INTERNATIONAL MONETARY FUND

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BELIZE

October 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELIZE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Belize, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 21, 2016 consideration of the staff report that concluded the Article IV consultation with Belize.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 21, 2016, following discussions that ended on May 25, 2016 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 June 15, 2016.
- An **Informational Annex** prepared by the IMF staff.
- **Staff Supplements** updating information on recent developments.
- A **Statement by the Executive Director** for Belize.

The documents listed below have been or will be separately released.

Selected Issues

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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IMF Executive Board Concludes 2016 Article IV Consultation with Belize

On September 21, 2016 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

The economy of Belize is facing multiple challenges. GDP growth slowed to 1 percent in 2015 due to falling oil production and reduced output in the primary commodity sectors, and turned to negative 1.5 percent in the first half of 2016 relative to the same period in 2015. The decline in oil and other commodity prices led to deflation in 2015, but the inflation rate turned positive in early 2016 owing to higher food prices and the hike in the fuel tax. The effective exchange rate appreciated sharply both in nominal and real terms, driven mostly by the strengthening of the US dollar to which the currency is pegged, reducing competitiveness. The shocks in the export sector have widened the current account deficit to 9.8 percent of GDP in 2015. Further decline in exports in the first half of 2016, combined with settling liabilities related to the two nationalized companies, reduced international reserves to 4.4 months of imports in late August 2016. Hurricane Earl, which hit Belize in early August, compounded the challenging economic environment. On the positive side, the performance of the tourism sector in the first half of 2016 has been strong, and the unemployment rate declined from 10.1 percent in April 2015 to 8 percent in April 2016.

The fiscal position has weakened, pushing the public debt higher. The overall fiscal deficit expanded to 8 percent of GDP in 2015. The sharp deterioration was explained by a one-off payment related to the settlement of liabilities for one of the nationalized companies (2.8 percent of GDP), although the structural deficit, which excludes one-off and cyclical factors, worsened as well on account of an increase in public sector wages and transfers and a large overrun in capital expenditure. This deficit and partial settlement of liabilities related to the nationalized companies pushed the public sector debt to 82 percent of GDP in 2015. As a fiscal measure, the authorities have increased their fuel tax, which is expected to increase revenues by close to 1½ percent of GDP.

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

Banking system's weaknesses appear to have somewhat diminished, although the loss of correspondent banking relationships experienced by the largest banks is posing significant challenges for the economy. The system's ratio of non-performing loans to total loans fell to 15.8 percent (5.7 percent net of provisions) at end-March 2016, and the reported capital adequacy ratio increased to 25 percent. However, important vulnerabilities continue to linger. The banks have lost a significant number of correspondent banking relationships (CBRs), which has led to significant increase in transactions costs and a winding down of deposits in international banks.

The economic outlook has worsened further since the 2015 Article IV. GDP is projected to decline by 1.5 percent in 2016, in part due to the damage inflicted by hurricane Earl, and average less than 2 percent in the medium-term, reflecting declining productivity, competitiveness and public investment. In the absence of a radical change in policies, rigid current fiscal spending, particularly the public sector wage bill, would fuel high fiscal deficits and add to the already high debt burden. Financing constraints would reduce public investment. The current account deficit would slowly improve due to a gradual recovery in major commodity exports, but would remain high, indicating a weak external position. This deficit, combined with remaining payments for nationalized companies and increased debt service, would reduce international reserves to uncomfortable levels.

Executive Board Assessment[2]

The Executive Directors noted that Belize continues to face significant vulnerabilities and challenges driven by high public debt, large fiscal and external deficits, and declining international reserves. Adverse weather conditions have also posed difficulties. Directors emphasized that decisive policies are urgently needed to ensure macroeconomic stability and improve growth performance.

Directors stressed that placing public debt on a downward path is a key priority. While noting that fiscal adjustment could initially impact growth, they emphasized that rigorous and sustained efforts, including both revenue and expenditure measures, are critical to ensuring fiscal sustainability and building investor confidence. Directors welcomed the important steps taken by the authorities to contain public expenditures and increase revenue, but highlighted that additional measures, particularly raising the GST rate, reducing the public wage bill, reforming the pension plan for civil servants, and strengthening public financial management, will be important going forward.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors noted the improvements in the financial sector and called for sustained efforts to tighten supervision and reduce vulnerabilities. They underscored the importance of continued careful assessment and monitoring financial sector risks and agreed that an asset quality review of all banks would dispel possible uncertainties about the size of their capital buffers. Timely completion of financial stability reports, including stress tests that adjust banks' capital buffers for shortfalls in provisioning, would further strengthen the financial sector supervision toolkit.

Directors noted that the loss of remaining Correspondent Banking Relationships (CBRs) could have a negative impact on the financial sector and the wider economy and will require action on multiple fronts, both domestically and internationally. They also highlighted that stronger implementation of the AML/CFT framework and improved transparency in the offshore sector, with technical assistance where needed, would help further improve compliance with international standards and understanding of money laundering and terrorist financing risks, and help address the withdrawal of CBRs.

Directors emphasized that broad-based structural reforms aimed at improving the business climate, boosting productivity, and increasing competitiveness are critical to reducing vulnerabilities and promoting growth. They welcomed the adoption of the Growth and Sustainable Development Strategy and called for its vigorous implementation, using non-debt-creating financing options, such as well-designed public-private partnerships. Labor market reforms will also be important going forward.

Belize: Selected Economic Indicators

	2012	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.
National income and prices (percent change, unless otherwise indicated)						
Real GDP	3.7	1.3	4.1	1.0	-1.5	1.9
GDP deflator	1.9	2.0	1.5	1.0	2.1	2.4
Consumer prices (end of period)	0.8	1.6	-0.2	-0.6	2.3	2.4
Consumer prices (average)	1.2	0.5	1.2	-0.9	1.2	2.4
Nominal GDP (BZ$ millions)	3,148	3,252	3,436	3,506	3,558	3,727
Money and credit (percent change, unless otherwise indicated)						
Credit to the private sector	1.1	3.5	4.7	4.8	4.0	3.5
Money and quasi-money (M2)	11.0	1.4	7.9	7.6	2.8	4.8
Weighted average lending rate (in percent)	12.0	11.1	10.3	10.0	…	…
Central government (percent of GDP) 1/						
Revenue and grants	26.4	28.7	29.0	28.1	29.2	27.9
Current expenditure	22.1	23.3	24.1	25.8	28.6	28.3
Capital expenditure and net lending	4.7	7.0	7.3	10.3	5.7	5.2
Primary balance	1.4	1.0	0.3	-5.6	-2.0	-2.2
Overall balance	-0.4	-1.6	-2.4	-8.0	-5.0	-5.6
Public and publicly guaranteed debt (end-period, percent change)						
Stock of public and publicly guaranteed debt	79.0	79.4	77.6	82.1	99.9	95.7
Domestic debt	12.4	11.9	10.9	14.1	31.1	29.3
External debt	66.6	67.5	66.6	68.0	68.8	66.4
Debt service (external public debt)	4.4	6.8	4.2	4.2	4.8	4.7
In percent of exports of goods and services	6.8	10.5	6.2	6.7	8.8	8.6
In percent of government current revenue	17.3	25.9	15.3	15.5	17.0	17.4
External sector (percent change, unless otherwise indicated)						
External current account, (percent of GDP) 2/	-1.2	-4.6	-7.4	-9.8	-14.0	-10.2
Exports of goods and services	8.9	3.1	8.9	-3.7	-14.0	5.7
Imports of goods and services	6.2	8.5	11.8	3.3	-5.9	-0.7
Terms of trade (deterioration -)	-1.0	0.2	-0.1	-2.2	2.6	-0.2
Nominal effective exchange rate	3.2	0.7	1.6	11.0	…	…
Real effective exchange rate	1.9	-1.2	0.7	8.5	…	…
Overall balance of payments, millions of U.S. dollars	52	114	84	-50	-73	-58
Exports of goods and services, millions of U.S. dollars	1,028	1,060	1,154	1,112	956	1,011
Imports of goods and services, millions of U.S. dollars	1,004	1,089	1,218	1,258	1,184	1,175
Gross international reserves, millions of U.S. dollars 3/	289	403	487	437	364	306
In percent of gross external financing needs	478	350	289	170	124	129
In percent of next year's external public debt service	260	563	655	518	421	315
In months of imports	3.2	4.0	4.6	4.4	3.7	3.1

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

1/ Fiscal year (April to March).

2/ Includes official grants.

3/ From 2009, includes the share of Belize in the special and general SDR allocations in the equivalent of SDR 18 million (US$28 million).

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

June 15, 2016

KEY ISSUES

Outlook and risks. Growth is expected to average less than 2 percent in the medium-term. The envisaged fiscal adjustment would remain insufficient to significantly reduce the very high public debt. Large external imbalances, driven by large current account deficits, repayment of the super bond and remaining payments for the nationalized telecommunication company (BTL), would reduce international reserves to uncomfortable levels. The further withdrawal by global banks of correspondent relationships with Belizean banks and low capital buffers in some banks are key threats to financial stability. Insufficient fiscal adjustment and weaknesses in the banking system are significant risks.

Focus of the Consultation. Discussions focused on policies that would reduce the likelihood of a disorderly fiscal and external adjustment, preserve financial stability, and boost competitiveness.

Key policy advice:

- Urgently implement the fiscal measures (widening the tax base, strengthening revenue administration, and containing spending on wages, transfers, pensions, and goods and services) necessary to improve the primary fiscal balance to about 4½ percent of GDP in the medium term.
- Address public financial management (PFM) weaknesses, including internal and external controls as well as procurement practices, to contain low-quality spending.
- Continue to address banking sector vulnerabilities, especially weak capital buffers, by maintaining restrictions on lending and distribution of dividends.
- Continue to monitor and contain the impact of the loss of correspondent banking relationships by strengthening and vigorously implementing the AML/CFT framework, including by enhancing supervision and bolstering entity transparency.
- Develop a financing strategy for the recently adopted Growth and Sustainable Development Strategy (GSDS) and consider growth-enhancing measures that can be implemented at no financial cost, including submitting the draft credit bureau law to parliament and allowing for greater flexibility on employment hours in labor markets.

Implementation of staff advice. The authorities are considering widening the tax base by streamlining exemptions. Restrictions on banks with weak capital buffers remain. Implementation of the growth strategy still awaits a realistic plan for its financing.

Approved By
Charles Enoch (WHD) and Masato Miyazaki (SPR)

Discussions took place in Belize City and Belmopan during May 11-25, 2016. The team comprising J. Bouhga-Hagbe (Head), D. Kovtun, J. Okwuokei, and K. Tintchev (all WHD), and C. El Khoury (LEG) met Prime Minister Barrow, Finance Secretary Waight, Central Bank Governor Ysaguirre, other officials and representatives of the private sector, and the political opposition. Mr. C. Enoch (WHD) and Mr. T. Lessard (OED) participated in some of the meetings. At headquarters, research support was provided by F. Loyola, and editorial support by H. Canelas and E. Moreno (both WHD). A parallel mission comprising G. Otokwala (LEG), and A. Kokenyne-Ivanics and A. Gaiha (MCM) visited Belize during May 24-27, to assess Belize's foreign exchange regime.

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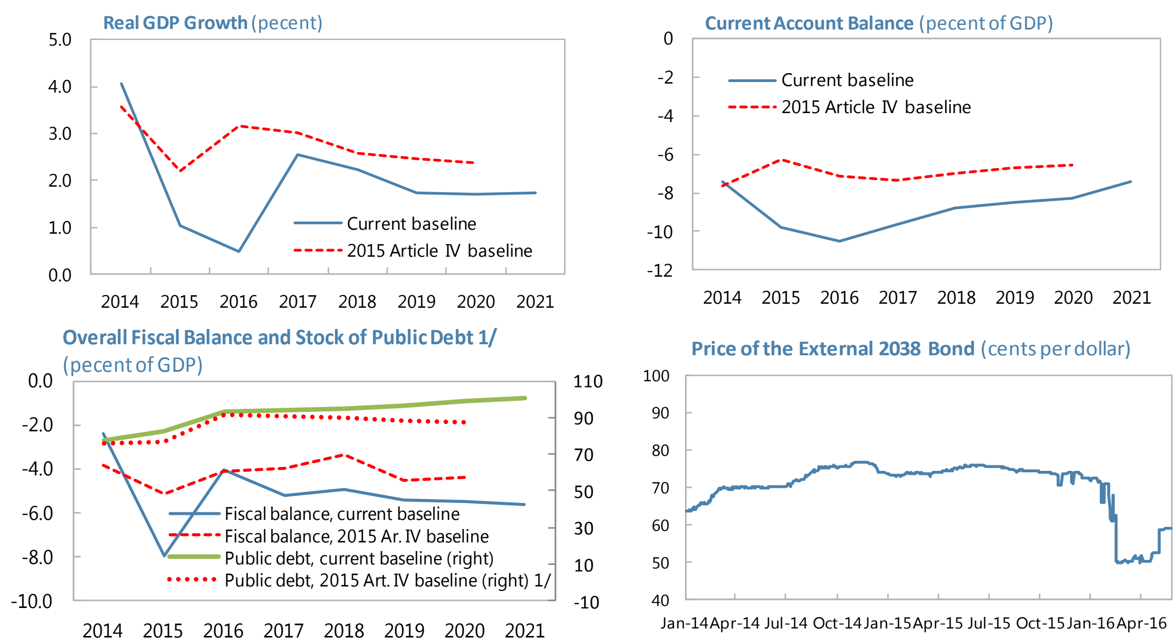
ANNEXES

BACKGROUND

1. **The ruling United Democratic Party (UDP) of Prime Minister Dean Barrow retained parliamentary majority in early general elections on November 4, 2015.** The UDP increased the number of seats it holds in the 31-seat parliament from 17 to 22, and PM Barrow was sworn in for an unprecedented third term in the office.

2. **The authorities still have some rapidly-shrinking policy space to reduce the likelihood of a disorderly fiscal and external adjustment that would jeopardize the currency peg.** Belize is grappling with large fiscal and external deficits, which are fueled by large wage increases for public workers (about 25 percent during FY2014/15-FY2016/17) and the very slow pace of structural reforms, which are needed to enhance public financial management (PFM) and competitiveness. The forthcoming compensation payments for the nationalized Belize Telemedia Limited (BTL) and the higher debt service on the super bond will further weaken fiscal and external accounts. Social challenges remain as discussed during the 2015 Article IV Consultation, with high unemployment and delicate security environment that would make orderly macroeconomic adjustment increasingly difficult if not undertaken promptly. Very few of the recommendations of the 2015 Article IV Consultation have so far been implemented and the rising fiscal and external vulnerabilities in the context of worsening macroeconomic prospects only highlight the urgency of strong action to address them (figure below and Box 1).

Selected Economic Indicators, 2014–2021



Source: Belize authorities and IMF Staff estimates and projections.
1/ As presented in 2015 Article IV Staff Report, Supplement 3.

Box 1. Implementation of Key Recommendations from the 2015 Article IV Consultation

2015 Article IV Recommendations	Implementation Status
Fiscal consolidation Improve the primary fiscal balance to about 4.5 percent of GDP in the medium term using a combination of revenue and expenditure measures, including broadening of the tax base and reducing mandatory expenditure. Address public financial management weaknesses, including internal and external controls as well as procurement practices to contain low-quality spending.	**Marginal** The fiscal outcome for 2015/16 was worse than expected during 2015 Article IV. In order to improve the fiscal stance, the authorities increased the fuel tax, which is expected to improve fiscal revenue by about 1½ percent of GDP and acknowledged the need for further fiscal measures. However, other recommended revenue and expenditure reforms have not yet committed to any specific set of measures.
Financial sector reform Continue to address banking sector vulnerabilities, including by raising capital buffers and tightening restrictions on the distribution of dividends and lending for banks with the lowest capital buffers.	**Broadly consistent** The authorities continue to advance financial sector reforms, including key projects (e.g. the national payment system) that would improve the financial system infrastructure. Restrictions on the banks (including the systemic bank) that have not met prudential requirements, remain in place. The Central Bank of Belize (CBB) continues to conduct onsite full-scope and AML/CFT examinations of banks and credit unions. In March 2016, the CBB published the first financial stability report covering 2014.
Structural reform Implement a comprehensive medium-term growth strategy, including clear foreign exchange regulations and policies to boost the financial system's role in financing the economy.	**Moderate** Progress with the Growth and Sustainable Development Strategy (GSDS) has been delayed by the 2015 elections. The new government endorsed the strategy in April 2016. Given the limited fiscal space, implementation would hinge upon careful prioritization and costing of projects and ensuring adequate financing. Progress is needed in establishing a credit bureau and a credit registry to further strengthen the role of the financial system in financing the economy.

RECENT DEVELOPMENTS

3. **The economy is slowing and fiscal and external vulnerabilities are rising. (Figures 1–5):**

- Real GDP growth slowed down to 1 percent in 2015 from 4.1 percent in 2014 mainly because of falling oil production and reduced output in the fishing, citrus and banana sectors, which offset the good performance of tourism. Diseases and falling prices have significantly affected the fishing and citrus sectors, and banana production has suffered from flooding and financing difficulties faced by a large farm (15 percent of production). The unemployment rate declined to 10.2 percent in September 2015, from 12.1 percent a year earlier, due to a moderate expansion in tourism and public investment in infrastructure. The decline in oil and other commodity prices led to deflation in 2015, with end-of-period inflation at -0.6 percent, but the increases in food prices and fuel taxes restored positive inflation, at 0.2 percent in April 2016 (y/y).

- The current account deficit widened to 9.8 percent of GDP in 2015 from 7.4 percent in 2014 driven by a contraction in exports of goods of about 9 percent (mainly oil and marine products), and increases in imports of machinery, manufactured goods and fertilizers, which are partly related to investment projects. This deficit combined with partial compensation and loan settlement payments for the two nationalized companies (BEL and BTL) in late 2015 significantly reduced gross international reserves (4.6 months of imports at end-March 2016). The effective exchange rate appreciated sharply both in nominal and real terms in 2015, driven mostly by the strengthening of the U.S. dollar to which the currency is pegged. Exports of goods declined by nearly 30 percent during January —April 2016 compared with the same period last year, while imports of goods declined by 2.4 percent. The sharp drop in exports of goods reflects deepening contraction in oil production and in the fishing, banana and citrus sectors.

- According to preliminary estimates, the overall fiscal deficit for FY2015/16 (April-March) increased to 8 percent of GDP from 2.4 percent of GDP in FY2014/15. The sharp deterioration was explained by a one-off payment related to the settlement of BTL liabilities (2.8 percent of GDP), an increase in public sector wages and transfers, and a large overrun in capital expenditure. The deficit in FY2015/16 was financed through borrowing from the Central Bank of Belize (CBB) and a drawdown of PetroCaribe deposits.

- Broad money grew by 7.6 percent in 2015 and by 8.3 percent at end-March 2016 (y/y), supported by credit expansion to the government. Private sector credit grew by 4.8 percent in 2015 and was flat at end-March 2016. Abundant liquidity in the banking system has driven T-bills interest rates to near zero and lending rates continue to fall.

Financial Soundness Indicators 1/
(Domestic and international banks; in percent)

	2008	2009	2010	2011	2012	2013	2014	Mar-15	2015	Mar-16
Capital/risk-weighted assets 2/	20.4	22.2	23.9	24.2	19.8	21.6	21.7	23.7	20.5	25.0
Capital/total assets	15.6	16.5	16.5	14.7	11.6	12.0	12.1	12.3	13.5	13.2
Excess statutory liquidity 3/	30.1	33.5	43.8	64.3	83.5	79.1	84.4	94.7	80.2	88.9
NPLs/total loans	11.7	14.0	18.7	21.4	20.3	17.6	15.7	16.1	15.8	15.8
Provisions/NPLs	24.1	18.1	15.5	24.4	34.9	42.8	55.1	57.0	57.6	60.4
Provisions/total loans	2.8	2.5	2.9	5.2	7.1	7.5	8.7	9.2	9.1	9.5
NPLs net of provisions/capital	40.0	48.2	61.9	66.1	63.6	46.5	30.8	29.6	27.4	26.8
Return on Assets After Tax	0.1	0.2	0.2	0.1	-0.1	0.4	1.2	0.5	0.2	0.4
Memorandum items:										
Capital/risk-weighted assets 4/	...	...	...	...	...	20.4	20.9	19.5	23.8	20.8
NPLs net of provisions/capital 4/	...	...	...	...	...	45.7	33.5	28.8	23.5	24.0

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

1/ Includes BZ$43 million award to Belize Bank Ltd. by the London Court of International Arbitration (LCIA). The amount is being disputed by the government.
2/ The required capital adequacy ratios for domestic and international banks are 9 percent and 10 percent, respectively.
3/ In percent of statutory liquidity requirement.
4/ Excludes BZ$43 million award by the LCIA.

- The resilience of the banking system has improved since the last Article IV, although important vulnerabilities continue to linger (see Selected Issues Paper). The banking system's ratio of gross non–performing loans (NPLs) to total loans fell to 15.8 percent (5.7 percent net of provisions) at end-March 2016, from end-March 2015 (16.1 percent gross or 6.1 percent net of provisions), while provisioning continued to increase. The reported capital adequacy ratio (CAR) increased by about 1.3 percentage points to 25 percent, due primarily to capital injection by two domestic banks, sale of a valuable asset by an international bank and improving profitability of the banking system. Return on assets for the banking system was 0.4 percent at end-March 2016, unchanged from end-March 2015. A major bank's NPL ratio rose to 28.6 percent (13.5 percent net of provisions) at end-March 2016 from 23 percent at end-March 2015 (9.3 percent net of provisions), due to a recent classification of a legacy loan as NPL (US$14 million or one-third of capital). Its CAR was 15.1 percent at end-March 2016 (13.2 at end-March 2015), but it could fall below the regulatory minimum of 9 percent if the above-mentioned legacy loan is fully provisioned or written off. The bank has applied to the CBB for approval to restructure this loan. If this request is granted, the bank's CAR, excluding the disputed government asset on its balance sheet (US$21.5 million), would fall to 9.6 percent.

- The challenges posed by global financial institutions' withdrawal of correspondent banking relationships (CBRs) with banks in Belize and elsewhere have increased since the 2015 Article IV Consultation (see Selected Issues Paper). In Belize, only two of the ten domestic and international banks currently have CBRs with full banking services. The systemic bank and its international subsidiary can process only non-US-dollar wire transfers. Other banks have also managed to maintain wire transfer arrangements, including with non-bank providers of payment services. Four banks, including the systemic bank, have also lost their credit card settlement accounts with a small bank in New York, and proceeds from their credit card transactions can only be used through their accounts with a major credit card company or through restricted accounts such as brokerage accounts. The CBB has lost three of its five CBRs in the last two years. On aggregate, the impact of the loss of CBRs on volumes of international transactions is not yet noticeable on available data as most CBRs were actually lost in late 2015 or early 2016, but there are indications that transaction costs are increasing. For example, the systemic bank indicated having increased wire transfer fees from about US$ 100 to US$ 300. Most wire transfers in Belize are now done through a reduced number of arrangements and their processing times have also increased from "within twenty-four hours" to "several days." Some customers of the affected banks moved to the two banks that still have CBRs with full banking services. The growth rate of deposits in the banking system has fallen, driven by a significant decrease in deposits in international banks, partially offset by an increase of deposits in domestic banks.

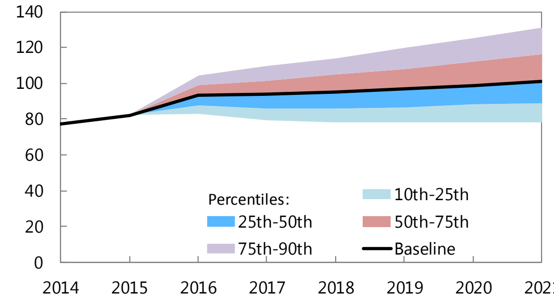
- Global financial institutions' decisions to withdraw CBRs are driven by a number of considerations that go beyond Belize (see Selected Issues Paper). These include: (i) more rigorous global prudential regulatory requirements; (ii) higher compliance costs; (iii) the evolving regulatory and enforcement landscape, notably with respect to economic and trade sanctions, anti-money laundering and combating the financing of terrorism (AML/CFT) and tax transparency, which also inform banks' cost-benefit analysis as well as their risk and reputational costs perceptions; and (iv) cross-border legal impediments to the implementation of international standards. Further pressures to withdraw CBRs may arise where regulatory expectations are unclear, and risks cannot be mitigated.

OUTLOOK AND RISKS

4. **The near-to-medium-term macroeconomic outlook is worse than the already weak prospects at the time of the 2015 Article IV Consultation (Tables 1–5)**. Growth is projected to decline further to about 0.5 percent in 2016 and average less than 2 percent in the medium-term, reflecting declining productivity, competitiveness and public investment, as well as some import compression stemming from the projected precarious levels of foreign exchange (FX) reserves. Inflation is expected to remain moderate due to projected low international oil prices and subdued inflation in major trading partners. The current account deficit would slowly improve due to a gradual recovery in major commodity exports, but would remain high, indicating overvaluation of the real effective exchange rate (Annex I). This deficit, combined with the repatriation of part of remaining payments for the nationalized BTL (Annex II) and the repayment of super bond (US$ 526.5 million at end-2015, payable over 2020-38) would reduce international reserves to uncomfortable levels. Staff projections assume that the government will sell a part of shares of the two nationalized companies in excess of 51 percent ownership and use the proceeds (US$ 100 million or 5.5 percent of GDP) to reduce public debt and support international reserves. Moving toward a WTO-compliant tax system would initially reduce fiscal revenue (Table 6). Financing constraints would reduce public investment, dampening some of the deterioration in the fiscal deficit. Nevertheless, the fiscal adjustment projected in the baseline scenario, which assumes no measures beyond those announced, will remain insufficient even to stabilize the very high level of public debt or reduce the likelihood of a disorderly fiscal and external adjustment (Annex II).

5. **The baseline scenario is subject to substantial downside risks (Annex III).** The public debt path is subject to significant risks, including shocks to fiscal balance, GDP growth and other macroeconomic variables. The twin deficits and potentially large contingent liabilities could lead to very large public and external gross financing needs, which may be very difficult to meet, and could accelerate the depletion of reserves and usher in a disorderly adjustment that would jeopardize the current peg. The planned sale by the government of some shares of the nationalized companies may not yield the expected proceeds. Additional loss of CBRs or wire transfer arrangements is possible and could further weaken banks and the economy more widely, while failure to cope with the diseases affecting the shrimp and citrus sectors could further weaken export performance. These vulnerabilities could be exacerbated by external risks, including the strengthening of the US dollar, or a protracted period of weak growth in advanced and emerging economies, which would further hamper the already weak export performance, the end of PetroCaribe financing, the expected decline in sugar prices after the EU sugar reform takes full effect in 2017, and the loss of tourism market share to Cuba. The above-mentioned risks and their potential impact on the overall economy could also affect borrowers' ability to repay their debt, which would further weaken banks and reduce their ability to lend, and thus create a vicious circle that amplifies threats to the stability of the financial system and the rest of the economy (see Selected Issues Paper). On the upside, low international oil prices and a successful implementation of the Growth and Sustainable Development Strategy (GSDS), which is not yet fully reflected in the baseline scenario, could help mitigate the above-mentioned risks.

