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Belize: 2010 Article IV Consultation—Staff Report; Informational Annex; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Belize

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Belize, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 9, 2010, with the officials of Belize on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 4, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Informational Annex to the Staff Report of October 4, 2010
- A staff statement of October 14, 2010.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 15, 2010 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Belize.

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

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INTERNATIONAL MONETARY FUND

BELIZE

Staff Report for the 2010 Article IV Consultation

Prepared by Western Hemisphere Department
(In consultation with other departments)

Approved by Gilbert Terrier and Jan Kees Martijn

September 30, 2010

- **Context.** The global slowdown and severe floods adversely affected economic activity, delayed the adoption of plans for fiscal consolidation discussed in previous consultations, and contributed to increased bank risks. Foreign reserves have strengthened and the near-term outlook has improved moderately, but Belize remains susceptible to downside risks. This year's budget included important tax revenue actions in an effort to offset some fiscal pressures and help stabilize the large public debt position.

- **Focus of the consultation.** With a view of enhancing the economy's resilience to shocks, discussions centered on the strategy to achieve debt sustainability, enhance banking system stability, and further strengthen the external position. Discussions also covered policies to boost growth and reduce poverty, under the authorities' development plan.

- **Key recommendations.** Staff recommended a gradual increase in the primary surplus to 4½ percent of GDP, mainly through wage and pension reforms, to place the public debt on a firm downward path and reduce external financing needs. It also recommended continued actions to strengthen the financial system and welcomed improvements in the monetary policy framework. The authorities broadly agreed with the recommendations, particularly to strengthen the banking system. They planned to seek consensus on needed fiscal reforms, but noted that, in the near term, social conditions strictly constrained the scope for fiscal consolidation.

- **Exchange system.** The exchange rate appears broadly consistent with fundamentals. The Belize dollar has been pegged to the U.S. dollar since 1976. Belize accepted the obligations under Article VIII, section 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

- **Discussions.** The staff team, comprising M. Garza (Head), G. El-Masry, G. Nicholls, and D. Rodriguez-Delgado (all WHD), visited Belize during June 21–July 1, 2010. P. McGoldrick (OED) participated in the final discussions. The team met with Prime Minister Barrow, Central Bank Governor Ysaguirre, Financial Secretary Waight, other senior officials, and business, labor, political, and diplomatic representatives. Discussions on the banking system continued during September 8-9, 2010.

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I. Background

1. **Belize's macroeconomic performance has been constrained by structural weaknesses.** Belize has been vulnerable to adverse shocks mainly because of a weak external position, policy rigidities, and reduced access to external financing. Since 2006, growth has remained lackluster, with sources limited mostly to petroleum extraction and tourism-related construction, while the export base has remained relatively narrow. In 2007, debt restructuring eased external debt service, but public debt stayed high and foreign reserves low, which limited the policy capacity to respond to shocks.

2. **The present government, which took office in early 2008, sought to ease vulnerabilities and strengthen growth.** In the context of the 2008 and 2009 Article IV consultations, the authorities endorsed a strategy to reduce public debt over time, through revenue and spending actions; strengthen foreign reserves to deal with near-term risks; reform the framework for monetary policy; and improve governance. Debt sustainability was considered essential to regain access to external private financing and reduce roll-over risks.

3. **Despite some progress under the authorities' strategy, deviations have emerged, largely as a result of external shocks.** Progress was registered in strengthening foreign reserves and in the conduct of monetary policy. However, plans to attain debt sustainability were delayed, as priority was given in 2008 to managing the impact of soaring fuel/food prices and the effects from severe floods. The global crisis and weakened social conditions in 2009 also made it difficult to move forward with the desired fiscal adjustment.

4. **In this context, the 2010 Article IV consultation discussions focused on policies to improve the economy's resilience to shocks and strengthen growth and social prospects.**

II. Recent Developments

5. **Belize was adversely impacted by the global downturn in 2009, but the economy is recovering modestly in 2010.**

- **Output stagnated in 2009,** owing largely to a weakening in tourism and agriculture—which suffered from the effects of floods in late 2008. Growth has resumed since late 2009, but remains narrow-based. Twelve-month inflation fell to minus 0.4 percent in 2009, reflecting lower food and fuel prices and weak domestic demand, and picked up to 1¾ percent in May 2010, on a rebound in fuel prices.

- **The external position has strengthened.** Helped by a reduced external current account deficit and the SDR allocations, foreign reserves

Reserves Adequacy 1/

Reserves relative to	2007	2008	2009	Proj. 2010	Target 2/
Months of imports	1.6	2.1	3.2	3.4	3.0
(In percent)					
External debt service	16	118	254	250	…
External financing needs	89	91	158	180	…
Broad money (M2)	14	19	23	23	15-25

Sources: Belizean authorities; and Fund staff estimates.

1/ Gross international reserves.
2/ Targets proposed in the 2008 Article IV Consultation.

strengthened from the low levels seen in previous years to 3¼ months of imports at end-2009, or 160 percent of projected external financing needs. In the more recent period, foreign reserves have continued to rise somewhat.

- **The public finances weakened substantially.** The fiscal balance deteriorated by 2 percentage points of GDP to a deficit of about 1.5 percent of GDP in FY09/10 (April–March), due to lower grants and higher current spending (mainly wages), despite a decline in investment. Tax revenue was stable, as lower general sales tax (GST) collections related to sluggish activity were offset by the effect of an increase in the excise tax on fuel. Public debt rose to 80 percent of GDP at end-2009.

- **The banking system is facing increased risks.** In recent years, nonperforming loans (NPLs) have surged, to the equivalent of 20 percent of total loans in mid-2010. While banks comply with current regulations, provisioning remains low by international standards, covering less than 16 percent of NPLs. The increase in NPLs has been largely concentrated in three banks (two domestic banks and one offshore), which account for over 40 percent of deposits in the banking system. This includes a large domestic bank, accounting for close to one third of total banks deposits, which has been faced with a deterioration in its loan portfolio since the beginning of this year (Appendix I). Deposits and credit in the banking system have remained broadly stable through June 2010.

Financial Soundness Indicators
(Domestic banks; in percent)

	2007	2008	2009	Jun-10
Capital/risk-weighted assets 1/	23.1	19.5	20.7	22.9
Excess liquidity 2/	16.3	20.6	23.5	32.5
NPLs/total loans	6.6	12.7	12.2	20.0
Provisions/NPLs	34.2	23.1	19.5	15.5
NPLs net of provisions/capital	18.9	48.8	46.5	79.1
Net earnings/assets 3/	3.5	2.6	1.7	0.5

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

1/ The required capital adequacy ratio is 9 percent.
2/ In percent of the statutory liquidity requirement.
3/ Net profit after taxes over average assets (annualized).

- **Social indicators have weakened.** A poverty assessment conducted by the authorities revealed that poverty affected 40 percent of the population in 2009, up from 33 percent in 2000. Moreover, unemployment has remained high (after reaching 12.5 percent in September 2009) and crime appears to have increased.

III. Discussions on Macroeconomic Policies

6. **The authorities' priority is to promote a recovery in growth and reduce poverty.** Since external conditions for Belize are expected to remain sluggish (mainly affecting tourism, export prices, and FDI) and external financing is limited, there was broad agreement that, to attain the authorities' objectives, priority should be placed on strengthening of the policy framework and rebuilding macroeconomic and financial buffers to deal with shocks.

A. Macroeconomic Outlook

7. **Prospects have improved moderately for 2010.** Staff projects output to grow by 2 percent this year, due largely to an expansion in electricity generation. Inflation would rise to 6 percent, after the rebound in fuel prices and recent tax measures. Despite some increase in debt payments abroad, associated with a step up in the coupon rate on external debt restructured in 2007, the external current account deficit would narrow to under 6 percent of GDP, reflecting lower energy and FDI-related imports. The foreign reserve position would improve slightly.

8. **Staff prepared two scenarios to illustrate the impact of alternative policies on macroeconomic prospects for the medium-term.**

- **The baseline scenario assumes the continuation of present policies.** This scenario would restrain growth at 2.5 percent per year, or below historical trends, and lead to high external financing needs, leaving the economy vulnerable to shocks. With a primary surplus projected to remain at 1.5 percent of GDP over the medium-term, slightly below the level budgeted for FY 2010/11, public debt would remain slightly under 80 percent of GDP. Total external financing needs would be substantial, at around 8.5-10 percent of GDP a year. There would be limited room in the public finances to redirect spending to social priorities, while foreign reserves would decline steadily to under 2 months of imports by the end of this decade (Tables 5–6, and Appendix II).

- **The active scenario incorporates strengthened policies.** This scenario would raise growth to 3.5 percent over the medium-term and lower external financing needs. It is based on sustaining a primary surplus of 4½ percent of GDP starting in 2011, an assumed reallocation of spending toward capital and social priorities, and increased private investment that would result from improved confidence. Under this scenario, public debt would gradually decline to 40 percent of GDP and foreign reserves would strengthen to 4 months of imports by the end of this decade. To this end, staff recommended the following fiscal actions:

    - **Expenditure:** reversing the upward trend in the wage bill relative to GDP; limiting growth in non-priority spending areas; and streamlining generous benefits vis-à-vis contributions on the public officer's pension scheme while introducing a pension contribution.

    - **Revenue:** consideration could be given to raising the GST rate closer to regional levels (15 percent) or phasing out fully the 2008 reduction in the fuel excise tax.

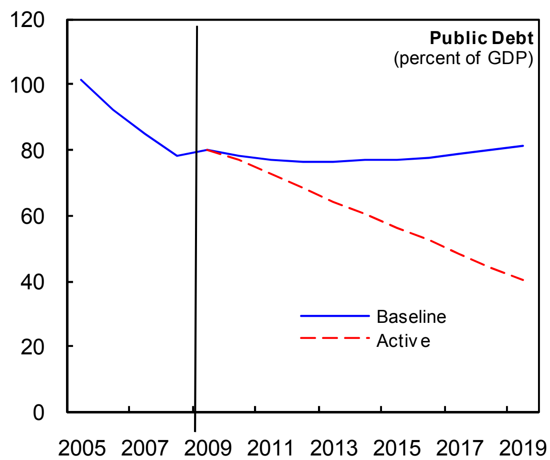
    - **Social Security Board (SSB):** starting to gradually implement the parametric actions proposed in the latest actuarial report, to bring generous benefits in line with contributions, with a view to attaining financial viability for the pension scheme for private sector workers, and reducing potential fiscal costs.

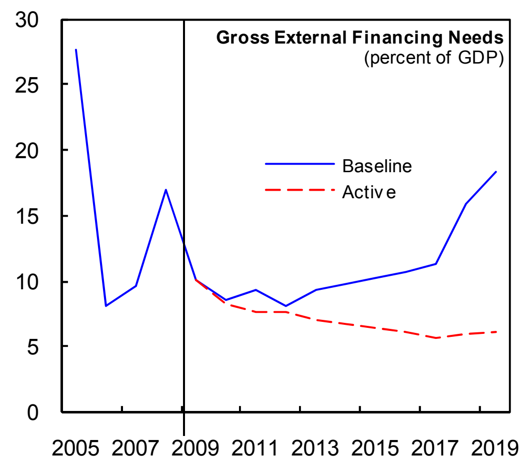
Illustrative Medium-Term Scenarios

	Projections											
	Baseline						Active					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
	(Annual percentage change)											
National income and prices												
GDP at constant prices	2.0	2.3	2.5	2.5	2.5	2.5	2.0	2.3	3.5	3.5	3.5	3.5
Consumer prices (end of period)	5.9	2.5	2.5	2.5	2.5	2.5	5.9	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP, unless otherwise indicated)											
Central government 1/												
Primary balance	1.5	1.5	1.5	1.5	1.5	1.5	2.7	4.5	4.5	4.5	4.5	4.5
Overall balance	-2.4	-2.6	-3.1	-3.7	-3.9	-4.1	-1.1	0.5	0.2	0.1	0.3	0.6
Public and publicly guaranteed debt	78.1	77.2	76.6	76.5	76.8	77.2	76.9	72.8	68.4	64.4	60.4	56.4
External sector												
Current account balance	-5.7	-6.7	-5.6	-7.0	-7.6	-8.0	-5.4	-5.0	-4.7	-4.6	-4.6	-4.2
Gross external financing needs	8.6	9.3	8.1	9.3	9.8	10.3	8.3	7.6	7.6	7.0	6.8	6.4
Gross official reserves (in months of imports)	3.4	2.9	2.7	2.6	2.6	2.6	3.5	3.5	3.5	3.5	3.6	3.7

Source: Fund staff estimates and projections.

1/ Fiscal projections are on a calendar year basis.





B. Public Debt Sustainability

9. **The budget aims at limiting the FY2010/11 fiscal deficit to 2.2 percent of GDP.** The budget included tax revenue measures equivalent to 1.5 percent of GDP, which were introduced in April. The main measure, in the form of an increase in the GST rate from 10 percent to 12.5 percent, aimed at compensating for the impact of lower grants and higher interest payments. The budget also contemplates ambitious gains in tax administration (1 percent of

Tax Revenue Measures

	Yield (% of GDP)
Total	**1.5**
GST rate (from 10 to 12½ percent)	1.5
Business tax on electricity generation from 1¾ to 6½ percent	0.3
Excise on petroleum production 1/	0.1
Social levy 2/	0.1
Tax relief 3/	-0.5

Sources: Belizean authorities; and Fund staff estimates.

1/ US$0.50 per barrel.
2/ Duty of 5 percent on imports into a free zone.
3/ Entails the GST exemption of some foodstuffs, removal of duties on selected imports; and higher exempted income.

GDP) and a large increase in public investment. On that basis, the primary surplus would be kept at nearly 2 percent of GDP and the public debt position would decline slightly.

10. **Staff recommended reinforcing the budget this year, as part of a strategy of medium-term fiscal consolidation.** Staff noted that there was a risk that the authorities' objectives would not fully materialize, and that a weak revenue performance would limit the primary surplus to 1.5 percent of GDP. Given the important need of continuing improving the external position, staff proposed aiming at a more active scenario, in which the primary surplus would improve in the near-term, rising to 3 percent of GDP this fiscal year. Achieving this target would require exercising more selectivity in the investment plan; intensifying tax administration efforts; and enhancing controls on transfers and the wage bill, which have risen rapidly in recent years.[1] The authorities agreed that undertaking these actions was desirable, but noted that, in their view, any associated yield should be used to reverse the deterioration in social conditions, while keeping the fiscal deficit in line with the budget.

11. **Staff supported the authorities' ongoing efforts to strengthen tax administration and the public financial management (PFM) over the medium term:**

- **Tax and customs.** In line with Fund's advice, the authorities' ongoing efforts center on enhancing tax compliance, including through improving controls over large taxpayers; adopting a new management and auditing system for customs (ASYCUDA); and setting up an electronic network to track imports and allow for cross checking of tax information.

- **PFM.** The authorities are adopting the recommendations of a report prepared by the European Union (EU) on public expenditure and financial accountability, which includes steps to: introduce multi-year budgeting; develop fiscal responsibility guidelines; implement a fiscal code of conduct; improve the Finance and Audit Act to enhance control and accountability; and upgrade the management of the public investment plan.

12. **There was agreement with the authorities on the desirability to achieve debt sustainability, while increasing priority social spending over the medium term.** As discussed in previous consultations, the authorities concurred with staff that raising the primary surplus to halve the public debt to about 40 percent of GDP by 2019 remains an ideal target, since this would help Belize regain access to external private financing. It would

[1] Staff encouraged the authorities to cap the level of government employment at 2009 levels and improve the targeting of transfers starting this fiscal year.

also help roll over the large annual amortization payments under the *Superbond* (2 percent of GDP) that will start falling due in 2019.[2]

13. **The authorities, however, noted that an additional fiscal effort would be difficult to deliver in the near term, given political and social conditions**. They stated that substantial yields could be obtained from administrative improvements in tax compliance and spending control. This would allow them to meet anticipated fiscal pressures[3] and maintain a primary surplus of 1.5–2 percent of GDP in the coming years, keeping the public debt position at current levels. They acknowledged the need for fiscal reforms (mainly on wages and pensions), but explained that such reforms were strongly opposed by labor unions and the business sector. However, the authorities expressed their willingness to engage various stakeholders to develop consensus on these reforms.

C. Banking System Stability

14. **As noted, the overall health of the banking system has deteriorated, with three banks facing financial weakness**. Although the reported capital position of these three banks exceeds the minimum required level, they suffer from high NPLs and low provisions (Appendix I). In the largest of the three banks, NPLs doubled to 34 percent of total loans during the first half of this year. This bank also made capital charges for assets that had been under litigation since 2008. The remaining banks appear to be liquid and well capitalized, with capital adequacy ratios of 25 percent on average.

15. **Discussions with the authorities centered on a strategy to enhance the regulatory and bank resolution frameworks, and reduce credit risks**. The authorities concurred that priority needed to be given to ensuring that all banks are well capitalized. To strengthen banking stability, MCM and LEG have been providing technical assistance on specific steps to contain systemic risks and address shortcomings in Belize's resolution and prudential framework.

16. **The authorities recognized that the situation of the three banks, if not addressed, could threaten the stability of the banking system.** In response to staff's recommendations, they noted that these banks recognize the potential capital shortfalls associated with their NPLs, and have agreed to submit recapitalization plans to the central bank. Staff recommended that, as a next step, the authorities should specify the size of the capital increase that is needed in each bank and set timelines for the implementation of their recapitalization plans. Staff also advised the authorities to stand ready to take additional

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[2] The *Superbond,* which currently accounts for half the outstanding public debt, has a 12-year grace period and a 10-year semi-annual repayment period starting in August 2019.

[3] These pressures derive from a scheduled increase in the interest rate on the *Superbond* from 4¼ percent to 6 percent this year and to 8½ percent in 2012; a projected decline in oil revenue beyond 2012 in the absence of new discoveries; and priority spending in infrastructure and anti-poverty programs that will result from the development plan for 2010-13.

actions, if needed. The authorities agreed on the need to develop contingency measures, if the recapitalization plans do not materialize as expected.

17. **The authorities have also intensified supervision of the overall system.** In line with Fund TA advice, the central bank has increased on-site examinations, requested more frequent reporting from the banks, and introduced regular stress testing to supplement off-site monitoring. Also, it has asked some banks to voluntarily raise provisions to adequately cover for loan-loss risks,[4] and required banks to strengthen their risk management and internal control systems to limit credit risk. For the three banks, the central bank has held frequent meetings with their management, as part of its continuous monitoring of their situation and ongoing efforts to intensify bank oversight.

18. **Staff supported the authorities' plan to strengthen the regulatory and bank resolution frameworks.** With Fund TA advice, the authorities plan to overhaul existing legislation, including with a view to introducing orderly resolution procedures. Their plan is to submit revised legislation to Parliament and seek its approval by March 2011.

19. **The authorities also intend to bring prudential rules in line with international best practice**. They have requested Fund TA to upgrade rules on loan classification and provisioning, related lending, and balance sheet concentration over the next few months, after consultation is conducted with the banks. This strategy should support the strengthening plans of the three banks and help reducing credit risk in the overall banking system.

