (Baseline Scenario)

	2004	2005	2006	2007	Est. 2008	Proj. 2009
(Annual percentage change, unless otherwise indicated)						
<b>National income and prices</b>						
GDP at constant prices	4.6	3.0	4.7	1.2	3.0	1.0
<i>Of which:</i> oil output	0.0	0.0	3.0	0.9	0.8	1.0
GDP deflator	2.2	2.4	4.0	4.0	5.0	2.5
Consumer prices (end of period)	3.1	4.2	2.9	4.1	4.4	2.5
Gross domestic investment 1/ 2/	18.9	21.6	17.7	16.9	25.6	20.2
Gross national savings 1/	4.2	8.0	15.6	12.9	15.6	13.5
<b>External sector</b>						
Exports of goods and services	3.0	15.3	26.0	4.3	3.5	-11.4
Imports of goods and services	-5.1	13.9	6.9	6.0	18.6	-17.9
Terms of trade (deterioration -)	-2.5	-5.9	-1.2	2.0	2.6	2.0
Nominal effective exchange rate	-0.5	0.2	1.2	-0.7	2.2	...
Real effective exchange rate	-2.4	-1.3	0.9	-2.8	0.5	...
<b>Money and credit</b>						
Credit to the private sector	9.6	11.3	13.1	13.9	11.6	6.6
Money and quasi-money (M2)	7.5	5.9	17.3	15.0	14.0	3.5
Weighted average lending rates (in percent)	14.0	14.3	14.2	14.3	14.1	...
(In percent of GDP)						
<b>Central government 3/</b>						
Revenue and grants	22.8	23.4	25.3	27.4	28.8	28.4
<i>Of which:</i> oil	0.0	0.0	0.5	2.2	1.5	1.4
grants	1.5	0.6	1.4	1.1	3.1	2.2
Current expenditure	22.6	24.7	22.9	23.3	23.0	23.6
Capital expenditure and net lending	6.5	4.1	4.4	5.1	5.0	5.7
Primary balance	0.8	2.1	3.8	3.9	4.7	2.6
Overall balance	-6.4	-5.4	-2.0	-1.1	0.8	-1.0
<b>External sector</b>						
External current account 4/	-14.7	-13.6	-2.1	-4.0	-10.0	-6.7
Public and publicly guaranteed debt	100.1	98.4	92.2	88.6	77.3	75.6
Domestic debt	9.0	7.3	8.3	9.0	7.8	7.6
External debt	91.1	90.9	83.9	79.5	69.5	67.9
Debt service 5/ 6/	21.5	20.1	10.5	9.9	8.3	6.4
In percent of exports of goods and services	43.6	36.6	16.2	15.3	13.5	12.0
In percent of government current revenue	106.0	90.7	44.7	39.1	32.9	24.6
(In millions of U.S. dollars, unless otherwise specified)						
Overall balance of payments	-31	-12	50	23	57	-21
Exports of goods and services	544	627	790	824	853	756
Imports of goods and services	628	715	764	810	961	789
Gross usable official reserves	48	36	86	109	166	152
In percent of projected 12-month external public debt service	21	28	13	95	182	174
In months of imports	0.9	0.6	1.3	1.6	2.1	2.3
Nominal GDP	1,056	1,115	1,213	1,277	1,381	1,429

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

1/ In percent of GDP.

2/ Including inventory accumulation.

3/ Calendar year.

4/ Including official grants.

5/ Public and publicly guaranteed external debt.

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

Table 2a. Belize: Operations of the Central Government, 2007–11 1/  
(In million of Belize dollars)

	Outturn 2007/08	Approved Budget 2008/09	Staff Projection 2008/09	Baseline 2009/10	Active 2/ 2010/11	Active 2/ 2011/12
<b>Revenue and grants</b>	<b>720</b>	<b>825</b>	<b>822</b>	<b>807</b>	<b>902</b>	<b>951</b>
<b>Revenue</b>	<b>695</b>	<b>738</b>	<b>717</b>	<b>757</b>	<b>852</b>	<b>901</b>
Current revenue	665	729	710	751	839	888
Tax revenue	592	637	630	670	755	799
<i>Of which</i> : petroleum operations	25	40	25	27	27	27
<i>Of which</i> : sales tax	175	180	182	190	250	265
Nontax revenue	73	92	81	81	84	89
<i>Of which</i> : petroleum operations	11	25	17	13	13	13
Capital revenue and debt service receipts	30	9	7	6	12	13
<b>Grants</b>	<b>25</b>	<b>87</b>	<b>105</b>	<b>51</b>	<b>50</b>	<b>50</b>
<b>Expenditure</b>	<b>736</b>	<b>825</b>	<b>786</b>	<b>860</b>	<b>896</b>	<b>935</b>
Current expenditure	599	650	647	690	721	749
Wages and salaries	234	263	260	277	285	293
Pensions	42	40	46	44	49	52
Goods and services	126	162	162	184	189	195
Interest payments, fees, and charges	113	109	104	107	119	132
Transfers	83	76	75	79	79	78
Capital expenditure and net lending	137	175	139	170	175	186
Capital expenditure	134	172	136	163	172	183
Domestically financed expenditure (Capital II)	72	79	68	63	67	71
Foreign financed expenditure (Capital III)	62	93	68	100	105	112
Net lending	3	3	3	7	3	3
<b>Primary balance</b>	<b>98</b>	<b>109</b>	<b>140</b>	<b>54</b>	<b>125</b>	<b>147</b>
<b>Overall balance</b>	<b>-16</b>	<b>0</b>	<b>36</b>	<b>-52</b>	<b>5</b>	<b>16</b>
<b>Financing</b>	<b>16</b>	<b>0</b>	<b>-36</b>	<b>52</b>	<b>-5</b>	<b>-16</b>
Domestic	24	8	-24	3	0	0
External	-29	-15	-13	52	-34	-46
Disbursements	141	49	57	123	23	11
<b>Memorandum items:</b>						
Nominal GDP (in BZ\$ millions)	2,606	2,686	2,786	2,891	3,049	3,235
Non-interest expenditure	622	716	682	753	777	804
Budgeted oil revenue	36	65	42	40	40	40
Oil revenue	76	99	99	57	63	68

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

1/ Fiscal year end-March.

2/ Assumes higher GST and expenditures restraint on the wage bill and on goods and services.

Table 2b. Belize: Operations of the Central Government, 2007–11 1/  
(In percent of GDP)

	Outturn 2007/08	Approved Budget 2008/09	Staff Projection 2008/09	Baseline 2009/10	Active 2/ 2010/11	Active 2/ 2011/12
<b>Revenue and grants</b>	<b>27.6</b>	<b>30.7</b>	<b>29.5</b>	<b>27.9</b>	<b>29.6</b>	<b>29.4</b>
<b>Revenue</b>	<b>26.7</b>	<b>27.5</b>	<b>25.7</b>	<b>26.2</b>	<b>27.9</b>	<b>27.8</b>
<b>Non-oil revenue</b>	<b>25.3</b>	<b>25.0</b>	<b>24.2</b>	<b>24.8</b>	<b>26.6</b>	<b>26.6</b>
Current revenue	25.5	27.1	25.5	26.0	27.5	27.4
Tax revenue	22.7	23.7	22.6	23.2	24.8	24.7
<i>Of which: sales tax</i>	6.7	6.7	6.5	6.6	8.2	8.2
Nontax revenue	2.8	3.4	2.9	2.8	2.8	2.7
Capital revenue and debt service receipts	1.2	0.3	0.3	0.2	0.4	0.4
<b>Grants</b>	<b>1.0</b>	<b>3.3</b>	<b>3.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>
<b>Expenditure</b>	<b>28.2</b>	<b>30.7</b>	<b>28.2</b>	<b>29.7</b>	<b>30.2</b>	<b>29.9</b>
Current expenditure	23.0	24.2	23.2	23.9	23.5	23.2
Wages and salaries	9.0	9.8	9.3	9.6	9.3	9.1
Pensions	1.6	1.5	1.7	1.5	1.6	1.6
Goods and services	4.8	6.0	5.8	6.4	6.2	6.0
Interest payments, fees, and charges	4.4	4.1	3.7	3.7	3.9	4.1
Transfers	3.2	2.8	2.7	2.7	2.4	2.4
Capital expenditure and net lending	5.3	6.5	5.0	5.9	5.7	5.7
Capital expenditure	5.1	6.4	4.9	5.7	5.6	5.6
Domestically financed expenditure (Capital II)	2.8	2.9	2.5	2.2	2.2	2.2
Foreign financed expenditure (Capital III)	2.4	3.5	2.4	3.5	3.5	3.5
Net lending	0.1	0.1	0.1	0.2	0.1	0.1
<b>Primary balance</b>	<b>3.7</b>	<b>4.1</b>	<b>5.0</b>	<b>1.9</b>	<b>4.1</b>	<b>4.6</b>
<b>Non-oil, nongrant primary balance</b>	<b>1.4</b>	<b>-1.6</b>	<b>-0.3</b>	<b>-1.3</b>	<b>0.4</b>	<b>0.8</b>
<b>Overall balance</b>	<b>-0.6</b>	<b>0</b>	<b>1.3</b>	<b>-1.8</b>	<b>0.2</b>	<b>0.5</b>
<b>Financing</b>	<b>0.6</b>	<b>0.0</b>	<b>-1.3</b>	<b>1.8</b>	<b>-0.2</b>	<b>-0.5</b>
<b>Memorandum items:</b>						
Nominal GDP (in BZ\$ millions)	<b>2,606</b>	<b>2,686</b>	<b>2,786</b>	<b>2,891</b>	<b>3,049</b>	<b>3,235</b>
Non-interest expenditure	23.9	26.7	24.5	26.0	26.3	25.8
Budgeted oil revenue (in percent of GDP)	1.4	2.4	1.5	1.4	1.3	1.2
Oil revenue (in percent of GDP)	2.9	3.7	3.6	2.0	2.1	2.1

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

1/ Fiscal year end-March.

2/ Assumes higher GST and restraint on expenditures on the wage bill and on goods and services.

Table 3. Belize: Operations of the Banking System, 2006–09 (Baseline Scenario)

	2006	2007	Est. 2008	Proj. 2009
(In millions of Belize dollars)				
<b>Central Bank of Belize (CBB)</b>				
Net foreign assets 1/	169	215	329	301
Net international reserves	169	215	329	301
Medium-term foreign liabilities	0	0	0	0
Net domestic assets	153	121	54	95
Credit to the public sector (net)	144	148	59	100
Central government	179	184	94	136
Other nonfinancial public sector	-35	-37	-35	-36
Claims on commercial banks	0	0	0	0
Capital and other assets (net)	9	-26	-5	-5
Base money	321	336	383	396
Currency issue	169	186	193	203
Reserves of commercial banks	152	150	190	194
<b>Commercial banks</b>				
Net foreign assets	55	136	95	75
Net claims on central bank	185	183	229	237
Net domestic assets	1,351	1,350	1,485	1,814
Credit to the public sector (net)	-48	-55	-53	-99
Central government	23	47	88	43
Other nonfinancial public sector	-71	-102	-140	-142
Credit to the private sector	1,528	1,740	1,942	2,070
Other assets (net)	-129	-157	-190	-157
Liabilities to the private sector	1,590	1,847	2,024	2,126
<b>Monetary survey</b>				
Net foreign assets	261	351	424	376
Net domestic assets	1,467	1,649	1,754	1,909
Public sector (net)	96	92	6	0
Central government	202	231	182	179
Other nonfinancial public sector	-106	-138	-175	-178
Credit to private sector (by comm. banks)	1,528	1,740	1,942	2,070
Other items (net)	-157	-184	-214	-162
Liabilities to the private sector	1,728	2,000	2,178	2,285
Money and quasi-money (M2)	1,338	1,539	1,754	1,816
Currency in circulation	137	153	154	159
Deposits	1,201	1,386	1,601	1,657
Foreign currency deposits	68	79	59	68
Capital and reserves of commercial banks	321	382	364	401
(In millions of U.S. dollars)				
<b>Net international reserves of the CBB</b>	84	108	164	151
(In percent change, unless otherwise indicated)				
<b>Memorandum items:</b>				
Private sector deposits in local currency	17.3	15.4	15.5	3.5
Base money	25.9	4.6	13.9	3.5
Money and quasi-money (M2)	5.6	15.0	14.0	3.5
Required cash reserve ratio (percent)	10.0	10.0	10.0	10.0
Loan deposit ratio	120.4	118.8	117.0	120.0

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

1/ Includes Central Government's foreign assets.