Evolution of Predictive Densities of Public Debt-to-GDP Ratio



Source: Fund staff estimates and projections.

Note: Fan chart is produced based on historical averages, variances and covariances of relevant macroeconomic variabies (GDP growth, effective interest rate, primary fiscal balance and the change in real exchange rate.

POLICY DISCUSSIONS

Staff emphasized the need to promptly take measures to reduce the likelihood of a disorderly fiscal and external adjustment. In particular, the authorities should: (i) raise the primary fiscal balance to levels that would credibly place public debt on a downward path and help rebuild investor confidence; (ii) reduce banking sector vulnerabilities and strengthen the AML/CFT framework, especially in the offshore sector; and (iii) given the limited fiscal space, design a credible financing strategy for the GSDS and consider growth-enhancing measures that can be implemented at no financial cost.

A. Rebuilding Investor Confidence with Strong Fiscal Policy Action

6. **Staff urged the authorities to rebuild investor confidence by announcing and quickly implementing a package of measures that would credibly put public debt on a sustainable path and reduce the likelihood of a disorderly macroeconomic adjustment (Text Tables).** This package of measures should gradually raise the primary balance to 4-5 percent of GDP by 2021. Even in this scenario, public debt would still remain high in 2021, and primary surpluses of 4-5 percent of

GDP would have to be maintained beyond 2021 to reduce public debt to the more sustainable level of about 60 percent of GDP by 2030. Stronger upfront fiscal adjustment beyond this level would imply that the pressure would not need to be maintained for so long. Such a fiscal consolidation could initially have some negative impact on growth, which could be offset by vigorous growth-enhancing structural reforms (section C). These strong actions would help rebuild investor confidence in the authorities' commitment to sound macroeconomic management and reduce the likelihood of a disorderly adjustment that would put the currency peg at risk. In the medium term, lower government borrowing needs would support a reduction in interest rates which, combined with greater investor confidence, would boost private investment and growth.

7. **The fiscal component of the reform package should include measures that would durably strengthen revenue collection and contain expenditure, including through enhanced PFM (Table 6)**:

- *Strengthening revenue collection*. As discussed during the 2015 Article IV Consultation, widening the tax base, including by streamlining exemptions and zero-ratings on the General Sales Tax (GST), could improve the revenue collection significantly. In addition, the standard GST rate (12.5 percent) should be increased at least to the regional average of 15 percent. Electronic tax filing and payment should be enhanced, especially in the GST and Income Tax Departments where less than 10 percent of registered tax payers file or pay their taxes electronically. Improving collection of import duties, including through enhanced customs administration, raising the social duty on imports by Commercial Free Zones (CFZs) and introducing a cap on discretionary import duty exemptions would mitigate the revenue loss from bringing the import duties into line with commitments to the WTO. Effective use of revenue administration monitoring reports should help make revenue administration more accountable.

- *Containing expenditure*. Freezing wages, replacing only two out of five workers who retire, and training and redeploying civil servants where they are the most needed are necessary to offset the unsustainably high growth of the wage bill in the past years. Stronger monitoring of government-supported entities, especially their payroll, could generate savings on transfers. The public sector pension plan should become contributory and the retirement age needs to be gradually increased to 62 years from the currently low 55. Any increase in overall spending beyond ceilings approved by parliament should require another parliamentary approval in a context of a revised budget. Strong internal and external controls and more transparent and efficient procurement practices could restrain outlays on goods and services. Timely production of audited government financial statements and their timely approval by parliament in the context of budget review laws will strengthen accountability in the use of public funds. More transparent classification of spending items in budget documents such as provisions for wage payments—that were classified as capital spending in the FY2016/17 budget—would facilitate parliamentary debate on the direction of fiscal policy and raise awareness on its sustainability.

Recommended Fiscal Measures, FY2016/17-FY2021/22
(In percent of GDP)

	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Measures recommended by staff						
Total effect on the primary balance	**1.2**	**4.0**	**4.5**	**5.0**	**5.2**	**5.3**
Total first-order effect of fiscal measures and negative factors	**1.1**	**4.0**	**4.6**	**5.1**	**5.3**	**5.4**
Expenditure measures	**0.4**	**1.3**	**1.9**	**2.5**	**2.6**	**2.8**
Reducing the wage bill	0.0	0.5	0.9	1.3	1.3	1.3
Reform of Public Sector pension plan 1/	0.0	0.1	0.1	0.2	0.2	0.2
Freezing goods and services in the real terms	0.4	0.5	0.7	0.8	0.9	1.0
Cut in transfers (excluding teachers' salaries)	0.0	0.3	0.3	0.3	0.3	0.3
Revenue-enhancing measures	**0.7**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**
Streamlining GST exemptions and removing MoF's discretion in granting exemptions 2/	0.3	1.0	1.0	1.0	1.0	1.0
Increasing the general GST rate to 15 percent	0.3	1.1	1.1	1.1	1.1	1.1
Improving collection of import duties	0.1	0.3	0.3	0.3	0.3	0.3
Increasing excise on wine, beer and cigarettes	0.04	0.2	0.2	0.2	0.2	0.2
Second-order macro effects 3/	**0**	**0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Memorandum items:						
Revenue factors in the baseline scenario						
Reducing import tariffs in line with WTO commitments	0	-0.4	-0.7	-1.0	-1.0	-1.0
Abolishing the envoronmental tax	0	-0.7	0	0	0	0
Raising the fuel tax	1.4	1.4	1.4	1.4	1.4	1.4

Source: Fund staff estimates and projections.
1/ Includes introducing contributions in the public sector pension plans and raising the retirement age.
2/ Measures include moving zero-rated goods to either a standard rate (12.5 percent) or to an exempt status. The projected impact of revenue measures is conservative as they could yield as much as 2 percentage points of GDP annually if implemented vigorously.
3/ Capturing mainly effects on fiscal revenues stemming from the fiscal multiplier and lower imports.

8. **Staff emphasized that vigorous growth-enhancing structural reforms can no longer substitute for strong fiscal consolidation, as the "plan B" discussed during the 2015 Article IV Consultation is no longer viable.** Such a "Plan B", which allowed for stronger structural reforms in exchange for weaker fiscal adjustment, is now unlikely to work because: *(i)* the fiscal position has deteriorated further; *(ii)* the sizable increase in the super bond debt service is closer (increasing by 1.7 percent of revenue in 2017 and reaching 11.2 percent of revenue by 2020); and *(iii)* investor confidence further weakened (Belize's super bond currently trades at only 50-60 cents per dollar) and remains crucial for the success of any adjustment plan that relies on growth. Moreover, the impact of structural reforms takes time to materialize, even when they are well implemented, and the lack of a financing strategy for the GSDS remains a major hurdle.

9. **Staff stressed that a weaker fiscal adjustment will very likely cause a disorderly macroeconomic adjustment in the future and endanger the currency peg**. In the absence of policy adjustment, the sustainability of both the fiscal and external positions is in doubt (Annexes I and II). In addition to the high public debt, most of which is in foreign currency, rigid current fiscal expenditures now absorb almost all fiscal revenue, leaving virtually no fiscal space for significant domestically-financed public investment. Even if the impact of the loss of CBRs is contained, Belize's challenges in generating the FX needed for its economic development will remain daunting. Good tourism receipts and the small level of transfers will not offset the widening external trade deficit, which has worsened by almost 12 percentage points of GDP since 2012 as lower oil exports and loss

of market shares reduced exports by about 9 percentage points of GDP. Private inflows require investor confidence, which in turn requires strong and durable policy action. Securing external support from official partners would most likely require strong policy adjustment as well. Absent any strong policy action that enhances investor confidence, boosts competitiveness and attracts foreign inflows, maintaining the current currency peg will require strong private demand compression, which would further undermine growth and usher in a disorderly external and fiscal adjustment.

Baseline and Active Macro Scenarios, 2014-21
(Percent of GDP, unless otherwise indicated)

			Projections					
	2014	2015	2016	2017	2018	2019	2020	2021
I. Baseline Scenario								
Real GDP growth (percent change)	4.1	1.0	0.5	2.5	2.2	1.7	1.7	1.7
Inflation, end of period (percent change)	-0.2	-0.6	2.0	2.3	2.2	2.0	2.0	2.0
Primary fiscal balance 1/	0.3	-5.5	-1.1	-1.8	-1.1	-1.3	-1.0	-0.8
Overall fiscal balance 1/	-2.4	-8.0	-4.1	-5.2	-4.9	-5.4	-5.5	-5.6
Public debt 2/	77.6	82.1	93.3	94.0	94.9	96.7	98.7	100.8
External current account balance	-7.4	-9.8	-10.5	-9.6	-8.8	-8.5	-8.3	-7.4
Gross official reserves (months of imports)	4.7	4.5	4.0	3.3	2.7	2.0	1.2	0.5
II. Active Scenario								
Real GDP growth (percent change)	4.1	1.0	0.5	1.5	2.2	1.8	2.0	2.2
Inflation, end of period (percent change)	-0.2	-0.6	2.0	3.4	2.2	1.6	1.6	1.6
Primary fiscal balance 1/	0.3	-5.5	0.2	2.2	3.4	3.7	4.2	4.5
Overall fiscal balance 1/	-2.4	-8.0	-2.8	-1.1	-0.1	0.2	0.8	1.2
Public debt 2/	77.6	82.1	92.4	89.7	86.3	83.0	79.5	75.6
External current account balance	-7.4	-9.8	-10.5	-7.4	-5.7	-5.1	-5.0	-4.2
Gross official reserves (months of imports)	4.7	4.5	4.1	3.9	3.8	3.8	3.6	3.5
Memorandum items:								
Scenario illustrating revenue measures envisaged by the authorities: 3/								
Real GDP growth (percent change) 3/	4.1	1.0	0.5	2.0	2.1	1.7	1.7	1.8
Inflation, end of period (percent change)	-0.2	-0.6	2.0	3.4	2.2	2.0	2.0	2.0
Primary fiscal balance	0.3	-5.5	-0.4	0.2	0.5	0.3	0.6	0.9
Public debt	77.6	82.1	92.8	91.3	90.7	90.8	91.0	91.0
Primary balance (2015 Article IV baseline)	1.0	-2.6	-1.2	0.1	1.0	1.0	1.0	...
Public debt (2015 Article IV baseline) 4/	77.4	76.7	91.5	91.0	89.6	88.3	87.2	...
Nominal GDP baseline (US$ million)	1,718	1,753	1,779	1,863	1,948	2,023	2,099	2,178

Sources: Belizean authorities; and Fund staff estimates and projections.
1/ Fiscal projections are on a fiscal year basis (April to March).
2/ Includes repayment of additional liabilities resulting from past nationalization of utility companies.
3/ The measures include (i) moving zero-rated goods under the GST to a standard rate and (ii) raising the standard rate from 12.5 to 15 percent.
4/ As shown in Supplement 3 of the staff report.

10. **Staff also encouraged the authorities to phase out the practice of financing government spending with CBB borrowing and to develop securities markets with appropriate safeguards, which will greatly support other economic sectors (sections B and C).** The share of domestic public debt held by the CBB expanded to about a half. Financing government spending from the CBB brings excessive liquidity into the market, which, if not sterilized, can put additional pressure on the exchange rate. More active debt management and more frequent auctions of government paper in active securities markets could also generate sizeable savings on interest

payments. In this context, staff advised the authorities to submit the draft Public Debt Management Bill to parliament.

Authorities' views

11. **The authorities are fully aware of the mounting challenges and the need to take action, but they maintained that the nature, timing and extent of the policy measures, including staff recommendations, will be decided after consultation with stakeholders.** Increasing the fuel tax in late 2015 was the first step toward fiscal consolidation. They are considering further enhancing collection of revenues, including by moving zero-rated items under the GST either to an exempt status (which would prevent refund of GST paid on inputs) or to the standard GST rate of 12.5 percent. This measure could improve revenues by about 1 percent of GDP. They are also considering raising the standard GST rate to the regional average of 15 percent, yielding about 1.1 percentage points of GDP, although they would use it as a last resort measure. If successfully implemented, the GST-related measures would improve the primary fiscal balance to about 1 percent of GDP in the medium term (Text Table). The authorities noted that staff's real GDP growth assumptions are more pessimistic than theirs (para. 26). Moreover, they project that the interest rate associated with compensation for the nationalization of BTL, which is yet to be decided by the Permanent Court of Arbitration, will be closer to the US dollar Libor at the time of the nationalization (1–2 percent), much lower than staff's assumption (8 percent), which reflected interest rates in Belize at that time. This could reduce the path of the public-debt-to-GDP ratio by several percentage points. They also insisted that there are options to further reduce public debt by many percentage points of GDP, including a Petrocaribe debt buyback at a discount. The draft Public Debt Management Bill is still being reviewed by Cabinet. The authorities acknowledged that the 2013 wage agreement resulted in a sharp increase in the public wage bill and agreed that it should be contained going forward. They noted that a wage freeze will not fundamentally change the fiscal problem but will nonetheless be considered.

B. Improving the Resilience of the Financial System

12. **Staff supported the authorities' determination to keep the financial system under tight supervision as significant vulnerabilities to improving bank capital buffers remain (see Selected Issues Paper).** The completion of the Financial Stability Report (FSR) for 2015 has been delayed because the limited human resources available are still updating the FSR database. It advised the authorities to allocate the resources necessary for the timely completion of FSRs, including macro-prudential indicators and measures of systemic risk that were developed with CARTAC technical assistance (TA). Staff also welcomed the authorities' plan to use the soon-to-be completed consolidated supervision framework to effectively monitor group risk, group capital adequacy, group governance and regulatory arbitrage.

13. **Staff also supported the authorities' decision to maintain restrictions on the systemic bank and other banks that were granted an extension on provisioning requirements, but also noted that development of capital markets with appropriate safeguards could help strengthen**

banks' balance sheets more rapidly. No profit distribution should be allowed until the authorities are fully confident that these banks are in a sound financial position. The systemic bank has until April 2018 to meet its provisioning requirements, but the recent increase in the bank's NPLs could further increase its provisioning expenses. Staff encouraged the authorities to continue to ensure that the systemic institution's Tier I capital remains well above minimum prudential requirements, including through recapitalization, in order to minimize the risk of contagion to the economy and the rest of the financial system. In this context, staff noted that the abundant liquidity in the financial system could be used more effectively to support financial stability and economic growth. More developed capital markets should be considered, with safeguards that ensure transparency and disclosures, including on beneficial ownership, and guarantee that any investor who acquires a significant stake in financial institutions fully meet tests of fitness and propriety. Such capital markets could potentially allow banks to tap into the current liquidity to raise capital and promptly bring provisioning to the required prudential levels or else dispose of non-performing assets, including through asset management companies (para.14). The CBB could also impose recapitalization of banks more easily, including by diluting existing shareholders. This would also eliminate the possibility of forbearance on prudential rules as recently illustrated by the systemic bank's request to restructure a large loan that was classified as NPL (para. 3). Corporations could expand their sources of funds, thus reducing risks to the financial system. In this context, staff welcomed the authorities' plan to finalize the National Payment System bill, and launch the Automated Clearing House later this year.

14. **Provisioning requirements should be raised to 100 percent on loan losses (secured or not) given uncertainties on the values of collaterals, most of which have a very limited loss absorption capacity in the current context of illiquid real estate markets.** As discussed during the 2015 Article IV Consultation, loan losses that are neither written off nor fully provisioned should be gradually provisioned to 100 percent during a transition period through which profit distribution should be prohibited and management fees contained. An asset quality review of all banks during this period would also help assess the real strength of their capital buffers. This transition period could be shorter if capital markets were developed as discussed above. In addition to capital markets, staff also encouraged the authorities to facilitate the creation of asset management companies, including through legislative reform if need be, that could purchase non-performing assets from banks and help clean up banks' balance sheets more rapidly. Staff advised the authorities to request IMF TA if needed.

15. **Staff noted that the money laundering and terrorist financing (ML/TF) risks related to the misuse of legal persons and arrangements (e.g. companies, trusts, and foundations), the service providers licensed by the International Financial Services Commission (IFSC), and offshore banks could be significant.** The IFSC offers, through a high number of registered agents (around 150) and their intermediaries abroad, the services of establishing complex entities without a proper mechanism to have the related beneficial ownership information available, accessed, and disseminated in a timely manner. It also licenses service providers (e.g. FX, trading) without the requirement to have a presence in Belize. While these services generate relatively low fiscal revenues,

their lack of transparency and the possibility for them to hold accounts in offshore banks seem to create significant reputational risks for Belize.

16. **Therefore, staff strongly encouraged the authorities to further strengthen the effectiveness of the AML/CFT framework and enhance entity transparency, especially in the offshore sector.** The dialogue with the US Treasury (UST), which conducted a preliminary assessment of TA needs, should continue. Staff also continued to highlight the importance of risk-based supervision of banks and imposing corrective actions and sanctions when relevant. Staff considered that IFSC's registered agents and service providers should be subject to proper licensing requirements and be monitored for compliance with the AML/CFT requirements on a risk basis. In addition, the authorities should develop mechanisms (e.g. public registry for beneficial ownership) that would allow timely access to adequate, accurate, and current information on beneficial ownership of all types of entities created in Belize. Furthermore, entities' registers should immediately publish basic information related to entities created in Belize. Effective and dissuasive sanctions should apply against those that do not comply with the information requirements. The authorities should also step up their efforts in accessing and sharing beneficial ownership information with relevant foreign authorities in a timely manner. Finally, the authorities should identify, assess, and understand, among others, the vulnerabilities and the extent to which legal persons and arrangements created in Belize could be misused for ML/TF.

17. **Staff also encouraged the authorities to continue to contribute to regional efforts aimed at finding a long-term solution to the challenges posed by the withdrawal of correspondent banking relationships by global banks (see Selected Issues Paper).** Against the backdrop of low profitability and rising costs associated with weak global macroeconomic conditions, strengthened regulatory standards and enhanced enforcement, it may be rational for an individual bank to cut some CBRs or to increase the price charged for this service based on a cost-benefit analysis. However, simultaneous actions by many banks to withdraw from CBRs could have negative externalities for financial stability, inclusion and growth. Overcoming the coordination and collective action problems associated with such negative externalities justifies concerted measures by public and private sector players. Therefore, staff welcomed the authorities' engagement with regional stakeholders and analyzed the feasibility and effectiveness of the potential solutions currently being discussed in the region, including: (i) collective action to increase the business volume brought to a smaller number of correspondent banks; (ii) introduction of a scheme to purchase CBR insurance policies; (iii) creation of a US-licensed special purpose vehicle (SPV) to process international transactions; and (iv) payment of higher CBR service fees. With the exception of the SPV, all these potential solutions require strong private sector collaboration in the US, which may require that private financial institutions shift the perceived internal cost-benefit balance in favor of CBRs with the affected banks. However, high estimates for the risk-adjusted cost of CBR activity or CBR insurance could imply prohibitive prices for Caribbean banks. Beside temporary use of the CBB's own CBRs, staff advised the authorities to start exploring, in conjunction with regional partners, the possibility of a fast-track establishment or acquisition of a US-licensed financial institution that would provide CBRs while ensuring effective implementation of AML/CFT standards. Staff noted that some

local banks confirmed that they were considering acquiring small US-licensed banks, though none indicated to have already initiated such an acquisition process.

Authorities' views

18. **The authorities remain of the view that their current provisioning policy is adequate.** They noted that restrictions on the systemic bank will remain until they are fully confident that the bank is in a sound financial position. They will continue to ensure that, as a systemic institution, its tier I capital remains well above prudential requirements. They agreed with staff on the need for capital market development. However, they noted that private businesses in Belize are reluctant to use the capital market because of the disclosure requirements. Another reason is reluctance by business owners to relinquish control of their businesses through capital dilution. The authorities noted that corporate bond markets could be successful, though they did not commit to their development.

19. **The authorities concurred with staff on the need to further strengthen the AML/CFT framework, but insisted that implementing staff recommendations will not reverse the loss of Belizean banks' CBRs.** In their view, global banks have not provided any reasons for the progressive withdrawal of CBRs from Belize's indigenous banks, including the CBB. However, the authorities are committed to further improving their AML/CFT framework, which would further mitigate any ML/TF risks. They will continue the dialogue with bilateral partners such as the US to better address the challenge posed by the withdrawal of CBRs. In collaboration with Belize Bankers Association, they will continue to sensitize all stakeholders, including foreign banks, on progress made in improving the AML/CFT framework and Belize's implementation of international agreements to combat tax evasion. They have already passed a Statutory Instrument which aims to increase the licensing fees and capital requirements for higher risk licenses for entities operating in the offshore sector (the changes are scheduled to take effect on July 1, 2016), and they plan to improve the capacity of the IFSC to properly supervise licensed entities and impose sanctions when necessary. They noted that acquiring a US bank is not a practical solution as the required due diligence for such foreign acquisitions usually takes a long time.

20. **The authorities are of the view that the progressive withdrawal of CBRs constitutes a market failure that could be an unintended consequence of the US regulatory stance with respect to its own banking institutions**. Given the existential nature of the threat of CBRs withdrawal not only to Belize but also to a number of very small economies in the Caribbean, the IMF in their view, should address the situation aggressively as an integral part of its role in promoting international trade and payments.

C. Implementing the Medium-term National Growth and Development Strategy

21. **Growth remains a major challenge in Belize as discussed during the 2015 Article IV Consultation**. Staff analysis suggests that the weak growth is mainly driven by a decline in total

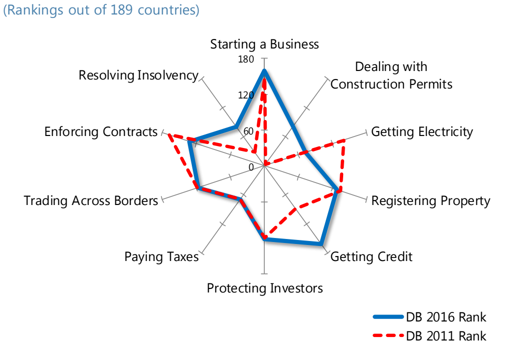
factor productivity (TFP), which itself stems from deficiencies in infrastructure, human capital and the business environment. This suggests that reforms must aim at raising productivity (Table 7).

22. **The Growth and Sustainable Development Strategy (GSDS), which has been recently endorsed by the new government, would help raise productivity if it is financed and well implemented**. The GSDS will guide policies for sustainable and inclusive growth during 2016–20. The strategy rests on several pillars, notably penetrating export markets, attracting foreign investment, conducting effective industrial policy, enhancing market efficiency, and putting in place adequate infrastructure and human capital. The strategy envisages a set of initiatives aimed at alleviating key infrastructure bottlenecks with a view to strengthening export competitiveness by reducing transportation costs. Major infrastructure projects being considered include new port facilities and an upgrade of key transportation links. Export competitiveness would be also strengthened by aligning with WTO requirements, through new legislation, the status of the export processing zone and the commercial free zone, which will be completed later in 2016. The GSDS also places special emphasis on developing priority sectors (agriculture, agro-processing, tourism and energy) and diversifying into new products and services. The strategy envisages broadening access to education and healthcare through investment in new schools and hospitals in rural areas and improvements in the quality of these services. The strategy's cost has not been estimated and financing remains to be identified for the most part.

23. **Staff advised the authorities to prioritize GSDS projects, estimate their cost, and design realistic project financing strategies, taking into account the limited fiscal space and the need to maintain overall macroeconomic stability.** In this connection, the modest fiscal space created by fiscal adjustment measures discussed in section A will likely be insufficient to finance the GSDS. More developed capital markets could expand financing sources in general. Development partners could help improve project prioritization and costing, and design a strategy to mobilize concessional external financing and private investment, including through well-designed public private partnerships that safeguard public finances. Project prioritization and implementation would also be strengthened by upgrading the regulatory framework for project appraisal, selection and procurement. Given the deteriorating export performance and the widening of current account deficits, addressing Belize's weak competitiveness will have to be an important project selection criterion.

24. **The authorities should also consider growth-enhancing measures that can be implemented at no financial cost (Table 7).** According to the 2016 World Bank Doing Business Report, Belize ranks 120 out of 189 countries in terms of ease of doing business. Passing the draft credit bureau law, which has been with cabinet since 2014, could help with developing financial markets. More efficient financial markets in general, including the FX market, would facilitate better resource allocation

Doing Business Indicators, 2011 and 2016 1/
(Rankings out of 189 countries)



Source: Doing Business Report 2011 and 2016.
1/ A high ranking (lower score) on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm.

(para. 25). Labor market reforms, especially greater flexibility on the hours of employment, could boost job creation and productivity, particularly in the outsourcing and tourism industries, where such flexibility is needed. There could also be room for improvement in other areas, including starting a business, getting credit, trading across borders, improving timeliness of the resolution of contract disputes, and strengthening small businesses.

25. **Staff has conducted an assessment of Belize's FX regime, focusing on the compliance of the FX regime with the member's obligations under Article VIII, Sections 2(a) and 3 of the Fund's Articles of Agreement.** Belize maintains an FX system that is generally liberal with regard to payments and transfers for current international transactions. While the authorization of the CBB is required for many transactions, in practice, such authorization is routinely granted for bona fide transactions upon presentation of requisite documentation. Most market participants have sufficient access to FX; however, occasional delays have been reported, especially for large transactions.[1] Staff has found that Belize maintains an exchange restriction arising from the requirement of a tax clearance certificate to obtain FX for transfer of interest payments and management fees to non-residents. This restriction is subject to the Fund's approval, and staff does not recommend approval of the exchange restriction. Staff will continue monitoring the developments with the accessibility of FX.

Authorities' views

26. **The authorities noted that the structural reforms envisaged under the GSDS will support growth over the medium term.** They expect growth to pick up in the agriculture sector in the next couple of years owing to vigorous industry efforts to cope with the diseases affecting shrimp and citrus industries and further reforms of the sugar industry in line with its strategic development plan. The authorities stressed the potential of the livestock industry, which is benefiting from favorable market prices, and new crops, notably beans and corn. They plan to expand trade agreements with neighboring countries in order to further bolster the agriculture industry's growth prospects and reduce informality in the sector.

27. **The authorities broadly agreed with structural reforms proposed by staff, noting that projects would be carefully selected and judiciously implemented.** The GSDS projects will be selected and implemented mainly in cooperation with international financial institutions. They noted that improvements in the transportation infrastructure will be guided by the transportation master plan, which will be developed in cooperation with the Inter-American Development Bank. Their financing is expected to mainly come from concessional funding from international donors and public private partnerships, including the UK government's recently announced program to support regional infrastructure projects.

