INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/133

BELIZE

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

May 2022

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 2022 Article IV consultation with Belize, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis following discussions that ended on February 22, 2022, 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 20, 2022.
- An **Informational Annex** prepared by the IMF staff.

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

April 20, 2022

KEY ISSUES

Context. The COVID-19 pandemic had a severe impact on Belize in 2020, leading to a 16.7 percent contraction in real GDP and a rise in public debt to an unsustainable level of 133 percent of GDP. To address this situation, the government presented a medium-term plan to lower public debt to 85 percent of GDP in 2025 and 70 percent in 2030 by implementing fiscal consolidation, structural reforms, and debt restructuring. Significant progress towards restoring debt sustainability was made in 2021.

Outlook and Risks. Real GDP grew by 9.8 percent in 2021 and is projected to growth by 5.7 percent in 2022 and 3.4 percent in 2023, led by the recovery of tourism. The fiscal position has strengthened in line with the economic recovery and fiscal consolidation, and debt dynamics have improved including because of the debt for marine protection swap with TNC. However, further actions are needed to restore debt sustainability. Risks to the outlook are tilted to the downside, including from an escalation of the pandemic, tighter global financial conditions, natural disasters, and higher commodity prices.

Policy Advice. The key policy priority is to restore debt sustainability, which would also strengthen the currency peg. This requires preserving the fiscal savings made in FY2021 and implementing additional fiscal consolidation and growth-enhancing structural reforms with the objective of reducing public debt to 60 percent of GDP by 2031.

- *Fiscal Policy.* Restoring debt sustainability requires gradually raising the primary balance to 2.5 percent of GDP by 2025 by preserving the fiscal savings achieved in FY2021 and implementing 1.9 percent of GDP of additional fiscal consolidation over three years, relying on both revenue and expenditure measures.

- *Structural Reforms*. Boosting growth requires easing access to credit for SMEs, reducing entry barriers, enhancing human capital and infrastructure, containing crime, and building resilience to natural disasters and climate change.

- *Monetary Policy.* Improving reserve adequacy and strengthening the currency peg require restoring public debt sustainability and limiting government financing by the Central Bank, in line with the trends observed in 2021.

- *Financial Sector Policy*. Preserving financial stability requires a careful transition out of the forbearance measures implemented in FY2020 and continued strengthening of the AML/CFT framework and enforcement.

Approved By
Patricia Alonso Gamo (WHD) and Andrea Schaechter (SPR)

Discussions took place virtually during February 10–22, 2022. The IMF team comprised Jaime Guajardo (Head), Thomas Dowling, Mariusz Sumliński (all WHD), and Ke Chen (LEG). Benjamin Rankin (OED) attended some of the meetings. Patricia Alonso-Gamo (WHD) and Philip Jennings (OED) attended the concluding meeting. The team met with the Honorable Mr. John Briceño, Prime Minister; Mr. Kareem Michael, Governor of the Central Bank of Belize; Mr. Christopher Coye, Minister of State, Mr. Joseph Waight, Financial Secretary; and other senior government officials, representatives of the opposition, private sector, and public sector unions. Sheng Tibung and Adam Siddiq contributed with excellent research assistance and administrative support.

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CONTEXT

1. **The COVID-19 pandemic had a severe impact on Belize in 2020**. It led to a 71 percent drop in tourist arrivals and a 16.7 percent decline in real GDP in 2020. The resulting fall in revenues and rise in pandemic-related expenditure widened the fiscal deficit to 10.3 percent of GDP in FY2020 and increased public debt to 133 percent of GDP in 2020, a level that was assessed as unsustainable during the 2021 Article IV consultation.[1] To address this situation, the new government, in office since November 2020, presented a Medium-Term Recovery Plan (MTRP) that seeks to lower public debt to 85 percent of GDP in 2025 and 70 percent in 2030 through the implementation of fiscal consolidation, growth-enhancing structural reforms, and debt restructuring.[2]

2. **Encouraging progress towards restoring debt sustainability was made in FY2021**. In line with the MTRP, the government introduced large fiscal consolidation measures in FY2021, including a 3 percent of GDP reduction in noninterest current expenditure, led by cuts to public sector wages, subsidies and current transfers, and a 2.4 percent of GDP cut to capital expenditure. The government also completed a model debt for marine protection swap with The Nature Conservancy (TNC), which reduced public debt by 12 percent of GDP. Under this pathbreaking debt swap, a subsidiary of TNC lent funds to Belize to buy back the superbond (external debt with private creditors amounting to US$553 million or 30 percent of GDP) at 55 cents per dollar (Annex I). In exchange, Belize committed to spend US$4.2 million per year on marine conservation until 2041 and expand its Biodiversity Protection Zones (coral reefs, mangroves, and fish spawning sites) from 16 percent of ocean area to 30 percent by 2026. It also established an endowment fund of US$23.5 million to fund marine conservation after 2041. These initiatives will also support the authorities' efforts to strengthen resilience to natural disasters and climate change and reduce greenhouse gas emissions.

3. **The policies implemented by the authorities in FY2021 were aligned with staff advice (Annex II).** The authorities implemented sizable fiscal consolidation measures, completed a novel debt for marine protection swap, and eased the process to register businesses and property using digital technologies. However, progress with other growth-enhancing structural reforms has been more limited, including those aimed at strengthening the resilience to natural disasters and climate change. The central bank's approach to exit pandemic-related forbearance measures in the financial system and strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework has also been aligned with staff recommendations.

4. **The COVID-19 pandemic is currently under control**. Belize experienced a third wave of the pandemic in early 2022, driven by the omicron variant. The 4-week cumulative cases peaked at 18,000 on February 2, about three times previous peaks, but have fallen to less than 500 since late March. The number of deaths remained moderate through this period as the Omicron variant was less lethal than previous variants and due to increased vaccination. About 52 percent of Belize's population is fully vaccinated (a fifth of which has received a booster) and 6.5 percent has received

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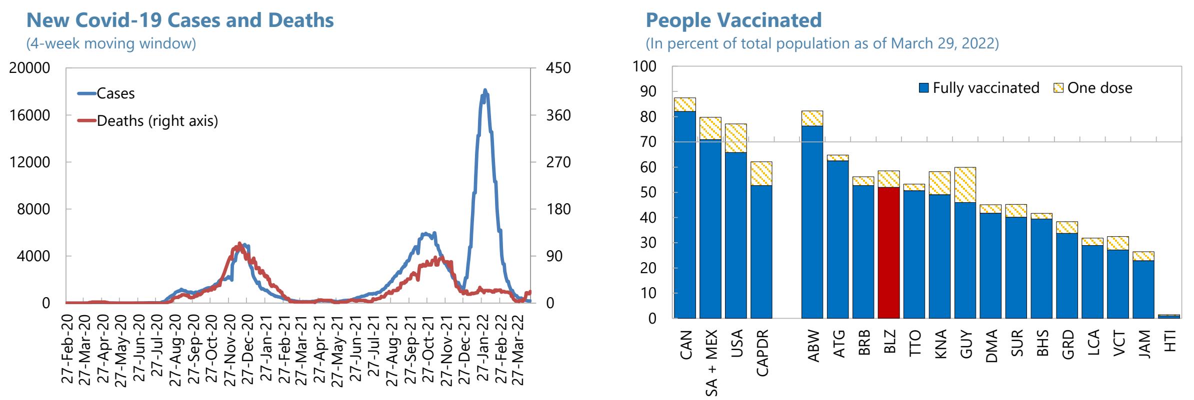
[1] Belize's fiscal year runs from April 1st to March 31st.

[2] The People's United Party won 26 of the 31 seats at the House of Representatives in the November 2020 elections, which gives the government a strong mandate to implement reforms to restore debt sustainability and boost growth.

one dose. The authorities aim to vaccinate 70 percent of the population, but vaccination of children younger than 12 has not yet been approved and vaccine hesitancy remains a problem.

Figure 1. Belize: COVID-19 Cases, Deaths, and Vaccination



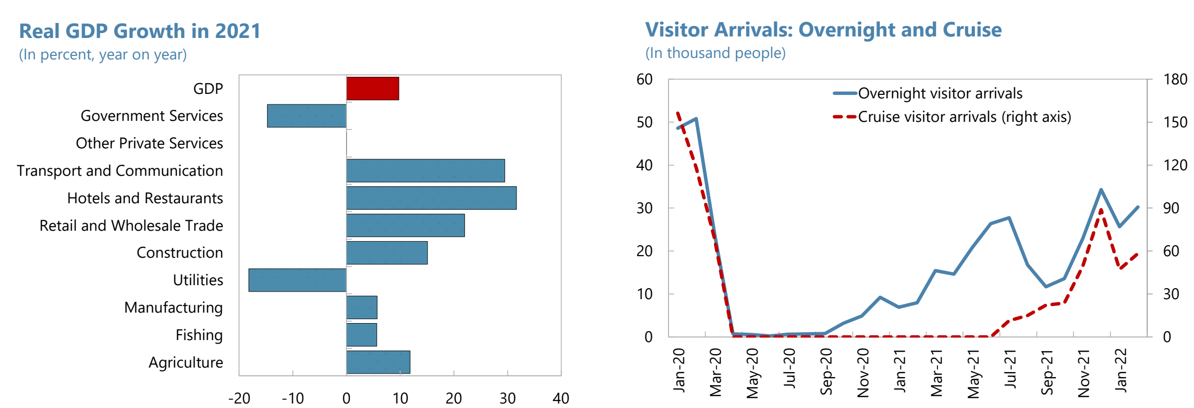
Sources: Country authorities.

Sources: Our World in Data database.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

5. **Economic activity is recovering strongly from the slump in 2020**. Real GDP expanded by 9.8 percent in 2021 and is projected to grow by 5.7 percent in 2022 and 3.4 percent in 2023, led by the recovery of tourism. The impact on growth from the war in Ukraine is expected to be modest as most tourists come from the United States, although tourism could be hurt by higher airfare and accommodation costs. The unemployment rate declined from 13.7 percent in 2020 to 10.2 percent in 2021 and is projected to fall to 8.2 percent in 2022. End of year inflation increased sharply from 0.3 percent in 2020 to 4.9 percent in 2021 driven by higher global energy and food prices and is projected at 5.2 percent in 2022 as the war in Ukraine and related economic sanctions keep global energy and food prices elevated, which is partly mitigated by the currency peg to the US dollar, the recent caps on diesel and regular gasoline prices to be achieved by adjusting the specific taxes on these fuels, and subsidies to public transportation to limit the increase in tariffs.

Figure 2. Belize: Real GDP Growth and Tourist Arrivals



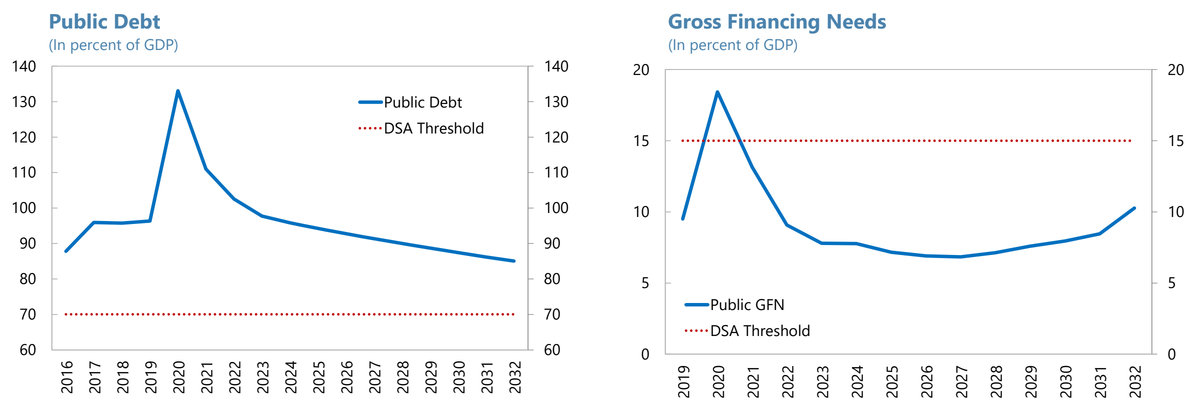
Sources: Belize Statistical Institute.

Sources: Belize Tourism Board.

6. The fiscal position improved significantly in FY2021 due to the strong economic recovery and fiscal consolidation. The primary balance rose from –8.5 percent of GDP in FY2020 to 1.7 percent of GDP in FY2021, led by a 4.8 percent of GDP cyclical recovery of revenues plus grants and a 5.4 percent of GDP fall in noninterest expenditure due to fiscal consolidation. However, the primary balance is projected to decline to –0.1 percent of GDP in FY2022 partly due to measures adopted to mitigate the impact of higher global fuel prices on the economy, including a 0.7 percent of GDP cut in specific taxes on fuel and a 0.1 percent of GDP subsidy to public transportation to limit the rise in tariffs. Other factors reducing the primary balance in FY2022 are a 0.2 percent of GDP fall in revenue due to the reopening of borders; a 0.5 percent of GDP drop in grants; and a 0.2 percent of GDP rise in the wage bill partly driven by the restitution of last year's 10 percent cut to public sector wages from July 2022. Afterwards, the primary balance is projected to increase to 0.7 percent of GDP in FY2023 as the measures adopted to limit the rise in fuel prices expire, and to decline gradually to 0.4 percent of GDP in FY2032 as grants continue to decline as percent of GDP and assuming that no additional fiscal consolidation is implemented during FY2022-32.[3]

7. Debt dynamics have improved significantly, but public debt would continue to be assessed as unsustainable in the absence of additional measures. Public debt declined from 133 percent of GDP in 2020 to 111 percent of GDP in 2021 due to the strong economic recovery, the smaller fiscal deficit, and the debt for marine protection swap, and is projected to fall to 85 percent of GDP by 2032 in line with the continued primary surpluses. Gross financing needs (GFN) are also projected to fall from 13.2 percent of GDP in 2021 to below 10 percent during 2022-32. However, staff would continue to assess Belize's public debt as unsustainable in the absence of additional measures as it would remain above the 70 percent of GDP threshold for sustainability over the next 10 years even in the baseline scenario (Annex III). Moreover, debt dynamics would remain highly vulnerable to shocks to growth, interest rates, and the fiscal position.

Figure 3. Belize: Public Debt and Gross Financing Needs



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

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

8. The external position improved in 2021 but is expected to worsen going forward. The current account deficit widened in 2021 due to strong import growth and higher commodity prices,

[3] These projections do not include the government's plan to contain expenditure after FY2022 outlined in the FY2022 budget speech as these measures have not yet been approved by Congress.

but external financing rose more, increasing international reserves from US$348 million (3.8 months of imports) in 2020 to US$420 million (4 months of imports) in 2021 partly due to the IMF's SDR25.6 million (US$36 million) allocation, which the authorities are keeping as reserves. The current account deficit is projected to remain elevated during 2022-23 in line with high global energy and food prices, moderating somewhat over the medium term. This, plus potentially scarcer external financing due to debt sustainability concerns, is expected to worsen reserve adequacy over time.

9. Risks to the outlook are substantial and tilted to the downside (Annex IV). A key risk is an intensification of the pandemic domestically and abroad, including through the emergence of new vaccine resistant variants, which could derail the recovery of tourism and hurt activity in contact intensive sectors. On the upside, further vaccination may strengthen immunity and growth. Another key risk is the de-anchoring of US inflation expectations, which could tighten global financial conditions and increase the cost of external financing for Belize, although the risk of capital outflows is mitigated by the limited access to the external capital markets. Natural disasters are also a key risk given Belize's high vulnerability to weather shocks and climate change. Inflation could rise further because of second rounds effects and higher global energy and food prices stemming from the war in Ukraine and related economic sanctions.

Authorities' Views

10. The authorities agreed with the views on the outlook and risks, and the assessment that public debt would remain elevated without additional measures. They noted the marked improvement in the fiscal position and the large fall in public debt in 2021 driven by the strong economic recovery, fiscal consolidation, and the debt for marine protection swap. They expect these trends to continue, with real GDP growth projected at 6 percent in 2022-23 led by the recovery of tourism. However, they agreed that public debt would remain elevated without additional measures and stressed their commitment to achieve the debt targets in the MTRP. The FY2022 budget targets a primary surplus of 0.4 percent of GDP in FY2022 and projects primary surpluses of about 2 percent of GDP between FY2023 and FY2026, which together with the rebasing of GDP to be released in May 2022, would lower public debt to below 85 percent of GDP in 2025 and below 70 percent of GDP in 2030.[4] They also stressed the significant risks to inflation from global food and energy prices and the war in Ukraine, which led them to introduce a temporary reduction in specific taxes for diesel and targeted fuel subsidies for eligible bus and tour operators to limit the rise in tariffs.

[4] The authorities, with support from CARTAC, the IMF, and Statistics Canada, are rebasing the national accounts. The new series will update the base year from 2000 to 2014 and upgrade the manual used for compiling the statistics from the 1993 System of National Accounts (SNA) to the 2008 SNA. Preliminary estimates indicate that GDP would increase by about 20 percent from current values reflecting new sectoral weights and an updated business registry.

POLICY DISCUSSIONS

Belize's key policy priority is to restore debt sustainability, which would also strengthen the currency peg. This requires preserving the fiscal savings achieved in FY2021, ensuring that the measures adopted to mitigate the rise in fuel prices in FY2022 are temporary, and implementing additional fiscal consolidation and growth-enhancing structural reforms with the objective of reducing public debt to 60 percent of GDP by 2031. Given implementation challenges and large downside risks to the outlook, it will be important to prepare contingency plans in case public debt does not decline as expected.

A. Balanced and Sustained Fiscal Consolidation

11. The authorities should capitalize on the recent decline in public debt and continue their efforts to restore debt sustainability. Staff recommends reducing public debt to 60 percent of GDP by 2031—a slightly more ambitious target than the one in the MTRP—to ensure that public debt remains below the 70 percent of GDP threshold for sustainability even when the economy is hit by shocks. To achieve this target, staff recommends gradually raising the primary fiscal balance to 2.5 percent of GDP by FY2025 and keeping it at 2 percent of GDP afterwards. In this context, it will be key to preserve the fiscal savings achieved in FY2021 and to ensure that the measures adopted to mitigate the rise in fuel prices in FY2022 are temporary, which would keep the primary balance at about 0.6 percent of GDP over the medium term.[5] The authorities will also need to implement 1.9 percent of GDP of additional fiscal consolidation over three years to reach the FY2025 primary balance target (Text Table 1). Anchoring this plan in a credible medium-term fiscal strategy with clear targets and specific measures and preparing the ground for the adoption of a well-designed Fiscal Responsibility Law (FRL), would enhance the credibility of this strategy.

12. Fiscal consolidation should rely on both revenue and expenditure measures. Following the implementation of expenditure-based fiscal consolidation in FY2021 and a temporary relaxation in FY2022, the authorities should consider rebalancing the composition of fiscal consolidation towards revenue mobilization while reprioritizing expenditure as follows:

- **Revenue**. Broadening the tax base and strengthening tax administration could raise revenue by 2 percent of GDP over three years. The General Sales Tax (GST) has several items taxed at a zero rate, including processed foods, non-prescription drugs, utilities, appliances, household items, business inputs, and government purchases. Taxing some of them at the standard 12.5 percent rate could raise 1.5 percent of GDP in revenue by FY2025.[6] Standardizing the Personal Income Tax exemption thresholds at BZ$20,000 could add 0.2 percent of GDP in revenue, while raising excise taxes and fees on vehicle registrations and driver licenses could add 0.1 percent of GDP.

[5] If the rise in global fuel prices proves to be persistent, the authorities should consider gradually unwinding the tax cuts on diesel and the transport subsidies to let relative prices adjust and expanding targeted transfers to the most vulnerable. The latter should be feasible to implement once the 2022 Census has been finalized and the authorities have an updated picture of poverty incidence in the country.

