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Belize: 2005 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2005 Article IV consultation with Belize, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 11, 2005, 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 August 15, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of September 19, 2005 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 19, 2005 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

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

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BELIZE

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Belize

Approved by Christopher Towe and G. Russell Kincaid

August 12, 2005

Discussions: A staff team comprising B. Fritz-Krockow (Head), G. El-Masry, M. Torres, M. Nozaki (all WHD), G. Srour (INS), and W. McGrew and P. Brukoff (both PDR) visited Belize during April 18-May 3 and during July 7–11. The authorities visited Washington on June 13–14. The team met with the Prime Minister, the Economic Cabinet, senior government officials, and representatives of trade unions and the private sector. C. O'Loghlin and P. Charleton (Alternate EDs) joined the policy discussions.

Recent developments: Only belatedly have the authorities begun to tighten policies and address the growing risk of a balance of payments crisis. Stiff public resistance forced the government to rescind key budget measures in early 2005, but in late-May the authorities introduced a package of fiscal and monetary policy measures aimed explicitly at sustaining the pegged exchange rate.

Main policy recommendations: In view of the severe imbalances and delays in tightening policies, there remains a significant risk of a balance of payments crisis a considerable and sustained policy correction is still needed to lessen the risks.

Exchange arrangement: The Belize dollar has been pegged at BZ$2 per U.S. dollar since 1976.

Fund relations: Belize presently has no outstanding use of Fund credit. The authorities have been increasingly receptive to Fund policy advice.

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EXECUTIVE SUMMARY

- **Recent Developments.** The economy grew at a relatively robust pace in 2004, supported by strength in the tourism, agriculture, and fisheries sectors. However, the fiscal and external current account deficits remained at unsustainable levels, public debt reached 100 percent of GDP, and the authorities failed to achieve the envisaged fiscal policy adjustment.

- **The authorities began to tighten policies in 2005 in response to growing concern regarding the risks of a balance of payments crisis.** In May, the authorities announced fiscal measures aimed at reducing the deficit to 3 percent of GDP and also tightened monetary policy to contain credit expansion.

- **A stronger adjustment effort appears necessary.** The magnitude of adjustment, delays in policy implementation, and new spending commitments mean that the FY05/06 fiscal target will not be achieved. Moreover, the substantial external financing gap that is likely to emerge in 2006 means that additional and sustained fiscal measures will be required.

- **The authorities see only limited scope for additional fiscal measures.** They argued that there is only limited room for a stronger fiscal adjustment effort given the severity of the measures already taken and the contractionary impact on the economy.

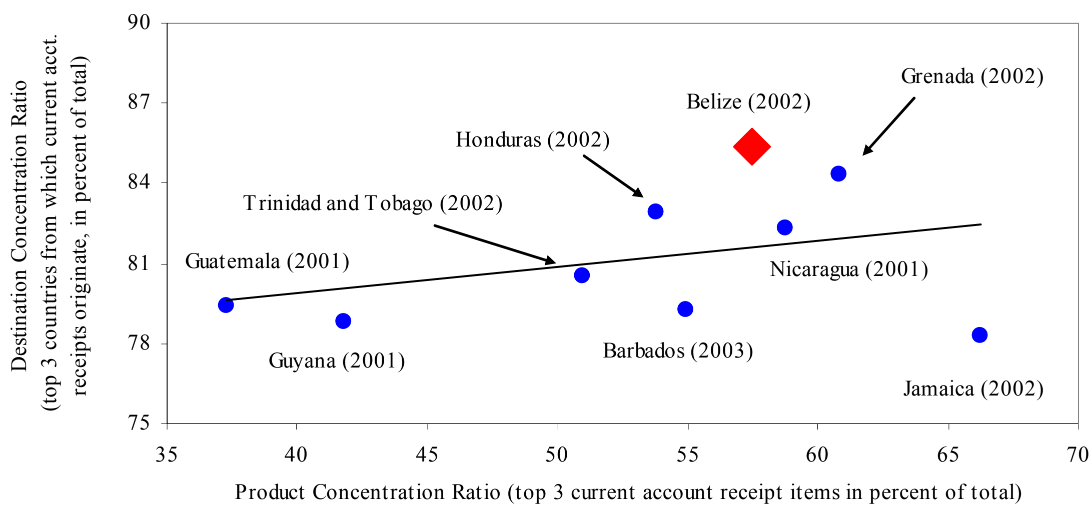
- **There is a need to deal expeditiously with the insolvent Development Finance Corporation (DFC).** The assets of the failed DFC continue to deteriorate and budget support is necessary to sustain its operations. The authorities have taken steps to restructure the DFC, but key policy elements are yet to be defined.

- **The authorities have announced their intention to seek debt-service relief from external creditors.** It is essential that this be carried out early and in a transparent and orderly manner, and will most likely be successful if undertaken within a medium-term framework aimed at restoring debt sustainability and a resilience to shocks.

I. Economic and Political Background

1. **Belize is a small, export-dependent country.** Exports of goods and services are the equivalent of 50 percent of GDP, and constitute mainly agricultural products (sugar, bananas, and citrus) and marine products (shrimp and lobster), while tourism has become a major industry only recently. Belize has maintained a fixed exchange rate peg (BZ$2 per U.S. dollar) since 1976, and capital controls are prevalent. A widespread parallel foreign exchange market exists.

Indices of Export Product and Destination Concentration



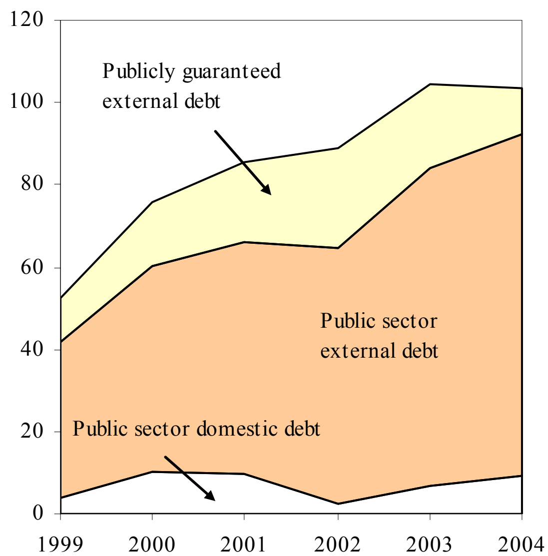
Sources: Country authorities; and Fund staff estimates. Includes tourism and remittances.

2. **Belize is highly vulnerable to external trade and weather-related shocks.** Exports are relatively undiversified in terms of products and markets (mainly the United States and the European Union). During 2000–02, hurricanes and floods severely affected the tourism and agriculture industries and required more than US$25 million (about 2½ percent of GDP) in emergency reconstruction. In addition, a virus damaged the shrimp industry in 2001–02, and sharp swings in prices affected the banana and citrus industries in 2003–04. More recently, high world oil prices have weakened the terms of trade further.[1]

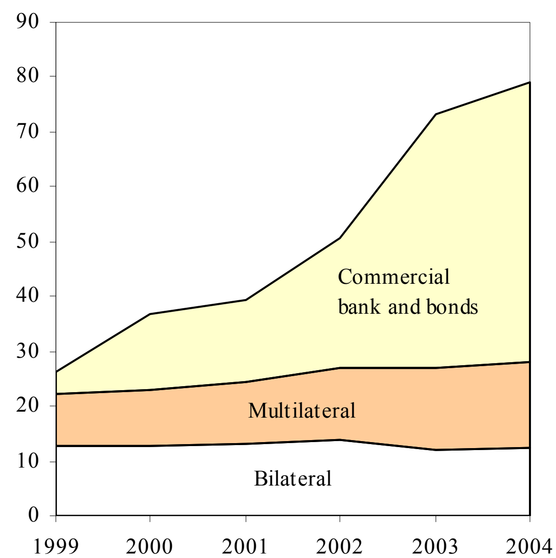
[1] See the chapter on "Sources of Vulnerability" in the accompanying Selected Issues paper.

3. **Belize's vulnerabilities have been exacerbated in recent years by substantial fiscal imbalances and a rapid increase in external public debt**. Fiscal deficits averaged about 9 percent of GDP during 1999–2004, largely reflecting weak expenditure discipline. However, the balance sheet of the state-owned Development Finance Corporation (DFC) also expanded by the equivalent of 28 percent of GDP as a result of government policies to promote the housing sector. As a result, public and publicly guaranteed debt—mainly comprising loans from foreign banks and external bond placements—tripled during 1999-2003 to reach about US$1 billion or about 100 percent of GDP at end-2004.

Public and Publicly Guaranteed Debt
(In percent of GDP)



Central Government External Debt
(In percent of GDP)



4. **The public sector's debt dynamics have become increasingly adverse.** With the rapid increase in indebtedness and a marked widening of spreads, interest expenses on foreign loans increased from 1½ percent of GDP in FY00/01 to an estimated 7½ percent of GDP in FY04/05 (fiscal year ending March). This offset almost entirely a significant improvement in the primary deficit from 7½ percent of GDP in FY00/01 to ¼ percent of GDP in FY04/05. Most of the adjustment was the result of a sharp contraction of capital spending, even as the public sector wage bill rose sharply during 2003–05.

5. **Even in the face of an unsustainable fiscal and balance of payments position, it has proven difficult to build the necessary political consensus for adjustment.** The ruling party maintains a solid majority in the National Assembly, for which elections are not due until 2008. Nonetheless, disagreements among ministers on the direction of policies led to cabinet reshuffles in August 2004 and December 2004. In January 2005, the government's budget for FY05/06 called for a fiscal effort of about 2½ percent of GDP but triggered widespread strikes and work stoppages by civil servants and public utilities workers. As a

result, the government was forced in February to rescind fiscal measures equivalent to about 1 percent of GDP.[2] In April 2005, allegations of government corruption and mismanagement led to strikes and sporadic riots, disrupting telecommunications, transport, and public utilities services.

6. **The authorities have only recently become receptive to Fund advice.** Over the past years, the Fund has expressed growing concern that fiscal and external imbalances remained unsustainably large, and called for immediate and comprehensive fiscal correction, supported by tight monetary policies. However, only in late-2004, after external market access became impaired and the threat of a balance of payments crisis became imminent, did the authorities invite a Fund staff team to assist in developing an adjustment strategy.

II. Recent Economic Developments

7. **Notwithstanding its external and fiscal imbalances, Belize's recent growth performance has been relatively favorable.** Real GDP growth surged to about 9 percent in 2003, mainly owing to strength in the tourism sector and a recovery in the agriculture and fisheries sectors. The growth rate is estimated to have remained at 4½ percent in 2004, reflecting continued government expenditure, and robust output growth in the sugar, banana, shrimp, and citrus industries, even in the face of sharply lower international prices in some sectors. In the tourism sector, stay-over volume increased by 5 percent, while cruise ship arrivals rose by almost 50 percent.[3]

8. **The authorities failed to achieve the envisaged significant fiscal adjustment last year.** The overall fiscal deficit is estimated to have risen from 8¼ percent of GDP in FY03/04 to 8¾ percent of GDP in FY04/05, compared to the authorities' 2¾ percent of GDP budget target. Noninterest current expenditure exceeded budgeted levels by almost 3 percent of GDP, and interest payments overshot by almost 4¾ percent of GDP, mainly as a result of the exceptional fees and charges associated with three large external financing arrangements (Box 1). Excluding these exceptional fees, the underlying fiscal deficit fell from 8¾ percent of GDP to 6 percent of GDP.

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[2] In addition, the government agreed to appoint a union representative to the board of the Central Bank of Belize and establish a commission of inquiry to investigate the operations of the DFC. The Senate also appointed a Select Committee to investigate the management and financial operations of the Social Security Board.

[3] Belize has recorded the fastest increase in cruise-ship tourism arrivals in the Caribbean in the last three years.