28. **The authorities noted that the FX system has functioned well and served the needs of the largely import-dependent economy, and insisted that the recently reported occasional delays arise from the FX market microstructure and the loss of CBRs.** FX inflows are unevenly

[1] The recently reported delays in obtaining FX appear to result from the loss of CBRs.

distributed between domestic banks as a result of banks' client structure and the shallow interbank market. More importantly, general FX availability and interbank trading have been further constrained by the loss of the CBRs of two of the major banks, which also face constraints in accessing their FX funds. The authorities are considering stepping in and intermediating FX funds between the domestic banks to alleviate the pressure on the banks with CBRs.

OTHER

29. **Staff updated its assessment of spillover risks from other countries (see Selected Issues Paper)**. The impact of the loss of CBRs from banks in North America and Europe could have a significant impact on credit, growth and external stability if not addressed. Belizean banks' financial exposure to a bank in Antigua and Barbuda, which is currently under receivership, amounted to about US$6.8million at end-March 2016. The authorities continue to monitor the situation. They insist that if these assets are written off, Belizean banks' CAR will remain well above the prudential requirement. Spillover risks from trade can be contained through greater export diversification.

30. **Finally, staff encouraged the authorities to address remaining statistical weaknesses**, including in the compilation of the international investment position and statistics for the consolidated public sector. Timeliness of compiling final fiscal outcomes should be improved.

STAFF APPRAISAL

31. **The economy of Belize is facing multiple challenges.** Growth slowed to 1 percent in 2015 due to several shocks to the primary sector, and the expansion of the current account deficit has continued, indicating that under current policies, the external position is unsustainable with an overvalued real effective exchange rate. The fiscal deficit reached 8 percent of GDP, pushing the public debt stock to 82 percent of GDP. The loss of CBRs experienced by the largest banks is posing potential significant challenges for the economy.

32. **The baseline outlook has worsened since the last Article IV Consultation and is subject to significant downside risks.** Growth is projected to be below 2 percent in the medium term. In the absence of fiscal adjustment, rigid current fiscal spending, particularly the public sector wage bill, would fuel high fiscal deficits and add to the already high debt burden. The current account deficit would slowly decrease due to recovery of exports, but would still remain high, exerting downward pressure on international reserves. This baseline outlook could be further weakened by unfavorable developments, including lower-than-expected proceeds from the planned sale of some shares of BEL and BTL, additional loss of CBRs or wire transfer arrangements, failure to cope with the shocks affecting the shrimp and citrus sectors, or a protracted period of weak growth in trading partners.

33. **Strong action is needed to reduce the likelihood of a disorderly macroeconomic adjustment**. There has been very little implementation of the advice from the 2015 Article IV Consultation. Unless a decisive adjustment package is implemented, the twin fiscal and external current account deficits could accelerate the depletion of reserves and put the exchange rate peg at

risk. In the absence of nominal exchange rate flexibility, adjustment would have to be done through tighter domestic policies, particularly fiscal policy, and strong structural reforms to address the weak external competitiveness. Such policies will have to lower production costs and improve efficiency and productivity, thus bolstering competitiveness and facilitating the adjustment to global headwinds from lower commodity prices. Without decisive action on fiscal and structural policies, the policy gap will need to be filled by nominal exchange rate adjustment.

34. **Sustained fiscal consolidation is required to put public finances on a more sustainable footing.** Placing public debt on a downward path is the foremost priority, which requires raising the primary fiscal balance to 4–5 percent of GDP by 2021. This adjustment can be achieved by a combination of strong revenue and expenditure measures, including broadening the tax base, raising the GST rate, improving tax compliance, reducing the public wage bill, initiating a parametric reform of the pension plan for civil servants and strengthening public financial management.

35. **Tight supervision of the financial sector should continue**. Uncertainties related to collateral valuation in the context of illiquid markets justify raising provisioning requirements to 100 percent on loan losses regardless of whether they are secured or not. Restrictions on the banks that were granted an extension on provisioning requirements should continue. An asset quality review of all banks during this period would dispel uncertainty about the true size of the capital buffers. Nonetheless, well-developed capital markets will allow banks to tap into the current abundant liquidity to strengthen their balance sheets at a much faster pace.

36. **There appears to be no single factor that can explain the loss of CBRs and the challenge should be tackled on multiple fronts**. The CBR challenge requires closer regional and global coordination to ensure that home authorities of global banks proactively clarify and communicate their regulatory expectations, and affected countries continue to strengthen their regulatory and supervisory frameworks to meet relevant international standards, with the help of technical assistance where needed. In extreme circumstances, the public sector may consider the feasibility of temporary mechanisms to prevent the complete loss of access to the global financial system. In this context, stronger AML/CFT regulation and supervision in Belize, as well as mechanisms to ensure entity transparency would improve compliance with international standards and understanding of ML/TF risks. In particular, the IFSC offers, through a high number of registered agents and their intermediaries abroad, the services of establishing complex entities without a proper mechanism to have the related beneficial ownership information available in a timely manner. It also licenses service providers without the requirement to have a presence in Belize. While these services generate relatively low fiscal revenues, their lack of transparency and the possibility for them to hold accounts in Belize's international banks seem to create significant reputational risks for Belize. Proper mitigation and reduction of these risks could help reverse the loss of CBRs. Support to regional efforts to find a long-term solution to the challenges posed by the withdrawal of CBRs should continue, including the possibility of a fast-track establishment or acquisition of a US-licensed financial institution that would provide CBRs while ensuring effective implementation of AML/CFT standards.

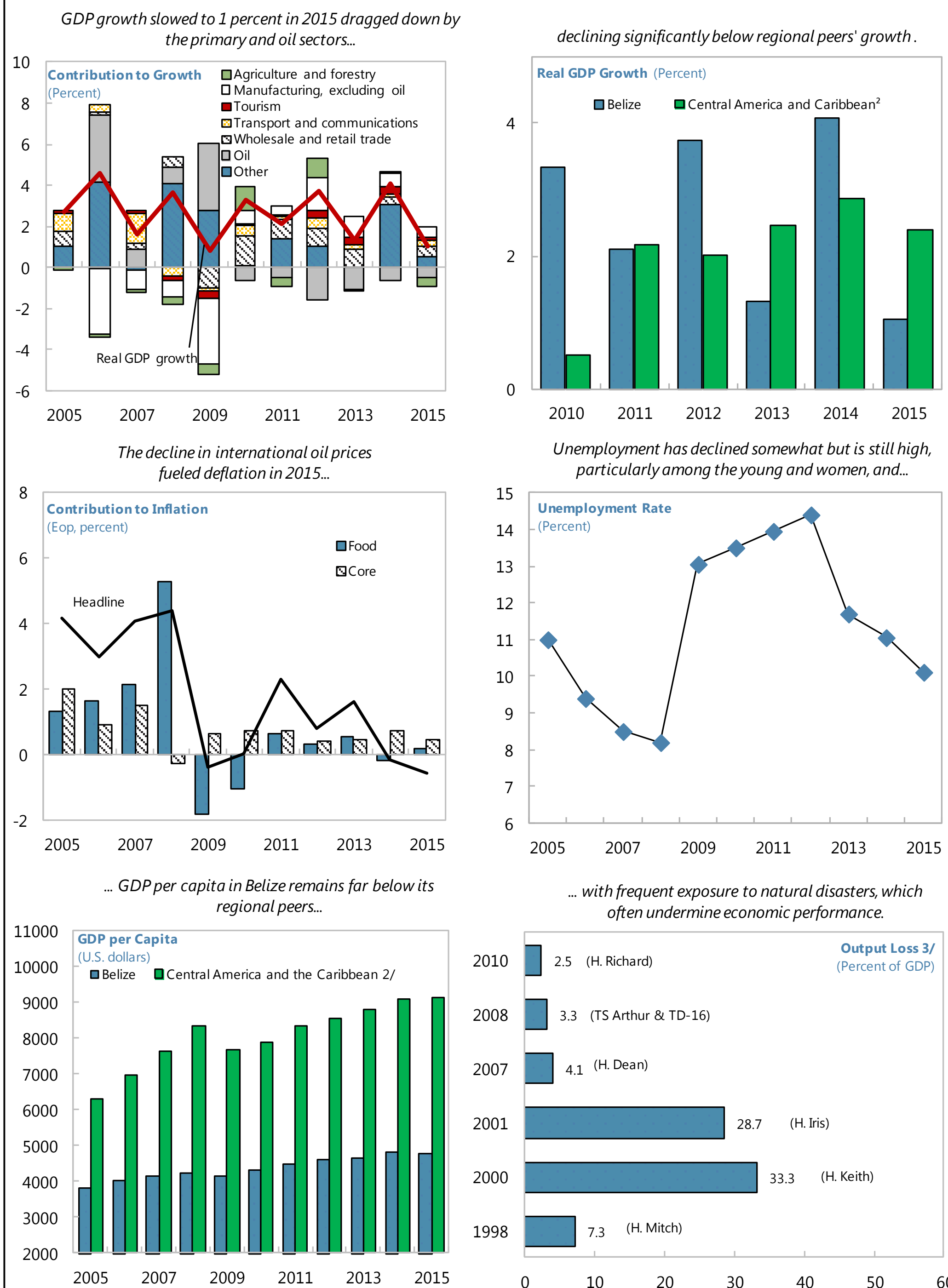
37. **Broad-based structural reform would enhance Belize's growth potential, reduce vulnerabilities and strengthen the exchange rate peg.** Adoption of the GSDS is a welcome step forward, and should be followed by its vigorous implementation, using the available fiscal space and non-debt-creating financing options, such as well-designed public-private partnerships. The strategy should be complemented with greater labor market flexibility, further development of financial markets, and progress in such areas as starting a business, access to credit, cross-border trade, and timeliness of resolution of contract disputes.

38. **An assessment of Belize's foreign exchange regime found that Belize maintains an exchange restriction arising from the requirement of a tax clearance certificate to obtain foreign exchange for transfer of interest payments and management fees to non-residents.** This restriction is subject to Fund's approval, and staff does not recommend approval of the exchange restriction.

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

Figure 1. Belize: Real Sector Developments 1/

Macroeconomic developments in 2015 were characterized by a sharp slowdown and deflation.



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

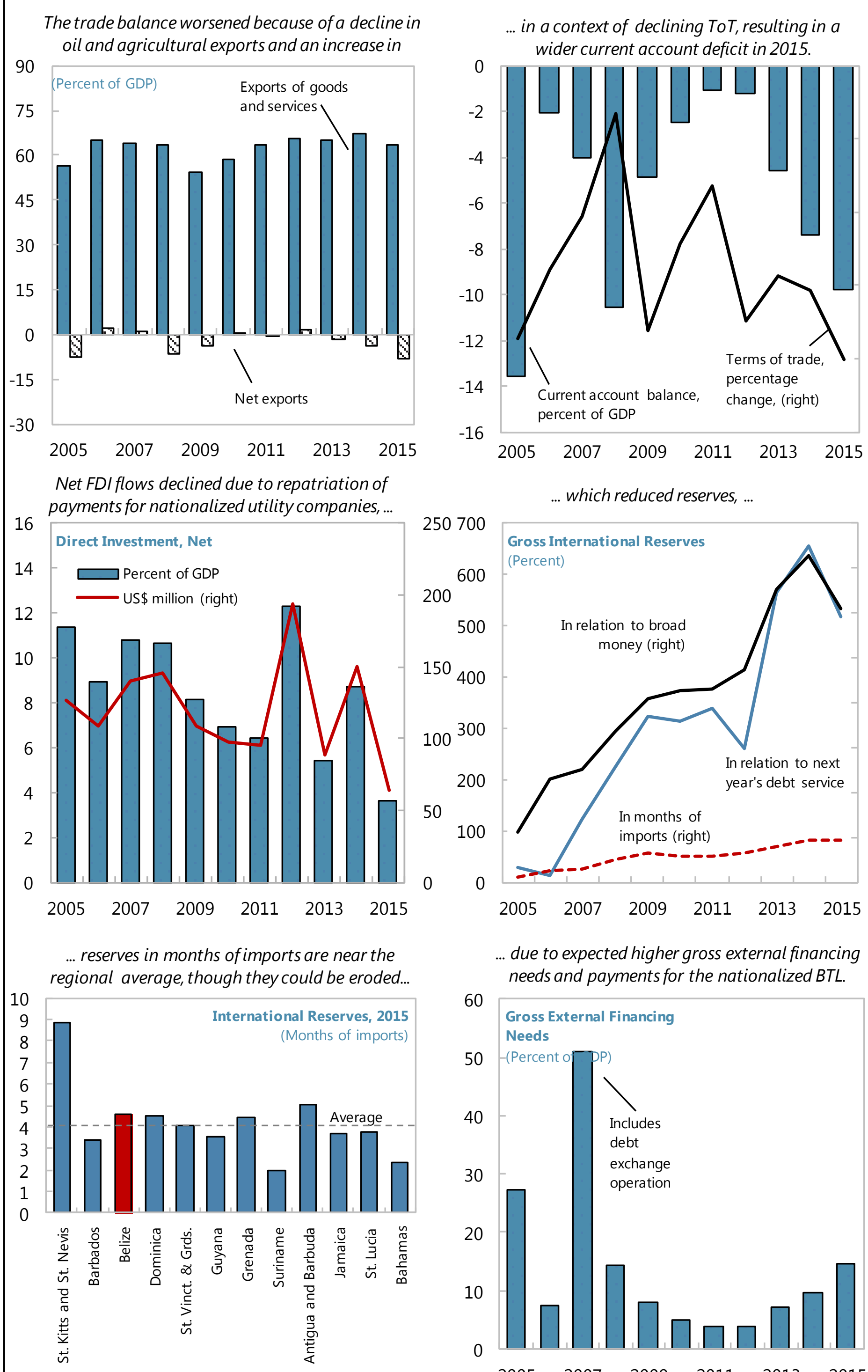
1/ Preliminary data for 2015.

2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

3/ TS: Tropical Storm. TD: Tropical Depression. H: Hurricane.

Figure 2. Belize: External Sector Developments 1/

A widening current account deficit in 2015 and compensation payments for previously nationalized utility companies drove down international reserves.



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

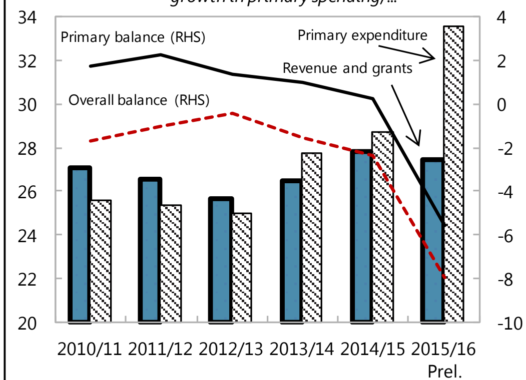
1/ Preliminary data for 2015.

Figure 3. Belize: Fiscal Sector Developments 1/

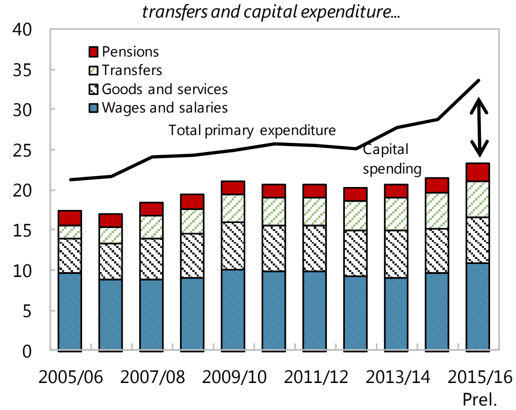
(In percent of FY GDP)

Despite the recent external debt restructuring, the primary fiscal balance and debt sustainability have deteriorated significantly in recent years.

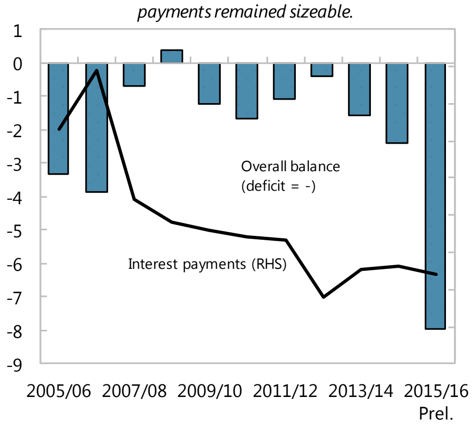
The re-emergence of primary deficits reflects continued growth in primary spending, ...



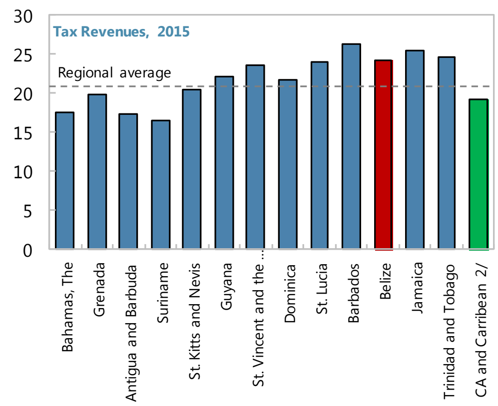
... driven primarily by increases in wages, pensions, transfers and capital expenditure...



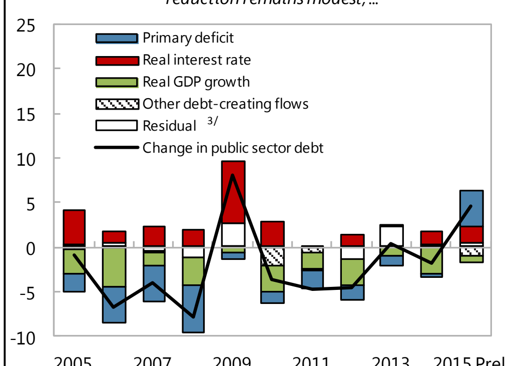
...as a result, the overall deficit increased and interest payments remained sizeable.



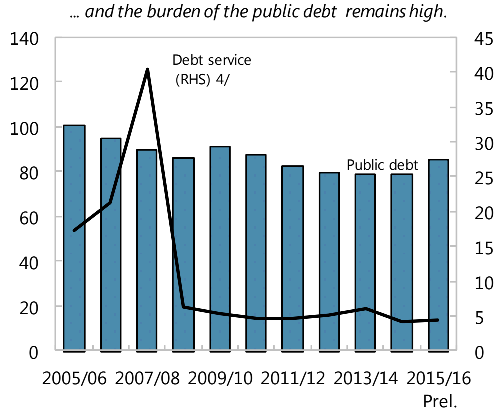
Revenue mobilization is higher than the regional average.



Despite the two debt restructurings, the pace of debt reduction remains modest, ...



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



Sources: Country authorities; and Fund staff estimates.

1/ Preliminary data for 2015/16.

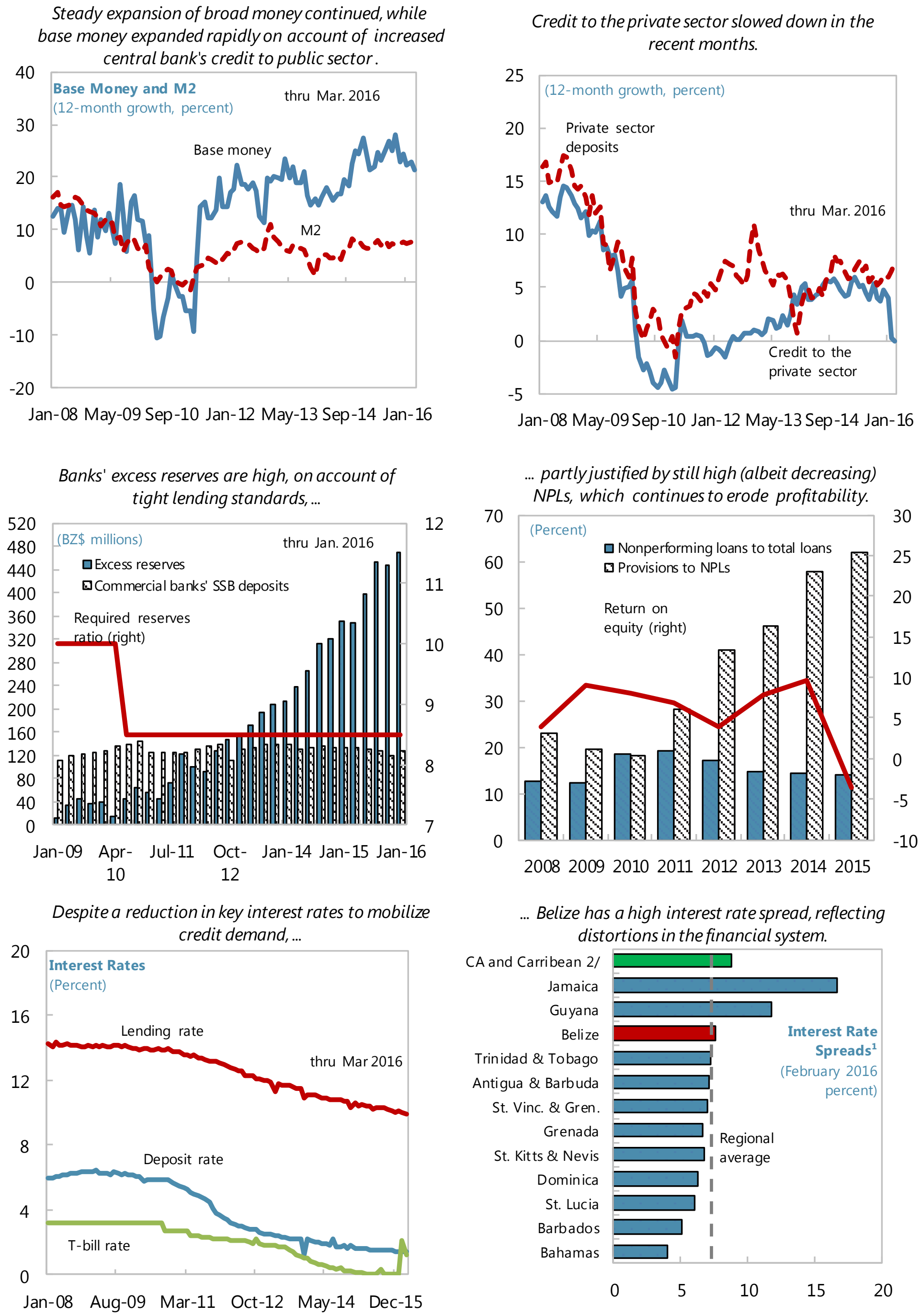
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

3/ Large residual in 2015 reflects recognition of contingent liabilities (compensation payments for BEL/BTL).

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

Figure 4. Belize: Monetary and Financial Sector Developments

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

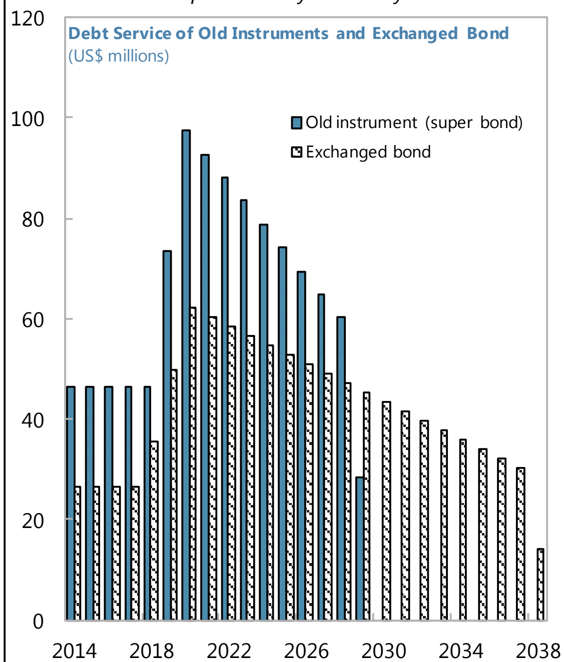


Sources: Central Bank of Belize; IFS; and Fund staff estimates.
1/ Refer to the difference between lending and savings rates.
2/ Countries in the region include Barbados, ECCU, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.

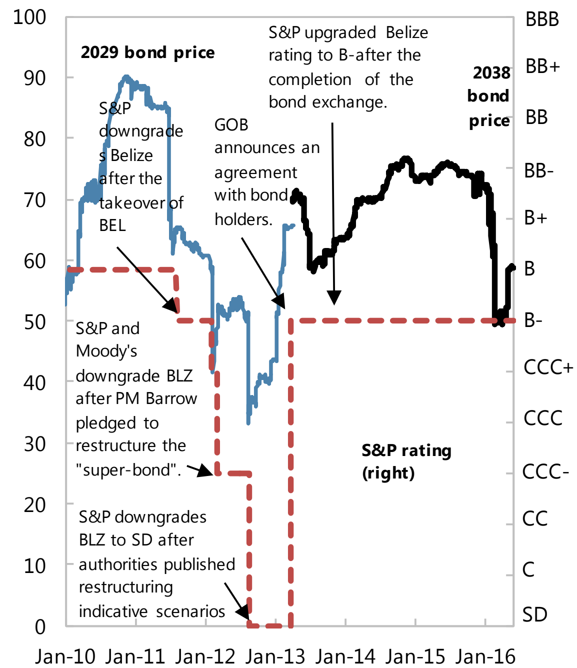
Figure 5. Belize: Debt Markets Developments

Markets' perception of Belize debt remains mixed, essentially cutting off the country from international commercial borrowing.

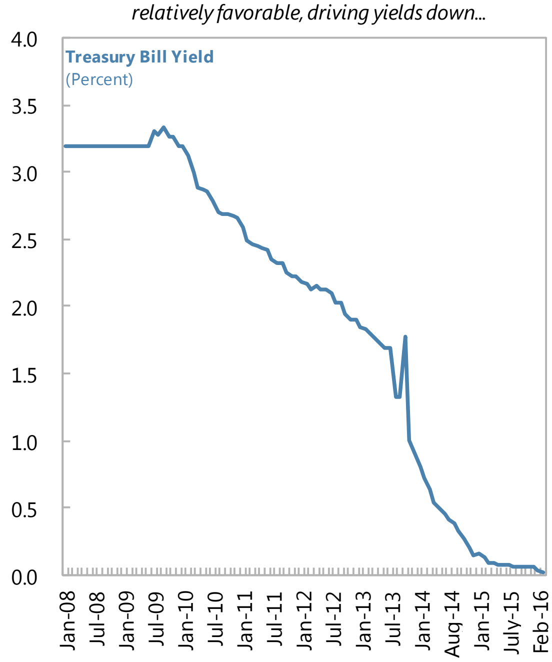
The debt restructuring provided substantial cashflow relief in the near term, but extended financing requirements by about 10 years.



