

Belize: 2003 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Belize

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Belize, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **December 15, 2003** 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 March 5, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **March 24, 2004** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 24, 2004 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Belize.

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

Selected Issues and Statistical Appendix

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

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BELIZE

Staff Report for the 2003 Article IV Consultation

Prepared by Staff Representatives for the 2003 Consultation with Belize

Approved by Christopher Towe and G. Russell Kincaid

March 5, 2004

- **Background:** Belize is a small, export-based economy dependent on tourism, shrimp farming, and agriculture (citrus, sugar, and bananas). As a result, the economy is vulnerable to exogenous and weather-related shocks, as well as changes in preferential market access. Since taking office in 1998, the current government has sought to accelerate economic growth through highly expansionary fiscal and monetary policies. While growth has been strong and inflation low, the fiscal deficit is likely to reach 8 percent of GDP in the current fiscal year, public debt rose above 90 percent of GDP by end-2003, while the external position remained under significant pressure with the external current account deficit at about 16 percent of GDP.
- **2002 Article IV consultation:** At the conclusion of the 2002 Article IV consultation on November 1, 2002, Directors expressed concern with the deterioration in the fiscal and external current account positions and with the rapid increase in public debt. They welcomed the policy shift announced by the authorities in June 2002 that was aimed at forestalling the emergence of a balance of payments crisis and urged the authorities to sustain this sound macroeconomic policy stance.
- **Discussions:** A staff team comprising B. Fritz-Krockow (Head), E. Jenkner, I. de Carvalho, and P. Rabanal (all WHD) visited Belize during December 3–15, 2003. Mr. O’Loughlin (OED) participated in the policy discussions. During the mission, the staff supported the authorities’ proposed sharp correction of the fiscal position, but raised serious questions about the consistency of the authorities’ projections and the depth of the envisaged measures, especially in light of past budget overruns.
- **Fund relations:** Belize accepted the obligations of Article VIII in 1983; its last arrangement with the Fund ended in 1986. Belize maintains an exchange restriction and multiple currency practices. The authorities have not been receptive to Fund policy advice in the past, except for a brief period in 2002 when the country faced a balance of payments crisis and the exchange rate peg appeared threatened.
- **Statistics:** Belize’s statistical information is reported with long delays and with a quality and frequency that render some economic statistics inadequate for monitoring purposes.

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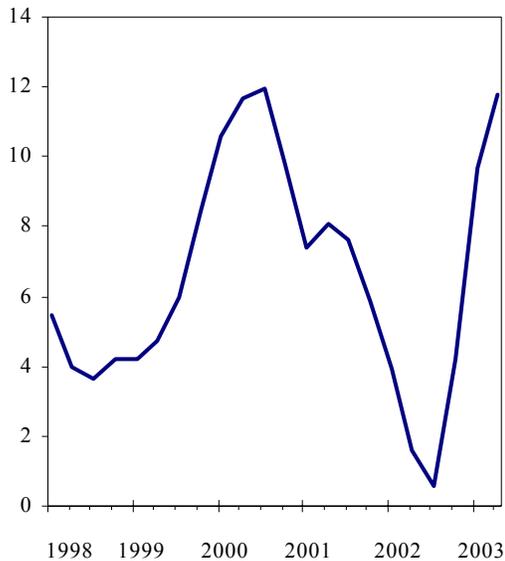
EXECUTIVE SUMMARY

- **Real GDP growth recovered in 2003.** The economy recovered from the effects of hurricanes, a tourism slump, and a shrimp virus epidemic in 2001-02 on the back of a strong expansion of exports. Inflation remains low.
- **However, the underlying macroeconomic position remained worrisome.** The fiscal and external current account imbalances remained at unsustainable levels. Net international reserves covered about half of public short-term debt service on a remaining maturity basis at end-2003, while public and publicly guaranteed debt (mostly nonconcessional external debt) reached 92 percent of GDP.
- **The authorities are committed to the exchange rate peg, which they consider a critical anchor for expectations and confidence.** The staff noted that in addition to the urgent need for a fiscal correction, a tightening of monetary policies was needed to sustain the peg. The staff also recommended measures to make the exchange rate regime more transparent and market-determined with a view to an eventual unification of the markets.
- **The authorities agreed that present fiscal and monetary policies were unsustainable.** In this context, policy discussions focused on the extent and depth of adjustment measures to correct the current policy stance.
- **The authorities have announced a number of policy measures.** The central government budget for FY 2004/05 (fiscal year begins April) calls for a reduction of the deficit from around 8 percent of GDP in FY 2003/04 to below 3 percent of GDP, based mainly on an increase in land taxes and a further compression of capital expenditure. They also plan to tighten monetary policy in line with staff recommendations.
- **The staff supported the proposed tightening of policies, but questioned the consistency of the authorities' fiscal plan.** The authorities' revenue measures appear likely to fall significantly short of their estimated yields and the staff recommended a broader range of revenue and expenditure measures. The staff also urged the authorities to act swiftly and to sustain their adjustment efforts, pointing to the comprehensive but short-lived policy adjustment undertaken in 2002.

I. RECENT ECONOMIC DEVELOPMENTS

- The economy recovered in 2003 from several exogenous shocks in recent years.** The economy is estimated to have grown by 5.5 percent in 2003 following growth of 4.3 percent in 2002, rebounding from the effects of hurricane damage, a shrimp virus epidemic, and the drop in tourism revenue after September 2001 (Figure 1). Agricultural output grew by more than 20 percent in the first half of 2003 relative to the same period in the previous year, while the fishing sector (including shrimp aquaculture) expanded by more than 300 percent. Tourism receipts grew by 25 percent in 2003, driven by a recovery in stay-over arrivals and a marked increase in cruise ship tourist arrivals.
- Inflation has remained low.** Inflation has remained at around 2½ percent in 2003, reflecting the currency peg and low international inflation. The real effective exchange rate, calculated using the official exchange rate, depreciated by about 4 percent during 2003, mainly owing to the depreciation of the U.S. dollar vis-à-vis the Euro (Figure 2).

Figure 1. Belize: Real GDP
(Annual percentage change based on 4-
quarter rolling total)



Source: Central Bank of Belize.

