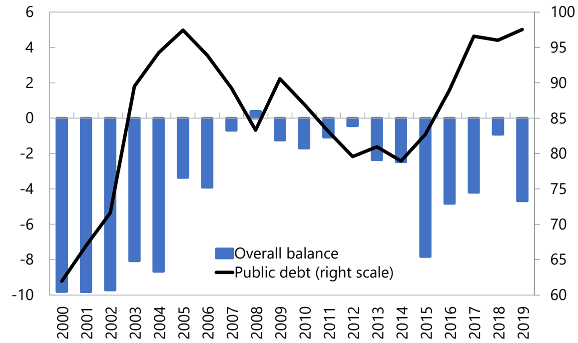
PRE-PANDEMIC VULNERABILITIES

1. **Belize entered the pandemic with pre-existing vulnerabilities**. Real GDP growth had slowed from 4.7 percent in 2000-09 to 2.8 percent in 2010-14 and 1.8 percent in 2015-19. Moreover, the economy was in recession when the pandemic hit, with real GDP contracting by 2.2 percent year on year in the last quarter of 2019 and 6.3 percent in the first quarter of 2020.

2. **The fiscal position had weakened before the pandemic, leaving Belize with limited fiscal space to respond to it**. The fiscal deficit widened from an average of 1.1 percent of GDP in 2007-14 to 4.3 percent in 2015-19, led by a rise in public expenditures that was only partly offset by an increase in revenues. The primary balance also fell from 2.2 percent of GDP in 2007-14 to –1.5 percent of GDP in 2015-19. As a result, public debt, which had declined during the previous decade, rose from 78.9 percent of GDP in 2014 to 97.5 percent of GDP in 2019.

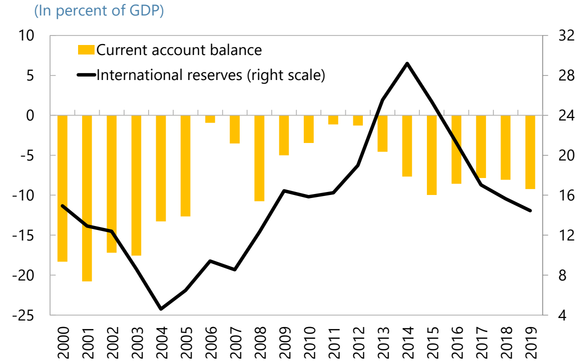
Overall Fiscal Balance and Public Debt
(In percent of GDP)



Sources: Ministry of Finance and Central Bank of Belize.

3. **The external position had also worsened before the pandemic**. The current account deficit increased from 4.7 percent of GDP in 2007-14 to 8.7 percent of GDP in 2015-19, which, together with the decline in the financial and capital account balances, reduced international reserves from US$487 million (29 percent of GDP) in 2014 to US$278 million (14.5 percent of GDP) in 2019. The net international investment position (NIIP) also deteriorated from –159 percent of GDP in 2014 to –174 percent of GDP in 2019.

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



Sources: Ministry of Finance and Central Bank of Belize.

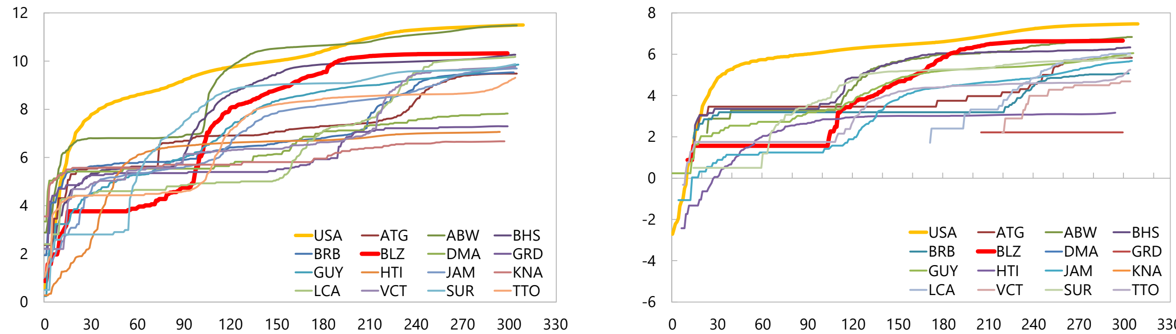
THE PANDEMIC SHOCK

4. **Belize has been hit hard by the COVID-19 pandemic.** The authorities were successful in containing the first wave of the pandemic through timely closures of schools and the international airport, and the adoption of a strict national lockdown during the second quarter of 2020. However, the country experienced a second wave starting in June 2020, which intensified in the last quarter of 2020. This wave has now been controlled, but it left the country with one of the highest numbers of cases and deaths per capita in the Caribbean (Figure 1).

Figure 1. Belize: COVID-19 Infections and Deaths

Log of Covid-19 Infections Per Million People (t = 0 is the first day in which infections per million people ≥ 1)

Log of Covid-19 Deaths Per Million People (t = 0 is the first day in which infections per million people ≥ 1)



Sources: John Hopkins University; and IMF staff estimates.

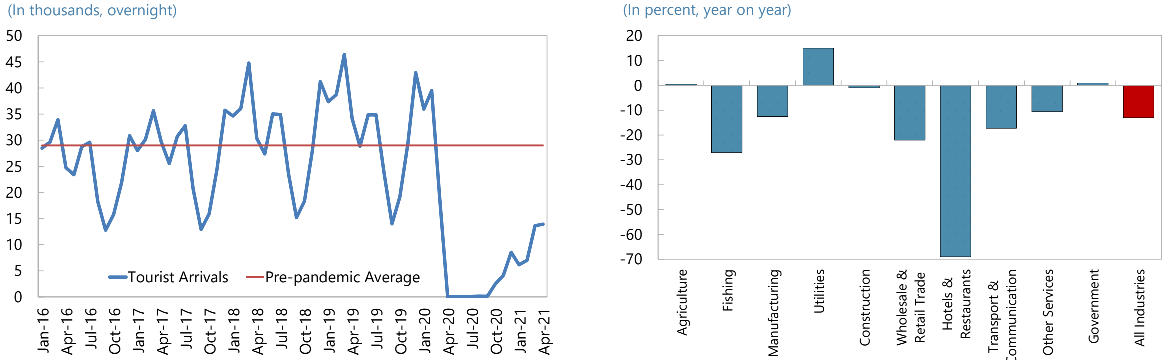
Sources: John Hopkins University; and IMF staff estimates.

5. The pandemic pushed the economy into a deep recession. Tourist arrivals declined by 72 percent in 2020, which had a large impact on the rest of the economy as tourism accounts for nearly 60 percent of all foreign exchange earnings and 40 percent of GDP (Figure 2). In addition, social distancing and the national lockdown hurt contact-intensive sectors. As a result, real GDP contracted by 14.1 percent in 2020, with larger declines in sectors such as hotels and restaurants, fishing, wholesale and retail trade, and transport and communication. Employment also suffered, declining by 15 percent year-on-year in the third quarter of 2020. Female employment was more affected, with a decline of 18 percent compared to a decline of 12.5 percent for males.[1]

Figure 2. Belize: Tourist Arrivals and Economic Activity

International Tourist Arrivals (In thousands, overnight)

Real Gross Value Added Growth, 2020 (In percent, year on year)



Sources: Belize Tourism Board; and IMF staff estimates.

Source: Statistical Institute of Belize.

6. The fiscal position has weakened further. The pandemic is estimated to have reduced government revenue by 4.5 percentage points of GDP in FY2020/21, while the necessary measures to contain the spread of the virus and support affected households and firms are estimated to have increased noninterest government expenditure by 2.6 percentage points of GDP. As a result, the

[1] The Statistical Institute of Belize revised the labor force survey and methodology. According to the old definition, the unemployment rate is estimated to have increased from 10.4 percent in the third quarter of 2019 to 29.6 percent in the third quarter of 2020, instead of the 13.7 percent reported under the new methodology.

primary deficit is estimated to have widened from 1.3 percent of GDP in FY2019/20 to 8.4 percent in FY2020/21, while public debt increased to 127.4 percent of GDP in 2020.

7. The external position has also weakened, although the current account balance and international reserves have been resilient. The NIIP is estimated to have declined to –200 percent of GDP in 2020 led by a rise in public external debt from 69 percent of GDP in 2019 to 88 percent in 2020. However, the current account deficit is estimated to have narrowed in 2020, despite the fall in tourism receipts, reflecting lower imports, higher remittances, and lower repatriation of profits from foreign owned businesses in Belize. In addition, government financing from bilateral and multilateral creditors increased and interest payments on the superbond were capitalized, which led to a rise in international reserves from US$278 million (3.5 months of imports) in 2019 to US$348 million (4.2 months of imports) in 2020.

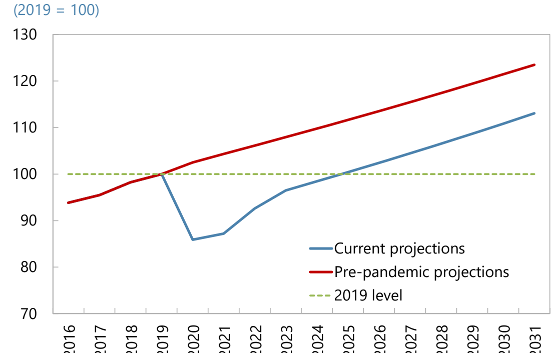
8. Implementation of past Article IV recommendations slowed (Annex I). The authorities continued to implement some past recommendations, including investing in resilient infrastructure, raising the contribution rate of the general social security scheme (GSSS) by 0.5 percent in 2019 and 2020, preparing a national money laundering and terrorist financing (ML/TF) risk assessment, and examining the balance sheets of banks and credit unions. However, fiscal consolidation stalled, the 1 percent rise in the GSSS contribution planned for 2021 was deferred, and the creation of credit and collateral registries was delayed.

9. The opposition People's United Party won the November 2020 general elections by a wide margin, securing 26 seats in the 31-seat House of Representatives. The new administration inherited a difficult economic situation, due to both long standing economic vulnerabilities and the impact of the COVID-19 pandemic. The large majority in parliament provides the government a unique opportunity to embark on an ambitious reform agenda and address long-standing structural bottlenecks that have constrained growth and weakened fiscal and external positions.

OUTLOOK AND RISKS

10. The recovery from the pandemic is projected to be protracted, with real GDP regaining its 2019 level only by 2025. Tourist arrivals are expected to remain subdued in 2021 given still high levels of COVID-19 cases in Belize's main trading partners and stringent requirements on passengers returning to the US. Belize will also remain exposed to the pandemic as it has secured vaccines for only about one-third of its population. Tourist arrivals are expected to pick up in 2022 as vaccines become widely available in advanced countries. As a result, real GDP growth is projected at 1.5 percent in 2021 and 6.2 percent in 2022, converging to 2 percent over the medium term.

Real GDP index
(2019 = 100)

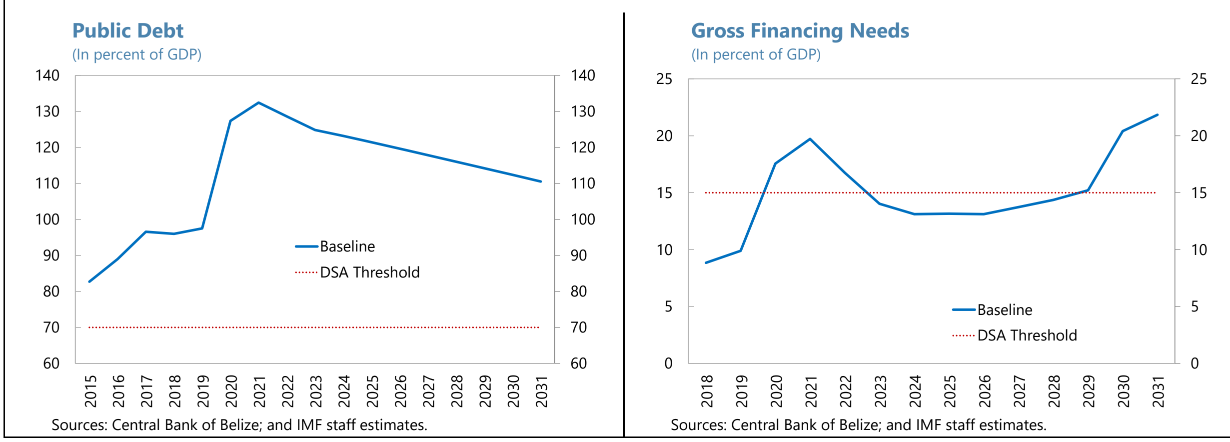


Sources: Statistical Institute of Belize; and IMF staff estimates.

11. The fiscal and external positions are projected to remain weak over the medium term in staff's baseline scenario, despite significant fiscal consolidation measures approved in the FY2021/22 budget. To strengthen the fiscal position, the FY2021/22 budget includes reductions of 10 percent in public sector wages and 30 percent on purchases of goods and services relative to the FY2020/21 budget, which is expected to reduce current expenditure by about 2 percent of GDP in FY2021/22. These measures, together with the unwinding of pandemic-related expenditure and the expected rebound of revenues to pre-pandemic levels, are projected to increase the primary balance from –8.4 percent of GDP in FY2020/21 to 0.8 percent from FY2023/24 onwards. As a result, public debt is projected to peak at 132 percent of GDP in 2021 and gradually decline thereafter to 111 percent in 2031.[2] The high level of public debt is expected to limit Belize's access to external financing going forward, leading to a decline in international reserves to below 3 months of imports or 100 percent of gross external financing needs starting in 2024.

12. Public debt is assessed as unsustainable in staff's baseline scenario. Public debt is projected to remain well above the 70 percent of GDP threshold for sustainability in the debt sustainability analysis (DSA) framework (Figure 3). Gross financing needs are also projected to be higher than the 15 percent of GDP DSA threshold for sustainability in some years over the next decade even though it is assumed that the government will continue to borrow at low interest rates over the medium term (Annex II). Moreover, both public debt and gross financing needs could rise further if prominent downside risks to the outlook were to materialize.