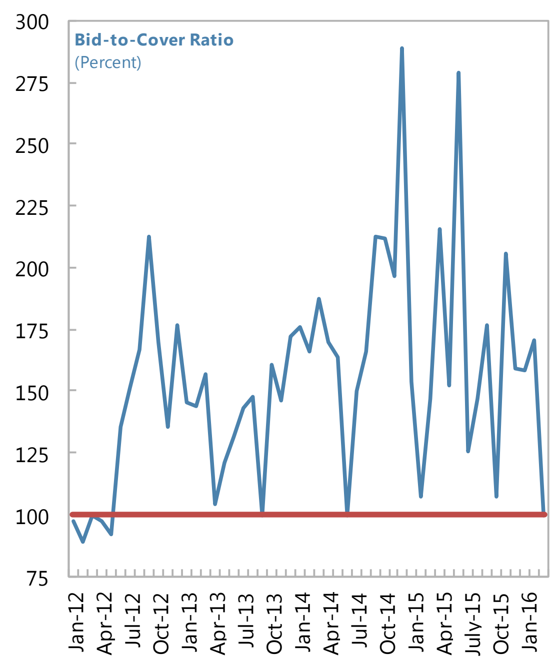
Belize's credit ratings improved after the bond restructuring, but the bond price has not completely recovered.



Domestic markets' perception of Belize paper remains relatively favorable, driving yields down...



... and raising the bid-to-cover ratio.



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

Table 1. Belize: Selected Social and Economic Indicators, 2011-2017

I. Population and Social Indicators

Area (sq.km.)	22,860	Adult literacy rate, 15 and up (percent), 20	75.1
Arable land (percent of land area), 2012	3.4	Human development index (rank), 2014	101
Population (thousands), Sep. 2015	370.3	Unemployment rate, Sep. 2015	10.2
GNI per capita, atlas method (current US$), 2013	4,510	Number of physicians, 2007	251
		Access to improved drinking water sources	
Life expectancy at birth (years), 2014	74	(percent of population), 2012	99.3
Under-five mortality rate (per thousand), 2013	17	Poverty (percent of total population), 2009	42

II. Economic Indicators, 2011-17

	2011	2012	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.
	(Percent change, unless otherwize indicated)						
National income and prices							
GDP at constant prices	2.1	3.7	1.3	4.1	1.0	0.5	2.5
Of which: Oil output	-0.5	-1.6	-1.0	-0.6	-0.5	-0.4	-0.4
GDP deflator	4.3	1.9	2.0	1.5	1.0	1.0	2.2
Consumer prices (end of period)	2.3	0.8	1.6	-0.2	-0.6	2.0	2.3
Consumer prices (average)	1.7	1.2	0.5	1.2	-0.9	1.0	2.2
Gross domestic investment (percent of GDP) 1/	13.7	13.7	15.2	18.9	23.5	20.0	20.6
Gross national savings (percent of GDP)	12.6	12.5	10.6	11.5	13.7	9.5	11.0
Money and credit							
Credit to the private sector	-1.2	1.1	3.5	4.7	4.8	4.0	3.5
Money and quasi-money (M2)	5.6	11.0	1.4	7.9	7.6	3.8	5.2
Weighted average lending rate (in percent)	13.0	12.0	11.1	10.3	10.0	...	...
	(In percent of GDP, unless otherwize indicated)						
Central government 2/							
Revenue and grants	27.7	26.4	28.7	29.0	28.0	29.3	27.9
Of which: oil revenue	3.0	1.5	1.1	0.8	0.2	0.1	0.0
Of which: grants	1.1	0.7	2.2	1.1	0.5	1.0	1.0
Current expenditure	24.0	22.1	23.3	24.1	25.7	27.7	28.0
Capital expenditure and net lending	4.7	4.7	7.0	7.3	10.3	5.6	5.1
Primary balance	2.3	1.4	1.0	0.3	-5.5	-1.1	-1.8
Overall balance	-1.1	-0.4	-1.6	-2.4	-8.0	-4.1	-5.2
Public and publicly guaranteed debt							
Stock of public and publicly guaranteed debt	83.5	79.0	79.4	77.6	82.1	93.3	94.0
Domestic debt 4/	12.8	12.4	11.9	10.9	14.1	25.1	27.1
External debt	70.7	66.6	67.5	66.6	68.0	68.2	66.9
Debt service 5/	4.8	4.4	6.8	4.2	4.2	4.7	4.6
In percent of exports of goods and services	7.5	6.8	10.5	6.2	6.7	8.4	8.4
In percent of government current revenue	18.1	17.3	25.9	15.3	15.5	16.9	17.1
External sector							
	(Percent change, unless otherwize indicated)						
External current account, (percent of GDP) 3/	-1.1	-1.2	-4.6	-7.4	-9.8	-10.5	-9.6
Exports of goods and services	15.6	8.9	3.1	8.6	-3.7	-9.9	2.8
Imports of goods and services	16.7	6.2	8.5	11.5	3.3	-7.0	1.4
Terms of trade (deterioration -)	2.7	-1.0	0.2	-0.1	-2.0	1.6	-1.0
Nominal effective exchange rate	-3.0	3.2	0.7	1.6	11.0	...	...
Real effective exchange rate	-10.0	1.9	-1.2	0.7	8.5	...	...
	(In millions of U.S. dollars, unless otherwize indicated)						
Overall balance of payments	35	52	114	84	-50	-42	-68
Exports of goods and services	944	1,028	1,060	1,151	1,109	999	1,027
Imports of goods and services	945	1,004	1,089	1,215	1,255	1,167	1,183
Gross international reserves, 6/	237	289	403	487	437	395	327
In percent of gross external financing needs	422	478	350	289	170	169	144
In percent of next year's external public debt service	339	260	563	655	518	456	335
In months of imports	2.8	3.2	4.0	4.7	4.5	4.0	3.3
Nominal GDP	1,489	1,574	1,626	1,718	1,753	1,779	1,863
Nominal GDP (BZ$ millions)	2,978	3,148	3,252	3,436	3,506	3,558	3,727

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

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

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

(In millions of Belize dollars)

	2014/15	2015/16		2016/17		Projections				
						2017/18	2018/19	2019/20	2020/21	2021/22
		Budget	Prel.	Budget	Proj.	Proj.				
Revenue and grants	**1,001**	**980**	**986**	**1,089**	**1,054**	**1,053**	**1,077**	**1,104**	**1,145**	**1,187**
Revenue	**962**	**940**	**967**	**1,047**	**1,019**	**1,016**	**1,039**	**1,064**	**1,104**	**1,144**
Of which: Non-oil revenue	935	...	960	...	1,017	1,015	1,038	1,063	1,102	1,143
Current revenue	956	935	960	1,041	1,013	1,010	1,032	1,057	1,097	1,137
Tax revenue	849	818	851	937	909	904	924	945	980	1,016
Of which : Petroleum Operations	16	...	1	...	0	0	0	0	0	0
General Sales Tax	270	263	270	285	277	289	302	314	325	338
Nontax revenue	107	117	109	104	104	106	108	113	117	121
Of which : Petroleum Operations	11	...	5	...	...	...	1	1	1	1
Capital revenue	6	5	6	6	6	6	6	7	7	7
Grants	**39**	**41**	**19**	**42**	**35**	**37**	**38**	**40**	**41**	**43**
Total expenditure	**1,083**	**1,068**	**1,266**	**1,151**	**1,200**	**1,249**	**1,271**	**1,324**	**1,376**	**1,433**
Current expenditure	831	874	905	959	999	1,055	1,114	1,164	1,223	1,280
Wages and salaries	338	368	384	403	423	438	453	469	485	502
Pensions	64	60	77	67	79	83	86	90	93	96
Goods and services	188	211	198	224	224	234	244	254	263	273
Interest payments	90	91	85	100	108	129	151	166	189	210
Transfers	151	144	161	166	166	172	179	185	192	199
Capital expenditure and net lending	251	197	361	192	202	194	157	160	154	153
Capital expenditure	249	195	261	189	199	192	155	158	151	150
Domestically financed expenditure (Capital II	116	98	101	93	93	82	56	58	60	82
Foreign financed expenditure (Capital III)	132	94	161	96	106	109	99	100	91	68
Net lending	3	3	100	3	3	2	2	2	2	3
Primary balance	**9**	**3**	**-195**	**37**	**-39**	**-68**	**-43**	**-54**	**-42**	**-36**
Nongrant, non-oil primary balance	**-57**		**-221**	...	**-76**	**-106**	**-82**	**-95**	**-85**	**-80**
Overall balance	**-82**	**-88**	**-280**	**-63**	**-147**	**-196**	**-194**	**-220**	**-232**	**-246**
Financing	**82**	**88**	**280**	**-63**	**147**	**196**	**194**	**220**	**232**	**246**
Privatization (net)	0	...	-135	...	49	-148	0	0	0	0
Domestic	-20	...	329	...	48	294	204	261	309	318
Of which: Amortization	35	...	102	...	0	47	213	321	448	422
External	102	...	86	...	49	51	-10	-40	-77	-72
Disbursements	172	...	164	...	140	145	94	94	80	48
Amortization	70	...	78	...	91	94	104	134	157	120
Memorandum items:										
Structural primary balance	-4.6	...	-102	...	-27	-63	-42	-53	-40	-36
Nominal GDP	3,453	3,571	3,519	3,728	3,600	3,769	3,933	4,084	4,237	4,397
Non-interest expenditure	992	...	1,181	...	1,093	1,121	1,120	1,158	1,187	1,223
Oil revenue	27	...	6	...	2	2	1	1	1	1
Public sector debt 3/	2,665	...	2,878	...	3,320	3,501	3,698	3,912	4,142	4,392
Domestic	376	...	494	...	894	1,009	1,209	1,454	1,753	2,106
External	2,289	...	2,383	...	2,425	2,493	2,489	2,458	2,389	2,285

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

1/ Fiscal year ends in March.
2/ Due to data limitations, the table deviates from the GFSM 2001 methodology.
3/ On the calendar year basis (e.g. 2015/16 column shows debt stock at end-2015).

Table 2. Belize: Operations of the Central Government (Concluded) 1/ 2/
(In percent of GDP; unless otherwise indicated)

	2014/15	2015/16		2016/17		2017/18	2018/19	2019/20	2020/21	2021/22
					Projections					
		Budget	Prel.	Budget	Proj.	Proj.				
Revenue and grants	**29.0**	**27.5**	**28.0**	**29.2**	**29.3**	**27.9**	**27.4**	**27.0**	**27.0**	**27.0**
Revenue	**27.9**	**26.3**	**27.5**	**28.1**	**28.3**	**27.0**	**26.4**	**26.0**	**26.0**	**26.0**
Of which: Non-oil revenue	27.1	...	27.3	...	28.2	26.9	26.4	26.0	26.0	26.0
Current revenue	27.7	26.2	27.3	27.9	28.1	26.8	26.2	25.9	25.9	25.9
Tax revenue	24.6	22.9	24.2	25.1	25.2	24.0	23.5	23.1	23.1	23.1
Of which : Petroleum Operations	0.5	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
General Sales Tax	7.8	7.4	7.7	7.6	7.7	7.7	7.7	7.7	7.7	7.7
Nontax revenue	3.1	3.3	3.1	2.8	2.9	2.8	2.7	2.8	2.8	2.8
Of which : Petroleum Operations	0.3	...	0.1	...	...	...	0.0	0.0	0.0	0.0
Capital revenue	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	**1.1**	**1.1**	**0.5**	**1.1**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Total expenditure	**31.4**	**29.9**	**36.0**	**30.9**	**33.3**	**33.1**	**32.3**	**32.4**	**32.5**	**32.6**
Current expenditure	24.1	24.5	25.7	25.7	27.7	28.0	28.3	28.5	28.9	29.1
Wages and salaries	9.8	10.3	10.9	10.8	11.7	11.6	11.5	11.5	11.4	11.4
Pensions	1.9	1.7	2.2	1.8	2.2	2.2	2.2	2.2	2.2	2.2
Goods and services	5.4	5.9	5.6	6.0	6.2	6.2	6.2	6.2	6.2	6.2
Interest payments	2.6	2.5	2.4	2.7	3.0	3.4	3.8	4.1	4.5	4.8
Transfers	4.4	4.0	4.6	4.4	4.6	4.6	4.5	4.5	4.5	4.5
Capital expenditure and net lending	7.3	5.5	10.3	5.1	5.6	5.1	4.0	3.9	3.6	3.5
Capital expenditure	7.2	5.5	7.4	5.1	5.5	5.1	3.9	3.9	3.6	3.4
Domestically financed expenditure (Capital I	3.4	2.7	2.9	2.5	2.6	2.2	1.4	1.4	1.4	1.9
Foreign financed expenditure (Capital III)	3.8	2.6	4.6	2.6	2.9	2.9	2.5	2.4	2.1	1.6
Net lending	0.1	0.1	2.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	**0.3**	**0.1**	**-5.5**	**1.0**	**-1.1**	**-1.8**	**-1.1**	**-1.3**	**-1.0**	**-0.8**
Nongrant, non-oil primary balance	**-1.7**	0.0	**-6.3**	...	**-2.1**	**-2.8**	**-2.1**	**-2.3**	**-2.0**	**-1.8**
Overall balance	**-2.4**	**-2.5**	**-8.0**	**-1.7**	**-4.1**	**-5.2**	**-4.9**	**-5.4**	**-5.5**	**-5.6**
Financing	**2.4**	**2.5**	**8.0**	**-1.7**	**4.1**	**5.2**	**4.9**	**5.4**	**5.5**	**5.6**
Privatization (net)	0.0	...	-3.8	...	1.4	-3.9	0.0	0.0	0.0	0.0
Domestic	-0.6	...	9.4	...	1.3	7.8	5.2	6.4	7.3	7.2
Of which: Amortization	1.0	...	2.9	...	0.0	1.2	5.4	7.9	10.6	9.6
External	2.9	...	2.4	...	1.4	1.3	-0.2	-1.0	-1.8	-1.6
Disbursements	5.0	...	4.7	...	3.9	3.9	2.4	2.3	1.9	1.1
Amortization	2.0	...	2.2	...	2.5	2.5	2.6	3.3	3.7	2.7
Memorandum items:										
Structural primary balance	-0.1	...	-2.9	...	-0.8	-1.7	-1.1	-1.3	-0.9	-0.8
Nominal GDP (in BZ$ millions)	3,453	3,571	3,519	3,728	3,600	3,769	3,933	4,084	4,237	4,397
Non-interest expenditure	28.7	...	33.6	...	30.4	29.7	28.5	28.3	28.0	27.8
Oil revenue	0.8	...	0.2	...	0.1	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance; Central Bank of Belize; and Fund staff estimates and projections.
1/ Fiscal year ends in March.
2/ Due to data limitations, the table deviates from the GFSM 2001 methodology.

Table 3. Belize: Balance of Payments, 2012-21

	2012	2013	2014	2015 Prel.	2016	2017	2018	2019	2020	2021
					Projections					
	(In millions of U.S. dollars)									
Current account balance	**-19**	**-74**	**-128**	**-172**	**-187**	**-179**	**-171**	**-172**	**-174**	**-161**
Trade balance	-196	-267	-350	-423	-457	-462	-469	-489	-513	-532
Total exports, f.o.b.	622	609	589	538	498	503	512	522	535	550
Of which:										
Oil	104	70	51	18	12	9	7	5	4	3
Total imports, f.o.b.	818	876	939	961	955	965	981	1,011	1,048	1,083
Of which:										
Fuel and lubricants	137	141	151	113	114	127	132	136	142	144
Services	220	238	286	277	289	306	328	345	364	394
Of which:										
Travel	261	311	334	324	351	372	393	416	441	469
Income	-118	-118	-138	-96	-93	-101	-111	-112	-113	-114
Of which:										
Public sector interest payments 1/	-39	-22	-37	-37	-39	-40	-50	-49	-48	-46
Current transfers	76	73	74	70	74	77	81	84	88	91
Private (net)	80	77	78	73	76	80	83	87	90	93
Official (net)	-4	-4	-4	-4	-2	-3	-3	-2	-2	-2
Capital and financial account balance	**85**	**170**	**229**	**100**	**145**	**112**	**116**	**112**	**98**	**81**
Capital transfers	22	38	44	9	15	15	15	15	15	15
Public sector	-9	66	66	54	69	33	-3	-17	-35	-52
Of which:										
Change in assets	0	0	-1	-1	50	0	0	0	0	0
Change in liabilities	-9	66	67	54	19	33	-3	-17	-35	-52
Disbursements 2/	36	122	84	140	67	81	47	48	44	29
Central government	36	122	84	140	67	81	47	48	44	29
Amortization	-41	-41	-41	-86	-47	-48	-50	-65	-79	-81
Central government	-31	-32	-35	-86	-45	-47	-48	-63	-78	-80
Securitisation	-3	-16	23	0	0	0	0	0	0	0
Private sector 3/	71	66	120	38	60	64	104	113	118	118
Of which:										
Foreign Direct Investment, net	193	89	150	64	80	84	119	123	128	133
Of which: Repatriation of compensation 4/	0	0	0	-68	-35	-35	0	0	0	0
Other private flows	-122	-22	-30	-27	-20	-20	-15	-10	-10	-15
Commercial banks	-51	46	-10	-13	15	10	10	10	10	5
Other private nonbanks	-71	-69	-20	-14	-35	-30	-25	-20	-20	-20
Errors and omissions	**-14**	**19**	**-17**	**22**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**52**	**114**	**84**	**-50**	**-42**	**-68**	**-55**	**-61**	**-76**	**-80**
Financing	**-52**	**-114**	**-84**	**50**	**42**	**68**	**55**	**61**	**76**	**80**
Memorandum items:										
Gross international reserves (US$ millions)	288.9	402.8	486.9	436.9	395.0	327.3	272.5	212	136	56
In percent of gross external financing needs	478	350	289	170	169	144	124	89	54	23
In percent of next year's total debt service	260	563	655	518	456	335	242	168	107	...
In months of imports	3.2	4.0	4.7	4.5	4.0	3.3	2.7	2.0	1.2	0.5

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

1/ Includes partial coupon payment of US$11.7 million (out of full amount US$23 million) on the "super-bond", paid on September 20, 2012.
2/ Includes the general and special SDR allocations in 2009.
3/ Detailed data on private sector flows are not available.
4/ Compensation to former owners of nationalized companies.

Table 3. Belize: Balance of Payments, 2012-21 (Concluded)

	2012	2013	2014	2015 Prel.	2016	2017	2018	2019	2020	2021
					Projections					
	(In percent of GDP, unless otherwise stated)									
Current account balance	**-1.2**	**-4.6**	**-7.4**	**-9.8**	**-10.5**	**-9.6**	**-8.8**	**-8.5**	**-8.3**	**-7.4**
Trade balance	-12.5	-16.4	-20.3	-24.2	-25.7	-24.8	-24.1	-24.2	-24.4	-24.4
Total exports, f.o.b.	39.5	37.4	34.3	30.7	28.0	27.0	26.3	25.8	25.5	25.3
Of which:										
Oil	6.6	4.3	3.0	1.0	0.6	0.5	0.3	0.2	0.2	0.1
Total imports, f.o.b.	52.0	53.9	54.6	54.8	53.7	51.8	50.4	50.0	49.9	49.7
Of which:										
Fuel and lubricants	8.7	8.7	8.8	6.5	6.4	6.8	6.8	6.7	6.8	6.6
Services	14.0	14.6	16.6	15.8	16.3	16.4	16.9	17.0	17.3	18.1
Of which:										
Travel	16.6	19.1	19.4	18.5	19.7	20.0	20.2	20.6	21.0	21.5
Income	-7.5	-7.3	-8.0	-5.5	-5.2	-5.4	-5.7	-5.5	-5.4	-5.2
Of which:										
Public sector interest payments 1/	-2.5	-1.3	-2.1	-2.1	-2.2	-2.1	-2.5	-2.4	-2.3	-2.1
Current transfers	4.8	4.5	4.3	4.0	4.1	4.1	4.1	4.2	4.2	4.2
Private (net)	5.1	4.8	4.5	4.2	4.3	4.3	4.3	4.3	4.3	4.3
Official (net)	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital and financial account balance	**5.4**	**10.4**	**13.4**	**5.7**	**8.1**	**6.0**	**6.0**	**5.5**	**4.7**	**3.7**
Capital transfers	1.4	2.3	2.6	0.5	0.8	0.8	0.8	0.7	0.7	0.7
Public sector	-0.5	4.0	3.8	3.1	3.9	1.8	-0.1	-0.8	-1.7	-2.4
Of which:										
Change in assets	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Change in liabilities	-0.5	4.0	3.9	3.1	1.1	1.8	-0.1	-0.8	-1.7	-2.4
Disbursements 2/	2.3	7.5	4.9	8.0	3.7	4.4	2.4	2.4	2.1	1.3
Central government	2.3	7.5	4.9	8.0	3.7	4.4	2.4	2.4	2.1	1.3
Amortization	-2.6	-2.5	-2.4	-4.9	-2.7	-2.6	-2.5	-3.2	-3.7	-3.7
Central government	-2.0	-2.0	-2.0	-4.9	-2.5	-2.5	-2.5	-3.1	-3.7	-3.7
Securitisation	-0.2	-1.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector 3/	4.5	4.1	7.0	2.1	3.4	3.4	5.3	5.6	5.6	5.4
Of which:										
Foreign Direct Investment, net	12.3	5.4	8.7	3.7	4.5	4.5	6.1	6.1	6.1	6.1
Of which: Repatriation of compensation 4/	0.0	0.0	0.0	-3.9	-2.0	-1.9	0.0	0.0	0.0	0.0
Other private flows	-7.8	-1.4	-1.8	-1.5	-1.1	-1.1	-0.8	-0.5	-0.5	-0.7
Commercial banks	-3.2	2.8	-0.6	-0.7	0.8	0.5	0.5	0.5	0.5	0.2
Other private nonbanks	-4.5	-4.2	-1.2	-0.8	-2.0	-1.6	-1.3	-1.0	-1.0	-0.9
Errors and omissions	**-0.9**	**1.2**	**-1.0**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**3.3**	**7.0**	**4.9**	**-2.8**	**-2.4**	**-3.6**	**-2.8**	**-3.0**	**-3.6**	**-3.7**
Financing	**-3.3**	**-7.0**	**-4.9**	**2.8**	**2.4**	**3.6**	**2.8**	**3.0**	**3.6**	**3.7**
Change in reserves (- increase)	-3.3	-7.0	-4.9	2.8	2.4	3.6	2.8	3.0	3.6	3.7

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

1/ Includes partial coupon payment of US$11.7 million (out of full amount US$23 million) on the "super-bond", paid on September 20, 2012.

2/ Includes the general and special SDR allocations in 2009.

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

4/ Compensation to former owners of nationalized companies.

Table 4. Belize: Operations of the Banking System, 2012-21

	2012	2013	2014	Prel. 2015	Proj. 2016	2017	2018	2019	2020	2021
	(In millions of Belize dollars)									
Central Bank of Belize (CBB)										
Net foreign assets 1/	528	763	930	825	741	606	496	375	223	62
Net international reserves	583	818	982	875	791	656	546	425	272	112
Medium-term foreign liabilities 2/	-55	-55	-52	-50	-50	-50	-50	-50	-50	-50
Net domestic assets	39	-105	-112	192	324	515	675	859	1,086	1,338
Credit to the public sector (net)	41	-100	-105	206	321	511	659	849	1,070	1,321
Central government	47	-96	-104	207	322	512	660	850	1,070	1,319
Other public sector	-7	-3	-1	-2	-2	-2	-2	-2	-1	1
Capital and other assets (net)	-2	-5	-7	-14	4	4	17	11	16	18
Base money	568	658	818	1,017	1,065	1,121	1,171	1,234	1,308	1,401
Currency issue	238	262	286	345	381	434	483	546	612	696
Reserves of commercial banks	329	396	532	672	684	686	688	689	697	704
Commercial banks										
Net foreign assets	356	263	245	274	244	224	204	184	164	154
Net claims on central bank	375	447	581	726	737	744	745	751	759	773
Net domestic assets	1,880	1,900	1,978	1,992	2,096	2,233	2,365	2,526	2,708	2,919
Credit to the public sector (net)	-98	-119	-177	-182	-220	-163	-107	-46	36	140
Central government	140	134	125	107	80	152	204	260	339	443
Other public sector	-238	-253	-302	-289	-300	-316	-311	-306	-303	-303
Credit to the private sector	1,959	2,027	2,123	2,224	2,313	2,394	2,478	2,569	2,672	2,779
Other assets (net)	19	-7	32	-50	3	3	-6	3	-1	0
Liabilities to the private sector	2,611	2,610	2,803	2,992	3,077	3,201	3,314	3,461	3,631	3,846
Monetary survey										
Net foreign assets	884	1,027	1,175	1,099	985	830	701	559	387	217
Net domestic assets	1,920	1,795	1,866	2,184	2,420	2,748	3,040	3,385	3,793	4,257
Credit to the public sector (net)	-57	-219	-282	23	101	347	552	802	1,105	1,461
Central government	187	38	21	314	403	665	865	1,110	1,409	1,763
Other public sector	-244	-257	-303	-291	-302	-318	-313	-308	-304	-302
Credit to private sector (by comm. banks)	1,959	2,027	2,123	2,224	2,313	2,394	2,478	2,569	2,672	2,779
Other items (net)	18	-12	25	-64	6	7	11	14	16	17
Liabilities to the private sector	2,804	2,822	3,041	3,283	3,405	3,578	3,741	3,944	4,180	4,474
Money and quasi-money (M2)	2,444	2,477	2,672	2,874	2,983	3,138	3,280	3,456	3,664	3,922
Currency in circulation	193	212	237	291	328	377	426	484	550	627
Deposits	2,250	2,265	2,435	2,583	2,655	2,761	2,853	2,972	3,114	3,294
Foreign currency deposits	213	118	109	114	117	122	126	131	137	145
Capital and reserves of commercial banks	360	345	368	409	423	440	461	488	516	552
Memorandum items:										
Private sector deposits in local currency	10.9	0.6	7.5	6.1	2.8	4.0	3.3	4.2	4.8	5.8
Base money	19.2	16.0	24.2	24.3	4.7	5.2	4.5	5.4	6.0	7.0
Credit to private sector (by comm. banks)	1.1	3.5	4.7	4.8	4.0	3.5	3.5	3.7	4.0	4.0
Money and quasi-money (M2)	11.0	1.4	7.9	7.6	3.8	5.2	4.5	5.4	6.0	7.0
Net international reserves to M2 (percent)	23.9	33.0	36.7	30.4	26.5	20.9	16.6	12.3	7.4	2.9
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio	79.5	85.1	83.4	82.5	83.4	83.0	83.2	82.8	82.2	80.8

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

1/ Includes Central Government's foreign assets.

2/ Includes SDR allocation.