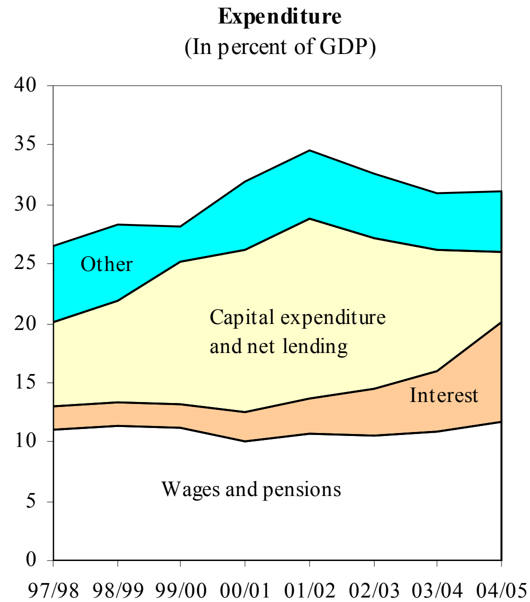
Box 1. The High Cost of Recent External Financing Arrangements

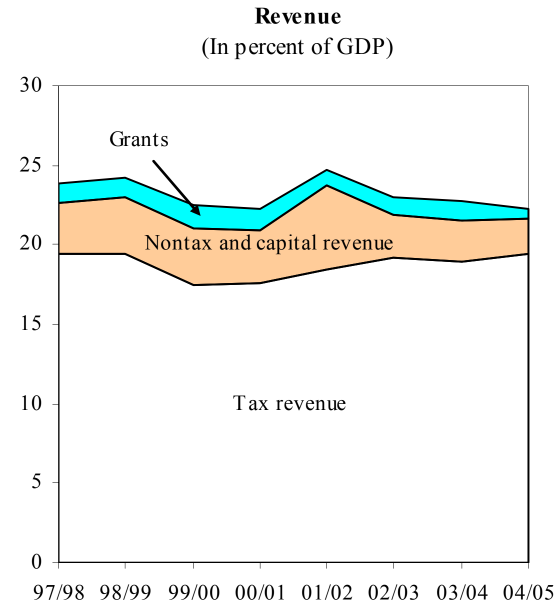
Despite the sharply curtailed access to international capital markets and deteriorating borrowing conditions, Belize was successful in refinancing of a number of loans and fresh financing amounting to US$291.3 million during late 2004 and early 2005. However, in the face of growing concern regarding Belize's credit worthiness, this was only achieved by incurring upfront closing fees and charges of about US$28 million (about 2¾ percent of GDP):

- In October 2004, the government of Belize rolled over with the **Royal Merchant Bank of Trinidad and Tobago** three payments totaling US$65.5 million that were falling due during October 2004–January 2005. The largest of these payments was a loan of US$54 million originally contracted by the DFC and assumed by the government. The new note amounted to US$75.6 million, including closing fees and charges of US$12.7 million (1.2 percent of GDP), of which US$9.8 million constituted an early prepayment penalty fee for the DFC loan. The yield to maturity is about 13 percent and the note has a ten-year bullet maturity, with a put option that is exercisable after three years.
- In November 2004, the government of Belize rolled over US$79 million from a total of US$95 million that were falling due to the **International Bank of Miami** (IBOM). The new loan was contracted with **Capital Markets Financial Services** (CMFS), a financial entity linked to IBOM. The closing fees for the new CMFS loan amounted to US$2.7 million (or 0.3 percent of GDP). About US$44 million of the new loan were repaid in early-2005, with a balance of US$35 million still outstanding. The yield to maturity is around 11 percent, the loan has a maturity of seven years, and bond holders can exercise put options in November 2005.

In March 2005, the authorities placed two new bonds through **Bear Stearns** totaling about US$136.7 million (about 13 percent of GDP) with maturities of 5 and 10 years and a yield to maturity of around 13 percent. There were upfront charges and financing fees of US$4.6 million and a prepayment of a 2-years insurance fee of US$8.1 million (together 1.2 percent of GDP). In addition, about US$30 million were placed in blocked reserve and escrow accounts to service the bonds in the future. Most of the net proceeds of US$93.6 million will be released for pre-agreed debt service payments.

9. **The state-owned DFC continues to place a heavy burden on public finances.** After mounting losses from failed investments and questionable financing operations, the government was forced to refinance and assume directly about US$210 million in external loans of the DFC during 2002–05. A recent Inter-American Development Bank (IDB) technical assistance report concluded that the DFC was critically undercapitalized due to inadequate provisioning for its nonperforming loans, which exceed 47 percent of its portfolio as of May 2005, and an overvaluation of its real estate assets. The report also highlighted severe problems of corporate governance and weak management and recommended the DFC's closure to halt the continued deterioration of its financial position. The authorities announced in late-2004 their intention to wind down the DFC and appointed a new management and Board of Directors in July 2005, but other steps have yet to be undertaken.





10. **Belatedly, the authorities have taken steps to tighten monetary policy.** The net domestic assets of the Central Bank of Belize (CBB) increased by about 4 percent of GDP during 2004, owing to a sharp increase in borrowing by the central government and the DFC, and commercial lending rates fell below 14 percent.[4] Nevertheless, private sector credit growth from commercial banks and DFC eased from 12 percent in 2003 to 7½ percent in 2004. In an effort to further stem domestic demand growth, the CBB raised the cash reserve requirement by 1 percentage point each in December 2004 and May 2005. A decision was also taken to channel the receipts of the Belize Social Security Board (BSSB) to the CBB to reduce banking system liquidity.[5] As a result, the 12-month growth rate in credit to the private sector slowed further to 6½ percent by end-May 2005.

11. **Steps have been taken to improve financial supervision and prudential regulation.** The authorities have begun to implement procedures under the Money Laundering Prevention Act, and have adopted a risk-based approach to banking inspection. The Banks and Financial Institutions Act and the International Banking Act are being revised in line with the Basel Core Principles. Banking supervision has been expanded to include the DFC effective January 2004, while supervision of credit unions is being strengthened.

[4] The steep rise in central bank borrowing in the last quarter of 2004 was reversed in March 2005 with the disbursement of international bonds.

[5] This measure can have a substantial impact on liquidity, as about half of the deposit growth in the commercial banking system in 2004 can be attributed to higher deposits by the BSSB.

12. **The balance of payments remains under severe pressure.** The current account deficit averaged about 22 percent of GDP during 2001–03, owing to rapid import growth. Despite the continued deterioration of the terms of trade, the deficit narrowed somewhat to about 18 percent of GDP in 2004, as exports of goods and services continued to expand and capital goods imports fell. Current account deficits were financed mainly through increases in public sector indebtedness, and external public debt reached 80 percent of GDP by end-2004. Notwithstanding significant private capital inflows in 2004 related to major investment projects, the capital account surplus narrowed as Belize's access to capital markets became impaired. As a result, net international reserves fell by about half during 2004 to US$40 million (0.8 months of imports).[6]

13. **Belize's borrowing costs have surged reflecting a sharply lower market assessment of creditworthiness.** The country's credit rating has been downgraded and risk spreads have increased sharply reflecting high debt levels and increased doubts about the sustainability of the policy framework.[7] Belize still managed to complete three new refinancing operations since late 2004 totaling US$291 million (28 percent of GDP), including the placement of new international bonds of about US$137 million in March 2005. However, these operations carried high closing fees, upfront charges, and other security payments amounting to 2.7 percent of GDP during FY04/05 (see Box 1).

14. **Despite these difficulties, the exchange rate has faced limited pressure in the parallel foreign exchange market.** Reflecting the improvement in the current account balance and significant public sector borrowing abroad, the spread between the official and parallel market rate remained below 10 percent during 2004 and the first half of 2005. Nonetheless, and due mainly to the weakness of the U.S. currency, the Belize dollar has depreciated significantly in nominal effective terms in recent years, leading to a similar depreciation in real effective terms.

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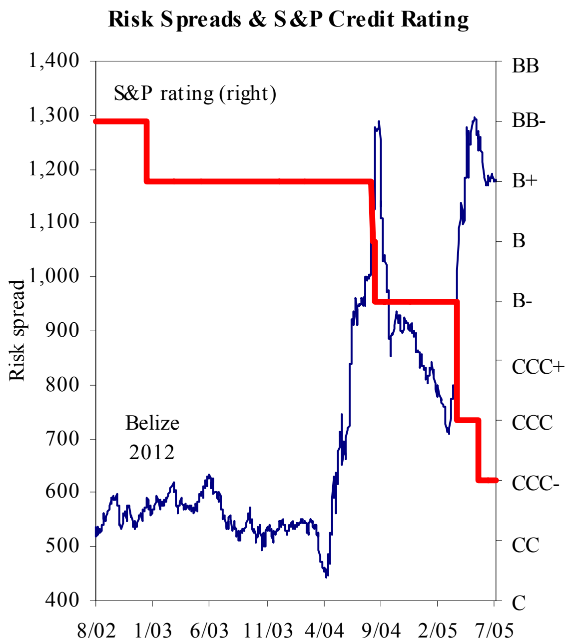
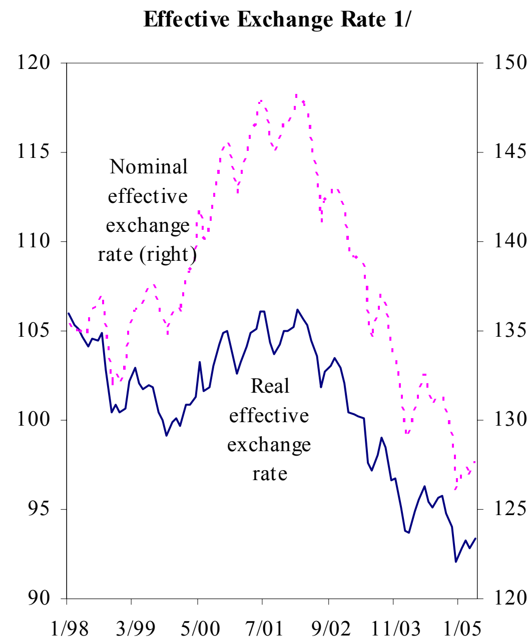
[6] Usable gross reserves amounted to US$30 million at end-2004, as some CBB foreign assets were pledged, e.g., in a sinking fund to repay a bond maturing in June 2005.

[7] In the last of several ratings actions, S&P downgraded Belize to CCC- with a negative outlook on June 1, 2005, after the country had announced its intentions to seek a debt restructuring. S&P pointed out that there was a the high probability that the restructuring would be concluded on terms that would constitute a default. Moody's followed a week later by downgrading Belize's foreign-currency rating from B2 to B3 with negative outlook.



Sources: Bear Stearns; Standard & Poor; and JP Morgan.



Source: Information Notice System.
1/ An increase denotes appreciation. 1990=100.

III. Policy Discussions

15. **Discussions in April/May centered on the substantial risk of a crisis and the importance of a quick and decisive policy response.** The mission stressed that a sizable balance of payments financing gap was likely to emerge in 2006, which meant that a strong adjustment effort would be required if the authorities were to be able to sustain the pegged exchange rate. Subsequently, in late May, the authorities announced a fiscal and monetary package to address the risk of "financial crisis and ensure a sustainable fiscal and external position," and discussions were concluded in July.

16. **During the July mission, the team cautioned that further substantive and sustained measures would be required to safeguard the pegged exchange rate.** The team welcomed the recent fiscal policy tightening based mainly on tax increases and a reduction in capital expenditure, but noted that the measures appeared too modest, had been implemented with significant delays, and were partly offset by new spending commitments. In particular, the staff's estimates suggested that the authorities' adjustment program would be insufficient to achieve the 3 percent of GDP fiscal deficit target for FY05/06, and would not achieve the necessary contraction in demand before external reserves were depleted in 2006. Moreover, the heightening of domestic political tensions and the weakening of international confidence left Belize highly vulnerable to a rapid shift in market sentiment or to a new adverse external shock.

17. **Although the authorities were unwilling to discuss amendments to the exchange rate system, they saw little immediate scope for additional measures to support the peg.** This reflected concern that further adjustment would trigger an excessively large economic contraction or a resurgence of social tensions. While the authorities remained committed to a tight macroeconomic stance during 2005–06, they recognized the need to approach their external creditors to seek their assistance in closing the financing gap, possibly through relief of debt service in 2006.