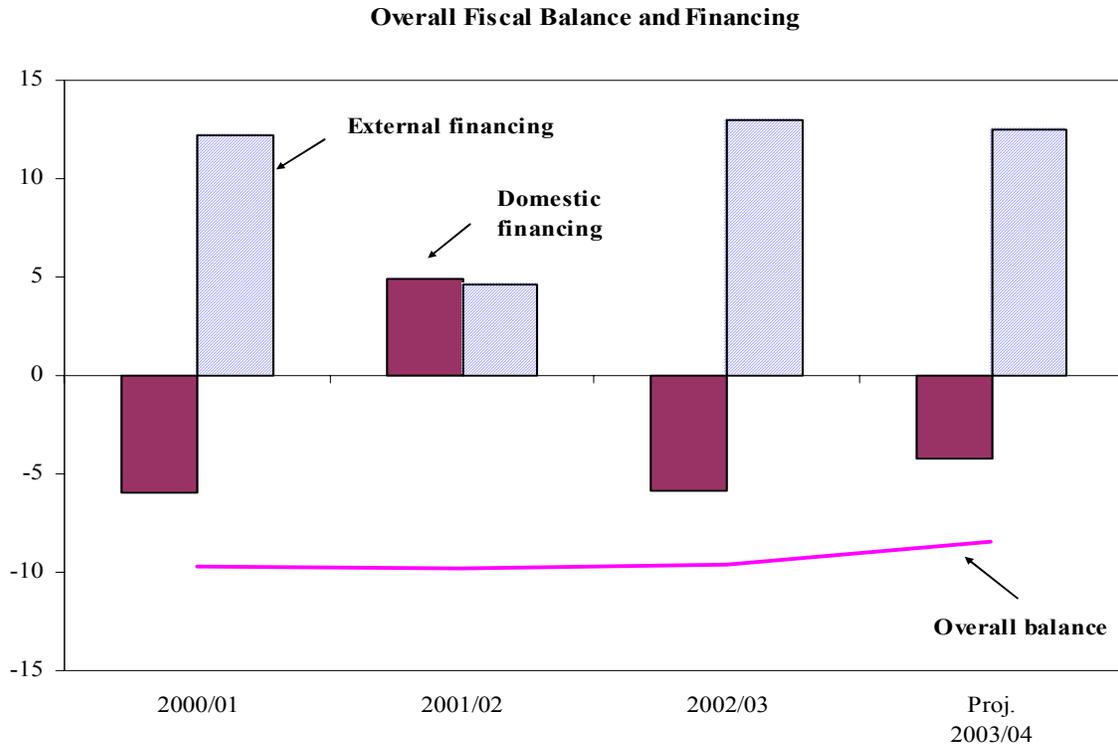
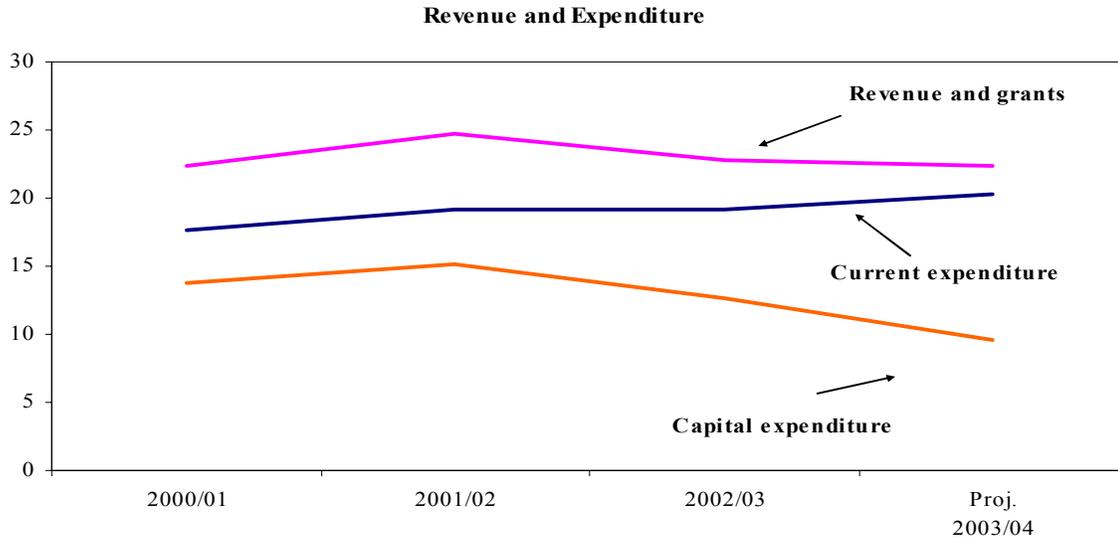
Figure 2. Belize: Real Effective Exchange
Rate (1990 = 100) 1/



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

- The fiscal deficit remained large in FY 2003/04.** After a short-lived policy adjustment in mid-2002 to avoid a balance of payments crisis, the authorities increased budget-financed capital expenditure rapidly in the run-up to the March 2003 elections (Figure 3). The central government deficit for FY 2003/04 (April 2003-March 2004)

Figure 3. Belize: Central Government Indicators
(In percent of GDP, fiscal years 2000/01 - 2003/04)



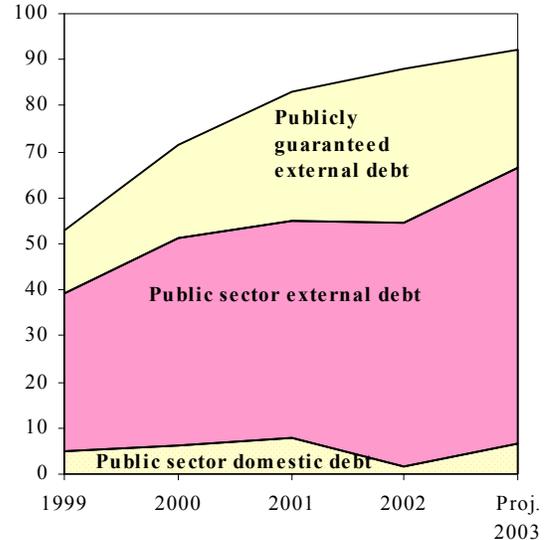
Sources: Ministry of Finance; Central Bank of Belize; and Fund staff estimates and projections.

is projected to decline only to 8.1 percent of GDP, from 9.6 percent in FY 2002/03.¹ This adjustment reflects a compression of capital expenditure from 12.6 percent of GDP in FY 2002/03 to 9.9 percent of GDP in FY 2003/04, which would be partly offset by the effects of tax exemptions on the revenue ratio, as well as sizeable wage increases and payments for the installation of new telephony services.²

4. The FY 2003/04 central government deficit is being financed mainly through substantial external borrowing.

Net external disbursements to the central government are projected to amount to 12½ percent of GDP in FY 2003/04, contracted mostly on commercial terms, and public and publicly guaranteed debt rose to around 92 percent of GDP at end-2003 (Figure 4).³ About 6 percent of GDP was onlent domestically to the DFC to enable it to repay external creditors. The substantial borrowing requirement led to increasing difficulties in accessing capital markets in 2003. Foreign banks cancelled credit lines and borrowing costs have increased.