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

	2012	2013	2014	2015 Prel.	2016	2017	2018	2019	2020	2021
					Projections					
	(Annual percentage change)									
GDP and prices										
GDP at constant prices	3.7	1.3	4.1	1.0	0.5	2.5	2.2	1.7	1.7	1.7
Of which: Oil output	-1.6	-1.0	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2	-0.3	-0.2
Domestic demand (contribution to growth)	0.9	6.9	5.9	1.0	…	…	…	…	…	…
Net exports (contribution to growth)	2.8	-5.6	-1.8	0.0	…	…	…	…	…	…
GDP at current market prices	5.7	3.3	5.7	2.0	1.5	4.8	4.5	3.9	3.7	3.8
Prices (GDP deflator)	1.9	2.0	1.5	1.0	1.0	2.2	2.2	2.1	2.0	2.0
Consumer prices (end of period)	0.8	1.6	-0.2	-0.6	2.0	2.3	2.2	2.0	2.0	2.0
	(In percent of GDP, unless otherwise indicated)									
National accounts										
Consumption	84.8	86.6	84.8	84.8	89.4	87.8	86.7	86.8	86.6	85.9
Gross domestic investment 1/	13.7	15.2	18.9	23.5	20.0	20.6	20.5	20.4	20.5	20.4
Net exports	1.5	-1.8	-3.7	-8.3	-9.4	-8.4	-7.2	-7.1	-7.1	-6.4
Gross national savings	12.5	10.6	11.5	13.7	9.5	11.0	11.7	11.8	12.2	13.0
Central government 2/										
Revenue and grants	26.4	28.7	29.0	28.0	29.3	27.9	27.4	27.0	27.0	27.0
Of which : Non-oil revenue	24.2	25.4	27.1	27.3	28.2	26.9	26.4	26.0	26.0	26.0
Total expenditure	26.8	30.3	31.4	36.0	33.3	33.1	32.3	32.4	32.5	32.6
Noninterest expenditure	25.0	27.8	28.7	33.6	30.4	29.7	28.5	28.3	28.0	27.8
Primary balance	1.4	1.0	0.3	-5.5	-1.1	-1.8	-1.1	-1.3	-1.0	-0.8
Interest 3/	1.8	2.5	2.6	2.4	3.0	3.4	3.8	4.1	4.5	4.8
Overall balance	-0.4	-1.6	-2.4	-8.0	-4.1	-5.2	-4.9	-5.4	-5.5	-5.6
External sector										
Current account balance	-1.2	-4.6	-7.4	-9.8	-10.5	-9.6	-8.8	-8.5	-8.3	-7.4
Of which: Exports of goods and services	65.3	65.2	67.0	63.2	56.2	55.1	54.3	53.8	53.3	53.5
Of which: Petroleum exports	6.6	4.3	3.0	1.0	0.6	0.5	0.3	0.2	0.2	0.1
Of which: Imports of goods and services	-63.8	-67.0	-70.7	-71.6	-65.6	-63.5	-61.5	-60.9	-60.4	-59.9
Capital and financial account	5.4	10.4	13.4	5.7	8.1	6.0	6.0	5.5	4.7	3.7
Public sector disbursements	2.3	7.5	4.9	8.0	3.7	4.4	2.4	2.4	2.1	1.3
Public sector amortization	-2.6	-2.5	-2.4	-4.9	-2.7	-2.6	-2.5	-3.2	-3.7	-3.7
Other capital and fin. account transactions 4/	5.7	5.4	10.8	2.6	7.0	4.2	6.1	6.3	6.3	6.1
Change in reserves (- increase)	-3.3	-7.0	-4.9	2.8	2.4	3.6	2.8	3.0	3.6	3.7
Gross official reserves (in months of imports)	3.2	4.0	4.7	4.5	4.0	3.3	2.7	2.0	1.2	0.5
Public and publicly guaranteed debt 5/	**79.0**	**79.4**	**77.6**	**82.1**	**93.3**	**94.0**	**94.9**	**96.7**	**98.7**	**100.8**
Domestic 6/	12.4	11.9	10.9	14.1	25.1	27.1	31.0	35.9	41.8	48.4
External	66.6	67.5	66.6	68.0	68.2	66.9	63.9	60.7	56.9	52.5

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/ Excludes arrears in amount of missed coupon payment (US$11.3 million) on the "super-bond" in 2012.
4/ Includes errors and omissions.
5/ Includes repayment of additional liabilities to the former owners of BTL and BEL (at mid-point valuation between the authorities' assessment and the claims of the former owners of the companies) and land claims in equal installments in 2016-20.
6/ The series have been revised to include overdrafts at the Central Bank of Belize.

Table 6. Belize: Recommended Fiscal Measures

Measure	Overall yield relative to the baseline		Timing of implementation	Duration
	in millions of Belize $	in percent of GDP		
Total measures	**207**	**5.47**		
Revenue measures	**97**	**2.62**		
Widening the base of GST:	38	1.03		
- Streamlining GST exemptions.	33	0.90	Current FY	permanent
- Removing MoF's discretion in granting GST exemptions.	5	0.14	Current FY	permanent
Raising the GST general rate to 15 percent.	41	1.10	Current FY	permanent
Improving collection of import duties:	12	0.33		
- Enhancing customs administration.	2	0.05	Current FY	permanent
- Raising "social duty" levied on imports to CFZs.	5	0.14	Current FY	permanent
- Introducing a cap on discretionary import duty exemptions, abolishing selected exemptions.	5	0.14	Current FY	permanent
Increasing excise taxes for wine, cigarettes, beer and rum.	6	0.16	Current FY	permanent
Expenditure measures	**109.9**	**2.85**		
Nominal wage freeze during 2017/18-2019/20.	31.5	0.81	FY2017/18-FY2019/20	FY2017/18-FY2019/20
Attrition in the civil service (introducing a 2-5 replacement ratio) for 3 years.	19	0.49	FY2017/18-FY2019/20	FY2017/18-FY2020/21
Phasing out non-permanent contract workers. Outsource their service through competitive bidding.	...	...	Next FY	permanent
Better monitoring of spending on education:	...	...		
- Moving teachers in government schools to the government payroll system.	...	...	Current FY	permanent
- Introducing human resource management system for teachers.	...	...	Current FY	permanent
Reducing contingent liabilities from the National Insurance System (NIS).	...	...		
- Raising the replacement ratio to ILO-compliant levels (to be paid by higher contributions by employees)	...	...	Next FY	permanent
Parametric Reform of the Pension Plan for Civil Service:	8.08	0.21		
- Making the PPPO contributory (introducing 4 percent contributions).	3.1	0.08	Next FY	permanent
- Increasing the retirement age from 55 to 62 years (phasing in by 3 month per year).	5.0	0.12	Next FY	permanent
- Reduce the number of re-hired pensioners.	...	...	Next FY	permanent
Reforming the public procurement system:	40.0	1.04		
- Introducing a new law on public procurement (will be implemented in all CARICOM countries).	...	...	Next FY	permanent
- Adopting UN classification of goods in Smart Stream system. Operationalizing the procurement database "Proactice" by establishing an interface with Smart Stream.	...	...	Current FY	permanent
- Strengthening internal controls.	...	...	Current FY	permanent
Cuts in transfers.	11.2	0.30	Current FY	permanent
Adopt a law on debt management.	...	...	Current FY	
Measures/factors already incorporated in the baseline scenario				
Switching from fuel import tariff to fuel excise and increasing the rate.	50	1.4	Implemented	permanent
Loss of revenue due to lowering of import duties by 20-30 percent.	-40	-1.0	FY2017/18-FY2019/20	permanent
Abolishing the environmental duty.	-25	-0.7	Next FY	permanent

Source: Belize authorities and Fund staff estimates.

Table 7. Non-Fiscal Growth-Enhancing Measures

	Cost (BZ$ million)	Implementation Period 1/
1.1. Penetrating export markets		
Goal: to maintain a positive growth trend in exports over the medium term by exploiting more fully market access agreements, enhancing market intelligence, improving compliance with export standards, increasing access to export financing, and improving export promotion.		
- Continue with the cattle sweep program; build a national herd; formalize cattle trade with Mexico and Guatemala through official agreements, put in place a formal system of payments.	5 (per year)	Continuous
- Expand training curriculum for small enterprises in the export sector to cover entrepreneurship and managerial skills.	0.3 (per year)	Continuous
- Improve irrigation and drainage, replanting and resilience to biological diseases in the export-oriented agriculture sector.		Continuous
1.2. Attracting foreign investments		
Goal: **Belize's attractiveness to foreign investors could be improved by reducing the cost and ease of doing business, including costs of inputs (energy, transportation and telecommunications); and combating crime. The GSDS places a special emphasis on raising field productivity in the sugar sector and aligning tax incentives with the World Trade Organization.**		
-Adopt and implement the Strategic Plan for reforms in the sugar industry:		
Increase the availability of affordable credit to sugar farmers including by tapping into potential funding from international partners and facilitating the disbursement of these resources. 2/		Continuous
Improve the availability of technical services to farmers to increase field productivity, including by leveraging the capabilities of existing sugar producers (ASR and SANTANDER). 2/		Continuous
Improve transportation network from farms to the sugar mill and from the sugar mill to seaports.	10 (per year)	5 years
Review and amend the Sugar Act to increase flexibility and the commercial orientation of the sugar industry.		2016-2017
- Complete the process of aligning tax incentives with WTO by modernizing trade legislation (EPZ, CFZ).		2016
- Further strengthen the implementation of the AML/CFT framework.		Continuous
1.3. Effective industrial policy based on Belize's strengths		
Goal: **Develop priority sectors (agriculture, agro-processing, tourism and energy), improve access to financing, promote inclusive growth, encourage innovation and investment in green technologies.**		
- Pass legislation to accelerate a healthy development of financial markets including issuance and trade in securities and development of asset management companies, venture capital and micro lending under appropriate safeguards.		2016-2017
- Promote a greater use of renewable energy sources for electricity generation.		Continuous
1.4. Enhancing market efficiency		
Goals: strengthening the regulatory framework of the utilities sector, reducing the informal sector, improving labor market flexibility, strengthening the financial system, and reducing the cost of financing.		
- Pass a Credit Bureau Law and Establish a Credit Bureau.		2016-2017
- Pass legislation to establish a Secured Transactions and Collateral Registry.		2016-2017
- Amend labor market legislation to allow greater labor market flexibility, especially on working hours.		2016-2017
- Pass legislation on the national payment system and complete a payment system/automated clearing house.		2016
- Pass legislation on deposit insurance and establish a deposit insurance scheme.		2017
- Undertake measures for developing the market for domestic government securities and fostering broader financial markets.		2017
- Amend legislation to enhance competition in the utility sector (telecommunications, electricity).		2017
1.5. Adequate infrastructure		
Goals: improve the road network, the sea ports, and airport infrastructure, as well as to promote investment in electricity generation capacity and renewable energy, and to strengthen the investment climate and regulation of the telecommunications sector.		
- Complete the Transportation Master Plan to guide improvements in the transportation network. 2/		2016-17
- Design financing strategy for transportation network, including by tapping into resources from international partners and well-designed public-private partnerships.	1 (per mile)	2016-2017
- Pass legislation for public-private partnerships, including safeguards for public finances and measures to strengthen implementation capacity.		2017
- Conduct feasibility studies and build a deep-water commercial port, a new cruise port, bus terminal, a coastal road and liquid petroleum gas terminal. 4/	200-400 (total)	3-5 years
1.6. Adequate human capital		
Goals: **Attain universal primary and secondary education and higher rates of successful school completion through increased school enrollment, enhancements in teaching effectiveness and quality, and better alignment of the school curriculum with labor market needs.**		
- Conduct a study of the need for news schools and hospitals in underprivileged areas. Based on the findings, build new and rehabilitate existing schools and hospitals in these areas 3/	80 (per year)	Continuous
- Enhance teachers' qualifications.	10 (per year)	Continuous
- Expand vocational training and apprenticeship.		Continuous
- Broaden tertiary education curriculum to meet labor market needs.		2016-2018

Source: Belizean authorities and IMF staff estimates.

1/ Period of implementation if financing is identified or no financing is required. In case when financing is not identified, number of years it would take to implement the project if financing becomes available.

2/ Projects with potential participation and support from the Inter-American Development Bank.

3/ Projects with participation and support from Caribbean Development Bank.

4/ Projects that could get potential support through the U.K. government aid program for infrastructure projects in the Caribbean region.

Annex I. External Stability Assessment

The external stability assessment indicates that the real effective exchange rate is overvalued. The overvaluation appears largely related to fiscal and structural policy gaps and contributes to widening current account deficits and increasing external indebtedness. The strengthening of the U.S. dollar, to which the domestic currency is pegged, has also contributed to nominal and real appreciation vis-à-vis other trading partners and declining export market shares. The compensation payments to the former BTL owners, as well as the expected increase in the debt service burden from 2017 onward and a potential end of PetroCaribe financing are projected to reduce net external inflows. International reserves are presently above standard thresholds but could decline to very uncomfortable levels over the medium term without significant policy adjustment.

1. **External stability was assessed through three different approaches: external stability (ES), external balance (EBA-lite) and export market shares (MS).**

2. **The ES approach points to significant weakening of the external position.** The ES approach assumes strengthening of the NFA position from -123 percent of GDP at end-2015 to -100 percent of GDP by 2025 in the baseline scenario and to -90 percent by 2025 in the alternative scenario. These NFA levels, which appear to stabilize the public debt, imply maintaining current account deficits of 2.7 percent of GDP per annum in the baseline and 1.8 percent of GDP in the alternative scenario (Text Table).[1] The results indicate a current account gap of 7.1 percent in the baseline and 8 percent in the alternative scenario. These estimates imply average REER gaps of 16 percent in the baseline and 18.5 percent in the alternative scenario under the projected path for the current account deficit and the estimated elasticity of – 0.39 percent.[2]

3. **The external balance approach broadly confirms results from the ES approach.** The EBA-lite results also point to a substantial weakening of the external position. This methodology helps identify policy gaps that contribute to the external imbalances. The EBA-lite results indicate a current account gap of 6.5 percent and a REER gap of 16.7 percent, which are mainly attributable to fiscal policy gaps (2.5 percent of GDP). The residual (4.4 percent of GDP) could be related to structural policies gaps. The fiscal policy adjustment recommended by staff would close the gap related to fiscal policy while the structural reforms discussed in the main text would help reduce the structural policy gap, bringing the current account closer to levels consistent with external stability (about 3 percent of GDP or less).

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

[2] The average is calculated based on the minimum and maximum REER adjustment needed to bring the current account in line with the norm over the medium term.

External Stability Assessment (In percent of GDP, unless otherwise indicated)			
	External Sustainability Approach (ES)		External Balance Assessment (EBA-lite)
	Baseline Reducing NFA to below -100 percent of GDP by 2025	Alternative scenario Reducing NFA to below -90 percent of GDP by 2025	Baseline
Equilibrium external current account (CA) 1/	-2.7	-1.8	-3.3
Underlying CA balance 2/	[-7.4 -10.6]	[-7.4 -10.6]	-9.8
CA elasticity to REER 3/	-0.39	-0.39	-0.39
Implied REER adjustment 4/ (in percent, "+" appreciatio	[-12.1 -20]	[-14.4 -22.6]	16.7
Memo items			
Current account gap			-6.5
of which fiscal policy gap			-2.5

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

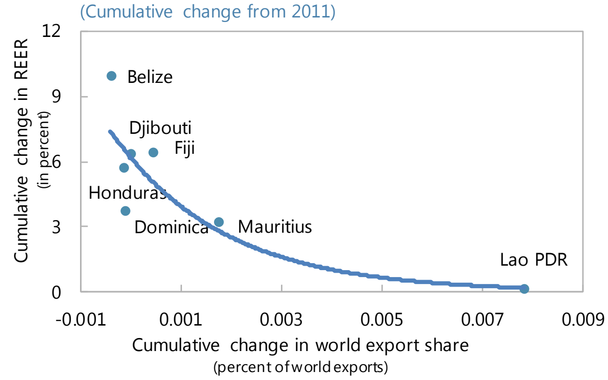
2/ The values in brackets show the minimum and maximum projected current account deficits in the 2016-21 period.

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

4/ The brackets indicate the minimum and maximum adjustment needed to bring the current account in line with the norm in the 2016-21 period.

4. **The analysis of Belize market share in world exports also suggests that the real exchange rate is overvalued.** Belize's world export share has declined by nearly 15 percent between 2011 and 2015, while its REER has appreciated by about 10 percent during the same period (Text Figure). This result suggests a potential decline in external competitiveness due to the REER appreciation. The strengthening of the U.S. dollar in 2015, to which the Belize dollar is pegged, has led to nominal appreciation vis-à-vis other trading

Changes in REER and World Export Shares
(Cumulative change from 2011)

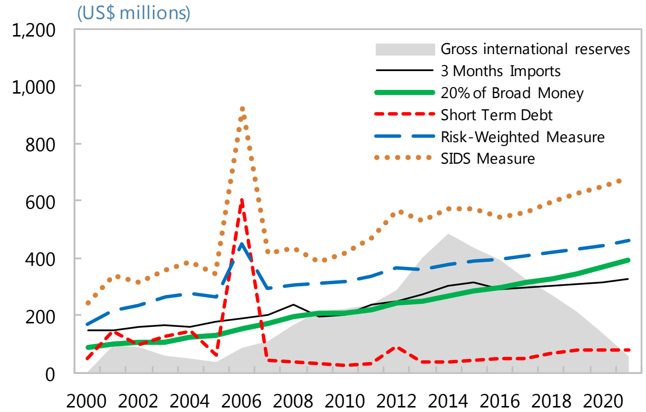


partners.[3] Conversely, some small states with smaller REER appreciation during this period have maintained or increased their market share.[4]

5. **Expected shocks to the financial account would also put pressure on reserves.** The financial account could deteriorate markedly from 2017 onward due to a further decline and potential end of PetroCaribe financing, the increase in external debt service and the repatriation of payments for the nationalized telecommunication company. Widening current account deficits and increased outflows pose risks to external stability, especially given Belize's limited access to external borrowing.

6. **Both traditional and risk-weighted metrics suggest that reserves may decline to very uncomfortable levels without policy adjustment.** Standard non-risk weighted adequacy metrics indicate that reserves will fall below 3 months of imports and below 20 percent cover of broad money by 2018 (see Text Figure and Text Table below). The two risk-weighted indicators imply that reserves may fall below the adequacy range in 2016-17. The first risk-weighted measure indicates that despite their current comfortable levels, reserves would represent only 80 percent of the level considered adequate at end-2017. The second measure, adjusted for small island developing states (SIDS), suggests that reserves may fall below the 75 percent lower bound of the adequacy region already at end-2016.

Gross International Reserves and Adequacy Metrics
(US$ millions)



[3] This is evident also from the 11 percent appreciation of the nominal effective exchange rate (NEER) in 2015.

[4] The decline in export market shares is also attributable to the diseases affecting the shrimp and citrus industries and other sector-specific shocks.

Ratios of Reserves to Optimal Reserves Based on Various Measures
(In percent)

	Risk-Weighted Measure 1/	SIDS Measure 2/	3 months of Imports	20% of Broad Money	Short Term Debt
2015	112	76	139	152	970
2016	100	73	135	132	841
2017	80	58	111	104	680
2018	65	46	91	83	431
2019	49	34	69	61	271
2020	31	21	43	37	174
2021	12	8	17	14	71
Adequate Region	100-150	75-100	100	100	100

1/ Risk-Weighted Measure = 30% of STD at remaining maturity + 15% of other portfolio liabilities + 10% of broad money + 10% of exports (goods).
2/ SIDS = 95% of STD at remaining maturity + 10% of broad money + 35% of exports (goods and services).

7. **The authorities should tighten fiscal policy and implement structural reforms in view of rising external vulnerabilities and the strong indication of real exchange rate overvaluation.** In the absence of nominal exchange rate flexibility, adjustment will have to be done through tighter domestic policies, particularly fiscal policy, and strong structural reforms to address the weak external competitiveness. Such policies will have to lower production costs and improve efficiency and productivity, thus bolstering competitiveness and facilitating the adjustment to global headwinds from lower commodity prices. Without decisive action on fiscal and structural policies, the policy gap will have to be filled by nominal exchange rate adjustment. Given the high external debt, such a nominal exchange rate adjustment could significantly increase the debt burden and require an even larger tightening of fiscal policies.

Annex II. Debt Sustainability Analysis

Despite the cash flow relief provided by the March 2013 debt restructuring, Belize's public debt is projected to remain high, and its sustainability subject to risks (Figure A2.1 heat map). Lack of fiscal adjustment in the baseline scenario increases public debt to over 100 percent of GDP, and the path is subject to further risks including shocks to GDP growth, the exchange rate and the primary balance. Belize is expected to rely extensively on domestic financing and reserves drawdown to meet its gross financing requirements in the medium term as access to external financial markets is limited. As a result, external debt is projected to gradually decline (Table A2.1). Refinancing risks are expected also to increase with rising gross financing requirements. The public debt burden underlines the need for ambitious fiscal consolidation, a more robust debt management, and the development of the domestic debt market.

Macroeconomic Framework

1. **The macroeconomic outlook is worse than the assessment made during the 2015 Article IV consultation.** GDP growth is projected to be below 2 percent in the medium term, reflecting the contraction of oil production and the decline in public investment driven by financing constraints. The current account deficit is expected to remain elevated, which, together with the expected repatriation of remaining payments for nationalized telecom company (BTL), would reduce international reserves to an uncomfortable level. The reduction in public capital expenditure over the medium term would reduce the primary fiscal deficit to below one percent of GDP, which is insufficient to stabilize the debt path. Elevated fiscal deficits, recognition of contingent liabilities and the scheduled increase in the external debt service would lead to high gross financing requirement over the medium term (22½ percent of GDP).

2. **Belize is expected to rely mainly on domestic financing as well as asset reductions to meet its gross financing requirements in the medium term.** The DSA has assumed no new issuance of new external bonds given the uncertainties regarding the demand for these bonds. As a result, the bulk of projected financing is assumed to be covered by domestic borrowing, as official external disbursements are projected to be limited and external commercial borrowing is not feasible. Nominal interest rates on domestic borrowing are expected to increase (assumed between 5 and 8 percent) as public debt rises, increasing the nominal debt service burden. In order to satisfy the external financing requirements, the government will use its assets, mainly international reserves, bringing them to an uncomfortably low level in the medium term.

3. **There appears to be no systematic bias in the macro projections (Figure A2.2).** The median forecast errors (MFE) for GDP and inflation projections were -0.07 and -0.56 percentage points respectively (corresponding to 69th and 26th percentiles), with recent projections being close to the outcomes. The MFE for the primary fiscal balance was -0.31 (57th percentile), although recent projections were optimistic.

Public Debt

4. **Despite the 2013 external bond exchange, public sector debt in Belize remains high.** The debt stock increased to 82.1 percent of GDP in 2015, driven by the large fiscal deficit and payments for settling liabilities related to the nationalized companies. The share of domestic debt increased to 17 percent, largely on account of financing from the central bank, which now holds about a half of central government domestic debt. The external debt has increased mainly on account of bilateral PetroCaribe financing from Venezuela.

5. **Under the baseline scenario, Belize's public debt will remain high due to recognition of liabilities and a weak fiscal stance (Figures A2.3 and A2.4).** Public debt is projected to increase to 94 percent of GDP in 2016, mainly driven by recognition of contingent liabilities. In the medium term, public debt is projected to increase to more than 100 percent of GDP due to persistent fiscal deficits and weak GDP growth. Financing conditions would gradually deteriorate, as public sector gross financing needs would increase to 22.5 percent of GDP by 2021 mainly due to the maturing principal of the additional liabilities from the nationalizations and high interest rates charged on domestic financing and the amortization of the external bond beginning in 2019.

6. **The authorities informed staff that the Permanent Court of Arbitration (PCA) has communicated its preliminary valuation of BTL, which would reduce uncertainty on the size of contingent liabilities going forward (Table A2.2).** The price per BTL share would be US$2.8, compared with US$3.7 assumed during the 2015 Article IV Consultation. Excluding interest and other costs, the value of BTL would be US$ 126.5 million (7.1 percent of GDP), compared with the value of US$ 168 million (9.4 percent of GDP) assumed during the 2015 Article IV Consultation. Interest and other costs have not yet been set by the PCA, but staff continues to assume that they will annually amount to about 8.3 percent of the stock of liability at the end of the previous year. Adding interest and other costs, compensation for BTL would amount to US$148 million (8.3 percent of GDP), compared with US$211 million (11.8 percent of GDP) during the 2015 Article IV Consultation. As per the agreement signed in 2015 between the authorities and the former owners of BTL, half of the compensation will be paid the day after the PCA ruling, which is expected this year. The other half will be paid twelve months after the ruling. The portion of compensation attributed to the "Accommodation Agreement", essentially a tax exemption that the former owners of the BTL enjoyed, will be paid in local currency. The rest will be paid in US dollars. At end 2016, BTL-related liabilities would amount to US$ 73.9 million (4.1 percent of GDP), compared with US$ 105.6 million (5.9 percent of GDP) projected during the 2015 Article IV Consultation. They would be paid off by end-2017. Other contingent liabilities (mostly compensation for land expropriations), would remain sizeable (about 2.5 percent of GDP at end-2016).

7. **The risks to debt sustainability remain high (heat map on Figure A2.1).** Subjecting the baseline scenario to stress testing indicate that Belize's debt burden exceeds the benchmark for emerging markets. The heat map highlights significant risks to debt sustainability, including market perceptions (high spreads), external financing requirements, the residency of debt holders, and the currency composition of Belize's debt. Contingent liabilities are also a source of risks for the level of debt and the financing needs. The increasing share of short-term debt in total debt is not yet a

major source of concern as its level is relatively low, although this could change quickly given the tight financing conditions. The fan charts indicate the possible evolution of debt over the medium term under both symmetric and asymmetric distributions of risk. The asymmetric fan chart shows that public debt could exceed 140 percent of GDP in the medium term.

8. **Stress tests highlight the fact that the public debt trajectory is highly vulnerable to various shocks (Figure A2.5).** As 83 percent of total public debt was denominated in foreign currency at end of 2015, the debt trajectory is particularly sensitive to an exchange rate shock. A 10 percent real depreciation in 2017 would boost total public debt to 107 percent of GDP in 2017. A financial sector contingent liability shock that increases public spending by the equivalent of 10 percent of banking sector's assets associated with recapitalization needs of a few banks would raise total public debt to 110 percent of GDP in 2017. The debt-to-GDP ratio is also highly sensitive to shocks in growth, interest rate, and the primary balance.

External Debt

9. **The external debt ratio[1] is projected to gradually decline over the medium term to about 50 percent of GDP by 2021 mainly because external financing needs are met by drawing down international reserves (Figure A2.6 and Table A2.1).** Bound tests suggest that external debt is mostly sensitive to nominal exchange rate devaluation and current account shocks. In particular, under a 30 percent depreciation of national currency, external debt would surge to 98 percent of GDP in 2017 and remain elevated at close to 77 percent of GDP in 2021. Further vulnerability stems from a non-interest current account shock that would increase the external debt to 62 percent of GDP over the medium-term horizon. In light of limited options for external financing, high gross external financing needs—about 11 percent of GDP on average annually during the period from 2016 to 2021—pose additional risk to the debt outlook.