Macroeconomic Framework 2003-06

(Annual percentage change, unless otherwise specified

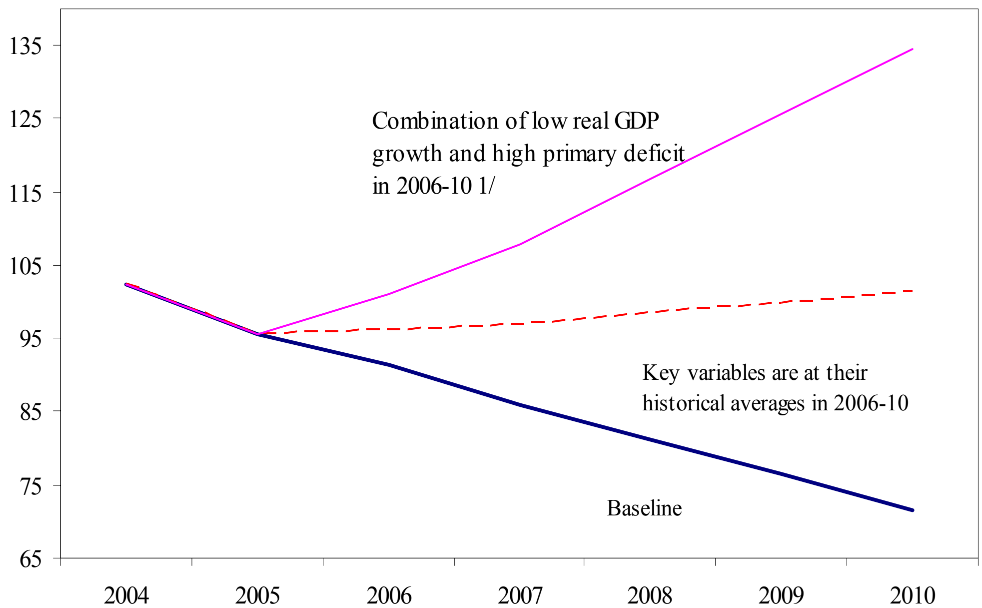
			Projections	
	2003	2004	2005	2006
Real GDP growth	9.2	4.6	3.1	2.7
Inflation (end of period)	2.3	3.0	4.0	3.7
Primary central government balance (fiscal year, percent of GDP)	-3.3	-0.3	3.0	2.9
Overall central government balance (fiscal year, percent of GDP)	-8.3	-8.7	-3.6	-3.1
Credit to the private sector from commercial banks and DFC	12.2	7.5	3.1	2.8
External current account deficit (percent of GDP)	-22.3	-17.7	-12.7	-7.9
External financing gap (percent of GDP)	0.0	0.0	0.0	2.4
Gross official reserve coverage of 12-month debt service	29.6	16.6	63.8	62.6
Public and publicly guaranteed debt (percent of GDP)	103.1	102.3	95.4	91.3

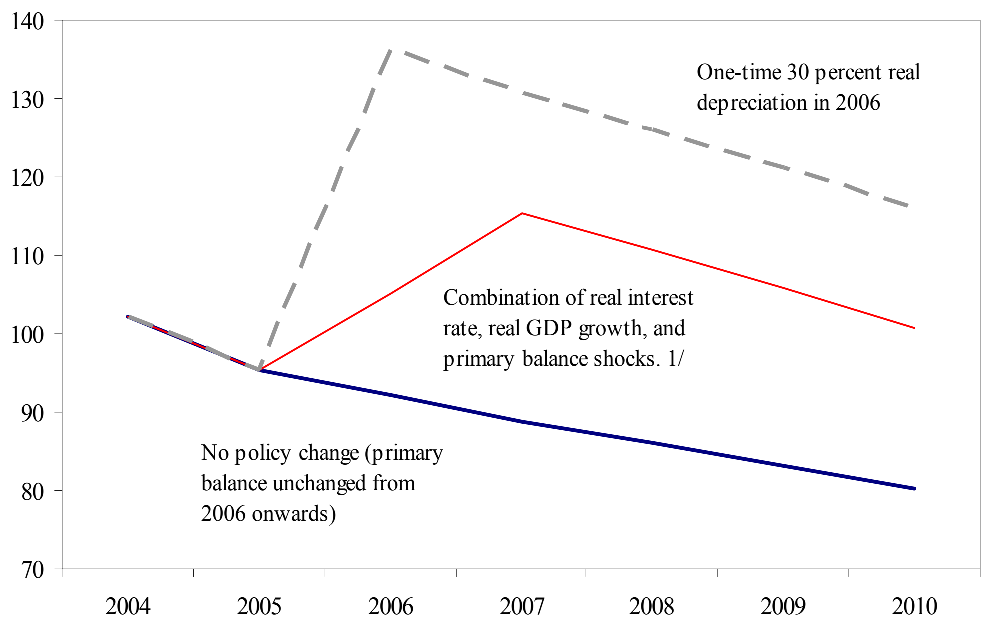
18. **The authorities also reiterated their preference for an adjustment effort that did not include a Fund-supported program.** Instead, they expressed interest in regular Fund assessments of their adjustment effort, which might be used to support new multilateral financing or the authorities' efforts to seek debt service relief from their commercial external creditors. The mission informed the authorities of the policies and procedures related to assessment letters.

A. The Short- and Medium-Term Outlooks

19. **The team presented short-term projections illustrating the need for significant additional demand compression or financing.** Even with the fiscal and other policy adjustments that had been set in motion, growth was expected to slow only modestly—to 3 percent and 2¾ percent in 2005 and 2006, respectively—mainly owing to the strength of the tourism and agricultural sectors. While the current account deficit would shrink significantly, debt service payments and the virtual absence of public sector access to international capital markets would mean that an external financing gap of 2½ percent of GDP would emerge in 2006, with reserves likely to be exhausted by mid-year.

Belize: Public Sector Debt-to-GDP Ratio
(In percent)





Source: IMF staff calculations.
1/ For detailed data, compare Table 8.

20. **The staff team acknowledged that further policy adjustments would cause substantial short-term output losses.** However, the experience of other crises suggested that the consequences of a disorderly exit from the peg would be even more painful.[8] Moreover, with the reestablishment of confidence and creditworthiness and in light of a continued positive outlook for exports, growth could recover to around 5 percent over the medium term.

21. **The mission emphasized that a tight policy stance would have to be sustained over the medium term to reduce external debt and vulnerabilities.**[9] Without further adjustment, large financing gaps were likely to remain over the medium term. Therefore, sizeable primary fiscal surpluses would be required to assist in achieving a sustainable balance of payments, to reduce the risk of an abrupt loss of the peg, and to increase the resilience of the economy to exogenous shocks.

22. **Debt sustainability analysis also illustrated the need for a continued and sustained fiscal adjustment.**[10] Maintaining the fiscal primary surplus envisaged for 2005—3 percent of GDP—in subsequent years would reduce the public debt ratio from around 100 percent of GDP at end-2004 to around 75 percent of GDP by 2010. With an additional fiscal effort to increase the primary fiscal surplus to around 4 percent of GDP in 2007–10, public debt could decline to around 70 percent by end-2010. Both scenarios were nonetheless predicated on the authorities' ability to close the substantial and recurring financing gaps that were likely to emerge over the medium term.

23. **The staff team emphasized that substantial risks would remain under the medium-term scenario.** Achieving and sustaining a primary surplus for such an extended period would not be easy, particularly in light of the social and political pressures that had emerged in the past year. Moreover, the country would continue to be highly vulnerable to exogenous shocks. In particular, Belize's banana, citrus, and shrimp exports faced significant price or output volatility, while the sugar and banana industries will have to cope with the erosion of EU preferences beginning in 2006. Moreover, regional trade agreements such as CAFTA would also weaken Belize's relative competitiveness in U.S. markets. This underscored the importance of achieving and maintaining a sustainable macroeconomic framework and lowering levels of debt in order to restore a level of resilience to exogenous shocks.

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[8] A staff review of 10 episodes of disorderly exits from fixed pegs in 1980–2004 showed that economies tended to contract by an average of 4 percent in the year following the exit from the peg.

[9] See also the chapter "Sources of Vulnerability" in the accompanying Selected Issues paper.

[10] The need for a prolonged primary surplus is illustrated by the debt sustainability analysis. In a worst case scenario, primary deficits of its historical average plus one standard deviation (around 6 percent of GDP) during 2006–10 would lead to an unsustainable increase in public debt to around 130 percent of GDP in 2010.

B. Fiscal Policy

24. **The authorities expected to be able to reduce the FY05/06 fiscal deficit to around 3½ percent of GDP.** They acknowledged that this was less ambitious than the 3 percent target set in late May, but noted that the shortfall was due to difficulties and delays in implementing measures and additional spending commitments of about 0.6 percent of GDP. They estimated that the May package, coupled with the January budget measures, would reduce the primary deficit sharply by about BZ$75 million (around 3½ percent of GDP) from its FY04/05 level. They also pointed out that the new package of measures had been implemented in an atmosphere of greater social consensus and understanding for the need for adjustment. They emphasized that the adjustment was based on measures that were already enacted and implemented:

- **Revenue measures:** These included mainly (i) an increase in various sales tax rates; (ii) increases in the excise taxes on beer, alcoholic beverages, soft drinks, and tobacco products; and (iii) the closure of loopholes affecting the collection of real estate transactions taxes. These were expected to yield about 2.1 percent of GDP during FY05/06 and an additional 0.2 percent of GDP in FY06/07.

- **Cuts in current outlays:** A reduction in central government employment by at least 1½ percent during FY05/06 and a one-year freeze on wage increments was expected to hold expenditure on wages and salaries constant at around 10 percent of GDP, notwithstanding the 8 percent general wage increase in April 2005.[11] Cuts in outlays for goods and services were projected to yield a total of 0.2 percent of GDP, but these were more than offset by additional spending commitments of 0.6 percent of GDP for telecom services and legal fees. The staff agreed with the authorities' emphasis on protecting social outlays by minimizing cuts in the areas of education and the provision of health services.

- **Cuts in capital expenditure:** Through a combination of project completions, extensions, and cancellations, domestically funded capital expenditure was being reduced from 2.2 percent of GDP in FY04/05 to 2.1 percent of GDP in FY05/06, while foreign-funded public investment projects were being reduced from 3.5 percent of GDP in FY04/05 to 2.2 percent of GDP in FY05/06.[12]

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[11] Civil service employment was reduced by 1½ percent by end-July; additional cuts are expected but not included in the fiscal projections. Wages in the public sector were increased by 5–8 percent per year during 2003–05 (April 1). In addition, automatic wage increments of 3–5 percent are awarded in lieu of merit increases on each civil servant's annual contract anniversary. This latter increment has been frozen for 12 months starting July 1, 2005.

[12] The staff noted that domestically funded capital expenditure still included substantial elements that would more accurately be classified as recurrent expenditure, e.g., regular transfers to statutory bodies. The authorities noted that most recurrent expenditure elements would be reclassified in the FY06/07 budget exercise.

25. **The mission emphasized the need for additional fiscal measures.** Meeting the 3 percent deficit target for FY05/06—which was critical for restoring the credibility of the authorities after past shortfalls—would require an additional 1 percent of GDP adjustment. The authorities' efforts could be further undermined if the planned privatization of the telecom company failed or if the DFC or BSSB required additional support. The team warned, however, that the 3 percent fiscal deficit target would still leave a sizable balance of payments financing gap and underscored the importance of maximizing the fiscal effort to increase the room for maneuver to explore other avenues for closing the external gap. Besides further cuts in current and capital spending—the team pointed to opportunities to limit tax concessions through the elimination of the Export Processing Zone legislation and to expand the sales tax base through the inclusion of electricity consumption.

26. **The authorities saw only limited scope for additional tightening.** They argued that a margin for unforeseen expenditure had been incorporated into the projections. While they saw some scope for corrective measures if these contingencies proved insufficient, they argued that there was little room for further adjustment given the severity of the measures already taken and their contractionary impact on the economy. Looking forward to the FY06/07 fiscal performance, they were confident that additional savings would derive from the full-year effect of the measures being implemented, the introduction of a value-added-type consumption tax, and the administrative improvements of budget procedures and tax compliance.

27. **The mission urged the authorities to monitor closely the budget execution and address shortfalls at an early stage.** This would be especially important given the precariousness of the balance of payments position and past policy slippages. The authorities agreed and requested a continuation of the intense dialogue with Fund staff to monitor budget implementation in order to ensure that deviations were detected and addressed early.

28. **The staff recommended a comprehensive review of revenue and expenditures.** In particular, there was a need to broaden the base by withdrawing tax holidays and exemptions (including under Export Processing Zone legislation) that had been provided to the faster growing segments of the economy. The recently completed study on the tax structure (which was prepared with support from the IDB) had called for the introduction of a broad-based value-added tax, and the mission welcomed the authorities' request for technical assistance to assist in its swift introduction. The team also recommended moving from a variable fuel taxation that absorbed a large part of the international oil price volatility to a specific tax to stabilize tax revenue (Box 2). In addition, the mission welcomed the ongoing Public Expenditure Review, which would need to reconsider public service staffing, remuneration levels, and a system of merit-based pay increases, and urged the authorities to act expeditiously in reviewing and implementing its recommendations.