Figure 3. Belize: Public Debt and Gross Financing Needs



13. Risks to the outlook are substantial and remain tilted to the downside. A key risk is an intensification of the pandemic domestically and abroad (Annex III). Further spread of the pandemic in the US and Europe could delay the recovery of tourism, while further spread in Belize could lead to more stringent social distancing and hurt activity in contact-intensive sectors. There could also be delays in reaching widespread inoculation, further delaying the tourism recovery. Activity could also be disrupted by public sector workers protests against the reduction in wages. Belize also remains

[2] The Statistical Institute of Belize is in the process of rebasing and upgrading the national accounts. This data is expected to be released in 2022 (see Informational Annex).

highly vulnerable to natural disasters. Materialization of some of these downside risks would further tighten financial conditions, weaken economic activity, delay the recovery of revenues, postpone the unwinding of pandemic-related expenditures, and accelerate the fall in international reserves. On the upside, rapid vaccine distribution could revive economic activity earlier than expected.

Authorities' Views

14. The authorities agreed with staff's views on the outlook and risks, and the assessment that public debt is unsustainable. They noted that the deep recession and necessary measures to contain the virus and support affected households and firms worsened the country's debt position from already weak levels. Moreover, the debt situation will likely remain difficult going forward as the recovery from the pandemic is projected to be protracted, with sizable downside risks, especially regarding the evolution of the pandemic and natural disasters. In this context, they pointed to the significant fiscal consolidation measures included in the FY2021/22 budget, estimated at around 2 percent of GDP. According to their projections, these measures together with a strong recovery of revenues, are expected to reduce the primary deficit from 8.5 percent of GDP in FY2020/21 to 2.9 percent in FY2021/22. However, the authorities agreed that additional measures will be needed to restore debt sustainability.

POLICY DISCUSSIONS

Belize's key policy priorities are restoring public debt sustainability and strengthening the currency peg, while providing near-term support to those affected by the pandemic. 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. Such a strategy would also improve reserve adequacy and strengthen the currency peg.

A. Balanced and Sustained Fiscal Consolidation

15. A key priority is to implement a medium-term fiscal strategy aimed at restoring debt sustainability, while laying the groundwork for future adoption of a Fiscal Responsibility Law (FRL) with explicit fiscal rules. This strategy should include near-term fiscal support to those affected by the pandemic, accompanied by a consistent and credible multiyear fiscal consolidation plan that targets a reduction of public debt to 60 percent of GDP by 2031.[3] Public commitment to this strategy would enhance its credibility. At the same time, the authorities should introduce necessary public financial management (PFM) reforms for future adoption of a well-designed FRL with explicit fiscal rules, which would strengthen the commitment to fiscal discipline.

16. Restoring debt sustainability requires a gradual and sustained additional increase in the primary balance. To strike a balance between supporting those affected by the pandemic and enabling a large public debt reduction over the medium term, the primary balance should be

[3] A target of 60 percent of GDP would ensure that public debt remains below the 70 percent of GDP DSA threshold for debt sustainability even after shocks of similar size and frequency as in the past.

gradually raised to 3 percent of GDP in FY2024/25 and kept at this level until FY2031/32. Relative to staff's baseline scenario, this requires a cumulative fiscal consolidation of 2.2 percent of GDP between FY2022/23 and FY2024/25 (Text Table 1), in addition to the measures contained in the FY2021/22 budget.

17. Fiscal consolidation should rely on both expenditure and revenue measures, while strengthening resilience and inclusion. Regarding expenditure, the authorities are appropriately focused on reducing the wage bill and purchases of goods and services in FY2021/22, which account for a larger share of GDP in Belize than in peer countries (Figure 4). Limiting the growth rate of these items to the inflation rate between FY2022/23 and FY2024/25 would further reduce the fiscal deficit. The authorities should also consider stablishing a natural disaster reserve fund and strengthening the social safety net. Staff recommends reducing expenditures by 0.2 percent of GDP in net terms between FY2022/23 and FY2024/25 relative to the baseline scenario, with consideration given to:

- Limiting the increase of the wage bill, pensions, purchases of goods and services, and transfers and subsidies to the inflation rate between FY2022/23 and FY2024/25 would lower non interest current expenditure by 2.2 percent of GDP relative to the baseline scenario in three years.

- In line with the recommendations in the 2018 Climate Change Policy Assessment (CCPA), Belize should gradually build a natural disaster reserve fund of 1 percent of GDP to finance immediate costs related to high frequency low severity climate change related events (see ¶26).

- Increasing targeted social spending by 1 percent of GDP over three years would help strengthen the social safety net and increase support for the strategy to restore debt sustainability.

18. Revenue measures could contribute another 2 percent of GDP in savings over three years. Most of these savings would result from broadening the base and increasing the rate of the general sales tax (GST), with the rest resulting from reduced exemptions on personal income taxes (PIT), higher excise taxes, and improvements to revenue and customs administration.

- Broadening the GST base by taxing some of the current zero-rated items at the standard rate, bringing the hotel sector into the GST, and raising the GST rate, could raise at least 1.5 percent of GDP in additional revenue over three years. The GST is a value added tax with a single rate of 12.5 percent, and several items levied at a zero rate, including processed foods, non-prescription drugs, utilities, appliances, items for household use, business inputs, and government purchases. Belize's GST has a low rate relative to peers and does not cover the hotel sector, which is subject to a 9 percent tax levied on hotel room revenue administered by the Belize Tourism Board.

- Lowering the PIT exemption threshold and taxing some exempted sources of income (pensions, capital gains, and interest income) could raise 0.2 percent of GDP in revenue over three years.

- Increasing excise taxes and fees on vehicle registrations and driver licenses could raise revenues by another 0.1 percent of GDP over three years.

- Strengthening revenue administration could increase revenue by 0.2 percent of GDP over three years. The Belize Tax Service (BTS) has been challenged with low filing and payment compliance, tax arrears, and refunds management. To modernize the system, a new electronic information technology system is being introduced and a headquarters function is being established, with a large taxpayer office and program and planning functions. To raise revenues, the authorities should: (i) implement a tax compliance plan to improve filing and payments rates, starting with the largest taxpayers; (ii) increase audit capacity and implement a risk-based audit plan; (iii) increase tax arrears collection, (iv) build capacity at BTS by providing adequate staff and training, and (v) strengthen legislative provisions and instruments.

Text Table 1. Belize: Recommended Fiscal Consolidation Measures
(In percent of GDP, Deviations from Staff's Baseline Scenario)

	FY2022/23	FY2023/24	FY2024/25	FY2022/23	FY2023/24	FY2024/25
Expenditure measures	**0.5**	**0.0**	**-0.3**	**0.5**	**0.5**	**0.2**
Current expenditure	1.1	0.7	0.4	1.1	1.8	2.2
Wage bill	0.6	0.3	0.2	0.6	0.9	1.1
Pensions	0.1	0.1	0.0	0.1	0.2	0.2
Purchases of goods and services	0.2	0.1	0.1	0.2	0.4	0.5
Subsidies and current transfers	0.2	0.1	0.1	0.2	0.3	0.4
Natural disaster reserve fund	-0.3	-0.3	-0.3	-0.3	-0.7	-1.0
Enhancing social programs	-0.3	-0.3	-0.3	-0.3	-0.7	-1.0
Revenue Measures	**0.7**	**0.7**	**0.7**	**0.7**	**1.3**	**2.0**
Personal income taxes (PIT)	0.1	0.1	0.1	0.1	0.1	0.2
Taxes on goods and services	0.5	0.5	0.5	0.5	1.1	1.6
Gross sales tax (GST)	0.5	0.5	0.5	0.5	1.0	1.5
Excises and fees	0.0	0.0	0.0	0.0	0.1	0.1
Revenue administration	0.1	0.1	0.1	0.1	0.1	0.2
Total Fiscal Consolidation	**1.1**	**0.7**	**0.4**	**1.1**	**1.8**	**2.2**
Memorandum itms						
Primary balance (baseline scenario)				-1.5	0.8	0.8
Primary balance (active scenario)				-0.2	3.0	3.0

Source: IMF staff estimates.

19. **Execution of this consolidation path will be challenging given limited implementation capacity, political pressures, and uncertainty about the cyclical recovery of revenue**. Belize will need to demonstrate resolve and commitment in undertaking the adjustment needed to restore debt sustainability and regain market confidence. Moreover, the adjustment required to reach the primary balance targets could be larger if the cyclical recovery of revenue is weaker than expected or if there are slippages relative to the FY2021/22 budget, including because of social tensions. In this context, it will be important to elaborate contingency plans in case the primary balance is not increasing as planned, including further hikes in the GST rate, tighter control of current expenditure, and cuts to public investment. Restoring debt sustainability with less ambitious fiscal consolidation will require larger efforts in other areas such as debt restructuring, while failure to restore debt sustainability would put the fiscal position and the currency peg at risk of disorderly adjustment.

20. PFM systems and procedures should be strengthened to make the rules-based fiscal framework more effective. Implementation of an FRL with explicit fiscal rules in the future would strengthen the commitment to restoring debt sustainability and make the debt reduction process more transparent. Its key features could include: (i) a public debt anchor of 60 percent of GDP by 2031; (ii) a gradual increase in the primary balance to 3 percent of GDP from FY2024/25 onwards; (iii) an escape clause for major shocks, such as natural disasters, triggered with Parliament approval; (iv) an automatic correction mechanism triggered by large cumulative deviations from the primary fiscal balance target; and (v) an independent fiscal council that produces unbiased forecasts and evaluates compliance with fiscal rules. Such a framework would require modernizing the PFM systems and procedures, including multi-year budget preparations, cash management, fiscal risk assessment, public investment management, and coverage of government accounts. In line with good practices, the authorities should publish beneficial ownership information and procurement contracts and ensure transparency and accountability in crisis-related spending, including COVID-related spending, and publish the audit report when it is available.

Authorities' Views

21. The authorities agreed that restoring debt sustainability requires large and sustained fiscal consolidation. In addition to the measures included in the FY2021/22 budget, they intend to freeze non-interest current expenditure in FY2022/23 and FY2023/24 at the FY2021/22 budget level, which is equivalent to a fiscal consolidation of 3 percent of GDP in two years. The authorities expect that these measures and the continued recovery of revenues will increase the primary balance from –2.9 percent of GDP in FY2021/22 to 2 percent in FY2022/23 and around 3 percent over the medium term. They also expect that this increase in the primary balance, together with the implementation of structural reforms and debt relief from ongoing debt restructuring negotiations, will reduce public debt to below 70 percent of GDP by 2030. The authorities' fiscal consolidation plan is similar in size to the one recommended by staff, but it relies mostly on freezing current expenditure and counts on a faster cyclical recovery of revenues. The authorities also noted the need to elaborate contingency plans given the high degree of uncertainty around the outlook and the cyclical recovery of revenue, for which they are considering broadening the base and raising the rate of certain indirect and land taxes.

22. The authorities concurred with the need to implement a medium-term fiscal strategy. As a new administration, their attention has been devoted to controlling the COVID-19 pandemic, providing support to those affected by the floods, and setting the policy priorities for FY2021/22. They now plan to elaborate a comprehensive medium-term fiscal strategy aimed at reducing public debt to sustainable levels, accompanied by a consistent and credible fiscal adjustment plan. They also intend to implement a Fiscal Responsibility Law with specific fiscal rules in the future once the necessary PFM reforms have been put in place.

B. Growth-Enhancing Structural Reforms

23. Belize needs to tackle long-standing barriers to growth. A key priority is to enhance the business climate by (i) establishing a credit bureau and a credit collateral registry to improve access to credit, especially for small and medium size enterprises (SMEs); (ii) easing registration processes for new businesses to enhance competition; (iii) reducing labor market rigidities to help businesses adapt to changing market conditions; (iv) improving education and technical training; and (v) reprioritizing government expenditure to protect infrastructure investment in key areas.

24. Crime is holding back entrepreneurship. Belize has one of the highest homicide rates in the Caribbean, which puts entrepreneurship at risk. Crime is also a deterrent for tourists and foreign direct investment when comparing destinations. Reducing crime requires expanding the use of surveillance technology and providing adequate resources to law enforcement and social programs that keep at-risk youth away from crime.

25. Building resilience to climate change and natural disasters would reduce volatility and boost growth. Belize is highly vulnerable to natural disasters and climate change, including floods, droughts, hurricanes, sea level rise, coastal erosion, and coral bleaching. In line with the advice in the 2018 Climate Change Policy Assessment, the authorities should elaborate a comprehensive Disaster Resilience Strategy, that internalizes resilience building into a credible macroeconomic framework, and focuses on three key areas: structural, financial, and post-disaster resilience.

- *Structural resilience*. Investing in climate-resilient infrastructure is key, including in robust roads, bridges, and seawalls. Given limited fiscal space, it will be important to prioritize these projects and increase access to grants and climate funds. Strengthening building codes and land use regulations would further reduce vulnerability to weather shocks.

- *Financial resilience*. A natural disaster reserve fund of 1 percent of GDP is needed to finance the response to high frequency, low severity events. For more severe events, a mix of ex-ante contingent lines of credit and participation in regional insurance mechanisms would be advisable, although this could be an expensive undertaking given the financing constraints.

- *Post-disaster resilience*. Reforming social protection programs to scale up quickly after a disaster would speed up humanitarian relief. Reforming budget classification to capture disaster events of all magnitudes would help track, assess, and improve relief and reconstruction efforts.

Authorities' Views

26. The authorities agreed with the structural reform priorities. They noted that boosting economic growth is a key priority for the new government. In this context, during FY2021/22 they plan to improve the ease of doing businesses by fast tracking the approval of strategic foreign direct investment projects and modernizing the laws on exchange control regulations, securities and capital markets, and insolvency. They also want to continue improving road connectivity for farmers to raise agricultural production and enhance the interconnectedness between the tourism and the agricultural sectors. Another priority is to reduce crime by making use of surveillance technology to support the efforts of law enforcement agencies and providing adequate resources to social programs that keep at risk youth out of crime. Finally, the authorities noted that strengthening resilience to climate change and natural disasters remains a priority, but actions in this area will remain constrained in the short term due to the country's limited fiscal space.

C. Debt Dynamics and Restructuring

27. **Implementation of the fiscal consolidation and growth-enhancing structural reforms discussed above would not be sufficient to lower public debt to 60 percent of GDP by 2031**. Increasing the primary balance to 3 percent of GDP from FY2024/25 onwards and raising potential growth by 0.5 percent over the medium term would lower public debt to 83 percent of GDP in 2031 (Text Table 2, Active Scenario). Moreover, these projections are subject to substantial uncertainty and materialization of downside risks to the outlook could result in higher debt levels.