[6] Moreover, Belize's GST does not cover the hotel sector, which is subject to a 9 percent tax levied on hotel room revenue administered by the Belize Tourism Board, and its rate is low compared to peers.

Strengthening tax administration could add 0.2 percent of GDP by adopting a tax compliance plan to improve filing and payment rates, starting with the largest taxpayers and sectors less affected by the pandemic; enhancing audit capacity; increasing tax arrears collection; building capacity at Belize Tax Services; and implementing an integrated tax administration system.

- **Expenditure**. Staff recommends containing noninterest current expenditure while raising social and resilience expenditure. The authorities should consider capping the increase in noninterest current expenditure to inflation during FY2023-25, which would keep its real value unchanged while reducing its ratio to GDP by 1.4 percent by FY2025. They should also consider increasing social expenditure (healthcare, education, and targeted social programs such as Building Opportunities for Our Social Transformation (BOOST), Food Pantry, and Conditional Cash Transfers) by 1 percent of GDP over four years and creating a natural disaster contingency fund with adequate safeguards of 1 percent of GDP over four years in line with the recommendations in the 2018 Climate Change Policy Assessment (CCPA).

Text Table 1. Belize: Recommended Fiscal Consolidation Measures

(In percent of GDP, Deviations from Staff's Baseline Scenario)

	Annual Yields				Cumulative Yields			
	FY2023	FY2024	FY2025	FY2026	FY2023	FY2024	FY2025	FY2026
Expenditure measures	**0.11**	**-0.10**	**-0.11**	**-0.50**	**0.11**	**0.01**	**-0.10**	**-0.60**
Current expenditure	0.61	0.40	0.39	0.00	0.61	1.01	1.40	1.40
Wage bill	0.29	0.19	0.18	0.00	0.29	0.48	0.66	0.66
Pensions	0.06	0.04	0.04	0.00	0.06	0.10	0.14	0.14
Purchases of goods and services	0.14	0.09	0.09	0.00	0.14	0.23	0.32	0.32
Subsidies and current transfers	0.12	0.08	0.08	0.00	0.12	0.19	0.27	0.27
Natural disaster contingency fund 1/	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.75	-1.00
Social expenditure 2/	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.75	-1.00
Revenue Measures	**0.67**	**0.67**	**0.67**	**0.00**	**0.67**	**1.33**	**2.00**	**2.00**
Personal income taxes (PIT)	0.07	0.07	0.07		0.07	0.13	0.20	0.20
Taxes on goods and services	0.53	0.53	0.53		0.53	1.07	1.60	1.60
Gross sales tax (GST)	0.50	0.50	0.50		0.50	1.00	1.50	1.50
Excises and fees	0.03	0.03	0.03		0.03	0.07	0.10	0.10
Revenue administration	0.07	0.07	0.07		0.07	0.13	0.20	0.20
Total Fiscal Consolidation	**0.78**	**0.56**	**0.56**	**-0.50**	**0.78**	**1.34**	**1.90**	**1.40**
Memorandum itms								
Primary balance (baseline scenario)					0.7	0.7	0.6	0.6
Primary balance (active scenario)					1.5	2.0	2.5	2.0

Source: IMF staff estimates.

1/ Contingency fund to finance the response to frequent low severity weather related events.

2/ Expenditure on healthcare, education, and targeted social programs such as Building Opportunities for Our Social Transformation (BOOST), Food Pantry, and Conditional Cash Transfers.

13. **The authorities plan to reform the Pension Plan for Public Officials (PPPO) in FY2022**. In addition to the standard pension benefits accrued through the General Social Security Scheme (GSSS), public officials also receive pension benefits from the PPPO, an unfunded defined-benefit

noncontributory system with a low retirement age of 55 years. PPPO payments totaled 2.6 percent of GDP in FY2021 and are expected to increase over time. The authorities plan to make the PPPO a defined contribution system, in which both employer and employee pay contributions to individual accounts from which the pension benefits would be paid. In addition, the PPPO retirement age would be raised to 60-65 years in line with the GSSS. Government expenditure would increase in the near term as in addition to pension benefits, the government will also have to pay contributions to the public officials' individual accounts. However, significant savings would be achieved over the long term once the transition to the new pension system has been finalized.

14. Contingency plans should be prepared in case public debt does not decline as planned. Implementing additional fiscal consolidation will be challenging given limited capacity and political pressures. Moreover, the fiscal adjustment required to reach the primary balance targets could be larger if the government needs to extend or implement additional measures to mitigate the impact of higher global energy and food prices, revenues underperform, the economy is hit by adverse shocks, or the pension reform leads to larger than expected increases in public expenditure in the near term. In this context, it will be important to prepare a menu of contingency measures that could be implemented if public debt does not fall as expected, including raising the GST rate, broadening the GST base and cutting nonpriority expenditure beyond the recommendations above, taxing property and capital gains, and restructuring public debt. On the upside, the required fiscal adjustment could be smaller if the economy grows faster than anticipated.

15. Efforts to modernize Public Financial Management (PFM) systems and procedures should continue. The authorities are implementing initiatives to strengthen public expenditure management, including on cash management, public debt, internal audit, and technology. They are also enhancing procurement to promote economies of scale and competitiveness among suppliers in the acquisition of all goods and services. Additional PFM areas to be strengthened going forward include multi-year budget preparations, fiscal risk assessment, public investment management, coverage of government accounts, and accounting and fiscal reporting. Progress in these areas would facilitate future implementation of an FRL with explicit fiscal rules to strengthen the commitment to fiscal discipline. In line with good practices, the authorities should publish procurement contracts and beneficial ownership information of awardees and publish the audit reports of pandemic-related expenditures to ensure transparency and accountability.

Authorities' Views

16. The authorities reiterated their commitment to the MTRP's public debt to GDP targets. To strike a balance between restoring debt sustainability and expanding priority spending, they are aiming at a primary surplus of 0.4 percent of GDP in FY2022, which would allow for the restitution of the 10 percent cut to public sector wages adopted in FY2021 and a temporary reduction in specific taxes on diesel and kerosene to partly offset the sharp increase in global energy prices. Afterwards, they aim to raise the primary surplus to 2 percent of GDP during FY2023-26 by containing current expenditure, broadening the tax base, and strengthening revenue administration. These efforts will be supported with the implementation of measures to strengthen PFM systems and procedures. The authorities agreed that contingency plans are needed in case public debt does not fall as expected and noted that the government continues to look for opportunities to reduce debt and debt service. They stressed their intention to make the PPPO a defined contribution system with a higher retirement age, and noted that the contribution rate to GSSS was increased by 1 percentage point on April 1, 2022, in line with the actuarial recommendations.

B. Growth-Enhancing Structural Reforms and Climate Change

17. Belize should accelerate the implementation of growth-enhancing structural reforms. Boosting growth through reforms that improve the business environment would reduce the amount of fiscal consolidation needed to restore debt sustainability. The authorities have eased the process and reduced the time required to register property and businesses using digital technologies, and introduced a new securities law to ensure a fair, efficient, and transparent capital market. Improving the business environment further requires easing access to credit for Small and Medium Size Enterprises (SMEs) through the launch of the credit bureau and the collateral registry; reducing entry barriers for businesses; enhancing human capital to reduce skill mismatches, especially in tourism and business process outsourcing; upgrading infrastructure such as farm to market roads; and containing crime by providing adequate resources to law enforcement, expanding surveillance capacity, and expanding social programs that keep youth at risk away from crime. As fiscal space is limited, advancing this agenda will require reprioritizing public expenditure.

18. Efforts to strengthen the rule of law should continue. Belize has improved its rule of law in recent years, including by adopting a Property Transaction Tax Bill that replaced the previous stamp duty process. The digitalization of the land registry is also planned but subject to securing external funding. However, the country still ranks low in global rule of law rankings. The system for the protection of property rights and enforcement of contracts has systemic problems, including inefficiencies, vulnerabilities to corruption, lack of resources, and uneven application of legal guarantees. Legislative and institutional reforms are planned in the judiciary system to improve its capacity and efficiency in deciding on commercial cases. It is important that these reforms are in line with international standards on independence and efficiency of justice systems. Public access to secondary legislation and judicial decisions is also a challenge and should be addressed.

19. Belize has an ambitious climate change mitigation and adaptation plan, but financing remains elusive. Reducing greenhouse gas (GHG) emissions and strengthening resilience to natural disasters and climate change are key priorities for the government as highlighted in the updated Nationally Determined Contribution (NDC) of August 2021, which presents the country's ambitious targets and actions on mitigation and adaptation for the period 2021-30 (Annex IV), as well as their costs and large financing gaps. The main initiatives are as follows:

- **Mitigation**. Reduce cumulative GHG emissions by 5,647 KtCO2e between 2021 and 2030 by protecting and restoring forests, mangroves, and seagrass ecosystems; expanding renewable energy generation; reducing the use of conventional transportation fuel; and enhancing energy efficiency. The cumulative cost of these plans during 2021-30 is estimated at US$1390 million (75 percent of Belize's GDP in 2021), of which only US$150 million have been secured.

- **Adaptation**. Increase resilience to natural disasters and climate change by reversing net coastal habitat and land loss; developing an early warning system for extreme weather events; using drought tolerant crops and livestock breeds; building capacity in the fishing and aquaculture sectors; developing climate resilient planning frameworks and infrastructure in the tourism sector; protecting forests and biodiversity; safeguarding water catchment areas, and improving the management of existing water supply systems. The cumulative cost of these actions during 2021-30 is estimated at US$318 million (17 percent of Belize's GDP in 2021), of which US$172 million have been committed.

20. Adoption of a Disaster Resilience Strategy (DRS) would enhance access to financing. Belize should continue seeking funding for its mitigation and adaptation plans from bilateral and multilateral creditors, the Green Climate Fund, and The Conservation Fund. The institutional framework created as part of the government's debt for marine protection swap with TNC can help enhance access to these sources of financing. Access to financing would be enhanced further with the swift adoption of a DRS that focuses on improving structural, financial, and post-disaster resilience, and is based on a consistent multi-year macro-fiscal framework.

21. Financial and post disaster resilience should be strengthened as recommended in the 2018 CCPA. Belize has continued strengthening structural resilience by upgrading its infrastructure and restoring natural habitats, but there has been less progress strengthening financial and post disaster resilience due to the country's limited fiscal space. While legislation creating a natural disaster contingency fund for frequent low severity events has been passed, no funds have been allocated to it. The government has a contingent credit line with the IDB to cover losses from more severe events, but it is insufficient. Belize needs to expand the coverage of parametric insurance and other contingent financing, and reform its social protection safety net to scale up quickly after a disaster. Advancing this agenda will also require reprioritizing expenditure.

Authorities' Views

22. The authorities agreed with the structural reform priorities. Boosting economic growth and enhancing private sector productivity is a key priority for the government. Accordingly, they fast tracked the approval of key foreign direct investment projects in 2021 and are working with the IDB to operationalize a one-stop window for foreign and domestic investment approvals. They are also modernizing the laws on exchange controls, securities, and capital markets, and advancing the implementation of e-government infrastructure, which would facilitate the payment of taxes and other transactions with the government. Road connectivity for farmers is being improved to raise agricultural production and enhance the interconnectedness with the tourism sector. Crime reduction remains a priority, including by expanding social programs that keep at risk youth out of crime and enhancing surveillance. The authorities are optimistic they can secure external financing for their ambitious agenda on mitigation and adaptation to climate change and agree that adoption of a DRS focused on improving structural, financial, and post-disaster resilience would facilitate these efforts, and thus plan to move in that direction going forward.

C. Illustrative Reform Scenario

23. Implementation of the fiscal consolidation measures and structural reforms discussed above, together with the rebasing of GDP, would reduce public debt to 60 percent of GDP by 2031. Raising the primary balance to 2.5 percent of GDP by FY2025 and keeping at 2 percent of GDP afterwards, and implementing structural reforms that raise growth by 0.5 percent over the medium term, would lower public debt to 72.3 percent of GDP by 2031 when using the current GDP series (Table 2, Active Scenario), or to around 60 percent of GDP when using a preliminary estimate of the rebased GDP series (i.e., a 20 percent increase in nominal GDP relative to the current series).

Text Table 2. Belize: Recommended Fiscal Consolidation Measures
(In percent of GDP, Deviations from Staff's Baseline Scenario)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Baseline Scenario: Current Policies													
Growth (percent)	-16.7	9.8	5.7	3.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Overall fiscal balance (percent of GDP)	-10.3	-0.7	-2.8	-2.0	-2.1	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Primary fiscal balance (percent of GDP)	-8.5	1.7	-0.1	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Public debt (percent of GDP)	133.1	111.0	102.5	97.7	95.9	94.2	92.8	91.4	90.0	88.7	87.4	86.2	85.0
Public sector GFN (percent of GDP)	18.4	13.1	9.1	7.8	7.8	7.2	6.9	6.8	7.1	7.6	7.9	8.5	10.3
Current account balance (percent of GDP)	-8.1	-8.9	-9.3	-8.9	-8.5	-8.1	-7.9	-7.7	-7.6	-7.5	-7.5	-7.4	-7.4
International reserves (percent of external GFN)	153.9	180.9	166.0	155.0	149.3	146.4	140.5	134.1	129.5	124.5	123.4	118.8	95.8
International reserves (months of imports)	3.8	4.0	3.7	3.5	3.3	3.1	2.9	2.7	2.6	2.5	2.4	2.3	2.1
Active Scenario: Fiscal Consolidation and Structural Reforms 1/													
Growth (percent)	-16.7	9.8	5.7	3.0	1.7	1.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Overall fiscal balance (percent of GDP)	-10.3	-0.7	-2.8	-1.3	-0.8	-0.2	-0.7	-0.7	-0.6	-0.5	-0.4	-0.3	-0.2
Primary fiscal balance (percent of GDP)	-8.5	1.7	-0.1	1.4	2.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Public debt (percent of GDP)	133.1	111.0	102.5	97.0	94.1	90.8	88.0	84.5	81.4	78.3	75.3	72.3	69.5
Public sector GFN (percent of GDP)	18.4	13.1	9.1	7.1	6.5	5.3	4.5	3.9	4.2	4.7	5.0	5.6	7.4
Current account balance (percent of GDP)	-8.1	-8.9	-9.3	-8.2	-7.3	-6.4	-5.7	-5.5	-5.4	-5.3	-5.3	-5.2	-5.2
International reserves (percent of external GFN)	153.9	180.9	180.0	182.0	196.3	216.4	250.5	277.1	304.5	323.5	343.4	365.8	342.8
International reserves (months of imports)	3.8	4.0	4.0	4.2	4.4	4.6	4.8	5.0	5.3	5.5	5.8	6.0	5.8

Source: IMF Staff estimates.

1/ The active scenario assumes the implementation of 1.9 percent of GDP in fiscal consolidation over three years, which gradually increases the primary balance to 2.5 percent of GDP in FY2025 and to 2 percent of GDP during FY2026-32. It also assumes a fiscal multiplier of -0.5 in line with the estimates in Chapter 4 of the April 2018 Regional Economic Outlook: Western Hemisphere. Finally, the active scenario assumes the implementation of growth-enhancing structural reforms that lift growth by 0.25 percent in 2026 and 0.5 percent during 2027-32.

D. Monetary and Financial Policies

24. Although Belize's external position improved in 2021, it remains weaker than justified by medium-term fundamentals and desirable policies. Foreign reserves rose by US$61 million to US$409 million in 2021, despite some widening of the current account deficit, led by higher external financing and the IMF's SDR25.6 million (US$36 million) allocation. However, reserve adequacy is expected to weaken over time as the current account deficit remains elevated due to high global energy and food prices and external financing declines due to concerns about debt sustainability. Moreover, the External Stability and External Balance Assessment (EBA-lite) approaches indicate that the current account deficit is larger than its estimated equilibrium level (Annex V).

25. In the absence of exchange rate flexibility, reducing external imbalances requires implementing policies to restore debt sustainability. The authorities and staff see the currency peg as a key macroeconomic anchor that should be preserved. In this context, reducing external imbalances and strengthening the currency peg requires restoring public debt sustainability by preserving the fiscal savings achieved in FY2021, ensuring that the recent measures to mitigate the rise in fuel prices are temporary, and implementing additional fiscal consolidation and growth-enhancing structural reforms as discussed above. These measures would also lower the current account deficit, enhance access to external financing, and improve reserve adequacy over time. Strengthening the currency peg also requires limiting government financing by the Central Bank, which continued to increase in nominal terms in 2021, although not as percent of GDP.

26. Domestic banks seem well capitalized and with contained nonperforming loans (NPLs), but this could change as the expiration of the forbearance measures introduced in 2020 begins to impact their balance sheets. Regulatory capital remains well above minimum requirements, while NPLs remain manageable at 5 percent of loans. However, this partly reflects forbearance measures adopted in 2020 to mitigate the impact of the COVID-19 pandemic in the economy, which expired on December 31, 2021. The Central Bank requested domestic banks and credit unions to self-assess their loan portfolio by February 2022, which are now being reviewed before agreeing on a plan going forward with each institution. In this context, it will be important that any agreed exceptional measures are time-bound and targeted, and financial institutions resume the regular classification and restructuring procedures. There is also a need to intensify the on-site supervision for risk identification and control. The government increased the Central Bank's capital by 0.5 percent of GDP in FY2021 to support this process. Efforts to strengthen the enforcement of AML/CFT requirements on banks should be pushed forward, including by developing guidelines on issuing sanctions to enhance the effectiveness of AML/CFT supervision.

27. The authorities must continue strengthening the AML/CFT framework and its implementation, especially in the international financial services (IFS) sector, to be prepared for the 2023 mutual evaluation by the Caribbean Financial Action Task Force. The authorities have finalized their first national assessment of money laundering and terrorist financing (ML/TF) risks and have developed an action plan to strengthen their AML/CFT framework. They intend to update both in the coming months to strengthen ML/TF risks mitigation. Policy priorities should include: (i) centralizing information on beneficial ownership so that accurate and up-to-date data is easily accessible under the legal framework for domestic and international corporations; (ii) deepening the understanding of the ML/TF risks in the sector to inform a cost-benefit analysis of the existing regulatory and supervisory framework; (iii) increasing the resources and capacity of the Financial Services Commission (FSC) to properly license, regulate and supervise all IFS licensees, and imposing dissuasive and proportionate penalties when breaches are identified; and (iv) introducing legal reforms to implement AML/CFT standards on virtual assets and virtual asset services informed by a sound risk assessment and resource considerations, and proactively identifying and sanctioning licensees falsely claiming to hold a license to provide virtual asset-related services. Advancing these reforms will help protect the country's correspondent banking relationships.

Authorities' Views

28. The authorities are taking a measured approach to implementing the withdrawal of forbearance measures. Following the expiration of the forbearance measures on December 31, 2021, the Central Bank requested domestic banks and credit unions to assess their loan portfolios by end-February 2022, dividing loans among viable, viable with restructuring, and unviable. The Central Bank is currently reviewing these self-assessments and will agree on a plan going forward with each institution, with the view that any extended measures should be time-bound and targeted. The Central Bank expects that most banks and credit unions will be able to absorb their losses, but some may need Central Bank support, which was part of the reason for the recent recapitalization of the Central Bank by the government. Regarding AML/CFT issues, the authorities are committed to full implementation of the recommendations of the national ML/TF risk assessment.

STAFF APPRAISAL

29. The COVID-19 pandemic had a severe impact on Belize in 2020. Real GDP contracted by 16.7 percent and public debt increased to 133 percent of GDP, a level assessed as unsustainable during the 2021 Article IV Consultation. To address this situation, the government adopted a MTRP aimed at reducing public debt to 85 percent of GDP in 2025 and 70 percent of GDP in 2030 through the implementation of fiscal consolidation, structural reforms, and debt restructuring.