Figure 4. Belize: Public and Publicly Guaranteed Debt (In percent of GDP)



Source: Central Bank of Belize.

¹ The staff report for the 2002 Article IV consultation reviews the staff recommendations and the authorities' policy response to the balance of payments difficulties, which arose from exogenous shocks, expansionary fiscal policies, and the rapid expansion of DFC credit. The authorities implemented Fund staff recommendations to reduce the fiscal deficit sharply and tighten monetary policy in mid-2002.

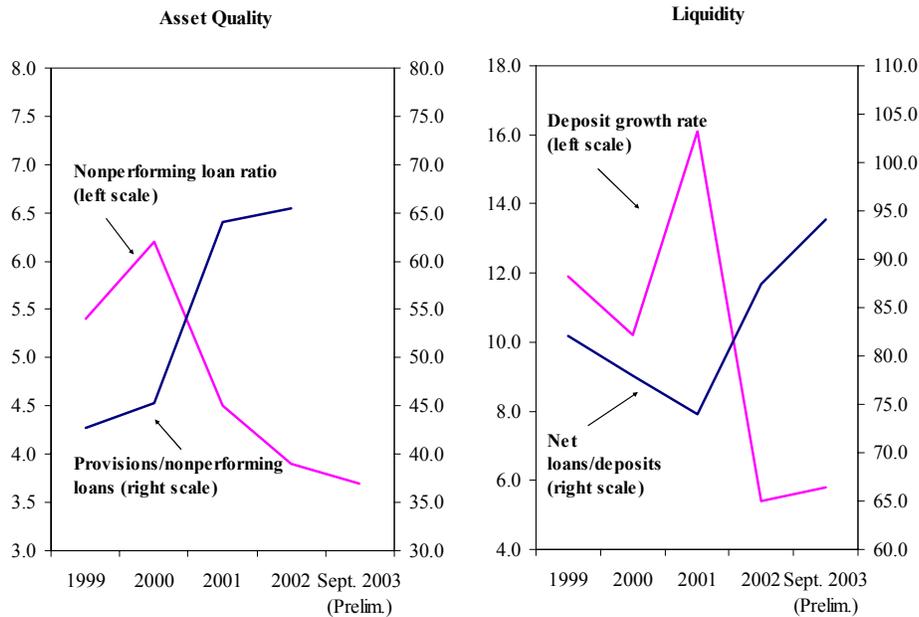
² A three-year labor agreement signed in early 2003 calls for 8 percent annual wage increases beginning in April 2003. Generous tax exemptions to growth sectors and the proliferation of export processing zones have severely reduced the buoyancy of the tax regime. To prevent a more pronounced erosion in tax revenue, the authorities have increased the variable import duty on petroleum products, which accounts for about half of the nominal increase in tax revenue since FY 2000/01.

³ Including a US\$100 million 12-year global bond, at an interest rate of 9.75 percent, with an 85 percent CAC. This follows a US\$125 million, 10-year global bond, with an interest rate of 9.5 percent, no CAC, issued in mid-2002.

5. **The state-owned Development Finance Corporation (DFC) continued to represent a major drain on public finances.** The government provided transfers of around 2 percent of GDP to the DFC during 2003 to help fund its credit expansion and investment projects. In addition, the government provided about 6 percent of GDP to refinance external liabilities of the DFC.⁴ Nonetheless, the DFC still suffers from a 24 percent nonperforming loan ratio, a severe maturity mismatch in its balance sheet, and a large stock of unsold physical assets (mainly houses) that comprise about a third of its balance sheet. Corrected for problems of loan classification, asset valuation, and inadequate provisioning, the staff estimated that the DFC has a negative capital position.

6. **Monetary policy was accommodative in 2003.** The Central Bank of Belize (CBB) repurchased about BZ\$50 million of short-term government securities held by commercial banks and used moral suasion to encourage banks to lower lending rates. These measures, together with increasing delays in public sector payments to private suppliers and contractors, helped cause an expansion in credit to the private sector of about 12 percent in 2003. At the same time, however, M2 has continued to fall in relation to GDP, and

Figure 5. Belize: Banking Sector Indicators
(In percent)



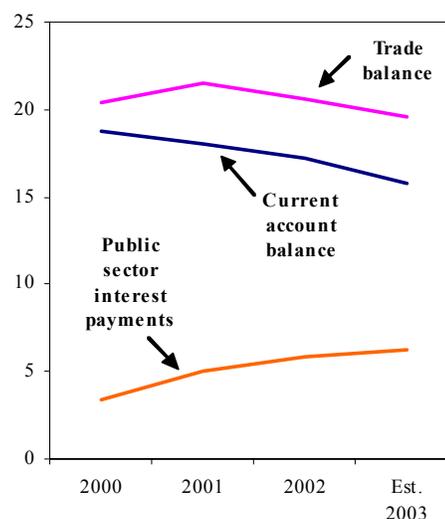
Source: Central Bank of Belize.

⁴ Central government funding used to expand the DFC balance sheet is classified as net lending, while funding used to refinance external liabilities is classified as a financing item.

the loan-to-deposit ratio rose from 74 percent by end-2001 to 98 percent by end-2003, reflecting the movement of deposits offshore as a result of legislation allowing companies in export processing zones to move deposits to international banks, but also resulting from an erosion in confidence (Figure 5).⁵ Nonetheless, indicators for the financial sector (excluding the DFC) have generally remained strong.⁶

7. **The balance of payments weakened despite a substantial growth in exports in 2003.** Merchandise exports and tourism receipts grew by about 12 percent and 25 percent, respectively, in 2003 as a result of the recovery from exogenous shocks and a continued capacity expansion. However, imports rose by about 9 percent owing to increased public sector demand and the rapid growth in private sector credit (Figure 6). As a result, the current account deficit only narrowed by 1.4 percentage points of GDP in 2003 and remained high at 15.8 percent of GDP. With public sector net disbursements falling from US\$122 million to around US\$52 million, gross reserves fell by US\$30 million (about 1/3 of total reserves) during 2003, dropping to US\$76 million or about half of public short-term debt service on a remaining maturity basis.⁷

Figure 6. Belize: Balance of Payments Indicators
(Deficits, in percent of GDP)



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

⁵ Domestic banks are only authorized to accept foreign currency deposits or provide foreign currency loans to exporters, and balance of payments data also do not allow a detailed analysis of private deposit flows.

⁶ For an overview of the financial sector in Belize, refer to the chapter “The Financial Sector in Belize” in the accompanying Selected Issues Paper.

⁷ The ratio is about unchanged from the previous year despite lower reserves and larger debt stocks due to 2002-03 debt refinancing operations that reduced the 2004 debt service burden.