Table 4. Belize: Balance of Payments, 2006–14 (Baseline Scenario)

	2006	2007	Est. 2008	Proj.					
				2009	2010	2011	2012	2013	2014
(In millions of U.S. dollars)									
<b>Current account balance</b>	<b>-25</b>	<b>-52</b>	<b>-138</b>	<b>-96</b>	<b>-93</b>	<b>-81</b>	<b>-91</b>	<b>-101</b>	<b>-109</b>
Trade balance	-185	-216	-328	-203	-204	-192	-204	-213	-219
Total exports, f.o.b.	427	426	460	387	409	478	521	557	582
<i>Of which:</i>									
Oil	39	64	114	60	73	81	78	73	69
Total imports, fob	-612	-642	-788	-590	-612	-670	-725	-770	-801
<i>Of which:</i>									
Fuel and lubricants	-99	-102	-123	-62	-75	-85	-93	-95	-98
Services	211	230	219	170	198	209	224	236	244
Income	-125	-159	-161	-164	-177	-189	-202	-218	-229
<i>Of which:</i>									
Public sector interest payments	-67	-59	-44	-44	-50	-58	-70	-80	-84
Current transfers	74	93	132	102	90	91	92	93	95
Private (net)	65	78	89	70	80	81	82	83	85
Official (net)	8	16	43	32	10	10	10	10	10
<b>Capital and financial account balance</b>	<b>83</b>	<b>114</b>	<b>218</b>	<b>75</b>	<b>90</b>	<b>89</b>	<b>91</b>	<b>103</b>	<b>117</b>
Capital transfers	9	4	9	5	1	1	1	1	1
Public sector	17	8	-16	0	28	25	24	38	44
<i>Of which:</i>									
Change in assets	0	-2	-2	0	0	0	0	0	0
Change in liabilities 1/	17	-9	-15	0	28	25	24	38	44
Disbursements	84	65	41	52	65	65	59	73	79
Central government	84	65	41	50	64	65	59	73	79
Amortization	-66	-69	-51	-47	-37	-40	-35	-35	-35
Central government	-61	-58	-46	-35	-26	-29	-27	-30	-31
Private sector 2/	57	102	225	70	61	63	66	64	72
<b>Errors and omissions</b>	<b>-8</b>	<b>-39</b>	<b>-23</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance</b>	<b>50</b>	<b>23</b>	<b>57</b>	<b>-21</b>	<b>-3</b>	<b>8</b>	<b>0</b>	<b>2</b>	<b>7</b>
<b>Financing</b>	<b>-50</b>	<b>-23</b>	<b>-57</b>	<b>21</b>	<b>3</b>	<b>-8</b>	<b>0</b>	<b>-2</b>	<b>-7</b>
Change in reserves (- increase)	-50	-23	-57	14	3	-8	3	2	-7
IMF (net)	0	0	0	7	0	0	-3	-4	-1
(In percent of GDP, unless otherwise indicated)									
<b>Memorandum items:</b>									
Gross usable reserves (US\$ millions)	86	109	166	152	149	157	154	152	159
Months of imports	1.3	1.6	2.1	2.3	2.2	2.1	2.0	1.8	1.8
Current account balance	-2.1	-4.1	-10.0	-6.7	-6.2	-5.2	-5.5	-5.9	-6.0
Merchandise trade balance	-15.2	-17.0	-23.7	-14.2	-13.6	-12.2	-12.4	-12.3	-12.0
Capital and financial account balance	6.9	8.9	15.8	5.2	6.0	5.7	5.5	6.0	6.4
Private sector	4.8	8.0	16.3	4.9	4.1	4.1	4.1	3.7	4.0
Public sector	2.1	0.9	-0.5	0.3	1.9	1.6	1.5	2.2	2.4
Overall balance	4.1	1.8	4.1	-1.5	-0.2	0.5	0.0	0.1	0.4

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

1/ Disbursements and amortization are net of the debt exchange operation in 2007.

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

Table 5. Belize: Summary of Macroeconomic Scenarios

For the analysis of the medium-term prospects under different policy assumptions, staff prepared two medium-term macroeconomic scenarios. A baseline scenario assumes broad continuation of present policies, while an active policy scenario is based on fiscal adjustment and a larger primary surplus in the central government budget.

There are a number of assumptions common in both scenarios. In particular, the assumptions about the production and fiscal revenue from oil extraction and about consumer price inflation.

### Baseline Scenario

The main assumption is regarding the unchanged policy stance from the projected outcome for the present fiscal year. Because of the associated external and fiscal uncertainties and the need to borrow on expensive commercial terms, it is assumed that there will be a declining level of multilateral lending and bilateral grants, and that investment levels would be such that economic growth would remain low.

- **Real GDP growth**—to remain around 2½ percent.
- **Fiscal policy**—primary surplus in the central government budget will gradually shrink over time with the projected decline in oil revenues, declining from 2.6 percent of GDP to 2 percent in the medium term.
- **Reserve accumulation**—given the high level of external borrowing, reserves coverage will remain low, declining below two months of imports, in the medium term.

### Active Scenario

This scenario essentially emulates the projection included in the 2008 Article IV staff report. Consistent with the assumption of front-loaded fiscal adjustment, a GST rate increase is introduced in FY2010/11. Expenditure restraint is enforced on the wage bill and purchases of goods and services, growing at a rate of 3 percent, in FY 2010/11 and 11/12. Oil revenues are integrated fully into the budget, so that starting in FY 2010/11 a stable stream of revenues is budgeted over time. The primary surplus builds up to peak at 4.5 percent in 2011, and gradually tapers off over time, as debt ratios decline. Policy adjustment is assumed to foster confidence and larger financing from international financial institutions and bilateral donors, allowing for higher investment and growth.

- **Real GDP growth**—to gradually increase with higher investment to around 3½ percent over the medium term.
- **Fiscal policy**—to raise the primary surplus target in the central government budget over time, from 1.9 percent of GDP in FY 2009/10 to peak at 4.6 percent of GDP by 2011. The adjustment is based on expenditures restraint through FY 2011/12, and a 2½ percent GST rate increase in FY 2010/11.

**Reserve accumulation**—tighter policies and larger capital inflows would enable a more ambitious reserve build-up, to above three months of imports starting in 2013.

Table 6a. Belize: Medium-Term Outlook, 2006–14 (Baseline Scenario)

	2006	2007	Est. 2008	Proj.					
				2009	2010	2011	2012	2013	2014
(Annual percentage change)									
<b>Real economy</b>									
GDP at constant prices	4.7	1.2	3.0	1.0	2.0	2.3	2.4	2.5	2.5
<i>Of which: oil output</i>	3.0	0.9	0.8	1.0	0.0	0.0	-0.5	-0.5	-0.4
GDP at current market prices	8.8	5.2	8.1	3.5	4.6	4.9	5.0	5.1	5.1
Prices (GDP deflator)	4.0	4.0	5.0	2.5	2.5	2.5	2.5	2.5	2.5
(In percent of GDP, unless otherwise indicated)									
<b>National accounts</b>									
Consumption	80.2	82.1	82.3	82.1	82.3	82.0	82.0	82.0	82.0
Gross domestic investment 1/	17.7	16.9	25.6	20.2	18.0	16.9	16.8	16.6	16.6
Net exports	2.1	1.1	-7.9	-2.3	-0.4	1.1	1.2	1.4	1.4
Gross national savings	15.6	12.9	15.6	13.5	11.8	11.7	11.3	10.8	10.6
<b>Central government 2/</b>									
Revenue and grants	25.3	27.4	28.8	28.4	26.9	27.0	26.9	26.7	26.5
<i>Of which: oil revenue</i>	0.5	2.6	1.5	1.4	1.5	1.7	1.6	1.4	1.3
Total expenditure	27.3	28.5	28.0	29.3	29.5	29.3	28.9	29.2	29.2
Noninterest expenditure	21.5	23.5	24.2	25.7	25.5	25.0	24.0	23.9	23.9
Primary balance	3.8	3.9	4.7	2.6	1.4	2.1	2.9	2.8	2.6
Interest	5.8	5.0	3.8	3.6	4.0	4.4	4.9	5.3	5.3
Overall balance	-2.0	-1.1	0.8	-0.9	-2.6	-2.3	-2.0	-2.5	-2.7
<b>External sector</b>									
Current account balance	-2.1	-4.0	-10.0	-6.7	-6.2	-5.2	-5.5	-5.9	-6.0
<i>Of which: exports of goods and services</i>	65.1	64.5	61.8	52.9	54.1	57.6	58.4	59.0	59.0
<i>Of which: petroleum exports</i>	3.2	5.0	8.2	4.2	4.9	5.2	4.7	4.2	3.8
<i>Of which: imports of goods and services</i>	-63.0	-63.5	-69.6	-55.2	-54.5	-56.5	-57.2	-57.6	-57.7
Capital and financial account	6.9	8.0	15.8	5.2	6.0	5.7	5.5	6.0	6.4
Public sector disbursements 3/	6.9	6.1	3.0	3.7	4.3	4.2	3.6	4.2	4.4
Public sector amortization 3/	-5.5	-4.8	-3.7	-3.3	-2.5	-2.5	-2.1	-2.0	-1.9
Other capital and fin. account transactions 4/	5.4	6.8	16.5	4.9	4.1	4.1	4.1	3.7	4.0
Change in reserves (- increase)	-4.1	-1.8	-4.1	1.0	0.2	-0.5	0.2	0.1	-0.4
Gross official reserves (in months of imports)	1.3	1.6	2.1	2.3	2.2	2.1	2.0	1.8	1.8
<b>Public and publicly guaranteed debt</b>									
Domestic	92.2	88.6	77.3	75.6	74.7	73.3	71.4	70.3	69.4
External	8.3	9.0	7.8	7.6	7.3	7.0	6.6	6.3	6.0
External	83.9	79.5	69.5	67.9	67.3	66.3	64.8	64.0	63.4

Source: Fund staff projections.

1/ Excludes discrepancy in external savings from the balance of payments.

2/ Fiscal projections are on a calendar year basis.

3/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.

4/ Includes errors and omissions.

Table 6b. Belize: Medium-Term Outlook, 2006–14 (Active Scenario)

	2006	2007	Est. 2008	Proj.					
				2009	2010	2011	2012	2013	2014
(Annual percentage change)									
<b>Real economy</b>									
GDP at constant prices	4.7	1.2	3.0	1.0	2.5	3.5	3.5	3.6	3.6
<i>Of which: oil output</i>	3.0	0.9	0.8	1.0	0.0	0.0	-0.5	-0.5	-0.4
GDP at current market prices	8.8	5.2	8.1	3.5	5.1	6.1	6.1	6.1	6.2
Prices (GDP deflator)	4.0	4.0	5.0	2.5	2.5	2.5	2.5	2.5	2.5
(In percent of GDP, unless otherwise indicated)									
<b>National accounts</b>									
Consumption	80.2	82.1	82.3	82.1	81.2	81.2	81.2	81.2	81.2
Gross domestic investment 1/	17.7	16.9	25.6	20.3	17.4	18.6	18.3	17.9	17.9
Net exports	2.1	1.1	-7.8	-2.4	1.4	0.2	0.5	0.9	0.9
Gross national savings	15.6	12.9	15.6	13.6	14.1	15.3	15.0	14.6	14.6
<b>Central government 2/</b>									
Revenue and grants	25.3	27.4	28.8	28.4	29.2	29.5	29.3	29.1	29.0
<i>Of which: oil revenue</i>	0.5	2.2	1.5	1.4	1.3	1.3	1.2	1.1	1.1
Total expenditure	27.3	28.5	28.0	29.3	29.6	29.0	29.1	29.1	28.9
Noninterest expenditure	21.5	23.5	24.2	25.7	25.7	25.0	24.8	24.7	24.7
Primary balance	3.8	3.8	4.7	2.6	3.6	4.4	4.5	4.4	4.3
Interest	5.8	5.0	3.8	3.6	3.9	4.0	4.3	4.4	4.2
Overall balance	-2.0	-1.1	0.8	-1.0	-0.3	0.4	0.2	0.0	0.1
<b>External sector</b>									
Current account balance	-2.1	-4.0	-10.0	-6.7	-3.3	-3.3	-3.3	-3.3	-3.3
<i>Of which: exports of goods and services</i>	65.1	64.5	61.8	52.9	54.7	57.0	57.0	57.0	57.0
<i>Of which: petroleum exports</i>	3.2	5.0	8.2	4.2	4.9	5.1	4.6	4.1	3.6
<i>Of which: imports of goods and services</i>	-63.0	-63.5	-69.6	-55.2	-53.3	-56.8	-56.5	-56.1	-56.1
Capital and financial account	6.9	8.0	15.8	5.3	5.3	4.9	5.3	5.3	5.0
Public sector disbursements 3/	6.9	6.1	3.0	3.7	2.2	1.4	1.4	1.7	1.5
Public sector amortization 3/	-5.5	-4.8	-3.7	-3.3	-2.6	-2.5	-2.1	-1.9	-1.8
Other capital and fin. account transactions 4/	5.4	6.8	16.5	4.9	5.7	6.0	6.0	5.6	5.3
Change in reserves (- increase)	-4.1	-1.8	-4.1	1.0	-2.0	-1.6	-1.8	-1.9	-1.6
Gross official reserves (in months of imports)	1.3	1.6	2.1	2.3	2.7	2.7	3.0	3.2	3.4
<b>Public and publicly guaranteed debt</b>									
Domestic	92.2	88.6	77.3	75.6	72.0	67.2	62.8	59.0	55.3
External	83.9	79.5	69.5	67.9	64.8	60.4	56.4	52.9	49.6

Source: Fund staff projections.

1/ Excludes discrepancy in external savings from the balance of payments.