Text Table 2. Belize: Staff's Baseline and Active Scenarios, 2019–2031

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Baseline Scenario: Current Policies													
Growth (percent)	1.8	-14.1	1.5	6.2	4.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Overall fiscal balance (percent of GDP)	-4.7	-10.1	-8.7	-5.6	-3.2	-3.1	-3.0	-2.9	-2.8	-2.7	-2.7	-2.6	-2.4
Primary fiscal balance (percent of GDP)	-1.3	-8.4	-4.5	-1.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Public debt (percent of GDP)	97.5	127.4	132.4	128.6	124.9	123.2	121.4	119.7	117.9	116.0	114.2	112.4	110.5
Public sector GFN (percent of GDP)	9.9	17.6	19.7	16.8	14.0	13.1	13.2	13.1	13.7	14.4	15.2	20.4	21.8
Current account balance (percent of GDP)	-9.2	-8.0	-7.7	-7.2	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
International reserves (percent of external GFN)	156.4	178.0	174.9	165.1	149.3	129.8	118.3	99.0	90.8	90.2	65.9	58.8	51.2
International reserves (months of imports)	3.5	4.2	3.9	3.6	3.2	2.8	2.6	2.2	2.0	2.0	2.0	1.7	1.5
Active Scenario: Fiscal Consolidation and Structural Reforms 1/													
Growth (percent)	1.8	-14.1	1.5	5.5	3.5	1.6	1.8	2.2	2.5	2.5	2.5	2.5	2.5
Overall fiscal balance (percent of GDP)	-4.7	-10.1	-8.7	-4.5	-1.5	-0.9	-0.7	-0.4	-0.2	0.0	0.1	0.3	0.5
Primary fiscal balance (percent of GDP)	-1.3	-8.4	-4.5	-0.3	2.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Public debt (percent of GDP)	97.5	127.4	132.4	128.4	123.2	119.1	114.4	109.2	103.8	98.3	93.0	87.7	82.5
Public sector GFN (percent of GDP)	9.9	17.6	19.7	15.8	11.6	9.3	8.4	7.6	7.4	7.2	7.3	11.8	12.5
Current account balance (percent of GDP)	-9.2	-8.0	-7.7	-6.4	-5.1	-4.8	-4.5	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2
International reserves (percent of external GFN)	156.4	178.0	190.0	206.3	213.2	217.4	234.0	233.0	258.4	282.6	308.4	210.0	218.5
International reserves (months of imports)	3.5	4.2	4.0	3.9	3.9	3.9	4.0	4.1	4.3	4.7	5.1	5.2	5.3

Source: IMF Staff estimates.

1/ The active scenario assumes the implementation of a fiscal consolidation package of 2.2 percent of GDP over three years, which increases the primary balance to 3 percent of GDP from 2024 onwards. It also assumes an average fiscal multiplier of -0.9 (-0.5 in the first year and -0.2 in the second and third years), in line with the estimates in Chapter 4 of the April 2018 Regional Economic Outlook: Western Hemisphere. This scenario also assumes the implementation of growth-enhancing structural reforms that lift growth by 0.5 percent over the medium term.

28. **The authorities have recognized the critical nature of their financial situation and are executing needed remedial measures**. In addition to fiscal consolidation and structural reforms, they have approached their external private sector creditors to seek another restructuring of the superbond with the goal of reducing the face value of this debt, not just debt service relief as in the past. They are also reviewing other types of public debt for possible savings.

D. Monetary and Financial Policies

29. Belize's external position is assessed as substantially weaker than justified by medium-term fundamentals and desirable policies. The external stability and EBA lite approaches indicate that the current account deficit is larger than its estimated equilibrium level (Annex IV). In addition, the NIIP is projected to remain highly negative over the medium term, with reserve adequacy deteriorating in line with a more limited access to external financing. Failure to address these imbalances increase the risk of disorderly external adjustment.

30. Reducing external imbalances and strengthening the currency peg requires successful implementation of the strategy to restore debt sustainability. The authorities see the currency peg as a key macroeconomic anchor. In this context, reducing external imbalances requires restoring debt sustainability through balanced and sustained fiscal consolidation, growth-enhancing structural reforms, and debt restructuring, which would also reduce the current account deficit and increase international reserves (Text Table 2, Active Scenario). Strengthening the currency peg also requires limiting government financing by the Central Bank of Belize (CBB) over the medium term, which in staff baseline scenario is projected to rise from 13 percent of GDP in 2020 to 26 percent by 2031, with concomitant risks of higher inflation and widening external imbalances.

31. Financial soundness indicators (FSI) suggest that the banking system remains stable, which partly reflects regulatory forbearance introduced by the CBB in 2020.[4] Domestic banks entered the pandemic with abundant liquidity, healthy profitability, and capital buffers well above regulatory minimums. FSI deteriorated in 2020, but not significantly so. Return on assets fell from 2 percent in 2019 to 0.4 percent in 2020, while non-performing loans (NPLs) to total gross loans rose from 5.1 percent in 2019 to 7.7 percent in 2020. Regulatory capital to risk weighted assets declined from 22.8 percent in 2019 to 19.8 percent in 2020 but remained well above the 9 percent regulatory minimum. The worsening in FSI was mitigated by forbearance measures introduced by the CBB in 2020, including (i) reductions in the liquid asset and cash reserve requirements by 2 percentage points to 21 percent and 6.5 percent, respectively; (ii) a decline in risk weights for tourism based loans from 100 percent to 50 percent; and (iii) an extension of the period to classify NPLs in sectors such as restaurants and transportation and distribution, from 3 months to 6 months.

32. Safeguarding financial stability remains a priority. A slow recovery from the pandemic could accelerate the erosion in asset quality in the banking sector, resulting in a surge in NPLs and large credit losses, especially for banks more exposed to vulnerable sectors. Banks took advantage of the regulatory forbearance introduced in 2020 and restructured about 27 percent of their loan portfolio, which represents a significant balance-sheet risk going forward as a fraction of them could turn into NPLs if the economic recovery is slower than expected. Going forward, it will be important to maintain loan classification and provisioning rules to appraise the banks' potential credit losses accurately, phase out forbearance measures and loan deferrals by banks, and strengthen prudential

[4] Belize's financial system comprises domestic banks (64.5 percent of assets), credit unions (20.4 percent of assets), international banks (7.7 percent of assets), domestic insurance companies (5.5 percent of assets), and other financial institutions (2 percent of assets). This section focuses on domestic banks.

standards and AML/CFT supervision including enforcement of sanctions for non-compliance. The authorities should continue to restrict dividend payments to enhance bank resilience and conduct a comprehensive third-party asset quality review as the economy recovers from the pandemic.

33. An effective mitigation strategy is needed to tackle the integrity risks related to the international financial services (IFS) sector. The Economic Substance Act enacted in 2019 requires international business corporations (IBCs) to pass the "substantial economic presence" test, which also applies to IFS practitioners licensed by the International Financial Services Commission (IFSC). While greater presence of IFS practitioners in Belize would facilitate IFSC's oversight, the extent to which implementation of the law will lead to that remains to be seen after the grace period for compliance expires in June 2021. In this context, it will be important to understand the ML/TF risks associated with the IFS sector and develop an appropriate mitigating strategy, including by conducting a cost-benefit analysis of the international business sector and ensuring effective supervision by the IFSC. Information on beneficial ownership should be centralized to ensure that accurate and up-to-date data is easily accessible. The approach to virtual assets should be based on risks identified, while unauthorized virtual asset service providers should be identified and sanctioned. With these measures Belize would be better placed to undergo the comprehensive evaluation of its AML/CFT regime by the Caribbean Financial Action Task Force in 2023.

Authorities' Views

34. The authorities confirmed the risks to financial stability due to asset quality erosion caused by the pandemic. The CBB noted that the forbearance measures introduced in 2020 helped facilitate the restructuring of about 27 percent of the banks' loan portfolio by providing a grace period for the payment of interest or principal, or changing the interest rates and maturity of the loans. Although banks continue to have adequate capital levels against a moderate increase in NPLs, stress test performed by the CBB indicate that if a significant fraction of the restructured loans become NPLs, some banks could face moderate shortages of capital. Regarding AML/CFT issues, the authorities noted that a national ML/TF risk assessment has been concluded and an action plan developed to address the weaknesses identified.

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35. Belize has been hit hard by the Covid-19 pandemic. Although the pandemic is now under control, the country has one of the highest numbers of COVID-19 cases and deaths per capita in the Caribbean. The pandemic also led to a marked decline in tourist arrivals and reduced activity in contact-intensive sectors, resulting in a contraction in real GDP of 14.1 percent in 2020 and a deterioration of the fiscal and external positions from already weak levels.

36. The recovery is projected to be protracted, while the fiscal and external positions are projected to remain weak over the medium term despite some significant fiscal consolidation measures approved in the FY2021/22 budget. Real GDP is projected to grow by 1.5 percent in 2021 and 6.2 percent in 2022, regaining its 2019 level only by 2025. The primary fiscal balance is projected stabilize at 0.8 percent of GDP over the medium term, with public debt remaining above

110 percent of GDP in the next decade, a level assessed as unsustainable. Reserve adequacy is also projected to weaken over the medium term, falling below 3 months of imports starting in 2024.

37. The key policy priorities are to restore public debt sustainability and strengthen the currency peg, while providing near-term support to those affected by the pandemic. This requires a fine balancing act involving ambitious, yet realistic, fiscal consolidation, growth-enhancing structural reforms, and debt restructuring, all aimed at targeting reduction of public debt to 60 percent of GDP by 2031. This strategy would also strengthen reserve adequacy.

38. A credible medium-term fiscal strategy would signal commitment to fiscal discipline. This strategy should include near-term support for those affected by the pandemic and a consistent multi-year fiscal consolidation plan that targets a gradual rise in the primary balance to 3 percent of GDP from FY2024/25 onwards and a reduction of public debt to 60 percent of GDP by 2031.

39. The authorities will need to demonstrate resolve in executing this strategy. They took an important step with the approval of significant consolidation measures in the FY2021/22 budget. However, executing these measures and future consolidation plans will be challenging given limited implementation capacity, political pressures, and uncertainty about the cyclical recovery of revenue. The authorities should also consider improving the quality and composition of their adjustment plan by relying on both revenue and expenditure measures and allocating extra resources to enhancing resilience to natural disasters and improving the social safety net. There is also a need for contingency plans to support the fiscal consolidation efforts if the reduction of public debt is not proceeding as expected, including additional revenue and expenditure measures.

40. Reducing public debt over the medium term also requires implementing growth-enhancing structural reforms. Key priority areas include strengthening the business climate by improving access to credit for SMEs, reducing entry barriers, and enhancing infrastructure; reducing crime by providing adequate resources to law enforcement and social programs; and building resilience to climate change and natural disasters by adopting a Disaster Resilience Strategy that focuses on improving infrastructure, financial, and post-disaster resilience.

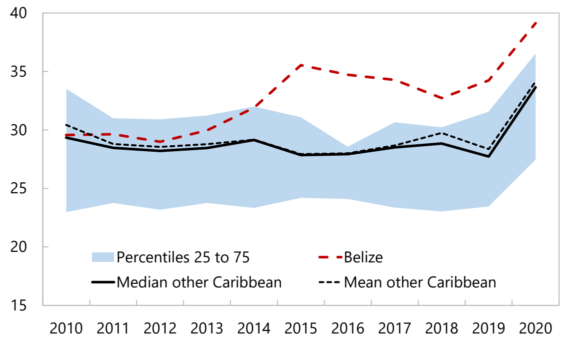
41. Restoring public debt sustainability would also help reduce external imbalances and strengthen the currency peg. Belize's external position is assessed as substantially weaker than the level implied by medium term fundamentals and desirable policies. Reducing the current account deficit to its equilibrium level and improving international reserve adequacy over the medium term requires balanced and sustained fiscal consolidation, growth-enhancing structural reforms, debt restructuring, and lower government reliance on central bank financing.

42. Safeguarding financial stability and strengthening the AML/CFT framework remain priorities. Key priorities include maintaining loan classification and provisioning rules to appraise the banks' credit losses accurately, phasing out forbearance measures and loan deferrals by banks, and strengthening prudential standards as the pandemic recedes. Efforts to strengthen AML/CFT supervision of banks should continue and sanctions for non-compliance should be enforced. The authorities should also prioritize reforms to mitigate the ML/TF risks stemming from the IFS sector.

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

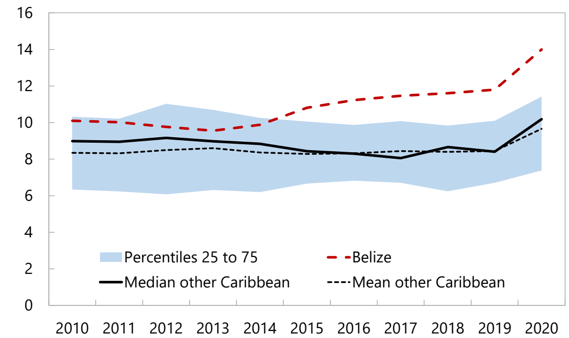
Figure 4. The Caribbean: Government Expenditure

Government Total Expenditure
(In percent of GDP)



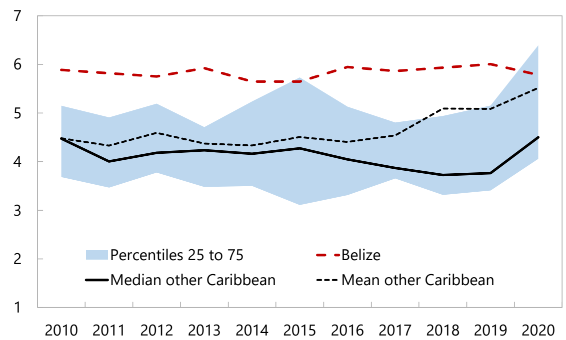
Sources: Country authorities and IMF staff estimates.