30. Significant measures aimed at restoring debt sustainability were implemented in 2021. In line with the MTRP, the government implemented sizable fiscal consolidation measures, including cuts to public sector wages, subsidies and current transfers, and capital expenditure. As a result, noninterest expenditure declined by 5.4 percent of GDP. Belize also completed a novel debt for marine protection swap with TNC, which not only reduced public debt by 12 percent of GDP in 2021, but also expanded the area of ocean to be protected and secured financing for the protection of the marine environment going forward. The swap will also support the authorities' efforts to strengthen resilience to natural disasters and climate change and lower greenhouse gas emissions.

31. Economic activity is recovering strongly, and the fiscal position has improved. Real GDP grew by 9.8 percent in 2021 and is projected to grow by 5.7 percent in 2022 and 3.4 percent in 2023, led by the continued recovery of tourism. End of year inflation rose to 4.9 percent in 2021 and is projected at 5.2 percent in 2022 due to high global energy and food prices. The primary fiscal balance rose to 1.7 percent of GDP in FY2021 in line with the recovery and fiscal consolidation, but is projected to decline to –0.1 percent of GDP in FY2022 due to recent measures adopted to mitigate the impact of rising fuel prices on the economy. During FY2023-32, the primary balance is projected to stabilize at near 0.6 percent of GDP in a passive scenario with no additional fiscal consolidation.

32. Debt dynamics have improved, but public debt would continue to be assessed as unsustainable in the absence of additional measures. Public debt declined from 133 percent of GDP in 2020 to 111 percent of GDP in 2021—led by the economic recovery, fiscal consolidation, and the debt for marine protection swap—and is projected to decline to 85 percent of GDP in 2032. However, public debt would continue to be assessed as unsustainable in the absence of additional measures as it would remain above the 70 percent of GDP threshold for sustainability over the next decade. This would also reduce external financing and weaken reserve adequacy over time.

33. Belize's key policy priority is to restore debt sustainability. This requires preserving the fiscal savings achieved in FY2021, ensuring that the measures adopted to mitigate the rise in fuel prices are temporary, and implementing additional fiscal consolidation and growth-enhancing structural reforms with the goal of increasing the primary balance to 2.5 percent of GDP in FY2025 and reducing public debt to 60 percent of GDP by 2031. Anchoring this strategy on a medium-term fiscal strategy with clear targets and specific measures would enhance its credibility.

34. Fiscal consolidation should rely on both revenue and expenditure measures. Following the implementation of expenditure-based consolidation in FY2021 and a temporary relaxation in FY2022, the authorities should consider raising revenue by broadening the tax base and enhancing revenue administration, while containing current expenditure and expanding targeted social and resilience spending. Executing these plans will be challenging given limited capacity, political pressures, rising energy and food prices, and downside risks. In this context, it will be key to prepare contingency plans in case public debt does not fall as planned, including additional revenue and expenditure measures and debt operations.

35. Implementing growth-enhancing structural reforms would accelerate the reduction in public debt and reduce the burden on fiscal consolidation. A key priority is to strengthen the business climate by improving access to credit for SMEs; reducing entry barriers for new businesses; enhancing human capital and infrastructure; reducing crime by providing adequate resources to law enforcement and social programs; and building resilience to climate change and natural disasters by adopting a DRS focused on improving structural, financial, and post-disaster resilience and based on a consistent multi-year macro-fiscal framework.

36. Restoring public debt sustainability would also strengthen the currency peg and lower external imbalances. Belize's external position is assessed as weaker than justified by medium term fundamentals and desirable policies. Reducing the current account deficit to its equilibrium level and improving reserve adequacy requires preserving the fiscal savings achieved in FY2021, ensuring that the measures adopted to mitigate the rise in fuel prices are temporary, and implementing additional fiscal consolidation and growth-enhancing structural reforms. It also requires reducing central bank financing to the government and strengthening central bank independence.

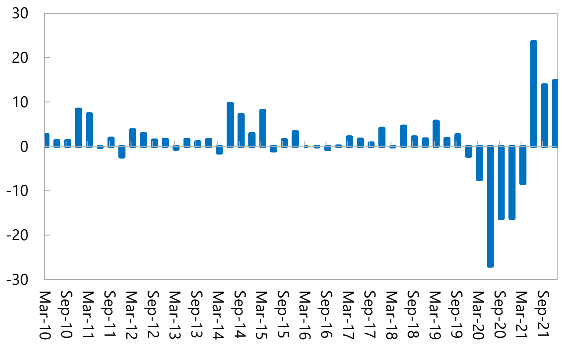
37. The authorities should continue seeking financing for their ambitious climate change mitigation and adaptation agenda. Belize's updated Nationally Determined Contribution presents the country's ambitious plans for 2021-30, including large reductions in greenhouse gas emissions by restoring ecosystems and expanding renewable energy, and actions to adapt to climate change in agriculture, tourism, and fisheries. As these actions will be beneficial for Belize and the world, the authorities should continue seeking financing from donors and bilateral and multilateral creditors.

38. Safeguarding financial stability and strengthening the AML/CFT framework remain priorities. Following the review of the loan portfolios of banks and credit unions, the central bank should ensure that any extended measures are time-bound and targeted, and financial institutions resume the regular classification and restructuring procedures. Efforts to strengthen AML/CFT supervision of banks should continue and sanctions for non-compliance should be enforced. The authorities should also prioritize reforms to mitigate the ML/TF risks stemming from the IFS sector. Advancing these reforms will help protect the country's correspondent banking relationships.

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

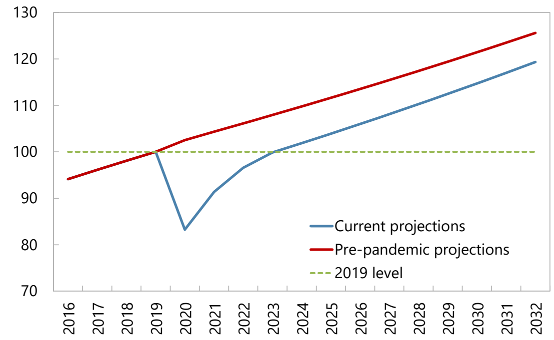
Figure 4. Belize: Real Sector Indicators

Real GDP Growth
(In percent, year on year, quarterly frequency)



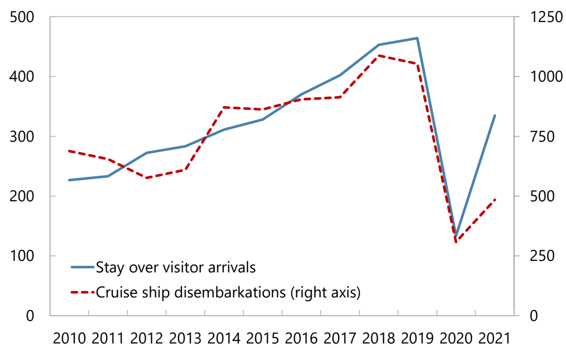
Sources: Statistical Institute of Belize.

Real GDP Index
(2019 = 100)



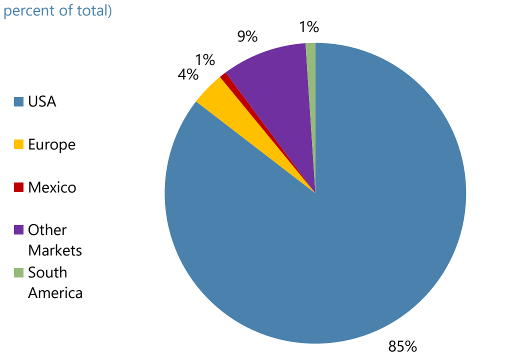
Sources: Statistical Institute of Belize; and IMF staff estimates and projections.

Tourist Visitor Arrivals
(In thousands)



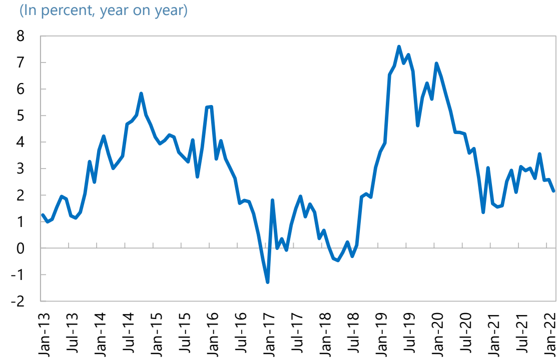
Sources: Central Bank of Belize; and IMF staff estimates.

Composition of Overnight Tourist Arrivals by Origin, 2021
(In percent of total)



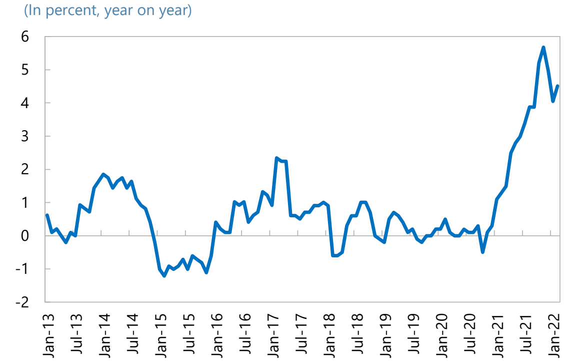
Sources: Belize Tourism Board; and IMF staff calculations.

Private Sector Credit Growth
(In percent, year on year)



Sources: Central Bank of Belize

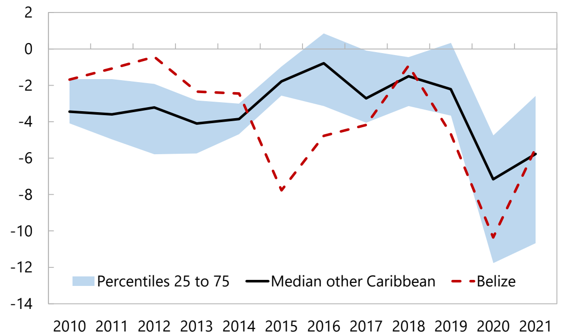
Consumer Price Inflation
(In percent, year on year)



Sources: Statistical Institute of Belize

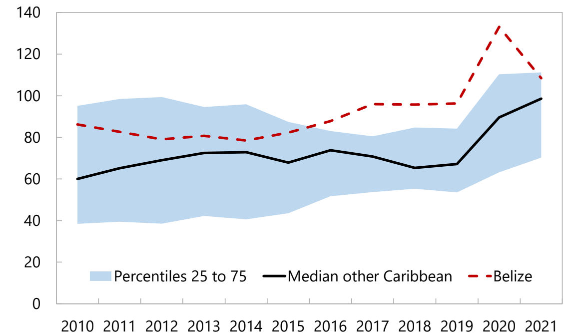
Figure 5. Belize: Public Sector Indicators 1/

Government Balance
(In percent of GDP)



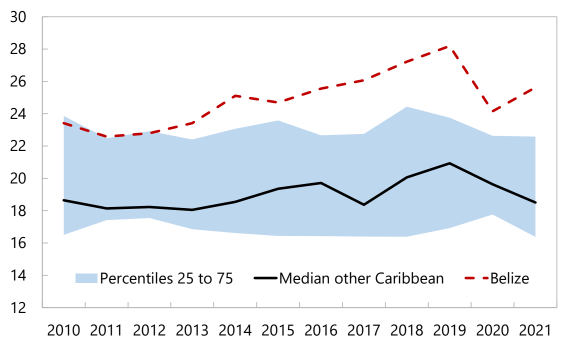
Sources: Country authorities and IMF staff estimates.

Public Sector Debt
(In percent of GDP)



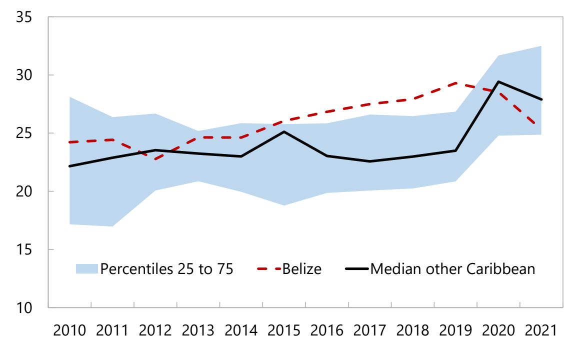
Sources: Country authorities and IMF staff estimates.

Government Tax Revenue
(In percent of GDP)



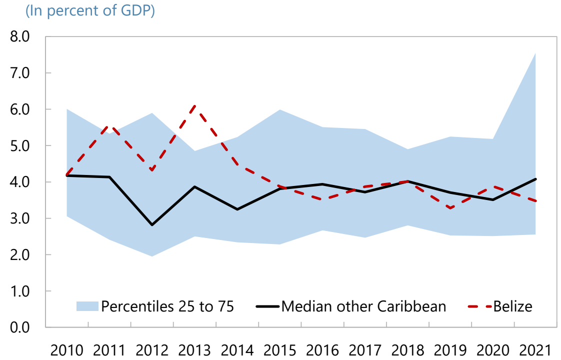
Sources: Country authorities and IMF staff estimates.

Government Current Expenditure
(In percent of GDP)



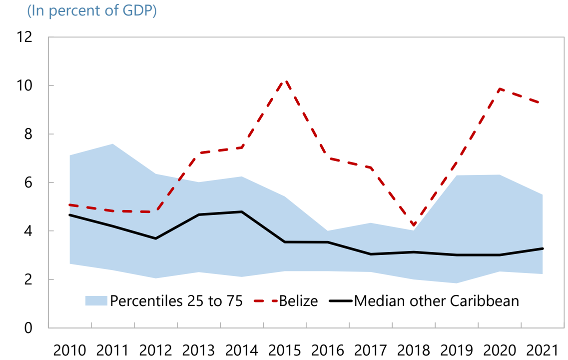
Sources: Country authorities and IMF staff estimates.

Government Nontax Revenue plus Grants
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Capital Expenditure
(In percent of GDP)

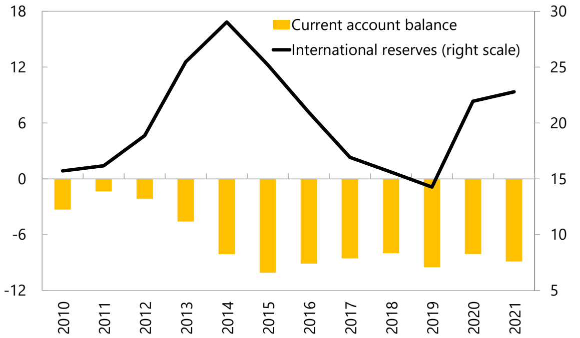


Sources: Country authorities and IMF staff estimates.

1/ The other Caribbean group includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

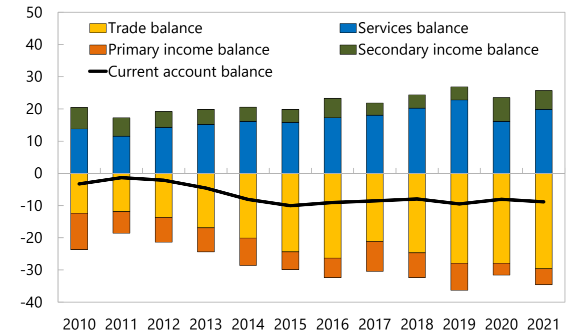
Figure 6. Belize: External Sector Indicators

Current Account Balance and International Reserves
(In percent of GDP)



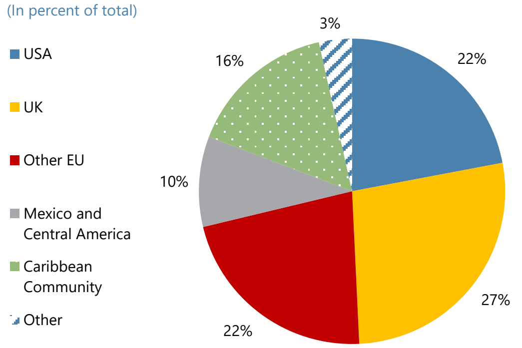
Sources: Ministry of Finance and Central Bank of Belize.

Current Account Balance and Components
(In percent of GDP)



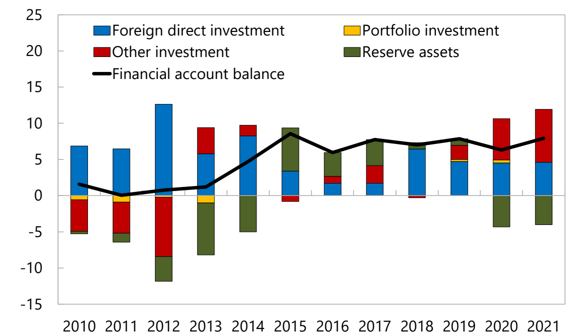
Sources: Central Bank of Belize; and IMF staff estimates.

Destination of Domestic Merchandise Exports, 2021
(In percent of total)



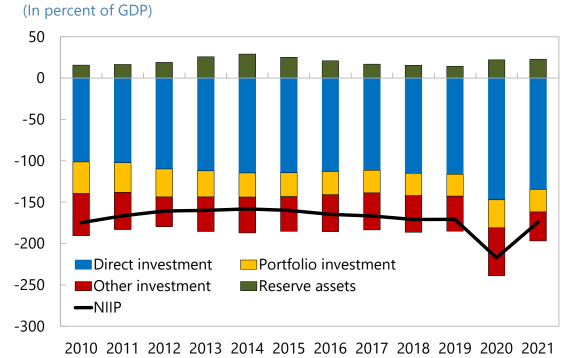
Sources: Central Bank of Belize; and IMF staff calculations.

Financial Account Balance and Components
(In percent of GDP)



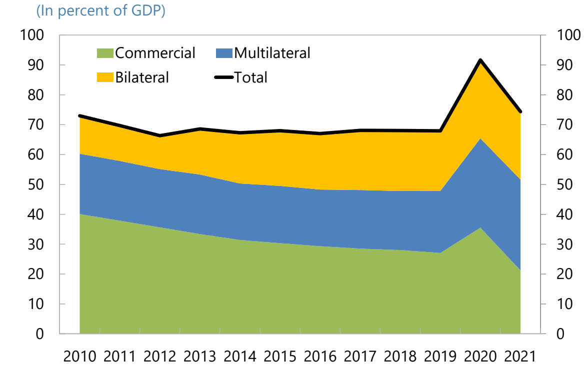
Sources: Central Bank of Belize; and IMF staff estimates.

Net International Investment Position and Components
(In percent of GDP)



Sources: Central Bank of Belize; and IMF staff estimates.

External Public Debt by Creditor
(In percent of GDP)



Sources: Central Bank of Belize; and IMF staff calculations.