2/ Fiscal projections are on a calendar year basis.

3/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.

4/ Includes errors and omissions.

## APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

**Results of an updated Debt Sustainability Analysis (DSA) are broadly in line with those of the 2008 Article IV consultation report.** Minor differences arise from revisions to historical data and a better fiscal effort in 2008 than was previously assumed.

### A. Key Assumptions

**The DSA was constructed around two scenarios (see Table 5), which assume:**

- Public sector debt includes the central government, publicly guaranteed external debt, and other public sector external debt, and contingent liabilities.
- Future central government liabilities to the pension plan for public officers and national health insurance are included.
- FDI flows are in line with historical levels.
- External debt is on a gross basis, while domestic debt is on a net basis.
- Multilateral and bilateral loans are borrowed at LIBOR, plus 100 bps.

The **baseline scenario** assumes that the domestic debt stock is constant, and that financing requirements will be covered primarily by external commercial creditors at market interest rates (i.e., 10-year U.S. T-Bond plus 400 bps), and to a lesser extent by multilaterals.

The **active scenario** assumes that enough multilateral financing will be available to meet financing requirements.

### B. Assessment

**Under the baseline scenario, debt will gradually decline.** This scenario suggests a downward trend in the period covered by the DSA from 77.3 percent of GDP at end-2008 to 69 percent of GDP at end-2014, owing to some fiscal effort, as reflected in a primary surplus. While the primary surplus is projected to decline over the next few years, it will need to rebound in the outer years to compensate for a pick-up in interest payments, as higher step-up coupon rates on the restructured debt take effect.

**Bounds tests reveal that the debt trajectory can change significantly in response to standard shocks.** Debt ratios are particularly sensitive to the depreciation shock, given that more than 80 percentage of the total public debt was denominated in foreign currency in 2008. In the event of a 30 percent depreciation, the total debt would climb to 112 percent of GDP and then follow a similar trajectory to that of baseline.

**Under the active scenario, total debt ratios decline more strongly to 55 percent of GDP by 2014.** A stronger fiscal adjustment and higher availability of multilateral financing at

favorable terms are the driving factors. Bound tests reveal reduced vulnerability to standard shocks compared to the passive scenario, although a 30% depreciation of the currency would trigger a similar step-increase in the debt ratio, followed by a steeper decline.

Appendix Table 1. Belize: Public Sector Debt Sustainability Framework, 2003-2014  
(Baseline Scenario)  
(In percent of GDP, unless otherwise indicated)

	Actual					Est. 2008	Projections							Debt-stabilizing primary balance 9/ 1.5
	2003	2004	2005	2006	2007		2009	2010	2011	2012	2013	2014		
<b>1 Baseline: Public sector debt 1/</b>	102.3	100.1	98.4	92.2	88.6	77.3	75.6	74.7	73.3	71.4	70.3	69.4		
Of which: foreign-currency denominated	96.7	91.1	90.9	83.9	79.5	69.5	67.9	67.3	66.3	64.8	64.0	63.4		
2 Change in public sector debt	13.3	-2.8	-0.8	-6.5	-3.6	-11.2	-1.8	-0.9	-1.4	-1.8	-1.1	-0.9		
3 Identified debt-creating flows (4+7+12)	0.3	-10.7	-4.5	-6.4	-4.3	-7.5	-1.7	-0.7	-1.2	-1.5	-1.0	-0.7		
4 Primary deficit	5.9	-0.8	-1.2	-3.8	-3.9	-4.7	-2.6	-1.4	-2.1	-2.9	-2.8	-2.6		
5 Revenue and grants	21.4	22.8	23.4	25.3	27.4	28.8	28.4	26.9	27.0	26.9	26.7	26.5		
6 Primary (noninterest) expenditure	27.3	22.0	22.2	21.5	23.5	24.2	25.7	25.5	25.0	24.0	23.9	23.9		
7 Automatic debt dynamics 2/	-0.2	0.6	0.5	-2.2	-0.4	-2.8	0.9	0.7	0.9	1.4	1.8	1.9		
8 Contribution from interest rate/growth differential 3/	-0.2	0.6	0.5	-2.2	-0.4	-2.8	0.9	0.7	0.9	1.4	1.8	1.9		
9 Of which: contribution from real interest rate	7.5	5.0	4.1	2.9	0.6	-0.4	1.7	2.2	2.5	3.1	3.5	3.6		
10 Of which: contribution from real GDP growth	-7.7	-4.4	-3.6	-5.1	-1.0	-2.5	-0.7	-1.4	-1.6	-1.7	-1.7	-1.7		
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...		
12 Other identified debt-creating flows	-5.4	-10.6	-3.8	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
13 Privatization receipts (negative)	4.1	-1.9	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
15 Other (specify, e.g. bank recapitalization)	-9.5	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
16 Residual, including asset changes (2-3) 5/	13.0	7.9	3.7	-0.2	0.7	-3.7	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2		
Public sector debt-to-revenue ratio 1/	478.5	436.5	421.6	364.5	323.6	268.1	266.4	277.5	270.8	265.2	262.9	261.5		
<b>Gross financing need 6/</b>	15.7	18.2	19.4	7.0	5.1	2.1	3.4	4.3	4.1	3.6	4.2	4.4		
in billions of U.S. dollars	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1		
<b>Scenario with key variables at their historical averages 7/</b>						77.3	77.9	78.3	78.7	79.1	79.5	80.0	-1.3	
<b>Scenario with no policy change (constant primary balance) in -2013</b>						77.3	75.6	74.7	73.3	71.4	70.3	69.4	1.5	
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>														
Real GDP growth (in percent)	9.2	4.6	3.9	5.6	1.2	3.0	1.0	2.0	2.3	2.4	2.5	2.5		
Average nominal interest rate on public debt (in percent) 8/	5.5	7.5	7.0	6.4	5.7	4.7	4.8	5.6	6.1	7.0	7.8	7.9		
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	8.6	5.4	4.5	3.3	0.8	-0.3	2.3	3.1	3.6	4.5	5.3	5.4		
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...		
Inflation rate (GDP deflator, in percent)	-3.1	2.1	2.5	3.1	4.9	5.0	2.5	2.5	2.5	2.5	2.5	2.5		
Growth of real primary spending (deflated by GDP deflator, in percent)	7.7	-15.6	4.1	2.2	9.5	5.9	7.5	1.0	0.3	-1.7	2.3	2.4		
Primary deficit	5.9	-0.8	-1.2	-3.8	-3.9	-4.7	-2.6	-1.4	-2.1	-2.9	-2.8	-2.6		
A2. No policy change (constant primary balance) in 2005-09						77.3	75.6	74.7	73.3	71.4	70.3	69.4	1.5	
<b>B. Bound Tests</b>														
B1. Real interest rate is at historical average plus one standard deviation						77.3	76.4	76.3	75.8	74.8	74.6	74.6	2.8	
B2. Real GDP growth is at historical average minus one standard deviation						77.3	77.4	78.7	80.0	81.4	84.0	87.5	3.9	
B3. Primary balance is at historical average minus one standard deviation						77.3	77.6	78.8	79.6	79.9	81.1	82.6	2.2	
B4. Combination of B1-B3 using 1/2 standard deviation shocks						77.3	77.7	78.9	79.7	80.2	81.4	83.0	3.4	
B5. One time 30 percent real depreciation in 2006 10/						77.3	109.4	108.9	107.9	106.7	106.5	106.6	2.9	
B6. 10 percent of GDP increase in other debt-creating flows in 2006						77.3	85.6	84.8	83.5	81.8	81.0	80.4	2.2	

1/ Public sector debt includes central government, publicly guaranteed external debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.

2/ Derived as  $(r - \pi(1+g) - g + \alpha\epsilon(1+\pi))/(1+g+\pi(1+g\pi))$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\epsilon$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\epsilon(1+\pi)$ .

5/ For projections, this line includes exchange rate changes.

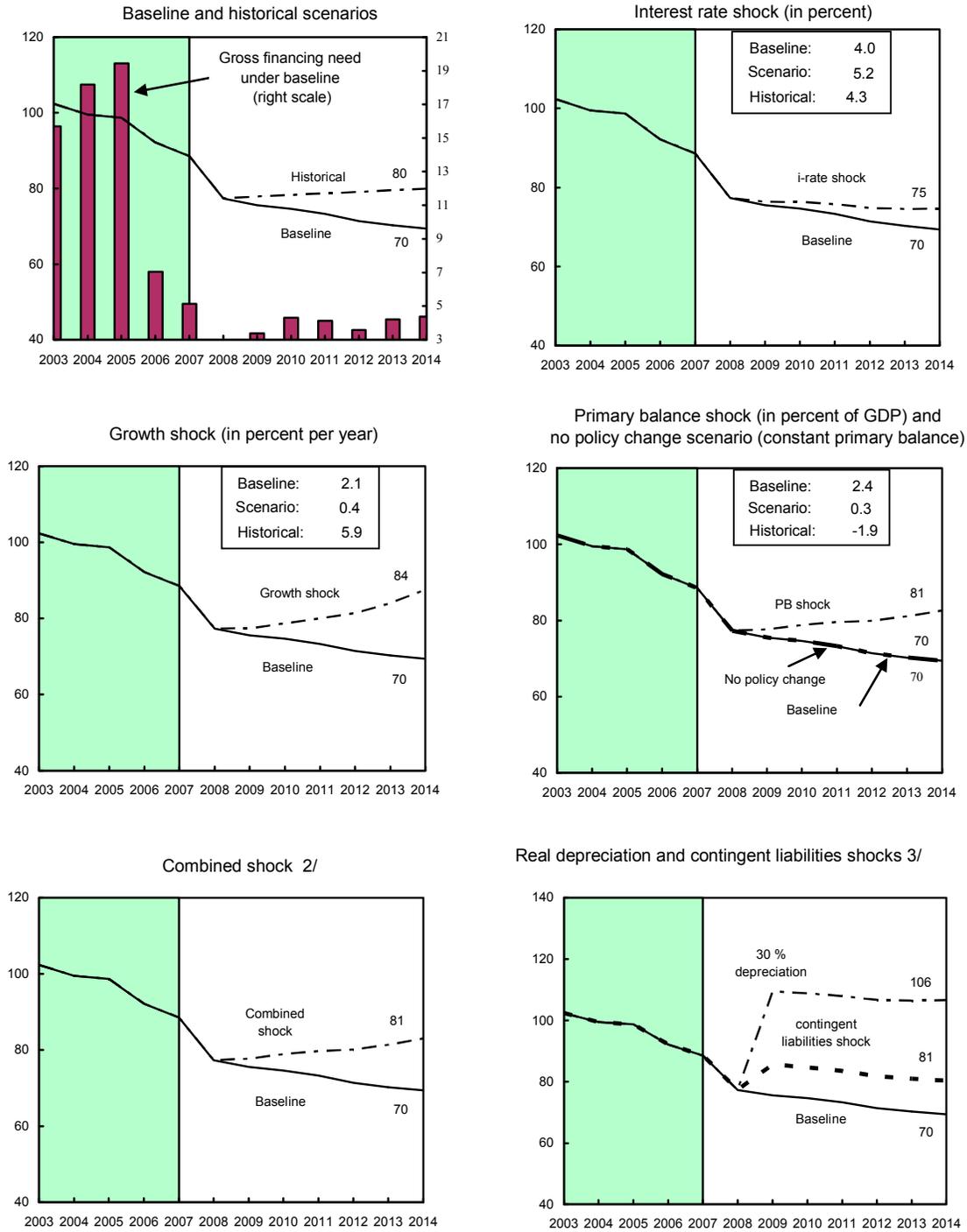
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2013 to capture the increased interest rates starting from 2013 due to the step-up structure of the exchanged bond.