8. **The exchange rate peg remained under pressure.** The parallel market spread remained around 10 percent despite the substantial recovery in foreign exchange receipts in 2003, reflecting increasing private capital outflows. The CBB continued to sell foreign exchange to commercial banks on an ad-hoc basis to prevent the parallel market rate spread from rising.

II. POLICY DISCUSSIONS

9. **The discussions focused on the policy measures needed to address short-term vulnerabilities and to place the economy on a sustainable medium-term path.** The authorities agreed that the current fiscal and monetary policies were unsustainable over the medium term, and noted that the central government budget for FY 2004/05 calls for a reduction of the deficit to below 3 percent of GDP, based mainly on an increase in land taxes and a further compression of capital expenditure. They also stated their willingness to implement, if necessary, further revenue and expenditure measures beyond those currently envisaged and noted that monetary policy would be tightened in line with staff recommendations.

10. **Nonetheless, important risks remain.** The staff stressed that forceful, immediate, and sustained measures were needed to avoid a rapid and accelerating erosion of confidence and a loss of access to international capital markets. Moreover, the staff also cautioned that revenue would probably fall significantly short of the authorities' projections and noted that expenditure overruns in the past suggested further risks on the spending side. The staff urged the authorities to move quickly to introduce the additional measures necessary to ensure the targeted fiscal correction and—especially in light of the short-lived policy correction of 2002—emphasized the importance of sustaining the adjustment effort over the medium term.

A. Macroeconomic Framework

11. **A sharp and front loaded fiscal correction would leave the short-term macroeconomic outlook manageable.** Notwithstanding the impact of the fiscal adjustment on public and private demand, the economy would grow by about 3½ percent in 2004, supported by strong export growth, in turn related to the boost provided by recent investment in tourism facilities, shrimp farming, and agriculture. Export growth and the dampening effect of fiscal and monetary tightening on imports would help reduce the external current account deficit, which would fall to around 8½ percent of GDP and rebuild reserve coverage. Public and publicly guaranteed debt would remain about unchanged at around 93 percent of GDP at end-2004.

Macroeconomic Framework, 2003–04

	2003	2004
(Annual percentage change, unless otherwise specified)		
Real GDP growth	5.5	3.5
Contributions:		
Consumption	6.7	-0.6
Gross capital formation	-1.5	-3.1
Exports of goods and services	4.0	6.8
Imports of goods and services	-3.7	0.3
Inflation	2.5	2.5
Central government balance (percent of GDP, FY basis)	-8.1	-2.7
Credit to the private sector	12.2	6.4
External current account deficit (percent of GDP)	-15.8	-8.4
Gross official reserve coverage of 12-month debt	50.2	67.5
Public and publicly guaranteed debt (percent of GDP)	92.2	92.6

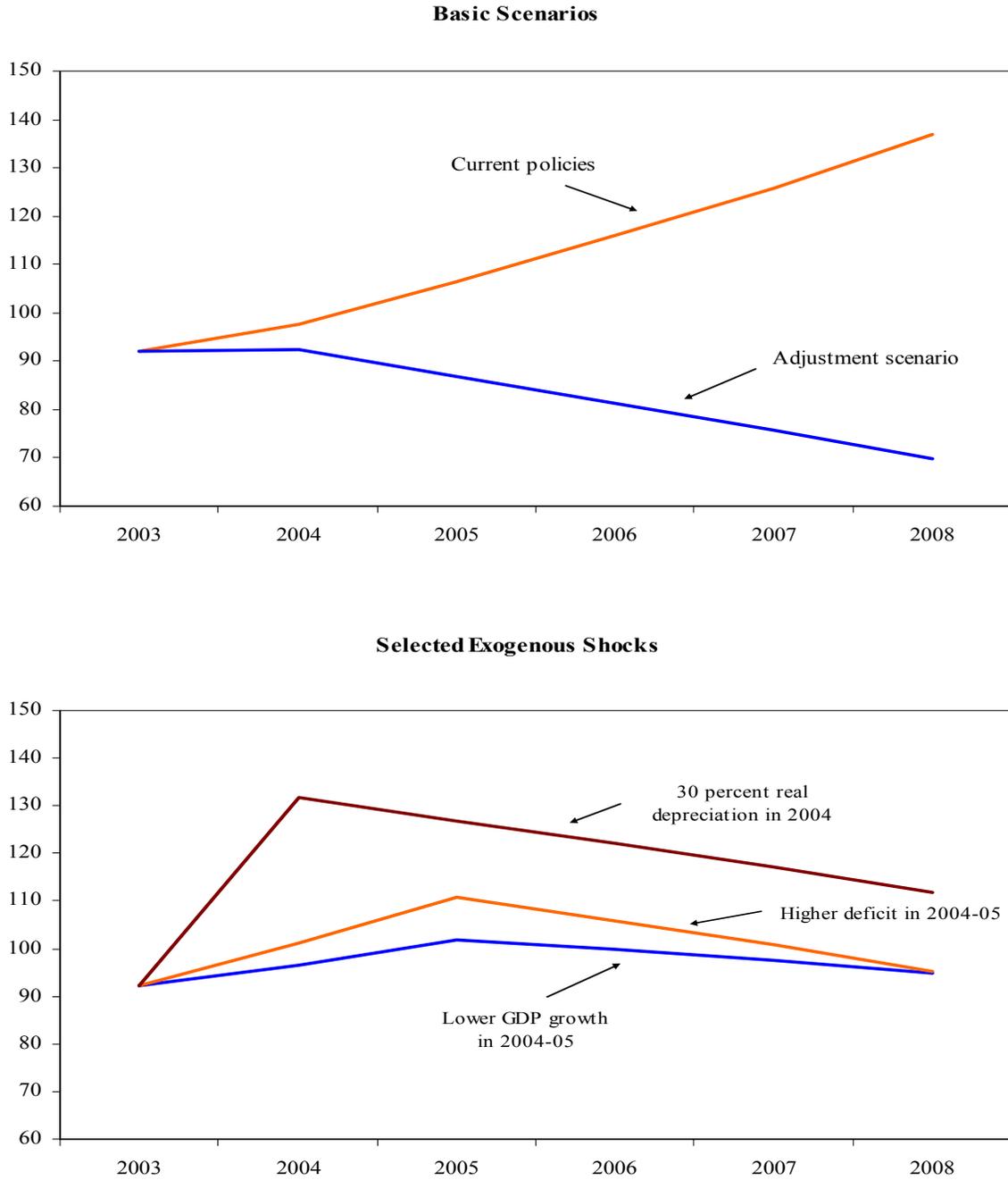
12. **This frontloaded adjustment effort would also lay a solid foundation for the medium term.** The staff projections assume that the overall central government balance would narrow by about 8 percent of GDP in the coming two year-period, with most of the adjustment taking place in FY 2004/05 and the primary fiscal surplus would remain at around 6 percent of GDP thereafter. As a result, public and publicly guaranteed debt would decline from 92 percent of GDP at end-2003 to around 67 percent in 2008 (Figure 7), while net international reserves would continue to increase gradually.⁸ As a result of the sharp improvement in the public savings-investment gap, the external current account would also improve steadily, with the deficit falling from 8.4 percent of GDP in 2004 to 3.8 percent of GDP by 2008. Supported largely by a continued expansion in exports, GDP growth would average about 4½ percent over the projection period.

