INTERNATIONAL MONETARY FUND

Staff Country Reports

March 2008
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Belize: 2008 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion by the Executive Director for Belize

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Belize, the following documents have been released and are included in this package:

- The staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 13, 2007, with the officials of Belize on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 7, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 22, 2008 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper

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INTERNATIONAL MONETARY FUND

BELIZE

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Belize

Approved by Ranjit Teja and G. Russell Kincaid

February 7, 2008

- **Outlook**. Belize's near-term macroeconomic prospects have improved, but significant risks remain. Real GDP growth has been boosted by new oil discoveries, and inflation remains low. The debt restructuring of 2007 has eased liquidity pressures on the budget and external reserves.
- **Focus of consultation**. The discussions centered on the prospects for continued financial stability, focusing on policies to reduce Belize's high fiscal and external vulnerability over the medium term. The Belize dollar, pegged to the U.S. dollar since 1976, appears to be in line with fundamentals and external stability is not under threat at present. However, this year's fiscal slippage and the envisaged introduction of a new petroleum revenue management mechanism call for policy adjustments.
- **Key recommendations:** (i) Fiscal adjustment should aim at halving debt/GDP ratios to about 40 percent by 2019 when amortization of the restructured debt will begin falling due; (ii) budgetary measures are needed to raise the FY 2008/09 primary surplus to 3½ percent of GDP; and (iii) reform of liquidity management should be undertaken. These policies are broadly in line with the advice in the last Article IV consultation, which was concluded in October 2006.
- **Data**. Belize adheres to GDDS and data are generally adequate for surveillance. However, the timeliness of key indicators is an issue and other weaknesses remain. For example, public debt data are not complete, and net international investment position statistics are not compiled due to financial and human resource capacity constraints, making it difficult to apply key concepts behind the 2007 Surveillance Decision.
- **Discussions**. During December 4–13, the team (P. Gajdeczka (Head), E. Boz and M. Kandil (all WHD), and A. Palmason (PDR)) met with Prime Minister Musa, Finance Secretary Waight, Central Bank of Belize (CBB) Governor Campbell, other officials, and representatives of the private sector, labor unions and the political opposition.

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I. Background

1. **Macroeconomic pressures and policy response since 2005**. As a result of highly expansionary macroeconomic policies during 1999–2004, in part in response to the damage from two major hurricanes, external current accounts widened sharply, public debt soared, and international reserves declined substantially. From 2005 on, the authorities took steps to correct serious macroeconomic imbalances in the context of a "home-grown" adjustment strategy. As a result, the primary balance improved from a small deficit in FY 2004/05 to a surplus of 3 percent of GDP in FY 2005/06. However, the adjustment efforts were not sufficient to bring the economy back onto a sustainable path, and, therefore, Belize engaged with its external private creditors in 2006 to achieve a cooperative debt restructuring.

2. **Debt restructuring**. A final agreement with creditors, completed in February 2007, has opened the path to restoring fiscal and external sustainability. The nearly full participation contributed to a 21 percent debt reduction in NPV terms and provided significant liquidity relief for the government. Nevertheless, Belize's debt burden remains high (90 percent of GDP), external reserves are low, and sustained adjustment is needed.

3. **Role of the Fund**. Although the Fund has not been a participant in the restructuring process, the staff were in close contact with both the authorities and their creditors during that period. The 2006 Article IV consultation provided an important input into the formulation of an adjustment scenario that the authorities were preparing with their financial advisors. In response to a request by the authorities, the Managing Director provided on December 20, 2006 an assessment letter to the international financial community.

4. **Elections**. Elections are scheduled for February 7. The outgoing government, headed by Prime Minister Musa for two five-year terms, has had an absolute majority in Parliament. Important reforms have been initiated, but policy implementation also has been complicated by political controversy over such issues as a government guarantee in the health sector and contracts in the oil industry.

II. Recent Developments and Near-Term Outlook

5. **Economic performance weakened in 2007**. The economy is estimated to have slowed last year, reflecting the impact of Hurricane Dean on agricultural output and tourism, a partial closure of a garment factory, bankruptcy in the aquaculture industry, and a leveling off in oil production (Figure 1). Inflation remained low, despite a pick-up in partner countries and higher

Recent Developments, 2005–07

	2005	2006	Proj. 2007
	(Annual percentage changes)		
GDP at constant prices	3.1	5.6	2.2
CPI (eop)	4.2	3.0	3.0
	(In percent of GDP, unless otherwise specified)		
Central government			
Primary balance	2.0	3.8	2.7
Overall balance	-5.5	-2.0	-2.4
External current account	-14.4	-2.2	-4.0
Gross international reserves, (in millions of US$)	36	86	108

oil prices. Gross international reserves reached US$108 million by end-2007 (1½ month of imports and 129 percent of maturing liabilities in the year ahead).

6. **The budget outturn for this fiscal year (April–March) is projected to be below target**. The successful implementation of the General Sales Tax has boosted government revenues, but as expenditures are expected to exceed the originally approved budget, the primary surplus is projected at 2¼ percent of GDP, short of the approved budgetary target of 3¼ percent of GDP (Figure 2). Additional spending authorizations have been for investment outlays and to address damage from Hurricane Dean. Most of the external financing has been from the Inter-American Development Bank and the Caribbean Development Bank. As a result, the recourse to domestic financing was reduced.

Budget Financing
(In percent of GDP)

	2005/06	2006/07	Proj. 2007/08
Debt service due	18.0	14.0	6.4
Primary balance excluding grants	2.0	2.6	0.8
Budget financing			
Grants	1.0	1.5	1.4
External disbursements	14.6	6.7	5.2
IDB and CDB	3.6	1.9	3.2
Bilateral and export credit	1.2	4.6	1.7
Commercial 1/	9.8	0.2	0.3
Domestic (net)	0.4	3.2	-0.9

Sources: Belizean authorities; and Fund staff estimates and projections

1/ Flows exclude the results of the debt exchange operation in 2007.

7. **A newly established oil management fund may complicate fiscal and asset management**. Under a law passed last September, starting in FY 2008/09 oil revenue will be transferred to the petroleum management fund and transfers to the budget will be limited to only real returns on the present value of oil savings. This will result in a loss of current revenue of 2 percent of GDP next year (Box 1). Although an oil fund might bring a measure of transparency and spending restraint, the move is not without cost, as the returns on oil savings are likely to be less than the cost of additional borrowing that may be needed to replace lower oil revenue transfers to the budget.

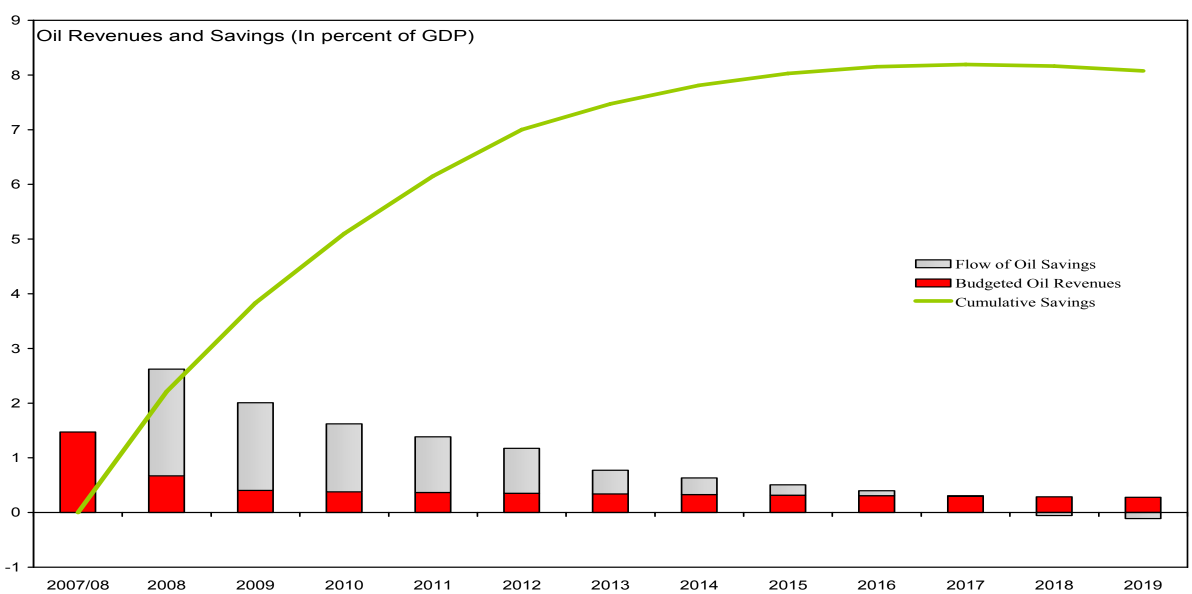
8. **Some progress has been made on the structural reform front, although important challenges remain**. The consolidation of the operations of the Development Finance Corporation is proceeding as envisaged, and its operations could be wound up by 2012. Progress has also been made in computerizing the revenue departments, work is underway to bring information sharing across departments to appropriate standards, and border inspections are being strengthened to tackle contraband. A government loan guarantee (1.5 percent of GDP) to Universal Health Services (UHS), which is facing bankruptcy, was settled on a basis of a multi-year commitment to pay for medical services. However, several important structural weaknesses are yet to be addressed. For example, the National Health Insurance scheme has been extended to the entire country, but so far its cost (0.7 percent of GDP) has been covered by profit transfers from the Social Security Board (SSB) and government subsidies, and a more permanent funding scheme will be discussed only later in 2008. Similarly, the noncontributory pension fund for public servants has yet

Box 1. Belize: Oil Management Fund

Petroleum was discovered in Belize in late 2005. Based on current discoveries, oil production is expected to peak in 2007 at one million barrels (4 percent of GDP) and then contract by about ten percent every year. Government oil revenue consists of a 10 percent tax on gross sales, a 40 percent income tax, and royalties of 5 percent.

Last September, the Parliament approved the establishment of the Petroleum Revenue Management Fund. Starting in FY 2008/09, gross government revenues from oil will be invested in the fund and a fraction will be transferred to the budget based on "permanent sustainable income." The latter will be calculated as a real return on the sum of accumulated oil savings and the present value of the projected stream of oil revenues until depletion, capped at five percent. The fund cannot be used to finance current budgets nor pay external debt. However, in exceptional circumstances, e.g., devastation caused by environmental disasters, civil turmoil and acts of war, an amount in excess of the sustainable income may be transferred to the budget.

The figure below illustrates the path of oil savings assuming a nominal interest rate equal to an average of 6-month Libor in the last three years. Oil savings reach 8 percent of GDP in 2019. Assuming a higher interest on accumulated savings, e.g., a historical average rate of return of the U.S. stock market (S&P 500) of 10½ percent, the stock of oil savings would reach 10 percent of GDP in 2019.



to be set on a sound financial footing to discontinue the creation of open-ended pension liabilities for the government.

Financial Sector Indicators 1/
(In percent)

	2005	2006	2007
Regulatory capital/risk-weighted assets	18.9	21.4	24.2
Excess statutory liquidity 2/	21.5	20.8	20.4
Liquid assets/total assets	19.5	19.9	20.9
Adversely classified loans/total loans	8.7	6.2	7.1
Net earnings/assets 3/	3.8	3.5	3.2

1/ 2007 figures are as of September.
2/ In percent of the statutory liquidity requirement.
3/ Net income divided by the average assets.

9. **Indicators-based analysis suggests that the domestic banking system is broadly sound**. Capital adequacy, liquidity, asset quality, and profitability indicators do not point to any major risks. One bank appears to be vulnerable due to reported losses and may need to inject more capital in case of further deterioration.

10. **The near-term outlook remains broadly stable, despite some deterioration in fiscal and external balances**. For 2008, real GDP growth is projected to pick up, notwithstanding the impact of stagnating oil output, and inflation is projected to ease. Under unchanged fiscal policies, the primary surplus of the central government would decline, mostly due to transfers to a new oil revenue management fund. The external current account deficit is projected to remain unchanged, and with anticipated capital flows, international reserves are expected to remain broadly stable.

III. Policies to Enhance Sustainability

11. **Macroeconomic policies should aim at bolstering fiscal and external sustainability**. The substantial debt relief granted by private creditors in early 2007 has opened the way for a reduction in Belize's vulnerabilities. Fiscal consolidation targeting lower debt ratios, combined with higher reserves accumulation, is essential for regaining market access and sustaining external stability over the medium term. The discussions centered on external stability issues anchored by the 2007 Surveillance Decision, next year's budget and medium-term debt strategy, and structural reforms in the fiscal and monetary areas.

Macroeconomic Framework (Active Scenario)

	2006	Est. 2007	2008	Proj. 2009	2010	2011	2012
	(Annual percentage changes)						
GDP at constant prices	5.6	2.2	2.7	3.4	3.4	3.5	3.5
CPI (eop)	3.0	3.0	3.6	2.5	2.5	2.5	2.5
	(In percent of GDP, unless otherwise specified)						
External current account	-2.2	-4.0	-3.9	-2.9	-2.9	-2.8	-2.6
Gross official reserves (in months of imports)	1.3	1.6	1.6	1.7	1.9	2.1	2.2
Central government							
Revenue and grants	25.3	28.0	28.6	28.3	28.2	28.2	26.8
Noninterest expenditure	21.5	25.4	25.4	24.7	23.9	23.6	22.1
Primary balance	3.8	2.7	3.2	3.6	4.4	4.7	4.7
Overall balance	-2.0	-2.4	-0.7	-0.1	0.5	0.7	0.6
Public and publicly guaranteed debt	92.1	90.2	86.1	81.4	76.3	71.2	66.4

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

A. External Stability Issues

12. **The authorities agreed with the staff's assessment that Belize's exchange rate is broadly in equilibrium and its external accounts not a source of instability at present**. The staff's findings are based largely on the assessment of the exchange rate, as the absence of IIP data limited the scope of the analysis of external stability as envisaged under the 2007 Surveillance Decision. The discussions focused on the following points:

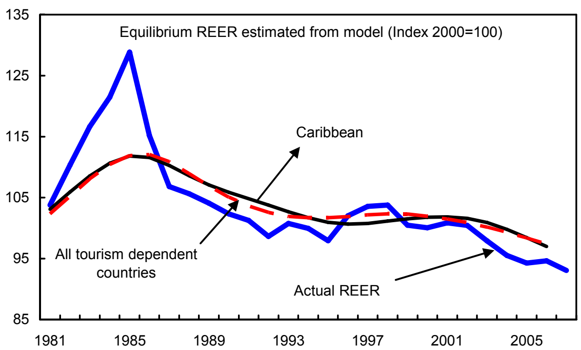
- **The real effective exchange has been depreciating since 2000, in line with the underlying fundamentals (Box 2)**. Model-based and indicators-based assessments suggest that Belize's real effective exchange rate is not far from its equilibrium level.

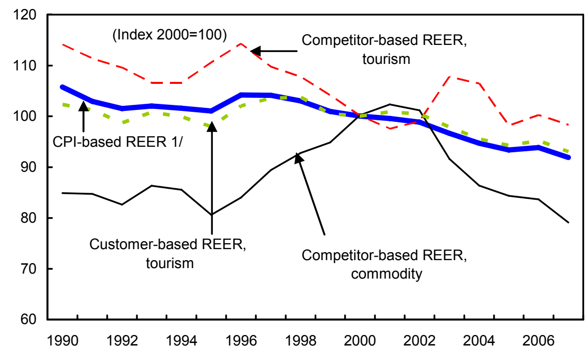
- **The underlying current account deficit (5¼ percent of GDP) does not appear to be a threat to external stability at present**. The projected deficits are substantially lower than historical average (12 percent of GDP), and the banana and sugar concessions under the Economic Partnership Agreement with the European Union are expected to benefit Belize, which remains competitive in those sectors. Based on past experience, the current global downturn is expected to have relatively limited impact on tourism in Belize, which is largely a high-end niche market.

- **Available information on the structure of Belize's capital and financial accounts suggest a limited risk of external instability in the near term**. Private capital inflows are mostly foreign direct investment and the debt agreement provides a liquidity relief over the next 11 years. The authorities noted that restrictions on capital outflows, which they intend to maintain for now, shield against capital account volatility. They recognized, however, that absent fiscal consolidation, central government borrowing requirements may be difficult to cover beyond the next 3–4 years.

Box 2. Belize: Equilibrium Exchange Rate Assessment

Model-based approach suggests that the actual exchange rate is broadly in line with the equilibrium rate. To determine the equilibrium real exchange rate, a Fundamentals Equilibrium Real Exchange Rate (FEER) model was used. For tourism dependent economies, the fundamentals are assumed to include productivity differentials, terms of trade for tourism, government consumption, and net foreign assets. Two different samples are considered: Caribbean countries (The Bahamas, Barbados, Belize, six ECCU countries, and Jamaica) and ECCU plus 16 tourism dependent countries across the world.[1]





1/ 2007 figures are based on data for the first half of the year.

The staff's estimates suggest that the underlying current account deficit in 2007, if sustained, would gradually reduce the external debt/GDP ratio. The underlying current account deficit in 2007 (5¼ percent of GDP) is larger than the one projected (4 percent of GDP) due to adjustments mostly for temporarily low interest payments (-1½ percent of GDP), high oil exports (-2¼ percent of GDP), and the impact of the hurricane Dean (+2½ percent of GDP). Also, according to the debt sustainability analysis, debt/GDP ratios would stabilize after 2012 with a non-interest current account deficit of 4¼ percent of GDP, compared with a 2½ percent of GDP surplus in the 2007 underlying current account.

Indicators-based approach confirms this assessment. Four different real effective exchange rate (REER) indices are considered: CPI-based, commodity competitor-based, tourism competitor-based, and tourism customer-based. All of the indicators display a gradual depreciation trend in the last few years due to a depreciating U.S. dollar. In 2006, the Belize's real exchange rate appreciated somewhat according to all indices except the commodity competitor-based index. Data based on the first half of the year suggests continuation of the gradual depreciation in 2007.