Appendix Figure 1. Belize Public Debt Sustainability: Bound Tests 1/  
(Baseline Scenario: Public 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix Table 2. Belize: External Debt Sustainability Framework, 2003-2014  
(Baseline Scenario)  
(In percent of GDP, unless otherwise indicated)

	Actual					Est. 2008	Projections						Debt-stabilizing non-interest current account 6/ -2.4
	2003	2004	2005	2006	2007		2009	2010	2011	2012	2013	2014	
<b>Baseline: External debt</b>	96.7	91.2	90.8	83.8	79.5	69.5	67.9	67.3	66.3	64.8	64.0	63.4	
Change in external debt	10.8	-5.5	-0.4	-7.0	-4.3	-10.0	-1.6	-0.6	-1.1	-1.5	-0.8	-0.6	
Identified external debt-creating flows (4+8+9)	9.7	-2.7	-0.8	-14.1	-9.8	-6.7	1.1	0.8	-0.3	0.0	0.6	0.5	
Current account deficit, excluding interest payments	12.4	8.5	7.6	-2.8	-0.3	7.0	3.9	3.1	1.7	1.5	1.5	1.5	
Deficit in balance of goods and services	16.9	8.1	8.7	-1.6	-1.1	7.9	2.3	0.4	-1.1	-1.2	-1.4	-1.4	
Exports	50.0	51.4	55.4	64.4	64.5	61.8	52.9	54.1	57.6	58.4	59.0	59.0	
Imports	67.0	59.5	64.1	62.8	63.5	69.6	55.2	54.5	56.5	57.2	57.6	57.7	
Net non-debt creating capital inflows (negative)	-3.7	-11.3	-10.3	-8.7	-9.6	-14.5	-4.9	-4.1	-4.0	-4.0	-3.7	-4.0	
Automatic debt dynamics 1/	1.0	0.1	1.9	-2.5	0.2	0.7	2.1	1.8	2.0	2.5	2.9	3.0	
Contribution from nominal interest rate	5.8	6.3	6.8	4.9	4.3	2.9	2.8	3.1	3.5	4.0	4.4	4.5	
Contribution from real GDP growth	-7.4	-4.2	-3.3	-4.7	-1.0	-2.2	-0.7	-1.3	-1.5	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	2.6	-2.0	-1.5	-2.7	-3.2	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	-2.8	0.4	7.1	5.4	-3.3	-2.7	-1.4	-0.8	-1.5	-1.4	-1.1	
External debt-to-exports ratio (in percent)	193.2	177.3	163.9	130.2	123.2	112.5	128.5	124.5	115.1	110.9	108.4	107.4	
<b>Gross external financing need (in billions of US dollars) 4/</b>	0.2	0.3	0.3	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	
in percent of GDP	23.3	27.1	28.5	8.1	8.0	15.0	10.0	8.7	7.7	7.7	7.9	8.0	
<b>Scenario with key variables at their historical averages 5/</b>						69.5	70.5	72.7	75.5	77.6	79.7	82.0	-6.7
<b>Key Macroeconomic Assumptions Underlying Baseline</b>													
Real GDP growth (in percent)	9.2	4.6	3.9	5.6	1.2	3.0	1.0	2.0	2.3	2.4	2.5	2.5	
GDP deflator in US dollars (change in percent)	-2.9	2.1	1.7	3.1	3.9	5.0	2.5	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	7.2	7.0	7.8	5.8	5.4	4.0	4.2	4.8	5.4	6.4	7.2	7.4	
Growth of exports (US dollar terms, in percent)	0.3	9.8	13.8	26.6	5.4	3.5	-11.4	7.0	11.6	6.4	6.1	5.2	
Growth of imports (US dollar terms, in percent)	5.2	-5.1	13.9	6.6	6.3	18.6	-17.9	3.1	8.8	6.2	5.8	5.1	
Current account balance, excluding interest payments	-12.4	-8.5	-7.6	2.8	0.3	-7.0	-3.9	-3.1	-1.7	-1.5	-1.5	-1.5	
Net nondebt creating capital inflows	3.7	11.3	10.3	8.7	9.6	14.5	4.9	4.1	4.0	4.0	3.7	4.0	

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

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

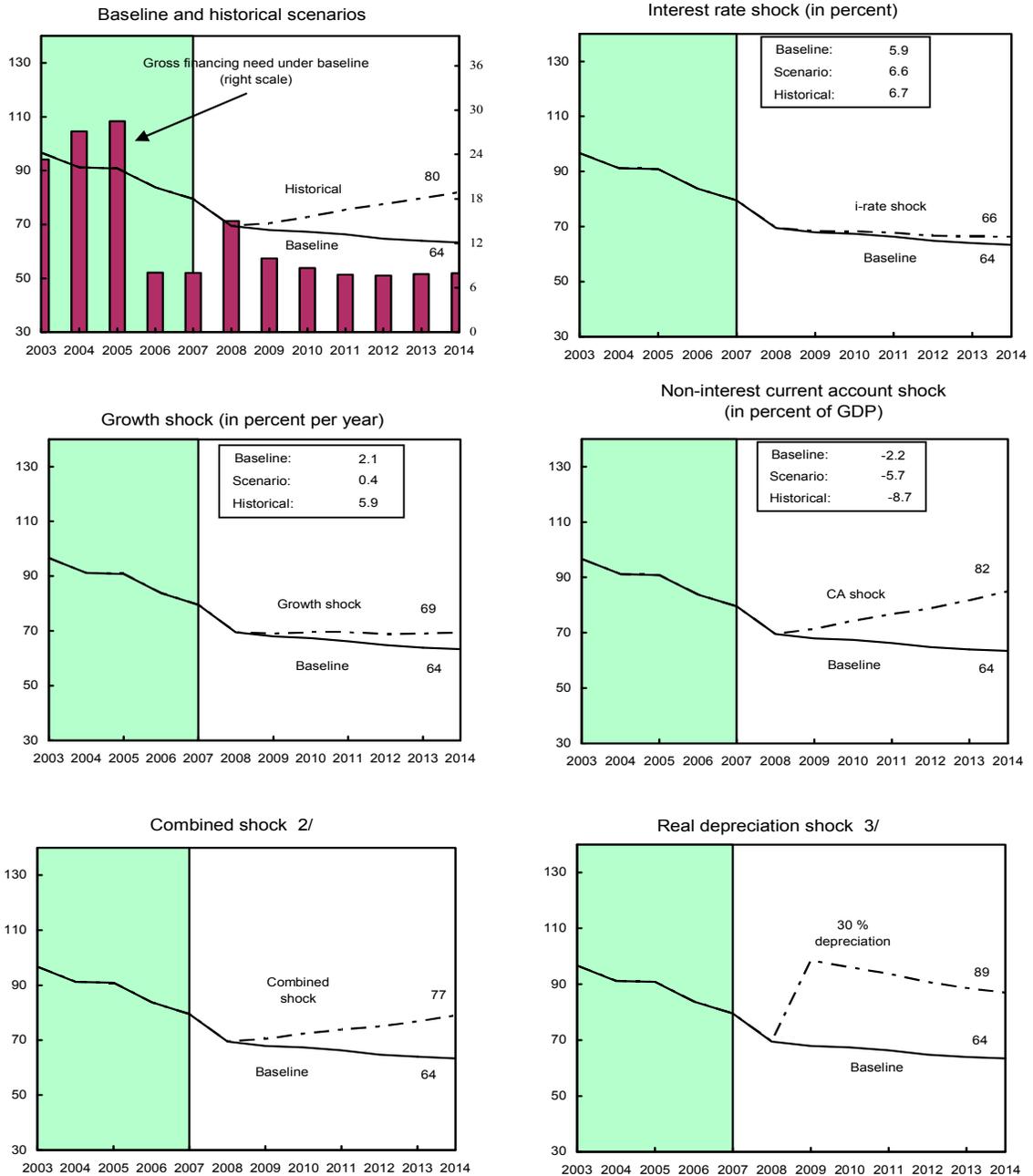
3/ For projection, line includes the impact of price and exchange rate changes.

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.

Appendix Figure 2. Belize: External Debt Sustainability: Bound Tests 1/  
(Baseline Scenario: 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

Appendix Table 3. Belize: Public Sector Debt Sustainability Framework, 2003-2014  
Active Scenario  
(In percent of GDP, unless otherwise indicated)

	2003	2004	Actual			Est. 2008	Projections					Debt-stabilizing primary balance 9/ 0.6	
			2005	2006	2007		2009	2010	2011	2012	2013		2014
<b>Baseline: Public sector debt 1/</b>	102.3	99.5	98.7	92.2	88.6	77.3	75.6	72.0	67.2	62.9	59.0	55.3	
<i>Of which</i> : foreign-currency denominated	96.7	91.2	90.8	83.9	79.5	70.0	68.6	65.6	61.4	57.7	54.3	51.1	
Change in public sector debt	13.3	-2.8	-0.8	-6.5	-3.6	-11.2	-1.8	-3.5	-4.8	-4.4	-3.9	-3.7	
Identified debt-creating flows (4+7+12)	0.3	-10.7	-4.5	-6.4	-4.3	-6.9	-1.7	-3.3	-4.6	-4.1	-3.7	-3.5	
Primary deficit	5.9	-0.8	-1.2	-3.8	-3.9	-4.7	-2.6	-3.6	-4.4	-4.5	-4.4	-4.3	
Revenue and grants	21.4	22.8	23.4	25.3	27.4	28.8	28.4	29.2	29.5	29.3	29.1	29.0	
Primary (noninterest) expenditure	27.3	22.0	22.2	21.5	23.5	24.2	25.7	25.7	25.0	24.8	24.7	24.7	
Automatic debt dynamics 2/	-0.2	0.6	0.5	-2.2	-0.4	-2.2	1.0	0.2	-0.1	0.4	0.8	0.7	
Contribution from interest rate/growth differential 3/	-0.2	0.6	0.5	-2.2	-0.4	-2.2	1.0	0.2	-0.1	0.4	0.8	0.7	
<i>Of which</i> : contribution from real interest rate	7.5	5.0	4.1	2.9	0.6	-0.4	1.7	2.0	2.2	2.6	2.9	2.7	
<i>Of which</i> : contribution from real GDP growth	-7.7	-4.4	-3.6	-5.1	-1.0	-1.9	-0.7	-1.8	-2.4	-2.2	-2.1	-2.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-5.4	-10.6	-3.8	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	4.1	-1.9	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	-9.5	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	13.0	7.9	3.7	-0.2	0.7	-4.3	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2	
Public sector debt-to-revenue ratio 1/	478.5	436.5	421.6	364.5	323.6	268.0	266.4	246.4	228.3	214.6	202.5	190.8	
<b>Gross financing need 6/</b>	15.7	18.2	19.4	7.0	5.1	2.1	3.4	2.2	1.4	1.4	1.7	1.5	
in billions of U.S. dollars	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Scenario with key variables at their historical averages 7/</b>						77.3	77.8	78.3	78.7	79.0	79.5	79.9	-1.3
<b>Scenario with no policy change (constant primary balance) in -2013</b>						77.3	75.5	72.0	67.2	62.8	59.0	55.3	0.6
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>													
Real GDP growth (in percent)	9.2	4.6	3.9	5.6	1.2	2.2	1.0	2.5	3.5	3.5	3.6	3.6	
Average nominal interest rate on public debt (in percent) 8/	5.5	7.5	7.0	6.4	5.7	4.7	4.8	5.4	5.9	6.8	7.5	7.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	8.6	5.4	4.5	3.3	0.8	-0.3	2.3	2.9	3.4	4.3	5.0	5.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	-3.1	2.1	2.5	3.1	4.9	5.0	2.5	2.5	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	7.7	-15.6	4.1	2.2	9.5	5.9	7.5	2.3	0.8	2.7	3.2	3.6	
Primary deficit	5.9	-0.8	-1.2	-3.8	-3.9	-4.7	-2.6	-3.6	-4.4	-4.5	-4.4	-4.3	
A2. No policy change (constant primary balance) in 2005-09						77.3	75.5	72.0	67.2	62.8	59.0	55.3	0.6
<b>B. Bound Tests</b>													
B1. Real interest rate is at historical average plus one standard deviation						77.5	76.7	74.2	70.4	67.0	64.1	61.3	1.4
B2. Real GDP growth is at historical average minus one standard deviation						77.5	77.7	76.6	74.6	73.4	73.3	73.8	2.2
B3. Primary balance is at historical average minus one standard deviation						77.5	77.8	76.4	73.6	71.4	69.7	68.2	0.9
B4. Combination of B1-B3 using 1/2 standard deviation shocks						77.5	77.8	76.4	73.7	71.4	69.7	68.1	1.8
B5. One time 30 percent real depreciation in 2006 10/						77.5	110.1	106.9	102.2	98.2	95.0	91.9	1.2
B6. 10 percent of GDP increase in other debt-creating flows in 2006						77.5	85.7	82.2	77.4	73.1	69.4	65.8	0.8

1/ Public sector debt includes central government, publicly guaranteed external debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.

2/ Derived as  $[(r - \pi(1+g)) - g + \alpha\epsilon(1+r)] / (1+g+\pi+g\pi)$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\epsilon$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\epsilon(1+r)$ .

5/ For projections, this line includes exchange rate changes.