13. **Weak or unsustainable policy adjustment would subject the outlook to considerable risk.** Staff debt sustainability analysis illustrates that a continuation of present policies would push public debt to 137 percent of GDP by 2008, leaving the debt ratio highly vulnerable to exchange rate or other shocks (Table 10).⁹ Moreover, even with a rapid and sustained correction of the fiscal imbalance, the economy would remain highly vulnerable to exogenous shocks in light of the already high levels of external debt and debt service, the economy’s exposure to natural disasters such as hurricanes and flooding, and its reliance on

⁸ Fiscal data is presented on a fiscal year basis, except in the medium-term debt sustainability analysis (Table 10), which is on a calendar year basis.

⁹ The staff’s work follows the methodology laid out in “Sustainability Assessments–Review of Application and Methodological Refinements,” (07/01/2003). An external debt sustainability analysis cannot be carried out due to the lack of sufficient information on private sector external debt and debt service obligations.

Figure 7: Belize: Debt Sustainability
(In percent of GDP)



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

preferential trade access for its exports of sugar and bananas. The staff stressed that these risks underscored the importance of achieving and sustaining the policy corrections planned for the coming year, and possibly argued for even more ambitious adjustments in subsequent years in order to build up a margin of resilience to withstand future exogenous shocks.

B. Fiscal Policy

14. **The authorities aim to reduce the fiscal deficit to below 3 percent of GDP in FY 2004/05.** They project revenue to increase by about 2 percent of GDP, mainly as a result of improvements in tax administration and the introduction of a new land tax. In addition, the authorities plan to revise various taxes during 2004 to shift the emphasis from duties on international trade to taxes on domestic consumption. However, most of the adjustment would result from a further compression of capital expenditure. The authorities also noted that they would undertake a comprehensive public expenditure review during 2004.

Operations of the Central Government, 2003/04–2004/05
(In percent of GDP; fiscal-year basis)

	Projection 2003/04	2004/05	
		Authorities' Budget	Staff Recommendations 1/
Overall balance	-8.1	-2.7	2.7
Revenue and grants	22.3	23.6	22.1
Revenue	22.0	23.4	21.8
Current revenue	21.0	22.6	21.1
Tax revenue	18.4	20.5	18.9
Nontax revenue	2.5	2.2	2.2
Capital revenue	1.0	0.7	0.7
Grants	0.3	0.3	0.3
Expenditure	29.5	26.3	24.8
Current expenditure	19.6	19.6	18.2
<i>Of which: interest payments</i>	3.6	3.8	3.8
Capital expenditure and net	9.9	6.7	6.6
Unidentified expenditure	0.9	0.0	0.0

Sources: Ministry of Finance, and Fund staff estimates and projections.

1/ Staff estimate of authorities' budget plus additional measures.

15. **The staff expressed reservations about the authorities' revenue projections and the depth of the envisaged adjustment measures.** They pointed to the probable low yield of the land tax in the absence of a collection agency or a functional database of taxpayers and they also noted the lack of buoyancy of the tax regime, which would continue to depress revenue in FY 2004/05. They emphasized the need for wider-ranging tax measures and for supplementing the envisaged cuts in capital expenditure with a freeze of current expenditure. The staff also expressed their concern that the deficit had exceeded the budgeted level by about 3 percent of GDP in the previous fiscal year.

16. **In this context, the staff suggested additional measures.** These measures would total around 2 percent of GDP and would be needed to achieve the authorities' deficit target. Specific recommendations included:

- **Strengthening taxes:** This would include eliminating tax exemptions, streamlining and increasing sales tax rates, raising or imposing excise taxes, and reducing the basic income tax exemption. The staff estimated that these measures would increase revenue by about 0.6 percent of GDP in FY 2004/05 and about 1½ percent of GDP on a long-term basis, bringing tax revenue in relation to GDP closer to levels of other English-speaking Caribbean countries.
- **Freezing current outlays:** The staff estimated that the expenditure freeze would generate savings of about 1.4 percent of GDP in FY 2004/05. This would include a freeze in the public sector wage bill, which would require a review of the current public sector wage agreement and the level of public sector employment. Outlays for goods and services would also decline with the completion of payments to the new telephone company for the installation of services, and would offset the increase in interest payments in 2004/05.
- **Limiting budget-financed investment:** Capital outlays would be reduced in line with the authorities' projections, but should focus on limiting budget-financed investment projects to the completion of those currently in progress, while new investment projects could be financed by foreign donors and multilateral agencies.¹⁰
- **Improving monitoring:** Budget execution should be monitored closely to avoid expenditure overruns as had occurred in previous years.

17. **The authorities reiterated their commitment to contain the fiscal deficit at the budgeted level.** Although they did not see an immediate need for additional measures, they agreed to reassess their budget projections and would consider more comprehensive tax measures if necessary to bring the fiscal adjustment path back on track. Noting the staff's concern that expenditure had exceeded the budget limits significantly in previous years, they agreed to monitor budget execution closely in order to ensure that deviations are detected early.

18. **The authorities are restructuring the DFC.** They stated their intention to return the DFC to its original mandate as a small development bank with an emphasis on the export sector and education. After having refinanced most of the DFC's external debt, the

¹⁰ Government capital expenditure includes both donor-financed (multilateral lenders and donors, including counterpart funds) and budget-financed capital expenditure, as well as some current outlays (about 1½ percent of GDP in FY 2002/03), such as transfers to decentralized public sector entities.

authorities are offering some of the DFC's assets for sale, namely housing and a portion of its unencumbered loan portfolio.¹¹ The authorities have issued a prospectus prepared by an international accounting firm and have received several expressions of interest. The staff urged the authorities to seek technical assistance in restructuring and reorganizing the DFC and to provide an equity injection if necessary for the DFC to fulfill its mandate properly. The staff cautioned, however, that the DFC was still expanding its loan portfolio before completing the restructuring and reorganization, which could lead to a misallocation of resources and higher fiscal costs. The staff welcomed the authorities' decision to place the DFC under the banking supervision of the central bank beginning January 2004.