Table 1. Belize: Selected Social and Economic Indicators

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2020	110
Population (thousands), 2021	432.5	Under-five mortality rate (per thousand), 2020	11.7
GDP per capita, (current US$), 2021	4,177	Unemployment rate (percent), 2021	10.2
Life expectancy at birth (years), 2019	74.6	Poverty (percent of total population), 2018	52.0

II. Economic Indicators

			Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027
National income and prices	(Annual percentage changes, calendar year)								
GDP at constant prices	2.0	-16.7	9.8	5.7	3.4	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.2	0.3	4.9	5.2	2.5	2.0	2.0	2.0	2.0
Consumer prices (average)	0.2	0.1	3.2	4.8	3.7	2.2	2.0	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)								
Revenue and grants	31.5	27.5	32.3	30.8	31.5	31.5	31.4	31.4	31.4
Current non-interest expenditure	25.9	27.0	24.0	24.2	24.1	24.1	24.1	24.1	24.1
Interest payment	3.4	1.7	2.4	2.7	2.7	2.8	2.7	2.8	2.8
Capital expenditure and net lending	6.8	9.0	6.6	6.7	6.7	6.7	6.7	6.7	6.7
Capital expenditure	6.5	8.7	6.5	6.7	6.7	6.7	6.7	6.7	6.7
Net lending	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	-1.3	-8.5	1.7	-0.1	0.7	0.7	0.6	0.6	0.6
Overall balance	-4.7	-10.3	-0.7	-2.8	-2.0	-2.1	-2.1	-2.2	-2.2
Public debt	(In percent of calendar year GDP)								
Public debt 2/	96.3	133.1	111.0	102.5	97.7	95.9	94.2	92.8	91.4
Domestic debt	28.4	41.4	36.6	32.0	28.9	28.1	27.9	28.1	28.5
External debt	68.0	91.7	74.4	70.5	68.8	67.8	66.3	64.7	62.9
Principal payment	5.9	8.3	9.9	6.7	5.6	5.5	4.9	4.5	4.5
Domestic	3.9	5.3	6.4	4.7	3.3	2.6	1.8	1.8	1.9
External	2.1	3.0	3.5	2.0	2.3	2.9	3.0	2.7	2.6
Money and credit	(Annual percentage changes, calendar year)								
Credit to the private sector	5.8	2.2	3.5	5.0	7.2	4.3	4.0	4.0	4.0
Money and quasi-money (M2)	5.7	10.6	7.2	5.9	7.2	4.3	4.0	4.0	4.0
External sector	(Annual percentage changes, unless otherwise indicated)								
External current account (percent of GDP) 3/	-9.5	-8.1	-8.9	-9.3	-8.9	-8.5	-8.1	-7.9	-7.7
Real effective exchange rate (+ = depreciation)	0.1	0.0	-1.5	...	...	...	...	...	...
Gross international reserves (US$ millions)	278	348	420	409	404	395	385	373	368
In months of imports	3.7	3.8	4.0	3.7	3.5	3.3	3.1	2.9	2.7
Memorandum items									
Output gap (percent of potential output)	2.0	-15.9	-8.6	-4.3	-2.1	-1.3	-0.7	-0.3	-0.1
Nominal GDP (BZ$ millions)	3,891	3,171	3,593	3,982	4,270	4,452	4,632	4,819	5,014

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

1/ Fiscal year (April to March).

2/ Public debt includes central government debt as well as external financial and non-financial public sector debt.

3/ Including official grants.

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

(In millions of Belize dollars, unless otherwise indicated)

			Projections						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue and grants	**1,168**	**900**	**1,192**	**1,249**	**1,359**	**1,415**	**1,470**	**1,528**	**1,588**
Revenue	**1,148**	**869**	**1,142**	**1,214**	**1,324**	**1,380**	**1,435**	**1,493**	**1,553**
Current revenue	1,142	852	1,137	1,208	1,318	1,374	1,429	1,487	1,547
Tax revenue	1,046	775	1,049	1,112	1,216	1,267	1,319	1,372	1,427
Income and profits	293	218	255	277	295	308	320	333	347
Goods and services	585	430	611	636	709	739	769	800	832
General Sales Tax	320	235	334	364	387	404	420	437	454
Taxes on international trade	161	121	174	190	202	211	219	228	237
Nontax revenue	96	77	88	96	102	106	111	115	120
Capital revenue	5	16	5	5	5	6	6	6	6
Grants	**20**	**31**	**50**	**35**	**35**	**35**	**35**	**35**	**35**
Total expenditure	**1,341**	**1,236**	**1,218**	**1,361**	**1,444**	**1,510**	**1,569**	**1,635**	**1,700**
Current expenditure	1,087	941	975	1,088	1,154	1,207	1,255	1,308	1,360
Wages and salaries	457	464	415	462	492	512	533	555	577
Pensions	92	82	97	101	107	112	116	121	126
Goods and services	232	177	224	225	239	249	259	270	281
Interest payments	126	56	88	108	115	124	128	136	140
Transfers	180	161	151	193	201	209	218	226	236
Capital expenditure and net lending	254	295	243	273	291	302	315	327	340
Capital expenditure	241	287	240	271	288	300	312	324	337
Domestically financed expenditure (Capital II)	95	177	137	147	156	163	169	176	183
Foreign financed expenditure (Capital III)	146	109	100	115	122	128	133	138	144
Net lending	13	8	3	2	2	3	3	3	3
Primary balance	**-48**	**-280**	**62**	**-4**	**29**	**29**	**29**	**29**	**29**
Overall balance	**-173**	**-336**	**-26**	**-112**	**-86**	**-95**	**-99**	**-107**	**-111**
Financing	**173**	**336**	**26**	**112**	**86**	**95**	**99**	**107**	**111**
Privatization (net)	0	0	0	0	0	0	0	0	0
Domestic	88	165	-70	-21	-33	22	47	65	79
Of which: Amortization	155	184	220	177	136	109	85	88	98
External	86	171	96	134	119	73	52	43	32
Disbursements	169	273	209	217	223	205	190	173	163
Amortization	84	101	113	83	104	131	138	130	131
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3/	**-48**	**-280**	**62**	**-4**	**29**	**29**	**29**	**29**	**29**
Structural primary balance	-71	-110	174	52	58	48	40	34	31
Nominal GDP (in BZ$ millions)	3,711	3,277	3,690	4,054	4,315	4,497	4,679	4,868	5,064
Non-interest expenditure	1,216	1,180	1,130	1,253	1,330	1,385	1,441	1,499	1,559
Wages and salaries before reclassification	330	330	330	330	330	330	330	330	330
Oil revenue	2	2	2	2	2	2	3	3	3
Public sector debt 4/	3,710	4,183	3,950	4,043	4,133	4,228	4,325	4,433	4,544
Domestic	1,103	1,313	1,316	1,276	1,235	1,250	1,292	1,354	1,428
External	2,607	2,870	2,634	2,768	2,898	2,978	3,033	3,079	3,116

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

1/ Fiscal year ends in March.

2/ Excludes extrabudgetary funds.

3/ Due to data limitations, the table deviates from the GFSM 2001 methodology.

4/ Calendar year. Public debt includes central government debt and external financial and non-financial public sector debt.

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

(In percent of GDP; unless otherwise indicated)

			Projections						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue and grants	**31.5**	**27.5**	**32.3**	**30.8**	**31.5**	**31.5**	**31.4**	**31.4**	**31.4**
Revenue	**30.9**	**26.5**	**30.9**	**29.9**	**30.7**	**30.7**	**30.7**	**30.7**	**30.7**
Current revenue	30.8	26.0	30.8	29.8	30.6	30.6	30.6	30.6	30.6
Tax revenue	28.2	23.7	28.4	27.4	28.2	28.2	28.2	28.2	28.2
Income and profits	7.9	6.7	6.9	6.8	6.8	6.8	6.8	6.8	6.8
Goods and services	15.8	13.1	16.6	15.7	16.4	16.4	16.4	16.4	16.4
General Sales Tax	8.6	7.2	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Taxes on international trade	4.4	3.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Nontax revenue	2.6	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Capital revenue	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	**0.6**	**0.9**	**1.4**	**0.9**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**
Total expenditure	**36.1**	**37.7**	**33.0**	**33.6**	**33.5**	**33.6**	**33.5**	**33.6**	**33.6**
Current expenditure	29.3	28.7	26.4	26.8	26.7	26.8	26.8	26.9	26.8
Wages and salaries	12.3	14.2	11.2	11.4	11.4	11.4	11.4	11.4	11.4
Pensions	2.5	2.5	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Goods and services	6.3	5.4	6.1	5.5	5.5	5.5	5.5	5.5	5.5
Interest payments	3.4	1.7	2.4	2.7	2.7	2.8	2.7	2.8	2.8
Transfers	4.9	4.9	4.1	4.8	4.7	4.7	4.7	4.7	4.7
Capital expenditure and net lending	6.8	9.0	6.6	6.7	6.7	6.7	6.7	6.7	6.7
Capital expenditure	6.5	8.7	6.5	6.7	6.7	6.7	6.7	6.7	6.7
Domestically financed expenditure (Capital II)	2.6	5.4	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Foreign financed expenditure (Capital III)	3.9	3.3	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Net lending	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	**-1.3**	**-8.5**	**1.7**	**-0.1**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
Overall balance	**-4.7**	**-10.3**	**-0.7**	**-2.8**	**-2.0**	**-2.1**	**-2.1**	**-2.2**	**-2.2**
Financing	**4.7**	**10.3**	**0.7**	**2.8**	**2.0**	**2.1**	**2.1**	**2.2**	**2.2**
Privatization (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.4	5.0	-1.9	-0.5	-0.8	0.5	1.0	1.3	1.6
Of which: Amortization	4.2	5.6	6.0	4.4	3.2	2.4	1.8	1.8	1.9
External	2.3	5.2	2.6	3.3	2.7	1.6	1.1	0.9	0.6
Disbursements	4.6	8.3	5.7	5.4	5.2	4.6	4.1	3.5	3.2
Amortization	2.3	3.1	3.1	2.1	2.4	2.9	3.0	2.7	2.6
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3/	**-1.3**	**-8.5**	**1.7**	**-0.1**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
Structural primary balance	-1.9	-2.8	4.3	1.2	1.3	1.1	0.8	0.7	0.6
Nominal GDP (in BZ$ millions)	3,711	3,277	3,690	4,054	4,315	4,497	4,679	4,868	5,064
Public sector debt 4/	96.3	133.1	111.0	102.5	97.7	95.9	94.2	92.8	91.4
Domestic	28.4	41.4	36.6	32.0	28.9	28.1	27.9	28.1	28.5
External	68.0	91.7	74.4	70.5	68.8	67.8	66.3	64.7	62.9

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

1/ Fiscal year ends in March.

2/ Excludes extrabudgetary funds.

3/ Due to data limitations, the table deviates from the GFSM 2001 methodology.

4/ Calendar year. Public debt includes central government debt and external financial and non-financial public sector debt.

Table 3a. Belize: Balance of Payments
(In millions of US dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Projections						
Current account balance	**-185**	**-128**	**-159**	**-186**	**-190**	**-189**	**-187**	**-190**	**-193**
Trade balance	-543	-442	-532	-583	-591	-607	-621	-642	-663
Total exports, f.o.b.	425	289	366	458	496	515	536	558	580
Of which: Oil	10	2	4	2	1	0	0	0	0
Total imports, f.o.b.	969	731	898	1,041	1,087	1,122	1,157	1,200	1,244
Of which: Fuel and lubricants	148	80	134	216	193	180	172	167	166
Services	443	255	356	443	485	506	526	547	570
Income	-164	-59	-90	-134	-179	-187	-195	-203	-211
Of which: Public sector interest payments	-26	-26	-27	-28	-28	-30	-31	-32	-33
Current transfers	80	118	106	88	95	99	103	107	111
Private (net)	87	112	110	96	103	107	112	116	121
Official (net)	-7	6	-4	-8	-8	-9	-9	-9	-10
Capital and financial account balance	**146**	**183**	**231**	**174**	**186**	**180**	**177**	**179**	**188**
Capital transfers	10	14	17	17	17	17	17	18	19
Public sector	31	104	119	68	64	34	21	17	10
Change in assets	-1	-1	-1	-1	-1	-1	-1	-1	-1
Change in liabilities	31	104	120	69	65	34	21	17	11
Disbursements	74	154	186	115	121	106	99	89	83
Central government	64	147	104	107	114	104	98	88	83
Amortization	-43	-49	-67	-46	-56	-72	-78	-73	-72
Central government	-40	-47	-62	-40	-48	-64	-70	-65	-65
Private sector 1/	105	65	95	89	105	129	139	144	159
Foreign Direct Investment, net	92	72	83	95	102	117	131	136	142
Other private flows	8	-13	13	-6	3	12	8	8	17
Commercial banks	7	-25	4	-2	1	5	3	2	7
Other private nonbanks	6	18	9	-4	2	7	5	6	10
Errors and omissions	**21**	**14**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-18**	**69**	**72**	**-11**	**-4**	**-9**	**-10**	**-12**	**-5.6**
Financing	**18**	**-69**	**-72**	**11**	**4**	**9**	**10**	**11**	**4.6**
Memorandum items:									
Gross international reserves	278	348	420	409	404	395	385	373	368
In percent of next year's gross external financing needs	157	154	181	166	155	149	146	141	134
In percent of next year's total debt service	351	442	616	509	391	358	353	340	324
In months of next year's imports	3.7	3.8	4.0	3.7	3.5	3.3	3.1	2.9	2.7

Sources: Central Bank of Belize; and Fund staff estimates and projections.
1/ Detailed data on private sector flows are not available.

Table 3b. Belize: Balance of Payments
(In percent of GDP, unless otherwise indicated)

	2019	2020	Projections 2021	2022	2023	2024	2025	2026	2027
Current account balance	**-9.5**	**-8.1**	**-8.9**	**-9.3**	**-8.9**	**-8.5**	**-8.1**	**-7.9**	**-7.7**
Trade balance	-27.9	-27.9	-29.6	-29.3	-27.7	-27.2	-26.8	-26.6	-26.5
Total exports, f.o.b.	21.9	18.2	20.4	23.0	23.3	23.1	23.2	23.2	23.2
Of which: Oil	0.5	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Total imports, f.o.b.	49.8	46.1	50.0	52.3	50.9	50.4	50.0	49.8	49.6
Of which: Fuel and lubricants	7.6	5.1	7.5	10.8	9.0	8.1	7.4	6.9	6.6
Services	22.7	16.1	19.8	22.2	22.7	22.7	22.7	22.7	22.7
Income	-8.4	-3.7	-5.0	-6.7	-8.4	-8.4	-8.4	-8.4	-8.4
Of which: Public sector interest payments	-1.3	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3
Current transfers	4.1	7.4	5.9	4.4	4.4	4.4	4.4	4.4	4.4
Private (net)	4.5	7.0	6.1	4.8	4.8	4.8	4.8	4.8	4.8
Official (net)	-0.4	0.4	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Capital and financial account balance	**7.5**	**11.5**	**12.9**	**8.8**	**8.7**	**8.1**	**7.6**	**7.4**	**7.5**
Capital transfers	0.5	0.9	1.0	0.9	0.8	0.8	0.7	0.7	0.7
Public sector	1.6	6.5	6.6	3.4	3.0	1.5	0.9	0.7	0.4
Change in assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	1.6	6.6	6.7	3.5	3.0	1.5	0.9	0.7	0.4
Disbursements	3.8	9.7	10.4	5.8	5.7	4.8	4.3	3.7	3.3
Central government	3.3	9.3	5.8	5.4	5.3	4.7	4.2	3.6	3.3
Amortization	-2.2	-3.1	-3.7	-2.3	-2.6	-3.2	-3.4	-3.0	-2.9
Central government	-2.1	-3.0	-3.5	-2.0	-2.3	-2.9	-3.0	-2.7	-2.6
Private sector 1/	5.4	4.1	5.3	4.5	4.9	5.8	6.0	6.0	6.3
Foreign Direct Investment, net	4.7	4.5	4.6	4.8	4.8	5.2	5.6	5.6	5.6
Of which: Repatriation of compensation 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other private flows	0.4	-0.8	0.7	-0.3	0.1	0.5	0.3	0.3	0.7
Commercial banks	0.3	-1.6	0.2	-0.1	0.0	0.2	0.1	0.1	0.3
Other private nonbanks	0.3	1.2	0.5	-0.2	0.1	0.3	0.2	0.2	0.4
Errors and omissions	**1.1**	**0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.9**	**4.3**	**4.0**	**-0.6**	**-0.2**	**-0.4**	**-0.4**	**-0.5**	**-0.2**
Financing	**0.9**	**-4.3**	**-4.0**	**0.6**	**0.2**	**0.4**	**0.4**	**0.4**	**0.2**
Change in reserves (- increase)	0.9	-4.3	-4.0	0.6	0.2	0.4	0.4	0.5	0.2

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

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

Table 4. Belize: Operations of the Banking System
(In millions of Belize dollars, unless otherwise indicated)

			Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Central Bank of Belize (CBB)									
Net foreign assets 1/	411	536	680	657	648	629	609	586	575
Net international reserves	460	587	731	708	699	681	661	637	626
Medium-term foreign liabilities 2/	-49	-52	-52	-52	-52	-52	-52	-52	-52
Net domestic assets	494	568	504	597	696	772	849	931	1,004
Credit to the public sector (net)	358	421	425	408	392	403	428	463	504
Central government	365	425	426	406	385	393	414	445	482
Other public sector	-7	-4	-1	2	6	10	14	18	22
Capital and other assets (net)	135	147	79	189	305	369	421	468	499
Base money	904	1,103	1,183	1,253	1,344	1,401	1,458	1,517	1,578
Currency issue	482	555	632	710	803	883	964	1,052	1,144
Reserves of commercial banks	422	548	551	543	541	518	494	465	434
Commercial banks									
Net foreign assets	251	301	293	297	295	285	279	275	261
Net claims on central bank	486	619	626	622	623	605	582	556	527
Of which: cash in vault	64	71	75	79	83	86	88	91	93
Net domestic assets	2,616	2,628	2,919	3,106	3,355	3,499	3,674	3,837	4,015
Credit to the public sector (net)	126	61	61	44	23	38	66	104	148
Central government	262	318	320	299	279	287	308	338	376
Other public sector	-136	-258	-258	-255	-256	-249	-242	-234	-228
Credit to the private sector	2,448	2,503	2,591	2,720	2,917	3,041	3,164	3,292	3,425
Other assets (net)	42	65	267	342	415	420	444	441	442
Liabilities to the private sector	3,353	3,548	3,838	4,026	4,274	4,389	4,535	4,668	4,804
Monetary survey									
Net foreign assets	661	836	973	954	943	914	889	861	836
Medium-term foreign liabilities of CBB	49	52	52	52	52	52	52	52	52
Net domestic assets	3,109	3,195	3,422	3,703	4,051	4,271	4,523	4,768	5,019
Credit to the public sector (net)	485	481	486	452	415	441	494	567	652
Central government	627	743	745	705	665	680	722	783	858
Other public sector	-143	-261	-259	-253	-250	-239	-228	-216	-206
Credit to private sector (by comm. banks)	2,448	2,503	2,591	2,720	2,917	3,041	3,164	3,292	3,425
Other items (net)	176	211	345	531	720	789	865	909	941
Liabilities to the private sector	3,771	4,032	4,395	4,657	4,995	5,186	5,412	5,629	5,855
Money and quasi-money (M2)	3,242	3,585	3,845	4,073	4,368	4,554	4,738	4,930	5,129
Currency in circulation	418	484	557	631	721	797	876	961	1,051
Deposits	2,824	3,101	3,288	3,442	3,647	3,758	3,862	3,969	4,078
Foreign currency deposits	113	116	123	129	136	140	144	148	152
Capital and reserves of commercial banks	529	447	550	584	627	631	673	699	726
Memorandum items:									
Private sector local currency deposits (growth, percent)	5.3	9.8	6.0	4.7	6.0	3.0	2.8	2.8	2.7
Base money (growth, percent)	6.8	22.0	7.2	5.9	7.2	4.3	4.0	4.0	4.0
Credit to priv. sector by comm. banks (growth, percent)	5.8	2.2	3.5	5.0	7.2	4.3	4.0	4.0	4.0
Money and quasi-money growth (M2, percent)	5.7	10.6	7.2	5.9	7.2	4.3	4.0	4.0	4.0
Net international reserves to M2 (percent)	14.2	16.4	19.0	17.4	16.0	14.9	13.9	12.9	12.2
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio (percent)	83.4	77.8	76.0	76.2	77.1	78.0	79.0	80.0	81.0

Sources: The Central Bank of Belize; and Fund staff estimates and projections.
1/ Includes Central Government's foreign assets.
2/ Includes SDR allocation.