The results need to be interpreted with caution. Small samples are used to determine long-run equilibrium values, and the availability and quality of historical data are limited. The model-based approaches are based on panel data which have the advantage of increasing efficiency, while discounting Belize-specific factors to some extent.

1/ Cashin and Pineda (www.imf.org) extend the FEER methodology presented in "Methodology for CGER Exchange Rate Assessments" (IMF, 2006) to a group of tourism dependent countries by focusing on productivity differential and terms of trade in the tourism sector.

- **Data weaknesses, however, circumscribe the scope of the staff's assessment of stability**. In particular, due to capacity constraints Belize does not compile IIP data, which is required by the Fund's Articles of Agreement—so far as the member has the capacity to provide that information—and is important to the 2007 Surveillance Decision framework, and the BIS reporting banks show US$1.7 billion claims on (and US$6.4 billion liabilities to) the non-bank sector in Belize. The authorities stressed that BIS reported claims are a multiple of Belize's GDP and have no relation to operations of banks registered in Belize. Regarding data quality, they noted that Belize participates in GDDS and provides other key data required for surveillance, while agreeing that timeliness of key indicators could be improved. However, severe financial and human resource constraints prevent them from addressing other remaining weaknesses at this point.

13. **The buildup in international reserves needs to continue to provide a stronger external liquidity buffer**. Historically, Belize has maintained its exchange rate regime with low reserves but with extensive capital account restrictions. However, a review of standard indicators in the context of medium-term scenarios suggests that Belize's reserves should be increased. At three months of imports, they would also meet other criteria such as public sector's short-term debt and broad money coverage. The authorities agreed that the proposed targets would provide a reasonable external liquidity buffer and a source of income for the central bank.

Reserves Adequacy

Reserves Relative to	2004	2005	2006	2007	Target
Months of imports	0.3	0.6	1.3	1.6	3
			(In percent)		
Short-term debt	7.8	26.9	67.6	128.8	100
Broad money (M2)	3.3	6.3	12.8	14.1	15-25

Sources: Country authorities; and Fund staff estimates.

B. Resuming Fiscal Consolidation

14. **Restoring fiscal discipline in the near term is essential**. The authorities noted that this year's above-budget spending constitutes a temporary departure from Belize's debt strategy. For FY 2008/09, the staff recommended a primary surplus of 3½ percent of GDP, consistent with a phased adjustment path over the medium term. This target can be achieved by raising taxes or through expenditure restraint equivalent to 2 percent of GDP. For example, the GST rate could be increased by 2 percentage points to 12 percent; even at this new level, Belize's rate would still be second lowest in the region. Alternatively, nominal current expenditure could be reduced relative to this year's level, and in subsequent years increase at the inflation rate.

15. **The mission recommended a fiscal adjustment path that would halve the debt/GDP ratio by 2019**. By then, amortization of the restructured debt will begin falling due raising gross financing requirements substantially, and without fiscal consolidation debt dynamic remains unsustainable (Appendix II). The associated primary surplus in the central government budget would need to increase to 4¾ percent of GDP by 2011, gradually declining thereafter (Tables 5, 6, and 7). This strategy also assumes no recourse to

commercial external financing in the medium term. The objective is to bring debt ratios and debt-service payments to levels consistent with market access on favorable terms and limited rollover risk. Most emerging market countries with investment grade have external debt/GDP ratio of 40 percent or less.

16. **The authorities recognized the importance of sustained fiscal consolidation**. They broadly agreed that Belize's high public debt burden and vulnerable budget position constitute a source of long-term risk to external stability and growth.

- **The fiscal position needs to be tightened, starting in FY 2008/09**. The authorities recognized that the introduction of the Petroleum Revenue Management Fund would reduce government revenue by about 2 percent of GDP, and that on unchanged policies, the primary balance in FY 2008/09 would be only 1½ percent of GDP. They noted that there is scope for further improving tax administration, which they prefer over tax increases. Higher GST rates could be a measure of last resort, and, even then, part of a broader tax package that would reduce other taxes. However, specific measures would be included in the final budget only after the elections.

- **The authorities welcomed the staff's analysis of the medium-term debt strategy**. They agreed with the broad objective of reducing public debt ratios to levels consistent with stronger bond ratings and market access on favorable terms. They recognized that their fiscal policy over the medium term needs to be set accordingly, and that financing constraints called for a front-loaded adjustment path. In this context, they agreed that a debt management unit and a multiyear budget planning within a medium-term framework would substantially help guide their policies.

C. Structural Reforms to Support Fiscal Management

17. **There was agreement that fiscal reforms need to advance more rapidly to support the adjustment effort**. The discussions focused on the following areas:

- **Oil fund**. The authorities agreed to consider steps to introduce more flexibility into the annual transfers to the budget, including through a legislative amendment if necessary (see Box 1). They also committed to ensuring transparency and regular audits of government revenue from petroleum production, and noted that equal terms and stability of oil contracts will be maintained.

- **Revenue administration**. The ongoing reforms seek to enhance the performance of tax departments via streamlined organization, computerization and strengthened management capacity. The authorities noted that enhanced computerization has increased efficiency in tax collection, and, to strengthen it further, efforts are underway to unify tax administration and increase coordination across various departments. They will seek assistance from CARTAC to establish an audit module for the GST.

- **Public financial management**. The authorities agreed that government guarantees to public and private sector entities—which now correspond to 4¼ percent of GDP—need to be transparent and subject to risk analysis to ensure their consistency with the public sector's debt strategy. They pointed out, however, that constraints on resources and qualified staff limited progress in this area. They will draw on technical assistance from Commonwealth Secretariat to strengthen the debt-servicing unit at the CBB.

- **Governance and accountability**. The authorities recognized that the non-contributory pension fund for public servants constitutes a growing liability for the budget, and that if unresolved would pose a risk to their debt strategy. They would consider during the next fiscal year, in consultation with social partners, a combination of new employee contributions, increased retirement age, and restrained growth of benefits to establish financial viability of the scheme. Regarding the audits of government financial statements, they recognized that the Finance and Reform Act of 2005 needs to be better enforced and that this would require both a greater independence of the relevant institutions and broad support from the parliament.

D. Toward A More Flexible Liquidity Management Framework

18. **Domestic liquidity management should be reformed to enhance its effectiveness**. Reserve requirements are not well suited to managing seasonal changes in liquidity, and in the longer run would be inadequate to support the needed international reserve buildup (Figure 3). Also, such measures as a transfer of funds to the CBB last September by the SSB cannot be relied on systematically, and the SSB has resumed accumulation of deposits in commercial banks which offer more attractive returns.

19. **The mission recommended early introduction of market-based instruments of liquidity management**. This would involve removing ceilings on outstanding domestic government securities and on interest rates, converting the CBB overdraft into marketable domestic government securities, and converting all government securities to market-based interest rates. Subsequently, liquidity requirements for commercial banks could be lowered. According to staff simulations, the net fiscal cost of such a strategy would be small (Box 3). The mission noted that such a reform would also help address some important distortions prevalent in the financial system such as high spreads between deposit and lending rates and near absence of an interbank market.

20. **The authorities welcomed the Fund's support for improving liquidity management**. The CBB is concerned about the impact of rising liquidity in the banking system on credit growth and a possible buildup of inflationary pressures. It was recognized that at present the CBB may need to use the only tool at its disposal (reserve requirements) to control domestic liquidity. The CBB noted, however, that it was eager to advance rapidly

Box 3. Belize: Key Features of the Monetary System

Belize's dollar is pegged to the U.S. dollar, but capital controls leave some room for independent monetary policy. However, the Central Bank of Belize (CBB) lacks effective market-based instruments. Existing instruments for liquidity management include:

- Reserve requirements, currently set at 10 percent;
- Liquid asset requirements, set at 23 percent, including reserve requirements;
- Voluntary transfer of public institutions' deposits from commercial banks to the CBB.

Two regulatory ceilings contribute to the rigidity of the monetary system:

- 100 million BZ dollar ceiling on outstanding T-bills, which led to the growing use of the overdraft facility by the government.
- 3.25 percent ceiling on T-bill rates, rendering them unattractive to commercial banks as evidenced by small portion of T-bills being held outside the Central Bank.

Belize's banking system is characterized by high spreads between lending and deposit rates. Historically, this spread has been high and stable at around 850 basis points. High unremunerated reserve requirements and lending to government at below-market rates to meet liquid asset requirements have constituted an implicit tax on the financial sector. Up to one fifth of the spread can be explained by these requirements. Lack of competition and high operating costs are other factors that might have contributed to wide spreads.

Belize's monetary system has similar features to those of The Bahamas and Barbados. First, capital controls leave some room for independent monetary policy in presence of pegged exchange rates. Second, central banks currently rely on non-market instruments, such as credit ceilings, transfer restrictions, and reserve requirements and interest rate controls. Finally, spreads between lending and deposit rates have been relatively high, at around 900 basis points in The Bahamas and 580 basis points in Barbados as of end-2006.

The fiscal cost of switching to market based instruments would be low. Switching to market-based instruments is necessary to improve the effectiveness of monetary management. This will involve removing the above-mentioned regulatory caps and switching from administrative to market-based interest rates. Currently, about 70 percent of domestic government debt is held by the central bank and interest paid on this debt contributes to its profits which are subsequently transferred to the budget. As the central bank sells government securities in the market, its profits would fall while interest payments by the government to commercial banks would increase. However, with a planned buildup of foreign exchange reserves central bank's profits will rise, largely offsetting other losses. Based on staff calculations, under the active scenario, the net fiscal cost of such a reform would be 0.06 percent of GDP in 2008, while the net cost of reserve accumulation would peak at 0.20 percent in 2017.

with the reform of monetary management mechanism. The authorities decided to develop an action plan shortly, and welcomed continued technical assistance from the Fund in this area.

21. **The authorities continue enhancing the supervisory and regulatory framework and are confident that Belize's financial system is stable**. The Credit Union Act has been recently amended, and, in line with the 2003 Offshore Financial Center Assessment recommendations, the amendments of the Banks and Financial Institutions Act and the International Banking Act are being finalized and are expected to be submitted to parliament in early 2008. The impact of Hurricane Dean on the banking sector has been small and insurance companies experienced only small losses.

IV. Staff Appraisal

22. **Belize's near-term macroeconomic prospects have improved over the past year, but significant risks remain**. Economic growth was boosted by new oil discoveries and strong exports, underpinned by favorable external conditions, and tighter macroeconomic policies helped keep inflation under control. Looking ahead, the main risks to growth and financial stability arise from fiscal challenges and a deterioration in the global outlook.

23. **Despite data limitations that constrain the analysis, the Belize dollar would appear broadly in line with fundamentals, and the external accounts are not a threat to external stability at present**. The exchange rate peg has provided an important anchor for macroeconomic policies and for expectations. The stability of the exchange regime, however, depends crucially on full implementation of the medium-term fiscal strategy and substantial reduction of the public debt burden.

24. **Progress in consolidating the public sector's financial position needs to continue**. Over the past three years, central government budget deficits have been substantially reduced, the winding down of the Development Finance Corporation has advanced as envisaged, and net international reserves have recently stabilized at about one and a half months of imports. However, this year budget performance has weakened, despite the revenue boost from the General Sales Tax introduced in 2006 and from new oil production, as well as the relief provided by the debt exchange concluded in early 2007.

25. **A front-loaded fiscal adjustment is necessary to demonstrate Belize's commitment to lowering the debt ratios and regaining market access**. Consistent with this goal, a primary surplus of 3½ percent of GDP should be targeted for the 2008/09 fiscal year. This can be achieved either by tax measures or by restraining current expenditure. In subsequent years, primary surpluses need to be further increased, for example, by limiting growth on current expenditure to the rate of inflation. The authorities are encouraged to reconsider the framework for managing oil revenues, to make it more flexible and better integrated with their medium-term fiscal strategy.

26. **Over the medium term, fiscal strategy should aim at lowering debt ratios substantially to reduce vulnerability to shocks**. A reduced debt burden would also increase the space for more public investment and for countercyclical fiscal policies in the face of external shocks. Furthermore, lower debt ratios would ease access to market financing on favorable terms, especially when maturities on the recently restructured debt begin falling due and gross financing requirements will increase substantially. Fiscal policies aimed at restoring sustainability are more likely to help mobilize new lending from bilateral and multilateral sources.

27. **Rapid progress in fiscal structural reforms would support the adjustment effort**. Revenue collection should be strengthened by reorganizing it into a unified agency, and enhanced computer systems applied to assessment, collection, and audit of taxes administered by the departments. Regarding expenditure, a multi-year budget planning process should be established and a debt management office set up to help guide the authorities' fiscal strategy. Also, rapid progress is needed in putting on a sound financial footing the pension fund for public servants. Institutions empowered by the 2005 Finance and Reform Act should complete audits of government financial statements going back to the 1990s as soon as possible. Finally, transparency of government revenue from petroleum production needs to be strengthened and audits carried out regularly, and transparency of contracts in the oil and other economic sectors maintained.

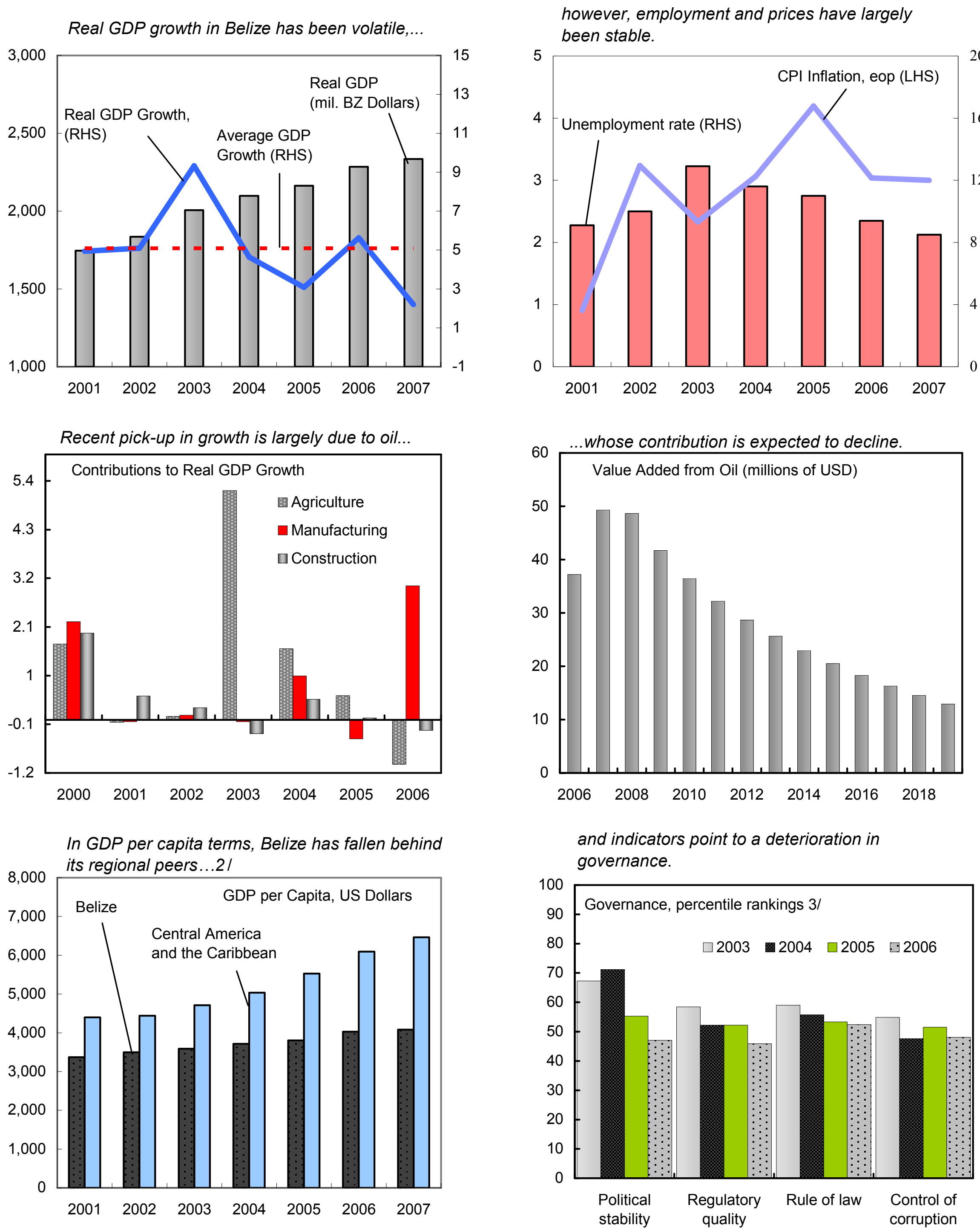
28. **The authorities' liquidity management framework should be reformed to enhance policy implementation**. The staff welcomes the recent steps to control liquidity, while noting the limitations of cash and liquid reserve requirements as instruments of monetary control. The authorities are encouraged to develop an action plan for early introduction of market-based instruments by drawing on technical assistance provided by the Fund and on regional experience in this area. Regarding financial stability, continued vigilance is warranted in monitoring the strength of individual institutions and ensuring that their capital base remains adequate.

29. **Further improvements are needed in the coverage and timelines of data provided to the Fund**. Priorities include completing the coverage of public sector debt data and compilation of net international investment statistics.