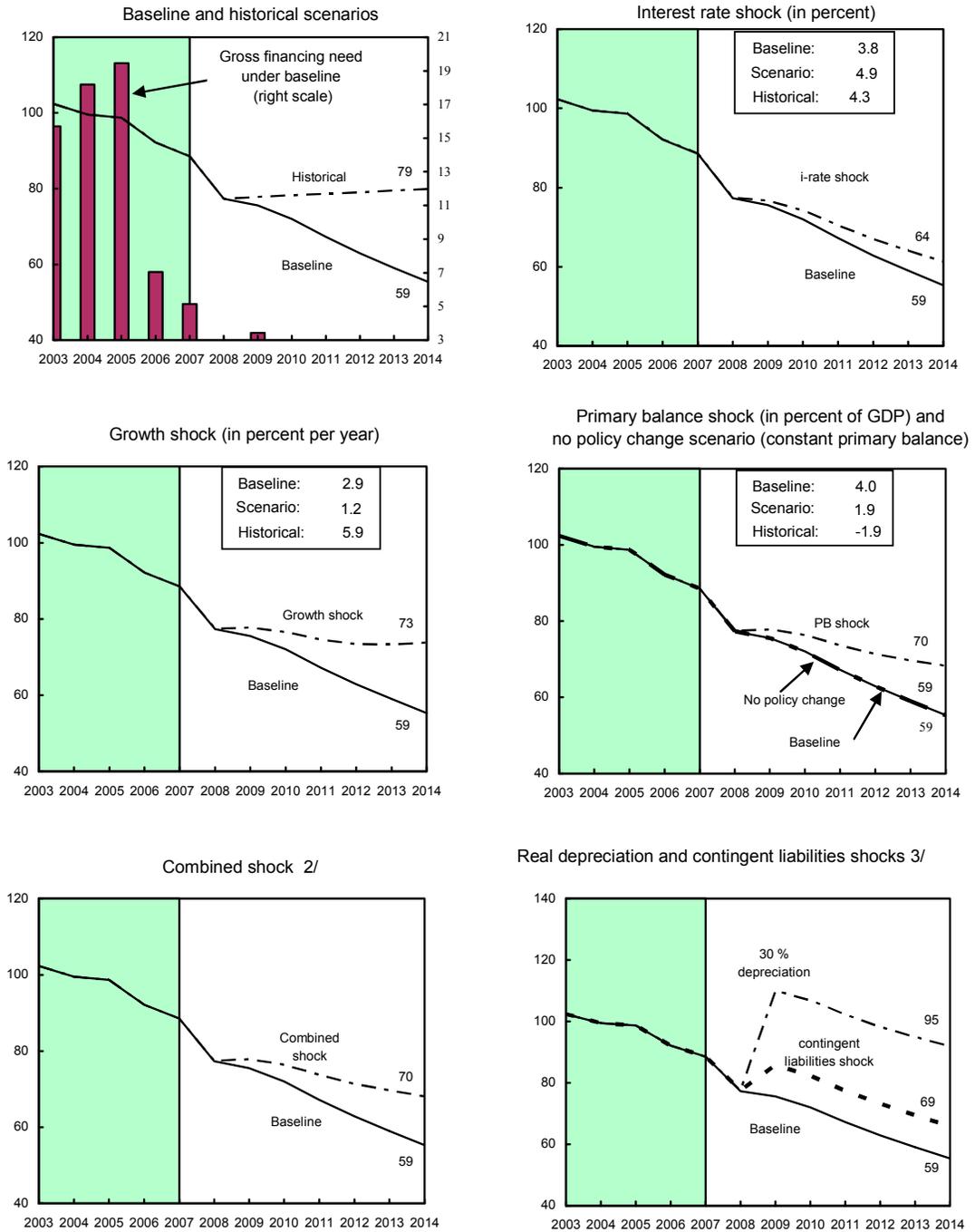
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2013 to capture the increased interest rates starting from 2013 due to the step-up structure of the exchanged bond.

Appendix Figure 3. Belize Public Debt Sustainability: Bound Tests 1/  
(Active Scenario: Public 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix Table 4. Belize: External Debt Sustainability Framework, 2003-2014  
Active Scenario  
(In percent of GDP, unless otherwise indicated)

	Actual					Est. 2008	Projections						Debt-stabilizing non-interest current account 6/ -5.3
	2003	2004	2005	2006	2007		2009	2010	2011	2012	2013	2014	
<b>Baseline: External debt</b>	96.7	91.2	90.8	83.8	79.5	<b>69.5</b>	<b>67.9</b>	<b>64.8</b>	<b>60.4</b>	<b>56.4</b>	<b>52.9</b>	<b>49.6</b>	
Change in external debt	10.8	-5.5	-0.4	-7.0	-4.3	-10.0	-1.6	-3.2	-4.4	-4.0	-3.5	-3.3	
Identified external debt-creating flows (4+8+9)	9.7	-2.7	-0.8	-14.1	-9.8	-6.2	1.1	-3.9	-4.8	-4.6	-4.2	-3.7	
Current account deficit, excluding interest payments	12.4	8.5	7.6	-2.8	-0.3	7.0	3.9	0.3	0.2	-0.1	-0.3	-0.1	
Deficit in balance of goods and services	16.9	8.1	8.7	-1.6	-1.1	7.8	2.4	-1.4	-0.2	-0.5	-0.9	-0.9	
Exports	50.0	51.4	55.4	64.4	64.5	61.8	52.9	54.7	57.0	57.0	57.0	57.0	
Imports	67.0	59.5	64.1	62.8	63.5	69.6	55.2	53.3	56.8	56.5	56.1	56.1	
Net non-debt creating capital inflows (negative)	-3.7	-11.3	-10.3	-8.7	-9.6	-14.5	-4.9	-5.7	-6.0	-5.9	-5.6	-5.2	
Automatic debt dynamics 1/	1.0	0.1	1.9	-2.5	0.2	1.3	2.1	1.4	1.0	1.4	1.7	1.6	
Contribution from nominal interest rate	5.8	6.3	6.8	4.9	4.3	2.9	2.8	3.0	3.1	3.4	3.6	3.4	
Contribution from real GDP growth	-7.4	-4.2	-3.3	-4.7	-1.0	-1.6	-0.7	-1.6	-2.1	-2.0	-1.9	-1.8	
Contribution from price and exchange rate changes 2/	2.6	-2.0	-1.5	-2.7	-3.2	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	-2.8	0.4	7.1	5.4	-3.8	-2.7	0.8	0.4	0.6	0.7	0.4	
External debt-to-exports ratio (in percent)	193.2	177.3	163.9	130.2	123.2	112.5	128.4	118.4	105.9	98.9	92.8	87.0	
<b>Gross external financing need (in billions of US dollars) 4/</b>	0.2	0.3	0.3	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	
in percent of GDP	23.3	27.1	28.5	8.1	8.0	15.0	10.0	6.0	5.8	5.4	5.2	5.2	
<b>Scenario with key variables at their historical averages 5/</b>						<b>69.5</b>	<b>70.5</b>	<b>74.8</b>	<b>78.6</b>	<b>82.5</b>	<b>86.4</b>	<b>89.9</b>	<b>-6.7</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>													
Real GDP growth (in percent)	9.2	4.6	3.9	5.6	1.2	2.2	1.0	2.5	3.5	3.5	3.6	3.6	
GDP deflator in US dollars (change in percent)	-2.9	2.1	1.7	3.1	3.9	5.8	2.5	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	7.2	7.0	7.8	5.8	5.4	4.0	4.2	4.7	5.1	6.0	6.8	6.8	
Growth of exports (US dollar terms, in percent)	0.3	9.8	13.8	26.6	5.4	3.5	-11.4	8.7	10.5	6.1	6.2	6.2	
Growth of imports (US dollar terms, in percent)	5.2	-5.1	13.9	6.6	6.3	18.6	-17.9	1.4	13.1	5.5	5.4	6.3	
Current account balance, excluding interest payments	-12.4	-8.5	-7.6	2.8	0.3	-7.0	-3.9	-0.3	-0.2	0.1	0.3	0.1	
Net nondebt creating capital inflows	3.7	11.3	10.3	8.7	9.6	14.5	4.9	5.7	6.0	5.9	5.6	5.2	

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

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

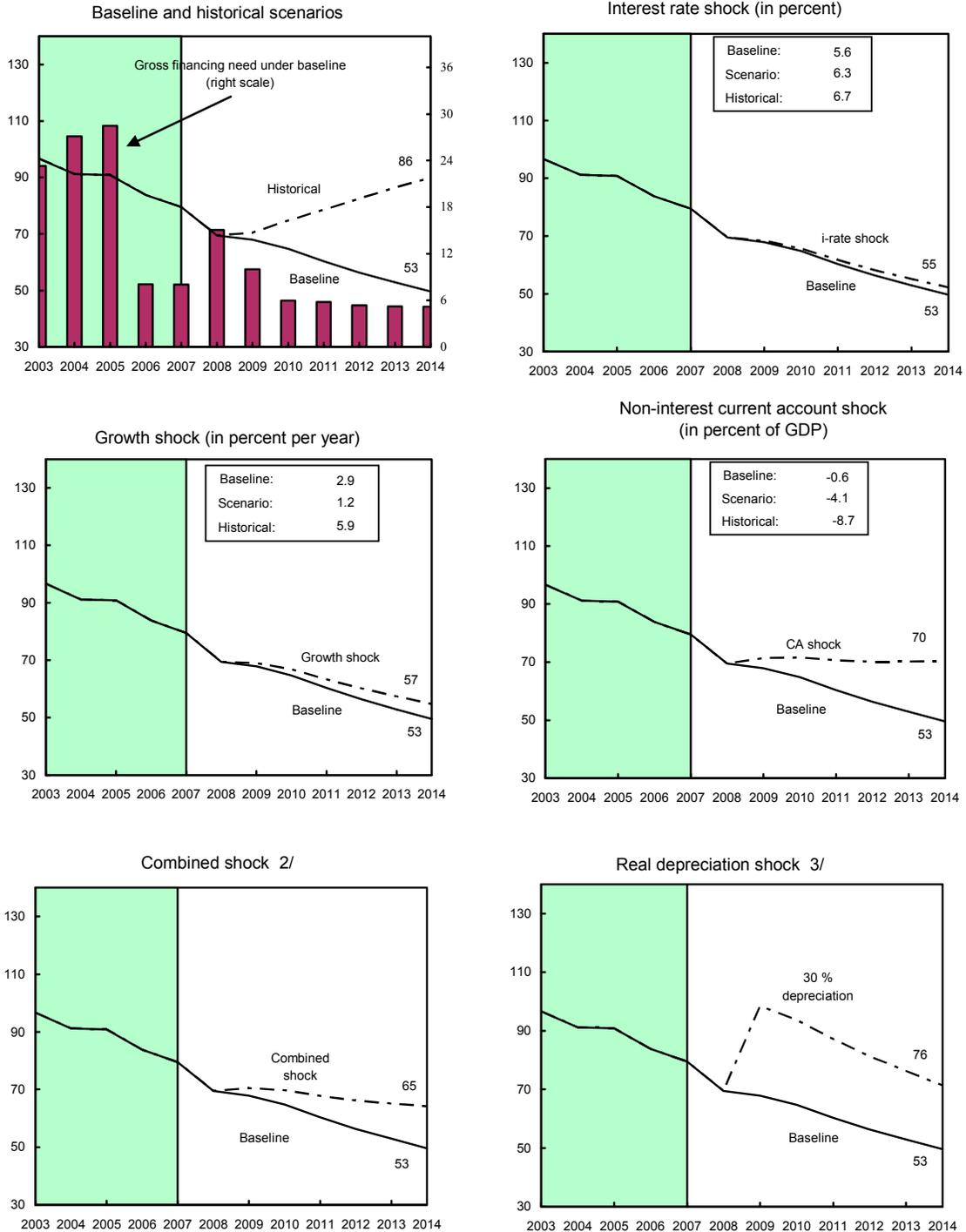
3/ For projection, line includes the impact of price and exchange rate changes.

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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.

Appendix Figure 4. Belize: External Debt Sustainability: Bound Tests 1/  
(Active Scenario: External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

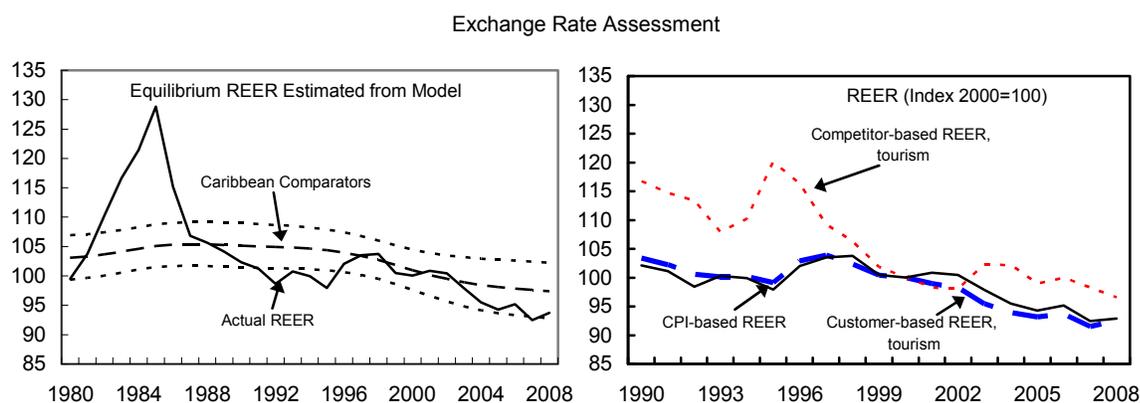
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

## APPENDIX II. BELIZE—ASSESSMENT OF EXTERNAL STABILITY

**The model-based approach suggests that the Belize’s actual exchange rate is broadly in line with fundamentals and consistent with external stability.** For this assessment, the CGER methodology was followed using various measures that captured Belize’s economic fundamentals, such as productivity differentials, terms of trade, government consumption and net foreign assets.<sup>1</sup> While two different samples of comparator countries were used (Caribbean and a wider tourism-dependent group), their results are very similar.<sup>2</sup> The model-based approach suggests that Belize’s actual REER is about 5.3 percent below its estimated equilibrium level.