Government Compensation of Employees
(In percent of GDP)



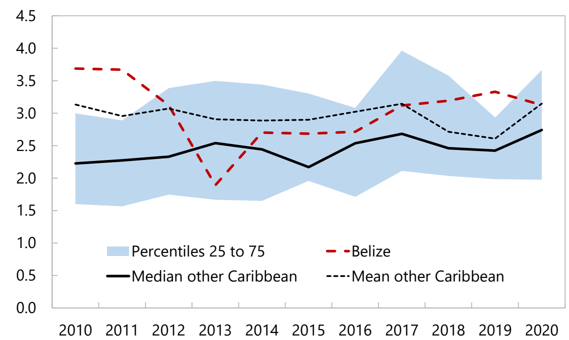
Sources: Country authorities and IMF staff estimates.

Government Purchases of Goods and Services
(In percent of GDP)



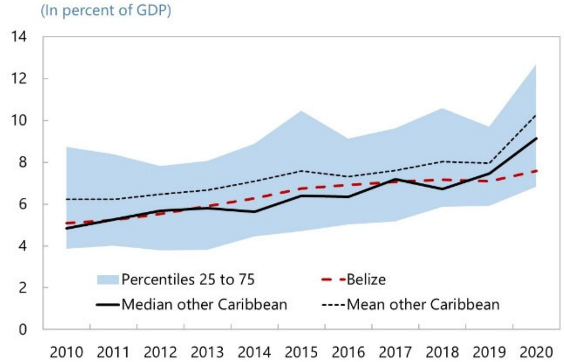
Sources: Country authorities and IMF staff estimates.

Government Interest Payments
(In percent of GDP)



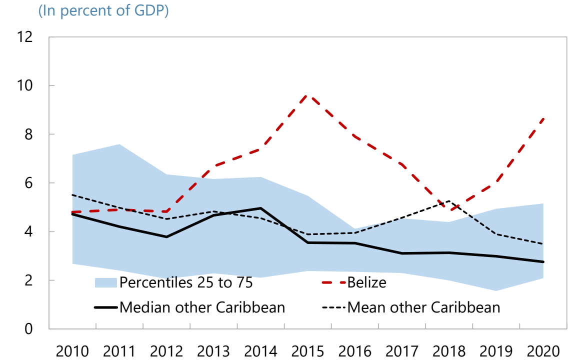
Sources: Country authorities and IMF staff estimates.

Government Transfers, Pensions, and Subsidies
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Capital Expenditure
(In percent of GDP)

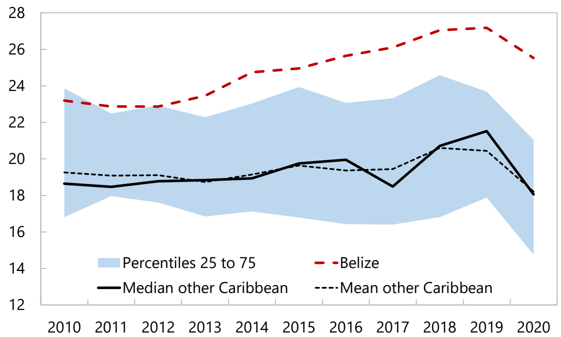


Sources: Country authorities and IMF staff estimates.

Figure 5. The Caribbean: Government Revenue

Government Tax Revenue

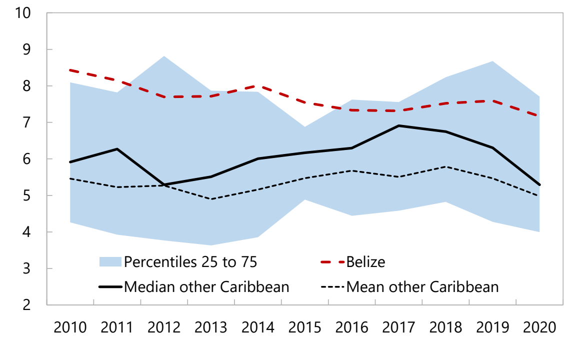
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Taxes on Income and Profits

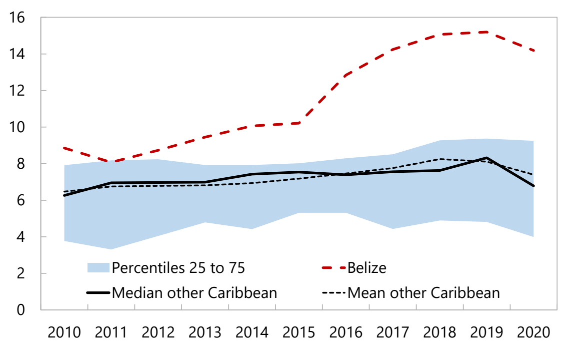
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Taxes on Goods and Services

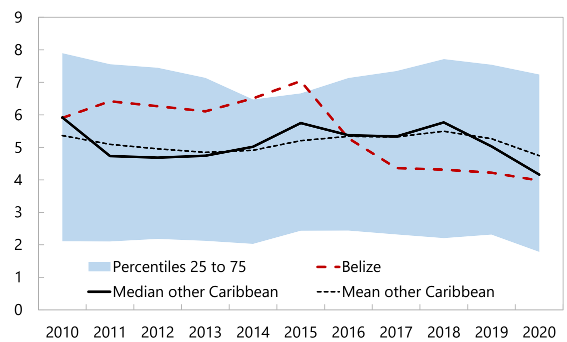
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Taxes on International Trade

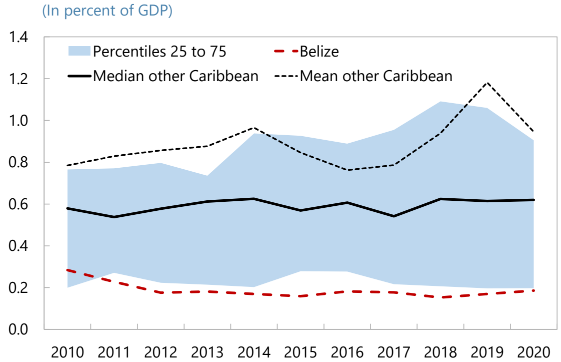
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Other Government Taxes

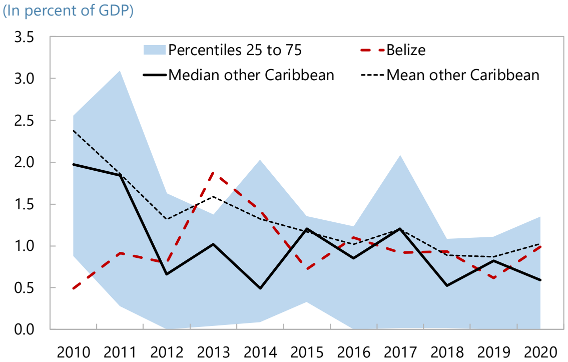
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Grants

(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Table 1. Belize: Selected Social and Economic Indicators 2018–2026

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

						Projections			
	2018	2019	2020 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	-7.2	-6.8	-6.8	-6.8	-6.8
Real effective exchange rate (+ = depreciation)	-2.7	0.1	...	...	...	...	...	...	...
Gross international reserves (US$ millions)	294	278	348	360	355	331	303	288	254
In months of imports	2.9	3.5	4.2	3.9	3.6	3.2	2.8	2.6	2.2
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.

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

(In millions of Belize dollars, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
			Projections						
Revenue and grants	**1,188**	**1,168**	**900**	**983**	**1,123**	**1,243**	**1,293**	**1,346**	**1,400**
Revenue	**1,151**	**1,148**	**869**	**958**	**1,096**	**1,214**	**1,263**	**1,314**	**1,367**
Current revenue	1,145	1,142	852	945	1,087	1,211	1,260	1,310	1,363
Tax revenue	1,035	1,046	775	861	985	1,095	1,139	1,185	1,233
Income and profits	288	293	218	242	276	304	316	329	342
Goods and services	578	585	430	478	546	609	633	659	685
General Sales Tax	317	320	231	260	301	336	349	363	378
Taxes on international trade	164	161	121	134	156	173	180	187	194
Nontax revenue	110	96	77	85	102	116	121	126	131
Capital revenue	6	5	16	12	8	4	4	4	4
Grants	**37**	**20**	**31**	**25**	**27**	**29**	**30**	**31**	**33**
Total expenditure	**1,223**	**1,341**	**1,236**	**1,288**	**1,335**	**1,372**	**1,423**	**1,476**	**1,531**
Current expenditure	1,062	1,087	941	989	1,064	1,122	1,162	1,204	1,248
Wages and salaries	441	457	464	418	450	476	495	515	536
Pensions	99	92	82	91	98	104	108	112	117
Goods and services	226	232	177	176	189	200	208	217	225
Interest payments	125	126	56	147	157	162	164	166	168
Transfers	171	180	161	158	170	180	187	194	202
Capital expenditure and net lending	161	254	295	299	270	251	261	271	282
Capital expenditure	159	241	287	296	263	239	248	258	269
Domestically financed expenditure (Capital II)	67	95	177	110	113	119	124	129	134
Foreign financed expenditure (Capital III)	92	146	109	186	150	119	124	129	134
Net lending	2	13	8	2	7	12	13	13	14
Primary balance	**91**	**-48**	**-280**	**-158**	**-55**	**33**	**34**	**36**	**37**
Overall balance	**-35**	**-173**	**-336**	**-305**	**-212**	**-129**	**-130**	**-130**	**-131**
Financing	**35**	**173**	**336**	**305**	**212**	**129**	**130**	**130**	**131**
Privatization (net)	0	0	0	0	0	0	0	0	0
Domestic	-20	87	160	180	138	80	96	117	138
Of which: Amortization	177	155	184	235	247	245	245	253	259
External	55	86	176	124	73	49	34	13	-8
Disbursements	140	174	272	250	213	202	193	183	173
Amortization	85	88	95	126	139	154	159	170	180
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3,	**91**	**-48**	**-280**	**-158**	**-55**	**33**	**34**	**36**	**37**
Structural primary balance 3/	69	-77	-152	-26	29	82	72	63	55
Nominal GDP (in BZ$ millions)	3,783	3,705	3,331	3,490	3,762	3,976	4,136	4,303	4,477
Public sector debt 4/	3,578	3,707	4,170	4,489	4,724	4,874	5,003	5,134	5,266
Domestic	1,045	1,103	1,313	1,494	1,650	1,748	1,838	1,951	2,082
External	2,533	2,604	2,857	2,995	3,074	3,126	3,165	3,184	3,183

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

1/ Fiscal year ends in March.

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

3/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).

4/ On calendar year basis. Public debt includes central government debt as well as external financial and non-financial public sector debt.

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

			Projections						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue and grants	**31.4**	**31.5**	**27.0**	**28.2**	**29.9**	**31.3**	**31.3**	**31.3**	**31.3**
Revenue	**30.4**	**31.0**	**26.1**	**27.4**	**29.1**	**30.5**	**30.5**	**30.5**	**30.5**
Current revenue	30.3	30.8	25.6	27.1	28.9	30.5	30.5	30.5	30.5
Tax revenue	27.4	28.2	23.3	24.7	26.2	27.5	27.5	27.5	27.5
Income and profits	7.6	7.9	6.5	6.9	7.3	7.6	7.6	7.6	7.6
Goods and services	15.3	15.8	12.9	13.7	14.5	15.3	15.3	15.3	15.3
General Sales Tax	8.4	8.6	6.9	7.4	8.0	8.4	8.4	8.4	8.4
Taxes on international trade	4.3	4.4	3.6	3.8	4.1	4.3	4.3	4.3	4.3
Nontax revenue	2.9	2.6	2.3	2.4	2.7	2.9	2.9	2.9	2.9
Capital revenue	0.2	0.1	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Grants	**1.0**	**0.6**	**0.9**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Total expenditure	**32.3**	**36.2**	**37.1**	**36.9**	**35.5**	**34.5**	**34.4**	**34.3**	**34.2**
Current expenditure	28.1	29.3	28.2	28.3	28.3	28.2	28.1	28.0	27.9
Wages and salaries	11.6	12.3	13.9	12.0	12.0	12.0	12.0	12.0	12.0
Pensions	2.6	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Goods and services	6.0	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Interest payments	3.3	3.4	1.7	4.2	4.2	4.1	4.0	3.9	3.7
Transfers	4.5	4.9	4.8	4.5	4.5	4.5	4.5	4.5	4.5
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
Domestically financed expenditure (Capital II)	1.8	2.6	5.3	3.2	3.0	3.0	3.0	3.0	3.0
Foreign financed expenditure (Capital III)	2.4	3.9	3.3	5.3	4.0	3.0	3.0	3.0	3.0
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**
Financing	**0.9**	**4.7**	**10.1**	**8.7**	**5.6**	**3.2**	**3.1**	**3.0**	**2.9**
Privatization (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.5	2.4	4.8	5.2	3.7	2.0	2.3	2.7	3.1
Of which: Amortization	4.7	4.2	5.5	6.7	6.6	6.2	5.9	5.9	5.8
External	1.5	2.3	5.3	3.6	1.9	1.2	0.8	0.3	-0.2
Disbursements	3.7	4.7	8.2	7.2	5.7	5.1	4.7	4.2	3.9
Amortization	2.3	2.4	2.9	3.6	3.7	3.9	3.8	3.9	4.0
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3,	**2.4**	**-1.3**	**-8.4**	**-4.5**	**-1.5**	**0.8**	**0.8**	**0.8**	**0.8**
Structural primary balance 3/	1.9	-2.1	-4.0	-0.7	0.7	2.0	1.7	1.5	1.2
Nominal GDP (in BZ$ millions)	3,783	3,705	3,331	3,490	3,762	3,976	4,136	4,303	4,477

Sources: Ministry of Finance; Central Bank of Belize; and Fund staff estimates and projections.
1/ Fiscal year ends in March.
2/ Due to data limitations, the table deviates from the GFSM 2001 methodology.
3/ Excludes assumption of UHS debt by the government in FY 2017/18 (2.5 percent of GDP).