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

Figure 1. Belize: Real Sector Developments 1/

(In percent, unless noted otherwise)



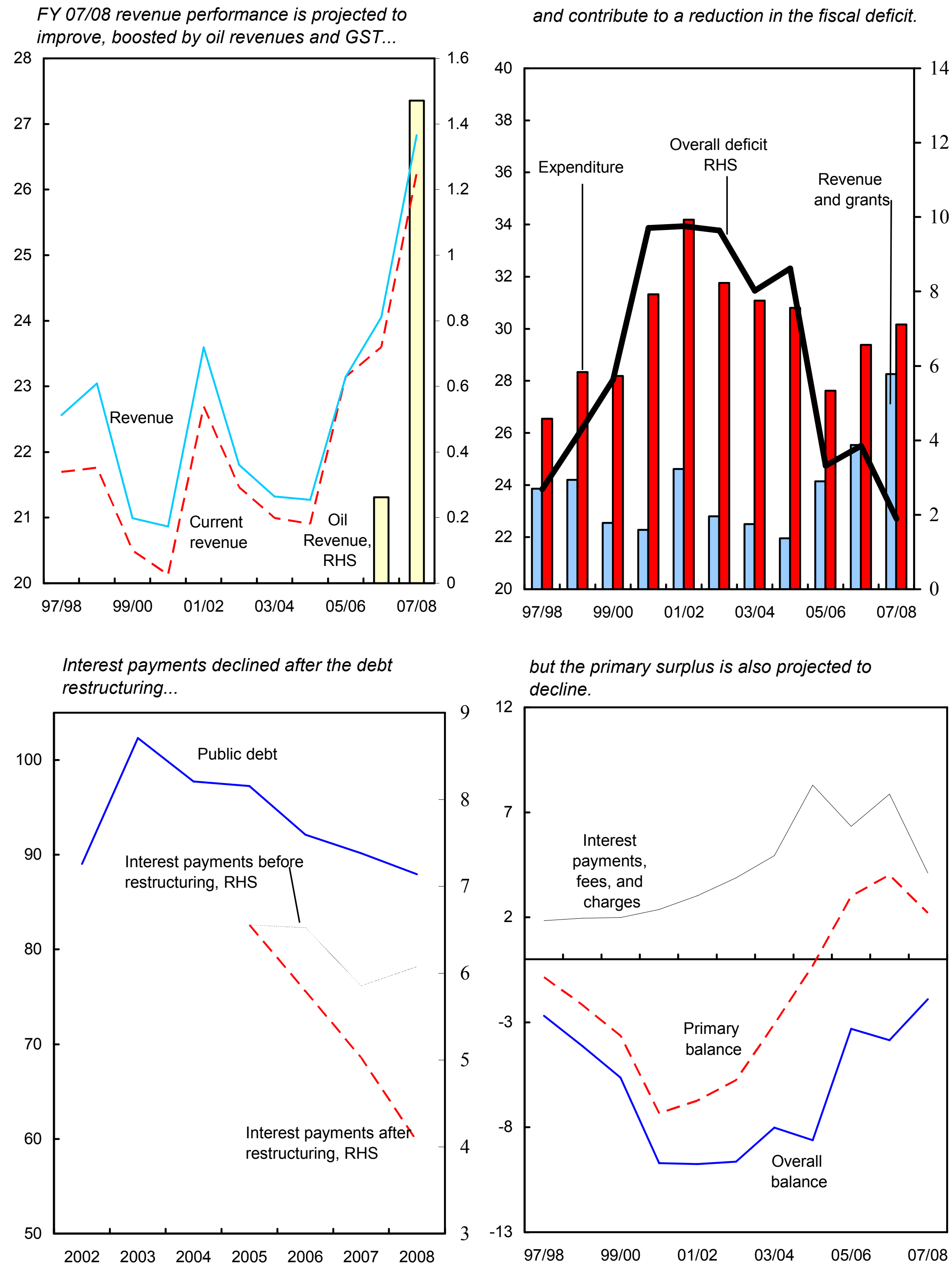
Sources: Country authorities; Fund staff estimates; and World Bank Institute.

1/ 2007 figures are based on staff projections.

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

3/ Belize's percentile ranking among 212 countries across the world. 100 corresponds to the best.

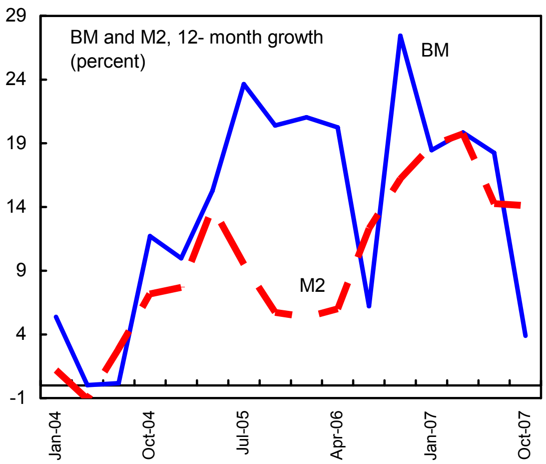
Figure 2. Belize: Fiscal Indicators
(In percent of GDP)



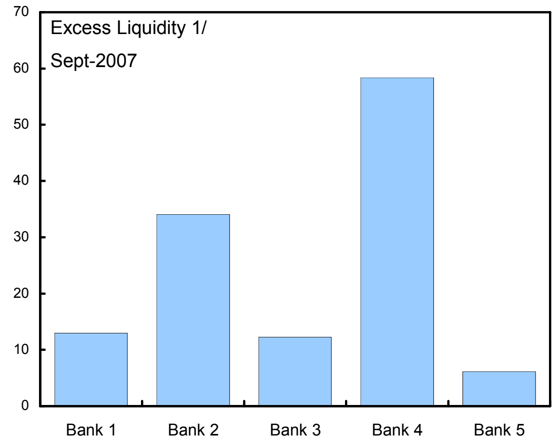
Sources: Country authorities; and Fund staff estimates.

Figure 3. Belize: Monetary Developments

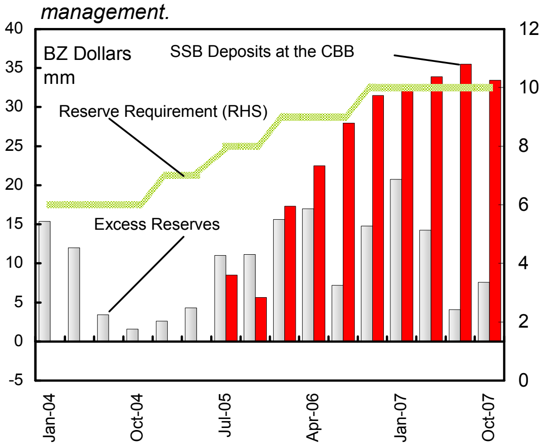
Monetary expansion has been significant since 2004...



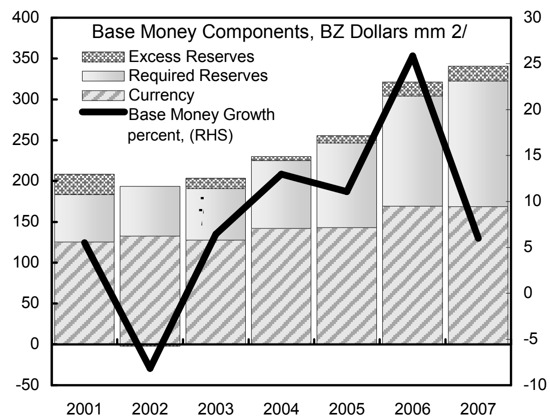
… and excess liquidity has been concentrated in a few banks.



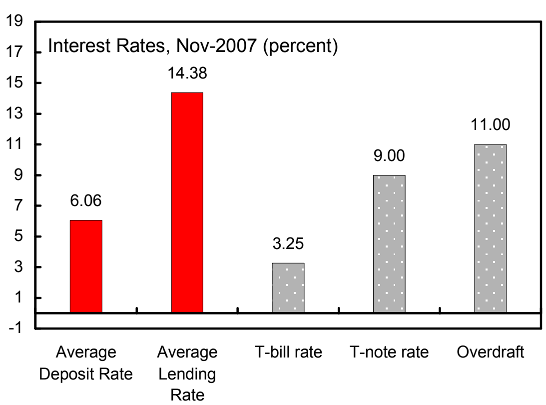
The Central Bank used reserve requirements and Social Security Board (SSB) deposits for liquidity management.



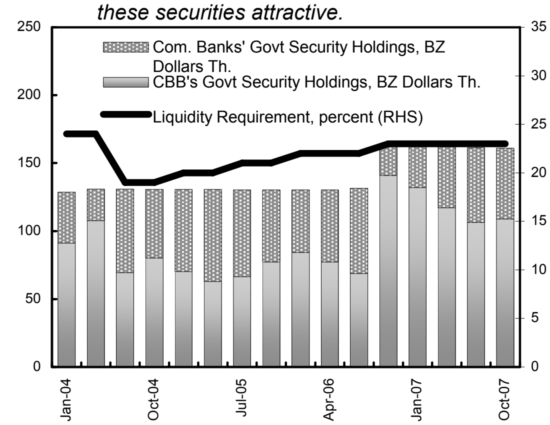
As a result, required reserves absorbed most of the base money growth.



Interest rates on government securities are low...



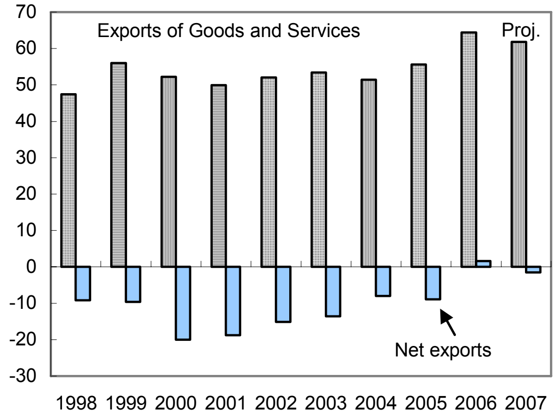
… and commercial banks have not found these securities attractive.



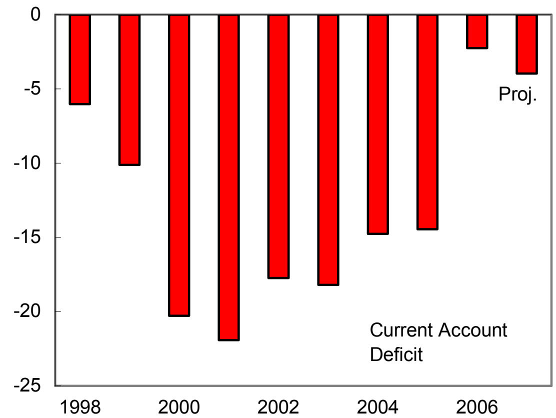
Sources: Central Bank of Belize; and Fund staff estimates.
1/ Expressed in percent of the statutory liquidity requirement.
2/ 2007 figures are as of November.

Figure 4. Belize: Current Account and External Vulnerability
(In percent of GDP, unless otherwise noted)

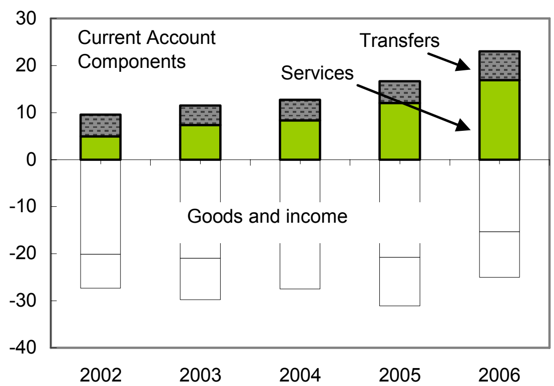
Belize is a highly open economy.



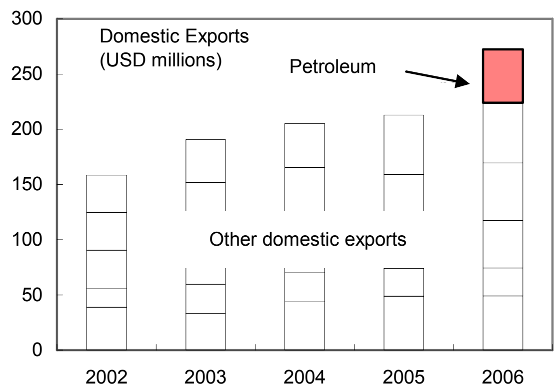
The current account contracted significantly since 2001.



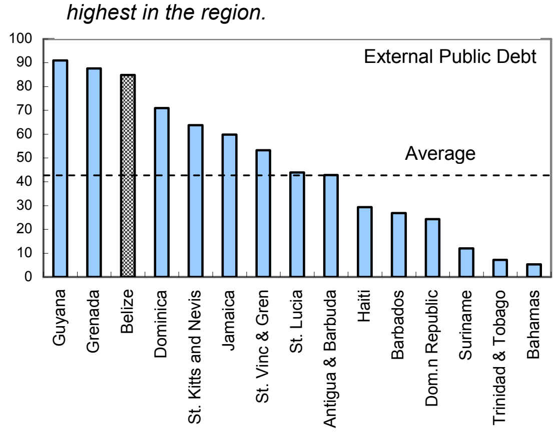
.Boosted by net services and transfers



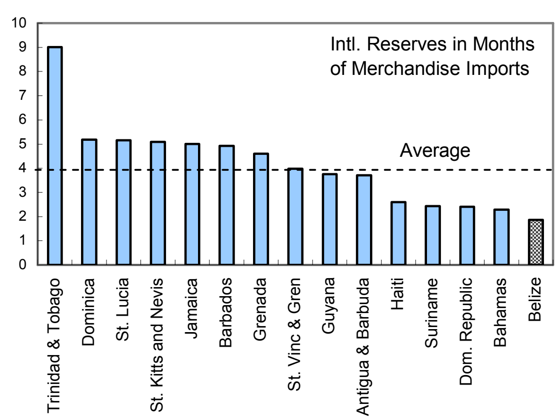
While increase in merchandise exports in 2006 was largely due to petroleum coming on line.



Belize's external public debt is one of the highest in the region.



And reserves are low by international standards.



Sources: Central Bank of Belize; and staff estimates.

Table 1. Belize: Selected Economic Indicators, 2004–08

	2004	2005	2006	Prel. 2007	Proj. 2008
	(Annual percentage changes, unless otherwise indicated)				
National income and prices					
GDP at constant prices	4.6	3.1	5.6	2.2	3.0
GDP deflator	2.1	2.5	3.1	2.7	2.5
Consumer prices (end of period)	3.1	4.2	3.0	3.0	2.6
Gross domestic investment 1/ 2/	19.0	22.7	19.6	18.0	17.0
Gross national savings 1/	4.2	8.3	17.3	14.1	13.0
External sector					
Exports of goods and services	2.9	13.8	26.6	0.7	6.4
Imports of goods and services	-5.1	13.9	6.6	6.0	5.2
Terms of trade (deterioration -)	-2.5	-5.9	-1.5	-0.1	...
Nominal effective exchange rate	-2.0	-1.5	-0.3	...	...
Real effective exchange rate	-2.4	-1.3	0.4	...	...
Money and credit					
Credit to the private sector	9.6	11.3	13.1	13.9	4.3
Money and quasi-money (M2)	7.5	5.9	17.3	22.5	6.6
Weighted average lending rates (in percent)	14.0	14.3	14.2	…	…
	(In percent of GDP)				
Central government 3/					
Revenue and grants	22.8	23.4	25.3	28.0	27.1
Of which: oil	0.0	0.0	0.2	1.2	0.7
grants	1.5	0.6	1.4	1.5	0.9
Current expenditure	22.7	24.8	22.9	24.3	24.1
Capital expenditure and net lending	6.5	4.4	4.4	6.1	5.6
Primary balance	0.8	2.0	3.8	2.7	1.5
Overall balance	-6.4	-5.5	-2.0	-2.4	-2.6
External sector					
External current account 4/	-14.8	-14.4	-2.2	-4.0	-4.0
Public and publicly guaranteed debt	100.2	98.4	92.1	90.2	87.9
Domestic debt	9.0	7.3	8.3	9.1	9.6
External debt	91.2	90.9	83.8	81.1	78.3
Debt service 5/ 6/	22.8	21.6	10.8	10.0	6.2
In percent of exports of goods and services	43.7	37.1	16.7	16.1	10.0
In percent of government current revenue	106.0	90.9	45.7	38.7	24.6
	(In millions of U.S. dollars, unless otherwise specified)				
Overall balance of payments	-31.2	18.3	49.9	22.5	2.9
Exports of goods and services	542.8	617.6	781.9	787.5	837.7
Imports of goods and services	627.8	714.8	762.1	807.6	850.0
Gross usable official reserves	27.1	36.0	85.7	108.2	111.1
In percent of projected 12-month external public debt service	7.8	26.9	67.6	128.8	129.8
In months of imports	0.3	0.6	1.3	1.6	1.6
Nominal GDP	1,055	1,115	1,214	1,274	1,345

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

1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Calendar year.
4/ Including official grants.
5/ Public and publicly guaranteed external debt.
6/ Excluding amortization and interest payments of the debt exchange operation in 2007.