D. Monetary and Exchange Rate Policies

20. **Staff welcomed improvements in the monetary policy framework.** The authorities have taken steps to shift to market-based government securities for monetary operations and reduce non-remunerated required reserves (Box 1). This reform should enhance the central bank's effectiveness in managing liquidity, facilitate the attainment of foreign reserve targets, and reduce the costs of financial intermediation. Staff welcomed plans to improve the liquidity forecasting capacity and develop the interbank market. Staff also encouraged the authorities to set up standing facilities to establish a corridor for interest rates and to phase out the interest rate floor on savings deposits. The authorities remained committed to a disciplined monetary policy, consistent with a fixed exchange rate.

21. **The authorities and staff were in broad agreement on the exchange rate assessment.** Staff's analysis suggests that Belize's exchange rate peg is broadly consistent with fundamentals, but external stability is still vulnerable (Box 2). With Belize's high external financing needs, the external sector is susceptible to exogenous shocks (especially, on the terms of trade, tourism receipts, interest rates, and weather events). This underscores

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[4] The authorities explained that current regulations fall short of international standards, as they require no provisioning on the collateralized portion of a distressed loan.

the need for fiscal consolidation and makes the case for a gradual further increase in the foreign reserve position to enhance the defenses against shocks.

E. Sustainable Growth and Poverty Reduction

22. **The authorities seek to reinvigorate growth prospects and reduce the poverty rate to 35 percent by 2013.** The development plan for 2010–13 focuses on job creation and identifies sources of growth in tourism, agro-industry, and fishing. It rests on five pillars: developing small enterprises; strengthening export trade capacity; enhancing human development; addressing social dislocations and reducing crime; and managing environmental and natural disaster risk. The plan seeks to strengthen competitiveness by addressing infrastructure bottlenecks, high costs of financing, and red tape. It contains investment and social plans that will be assessed and integrated into the multiyear budget and presented to donors later this year.

23. **The authorities recently announced a plan to sell shares in the telephone company (BTL) starting in October.** This company was nationalized by the government in August 2009, on the grounds that it enjoyed excessive market power resulting from privileges granted by the previous government—the Supreme Court of Belize ruled these privileges unlawful. Under the authorities' plan, a controlling majority of the company would be sold to domestic investors (including the SSB), with the remaining minority shareholdings sold to foreign investors. The authorities have indicated that they are at an early stage in the negotiations with the previous owners for compensation. Staff highlighted the need for an early resolution of this issue to avoid affecting adversely the investment climate, and encouraged the authorities to avoid placing pressure on public debt in the financing of this plan.

24. **Recent legislation on contempt of court could cloud the investment climate.**[5] In March 2010, Parliament amended the Supreme Court Judicature Act, to empower the Court to impose increased penalties or imprisonment for contempt of court. In the authorities' view, this amendment strengthens the rule of law, as it reinforces existing provisions related to contempt of the court, including by providing that international judgments or awards obtained in violation of Belize Court injunctions shall be unenforceable in Belize. However, staff cautioned that these changes may be perceived by investors as limiting the scope for arbitration in commercial disputes, with the unintended result of deterring private investment.

IV. Staff Appraisal

25. **The near-term macroeconomic outlook for Belize has improved, but key challenges have emerged.** In the wake of the global slowdown and severe floods, moderate economic growth has resumed since late 2009 and foreign reserves have strengthened,

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[5] Under the World Bank's 2010 doing business indicator, Belize ranks 80th out of 183 countries.

supported by prudent macroeconomic management. Tax revenue actions were also taken, aimed at stabilizing the high public debt ratio. However, the banking system is now facing risks, and social conditions have weakened.

26. **The macroeconomic framework will need to be further strengthened to ease Belize's vulnerability to shocks and improve growth and social prospects.** With expected sluggish growth in exports and tourism, and reduced access to external funding, prospects for growth and employment are limited. Thus, medium-term policies will need to focus on strategies to achieve debt sustainability, protect banking system stability, and further strengthen the external position to create an environment for increased private investment.

27. **The authorities' fiscal strategy should be reinforced to achieve debt sustainability, while providing space for priority social spending.** To this end, the primary surplus should be gradually raised to steadily reduce the public debt ratio. Reforms are needed to enhance tax compliance; contain the wage bill growth; and make the pension system sustainable. Moving ahead with plans to improve public financial management should help entrench fiscal consolidation. Lower debt ratios would provide additional space to respond to adverse shocks and facilitate the future rollover of amortizations falling due from the restructured external private debt.

28. **Protecting the stability of the banking system is an immediate priority.** The increase in overdue loans in three banks that account for a sizeable portion of the banking system is a source of concern. Staff welcomes the authorities' efforts to supervise banks more closely and seek agreement with shareholders on recapitalization plans for a few banks, while, strengthening credit risk controls. To mitigate risks, the authorities are strongly encouraged to ensure that the corrective plans for the three banks are rapidly implemented and, if needed, stand ready to take additional action. Staff welcomes the authorities' plans to upgrade the regulatory and bank resolution frameworks. Present plans to improve prudential rules should also help provide banks with better protection against credit risks.

29. **The fixed exchange rate appears to be broadly in line with fundamentals, but risks to external stability remain.** The fixed exchange rate has provided an adequate anchor for macroeconomic policies and expectations. While the present foreign reserve position offers some cushion to near-term risk, Belize remains vulnerable to shocks, due to persistently high external financing needs and risks in the banking system. Hence, the stability of the exchange rate system crucially depends on sustained fiscal consolidation, strengthening of the banking system, and the maintenance of a disciplined monetary stance. With these policies and a further build up of foreign reserves, Belize would have stronger defenses to downside risks.

30. **Recent improvements to the monetary policy framework are welcomed.** The gradual shift to market-based monetary instruments should provide a more flexible liquidity management, help strengthen foreign reserves further, and reduce costs to financial intermediation. Belize should make further progress in this area along the lines of previous

Fund recommendations. The authorities are encouraged to phase out the remaining interest rate floor on savings deposits.

31. **The authorities' development plan provides a basis to raise growth potential and reduce poverty.** It rightly identifies key sectors with growth potential and envisages strategies to improve competitiveness. Implementing this plan will require the mobilization of public and private investment and the support from multilaterals and donors. Priority public investment and social projects will need to be adequately integrated into the medium-term budgeting framework and consistent with fiscal consolidation. Fostering private investment will also require a substantial improvement in the business climate, including with clear and stable rules.

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

Box 1. Belize—Improvements to the Framework for Monetary Policy

The authorities have taken steps to gradually introduce market-based government securities for liquidity management and strengthen the conduct of monetary policy.

1. **Traditionally, monetary policy had been conducted through direct instruments.** These instruments have included liquidity asset requirements (equivalent to 23 percent of deposits at present), part of which held in non-remunerated cash reserve requirements. With liquidity unevenly distributed across banks, increases in reserve or liquid asset requirements had placed an undue burden on banks with low liquidity and often failed to mop up the desired funds. In addition, the ceiling on the outstanding stock of government securities had been set at a relatively low level, which had led the central government to use its overdraft facility at the central bank on a protracted basis.

2. **In line with Fund advice, in early 2010 the authorities introduced market-based government securities to manage liquidity**:

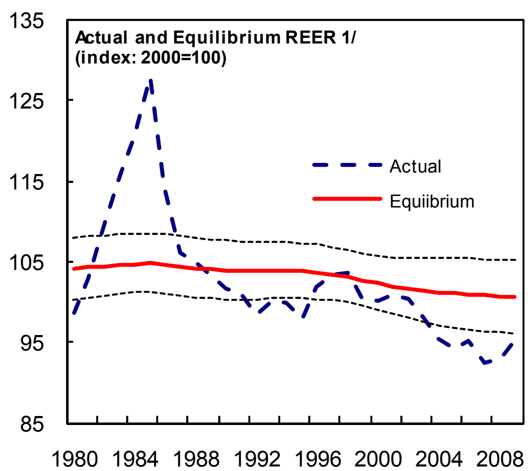
- In April 2010, the ceiling on outstanding government securities was raised significantly (from BZ$175 million to BZ$425 million), and the maturity of the securities increased from 5 years to 10 years.
- To allow the central bank to conduct open market operations, the government issued securities to the central bank, with a view to virtually closing the overdraft facility. In the future, the overdraft facility is to be used primarily for emergency situations. Its ceiling has been lowered from 20 percent of the government's current revenue in the previous fiscal year to 8.5 percent, and the ceiling on central bank holdings of government securities raised from 7 times its capital to 10 times.
- In May 2009, the interest rate ceiling on government securities (3.25 percent) was eliminated and competitive auctions were introduced.
- Within the liquid asset requirement, which has remained unchanged at 23 percent of deposits, the cash reserve requirement has been lowered from 10 percent to 8.5 percent and a minimum requirement on holdings of short-term government securities, equivalent to 6.5 percent of deposits, has been introduced.

3. **The central bank has taken additional actions to improve liquidity management**. In particular, it has been improving its capacity for liquidity forecasting, to adequately assess the amount of government securities to be placed through the auctions. In August 2009, the central bank converted the fixed interest rate (11 percent) on interbank market transactions into a ceiling, and recent transactions have taken place at interest rates below 7 percent. In April 2010, it prohibited firms under the export processing zone (EPZ) to make domestic payments in U.S. dollars and required firms in the EPZ and the commercial free zone to register with the central bank all their operations with offshore banks. This is intended to raise the transactional demand for domestic currency while strengthening existing capital controls.

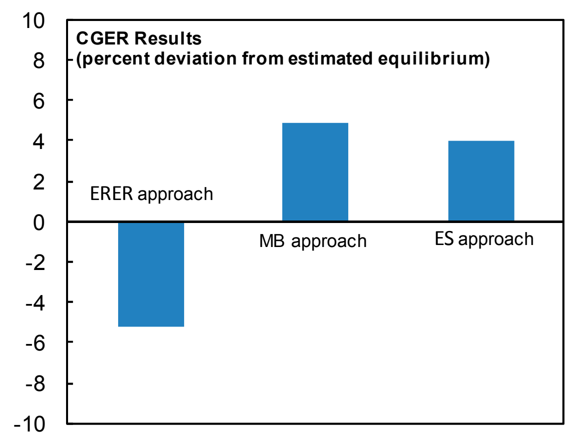
Box 2. Belize—Exchange Rate Assessment and External Stability

- **In real effective terms, Belize's currency has recently appreciated, after a period of steady depreciation.** From June 2008—when it reached its lowest level since 1980—to March 2010, it appreciated by 3.5 percent, largely driven by a temporary increase in domestic inflation and the strengthening of the U.S. dollar. In contrast, it had depreciated by 10.2 percent over the preceding 10-year period, reflecting in part low domestic inflation in Belize relative to its trading partners.

- **Based on CGER methodology, the exchange rate appears to be broadly in line with its equilibrium level and consistent with external stability.** The equilibrium real exchange rate (ERER) has depreciated slightly over time as a result of a steady decline in the economy's net foreign asset position and a weakening in the terms of trade. Notwithstanding, the ERER approach suggests that the Belize dollar still remained slightly undervalued at end-2009 (by 5 percent). The external sustainability (ES) approach suggests that a small depreciation (4 percent) would stabilize the net foreign asset position, while the macroeconomic balance (MB) approach also points to a small depreciation (5 percent) to bring the projected external current account deficit (nearly 8 percent of GDP) down to its norm level (5.5 percent of GDP) over the medium term.

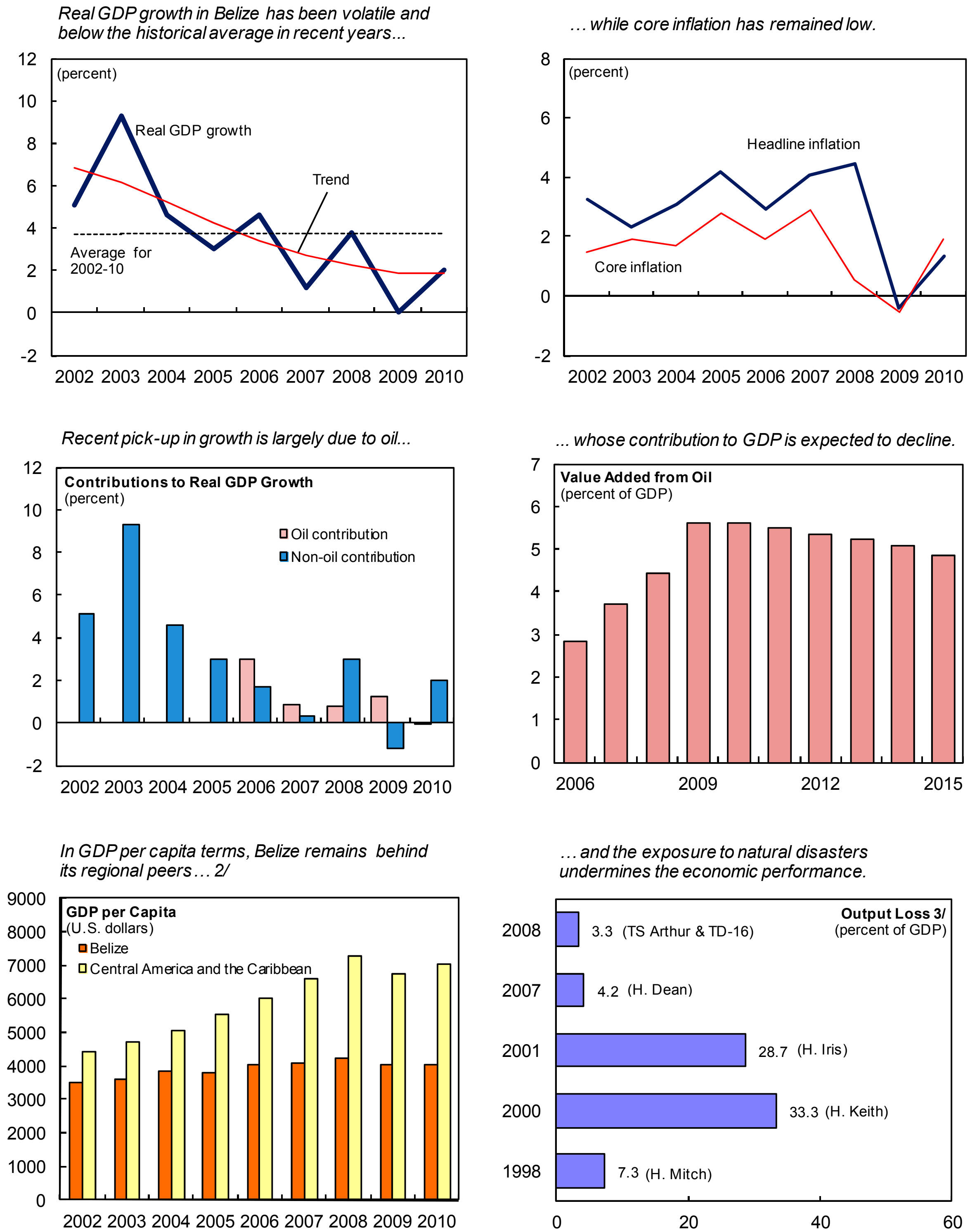


1/ The dotted lines around the equilibrium exchange rate represent 90 percent confidence intervals of the prediction.



- **The external debt sustainability analysis also confirms these results, although it signals some vulnerability** (Appendix II). Under present policies and the fixed exchange rate, the projected non-interest current account deficit is consistent with a moderately declining external debt-to-GDP ratio through 2015. However, the external financing needs would remain high, leaving the external sector vulnerable to exogenous shocks.

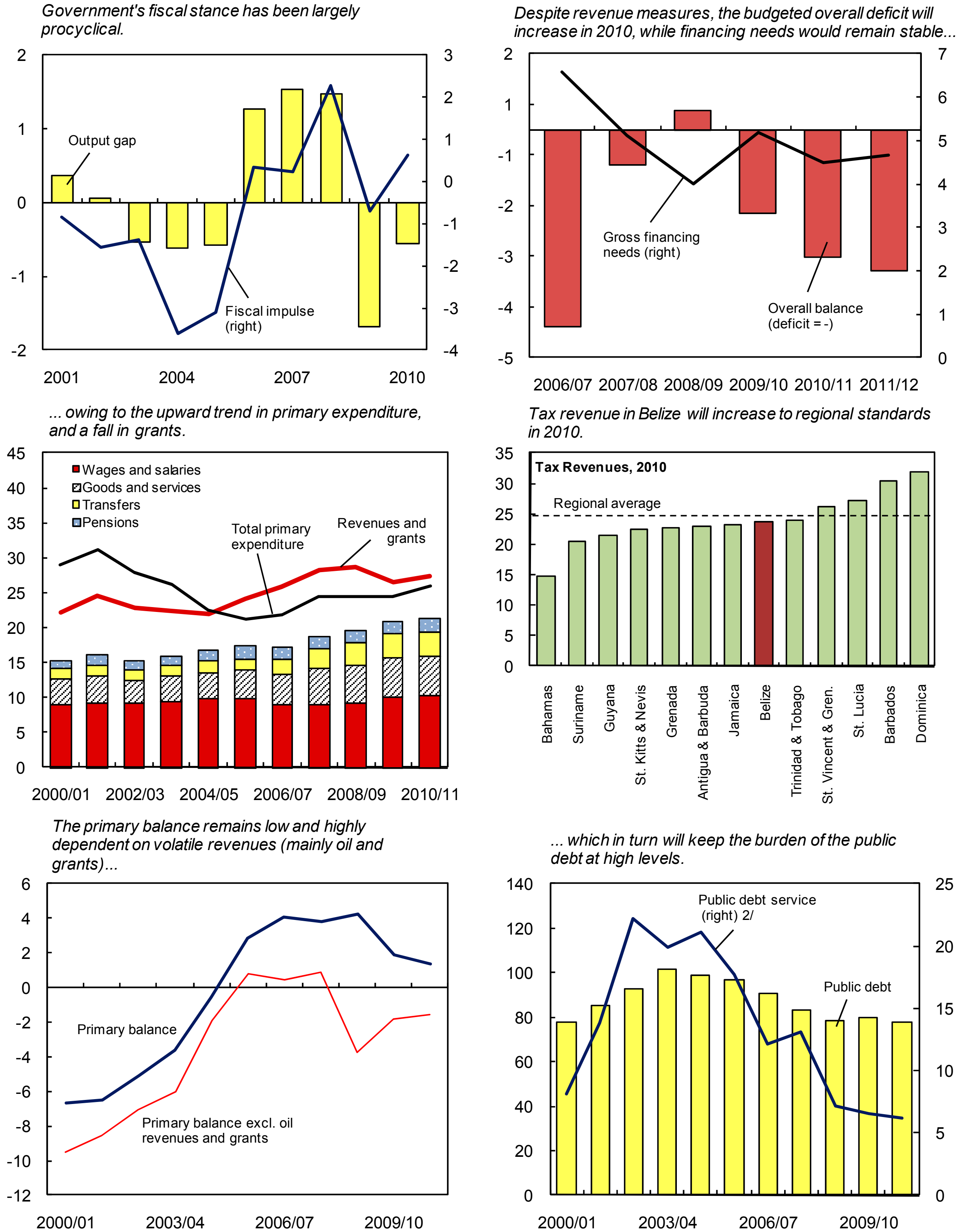
Figure 1. Belize: Real Sector Developments 1/



Sources: Belize authorities; World Economic Outlook; EM-DAT Database; and Fund staff estimates.
1/ Preliminary data for 2009 and projections for 2010 and beyond.
2/ Countries in the region include Barbados, Costa Rica, ECCU, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago.
3/ TS: Tropical Storm. TD: Tropical Depression. H: Hurricane.