Summary Assessment

10. **Under the baseline scenario, Belize's public debt will remain high and vulnerable to shocks mainly because of recognition of liabilities and a weak fiscal stance.** Debt reduction is projected to be slow, owing to weak fiscal efforts under the baseline, mediocre GDP growth, and high interest rates. Liquidity conditions would gradually deteriorate, as public sector gross financing needs would increase mainly due to maturing principal of the additional liabilities, including the restructured super bond and high interest rate charged on domestic financing. Belize is expected to rely extensively on domestic financing as well as asset reductions to meet its gross financing requirements in the medium term as official external disbursement is projected to gradually decline and external commercial borrowing is expected to be very limited within the projection horizon. Refinancing risks are expected also to increase with rising gross financing requirements. External debt would gradually decline over the medium term mainly because of non-debt creating inflows and asset reductions (mostly reserves). Bound tests highlight that the public debt trajectory is highly

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

vulnerable to various shocks, especially on the exchange rate and contingent liabilities, including the remaining compensation for BTL and potential recapitalization needs of a few banks.

11. **Strong fiscal consolidation efforts are essential to bringing public debt back to a sustainable path.** Recurrent debt restructuring episodes suggests that the country's current debt level is excessive and it would be prudent to adopt an objective of reducing debt to around 60 percent of GDP for the medium to long term. In addition to fiscal adjustment, supporting policies to improve growth, deepen domestic financial market, and improve public debt management will also be essential to improve the debt outlook.

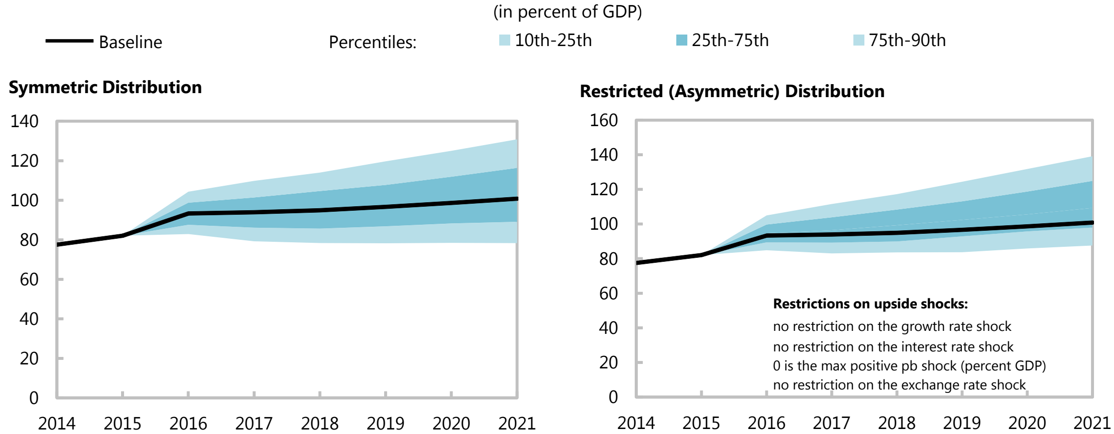
Figure A2.1. Belize Public DSA Risk Assessment

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

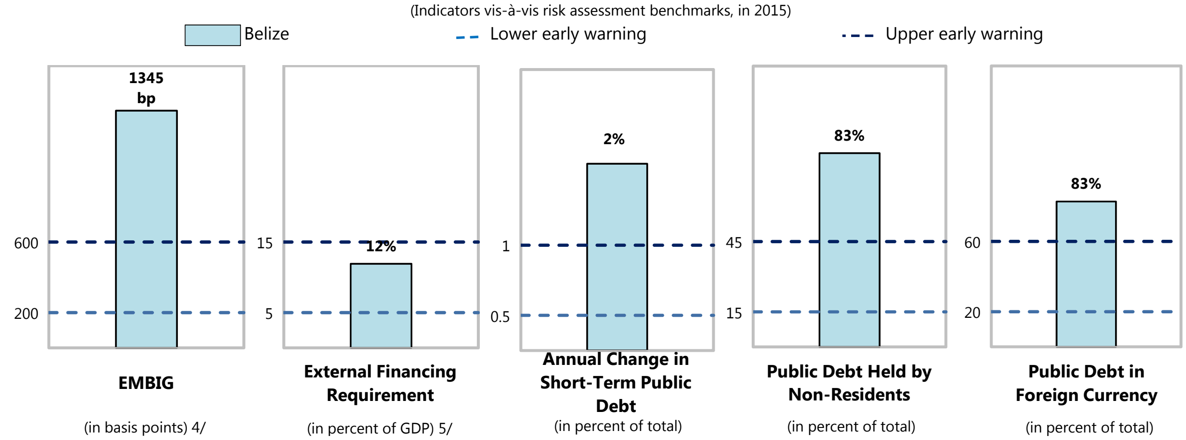
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: Fund staff estimates.

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

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

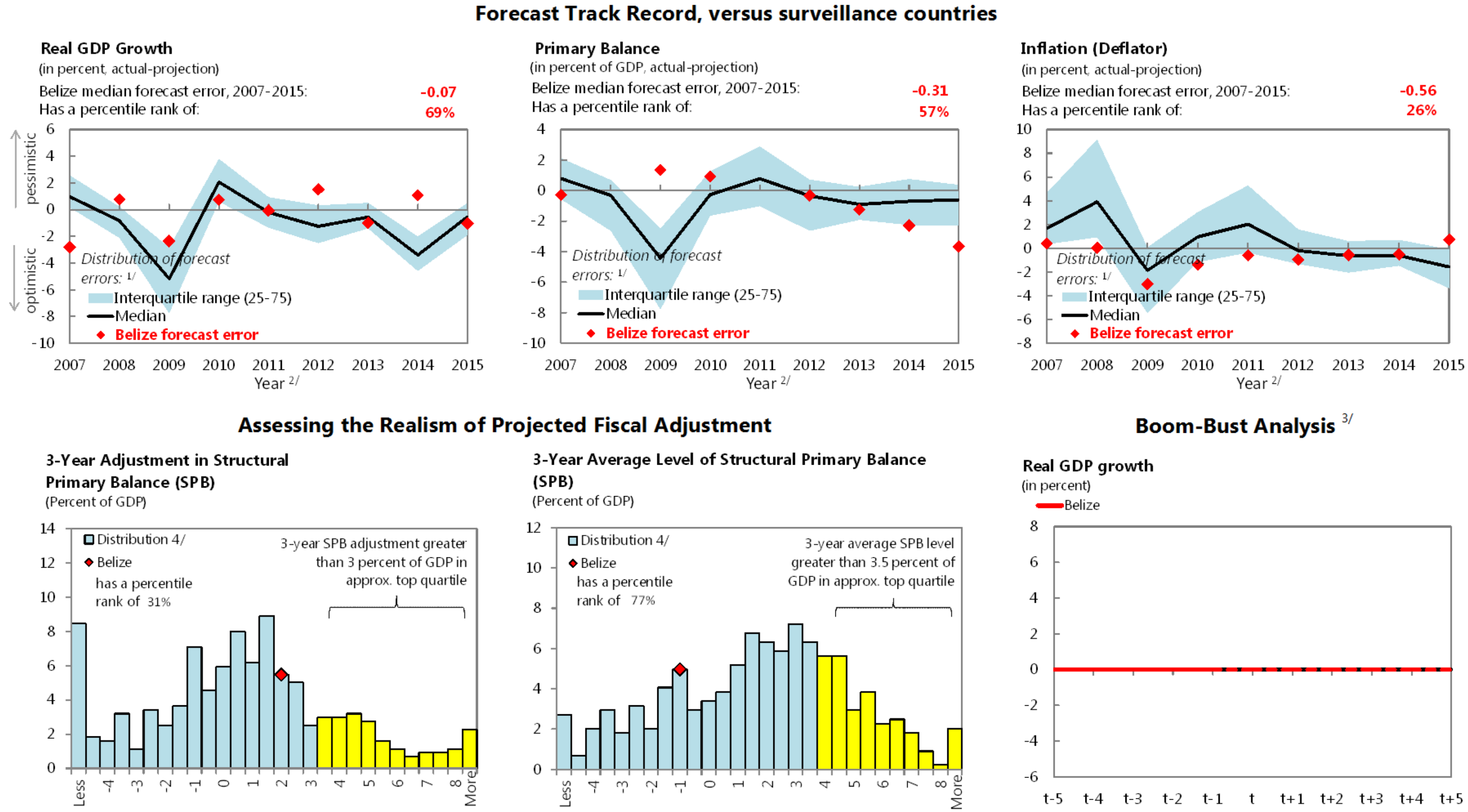
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 02-Mar-16 through 31-May-16.

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

Figure A2.2. Belize Public DSA - Realism of Baseline Assumptions



Source: Fund Staff estimates.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Belize.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A2.3. Belize Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

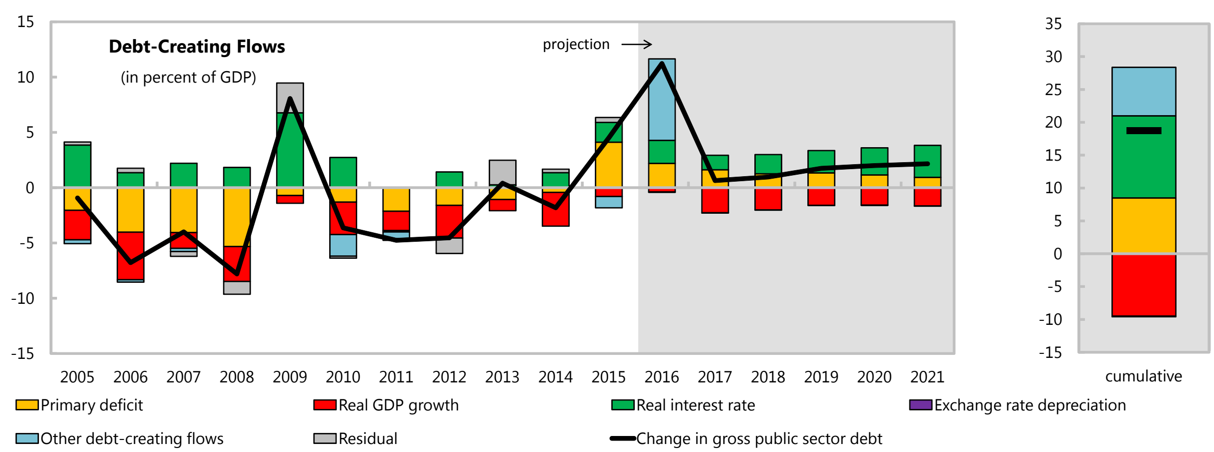
	Actual			Projections					
	2005-2013 [2]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	88.4	77.6	82.1	93.3	94.0	94.9	96.7	98.7	100.8
Public gross financing needs	10.3	3.7	8.4	11.8	11.8	12.5	15.8	19.2	22.5
Real GDP growth (in percent)	2.7	4.1	1.0	0.5	2.5	2.2	1.7	1.7	1.7
Inflation (GDP deflator, in percent)	2.3	1.5	1.0	1.0	2.2	2.2	2.1	2.0	2.0
Nominal GDP growth (in percent)	4.9	5.7	2.0	1.5	4.8	4.5	3.9	3.7	3.8
Effective interest rate (in percent) [4]	5.0	3.4	3.3	3.6	3.7	4.2	4.3	4.7	5.1

As of May 31, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		1193
Ratings	Foreign	Local
Moody's	Caa2	Caa2
S&Ps	B-	B-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections						
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative
Change in gross public sector debt	-2.7	-1.8	4.5	11.2	0.6	1.0	1.7	2.0	2.2	18.7
Identified debt-creating flows	-2.9	-2.1	4.1	11.3	0.7	1.0	1.7	2.0	2.2	18.8
Primary deficit (- surplus)	-2.5	-0.4	4.1	2.2	1.6	1.3	1.3	1.0	0.8	8.3
Primary (noninterest) revenue and grants	26.8	28.7	28.2	29.1	28.3	27.5	27.0	27.0	26.9	165.8
Primary (noninterest) expenditure	24.4	28.3	32.3	31.3	29.9	28.7	28.4	28.1	27.9	174.3
Automatic debt dynamics [5]	-0.1	-1.7	1.0	1.7	-1.0	-0.3	0.4	0.9	1.2	3.0
Interest rate/growth differential [6]	-0.1	-1.7	1.0	1.7	-1.0	-0.3	0.4	0.9	1.2	3.0
Of which: real interest rate	2.3	1.4	1.8	2.1	1.3	1.7	2.0	2.5	2.9	12.5
Of which: real GDP growth	-2.3	-3.1	-0.8	-0.4	-2.3	-2.0	-1.6	-1.6	-1.7	-9.5
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…
Other identified debt-creating flows [8]	-0.4	0.0	-1.0	7.4	0.0	0.0	0.0	0.0	0.0	7.4
Privatization and drawdown of deposits (neg	-0.4	0.0	-7.6	-3.6	0.0	0.0	0.0	0.0	0.0	-3.6
Contingent liabilities	0.0	0.0	6.6	11.0	0.0	0.0	0.0	0.0	0.0	11.0
Residual, including asset changes [9]	0.3	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.1

debt-stabilizing primary balance [10]
1.2



Source: Fund staff estimates.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ EMBIG.

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

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

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

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

8/ Data for 2016, refers to liabilities resulting from past nationalization of utilities.

9/ Large residuals in 2013 and 2014 are essentially accumulation of assets financed with PetroCaribe loans. Data for 2017, refers to use of government deposits to pay for part of the compensation of nationilized utilities.

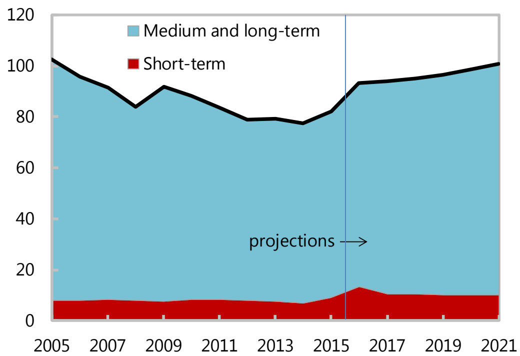
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A2.4. Belize Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

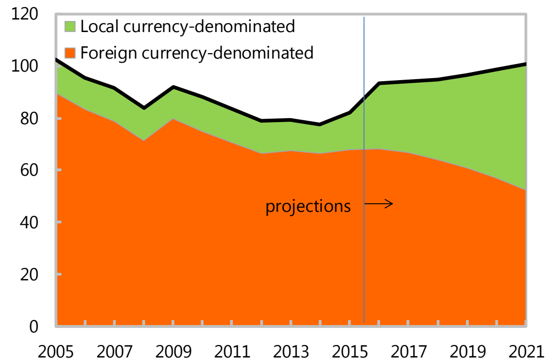
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

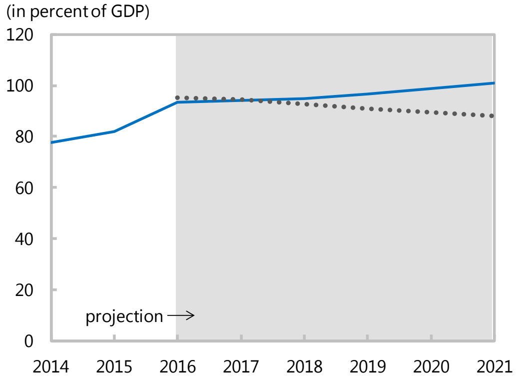


Alternative Scenarios

Baseline Historical

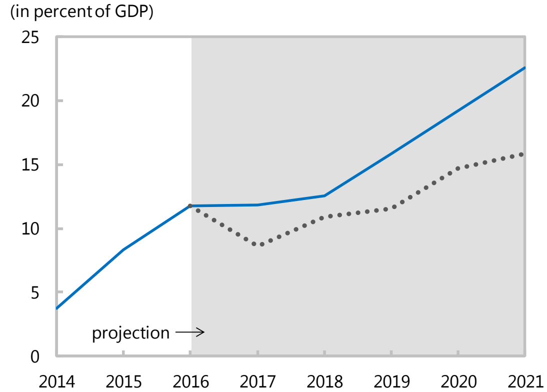
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

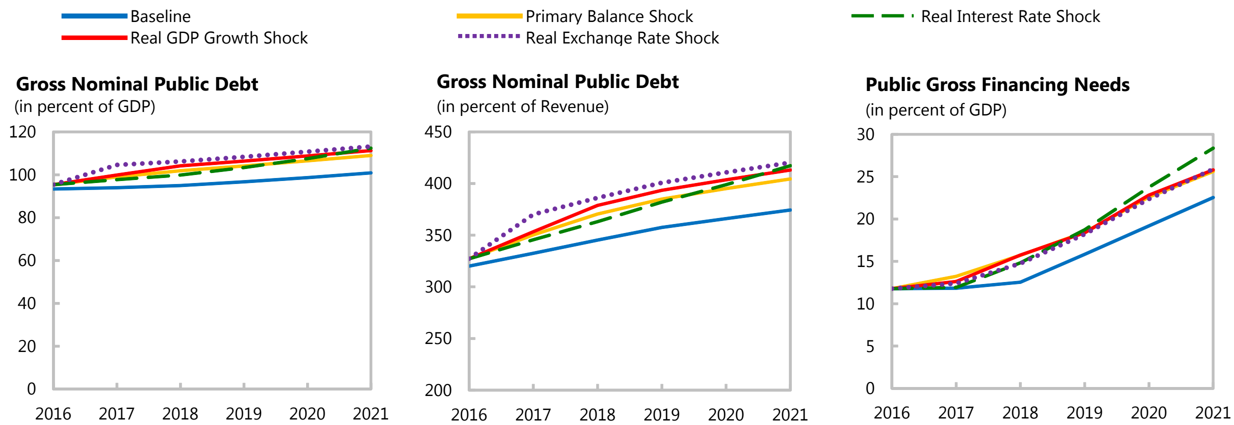
	2016	2017	2018	2019	2020	2021
Baseline Scenario (assumes constant primary balance)						
Real GDP growth	0.5	2.5	2.2	1.7	1.7	1.7
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary Balance	-2.2	-1.6	-1.3	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.7	4.2	4.3	4.7	5.1

	2016	2017	2018	2019	2020	2021
Historical Scenario						
Real GDP growth	0.5	2.6	2.6	2.6	2.6	2.6
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary Balance	-2.2	1.7	1.7	1.7	1.7	1.7
Effective interest rate	3.6	3.7	4.2	4.3	4.6	4.9

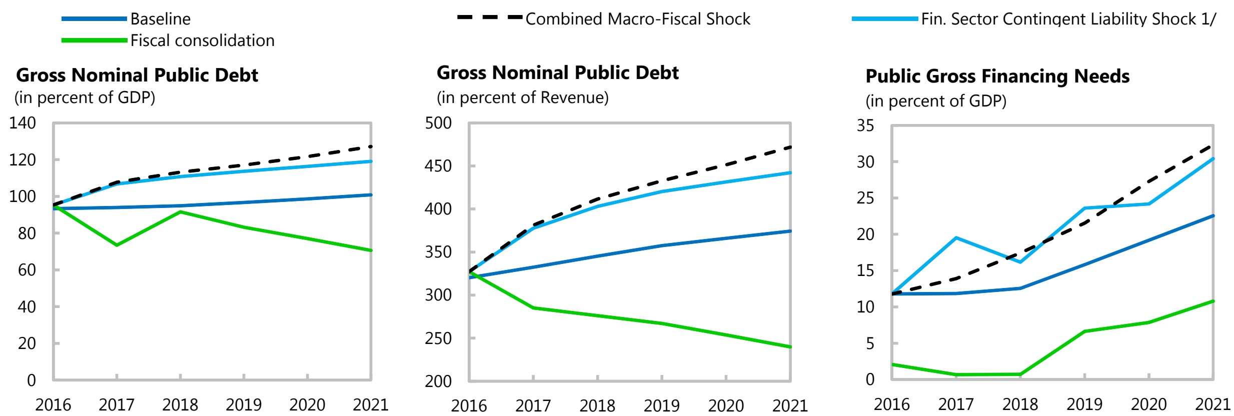
Source: Fund staff estimates.

Figure A2.5. Belize Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

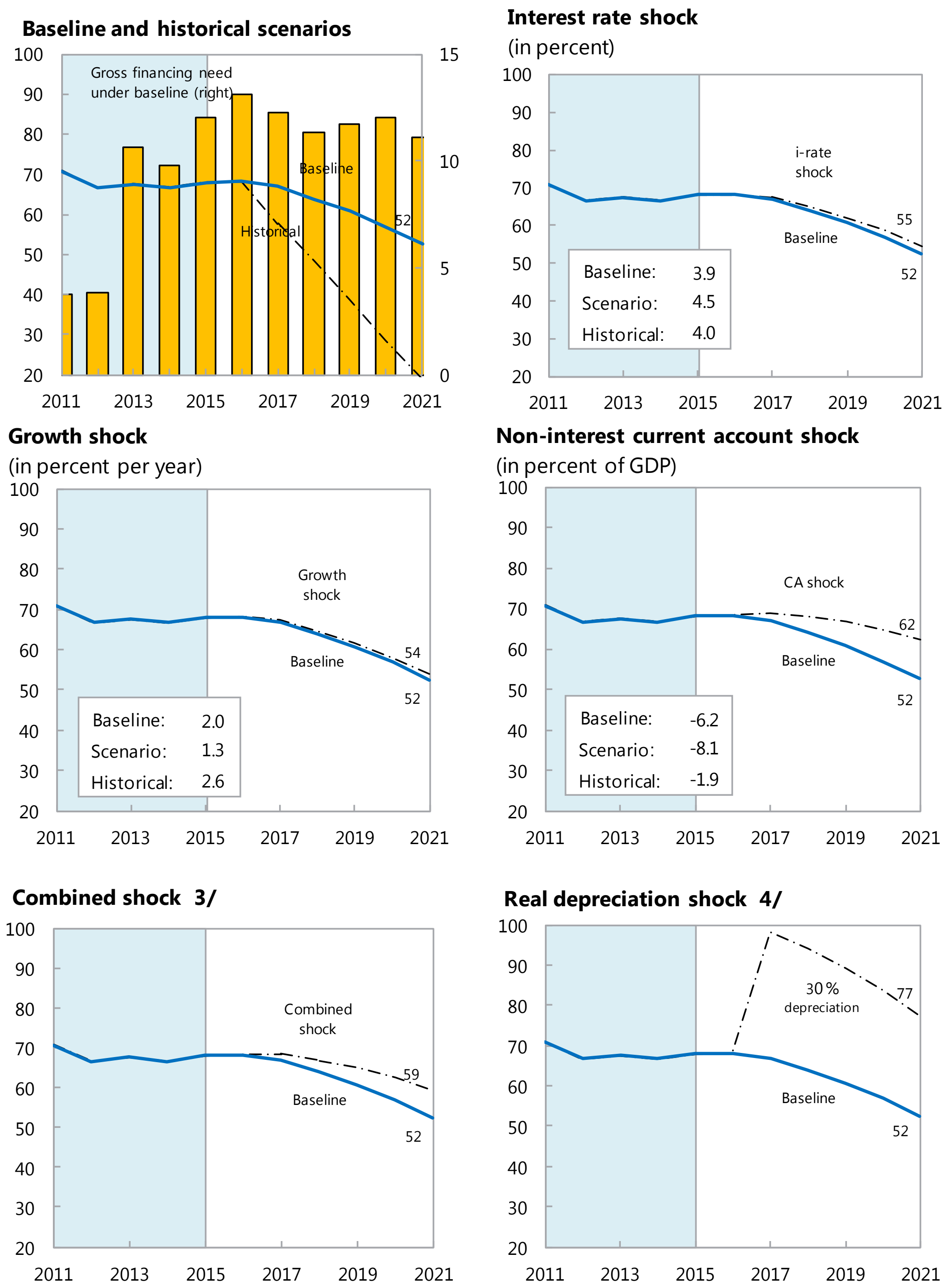
	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	0.5	2.5	2.2	1.7	1.7	1.7
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary balance	-2.2	-2.9	-2.6	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.7	4.3	4.5	4.8	5.2
Real Interest Rate Shock						
Real GDP growth	0.5	2.5	2.2	1.7	1.7	1.7
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary balance	-2.2	-1.6	-1.3	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.7	4.9	5.8	6.6	7.5
Combined Shock						
Real GDP growth	0.5	1.1	0.8	1.7	1.7	1.7
Inflation	1.0	1.8	1.9	2.1	2.0	2.0
Primary balance	-2.2	-2.9	-2.6	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.9	4.9	5.8	6.6	7.5
Fiscal consolidation						
Real GDP growth	1.5	1.8	2.6	2.8	3.0	3.2
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary balance	3.5	4.6	4.4	4.6	4.7	4.7
Effective interest rate	3.6	3.6	4.2	4.3	4.4	4.6

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	0.5	1.1	0.8	1.7	1.7	1.7
Inflation	1.0	1.8	1.9	2.1	2.0	2.0
Primary balance	-2.2	-2.1	-2.3	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.7	4.3	4.4	4.7	5.1
Real Exchange Rate Shock						
Real GDP growth	0.5	2.5	2.2	1.7	1.7	1.7
Inflation	1.0	2.2	2.2	2.1	2.0	2.0
Primary balance	-2.2	-1.6	-1.3	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.9	4.2	4.3	4.7	5.1
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	0.5	1.1	0.8	1.7	1.7	1.7
Inflation	1.0	1.8	1.9	2.1	2.0	2.0
Primary balance	-2.2	-8.8	-1.3	-1.3	-1.1	-0.9
Effective interest rate	3.6	3.9	4.9	5.0	4.9	5.3

Source: Fund staff estimates.
1/ One-time increase in non-interest expenditures equivalent to 10% of banking sector assets.

Figure A2.6. 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 2010.