**The real effective exchange rate has been moving downward since the late 1990s.** A secular decline is observable since 1997, when measured relative to trading partner countries, source countries for tourism, and competitor countries for tourism, thanks to a large degree to the U.S. dollar’s weakening against major currencies over that period, and a lower inflation in Belize compared to its major trading partners and competitors. This trend was partly reversed with the outbreak of the global financial crisis in the latter half of 2008, when the U.S. dollar strengthened considerably.

**The underlying current account deficit is consistent with declining debt-to-GDP ratios over the medium term.** The current account deficit in 2008 (10 percent of GDP) was affected by several temporary factors: (i) a surge in FDI-related imports; (ii) a decline in weather-affected exports; (iii) temporarily reduced interest payments on the Super Bond (restructured debt); and (iv) an above-trend net oil trade balance before domestic oil production tapers off, even as a sizeable increase in domestically generated electricity comes on line. The underlying current account deficit, excluding transitional factors, is estimated at 4.0 percent of GDP in 2008, or 0.8 percent of GDP after interest payments are excluded. This is about 1¾ percentage points less than the estimated

<sup>1</sup> For additional details, see “Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union,” by E. Pineda, P. Cashin, and Y. Sun, WP/09/78.

<sup>2</sup> For optical clarity, only the line for the Caribbean comparators is presented in the graph.

debt-stabilizing non-interest current account deficit of 2.5 percent of GDP (see External Debt Sustainability Framework, Appendix Table 2).

Belize: Estimating the Underlying Current Account (In percent of GDP)			
	2008 Est.		2014-18 Proj.
	Observed	Adjustments	Average
<b>Current account balance</b>	-10.0%		-6.3%
<b>Adjustments to current account balance</b>			
Interest on public sector debt	-3.2%		-4.9%
Adjustment for lower interest payments		-1.7%	
Net oil and electricity trade	-3.1%		-2.6%
Adjustment for lower energy trade balance		0.5%	
Impact of weather (US\$ millions)	-1.0%		0.0%
Adjustment for temporary impact of weather		1.0%	
Grants, and imports related to FDI and grants <sup>1/</sup>	-8.8%		-2.6%
Adjustment for temporary surge in FDI and grants		6.2%	
<b>Underlying current account after adjustments</b>		<b>-4.0%</b>	
Excluding interest payments		<b>-0.8%</b>	

<sup>1/</sup> Assumes an import content of 75 percent for FDI and grants.

**The projected current account deficits are significantly lower than in the past or in the peer economies, and are consistent with declining debt/GDP ratios.** The recent widening in the external current account deficit is expected to be partly reversed in 2009. The recent surge in imports appears to be related mostly to private capital inflows into key export and import substituting sectors, such as tourism-related real estate and construction, as well as electricity generation. A number of these projects are expected to be largely completed in 2009. Belize's balance of payments position is also expected to benefit from additional electricity-generating capacity coming on stream during 2008–10, which will significantly reduce the need for imported electricity from neighboring Mexico. Key agricultural export sectors benefit from preferential access to EU markets, although in the near term prices and EU demand are expected to decline. Tourism has been relatively resilient to global downturns, as Belize historically experienced lower losses than in key competitor markets.

**External debt ratios will remain high over the medium term, highlighting the need for strengthened financial policies.** Under the unchanged policies (passive) scenario, external debt ratio will decline by 5 percent of GDP over the next five years, reaching 63 percent of GDP. Such a high debt ratio will constrain the country's ability to respond to exogenous shocks. Against this background, and in order to create the requisite policy space, further sustained efforts are needed to strengthen the country's fiscal and external positions.

### APPENDIX III. BACKGROUND AND SUMMARY OF APPENDICES

**Discussions.** The 2009 Article IV consultation discussions were held in Belize during March 17–26, 2009. The mission met with Prime Minister Barrow, Finance Secretary Waight, Central Bank of Belize (CBB) Governor Ysaguirre, other government officials and representatives of the private sector, labor unions and the political opposition. The staff team comprised P. Gajdeczka (Head), N. Belhocine, G. El-Masry, and M. Kandil (all WHD). Mr. P. McGoldrick (OED) joined the final discussions.

**Exchange Arrangement.** Belize has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current transactions. The Belize dollar has been pegged to the U.S. dollar at BZ\$2=US\$1 since 1976.

**Fund Relations.** On February 18, the Board approved a request for a loan by Belize, 25 percent of quota, SDR\$4.7 million, under the Fund's policy on emergency assistance for natural disasters in the wake of the losses caused by the floods in October which followed May floods. The last financial arrangement was a Stand-by Arrangement for the period 12/03/84 to 05/31/86 totaling SDR\$7.13 million, fully drawn.

#### **Technical Assistance.**

- MCM missions took place during September 29–October 3, bank supervision and regulation.
- A follow-up STA mission on national accounts, supply and use tables, is scheduled in the second half of 2009.
- A follow-up STA mission on FDI and IIP development is scheduled in April 2009.

**Relations with the World Bank Group.** A five year Country Assistance Strategy was completed for Belize in August 2000 (Report No. 20708-BEL). The World Bank currently has no active projects in Belize. The World Bank Board approved in March 2009 an Interim Strategy Note for the period of 2009-2011, which envisions Analytical and Advisory Activities (AAA) and modest investment lending, to be approved by the World Bank Board in December 2009. The interim strategy includes one investment loan for \$15 million (municipal development project).

**Relations with the Inter-American Development Bank (IDB).** The 2004–08 Country Strategy, approved in September 2004, aims at assisting Belize in its transition towards private sector-led growth. In December 2006, IDB approved US\$25 million in Policy-Based Loan (PBL), which has been fully disbursed. Two loans for Solid Waste Management and Sustainable Tourism were approved towards the end of 2008. A US\$5 million loan for Road Reconstruction under the Immediate Response Facility was approved in February 2009. The IDB and Government have also been working on a policy-based loan in the social and fiscal sustainability areas.

**Relations with the Caribbean Development Bank (CDB).** In December 2006, CDB approved US\$25 million in Policy-Based Loan. In December 2006, the CDB also approved a loan of US\$12.6 million to Belize for the upgrade the Placencia road. Technical assistance includes a TA loan for the modernization of the Customs and Excise Department, and TA grants of US\$101,200 million each, for the modernization of financial regulations, and to assist Belize to establish an appropriate institutional framework for macro-economic management. CDB has continued to respond to Belize's natural disaster emergency needs. In 2008, CDB approved two loans of US\$8.8 million and 0.5 million for recovery and the reconstruction of a major bridge which was destroyed by flood water.

INTERNATIONAL MONETARY FUND

BELIZE

**Staff Report for the 2009 Article IV Consultation—Informational Annex**

Prepared by the Western Hemisphere Department

April 23, 2009

	Contents	Page
Appendices		
I. Fund Relations.....		2
II. Relations with the World Bank Group.....		4
III. Relations with the Inter-American Development Bank .....		5
IV. Relations with the Caribbean Development Bank.....		6
V. Statistical Issues.....		8

**APPENDIX I. BELIZE—FUND RELATIONS**

As of April 3, 2009

**I. Membership Status:** Joined: March 16, 1982; Article VIII

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	18.80	100.00
<u>Fund holdings of currency</u>	19.26	102.46
Reserve Position	4.24	22.55
<u>Holdings Exchange Rate</u>		

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Holdings	2.30	N/A

<b>IV. <u>Outstanding Purchases and Loans:</u></b>	<b>SDR Million</b>	<b>%Quota</b>
Emergency Assistance	4.70	25.00

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	Dec 03, 1984	May 31, 1986	7.13	7.13

**VI. Projected Payments to Fund <sup>1/</sup>****(SDR Million; based on existing use of resources and present holdings of SDRs):**

	<u>Forthcoming</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal				1.76	2.35
Charges/Interest	<u>0.05</u>	<u>0.07</u>	<u>0.07</u>	<u>0.07</u>	<u>0.03</u>
<b>Total</b>	<u>0.05</u>	<u>0.07</u>	<u>0.07</u>	<u>1.83</u>	<u>2.38</u>

<sup>1/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:** Not Applicable**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable**IX. Exchange Rate**

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. Since the second quarter of 1995, the central bank has been resorting to the rationing of its sales of foreign exchange to commercial banks on an ad-hoc

basis, except for some essential import items, which has given rise to restrictions on the making of payments and transfers for current international transactions<sup>3</sup>.

## **X. Last Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on February 22, 2008; the relevant documents were IMF Country Report Nos. 08/88 and 08/92. Belize is on the standard 12-month consultation cycle.

## **XI. Recent Technical Assistance**

- Mr. Fritz-Krockow (WHD) visited Belize in July 2003 to advise on design of a tax reform.
- MFD expert visited Belize in August 2003 for a Module 2 Offshore Financial Center Assessment. The mission updated and extended an OFC assessment undertaken in September 2001.
- MFD long-term consultant assisted the Central Bank of Belize in banking supervision as a resident advisor during early 2004–June 2005.
- A joint LEG/MFD mission visited Belize in March 2005 to advise the authorities on strengthening their AML/CFT regime.
- An MCM mission visited Belize in December 4–15, 2006 to design monetary policy instruments.
- An FAD mission visited Belize in February 6–20, 2007 to review domestic tax and customs systems and procedures; and provide advice on an appropriate governance regime for the revenue administrations. In addition, Belize has been receiving TA on tax administration from CARTAC.
- A multisector statistics mission visited Belize during February 21–March 7, 2007 to assess the quality of the macroeconomic statistics in Belize—national accounts, consumer price index, government finance, monetary and financial, and balance of payments.
- A statistics mission visited Belize during August 15–26, 2008 to provide technical assistance on national accounts statistics.
- MCM mission visited Belize during September 1–12, September 24, September 29–October 3, and October 6–31 to advise on bank supervision and regulation.
- A follow-up STA mission on national accounts, supply and use tables, is scheduled January 12–23, 2009.
- A follow-up STA mission on FDI and IIP development is schedule in April 2009.

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<sup>3</sup> Staff has requested the exchange control regulations of Belize for the purposes of making a jurisdictional assessment.

**APPENDIX II. BELIZE—RELATIONS WITH THE WORLD BANK GROUP**

(As of January 9, 2009)

**I. Projects**

A five year Country Assistance Strategy was completed for Belize in August 2000 (Report No. 20708-BEL). The World Bank currently has no active projects in Belize. It is currently preparing an Interim Strategy Note for the period of 2009–2011 which envisions Analytical and Advisory Activities (AAA) and modest investment lending.

**II. Financial Relations**

**IBRD/IDA Operations**

**Loans/Credits/Grants Summary In USD Equivalent**

	<b>IBRD</b>	<b>IDA Credits</b>	<b>IDA Grants</b>	<b>Total</b>
Original Principal	86,200,000	0	0	86,200,000
Cancellations	5,703,328	0	0	5,703,328
Disbursed	80,496,672	0	0	80,496,672
Undisbursed	0	0	0	0
Repaid	59,258,576	0	0	59,258,576
Due	21,238,096	0	0	21,238,096
Exchange Adjustment	-613,050	0	0	-613,050
Borrower Obligation	20,625,046	0	0	20,625,046

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

(In millions of U.S. dollars)

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 Est.</b>
Disbursements	4.7	5.5	4.3	1.6	0.7	0.7	0	0	0
Repayments	3.3	3.4	4.8	4.8	4.6	4.5	4.9	4.9	4.7
Net	1.3	2.1	-0.5	-3.2	-3.9	-3.8	-4.9	-4.9	-4.7
Interest and fees	1.8	3.1	2.6	2.0	1.5	1.7	1.8	1.6	1.1

**APPENDIX III. BELIZE—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK**  
(As of April 15, 2009)

**I. Current Portfolio**

(In millions of U.S. dollars)

<b>Loan</b>	<b>Approved</b>	<b>Undisbursed</b>
Land Administration II	7.0	0.3
Health Sector Reform	9.8	0.7
Solid Waste Management	11.2	11.2
Sustainable Tourism	13.3	13.3
Road Rehabilitation	5.0	5.0
<b>Total</b>	<b>46.3</b>	<b>30.5</b>

**II. Loan Transactions**

	2005	2006	2007	2008	Proj. 2009
<b>Net flows</b>	<b>-3.1</b>	<b>5.1</b>	<b>12.3</b>	<b>-6.6</b>	<b>5.1</b>
Gross disbursements	2.9	12.3	20.2	2.7	14.7
Amortization	2.5	3.7	3.9	4.2	4.3
Interest and charges	3.5	3.6	4.5	5.1	5.3

**III. Country Strategy**

The IDB has shared with the Government of Belize a draft Country Strategy with Belize for the period 2008-2012. The draft Country Strategy has four objectives: (i) Ensure sound fiscal management and public sector transparency; (ii) Create conditions for and restore sustainable, private sector led growth; (iii) Improve Human resource development and social protection; and (iv) Rehabilitation of basic infrastructure. Two loans for Solid Waste Management and Sustainable Tourism were approved towards the end of 2008 consistent with the Country Strategy objective of “Sustainable development of tourism and agriculture.” A US\$5 million loan for Road Reconstruction under the Immediate Response Facility was approved on April 7, 2009 to respond to road infrastructure damage during the November 2008 floods. The IDB and Government have also been working on a policy-based loan in the social and fiscal sustainability areas.