Figure 2. Belize: Fiscal Developments 1/

(In percent of GDP)

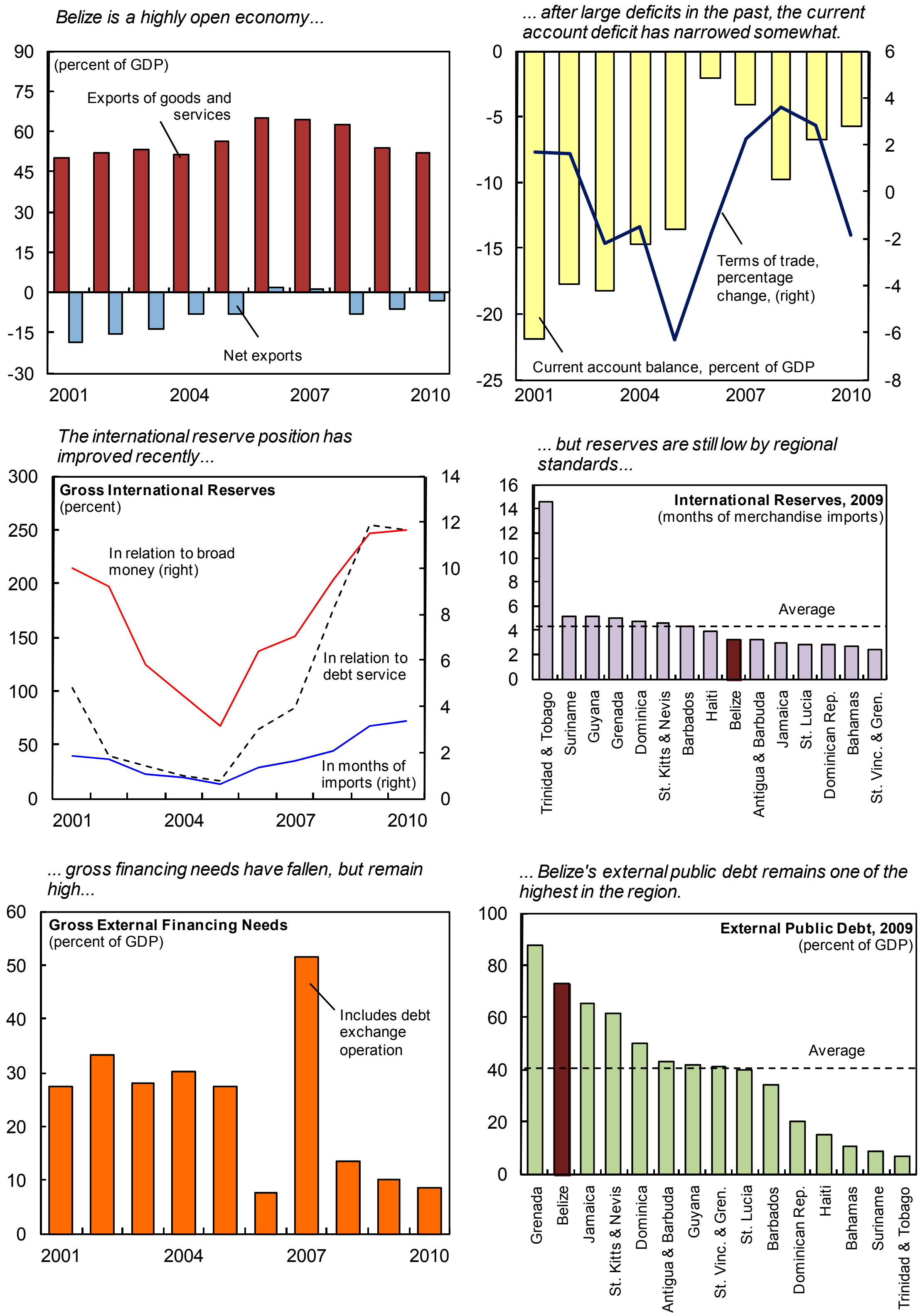


Sources: Country authorities; and Fund staff estimates.

1/ Preliminary data for 2009 and projections for 2010 and beyond.

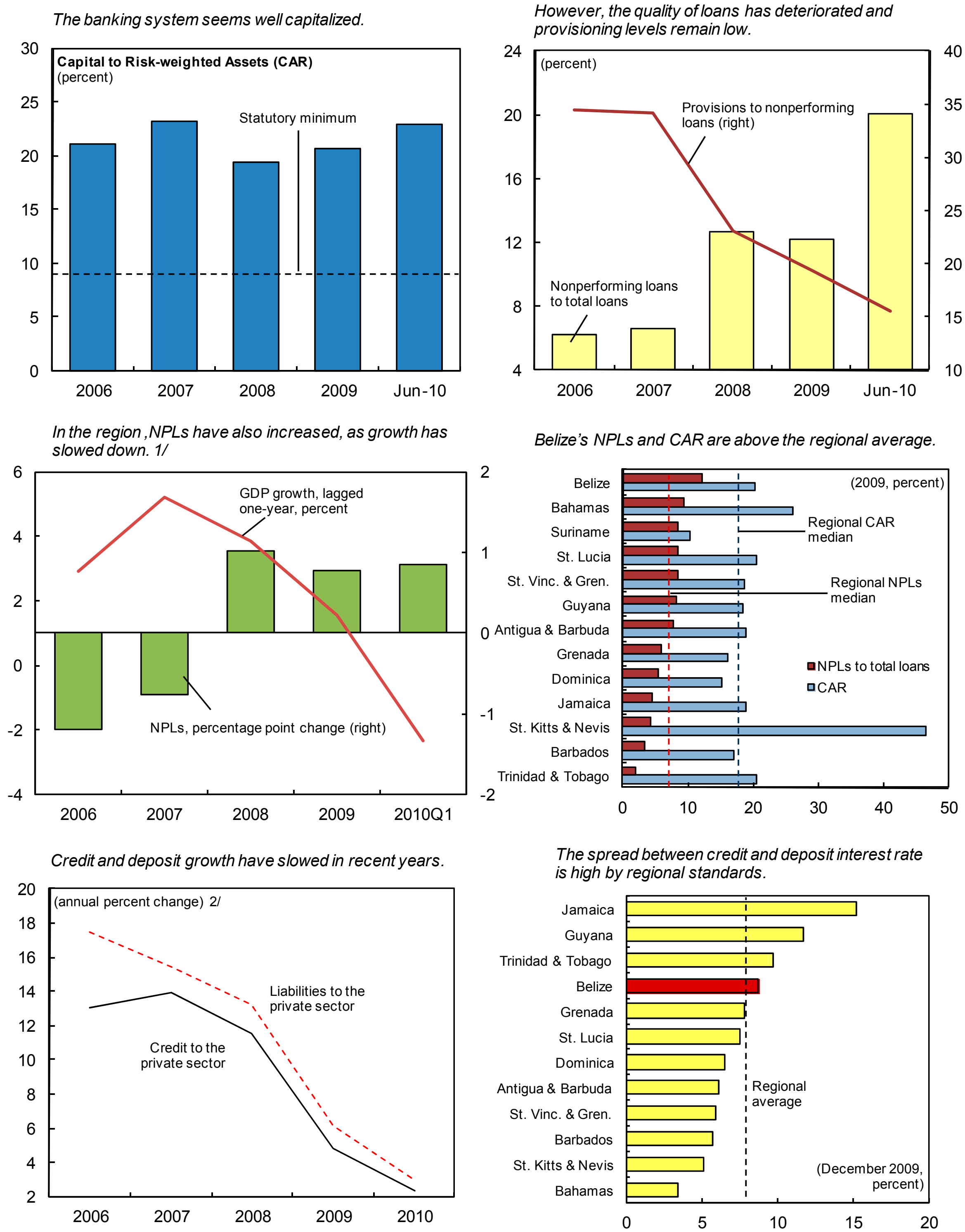
2/ Excluding amortization and interest payments of the debt exchange operation in 2007.

Figure 3. Belize: External Sector Developments 1/



Sources: Central Bank of Belize; and Fund staff estimates.
1/ Projections for 2010.

Figure 4. Belize: Financial Stability (Commercial Banks)



Sources: Central Bank of Belize; National authorities; and Fund staff estimates.
1/ NPLs measured as impaired loans to gross loans for each country. Countries in the region includes Antigua and Barbuda, Bahamas, Barbados, Belize, Guyana, Jamaica, and Suriname.
2/ Projection for 2010.

Table 1. Belize: Selected Economic Indicators, 2005-11 (Baseline Scenario)

					Prel.	Projections	
	2005	2006	2007	2008	2009	2010	2011
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	3.0	4.7	1.2	3.8	0.0	2.0	2.3
Of which: oil output	0.0	3.0	0.9	0.8	1.2	0.0	-0.1
GDP deflator	2.4	4.0	4.0	2.6	-0.5	3.8	2.5
Consumer prices (end of period)	4.2	2.9	4.1	4.4	-0.4	5.9	2.5
Gross domestic investment 1/ 2/	21.6	17.7	16.9	27.5	22.0	23.0	22.0
Gross national savings 1/	8.0	15.6	12.9	17.7	15.2	17.3	15.3
External sector							
Exports of goods and services	15.3	26.0	4.3	3.0	-14.1	1.8	6.6
Imports of goods and services	13.9	6.9	6.0	18.2	-15.6	-2.9	7.2
Terms of trade (deterioration -)	-5.9	-1.2	2.0	3.2	2.8	-1.8	-2.3
Nominal effective exchange rate (June for 2010)	-1.4	-0.3	-2.1	-1.2	3.9	1.4	...
Real effective exchange rate (June for 2010)	-1.2	0.9	-2.9	0.5	2.5	2.3	...
Money and credit							
Credit to the private sector	11.3	13.1	13.9	11.6	4.8	2.4	5.5
Money and quasi-money (M2)	5.9	17.3	15.0	14.0	5.8	2.9	4.8
Weighted average lending rates (in percent; July for 2010)	14.3	14.2	14.3	14.1	14.0	13.9	...
(In percent of GDP)							
Central government 3/							
Revenue and grants	24.1	25.8	28.2	28.7	26.4	27.4	27.5
Of which: oil	0.0	0.4	1.0	1.5	1.2	1.7	1.6
grants	1.0	1.5	1.0	3.2	1.2	0.6	0.6
Current expenditure	23.6	25.1	23.2	23.4	24.4	25.3	25.6
Capital expenditure and net lending	4.0	4.6	5.7	4.9	3.7	4.7	4.6
Primary balance	3.0	4.1	3.8	4.2	1.9	1.4	1.5
Overall balance	-3.3	-3.9	-0.7	0.4	-1.6	-2.5	-2.8
External sector							
External current account 4/	-13.6	-2.1	-4.0	-9.8	-6.8	-5.7	-6.7
Public and publicly guaranteed debt	101.4	92.5	84.8	78.2	80.2	78.1	77.2
Domestic debt	10.6	8.7	8.2	7.4	7.1	7.0	8.0
External debt	90.8	83.9	76.6	70.8	73.1	71.2	69.2
Debt service 5/ 6/	20.1	11.5	10.6	10.4	6.2	6.2	6.2
In percent of exports of goods and services	36.6	17.7	16.4	16.7	11.6	12.0	11.8
In percent of government current revenue	90.7	49.5	41.5	40.0	25.5	23.7	23.2
(In millions of U.S. dollars, unless otherwise indicated)							
Overall balance of payments	-12	50	23	59	47	8	-19
Exports of goods and services	627	790	824	849	729	742	791
Imports of goods and services	715	764	810	958	808	785	842
Gross international reserves 7/	36	86	109	167	214	222	203
In percent of projected 12-month gross external financing needs	12	93	89	91	158	180	145
In percent of projected 12-month external public debt service	34	61	16	118	254	250	218
In months of imports	0.6	1.3	1.6	2.1	3.2	3.4	2.9
Nominal GDP	1,115	1,213	1,277	1,359	1,352	1,431	1,500
Nominal GDP (in BZ$ millions)	2,230	2,426	2,554	2,717	2,703	2,863	3,000

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

1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Fiscal year ends in March.
4/ Including official grants.
5/ Public and publicly guaranteed external debt.
6/ Disbursement and amortization are net of the debt exchange operation in 2007.
7/ For 2009, includes the share of Belize in the special and general SDR allocations in the equivalent of SDR 18 million (US$28 million).

Table 2a. Belize: Operations of the Central Government (Baseline and Active Scenarios) 1/
(In millions of Belize dollars)

					Staff Baseline Projection		Staff Active Projection	
				Budget				
	2007/08	2008/09	2009/10	2010/11	2010/11	2011/12	2010/11	2011/12
Revenue and grants	**731**	**778**	**724**	**812**	**793**	**834**	**813**	**883**
Revenue	**706**	**691**	**691**	**789**	**775**	**816**	**790**	**859**
Of which: Non-oil revenue	680	650	658	740	727	767	741	810
Current revenue	676	686	686	784	771	812	786	853
Tax revenue	592	594	598	704	689	726	703	749
Of which : Petroleum Operations	15	24	21	30	30	30	30	30
General Sales Tax	174	176	158	207	202	212	207	217
Nontax revenue	84	92	88	81	82	88	83	105
Of which : Petroleum Operations	11	17	12	19	19	19	19	19
Capital revenue	30	4	5	5	4	4	4	6
Grants	**25**	**87**	**34**	**23**	**18**	**18**	**23**	**24**
Total expenditure	**749**	**767**	**769**	**876**	**867**	**919**	**839**	**856**
Current expenditure	601	634	669	722	732	779	703	714
Wages and salaries	234	250	274	291	297	311	286	290
Pensions	42	48	48	50	54	58	52	52
Goods and services	133	147	158	165	165	173	163	159
Interest payments	117	104	96	119	114	130	114	125
Transfers	76	85	93	96	102	106	88	88
Capital expenditure and net lending	148	134	101	155	135	140	136	142
Capital expenditure	134	130	97	148	128	133	133	139
Domestically financed expenditure (Capital II)	72	79	54	65	51	49	70	70
Foreign financed expenditure (Capital III)	62	52	44	83	77	84	63	69
Net lending	13	3	3	7	7	7	3	3
Primary balance	**99**	**114**	**52**	**54**	**41**	**46**	**88**	**152**
Nongrant, non-oil primary balance	**48**	**-14**	**-15**	**-17**	**-26**	**-21**	**16**	**79**
Overall balance	**-18**	**10**	**-45**	**-65**	**-73**	**-84**	**-26**	**27**
Financing	**18**	**-10**	**45**	**65**	**73**	**84**	**26**	**-27**
Domestic	-25	-15	15	27	24	45	0	0
External	43	5	30	38	49	39	26	-27
Disbursements	163	86	102	101	113	97	86	35
Amortization	-120	-81	-72	-63	-64	-58	-60	-62
Memorandum items:								
Nominal GDP	2,594	2,714	2,743	2,897	2,897	3,038	2,897	3,046
Non-interest expenditure	633	663	673	757	753	789	725	731
Oil revenue	26	41	33	49	49	49	49	49

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

1/ Fiscal year ends in March.

Table 2b. Belize: Operations of the Central Government (Baseline and Active Scenarios) 1/
(In percent of GDP; unless otherwise indicated)

				Budget	Staff Baseline Projection		Staff Active Projection	
	2007/08	2008/09	2009/10	2010/11	2010/11	2011/12	2010/11	2011/12
Revenue and grants	**28.2**	**28.7**	**26.4**	**28.0**	**27.4**	**27.5**	**28.1**	**29.0**
Revenue	**27.2**	**25.5**	**25.2**	**27.2**	**26.8**	**26.9**	**27.3**	**28.2**
Of which: Non-oil revenue	26.2	23.9	24.0	25.6	25.1	25.2	25.6	26.6
Current revenue	26.1	25.3	25.0	27.1	26.6	26.7	27.1	28.0
Tax revenue	22.8	21.9	21.8	24.3	23.8	23.9	24.3	24.6
Of which : Petroleum Operations	0.6	0.9	0.8	1.0	1.0	1.0	1.0	1.0
General Sales Tax	6.7	6.5	5.7	7.1	7.0	7.0	7.1	7.1
Nontax revenue	3.2	3.4	3.2	2.8	2.8	2.9	2.9	3.4
Of which : Petroleum Operations	0.4	0.6	0.4	0.7	0.7	0.6	0.7	0.6
Capital revenue	1.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2
Grants	**1.0**	**3.2**	**1.2**	**0.8**	**0.6**	**0.6**	**0.8**	**0.8**
Total expenditure	**28.9**	**28.3**	**28.0**	**30.2**	**29.9**	**30.2**	**29.0**	**28.1**
Current expenditure	23.2	23.4	24.4	24.9	25.3	25.6	24.3	23.4
Wages and salaries	9.0	9.2	10.0	10.1	10.3	10.3	9.9	9.5
Pensions	1.6	1.8	1.8	1.7	1.9	1.9	1.8	1.7
Goods and services	5.1	5.4	5.7	5.7	5.7	5.7	5.6	5.2
Interest payments	4.5	3.8	3.5	4.1	3.9	4.3	3.9	4.1
Transfers	2.9	3.1	3.4	3.3	3.5	3.5	3.0	2.9
Capital expenditure and net lending	5.7	4.9	3.7	5.3	4.7	4.6	4.7	4.7
Capital expenditure	5.2	4.8	3.5	5.1	4.4	4.4	4.6	4.6
Domestically financed expenditure (Capital II)	2.8	2.9	2.0	2.3	1.8	1.6	2.4	2.3
Foreign financed expenditure (Capital III)	2.4	1.9	1.6	2.9	2.7	2.8	2.2	2.3
Net lending	0.5	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Primary balance	**3.8**	**4.2**	**1.9**	**1.9**	**1.4**	**1.5**	**3.0**	**5.0**
Nongrant, non-oil primary balance	**1.8**	**-0.5**	**-0.6**	**-0.6**	**-0.9**	**-0.7**	**0.6**	**2.6**
Overall balance	**-0.7**	**0.4**	**-1.6**	**-2.2**	**-2.5**	**-2.8**	**-0.9**	**0.9**
Financing	**0.7**	**-0.4**	**1.6**	**2.2**	**2.5**	**2.8**	**0.9**	**-0.9**
Domestic	-1.0	-0.6	0.6	0.9	0.8	1.5	0.0	0.0
External	1.7	0.2	1.1	1.3	1.7	1.3	0.9	-0.9
Disbursements	6.3	3.2	3.7	3.5	3.9	3.2	3.0	1.2
Amortization	-4.6	-3.0	-2.6	-2.2	-2.2	-1.9	-2.1	-2.0
Memorandum items:								
Nominal GDP (in BZ$ millions)	2,594	2,714	2,743	2,897	2,897	3,038	2,897	3,046
Non-interest expenditure	24.4	24.4	24.5	26.1	26.0	26.0	25.0	24.0
Oil revenue	1.0	1.5	1.2	1.7	1.7	1.6	1.7	1.6

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

1/ Fiscal year ends in March.