Table A2.1. Belize: External Debt Sustainability Framework, 2011-2021
(In percent of GDP, unless otherwise indicated)

	Actual				Est.			Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	70.7	66.6	67.5	66.6	68.0			**68.2**	**66.9**	**63.9**	**60.7**	**56.9**	**52.5**	**-5.2**
Change in external debt	-4.4	-4.2	0.9	-0.9	1.4			0.2	-1.3	-3.0	-3.2	-3.8	-4.4	
Identified external debt-creating flows (4+8+9)	-7.9	-10.4	1.2	-3.7	5.6			7.6	5.1	2.5	2.3	2.2	1.2	
Current account deficit, excluding interest payments	-1.8	-1.2	3.3	5.3	7.7			8.3	7.3	6.2	6.1	6.0	5.3	
Deficit in balance of goods and services	0.1	-1.5	1.8	3.7	8.3			9.4	8.4	7.2	7.1	7.1	6.4	
Exports	63.4	65.3	65.2	67.0	63.2			56.2	55.1	54.3	53.8	53.3	53.5	
Imports	63.5	63.8	67.0	70.7	71.6			65.6	63.5	61.5	60.9	60.4	59.9	
Net non-debt creating capital inflows (negative)	-4.4	-7.8	-1.2	-7.6	-2.9			-2.5	-2.9	-4.8	-5.1	-5.1	-5.2	
Automatic debt dynamics 1/	-1.7	-1.4	-0.8	-1.5	0.8			1.9	0.7	1.1	1.4	1.3	1.2	
Contribution from nominal interest rate	2.9	2.4	1.3	2.1	2.1			2.2	2.4	2.5	2.4	2.3	2.1	
Contribution from real GDP growth	-1.5	-2.5	-0.8	-2.6	-0.7			-0.3	-1.7	-1.4	-1.1	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-3.1	-1.3	-1.3	-1.0	-0.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.5	6.2	-0.3	2.8	-4.2			-7.4	-6.4	-5.5	-5.5	-6.0	-5.7	
External debt-to-exports ratio (in percent)	111.6	102.0	103.6	99.4	107.5			121.3	121.3	117.6	112.8	106.7	98.0	
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.3	0.2	
in percent of GDP	3.8	3.8	10.6	9.8	12.1			13.1	12.2	11.3	11.7	12.0	11.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**68.2**	**57.7**	**48.2**	**38.6**	**28.6**	**18.9**	**-7.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.1	3.7	1.3	4.1	1.0	2.6	1.4	0.5	2.5	2.2	1.7	1.7	1.7	
GDP deflator in US dollars (change in percent)	4.3	1.9	2.0	1.5	1.0	2.1	2.3	1.0	2.2	2.2	2.1	2.0	2.0	
Nominal external interest rate (in percent)	4.1	3.6	2.0	3.3	3.2	4.0	1.3	3.3	3.6	4.0	4.0	3.9	3.9	
Growth of exports (US dollar terms, in percent)	15.6	8.9	3.1	8.6	-3.7	6.4	11.2	-9.9	2.8	3.0	2.9	2.8	4.1	
Growth of imports (US dollar terms, in percent)	16.7	6.2	8.5	11.5	3.3	6.3	10.1	-7.0	1.4	1.3	2.9	2.9	2.9	
Current account balance, excluding interest payments	1.8	1.2	-3.3	-5.3	-7.7	-1.9	3.9	-8.3	-7.3	-6.2	-6.1	-6.0	-5.3	
Net non-debt creating capital inflows	4.4	7.8	1.2	7.6	2.9	7.0	4.0	2.5	2.9	4.8	5.1	5.1	5.2	

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.

Table A2.2. Belize: Liabilities Related to Belize Telemedia Limited (BTL) Settlement

(In millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017
2015 Article IV Consultation projections (Supplement 3)			
Valuation of BTL shares 1/	168.0	...	...
Price per share	3.7	...	...
Number of shares (millions)	45.2	...	...
Liabilities from the nationalization of BTL (stock at the end of period) 2/	211.1	105.6	0.0
of which Capitalized interest and other costs 3/	75.6	37.8	0.0
Total payments for the nationalization of BTL	32.5	105.6	114.4
Principal	32.5	105.6	105.6
in domestic currency	0.0	0.0	0.0
in foreign currency 4/	32.5	105.6	105.6
Interest and other costs 5/	...	0.0	8.8
in domestic currency	...	0.0	0.0
in foreign currency	...	0.0	8.8
Current baseline projections			
Valuation of BTL shares 6/	126.5	...	...
Price per share	2.8	...	...
Number of shares (millions)	45.2	...	...
Liabilities from the nationalization of BTL (stock at the end of period) 2/	147.9	73.9	0.0
of which Capitalized interest and other costs 3/	53.9	26.9	0.0
Total payments for the nationalization of BTL 3/	32.5	73.9	80.1
Principal	32.5	73.9	73.9
in domestic currency	0.0	38.5	38.5
in foreign currency	32.5	35.4	35.4
Interest and other costs 3/	...	0.0	6.2
in domestic currency	...	0.0	0.0
in foreign currency	...	0.0	6.2
Memorandum items:			
	(In percent of GDP)		
Expected total recognition of BTL and other contingent liabilities (stock)	...	*11.0*	...
Liabilities from the nationalzation of BTL	...	*8.3*	...
Compensation for expropriation of land and other liabilities	...	*2.6*	...
Total payments on BTL and other contingent liabilities made in 2015	6.6	4.2	4.0
Compensation for BTL shares	1.9	4.2	4.0
Settlemtent of an old loan from BCB to BTL	2.8	0.0	0.0
Payment of compensation for BEL	2.0	0.0	0.0

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

1/ This was estimated as a mid-point between authorities and claimants' valuations of the company.

2/ At the end of 2015, this stock includes valuation of BTL shares and capitalized interest and other payments, less the "good faith" payment towards the compensation made in 2015. This stock will be recognized (included in the public sector debt) when the court delivers final ruling (expected in 2016).

3/ Capitalized interest and other costs are estimated using 8.3 percent interest rate accrued on the entire value of shares during August 2009-October 2011, and on the difference between final valuation and the authorities' initial offer during November 2011-December 2016. Interest is assumed to be payable in foreign exchange.

4/ 2015 values show "good faith" payments toward the compensation. The interest and other costs up to 2016 are capitalized using an interest rate of 8.34 percent.

5/ Interest cost on the remaining outstanding liability is computed at the rate of 8.3 percent.

6/ This valuation, provided by the authorities in April 2016, takes into account preliminary valuation given by the Permanent Court of Arbitration to lawyers representing the authorities. It incorporates the significant component of the valuation of BTL that is attributable to the Accommodation Agreement (a tax exemption that BTL had under its previous owners).

Annex III. Risk Assessment Matrix

Risk Assessment Matrix			
Source of Risks	**Relative Likelihood**	**Impact if Realized**	**Policy measures**
External risks			
Sharper-than-expected global growth slowdown, particularly structurally weak growth in key advanced and emerging economies	**High/Medium** • Euro area could face an extended period of low growth, reflecting weak domestic demand due to high real interest rates and inadequate structural reforms	**High** • Stagnation in tourism and exports. A weak recovery in advanced economies, especially in Europe, could significantly undermine growth in Belize, restrain public finances, and put pressures on the BOP and reserves. Belize's share of exports to Europe is very high.	• Strengthen resilience to external demand shocks by diversifying the export mix to include a larger share of CARICOM countries. • Build fiscal and external buffers to offset a potential shock. • Broaden the sources of growth by diversifying into economic sectors that are less vulnerable to cyclical external shocks.
Tighter or more volatile global financial conditions (with a surge in the US dollar and increasing international interest rates in particular)	**High** • As the currency is pegged to the U.S. dollar, the real exchange rate would appreciate, eroding Belize's external competitiveness. • With imperfect capital controls, domestic interest rates could increase, thus further raising the debt service burden.	**High** • Export of goods and services would decline, and the external current account deficit would widen. • There would be less fiscal space for public investment and the low investor confidence would further reduce private investment and growth.	• Carry out fiscal consolidation and structural reforms to increase fiscal space, boost external competitiveness and curb real exchange appreciation through external price competitiveness measures.
Reduced financial services by global/regional banks (withdrawal of CBRs)	**High** • Major Belizean banks have already lost correspondent banking relationships with global/regional banks and finding replacement correspondents is very difficult.	**High** • Financial intermediation could be damaged and seriously disrupt economic activity.	• Support regional efforts to address challenges posed by withdrawal of CBRs. • Temporarily allow banks to use the central bank platforms to process international transactions, while ensuring that appropriate AML/CFT due diligence measures are effectively implemented for these transactions by the banking sector as a whole.

Risk Assessment Matrix (continued)			
Persistently low energy prices	**Medium** • The external current account deficit would narrow, but PetroCaribe soft financing could come to an end.	**Medium** • A sustained decline in oil prices would lower the oil import bill, but the positive impact on BOP would be partially offset by lower PetroCaribe financing.	• Use savings from lower oil prices to build reserves and enhance external stability. Ensure some pass through of lower international oil prices to domestic prices to stimulate demand and enhance competitiveness while collecting some additional revenue to rebuild fiscal buffers.
Domestic risks			
Fiscal policy implementation: hesitation in implementing a credible fiscal adjustment will leave the country in a highly vulnerable position.	**High** • Declining petroleum revenue, the increases in compensations for civil servants, and the rolling out of the national health insurance scheme and other spending pressures stemming from the political environment have reduced the likelihood of a significant improvement in the primary balance. Moreover, the authorities are of the view that deteriorating social, infrastructure, and security conditions constrain Belize from tightening the fiscal stance beyond the primary surplus target of 1 percent of GDP.	**High** • Debt will continue to increase in an unsustainable manner. Gross financing needs would rise sharply over the medium term. Securing such financing would be a challenge due to undeveloped domestic market and limited external market access.	• Carry out fiscal consolidation gradually raising the fiscal primary balance to 4-5 percent of GDP by cutting non-essential spending, improving PFM, and raising more revenue by reducing exemptions and strengthening revenue administration.
Distress in the banking system.	**High** • While declining, non-performing loans remain high, and while improving, provisioning remains relatively low. Some domestic banks, including the largest bank, which is of systemic proportions, still have low capital buffers, and raising new capital to avoid a deterioration of their capital adequacy	**High** • Financial intermediation could be damaged and seriously disrupt economic activity. • Absorption of the financial cost of recapitalizing distressed banks by the government could entail significant fiscal costs, putting additional pressure on public finances.	• Order undercapitalized banks to raise more capital, and maintain tight supervision.

	ratios could be a challenge, increasing the risk of public sector intervention.		
Risk Assessment Matrix (concluded)			
Surge in contingent liabilities.	**High** • Courts still have to rule on the size of the compensation the government has to pay to the former owners of the nationalized telecommunication company. In the worst case scenario, payments could turn out to be closer to the claimants' (upper) valuation of about 12 percent of GDP. Moreover, nonresidents, who account for a significant portion of the compensation claims, would likely not roll over their debt holdings. • In addition to a possible intervention for the financial sector, the government may have to incur more external liabilities, just to build up reserves and support the current exchange rate peg should BOP pressures become more severe than envisaged.	**High** • Debt could increase significantly because of the compensation for the nationalized companies, further threatening debt sustainability and aggravating refinancing risks as nonresident debt holders pull out. • Even though additional external borrowing was envisaged at the time of the 2013 debt restructuring, new external lending to Belize will likely be very costly. It will also further weaken debt sustainability and undermine investors' confidence in the Belizean economy and the currency peg. • Higher-than-projected compensation would exert significant drain on reserves.	• Create fiscal buffers through fiscal consolidation (see point 1). • Support external stability by strengthening the competitiveness of key export sectors (sugar, banana, citrus, marine products) and further diversify exports. • Strengthen the business environment and improve physical infrastructure to attract greater domestic and foreign investment and support the development of small-and-medium-sized enterprises.

BELIZE

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 16, 2016

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2016)

Membership status. Joined: March 16, 1982.

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

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.02	111.90

Outstanding Purchases and Loans

None

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec. 03, 1984	June 1, 1986	7.13	7.13

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

			Forthcoming		
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Implementation of HIPC Initiative: Not Applicable

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

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

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

Exchange Rate Arrangement: Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize has accepted the obligations of Article VIII, Sections 2, 3, and 4. Belize maintains an exchange restriction arising from the requirement of a tax clearance certificate to obtain FX for transfer of interest payments and management fees to nonresidents. Because the tax clearance requirement is used to confirm that outstanding taxes unrelated to the underlying transaction have been paid, before residents can obtain foreign exchange to make payments to non-residents for current transactions, it gives rise to an exchange restriction subject to Fund approval. Staff advised the authorities to remove the exchange restriction by limiting the scope of the tax clearance to taxes directly related to the funds transferred.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on September 16, 2015 (IMF Country Report No. 16/92). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- STA followed up on national accounts, supply and use tables; on price statistics; and on balance of payments and international investment position statistics in July 2009.
- MCM advised on development of bank resolution framework in April 6–12, 2010 and in September 6–9, 2010.
- MCM advised on forensic auditing in January and March 2011.
- LEG advised on improvements to the Banks and Financial Institutions Act in February 2011.
- MCM and WB conducted the first FSAP in July 2011.
- MCM/LEG advised on contingency planning in March 2012.
- MCM conducted workshop on network analysis in April 2012.
- MCM advised on debt management strategy development in November 2012.
- FAD advised on tax policy in February 2013.
- LEG advised on structures and tools for AML/CFT supervision in April 2013.
- MCM advised on bank resolution, and crisis preparedness and management in May 2014.
- Joint MCM-LEG advised on developing a medium-term debt management strategy and reviewed drafting of amendments to the Public Debt Legal Framework in July 2014.
- FAD advised on revenue administration in October 2014.

- MCM advised on loan loss provisioning under IFRS in April 2015.
- MCM advised on debt management in April 2015.

BANK-FUND COLLABORATION UNDER THE JMAP AND RELATIONS WITH THE WORLD BANK[2]

(As of May 2016)

A. World Bank support to Belize

1. **The World Bank's program in Belize is expected to grow and a new strategy is currently under preparation**. In April 2016, the World Bank disseminated the first Systematic Country Diagnostic (SCD) for Belize. The SCD analyzed the constraints and opportunities faced by Belize to return to a path of sustainable growth that would support the country in making greater strides to reduce extreme poverty and improve the wellbeing of the most vulnerable population. A new Country Partnership Framework is currently under preparation and will guide the World Bank Group's support to Belize in the medium-term.

2. **The overall size of the envelope during the CPS period was around US$45 million**. Current activities under implementation are guided by the Country Partnership Strategy (CPS) FY12-15 that focused on assisting Belize to achieve inclusive and sustainable natural resource-based growth and enhanced climate resilience. Activities include a US$15 million municipal development loan and a US$30 million climate resilient infrastructure loan, approved by the World Bank Board on September 16, 2010 and August 27, 2014 respectively. In addition, the current portfolio and pipeline also include non-lending activities aimed at supporting energy resilience and enhancing agricultural productivity.

3. **The IMF and World Bank teams agree that Belize's main macroeconomic challenges are to strengthen the economy's resilience to shocks and stresses, as well as to make progress on the inclusiveness of development**. In particular, enhancing the stability of the banking system is on the top of the agenda. Other priorities include bringing debt and fiscal balances back to a sustainable path, strengthening the policy framework, while reinforcing the implementation capacity of national civil servants.

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

- **Infrastructure**. Through the ongoing Municipal Development Project, the Bank supports improved access to basic municipal infrastructure and enhanced municipal management in selected towns and city councils. Similarly, through the Climate Resilience Infrastructure Project,

[2] Updated in June 2016.

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

- **Environment**. The Bank's Marine Conservation and Climate Adaptation project supports the implementation of priority ecosystem-based marine conservation and climate adaptation measures, which are meant to strengthen the climate resilience of the Belize barrier reef system.
- **Natural Resource Management**. The Bank will continue to support Belize in adopting a sustainable natural resources based economic model while enhancing its resilience to climate change and natural hazards. A range of activities include: i) policies and strategies for the mainstreaming of natural resources and climate resilience; ii) institutional capacity strengthening for natural resource management and climate change; iii) investments to strengthen climate resilience; (iv) promotion of viable and sustainable natural resource-based livelihoods for participating communities; and (v) strengthening of natural resource management and biodiversity conservation in Key Biodiversity Areas (KBAs) of Belize.

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

Title	Products	Provisional Timing of Missions	Expected Delivery Dates
Bank Work Program	Municipal Development Project		November 2016
	Climate Resilience Infrastructure		August 2019
	Marine Conservation and Climate Adaptation		March 2020
	Management and Protection of Key Biodiversity Areas		September 2019
	Promoting Sustainable Natural Resource-based Livelihoods		November 2016

B. Financial Relations with the World Bank Group

(As of May 2016)

IBRD Operations (In U.S. dollars)	
	IBRD
Original Principal	131,200,000.00
Cancellations	5,703,327.73
Disbursed	93,949,987.63
Undisbursed	31,546,684.64
Repaid	78,416,446.86
Due	15,533,540.77
Exchange Adjustment	0
Borrower Obligation	15,533,540.77

Gross Disbursements and Debt Service During Fiscal Year (July 1–June 30)
(In millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Disbursements	0.0	0.0	0.0	0.0	1.1	0.7	4.5	1.0	3.4	2.6
Repayments	4.9	4.9	4.7	4.3	4.5	2.0	1.7	1.8	1.1	1.7
Net	-4.9	-4.9	-4.7	-4.3	-3.3	-1.3	2.8	-0.5	2.2	0.9
Interest	1.8	1.6	1.0	0.4	0.2	0.1	0.1	0.3	0.3	0.4
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0

* Data as of May 2016

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 2016)

1. **Country Strategy with Belize (2013–2017)**. The Country Strategy aims to support the Government of Belize in improving public expenditure efficiency and effectiveness and promoting private sector development and sustainable export-led growth, by concentrating on four priority areas: (i) education; (ii) tourism; (iii) transport; and (iv) trade and tax policy. There have been four approvals to date under this strategy: (i) Education Quality Improvement Program for US$10 million; (ii) George Price Highway Rehabilitation Program for US$27 million; (iii) Sustainable Tourism Program II for US$15 million and (iv) Solid Waste Management Program II for US$10 million. Another operation "Community Action for Public Safety II for US$5.0 million is in the 2016 pipeline.

2. **Technical cooperation operations** (grants) in execution include efforts to advance the implementation of the Tourism Master Plan, to finance feasibility studies for several transportation and solid waste projects, to develop a Crime Information System for Belize, to support trade and tax policy reform and to support teacher training and improved education governance, credit unions, cocoa farmers, competitiveness and investment promotion, and natural disaster risk management.

3. **Strategy results:** The strategy is in the fourth year of implementation; most of the results are expected in the coming year.

4. **Recent and ongoing analytical work**

- Rekindling Economic Growth in Belize.
- Belize's Regional Integration Options.
- Belize's Taxation and Trade Policy: Impact on Agriculture.
- Belize's Taxation and Trade Policy: Assessment of Reform Options.
- Belize's ports system options.
- Public Employment and Pay Policy in Belize.
- Citizen Security in Belize.
- Transport Sector in Belize.
- Improving efficiency of Public Health Supply Chains in Belize.
- Impact of the loss of correspondent banking relationships on remittances and trade payments.
- Support to Development of National Statistics System.

5. **2016 program**. One lending operation, Solid Waste Management Program II was approved in May and another one on Citizen Security is in the pipeline for 2016. The Bank will support Belize through new technical assistance in the following areas: Disaster and Climate Resilience in Sustainable Tourism; Citizen Security and Efficiency on Public Health Supply Chain Management.

6. **Current portfolio (in US$ million)**. The loan portfolio consists of five investment loans for US$72 million, of which US$59.3 million (82 percent) remains undisbursed. One of the four loans is expected to exit the portfolio in 2016.

Loan	**Approved**	**Undisbursed**
Belize City Flood Mitigation Infrastructure Program	10.0	0.9
George Price Highway Rehabilitation Program	27.0	26.8
Education Quality Improvement Program	10.0	6.9
Sustainable Tourism Program II	**15.0**	**14.7**
Solid Waste Management Program II	**10.0**	**10.0**
Total	**72.0**	**59.3**

Loan Transactions
(In US$ million)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net flows	**4.9**	**-2.0**	**2.9**	**4.7**	**1.4**	**-1.8**	**-2.1**	**6.0**
Gross disbursements	12.9	5.7	10.2	12.8	9.7	7.4	8.5	5.2
Amortization	4.2	4.3	4.3	6.0	6.6	7.4	8.8	8.9
Interest and charges	3.8	3.1	1.8	1.9	1.7	1.8	1.8	2.3

*Projected.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of May 18, 2016)

A. Loan Portfolio Under Implementation and Transactions

Loan Portfolio Under Implementation as of May 18, 2016 (In millions of U.S. dollars)		
Loan	**Approved**	**Undisbursed**
BRIDGE REHABILITATION - TROPICAL STORM ARTHUR	8.8	0.6
SIXTH CONSOLIDATED LINE OF CREDIT	10.0	0.0
BELIZE RIVER VALLEY RURAL WATER PROJECT	3.5	0.1
THE BELIZE SOCIAL INVESTMENT FUND II	15.0	4.0
FOURTH ROAD PROJECT - SANTA ELENA - SAN IGNACIO BYPASS	24.7	10.3
DETAILED DESIGNS - EXPANSION OF WATER AND SEWERAGE FACILITIES, AMBERGRIS CAYE	0.7	0.3
TA - EDUCATION SECTOR REFORM	2.0	1.4
ROAD SAFETY PROJECT	7.2	0.2
YOUTH AND COMMUNITY TRANSFORMATION PROJECT	5.2	4.8
FIFTH ROAD PROJECT - PHILIP S. W. GOLDSON HIGHWAY UPGRADING	29.7	29.4
SEVENTH CONSOLIDATED LINE OF CREDIT	10.5	4.5
ROAD SAFETY PROJECT - ADD. LOAN	4.6	4.2
BELIZE EDUCATION SECTOR REFORM PROGRAMME II	35.0	34.9
TOTAL	**157.0**	**94.7**

Loan Transactions (In millions of U.S. dollars)							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Net flows	**10.0**	**1.5**	**(3.8)**	**(15.7)**	**(3.2)**	**(3.5)**	**5.5**
Gross disbursements	21.0	15.0	8.7	6.4	10.7	10.6	19.0
Amortization	6.4	7.6	7.8	16.0	9.8	9.8	9.3
Interest and charges	4.8	5.4	4.7	6.1	4.1	4.3	4.3

B. Economic and Sector Work

7. **The Caribbean Development Bank (CDB) has continued to support the government of Belize (GOB) in pursuing its development goals within the context of the Bank's country strategy for Belize for the period 2011 to 2015.** New loan and grant approvals during this period closely mirrored the indicative project pipeline identified in the country strategy. In addition, net loan flows to Belize, which had been negative since the start of the CSP period, turned positive in 2015, as progress was made in implementing the projects in the portfolio.

8. **The bulk of this portfolio reflects CDB's efforts to expand, rehabilitate or reconstruct critical transportation and water infrastructure**. In terms of transportation, work has progressed on the reconstruction of the Kendall (Sittee River) and Mullins River bridges, which were destroyed by floods generated from the passage of tropical storm Arthur. Work has already been completed on the Kendall Bridge, with the Mullins River Bridge set for completion in July 2016. Meanwhile, completion of the Fourth Road project, which commenced construction in 2012, has been delayed until early 2017. The Fifth Road loan for upgrading of the Philip S. W. Goldson (formerly Northern) Highway was approved in May 2014 and work commenced in the first quarter of 2016. The intervention seeks to reduce congestion and climate change vulnerability and improve road safety on this economically important road, while also enhancing the capacity of GOB and Belizean contractors to address gender equality and social inclusion in current and future projects. Complementing its investments in transportation infrastructure, CDB approved a loan in 2012 to assist GOB in enhancing road safety along a demonstration corridor on the Western Highway from Belize City to Belmopan. With positive initial results from implementation to date, an additional loan was approved in October 2014 to expand the scope of the project.

9. **With respect to water sector infrastructure, construction activity is complete on a potable water supply system to serve nine villages in the Belize River Valley and final disbursement on the project should be made in 2016.** In addition, a loan was approved in 2012 to finance detailed designs for the expansion of water and sewerage on Ambergris Caye, building on an earlier feasibility study. The designs should be completed in the third quarter of 2016, when appraisal of the capital project is scheduled to begin. This project is viewed as important to sustain and boost tourism activity in the area and to protect the sensitive environment.

10. **CDB's support for private sector development in Belize is mainly through lines of credit managed by the Development Finance Corporation (DFC), which on-lends the funds to the agriculture, industry, housing, and education sectors.** The sixth such line of credit was fully committed as at end-2013. Consequently, a seventh was approved in July 2014, which included a small grant for a pilot project to support renewable energy/energy efficiency initiatives by private sector entities. Additionally, a small TA grant was provided for institutional strengthening of DFC in 2014, and implementation of the consultant's report is ongoing. CDB also supports the private sector in Belize through its Caribbean Technological Consultancy Services (CTCS) network, under which micro, small and medium-sized enterprises (MSMEs) benefit from grant-funded technical assistance.

11. **CDB has also provided significant levels of concessional lending and grant funding for social programs aimed at poverty reduction.** The Belize Social Investment Fund (BSIF) was established by legislation in 1996, to appraise, finance, and supervise small and medium-sized sub-projects in underserved poor communities. CDB has made US$15 million available to BSIF through a second loan approved in 2010, following on from a loan of US$7 million approved in 2003. Grant funding has been provided through the Basic Needs Trust Fund (BNTF) currently in its 8^{th} cycle. Belize's allocation under the 7^{th} cycle of US$6.1 million is still under implementation and the 8^{th} cycle allocation of US$1.6 million is currently being programmed. Interventions under the BSIF and the BNTF are community-based, and are usually concentrated in the areas of water and sanitation, education, health, and infrastructure to facilitate community access. The CDB funds also allow for the development of a comprehensive results-based monitoring and evaluation system.

12. **With grant assistance provided by CDB in 2010, GOB formulated a comprehensive Education Sector Strategy.** Based on this work, in 2012, CDB approved a Technical Assistance loan for Education Sector Reform, which sought to underpin the success of the strategy in enhancing learning outcomes across all levels of the education sector through institutional strengthening. Under this project, a comprehensive school location plan was developed, which then informed the Belize Education Sector Reform Programme II approved in May 2015. This capital loan aims to significantly expand the school plant in Belize and provide other supporting services in order to increase access to quality education, in line with the objectives of the Education Sector Strategy.

13. **The Youth and Community Transformation Project was approved in 2012 based on a previous CDB-financed feasibility study.** In accordance with the priority that GOB has given to strategies to reduce crime and improve citizen security, the aim of the project is to contribute toward building human capital, particularly among youth and children from poor communities in Belize City, as part of an attempt to reduce socially deviant behavior. Project implementation is scheduled for completion by the end of 2017.

STATISTICAL ISSUES

(As of May 31, 2016)

I. Assessment of Data Adequacy for Surveillance

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

Real sector: The Statistical Institute of Belize (SIB) publishes on its website a variety of real sector statistics (GDP, CPI, population and labor force/employment statistics, social indicators). The timeliness and frequency of the statistics is generally adequate for surveillance with the exception of social indicators, particularly those related to poverty and literacy, which are available with large lags. This is largely due to human and financial limitations at the SIB, which constrain the process of undertaking surveys and processing the data. There is room to further strengthen the compilation of GDP on expenditure basis, which is currently available only at annual frequency and with a significant lag.

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 (SSB) is not treated as part of the general government. Instead, the Central Bank classifies the entity as other non-financial public corporation, and includes its claims (deposits) on the banking system as part of broad money. Also, difficulties persist in the compilation of capital expenditure as a number of Capital II (government-funded capital and project expenditures) items that started life as fixed-term project contributions have become permanent funding allocations. Authorities are aware of this shortcoming and are advising ministries to examine the continuing need and authority for such expenditures. In addition, the current accounting practices follow neither a cash basis nor an accrual basis of accounting, which contributes to an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses. Finally, domestic debt data recording needs to be improved.