Box 2. Fuel Taxation

Variable fuel taxation and rising international oil prices have eroded fiscal revenue. The retail prices for petroleum products are fixed by the government and tax revenue is therefore variable. Retail prices have not been raised enough to provide a full pass through of the higher landed costs since 2003; e.g., while the landed costs for premium gasoline increased by more than 60 percent between end-2003 and mid-2005, the retail price was raised by only 16½ percent. This resulted in the variable component of fuel taxation (revenue replacement duty, RRD) falling from 4 percent of GDP in FY03/04 to a projected 3 percent of GDP in FY05/06.

Premium Gasoline, Prices and Imports 1/

	2003	2004	2005 Proj.
(In percent of retail price, unless otherwise stated)			
Landed cost	29.1	31.7	40.2
Distribution and margins	14.1	14.5	14.4
Government taxes	56.9	53.8	45.4
Retail price (BZ$ per gallon)	7.33	8.39	8.54
Annual imports (in millions of gallons)			
Total imports	48.2	42.6	39.1
Taxed imports	32.2	30.9	31.1
Untaxed imports	16.0	11.7	8.0
Revenue replacement duty (RRD)			
(In percent of GDP) 2/	4.0	3.5	3.0

Sources: Ministry of Finance; and Fund estimates and projections.
1/ Price data are for December. Prices and annual projections for 2005 are based on data through June 2005.
2/ RRD collected on premium, regular, and diesel fuel during fiscal year starting April.

Taxable fuel imports have remained stable in recent years, owing to widespread tax exemptions. Total imports of premium gasoline fell by 12 percent in 2004 and are expected to fall by 8 percent in 2005. Most of the decline is related to the collapse of the fuel re-export market, reflecting a change in petroleum taxation and pricing in neighboring Mexico in 2004. This masks a fast growing consumption of untaxed fuel in the Export Processing Zones (EPZ) and a corresponding erosion of the tax base. By contrast, the annual taxed domestic consumption of premium gasoline has remained broadly stable at about 31–32 million gallons, despite buoyant economic activity.

29. **The team called for a swift closure of the DFC and an orderly disposal of its assets in line with the recommendations presented in a recently completed IDB study.** The corporation continued to make losses and was in no position to service its debt to the central government, implying a fiscal revenue shortfall of close to 2 percent of GDP in FY05/06. At the same time, the value of its physical assets and loan portfolio continued to deteriorate. It would be important to minimize the government's losses through a well-managed and transparent disposal of the DFC's portfolio. The staff expressed concern that no supervisory audit of the DFC had been completed to date.

30. **The authorities noted that several steps had already been taken to restructure the DFC, but key policy elements were yet to be defined.** A fundamental unresolved issue was whether the DFC should be closed or whether it could remain in operation in some limited form as a development bank (e.g., as a second-tier institution), with a focus on the export sector and education.

C. Monetary Policy

31. **The team underscored the importance of a more stringent monetary policy stance, especially in the absence of an additional fiscal effort.** There were tentative signs that the recent hikes in the cash reserve requirement and the shift of BSSB deposits to the CBB had begun to take hold, as evidenced by the lower growth rate in credit to the private sector. However, thus far this had not seemed to have affected money growth or domestic interest rates, and it would be essential to reassess the policy stance on a continuous basis to ensure the necessary slowdown in credit growth. The mission also suggested establishing quarterly monetary targets through 2006 consistent with the authorities' fiscal target and an accumulation of net international reserves.

32. **The authorities agreed on the need to contain credit growth and reduce pressures on the foreign exchange market.** The CBB noted that private sector credit growth was slowing, but conditions could be tightened further if necessary. Although interest rates tended to be sticky in Belize and were not expected to move significantly in response to changes in liquidity conditions, the officials expressed confidence that changes in cash reserve requirements and shifts in public sector deposits from the commercial banking system to the CBB were effective instruments for containing credit growth.

33. **The team stressed the importance of guarding against balance sheet vulnerabilities, especially given the potential for pressures on the peg.** Although commercial banks' balance sheets appeared relatively robust—given their limited foreign currency positions and their limited exposure to public sector entities—credit risks could be exacerbated as fiscal and monetary policies were tightened.[13] For this reason, the team encouraged the CBB to ensure that banks and other financial institutions adequately accounted for their borrowers' credit and exchange risks.

D. External Debt and Debt Service

34. **The staff noted that external debt had reached critical levels.** With the external debt/GDP ratio now at 80 percent, the costs of debt service was severely limiting budget flexibility and was placing Belize's foreign exchange reserves in jeopardy. The recent refinancing operations had still left a sizable financing gap in 2006, and there was now also a severe bunching of amortizations in the medium term.[14] This suggested that, besides the nearer term critical need for aggressive fiscal and monetary policy tightening, further efforts would be required to improve debt management.

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[13] For a discussion, see the chapter on "Balance Sheet Currency Mismatch and Liquidity Analysis" in the accompanying Selected Issues paper, and the chapter on "The Financial System in Belize" in the 2004 Selected Issues paper.

[14] For a discussion of debt and debt service structure, see the chapter on "Public Sector Debt" in the accompanying Selected Issues paper

35. **The authorities have announced their intention to seek debt service relief from external creditors.** In light of the residual financing gap in 2006, the authorities noted that they would seek relief from debt servicing pressures after major adjustment measures were firmly in place. They pointed out that they would not take unilateral action and emphasis would be placed on seeking the voluntary consent and agreement of creditors, and that they would be intent on a transparent process and equitable treatment of creditors. For this purpose, they were in the process of engaging a reputable international financial advisor.

36. **The mission stressed the importance of a market-friendly approach.** It would be essential that creditors be approached in a coordinated manner to ensure the closing of the financing gaps for the next several years. This would require developing a medium-term debt strategy, strengthening of the existing debt database, and engaging of creditors quickly and through appropriate channels.

E. Exchange System

37. **The authorities stressed their commitment to maintaining the exchange rate peg.** In their view, the peg had served as an effective anchor for confidence and inflation expectations, while the strength of foreign direct investment and exports suggested that Belize remained competitive (Box 3). Moreover, wage pressures in the private sector were moderate as a result of labor migration from neighboring countries, and the business community strongly favored the certainty provided by the peg.[15] In the authorities' view, the fiscal and monetary policies that had recently been put in place, coupled with a cooperative effort to reprofile external debt service, would be sufficient to sustain the peg.

38. **The mission agreed that the exchange rate peg had served the country well in the past, and that devaluation would impose significant costs.** Although balance sheet risks in the banking sector appeared manageable due to the low level of foreign currency exposure, devaluation would entail substantial costs due to large stock of dollar-denominated, external public debt and the loss of the nominal anchor.[16] However, the team strongly cautioned that policies still did not seem to be in place to assure the peg's sustainability.

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[15] For a supporting analysis, see the chapter "External Competitiveness" in the accompanying Selected Issues paper.

[16] See also the chapter "Balance Sheet Currency Mismatch and Liquidity Analysis" in the accompanying Selected Issues paper.

Box 3. Competitiveness Issues

External competitiveness has not been a significant concern for Belize's export and tourism sectors. This reflects several factors:

- Export volumes of the main commodities have increased by a weighted average of 58 percent during 1999–2004, particularly in the area of shrimp farming and citrus production.
- Growth in tourist arrivals has exceeded the average for the Caribbean region, particularly in the area of cruise ship arrivals.
- The real effective exchange rate has depreciated slightly over the last 10 years, while neighboring countries have not gained competitiveness.
- Real wages in the private sector have grown only moderately and have remained about constant relative to the U.S. manufacturing sector over the last 10 years.

However, some industries have been adversely affected by declining terms of trade. The export unit prices of the main export commodities (shrimp, bananas, citrus) have fallen, in some cases sharply. In addition, the exchange rates of some important competitor countries (especially for citrus and shrimp) depreciated in real terms vis-à-vis the U.S. dollar during the last five years. Finally, the loss of preferential market access for sugar in the EU is projected to reduce Belize's export revenue by about 1 percent of GDP by 2010.

39. **The mission welcomed the authorities' decision to close the *cambios* in July 2005.** As the team had stressed in last year's consultation, the foreign exchange houses (*cambios)* appeared to be engaged in unrecorded foreign exchange transactions and were poorly controlled and supervised. Moreover, the fact that the *cambios* could trade at rates that differed by more than 2 percent from the official rate, coupled with the rationing of foreign exchange by the central bank gave rise to a multiple currency practice and to an exchange restriction. The central bank reported that it had not engaged in selective sales or rationing of foreign exchange to the private sector since late-2004, that there was no unsatisfied demand for foreign exchange from commercial banks, and that the parallel foreign exchange market was neither legal nor tolerated.

F. Structural Policies

40. **The authorities agreed that there was a need for sustained improvements in competitiveness, as well as efforts to attract foreign direct investment and diversify the export base.** In this context, they noted donor-funded projects in the banana sector and improvements in the operations and marketing in the sugar industry, and were of the view that these efforts had left the sectors well positioned to cope with the loss of preferential

access, compared with other ACP countries. They also pointed to the ongoing projects aimed at reducing the country's dependency on electricity imports through the construction of the Chalillo hydroelectric and the bagasse co-generation power plants. Finally, they highlighted the efforts to improve the attractiveness of Belize as a tourism destination through the construction of a new cruise-ship terminal in Belize City and improvements in the city's transport infrastructure.

41. **The team cautioned that Belize's trade regime remains somewhat restrictive and nontariff barriers are pervasive.** Belize has implemented the CARICOM tariff schedule and has an average tariff of around 11 percent, but nontariff barriers such as nonautomatic licensing requirements cover 30 groups of mainly agricultural goods. Recent policy actions had increased the goods subjected to protectionist nonautomatic licensing, such as soft drinks, or minimum pricing, such as beer. However, the authorities did not agree with the staff's assessment that import restrictions should be phased out in favor of tariffs with a view to improving resource allocation and widening the tax base, citing food security concerns, smuggling, and the possibility of severe price volatility.

42. **The team noted that questions about governance and transparency had undermined the authorities' ability to build social consensus on the need for adjustment.** The concerns centered on the widespread use of discretionary and unpublished tax concessions, allegations of financial misconduct surrounding various financial institutions and telecom companies, and limited transparency in the management of foreign debt or the privatization and management of public enterprises.

43. **The authorities acknowledged these concerns and stressed that steps had been taken to address them.** The government drafted the Finance and Audit Act (FAA), which was adopted by the National Assembly in early 2005 and was requiring a substantially larger degree of transparency in government financial transactions and parliamentary scrutiny. In addition, the government and the Senate had instituted two inquiry commissions to review the propriety of the operations of the DFC and the BSSB, in particular their financial transactions with private investors or external creditors.

44. **Efforts are underway to improve the supervision of both onshore and offshore financial institutions.** Steps to improve banking supervision have continued with the support of a long-term advisor from the Fund and technical assistance from the IDB. The staff cautioned, however, that the central bank's supervisory department appeared to lack independence, that supervision of the various financial entities remained fragmented, and that credit unions and the DFC were not effectively regulated or supervised.

45. **While the quality of data is generally adequate for surveillance purposes, there is scope for improvement.** The mission recommended the establishment of a set of high frequency indicators to monitor developments on a timely basis, strengthening the coverage and timeliness of some monetary statistics, in particular, and welcomed the authorities' interest in participating in the GDDS.

IV. Staff Appraisal

46. **Over the past years, Belize's fiscal and external current account deficits have remained at unsustainable levels**. The severe imbalances have led to a substantial increase in public debt and an erosion of domestic and international confidence. A large external financing gap is likely to emerge in 2006 and access to significant new external financing appears unlikely, as evidenced by of the large risk spread and recent downgrades of Belize's creditworthiness by international ratings agencies. A strong, frontloaded, and sustained adjustment effort is therefore needed to avoid the risk of a disorderly exit from the peg.

47. **The authorities have begun to tighten the fiscal and monetary policy stance, but further measures appear necessary.** Earlier problems with the passage of the FY05/06 budget, delays in implementing further adjustment measures, and new spending commitments suggest that the original budget target for this fiscal year cannot be achieved and that a sizable external financing gap will still emerge in 2006. The authorities have appropriately sought to minimize cuts in social services, lessen the impact on the more vulnerable segments of society, and to build a social and political consensus in favor of adjustment. However, if the pegged exchange rate is to be sustained, the challenge remains to tighten domestic demand sufficiently, restore confidence and creditworthiness, and address the impending financing gaps.

48. **A comprehensive review of revenue and expenditure is needed to identify measures to support consolidation.** Thus far, revenue measures have mainly involved rate hikes, and the main growth sectors in the economy continue to benefit from generous tax holidays and exemptions. Reducing these preferences would broaden the tax base and assist in consolidation, while improving the buoyancy of the system. On the expenditure front, the decision to reduce domestically financed capital expenditure, curtail expenditure on goods and services, and postpone further salary increases and reduce staffing was appropriate, but further expenditure cuts appear to be needed to forestall the risk of a crisis.