Table 5. Belize: Baseline Medium-Term Outlook

		Projections											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	(Annual percentage change)												
GDP and prices													
GDP at constant prices	-16.7	9.8	5.7	3.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP at current market prices	-18.5	13.3	10.8	7.2	4.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Prices (GDP deflator)	-2.1	3.2	4.8	3.7	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.4	4.9	5.2	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	(In percent of GDP, unless otherwise indicated)												
National accounts													
Consumption	90.3	89.6	88.1	87.4	87.1	86.8	86.5	86.5	86.5	86.5	86.5	86.5	86.5
Gross domestic investment 1/	21.5	20.3	18.9	17.5	17.4	17.3	17.1	17.2	17.1	17.0	17.0	16.9	16.9
Net exports	-11.8	-9.8	-7.0	-5.0	-4.5	-4.1	-3.7	-3.7	-3.6	-3.6	-3.5	-3.4	-3.4
Gross national savings	13.6	13.1	14.1	15.2	15.9	16.7	17.1	17.3	17.4	17.5	17.5	17.6	17.6
Central government 2/													
Revenue and grants	27.5	32.3	30.8	31.5	31.5	31.4	31.4	31.4	31.3	31.3	31.3	31.3	31.2
Total expenditure	37.7	33.0	33.6	33.5	33.6	33.5	33.6	33.6	33.5	33.5	33.5	33.5	33.4
Noninterest expenditure	36.0	30.6	30.9	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8
Primary balance	-8.5	1.7	-0.1	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Interest	1.7	2.4	2.7	2.7	2.8	2.7	2.8	2.8	2.7	2.7	2.7	2.6	2.6
Overall balance	-10.3	-0.7	-2.8	-2.0	-2.1	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
External sector													
Current account balance	-8.1	-8.9	-9.3	-8.9	-8.5	-8.1	-7.9	-7.7	-7.6	-7.5	-7.5	-7.4	-7.4
Of which: Exports of goods and services	45.1	51.1	56.7	58.0	57.9	57.9	57.9	57.9	57.9	57.9	57.9	57.9	57.9
Of which: Petroleum exports	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Imports of goods and services	-56.9	-60.9	-63.7	-62.9	-62.4	-62.0	-61.5	-61.6	-61.5	-61.4	-61.4	-61.3	-61.3
Capital and financial account	11.5	12.9	8.8	8.7	8.1	7.6	7.4	7.5	7.5	7.4	7.4	7.4	6.7
Public sector disbursements	9.7	10.4	5.8	5.7	4.8	4.3	3.7	3.3	3.0	2.9	2.8	2.7	3.2
Public sector amortization	-3.1	-3.7	-2.3	-2.6	-3.2	-3.4	-3.0	-2.9	-2.9	-2.9	-2.8	-2.9	-4.2
Other capital and fin. account transactions 3/	5.0	6.2	5.3	5.7	6.5	6.7	6.7	7.1	7.4	7.4	7.4	7.6	7.7
Change in reserves (- increase)	-4.3	-4.0	0.6	0.2	0.4	0.4	0.5	0.2	0.1	0.2	0.1	0.0	0.6
Gross official reserves (in months of imports)	3.8	4.0	3.7	3.5	3.3	3.1	2.9	2.7	2.6	2.5	2.4	2.3	2.1
Public debt 4/	133.1	111.0	102.5	97.7	95.9	94.2	92.8	91.4	90.0	88.7	87.4	86.2	85.0
Domestic	41.4	36.6	32.0	28.9	28.1	27.9	28.1	28.5	29.2	29.9	30.7	31.7	33.5
External	91.7	74.4	70.5	68.8	67.8	66.3	64.7	62.9	60.8	58.8	56.7	54.5	51.5

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

1/ Excludes discrepancy in external savings from the balance of payments.
2/ Fiscal projections are on a calendar year basis.
3/ Includes errors and omissions.
4/ Public debt includes central government debt as well as external financial and non-financial public sector debt.

Table 6. Domestic Banks: Financial Soundness Indicators
(In percent)

	2016	2017	2018	2019	2020	2021
Capital Adequacy						
Regulatory Capital to Risk Weighted Assets	24.0	24.2	24.6	22.8	19.8	19.2
Primary Capital to Risk-Weighted Assets	23.0	23.2	23.6	21.7	18.6	18.2
Non-Performing Loans (Net of Specific Provisions) to Regulatory Capital	14.4	11.1	11.7	11.4	23.9	13.3
Large Exposure to Capital	128.5	117.5	96.5	94.5	139.3	153.1
Asset Quality						
Non-Performing Loans to Total Gross Loans	10.4	6.4	6.2	5.1	7.7	5.0
Non-Performing Loans (Net of Specific Provisions) to Total Gross Loans	3.0	2.4	2.7	2.4	4.4	2.5
Loan Loss Coverage	79.8	77.6	72.3	71.9	57.3	69.7
Profitability/Efficiency						
Return On Equity (Net Income to Average Capital)	4.8	9.2	19.8	13.3	3.2	6.3
Return On Assets (Net Income to Average Assets)	0.6	1.3	19.8	2.0	0.4	0.7
Interest Margin to Gross Income	68.7	68.1	19.8	65.5	69.2	66.1
Non-Interest Expenses to Gross Income	64.6	62.6	19.8	63.4	62.1	68.1
Liquidity						
Liquid Assets to Total Assets	32.7	27.3	25.8	24.3	28.1	33.8
Liquid Assets to Short-Term Liabilities	51.7	41.7	38.6	36.1	38.5	46.6
Customer Deposits to total (Non-Interbank) Loans	132.3	130.4	127.8	128.4	138.1	155.2

Source: Central Bank of Belize.

Annex I. Implementation of 2021 Article IV Consultation Recommendations

2021 Article IV Recommendation	Implementation
Fiscal consolidation and debt restructuring Implement a medium-term fiscal strategy aimed at reducing public debt to 60 percent of GDP by 2031, including a multiyear fiscal consolidation plan, growth enhancing structural reforms, and debt restructuring. Gradually raise the primary balance to 3 percent of GDP from FY2024 onwards to enable a large reduction of debt over the medium term, using both revenue and expenditure measures. On expenditure, limit the growth of noninterest current expenditure to inflation, and raise social and resilience spending. On revenue, broaden the GST base and increase the GST rate, reduce PIT exemptions, raise fees, and strengthen revenue administration.	**Significant progress** A sizable fiscal consolidation was implemented in FY2021, including a 3 percent of GDP cut in current expenditure and a 2.4 percent of GDP cut in capital expenditure. This, plus the strong recovery of revenue, increased the primary balance by 10 percentage points of GDP. Belize also completed a debt for marine protection swap with TNC, which reduced public debt by 12 percent of GDP in 2021 and enhanced the protection of the marine environment going forward (Annex II). The government is aiming to increase the primary balance to near 2 percent of GDP starting in FY2023, which should allow reaching the debt targets of 85percent of GDP in FY2025 and 70 percent of GDP in FY2030.
Growth enhancing structural reforms Enhance the business climate by improving access to credit, easing business registration, enhancing human capital, upgrading infrastructure, and reducing crime. Build resilience to natural disasters and climate change by elaborating a comprehensive Disaster Resilience Strategy that focuses on strengthening structural, financial, and post-disaster resilience.	**Some progress**. The process to register land and businesses has been expedited with digital technologies, and some key FDI projects were fast tracked in 2021. However, progress in other reform priority areas has been limited. Structural resilience was enhanced by restoring habitats and upgrading infrastructure, but there has been limited progress enhancing financial and post-disaster resilience.
Financial sector reform Phase out the forbearance measures and loan deferrals introduced in 2020 and appraise the banks' potential credit losses. Continue to restrict dividend payments to strengthen capital positions and conduct a third-party led asset quality review.	**Some progress** The Central Bank let the regulatory forbearance measures expire by end-2021 and asked domestic banks and credit unions to classify their loans into viable, viable with restructuring, and unviable. The Central Bank is now reviewing these self-assessments and will agree on a plan going forward with each institution.
AML/CFT reforms Strengthen AML/CFT supervision, enforce sanctions for non-compliance, centralize the information on beneficial ownership for accurate recording and ease of access ahead of the 2023 comprehensive evaluation by the Caribbean FATF. Implement legal reforms to capture virtual assets based on risks and sanction unauthorized virtual asset service providers.	**Some progress** A national ML/TF risk assessment was concluded, the report was published, and an action plan to address the weaknesses identified was developed. More progress is needed on centralizing the information on beneficial ownership and enforcing sanctions. The authorities are discussing the regulatory approach to virtual assets, with technical recommendations for policy makers expected in April 2022.

Annex II. Debt for Marine Protection Swap

Belize completed a debt for marine protection swap with The Nature Conservancy (TNC) in November 2021, which reduced Belize's public debt by 12 percent of GDP in 2021 and enhanced the protection of the marine environment going forward. Under the swap, a subsidiary of TNC lent funds to Belize to buy back its superbond (debt with private external creditors totaling US$553 million or 30 percent of GDP) at a discounted price of 55 cents per dollar. The U.S. Development Finance Corporation provided political risk insurance, allowing the loan to have low interest rates, a grace period of 10 years, and a maturity of 19 years. In exchange, Belize committed to allocate US$4.2 million per year for marine conservation until 2041 and expand its Biodiversity Protection Zones (coral reefs, mangroves, and fish spawning sites) from 15.9 percent of ocean area to 30 percent by 2026. It also created an endowment fund of US$23.5 million to finance marine conservation after 2041.

1. **Following several months of negotiations, Belize and TNC finalized a debt for marine protection swap on November 5, 2021**. The agreement was facilitated by the long history of collaboration between Belize and TNC, the common interest to protect the marine environment, and Belize's need to restructure its debt following the devastating impact of the COVID-19 pandemic. This swap reduced Belize's public debt in 2021 and will promote sustainable economic development and the protection of Belize's marine environment going forward.

2. **The swap reduced Belize's public debt by 12 percent of GDP in 2021**. TNC set up the subsidiary Belize Blue Investment Company to loan (Blue Loan) to Belize the proceeds of a Blue Bond issuance of US$364 million. The US International Development Finance Corporation insured this loan against political risk.[1] Of these funds, US$301 million were used to buy back the superbond with face value of US$553 million (30 percent of GDP) at a discount price of 55 cents per dollar, including the US$27 million superbond coupon payment due in FY2021; US$24 million were used to establish a marine conservation endowment fund administered by an affiliate of TNC; US$18 million were used as an original issue discount to facilitate lower interest rates in the early years of the loan; US$10 million were put in a debt service reserve account to cover debt service payments during arbitration; and US$10 million were used to cover the closing costs of the transaction. As a result, Belize's public debt stock declined by US$216 million or 12 percent of GDP in 2021.

3. **The debt swap also reduced Belize's debt service payments during FY2022-34**. The Blue Loan has a maturity of 19 years, a grace period of 10 years, and a low interest rate of 3 percent in the first year, which gradually rises to 6 percent over the medium term (Annex Table 4.1). It also has other outlays, such as (i) marine conservation payments of US$4.2 million per year for 20 years; (ii) management fees of US$0.6 million per year for 20 years; (iii) insurance against natural disasters of US$0.8 million per year on average for 19 years; and (iv) trust payments of US$15,000 per year for 19 years. Debt service for the Blue Loan is lower than that for the superbond between FY2022 and FY2034, but higher after when the superbond would have been repaid (Annex Figure 4.1, Panel A). Excluding principal payments, the Blue Loan interest and fees are lower than those of the superbond during FY2022-25, the same during FY2026-30, and higher thereafter (Annex Figure 4.1, Panel B).

[1] This insurance covers non-payment of Arbitral Award and Denial of Justice.

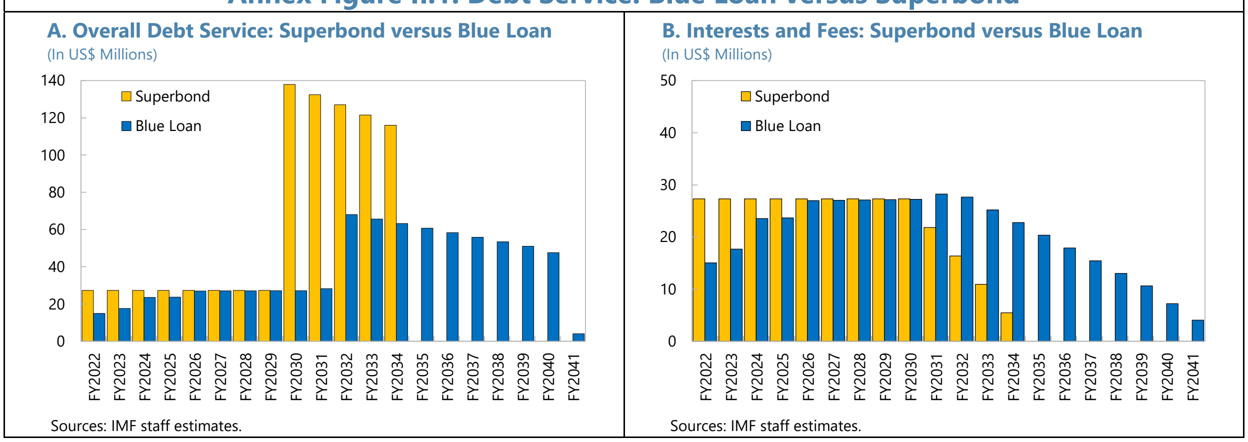
Focusing on the next 10 years as in the debt sustainability analysis (Annex II), Belize's interests and fees will decline by 0.1 percent of GDP per year on average. Moreover, some fees will be paid in Belizean dollars instead of US dollars, thus reducing pressures on the currency peg.

Annex Table II.1. Blue Loan Terms and Expenses

Debt service	First payment	Last payment	Frequency	Total payments	Annual Amount (In USS Millions)
Interest					
At 3.00 percent	4/20/2022	10/20/2022	biannual	2	10.5
At 3.55 percent	4/20/2023	10/20/2023	biannual	2	12.9
At 5.15 percent	4/20/2024	10/20/2025	biannual	4	18.7
At 6.04 percent	4/20/2026	10/20/2040	biannual	30	1.8 to 22.0
Principal	4/20/2032	10/20/2040	biannual	18	40.4
Conservation	1/20/2022	10/20/2041	Quarterly	80	4.2
Management	1/20/2022	10/20/2041	Quarterly	80	0.6
Insurance	1/20/2022	1/20/1940	Annual	19	0.8
Trust	7/20/2022	7/20/1940	Annual	19	0.015

Source: The Nature Conservancy.

Annex Figure II.1. Debt Service: Blue Loan versus Superbond



4. **Belize made several marine conservation commitments to facilitate the debt swap**. In addition to the US$4.2 million annual payment for marine conservation until 2041 and the setup of an endowment fund to finance marine conservation after 2041, Belize committed to expand the area of ocean it protects and improve the regulatory framework for sustainable development. The conservation commitments are spelled out in the Conservation Funding Agreement, are bound by deadlines, and progress is marked by milestones (Annex Table 4.2). If milestones are missed, the

government will pay penalties until the situation is remedied. The commitments comprise three clauses specifying environmentally oriented actions:

a. **The Marine Spatial Plan (MSP)**. Belize must complete a legally enforceable MSP and designate 30 percent of its Ocean in Biodiversity Protection Zones (milestones 1, 3, 4, 6, and 8). The MSP shall include marine conservation outcomes for biodiversity protection and denote the allowed activities that may be lawfully carried on in any part of Belize's Ocean.

b. **Other Conservation Milestones**. Belize must also complete other environmental commitments not covered in the MSP (milestones 2, 5, and 7), including the designation of Public Lands within the Belize Barrier Reef Reserve System as Mangrove Reserves; implementation of an Integrated Coastal Zone Management Plan; and application to have at least three marine protected areas listed as Green List Areas by the International Union for Conservation of Nature.

c. **General Conservation Undertaking**. Belize also committed to other initiatives to balance the development of the economy with the social, economic, and environmental needs of a healthy and biodiverse Ocean. Belize expressed its intention to advance the initiatives listed below even though they are not linked to any Milestones and are not subject to penalties:

    i. *Aquaculture*: implementation of transparent, science based, socially responsible regulations for a high-value, sustainable aquaculture and mariculture industry.

    ii. *Fisheries*: implementation of a governance framework for domestic and high seas fisheries consistent with transparent, science based, socially responsible international best practices.

    iii. *Blue Carbon*: development and implementation of a national regulatory framework for the blue carbon projects within the national carbon strategy.

    iv. *Managed Access Program Evaluation*: completion of an independent evaluation of the Program and reasonable implementation of recommendations.

    v. *Environmental Impact Assessment Regulation*: finalization of revisions to the Regulations including support of designating Belize's sites as World Heritage Sites.

    vi. *World Heritage Sites*: meeting or exceeding minimum standards for development in World Heritage Sites per the UNESCO guidelines.

    vii. *Watershed Management*: development of a watershed management plan for at least two major watersheds.

Annex Table II.2. Milestones of the Conservation Agreement

Milestone Number	Milestone Summary Description	Time after signing the Agreement	Share of Ocean in High Protection	Share of Ocean in Medium Protection	Total Share of Ocean in Biodiversity Protection[1]
1	Expand the Biodiversity Protection Zones to 11.57% of the Ocean	6 months	Increased to 11.57%	Remains at current 8.96%	20.53%
2	Designate Public Lands within the BBRRS as Mangrove Reserves	6 months			
3	Belize initiates MSP process	1 year			
4	Expand the Biodiversity Protection Zones to 25% of the Ocean	3 years	Add 4.5% more in total across either Medium and/or High zones		25%
5	Implementation of ICZMP	4 years			
6	Complete Biodiversity Protection Zones, MSP signed into law and implemented	5 years	Add 5% more in total across either Medium and/or High zones		30%
7	At least three IUCN Green List Applications Submitted	6 years			
8	Approved Management Plans	8 years			

Source: "CONSERVATION FUNDING AGREEMENT, November 4, 2021, between BELIZE and BELIZE BLUE INVESTMENT COMPANY, LLC

BBRRS: Belize Barrier Reef Reserve System; MSP: Marine Spatial Plan; ICZMP: Integrated Coastal Zone Management Plan.

IUCN: International Union for Conservation of Nature.

Annex III. Debt Sustainability Analysis

The pandemic led to a sharp rise in Belize's public debt to 133 percent in 2020, which staff assessed as unsustainable in the 2021 Article IV Consultation. Belize has made significant progress to restore debt sustainability since then, including by implementing sizable fiscal consolidation measures in FY2021, which together with the strong recovery of revenue increased the primary balance from –8.5 percent of GDP in FY2020 to 1.7 percent of GDP in FY2021. Belize also completed a debt for marine protection swap with The Nature Conservancy (TNC), which lowered public debt by 12 percent of GDP in 2021. However, staff would still assess Belize's public debt as unsustainable without additional measures, as it would stay above the 70 percent to GDP threshold for sustainability over the next 10 years. Moreover, debt dynamics remain vulnerable to shocks to growth, interest rates, or the fiscal position. Restoring debt sustainability requires additional fiscal consolidation and growth-enhancing structural reforms.

1. **The COVID-19 pandemic led to a sharp increase in public debt from 96 percent of GDP in 2019 to 133 percent in 2020**. This reflected an 18.5 percent fall in nominal GDP, and a widening of the fiscal deficit driven by a fall in revenue and a rise in pandemic-related expenditure. As a result, staff assessed Belize's public debt as unsustainable in the 2021 Article IV Consultation, both because public debt was projected to remain above the 70 percent of GDP threshold for debt sustainability over the next 10 years, and because the public sector's gross financing needs (GFN) were projected to surpass the 15 percent of GDP threshold for sustainability in some years over the next decade.

2. **The authorities reduced public debt significantly in 2021**. They implemented large fiscal consolidation measures, including a 3 percent of GDP cut to current expenditure and a 2.4 percent of GDP cut to capital expenditure, which together with the strong recovery of revenues increased the primary balance from –8.5 percent of GDP in FY2020 to 1.7 percent in FY2021. The government also signed a debt for marine protection swap with TNC, which reduced public debt by 12 percent of GDP in 2021 (Annex II). As a result, public debt fell from 133 percent of GDP in 2020 to 111 percent in 2021 and is projected to fall to 85 percent in 2032. Public external debt is projected to fall from 92 percent of GDP in 2020 to 51 percent in 2032, while public domestic debt is projected to fall from 41 percent of GDP in 2020 to 34 percent in 2032. The GFN are also projected to fall to between 6.5 and 10 percent of GDP over the next 10 years due to lower interest rates and a long repayment period for the Blue Loan. Key risks to the outlook stem from an intensification of the pandemic and natural disasters, which could weaken the fiscal position and increase debt. A sudden tightening of global financial conditions would increase the cost of future external financing but would have a limited impact on existing debt as a large share of it has fixed interest rates. Reliance on domestic financing would increase if any of these downside risks materializes.