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Projections						
Current account balance	**-152**	**-177**	**-132**	**-131**	**-134**	**-133**	**-139**	**-144**	**-150**
Trade balance	-445	-506	-390	-404	-437	-465	-483	-503	-523
Total exports, f.o.b.	451	462	398	413	450	478	498	518	539
Of which: Oil	12	10	2	2	2	1	0	0	0
Total imports, f.o.b.	896	969	787	817	887	943	981	1,021	1,062
Of which: Fuel and lubricants	174	187	108	112	122	130	135	140	146
Services	397	404	210	259	337	412	428	446	464
Income	-182	-158	-69	-85	-123	-162	-169	-176	-183
Of which: Public sector interest payments	-43	-37	-17	-24	-31	-38	-40	-41	-43
Current transfers	78	84	117	100	88	82	85	89	92
Private (net)	90	96	123	108	99	94	98	102	106
Official (net)	-11	-12	-6	-8	-10	-12	-13	-14	-14
Capital and financial account balance	**135**	**183**	**203**	**143**	**129**	**109**	**110**	**130**	**116**
Capital transfers	24	19	16	17	17	17	17	17	18
Public sector	45	34	101	74	44	27	15	3	-6
Change in assets	-1	-1	-1	-1	-1	-1	-1	-1	-1
Change in liabilities	46	35	102	75	44	28	15	4	-5
Disbursements	89	81	147	140	116	110	98	93	88
Central government	70	70	138	131	108	102	98	93	88
Amortization	-44	-46	-45	-65	-72	-82	-83	-89	-93
Central government	-42	-44	-43	-61	-67	-76	-78	-84	-88
Private sector 1/	66	130	86	51	68	65	78	109	104
Foreign Direct Investment, net	121	101	50	59	68	73	84	96	100
Of which: Repatriation of compensation 2/	131	0	0	0	0	0	0	0	0
Other private flows	-56	24	37	-8	0	-8	-6	13	4
Commercial banks	-26	11	17	-4	0	-3	-2	5	1
Other private nonbanks	-30	18	18	-5	0	-5	-4	8	3
Errors and omissions	**0**	**-22**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-18**	**-17**	**71**	**12**	**-5**	**-24**	**-29**	**-15**	**-34**
Financing	**18**	**17**	**-71**	**-12**	**5**	**24**	**29**	**15**	**33**
Memorandum items:									
Gross international reserves	294	278	348	360	355	331	303	288	254
In percent of next year's gross external financing needs	132	156	178	175	165	149	130	118	99
In percent of next year's total debt service	313	363	330	294	270	249	219	202	170
In months of next year's imports	2.9	3.5	4.2	3.9	3.6	3.2	2.8	2.6	2.2

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

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

2/ Compensation to former owners of nationalized companies.

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Projections						
Current account balance	**-8.1**	**-9.2**	**-8.0**	**-7.7**	**-7.2**	**-6.8**	**-6.8**	**-6.8**	**-6.8**
Trade balance	-23.7	-26.4	-23.6	-23.6	-23.6	-23.6	-23.6	-23.6	-23.6
Total exports, f.o.b.	24.0	24.1	24.1	24.2	24.3	24.3	24.3	24.3	24.3
Of which: Oil	0.7	0.5	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total imports, f.o.b.	47.6	50.5	47.7	47.8	47.9	47.9	47.9	47.9	47.9
Of which: Fuel and lubricants	9.2	9.8	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Services	21.1	21.0	12.7	15.1	18.2	20.9	20.9	20.9	20.9
Income	-9.6	-8.2	-4.2	-5.0	-6.6	-8.2	-8.2	-8.2	-8.2
Of which: Public sector interest payments	-2.3	-1.9	-1.0	-1.4	-1.7	-1.9	-1.9	-1.9	-1.9
Current transfers	4.2	4.4	7.1	5.8	4.8	4.2	4.2	4.2	4.2
Private (net)	4.8	5.0	7.5	6.3	5.3	4.8	4.8	4.8	4.8
Official (net)	-0.6	-0.6	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6
Capital and financial account balance	**7.1**	**9.5**	**12.3**	**8.3**	**7.0**	**5.6**	**5.4**	**6.1**	**5.2**
Capital transfers	1.3	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.8
Public sector	2.4	1.8	6.1	4.4	2.4	1.4	0.7	0.2	-0.2
Change in assets	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	2.5	1.8	6.2	4.4	2.4	1.4	0.7	0.2	-0.2
Disbursements	4.7	4.2	8.9	8.2	6.3	5.6	4.8	4.4	3.9
Central government	3.7	3.6	8.3	7.7	5.8	5.2	4.8	4.3	3.9
Amortization	-2.3	-2.4	-2.8	-3.8	-3.9	-4.2	-4.1	-4.2	-4.2
Central government	-2.2	-2.3	-2.6	-3.6	-3.6	-3.9	-3.8	-3.9	-4.0
Private sector 1/	3.5	6.8	5.2	3.0	3.7	3.3	3.8	5.1	4.7
Foreign Direct Investment, net	6.4	5.2	3.1	3.5	3.7	3.7	4.1	4.5	4.5
Of which: Repatriation of compensation 2/	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other private flows	-3.0	1.2	2.2	-0.5	0.0	-0.4	-0.3	0.6	0.2
Commercial banks	-1.4	0.6	1.0	-0.2	0.0	-0.2	-0.1	0.2	0.0
Other private nonbanks	-1.6	1.0	1.1	-0.3	0.0	-0.3	-0.2	0.4	0.1
Errors and omissions	**0.0**	**-1.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.9**	**-0.9**	**4.3**	**0.7**	**-0.3**	**-1.2**	**-1.4**	**-0.7**	**-1.5**
Financing	**0.9**	**0.9**	**-4.3**	**-0.7**	**0.3**	**1.2**	**1.4**	**0.7**	**1.5**
Change in reserves (- increase)	0.9	0.9	-4.3	-0.7	0.3	1.2	1.4	0.7	1.5

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

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

2/ Compensation to former owners of nationalized companies.

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

				Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Central Bank of Belize (CBB)									
Net foreign assets 1/	491	411	536	559	549	502	444	415	348
Net international reserves	541	460	587	611	601	553	496	467	399
Medium-term foreign liabilities 2/	-50	-49	-52	-52	-52	-52	-52	-52	-52
Net domestic assets	355	494	568	583	688	813	923	1,008	1,133
Credit to the public sector (net)	274	358	421	514	595	648	697	757	827
Central government	281	365	425	515	593	642	687	743	809
Other public sector	-7	-7	-4	-1	2	6	10	14	18
Capital and other assets (net)	81	135	147	69	93	165	226	251	306
Base money	846	904	1,103	1,142	1,237	1,315	1,368	1,423	1,481
Currency issue	447	482	555	610	701	786	862	941	1,027
Reserves of commercial banks	399	422	548	532	536	529	506	482	454
Commercial banks									
Net foreign assets	264	251	301	309	309	315	319	309	307
Net claims on central bank	461	486	619	604	614	610	590	568	543
Net domestic assets	2,394	2,616	2,628	2,792	3,051	3,257	3,376	3,551	3,708
Credit to the public sector (net)	164	126	61	159	232	280	328	386	453
Central government	316	262	318	408	484	530	571	622	682
Other public sector	-153	-136	-258	-249	-252	-250	-243	-235	-228
Credit to the private sector	2,313	2,448	2,503	2,591	2,807	2,983	3,104	3,229	3,360
Other assets (net)	-83	42	65	42	13	-6	-56	-65	-105
Liabilities to the private sector	3,119	3,353	3,548	3,705	3,974	4,182	4,284	4,427	4,557
Monetary survey									
Net foreign assets	755	661	836	868	858	816	763	724	654
Net domestic assets	2,749	3,109	3,195	3,375	3,739	4,070	4,299	4,559	4,841
Credit to the public sector (net)	438	485	481	673	827	928	1,025	1,144	1,281
Central government	598	627	743	923	1,076	1,172	1,258	1,365	1,491
Other public sector	-160	-143	-261	-250	-250	-244	-233	-221	-210
Credit to private sector (by comm. banks)	2,313	2,448	2,503	2,591	2,807	2,983	3,104	3,229	3,360
Other items (net)	-2	176	211	110	106	159	170	186	201
Liabilities to the private sector	3,504	3,771	4,032	4,243	4,597	4,887	5,062	5,283	5,495
Money and quasi-money (M2)	3,067	3,242	3,585	3,712	4,021	4,273	4,446	4,625	4,812
Currency in circulation	385	418	484	538	623	705	778	856	938
Deposits	2,682	2,824	3,101	3,174	3,398	3,568	3,668	3,770	3,874
Foreign currency deposits	96	113	116	119	127	133	137	141	145
Capital and reserves of commercial banks	437	529	447	531	576	613	616	657	683
Memorandum items:									
Private sector local currency deposits (growth, percent)	2.6	5.3	9.8	2.3	7.1	5.0	2.8	2.8	2.8
Base money (growth, percent)	-8.4	6.8	22.0	3.5	8.3	6.3	4.0	4.0	4.0
Credit to priv. sector by comm. banks (growth, percent)	3.2	5.8	2.2	3.5	8.3	6.3	4.0	4.0	4.0
Money and quasi-money growth (M2, percent)	2.6	5.7	10.6	3.5	8.3	6.3	4.0	4.0	4.0
Net international reserves to M2 (percent)	17.6	14.2	16.4	16.4	14.9	13.0	11.2	10.1	8.3
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio (percent)	83.3	83.4	77.8	78.7	79.6	80.6	81.6	82.6	83.6

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

1/ Includes Central Government's foreign assets.

2/ Includes SDR allocation.

Table 5. Belize: Baseline Medium-Term Outlook

		Projections											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	(Annual percentage change)												
GDP and prices													
GDP at constant prices	1.8	-14.1	1.5	6.2	4.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP at current market prices	2.0	-14.0	3.5	8.3	6.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Prices (GDP deflator)	0.2	0.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.2	1.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	(In percent of GDP, unless otherwise indicated)												
National accounts													
Consumption	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4	85.4
Gross domestic investment 1/	19.9	25.4	23.1	20.0	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Net exports	-5.3	-10.9	-8.5	-5.4	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Gross national savings	5.6	6.9	7.2	7.6	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Central government 2/													
Revenue and grants	31.5	27.0	28.2	29.9	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
Total expenditure	36.2	37.1	36.9	35.5	34.5	34.4	34.3	34.2	34.1	34.0	33.9	33.9	33.7
Noninterest expenditure	32.8	35.4	32.7	31.3	30.4	30.4	30.4	30.4	30.4	30.4	30.4	30.4	30.4
Primary balance	-1.3	-8.4	-4.5	-1.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Interest	3.4	1.7	4.2	4.2	4.1	4.0	3.9	3.7	3.7	3.6	3.5	3.4	3.3
Overall balance	-4.7	-10.1	-8.7	-5.6	-3.2	-3.1	-3.0	-2.9	-2.8	-2.7	-2.7	-2.6	-2.4
External sector													
Current account balance	-9.2	-8.0	-7.7	-7.2	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
Of which: Exports of goods and services	58.8	46.8	50.2	54.3	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7
Of which: Petroleum exports	0.5	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Imports of goods and services	-64.2	-57.7	-58.7	-59.7	-60.4	-60.4	-60.4	-60.4	-60.4	-60.4	-60.4	-60.4	-60.4
Capital and financial account	9.5	12.3	8.3	7.0	5.6	5.4	6.1	5.2	6.3	7.1	7.3	5.7	5.8
Public sector disbursements	4.2	8.9	8.2	6.3	5.6	4.8	4.4	3.9	3.6	3.3	3.1	5.2	5.0
Public sector amortization	-2.4	-2.8	-3.8	-3.9	-4.2	-4.1	-4.2	-4.2	-4.4	-4.4	-4.4	-8.6	-8.4
Other capital and fin. account transactions 3/	7.7	6.1	4.0	4.6	4.2	4.6	5.9	5.5	7.1	8.2	8.5	9.1	9.3
Change in reserves (- increase)	0.9	-4.3	-0.7	0.3	1.2	1.4	0.7	1.5	0.5	-0.3	-0.5	1.1	0.9
Gross official reserves (in months of imports)	3.5	4.2	3.9	3.6	3.2	2.8	2.6	2.2	2.0	2.0	2.0	1.7	1.5
Public debt 4/	97.5	127.4	132.4	128.6	124.9	123.2	121.4	119.7	117.9	116.0	114.2	112.4	110.5
Domestic	28.7	39.8	43.7	44.5	44.4	44.9	45.8	47.0	48.6	50.4	52.2	56.1	59.7
External	68.8	87.6	88.7	84.1	80.4	78.3	75.7	72.7	69.3	65.7	62.1	56.3	50.8

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

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

Table 6. Belize: Domestic Banks: Financial Soundness Indicators

	2015	2016	2017	2018	2019	2020
			(In percent)			
Capital Adequacy						
Regulatory Capital to Risk Weighted Assets	24.8	24.0	24.2	24.6	22.8	19.8
Primary Capital to Risk-Weighted Assets	23.6	23.0	23.2	23.6	21.7	18.6
Non-Performing Loans (Net of Specific Provisions) to Regulatory Capital	31.4	14.4	11.1	11.7	11.7	23.9
Large Exposure to Capital	125.3	128.5	117.5	96.5	94.5	139.3
Asset Quality						
Non-Performing Loans to Total Gross Loans	14.0	10.4	6.4	6.2	5.1	7.7
Non-Performing Loans (Net of Specific Provisions) to Total Gross Loans	6.6	3.0	2.4	2.7	2.5	4.4
Loan Loss Coverage	62.4	79.8	77.6	72.3	70.5	57.3
Profitability/Efficiency						
Return On Equity (Net Income to Average Capital)	7.9	4.8	9.2	19.8	13.3	3.2
Return On Assets (Net Income to Average Assests)	1.0	0.6	1.3	3.1	2.0	0.4
Interest Margin to Gross Income	67.9	68.7	68.1	66.9	65.5	69.2
Non-Interest Expenses to Gross Income	75.7	64.6	62.6	61.0	63.4	62.1
Liquidity						
Liquid Assets to Total Assets	32.6	32.7	27.3	25.8	24.3	28.1
Liquid Assets to Short-Term Liabilities	52.4	51.7	41.7	38.6	36.1	38.5
Customer Deposits to total (Non-Interbank) Loans	132.3	132.3	130.4	127.8	128.4	138.1

Source: Central Bank of Belize.