Monetary and financial statistics: Data on financial soundness indicators of individual banks are available on quarterly basis. However, there is very limited data on non-bank financial institutions, especially the offshore sector, while the information on the activities of domestic insurance companies are not publicly available. The authorities are developing a financial statistics database.

Balance of payments: The SIB publishes merchandise 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 does not cover services, which constrains the assessment of the overall current account position as tourism services represent a large share of total exports. The usefulness of the data for surveillance could be improved if the merchandise trade statistics are expanded to cover also trade in services and the international investment position.

II. Data Standards and Quality

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

III. Reporting to STA

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

Belize: Table of Common Indicators Required for Surveillance
(As of May 31, 2016)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	5/31/2016	6/1/2016	M	M	M
International Reserve Assets and Liabilities of the Monetary Authorities 1/	3/31/2016	3/31/2016	W	W	W
Reserve/Base Money	3/31/2016	5/12/2016	W	W	W
Broad Money	3/31/2016	5/12/2016	W	W	W
Central Bank Balance Sheet	3/31/2016	5/12/2016	M	M	M
Banking System Balance Sheet	3/31/2016	5/12/2016	M	M	M
Interest Rates 2/	3/31/2016	5/12/2016	M	M	M
Consumer Price Index	4/30/2016	5/25/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ —Central Government	3/31/2016	5/13/2016	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt 5/	3/31/2016	5/13/2015	M	M	NA
External Current Account Balance	2015Q4	5/10/2016	Q	Q	Q
Exports/Imports of Goods and Services	2015Q4	5/10/2016	Q	Q	Q
GDP/GNP	2015Q4	3/30/2016	Q	Q	Q
Gross External Debt (Central Government only)	3/31/2016	5/13/2016	A, M	A, M	NA
International Investment Position 6/	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND

BELIZE

September 12, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By | Charles Enoch and Jacques Bouhga-Hagbe

This note updates staff's assessment of Belize's medium-term outlook, taking into account additional information that has become available since the Staff Report (SM/16/164) was circulated to the Executive Board. It does not alter the thrust of the staff appraisal.

Recent Developments and Prospects

1. **On June 28, 2016, the Permanent Court of Arbitration (PCA) issued a final ruling on the amount of compensation for Belize Telemedia Limited (BTL), which was nationalized in 2009.** The total amount of compensation amounted to an equivalent of US$ 221 million (12.2 percent of GDP), which is about 2 percentage points of GDP higher than staff's projections in the staff report (Table 1). On July 13, the government paid the equivalent of US$98 million about (about 5.5 percent of GDP) to the former owners of BTL, in addition to "good faith" payments made toward compensation in late 2015. The remaining balance (about 4.8 percent of GDP) must be paid by July 2017. Nevertheless, a disagreement arose about the currency composition of the total compensation. The authorities are of the view that only about 30 percent of the compensation must be in US dollars, with the rest in local currency. The former owners of BTL are asking that 50 percent of compensation payments be made in US dollars. The dispute has been taken to the Caribbean Court of Justice. Staff's revised baseline assumes that only about 30 percent of the compensation is paid in US dollars and the rest is in local currency. The full impact of the PCA ruling on international reserves in 2016-17 would be close to US$60 million, which would reduce the reserve cover by 0.5 months of imports. Repatriation of the compensation payable in the local currency may increase the impact on reserves further. Compensation payments were made by issuing domestic debt. Staff's revised projections now assume that the sale of minority stakes in BTL and Belize Electricity Limited (BEL) would take place in 2017 rather than this year, thereby increasing financing needs in 2016. As a result, the debt stock is expected to climb to nearly 100 percent of GDP in 2016, 6.5 percentage points higher than in the staff report.

2. **Macroeconomic outcomes for the first half of the year are mixed.** Despite the good performance of services, especially tourism, and construction, real GDP contracted by 1.5 percent in the first half of 2016 relative to the same period in 2015, driven by continued decline in agriculture, fisheries, and petroleum extraction. The 12-month inflation rate edged up to 1 percent in July (y/y) due to higher international petroleum prices, which, combined with the increase in the fuel tax, pushed up average inflation for the first seven months of 2016 to 0.6 percent. The shocks to key commodity exports continued to weigh on the external sector. Exports of goods decreased by nearly 29 percent during the first seven months of 2016 relative to the same period last year, dragged down by agriculture, fisheries and petroleum sectors, while imports declined only by 3.4 percent. On the positive side, the performance of the tourism sector has been strong, with stop-over tourist arrivals increasing by 16.6 percent during this period. Despite the payment to the former BTL owners, gross international reserves in late August stood US$ 432 million (4.4 months of imports), close to their end-2015 level. Unemployment eased to 8 percent in April 2016, down 2 percentage points from April 2015, mainly owing to employment gains in construction and services.

3. **The impact of hurricane Earl is expected to be temporary.** This first-category hurricane struck Belize on August 3. No loss of life was reported, but the hurricane inflicted significant damage to key productive sectors, housing, and physical infrastructure. The Preliminary Assessment Report by the National Emergency Management Organization estimates total losses at about BLZ$140 million (about 4 percent of GDP). Nearly half of the loss is in agriculture. Combined with the mixed macroeconomic performance in the first half of 2016, the damage from hurricane Earl is expected to reduce real GDP growth to -1.5 percent in 2016 and increase the current account deficit to 14 percent of GDP (Table 2). Given that the impact of the hurricane will likely be transitory, staff's medium-term projections are broadly similar to those in the staff report.

4. **Staff recommendations remain as in the staff report.** The authorities should rebuild investor confidence by announcing without delay and quickly implementing a package of measures that would credibly put public debt on a sustainable path. The recent decision to defer the public wage increase scheduled for FY2016/17 to the next fiscal year is a step in the right direction. It should be promptly followed by an implementation of a credible package of measures that would gradually raise the primary balance to 4–5 percent of GDP by 2021 (Table 3). Primary surpluses of 4–5 percent of GDP would have to be maintained beyond 2021 to reduce public debt to the more sustainable level of about 60 percent of GDP by 2030. Vigorous growth-enhancing structural reforms would help offset any negative impact of fiscal consolidation and enhance competitiveness. This would help rebuild investor confidence in the authorities' commitment to sound macroeconomic management and reduce the likelihood of a disorderly adjustment that would put the currency peg at risk. In the medium term, lower government borrowing needs would support a reduction in interest rates which, combined with greater investor confidence, would boost private investment and growth.

Table 1. Liabilities Related to Belize Telemedia Limited (BTL) Settlement
(In millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017
Staff Report			
Valuation of BTL shares 1/	126.5	...	...
Price per share	2.8	...	...
Number of shares (millions)	45.2	...	...
Liabilities from the nationalization of BTL (stock at the end of period) 2/	147.9	73.9	0.0
of which capitalized interest	53.9	26.9	0.0
Total payments for the nationalization of BTL	32.5	73.9	80.1
Principal (including capitalized interest)	32.5	73.9	73.9
in domestic currency	0.0	38.5	38.5
in foreign currency 3/	32.5	35.4	35.4
Interest	...	0.0	6.2
in domestic currency	...	0.0	0.0
in foreign currency	...	0.0	6.2
Revised baseline (reflecting the final court ruling on BTL)			
Valuation of BTL shares	128.5	...	...
Price per share	2.8	...	...
Number of shares (millions)	45.2	...	...
Liabilities from the nationalization of BTL (stock at the end of period) 2/	172.7	86.5	0.0
of which Capitalized interest, legal fees and other costs 4/	88.2	44.1	0.0
Total payments for the nationalization of BTL (including capitalized interest)	32.5	98.1	90.3
in domestic currency	0.0	67.5	61.6
in foreign currency 3/	32.5	30.6	28.7
Memorandum items:			
	(In percent of GDP)		
Total payments on BTL and other contingent liabilities	6.6	5.5	5.3
Compensation for BTL shares 3/	1.9	5.5	4.8
Payment of compensation for BEL	2.0	0.0	0.0
Other	2.8	0.0	0.4

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

1/ The values in the staff report were based on a preliminary valuation given by the Permanent Court of Arbitration provided to the authorities in April 2016. The valuation incorporated significant part attributable to the Accommodation Agreement (a tax exemption that BTL had under its previous owners).

2/ At the end of 2015, this stock includes valuation of BTL shares and capitalized interest and other payments, less the "good faith" payment towards the compensation made in 2015 ($32.5 million) and a setoff for shares sold to Sunshine Holdings Ltd on credit ($10 million).

3/ The value in 2015 shows "good faith" payments toward the compensation.

4/ Capitalized interest was assessed using 8.34 percent annual interest rate.

Table 2. Baseline and Active Macro Scenarios, 2014-21
(In percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
			Projections					
I. Baseline Scenario								
Staff Report								
Real GDP growth (percent change)	4.1	1.0	0.5	2.5	2.2	1.7	1.7	1.7
Inflation, end of period (percent change)	-0.2	-0.6	2.0	2.3	2.2	2.0	2.0	2.0
Primary fiscal balance 1/	0.3	-5.5	-1.1	-1.8	-1.1	-1.3	-1.0	-0.8
Overall fiscal balance 1/	-2.4	-8.0	-4.1	-5.2	-4.9	-5.4	-5.5	-5.6
Public debt 2/	77.6	82.1	93.3	94.0	94.9	96.7	98.7	100.8
External current account balance	-7.4	-9.8	-10.5	-9.6	-8.8	-8.5	-8.3	-7.4
Gross official reserves (months of imports)	4.7	4.5	4.0	3.3	2.7	2.0	1.2	0.5
Revised 3/								
Real GDP growth (percent change)	4.1	1.0	-1.5	1.9	2.8	2.3	1.7	1.7
Inflation, end of period (percent change)	-0.2	-0.6	2.3	2.4	2.3	2.2	2.1	2.0
Primary fiscal balance 1/	0.3	-5.6	-2.0	-2.2	-1.3	-1.4	-1.1	-0.9
Overall fiscal balance 1/	-2.4	-8.0	-5.0	-5.6	-5.3	-5.6	-5.6	-5.6
Public debt 2/	77.6	82.1	99.9	95.7	96.4	97.7	99.6	101.7
External current account balance	-7.4	-9.8	-14.0	-10.2	-8.8	-8.5	-8.2	-7.4
Gross official reserves (months of imports)	4.6	4.4	3.7	3.1	2.3	1.7	1.0	0.4
II. Active Scenario								
Staff Report								
Real GDP growth (percent change)	4.1	1.0	0.5	1.5	2.2	1.8	2.0	2.2
Inflation, end of period (percent change)	-0.2	-0.6	2.0	3.4	2.2	1.6	1.6	1.6
Primary fiscal balance 1/	0.3	-5.6	0.2	2.2	3.4	3.7	4.2	4.5
Overall fiscal balance 1/	-2.4	-8.0	-2.8	-1.1	-0.1	0.2	0.8	1.2
Public debt 2/	77.6	82.1	92.4	89.7	86.3	83.0	79.5	75.6
External current account balance	-7.4	-9.8	-10.5	-7.4	-5.7	-5.1	-5.0	-4.2
Gross official reserves (months of imports)	4.6	4.3	4.1	3.9	3.8	3.8	3.6	3.5
Revised 3/								
Real GDP growth (percent change)	4.1	1.0	-1.5	1.0	2.5	2.3	2.0	2.2
Inflation, end of period (percent change)	-0.2	-0.6	2.3	3.5	2.3	1.8	1.7	1.6
Primary fiscal balance 1/	0.3	-5.6	-0.9	1.7	3.1	3.5	4.0	4.4
Overall fiscal balance 1/	-2.4	-8.0	-3.9	-1.6	-0.5	0.0	0.6	1.0
Public debt 2/	77.6	82.1	99.0	92.0	88.1	84.6	81.2	77.3
External current account balance	-7.4	-9.8	-14.0	-8.1	-5.9	-5.4	-5.1	-4.5
Gross official reserves (months of imports)	4.6	4.4	3.8	3.8	3.7	3.6	3.5	3.5
Memorandum items:								
Primary balance (2015 Article IV baseline)	1.0	-2.6	-1.2	0.1	1.0	1.0	1.0	...
Public debt (2015 Article IV baseline) 4/	77.4	76.7	91.5	91.0	89.6	88.3	87.2	...
Nominal GDP baseline (US$ million)	1,718	1,753	1,763	1,839	1,936	2,025	2,104	2,184

Sources: Belizean authorities; and Fund staff estimates and projections.
1/ Fiscal projections are on a fiscal year basis (April to March).
2/ The stock in 2016 includes liability arising from the ruling by the Permanent Court of Arbitration on BTL.
3/ The revisions incorporate the latest data releases, updated WEO assumptions, the final ruling of the Permanent Court of Arbitration on BTL and the effects of hurricane Earl.
4/ As shown in Supplement 3 of the 2015 Article IV staff report.

Table 3. New Recommended Fiscal Measures, FY2016/17-FY2021/22
(In percent of GDP)

	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Measures recommended by staff						
Total effect on the primary balance	1.1	3.9	4.4	5.0	5.1	5.2
Total first-order effect of fiscal measures and negative factors	1.1	4.2	4.8	5.4	5.5	5.7
Expenditure measures	0.4	1.5	2.1	2.7	2.9	3.0
Reducing the wage bill	0.0	0.5	1.0	1.5	1.5	1.5
Reform of Public Sector pension plan 1/	0.0	0.1	0.1	0.2	0.2	0.2
Freezing goods and services in the real terms	0.4	0.6	0.6	0.8	0.9	1.0
Cut in transfers (excluding teachers' salaries)	0.0	0.3	0.3	0.3	0.3	0.3
New revenue-enhancing measures	0.7	2.7	2.7	2.7	2.7	2.7
Streamlining GST exemptions and removing MoF's discretion in granting exemptions 2/	0.3	1.0	1.0	1.0	1.0	1.0
Increasing the general GST rate to 15 percent	0.3	1.1	1.1	1.1	1.1	1.1
Improving collection of import duties	0.1	0.3	0.3	0.3	0.3	0.3
Increasing excise on wine, beer and cigarettes	0.04	0.2	0.2	0.2	0.2	0.2
Second-order macro effects 3/	0.0	-0.3	-0.4	-0.4	-0.4	-0.4
Memorandum items:						
Revenue factors in the baseline scenario						
Reducing import tariffs in line with WTO commitments	0	-0.4	-0.7	-1.0	-1.0	-1.0
Abolishing the environmental tax	0	-0.7	0	0	0	0
Raising the fuel tax	1.4	1.4	1.4	1.4	1.4	1.4

Source: Fund staff estimates and projections.
1/ Includes introducing contributions in the public sector pension plans and raising the retirement age.
2/ Measures include moving zero-rated goods to either a standard rate (12.5 percent) or to an exempt status. The projected impact of revenue measures is conservative as they could yield as much as 2 percentage points of GDP annually if implemented vigorously.
3/ Capturing mainly effects on fiscal revenues stemming from the fiscal multiplier and lower imports.

INTERNATIONAL MONETARY FUND

BELIZE

September 19, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—FURTHER SUPPLEMENTARY INFORMATION

Approved By	Charles Enoch

This note updates staff's assessment of the foreign exchange regime of Belize, taking into account additional information that has become available to staff since the Staff Report (SM/16/164) was circulated to the Executive Board. It does not alter the overall thrust of the staff appraisal.

Recent Developments

1. **Based on discussions with the authorities in Belize, staff concluded that Belize maintained an exchange restriction subject to Fund jurisdiction under Article VIII, Section 2(a) of the Articles of Agreement.** In particular, the requirement of a tax clearance certificate to obtain FX for transfer of interest payments, rental income, management fees and royalties to non-residents was considered to give rise to an exchange restriction in Belize. This is because information provided to the mission suggested that the tax clearance requirement was used to confirm that outstanding taxes unrelated to the underlying transaction were paid before residents could obtain foreign exchange to make payments to non-residents for current transactions.

2. **The Central Bank of Belize has subsequently provided additional information on the operational aspects of the tax clearance certificate, which resulted in the assessment that this requirement does not give rise to an exchange restriction.** According to the Central Bank, the Income Tax office does not withhold the issuance of tax clearance certificates in circumstances where the applicant owes taxes unrelated to the underlying transactions mentioned above. The tax clearance certificate is used to ensure the determination of the respective net income and the withholding of the income tax due on the amounts to be paid or transferred abroad. The authorities further clarified that the tax office separately pursues remedies against tax debtors for outstanding taxes unrelated to the above-mentioned transactions. Based on this additional information, staff concludes that the tax clearance requirement does not give rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a).

3. **This information updates the assessment contained in paragraphs 25 and 38 of the Staff Report and the exchange arrangement section of the Informational Annex.**

Statement by Michael McGrath, Alternate Executive Director for Belize
And David Hart, Advisor
September 21, 2016

Our Belizean authorities welcome staff's analysis of the main challenges facing the economy. The candid and frank exchanges with staff form a useful ongoing dialogue that is highly valued by our authorities. We agree with staff on the main policy issues facing Belize, including implementing a robust development strategy, ensuring financial stability and access to global financial markets, and maintaining debt sustainability by appropriately sequencing a medium-term fiscal consolidation strategy. However, as we have previously emphasized, the design and implementation of a significant upfront fiscal consolidation must take adequate regard for the negative impact on economic growth as well as the potential to undermine the existing social and political consensus. Taking these opening remarks into account, we would like to draw particular attention to the following specific points.

Economic Outlook and Recent Developments

Recent data on the economic performance is mixed, but tilted to the downside, as noted succinctly by staff in their supplement (SM/16/164). Available data point to a robust and growing tourism sector, which is welcome news given the significance of that sector to the overall economy. Combined with positive activity in the construction sector, the unemployment rate has declined by about 2 percent since 2015. However, the agriculture, fisheries and petroleum extraction sectors have performed poorly. Overall, GDP rose by 1 percent in 2015 but there was a decline of 2.4 percent in GDP per capita. During the first half of this year, GDP contracted by 1.5 percent, and it is likely that a further decline in GDP per capita was also experienced.

Compounding the challenging economic environment was Hurricane Earl, which hit Belize City and the surrounding areas in early August. Thankfully, there was no loss of life, but the housing, infrastructure and agriculture sectors suffered significant damage. The government of Belize has allocated some $10m BzD (about 0.3 percent of GDP) for immediate relief efforts, but the full cost of the hurricane on economic output is expected to be much greater, albeit temporary. The government has sought independent analysis from the Economic Commission for Latin America and the Caribbean (ECLAC) to assess the damage, with a report expected later in September. At this early stage, the authorities' preliminary estimate suggests that the cost could be in the range of 3-4 percent of GDP. The authorities are continuing to assess the economic and budgetary impacts of Hurricane Earl and are actively considering all available options at this time.

Final Ruling of the Permanent Court of Arbitration (PCA)

In June, the PCA ruling awarded total compensation of US$ 221 million (12.2 percent of GDP) for the nationalized Belize Telemedia Company (BTL), slightly higher than staff's earlier estimate. In accordance with the agreement, our authorities made the first half of the payment in July 2016, financed through the issuance of domestic debt. The remaining balance, equivalent to about 4.8 percent of GDP, will be paid in July 2017. As noted in the staff supplement, there remains a dispute over the currency composition of the payments, which has been taken to the Caribbean Court of Justice for a final decision. Our authorities believe that they have a strong case for their interpretation of the agreement, and a ruling is expected later in 2016.

The PCA ruling, which is at the upper end of the anticipated range, represents a significant one-off negative impact on Belize's public debt stock and international reserves. As a result of this decision and other shocks, public debt is now expected to reach nearly 100 percent of GDP by the end of 2016, before declining in 2017-19 and rising again thereafter if no further action is taken. While the Court's findings were both unexpected and unwelcome, they do provide a clear picture of the challenges ahead and reduce the uncertainty over the size of contingent liabilities that were hanging over Belize's economy. Furthermore, it is worth noting that the Court's findings and the payment of the first half of the award in July have not resulted in any market disruption.

Fiscal Policy and Debt Sustainability

Our authorities are fully aware of the need to take action in the face of a challenging environment, and have already taken important steps to reduce public expenditures and increase revenue, recognizing that still more needs to be done. The fuel tax was increased in late 2015, and the government has proposed a deferment by one year of a public sector wage increase that was due to take effect in April 2016. This latter action, which is still under consideration by labor groups, would generate an estimated savings of some $15 million BzD for the current year (about 0.5 percent of GDP). Looking ahead, Belize's Prime Minister (who is also the Minister of Finance) appointed a new Minister of State to focus on preparations for the upcoming Budget, keeping economic and fiscal performance under review and strengthening fiscal reporting to the Cabinet and Parliament, as required by the recently enacted Fiscal Transparency and Responsibility Regulations legislation.

In addition, the Prime Minister established an Economic Policy Coordinating Team (the Team) to identify measures to reduce current and capital expenditures, enhance revenue, and address debt management issues. The Team will be composed of senior public sector managers in the critical areas of economic and social sector policy and will include both the Financial Secretary and the Governor of the Central Bank. The consultative process of the budget for fiscal year 2017/18 commenced this month, with plans for its submission to Parliament in mid-March 2017. The Team will consider the policy recommendations from the Fund and Belize's other development partners, including a possible increase to the goods and services tax (GST) and a further increase in the fuel tax. These measures will be developed in close consultation with the business and labor communities to ensure buy-in from key stakeholders.

The Team is seeking to ensure that public sector decision-making, particularly at the senior political level, is informed by the best possible technical analysis, with the overall objective of a sustained improvement in the quality of life of the Belizean people. Therefore, while there will be substantial emphasis on economic and financial considerations, the social impact will also be a central feature of policy recommendations.

The Belizean authorities intend to target a primary balance that places debt firmly on a declining path. However, while the primary balance would certainly need to be above the debt-stabilizing target of 1.2 percent of GDP estimated in the staff's DSA, our authorities continue to question the feasibility of staff's recommendation to increase the primary balance to 4-5 percent of GDP by 2021 and sustain it at this level for an extended period of time. This recommendation appears to be out of line with the lessons from the Fund's recent crisis program lending experience. Indeed, one of the main findings of the recent Crisis Program Review was the persistent challenge of internal devaluation in the context of a fixed exchange rate regime, with the anticipated recovery in growth and exports often failing to materialize. It is difficult to reconcile this with staff's revised active scenario in table 2 of the staff supplement (SM/16/164), which requires a primary balance adjustment of nearly 9 percent of GDP from 2015 to 2018 but only allows for a relatively small impact on growth.

Without downplaying the clear need to maintain debt on a sustainable path, our authorities remain concerned about the considerable opportunity costs of staff's recommended approach. The need for the Government of Belize to invest in physical and human capital, and find fiscal space to finance the various aspects of its development strategy are essential to increasing competitiveness and diversifying the export base. These requirements ought to be weighed against the expected gains in investor confidence, which are inherently hard to quantify but upon which staff's recommendations rest.

<u>Financial Sustainability and Correspondent Banking Relationships (CBRs)</u>

Our authorities welcome staff's assessment that the financial sector is in better health than last year, with improved capital adequacy ratios, declining non-performing loans (NPLs), ample liquidity, and stronger regulatory frameworks. The overall resiliency of the banking sector has improved since 2015, and the authorities continue to make improvements to the financial sector infrastructure, including through modernizing the National Payment System. Later this year, the Automated Payments and Securities Settlement System will be launched, which is comprised of a Real Time Gross Settlement System, Automated Clearing House, and Central Securities Depository. However, there remains a disagreement over whether provisioning should be raised to 100 percent, as suggested by staff. Our authorities continue to believe this would be inconsistent with international best practice, resulting in an inefficient tying up of bank capital that could have the unintended consequence of delaying the resolution of the affected NPLs.

The Belizean authorities are committed to further improving their AML/CFT framework and ongoing implementation of international agreements to combat tax evasion. Belize has signed on to the Convention on Mutual Administrative Assistance in Tax Maters and is in the process of establishing an Automatic Exchange of Information Unit in the Income Tax Department to provide finance account information to other participating jurisdictions based on Common Reporting Standards. It is expected that the Unit will be fully functioning by January 2017.

The continued challenge posed by CBRs for some financial institutions operating in Belize presents an immediate threat to the financial system and, through macro-financial linkages, the wider Belizean economy. For a small open economy like Belize, in which exporters rely on domestic banks to make and receive payments, CBRs are the lifeline for the functioning of the broader economy. However, our authorities remain of the view that the progressive withdrawal of CBRs constitutes a market failure stemming the unintended consequences of the regulations in systemically important members of the global financial system. In this regard, staff's '*fear of the fine*' analysis in the Selected Issues paper (e.g. expected risk-adjusted cost of CBR) most closely resembles the authorities' view of what is causing global banks to withdraw from traditional services.

Notwithstanding these broader challenges, there has been some positive developments on this front in recent months. Notably, three domestic banks in Belize have recently established a new correspondent banking relationship with a bank based in the United Kingdom. While this is a positive and welcome development, it does not diminish the challenges facing the Belizean financial sector overall, particularly as Belize's largest domestic bank no longer has a CBR.

Efforts by Fund's Management to increase the profile of this issue are welcome as many of the affected jurisdictions are small states that do not normally have the ability to garner sufficient international attention to this macro-critical issue. Our authorities continue to encourage the Fund to play an assertive role in coordinating and convening major stakeholders and to advocate for feasible solutions to this growing problem. In that context, the upcoming Fund-hosted conference on CBRs at the Annual Meetings is welcome, and we look forward to an emphasis on the development of practical, near-term solutions. In addition, we welcome the recent efforts by systemically important enforcing jurisdictions to reduce uncertainty regarding the scope of regulatory requirements in this area.

Growth and Prosperity

The Growth and Sustainability Development Strategy (GSDS) continues to be the guiding medium-term framework for Belize's development plans. Endorsed by the new Government in April 2016, the implementation of the strategy continues to take priority. The authorities plan to boost trade by developing the potential of new crops and the livestock industry, as well as expanding trade agreements with neighboring countries to bolster the prospects of the agriculture industry.

Efforts to identify financing for the various aspects of the GSDS are underway as part of the Government of Belize's budget cycle and discussion with multilateral and bilateral development partners. While identifying *ex ante* financing for all the endeavors in the GSDS, as recommended by staff, has a natural appeal, our authorities would underscore that fungibility of funds for GSDS and other fiscal pressures, as well as the sequential approach taken by most of Belize's development partners. In this regard, clarity in financing the GSDS will evolve naturally from decisions on the fiscal stance, pace of fiscal consolidation, and total amount of fiscal space.

Conclusion

Our authorities welcome the ongoing engagement with the Fund and the regular policy advice. While there are disagreements in terms of the scale and speed of the needed fiscal correction, our authorities are in broad agreement with the overall findings of staff. As such, our authorities will continue to engage with staff and take advice on a range of policy matters as they work towards the Budget and the necessary adjustments that will be required to ensure that debt is put on a downward trajectory.

Finally, we would like to inform the Board of our authorities' intention to publish the staff report and all related documents.