Table 3. Belize: Operations of the Banking System, 2005–11 (Baseline Scenario)

						Projections	
	2005	2006	2007	2008	2009	2010	2011
	(In millions of Belize dollars)						
Central Bank of Belize (CBB)							
Net foreign assets 1/	140	169	215	329	364	380	341
Net international reserves	140	169	215	329	420	436	397
Medium-term foreign liabilities 2/	0	0	0	0	-56	-56	-56
Net domestic assets	116	153	121	53	65	62	122
Credit to the public sector (net)	146	144	148	89	90	87	147
Central government	135	179	184	124	117	115	176
Other public sector	11	-35	-37	-35	-26	-27	-28
Claims on commercial banks	0	0	0	0	0	0	0
Capital and other assets (net)	-30	9	-26	-36	-26	-26	-26
Base Money	255	321	336	383	429	441	462
Currency issue	143	169	186	193	192	205	215
Reserves of commercial banks	112	152	150	190	237	236	248
Commercial banks							
Net foreign assets	-33	55	136	95	130	130	130
Net claims on central bank	138	185	183	229	274	282	296
Net domestic assets	1,244	1,351	1,528	1,699	1,757	1,813	1,906
Credit to the public sector (net)	-14	-48	-55	-53	-76	-69	-90
Central government	48	23	47	88	92	100	81
Other public sector	-62	-71	-102	-140	-167	-169	-171
Credit to the private sector	1,352	1,528	1,740	1,942	2,036	2,084	2,199
Other assets (net)	-94	-129	-157	-190	-203	-203	-203
Liabilities to the private sector	1,349	1,590	1,847	2,024	2,161	2,225	2,332
Monetary survey							
Net foreign assets	107	261	351	425	494	509	471
Net domestic assets	1,359	1,467	1,649	1,753	1,822	1,874	2,028
Credit to the public sector (net)	132	96	92	37	15	19	58
Central government	182	202	231	212	208	215	257
Other public sector	-50	-106	-138	-175	-194	-197	-200
Credit to private sector (by comm. banks)	1,352	1,528	1,740	1,942	2,036	2,084	2,199
Other items (net)	-125	-157	-184	-225	-229	-229	-229
Liabilities to the private sector	1,466	1,728	2,000	2,178	2,316	2,384	2,498
Money and quasi-money (M2)	1,142	1,338	1,539	1,754	1,855	1,910	2,002
Currency in circulation	118	137	153	154	155	159	167
Deposits	1,024	1,201	1,386	1,601	1,701	1,751	1,835
Foreign currency deposits	57	68	79	59	60	62	65
Capital and reserves of commercial banks	268	321	382	364	400	411	431
	(In millions of U.S. dollars)						
Net international reserves of the CBB	70	84	108	165	210	218	198
	(In percent change, unless otherwise indicated)						
Memorandum items:							
Private sector deposits in local currency	6.4	17.3	15.4	15.5	6.3	2.9	4.8
Base money	11.1	25.9	4.6	13.9	11.9	2.9	4.8
Credit to private sector (by comm. banks)	11.3	13.1	13.9	11.6	4.8	2.4	5.5
Money and quasi-money (M2)	5.9	5.6	15.0	14.0	5.8	2.9	4.8
Net international reserves to M2 (percent)	12.2	12.6	14.0	18.8	22.6	22.8	19.8
Required cash reserve ratio (percent)	8.0	10.0	10.0	10.0	10.0	8.5	8.5
Loan-deposit ratio	125.1	120.4	118.8	117.0	115.6	115.0	115.7

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

1/ Includes Central Government's foreign assets.
2/ Includes SDR allocation.

Table 4. Belize: Balance of Payments, 2005–15 (Baseline Scenario)

	2005	2006	2007	2008	2009	Projections 2010	2011	2012	2013	2014	2015
(In millions of U.S. dollars)											
Current account balance	**-151**	**-25**	**-52**	**-133**	**-92**	**-82**	**-100**	**-89**	**-115**	**-131**	**-145**
Trade balance	-231	-185	-216	-326	-262	-244	-256	-248	-267	-286	-297
Total exports, f.o.b.	325	427	426	462	384	380	413	453	487	514	545
Of which:											
Oil	0	39	64	114	84	109	113	118	122	123	126
Total imports, fob	-556	-612	-642	-788	-647	-624	-669	-702	-754	-800	-842
Of which:											
Fuel and lubricants	-92	-99	-102	-123	-86	-109	-115	-123	-126	-129	-132
Services	143	211	230	217	183	201	205	218	224	237	245
Income	-114	-125	-159	-136	-115	-129	-139	-149	-164	-176	-189
Of which:											
Public sector interest payments	-71	-67	-59	-44	-40	-48	-54	-61	-72	-80	-89
Current transfers	51	74	93	112	103	90	89	91	92	94	96
Private (net)	48	65	78	89	81	80	80	81	82	83	85
Official (net)	3	8	16	23	22	11	9	9	10	10	11
Capital and financial account balance	**147**	**83**	**114**	**235**	**120**	**90**	**81**	**89**	**126**	**141**	**154**
Capital transfers	3	9	4	9	18	1	1	1	1	1	1
Public sector	61	17	8	-15	39	21	8	13	47	58	67
Of which:											
Change in assets	0	0	-2	-2	0	0	0	0	0	0	0
Change in liabilities 1/	61	17	-9	-13	39	21	8	13	47	58	67
Disbursements 2/	214	84	65	42	88	62	48	52	86	96	109
Central government	214	84	65	42	53	61	48	52	86	96	109
Amortization	-153	-66	-69	-51	-44	-41	-39	-38	-39	-38	-42
Central government	-144	-61	-58	-46	-35	-30	-29	-28	-32	-34	-40
Securitisation		0	-4	-5	-5	0	0	0	0	0	0
Private sector 3/	83	57	102	241	63	68	71	74	78	82	86
Of which:											
Foreign Direct Investment	127	109	139	190	95	68	71	74	78	82	86
Errors and omissions	**-8**	**-8**	**-39**	**-44**	**19**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-12**	**50**	**23**	**59**	**47**	**8**	**-19**	**0**	**11**	**10**	**9**
Financing	**12**	**-50**	**-23**	**-59**	**-47**	**-8**	**19**	**0**	**-11**	**-10**	**-9**
Change in reserves (- increase)	12	-50	-23	-59	-47	-8	19	2	-7	-9	-9
IMF (net)	0	0	0	0	0	0	0	-3	-4	-1	0
(In percent of GDP, unless otherwise stated)											
Memorandum items:											
Gross international reserves (US$ millions)	36	86	109	167	214	222	203	201	208	217	226
In percent of gross external financing needs	11.7	93.2	89.4	90.7	157.6	180.1	145.5	158.0	134.6	127.6	120.2
In percent of total debt service	33.8	61.0	16.0	117.8	254.4	250.4	217.7	201.5	186.9	182.8	172.4
In months of imports	0.6	1.3	1.6	2.1	3.2	3.4	2.9	2.7	2.6	2.6	2.6
Current account balance	-13.6	-2.1	-4.1	-9.8	-6.8	-5.7	-6.7	-5.6	-7.0	-7.6	-8.0
Trade balance	-20.7	-15.2	-17.0	-24.0	-19.4	-17.0	-17.1	-15.8	-16.1	-16.4	-16.2
Capital and financial account balance	13.2	6.9	8.9	17.3	8.9	6.3	5.4	5.7	7.6	8.1	8.4
Private sector	7.5	4.8	8.0	17.8	4.7	4.8	4.8	4.8	4.8	4.8	4.8
Public sector	5.7	2.1	0.9	-0.5	4.1	1.5	0.6	0.9	2.8	3.3	3.6
Overall balance	-1.1	4.1	1.8	4.3	3.5	0.6	-1.3	0.0	0.7	0.6	0.5

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

1/ Disbursements and amortization are net of the debt exchange operation in 2007.
2/ Includes the general and special SDR allocations in 2009.
3/ Detailed data on private sector flows are not available.

Table 5a. Belize: Medium-Term Outlook, 2005–19 (Baseline Scenario)

						Projections									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(Annual percentage change)															
Real economy															
GDP at constant prices	3.0	4.7	1.2	3.8	0.0	2.0	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Of which: oil output	0.0	3.0	0.9	0.8	1.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.7	-0.6	-0.5	-0.5
GDP at current market prices	5.5	8.8	5.2	6.4	-0.5	5.9	4.8	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Prices (GDP deflator)	2.4	4.0	4.0	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
(In percent of GDP, unless otherwise indicated)															
National accounts															
Consumption	86.3	80.2	82.1	80.6	83.9	80.0	81.4	81.9	82.6	82.8	82.9	83.2	83.5	84.6	85.3
Gross domestic investment 1/	21.6	17.7	16.9	27.5	22.0	23.0	22.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Net exports	-7.9	2.1	1.1	-8.0	-5.9	-3.0	-3.4	-1.9	-2.6	-2.8	-2.9	-3.2	-3.5	-4.6	-5.3
Gross national savings	8.0	15.6	12.9	17.7	15.2	17.3	15.3	14.4	13.0	12.4	12.0	11.5	10.8	9.4	8.2
Central government 2/															
Revenue and grants	23.4	24.8	29.2	29.5	25.9	27.1	27.5	27.5	27.4	27.4	27.3	27.1	27.0	26.8	26.6
Of which : oil revenue	0.0	0.2	0.9	1.6	0.9	1.6	1.6	1.6	1.6	1.5	1.5	1.3	1.1	0.9	0.8
Total expenditure	28.9	26.5	30.4	27.9	28.8	29.5	30.1	30.5	31.1	31.3	31.5	31.6	31.7	31.8	32.0
Noninterest expenditure	21.4	20.7	25.1	24.1	25.2	25.6	26.0	25.9	25.9	25.9	25.8	25.6	25.5	25.3	25.1
Primary balance	2.0	4.0	4.1	5.4	0.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Interest	6.6	5.8	5.3	3.9	3.6	3.9	4.2	4.6	5.2	5.4	5.7	5.9	6.2	6.5	6.8
Overall balance	-5.4	-1.8	-1.2	1.5	-2.9	-2.4	-2.6	-3.1	-3.7	-3.9	-4.1	-4.4	-4.7	-5.0	-5.3
External sector															
Current account balance	-13.6	-2.1	-4.0	-9.8	-6.8	-5.7	-6.7	-5.6	-7.0	-7.6	-8.0	-8.5	-9.2	-10.6	-11.8
Of which: exports of goods and services	56.2	65.1	64.5	62.5	53.9	51.8	52.7	54.0	54.5	54.7	54.9	55.0	55.3	55.4	56.0
Of which: petroleum exports	0.0	3.2	5.0	8.4	6.2	7.6	7.5	7.5	7.3	7.1	6.9	5.9	5.0	4.3	3.7
Of which: imports of goods and services	-64.1	-63.0	-63.5	-70.5	-59.8	-54.9	-56.1	-55.9	-57.1	-57.5	-57.7	-58.2	-58.8	-60.0	-61.3
Capital and financial account	13.2	6.9	8.0	17.3	8.9	6.3	5.4	5.7	7.6	8.1	8.4	8.7	9.1	9.5	9.7
Public sector disbursements 3/	19.2	6.9	6.1	3.1	6.5	4.4	3.2	3.3	5.2	5.5	6.0	6.1	6.4	9.9	11.6
Public sector amortization 3/	-13.8	-5.5	-4.8	-3.8	-3.3	-2.9	-2.6	-2.4	-2.4	-2.2	-2.3	-2.2	-2.0	-5.2	-6.6
Other capital and fin. account transactions 4/	7.7	5.4	6.8	18.0	5.6	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Change in reserves (- increase)	1.1	-4.1	-1.8	-4.3	-3.5	-0.6	1.3	0.1	-0.4	-0.5	-0.5	-0.2	0.1	1.2	2.0
Gross official reserves (in months of imports)	0.6	1.3	1.6	2.1	3.2	3.4	2.9	2.7	2.6	2.6	2.6	2.5	2.3	1.9	1.4
Public and publicly guaranteed debt	**101.4**	**92.5**	**84.8**	**78.2**	**80.2**	**78.1**	**77.2**	**76.6**	**76.5**	**76.8**	**77.2**	**77.9**	**78.8**	**80.1**	**81.5**
Domestic	10.6	8.7	8.2	7.4	7.1	7.0	8.0	9.3	9.2	9.1	9.1	9.0	8.8	8.7	8.6
External	90.8	83.9	76.6	70.8	73.1	71.2	69.2	67.3	67.3	67.6	68.2	68.9	70.0	71.3	72.9

Source: Fund staff projections.

1/ Excludes discrepancy in external savings from the balance of payments.
2/ Fiscal projections are on a calendar year basis.
3/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.
4/ Includes errors and omissions.

Table 5b. Belize: Medium-Term Outlook, 2005–19 (Active Scenario)

						Projections									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(Annual percentage change)															
Real economy															
GDP at constant prices	3.0	4.7	1.2	3.8	0.0	2.0	2.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Of which: oil output	0.0	3.0	0.9	0.8	1.2	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-0.8	-0.6	-0.5	-0.5
GDP at current market prices	5.5	8.8	5.2	6.4	-0.5	5.9	4.8	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Prices (GDP deflator)	2.4	4.0	4.0	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
(In percent of GDP, unless otherwise indicated)															
National accounts															
Consumption	86.3	80.2	82.1	80.6	83.9	78.8	79.4	79.0	78.6	78.6	78.3	78.2	78.2	78.4	78.0
Gross domestic investment 1/	21.6	17.7	16.9	27.5	22.0	24.0	22.5	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Net exports	-7.9	2.1	1.1	-8.0	-5.9	-2.8	-1.9	-1.0	-0.6	-0.6	-0.3	-0.2	-0.2	-0.4	0.0
Gross national savings	8.0	15.6	12.9	17.7	15.2	18.6	17.5	17.3	17.4	17.4	17.8	18.0	18.2	18.1	18.7
Central government 2/															
Revenue and grants	23.4	24.8	29.2	29.5	25.9	27.6	28.9	28.6	28.6	28.5	28.5	28.3	28.1	27.9	27.8
Of which : oil revenue	0.0	0.2	0.9	1.6	0.9	1.6	1.6	1.6	1.5	1.5	1.4	1.2	1.0	0.8	0.7
Total expenditure	28.9	26.5	30.4	27.9	28.8	28.8	28.3	28.4	28.5	28.3	27.9	27.5	27.0	26.6	26.2
Noninterest expenditure	21.4	20.7	25.1	24.1	25.2	24.9	24.3	24.2	24.0	24.1	24.0	23.8	23.6	23.4	23.2
Primary balance	2.0	4.0	4.1	5.4	0.7	2.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Interest	6.6	5.8	5.3	3.8	3.7	3.9	4.0	4.2	4.4	4.2	3.9	3.7	3.5	3.2	3.0
Overall balance	-5.4	-1.7	-1.2	1.5	-2.9	-1.1	0.5	0.2	0.1	0.3	0.6	0.8	1.0	1.3	1.5
External sector															
Current account balance	-13.6	-2.1	-4.0	-9.8	-6.8	-5.4	-5.0	-4.7	-4.6	-4.6	-4.2	-4.0	-3.8	-3.9	-3.3
Of which: exports of goods and services	56.2	65.1	64.5	62.5	53.9	54.2	54.6	54.8	55.3	56.2	57.3	57.6	57.9	57.9	58.6
Of which: petroleum exports	0.0	3.2	5.0	8.4	6.2	7.6	7.5	7.4	7.2	6.9	6.6	5.6	4.8	4.0	3.4
Of which: imports of goods and services	-64.1	-63.0	-63.5	-70.5	-59.8	-57.0	-56.5	-55.9	-55.9	-56.8	-57.6	-57.9	-58.1	-58.3	-58.5
Capital and financial account	13.2	6.9	8.0	17.3	8.9	7.1	5.4	5.7	6.0	6.1	5.9	5.7	5.4	5.2	5.0
Public sector disbursements 3/	19.2	6.9	6.1	3.1	7.3	3.4	1.4	2.1	1.8	1.6	1.5	1.1	0.8	0.7	1.2
Public sector amortization 3/	-13.8	-5.5	-4.8	-3.8	-3.3	-2.9	-2.6	-2.9	-2.3	-2.2	-2.1	-2.0	-1.9	-2.1	-2.8
Other capital and fin. account transactions 4/	7.7	5.4	6.8	18.0	4.8	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Change in reserves (- increase)	1.1	-4.1	-1.8	-4.3	-3.5	-1.7	-0.4	-0.9	-1.2	-1.4	-1.6	-1.6	-1.6	-1.3	-1.7
Gross official reserves (in months of imports)	0.6	1.3	1.6	2.1	3.2	3.5	3.5	3.5	3.5	3.6	3.7	3.8	3.9	3.9	4.0
Public and publicly guaranteed debt	**101.4**	**92.5**	**84.8**	**78.2**	**80.2**	**76.9**	**72.8**	**68.4**	**64.4**	**60.4**	**56.4**	**52.4**	**48.3**	**44.2**	**40.2**
Domestic	10.6	8.7	8.2	7.4	7.1	6.7	6.4	6.0	5.7	5.4	5.1	4.8	4.5	4.2	4.0
External	90.8	83.9	76.6	70.8	73.1	70.2	66.4	62.4	58.7	55.1	51.3	47.6	43.8	40.0	36.2

Source: Fund staff projections.

1/ Excludes discrepancy in external savings from the balance of payments.
2/ Fiscal projections are on a calendar year basis.
3/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.
4/ Includes errors and omissions.