Annex I. Implementation of 2019 Article IV Consultation Recommendations

2019 Article IV Recommendation	Implementation
Fiscal consolidation Implement revenue and expenditure measures to gradually increase the primary budget balance from the estimated 1.5 percent of GDP in FY2019/20 to 4 percent over the medium term, with the goal of lowering public debt to below 60 percent of GDP by 2029, guided by well-calibrated fiscal rules based on a debt anchor.	**No progress** The fiscal position deteriorated in FY2019/20, with the actual primary balance coming at –1.3 percent of GDP, below the preliminary estimates at the time of the 2019 Article IV consultation. The Covid-19 pandemic led to a further deterioration of the fiscal position, with the primary balance declining to –8.4 percent of GDP in FY2020/21.
Regarding revenues, broaden the tax base by phasing out exemptions on the general sales tax and excises, and tightening tax incentives.	There was some progress in improving tax administration through the reorganization of the Belize Tax. However, there was no progress on reducing tax exemptions and incentives.
On expenditures, introduce civil service reforms designed to reduce the number of public sector employees and limit salary increments to the inflation rate; reform the unfunded, noncontributory defined-benefit Pension Plans for Public Officials, and raise the retirement age to 65 years.	The wage bill grew from 11.6 percent of GDP in FY2018/19 to 12.3 percent in FY2019/20 and 13.7 percent in FY2020/21. To ensure the sustainability of the social security scheme, the government raised the contribution rate by 0.5 percent in 2019 and 2020. However, the planned 1 percent increase in 2021 was delayed because of the pandemic.
Financial sector reform Strengthen the bank resolution framework and step up financial sector surveillance, informed by a bank asset quality review.	**Limited progress** The Central Bank of Belize (CBB) allowed regulatory forbearance during the pandemic, but also conducted closer examinations of the balance sheets of banks and credit unions to monitor asset quality developments.
AML/CFT reforms Further strengthen AML/CFT framework by properly regulating and supervising the international financial services sector and ensuring that beneficial ownership information of legal persons and arrangements is available without impediments.	**Limited progress** A national ML/TF risk assessment was concluded, and an action plan developed to address the weaknesses identified.
Structural reform Accelerate the implementation of growth-enhancing reforms to improve the business climate, including addressing corruption, dealing more effectively with violent crimes, reducing the cost of doing business, and establishing a credit bureau and a collateral registry.	**Limited progress** The prevalence of crime remains a significant obstacle for economic growth and development. Legislation to establish a credit bureau and a collateral registry have been prepared but are yet to be submitted to parliament.
Resilience building Build resilience to natural disasters through adaptation infrastructure investment, greater self- insurance through a natural disaster reserve fund, and optimized use of risk management instruments.	**Some progress** The budget allocates about half of capital spending to resilience-building project' albeit the pandemic has caused delays in implementation. The creation of a natural disaster reserve fund is a priority going forward.

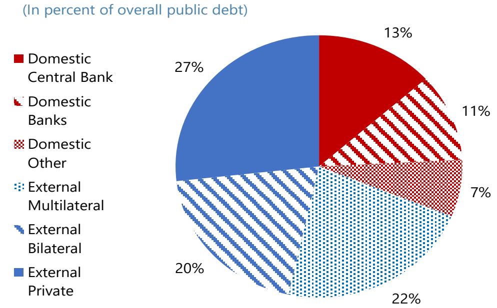
Annex II. Debt Sustainability Analysis

Belize's public debt increased by 30 percentage points to 127 percent of GDP in 2020 as the pandemic pushed the economy into a recession and weakened the fiscal position. Under current policies, the debt-to-GDP ratio is projected to peak at 132 percent in 2021 and fall gradually after to 111 percent in 2031, which is assessed as unsustainable as it remains above the 70 percent of GDP sustainability threshold. Restoring debt sustainability requires balanced and sustained fiscal consolidation, growth-enhancing structural reforms, and debt restructuring. With prominent downside risks to the outlook, debt dynamics will remain vulnerable to adverse shocks to growth, interest rates, or the fiscal position.

1. **The COVID-19 pandemic and necessary containment measures led to a deep recession in 2020**. Belize has been hit hard by the pandemic, having one of the highest numbers of COVID-19 cases and deaths per capita in the Caribbean. Tourist arrivals declined by 72 percent in 2020, hurting the tourism industry that accounts for about 40 percent of GDP, while containment measures hurt contact-intensive sectors. Consequently, real GDP contracted by 14.1 percent in 2020.

2. **The fiscal position deteriorated in 2020 from already weak levels**. Belize's fiscal position was weak before the pandemic, with the primary fiscal deficit averaging 1.5 percent of GDP between FY2014/15 and FY2019/20, and public debt rising to 97.5 percent of GDP in 2019. The pandemic led to a further widening of the primary deficit to 8.4 percent of GDP in FY2020/21, and an increase in public debt to 127.4 percent of GDP in 2020, of which 69 percent was external (22 percent with multilateral creditors, 20 percent with bilateral creditors, and 27 percent with private creditors) and 31 percent domestic (13 percent with the central bank, 11 percent with domestic banks, and 7 percent with other domestic creditors).

Composition of Public Debt in 2020
(In percent of overall public debt)



Sources: Central Bank of Belize and IMF staff calculations.

3. **The fiscal position is projected to remain weak in the medium term despite significant fiscal consolidation measures approved in the FY2021/22 budget**. The budget contains about 2 percent of GDP in fiscal consolidation measures, including a 10 percent cut in the wage bill and a 30 percent cut in purchases of goods and services relative to the FY2020/21 budget. These, together with the expected recovery of revenues and the unwinding of pandemic-related expenditure, are projected to raise the primary balance from –8.4 percent of GDP in FY2020/21 to 0.8 percent of GDP over the medium term, while public debt is projected to rise to 132 percent of GDP in 2021 and fall gradually after to 111 percent in 2031. Public external debt is projected to fall from 88 percent of GDP in 2020 to 51 percent in 2031 reflecting more limited access to external financing, while public domestic debt is projected to rise from 40 percent of GDP in 2020 to 60 percent in 2031, with higher financing from the central bank, domestic banks, and other creditors. Gross financing needs are projected to surpass 15 percent of GDP during some years over the next decade even though it is

assumed that the government will continue to borrow at low interest rates. Staff assesses Belize's public debt as unsustainable as it remains above the 70 percent of GDP threshold in the DSA framework during the next 10 years. Restoring debt sustainability will require large and sustained fiscal consolidation, growth-enhancing structural reforms, and debt restructuring.

4. **With risks to the outlook tilted to the downside, debt dynamics will remain vulnerable to shocks to growth, interest rates, and the fiscal position**. Historically, economic growth and fiscal performance in Belize have been volatile, making baseline projections highly uncertain. Stress testing the baseline scenario indicates that Belize's debt burden exceeds the benchmark for emerging market economies in several areas. The heat map highlights significant risks to debt sustainability arising from the level of public debt, changes in market perception, and the currency composition of debt. The fan charts show the possible evolution of debt over the medium term under symmetric and asymmetric distributions of risk, indicating that public debt could exceed 133 percent of GDP over the medium term with a probability of more than 10 percent.

5. **Stress tests confirm the vulnerability of public debt to adverse shocks**. Public debt is particularly sensitive to an exchange rate shock since 69 percent of it is denominated in foreign currency. A real exchange rate depreciation of 12 percent would increase public debt by 8 percent of GDP in the first year and keep the debt ratio about 11 percentage points of GDP more than in the baseline scenario by 2031. Similarly, if real GDP growth declines by one standard deviation, the debt-to-GDP ratio would end up about 27 percentage points higher than the baseline projection by 2031. A financial sector contingent liability shock that increases public spending by the equivalent of 10 percent of banking sector's assets associated with recapitalization needs of a few banks would raise the debt-to-GDP ratio to 121 percent in 2031.

6. **The fiscal position and debt dynamics are highly vulnerable to the impact of natural disasters and climate change.** To illustrate this vulnerability, it is assumed that a natural disaster causes 6 percent of GDP in economic damages, about half of the damage inflicted by Hurricane Earl in 2016. Following this disaster, real GDP falls by 3 percent in the year of the disaster relative to the baseline, by a further 1 percent in the next year, and it increases by 0.5 percent in the following two years (reflecting reconstruction activity). The scenario assumes that the cost for the government is 4 percent of GDP (two-thirds of the economic damage). The associated recovery and reconstruction spending are spread over three years: 2 percent of GDP in the first year, and 1 percent of GDP in each of the next two years, respectively. The shock has a material impact on public debt, shifting the entire trajectory up by around 9 percent of GDP above the baseline, with the debt-to-GDP ratio reaching 120 percent by 2031. Belize is also exposed to adverse effects of climate change, which could weaken long-term potential growth and increase pressure on debt dynamics.

7. **External debt is projected to fall from 88 percent of GDP in 2020 to 51 percent in 2031, reflecting more limited access to external financing because of debt sustainability concerns**.[1] Bounds tests suggest that external debt is sensitive to exchange rate and current account shocks. A 30 percent currency depreciation in 2021 raises external debt to 130 percent of GDP in 2021 and

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

77 percent in 2031, while a widening of the non-interest current account balance pushes external debt to 69 percent of GDP in 2031. A half standard deviation shock to real GDP growth or interest rates would have smaller effects on external debt. A combined one-quarter standard deviation shock would increase external debt to 66 percent of GDP in 2031.

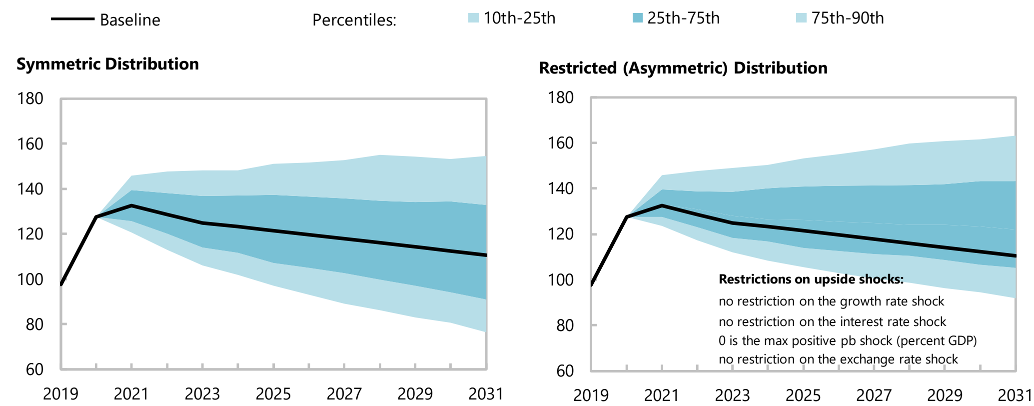
Figure 1. Belize: Public Sector Debt Sustainability Analysis (DSA) Risk Assessment

Heat Map

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

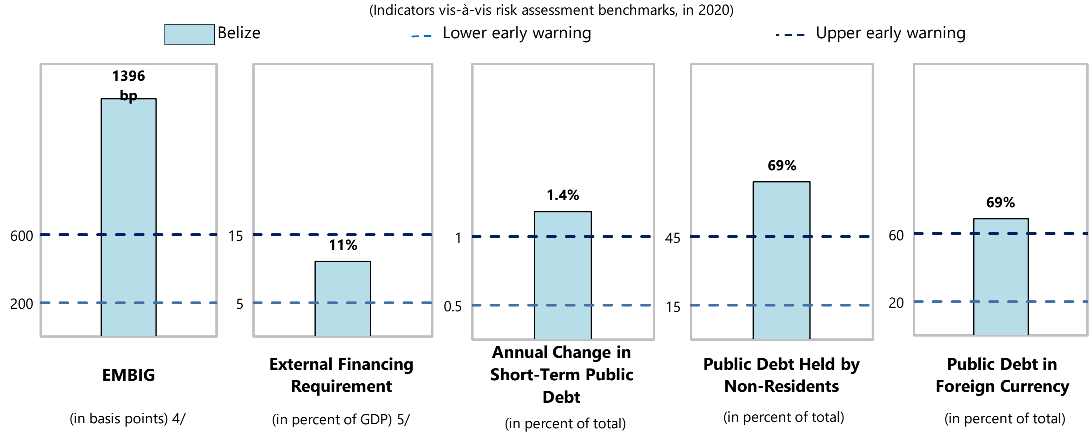
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

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

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

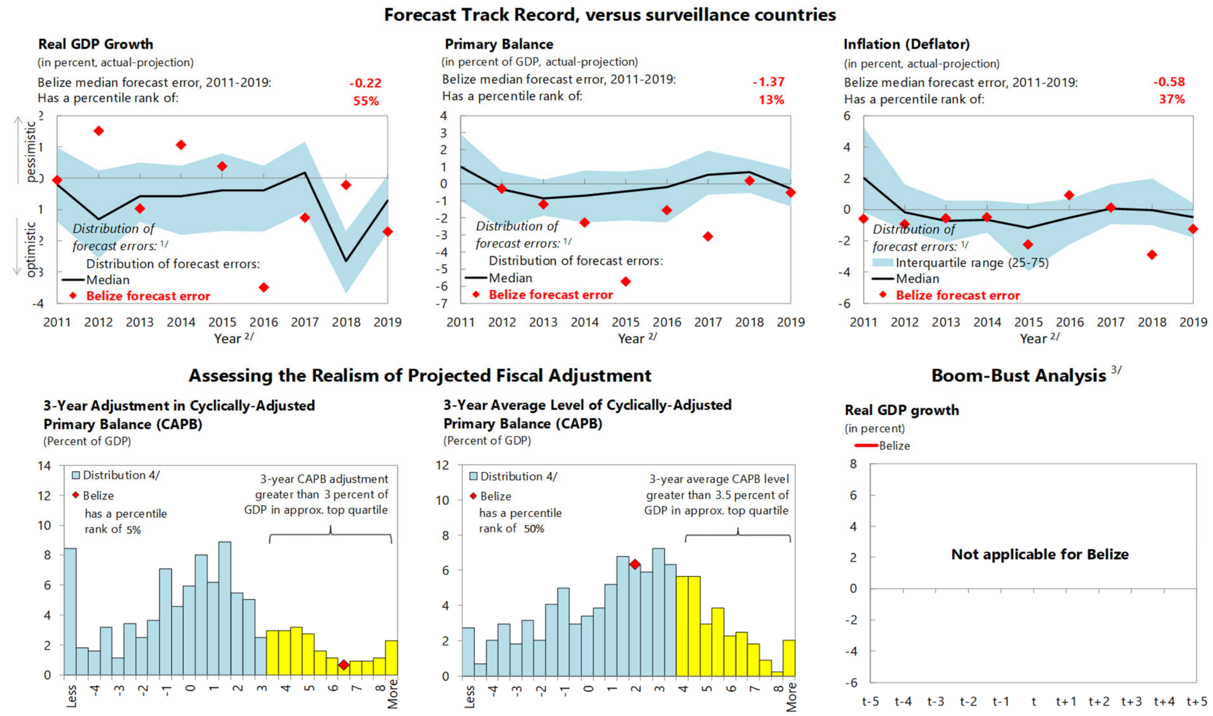
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 27-Oct-20 through 25-Jan-21.