3. **Staff would continue to assess Belize's public debt as unsustainable in the absence of additional measures**. Without additional measures, public debt is projected to remain above the 70 percent of GDP threshold for sustainability even in staff's baseline scenario. Moreover, economic growth and fiscal performance remain volatile, making baseline projections highly uncertain, while debt dynamics remain vulnerable to shocks to growth, interest rates, and the fiscal position. Stress testing the baseline scenario shows that Belize's debt burden exceeds the benchmark for emerging

market economies in several areas. The heat map highlights significant risks to debt sustainability arising from the level of public debt and the currency composition. The fan charts show that public debt could exceed 120 percent of GDP by 2032 with a probability of 10 percent. On the positive side, the GFN is projected to fall below the 15 percent of GDP threshold for sustainability in staff baseline scenario during 2022-32, but it could surpass it if the economy is hit by adverse shocks to growth or contingent liabilities. Restoring debt sustainability requires preserving the fiscal savings achieved in FY2021 and implementing additional fiscal consolidation and structural reforms.

4. Stress tests confirm the vulnerability of public debt to adverse shocks. Public debt is particularly sensitive to a real GDP growth shock. A one standard deviation fall in real GDP growth for two years would increase the debt-to-GDP ratio by 32 percentage points by 2032. Public debt is also sensitive to an exchange rate shock since 65 percent of it is denominated in foreign currency. A real exchange rate depreciation of 12 percent would increase public debt by 7 percentage points of GDP by 2032. Similarly, a financial sector contingent liability shock that increases public spending by 10 percent of banking sector's assets associated with recapitalization needs of a few banks would raise public debt by 9 percentage points of GDP by in 2032.

5. Debt dynamics are also highly vulnerable to natural disasters and climate change. To illustrate this vulnerability, it is assumed that a natural disaster causes 6 percent of GDP in economic damages, about half of the damage inflicted by Hurricane Earl in 2016. Real GDP growth declines by 3 percent in the year of the disaster, by 1 percent in the next year, and it increases by 0.5 percent in the following two years (reflecting reconstruction activity). The scenario assumes that the cost for the government is 4 percent of GDP (two-thirds of the economic damage). The associated recovery and reconstruction spending are spread over three years: 2 percent of GDP in the first year, and 1 percent of GDP in each of the next two years, respectively. The shock has a material impact on public debt, shifting the entire trajectory up by around 7 percentage points of GDP above the baseline, with debt reaching 91 percent of GDP by 2031. Climate change, on the other hand, would weaken long-term growth and thus increase the ratio of public debt to GDP over time.

6. External debt declined in 2021 but remains high and vulnerable to shocks.[1] External debt declined sharply from 92 percent of GDP in 2020 to 74 percent in 2021, driven by both the debt for marine protection swap with TNC and a strong pick in economic activity. Going forward, external debt is projected to decline further to 51 percent of GDP by 2032 reflecting lower fiscal deficits and a more limited access to bilateral and multilateral financing. Stress tests indicate that external debt is highly sensitive to exchange rate and current account shocks. A 30 percent currency depreciation in 2022 raises external debt to 79 percent in 2032, while a widening of the non-interest current account balance increases it to 64 percent of GDP. Half standard deviation shocks to real GDP growth or interest rates have smaller effects on external debt. A combined one-quarter standard deviation shock would increase external debt to 63 percent of GDP in 2032.

[1] Given the lack of data on private external debt, the external DSA covers only external public debt.

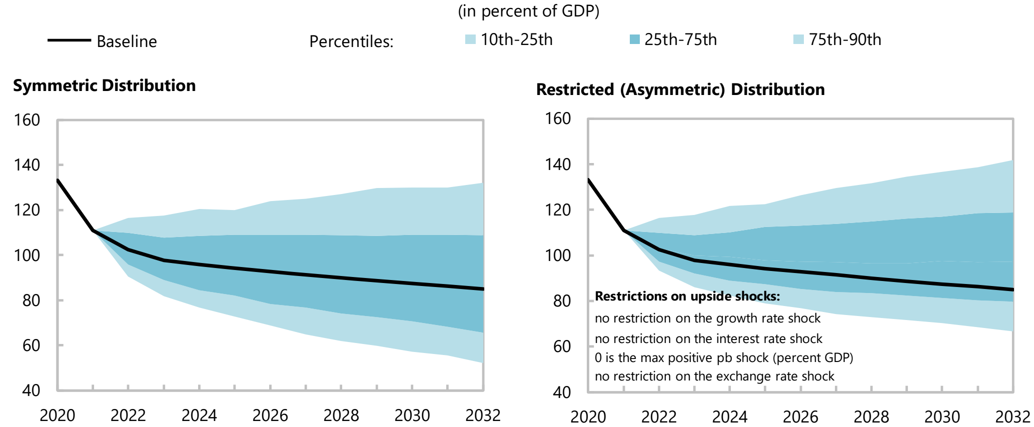
Annex Figure III.1. Belize: Public DSA Risk Assessment

Heat Map

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

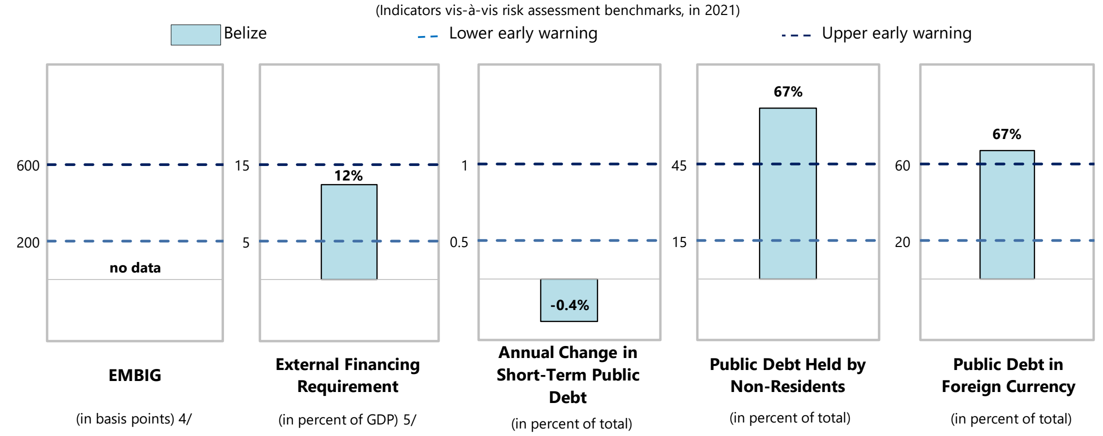
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

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

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

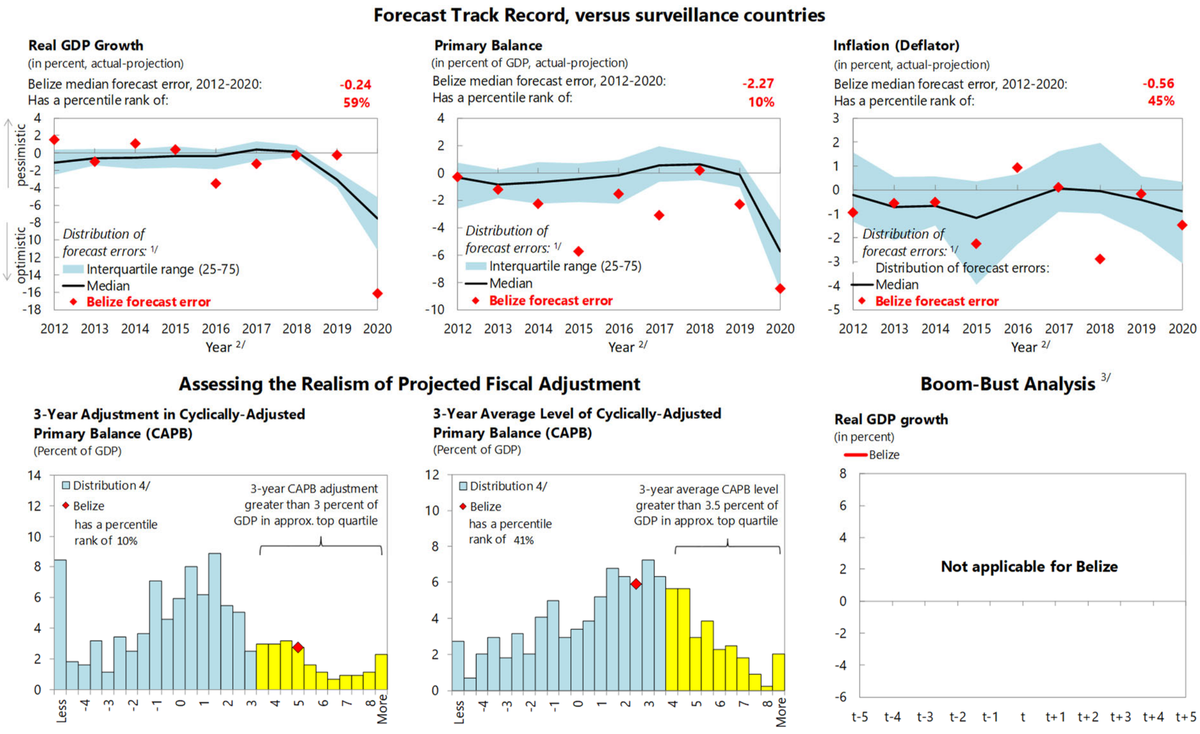
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 07-Oct-21 through 05-Jan-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex Figure III.2. Belize: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex Figure III.3. Belize: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

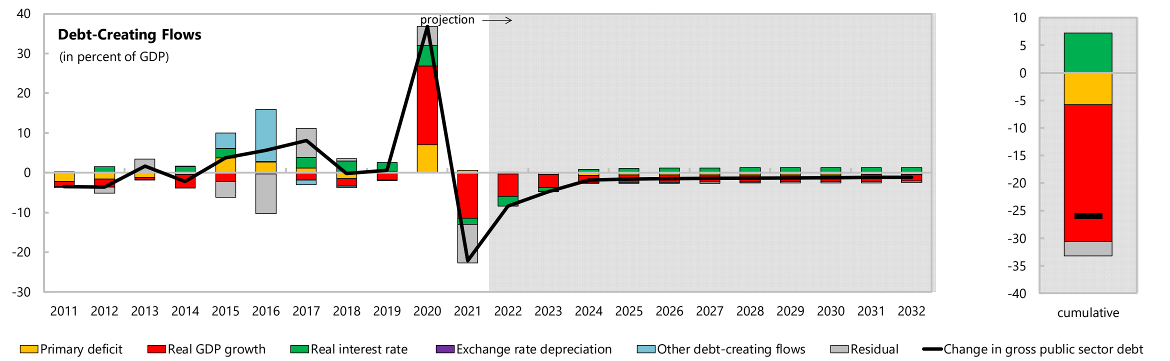
Debt, Economic and Market Indicators [1]

	Actual			Projections										
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Nominal gross public debt	86.6	133.1	111.0	102.5	97.7	95.9	94.2	92.8	91.4	90.0	88.7	87.4	86.2	85.0
Public gross financing needs	7.7	18.4	13.1	9.1	7.8	7.8	7.2	6.9	6.8	7.1	7.6	7.9	8.5	10.3
Real GDP growth (in percent)	2.0	-16.7	9.8	5.7	3.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	1.8	-2.1	3.2	4.8	3.7	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (in percent)	3.8	-18.5	13.3	10.8	7.2	4.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (in percent) [4]	3.5	1.7	2.2	2.7	2.8	3.1	3.2	3.4	3.4	3.5	3.5	3.6	3.6	3.6

As of January 05, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
Ratings	Foreign	Local
Moody's	Caa3	Caa3
S&Ps	B-	B-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections												
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.1	36.8	-22.1	-8.5	-4.8	-1.9	-1.6	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2	-1.2	-26.0	
Identified debt-creating flows	1.6	32.0	-12.4	-8.5	-4.7	-1.7	-1.4	-1.2	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8	-23.3	
Primary deficit	0.1	7.0	0.7	-0.3	-0.5	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-5.8	-0.3
Primary (noninterest) revenue and grants	29.2	30.5	31.1	31.0	31.2	31.5	31.4	31.4	31.4	31.4	31.3	31.3	31.3	31.3	344.4	
Primary (noninterest) expenditure	29.3	37.5	31.8	30.7	30.7	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	30.8	338.6	
Automatic debt dynamics [5]	-0.2	25.0	-13.0	-8.2	-4.2	-1.1	-0.8	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-17.5	
Interest rate/growth differential [6]	-0.2	25.0	-13.0	-8.2	-4.2	-1.1	-0.8	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-17.5	
Of which: real interest rate	1.4	5.2	-1.6	-2.4	-1.0	0.8	1.0	1.2	1.2	1.2	1.3	1.3	1.3	1.3	7.3	
Of which: real GDP growth	-1.7	19.8	-11.5	-5.7	-3.3	-1.9	-1.8	-1.8	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7	-24.8	
Exchange rate depreciation [7]	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization and drawdown of deposits (negative)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-0.5	4.8	-9.7	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-2.6	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

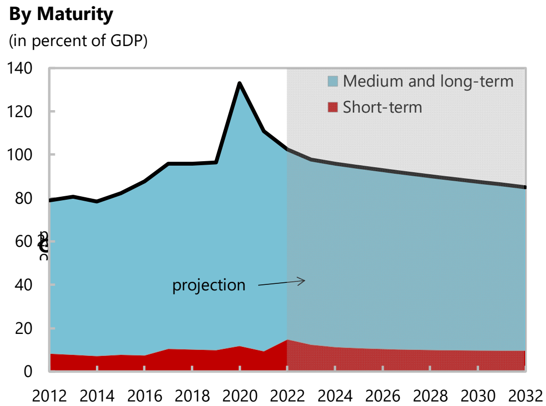
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

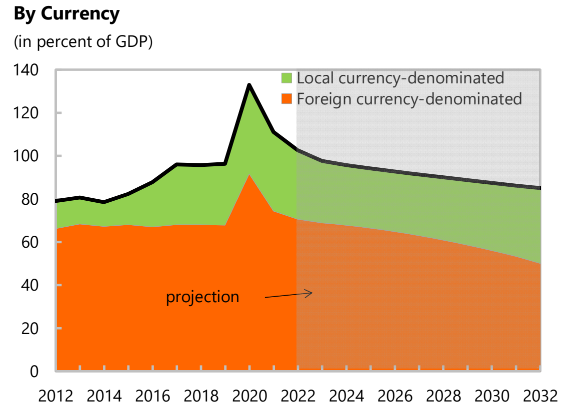
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

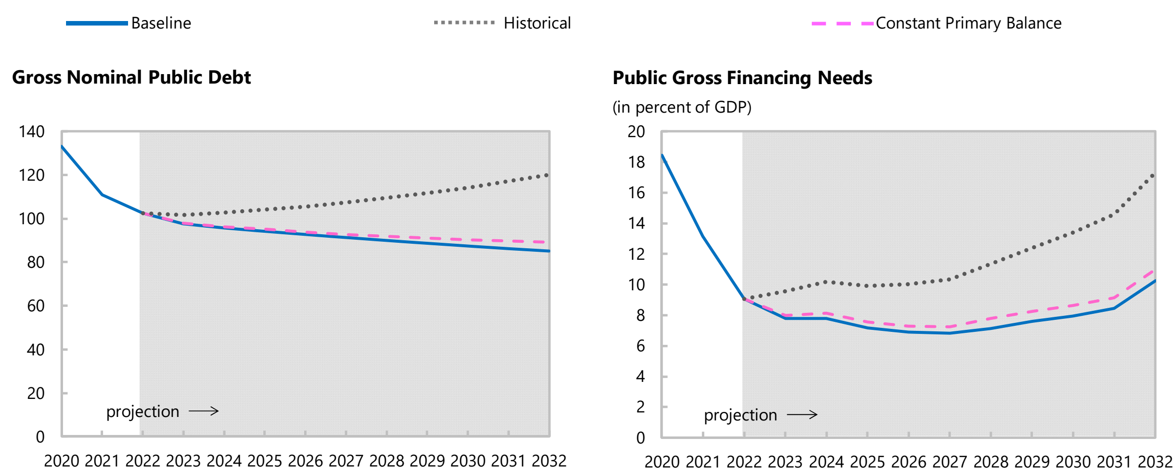
Annex Figure III.4. Belize: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt





Alternative Scenarios



Underlying Assumptions
(in percent)

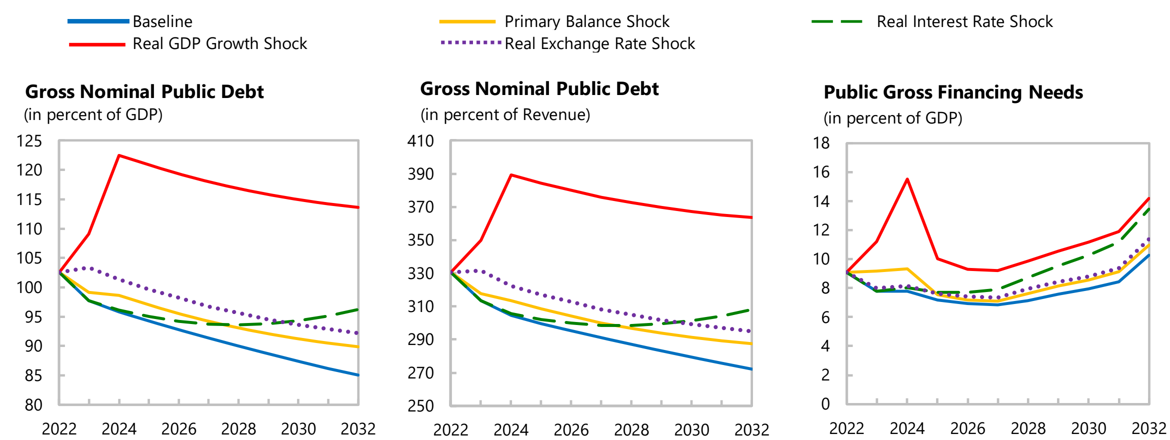
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary Balance	0.3	0.5	0.7	0.6	0.6	0.6
Effective interest rate	2.7	2.8	3.1	3.2	3.4	3.4
Constant Primary Balance Scenario						
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary Balance	0.3	0.3	0.3	0.3	0.3	0.3
Effective interest rate	2.7	2.8	3.1	3.2	3.4	3.4

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.7	1.0	1.0	1.0	1.0	1.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary Balance	0.3	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	2.7	2.8	3.3	3.4	3.7	3.9

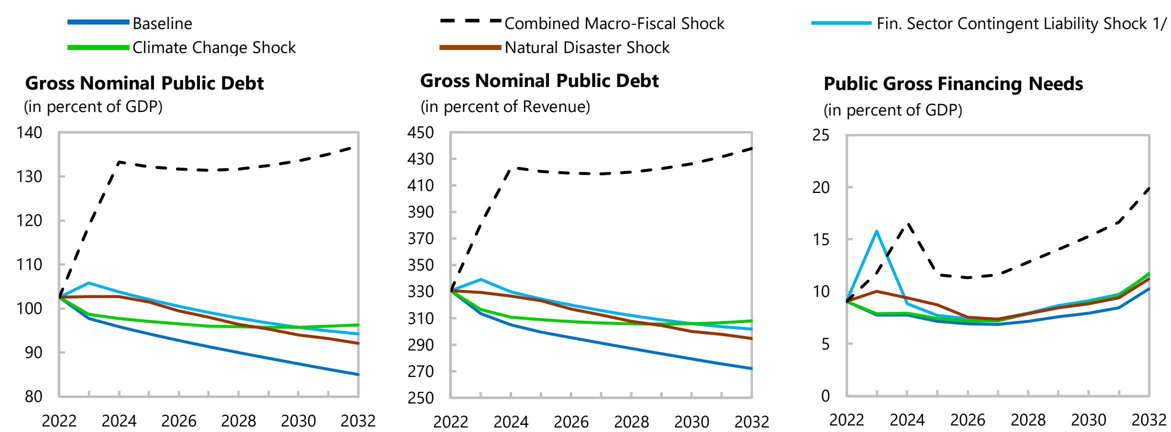
Source: IMF staff.