Table 6a. Belize: Public and Publicly Guaranteed Debt Simulations, 2005–19 (Baseline Scenario)

	2005	2006	2007	2008	2009	Projections 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						(In millions of US dollars, unless otherwise indicated)									
1. Public and publicly guaranteed debt															
Total	1,100	1,123	1,083	1,063	1,085	1,119	1,158	1,207	1,267	1,336	1,411	1,496	1,591	1,697	1,816
Other public and publicly guaranteed external debt	135	107	66	54	49	49	49	49	49	49	49	49	49	49	49
Central government	1,121	1,016	1,017	1009	1,036	1,069	1,109	1,158	1,218	1,287	1,362	1,447	1,542	1,648	1,767
Domestic debt	118	105	105	101	96	100	121	146	153	159	165	172	178	185	191
External debt	1,003	910	912	908	939	970	989	1,012	1,066	1,128	1,197	1,275	1,363	1,463	1,575
Multilateral	225	172	198	197	219	256	284	319	318	312	300	286	272	258	245
Bilateral and export credit	163	208	161	162	173	167	157	145	131	117	103	90	78	66	56
Commercial	615	531	552	550	547	547	547	547	547	547	547	547	547	547	520
New commercial borrowing	0	0	0	0	0	0	0	0	70	152	247	351	466	592	755
								(In percent of GDP)							
Total	98.7	92.5	84.8	78.2	80.2	78.1	77.2	76.6	76.5	76.8	77.2	77.9	78.8	80.1	81.5
Other public and publicly guaranteed external debt	12.1	8.8	5.2	4.0	3.6	3.4	3.3	3.1	3.0	2.8	2.7	2.6	2.4	2.3	2.2
Central government	100.5	83.7	79.6	74.3	76.6	74.7	73.9	73.5	73.6	74.0	74.5	75.3	76.4	77.8	79.3
Domestic debt	10.6	8.7	8.2	7.4	7.1	7.0	8.0	9.3	9.2	9.1	9.1	9.0	8.8	8.7	8.6
External debt	89.9	75.0	71.4	66.9	69.5	67.8	65.9	64.2	64.4	64.8	65.5	66.4	67.6	69.0	70.7
Multilateral	20.2	14.2	15.5	14.5	16.2	17.9	18.9	20.2	19.2	18.0	16.4	14.9	13.5	12.2	11.0
Bilateral and export credit	14.6	17.1	12.6	11.9	12.8	11.7	10.5	9.2	7.9	6.7	5.6	4.7	3.8	3.1	2.5
Commercial	55.1	43.7	43.3	40.5	40.5	38.2	36.5	34.7	33.0	31.5	29.9	28.5	27.1	25.8	23.3
New commercial borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.2	8.7	13.5	18.3	23.1	27.9	33.9
2. Flow of funds															
2.1. Sources of funds															
Primary balance	2.0	4.0	4.1	5.4	0.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Privatization proceeds 2/	0.4	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified disbursements	18.0	6.9	5.7	3.5	5.4	4.5	4.6	4.9	1.3	1.2	1.1	1.0	1.0	0.9	0.9
Multilateral	1.2	1.3	2.9	0.9	2.5	3.6	2.9	3.2	1.0	0.8	0.7	0.7	0.7	0.6	0.6
Bilateral and export credit	3.1	5.4	1.8	2.1	2.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial	13.7	0.2	1.0	0.5	0.8	0.2	1.4	1.6	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Domestic (net)	0.0	0.0	0.4	-1.2	0.7	0.2	1.4	1.6	0.4	0.4	0.4	0.3	0.3	0.3	0.3
External 1/	13.6	0.1	0.6	1.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds															
Debt service 1/	20.5	10.8	11.4	8.8	6.2	6.0	6.1	6.4	7.1	7.4	7.9	8.0	8.2	11.6	13.4
Interest payments	7.5	5.8	5.3	3.9	3.6	3.9	4.2	4.6	5.2	5.4	5.7	5.9	6.2	6.5	6.8
Domestic	0.7	0.9	1.0	0.8	0.9	0.8	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
External	6.8	4.9	4.3	3.0	2.7	3.0	3.3	3.6	4.1	4.3	4.6	4.8	5.1	5.4	5.8
Principal repayments	13.0	5.0	6.1	5.0	2.6	2.1	1.9	1.8	1.9	2.0	2.2	2.1	2.0	5.1	6.5
2.3. New financing requirement 2/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**4.2**	**4.7**	**5.2**	**5.4**	**5.7**	**9.2**	**11.0**
Assumptions															
Nominal GDP (US$ millions)	1,115	1,214	1,277	1,359	1,352	1,431	1,500	1,576	1,656	1,740	1,828	1,920	2,018	2,120	2,227
Nominal GDP growth rate (percent)	5.6	8.9	5.2	6.4	-0.5	5.9	4.8	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Real GDP growth rate (percent)	3.1	5.6	1.2	3.8	0.0	2.0	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Annual inflation (deflator, in percent)	2.5	3.1	4.0	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Assumed domestic borrowing rate (percent)	7.7	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Nominal external commercial borrowing rate (percent)	13.3	13.8	8.6	7.7	7.4	8.4	9.7	10.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Assumed 10-year U.S. T-Bond (percent)	4.3	4.8	4.6	3.7	3.4	4.4	5.7	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Spread over 10-year U.S. T-Bond (percent)	9.0	9.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal external multilateral/bilateral borrowing rate (percent)	4.8	6.3	6.3	4.0	2.1	1.6	1.8	2.4	3.4	4.3	4.3	4.3	4.3	4.3	4.3
Six-month LIBOR rate (percent) 3/	3.8	5.3	5.3	3.0	1.1	0.6	0.8	1.4	2.4	3.3	3.3	3.3	3.3	3.3	3.3
Spread over LIBOR rate (percent)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:															
Overall central government balance (calendar year, percent of GDP)	-5.4	-1.8	-1.2	1.5	-2.9	-2.4	-2.6	-3.1	-3.7	-3.9	-4.1	-4.4	-4.7	-5.0	-5.3
Implicit nominal interest rate (percent) 4/	7.9	6.4	6.0	4.8	4.6	5.1	5.6	6.3	7.1	7.5	7.8	8.1	8.4	8.6	9.0
Gross financing requirement (percent of GDP)	18.0	6.9	5.7	3.5	5.4	4.5	4.6	4.9	5.6	5.9	6.3	6.5	6.7	10.2	11.8

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

1/ Flows exclude the results of the debt exchange operation in 2007.
2/ Includes interest on new borrowing.
3/ Latest World Economic Outlook assumptions.
4/ Interest on government debt in previous year divided by stock of debt.

Table 6b. Belize: Public and Publicly Guaranteed Debt Simulations, 2005–19 (Active Scenario)

						Projections									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						(In millions of Belize dollars, unless otherwise indicated)									
1. Public and publicly guaranteed debt															
Total	1,100	1,123	1,083	1,063	1,085	1,101	1,093	1,089	1,087	1,082	1,072	1,055	1,033	1,004	967
Other public and publicly guaranteed external debt	135	107	66	54	49	49	49	49	49	49	49	49	49	49	49
Central government	1,121	1,016	1,017	1009	1,036	1,052	1,044	1,040	1,038	1,033	1,023	1,006	984	954	918
Domestic debt	118	105	105	101	96	96	96	96	96	96	96	96	96	96	96
External debt	1,003	910	912	908	939	956	948	944	942	937	926	910	888	858	822
Multilateral	225	172	198	197	219	241	243	252	265	274	278	274	264	246	247
Bilateral and export credit	163	208	161	162	173	167	157	144	130	116	102	89	77	65	55
Commercial	615	531	552	550	547	547	547	547	547	547	547	547	547	547	520
New commercial borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
							(In percent of GDP)								
Total	98.7	92.5	84.8	78.2	80.2	76.9	72.8	68.4	64.4	60.4	56.4	52.4	48.3	44.2	40.2
Other public and publicly guaranteed external debt	12.1	8.8	5.2	4.0	3.6	3.4	3.3	3.1	2.9	2.7	2.6	2.4	2.3	2.2	2.0
Central government	100.5	83.7	79.6	74.3	76.6	73.5	69.6	65.4	61.5	57.7	53.8	49.9	46.0	42.1	38.1
Domestic debt	10.6	8.7	8.2	7.4	7.1	6.7	6.4	6.0	5.7	5.4	5.1	4.8	4.5	4.2	4.0
External debt	89.9	75.0	71.4	66.9	69.5	66.8	63.2	59.3	55.8	52.3	48.8	45.1	41.5	37.8	34.1
Multilateral	20.2	14.2	15.5	14.5	16.2	16.9	16.2	15.9	15.7	15.3	14.6	13.6	12.3	10.9	10.3
Bilateral and export credit	14.6	17.1	12.6	11.9	12.8	11.7	10.5	9.1	7.7	6.5	5.3	4.4	3.6	2.8	2.3
Commercial	55.1	43.7	43.3	40.5	40.5	38.2	36.5	34.4	32.4	30.6	28.8	27.1	25.6	24.1	21.6
New commercial borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Flow of funds															
2.1. Sources of funds															
Primary balance	2.0	4.0	4.1	5.4	0.7	2.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Privatization proceeds 2/	0.4	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified disbursements	18.0	6.6	5.7	3.4	5.5	3.2	1.4	2.1	1.8	1.6	1.5	1.1	0.8	0.7	1.2
Multilateral	1.2	1.3	2.9	0.9	2.5	2.6	1.1	2.0	1.8	1.6	1.5	1.1	0.8	0.7	1.2
Bilateral and export credit	3.1	5.4	1.8	2.1	2.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial	13.7	-0.1	1.0	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.0	-0.2	0.4	-1.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External 1/	13.6	0.0	0.6	1.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds															
Debt service 1/	20.5	10.7	11.1	8.8	6.2	6.0	6.0	6.6	6.3	6.1	6.0	5.6	5.3	5.2	5.7
Interest payments	7.5	5.8	5.3	3.8	3.7	3.9	4.0	4.2	4.4	4.2	3.9	3.7	3.5	3.2	3.0
Domestic	0.7	0.9	0.7	0.8	1.0	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5
External	6.8	4.9	4.6	3.0	2.7	3.0	3.3	3.5	3.8	3.6	3.4	3.1	2.9	2.7	2.5
Principal repayments	13.0	5.0	5.8	5.0	2.6	2.1	1.9	2.3	1.9	1.9	2.0	1.9	1.9	2.0	2.7
2.3. New financing requirement 2/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Assumptions															
Nominal GDP (US$ millions)	1,115	1,214	1,277	1,359	1,352	1,431	1,500	1,591	1,688	1,791	1,900	2,016	2,139	2,269	2,407
Nominal GDP growth rate (percent)	5.6	8.9	5.2	6.4	-0.5	5.9	4.8	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Real GDP growth rate (percent)	3.1	5.6	1.2	3.8	0.0	2.0	2.3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Annual inflation (deflator, in percent)	2.5	3.1	4.0	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Assumed domestic borrowing rate (percent)	7.7	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Nominal external commercial borrowing rate (percent)	13.3	13.8	8.6	7.7	7.4	8.4	9.7	10.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Assumed 10-year U.S. T-Bond (percent)	4.3	4.8	4.6	3.7	3.4	4.4	5.7	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Spread over 10-year U.S. T-Bond (percent)	9.0	9.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal external multilateral/bilateral borrowing rate (percent)	4.8	6.3	6.3	4.0	2.1	1.6	1.8	2.4	3.4	4.3	4.3	4.3	4.3	4.3	4.3
Six-month LIBOR rate (percent) 3/	3.8	5.3	5.3	3.0	1.1	0.6	0.8	1.4	2.4	3.3	3.3	3.3	3.3	3.3	3.3
Spread over LIBOR rate (percent)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:															
Overall central government balance (calendar year, percent of GDP)	-5.4	-1.7	-1.2	1.5	-2.9	-1.1	0.5	0.2	0.1	0.3	0.6	0.8	1.0	1.3	1.5
Implicit nominal interest rate (percent) 4/	7.9	6.3	6.0	4.8	4.6	5.1	5.5	6.2	6.9	6.9	6.9	7.0	7.0	7.1	7.2
Gross financing requirement	18.0	6.6	5.7	3.4	5.5	3.2	1.4	2.1	1.8	1.6	1.5	1.1	0.8	0.7	1.2

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

1/ Flows exclude the results of the debt exchange operation in 2007.
2/ Includes interest on new borrowing.
3/ Latest World Economic Outlook assumptions.
4/ Interest on government debt in previous year divided by stock of debt.

APPENDIX I. BELIZE—ISSUES ON BANKING SYSTEM STABILITY

Banking system stability has been hampered by three banks facing large overdue loans (NPLs). Staff made recommendations to address current systemic risks.

1. **The overall health of the banking system has deteriorated, with three banks facing financial weaknesses.**

- **Two small banks.** In June 2010, their NPLs amounted to 35 percent and 44 percent of total loans, respectively. Together, they held 7 percent of deposits in the system (8.25 percent of GDP).

- **One large bank.** The bank recently reclassified distressed loans in the commercial, service, and real estate sectors. As a result, its NPLs doubled to 34 percent of total loans over the first half of this year. In addition, it made capital charges for assets that had been under litigation since 2008.

Appendix I. Table 1. Belize: Banking System Indicators
(As of end-June 2010; in percent)

	Overall System		Domestic		Offshore 2/	
	All banks	Excluding the three banks 1/	All banks	Excluding the two banks 1/	All banks	Excluding the one bank1/
Capital to risk-weighted assets	23.7	25.0	22.9	24.7	27.5	25.8
NPLs to total loans	20.1	8.1	20.0	7.9	20.4	9.1
Provisions to NPLs	15.5	28.8	15.5	31.8	15.5	12.7
NPLs to capital	86.1	32.5	93.6	35.4	54.4	22.8
NPLs net of provisions to capital	72.8	23.1	79.1	24.1	46.0	19.9
Liquid assets to total assets	25.2	26.0	24.0	24.6	32.4	33.6

Sources: Belizean authorities; and Fund staff estimates.

1/ Excludes one large bank (domestic) and two smaller banks (one domestic and one offshore).
2/ Data on the offshore banks is for end-March 2010.

- **Other banks.** The remaining banks are liquid and appear well capitalized, with a capital adequacy ratio of 25 percent (Appendix table 1). NPLs net of provisions amount to 8 percent of loans or 27 percent of capital.

2. **Shortcomings exist in the current resolution and prudential frameworks.**

- **While supervisory powers to take pre-resolution action appear adequate, implementation capacity is limited.** The central bank has powers to remove officers from banks, restrict loan and deposit growth, and request elimination of capital and provision shortfalls. The central bank plans to continue enhancing its human capital to monitor these procedures, and would also need to have an in-house legal counsel to oversee the process.

- **The bank resolution framework is weak.** At present, the initiation of 'statutory administration' process requires ministerial and judicial approval. Any reorganization of a bank under statutory administration requires Supreme Court approval and is subject to veto powers exercisable by depositors and other creditors. Relevant legislation provides no clear time limit for the completion of the 'statutory administration' process and, in the absence of a deposit insurance scheme, a long period of depositor lock out would be likely in a resolution under the current framework. In addition, the central bank has no legal power as a resolution authority to implement "purchase and assumption" type of resolutions or to impose changes to the capital structure of a bank (for example via debt-to-equity conversions and other devices common in more sophisticated resolution regimes).

- **Prudential rules fall short of international best practice and lead to balance-sheet risks.** In particular, present rules exempt the collateralized portion of distress loans from provisioning and fail to adjust for the overvaluation of collateral.

3. **Staff made recommendations to strengthen banking stability.**

- **Containing risks**. Specifically,

    - Conduct on-site inspections simultaneously and regularly at banks; and

    - Ask shareholders to develop credible recapitalization plans for a few banks.

- **Upgrading the resolution and prudential frameworks.** Specifically,

    - Put in place promptly upgraded regulatory and bank resolution frameworks; and

    - Strengthen loan classification and provision rules, including eligibility of collateral and its valuation, in line with international best practice.

APPENDIX II—DEBT SUSTAINABILITY ANALYSIS (DSA)

The DSA projects somewhat higher public debt ratios than in the 2009 Article IV consultation, due to weaker fiscal performance and slower growth derived from adverse shocks in 2008–09. The baseline scenario shows that debt remains high and vulnerable to shocks over the medium term. The strengthened policy scenario places the debt ratio on a firm downward path.

A. Key Assumptions

1. **Both scenarios.** They were constructed around the two scenarios described in Tables 5 and 6; assume that multilateral and bilateral loans are borrowed at LIBOR plus 100 bps; and incorporate the step-up interest rate (from 4.25 percent in 2009 to 8.5 percent by 2012) on restructured debt.

2. **Baseline scenario.** It assumes that domestic debt increases slightly in 2011–12 and is broadly constant thereafter, and that projected financing needs will be covered primarily by external commercial creditors at market interest rates (10-year U.S. T-Bond plus 400 bps), and to a lesser extent by multilaterals. FDI is projected to remain below historical levels.

3. **Active scenario.** It assumes that the fiscal stance will be strengthened and that multilateral financing will be available to meet projected financing needs and that improved confidence will bring FDI inflows to historical levels.

B. Assessment

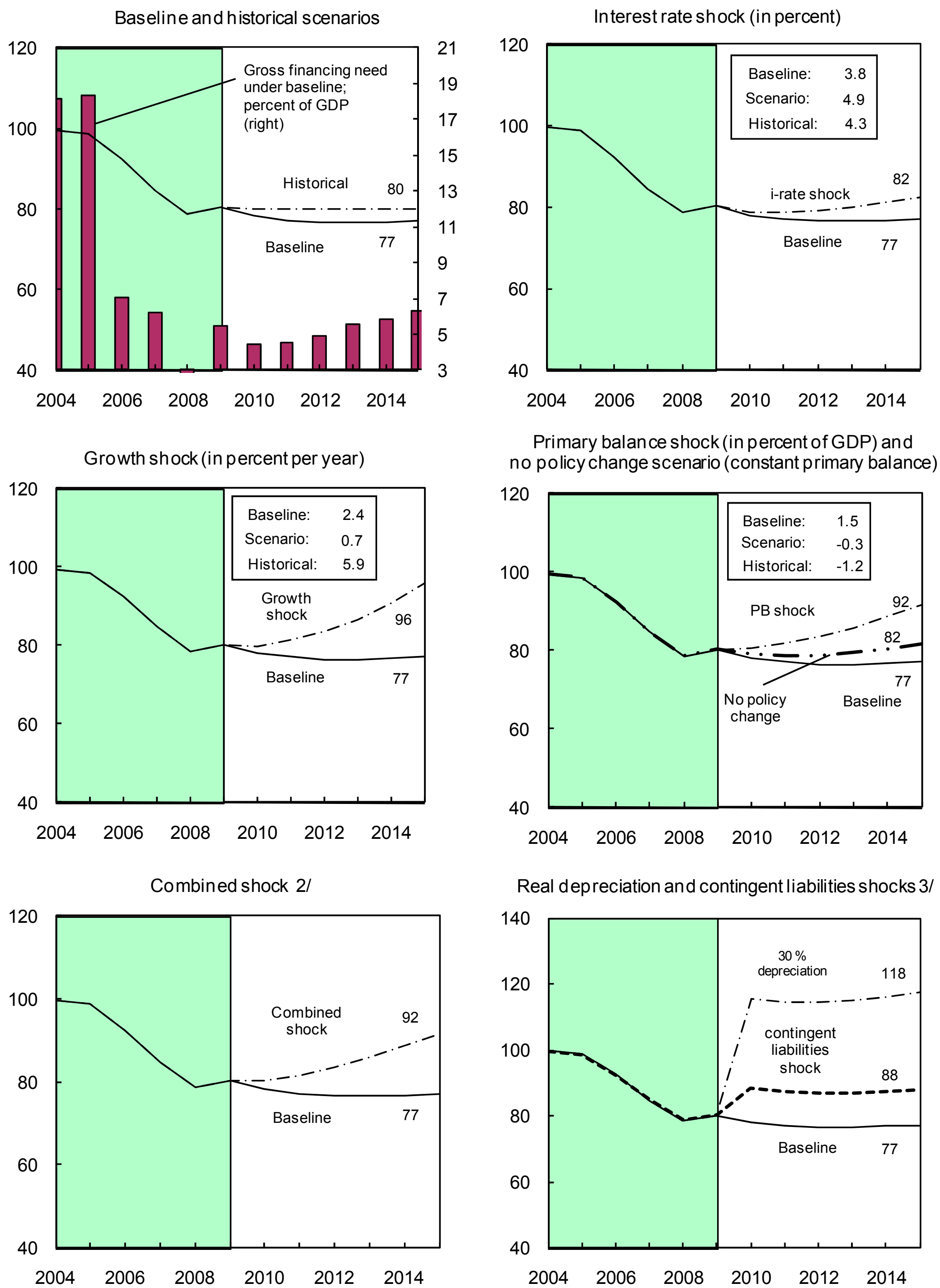
4. **Under the baseline scenario, public debt would remain at slightly under 80 percent of GDP through 2015.** The stable debt ratio reflects the positive effect of a gradual increase in growth that offsets the impact of the step-up in coupon rates on restructured debt. Public sector financing needs would reach 6.3 percent of GDP by 2015. For the remainder of the decade, the debt ratio would increase steadily, as the projected primary surplus would remain low (see Table 6a).