49. **The state-owned DFC should be closed immediately.** The DFC remains a heavy burden on the public sector and its asset base continues to deteriorate. The authorities are encouraged to seek technical assistance to deal expeditiously with the closure and orderly liquidation of the DFC to halt further losses, and put in place a transparent and well-managed mechanism to dispose of its portfolio.

50. **Monetary policy needs to be tightened until stronger fiscal measures take hold.** Recent monetary policy measures have begun to have some effect, as evidenced by the lower growth rate in credit to the private sector. However, especially in the absence of further fiscal adjustment, a more stringent tightening of liquidity conditions is needed to prevent a critical loss of net international reserves and disorderly exit from the exchange rate peg.

51. **Debt service on public and publicly guaranteed debt will continue to be a significant threat to the balance of payments and the exchange rate peg**. Besides the more immediate danger to Belize's external reserve position in 2006, the debt profile suggests a severe bunching of amortization payments over the medium term. Against this background, the authorities have announced their intention to approach external creditors to seek relief of debt service in 2006. In this context, it will be important to act expeditiously and in a transparent and market-friendly manner, and to establish a more effective ongoing dialogue with creditors within the framework of a medium-term debt strategy.

52. **Although the exchange rate peg has served the country well, its sustainability depends on appropriate policies and continued efforts to improve competitiveness.** To be sure, growth of exports and foreign direct investment has been robust, but the projected loss of preferential market access in the European Union and strong competition in the tourism sector in the region suggest a risk that competitiveness may erode.

53. **Belize does not maintain exchange restrictions or multiple currency practices.** The staff welcomes the closure of the *cambios* and thereby the elimination of a multiple currency practice, and notes that the central bank has not engaged in selective sales of foreign exchange, that there is no unsatisfied demand for foreign exchange from commercial banks, and that the parallel foreign exchange market is neither legal nor tolerated.

54. **Belize maintains non-tariff barriers and tax and duty exemptions that contribute to a misallocation of resources.** The staff recommends that import restrictions be phased out in favor of tariffs and excises with a view to improving resource allocation and widening the tax base.

55. **A lack of transparency and weak governance remain a concern.** These shortfalls have been evident within public financial institutions, tax policy, and with regard to the management of Belize's external debt, and have undermined domestic and international confidence in recent years. Welcome decisions have been made to pass fiscal transparency legislation and establish inquiry commissions into the DFC and the Social Security Board and it will be important to persevere in these efforts.

56. **Belize's statistical information is adequate to monitor macroeconomic developments.** The staff recommends the establishment of a set of high frequency indicators to monitor developments on a timely basis. The staff also notes the authorities' continued efforts to improve the statistical base and welcomes their interest in receiving technical assistance to participate in the GDDS.

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

Table 1. Belize: Selected Economic Indicators

	2002	2003	Prel. 2004	Projections 2005	2006
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	4.7	9.2	4.6	3.1	2.7
GDP deflator	1.8	-3.0	0.9	2.4	3.1
Consumer prices (end of period)	3.2	2.3	3.0	4.0	3.0
External sector (U.S. dollars)					
Exports of goods and services	11.3	0.3	2.4	14.5	6.0
Imports of goods and services	4.2	5.2	-5.3	4.0	0.1
Terms of trade (deterioration -)	0.1	-1.9	-2.2	-4.5	0.2
Nominal effective exchange rate	-1.0	-5.7	-4.3	...	...
Real effective exchange rate	-0.7	-5.3	-3.6	...	...
Money and credit					
Net domestic assets 1/	-7.4	9.1	14.5	5.8	6.4
Credit to the private sector 2/	18.1	12.2	7.5	3.1	2.8
Money and quasi-money (M2)	2.1	4.7	7.5	7.6	7.1
Weighted average lending rates (in percent)	14.9	14.2	13.9	...	...
(In percent of GDP)					
Central government 3/					
Revenue and grants	22.9	22.7	22.3	25.0	24.9
Of which : grants	1.0	1.2	0.7	0.9	0.8
Current expenditure	19.3	21.1	25.4	24.0	22.8
Capital expenditure	13.4	9.9	5.7	4.6	5.2
Primary balance	-5.8	-3.3	-0.3	3.0	2.9
Overall balance	-9.7	-8.3	-8.7	-3.6	-3.1
Privatization	2.5	-4.1	1.9	3.3	0.2
Central government borrowing requirement	7.2	12.2	6.8	0.3	2.9
Foreign financing	13.1	20.5	14.6	-11.4	-1.9
Domestic financing	-5.9	-8.3	-7.8	11.7	1.7
Financing gap	0.0	0.0	0.0	0.0	3.1
Gross domestic investment	21.6	24.8	18.3	14.9	12.7
Gross national savings	1.4	2.5	0.5	2.2	4.8
External current account 4/	-20.2	-22.3	-17.7	-12.7	-7.9
Public and publicly guaranteed debt	89.6	103.1	102.3	95.4	91.3
Domestic debt	3.2	5.7	10.0	7.6	9.1
External debt	86.4	97.3	92.3	87.9	79.8
Financing gap	0.0	0.0	0.0	0.0	2.4
Debt service 5/	23.3	14.4	24.9	21.8	10.7
In percent of exports of goods and services	43.8	28.7	50.9	41.6	20.5
In percent of government current revenue	99.9	69.2	102.5	95.4	45.6
(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	2.1	-30.0	-36.3	40.2	0.0
Exports of goods and services	492.8	494.2	506.1	579.5	614.1
Imports of goods and services	628.5	661.4	626.4	651.4	652.2
Gross official reserves 6/	106.3	76.2	39.9	80.1	80.1
In percent of projected 12-month external public debt service	75.0	29.6	16.6	63.8	62.6
In months of imports	1.9	1.5	0.7	1.5	1.4
Nominal GDP	926.5	980.8	1,035.6	1,105.1	1,178.0

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

1/ In percent of liabilites to the private sector at the beginning of the period.
2/ Comprises credit by commercial banks and the Development Finance Corporation (DFC).
3/ Fiscal year starting on April 1.
4/ Including official grants.
5/ Public sector external debt.
6/ End of period.

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

	2002/03	2003/04	Prel. 2004/05	Projections 2005/06	2006/07
Revenue and Grants	**22.9**	**22.7**	**22.3**	**25.0**	**24.9**
Revenue	**21.9**	**21.5**	**21.6**	**24.1**	**24.0**
Current revenue	21.6	21.2	21.2	23.4	23.3
Tax revenue	19.1	18.9	19.4	21.5	21.7
Of which : sales tax	5.1	4.9	5.5	5.9	5.9
Nontax revenue	2.5	2.3	1.9	1.9	1.7
Capital revenue and debt service receipts	0.3	0.3	0.4	0.7	0.7
Grants	**1.0**	**1.2**	**0.7**	**0.9**	**0.8**
Expenditure	**32.0**	**31.4**	**31.3**	**28.6**	**27.9**
Current expenditure	19.3	21.1	25.4	24.0	22.8
Wages and salaries	9.2	9.6	10.1	10.1	10.0
Pensions	1.4	1.3	1.5	1.6	1.6
Goods and services	3.4	3.7	3.7	4.1	3.7
Interest payments, fees, and charges	3.9	5.0	8.4	6.6	6.0
Domestic	0.6	0.8	0.8	0.7	0.8
Foreign	3.3	4.2	7.6	6.0	5.2
Interest	3.3	4.2	4.9	6.0	5.2
Exceptional fees and charges	0.0	0.0	2.7	0.0	0.0
Transfers	1.4	1.5	1.6	1.5	1.5
Capital expenditure and net lending	12.7	10.3	5.9	4.6	5.2
Capital expenditure	11.8	8.1	5.9	4.3	4.3
Domestically financed expenditure (Capital II)	4.9	3.3	2.2	2.1	2.1
Environmental expenditure	0.3	0.3	0.2	0.0	0.0
Foreign financed expenditure (Capital III) 2/	5.7	4.5	3.5	2.2	2.2
Emergency expenditure	0.9	0.0	0.0	0.0	0.0
Net lending	0.9	2.2	0.0	0.2	0.8
Unidentified expenditure	0.7	-0.4	-0.2	0.0	0.0
Overall balance	**-9.7**	**-8.3**	**-8.7**	**-3.6**	**-3.1**
Total financing	9.7	8.1	8.7	3.6	3.1
Privatization	2.5	-4.1	1.9	3.3	0.2
Central government borrowing requirement	**7.2**	**12.2**	**6.8**	**0.3**	**2.9**
Domestic	-5.9	-8.3	-7.8	11.7	1.7
Banking system	-5.9	-8.2	-7.8	…	…
Central bank	2.8	-0.5	-7.8	…	…
Commercial banks	-0.9	-1.0	-0.4	…	…
Refinancing DFC	-7.8	-6.8	0.4	…	…
Nonbank	0.0	-0.1	0.0	…	…
External	13.1	20.5	14.6	-11.4	-1.9
Disbursements	23.4	27.1	32.6	2.6	2.3
Amortization	-7.8	-5.2	-11.8	-14.0	-4.2
Refinancing of DFC	0.0	0.0	-6.1	0.0	0.0
Contributions to sinking funds	-2.6	-1.4	-0.1	0.0	0.0
Fiscal financing gap	0.0	0.0	0.0	0.0	3.1
Memorandum items:					
Nominal GDP (in BZ$ millions)	1,880	1,989	2,106	2,247	2,395
Primary balance (overall balance less interest)	-5.8	-3.3	-0.3	3.0	2.9

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

1/ Projections do not include foreign interest, disbursement, and amortization payments of the DFC.
2/ Donor and multilateral financed projects.

Table 3. Belize: Operations of the Banking System

	2002	2003	2004	Projections 1/ Dec. 2005	Dec. 2006
	(In millions of Belize dollars)				
Central Bank of Belize (CBB)					
Net international reserves	206.5	146.6	76.8	157.2	157.2
Net domestic assets	-73.9	-19.0	65.2	-12.8	-6.2
Credit to the public sector (net)	4.5	65.8	163.9	114.3	127.9
Central government	-3.0	59.3	134.0	102.8	134.4
Other nonfinancial public sector	7.5	6.5	29.9	11.5	-6.5
Of which: DFC	10.6	10.0	32.5	30.0	30.0
Claims on commercial banks (net)	-58.6	-70.9	-88.1	-120.5	-127.5
Of which : required reserves (-)	-52.9	-56.3	-70.6	-98.4	-105.5
Medium-term foreign liabilities	-18.5	-7.5	-2.5	0.0	0.0
Capital and other assets (net)	-1.2	-6.4	-8.1	-6.6	-6.6
Currency issue	132.7	127.6	142.0	144.4	151.0
Commercial banks					
Net foreign assets	-9.5	-63.9	-54.6	-42.5	-51.5
Net claims on central bank	84.4	95.2	114.7	145.0	152.0
Net domestic assets	968.1	1,099.0	1,181.8	1,235.9	1,315.9
Credit to the public sector (net)	32.2	33.0	-4.9	-16.2	17.4
Central government	50.2	48.3	68.3	61.9	77.5
Other nonfinancial public sector	-18.1	-15.3	-73.2	-78.1	-60.1
Credit to the private sector	978.5	1,107.7	1,214.2	1,258.0	1,304.5
Other assets (net)	-42.6	-41.7	-27.4	-5.9	-5.9
Liabilities to the private sector	1,043.0	1,130.3	1,242.0	1,338.4	1,416.5
Monetary Survey					
Net foreign assets	197.1	82.7	22.2	114.7	105.7
Net domestic assets	971.3	1,158.3	1,337.5	1,343.6	1,437.3
Public sector (net)	36.6	98.8	158.9	98.1	145.3
Central government	47.2	107.6	202.3	164.7	211.9
Other nonfinancial public sector	-10.6	-8.8	-43.4	-66.6	-66.6
Credit to private sector (by comm. banks)	978.5	1,107.7	1,214.2	1,258.0	1,304.5
Other items (net)	-43.8	-48.2	-35.5	-12.5	-12.5
Medium-term foreign liabilities of CBB	18.5	7.5	2.5	0.0	0.0
Liabilities to the private sector	1,149.8	1,233.5	1,357.3	1,458.3	1,543.0
Money and quasi-money (M2)	957.3	1,002.8	1,078.0	1,159.7	1,242.2
Currency in circulation	106.8	103.3	115.3	119.9	126.5
Deposits	850.5	899.5	962.7	1,039.8	1,115.7
Foreign currency deposits	31.1	38.1	46.5	54.0	56.1
Capital and reserves of commercial banks	161.4	192.7	232.7	244.7	244.7
	(In millions of U.S. dollars)				
Net international reserves of the CBB	103.3	73.3	38.4	78.6	78.6
Of which: usable reserves 2/	90.5	69.0	28.3	48.0	48.0
	(In percentage change, unless otherwise indicated)				
Memorandom items:					
Commercial bank credit to the private sector	19.2	13.2	9.6	3.6	3.7
Private sector deposits in local currency	2.2	5.8	7.0	8.0	7.3
Money and quasi-money (M2)	2.1	4.7	7.5	7.6	7.1
Required reserve ratio (percent)	6.0	6.0	7.0	9.0	9.0
Loan deposit ratio	111.0	118.1	120.3	115.0	111.3

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

1/ Assumes a net international reserve position in 2006 consistent with a closure of the external financing gap.