Table 2a. Belize: Operations of the Central Government, 2006–10 1/
(In million of Belize dollars)

	2006/07	Budget 2007/08	Proj. 2007/08	Baseline 2/ 2008/09	Baseline 2009/10	Active 3/ 2008/09	Active 2009/10
Revenue and grants	**635**	**679**	**740**	**726**	**750**	**780**	**816**
Revenue	**598**	**661**	**703**	**706**	**730**	**745**	**779**
Current revenue	586	651	678	686	719	725	768
Tax revenue	530	594	616	624	655	664	703
Of which : petroleum operations	0	20	30	7	7	7	7
Of which : sales tax	181	196	240	253	265	304	322
Nontax revenue	56	57	62	61	64	61	64
Of which : petroleum operations	7	5	8	5	5	5	5
Capital revenue and debt service receipts	11	10	25	20	11	20	11
Grants	**37**	**17**	**37**	**20**	**20**	**35**	**37**
Expenditure	**730**	**703**	**789**	**794**	**826**	**795**	**820**
Current expenditure	617	585	621	650	683	610	625
Wages and salaries	219	235	235	248	254	247	254
Pensions	40	39	39	41	42	41	42
Goods and services	110	129	152	169	177	142	146
Interest payments, fees, and charges	195	106	106	111	120	107	110
Transfers	52	75	89	82	90	73	73
Capital expenditure and net lending	113	118	168	144	144	169	195
Capital expenditure	111	115	165	141	140	166	191
Domestically financed expenditure (Capital II)	81	50	80	70	70	83	87
Foreign financed expenditure (Capital III)	30	65	85	71	70	83	104
Net lending	2	3	3	3	4	3	4
Primary balance	100	**82**	**57**	**42**	**43**	**93**	**105**
Overall balance	**-96**	**-25**	**-49**	**-69**	**-76**	**-14**	**-4**
Financing	96	25	49	69	76	14	4
Domestic	76	0	15	15	15	0	0
External 4/	20	25	34	54	61	14	4
Memorandum items:							
Nominal GDP (in BZ$ millions)	2,457	2,558.0	2,583.0	2,722	2,856	2,731	2,894
Non-interest expenditure	535	597	683	684	707	687	710
Budgeted oil revenue	7	25	38	11	11	11	11
Oil revenue	7	25	38	67	54	67	54

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

1/ Fiscal year end-March.
2/ Assumes unchanged non-oil primary surplus.
3/ Assumes 2 percent increase in GST rate and growth of expenditures on wages and salaries and goods and services in line with inflation.
4/ Excluding debt exchange operation in 06/07.

Table 2b. Belize: Operations of the Central Government, 2006–10 1/

(Percent of GDP)

	2006/07	Budget 2007/08	Proj. 2007/08	Baseline 2/ 2008/09	Baseline 2009/10	Active 3/ 2008/09	Active 2009/10
Revenue and grants	**25.8**	**26.5**	**28.6**	**26.7**	**26.3**	**28.6**	**28.2**
Revenue	**24.3**	**25.8**	**27.2**	**25.9**	**25.6**	**27.3**	**26.9**
Current revenue	23.9	25.4	26.2	25.2	25.2	26.6	26.5
Tax revenue	21.6	23.2	23.8	22.9	22.9	24.3	24.3
Of which : sales tax	7.3	7.6	9.3	9.3	9.3	11.1	11.1
Nontax revenue	2.3	2.2	2.4	2.3	2.3	2.3	2.2
Capital revenue and debt service receipts	0.5	0.4	1.0	0.7	0.4	0.7	0.4
Grants	**1.5**	**0.7**	**1.4**	**0.7**	**0.7**	**1.3**	**1.3**
Expenditure	**29.7**	**27.5**	**30.5**	**29.2**	**28.9**	**29.1**	**28.3**
Current expenditure	23.9	25.4	26.2	25.2	25.2	26.6	26.5
Wages and salaries	8.9	9.2	9.1	9.1	8.9	9.0	8.8
Pensions	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Goods and services	4.5	5.1	5.9	6.2	6.2	5.2	5.0
Interest payments, fees, and charges	8.0	4.2	4.1	4.1	4.2	3.9	3.8
Transfers	2.1	2.9	3.4	3.0	3.2	2.7	2.5
Capital expenditure and net lending	4.6	4.6	6.5	5.3	5.0	6.2	6.7
Capital expenditure	4.5	4.5	6.4	5.2	4.9	6.1	6.6
Domestically financed expenditure (Capital II)	3.3	2.0	3.1	2.6	2.5	3.0	3.0
Foreign financed expenditure (Capital III)	1.2	2.5	3.3	2.6	2.5	3.0	3.6
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance	**4.1**	**3.2**	**2.2**	**1.5**	**1.5**	**3.4**	**3.6**
Overall balance	**-3.9**	**-1.0**	**-1.9**	**-2.5**	**-2.7**	**-0.5**	**-0.2**
Financing	3.9	1.0	1.9	2.5	2.7	0.5	0.2
Domestic	3.1	0.0	0.6	0.6	0.5	0.0	0.0
External	0.8	1.0	1.4	2.0	2.1	0.5	0.2
Memorandum items:							
Nominal GDP (in BZ$ millions)	**2457**	**2558**	**2583**	**2722**	**2856**	**2731**	**2894**
Non-interest expenditure	21.8	23.3	26.4	25.1	24.7	25.2	24.5
Budgeted oil revenue (in percent of GDP)	0.3	1.0	1.5	0.4	0.4	0.4	0.4
Oil revenue (in percent of GDP)	0.3	1.0	1.5	2.5	1.9	2.5	1.9

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

1/ Fiscal year end-March.

2/ Assumes unchanged non-oil primary surplus.

3/ Assumes 2 percent increase in GST rate and growth of expenditures on wages and salaries and goods and services in line with inflation.

Table 3. Belize: Operations of the Banking System, 2004–09

	2004	2005	2006	Prel. 2007	Proj. 2008	2009
	(In millions of Belize dollars)					
Central Bank of Belize (CBB)						
Net foreign assets 1/	91	140	206	215	221	230
Net international reserves	94	140	206	215	221	230
Medium-term foreign liabilities	-3	0	0	0	0	0
Net domestic assets	139	116	115	121	173	185
Credit to the public sector (net)	164	146	144	148	199	212
Central government	134	135	179	184	239	253
Other nonfinancial public sector	30	11	-35	-37	-40	-42
Claims on commercial banks	0	0	0	0	0	0
Capital and other assets (net)	-25	-30	-29	-26	-26	-26
Base money	230	255	321	336	394	415
Currency issue	142	143	169	186	202	213
Reserves of commercial banks	88	112	152	150	191	202
Commercial banks						
Net foreign assets	-55	-33	65	136	136	136
Net claims on central bank	115	138	185	183	230	243
Net domestic assets	1,182	1,244	1,341	1,528	1,570	1,676
Credit to the public sector (net)	-5	-14	-48	-55	-88	-78
Central government	68	48	23	47	20	34
Other nonfinancial public sector	-73	-62	-71	-102	-108	-112
Credit to the private sector	1,214	1,352	1,528	1,740	1,816	1,912
Other assets (net)	-27	-94	-139	-157	-157	-157
Liabilities to the private sector	1,242	1,349	1,590	1,847	1,937	2,055
Monetary survey						
Net foreign assets	37	107	271	351	357	366
Net domestic assets	1,321	1,359	1,456	1,649	1,743	1,861
Public sector (net)	159	132	96	92	111	133
Central government	202	182	202	231	259	287
Other nonfinancial public sector	-43	-50	-106	-138	-147	-153
Credit to private sector (by commercial banks)	1,214	1,352	1,528	1,740	1,816	1,912
Other items (net)	-52	-125	-168	-184	-184	-184
Liabilities to the private sector	1,357	1,466	1,728	2,000	2,100	2,227
Money and quasi-money (M2)	1,078	1,142	1,338	1,539	1,640	1,728
Currency in circulation	115	118	137	153	163	172
Deposits	963	1,024	1,201	1,386	1,477	1,556
Foreign currency deposits	47	57	68	79	68	68
Capital and reserves of commercial banks	233	268	321	382	392	431
	(In millions of U.S. dollars)					
Net international reserves of the CBB	47	70	103	108	111	115
	(In percent change, unless otherwise indicated)					
Memorandum items:						
Comm. bank credit to the private sector	9.6	11.3	13.1	13.9	4.3	5.3
Private sector deposits in local currency	7.0	6.4	17.3	15.4	6.6	5.4
Base money	13.0	11.1	25.9	4.6	17.2	5.4
Money and quasi-money (M2)	7.5	5.9	17.3	22.5	6.6	5.4
Required cash reserve ratio (percent)	7.0	8.0	10.0	10.0	10.0	10.0
Loan deposit ratio	120.3	125.1	120.4	118.8	117.5	117.7

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

1/ Includes Central Government's foreign assets.

Table 4. Belize: Balance of Payments, 2005–12 (Baseline Scenario)

			Proj.					
	2005	2006	2007	2008	2009	2010	2011	2012
	(In millions of U.S. dollars)							
Current account balance	**-160**	**-27**	**-51**	**-53**	**-61**	**-69**	**-79**	**-93**
Trade balance	-231	-185	-226	-222	-264	-291	-324	-357
Total exports, f.o.b.	325	427	415	461	453	466	476	483
Of which:								
Oil	0	41	57	64	54	47	42	38
Total imports, f.o.b.	-556	-612	-641	-683	-717	-757	-800	-840
Of which:								
Fuel and energy	-111	-115	-121	-124	-130	-136	-143	-150
Services	134	205	206	210	246	271	304	336
Income	-114	-121	-122	-117	-118	-126	-136	-149
Of which:								
Public sector interest payments	-71	-67	-65	-55	-57	-64	-73	-86
Current transfers	51	74	92	76	76	77	77	78
Private (net)	48	65	73	64	66	67	67	68
Official (net)	3	8	18	12	10	10	10	10
Capital and financial account balance	**178**	**70**	**64**	**56**	**65**	**72**	**82**	**97**
Capital transfers	3	9	1	2	2	0	0	0
Public sector	61	17	16	-3	3	14	32	51
Of which:								
Change in assets	0	0	0	-23	-20	-16	-13	-11
Change in liabilities 1/	61	17	16	20	22	30	45	62
Disbursements	214	84	77	50	51	59	74	90
Central government	214	84	77	50	51	59	74	90
Amortization	-153	-66	-62	-29	-29	-29	-30	-28
Central government	-144	-61	-62	-29	-29	-29	-30	-28
Private sector 2/	114	43	48	58	60	57	50	46
Errors and omissions	**1**	**7**	**9**	**0**	**0**	**0**	**0**	**0**
Overall balance	**18**	**50**	**23**	**3**	**4**	**3**	**4**	**4**
Financing								
Change in reserves (- increase)	**-18**	**-50**	**-23**	**-3**	**-4**	**-3**	**-4**	**-4**
	(In percent of GDP, unless otherwise stated)							
Memorandum items:								
Gross usable international reserves (US$ millions)	36	86	108	111	116	118	122	126
Months of imports	0.6	1.3	1.6	1.6	1.6	1.5	1.5	1.5
Current account balance	-14.4	-2.2	-4.0	-4.0	-4.3	-4.7	-5.1	-5.7
Merchandise trade balance	-20.7	-15.3	-17.8	-16.5	-18.7	-19.6	-20.8	-21.8
Capital and financial account balance	16.0	5.7	5.1	4.2	4.6	4.9	5.3	5.9
Public sector	5.5	1.4	1.2	-0.2	0.2	0.9	2.0	3.1
Private sector	10.2	3.6	3.7	4.3	4.3	3.9	3.2	2.8
Overall balance	1.6	4.1	1.8	0.2	0.3	0.2	0.2	0.3

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

1/ Disbursements and amortization are net of the debt exchange operation in 2007.

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

Table 5. Belize: Summary of Macroeconomic Scenarios

For the analysis of the medium-term prospects under different policy assumptions, staff prepared two macroeconomic scenarios through 2020. A baseline scenario assumes broad continuation of present policies, while an active policy scenario is based on a front-loaded fiscal adjustment and a larger primary surplus in the central government budget.

There are a number of assumptions common in both scenarios. In particular, the assumptions about the production and fiscal revenue from oil and about consumer price inflation and GDP deflator past 2008 are common.

Baseline Scenario

The main assumption is regarding the unchanged policy stance from the projected outcome for the present fiscal year. Because of the associated external and fiscal uncertainties and the need to borrow on expensive commercial terms, it is assumed that there will be a declining level of multilateral lending and bilateral grants, and that investment levels would be such that economic growth would remain low.

- **Real GDP growth—**to remain around 2½ percent.

- **Fiscal policy—**primary surplus in the central government budget to remain unchanged from this year at 1.5 percent of GDP. It is calculated as this year's non-oil primary surplus plus sustainable oil revenue from the petroleum management fund (slightly less than one half percent of GDP per year).

- **Reserve accumulation—**given the high level of external borrowing, reserves are projected to remain at about 1½ months of imports.

Active Scenario

This scenario essentially emulates the projection included in the 2006 Article IV staff report. It assumes a front-loaded fiscal adjustment which tapers off over time as debt ratios decline. The main difference is in the assumed level of oil revenues, which are now limited to about one-half percent of GDP, compared to nearly 2 percent of GDP in 2007–09 assumed last year. Policy adjustment is assumed to foster confidence and larger financing from international financial institutions and bilateral donors, allowing for higher investment and growth.

- **Real GDP growth—**to gradually increase to 3¾ percent. Real growth would be lower in 2008 relative to passive scenario reflecting the impact of GST increase on domestic consumption (and rising inflation). Subsequently, growth picks up with higher investment.

- **Fiscal policy—**primary surplus in the central government budget to increase from 3½ percent of GDP in FY 2008/09 to peak at 4¾ percent of GDP by 2011. The adjustment is based on initial tax measures and sustained current expenditure restraint.

- **Reserve accumulation—**tighter policies and larger capital inflows would enable a more ambitious reserve build-up, to above 3 months of imports by 2016.

Table 6a. Belize: Medium-Term Outlook, 2006–19 (Baseline Scenario)

	Prel.	Proj.												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(Annual percentage changes)													
Real economy														
GDP at constant prices	5.6	2.2	3.0	2.3	2.4	2.4	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7
GDP at current market prices	8.9	5.0	5.6	4.9	5.0	5.0	5.0	5.0	5.1	5.2	5.2	5.2	5.2	5.3
Prices (GDP deflator)	3.1	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
	(In percent of GDP, unless otherwise indicated)													
National accounts														
Consumption	78.8	83.6	83.9	84.3	85.3	85.3	85.3	85.3	85.3	85.3	85.3	85.4	85.4	85.4
Gross domestic investment	19.6	18.0	17.0	17.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Net exports	1.6	-1.6	-0.9	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4
Gross national savings	17.3	14.1	13.0	12.7	11.3	10.9	10.3	9.9	9.7	9.6	9.4	9.1	8.9	8.6
Central government 1/														
Revenue and grants	25.3	28.0	27.1	26.4	25.1	25.3	25.5	25.8	25.9	26.0	26.1	26.1	26.2	26.2
Of which : oil revenue	0.2	1.2	0.7	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	27.3	30.4	29.7	29.0	28.1	28.7	29.4	30.3	30.6	30.8	31.0	31.2	31.5	31.7
Noninterest expenditure	21.5	25.4	25.6	24.9	23.6	23.8	23.9	24.3	24.4	24.5	24.6	24.6	24.7	24.7
Primary balance	3.8	2.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Interest	5.8	5.0	4.1	4.1	4.5	4.9	5.4	6.0	6.2	6.3	6.5	6.6	6.8	7.0
Overall balance	-2.0	-2.4	-2.6	-2.6	-3.0	-3.4	-3.9	-4.5	-4.6	-4.8	-4.9	-5.1	-5.3	-5.5
External sector														
Current account balance	-2.2	-4.0	-4.0	-4.3	-4.7	-5.1	-5.7	-6.1	-6.3	-6.4	-6.6	-6.9	-7.1	-7.4
Of which: exports of goods and services	64.4	61.8	62.3	61.9	61.9	61.9	61.9	61.9	61.9	61.9	61.9	61.8	61.8	61.8
Of which: petroleum exports	3.3	4.5	4.8	3.8	3.2	2.7	2.3	1.7	1.5	1.2	1.1	0.9	0.8	0.7
Of which: imports of goods and services	-62.8	-63.4	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2	-63.2
Capital and financial account	5.7	5.7	5.3	7.0	7.7	9.1	10.5	12.5	13.7	14.4	15.3	16.3	17.8	20.2
Public sector disbursements 2/	6.9	6.1	3.7	3.6	4.0	4.8	5.5	7.1	8.2	8.6	9.5	10.2	11.4	13.5
Public sector amortization 2/	-5.5	-4.9	-2.2	-2.1	-2.0	-1.9	-1.7	-2.6	-3.5	-3.8	-4.5	-5.1	-6.1	-8.0
Other capital and fin. account transactions 3/	4.3	4.5	3.8	5.4	5.7	6.2	6.8	8.1	9.1	9.6	10.4	11.2	12.5	14.7
Change in reserves (- increase)	-4.1	-1.8	-0.2	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Gross official reserves (in months of imports)	1.3	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.3
Public and publicly guaranteed debt	92.1	90.2	87.9	86.5	85.3	84.6	84.4	84.9	85.4	86.0	86.7	87.5	88.4	89.5
Domestic	8.3	9.1	9.6	10.2	10.6	10.6	10.3	9.8	9.3	8.8	8.4	8.0	7.6	7.2
External	83.8	81.1	78.3	76.3	74.7	74.0	74.2	75.1	76.1	77.2	78.3	79.5	80.8	82.3
Cummulative savings in oil fund	0.0	0.0	2.1	3.8	5.1	6.2	7.1	7.6	8.0	8.2	8.3	8.4	8.4	8.3

Source: Fund staff projections.

1/ Fiscal projections are on a calendar year basis.
2/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.
3/ Includes errors and omissions.