5. **Bound tests highlight that the public debt trajectory is vulnerable to standards shocks.** Since about 90 percent of total public debt was denominated in foreign currency in 2009, the debt ratio is particularly sensitive to the depreciation shock—with a 30 percent depreciation, total debt would climb to about 115 percent of GDP and then follow a similar trajectory to that of the baseline. The debt ratio is also highly sensitive to shocks in growth and the primary balance and to a slightly lesser extent to shocks in interest rates and contingent liabilities, which could arise from the pension system or bank recapitalization.

6. **Under the active scenario, the public debt ratio declines steadily to under 60 percent by 2015.** A strengthened fiscal stance and higher availability of multilateral financing at more favorable terms result in an improved dynamics and the targeted debt ratio of 40 percent would be reached by the end of the decade (see Table 6b). Public sector

financing needs would be under 2 percent of GDP per year. Bound tests reveal reduced vulnerability to standard shocks compared to the baseline scenario, although the standard depreciation shock would result in a substantial step-increase in the debt ratio, followed by a steady decline.

Appendix II. Figure 1. Belize: Public Debt Sustainability: Bound Tests 1/
(Baseline Scenario: Public debt in percent of GDP)



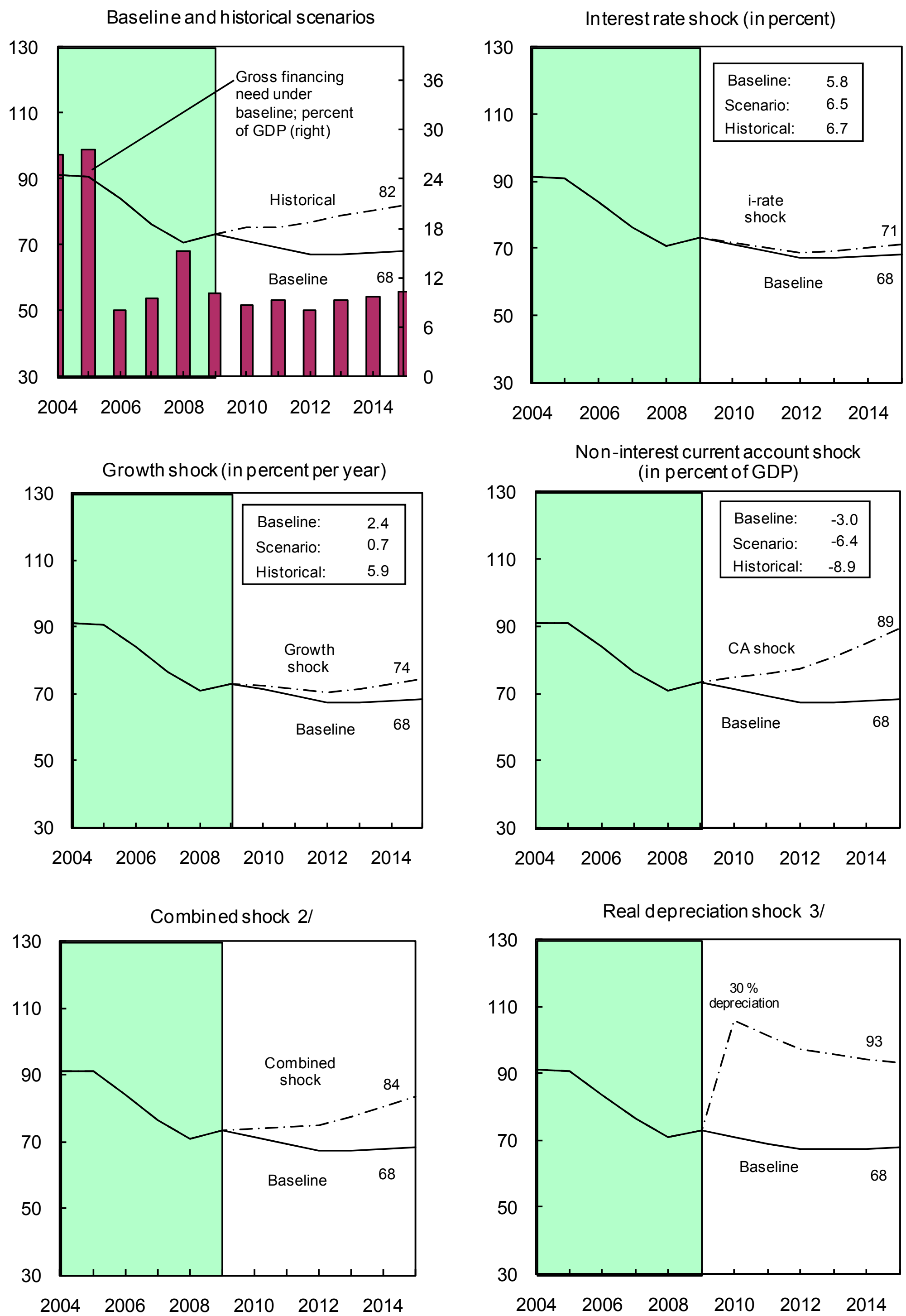
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix II. Table 1. Belize: Public Sector Debt Sustainability Framework, 2004-2015
Baseline Scenario
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
1 **Baseline: Public sector debt 1/**	**99.5**	**98.7**	**92.5**	**84.7**	**78.7**	**80.2**	**78.1**	**77.2**	**76.6**	**76.5**	**76.8**	**77.2**	**2.0**
o/w foreign-currency denominated	91.2	90.8	83.8	76.5	70.7	73.1	71.2	69.2	67.3	67.3	67.6	68.2	
2 Change in public sector debt	-2.8	-0.8	-6.2	-7.8	-6.0	1.6	-2.1	-0.9	-0.6	0.0	0.2	0.4	
3 Identified debt-creating flows (4+7+12)	-10.7	-4.5	-6.4	-4.1	-5.5	3.3	-2.1	-0.9	-0.6	0.0	0.2	0.4	
4 Primary deficit	-0.8	-1.2	-3.8	-3.9	-4.3	-0.7	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	
5 Revenue and grants	22.8	23.4	25.3	27.4	28.4	25.9	27.1	27.5	27.5	27.4	27.4	27.3	
6 Primary (noninterest) expenditure	22.0	22.2	21.5	23.5	24.1	25.2	25.6	26.0	25.9	25.9	25.9	25.8	
7 Automatic debt dynamics 2/	0.6	0.5	-2.2	0.0	-1.2	4.0	-0.6	0.6	0.9	1.5	1.7	2.0	
8 Contribution from interest rate/growth differential 3/	0.6	0.5	-2.2	0.0	-1.2	4.0	-0.6	0.6	0.9	1.5	1.7	2.0	
9 Of which contribution from real interest rate	5.0	4.1	2.9	1.1	1.8	4.0	0.9	2.2	2.7	3.3	3.6	3.8	
10 Of which contribution from real GDP growth	-4.4	-3.6	-5.1	-1.0	-3.0	0.0	-1.5	-1.7	-1.8	-1.8	-1.8	-1.8	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
12 Other identified debt-creating flows	-10.6	-3.8	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	-1.9	-2.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	7.9	3.7	0.2	-3.7	-0.5	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	436.5	421.6	366.0	309.5	276.6	310.1	288.2	280.8	278.9	279.0	280.4	282.5	
Gross financing need 6/	**18.2**	**18.4**	**7.0**	**6.2**	**2.6**	**5.4**	**4.5**	**4.6**	**4.9**	**5.6**	**5.9**	**6.3**	
in billions of U.S. dollars	0.19	0.20	0.09	0.08	0.04	0.07	0.06	0.07	0.08	0.09	0.10	0.12	
Scenario with key variables at their historical averages 7/						**80.2**	**80.1**	**80.1**	**80.0**	**80.0**	**79.9**	**79.9**	**-1.3**
Scenario with no policy change (constant primary balance) during 2010-2015						**80.2**	**78.9**	**78.8**	**78.9**	**79.5**	**80.4**	**81.5**	**1.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.6	3.9	5.6	1.2	3.8	0.0	2.0	2.3	2.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 8/	7.5	7.0	6.4	6.2	4.9	4.6	5.1	5.6	6.3	7.1	7.5	7.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.4	4.5	3.3	1.3	2.3	5.1	1.3	3.1	3.8	4.6	5.0	5.3	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.1	2.5	3.1	4.9	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-15.6	4.1	2.2	9.5	6.5	4.3	3.8	3.8	2.3	2.4	2.4	2.1	
Primary deficit	-0.8	-1.2	-3.8	-3.9	-4.3	-0.7	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	
Bound Tests													
B1. Real interest rate is at historical average plus one half standard deviation						80.2	79.0	78.9	79.1	79.9	81.1	82.4	**3.0**
B2. Real GDP growth is at historical average minus one half standard deviation						80.2	79.9	81.3	83.4	86.8	91.0	96.2	**4.1**
B3. Primary balance is at historical average minus one half standard deviation						80.2	80.4	81.8	83.5	85.9	88.7	91.7	**2.4**
B4. Combination of B1-B3 using 1/4 standard deviation shocks						80.2	80.4	81.7	83.4	85.8	88.6	91.7	**3.6**
B5. One time 30 percent real depreciation in 2010 10/						80.2	115.2	114.6	114.4	115.1	116.2	117.6	**3.0**
B6. 10 percent of GDP increase in other debt-creating flows in 2010						80.2	83.6	82.7	82.1	82.2	82.6	83.1	**2.1**

1/ Public sector debt includes central government, publicly guaranteed external debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2015
10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix II. Figure 2. Belize: External Debt Sustainability: Bound Tests 1/
(Baseline Scenario: External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2010.

Appendix II. Table 2. Belize: External Debt Sustainability Framework, 2004-2015
Baseline Scenario
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	**91.2**	**90.8**	**83.8**	**76.5**	**70.7**	**73.1**	**71.2**	**69.2**	**67.3**	**67.3**	**67.6**	**68.2**	**-3.4**
2 Change in external debt	-5.5	-0.4	-7.0	-7.3	-5.8	2.4	-1.9	-2.0	-1.9	0.0	0.3	0.5	
3 Identified external debt-creating flows (4+8+9)	-2.8	0.7	-14.0	-9.8	-9.2	0.9	-0.4	0.4	-0.7	0.6	1.2	1.6	
4 Current account deficit, excluding interest payments	8.4	6.8	-2.8	-0.5	7.2	4.1	2.7	3.4	2.1	2.9	3.2	3.4	
5 Deficit in balance of goods and services	8.0	7.9	-2.1	-1.1	8.0	5.9	3.0	3.4	1.9	2.6	2.8	2.9	
6 Exports	51.5	56.2	65.1	64.5	62.8	53.9	51.8	52.7	54.0	54.5	54.7	54.9	
7 Imports	59.5	64.1	63.0	63.5	70.7	59.8	54.9	56.1	55.9	57.1	57.5	57.7	
8 Net non-debt creating capital inflows (negative)	-11.3	-8.0	-8.7	-9.6	-14.8	-5.9	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	
9 Automatic debt dynamics 1/	0.1	1.9	-2.5	0.4	-1.6	2.7	1.7	1.8	1.9	2.5	2.7	3.0	
10 Contribution from nominal interest rate	6.3	6.8	4.9	4.5	3.0	2.7	3.0	3.3	3.6	4.1	4.3	4.6	
11 Contribution from real GDP growth	-4.2	-3.3	-4.7	-1.0	-2.7	0.0	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	
12 Contribution from price and exchange rate changes 2/	-2.0	-1.5	-2.7	-3.2	-1.9	...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-2.7	-1.1	7.0	2.4	3.5	1.5	-1.6	-2.4	-1.1	-0.6	-0.9	-1.1	
External debt-to-exports ratio (in percent)	177.0	161.5	128.8	118.5	112.7	135.6	137.3	131.2	124.8	123.5	123.7	124.2	
Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.1	0.1	0.2	0.14	0.12	0.14	0.13	0.15	0.17	0.19	
in percent of GDP	27.0	27.7	8.1	9.6	15.3	10.1	8.6	9.3	8.1	9.3	9.8	10.3	
Scenario with key variables at their historical averages 5/						**73.1**	**75.2**	**75.5**	**77.0**	**78.8**	**80.5**	**81.9**	**-7.9**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.6	3.9	5.6	1.2	3.8	0.0	2.0	2.3	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	2.1	1.7	3.1	3.9	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	7.0	7.8	5.8	5.6	4.2	3.8	4.4	4.8	5.4	6.3	6.7	7.1	
Growth of exports (US dollar terms, in percent)	10.0	15.3	26.0	4.3	3.5	-14.5	1.8	6.6	7.5	6.2	5.4	5.4	
Growth of imports (US dollar terms, in percent)	-5.1	13.9	6.9	6.0	18.6	-15.9	-2.9	7.2	4.6	7.5	5.7	5.5	
Current account balance, excluding interest payments	-8.4	-6.8	2.8	0.5	-7.2	-4.1	-2.7	-3.4	-2.1	-2.9	-3.2	-3.4	
Net non-debt creating capital inflows	11.3	8.0	8.7	9.6	14.8	5.9	4.7	4.7	4.7	4.7	4.7	4.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 alpha = share of domestic-currency denominated debt in total external debt.

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

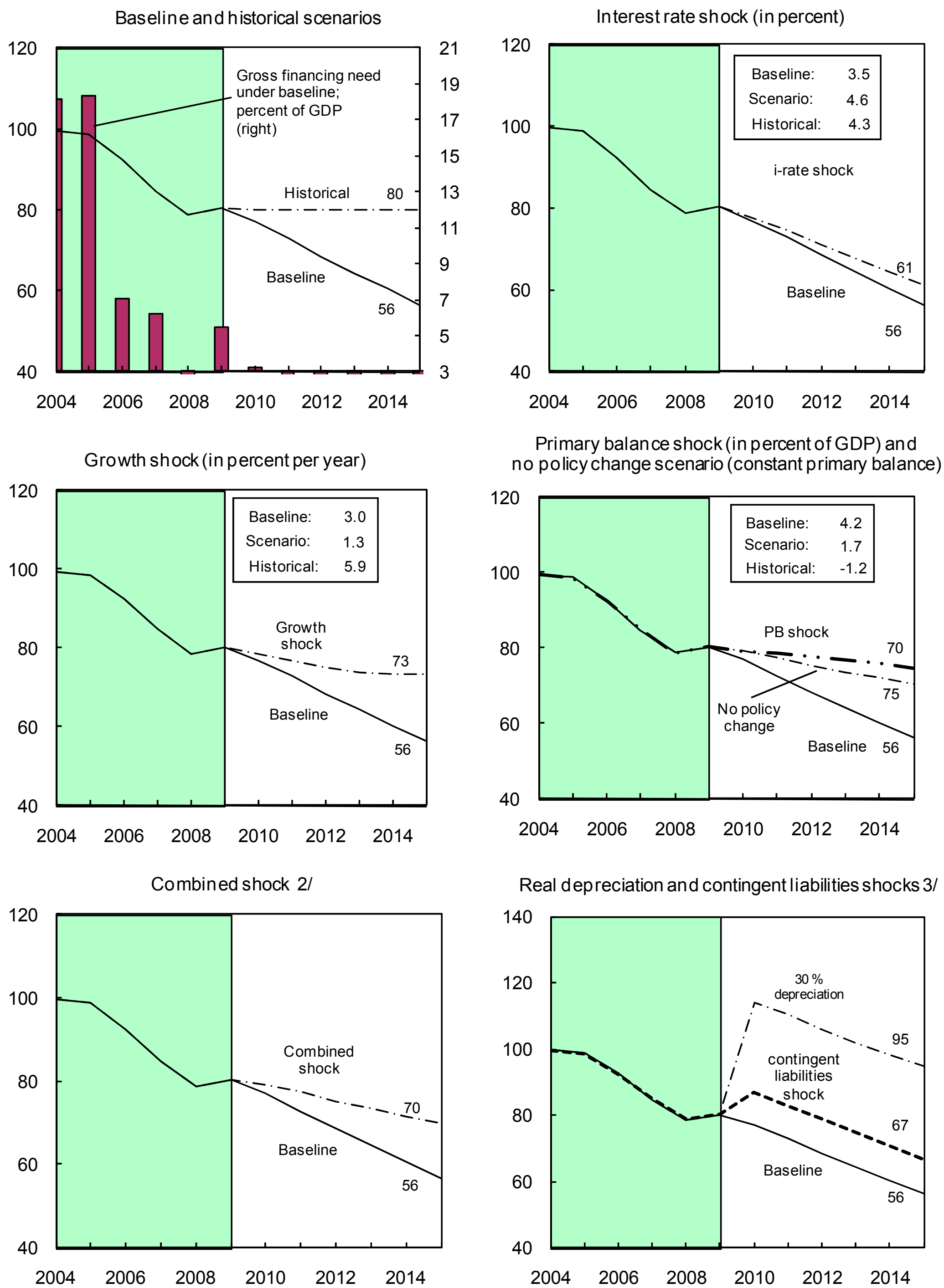
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Appendix II. Figure 3. Belize: Public Debt Sustainability: Bound Tests 1/
(Active Scenario: Public debt in percent of GDP)