2/ International reserves, which the Central Bank of Belize can use or invest freely.

Table 4. Belize: Balance of Payments

	2002	2003	Prel. 2004	Projections 2005	2006
	(In millions of U.S. dollars)				
Current account balance	**-187.2**	**-218.4**	**-183.5**	**-140.2**	**-93.0**
Trade balance	-188.2	-206.8	-173.8	-150.3	-125.3
Total exports, f.o.b.	309.7	315.5	306.9	350.9	372.7
Of which: Corozal Free Zone	143.9	118.4	101.3	126.3	136.4
Total imports, fob	-497.9	-522.3	-480.8	-501.2	-498.0
Of which: Corozal Free Zone	-115.7	-95.2	-81.5	-101.6	-109.7
Services	52.6	39.6	53.5	78.5	87.2
Of which : travel	86.6	73.0	91.8	102.8	109.8
Income	-98.1	-96.4	-117.0	-122.7	-110.9
Public sector interest payments	-54.3	-57.7	-66.7	-83.0	-67.1
Interest on public debt	-26.6	-41.5	-54.0	-79.5	-64.1
Central government	-19.8	-38.6	-52.3	-77.9	-62.7
Other public sector	-6.7	-2.9	-1.7	-1.6	-1.4
Interest on mortgage and other securitization	-27.8	-16.2	-12.7	-3.5	-3.0
Public sector interest receipts	5.7	6.0	5.0	1.7	0.8
Profits, dividends, reinvestment earnings	-33.0	-31.0	-42.4	-32.0	-35.1
Other	-16.5	-13.7	-13.0	-9.5	-9.5
Current transfers	46.6	45.3	53.9	54.4	56.0
Private (net)	35.8	42.6	38.5	44.7	46.0
Official (net)	10.8	2.7	15.4	9.7	10.0
Capital and financial account balance	**203.6**	**182.1**	**166.5**	**180.4**	**65.0**
Capital transfers	11.4	1.5	4.2	4.2	4.2
Public sector	136.1	113.7	42.5	75.6	-28.1
Change in assets 1/	0.0	-1.8	-5.0	0.0	0.0
Change in liabilities	136.1	165.7	22.5	26.3	-28.1
Disbursements	305.4	253.9	216.7	184.6	30.4
Amortization	-169.3	-88.2	-194.2	-158.3	-58.5
Privatization proceeds	0.0	-50.2	25.0	49.3	0.0
Private sector 2/	56.1	66.9	119.7	100.6	88.9
Errors and omissions	**-14.4**	**6.2**	**-19.3**	**0.0**	**0.0**
Overall balance	**2.1**	**-30.0**	**-36.3**	**40.2**	**-28.0**
Financing					
Change in reserves (- increase)	**-2.1**	**30.0**	**36.3**	**-40.2**	**0.0**
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**28.0**
	(In percent of GDP, unless otherwise indicated)				
Memorandum items:					
Gross international reserves stock (in US$ millions) 3/	106.3	76.2	39.9	80.1	80.1
Of which : usable gross reserves (in US$ millions)	93.5	71.9	29.8	49.5	49.5
Current account balance	-20.2	-22.3	-17.7	-12.7	-7.9
Capital and financial account balance	22.0	18.6	16.1	16.3	5.5
Public sector	15.0	11.7	4.5	7.2	-2.1
Private sector	7.0	6.9	11.6	9.1	7.6
Overall balance	0.2	-3.1	-3.5	3.6	0.0

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

1/ In 2005, an escrow reserve account that was established for a new international bond is recorded as reserve assets.
2/ Detailed data on private sector flows are not available.
3/ Includes an escrow reserve account that was established for an international bond contracted in 2005.

Table 5. Belize: Indicators of External Position and Financial Vulnerability

	2002	2003	Prel. 2004	Projections 2005	2006
Financial indicators					
12-month percent change in credit to the private sector 1/	18.1	12.2	7.5	3.1	2.8
12-month percent change in net credit to the central government	-66.9	127.7	88.1	-18.6	28.7
Deposit rates 2/	4.3	4.9	5.2	5.4	...
Lending rates 2/	14.9	14.2	14.0	14.3	...
Exchange rate indicators					
Real effective exchange rate (+ appreciation; end of period)	-0.7	-5.3	-3.6	...	...
Exchange rate (per U.S. dollar; period average)	2.0	2.0	2.0	...	...
Trade indicators					
Exports of goods and services (percent change, U.S. dollars basis)	11.3	0.3	2.4	14.5	6.0
Imports of goods and services (percent change, U.S. dollars basis)	4.2	5.2	-5.3	4.0	0.1
Terms of trade (deterioration -)	0.1	-1.9	-2.2	-4.5	0.2
Debt indicators					
Total external public debt in percent of GDP	86.4	97.3	92.3	87.9	79.8
Public debt	62.0	77.8	81.7	79.0	72.4
Publicly guaranteed debt	24.3	19.5	10.5	8.9	7.4
Total external public debt in percent of exports of goods and services	162.3	193.2	188.8	167.5	153.1
Public debt	116.6	154.5	167.3	150.6	138.9
Publicly guaranteed debt	45.8	38.7	21.6	16.9	14.3
Public debt service in percent of GDP 3/	23.3	14.4	24.9	21.8	10.7
Amortization	17.4	9.5	16.4	14.9	5.0
Interest	5.9	5.0	8.5	6.9	5.7
Public debt service in percent of exports of goods and services	43.8	28.7	50.9	41.6	20.5
Amortization	32.8	18.8	33.5	28.5	9.5
Interest	11.0	9.9	17.4	13.1	10.9
Public debt service in percent of current government revenue 4/	44.3	35.2	88.6	89.0	40.9
Amortization	35.1	19.9	61.6	61.1	18.1
Interest	9.2	15.3	27.0	27.9	22.8
International reserves indicators					
Gross official reserves (US$ million)	106.3	76.2	39.9	80.1	80.1
In months of imports	1.9	1.5	0.7	1.5	1.4
In percent of amortizations due in the following year	92.8	56.1	26.2	137.0	...
In percent of base money	160.2	119.4	56.3	111.0	106.1
Usable gross official reserves (US$ million)	93.5	71.9	29.8	49.5	49.5
In months of imports	1.7	1.4	0.5	0.9	0.9
In percent of amortizations due in the following year	81.7	53.0	19.5	84.7	...
In percent of base money	140.9	112.7	42.0	68.6	65.6
Balance of payments					
Current account balance (in percent of GDP)	-20.2	-22.3	-17.7	-12.7	-7.9
Capital and financial account balance (in percent of GDP)	22.0	18.6	16.1	16.3	5.5
Public sector	15.0	11.7	4.5	7.2	-2.1
Private sector	7.0	6.9	11.6	9.1	7.6

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

1/ Comprises credit by commercial banks and the Development Finance Corporation.
2/ End of period weighted average. In 2005 data are as of May.
3/ Includes debt service on DFC debt secured by mortgage receivable securitization.
4/ Only central government debt service.

Table 6. Belize: Public and Publicly Guaranteed Debt

	2000	2001	2002	2003	2004
(In millions of U.S. dollars)					
Debt outstanding (end-of-period)	630.8	730.7	830.0	1,010.8	1,059.1
Domestic debt 1/	84.8	73.6	29.9	56.1	103.5
External debt	546.0	657.1	800.1	954.6	955.6
Public sector debt	414.6	491.1	574.5	763.4	846.5
Central government	305.2	341.3	470.6	719.2	808.1
Commercial	115.2	130.2	220.4	454.9	522.2
Multilateral	82.4	97.1	121.1	145.2	161.3
Bilateral	90.4	96.8	117.6	116.7	122.9
Export credit	17.1	17.2	11.5	2.4	1.6
Rest of the nonfinancial public sector	17.2	24.2	8.1	7.1	6.1
CBB	52.8	48.4	10.7	5.0	2.3
DFC	39.4	77.3	85.1	32.0	30.0
Publicly guaranteed external debt	131.4	165.9	225.5	191.2	109.1
DFC securitization	102.0	124.1	169.5	135.8	32.1
Privatized public enterprises	29.4	41.8	56.0	55.4	77.0
(In percent of GDP)					
Debt outstanding (end-of-period)	75.8	84.1	89.6	103.1	102.3
Domestic debt 1/	10.2	8.5	3.2	5.7	10.0
External debt	65.6	75.6	86.4	97.3	92.3
Public sector debt	49.8	56.5	62.0	77.8	81.7
Central government	36.7	39.3	50.8	73.3	78.0
Commercial	13.8	15.0	23.8	46.4	50.4
Multilateral	9.9	11.2	13.1	14.8	15.6
Bilateral	10.9	11.1	12.7	11.9	11.9
Export credit	2.1	2.0	1.2	0.2	0.2
Rest of the nonfinancial public sector	2.1	2.8	0.9	0.7	0.6
CBB	6.3	5.6	1.2	0.5	0.2
DFC	4.7	8.9	9.2	3.3	2.9
Publicly guaranteed external debt	15.8	19.1	24.3	19.5	10.5
DFC securitization	12.3	14.3	18.3	13.8	3.1
Privatized public enterprises	3.5	4.8	6.0	5.6	7.4

Sources: Central Bank of Belize and Ministry of Finance.

1/ Refers to central government.

Table 7. Belize: Medium-Term Outlook

	2004	Projections 2005	2006	2007	2008	2009	2010
	(Annual percentage change)						
Real economy							
GDP at constant prices	4.6	3.1	2.7	4.0	5.0	5.0	5.0
GDP at current market prices	5.6	6.7	6.6	7.0	7.1	7.1	7.1
Consumer prices (period average)	3.0	4.0	3.7	2.0	2.0	2.0	2.0
	(In percent of GDP, unless otherwise indicated)						
National accounts							
Gross domestic investment	18.3	14.9	12.7	13.0	13.0	13.0	13.0
Gross national savings	0.5	2.2	4.8	9.8	11.3	12.0	12.0
Central government 1/							
Revenue and grants	22.7	24.4	24.9	26.0	26.0	26.0	26.0
Total expenditure	31.6	30.1	28.0	28.0	27.6	27.2	26.8
Overall balance	-8.9	-5.7	-3.1	-2.0	-1.6	-1.2	-0.8
Primary balance	-0.3	2.0	2.9	4.0	4.0	4.0	4.0
Net domestic financing	-8.0	-1.8	2.0	1.2	1.2	1.2	1.3
Net external financing	14.9	2.8	0.9	0.8	0.5	0.0	-0.5
External sector							
Current account balance	-17.7	-12.7	-7.9	-3.2	-1.7	-1.0	-1.0
Exports of goods and services	48.9	52.4	52.1	52.7	53.1	53.4	53.6
Imports of goods and services	60.5	58.9	55.4	54.8	54.6	54.5	54.6
Capital and financial account	16.1	16.3	5.5	4.4	2.8	2.1	2.0
Change in reserves (- increase)	3.5	-3.6	0.0	-1.2	-1.1	-1.0	-1.0
Gross official reserves (in months of imports)	0.7	1.5	1.4	1.5	1.7	1.8	1.9
Total public and publicly guaranteed debt	102.3	95.4	91.3	85.8	81.3	76.4	71.4
Domestic	10.0	7.6	9.1	9.7	10.3	10.8	11.4
External	92.3	87.9	82.2	76.1	71.0	65.6	60.1

Source: IMF staff projections.

1/ Fiscal projections are on a calendar year basis.