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

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



Source : IMF Staff.

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

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

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

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

Figure 3. Belize: Public Sector DSA – Baseline Scenario

(In percent of GDP unless otherwise indicated)

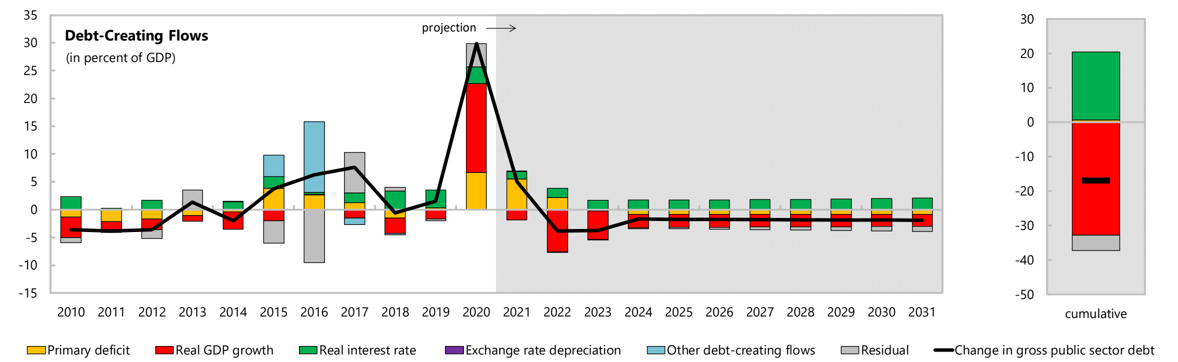
Debt, Economic and Market Indicators [1/]

	Actual			Projections										
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Nominal gross public debt	86.0	97.5	127.4	132.4	128.6	124.9	123.2	121.4	119.7	117.9	116.0	114.2	112.4	110.5
Public gross financing needs	7.4	9.9	17.6	19.7	16.8	14.0	13.1	13.2	13.1	13.7	14.4	15.2	20.4	21.8
Real GDP growth (in percent)	2.4	1.8	-14.1	1.5	6.2	4.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	1.8	0.2	0.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (in percent)	4.2	2.0	-14.0	3.5	8.3	6.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (in percent) [4/]	3.6	3.5	2.8	3.1	3.5	3.5	3.5	3.5	3.6	3.6	3.7	3.8	3.9	4.0

As of January 25, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		1447
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	CCC	CCC
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections												
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.6	1.5	29.9	5.0	-3.8	-3.8	-1.7	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.9	-16.9	
Identified debt-creating flows	1.2	1.8	25.7	5.0	-3.8	-3.7	-1.5	-1.5	-1.4	-1.3	-1.2	-1.1	-1.0	-0.9	-12.3	
Primary deficit	-0.1	0.3	6.7	5.5	2.2	-0.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	0.7	-0.1
Primary (noninterest) revenue and grants	29.0	30.6	29.3	28.1	29.4	30.8	31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3	338.6	
Primary (noninterest) expenditure	28.9	30.9	36.0	33.7	31.6	30.5	30.4	30.4	30.4	30.4	30.4	30.4	30.4	30.4	339.3	
Automatic debt dynamics [5/]	-0.5	1.5	19.0	-0.5	-5.9	-3.4	-0.6	-0.6	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1	-13.1	
Interest rate/growth differential [6/]	-0.5	1.5	19.0	-0.5	-5.9	-3.4	-0.6	-0.6	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1	-13.1	
Of which: real interest rate	1.5	3.2	3.0	1.4	1.6	1.7	1.8	1.7	1.8	1.8	1.9	1.9	2.0	2.1	19.7	
Of which: real GDP growth	-1.9	-1.7	16.0	-1.8	-7.6	-5.1	-2.4	-2.4	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2	-32.8	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization and drawdown of deposits (negative)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.6	-0.3	4.2	0.0	-0.1	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-1.0	-4.5	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

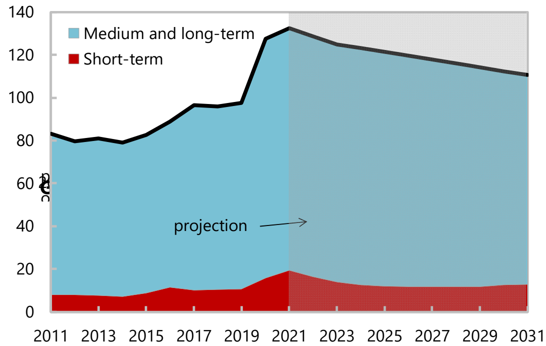
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

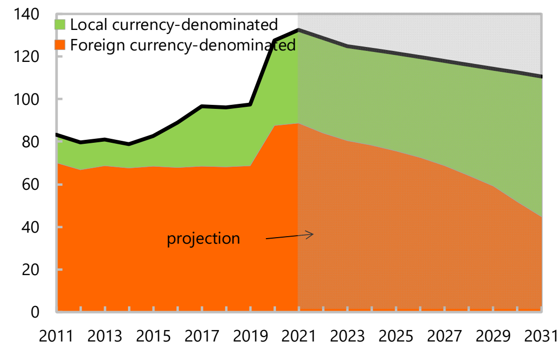
Figure 4. Belize: Public Sector DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



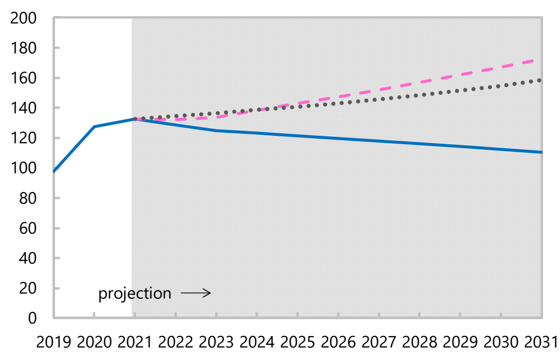
By Currency
(in percent of GDP)



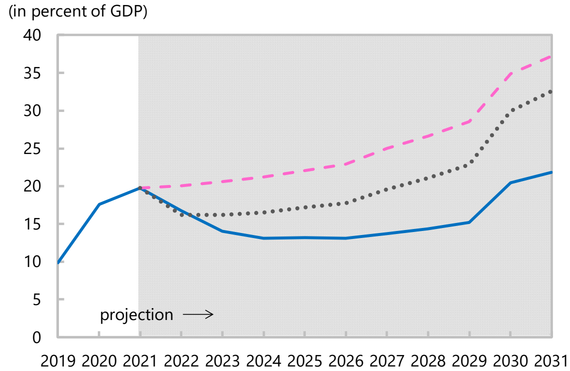
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

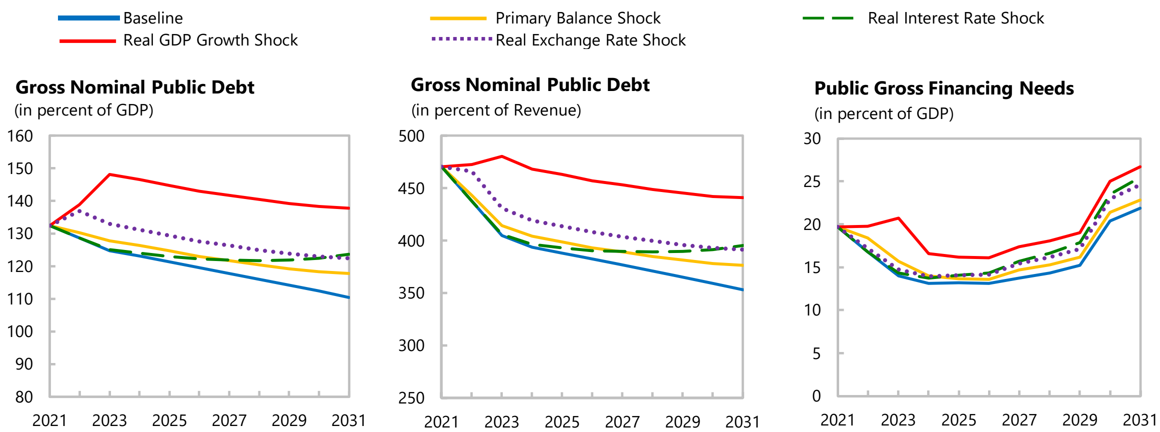
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary Balance	-5.5	-2.2	0.3	0.8	0.8	0.8
Effective interest rate	3.1	3.5	3.5	3.5	3.5	3.6
Constant Primary Balance Scenario						
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary Balance	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Effective interest rate	3.1	3.5	3.4	3.5	3.4	3.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	0.5	0.5	0.5	0.5	0.5
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary Balance	-5.5	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	3.1	3.5	3.5	3.6	3.7	3.7

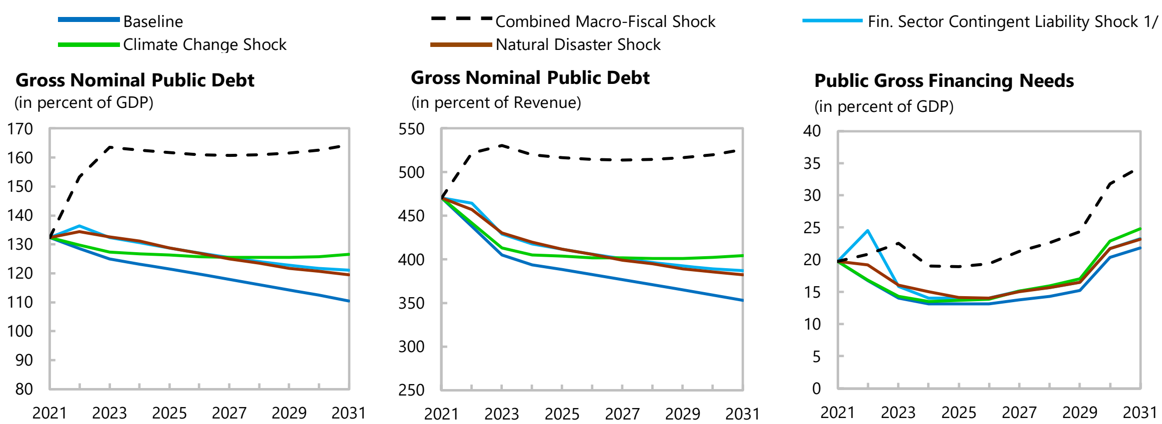
Source: IMF staff.

Figure 5. Belize: Public Sector DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

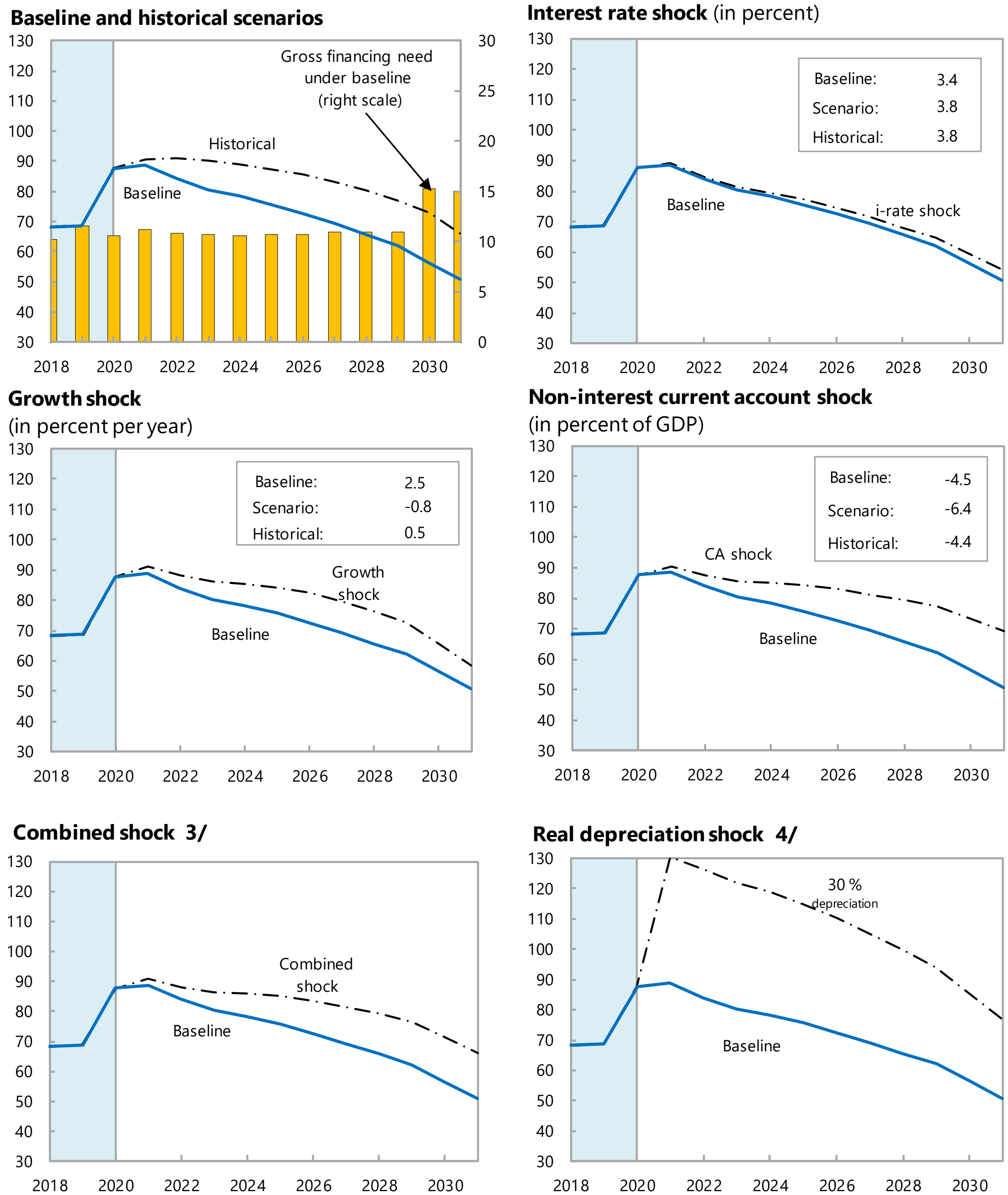
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-5.5	-3.8	-0.9	0.6	0.8	0.8
Effective interest rate	3.1	3.5	3.5	3.6	3.6	3.6
Real Interest Rate Shock						
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-5.5	-2.2	0.3	0.8	0.8	0.8
Effective interest rate	3.1	3.5	3.8	4.0	4.1	4.3
Combined Shock						
Real GDP growth	1.5	1.0	-1.0	2.0	2.0	2.0
Inflation	2.0	0.7	0.7	2.0	2.0	2.0
Primary balance	-5.5	-4.2	-3.9	0.6	0.8	0.8
Effective interest rate	3.1	3.8	3.8	4.0	4.2	4.4

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	1.5	1.0	-1.0	2.0	2.0	2.0
Inflation	2.0	0.7	0.7	2.0	2.0	2.0
Primary balance	-5.5	-4.2	-3.9	0.8	0.8	0.8
Effective interest rate	3.1	3.5	3.5	3.7	3.6	3.7
Real Exchange Rate Shock						
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	6.0	2.0	2.0	2.0	2.0
Primary balance	-5.5	-2.2	0.3	0.8	0.8	0.8
Effective interest rate	3.1	3.8	3.5	3.5	3.5	3.6
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	1.5	6.2	4.2	2.0	2.0	2.0
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-5.5	-10.0	0.3	0.8	0.8	0.8
Effective interest rate	3.1	3.5	3.4	3.5	3.5	3.5

Source: IMF staff.