Annex Figure III.5. Belize: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

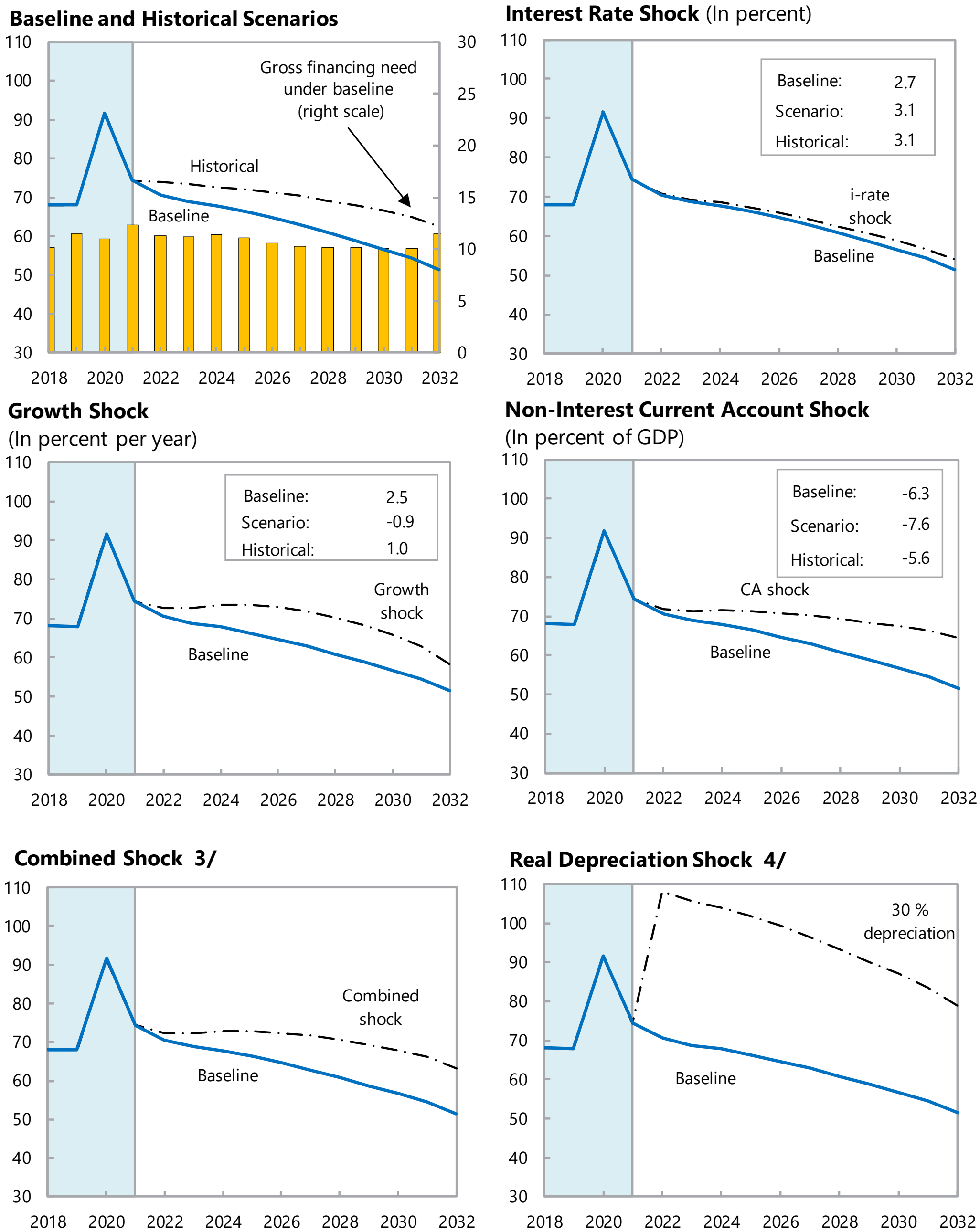
	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary balance	0.3	-0.9	-0.7	0.6	0.6	0.6
Effective interest rate	2.7	2.8	3.2	3.2	3.4	3.5
Real Interest Rate Shock						
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary balance	0.3	0.5	0.7	0.6	0.6	0.6
Effective interest rate	2.7	2.8	3.4	3.7	4.1	4.4
Combined Shock						
Real GDP growth	5.7	-3.4	-4.8	2.0	2.0	2.0
Inflation	4.8	2.0	0.5	2.0	2.0	2.0
Primary balance	0.3	-2.2	-5.0	0.6	0.6	0.6
Effective interest rate	2.7	3.0	3.4	3.9	4.3	4.6

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	5.7	-3.4	-4.8	2.0	2.0	2.0
Inflation	4.8	2.0	0.5	2.0	2.0	2.0
Primary balance	0.3	-2.2	-5.0	0.6	0.6	0.6
Effective interest rate	2.7	2.8	3.2	3.4	3.6	3.6
Real Exchange Rate Shock						
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	7.0	2.2	2.0	2.0	2.0
Primary balance	0.3	0.5	0.7	0.6	0.6	0.6
Effective interest rate	2.7	3.0	3.1	3.1	3.4	3.4
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	5.7	3.4	2.0	2.0	2.0	2.0
Inflation	4.8	3.7	2.2	2.0	2.0	2.0
Primary balance	0.3	-7.5	0.7	0.6	0.6	0.6
Effective interest rate	2.7	2.8	3.1	3.1	3.3	3.4

Source: IMF staff.

Annex Figure III.6. Belize: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2031.

Annex Table III.1. Belize: External Debt Sustainability Framework 2017–2027

(In percent of GDP, unless otherwise indicated)

	Actual												
	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	**68.1**	**68.0**	**91.7**	**74.4**			**70.5**	**68.8**	**67.8**	**66.3**	**64.7**	**62.9**	**-6.4**
Change in external debt	-0.1	-0.1	23.7	-17.3			-3.9	-1.7	-1.0	-1.5	-1.6	-1.8	
Identified external debt-creating flows (4+8+9)	0.0	2.8	19.0	-6.5			-2.7	-0.6	0.4	-0.2	-0.3	-0.5	
Current account deficit, excluding interest payments	5.7	7.1	6.0	7.7			7.9	7.4	6.7	6.3	6.1	5.9	
Deficit in balance of goods and services	4.4	5.2	11.8	9.8			7.0	5.0	4.5	4.1	3.9	3.7	
Exports	56.8	56.7	45.1	51.1			56.7	58.0	57.9	57.9	57.9	57.9	
Imports	61.2	61.9	56.9	60.9			63.7	62.9	62.4	62.0	61.8	61.6	
Net non-debt creating capital inflows (negative)	-6.4	-4.7	-4.5	-4.6			-4.8	-4.8	-5.2	-5.6	-5.6	-5.6	
Automatic debt dynamics 1/	0.8	0.4	17.5	-9.5			-5.8	-3.2	-1.1	-0.9	-0.8	-0.7	
Contribution from nominal interest rate	2.3	2.4	2.1	1.2			1.4	1.5	1.8	1.7	1.8	1.8	
Contribution from real GDP growth	-1.4	-1.3	14.0	-7.9			-3.8	-2.2	-1.3	-1.3	-1.3	-1.2	
Contribution from price and exchange rate changes 2/	-0.2	-0.7	1.4	-2.9			-3.4	-2.5	-1.5	-1.3	-1.3	-1.3	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.1	-2.9	4.8	-10.8			-1.2	-1.1	-1.5	-1.2	-1.3	-1.4	
External debt-to-exports ratio (in percent)	119.9	119.9	203.4	145.5			124.3	118.7	117.1	114.6	111.8	108.6	
Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.2	0.2			0.2	0.2	0.3	0.3	0.3	0.3	
in percent of GDP	10.1	11.6	11.0	12.3	10-Year	10-Year	11.3	11.2	11.4	11.1	10.6	10.3	
Scenario with key variables at their historical averages 5/				**74.4**			**73.9**	**73.5**	**72.6**	**71.9**	**71.2**	**70.3**	**-4.9**
					Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline					Average	Deviation							
Real GDP growth (in percent)	2.0	2.0	-16.7	9.8	1.0	6.8	5.7	3.4	2.0	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	0.3	1.1	-2.1	3.2	1.3	1.7	4.8	3.7	2.2	2.0	2.0	2.0	
Nominal external interest rate (in percent)	3.5	3.6	2.5	1.5	3.1	0.8	2.1	2.3	2.7	2.6	2.9	2.9	
Growth of exports (US dollar terms, in percent)	3.9	2.9	-35.2	28.5	1.0	15.9	22.9	9.6	4.1	4.0	4.0	4.0	
Growth of imports (US dollar terms, in percent)	6.2	4.2	-25.0	21.3	2.1	11.9	15.9	5.9	3.4	3.3	3.8	3.7	
Current account balance, excluding interest payments	-5.7	-7.1	-6.0	-7.7	-5.6	2.5	-7.9	-7.4	-6.7	-6.3	-6.1	-5.9	
Net non-debt creating capital inflows	6.4	4.7	4.5	4.6	5.4	3.2	4.8	4.8	5.2	5.6	5.6	5.6	

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

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

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

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

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

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

Annex IV. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood[1]**	**Impact**	**Policy Response**
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar growth. Rising hospitalizations and deaths force lockdowns and increase uncertainty about the course of the pandemic.	↓	**High**	High	Increase vaccinations, screening, trace contact capacity, and health related spending. Support the most vulnerable. Closely monitor developments in the tourism sector and vulnerabilities in the banking sector.
De-anchoring of US inflation expectations due to a fast recovery in demand amid a lagging supply-side response prompts central banks to tighten policies abruptly.	↓	**Medium**	Medium	Reprioritize government spending to support the most vulnerable; identify and relieve supply bottlenecks; monitor the banks' balance sheets for potential vulnerabilities.
Rising and volatile food and energy prices, including due to the war in Ukraine, leading to price and real sector volatility and energy crises in some countries.	↓	**High**	High	Increase targeted support to the most vulnerable. Lessen the reliance on imported food and fuel by investing in renewable energy generation and domestic food production.
Country-Specific Risks				
Higher frequency and severity of natural disasters related to climate change	↓	**Medium**	High	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, strengthen financial and post disaster resilience
Social discontent and political instability	↓	**Medium**	Medium	Implement target measures to support vulnerable households and businesses
Further pressure on Corresponding Banking Relationships (CBRs)	↓	**Medium**	High	Systematic monitoring of CBRs and communication with global banks and standard setters. Strengthen AML/CFT actions.
The debt for marine protection swap reduces the appetite for additional fiscal consolidation.	↓	**Medium**	High	Maintain commitment to restoring debt sustainability by raising the primary balance to 2.5 percent of GDP in FY2025.

[1] As of February 4, 2022. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex V. Updated Nationally Determined Contribution

1. Belize released its updated Nationally Determined Contribution (NDC) in August 2021. Its first NDC under the Paris Climate Change Agreement was submitted in 2016. The update benefits from more robust data on land use trends and emission factors, including Belize's first Forestry and Other Land Use (FOLU) sector Greenhouse Gas Inventory showing trends in emissions and removals since 2001. It also considers national capacity and circumstances, and technological advancements. It thus improves the planning and projections of national commitments over the previous NDC.

2. The updated NDC includes actions on both mitigation and adaptation, as well as their costs and financing gaps. Although Belize contributes a small share of global emissions, it can make an important contribution to global warming control efforts by protecting and restoring key natural habitats that serve as carbon sinks, such as mangrove forests, sea grass and terrestrial forests. The actions included in the updated NDC prioritize the protection and restoration of these habitats. The updated NDC also prioritizes the management of further development of the coastline to reverse net coastal habitat and land loss and initiatives to strengthen the adaptative capacity to climate change in agriculture, fisheries, aquaculture, health, tourism, and water resources.

Mitigation

3. The updated NDC identifies the most polluting sectors and key carbon sinks in Belize. The energy sector (including transport) is the largest greenhouse gas (GHG) emitter followed by the international bunkers (ships and aircraft), industry, and waste (Annex Table 4.1). In agriculture, the primary GHG emissions sources are livestock and forest fires. Mitigation opportunities for livestock are limited but preventing forest fires is feasible. Due to significant carbon storage in the Forestry and Other Land Use (FOLU) sector, Belize is a net sink of GHG emissions. Emissions in the FOLU sector stem from the conversion of forest land to grasslands or croplands. Reducing deforestation and forest degradation provide significant mitigation opportunities in the sector.

Annex Table V.1. Historical Green House Gas Emissions (Gg CO2-eq)

	2012	2015	2017
Energy	538.1	781.8	786.4
Industrial processes and product use	31.4	42.5	43.7
Agriculture, forestry, and other land use	-7771.4	-6104.3	-6683.7
Waste	22.7	19.9	26.8
International bunkers	40.4	40.2	71.9
Total	-7179.1	-5260.1	-5286.8

Source: National Climate Change Office (2020) Belize's First Biennal Update Report.

4. Protecting "blue carbon" ecosystems would also reduce GHG emissions. Blue carbon ecosystems (mangroves and seagrass) play important roles as a nature-based solution to climate change with mitigation, adaptation, and resilience co-benefits. These ecosystems sequester and store significant amounts of carbon, safeguard frontline communities by offsetting sea level rise and coastal erosion, and support a more resilient tourism and aquaculture industry.

5. **Mitigation targets included in the updated NDC are estimated to avoid 5,647 KtCO2e in cumulative emissions during 2021-30**. Key sector targets include GHG removals related to the AFOLU sector and renewable energy projects. The key actions include**:**

- Reduce GHG emissions and raise GHG removals related to land use change by 2,053 KtCO2e by reforesting protected areas; restoring degraded and deforested riparian forests; mitigating forest degradation by reducing fire incidence and improving logging practices, reducing emissions related to fuelwood use, and planting shade trees in agricultural lands.

- Remove 381 KtCO2e of emissions through mangrove restoration by doubling the mangrove protected area (currently at 12,827 hectares); restoring at least 4,000 hectares of mangroves; and the development of a national seagrass management policy.

- Reduce methane emissions from livestock by 10 percent by 2030 and avoid emissions of at least 4.5 KtCO2e related to agriculturally driven land use change.

- Avoid emissions from the power sector equivalent to 19 KtCO2e per year through system and consumption efficiency measures.

- Avoid 44 KtCO2e of GHG emissions in the national electricity supply through the introduction of expanded capacity from renewable energy sources.

- Avoid 117 KtCO2e/year of GHG emissions from the transport sector through a 15 percent reduction in conventional transportation fuel use and achieve 15 percent efficiency gain per passenger and ton per kilometer through appropriate policies and investments.

- Improve waste management processes to avoid emissions of up to 18 KtCO2e per year, in line with the national waste management strategy.

6. **There are significant gaps to finance Belize's ambitious mitigation plans**. The cost of the mitigation targets and actions listed above for 2021-30 is estimated at US$1.39 billion. Recognizing funding already committed, the funding gap is estimated at US$1.24 billion. Considering recoverable costs in renewable energy and waste, this gap could fall to US$607 million. Belize is approaching donors as well as bilateral and multilateral creditors to fill in this gap.

Adaptation

7. **Climate change is already impacting Belize's population and key economic sectors**. Agriculture is sensitive to changes in precipitation, temperature, and extreme weather. Tourism is impacted by seal level rise, coral bleaching, and loss of biodiversity. Critical support systems including water resources, health and energy are likewise impacted by the increasingly variable climate in the region. Belize also hosts globally significant ecological resources including rainforest, mangrove forests, wetlands and coral reefs which are under threat from global warming.

8. **The updated NDC includes specific targets set out at the sector level for adaptation and resilience to climate change** (Annex Table 4.2). The main sectoral targets include:

- **Coastal zone and marine resources**. A large part of Belize's coastline has an elevation of less than one meter and is vulnerable to sea level rise. Protecting the mangrove and seagrass ecosystems will not only reduce emissions, but also protect vulnerable communities. Key targets in this area are managing the development of the coastline to reverse net coastal habitat and land loss and developing an early warning system for storm surges.

- **Agriculture**. Reduce post-harvest losses through the implementation of the national adaptation strategy that includes investment in climate smart agriculture, increased access to drought tolerant crops and livestock breeds, and better soil and water management practices. Implement an early warning system for drought and extreme weather events.

- **Fisheries and aquaculture**. Build capacity in fisheries and aquaculture sector through research, diversification and retraining to support livelihoods while protecting coastal ecosystems.

- **Human health**. Build capacity in the health sector by assessing vulnerabilities and investing in capacity to respond to climate-related threats, including new diseases and high temperatures.

- **Tourism**. Increase the adaptive capacity of tourism by developing climate resilient planning frameworks and infrastructure. This includes assessing coastal tourism areas that are vulnerable to climate change and their carrying capacity and installing appropriate infrastructure for adaptation to climate change including roads, bathroom facilities, buoys, renovation of docks and wayfinding.

- **Forestry and biodiversity**. Implement protection targets of the National Biodiversity Strategy Action Plan including increased effectiveness of the National Protected Areas System.

- **Land use, human settlements, and infrastructure**. Protect communities from damage caused by flooding and sea level rise through implementation of the Land Use Policy and supporting green and grey infrastructure.

- **Water resources**. Enhance the protection of water catchment (including groundwater) areas and improve the management and maintenance of existing water supply systems by implementing the National Water Sector Adaptation Strategy and Action Plan.

9. The financing gap for Belize's adaptation targets is smaller. The adaptation targets and actions listed above are estimated to cost US$318 million between 2021-30. Recognizing funding that is already committed, the funding gap is estimated at US$146 million.

Annex Table V.2. Mitigation: Targets, Actions, and Costs

Target	Actions			Cost (in U.S.$)			
	No. of Actions	Areas	Conditional/On-going	Total	Identified Activities: Funded	Identified Activities: Unfunded	Gap
			Land use, land-use change, and forestry				
Reduce GHG emissions, increase GHG removals related to land use change totalling 2,053 KtCO2e11 cumulative over 2021-30	7	Reforestation, forest protection and sustainable forest management	Conditional on financial support and technical assistance	67,749,000	30,865,128	7,000,000	29,883,872
Enhance the capacity of the mangrove and seagrass ecosystems as a carbon sink by 2030, through increased protection of mangroves and by removing a cumulative total of 381 KtCO2e between 2021-30 through mangrove restoration	7	Fuel wood consumption	Conditional on TA & CD for emissions accounting, carbon market design and financial support for purchase, protection and restoration of mangroves and wetlands.	250,000	0	0	250,000
		Mangrove protection and reforestation		330,798,801	10,000,000	5,000,000	315,798,801
		Blue carbon market		2,614,510	0	0	2,614,510
			Energy				
Avoid emissions for to 19 KtCO2e per year through system and consumption efficiency measures amounting to at least 100 GWh/year by 2030	2	Renewables	Partially conditional on TA for development and transmission and and financing to pilot and scale up solar water heating technology in residential and tourism sectors.	460,050,610	274,500	739,700	459,036,410
Avoid 44 KtCO2e in the national electricity supply by 2030 through the introduction of expanded capacity from renewable energy sources	6	Power sector efficiency	Partially conditional on BEL's plans to invest U.S. $125 million to meet the renewable energy share of 75% by 2030. TA and financing needed for scaling up and replicating existing biomass power projects; feasibility of onshore wind and storage technologies and increased renewable energy generation capacity beyond current projects.	93,068,247	274,500	5,731,000	87,062,747
Avoid 117 KtCO2e/year21 from the transport sector by 2030 through a 15% reduction in conventional transportation fuel use by 2030 and achieve 15% efficiency per passenger- and tonne-kilometre through appropriate policies and investments	3	Transport	Partially conditional on financing through the NAMA facility for the purchase and deployment of efficient buses and TA to develop an efficient light duty vehicle policy regime.	71,000,000	0	56,038,000	14,962,000
			Agriculture				
Reduce methane emissions from livestock by 10% by 2030 and avoid emissions of at least 4.5 KtCO2e16 related to agriculturally driven land use change by 2025	4	Sustainable crop production and livestock management	Conditional on financial support to implement large scale land use interventions and TA for improved agricultural processes	41,306,164	16,306,164	15,000,000	10,000,000
			Waste				
Improve waste management processes to avoid emissions of up to 18 KtCO2e per year by 2030, in line with the national waste management strategy	3	Waste Management	Unconditional: aligned with the activities of the ongoing Solid Waste Management Project II.	327,400,000	10,200,000	0	317,200,000
		Total		**1,394,237,332**	**67,920,292**	**89,508,700**	**1,236,808,340**

Source: Belize 2021 Updated Nationally Determined Contribution.