Table 8. Belize: Public Sector Debt Sustainability Framework
(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003	2004			Projections 2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						**Debt-stabilizing primary balance 11/**
1 **Public sector debt 1/**	75.8	84.1	89.6	103.1	102.3			**95.4**	**91.3**	**85.8**	**81.3**	**76.4**	**71.4**	**-0.9**
Of which : foreign-currency denominated	65.6	75.6	86.4	97.3	92.3			87.9	82.2	76.1	71.0	65.6	60.1	
2 Change in public sector debt	23.5	8.3	5.5	13.5	-0.8			-6.8	-4.1	-5.5	-4.5	-4.9	-4.9	
3 Identified debt-creating flows (4+7+12)	23.5	8.3	5.5	13.5	-0.8			-6.8	-4.1	-5.5	-4.5	-4.9	-4.9	
4 Primary deficit	7.4	6.9	5.9	3.3	0.3			-2.0	-2.9	-4.0	-4.0	-4.0	-4.0	
5 Revenue and grants	22.5	25.1	23.3	23.0	22.7			24.4	24.9	26.0	26.0	26.0	26.0	
6 Primary (noninterest) expenditure	30.0	32.0	29.2	26.4	23.0			22.3	22.0	22.0	22.0	22.0	22.0	
7 Automatic debt dynamics 2/	-3.9	-0.1	-1.3	0.1	3.1			1.3	0.2	0.0	-0.1	-0.1	-0.2	
8 Contribution from interest rate/growth differential 3/	-3.9	-0.1	-1.3	0.1	3.1			1.3	0.2	0.0	-0.1	-0.1	-0.2	
9 Of which contribution from real interest rate	2.1	3.3	2.4	7.9	7.6			4.3	2.6	3.4	4.0	3.7	3.3	
10 Of which contribution from real GDP growth	-6.0	-3.3	-3.7	-7.8	-4.5			-3.0	-2.4	-3.4	-4.0	-3.8	-3.6	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...	
12 Other identified debt-creating flows	19.9	1.5	0.9	10.1	-4.2			-6.1	-1.4	-1.5	-0.5	-0.8	-0.7	
13 Privatization receipts (negative)	-3.6	-0.3	-2.6	4.1	-2.0			-4.7	-0.2	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	
15 Other (net chg. in other public debt and publicly guaranteed debt)	23.5	1.8	3.4	5.9	-2.3			-1.4	-1.1	-1.5	-0.5	-0.8	-0.7	
16 Residual, including asset changes (2-3) 5/	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	336.4	334.8	384.9	447.2	451.2			391.8	366.7	330.1	312.6	293.7	274.8	
Gross financing need 6/	13.1	14.1	18.0	13.5	20.9			18.6	7.4	6.4	6.0	4.9	6.2	
(in billions of U.S. dollars)	109.2	122.8	167.1	132.6	216.2			205.7	86.7	80.4	80.5	71.2	96.6	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	13.0	4.6	4.7	9.2	4.6	5.4	3.8	3.1	2.7	4.0	5.0	5.0	5.0	4.1
Average nominal interest rate on public debt (in percent) 7/	5.2	4.3	5.0	6.0	8.8	5.1	1.4	8.1	6.8	7.0	7.0	6.9	6.8	7.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.6	4.5	3.2	9.0	7.8	4.5	2.9	4.6	3.0	4.1	5.0	4.9	4.8	4.4
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.6	-0.2	1.8	-3.0	0.9	0.6	2.6	3.5	3.8	2.9	2.0	2.0	2.0	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	25.0	11.7	-4.5	-1.3	-8.8	5.3	9.8	0.1	1.1	4.2	5.0	5.0	5.0	3.4
Primary deficit	7.4	6.9	5.9	3.3	0.3	3.0	2.9	-2.0	-2.9	-4.0	-4.0	-4.0	-4.0	-3.5
A. Alternative Scenarios								**II. Stress Tests for Public Debt Ratio**						**Debt-stabilizing primary balance 11/**
A1. Key variables are at their historical averages in 2006-10 8/								**95.4**	**96.2**	**96.8**	**98.5**	**99.9**	**101.3**	**-1.7**
A2. No policy change (constant primary balance) in 2006-10								**95.4**	**92.2**	**88.7**	**86.1**	**83.1**	**80.1**	**-0.9**
A3. Combinination of low real growth and high primary deficit for 2006-10 /9								**95.4**	**101.2**	**107.9**	**116.8**	**125.6**	**134.5**	**3.2**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2006 and 2007								**95.4**	**97.9**	**98.1**	**93.6**	**88.6**	**83.7**	**-1.0**
B2. Real GDP growth is at historical average minus two standard deviations in 2006 and 2007								**95.4**	**97.1**	**100.1**	**98.0**	**95.5**	**93.0**	**-1.1**
B3. Primary balance is at historical average minus two standard deviations in 2006 and 2007								**95.4**	**103.1**	**110.4**	**105.8**	**100.9**	**95.9**	**-1.0**
B4. Combination of B1-B3 using one standard deviation shocks								**95.4**	**105.2**	**115.3**	**110.8**	**105.8**	**100.7**	**-1.0**
B5. One time 30 percent real depreciation in 2006 10/								**95.4**	**136.3**	**130.8**	**126.2**	**121.2**	**116.1**	**-1.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2006								**95.4**	**101.3**	**95.8**	**91.3**	**86.4**	**81.4**	**-1.0**

1/ Refers to gross public and publicly guaranteed debt. The external debt sustainability table is not provided because data on external debt by household and corporate sectors are not available for Belize.
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/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ GDP growth is at historical average minus one standard deviation and primary deficit is at historical average plus one standard deviation for 2006-2010.
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).
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Belize: Fund Relations

(As of June 30, 2005)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	18.80	100.00
Fund holdings of currency	14.56	77.46
Reserve position in Fund	4.24	22.55

III. SDR Department:	**SDR Million**	**% Allocation**
Holdings	1.70	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
SBA	Dec. 3, 1984	May 31, 1986	7.13	7.13

VI. Projected Obligations to Fund: None

VII. Implementation of HIPC Initiative: None

B. Nonfinancial Relations

VIII. Exchange Rate

Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize does not maintain exchange restrictions or multiple currency practices.

IX. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on March 24, 2004; the relevant documents were Country Report No. 04/102 and Country Report No. 04/101. Belize is on the standard 12-month consultation cycle.

X. Technical Assistance

- An FAD panel expert visited Belize on four occasions during November 1994–June 1995 to assist with the implementation of the VAT.

- An FAD mission visited Belize in December 1995 to provide technical assistance to strengthen tax administration.

- Mr. Krysl (MAE consultant) visited Belize in February 1998 to advise the authorities on banking supervision.

- Mr. Albrecht (MAE consultant) visited Belize during March 19–30, 2001 to start a series of visits aimed at improving on-shore and off-shore banking supervision.

- Mr. Fontaine (STA) visited Belize in April 2001 to advise the authorities on balance of payments statistical issues.

- Mr. Nun (MAE consultant) visited Belize in July 2001 to conduct a review and assessment of the Development Finance Corporation.

- Mr. Murad (CARTAC) visited Belize in January 2002 to advise the Central Statistical Office on improving National Income Accounting.

- Messrs. Bradshaw and dos Santos (CARTAC) visited Belize in January 2002 to assess the country's needs in terms of technical assistance to be provided by CARTAC.

- Mr. Fritz-Krockow (WHD) visited Belize in July 2003 to advice on design of a tax reform.

- Mr. Abbott (MFD) visited Belize in August 2003 for a Module 2 Offshore Financial Center Assessment. The mission updated and extended an OFC assessment undertaken in September 2001, assessing Belize's efforts towards anti-money laundering and combating the financing of terrorism, the Basel Core Principles for banking supervision, and the Insurance Core Principles.

- Mr. Courtright (MFD long-term consultant) assisted the Central Bank of Belize in banking supervision as a resident advisor during early 2004–June 2005.

- A joint LEG/MFD mission visited Belize in March 2005 to advise the authorities on strengthening their AML/CFT regime.

BELIZE: RELATIONS WITH THE WORLD BANK GROUP
(As of June 30, 2005)

I. Projects

A five year Country Assistance Strategy was completed for Belize in August 2000 (Report No. 20708-BEL), which identified only modest project assistance. The World Bank currently has two active projects in Belize: one loan with net commitments of approximately US$13 million, and a *Community-Managed Sarastoon-Temash Conservation Project* for $0.8 million financed with grant funds from the Global Environmental Facility.

The loan finances a *Roads and Municipal Drainage Project* designed to rehabilitate or construct drainage infrastructure in six municipalities to reduce flooding caused by hurricanes, provide institutional strengthening of services to relevant ministries, and support the formation of a Transport and Road Safety Strategy.

II. Financial Relations

IBRD/IDA/IFC Operations

(In millions of U.S. dollars)

	Disbursed	Undisbursed
IBRD Loans		
Roads and Municipal Drainage	11.6	1.4
Other instruments		
Community-Managed Sarastoon-Temash Conservation (GEF)	0.8	0.0
Memorandum item:		
Total approved loans (including 8 closed loans)	79.6	1.4
Of which		
Repaid to the Bank	44.0	
Unpaid	43.4	
IFC Investments		
Nova-Ambergris	4.3	0.0

BELIZE: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of June 30, 2005)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Land Administration II	7.0	4.3
Hurricane Rehabilitation and Disaster Preparedness	21.3	2.7
Health Sector Reform	9.8	7.1
Total	**38.1**	**14.6**

II. Loan Transactions

	2000	2001	2002	2003	2004	Proj. 2005
Net flows	**10.5**	**16.6**	**12.0**	**12.6**	**3.3**	**-0.3**
Gross disbursements	11.1	18.3	14.3	15.8	8.1	4.3
Amortization	0.0	0.0	0.0	0.5	1.6	2.2
Interest and charges	0.6	1.7	2.3	2.7	3.2	3.4

III. Economic and Sector Work

The new 2004–08 IDB-Country Strategy with Belize, approved in September 2004, aims at assisting the country in its transition towards private sector-led growth. Accordingly, the Bank's strategy will focus on one major objective: "support private sector-led growth" by financing interventions oriented to (i) improving the public sector's institutional capacity to foster an enabling environment for private sector development; (ii) supporting private sector capacity-building and specific initiatives. Sustainable economic growth and poverty reduction are considered the overarching goals of the Strategy.

From 1998 to 2005, the Bank approved seven operations for a total of US$ 91.8 million. There were no loan approvals during 2002–04. However, the Bank has been very active in supporting Belize through technical cooperation projects. For 2005, the pipeline has a $20 million Policy Based Loan to support the public sector's financial management, as well as two major Multilateral Investment Fund operations: one in airport security and the other related to competitiveness of micro and small enterprises in cruise ship tourism, both operations totaling US$ 1.2 million. In addition, the Bank has provided technical assistance for the resolution process of the Development Finance Corporation as well as in the public expenditure review and the diagnostic of the current tax regime. The Bank has also expressed its willingness to provide technical assistance to the GoB in key areas such as tax revenue collection, customs control and institutional strengthening to the Central Statistical Office.

BELIZE: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of June 30, 2005)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Fifth Power Project	9.2	9.2
Disaster Preparedness	9.2	3.3
Orange Walk Bypass	11.5	0.2
Fifth Line of Credit	7.3	0.3
Second Water and Sewerage Project	13.8	1.8
Rural Development	3.4	2.5
Health Sector Reform Program	5.6	4.4
National Disaster Management (Hurricane Keith)	0.5	0.0
Enhancement of Technical and Vocational Education	16.1	10.0
Southern Highway Rehabilitation	1.8	0.8
Caribbean Court of Justice	3.7	0.0
Social Investment Fund	7.1	7.0
Total	**89.2**	**39.5**

II. Loan Transactions

	2000	2001	2002	2003	2004
Net flows	**6.2**	**6.1**	**3.7**	**6.1**	**9.3**
Gross disbursements	9.0	9.3	7.6	9.5	13.5
Amortization	2.8	3.2	3.9	3.4	4.2
Interest and charges	3.2	3.9	3.6	3.6	3.9

III. Economic and Sector Work

Much of CDB's country and sector work in Belize since 2003 has focused on helping the authorities to address significant macroeconomic and fiscal imbalances, and to address sustainability issues in the operations of the Development Finance Corporation. This has resulted in a slower rate of loan approvals, although appraisal work is currently ongoing on two infrastructure project proposals. Activity levels on CDB's main direct poverty reduction program, the Basic Needs Trust Fund, has been maintained, and activity levels are expected to rise somewhat following the expected replenishment of the CDB's concessional resources later in 2005.