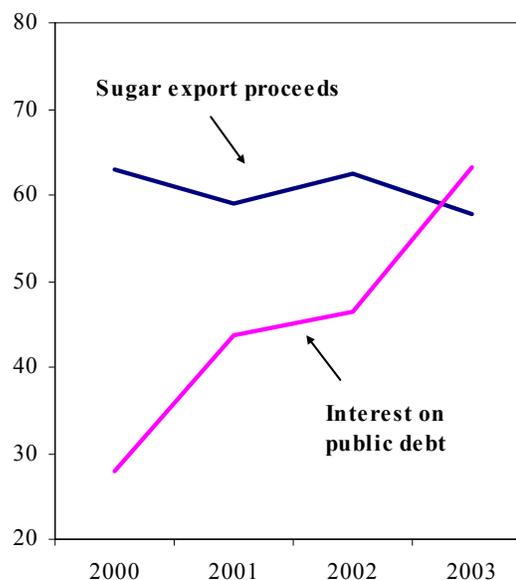
C. Monetary and Exchange Rate Policies

19. **The authorities stressed their commitment to the exchange rate peg as an anchor for confidence and inflation expectations.** They noted that the strength of foreign direct investment and exports suggested that Belize remained competitive, that wage pressures in the private sector were moderate as a result of labor migration from neighboring countries, and that the business community strongly favored the certainty provided by the peg.

Nonetheless, the authorities agreed that the present stance of macroeconomic policies was not consistent with the maintenance of the peg, and emphasized their commitment to adjusting demand policies as necessary. The staff cautioned that delaying this adjustment risked accelerating the loss of confidence and the eventual loss of the exchange rate peg.

20. **The authorities agreed on the need to tighten liquidity to contain credit growth and reduce pressures on the exchange rate.** In particular, public sector external interest obligations exceeded the CBB's only recurrent source of foreign currency (sugar export receipts), and would have to be met by either official reserves or CBB purchases of foreign currency in the private foreign exchange market (Figure 8). Against this background, the authorities agreed that an adjustment in monetary policies was needed to help alleviate pressure on the parallel foreign exchange rate and

Figure 8. Belize: Central Bank Sugar Receipts and Interest Payments
(In millions of U.S. dollars)



Source: Central Bank of Belize.

¹¹ The buyer will be permitted to apply for a banking license. The loan portfolio for sale includes nonperforming loans and excludes performing mortgage loans whose cash flow constitutes collateral for loans to the DFC.

intended to increase cash reserve requirements from 6 percent to 7 percent for all types of deposits effective April 2004. Combined with the fiscal adjustment, this was projected to contain growth of the CBB's net domestic assets and slow growth in credit to the private sector to 6.4 percent in 2004. The authorities acknowledged the need to stand ready to protect the balance of payments position by further adjusting monetary policy if the fiscal adjustment were to fall short of the target, but were concerned that this could have an adverse effect on economic growth.

21. **The staff and the authorities also agreed that the CBB should move towards a unified reserve requirement.** The authorities are committed to gradually transforming the liquidity ratio to a prudential requirement, while maintaining the existing cash requirement ratio as a monetary policy instrument. In this context, the authorities intend to exclude mortgages from the definition of "approved liquid assets" to avoid unduly encouraging lending in the residential sector.

22. **The staff called for a more market-determined and transparent exchange rate system.** Specifically, the staff recommended a gradual widening of the band in the *cambios* system and the removal of some of their operating restrictions and implicit taxation, with the objective of integrating the parallel market transactions in the *cambios*, and eventually unifying the foreign exchange markets (Box 1).¹² The staff also urged the authorities to define clear rules for central bank sales of foreign exchange to the private sector, in order to limit the potential for resource misallocation and rent-seeking. The staff noted that the existence of several foreign exchange markets with rates that differ by more than 2 percent from the official rate gives rise to multiple currency practices, and that the selective sales of foreign exchange by the central bank constitute an exchange restriction. Both are subject to Fund approval, which could not be forthcoming in the absence of a clear timetable for their elimination.

23. **The authorities were unconvinced regarding the need to liberalize the *cambios* regime.** They emphasized instead the need for tighter controls to prevent illicit transactions, despite the staff's concerns that this would encourage market participants to move increasingly to the parallel market. Nevertheless, the authorities agreed on the need to review the functioning of the *cambios* and have commissioned a report from the CBB, which is due by end-April 2004.

¹² See also the chapter "Foreign Exchange System in Belize" in the accompanying Selected Issues Paper.

Box 1: The Foreign Exchange System

The foreign exchange system comprises three markets: The official market, the private foreign exchange houses (*cambios*), and a parallel market.

Official market. The central bank conducts operations at the official peg with the public sector and commercial banks. The CBB's only recurrent source of foreign exchange is from sugar exports, which are subject to surrender requirements. The CBB sells foreign exchange to the public sector and to commercial banks. Sales to commercial banks are limited to private sector transactions deemed essential (oil and flour imports or private sector debt service) and to ad-hoc sales aimed at preventing the parallel market rate from depreciating. Commercial banks purchase and sell foreign exchange from the public and are required to do so at the official rate with a small trading spread. However, commercial banks have begun to levy fees to depreciate the effective selling rate in view of the large parallel market and the exchange rate spread.

Foreign exchange houses (*cambios*). The authorities allowed the establishment of the *cambios* in mid-2002, with the intention of drawing transactions from the parallel market into supervised and controlled channels. The *cambios* are only authorized to buy foreign exchange in the tourism sector and have to sell 5 percent of their gross purchases to the CBB at the official rate. They are required to pay an annual fee of US\$5,000, cannot trade at a rate of more than BZ\$2.15 per US\$ or buy or sell in one transaction or in related transactions more than US\$10,000 a day, and are subject to CBB supervision. Reported trading volume of the *cambios* is insignificant due to the restrictions and implicit taxation.

Parallel market. Foreign exchange trading outside the official market and the *cambios* is illegal, but the establishment of the *cambios* was perceived as a decriminalization of parallel market trading, and led to some integration and transparency of the previously highly fragmented parallel foreign exchange market.

D. Structural Policies

24. **The authorities are adopting measures to enhance competitiveness and productivity.** The authorities have privatized all public enterprises in an effort to improve their provision of services and have deregulated in recent years (the telecommunications monopoly was eliminated in 2003). The authorities are considering donor-financed projects to enhance the competitiveness of the export sector through cost-reduction (e.g., transportation and storage, and logistics consulting), and training (e.g., for ancillary tourism services), and product diversification. The authorities shared staff's concern about the impact of the expected erosion of preferential trading regimes for sugar and bananas in 2006 and were particularly concerned about the lack of competitiveness in the sugar industry, which would

face severe difficulties at prevailing world market prices (Box 2). In response, the authorities have sought to bolster the competitiveness of the sugar and banana sectors, including by introducing higher yielding crops, improving marketing and technology, and encouraging diversification through changes in the regulatory environment. The authorities have also supported selective import substitution projects, e.g., for domestic soybean production and hydroelectric power generation.