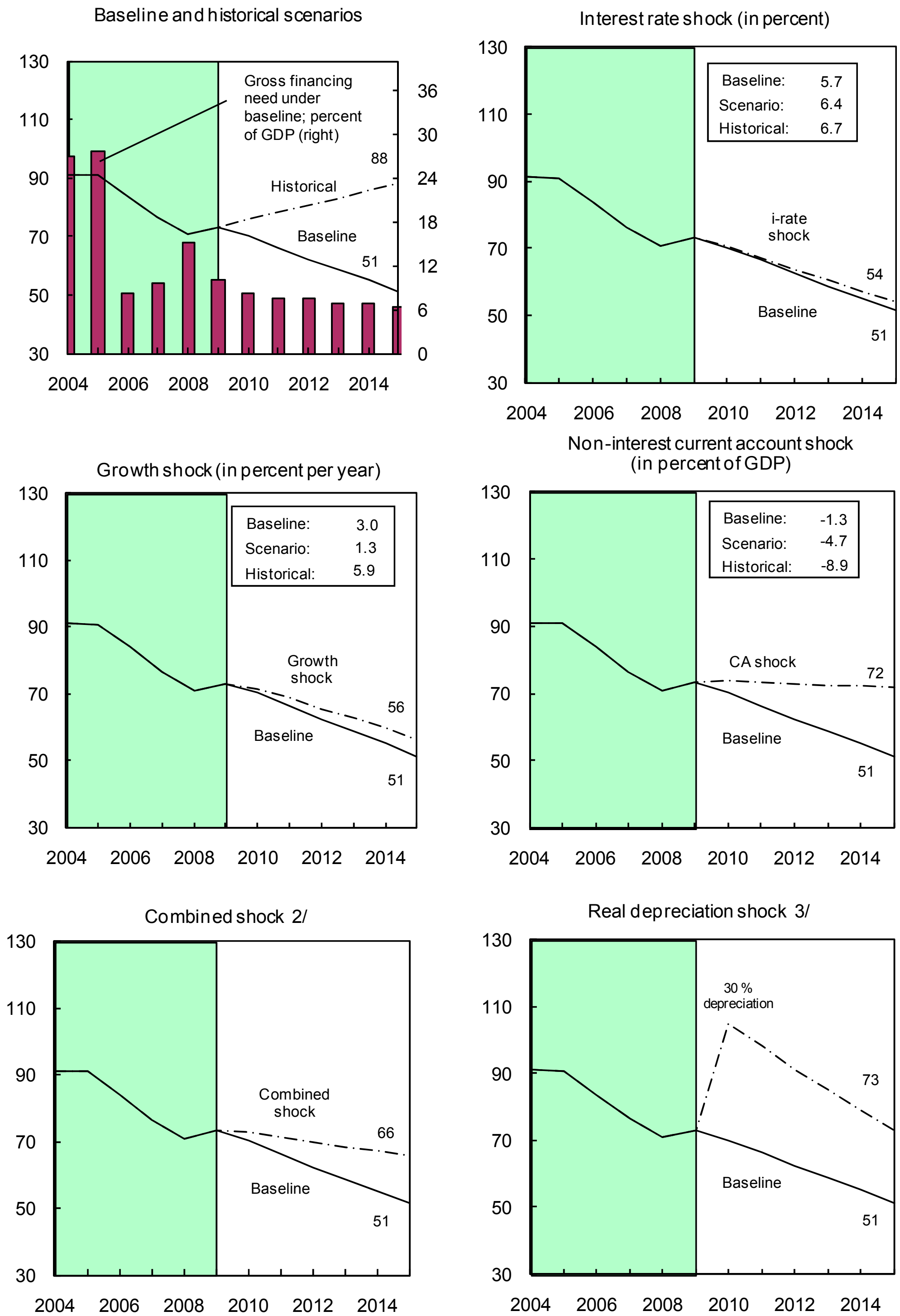
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix II. Table 3. Belize: Public Sector Debt Sustainability Framework, 2004-2015
Active Scenario
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	**99.5**	**98.7**	**92.5**	**84.7**	**78.7**	**80.2**	**76.9**	**72.8**	**68.4**	**64.4**	**60.4**	**56.4**	**0.4**
o/w foreign-currency denominated	91.2	90.8	83.8	76.5	70.7	73.1	70.2	66.4	62.4	58.7	55.1	51.3	
2 Change in public sector debt	-2.8	-0.8	-6.2	-7.8	-6.0	1.6	-3.3	-4.1	-4.4	-4.0	-4.0	-4.0	
3 Identified debt-creating flows (4+7+12)	-10.7	-4.5	-6.4	-4.1	-5.5	3.4	-3.3	-4.1	-4.4	-4.0	-4.0	-4.0	
4 Primary deficit	-0.8	-1.2	-3.8	-3.9	-4.3	-0.7	-2.7	-4.5	-4.5	-4.5	-4.5	-4.5	
5 Revenue and grants	22.8	23.4	25.3	27.4	28.4	25.9	27.6	28.9	28.6	28.6	28.5	28.5	
6 Primary (noninterest) expenditure	22.0	22.2	21.5	23.5	24.1	25.2	24.9	24.3	24.2	24.0	24.1	24.0	
7 Automatic debt dynamics 2/	0.6	0.5	-2.2	0.0	-1.2	4.1	-0.6	0.5	0.1	0.5	0.5	0.5	
8 Contribution from interest rate/growth differential 3/	0.6	0.5	-2.2	0.0	-1.2	4.1	-0.6	0.5	0.1	0.5	0.5	0.5	
9 Of which contribution from real interest rate	5.0	4.1	2.9	1.1	1.8	4.1	0.9	2.1	2.5	2.8	2.6	2.5	
10 Of which contribution from real GDP growth	-4.4	-3.6	-5.1	-1.0	-3.0	0.0	-1.5	-1.7	-2.4	-2.3	-2.1	-2.0	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
12 Other identified debt-creating flows	-10.6	-3.8	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	-1.9	-2.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	7.9	3.7	0.2	-3.7	-0.5	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	436.5	421.6	366.0	309.5	276.6	310.1	278.4	252.3	239.1	225.2	211.8	198.1	
Gross financing need 6/	**18.2**	**18.4**	**7.0**	**6.2**	**2.6**	**5.5**	**3.2**	**1.4**	**2.1**	**1.8**	**1.6**	**1.5**	
in billions of U.S. dollars	0.19	0.20	0.09	0.08	0.04	0.07	0.05	0.02	0.03	0.03	0.03	0.03	
Scenario with key variables at their historical averages 7/						**80.2**	**80.1**	**80.1**	**80.0**	**80.0**	**79.9**	**79.9**	**-1.3**
Scenario with no policy change (constant primary balance) during 2010-2015						**80.2**	**78.9**	**78.6**	**77.7**	**76.9**	**76.0**	**74.9**	**0.9**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.6	3.9	5.6	1.2	3.8	0.0	2.0	2.3	3.5	3.5	3.5	3.5	
Average nominal interest rate on public debt (in percent) 8/	7.5	7.0	6.4	6.2	4.9	4.6	5.1	5.5	6.2	6.9	6.9	6.9	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.4	4.5	3.3	1.3	2.3	5.1	1.3	3.0	3.7	4.4	4.4	4.4	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.1	2.5	3.1	4.9	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-15.6	4.1	2.2	9.5	6.5	4.3	0.8	0.0	2.8	3.1	3.5	3.1	
Primary deficit	-0.8	-1.2	-3.8	-3.9	-4.3	-0.7	-2.7	-4.5	-4.5	-4.5	-4.5	-4.5	
Bound Tests													
B1. Real interest rate is at historical average plus one half standard deviation						80.2	77.7	74.5	70.8	67.5	64.3	61.0	**1.1**
B2. Real GDP growth is at historical average minus one half standard deviation						80.2	78.7	76.8	75.0	73.9	73.4	73.2	**1.8**
B3. Primary balance is at historical average minus one half standard deviation						80.2	79.2	77.5	75.3	73.6	72.0	70.4	**0.6**
B4. Combination of B1-B3 using 1/4 standard deviation shocks						80.2	79.1	77.3	75.1	73.3	71.5	69.7	**1.5**
B5. One time 30 percent real depreciation in 2010 10/						80.2	114.0	110.2	105.8	102.0	98.4	94.6	**0.7**
B6. 10 percent of GDP increase in other debt-creating flows in 2010						80.2	86.9	82.9	78.5	74.5	70.6	66.7	**0.5**

1/ Public sector debt includes central government, publicly guaranteed external debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2015
10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2010.

Appendix II. Table 4. Belize: External Debt Sustainability Framework, 2004-2015
Active Scenario
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	**91.2**	**90.8**	**83.8**	**76.5**	**70.7**	**73.1**	**70.2**	**66.4**	**62.4**	**58.7**	**55.1**	**51.3**	**-6.3**
2 Change in external debt	-5.5	-0.4	-7.0	-7.3	-5.8	2.4	-2.9	-3.8	-4.0	-3.7	-3.6	-3.7	
3 Identified external debt-creating flows (4+8+9)	-2.8	0.7	-14.0	-9.8	-9.2	1.7	-2.5	-3.0	-4.0	-3.9	-3.8	-4.1	
4 Current account deficit, excluding interest payments	8.4	6.8	-2.8	-0.5	7.2	4.1	2.3	1.7	1.2	0.9	1.1	0.9	
5 Deficit in balance of goods and services	8.0	7.9	-2.1	-1.1	8.0	5.9	2.8	1.9	1.0	0.6	0.6	0.3	
6 Exports	51.5	56.2	65.1	64.5	62.8	53.9	54.2	54.6	54.8	55.3	56.2	57.3	
7 Imports	59.5	64.1	63.0	63.5	70.7	59.8	57.0	56.5	55.9	55.9	56.8	57.6	
8 Net non-debt creating capital inflows (negative)	-11.3	-8.0	-8.7	-9.6	-14.8	-5.1	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	
9 Automatic debt dynamics 1/	0.1	1.9	-2.5	0.4	-1.6	2.7	1.7	1.8	1.3	1.7	1.6	1.5	
10 Contribution from nominal interest rate	6.3	6.8	4.9	4.5	3.0	2.7	3.0	3.3	3.5	3.8	3.6	3.4	
11 Contribution from real GDP growth	-4.2	-3.3	-4.7	-1.0	-2.7	0.0	-1.4	-1.5	-2.2	-2.1	-1.9	-1.8	
12 Contribution from price and exchange rate changes 2/	-2.0	-1.5	-2.7	-3.2	-1.9	...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-2.7	-1.1	7.0	2.4	3.5	0.7	-0.4	-0.7	-0.1	0.2	0.2	0.4	
External debt-to-exports ratio (in percent)	177.0	161.5	128.8	118.5	112.7	135.6	129.6	121.7	113.8	106.1	98.0	89.5	
Gross external financing need (in billions of US dollars) 4/	**0.3**	**0.3**	**0.1**	**0.1**	**0.2**	**0.14**	**0.12**	**0.11**	**0.12**	**0.12**	**0.12**	**0.12**	
in percent of GDP	27.0	27.7	8.1	9.6	15.3	10.1	8.3	7.6	7.6	7.0	6.8	6.4	
Scenario with key variables at their historical averages 5/						**73.1**	**76.3**	**78.2**	**80.7**	**83.2**	**85.7**	**88.1**	**-7.9**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.6	3.9	5.6	1.2	3.8	0.0	2.0	2.3	3.5	3.5	3.5	3.5	
GDP deflator in US dollars (change in percent)	2.1	1.7	3.1	3.9	2.6	-0.5	3.8	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	7.0	7.8	5.8	5.6	4.2	3.8	4.4	4.9	5.6	6.4	6.4	6.5	
Growth of exports (US dollar terms, in percent)	10.0	15.3	26.0	4.3	3.5	-14.5	6.4	5.6	6.5	7.0	7.7	8.3	
Growth of imports (US dollar terms, in percent)	-5.1	13.9	6.9	6.0	18.6	-15.9	0.9	3.9	4.9	6.2	7.7	7.7	
Current account balance, excluding interest payments	-8.4	-6.8	2.8	0.5	-7.2	-4.1	-2.3	-1.7	-1.2	-0.9	-1.1	-0.9	
Net non-debt creating capital inflows	11.3	8.0	8.7	9.6	14.8	5.1	6.5	6.5	6.5	6.5	6.5	6.5	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 alpha = share of domestic-currency denominated debt in total external debt.

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

INTERNATIONAL MONETARY FUND

BELIZE

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

September 30, 2010

Contents Page

Appendices

Appendix I. Belize—Relations with the Fund
(As of August 31, 2010)

I. Membership Status: Joined: March 16, 1982

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	18.80	100.00
Fund holdings of currency	**19.26**	**102.46**
Reserve Tranche Position	4.24	22.55

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.15	112.58

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Emergency Assistance	4.70	25.00

V. Latest Financial Arrangements:

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

VI. Projected Payments to the Fund[1/]

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal			1.76	2.35	0.59
Charges/Interest	0.03	0.06	0.05	0.03	0.00
Total	**0.03**	**0.06**	**1.82**	**2.38**	**0.59**

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

VII. Implementation of HIPC Initiative: Not Applicable

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

IX. 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, and does not maintain exchange restrictions or multiple currency practices. The central bank has not engaged in selective sales or rationing of foreign exchange to the private sector since late 2008, and there does not appear to be unsatisfied foreign exchange demand from commercial banks.

X. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on May 8, 2009; the relevant documents were IMF Country Report No. 09/155. Belize is on the standard 12-month consultation cycle.

XI. Recent Technical Assistance

- WHD advised on design of a tax reform in July 2003.

- MFD expert assisted on Module 2 Offshore Financial Center Assessment in August 2003, and updated and extended an OFC assessment made in September 2001.

- MFD long-term consultant assisted on banking supervision in early 2004–June 2005.

- LEG/MFD advised on strengthening of AML/CFT regime in March 2005.

- MCM advised on design of monetary policy instruments in December 2006.

- FAD reviewed domestic tax and customs systems and advised on governance regime for the revenue administrations in February 2007. Belize has been receiving TA on tax administration from CARTAC.

- STA assessed quality of macroeconomic statistics in March 2007—national accounts, consumer price, government finance, monetary, and balance of payments.

- STA advised on national accounts statistics in August 2008.

- MCM advised on bank supervision and regulations in September-October 2008.

- 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.

Appendix II. Belize—Relations with the World Bank Group

(As of September 16, 2010)

I. Projects

The World Bank's program in Belize is guided by a 2-year Interim Strategy, which was endorsed by the Board on March 17, 2009. The strategy envisions Analytical and Advisory Activities (AAA) and modest investment lending, consisting of a US$15 million municipal development loan, which was approved by the Board review on September 16, 2010.

II. Financial Relations

IBRD Operations
(In U.S. dollars)

	IBRD
Original Principal	86,200,000
Cancellations	5,703,328
Disbursed	80,496,672
Undisbursed	0
Repaid	66,263,178
Due	14,233,494
Exchange Adjustment	-255,604
Borrower Obligation	13,977,890

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

	2006	2007	2008	2009	2010	2011*	2012*	2013*
Disbursements	0.7	0.0	0.0	0.0	0.0	0.5	2.0	3.0
Repayments	4.5	4.9	4.9	4.7	4.3	4.5	2.0	1.7
Net	-3.8	-4.9	-4.9	-4.7	-4.3	-4.0	0.0	1.3
Interest	1.7	1.8	1.6	1.0	0.4	0.2	0.1	0.1
Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Estimated Debt Service. Reflects estimated disbursements for US$15mn municipal development project.

Appendix III. Belize—Relations with the Inter-American Development Bank

(As of August 31, 2010)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	**Approved**	**Undisbursed**
Land Administration II	7.0	0.3
Health Sector Reform	9.8	0.2
Solid Waste Management	11.2	10.6
Sustainable Tourism	13.3	12.8
Road Rehabilitation	5.0	0.2
Social Policy Support	15.0	7.5
Land Management Program III	2.5	2.5
Agricultural Services Program	5.0	5.0
Total	**68.8**	**39.1**

II. Loan Transactions

	2006	**2007**	**2008**	**2009**	**Proj. 2010**
Net flows	**5.1**	**12.3**	**-6.6**	**4.9**	**-0.3**
Gross disbursements	12.3	20.2	2.7	12.9	8.0
Amortization	3.7	3.9	4.2	4.2	4.4
Interest and charges	3.6	4.5	5.1	3.8	3.9

III. Country Strategy

Implementation of the IDB Country Strategy with Belize (2008-2012). The draft Country Strategy has four development objectives: (i) Ensure sound fiscal management and public sector transparency; (ii) Create conditions for and restore sustainable, private sector led growth; (iii) Improve human resource development and social protection; and (iv) Rehabilitation of basic infrastructure. Approvals to date under this strategy have reached US$51.5 million (six projects). The approved program includes 4 investment loans that will contribute towards tourism, agriculture and infrastructure development, land management, and a policy based loan targeting reforms in the education, health and fiscal policy sectors. Strategy results to date include the introduction of a medium-term fiscal framework in the 2010/11 budget; approval of amendment to the Education Act establishing the creation of the National Teaching Services Commission; and reconstruction and localized repairs of the road network, replacement and repair of culverts, and replacement of bridges and crossings damaged by the floods of 2008.

Appendix IV. Belize—Relations with the Caribbean Development Bank (CDB)

(As of August 31, 2010)

I. Loan Portfolio under Implementation

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Second Water Project	13.8	1.5
Health Sector Reform Program	5.6	0.8
Belize Social Investment Fund	7.1	2.1
Third Road (Placencia Road Upgrading) Project	12.6	3.3
Modernization of Customs and Excise Department	2.5	0.3
NDM – Bridge Rehabilitation	8.8	8.7
Feasibility Study – Water/Ambergris Caye	0.3	0.2
Sixth Consolidated Line of Credit	10.0	8.5
Belize River Water Project	3.5	3.5
Total	**64.2**	**28.9**

II. Loan Transactions

(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009	Year to May 2010
Net flows	**9.3**	**4.0**	**(1.7)**	**3.3**	**0.6**	**10.6**	**9.0**
Gross disbursements	13.5	9.4	3.9	20.0	14.9	21.3	15.2
Amortization	4.2	5.4	5.6	12.2	9.3	6.4	3.6
Interest and charges	3.9	4.5	4.7	4.5	5.0	4.3	2.6

III. Economic and Sector Work

The major objective of CDB's Country Strategy which covered the period 2007-09, was to enhance sustainable economic growth by: supporting attempts to correct fiscal and external imbalances; financing investments that were critical for enhancing growth; lending to eligible private sector entities; and financing critical social development projects. Most assistance contemplated under the strategy has been executed. The authorities have been making significant effort to address the difficult fiscal and debt consequences that had resulted from the expansionary policies prior to 2005. In December 2006, a Policy Based Loan (PBL) of US$25 million was approved, together with technical assistance (TA) support by way of additional loan and grants to assist in ensuring the sustainability of fiscal and structural reforms being implemented. The loan was fully disbursed by the first quarter of 2009. The strategy recognized that the continuation of the fiscal and external imbalances will affect Belize's ability to undertake critical investments in social and economic infrastructure. The PBL was intended to help close the fiscal and external financing gaps over the short to medium term, while it continued to implement corrective measures, including the restructuring of its debt, the reform of its tax regime and the strengthening of fiscal management capacity. Parallel PBL TA was also approved and included a TA loan for the modernization of the Customs and Excise Department, and TA grants of US$101,200 each, for the modernization of financial regulations, and to assist Belize to establish an appropriate institutional framework for macro-economic management.