In preparation for the Country Strategy, the IDB undertook an extensive economic and sector work program in 2007 and 2008 that included studies on: A Growth Diagnostic; Transport Sector Study; Energy Sector Review; Water and Sanitation Sector Study; Trade and Integration Sector Note; Private Sector Development Study; Tourism Sector Note; Education Sector Study; Social Expenditure Review; Social Protection and Health Sector Study; Indigenous Peoples Policy Note; Disaster Risk Management Sector Note; Citizen Security Note and credit to small and medium enterprises, housing and education.

**APPENDIX IV. BELIZE—RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)**  
(As of December 31, 2008)

**I. Current Portfolio**

(In millions of U.S. dollars)

<b>Loan</b>	<b>Approved</b>	<b>Undisbursed</b>
Second Water and Sewerage Project	13.8	1.6
Rural Development	3.4	2.0
Health Sector Reform Program	5.6	2.6
Social Investment Fund	7.1	4.6
Belize Cogeneration Energy Limited (Belcogen)	8.3	0.6
Policy-based loan	25.0	12.5
Third Road (Placencia Road Upgrade) Project	12.6	10.6
Modernization of Customs and Excise Department	2.5	1.0
NDM – Bridge rehabilitation	8.8	8.8
Emergency Recovery Loan – Hurricane Arthur	0.5	0.5
Feasibility Study – Water/Ambergris Caye	0.3	0.3
<b>Total</b>	<b>87.9</b>	<b>45.1</b>

**II. Loan Transactions**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Net flows</b>	<b>3.7</b>	<b>6.1</b>	<b>9.3</b>	<b>4.0</b>	<b>(1.7)</b>	<b>3.3</b>	<b>0.6</b>
Gross disbursements	7.6	9.5	13.5	9.4	3.9	20.0	14.9
Amortization	3.9	3.4	4.2	5.4	5.6	12.2	9.3
Interest and charges	3.6	3.6	3.9	4.5	4.7	4.5	5.0

**III. Economic and Sector Work**

Much of CDB's country and sector work in Belize since 2003 has focused on helping the authorities to address significant macroeconomic and fiscal imbalances, and to address sustainability issues in the operations of the Development Finance Corporation. This has resulted in a slower rate of loan approvals. A private sector loan to Belcogen was approved in 2005 while activity levels on CDB's main direct poverty reduction program, the Basic Needs Trust Fund, has been maintained.

The Belize authorities have been making significant effort to address the difficult fiscal and debt consequences that have resulted from the expansionary policies of recent years. In May 2006, the Government of Belize (GOBZ) requested a Policy Based Loan (PBL) of twenty-five million United States dollars (USD25 mn) from the Caribbean Development Bank (CDB) together with technical assistance (TA) support by way of additional loan and grants to assist in ensuring the success and sustainability of fundamental fiscal and structural reform measures which are being implemented. This request was approved by the CDB in December 2006 and the first disbursement was made in August 2007. The PBL is part of a broader assistance strategy by CDB for Belize. The strategy recognizes that the continuation of the fiscal and external imbalances will affect Belize's ability to undertake critical investments in social and economic infrastructure. The PBL is intended to help GOBZ close the fiscal and external financing gaps over the short to medium term, while it continues to implement corrective measures, including the restructuring of its debt, the reform of its tax regime and the strengthening of its fiscal management capacity. In December 2006, the CDB also approved a loan of USD\$12.6mn to Belize for the upgrade the Placencia road which was appraised to have significant social and economic benefits. Technical assistance (TA) was also approved by the CDB to Belize to help ensure the success of its adjustment efforts. Such assistance includes a TA loan for the modernization of the Customs and Excise Department, and TA grants of USD101,200 each, for the modernization of financial regulations, and to assist Belize to establish an appropriate institutional framework for macro-economic management.

CDB has continued to respond to Belize's natural disaster emergency needs. In 2008, CDB approved a loan of US\$8.8mn for the reconstruction of a major bridge which was destroyed by flood water.

**APPENDIX V. BELIZE—STATISTICAL ISSUES  
AS OF APRIL 6, 2009**

**I. Assessment of Data Adequacy for Surveillance**

**General:** Data are broadly adequate for surveillance, as in general, the quality, coverage, and timeliness of statistical information permit an adequate monitoring of economic developments. However, the July 2007 report by the multisector statistics mission list shortcomings in national accounts, prices, external trade and debt, government finance, and labor statistics. The Central Bank of Belize publishes, in irregular intervals, a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest. The country has participated in the GDDS since September 27, 2006.

**Real sector:** A new national accounts system has been phased-in. Under the new system, national accounts at constant and current prices are produced quarterly, instead of just annually. The base year for the compilation of national accounts has moved from 1984 to 2000, with consequent quality improvement of estimates at constant and current prices. Priorities for the period ahead include establishing a national accounts user advisory committee, updating the SNAPC-Belize application to take account of changes in the structure of the economy, modifying the concept of government industrial activity in conformity with the guidelines set out in the 1993 SNA, rebasing the national accounts to 2006, including electricity imports in the merchandise trade statistics, conducting a survey of activity in the Commercial Free Zone, disaggregating the imports of the Export Processing Zone, undertaking an inventory of data sources for national accounts, updating the Register of Establishments, annotating all GDP tables to distinguish the various revision stages; and collecting data on informal sector activity.

**Prices and labor statistics:** The CPI market basket is based on a household expenditure survey that was conducted between June 1990 and March 1991 and needs to be updated. Also, the CPI is calculated only four times a year (February, May, August, and November), with a lag of about three months. Labor market statistics are scarce and available at irregular intervals. Priorities for the period ahead include allocating additional staff to compile the CPI, establishing a CPI advisory committee to advise on the nature and purpose of the index, revising the procedures for collecting prices for perishable goods, undertaking the new Household Income and Expenditure Survey, improving the timeliness of the index, compiling a monthly CPI in accordance with international best practice, publishing the CPI weights, streamlining the price collection instruments, developing and disseminating a schedule for releasing the CPI, improving the metadata on the CPI, and developing procedures for taking account of quality change.

**Fiscal accounts:** Classification of expenditure into current and capital does not conform to international standards. Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector; evaluating each statutory body to determine its proper sectorization; compiling GFS for the social security fund; including the social security fund and the extra budgetary units in the coverage of public sector debt data; treating all government transactions in accordance with the guidelines of the *GFSM 1986*; ensuring that the annual financial statements for budgetary central government are audited in a timely manner; disseminating the statistics for central government aggregates and debt in accordance with the GDDS recommendations; and disseminating the available monthly data on budgetary central government revenue, expenditure and financing.

**Monetary accounts:** The coverage of monetary data is incomplete. The inclusion of credit union data remains a priority, although recent information submitted contains the accounts of the six largest credit unions. Contrary to methodological recommendations, interest accruals are included in other assets or other liabilities, rather than being classified along with the underlying instruments. In addition, unclassified assets and liabilities are large. Priorities for the period ahead include sending a revised form 2SR as soon as the data for the rest of the credit unions become available; classifying international offshore banks as part of other financial corporations sub sector; sectorizing the Social Security Board as part of the general government; establishing an integrated monetary base; and establishing data sharing procedure between the CBB and the Supervisor of Insurance.

**Balance of payments:** The compilation of balance of payments is based on the fifth edition of the *Balance of Payments Manual (BPM5)*. The authorities are refining the process for collecting relevant data that is enabling regular presentation of quarterly balance of payments statistics. International Investment Position (IIP) Statistics are not compiled. There is a need to improve and expand the compilation and dissemination of external sector statistics. Additional staff and relevant training is highly recommended.

**External debt:** There are discrepancies between the external debt data reported by the central bank and those reported by the ministry of finance, particularly with respect to gross external disbursements of the central government. In addition, the data reported by the central bank and the ministry of finance on the external debt of the public enterprises are incomplete and inconsistent with the information provided by the public enterprises. The authorities are seeking to reduce the discrepancies and inconsistencies by fostering greater cooperation among the agencies involved. An effort to develop a database for private sector debt is under way.

**Development Finance Corporation:** Priorities for the period ahead include recording the financial support provided by the government to DFC in recent years; recording the loans to DFC locked by mortgage securities as debt; compiling a consolidated sectoral balance sheet for insurance companies and the Belize mutual fund; and renewing efforts to collect balance sheet data from the DFC.

<b>II. Data Standards and Quality</b>
Participant in the General Data Dissemination System (GDDS) since September 27, 2006.
<b>III. Reporting to STA (Optional)</b>
No data ROSC is available. No fiscal data are being reported for publication in the <i>Government Finance Statistics Yearbook</i> or in the <i>IFS</i> .

**Belize: Table of Common Indicators Required for Surveillance**  
(As of April 6, 2009)

	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>6</sup>	Frequency of Publication <sup>6</sup>
Exchange Rates	12/31/08	03/23/09			
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	12/31/08	01/31/09	W	W	NA
Reserve/Base Money	12/31/08	01/31/09	W	W	NA
Broad Money	12/31/08	01/31/09	W	W	NA
Central Bank Balance Sheet	12/31/08	01/31/09	W	W	NA
Consolidated Balance Sheet of the Banking System	12/31/08	01/31/09	M	M	NA
Interest Rates <sup>2</sup>	12/31/08	01/31/09	M	M	NA
Consumer Price Index	11/30/08	02/23/09	Q	Q	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	03/30/03	12/30/03	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	01/30/09	1/30/09	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt <sup>5</sup>	12/31/08	03/23/09	M	M	NA
External Current Account Balance	Q2 08	11/13/08	Q	Q	A
Exports and Imports of Goods and Services	Q2 08	11/13/08	M	M	NA
GDP/GNP	2007	06/30/08	A	A	NA
Gross External Debt	12/31/08	03/23/09	A, M	A, M	NA
International Investment Position <sup>6</sup>			N/A	N/A	N/A

<sup>1</sup> 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.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 09/58  
FOR IMMEDIATE RELEASE  
May 14, 2009

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2009 Article IV Consultation with Belize**

On May 8, 2009 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.<sup>1</sup>

### **Background**

Belize, a small open economy with a narrow export base, remains vulnerable to exogenous shocks. Since 2005, growth in the traditional sectors of the economy has decelerated, reflecting in part the impact of severe weather-related shocks during 2007–08. Starting in 2006, petroleum extraction has been a major factor contributing to growth, accounting for approximately 5 percent of GDP in 2008. A debt restructuring agreement in February 2007 provided a substantial reduction in the net present value of the debt owed to private creditors. Over the past year, a renewed commitment to prudent macroeconomic policies and to improving governance has elicited increased support from official creditors.

Macroeconomic performance was broadly favorable during 2008. Despite losses from two tropical storms, real GDP increased by about 3 percent. Domestic price inflation, which has been low historically, rose to nearly 10 percent by mid-2008, driven largely by food and fuel prices. By February 2009, inflation declined to 1½ percent. The current account deficit widened sharply to 10 percent of GDP in 2008, reflecting a surge in FDI-related imports and higher prices of imported food and fuel. Gross international reserves of the Central Bank of Belize rose to US\$166 million at end-2008, the equivalent of two months of imports.

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<sup>1</sup> 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. 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.

The accounts of the central government are estimated to have registered an overall surplus of 1¼ percent of GDP in FY 2008/09 (April–March). However, the underlying fiscal position has weakened, as recurrent expenditure has been growing rapidly at a time of rising dependence on volatile revenue sources, such as petroleum and grants. Belize's financial system appears so far largely insulated from the global downturn. However, commercial bank credit to the private sector expanded rapidly in recent years, reaching the equivalent of 70 percent of GDP, and the nonperforming loan ratio doubled in 2008.

Belize's economy is projected to decelerate in 2009 due to the global downturn. Real GDP growth is projected at 1 percent, reflecting the impact of declining tourism, remittances, and FDI inflows. Twelve-month inflation is projected to ease to 2½ percent by year-end. The external current account deficit would contract significantly, as imports are projected to decline more than exports, mirroring an expected fall in private capital inflows. In FY 2009/10, the overall balance of the central government is projected to shift from a surplus to a deficit of 1¾ percent of GDP, on account of a budgeted increase in recurrent spending, while tax revenue is projected to increase at a slower pace.

### **Executive Board Assessment**

Executive Directors welcomed the broadly favorable economic performance in 2008, and commended the authorities' commitment to pursue sound macroeconomic and financial sector policies to manage near-term risks and reinvigorate growth potential over the medium term. Against the backdrop of the global downturn, they noted that Belize, as a small, open economy with a fixed exchange rate system, a low level of reserves, and a high debt level, remains vulnerable. Looking ahead, Directors welcomed the authorities' aim to pursue a medium-term economic strategy centered on sustained fiscal consolidation, while strengthening their international reserve position and oversight of the financial sector.

Directors noted that the exchange rate peg has served Belize well, providing an important anchor for macroeconomic policies. They also noted the staff's assessment that the exchange rate appears to be broadly in line with fundamentals. Directors emphasized that strong macroeconomic policies are necessary to underpin this exchange rate regime and help raise international reserves to a comfortable level. They also encouraged the authorities to access additional external financing to contain the risk of a sharper-than-anticipated external deterioration.