Box 2: Vulnerability to Preference Erosion

Belize is among the most vulnerable middle-income countries to the potential effects of a loss in preferential market access on exports. Notwithstanding the recent diversification in current account receipts, Belize's exports are dominated by sugar and bananas, which in turn are highly dependent on preferential access to the EU and U.S. markets.

Staff estimates suggest that a 40 percent reduction in Belize's preference margin would cause export revenue to drop by 10-12 percent. This estimate assumes constant volumes as there are no reliable estimates of supply or demand elasticities for the banana and sugar sectors. However, the estimates took into account Belize's composition of exports and direction of trade, and assumed full utilization of preferences and that all rents from preferential access accrue to exporters.

25. **Belize's trade regime remains relatively restrictive as non-tariff barriers are pervasive.**¹³ While the authorities have moved to dismantle tariffs on CARICOM goods, revenue replacement duties and a comprehensive import-licensing regime remain in place covering 29 groups of goods. The authorities did not agree with the staff's assessment that import restrictions should be phased out in favor of tariffs with a view to improving resource allocation, citing food security concerns and the possibility of severe price volatility.

26. **Improvements in debt management are key to enhancing the sustainability of public debt.** The staff noted that debt statistics—including publicly guaranteed debt—needed to be harmonized and updated regularly. The staff also recommended setting clear objectives for debt management, developing a legal framework governing the issuance of public debt and guarantees, training of debt managers, and improving the technological infrastructure.

¹³ Belize has a rating of 5 in the Fund trade restrictiveness index, which indicates a moderately restrictive regime.

27. **Efforts are underway to improve the supervision of both onshore and offshore financial institutions.** Efforts have intensified since December 2003 with the support of a long-term advisor from the Fund and technical assistance in the context of an Offshore Financial Center (OFC) Assessment, and from the IDB. The staff noted in particular the efforts to correct weaknesses in the central bank's supervisory department such as understaffing or the lack of administrative, legal, and political independence to enforce existing prudential norms. The staff noted also that the supervision of the various financial entities is fragmented, and that credit unions are not effectively regulated or supervised. In this respect, the staff welcomed the recent decision by the CBB to study improvements in and coordination of the supervision of financial agencies through the long-term technical assistance provided by the Fund. The staff welcomed also the efforts to prevent money laundering and combat the financing of terrorism, particularly through the creation of a Financial Intelligence Unit that serves as a central coordinator for domestic and cross-border efforts against financial crime.

E. Statistical Issues

28. **Belize's statistical information is insufficient to monitor economic developments on a timely basis.** The staff noted that economic data is reported with long delays and with a quality and frequency that render some economic statistics inadequate for monitoring purposes (Appendix V). The staff welcomed the substantial improvement in the GDP statistics, which were rebased from 1984 to 2000 and the ongoing efforts to prepare quarterly GDP indicators (Box 3). The authorities expressed their appreciation for the technical assistance that the Fund has provided in the past and expressed their interest in receiving further assistance to continue to improve the quality of their data.

Box 3: Statistics: National Accounts

Until recently, national accounts data in Belize was unreliable and provided with long delays. The Central Statistical Office (CSO) produced national accounts only annually and with significant lags, which severely hampered the quality and timeliness of financial planning and budget preparation. Quarterly indicators of economic activity were also unavailable. National accounts at constant prices were also unreliable due to an obsolete base year (1984).

The authorities improved the quality of Belize's national accounts with the assistance of Fund staff advice and technical assistance in 2002-03. The major changes to the national accounts are: constant prices estimates based on a more recent year (2000); two independent methodologies to calculate GDP at market prices; sector by sector methodological improvements; calculation of export and import price indexes; methodology for measurement of investment based on imports of capital goods and input costs; and the introduction of a quarterly GDP measurement. The improvements in the national accounts benefited from advice and technical assistance from Fund staff and Statistics Sweden.

III. STAFF APPRAISAL

29. **There is an urgent need to re-establish a viable external position through a comprehensive, swift, and sustained policy adjustment.** Fiscal and external current account deficits remain at unsustainable levels, leading to severe pressures on international reserves and high and rapidly growing levels of public and publicly guaranteed debt. These imbalances and the short-lived adjustment efforts in the past have also undermined confidence and access to international capital markets, and have raised questions about the sustainability of the exchange rate peg. A comprehensive and sustained fiscal correction will be a critical cornerstone of any adjustment strategy, but will need to be supported by tight monetary policies and structural measures to enhance the long-term competitiveness of the economy.

30. **The fiscal adjustment will need to rest on both wide-ranging tax revenue measures and substantial expenditure restraint, including a freeze of current expenditure.** Although the authorities' intention to contain the FY 2004/05 deficit below 3 percent of GDP is welcome, the measures envisaged leave this target subject to considerable risk. A more stringent fiscal effort seems necessary, which could include a nominal freeze in central government current expenditure, a comprehensive tax revenue effort aimed at widening the tax base and reducing excessive exemptions, a curtailment of budget-financed projects, and improvements in budget monitoring and control. Especially in view of past budget overruns, the authorities will also need to stand ready to introduce additional corrective measures to bring fiscal performance back on track, if necessary. The staff also urges the authorities to design and implement a debt strategy.

31. **The staff welcomes the authorities' decision to restructure the DFC.** However, there remains an urgent need to control lending and investment operations of the DFC in advance of the completion of the restructuring and disposition of its assets in order to reduce the risk of further misallocation of resources. The staff welcomes the authorities' recent decision to subject the DFC to the prudential regulations applicable to commercial banks and to banking supervision.

32. **The staff welcomes the authorities' decision to tighten monetary policy.** This is essential to support the exchange rate peg, including by discouraging deposit flight, and would also help strengthen the banking sector by reversing the recent increase in the system's loan to deposit ratio. The authorities' decision to eliminate mortgages as approved liquid assets will assist the move toward a system of unified reserve requirements.

33. **The authorities need to strengthen their capacity to oversee financial institutions and bolster the independence of the bank supervisory authority.** In this regard, the staff welcomes the authorities' recent efforts to improve banking supervision and the decision to study possible improvements in the legal framework for supervision of non-bank financial institutions.

34. **Existing import restrictions should be eliminated or converted into tariffs to improve resource allocation, increase revenue, and reduce administrative costs.** In addition, Belize benefits significantly from preferential trade access for sugar and banana exports, and will need continued efforts to improve competitiveness or substitute crops in order to cope with the eventual loss of these preferences.

