



BELIZE

June 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELIZE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Belize, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 2, 2021 consideration of the staff report on issues related to the Article IV consultation with Belize.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 2, 2021, following discussions that ended on March 10, 2021, 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 May 18, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Belize.

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Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2021 Article IV Consultation with Belize

FOR IMMEDIATE RELEASE

Washington, DC – June 2, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Belize.

The COVID-19 pandemic has hit Belize hard. Following a successful containment of the first wave of the pandemic, the country experienced a second wave starting in June 2020. This wave has been controlled, but it left Belize with one of the highest numbers of cases and deaths per capita in the Caribbean. The pandemic also led to a 72 percent fall in tourist arrivals in 2020 and a decline in activity in contact-intensive sectors, resulting in a contraction of real GDP of 14.1 percent in 2020. The fiscal position deteriorated markedly, with the primary deficit widening from 1.3 percent of GDP in FY2019/20 to 8.4 percent in FY2020/21, and public debt increasing from 97.5 percent of GDP in 2019 to 127.4 percent in 2020.

The recovery from the pandemic is projected to be protracted. Tourist arrivals remain subdued but are expected to pick up in late-2021 when vaccines become more widely available in advanced countries. As a result, real GDP is projected to grow at 1.5 percent in 2021 and 6.2 percent in 2022, regaining its pre-pandemic level only by 2025. The fiscal position is projected to improve over time in line with the fiscal consolidation measures included in the FY2021/22 budget, and the expected recovery of revenue and unwinding of pandemic-related expenditure. However, public debt would remain elevated, peaking at 132 percent of GDP in 2021 and gradually declining after to 111 percent in 2031. External financing is expected to gradually decline over time, worsening reserve adequacy and threatening the sustainability of the currency peg. Belize's economic outlook is subject to substantial downside risks, including from a resurgence of the pandemic and natural disasters.

Executive Board Assessment²

Executive Directors noted that the pandemic has hit Belize hard, resulting in a high number of deaths and a deep economic recession. The recovery is projected to be protracted and subject to large risks. Directors noted that the country faces difficult challenges, including unsustainable public debt, widening external imbalances, and vulnerability to natural disasters and climate change. Against this backdrop, Directors highlighted the urgency of restoring debt sustainability while providing near-term support to the most vulnerable and implementing structural reforms to boost inclusive growth and enhance resilience.

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.

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

Directors agreed that restoring debt sustainability requires sufficient debt restructuring and ambitious fiscal consolidation, anchored in a credible medium-term strategy. They welcomed the significant consolidation measures approved this year, and encouraged a further gradual increase in the primary balance, relying on both revenue and expenditure measures, while strengthening the social safety net. Directors recommended broadening the tax base, strengthening revenue administration, and reprioritizing expenditures. They also encouraged the authorities to develop contingency plans in case downside risks materialize.

Directors emphasized that growth-enhancing structural reforms would support public debt reduction. They encouraged steps to improve access to credit, reduce entry barriers for firms, enhance infrastructure, and strengthen law enforcement and social programs to reduce crime. Directors recommended further strengthening the resilience to climate change and natural disasters, including by developing a Disaster Resilience Strategy.

Directors noted that restoring debt sustainability would also help reduce external imbalances and strengthen the currency peg. They called on the authorities to limit central bank financing of the government, which together with fiscal consolidation, would help reduce the current account deficit, improve access to external financing, and boost reserves.

Directors highlighted the need to safeguard financial stability. This requires maintaining appropriate loan classification and provisioning rules, phasing out forbearance measures and loan deferrals by banks, and strengthening prudential standards as the pandemic recedes. Directors encouraged further efforts to strengthen the AML/CFT framework, with a focus on enforcing sanctions for non-compliance and reforms to mitigate risks associated with the international financial services sector.