Directors agreed that a more cautious fiscal stance would help protect Belize's external position and enhance public debt sustainability by lowering debt ratios over the medium term. They encouraged the authorities to restrain the growth in public expenditure, including through wage moderation, while boosting tax revenue aimed at raising the primary surplus and helping reduce the budget's reliance on volatile revenue sources. At the same time, they considered as important protecting outlays for reconstruction and other investment, given their positive supply-side effects.

Directors underscored the need to ensure the medium-term financial viability of key public sector programs to help secure fiscal sustainability. They considered that the Social Security

Board and the pension plan for civil servants should be reformed to put them on a sound financial footing. Directors agreed that the proposed extension of the National Health Insurance scheme should await adequate funding and that the mandate of the newly reactivated Development Finance Corporation needs to be clarified and financing identified to cover its operating costs. They considered that petroleum revenues should remain integrated in the budget, with related information published and subject to regular audits to ensure transparency.

Noting the increase in non-performing loans, Directors encouraged the authorities to further strengthen oversight of the financial system. They underscored the importance of developing contingency plans for the financial system and devising a framework for the provision of liquidity. Directors welcomed the strengthening of the Anti-Money Laundering legislation, and recommended that adequate resources be provided for the Financial Intelligence Unit to allow its implementation.

Directors endorsed the authorities' focus on a development strategy to raise Belize's medium-term growth potential, which should draw upon private sector as well as donor financing. They underscored that the public investment program should be consistent with the authorities' prudent fiscal strategy. Directors commended the authorities' commitment to good governance, the rule of law, and contract enforcement, which are important for improving the investment climate.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

## Belize: Selected Economic Indicators, 2004–08

	2004	2005	2006	2007	Est. 2008
(Annual percentage change, unless otherwise indicated)					
<b>National income and prices</b>					
GDP at constant prices	4.6	3.0	4.7	1.2	3.0
Nominal GDP (US\$ millions)	1,056	1,115	1,213	1,277	1,381
Gross domestic investment 1/ 2/	18.9	21.6	17.7	16.9	25.6
Gross national savings 1/	4.2	8.0	15.6	12.9	15.6
Consumer prices (end of period)	3.1	4.2	2.9	4.1	4.4
Real effective exchange rate	-2.4	-1.3	0.9	-2.8	0.5
<b>Money and credit</b>					
Credit to the private sector	9.6	11.3	13.1	13.9	11.6
Money and quasi-money (M2)	7.5	5.9	17.3	15.0	14.0
(In percent of GDP)					
<b>Central government 3/</b>					
Revenue and grants	22.8	23.4	25.3	27.4	28.8
Current expenditure	22.6	24.7	22.9	23.3	23.0
Capital expenditure and net lending	6.5	4.1	4.4	5.1	5.0
Primary balance	0.8	2.1	3.8	3.9	4.7
Overall balance	-6.4	-5.4	-2.0	-1.1	0.8
<b>External sector</b>					
External current account 4/	-14.7	-13.6	-2.1	-4.0	-10.0
Overall balance of payments (US\$ millions)	-31.2	-12.2	49.8	22.9	57.0
Public and publicly guaranteed debt	100.1	98.4	92.2	88.6	77.3
Domestic debt	9.0	7.3	8.3	9.0	7.8
External debt	91.1	90.9	83.9	79.5	69.5
Gross usable official reserves	48.0	35.8	85.6	108.8	165.8
In months of imports	0.9	0.6	1.3	1.6	2.1

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

1/ In percent of GDP.

2/ Including inventory accumulation.

3/ Calendar year.

4/ Including official grants.

**Statement by Stephen O'Sullivan, Alternate Executive Director for Belize and  
Peter McGoldrick, Advisor to Executive Director  
May 8, 2009**

On behalf of our Belizean authorities, we express appreciation for the staff's candid, yet cordial, approach to the 2009 Article IV Consultations. The authorities are grateful for the comprehensive analysis offered in the report and they broadly share the conclusions reached. In particular, they welcome points raised in the seminar organized by the staff and attended by senior officials from the Ministry of Finance, the Ministry of Economic Development and the Central Bank of Belize, as well as representatives from the IDB, the CDB and the World Bank. Useful strategies were outlined during the seminar, the implementation of which could help Belize to benefit from an eventual improvement in global economic conditions. On behalf of the authorities, we further express gratitude for the funds released through last year's ENDA, which helped alleviate balance of payments pressures and repair damages sustained during two devastating tropical weather events in 2008.

The smooth transition of power in 2008 underscores the stability of Belize's democracy. The opposition party won the February 2008 elections carrying a manifesto that placed good governance, accountability, and transparency at its core. Furthermore, Government has pledged its commitment to a strategy that promotes poverty reduction and sustainable growth and development. In the context of a constrained budgetary position, the authorities fully understand the implications of trading-off necessary capital expenditure with recurrent expenditure. They plan to address this constraint to sustained development within the context of the FY 2010/11 budget exercise.

### **Output Performance**

For 2008, the staff estimates that output growth rebounded to 3 percent. This constitutes a significant improvement, which exceeds expectations and compares favorably with regional competitors. It should be recalled that in 2008 Belize was recovering from storm damage in 2007 totaling 3.7 percent of GDP and that it had to deal with further damage sustained by two weather events in 2008, whose costs are estimated at 5.4 percent of GDP. As staff quite rightly points out, economic growth in 2008 was, in part, generated from petroleum-related activities, which, absent new finds, are projected to decline. Nonetheless, most of economic growth in 2008 came from the non-oil sector. Looking ahead, the global economic environment has changed in a way that exacerbates many of last year's challenges. The authorities share the staff's view that the deterioration in global economic circumstances will likely see reduced levels of FDI, remittances and tourism. They are, however, of the opinion that the rebound in output associated with the recovery from natural disasters could be somewhat stronger than the staff's projection of 1 percent economic growth for 2009. In any event, the achievement of positive output growth in 2009 would constitute a very good performance in the current global context, especially for a small open economy.

### **External Reserves**

Given that the Belizean dollar is pegged to the US dollar, the authorities agree with the staff's assessment that safeguarding the foreign reserve position is a key priority. Over the

past years, this continued to improve and now stands at a level twice that of monthly imports. The authorities believe the level of official foreign reserves can best be further raised by increasing exports and persevering with efforts aimed at fiscal consolidation, with a view to reducing debt levels. In the context of safeguarding reserves, a continued vigilance vis-à-vis the financial sector is of equal importance, both in terms of oversight and, if required, the provision of liquidity. Indeed, the authorities have in recent times shown sustained commitment to fiscal consolidation and improved oversight of the financial sector. Furthermore, they expressed a keen interest in developing new tools and capabilities to manage liquidity.

As the staff points out, significant challenges have resurfaced during a difficult period characterized by highly changeable global economic conditions, the transition of a new Government and three devastating tropical weather events in the past two years. Under these circumstances, a certain degree of moderation of the usual fiscal discipline is necessary. Furthermore, a successful restructuring of commercial external debt in February 2007 has afforded the authorities an opportunity to continue decreasing the debt ratio, even if the debt burden remains relatively high. The current account deficit is expected to narrow considerably this year after it widened last year. Last year's widening was chiefly driven by high food and oil prices, as well as FDI inflows, which focused on infrastructure improvement. Finally, while Belize has not passed unscathed through volatile global economic conditions, last year's overall growth performance buttressed by revenues from growing oil extraction was unequivocally solid.

### **Fiscal Policy**

Over the recent past, Belize's fiscal balance has consistently improved resulting in significant surpluses in the three years leading up to FY 2007/08. In a challenging FY 2008/09, estimates point to a further increase in the surplus. On the revenue side, grants and oil revenue have contributed significantly to the recent increase in revenues. These are, however, expected to decline to about 1.5 percent of GDP going forward. Recognizing the need to strengthen other revenue sources, the authorities have stepped up efforts to (i) enhance audit procedures in General Sales Tax collection; (ii) finalize computerization of revenue collection; (iii) strengthen the operations of the customs department; and (iv) tackle the problem with contraband by providing additional human and financial resources. Additionally, in the wake of the fall in global oil prices, the authorities re-introduced a levy on fuel that should add US\$15million to revenues. They agree that oil prices have been volatile in recent years. Given the currently low prices, however, it would appear that any increase in volatility would likely provide increases in petroleum-related revenue. Expenditure increases, on the other hand, were largely on essential expenditure for health, education and security. They also included increases in personal emoluments to reinstate public officers' increments which were frozen for the year 2005.

Following a significant debt restructuring and the implementation of a prudent policy approach that is committed to halving the debt by 2019, Moody's upgraded Belize's sovereign debt to B3 in mid-February. At eighty percent, the public debt ratio remains high, even if it has fallen significantly since FY 2003/04. Likewise, the debt burden has in recent years fallen to manageable levels. Nonetheless, the authorities are well aware of the

significant coupon resets that were prescribed in the restructuring and fully accept the implications of staff's analysis that further significant fiscal consolidation is required in order to remain on course. In recognition of the relatively high debt levels, thin reserves and susceptibility to external shocks, the authorities concur that good relations with the international community are important and Belize has more recently renewed its commitment to furthering relations with official lenders, such as the IDB, CDB, and the WB, which have pledged a sum of US\$45mn for the development of the country.

In its report, the staff identifies certain public sector programs for which sustainable funding should be secured prior to further roll-out, lest they become a drain on public finances. While the authorities do not envisage rolling these out any further at this stage, they welcome the staff's suggestions regarding potential funding sources. Furthermore, the authorities broadly agree that there is an urgent need to identify additional lines of credit to ensure sustained growth of the Development Finance Corporation portfolio.

### **Structural Reforms**

As outlined in the 2007 agenda, reforms are ongoing and the authorities aim to raise and diversify revenues, while they continue to improve the effectiveness of expenditure. With a Technical Assistance loan from the CDB, steps are being undertaken to strengthen and modernize the Customs & Excise Department. Furthermore, efforts are being undertaken in collaboration with the WB, IDB, and CDB to improve public financial management. In addition to the strengthening and modernization of the Customs Department, the CDB is advising on the implementation of multi-year budgeting, the upgrade and strengthening of public financial regulation rules and procedures and the improvement of macroeconomic forecasting. The IDB is providing assistance with the definition and implementation of an Action Plan on the key recommendations coming out of the PEFA Exercise, which was undertaken in conjunction with the EU in order to enhance the quality of public expenditure. The World Bank is working, in conjunction with the IDB, to improve the quality of public procurement and is providing assistance to build the institutional capacity of the Auditor General's Office. Regarding efforts to improve monetary management, a proposal for improved CBB liquidity management is pending approval. In response to the team's suggestion, the Income Tax Department is seeking to improve its capacity to audit investment and revenues in the petroleum industry. The authorities have acted quickly and requested technical assistance from the Government of Trinidad and Tobago in this matter. As regards transparency of oil revenues, all oil revenues are included in the budget and deposited to the Consolidated Revenue Fund.

### **Financial System**

To date, the financial system of Belize has remained generally isolated from the global financial crisis. As the staff points out, the authorities have stepped-up their efforts at monitoring local banks and these, in conjunction with a tightening of standards, largely explain the sudden rise in NPL recorded in the data. The CBB has been closely monitoring liquidity in the financial sector and intends to be proactive on the development of contingency plans for the banking system. Notwithstanding the current ample levels of liquidity in the system, the authorities accept that a fall in exports, remittances and FDI over

the next year could lead to increased risk of liquidity problems. They feel that these risks will be mitigated, to a large degree, by a narrowing of the current account deficit. Hence, extant liquidity management tools should suffice in order to attain external reserves goals. Nonetheless, the authorities welcome any forthcoming suggestions for new liquidity mechanisms and facilities that would also help reduce spreads and develop the interbank market. The authorities will remain vigilant with regard to the insurance sector. Naturally, enhanced credit lines help forestall potential fallout from the financial sector.

### **Inflation and Competitiveness**

As the rest of the world, Belize was exposed to unusually high price volatility in recent years that largely originated outside the country, especially with regard to food and petroleum products. With the significant fall in prices since 2008 Q4, inflation is low and is expected to remain so. The exchange rate is pegged and, despite a period of high inflation last year, the trend has been for the REER to depreciate. Overall, the real exchange rate is thought to be generally in line with fundamentals. Competitiveness could be further enhanced by infrastructure investment and would also benefit from a lower cost of finance. Hence, further structural reform is required as well as the introduction of improved monetary policy tools. Furthermore, increased participation of the private sector in investment projects is desirable.

### **Other Issues**

Belize has taken many important measures to improve the quality and timeliness of its data and remains committed to improving both. Further, the Statistical Institute of Belize plans to introduce a new CPI in 2010 that better reflects the consumer basket.

### **Conclusion**

In recent years, Belize has shown much willingness and initiative to overcome many structural issues that have hindered its development. As a small, open economy with a fixed exchange rate, low levels of reserves and high levels of indebtedness, Belize remains vulnerable to exogenous shocks. The authorities appreciate the support provided by the international community to help address the impact of these shocks. They remain resolutely committed to take the required steps to protect the external reserve position and consolidate the budget. Hence, they are confident that Belize can be steered onto and on a course of sustainable development through these difficult times of transition.