Table 6b. Belize: Medium-Term Outlook, 2006–19 (Active Scenario)

	Prel.						Proj.							
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
							(Annual percentage changes)							
Real economy														
GDP at constant prices	5.6	2.2	2.7	3.4	3.4	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.7	3.7
GDP at current market prices	8.9	5.0	5.6	5.9	6.0	6.1	6.1	6.1	6.2	6.2	6.2	6.2	6.3	6.3
Prices (GDP deflator)	3.1	2.7	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
							(In percent of GDP, unless otherwise indicated)							
National accounts														
Consumption	78.8	83.6	82.9	82.0	82.0	81.8	81.4	81.0	81.2	81.4	81.6	81.7	81.9	82.0
Gross domestic investment	19.6	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Net exports	1.6	-1.6	-0.9	0.0	0.0	0.2	0.6	1.0	0.8	0.6	0.4	0.3	0.1	0.0
Gross national savings	17.3	14.1	14.1	15.1	15.1	15.2	15.4	15.8	15.9	16.0	16.1	16.2	16.2	16.3
Central government 1/														
Revenue and grants	25.3	28.0	28.6	28.3	28.2	28.2	26.8	27.1	27.2	27.3	27.3	27.4	27.4	27.5
Of which : oil revenue	0.2	1.2	0.7	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	27.3	30.4	29.4	28.4	27.7	27.5	26.1	26.8	27.0	27.0	26.9	27.0	26.8	26.6
Noninterest expenditure	21.5	25.4	25.4	24.7	23.9	23.6	22.1	22.6	23.0	23.3	23.5	23.7	23.7	23.8
Primary balance	3.8	2.7	3.2	3.6	4.4	4.7	4.7	4.5	4.2	4.0	3.9	3.7	3.7	3.7
Interest	5.8	5.0	4.0	3.8	3.9	3.9	4.1	4.2	3.9	3.7	3.5	3.3	3.1	2.9
Overall balance	-2.0	-2.4	-0.7	-0.1	0.5	0.7	0.6	0.3	0.2	0.3	0.4	0.4	0.7	0.8
External sector														
Current account balance	-2.2	-4.0	-3.9	-2.9	-2.9	-2.8	-2.6	-2.2	-2.1	-2.0	-1.9	-1.8	-1.8	-1.7
Of which: exports of goods and services	64.4	61.8	62.3	61.8	61.8	62.0	61.9	62.2	62.4	62.5	62.7	62.7	62.7	62.7
Of which: petroleum exports	3.3	4.5	4.8	3.8	3.1	2.6	2.2	1.6	1.4	1.2	1.0	0.8	0.7	0.6
Of which: imports of goods and services	-62.8	-63.4	-63.2	-61.8	-61.8	-61.8	-61.3	-61.2	-61.6	-61.9	-62.3	-62.4	-62.6	-62.7
Capital and financial account	5.7	5.1	4.1	4.1	4.3	4.2	4.1	4.2	4.2	4.0	3.8	3.5	3.2	2.8
Public sector disbursements 2/	6.9	6.1	2.8	2.2	1.4	1.1	1.1	1.4	1.4	1.3	1.1	1.1	0.7	1.4
Public sector amortization 2/	-5.5	-4.9	-2.2	-2.0	-1.9	-1.8	-1.7	-1.7	-1.7	-1.6	-1.5	-1.5	-1.4	-2.3
Other capital and fin. account transactions 3/	4.3	4.5	3.5	4.0	4.8	4.9	4.7	4.6	4.4	4.3	4.2	3.9	3.9	3.7
Change in reserves (- increase)	-4.1	-1.8	-0.2	-1.2	-1.4	-1.4	-1.4	-2.0	-2.1	-2.0	-1.9	-1.7	-1.4	-1.1
Unidentified financing	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	0.5
Gross official reserves (in months of imports)	1.3	1.6	1.6	1.7	1.9	2.1	2.2	2.5	2.8	3.0	3.1	3.3	3.4	3.4
Public and publicly guaranteed debt	92.1	90.2	86.1	81.4	76.3	71.2	66.4	62.3	58.4	54.7	51.1	47.7	44.2	40.8
Domestic	8.3	9.1	8.7	8.2	7.8	7.3	6.9	6.5	6.1	5.8	5.4	5.1	4.8	4.5
External	83.8	81.1	77.4	73.2	68.5	63.8	59.5	55.8	52.3	49.0	45.7	42.6	39.4	36.2
Cummulative savings in oil fund	0.0	0.0	2.1	3.8	5.0	6.0	6.8	7.2	7.5	7.6	7.7	7.7	7.6	7.4

Source: Fund staff projections.

1/ Fiscal projections are on a calendar year basis.

2/ Disbursements and amortization exclude the gross flows of the debt exchange operation in 2007.

3/ Includes errors and omissions.

Table 7a. Belize: Public and Publicly Guaranteed Debt Simulations, 2006–19 (Baseline Scenario)

	Prel. 2006	Proj. 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
							(In millions of U.S. dollars)							
1. Public and publicly guaranteed debt														
Total	1,118	1,148	1,183	1,219	1,263	1,315	1,379	1,456	1,539	1,630	1,729	1,836	1,953	2,080
Other public and publicly guaranteed external debt	107	107	107	107	107	107	107	107	107	107	107	107	107	107
Central government	1,011	1,041	1,076	1,112	1,156	1,208	1,272	1,349	1,432	1,523	1,622	1,729	1,846	1,973
Domestic debt	101	115	129	143	157	165	167	167	167	167	167	167	167	167
External debt	910	926	946	969	999	1,043	1,105	1,182	1,265	1,356	1,455	1,562	1,678	1,806
Multilateral	172	204	222	222	222	222	222	222	222	222	222	222	222	222
Bilateral and export credit	208	170	161	153	141	127	113	100	87	75	63	53	42	34
Commercial	531	552	549	546	546	546	546	546	546	546	546	546	546	519
New commercial borrowing	0	0	15	48	90	148	224	313	410	513	623	741	868	1,031
In percent of GDP														
Total	92.1	90.2	87.9	86.5	85.3	84.6	84.4	84.9	85.4	86.0	86.7	87.5	88.4	89.5
Other public and publicly guaranteed external debt	8.8	8.4	7.9	7.6	7.2	6.9	6.5	6.2	5.9	5.6	5.4	5.1	4.8	4.6
Central government	83.3	81.8	80.0	78.9	78.1	77.7	77.9	78.6	79.5	80.4	81.3	82.4	83.6	84.9
Domestic debt	8.3	9.1	9.6	10.2	10.6	10.6	10.3	9.8	9.3	8.8	8.4	8.0	7.6	7.2
External debt	75.0	72.7	70.4	68.7	67.4	67.1	67.6	68.9	70.2	71.5	72.9	74.4	76.0	77.7
Multilateral	14.2	16.0	16.5	15.7	15.0	14.3	13.6	12.9	12.3	11.7	11.1	10.6	10.0	9.5
Bilateral and export credit	17.1	13.3	12.0	10.8	9.5	8.2	6.9	5.8	4.8	3.9	3.2	2.5	1.9	1.5
Commercial	43.7	43.4	40.8	38.7	36.9	35.1	33.4	31.8	30.3	28.8	27.4	26.0	24.7	22.3
New financing requirement	0.0	0.0	1.1	3.4	6.1	9.5	13.7	18.3	22.7	27.1	31.2	35.3	39.3	44.4
2. Flow of funds							(In percent of GDP)							
2.1. Sources of funds														
Primary balance	3.8	2.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Identified disbursements	12.0	7.2	3.6	2.3	2.1	1.5	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Multilateral	1.3	3.4	2.3	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Bilateral and export credit	5.4	2.3	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial	5.3	1.5	1.0	1.0	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	5.1	1.1	1.0	1.0	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External 1/	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds														
Debt service 1/	10.8	9.9	6.2	6.1	6.4	6.8	7.2	8.6	9.7	10.2	11.0	11.7	12.9	15.0
Interest payments	5.8	5.0	4.1	4.1	4.5	4.9	5.4	6.0	6.2	6.3	6.5	6.6	6.8	7.0
Principal repayments	5.0	4.9	2.2	2.1	2.0	1.9	1.7	2.6	3.5	3.8	4.5	5.1	6.1	8.0
2.3. New financing requirement 2/	**0.0**	**0.0**	**1.1**	**2.3**	**2.8**	**3.8**	**4.6**	**6.1**	**7.2**	**7.6**	**8.5**	**9.2**	**10.5**	**12.6**
Assumptions														
Nominal GDP (US$ millions)	1,214	1,274	1,345	1,410	1,481	1,555	1,633	1,715	1,802	1,895	1,994	2,098	2,208	2,324
Nominal GDP growth rate (percent)	8.9	5.0	5.6	4.9	5.0	5.0	5.0	5.0	5.1	5.2	5.2	5.2	5.2	5.3
Real GDP growth rate (percent)	5.6	2.2	3.0	2.3	2.4	2.4	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Annual inflation (deflator, in percent)	3.1	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Assumed domestic borrowing rate (percent)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Nominal external commercial borrowing rate (percent)	13.8	9.0	9.1	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Assumed 10-year U.S. T-Bond (percent)	4.8	5.0	5.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Spread over 10-year U.S. T-Bond (percent)	9.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal external multilateral/bilateral borrowing rate (percent)	6.3	6.2	5.4	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Six-month LIBOR rate (percent) 3/	5.3	5.2	4.4	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Spread over LIBOR rate (percent)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:														
Overall central government balance (calendar year, percent of GDP)	-2.0	-2.4	-2.6	-2.6	-3.0	-3.4	-3.9	-4.5	-4.6	-4.8	-4.9	-5.1	-5.3	-5.5
Implicit nominal interest rate (percent) 4/	6.5	5.7	4.8	4.9	5.4	6.0	6.8	7.5	7.6	7.8	7.9	8.1	8.2	8.4
Gross financing requirement	12.0	7.2	4.7	4.6	4.9	5.3	5.7	7.1	8.2	8.6	9.5	10.2	11.4	13.5

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

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

Table 7b. Belize: Public and Publicly Guaranteed Debt Simulations, 2006–19 (Active Scenario)

	Prel. 2006	Proj. 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
							(I n millions of U.S. dollars)							
1. Public and publicly guaranteed debt														
Total	1,118	1,148	1,158	1,160	1,152	1,140	1,130	1,124	1,119	1,114	1,105	1,095	1,077	1,055
Other public and publicly guaranteed external debt	107	107	107	107	107	107	107	107	107	107	107	107	107	107
Central government	1,011	1,041	1,051	1,053	1,046	1,034	1,023	1,017	1,012	1,007	998	989	970	948
Domestic debt	101	115	117	117	117	117	117	117	117	117	117	117	117	117
External debt	910	926	934	936	928	916	905	900	895	889	881	871	852	831
Multilateral	172	204	224	237	241	243	246	253	262	268	271	272	266	266
Bilateral and export credit	208	170	161	153	141	127	113	100	87	75	63	53	42	34
Commercial	531	552	549	546	546	546	546	546	546	546	546	546	546	519
New commercial borrowing	0	0	0	0	0	0	0	0	0	0	0	0	-2	11
In percent of GDP														
Total	92.1	90.2	86.1	81.4	76.3	71.2	66.4	62.3	58.4	54.7	51.1	47.7	44.1	40.7
Other public and publicly guaranteed external debt	8.8	8.4	7.9	7.5	7.1	6.7	6.3	5.9	5.6	5.3	4.9	4.7	4.4	4.1
Central government	83.3	81.8	78.1	73.9	69.2	64.5	60.1	56.3	52.8	49.5	46.2	43.0	39.7	36.5
Domestic debt	8.3	9.1	8.7	8.2	7.8	7.3	6.9	6.5	6.1	5.8	5.4	5.1	4.8	4.5
External debt	75.0	72.7	69.4	65.7	61.4	57.2	53.2	49.8	46.7	43.7	40.7	37.9	34.9	32.0
Multilateral	14.2	16.0	16.7	16.6	16.0	15.2	14.5	14.0	13.7	13.2	12.5	11.8	10.9	10.3
Bilateral and export credit	17.1	13.3	12.0	10.7	9.3	7.9	6.7	5.5	4.6	3.7	2.9	2.3	1.7	1.3
Commercial	43.7	43.4	40.8	38.3	36.2	34.1	32.1	30.3	28.5	26.8	25.3	23.8	22.4	20.0
New financing requirement	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	0.4
2. Flow of funds							(In percent of GDP)							
2.1. Sources of funds														
Primary balance	3.8	2.7	3.2	3.6	4.4	4.7	4.7	4.5	4.2	4.0	3.9	3.7	3.8	3.7
Identified disbursements	12.0	7.2	2.9	2.2	1.4	1.1	1.1	1.4	1.4	1.3	1.1	1.1	0.7	0.9
Multilateral	1.3	3.4	2.5	1.9	1.2	1.1	1.1	1.4	1.4	1.3	1.1	1.1	0.7	0.9
Bilateral and export credit	5.4	2.3	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial	5.3	1.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	5.1	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External 1/	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Use of funds														
Debt service 1/	10.8	9.9	6.2	5.8	5.8	5.8	5.8	5.9	5.6	5.3	5.0	4.7	4.5	5.2
Interest payments	5.8	5.0	4.0	3.8	3.9	3.9	4.1	4.2	3.9	3.7	3.5	3.3	3.1	2.9
Principal repayments	5.0	4.9	2.2	2.0	1.9	1.8	1.7	1.7	1.7	1.6	1.5	1.5	1.4	2.3
2.3. New financing requirement 2/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.5**
Assumptions														
Nominal GDP (US$ millions)	1,214	1,274	1,346	1,426	1,511	1,603	1,701	1,805	1,916	2,035	2,162	2,297	2,441	2,594
Nominal GDP growth rate (percent)	8.9	5.0	5.6	5.9	6.0	6.1	6.1	6.1	6.2	6.2	6.2	6.2	6.3	6.3
Real GDP growth rate (percent)	5.6	2.2	2.7	3.4	3.4	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.7	3.7
Annual inflation (deflator, in percent)	3.1	2.7	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Assumed domestic borrowing rate (percent)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Nominal external commercial borrowing rate (percent)	13.8	9.0	9.1	9.3	8.5	8.5	8.3	8.3	8.0	8.0	8.0	8.0	8.0	8.0
Assumed 10-year U.S. T-Bond (percent)	4.8	5.0	5.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Spread over 10-year U.S. T-Bond (percent)	9.0	4.0	4.0	4.0	3.3	3.3	3.0	3.0	2.8	2.8	2.8	2.8	2.8	2.8
Nominal external multilateral/bilateral borrowing rate (percent)	6.3	6.2	5.4	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Six-month LIBOR rate (percent) 3/	5.3	5.2	4.4	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Spread over LIBOR rate (percent)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:														
Overall central government balance (calendar year, percent of GDP)	-2.0	-2.4	-0.7	-0.1	0.5	0.7	0.6	0.3	0.2	0.3	0.4	0.4	0.8	0.8
Implicit nominal interest rate (percent) 4/	6.5	5.7	4.7	4.6	5.0	5.4	6.1	6.7	6.7	6.8	6.8	6.8	6.8	6.9
Gross financing requirement	12.0	7.2	2.9	2.2	1.4	1.1	1.1	1.4	1.4	1.3	1.1	1.1	0.6	1.4

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

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

APPENDIX I. BACKGROUND AND SUMMARY OF APPENDICES

Discussions. The 2007 Article IV consultation discussions were held in Belize during December 4–13, 2007. The mission met with Prime Minister Musa, Finance Secretary Waight, Central Bank of Belize (CBB) Governor Campbell, other government officials and representatives of the private sector, labor unions and the political opposition. The staff team comprised P. Gajdeczka (Head), E. Boz and M. Kandil (WHD) and A. Palmason (PDR). Ms. Y. Alvarez (OED) joined the team for the final discussions.

Exchange Arrangement. Belize has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current transactions. The Belize dollar has been pegged to the U.S. dollar at BZ$2=US$1 since 1976.

Fund Relations. Belize has no outstanding purchases or loans. The last financial arrangement was a Stand-by Arrangement for the period 12/03/84 to 05/31/86 totaling SDR$7.13 million, fully drawn.

Technical Assistance.

- A MCM mission visited Belize during December 4–15, 2006 to design monetary policy instruments.
- A FAD mission visited Belize during February 6–20, 2007 to review domestic tax and custom systems; and provide advice on revenue administration.
- A multi-sector mission visited Belize during February 21–March 7, 2007 to assess the quality of macroeconomic statistics. A follow-up mission visited Belize during August 15–26 to provide technical assistance on national account statistics.

Relations with the World Bank Group. A five-year Country Assistance Strategy was completed for Belize in August 2000 (Report No. 20708-BEL), which identified only modest project assistance. Currently, the World Bank has no active projects in Belize.

Relations with the Inter-American Development Bank (IDB). The 2004–08 Country Strategy, approved in September 2004, aims at assisting Belize in its transition towards private sector-led growth. In December 2006, IDB approved US$25 million in Policy-Based Loan (PBL), which has been fully disbursed. Currently, IDB is preparing a range of sector studies that will inform a policy dialogue paper and a new country strategy for 2008–12.

Relations with the Caribbean Development Bank (CDB). In December 2006, CDB approved US$25 million in Policy-Based Loan, of which the first tranche was disbursed in August 2007. The PBL is part of a broader assistance strategy for Belize that aims at addressing fiscal and external imbalances and undertakes critical investment in social and economic infrastructure.

APPENDIX II. DEBT SUSTAINABILITY ANALYSIS

Results of an updated Debt Sustainability Analysis (DSA) are in line with those of the 2006 Article IV consultation report. Minor differences arise from revisions to historical data and lower than previously assumed interest rates as a result of the debt exchange.

A. Key Assumptions

Two modifications were made to the standard DSA template on account of Belize specific factors:

- Interest rate fed into the calculation of the debt stabilizing primary surplus: With the step-up structure of the exchanged debt, the last increase in the interest rate is scheduled to take place in 2013 (a jump from 6 to 8.5 percent). To capture this jump going forward, 2013 interest rate figures were used instead of 2012 in the standard template.
- Unchanged policy scenario**:** Due to the reduction in primary surplus resulting from oil savings starting in FY 2008/09, the primary surplus under unchanged policies was assumed to be the 2008 level instead of 2007.

Both scenarios assume:

- Public sector debt includes the central government, publicly guaranteed external debt, and other public sector external debt, and contingent liabilities including Belize Electricity, Development Finance Corporation, Port of Belize, and Universal Health Services.
- Future central government liabilities to a pension plan for public officers are not included. According to the most recent actuarial evaluation (2004), the present value of obligations from pensions already being paid and future obligation for the currently active staff was about 20 percent of GDP.
- External debt is on a gross basis, while domestic debt is on a net basis.
- Multilateral and bilateral borrowing takes place at LIBOR plus 100 basis points spread.