Annex Table V.3. Adaptation: Targets, Actions, and Costs

Target	Actions		Cost (in U.S.$)		
	No. of Actions	Conditional/On-going	Total	Funded/ Requested	Unfunded
Coastal zone and marine resources			**35,684,740**	**23,934,740**	**11,750,000**
Increase resilience to climate impacts for coastal communities and habitats by managing further development of the coastline to reverse net coastal habitat and land loss by 2025	11	Conditional on TA &CD for the implementation of an information clearing house and Informed Management zoning regime and financial support for protection and restoration of mangroves and seagrass habitats			
Strengthen the resilience of coastal communities by developing an early warning system for storm surges by 2025	2	Conditional on TA &CD for the implementation of an early warning system (EWS) for storm surges and financial support for its pilot			
Agriculture			**113,474,000**	**41,474,000**	**72,000,000**
Reduce post-harvest losses through the implementation of the National Adaptation Strategy to Address Climate Change in the Agricultural Sector to increase the adaptive capacity of the agricultural sector	4	Conditional on TA & CD to develop financing vehicles for CSA investments and financial support for research collaborations			
Develop and implement an enhanced early warning system for drought and extreme weather events to support farmers in planning for and responding to the impacts of climate change by 2025	2	Conditional on TA & CD for EWS and insurance schemes and financial support to pilot crop and commodity insurance scheme.			
Fisheries and aquaculture			**12,978,000**	**12,228,000**	**750,000**
Build capacity in fisheries and aquaculture sector through research, diversification and retraining to support livelihoods while protecting coastal ecosystems	4	Conditional on TA for alternative livelihoods programme and financial support for pilot and demonstration programmes and retrain fishers and farmers impacted by conservation measures			
Human health			**12,571,575**	**4,300,000**	**8,271,575**
Build adaptive capacity in the health sector by assessing vulnerability and investing in capacity to respond to climate-related threats	5	Conditional on TA for sectoral vulnerability assessment and financial support to establish research partnerships and implement recommendations from vulnerability assessment			
Tourism			**35,554,715**	**18,604,715**	**16,950,000**
Increase the adaptive capacity of tourism sector through the development of climate resilient planning frameworks and infrastructure	6	Conditional on TA to identify vulnerabilities and adaptation strategies and financial support for infrastructure to respond to the impacts of climate change. Some is provided as the Sustainable Tourism Programme II, delivered by the Ministry of Tourism supported by the IDB.			
Forestry and biodiversity			**0**	**0**	**0**
Implement protection targets of the National Biodiversity Strategy Action Plan including increased effectiveness of the National Protected Areas System by 2024	3	Conditional on TA to develop policies and monitoring systems			
Land use, human settlements and infrastructure			**82,747,969**	**57,697,969**	**25,050,000**
Protect communities from damage caused by flooding and sea level rise through implementation of the Land Use Policy and supporting green and grey infrastructure	3	Conditional on TA to develop a loss and damage data hub.			
Water resources			**25,117,112**	**14,112,000**	**11,005,112**
Enhance the protection of water catchment (including groundwater resources) areas and make improvements to the management and maintenance of existing water supply systems through implementation of the National Water Sector Adaptation Strategy and Action Plan	4	Unconditional: currently implemented under the National Water Sector Adaptation Strategy and Action Plan		5	
			318,128,111	**172,351,429**	**145,776,687**

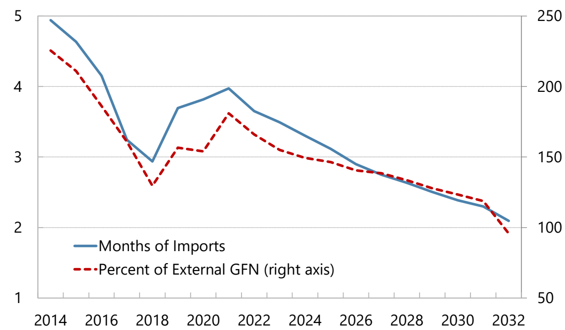
Source: Belize 2021 Updated Nationally Determined Contribution.

Annex VI. External Stability Assessment

Although Belize's external position strengthened in 2021, it remains weaker than the level justified by medium term fundamentals and desirable policies. It also remains vulnerable to shocks, including an intensification of the pandemic, natural disasters, or higher energy and food prices. Reserve adequacy improved in 2021, but it is expected to worsen over the medium term as the current account deficits remain elevated and external financing becomes scarcer. Since the Belizean dollar is pegged to the US dollar, reducing external imbalances and strengthening the external position will require restoring debt sustainability by implementing fiscal consolidation and growth-enhancing structural reforms.

1. Belize's external position improved in 2021 but is projected to weaken over time. International reserves increased from US$348 million (3.8 months of imports or 154 percent of external gross financing needs (GFN)) in 2020 to US$420 million (4 months of imports or 181 percent of external GFN) in 2021, reflecting higher bilateral and multilateral financing and the IMF's SDR25.6 million (US$36 million) allocation, which the authorities are keeping as reserves. Without additional measures, the current account deficit is projected to average 8 percent of GDP in 2022-32, while the capital and financial accounts balance is projected to average 7.7 percent of GDP due to more limited access to external financing due to debt sustainability concerns. As a result, international reserves are projected to gradually fall over time, reaching US$340 million (2.1 months of imports or 96 percent of external GFN) in 2032.

International Reserves
(In months of imports of percent of external gross financing needs (GFN))



Sources: Central Bank of Belize; and IMF staff projections.

2. The external stability (ES) approach shows a large gap between the projected current account balance and the one needed to have a more sustainable net international investment position (NIIP). Belize's NIIP rose from –217 percent of GDP in 2020 to –175 percent in 2021 due to the strong economic recovery and the debt for marine protection swap with TNC (Annex II) and is projected to stabilize at –160 percent of GDP during 2022-32. The ES model shows that rising the NIIP to a more manageable level of –128 percent of GDP by 2032 requires lowering the current account balance during 2022-32 from –8 percent of GDP to –4.9 percent of GDP, implying a CA gap of –3.1 percent of GDP and a real effective exchange rate (REER) overvaluation of about 7.4 percent. The 32 percentage points of GDP increase in the NIIP by 2032 is consistent with the strategy to restore public debt sustainability and strengthen reserve adequacy.

3. The external balance assessment (EBA-lite) indicates that Belize's external position is weaker than implied by medium-term fundamentals and desirable policies. The current account (CA) balance adjusted by the cycle and the impact of the pandemic on tourism and remittances was –5.9 percent of GDP in 2021.[1] The EBA-lite CA model estimates the CA norm (the CA consistent with

[1] The tourism adjustor (4.3 percent of GDP) corrects for the pandemic related fall in tourism, while the remittances adjustor (–0.4 percent of GDP) corrects for the pandemic-related rise in remittances.

medium-term fundamentals and desirable policies) at –5.9 percent of GDP, but an adjustment of 2.4 percent of GDP is made to ensure that the CA can be sustained over the medium term without depleting the stock of reserves. As a result, the CA gap is estimated at –2.4 percent of GDP, of which 4.6 percent correspond to policy gaps driven by the fiscal balance and changes in reserves. This is equivalent to a REER overvaluation of 5.6 percent. Similarly, the EBA-lite REER approach points to a REER overvaluation of 7.1 percent, equivalent to a CA gap of –3.0 percent of GDP. The results from the EBA-lite CA and REER models are consistent with those from the ES approach, pointing to a CA gap of around –3 percent of GDP and an average REER overvaluation of about 7 percent.

Belize: Model Estimates for 2021
(In percent of GDP)

	CA model	REER model	ES model 1/
CA-Actual	**-8.9**		
Cyclical contributions (from model) (-)	1.0		
COVID-19 adjustor (+) 2/	3.9		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	-0.1		
Adjusted CA	**-5.9**		
CA Norm (from model) 3/	**-5.9**		
External financing constraint adjustment (+) 4/	2.4		
Adjusted CA Norm	**-3.5**		
CA Gap	**-2.4**	**-3.0**	**-3.1**
o/w Relative policy gap	4.6		
Elasticity	-0.42		
REER Gap (in percent)	**5.6**	**7.1**	**7.4**

1/ The ES model estimates the needed change in the current account balance and the REER to lower the NIIP by 32 percentage points of GDP by 2032.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (4.3 percent of GDP) and remittances (-0.4 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.
4/ Adjustment to account for a reduced access to external financing over the medium term, which lowers the current account deficit that can be sustained without depleting reserves.

4. **The materialization of large downside risks to the outlook could further weaken the external position and worsen reserve adequacy**. Key risks to the outlook are an intensification of the pandemic, climate related natural disasters, and a further increased in global energy and food prices due to the war in Ukraine and related economic sanctions. These shocks would weaken the recovery of tourism, widen the current account deficit, and reduce international reserves.

5. **Without exchange rate flexibility, strengthening the external position will require restoring debt sustainability**. The authorities and staff consider the currency peg as a key anchor

for macroeconomic stability that should be preserved. In this context, reducing external imbalances will require restoring debt sustainability by preserving the fiscal savings achieved in FY2021 and implementing additional fiscal consolidation and structural reforms that boost growth, enhance competitiveness, and strengthen resilience to natural disasters and climate change. These measures would not only reduce the fiscal deficit and public debt, but also lower the current account deficit, enhance access to external financing, and improve reserve adequacy.

INTERNATIONAL MONETARY FUND

BELIZE

April 20, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

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FUND RELATIONS

(As of March 31, 2022)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	26.70	100.00
IMF's Holdings of Currency (Holdings Rate)	20.49	76.73
Reserve Tranche Position	6.21	23.27

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	43.49	100.00
Holdings	45.95	105.67

IV. Outstanding Purchases and Loans: None

V. Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec 03, 1984	Jun 01, 1986	7.13	7.13

VI. Overdue Obligations and Projected Payments to Fund [1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

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

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangement: The exchange rate arrangement is a conventional peg. Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$ 2 per U.S. dollar. Belize has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 2, 2021 (IMF Country Report No. 21/103). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- FAD advised on developing regulations and treasury instructions to support the Public Financial Management (PFM) law in June 2017.
- FAD advised on building capacity in data analysis and cross-matching in July 2017.
- FAD advised on draft PFM legislation in September 2017.
- FAD advised on a framework to establish a joint Large Taxpayer Office (LTO) in September 2017.
- MCM-LEG advised on jurisdictional review of the foreign exchange system in December 2017.
- FAD advised on establishing a data analytics function in tax administration in January 2018.
- FAD advised on reviewing and selecting a robust alternative IT system to replace SIGTAS for Tax Administration in January 2018.
- STA advised on financial soundness indicators in January 2019.
- MCM advised on contingency planning in March 2019.
- MCM advised on cyber risk supervision framework in April 2019.
- FAD advised on tax and customs administration reform in April 2019.
- MCM advised on banking supervision and regulation in May 2019.
- FAD advised on mainstreaming international taxation in August 2019.
- FAD conducted a public investment management assessment (PIMA) in January 2020.
- FAD advised on tax reform policy options in May 2020.
- LEG advised on income taxation in May 2020
- FAD advised on tax administration in April 2021.
- MCM advised on bank resolution in April 2021.
- MCM advised on NPL management in July 2021.
- MCM advised on improving the FX Regulatory Framework in February- June 2022.
- MCM advised on FX reserve management in March 2022.

CARTAC Technical Assistance to Belize in FY2020 - FY2022

In FY2020 and FY2021, CARTAC delivered approximately 37 field person weeks of TA to Belize in customs and tax administration, public financial management, statistics, and financial markets.

Description	Start Date	End Date
Customs and Tax Administration		
HR and Manpower Planning for Tax Administration Reform	06/17/2019	06/21/2019
Strengthening post clearance audit capacity	10/07/2019	10/18/2019
TA in Risk Management to Customs	11/04/2019	11/08/2019
Developing a Strategic Management Framework	11/25/2019	11/29/2019
Develop an Advanced Rulings Regime	02/03/2020	02/14/2020
Developing a Large Taxpayer Program	04/20/2020	04/30/2020
Risk management and post clearance audit	10/12/2020	10/21/2020
Strengthening audit capacity (training)	01/11/2021	01/23/2021
Strengthening risk management capacity	02/15/2021	02/24/2021
Tax Administration	5/1/2021	5/15/2021
Customs Developing Performance Targets and KPI	6/7/2021	6/11/2021
Strengthening Core Business Function - Arrears Management	6/29/2021	7/13/2021
Strengthening Core Business Functions - Arrears Management Training	11/1/2021	11/19/2021
Public Financial Management (PFM)		
Assisting with fiscal reporting challenges when transitioning to IPSAS	08/04/2020	08/07/2020
Review of Belize's PFM legislation	04/06/2021	04/15/2021
Providing internal audit support	03/26/2021	03/31/2021
Developing Performance Targets and KPI	6/7/2021	6/11/2021
Support development of new PFM Laws & Regulations FY22	5/10/2021	6/3/2021
Statistics		
Consumer and Producer Price Indices	10/7/2019	10/18/2019
National account – review of rebased GDP estimates	06/15/2020	07/03/2020
National accounts – back casting GDP expenditure measure	07/13/2020	07/17/2020
Financial Markets		
Management of Credit Risk Supervisory Process and Conducting Credit Risk Reviews	7/8/2019	7/12/2019
Risk Based Supervision and Other Supervisory Processes	12/2/2019	12/6/2019
Drafting of New Securities Legislation and Regulations	10/1/2019	10/20/2019
Drafting of New Securities Legislation and Regulations	12/9/2019	1/2/2020
Implementation Basel II/III	1/20/2020	1/24/2020
Drafting of New Securities Legislation and Regulations	2/3/2020	2/17/2020
Develop a Macroprudential Framework	02/24/2020	02/28/2020

Description	Start Date	End Date
Financial stability – Monitoring and detection of systemic risks	02/08/2021	02/21/2021
RBS Implementation	10/25/21	11/2/2021
Review and Update of Insurance Legislation and Regulation	8/16/2021	1/14/2022
Drafting regulations supporting the new Securities Act	2/14/2022	3/25/2022

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

As of March 31, 2022, Belize has collaborations with The World Bank Group, Inter-American Development Bank, and Caribbean Development Bank.

Further information can be obtained from the following hyperlinks.

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

STATISTICAL ISSUES

(As of April 22, 2022)

I. Assessment of Data Adequacy for Surveillance

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

Real sector: The Statistical Institute of Belize (SIB) publishes several real sector statistics (GDP, CPI, population and labor force/employment statistics, social indicators). The timeliness and frequency of the statistics is generally adequate for surveillance- except for the labor force statistics released twice a year, and poverty and literacy-related social indicators available with large lags. There is also room to strengthen the compilation of GDP on an expenditure basis, which is available at annual frequency and with a significant lag. The SIB is currently rebasing and updating the methodology used to compile the national accounts, which is expected to result in an increase in GDP relative to the old series. The authorities expect to release the new series on May 25, 2022.

In 2014 Belize initiated a project to establish new National Accounts (GDP) benchmarks. An important part of this work involved updating Belize's statistical business register and conducting an economy wide industrial survey. A key outcome of these efforts was improved coverage of the activity of small and medium sized enterprises. The national accounts update process also benefited from access to government administrative data sources such as Value-Added Taxation (VAT) information. These data sources are a better reflection of the scope and current economic activity in Belize and their incorporation into the production of the national accounts estimates resulted in a substantial upward revision in the level of Gross Domestic Product.

STA along with Statistics Canada have provided Technical Assistance on National Accounts to Belize, with STA's support (July 2020) focused on finalizing the new National Accounts benchmarks in constant prices and quality assuring back-casted estimates of national accounts for the years 1990-2018. STA's work leveraged the earlier TA interventions of Statistics Canada which was helping under a Canadian government funded project to advance statistics in the Caribbean region. While the new series and updated methodology is an improvement over the previous sources and methods, Belize can benefit from continued support from STA.

Fiscal accounts: Data on the consolidated operations of the public sector are unavailable. Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector including extra budgetary units. The Social Security Board is not treated as part of the general government. Instead, the Central Bank classifies the entity as other non-financial public corporation and includes its claims (deposits) on the banking system as part of broad money. Also, difficulties persist in the compilation of capital expenditure as several Capital II (government-funded capital and project expenditures) items that started life as fixed-term project contributions have become permanent funding allocations. In addition, the current accounting practices follow neither a cash basis nor an accrual basis of accounting, which contributes to an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses. Finally, data on domestic debt and domestic debt service needs to be improved.

Monetary and financial statistics: The monetary and financial statistics (MFS) are reported by CBB in the standardized report forms (SRFs) 1SR for central bank and 2SR for other depository corporations for publication in the *International Financial Statistics* with a one-month lag.

Financial soundness indicators: Individual banks' financial soundness indicators (FSI) are available on quarterly basis. However, there is limited data on non-bank financial institutions, especially the offshore sector. Forbearance measures introduced in 2020 makes it difficult to compare FSIs to previous years. Compilation of core and encouraged FSIs and its reporting by CBB is expected to start later in 2021.

Financial access survey: Belize reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

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

II. Data Standards and Quality

Belize began participating in the IMF's General Data Dissemination System (now the enhanced GDDS) in 2006 providing only metadata. However, it has not implemented the e-GDDS as yet, which would imply dissemination of its data on a National Summary Data Page. No data ROSC is available.

Belize: Table of Common Indicators Required for Surveillance

(As of April 22, 2022)

	Date of Latest Observation TBC	Date Received TBC	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	3/31/2022	3/31/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	3/10/2022	3/19/2022	W	W	W
Reserve/Base Money	3/10/2022	3/19/2022	W	W	W
Broad Money	3/10/2022	3/19/2022	W	W	W
Central Bank Balance Sheet	2/28/2022	3/11/2022	M	M	M
Consolidated Balance Sheet of the Banking System	2/28/2022	4/1/2022	M	M	M
Interest Rates 2/	2/28/2022	4/1/2022	M	M	M
Consumer Price Index	2022M3	4/1/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing - Central Government 3/	9/30/2021	12/14/2021	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt 4/ 5/	1/31/2022	3/15/2022	M	M	M
External Current Account Balance	2021Q3	3/1/2022	Q	Q	Q
Exports and Imports of Goods and Services	2021Q3	3/1/2022	Q	Q	Q
GDP/GNP	2021Q4	2/24/2022	Q	Q	Q
Gross External Debt (Central Government only)	1/31/2022	3/15/2022	A, M	A, M	A, M
International Investment Position 6/	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing - General Government	NA	NA	NA	NA	NA

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should include short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ Consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis a vis non-residents.
7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).