With respect to infrastructure to enhance growth prospects, in December 2006, the Bank approved a loan of US$12.6 million for the upgrade of the Placencia road which was appraised to have significant social and economic benefits. CDB has also continued to respond to Belize's natural disaster emergency needs, and in 2008, approved a loan of US$8.8 million for the reconstruction of a major bridge which was destroyed by flood water.

CDB has maintained its focus on direct poverty reduction through the Basic Needs Trust Fund, while disbursements have continued under the Belize Social Investment Fund (BSIF). While the funds under BSIF are expected to be exhausted by the third quarter of 2010, a second loan amounting to US$15 million is being appraised.

There have also been some efforts to assist the private sector, including a US$10 million line of credit for on-lending to the private sector and households through the Development Finance Corporation (DFC). The DFC was revamped in 2009 to facilitate lending activity. Its lending operations had been previously curtailed as part of a process to wind down its activities, and this was one of the elements of Belize's fiscal adjustment program. Prior lending to the private sector included a US$8.3 million to Belize Cogeneration Energy Ltd (Belcogen) which was approved in 2005.

Going forward, Belize needs to build on the success of its macroeconomic adjustment program, while navigating through a challenging global environment, characterized by slow recovery among major developed economies. Thus, in seeking to further assist Belize, CDB staff will soon commence preparation of the draft Country Strategy Paper (CSP) for the period 2011-13. In drafting the new strategy, staff will be cognizant of the severity of poverty in Belize. The specific projects or areas that will be recommended for CDB's intervention will be based on priorities set out in National Poverty Reduction Strategy Paper (NPRSP) and subsequent revisions based on the results of the CPA 2009, the recently completed Medium-Term Development Strategy (MTDS), and the soon to be completed Horizon 2030 – the long-term national development strategy document.

Appendix V. Belize—Statistical Issues
(As of August 31, 2010)

I. Assessment of Data Adequacy for Surveillance

General: Data are broadly adequate for surveillance. In general, the quality, coverage, and timeliness of statistics permit an adequate monitoring of economic developments. However, the multi-sector statistics report of July 2007 listed shortcomings in national accounts, prices, external trade, government finance, and labor statistics. The central bank publishes, in regular intervals, a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest.

Real sector: A new national accounts system has been phased-in. Under the new system, national accounts at constant and current prices are produced quarterly (instead of annually) and were rebased from the year 1984 to 2000, with quality improvement of estimates at constant and current prices. Priorities for the period ahead include establishing a user advisory committee, updating the SNAPC-Belize application to account for changes in the structure of the economy, modifying the concept of government industrial activity in line with the 1993 SNA, rebasing the national accounts to 2006, including electricity imports in the merchandise trade statistics, conducting a survey of activity in the commercial free zone, disaggregating the imports of the export processing zone, undertaking an inventory of data sources, updating the register of establishments, annotating all GDP tables to distinguish the various revision stages, and collecting data on informal activity. The statistical office (SIB) is assessing the reliability of the establishment survey conducted for 2006, given the low response rate--conducting a new survey for reference years 2006–08 is an alternative option, but would result in delays on the current time frame; other options include using general sales tax (GST) and income taxpayers' data to validate cost coefficient assumptions.

Prices and labor statistics: With the assistance of the Fund, the SIB is currently compiling a monthly CPI, that will be tentatively released in January 2011 with data for December 2010 (currently, the CPI is calculated in February, May, August, and November, with a lag of about three months). During the quarterly price collection in November 2010, staff will collect and process both the old and the new CPI samples, which will provide the needed overlap between the two. Moreover, the SIB is updating the CPI market basket on the basis of the household expenditure survey conducted in 2008-09 (the current survey was conducted between June 1990 and March 1991). These data were supplemented by secondary data sources and used to prepare a new item structure at the national level. Labor market statistics are scarce and available at irregular intervals.

Fiscal accounts: Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector; evaluating each statutory body to determine its proper sectorization; compiling GFS for the social security fund; including the social security fund and the extra budgetary units in the coverage of debt data; treating all government transactions in line with the guidelines of the

GFSM 2001, as outlined in Section V of the paper "Government Finance Statistics to Strengthen Fiscal Analysis" (http://www.imf.org/external/pp/longres.aspx?id=4431); ensuring that annual financial statements for budgetary central government are audited in a timely manner; disseminating the statistics for central government aggregates and debt in accordance with the GDDS recommendations; and disseminating the available monthly data on budgetary central government revenue, expenditure and financing.

Monetary accounts: The monetary data is broadly adequate for surveillance. Recent advances include coverage of the largest credit unions, while establishing an integrated monetary database remains a priority.

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

External debt: Data on public debt, including that of public enterprises is broadly adequate for surveillance. Authorities have recently started to disseminate private debt statistics.

Development Finance Corporation (DFC): Priorities ahead include recording the financial support provided by the government to DFC in recent years; compiling a consolidated sectoral balance sheet for insurance companies and the Belize mutual fund; and renewing efforts to collect balance sheet data from the DFC using principles outlined in the GFSM 2001 and the draft Public Sector Debt Guide being prepared by STA and aligned with it (the GFSM 2001).

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

International Investment Position (IIP) Statistics are not compiled. 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 June 30, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	05/31/10	06/06/10	M	N/A	N/A
International Reserve Assets and Liabilities of the Monetary Authorities[1]	04/30/10	06/06/10	W	W	NA
Reserve/Base Money	04/30/10	06/06/10	W	W	NA
Broad Money	04/30/10	06/06/10	W	W	NA
Central Bank Balance Sheet	04/30/10	06/06/10	W	W	NA
Banking System Balance Sheet	04/30/10	06/06/10	M	M	NA
Interest Rates[2]	04/30/10	06/06/10	M	M	NA
Consumer Price Index	11/30/09	02/23/09	Q	Q	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	03/30/03	12/30/03	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing3—Central Government	03/30/10	06/06/10	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt[5]	12/31/09	06/18/10	M	M	NA
External Current Account Balance	2009Q4	6/06/10	Q	Q	A
Exports/Imports of Goods and Services	2/28/2010	06/06/10	M	M	NA
GDP/GNP	2010Q1	07/13/10	A	A	NA
Gross External Debt	12/31/09	06/18/10	A, M	A, M	NA
International Investment Position [6]			N/A	N/A	N/A

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

Statement by the IMF Staff Representative
October 15, 2010

1. This statement summarizes information that has become available since the issuance of the Staff Report (SM/10/264). It does not alter the thrust of the staff appraisal

2. **Economic developments have remained broadly in line with projections in the staff report.** GDP growth reached 2.4 percent (y-o-y) in the second quarter of 2010, supported by government services and commerce, and is running at a pace of 2 percent for the year as a whole. After peaking in July, net international reserves fell slightly to US$215 million in August, as the government paid interest on its external bonded debt (*Superbond*). In the 12-month period through August, bank deposits remained stable while credit to the private sector contracted by 4 percent, signaling a pause in the pace of financial deepening observed in previous years. The authorities plan to lower the floor on the interest rate on saving deposits by 100 basis points to 3½ percent in early November.

3. **Overdue loans in the banking system have declined somewhat.** A large domestic bank has restructured some loan facilities and, as a result, its overdue loans have declined from 34 percent of total loans in June to 30 percent in August. The authorities have asked this bank to increase its capital, but are concerned that such increase may only materialize slowly. The financial situation of the rest of the banks in the system has remained broadly stable.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/142
FOR IMMEDIATE RELEASE
October 22, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Belize

On October 15, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Background

The Belizean economy in the past two years has been vulnerable to adverse shocks mainly because of a weak external position, policy rigidities, and reduced access to external financing. Since 2006, growth has been lackluster, with sources limited mostly to petroleum extraction and tourism-related construction. In 2007, debt restructuring eased external debt service, but public debt has remained high, limiting the policy capacity to respond to shocks. Macroeconomic management was complicated in 2008 by soaring fuel and food prices.

Economic activity stagnated in 2009, as a result of the global slowdown and the lingering effects from the 2008 floods. Inflation fell to minus 0.4 percent during 2009, driven by a reversal in fuel and food prices and weak domestic demand. Helped by a lower external current account deficit and the SDR allocations, foreign reserves have strengthened substantially from the low levels seen in previous years to reach 3.2 months of imports of goods and services or 160 percent of the country's external financing needs.

In FY2009/10 (April–March), the fiscal balance weakened by 2 percentage points of GDP, to a deficit of 1.6 percent of GDP, due to lower grants and higher current spending (mainly wages),

[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. 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.

despite a decline in investment. The central bank has taken steps to improve the conduct of monetary policy, by relying on market-based monetary instruments. In the banking system, nonperforming loans have risen sharply in the recent period, while provisioning remains low.

For 2010, the economy is projected to grow by 2 percent, on an expansion in electricity generation. Inflation would rise transitorily to 6 percent, after a rebound in fuel prices and recent tax measures. Despite some increase in debt payments abroad, the external current account deficit would narrow to under 6 percent of GDP, reflecting lower energy and FDI-related imports. The foreign reserve position would improve slightly. Despite tax revenue actions taken in April, the budgeted fiscal deficit is projected to widen to 2.2 percent of GDP in FY2010/11, due largely to lower grant disbursements and increased investment. The public debt is projected to decline slightly under 80 percent of GDP at year-end.

Executive Board Assessment

Executive Directors commended the authorities for their prudent macroeconomic management in the face of the global crisis and severe floods. Growth has resumed, albeit at a slow pace, and the external position has improved. Nevertheless, the Belize economy remains vulnerable to shocks, with weak public finances, limited external financing, and risks in the banking system. This vulnerability highlights the urgency of further rebuilding macroeconomic and financial buffers, strengthening the banking system, and promoting an environment conducive to private sector-led growth.

Directors emphasized the need for an ambitious fiscal consolidation strategy, with a view to reducing public debt to more sustainable levels over time. They supported plans to improve public financial management and tax administration, building on recent progress in revenue reform. Directors encouraged further efforts to contain the public sector’s wage bill and to put the pension system on a sounder footing, and welcomed the authorities’ intention to build consensus around their reform program. They also considered it important to create space for priority social spending and infrastructure investment in a manner consistent with the fiscal consolidation strategy, and to incorporate plans in these areas into a medium-term budget framework.

Directors underscored that protecting the stability of the banking system is a priority. This will require an agreement on recapitalization plans for a few banks and their early implementation. Directors welcomed plans to upgrade the regulatory and bank resolution frameworks, bringing prudential rules in line with international best practices, with technical assistance from the Fund. They also welcomed ongoing efforts to intensify bank oversight and looked forward to continued progress in the supervision of the offshore and non-banking sectors.

Directors welcomed recent improvements in the monetary policy framework and liquidity management, particularly a shift to more market-based monetary instruments. They stressed that the fixed exchange rate regime has provided an anchor for macroeconomic policies and expectations. Its long-term stability depends on sustained fiscal consolidation, a disciplined monetary policy, and strengthened financial stability.

Directors endorsed the authorities’ development plan, which seeks to boost competitiveness and private investment. Its successful delivery, along with adequate donor support, will go a long way toward raising medium-term economic prospects and reducing poverty. Continued improvements in the business climate would help foster private sector-led growth.

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

Belize: Selected Economic Indicators

	2006	2007	2008	Prel. 2009	Proj. 2010
(Annual percentage change, unless otherwise indicated)					
National income and prices					
GDP at constant prices	4.7	1.2	3.8	0.0	2.0
Nominal GDP (US$ millions)	1,213	1,277	1,359	1,352	1,431
Gross domestic investment 1/ 2/	17.7	16.9	27.5	22.0	23.0
Gross national savings 1/	15.6	12.9	17.7	15.2	17.3
Consumer prices (end of period)	2.9	4.1	4.4	-0.4	5.9
Real effective exchange rate (June for 2010)	0.9	-2.9	0.5	2.5	2.3
Money and credit					
Credit to the private sector	13.1	13.9	11.6	4.8	2.4
Money and quasi-money (M2)	17.3	15.0	14.0	5.8	2.9
(In percent of GDP, unless otherwise indicated)					
Central government 3/					
Revenue and grants	25.8	28.2	28.7	26.4	28.0
Current expenditure	25.1	23.2	23.4	24.4	24.9
Capital expenditure and net lending	4.6	5.7	4.9	3.7	5.3
Primary balance	4.1	3.8	4.2	1.9	1.9
Overall balance	-3.9	-0.7	0.4	-1.6	-2.2
External sector					
External current account 4/	-2.1	-4.0	-9.8	-6.8	-5.7
Overall balance of payments (US$ millions)	49.8	22.9	58.6	47.3	7.9
Public and publicly guaranteed debt	92.5	84.8	78.2	80.2	78.1
Domestic debt	8.7	8.2	7.4	7.1	7.0
External debt	83.9	76.6	70.8	73.1	71.2
Gross international reserves (US$ millions) 5/	85.6	108.8	167.1	214.3	222.2
In months of imports	1.3	1.6	2.1	3.2	3.4

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

1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Fiscal year ends in March. Budget projection for 2010
4/ Including official grants.
5/ For 2009, includes the share of Belize in the IMF Special and General SDR allocations in the equivalent of SDR 18 million (US$28 million).

Statement by Thomas Hockin, Executive Director for Belize and Peter McGoldrick, Advisor to Executive Director October 15, 2010

Our authorities have generally welcomed and valued the engagement with the Fund. Capacity building – made possible by technical assistance, whether by CARTAC on the revenue side or, more recently, by MCM and LEG on financial sector regulation and monetary policy tool enhancement issues – is especially welcome and valued, not only in Belize but the region as a whole. Similarly, our authorities welcome a transparent and open consultation process. This particular consultation has highlighted many concerns that our authorities share and they welcome and appreciate continued Fund assistance in addressing these. It is exactly this appreciation of the Fund's ability to transmit technical capacity and to provide a valuable independent assessment of an economy's state of affairs that has always encouraged our authorities to engage with the Fund in an open and transparent manner and they intend to continue to do so in the future.

Staff rightly highlights Belizean vulnerability to external shocks. Since 2007 a succession of natural disasters, which caused considerable damage to the economy, and global macroeconomic shocks, such as high inflation and the most recent global crisis, have rendered the implementation of an adjustment program very difficult, indeed. Nonetheless, the Belizean macroeconomic performance has remained resilient by regional standards. Much like other economies in the region, however, the Belizean economy will likely be confounded by a low-growth external environment going forward as well as high debt levels. Hence, it is not clear that making adjustments in the near-term shall be any easier to achieve. Our authorities take on board, however, that certain measures need to be taken in order to address underlying vulnerabilities. Certainly, greater room for manoeuvre must be created. Positive growth surprises and improved revenue collection from customs revenue and improved public financial management aside, fiscal restraint on recurrent spending is one of the few areas where this might be possible. Further, our authorities accept the external position will continue to strengthen with a continuation, albeit in a more gradual manner, of reserve accumulation. Likewise, building on the basis of recent concerted efforts to improve the monetary system should provide better liquidity management, thus reducing banks' reserve requirements. As a pendent, a comprehensive reform of the financial sector is underway which should buttress financial stability. Finally, our authorities have chosen to foster an investment climate, underpinned by the rule of law, which is attractive to investors. In this respect, negotiations are underway with a strategic investor to bring a telecommunications company to market. Of course, a successful completion of this process would provide proof of the favourable investment climate in Belize.

Like for many in the region, generating sustainable and independent growth dynamics remains a difficult exercise. Positive external shocks aside, our authorities hope to continue developing sustainable growth potential and poverty reduction as outlined in their development plan. As investment remains key to this vision, they have prioritised addressing factors that might limit credit growth, such as long-standing issues in the monetary and financial system, especially those of a structural and regulatory nature. Similarly, our Belizean authorities recognise that FDI can also help generate significant growth and employment, which is why external stability and rule of law are sacrosanct.

External shocks and sluggish growth have exacerbated fiscal constraints over the past years and our authorities remain committed to further fiscal consolidation, especially by improving customs collection and public financial management. Our authorities agree that external shocks have, over the past several years, slowed the pace of fiscal consolidation. We note the growth in recurrent spending and, while addressing this in the short-run may be difficult, our authorities recognise that establishing consensus on restraint in this regard would be an appropriate way to spread the adjustment burden.

As staff state, the monetary policy framework continues to improve apace and our authorities are committed to a disciplined monetary policy, with an aim to maintaining a fixed exchange rate. Over the past years, our authorities have made considerable progress in the area of monetary policy. Indeed, this has been a showcase for the benefits of Fund engagement and our authorities hope to continue to benefit from technical capacity and advice from the Fund. Here, our authorities envisage further developing monetary policy instruments, especially with regard to liquidity management and diversification of policy instruments. As for the exchange rate, our authorities agree that the exchange rate is about fairly valued. Nonetheless, they recognise the importance of having heeded Fund advice about the desirability of a foreign reserve buffer when maintaining an exchange peg. Hence, they swiftly moved to accumulate reserves to much more comfortable levels and concur with staff that continued accumulation, albeit at a more gradual pace, should further bolster Belize’s resilience to external shock.

Our authorities continue to be firmly committed to and actively engaged in the task of enhancing financial sector stability. In order to achieve this goal, our authorities have determined the need to address long-standing issues in the financial system. This is an ongoing process and our authorities are grateful for the expert assistance the Fund has provided in this regard. Of course, addressing such structural issues entails risks and, thus, requires resolve and tact. Hence, our authorities are in close contact with their partners in the financial sector to resolve outstanding issues. Certainly, our authorities look forward to continued involvement with staff at this level.

Our authorities are firmly committed to structural reform with an aim at reducing poverty, enhancing activity and employment, and increasing investment. Generation of sustainable growth is central to Belize's continued economic recovery and stabilisation. In line with this, our authorities recognise the importance of addressing business needs. As for many countries in the region, capacity remains a considerable constraint. Given the similarity of needs across the region, assistance in developing technical capacity could help to identify needs and drive improvements in conditions. One might wonder if a regional and centralised approach could be co-ordinated by an agency like CARTAC in order to deliver such capacity. As for the rule of law, our authorities can unequivocally state that they fully subscribe to it – the issue of its independence has classically been a prerequisite for its relevance to society and our authorities fully recognise this. For their part, they have so far underscored their commitment to due process by remaining open and transparent about any issues brought to their attention by the staff. Further, our authorities hope to prove the relevance of Belize as an economy worth investing in, also by attracting FDI. This not least with respect to a telecoms company, which is to be brought to market in the near future; talks with a strategic investor have already begun. Success in this would certainly challenge staff's notions that investors may be deterred by what is merely the rule of law in Belize. Certainly, the respect of due process is required with respect to courts and our authorities recognise this duly. In this regard, provision of commensurate compensation pursuant cases still requiring settlement will further underpin our authorities' intentions to uphold the rule of law and should prove fully sufficient to quell any concerns staff purports to have that any particular investor might not be treated as an equal before the law.