Baseline scenario assumes:

- Multilateral and domestic debt stocks are constant.
- Financing requirements are covered by external commercial creditors at market interest rates (the average of the last three years of the six-month libor plus 400 basis points of country spread).

Active scenario assumes:

- Enough multilateral financing will be available to meet financing requirements.
- Debt to the multilaterals will trend upwards until 2018, and thereafter part of the financing needs will be met commercially.

B. Assessment

Under the baseline scenario, debt is unsustainable in the long-run. Although this scenario suggests a downward trend in the period covered by DSA, debt ratios get back on an increasing trend starting from 2013, reaching 89.5 percent in 2019. (See Table 7a.) The initial decline in debt ratios is due to lower interest payments on the exchanged debt and when this interest rate climbs to 8.5 percent in 2013, the debt trajectory becomes unsustainable. The accumulated savings in the oil fund reach 7 percent of GDP by 2012. This implies lower debt ratios in net terms (77 percent in 2012), although, does not change the overall debt trajectory.

Bounds tests reveal that the debt trajectory can change dramatically in response to standard shocks. For example, debt ratios are particularly sensitive to the depreciation shock given that 81 percentage points of the total public debt is denominated in foreign currency in 2007. In response to this shock, the total debt ratio would increase to 127 percent on impact and follow a similar trajectory to that of baseline. Government liabilities to the pension fund can be thought of as a contingent stream of payments that would reduce primary balances which would increase the debt ratios and could potentially put the debt trajectory in an unsustainable path.

Under the active scenario, total debt ratios decline gradually to 66 percent by 2012 and to 40 percent by 2019. The fiscal adjustment and the availability of multilateral financing at favorable terms are the driving factors. Bound tests reveal reduced vulnerability to shocks compared to the passive scenario.

Compared to the 2006 Article IV consultation report, both scenarios display somewhat lower debt ratios. The current baseline scenario predicts lower debt ratios and lower debt-stabilizing primary balance compared to those of last year's, largely due to reduced interest payments after the debt exchange. However, similar to last year's assessment, high vulnerability to standard shocks remains. In the active scenario, which envisages a fiscal adjustment comparable to last year's, vulnerability to shocks is reduced, reflecting lower than previously assumed interest rates as a result of the debt exchange.

Table 1. Belize: Public Sector Debt Sustainability Framework, 2002–12 (Baseline Scenario)

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	**89.0**	**102.3**	**99.5**	**98.7**	**92.1**	**90.2**	**88.0**	**86.5**	**85.3**	**84.6**	**84.4**	**1.9**
Of which: foreign-currency denominated	85.8	96.7	91.2	90.8	83.8	81.0	78.3	76.2	74.6	73.9	74.2	
2 Change in public sector debt	5.2	13.3	-2.8	-0.8	-6.5	-2.0	-2.2	-1.5	-1.2	-0.7	-0.1	
3 Identified debt-creating flows (4+7+12)	-0.6	0.3	-10.7	-4.5	-6.4	-2.0	-2.2	-1.5	-1.2	-0.7	-0.1	
4 Primary deficit	2.4	5.9	-0.8	-1.2	-3.8	-2.7	-1.5	-1.5	-1.5	-1.5	-1.5	
5 Revenue and grants	25.3	21.4	22.8	23.4	25.3	27.7	27.0	26.4	25.1	25.3	25.5	
6 Primary (noninterest) expenditure	27.7	27.3	22.0	22.2	21.5	25.1	25.5	24.9	23.6	23.8	23.9	
7 Automatic debt dynamics 2/	-2.0	-0.2	0.6	0.5	-2.2	0.7	-0.7	0.0	0.4	0.8	1.4	
8 Contribution from interest rate/growth differential 3/	-2.0	-0.2	0.6	0.5	-2.2	0.7	-0.7	0.0	0.4	0.8	1.4	
9 *Of which*: contribution from real interest rate	1.8	7.5	5.0	4.1	2.9	2.6	1.9	1.9	2.4	2.8	3.4	
10 *Of which*: contribution from real GDP growth	-3.7	-7.7	-4.4	-3.6	-5.1	-1.9	-2.6	-1.9	-2.0	-2.0	-2.0	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12 Other identified debt-creating flows	-1.1	-5.4	-10.6	-3.8	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	-2.6	4.1	-1.9	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	1.5	-9.5	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	5.8	13.0	7.9	3.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	351.7	478.5	436.5	421.6	364.5	325.2	325.4	327.7	339.7	334.4	331.7	
Gross financing need 6/	**13.8**	**15.7**	**18.2**	**19.4**	**7.0**	**6.4**	**4.7**	**4.6**	**4.9**	**5.3**	**5.7**	
in billions of U.S. dollars	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Scenario with key variables at their historical averages 7/						**90.2**	**91.3**	**92.3**	**93.4**	**94.5**	**95.5**	**-1.3**
Scenario with no policy change (constant primary balance) in -2012						**90.2**	**88.0**	**86.5**	**85.3**	**84.6**	**84.4**	**1.9**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.7	9.2	4.6	3.9	5.6	2.2	3.0	2.3	2.4	2.4	2.5	
Average nominal interest rate on public debt (in percent) 8/	4.1	5.5	7.5	7.0	6.4	5.7	4.8	4.9	5.4	6.0	6.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.3	8.6	5.4	4.5	3.3	3.0	2.3	2.4	2.9	3.5	4.3	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.8	-3.1	2.1	2.5	3.1	2.7	2.5	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.7	7.7	-15.6	4.1	2.2	19.0	4.9	-0.3	-2.9	3.3	3.2	
Primary deficit	2.4	5.9	-0.8	-1.2	-3.8	-2.7	-1.5	-1.5	-1.5	-1.5	-1.5	
A2. No policy change (constant primary balance) in 2005-09						90.2	88.0	86.5	85.3	84.6	84.4	1.9
B. Bound Tests												
B1. Real interest rate is at historical average plus one standard deviation						90.2	88.8	88.1	87.7	87.8	88.5	2.2
B2. Real GDP growth is at historical average minus one standard deviation						90.2	89.7	90.4	91.8	94.1	97.5	3.1
B3. Primary balance is at historical average minus one standard deviation						90.2	89.8	90.1	90.8	92.0	93.8	1.5
B4. Combination of B1-B3 using 1/2 standard deviation shocks						90.2	90.0	90.5	91.4	92.8	94.8	2.7
B5. One time 30 percent real depreciation in 2006 10/						90.2	126.7	125.2	124.2	123.9	124.3	2.0
B6. 10 percent of GDP increase in other debt-creating flows in 2006						90.2	98.0	96.5	95.3	94.7	94.8	1.5

1/ Public sector debt includes central government, publicly guaranteed external debt, anectodal external public debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

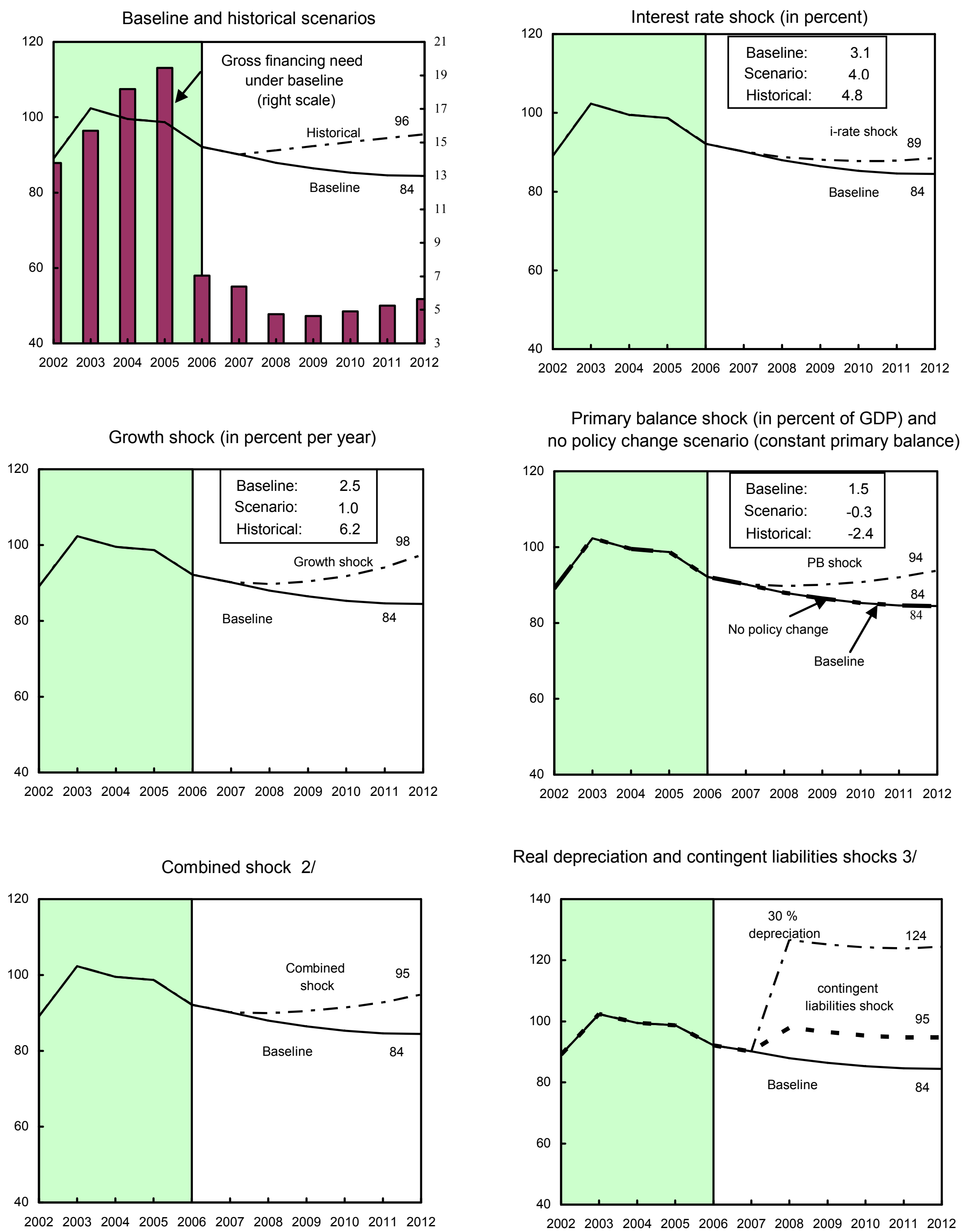
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2013 to capture the increased interest rates starting from 2013 due to the step-up structure of the exchanged bond.

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



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 2. Belize: External Debt Sustainability Framework, 2002–12 (Baseline Scenario)

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Debt-stabilizing non-interest current account 6/
1	**Baseline: External debt**	**85.8**	**96.7**	**91.2**	**90.8**	**83.8**	**81.0**	**78.3**	**76.2**	**74.6**	**73.9**	**74.2**	**-4.3**
2	Change in external debt	10.4	10.8	-5.5	-0.4	-7.0	-2.8	-2.8	-2.0	-1.6	-0.7	0.2	
3	Identified external debt-creating flows (4+8+9)	9.0	9.7	-2.7	-0.8	-13.0	-6.0	-5.2	-4.4	-3.6	-2.9	-2.2	
4	Current account deficit, excluding interest payments	14.3	12.4	8.5	7.6	-2.8	-1.2	0.1	0.1	0.3	0.3	0.3	
5	Deficit in balance of goods and services	14.6	16.9	8.1	8.7	-1.6	-0.4	0.7	0.7	0.7	0.7	0.8	
6	Exports	52.9	50.0	51.4	55.4	64.4	64.7	63.5	63.5	63.5	63.4	63.4	
7	Imports	67.4	67.0	59.5	64.1	62.8	64.3	64.2	64.2	64.2	64.2	64.2	
8	Net nondebt creating capital inflows (negative)	-6.2	-3.7	-11.3	-10.3	-7.7	-7.3	-6.3	-6.1	-5.8	-5.6	-5.3	
9	Automatic debt dynamics 1/	0.9	1.0	0.1	1.9	-2.5	2.6	1.0	1.6	1.9	2.3	2.9	
10	Contribution from nominal interest rate	5.8	5.8	6.3	6.8	4.9	4.3	3.3	3.3	3.7	4.1	4.6	
11	Contribution from real GDP growth	-3.3	-7.4	-4.2	-3.3	-4.7	-1.8	-2.3	-1.7	-1.8	-1.7	-1.7	
12	Contribution from price and exchange rate changes 2/	-1.6	2.6	-2.0	-1.5	-2.7	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	1.4	1.1	-2.8	0.4	6.0	3.2	2.4	2.3	2.0	2.3	2.4	
	External debt-to-exports ratio (in percent)	162.3	193.2	177.3	163.9	130.2	125.3	123.4	120.1	117.6	116.6	116.9	
	Gross external financing need (in billions of US dollars) 4/	**0.3**	**0.2**	**0.3**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	
	in percent of GDP	35.7	23.3	27.1	28.5	8.1	7.1	5.6	5.5	6.0	6.3	6.6	
	Scenario with key variables at their historical averages 5/						**81.0**	**89.0**	**96.7**	**104.0**	**111.4**	**118.8**	**-5.3**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	4.7	9.2	4.6	3.9	5.6	2.2	3.0	2.3	2.4	2.4	2.5	
	GDP deflator in U.S. dollars (change in percent)	2.2	-2.9	2.1	1.7	3.1	2.7	2.5	2.5	2.5	2.5	2.5	
	Nominal external interest rate (in percent)	8.3	7.2	7.0	7.8	5.8	5.4	4.3	4.4	5.0	5.7	6.6	
	Growth of exports (U.S. dollar terms, in percent)	11.3	0.3	9.8	13.8	26.6	5.4	3.6	4.9	5.0	4.9	5.1	
	Growth of imports (U.S. dollar terms, in percent)	4.2	5.2	-5.1	13.9	6.6	7.4	5.4	4.9	5.0	5.0	5.1	
	Current account balance, excluding interest payments	-14.3	-12.4	-8.5	-7.6	2.8	1.2	-0.1	-0.1	-0.3	-0.3	-0.3	
	Net non-debt creating capital inflows	6.2	3.7	11.3	10.3	7.7	7.3	6.3	6.1	5.8	5.6	5.3	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate.
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

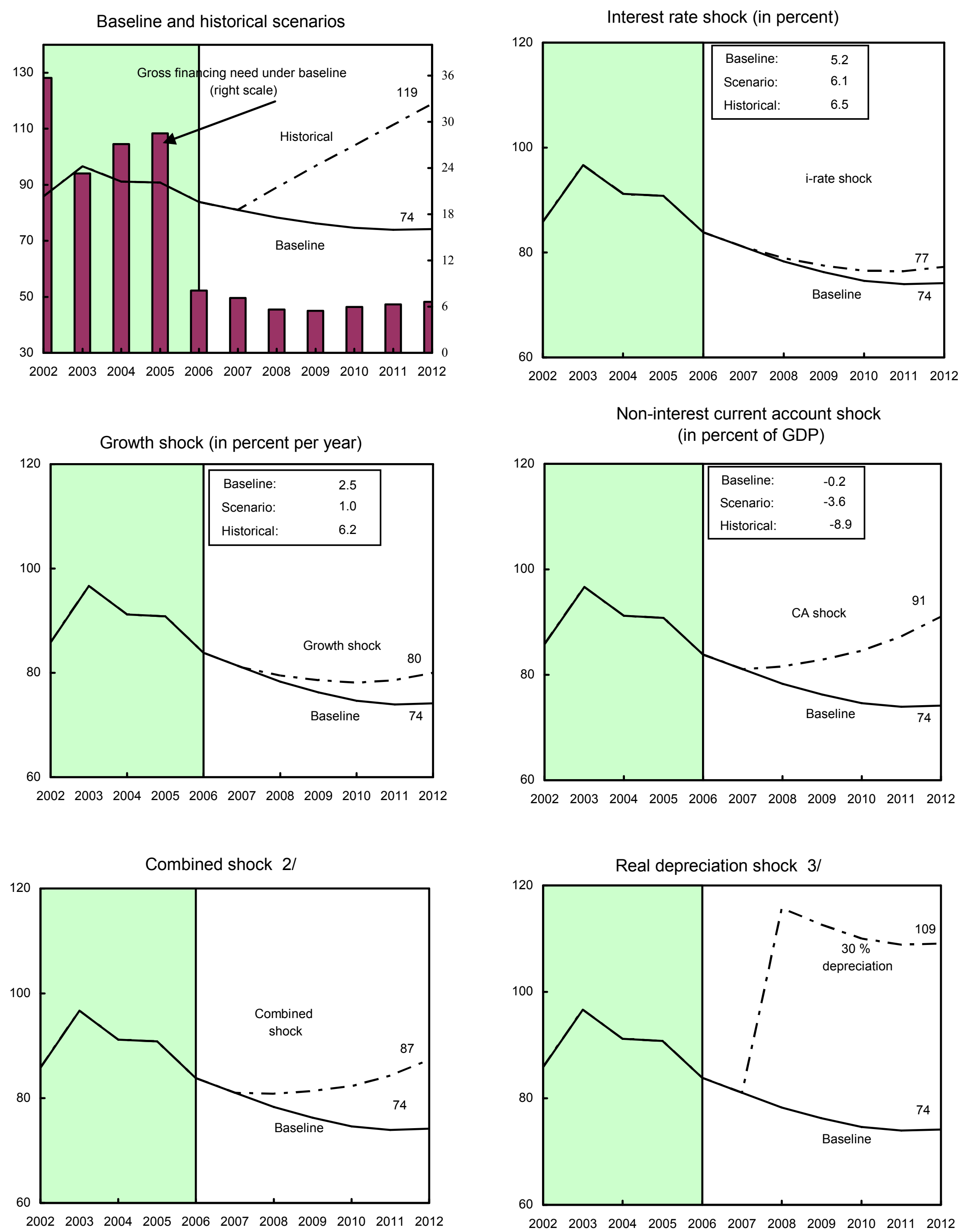
3/ For projection, line includes the impact of price and exchange rate changes.