Table 1. Belize: Selected Social and Economic Indicators

I. Population and Social Indicators									
Area (sq.km.)	22,860			Human development index (rank), 2017					106
Population (thousands), September 2020	421.5			Under-five mortality rate (per thousand), 2017					14.2
GDP per capita, (current US\$), 2020	3,917			Unemployment rate (percent), September, 2020					13.7
Life expectancy at birth (years), 2017	70.6			Poverty (percent of total population), 2009					42.0
II. Economic Indicators									
	2018	2019	2020	Projections					
			Prel.	2021	2022	2023	2024	2025	2026
National income and prices	(Annual percentage changes, calendar year)								
GDP at constant prices	2.9	1.8	-14.1	1.5	6.2	4.2	2.0	2.0	2.0
Consumer prices (average)	0.3	0.2	0.1	2.0	2.0	2.0	2.0	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)								
Revenue and grants	31.4	31.5	27.0	28.2	29.9	31.3	31.3	31.3	31.3
Current non-interest expenditure	24.8	26.0	26.6	24.1	24.1	24.1	24.1	24.1	24.1
Interest payment	3.3	3.4	1.7	4.2	4.2	4.1	4.0	3.9	3.7
Capital expenditure and net lending	4.3	6.9	8.9	8.6	7.2	6.3	6.3	6.3	6.3
Capital expenditure	4.2	6.5	8.6	8.5	7.0	6.0	6.0	6.0	6.0
Net lending	0.1	0.4	0.2	0.1	0.2	0.3	0.3	0.3	0.3
Primary balance	2.4	-1.3	-8.4	-4.5	-1.5	0.8	0.8	0.8	0.8
Overall balance	-0.9	-4.7	-10.1	-8.7	-5.6	-3.2	-3.1	-3.0	-2.9
Public debt	(In percent of calendar year GDP)								
Public debt 2/	96.0	97.5	127.4	132.4	128.6	124.9	123.2	121.4	119.7
Domestic debt	27.8	28.7	39.8	43.7	44.5	44.4	44.9	45.8	47.0
External debt	68.2	68.8	87.6	88.7	84.1	80.4	78.3	75.7	72.7
Principal payment	7.2	6.2	7.7	10.3	10.3	10.1	9.7	9.8	9.8
Domestic	4.9	3.9	5.1	6.8	6.7	6.2	5.9	5.9	5.8
External	2.2	2.3	2.6	3.6	3.6	3.9	3.8	3.9	4.0
Money and credit	(Annual percentage changes, calendar year)								
Credit to the private sector	3.2	5.8	2.2	3.5	8.3	6.3	4.0	4.0	4.0
Money and quasi-money (M2)	2.6	5.7	10.6	3.5	8.3	6.3	4.0	4.0	4.0
External sector	(Annual percentage changes, unless otherwise indicated)								
External current account (percent of GDP)	3/	-8.1	-9.2	-8.0	-7.7	-7.6	-6.8	-6.8	-6.8
Real effective exchange rate (+ = depreciation)		-2.7	0.1
Gross international reserves (US\$ millions)		294	278	348	360	345	321	276	237
In months of imports		2.9	3.5	4.2	3.9	3.5	3.1	2.6	2.1
Memorandum items									
Nominal GDP (BZ\$ millions)		3,765	3,839	3,302	3,419	3,703	3,936	4,095	4,260
									4,432

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

1/ Fiscal year (April to March).

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

3/ Including official grants.



BELIZE

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 18, 2021

KEY ISSUES

Context. Belize has been hit hard by the COVID-19 pandemic, which led to a deep recession and worsened fiscal and external positions from already weak levels. The opposition People's United Party won the November 2020 elections by a wide margin, which gives the new government a unique opportunity to jump start much needed reforms to reduce large imbalances and anchor strong and inclusive growth.

Outlook and Risks. Real GDP contracted by 14.1 percent in 2020 and is projected to grow by 1.5 percent and 6.2 percent in 2021 and 2022, reverting to its pre-pandemic level only in 2025. Under current policies, public debt is projected to remain above 110 percent of GDP between 2021 and 2031, which staff assesses as unsustainable. Risks to the outlook are skewed to the downside, including because of the uncertain evolution of the pandemic, Belize's high vulnerability to natural disasters, and social tensions.

Policy Advice. The key policy priorities are to restore debt sustainability and strengthen the currency peg, while supporting those affected by the pandemic in the near term. This will require a fine balancing act involving ambitious, yet realistic, fiscal consolidation, growth-enhancing structural reforms, and debt restructuring, all aimed at targeting a reduction of public debt to 60 percent of GDP by 2031.

- *Fiscal Policy.* Restoring debt sustainability requires the development of a credible medium-term fiscal strategy that targets a reduction of public debt to 60 percent of GDP in 2031, underpinned by a gradual increase in the primary balance to 3 percent of GDP from FY2024/25 onwards.
- *Structural Reforms.* Boosting growth requires improving access to credit, easing entry barriers for new businesses, increasing labor market flexibility, reducing crime, and enhancing structural and financial resilience to natural disasters.
- *Monetary Policy.* Improving reserve adequacy and strengthening the currency peg require restoring public debt sustainability and limiting government financing by the Central Bank of Belize over the medium-term.
- *Financial Sector Policy.* Preserving financial stability requires maintaining appropriate loan classification and provisioning rules, phasing out forbearance measures, and strengthening the AML/CFT framework.

Approved By
Patricia Alonso-Gamo(WHD) and Ana Corbacho (SPR)

Discussions took place virtually during February 25–March 10, 2021. The IMF team comprised Jaime Guajardo (Head), Serhan Cevik, Thomas Dowling (all WHD), and Ke Chen (LEG). Benjamin Rankin (OED) attended some of the meetings. Krishna Srinivasan (WHD) and Louise Levonian (OED) attended the concluding meeting. The team met with the Honorable Mr. John Briceño, Prime Minister; Amb. Joy Grant, Governor of the Central Bank of Belize; Mr. Christopher Coye, Minister of State, Mr. Joseph Waight, Financial Secretary; and other senior government officials, representatives of the opposition, private sector, and public sector unions. Sheng Tibung and Sean Thomas contributed with excellent research assistance and administrative support.

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