The Belize authorities have indicated that significant effort is underway to address the difficult fiscal and debt consequences that have resulted from the expansionary policies of recent years; and the CDB proposes to prepare a new intervention strategy for Belize during the second half of 2006.

BELIZE: STATISTICAL ISSUES

Outstanding statistical issues

In general, the quality, coverage, and timeliness of Belize's statistical information permit an adequate monitoring of economic developments. However, there are shortcomings in national accounts, prices, external trade and debt, government finance, and labor statistics. The authorities have indicated that they would be interested in receiving technical assistance in all these areas. The Central Bank of Belize publishes, in irregular intervals, a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest. The authorities have expressed an interest in participating in the GDDS and have begun drafting metadata for submission to STA.

Real sector

A new national accounts system has been phased-in. Under the new system, national accounts at constant and current prices are produced quarterly, instead of just annually. The base year for the compilation of national accounts has moved from 1984 to 2000, with consequent quality improvement of estimates at constant and current prices. The CPI market basket is based on a household expenditure survey conducted from June 1990 through March 1991 and needs to be updated. Also, the CPI is calculated only four times a year (February, May, August, and November), with a lag of about three months. Labor market statistics are scant and available at irregular intervals.

Fiscal accounts

Classification of expenditure into current and capital does not conform to international standards. The resumption of reporting annual data for the Government Finance Statistics Yearbook and sub-annual data for the International Financial statistics is highly recommended. The most recently reported annual data were for 1997.

Monetary accounts

Monetary data are reported to STA and WHD on a timely fashion. Recently, the authorities implemented the STA's Standardized Report Forms and for the first time reported data through January 2005 in this format. However, the coverage of monetary data is incomplete as it includes only the accounts of the central bank and commercial banks; other depository corporations, including credit unions are not included. Contrary to methodological recommendations, interest accruals are included in other assets or other liabilities, rather than being classified along with the underlying instruments. In addition, unclassified assets and liabilities are large.

Balance of payments

The compilation of Belize's balance of payments is based on the fifth edition of the Balance of Payments Manual (BPM5). Belize completed the transition to the BPM5 in 2004. In addition, the authorities are refining the process for collecting relevant data that will enable the presentation of quarterly balance of payments statistics. As for the coverage, currentness and reporting of data for publication in the International Financial Statistics (IFS) and in the Balance of Payments Statistics Yearbook (BOPSY), Belize has reported annual data on balance of payments statistics albeit with some lags. Belize does not compile International Investment Position (IIP) Statistics.

External debt

There are discrepancies between the data reported by the central bank and those reported by the ministry of finance, particularly with respect to gross external disbursements of the central government. In addition, the data reported by the central bank and the ministry of finance on the external debt of the public enterprises are incomplete and inconsistent with the information provided by the public enterprises. The authorities are seeking to reduce the discrepancies and inconsistencies by fostering greater cooperation among the agencies involved.

Development Finance Corporation

The accounts of the DFC, which is a major instrument of the government's economic policy, are not well integrated into monetary or fiscal accounts.

Belize: Table of Common Indicators Required for Surveillance

(As of July 15, 2005)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates					
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/16/05	3/15/05	W	W	NA
Reserve/Base Money	5/31/05	6/22/05	W	W	NA
Broad Money	5/31//05	6/22/05	W	W	NA
Central Bank Balance Sheet	5/31/05	6/22/05	W	W	NA
Consolidated Balance Sheet of the Banking System	5/31/05	6/22/05	M	M	NA
Interest Rates[2]	4/2005	6/22/05	M	M	NA
Consumer Price Index	May 2005	3/9/05	Q	Q	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Mar. 2003	Dec. 2003	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	May 2005	6/30/05	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June 2005	7/11/05	M	M	NA
External Current Account Balance	March 2005	7/11/05	Q	Q	NA
Exports and Imports of Goods and Services	May 2005	6/22//05	M	M	NA
GDP/GNP	2004	7/04/05	A	A	NA
Gross External Debt	12/31/04	3/30/05	A, M	A, M	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[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] The general government 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] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
September 19, 2005

This note provides additional information on recent developments in Belize since the issuance of the staff report. The statement does not change the thrust of the staff appraisal.

- **The economy continued to grow at an annual pace of around 4½ percent during the first half of 2005.** The economy's strength reflects buoyancy in the tourism as well as wholesale and retail trade sectors.

- **Headline inflation has risen.** Year-on-year CPI inflation increased from 3.0 percent at end-2004 to 3.7 percent in May 2005, driven mainly by higher costs for energy and transportation.

- **Fiscal adjustment has fallen somewhat short of the authorities' goal.** Preliminary data suggest that the deficit for the central government during the first fiscal quarter (April–June) was 1.6 percent of GDP, or 0.3 percent larger than planned. The shortfall reflected lower revenues and grants, as well as higher current expenditure, than initially projected.

- **The authorities plan to introduce a VAT-type tax by April 1, 2006.** CARTAC has taken the lead in coordinating technical assistance in this regard, including from the Fund, IDB, and DFID. A mission from LEG is visiting Belize during September 19-23, 2005 to assist in preparations.

- **The government recently decided to re-nationalize the water company.** This company had been privatized four years ago, and after years of legal disputes, the government agreed to repurchase a controlling majority for about the same price it sold it in 2001 (roughly equivalent to 2 percent of GDP). The purchase was financed through loans from the foreign owner and from Taiwan, Province of China. Although the authorities have indicated their intention to re-privatize the company as soon as possible, the decision and the additional debt it implies have exacerbated staff concerns regarding debt sustainability.

- **The authorities are continuing efforts to improve the statistical base.** In September, the authorities started publishing monthly fiscal reports, which are accessible to the general public via the websites of the central bank and the ministry of finance. Efforts are also well underway to participate in the GDDS, and STA is reviewing metadata submitted by the authorities.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/136
FOR IMMEDIATE RELEASE
September 30, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with Belize

On September 14, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Background

The Belizean economy grew by 4½ percent in 2004, mainly reflecting strong performance in the agriculture, fisheries, and tourism sectors. Inflation remained subdued at around 3 percent.

The overall fiscal deficit of the central government, however, widened to 8¾ percent of GDP in FY04/05 (April to March), from about 8⅓ percent of GDP in the previous year. The deficit was significantly larger than the authorities' target of 2¾ percent of GDP, with noninterest current expenditure exceeding budgeted levels by some 3 percent of GDP and substantial overruns in interest payments, mainly related to high costs of borrowing that reflected the sharp deterioration in Belize's external creditworthiness. Public finances were also burdened by the weak position of the Development Finance Corporation (DFC).

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The balance of payment remained under significant pressure. Although the external current account deficit narrowed somewhat in 2004—to 18 percent of GDP from an average of 22 percent of GDP during 2001–03—it remained unsustainably high. Lower net loan disbursements in 2004 more than offset a marginal increase in capital inflows to finance investment projects, causing the capital account surplus to erode, and gross international reserves fell sharply. More recently, notwithstanding the authorities' success in refinancing several large debts with external commercial creditors, Belize's access to international capital markets has become more difficult, with marked reductions in assessments by rating agencies.

In response to growing pressure on the reserves of the central bank and increasing concerns regarding the risks to the balance of payments, the authorities announced in May a major adjustment program. This included fiscal measures aimed at reducing the FY05/06 deficit to less than 4 percent of GDP, mainly through tax increases and a curtailment of capital expenditure and civil service employment. In addition, the Central Bank of Belize tightened monetary policy to contain credit expansion.

Executive Board Assessment

While Directors welcomed Belize's low inflationary environment and continued strong growth performance, which reflect the robust expansion in the tourism, fisheries, and agricultural sectors, they expressed concern that Belize's fiscal and external current account deficits remain unsustainably high, resulting in substantial increases in the external public debt and a serious erosion of domestic and international confidence. Directors underscored the urgency of addressing these imbalances to safeguard the country's international reserves and ensure the sustainability of the pegged exchange rate system. They encouraged the authorities to mount a campaign to educate the public on the benefits of reform and the growing risks of inaction.

Directors welcomed the steps taken earlier this year to tighten fiscal and monetary policies, but were concerned that implementation delays and the emergence of new expenditure commitments would make it difficult to meet the authorities' fiscal targets for fiscal year 2005/06. Moreover, even if these targets are met, a significant external financing gap is still likely to emerge in 2006. Against this background, Directors called for greater efforts to reduce domestic demand, close the remaining financing gap, and restore confidence and Belize's creditworthiness.

Directors therefore urged the adoption of additional measures to boost fiscal revenue and rein in expenditure. They called for a reduction in tax holidays and exemptions to broaden the tax base and increase tax buoyancy. They encouraged the early introduction of a value added tax and the adoption of measures to ensure the pass-through of international oil price changes to domestic petroleum prices. Directors suggested that further expenditure cuts be explored in the areas of goods and services and capital spending, excluding essential social services.

Directors commended the authorities' efforts to improve governance and transparency, including the passage of fiscal transparency legislation and the decision to establish commissions of inquiry into the Development Finance Corporation (DFC) and the Social Security Board.

Directors welcomed the recent monetary policy measures aimed at tightening domestic liquidity conditions. They encouraged the authorities to monitor domestic liquidity closely and further tighten monetary conditions to support the balance of payments until an additional fiscal effort takes hold.

Directors welcomed the steps taken to improve financial supervision and prudential regulation, including extension of supervisory coverage to the DFC. However, they expressed concern with the lack of progress in resolving the DFC, which continues to be a drain on the public finances as a result of its deteriorating asset base. In order to stem further losses, Directors urged the authorities to halt operations of the DFC immediately and dispose of its assets in a transparent and orderly manner. Directors also emphasized the need to monitor actively commercial bank balance sheet vulnerabilities in light of rapid growth in credit to the private sector.

Directors noted that the balance of payments has come under increased strain as a result of adverse terms of trade shocks, including the rise in world oil prices. These shocks have compounded the severe pressures stemming from Belize's external debt service obligations. Directors agreed that in these circumstances the authorities' intention to approach external creditors to seek debt service relief is appropriate. However, Directors underlined the importance of engaging with external creditors in a transparent and equitable manner, and within the framework of a credible medium-term debt strategy. In this regard, a few Directors considered that a Fund-supported program would underpin Belize's efforts to bolster confidence and secure an agreement with external creditors. Directors also called for a strengthening of the debt database to help improve debt management.

Directors welcomed the unification of the foreign exchange market through the closure of the "cambios". They noted that Belize does not maintain exchange restrictions or multiple currency practices. However, Belize maintains non-tariff barriers and tax and duty exemptions that contribute to a misallocation of resources. Directors encouraged the authorities to phase out import restrictions in favor of tariffs and excises, noting that this will also strengthen revenue collection.

Directors commended the authorities for recent improvements in the quality and timeliness of publication of statistical information, and supported the authorities' request for technical assistance to facilitate participation in the General Data Dissemination System.

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

	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage change, unless otherwise indicated)					
National income and prices					
GDP at constant prices	4.6	4.7	9.2	4.6	3.1
Nominal GDP (in millions of Belize dollars)	1,737.6	1,853.0	1,961.6	2,071.2	2,210.1
Consumer prices (end of period)	0.9	3.2	2.3	3.0	4.0
Real effective exchange rate	2.0	-0.7	-5.3	-3.6	...
(In percent of GDP)					
National accounts					
Gross domestic investment	27.2	21.6	24.8	18.3	14.9
Gross national saving	4.7	1.4	2.5	0.5	2.2
Central government 2/					
Revenue and grants	24.7	22.9	22.7	22.3	25.0
Expenditure and net lending	34.5	32.6	31.0	31.0	28.6
Overall balance	-9.8	-9.7	-8.3	-8.7	-3.6
Primary balance	-6.8	-5.8	-3.3	-0.3	3.0
(Annual percentage change, unless otherwise indicated)					
Money and credit					
Credit to the private sector 1/	16.8	18.1	12.2	7.5	3.1
Money and quasi-money (M2)	9.1	2.1	4.7	7.5	7.6
(In percent of GDP, unless otherwise indicated)					
External Sector					
External current account	-22.5	-20.2	-22.3	-17.7	-12.7
Overall balance of payments	-0.6	0.2	-3.1	-3.5	3.6
Public and publicly guaranteed debt 3/	84.1	89.6	103.1	102.3	95.4
Domestic	8.5	3.2	5.7	10.0	7.6
External	75.6	86.4	97.3	92.3	87.9
Gross official reserves (in months of imports) 3/	2.1	2.0	1.4	0.8	1.5

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

1/ Comprises credit by commercial banks and the Development Finance Corporation (DFC).
2/ Fiscal year starting on April 1.
3/ End of period.