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.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2008.

Table 3. Belize: Public Sector Debt Sustainability Framework, 2002–12 (Active Scenario)

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	**89.0**	**102.3**	**99.5**	**98.7**	**92.1**	**90.2**	**86.1**	**81.4**	**76.3**	**71.2**	**66.4**	**0.8**
Of which: foreign-currency denominated	85.8	96.7	91.2	90.8	83.8	81.0	77.3	73.1	68.5	63.8	59.5	
2 Change in public sector debt	5.2	13.3	-2.8	-0.8	-6.5	-2.0	-4.1	-4.7	-5.1	-5.1	-4.7	
3 Identified debt-creating flows (4+7+12)	-0.6	0.3	-10.7	-4.5	-6.4	-2.0	-3.4	-4.7	-5.1	-5.1	-4.7	
4 Primary deficit	2.4	5.9	-0.8	-1.2	-3.8	-2.7	-3.2	-3.6	-4.4	-4.7	-4.7	
5 Revenue and grants	25.3	21.4	22.8	23.4	25.3	27.7	28.5	28.3	28.2	28.2	26.8	
6 Primary (noninterest) expenditure	27.7	27.3	22.0	22.2	21.5	25.1	25.3	24.7	23.9	23.6	22.1	
7 Automatic debt dynamics 2/	-2.0	-0.2	0.6	0.5	-2.2	0.7	-0.2	-1.1	-0.8	-0.4	0.0	
8 Contribution from interest rate/growth differential 3/	-2.0	-0.2	0.6	0.5	-2.2	0.7	-0.2	-1.1	-0.8	-0.4	0.0	
9 Of which contribution from real interest rate	1.8	7.5	5.0	4.1	2.9	2.6	1.5	1.7	1.9	2.1	2.3	
10 Of which contribution from real GDP growth	-3.7	-7.7	-4.4	-3.6	-5.1	-1.9	-1.7	-2.7	-2.6	-2.5	-2.4	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12 Other identified debt-creating flows	-1.1	-5.4	-10.6	-3.8	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	-2.6	4.1	-1.9	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	1.5	-9.5	-8.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	5.8	13.0	7.9	3.7	-0.2	0.0	-0.7	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	351.7	478.5	436.5	421.6	364.5	325.2	301.8	287.6	270.0	252.1	248.2	
Gross financing need 6/	**13.8**	**15.7**	**18.2**	**19.4**	**7.0**	**6.4**	**2.9**	**2.2**	**1.4**	**1.1**	**1.1**	
in billions of U.S. dollars	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Scenario with key variables at their historical averages 7/						**90.2**	**90.6**	**91.7**	**92.8**	**93.9**	**94.9**	**-1.3**
Scenario with no policy change (constant primary balance) in -2012						**90.2**	**85.0**	**83.5**	**82.4**	**81.7**	**81.6**	**1.4**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.7	9.2	4.6	3.9	5.6	2.2	1.9	3.4	3.4	3.5	3.5	
Average nominal interest rate on public debt (in percent) 8/	4.1	5.5	7.5	7.0	6.4	5.7	4.7	4.6	5.0	5.4	6.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.3	8.6	5.4	4.5	3.3	3.0	1.8	2.1	2.5	2.9	3.6	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.8	-3.1	2.1	2.5	3.1	2.7	2.9	2.5	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.7	7.7	-15.6	4.1	2.2	19.0	3.6	0.8	0.1	2.2	-3.2	
Primary deficit	2.4	5.9	-0.8	-1.2	-3.8	-2.7	-3.2	-3.6	-4.4	-4.7	-4.7	
A2. No policy change (constant primary balance) in 2005-09						90.2	85.0	83.5	82.4	81.7	81.6	1.4
B. Bound Tests												
B1. Real interest rate is at historical average plus one standard deviation						90.2	87.1	83.3	79.1	74.9	71.0	0.6
B2. Real GDP growth is at historical average minus one standard deviation						90.2	88.1	85.6	83.1	80.9	79.3	1.2
B3. Primary balance is at historical average minus one standard deviation						90.2	87.9	85.0	81.7	78.4	75.5	0.0
B4. Combination of B1-B3 using 1/2 standard deviation shocks						90.2	88.1	85.4	82.2	78.9	76.1	0.9
B5. One time 30 percent real depreciation in 2006 10/						90.2	125.9	120.8	115.5	110.4	105.8	0.0
B6. 10 percent of GDP increase in other debt-creating flows in 2006						90.2	96.1	91.3	86.0	80.9	76.1	0.0

1/ Public sector debt includes central government, publicly guaranteed external debt, anectodal external public debt and other public sector external debt. External debt is on a gross basis, while domestic debt is on a net basis.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

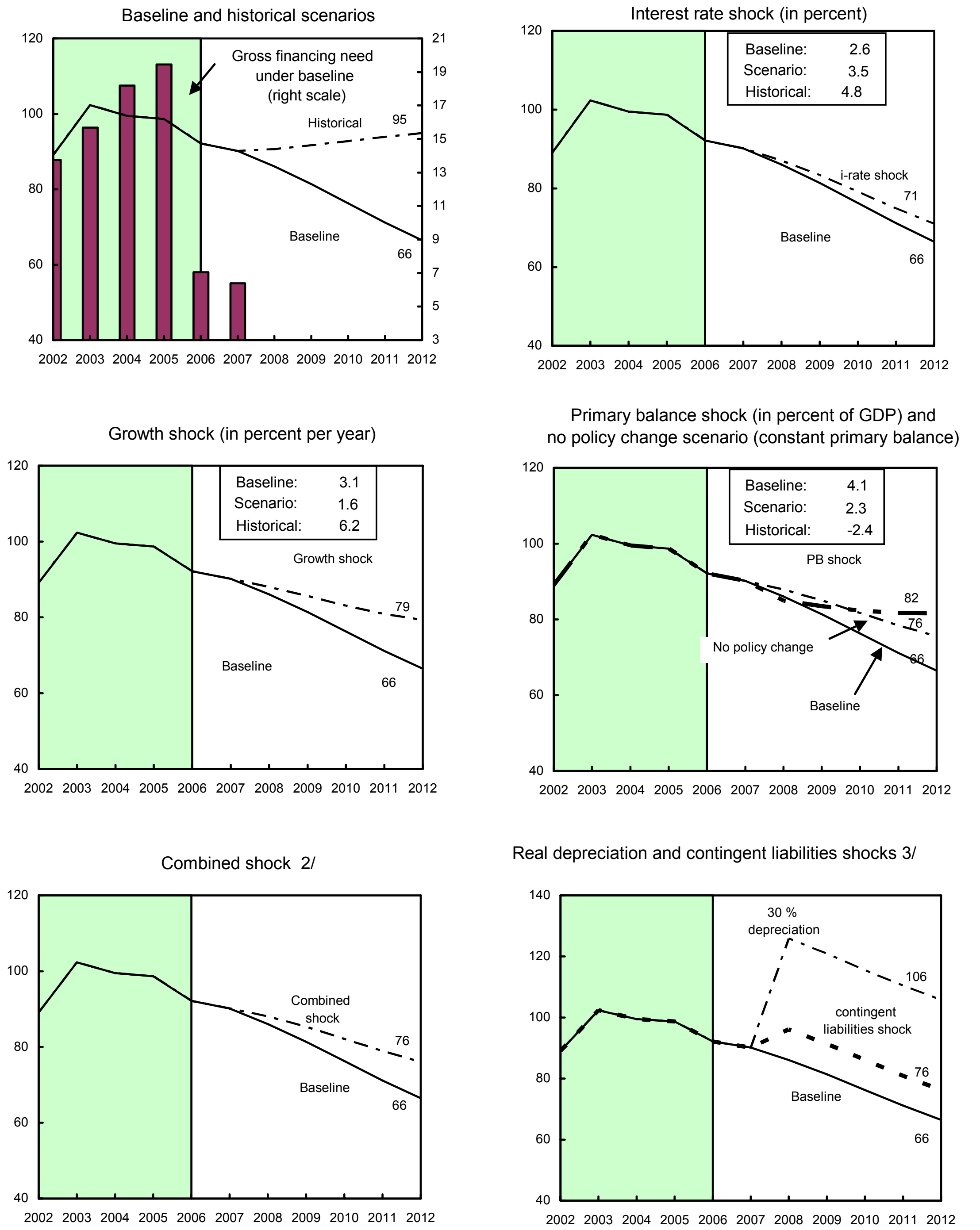
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of 2013 to capture the increased interest rates starting from 2013 due to the step-up structure of the exchanged bond.

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



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 4. Belize: External Debt Sustainability Framework, 2002–12 (Active Scenario)

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: external debt**	**85.8**	**96.7**	**91.2**	**90.8**	**83.8**	**81.0**	**77.3**	**73.1**	**68.5**	**63.8**	**59.5**	**-5.3**
2	Change in external debt	10.4	10.8	-5.5	-0.4	-7.0	-2.8	-3.7	-4.2	-4.7	-4.7	-4.3	
3	Identified external debt-creating flows (4+8+9)	9.0	9.7	-2.7	-0.8	-13.0	-6.0	-4.8	-6.7	-6.4	-6.0	-5.6	
4	Current account deficit, excluding interest payments	14.3	12.4	8.5	7.6	-2.8	-1.2	-0.2	-1.4	-1.6	-1.7	-1.9	
5	Deficit in balance of goods and services	14.6	16.9	8.1	8.7	-1.6	-0.4	0.7	-0.3	-0.5	-0.8	-1.0	
6	Exports	52.9	50.0	51.4	55.4	64.4	64.7	63.4	63.4	63.4	63.4	63.6	
7	Imports	67.4	67.0	59.5	64.1	62.8	64.3	64.1	63.1	62.9	62.6	62.6	
8	Net non-debt creating capital inflows (negative)	-6.2	-3.7	-11.3	-10.3	-7.7	-7.3	-6.3	-6.0	-5.7	-5.4	-5.1	
9	Automatic debt dynamics 1/	0.9	1.0	0.1	1.9	-2.5	2.6	1.8	0.7	0.9	1.1	1.4	
10	Contribution from nominal interest rate	5.8	5.8	6.3	6.8	4.9	4.3	3.3	3.1	3.2	3.3	3.5	
11	Contribution from real GDP growth	-3.3	-7.4	-4.2	-3.3	-4.7	-1.8	-1.5	-2.5	-2.4	-2.2	-2.1	
12	Contribution from price and exchange rate changes 2/	-1.6	2.6	-2.0	-1.5	-2.7	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	1.4	1.1	-2.8	0.4	6.0	3.2	1.0	2.5	1.7	1.3	1.3	
	External debt-to-exports ratio (in percent)	162.3	193.2	177.3	163.9	130.2	125.3	121.9	115.4	108.0	100.7	93.6	
	Gross external financing need (in billions of US dollars) 4/	**0.3**	**0.2**	**0.3**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	
	in percent of GDP	35.7	23.3	27.1	28.5	8.1	7.1	5.3	3.8	3.6	3.5	3.3	
	Scenario with key variables at their historical averages 5/						**81.0**	**88.5**	**96.4**	**103.4**	**109.9**	**116.2**	**-5.3**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	4.7	9.2	4.6	3.9	5.6	2.2	1.9	3.4	3.4	3.5	3.5	
	GDP deflator in U.S. dollars (change in percent)	2.2	-2.9	2.1	1.7	3.1	2.7	3.6	2.5	2.5	2.5	2.5	
	Nominal external interest rate (in percent)	8.3	7.2	7.0	7.8	5.8	5.4	4.3	4.3	4.7	5.2	5.8	
	Growth of exports (U.S. dollar terms, in percent)	11.3	0.3	9.8	13.8	26.6	5.4	3.6	5.9	6.0	6.1	6.4	
	Growth of imports (U.S. dollar terms, in percent)	4.2	5.2	-5.1	13.9	6.6	7.4	5.4	4.2	5.7	5.5	6.1	
	Current account balance, excluding interest payments	-14.3	-12.4	-8.5	-7.6	2.8	1.2	0.2	1.4	1.6	1.7	1.9	
	Net non-debt creating capital inflows	6.2	3.7	11.3	10.3	7.7	7.3	6.3	6.0	5.7	5.4	5.1	

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 U.S. 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).

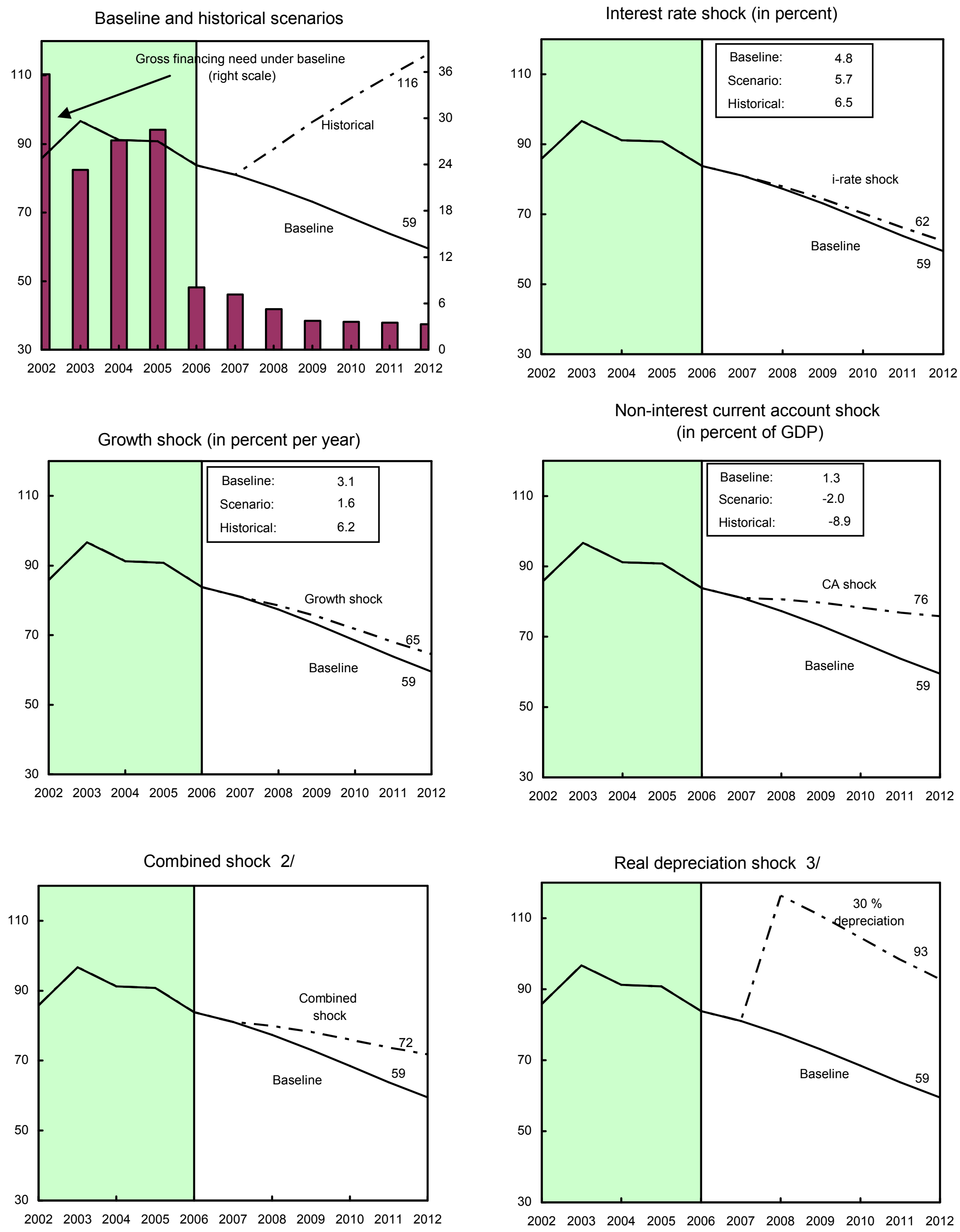
3/ For projection, line includes the impact of price and exchange rate changes.

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.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2008.

INTERNATIONAL MONETARY FUND

BELIZE

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

February 7, 2008

Contents Page

Appendices

Appendix I. Belize—Fund Relations

(As of December 31, 2007)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	18.80	100.00
Fund holdings of currency	14.56	77.46
Reserve Position	4.24	22.55
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Holdings	2.15	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	Dec 03, 1984	May 31, 1986	7.13	7.13

VI. Projected Payments to Fund: None

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of MDRI Assistance: Not Applicable

B. Nonfinancial Relations

IX. Exchange Rate

Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize does not maintain exchange restrictions or multiple currency practices. The central bank has not engaged in selective sales or rationing of foreign exchange to the private sector since 2004, and there does not appear to be an unsatisfied foreign exchange demand for commercial banks.

X. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on October 20, 2006; the relevant documents were IMF Country Report Nos. 06/369 and 06/370. Belize is on the standard 12-month consultation cycle.

XI. Recent Technical Assistance

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

- MFD expert visited Belize in August 2003 for a Module 2 Offshore Financial Center Assessment. The mission updated and extended an OFC assessment undertaken in September 2001.

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

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

- A MCM mission visited Belize in December 4–15, 2006 to design monetary policy instruments.

- A FAD mission visited Belize in February 6–20, 2007 to review domestic tax and customs systems and procedures; and provide advice on an appropriate governance regime for the revenue administrations.

- A multisector statistics mission visited Belize during February 21–March 7, 2007 to assess the quality of the macroeconomic statistics in Belize—national accounts, consumer price index, government finance, monetary and financial, and balance of payments.