Figure 6. Belize: External Debt Sustainability: Bound Tests 1/2/
(External debt in percent of GDP)



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

Table 1. Belize: External Debt Sustainability Framework 2016–2026

(In percent of GDP, unless otherwise indicated)

		Actual							Projections							
		2016	2017	2018	2019	2020	10-Year Historical Average	10-Year Standard Deviation	2021	2022	2023	2024	2025	2026	For debt stabilization	Debt-stabilizing non-interest current account 6/
1	**Baseline: External debt**	67.9	68.6	68.2	68.8	87.6			**88.7**	**84.1**	**80.4**	**78.3**	**75.7**	**72.7**		**-4.7**
2	Change in external debt	-0.5	0.7	-0.3	0.5	18.9			1.1	-4.7	-3.6	-2.2	-2.6	-3.0		
3	Identified external debt-creating flows (4+8+9)	5.6	4.7	-0.2	2.7	16.1			2.9	-1.4	0.0	1.4	1.0	1.1		
4	Current account deficit, excluding interest payments	6.9	6.4	5.7	6.6	6.0			5.1	4.3	4.0	4.1	4.2	4.3		
5	Deficit in balance of goods and services	9.2	3.1	4.5	5.3	10.9			8.5	5.4	2.7	2.7	2.7	2.7		
6	Exports	54.6	56.2	56.9	58.8	46.8			50.2	54.3	57.7	57.7	57.7	57.7		
7	Imports	63.8	59.4	61.4	64.2	57.7			58.7	59.7	60.4	60.4	60.4	60.4		
8	Net non-debt creating capital inflows (negative)	-1.7	-1.7	-6.4	-5.2	-3.1			-3.5	-3.5	-3.5	-3.9	-4.3	-4.3		
9	Automatic debt dynamics 1/	0.4	0.1	0.6	1.3	13.2			1.3	-2.1	-0.5	1.1	1.0	1.0		
10	Contribution from nominal interest rate	2.3	2.3	2.4	2.6	2.0			2.6	3.0	2.8	2.7	2.5	2.4		
11	Contribution from real GDP growth	0.0	-1.2	-1.9	-1.2	11.3			-1.3	-5.1	-3.3	-1.5	-1.5	-1.5		
12	Contribution from price and exchange rate changes 2/	-1.9	-1.0	0.1	-0.1	-0.1			...	...	...	...	...	...		
13	Residual, incl. change in gross foreign assets (2-3) 3/	-6.1	-4.0	-0.1	-2.1	2.7			-1.8	-3.3	-3.6	-3.5	-3.6	-4.0		
	External debt-to-exports ratio (in percent)	124.3	121.9	119.9	116.9	187.1			176.7	154.8	139.3	135.6	131.0	125.9		
	Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		
	in percent of GDP	11.6	11.0	10.3	11.5	10.6			11.2	10.9	10.7	10.6	10.7	10.8		
	Scenario with key variables at their historical averages 5/					**87.6**			**90.8**	**91.2**	**90.0**	**88.4**	**86.6**	**84.7**		**-4.4**
	Key Macroeconomic Assumptions Underlying Baseline															
	Real GDP growth (in percent)	0.0	1.8	2.9	1.8	-14.1	0.5	5.2	1.5	6.2	4.2	2.0	2.0	2.0	2.0	
	GDP deflator in US dollars (change in percent)	2.9	1.6	-0.2	0.2	0.1	1.5	1.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
	Nominal external interest rate (in percent)	3.5	3.4	3.5	3.9	2.5	3.8	0.8	3.1	3.6	3.5	3.5	3.4	3.3	3.3	
	Growth of exports (US dollar terms, in percent)	-6.3	6.4	3.9	5.4	-31.5	0.1	12.6	11.0	17.2	12.9	4.0	4.0	4.0		
	Growth of imports (US dollar terms, in percent)	-4.3	-3.9	6.2	6.7	-22.7	2.2	10.7	5.3	10.2	7.5	4.0	4.0	4.0		
	Current account balance, excluding interest payments	-6.9	-6.4	-5.7	-6.6	-6.0	-4.4	3.5	-5.1	-4.3	-4.0	-4.1	-4.2	-4.3		
	Net non-debt creating capital inflows	1.7	1.7	6.4	5.2	3.1	5.5	3.3	3.5	3.5	3.5	3.9	4.3	4.3		

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

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

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

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

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

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

Annex III. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood[1]**	**Impact**	**Policy Response**
Unexpected shift in the COVID-19 pandemic: asynchronous progress in vaccination or prolonged pandemic	↓	Medium	High	Increase screening, quarantining, and health related spending. Support the most vulnerable. Closely monitor the banks' balance sheets for vulnerabilities.
Unexpected shift in the COVID-19 pandemic: faster containment	↑	Medium	Medium	COVID-19-related spending can be phased out sooner to lower the fiscal deficit
Oversupply and volatility in the oil market	↑	Medium	Medium	Reprioritize government spending to support the most vulnerable
Cyber-attacks	↓	Medium	High	Strengthen cybersecurity preparedness in Fintech and digitalization projects
Country-Specific Risks				
Higher frequency and severity of natural disasters related to climate change	↓	Medium	High	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, rebuild financial resilience
Widespread social discontent and political instability	↓	High	High	Measures to support households and businesses, particularly the most vulnerable
Further pressure on Corresponding Banking Relationships (CBRs)	↓	Medium	High	Systematic monitoring of CBRs and communication with global banks and standard setters. Strengthen AML/CFT actions.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon

Annex IV. External Sector Assessment

The external stability assessment indicates that Belize's external position is substantially weaker than the level implied by medium term fundamentals and desirable policies. Belize's external position also remains susceptible to adverse shocks, such as an intensification of the pandemic or natural disasters. Although reserve adequacy improved in 2020, it is expected to worsen in the medium term as debt sustainability concerns limit access to external financing. The analysis reveals key policy and structural gaps, which in the absence of exchange rate flexibility, underscore the need to implement large and sustained fiscal consolidation, structural reforms to boost competitiveness, and debt restructuring.

1. Belize's external position worsened in the last six years and is projected to remain weak in the medium term. The current account deficit averaged 8.6 percent of GDP in 2015-20, higher than the 7.2 percent of GDP balance in the capital and financial accounts, while international reserves declined from US$487 million (29 percent of GDP) in 2014 to US$348 million (21 percent of GDP) in 2020. In staff's baseline scenario underpinned by current policies, the current account deficit is projected to remain elevated going forward, averaging 6.9 percent of GDP in 2021-31. The capital and financial accounts balance, at 6.3 percent of GDP, would be insufficient to finance the current account deficits as external financing is limited by concerns about debt sustainability. As a result, international reserves are projected to fall over time, reaching US$210 million in 2031.

2. The external stability (ES) approach shows a large gap between the projected current account balance and the one needed to reach a more sustainable net international investment position (NIIP). Belize's NIIP was highly negative during 2009-19, averaging –166 percent of GDP, and dropped further to –200 percent of GDP in 2020 due to an increase in external debt and a sharp fall in GDP (Annex I). Going forward, the NIIP is projected to improve somewhat, but remain highly negative, reaching –170 percent of GDP in 2031. The ES model shows that lowering the NIIP to a more manageable level of –130 percent of GDP by 2031 would require lowering the current account balance in 2021-31 from –6.9 percent of GDP to –2.7 percent, implying a CA gap of –4.2 percent of GDP and a real effective exchange rate (REER) overvaluation of around 10 percent. The 40 percent of GDP increase in the NIIP by 2031 is consistent with the overall strategy to restore public debt sustainability discussed above.

3. The external balance (EBA-lite) approach indicates that Belize's external position is substantially weaker than warranted by medium-term fundamentals and desirable policies. Belize's current account (CA) balance adjusted by the cycle and the impact of the pandemic on the oil trade balance, tourism, and remittances was –4.5 percent of GDP in 2020.[1] The EBA-lite CA model estimates the CA norm (the level consistent with medium-term fundamentals and desirable policies) at –4.4 percent of GDP, although an adjustment of 2.7 percent is needed to ensure that the CA balance can be sustained over the medium term without depleting the stock of reserves in a context

[1] The oil trade balance adjustor (–0.7 percent of GDP) corrects for the sharp contraction in the volume of oil traded in 2020; the tourism adjustor (7.1 percent of GDP) corrects for the sharp contraction of tourism in 2020; and the adjustor for remittances (–1.5 percent of GDP) corrects for the sharp increase in remittances in 2020.

of more limited access to external financing. The estimated CA gap is –2.8 percent of GDP in 2020, of which 1.2 percent correspond to policy gaps driven by the fiscal balance and changes in reserves. This is equivalent to a REER overvaluation of 6.6 percent. At the same time, the EBA-lite REER approach points to a REER overvaluation of 14.8 percent, equivalent to a CA gap of –6.2 percent of GDP. Overall, the results from the EBA-lite CA and REER models are broadly consistent with those from the ES approach, pointing to an average CA gap of around –4 percent of GDP and an average REER overvaluation of about 10 percent.

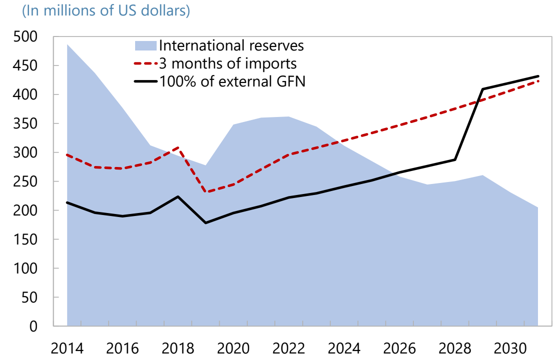
Belize: Model Estimates for 2020
(In percent of GDP)

	CA model	REER model	ES model 1/
CA-Actual	**-8.0**		
Cyclical contributions (from model) (-)	1.5		
COVID-19 adjustor (+) 2/	5.1		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	0.0		
Adjusted CA	**-4.5**		
CA Norm (from model) 3/	**-4.4**		
External financing constraint adjustment (+) 4/	2.7		
Adjusted CA Norm	**-1.7**		
CA Gap	**-2.8**	**-6.2**	**-4.2**
o/w Relative policy gap	1.2		
Elasticity	-0.42		
REER Gap (in percent)	**6.6**	**14.8**	**10.0**

Source: Fund staff estimates.
1/ The ES model calculates the required change in the current account balance and REER depreciation to lower the NIIP by 40 percentage points of GDP by 2031.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-0.5 percent of GDP), tourism (7.4 percent of GDP), and remittances (-1.9 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.
4/ Adjustment to account for a reduced access to external financing over the medium term, which lowers the current account deficit that can be sustained without depleting reserves.

4. **Reserve adequacy is projected to deteriorate after a temporary uptick in 2020**. International reserves increased from 3.5 months of imports (156 percent of gross external financing needs (GEFN)) in 2019 to 4.2 months of imports (178 percent of GEFN) in 2020, led by a lower current account deficit and higher bilateral and multilateral financing. Going forward, reserves are projected to fall below 3 months of imports starting in 2024 and below 100 percent of GEFN starting in 2026.

Adequacy of International Reserves
(In millions of US dollars)



Sources: Country authorities; and IMF staff estimates.

5. Materialization of prominent downside risks to the outlook could further weaken the external position and worsen reserve adequacy. Key risks to the outlook include an intensification of the pandemic in the U.S. and Europe, and a resurgence in Belize, which could delay the recovery of tourism. These risks could be exacerbated by delays in widespread inoculation. Natural disasters and social tensions could also reduce tourism flows and hurt other key exports. Materialization of these risks would lead to widening current account deficits, a worsening NIIP, and declining international reserves.

6. Without exchange rate flexibility, strengthening the external position would require implementing large and sustained fiscal consolidation, growth-enhancing structural reforms to enhance competitiveness, and debt restructuring. The room for exchange rate adjustment is constrained by the peg to the U.S. dollar, which the authorities consider a key anchor for macroeconomic stability. In this context, enhancing competitiveness and reducing external imbalances requires the implementation of revenue and expenditure measures to gradually increase the primary balance, debt restructuring, and growth-enhancing structural reforms that improve the business environment and strengthen resilience to natural disasters and climate change. These measures would not only reduce the fiscal deficit, but also lower the current account deficit and enhance reserve adequacy, thus reinforcing the sustainability of the currency peg.