- A statistics mission visited Belize during August 15–26 to provide technical assistance on national accounts statistics.

Appendix II. Belize—Relations with the World Bank Group

(As of November 30, 2007)

I. Projects

A five year Country Assistance Strategy was completed for Belize in August 2000 (Report No. 20708-BEL), which identified only modest project assistance. The World Bank currently has no active projects in Belize.

II. Financial Relations

IBRD/IDA Operations

Loans/Credits/Grants Summary In USD Equivalent

	IBRD	IDA Credits	IDA Grants	Total
Original Principal	86,200,000	0	0	86,200,000
Cancellations	5,703,328	0	0	5,703,328
Disbursed	80,496,672	0	0	80,496,672
Undisbursed	0	0	0	0
Repaid	54,182,544	0	0	54,182,544
Due	26,314,128	0	0	26,314,128
Exchange Adjustment	-857,423	0	0	-857,423
Borrower Obligation	25,456,705	0	0	25,456,705

Gross Disbursements and Debt Service During Fiscal Year (July 1–June 30)

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 est
Disbursements	2.7	4.7	5.5	4.3	1.6	0.7	0.7	0	0
Repayments	3.5	3.3	3.4	4.8	4.8	4.6	4.5	4.9	4.9
Net	-0.9	1.3	2.1	-0.5	-3.2	-3.9	-3.8	-4.9	-4.9
Interest and fees	0.4	1.8	3.1	2.6	2.0	1.5	1.7	1.8	1.6

Appendix III. Belize—Relations with the Inter-American Development Bank
(As of December 31, 2007)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	**Approved**	**Undisbursed**
Land Administration II	7.0	1.7
Health Sector Reform	9.8	2.5
Total	**16.8**	**4.2**

II. Loan Transactions

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Net flows	**16.3**	**11.8**	**12.2**	**3.3**	**-3.1**	**5.1**	**11.7**
Gross disbursements	18.3	14.3	15.8	8.1	2.9	12.3	20.2
Amortization	0.0	0.0	0.5	1.6	2.5	3.7	4.0
Interest and charges	2.0	2.5	3.1	3.2	3.5	3.6	4.5

III. Economic and Sector Work

The 2004–08 IDB-Country Strategy with Belize, approved in September 2004, aims at assisting the country in its transition towards private sector-led growth. Accordingly, the Bank's strategy focuses on one major objective: "support private sector-led growth." The IDB is currently preparing a range of sector studies that will inform a policy dialogue paper and a new country strategy for 2008–2012.

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

(As of September 30, 2007)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	**Approved**	**Undisbursed**
Second Water and Sewerage Project	13.8	1.7
Rural Development	3.4	2.0
Health Sector Reform Program	5.6	4.1
Enhancement of Technical and Vocational Education	16.1	2.4
Southern Highway Rehabilitation	1.8	0.3
Social Investment Fund	7.1	6.5
Belize Cogeneration Energy Limited (Belcogen)	8.3	6.1
Policy-based loan	25.0	12.5
Third Road (Placencia Road Upgrade) Project	12.6	12.6
Modernization of Customs and Excise Department	2.5	2.5
Total	**96.2**	**50.7**

II. Loan Transactions

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**Sept 2007**
Net flows	**6.1**	**3.7**	**6.1**	**9.3**	**4.0**	**(1.7)**	**10.4**
Gross disbursements	9.3	7.6	9.5	13.5	9.4	3.9	13.7
Amortization	3.2	3.9	3.4	4.2	5.4	5.6	3.3
Interest and charges	3.9	3.6	3.6	3.9	4.5	4.7	3.4

III. Economic and Sector Work

Much of CDB's country and sector work in Belize since 2003 has focused on helping the authorities to address significant macroeconomic and fiscal imbalances, and to address sustainability issues in the operations of the Development Finance Corporation. This has resulted in a slower rate of loan approvals. A private sector loan to Belcogen was approved in 2005 while activity levels on CDB's main direct poverty reduction program, the Basic Needs Trust Fund, has been maintained.

The Belize authorities have been making significant effort to address the difficult fiscal and debt consequences that have resulted from the expansionary policies of recent years. In May 2006, the Government of Belize (GOBZ) requested a Policy Based Loan (PBL) of twenty-five million United States dollars (USD25 mn) from the Caribbean Development Bank (CDB) together with technical assistance (TA) support by way of additional loan and grants to assist in ensuring the success and sustainability of fundamental fiscal and structural reform measures which are being implemented. This request was approved by the CDB in December 2006 and the first disbursement was made in August 2007. The PBL is part of a broader assistance strategy by CDB for Belize. The strategy recognizes that the continuation of the fiscal and external imbalances will affect Belize's ability to undertake critical investments in social and economic infrastructure. The PBL is intended to help GOBZ close the fiscal and external financing gaps over the short to medium term, while it continues to implement corrective measures, including the restructuring of its debt, the reform of its tax regime and the strengthening of its fiscal management capacity. In December 2006, the CDB also approved a loan of USD$12.6mn to Belize for the upgrade the Placencia road which was appraised to have significant social and economic benefits. Technical assistance (TA) was also approved by the CDB to Belize to help ensure the success of its adjustment efforts. Such assistance includes a TA loan for the modernization of the Customs and Excise Department, and TA grants of USD101,200 each, for the modernization of financial regulations, and to assist Belize to establish an appropriate institutional framework for macro-economic management.

Appendix V. Belize—Statistical Issues

While data provision for surveillance purposes is still adequate overall, staff's analysis was affected by shortcomings in certain areas. The July 2007 report by the multisector statistics mission drew attention to shortcomings in national accounts, prices, balance of payments, external debt, government finance, and labor statistics. In particular, the lack of data on the International Investment Position (IIP) limited the scope of the staff's assessment of stability. The Central Bank of Belize publishes, in irregular intervals, a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest. The country has participated in the GDDS since September 27, 2006.

Real sector

A new national accounts system has been phased-in. Under the new system, national accounts at constant and current prices also are produced quarterly, instead of just annually. The base year for the compilation of national accounts has moved from 1984 to 2000, with consequent improvement of estimates at constant and current prices. Priorities for the period ahead include establishing a national accounts user advisory committee, updating the SNAPC-Belize application to take account of changes in the structure of the economy, modifying the concept of government industrial activity in conformity with the guidelines in the 1993 SNA, rebasing the national accounts to 2006 (including electricity imports in the merchandise trade statistics), conducting a survey of activity in the Commercial Free Zone, disaggregating the imports of the Export Processing Zone, undertaking an inventory of data sources for national accounts, updating the Register of Establishments, annotating all GDP tables to distinguish the various revision stages, and collecting data on informal sector activity.

The CPI market basket is based on a household expenditure survey that was conducted between June 1990 and March 1991 and needs to be updated. The CPI is calculated only four times a year (February, May, August, and November), with a lag of about three months, Labor market statistics are scarce and available at irregular intervals. Priorities include allocating additional staff to compile the CPI, establishing a CPI advisory committee to advise on the nature and purpose of the index, revising the procedures for collecting prices for perishable goods, undertaking the new Household Income and Expenditure Survey, improving the timeliness of the index, compiling a monthly CPI in accordance with international best practice, publishing the CPI weights, streamlining the price collection instruments, developing and disseminating a schedule for releasing the CPI, improving metadata, and developing procedures for taking account of quality change.

Fiscal accounts

Classification of expenditure into current and capital does not conform to international standards. The resumption of reporting annual data for the *Government Finance Statistics*

Yearbook and sub-annual data for the International Financial statistics is highly recommended. The most recently reported annual data were for 1997.

Priorities include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector; evaluating each statutory body to determine its proper sectorization; compiling GFS for the social security fund; including the social security fund and the extra budgetary units in the coverage of public sector debt data; and treating all government transactions in accordance with the guidelines of the GFSM 1986. Also, it would be important to audit the annual financial statements for the budgetary central government are audited in a timely manner; disseminate the statistics for central government aggregates and debt in accordance with the GDDS recommendations; and publish the available monthly data on budgetary central government revenue, expenditure and financing. Additionally, other needed improvements include reporting the monthly detailed data on revenues, expenditure, and financing for publication in the IFS and the GFSY; introducing a website link to the posted GDDS data; identifying the prior access to fiscal statistics in the GDDS; developing a migration path to adopt the GFSM 2001 methodology; identifying the institutional coverage of GFS tables; compiling GFS for extra budgetary units, consolidated central government, consolidated general government and consolidated public sector; compiling and disseminating GFS tables; including a five to ten year time-series for annual GFS data in publications; and including contact details in publications.

Monetary accounts

Monetary data are reported to STA and WHD on a timely fashion. The authorities implemented the Standardized Report Forms and data have been reported in this format since January 2006. However, the coverage of monetary data is incomplete as it includes only the accounts of the central bank and commercial banks; other depository corporations, including credit unions are not included. Contrary to methodological recommendations, interest accruals are included in other assets or other liabilities, rather than classified along with the underlying instruments. In addition, unclassified assets and liabilities are large.

Priorities for the period ahead include revising the data to include the accounts of commercial banks and the six largest credit unions; classifying international offshore banks as part of other financial corporations sub sector; sectorizing the Social Security Board as part of the general government; establishing an integrated monetary base; and establishing data sharing procedure between the CBB and the Supervisor of Insurance.

Balance of payments

The compilation of balance of payments is based on the fifth edition of the *Balance of Payments Manual (BPM5)*. The transition to BPM5 was completed in 2004. In addition, the authorities are refining the process for collecting relevant data that will enable regular presentation of quarterly balance of payments statistics. As for the coverage, timeliness and reporting of data for publication in the *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*, quarterly data on balance of payments statistics have been reported, albeit with a considerable lag. International Investment Position (IIP) Statistics are not compiled. A multisector statistics mission (February 21–March 7, 2007) made recommendations to improve and expand the compilation and dissemination of external sector statistics. There is a need for additional staff and relevant training (e.g., courses on BOP, international investment position, and external debt).

External debt

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

Development Finance Corporation

The accounts of the DFC, which is a major instrument of the government's economic policy, are not well integrated into monetary or fiscal accounts. Priorities include recording the financial support provided by the government to DFC in recent years; recording the loans to DFC locked by mortgage securities as debt; compiling a consolidated sectoral balance sheet for insurance companies and the Belize mutual fund; and renewing efforts to collect balance sheet data from the DFC.

Belize: Table of Common Indicators Required for Surveillance
(As of January 18, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	12/24/07	1/10/07			
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/24/07	1/10/08	W	W	NA
Reserve/Base Money	12/7/07	12/7/07	W	W	NA
Broad Money	12/24/07	1/10/08	W	W	NA
Central Bank Balance Sheet	12/7/07	12/7/07	W	W	NA
Consolidated Balance Sheet of the Banking System	12/7/07	12/7/07	M	M	NA
Interest Rates[2]	12/7/07	12/7/07	M	M	NA
Consumer Price Index	8/30/07	12/1/07	Q	Q	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	12/5/07	12/5/07	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	12/5/07	12/5/07	M	M	NA
Stocks of Central Government and Central Government- Guaranteed Debt[5]	9/30/07	12/7/07	M	M	NA
External Current Account Balance	9/30/07	12/5/07	Q	Q	A
Exports and Imports of Goods and Services	10/31/07	12/5/07	M	M	NA
GDP/GNP	09/30/07	12/7/07	A	A	NA
Gross External Debt	12/7/07	12/7/07	A, M	A, M	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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

IMF Executive Board Concludes 2008 Article IV Consultation with Belize

On February 22, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Background

Following an upturn in 2006, economic growth weakened in 2007, reflecting the impact of Hurricane Dean on agricultural output and tourism, closures in garment and aquaculture industries, and a leveling off in oil production. However, inflation remained low at 3 percent, and international reserves increased further, to US$108 million by end-2007.

The debt restructuring agreement in February 2007 provided significant liquidity relief for the government and has opened the path toward restoring fiscal and external stability. The nearly full participation contributed to a 21 percent debt reduction in net present value terms and provided significant liquidity relief for the government. Nevertheless, Belize's debt burden remains large, external reserves are relatively low, and the fiscal position is vulnerable.

The overall budget deficit for the 2007/08 fiscal year is projected at 2 percent of GDP, significantly above the original target. Although revenues have been boosted by the successful implementation of the General Sales Tax, expenditures are also expected to exceed the originally approved budget, and the primary surplus is projected to fall short of the approved budgetary target by 1 percent of GDP. Starting in FY 2008/09 (April to March) oil revenue will be

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

transferred to the petroleum management fund. Under the new rules, transfers to the budget will be limited to only real returns on the present value of oil savings, resulting in a loss of current revenue of about 2 percent of GDP next year.

Regarding structural reforms, progress has been made in consolidating the operations of the Development Finance Corporation, in computerizing the revenue departments, and strengthening government revenue departments. However, several important structural issues are yet to be addressed, such as establishing a sound funding scheme for the National Health Insurance and the pension fund for public servants.

Belize’s near-term macroeconomic outlook is broadly favorable, despite some deterioration in fiscal and external balances. For 2008, real GDP growth is projected to pick up and inflation is projected to ease. Under unchanged fiscal policies, and following the implementation of the new oil revenue management fund, the primary surplus of the central government would decline to 1.5 percent of GDP. The external current account deficit is projected to be about 4 percent of GDP, although with anticipated capital flows, international reserves are expected to remain broadly unchanged.

Executive Board Assessment

Executive Directors welcomed the improvement in Belize’s near-term macroeconomic prospects, with economic growth being boosted by oil discoveries and inflation expected to remain low. Progress has also been made on structural reforms, and the debt restructuring agreement, completed in February 2007, has opened the path to restoring fiscal and external sustainability. Directors nevertheless noted that significant challenges remain. In particular, continued consolidation of public sector finances and fiscal reforms will be needed to address risks to Belize’s growth and financial stability, including those associated with a deterioration in the global outlook.

Directors agreed that Belize’s exchange rate peg provides an important anchor for macroeconomic policies and expectations. They noted the assessment that the exchange rate appears to be broadly in line with fundamentals, while recognizing that data limitations constrain exchange rate analysis. Directors stressed that, going forward, the stability of the exchange regime will be buttressed by the implementation of a medium-term fiscal strategy that substantially reduces the public debt burden. A further buildup in international reserves would also enhance external stability.

Directors welcomed the new Belize authorities’ commitment to fiscal discipline, and encouraged a front-loaded adjustment that would reverse the recent weakening of budget performance and send a clear signal on their intention to lower the public debt ratio. They observed that a fiscal adjustment aimed at sustaining increased primary surpluses over the medium-term would reduce fiscal and external vulnerabilities, and provide space for increased public investment and countercyclical economic policies in the face of external shocks. Lower debt ratios would also improve access to market financing on favorable terms. Directors welcomed the authorities' intention to review the framework for managing oil revenues, with the objective of increasing its flexibility and better integrating it with the medium-term fiscal strategy.

Directors viewed that fiscal structural reforms would contribute importantly to strengthening revenue collection and enhancing the quality of spending. Reorganization of revenue collection into a unified agency and computerization of tax administration would improve revenue collection, while the establishment of a multi-year budget planning process and a debt management office would support more efficient fiscal planning. Directors underscored the importance of putting the pension fund for public servants on a solid footing to assure sound finances. Timely audits of government financial statements and the maintenance of transparent accounting for government revenue from petroleum production, and of contracts in the oil and other economic sectors will also contribute importantly to this effort.

Directors considered that the introduction of market-based monetary policy instruments would improve the efficiency of domestic liquidity management. They noted that the effectiveness of the cash and liquid reserve requirements currently used as instruments of monetary control is limited. Directors welcomed the authorities' intention to advance with monetary reform and looked forward to the development of an action plan, drawing on Fund technical assistance and on regional experience. Directors advised continued vigilance in monitoring the strength of financial institutions.

Directors encouraged further improvements in the coverage and timeliness of data provided to the Fund for surveillance.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2008 Article IV Consultation with Belize is also available.

Belize: Selected Economic Indicators, 2003–07

	2003	2004	2005	2006	Prel. 2007
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
GDP at constant prices	9.3	4.6	3.1	5.6	2.2
Nominal GDP (US$ millions)	988	1,055	1,115	1,214	1,274
Gross domestic investment 1/ 2/	21.5	19.0	22.7	19.6	18.0
Gross national savings 1/	3.3	4.2	8.3	17.3	14.1
Consumer prices (end of period)	2.3	3.1	4.2	3.0	3.0
Real effective exchange rate	-2.5	-2.4	-1.3	0.4	...
Money and credit					
Credit to the private sector	13.2	9.6	11.3	13.1	13.9
Money and quasi-money (M2)	4.7	7.5	5.9	17.3	22.5
	(In percent of GDP)				
Central government 3/					
Revenue and grants	21.4	22.8	23.4	25.3	28.0
Current expenditure	19.9	22.7	24.8	22.9	24.3
Capital expenditure and net lending	12.1	6.5	4.4	4.4	6.1
Primary balance	-5.9	0.8	2.0	3.8	2.7
Overall balance	-10.6	-6.4	-5.5	-2.0	-2.4
External sector					
External current account 4/	-18.2	-14.8	-14.4	-2.2	-4.0
Overall balance of payments (US$ millions)	-30.1	-31.2	18.3	49.9	22.5
Public and publicly guaranteed debt	102.3	100.2	98.4	92.1	90.2
Domestic debt	5.7	9.0	7.3	8.3	9.1
External debt	96.7	91.2	90.9	83.8	81.1
Gross usable official reserves (US$ millions)	58.3	27.1	36.0	85.7	108.2
In months of imports	1.1	0.3	0.6	1.3	1.6

Sources: Belize authorities; and IMF staff estimates and projections.
1/ In percent of GDP.
2/ Including inventory accumulation.
3/ Calendar year.
4/ Including official grants.