35. **A modification of the foreign exchange regulations would increase the transparency and efficiency of the exchange regime.** Combined with an adjustment in demand policies to prevent an accelerating loss of confidence and to validate the peg, there is a need to modify the regulations concerning the foreign exchange houses to increase the transparency of the private foreign exchange market and to create incentives to incorporate transactions from the parallel market, with the eventual goal of integrating the foreign exchange markets.

36. **Belize maintains an exchange restriction and multiple currency practices, which are subject to Fund approval under Article VIII.** As the authorities have not agreed to a timetable for their removal, the staff does not recommend their approval.

37. **Belize statistical information is inadequate to monitor macroeconomic developments sufficiently.** While the staff notes the authorities' continued efforts to improve the statistical base, the development of a set of high frequency indicators to monitor developments on a timely basis is a critical need.

38. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Belize: Selected Economic Indicators, 2000-04

	2000	2001	2002	Est. 2003	Proj. 2004
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	12.1	4.9	4.3	5.5	3.5
Consumer prices (average)	0.6	1.2	2.3	2.5	2.5
Consumer prices (end of period)	0.7	0.9	3.2	2.5	2.5
External sector (U.S. dollars)					
Exports	10.1	-6.1	12.1	12.2	15.0
Imports	26.1	-0.2	8.1	8.6	2.0
Terms of trade (deterioration -)	-6.6	4.0	0.8	0.6	...
Nominal effective exchange rate	3.9	3.2	-1.0	-5.6	...
Real effective exchange rate	1.4	1.9	-0.7	-5.3	...
Money and credit					
Net domestic assets 1/	22.0	24.8	-7.7	9.7	8.8
Credit to the private sector 2/	25.0	17.1	18.1	12.2	6.4
Money and quasi-money (M2)	15.3	7.6	0.2	6.2	9.4
(In percent of GDP)					
Central government 3/					
Revenue	22.3	24.7	22.8	22.3	22.1
Current expenditure	17.6	19.1	19.1	19.6	18.2
Capital expenditure	13.7	15.2	12.6	9.9	6.6
Primary balance	-7.3	-6.7	-5.8	-4.5	1.1
Overall balance	-9.7	-9.8	-9.6	-8.1	-2.7
Privatization	3.5	0.3	2.5	0.9	0.0
Central government borrowing requirement	6.2	9.5	7.1	7.2	2.7
Foreign financing	12.2	4.6	13.0	12.5	3.0
Domestic financing	-6.2	4.9	-5.9	-5.3	-0.3
Gross domestic investment 4/	29.6	24.8	23.9	21.0	17.4
Gross national savings 4/	10.9	6.8	6.7	5.2	9.0
External current account 5/	-18.7	-18.0	-17.2	-15.8	-8.4
Public and publicly guaranteed debt	71.6	83.4	88.0	92.2	92.6
Domestic debt	6.0	7.8	1.8	6.5	9.5
External debt	65.6	75.6	86.2	85.7	83.1
External debt service 6/	4.5	5.6	10.9	6.2	6.6
In percent of exports of goods and services	8.3	10.8	20.1	11.0	10.8
In percent of government current revenue	22.5	26.1	46.7	29.5	31.4
(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	51.7	-10.5	0.5	-29.9	0.0
Gross official reserves 7/	114.7	104.2	106.2	76.2	75.3
Usable reserves 7/	11.5	16.0	90.5	69.0	69.0
In percent of projected 12-month external public debt service	14.6	9.3	51.0	50.2	64.1
In months of imports	0.2	0.3	1.7	1.2	1.2

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

1/ In percent of liabilities to the private sector at the beginning of the period.

2/ Comprises credit by commercial banks and the Development Finance Corporation.

3/ Fiscal year starting on April 1.

4/ Official national income accounts likely overstate saving and investment flows.

5/ Including official grants.

6/ Central government external debt.

7/ End of period.

Table 2. Belize: Operations of the Central Government, 1999/2000 - 2003/04

(In percent of GDP)

	2000/01	2001/02	2002/03	Proj.	
				2003/04	2004/05
Revenue and grants	22.3	24.7	22.8	22.3	22.1
Revenue	20.9	23.7	21.8	22.0	21.8
Current revenue	20.1	22.8	21.4	21.0	21.1
Tax revenue	17.6	18.4	19.0	18.4	18.9
Nontax revenue	2.5	4.3	2.5	2.5	2.2
Capital revenue + debt service receipts	0.7	0.9	0.3	1.0	0.7
Grants	1.4	1.0	1.0	0.3	0.3
Expenditure	31.3	34.3	31.7	29.5	24.8
Current expenditure	17.6	19.1	19.1	19.6	18.2
Wages and salaries	9.0	9.3	9.1	9.4	8.9
Pensions	1.1	1.4	1.4	1.2	1.2
Goods and services	3.6	3.8	3.4	3.9	3.2
Interest payments	2.4	3.0	3.9	3.6	3.8
Domestic	0.7	0.7	0.6	0.6	0.5
Foreign	1.6	2.4	3.2	3.0	3.4
Transfers	1.5	1.6	1.4	1.4	1.2
Capital expenditure and net lending	13.7	15.2	12.6	9.9	6.6
Capital expenditure	13.7	13.1	11.7	8.3	6.6
Budget-financed (Capital II)	3.2	6.0	4.9	3.1	1.9
Environmental expenditure	0.0	0.0	0.3	0.4	0.4
Donor-financed (Capital III) 1/	7.4	5.0	5.7	4.8	4.3
Emergency expenditure 1/	3.1	2.1	0.9	0.0	0.0
Net lending	0.0	2.1	0.9	1.6	0.0
Unidentified expenditure	0.7	0.2	0.7	0.9	0.0
Overall balance	-9.7	-9.8	-9.6	-8.1	-2.7
Privatization	3.5	0.3	2.5	0.9	0.0
Central government borrowing requirement	6.2	9.5	7.1	7.2	2.7
Domestic	-6.2	4.9	-5.9	-5.3	-0.3
Banking system	-6.2	4.7	-5.8	-5.3	-0.3
Central bank	-6.1	4.7	2.8	1.5	-0.2
Commercial banks	0.0	0.0	-0.9	-0.8	-0.2
DFC 2/	-0.1	0.0	-7.8	-6.0	0.0
Nonbank	0.0	0.2	0.0	0.0	0.0
External	12.2	4.6	13.0	12.5	3.0
Disbursements	15.7	8.9	23.3	17.9	6.2
Amortization	-3.3	-3.6	-7.7	-3.4	-3.2
Contributions to sinking funds 3/	-0.2	-0.7	-2.6	-2.0	0.0
Exceptional financing 4/	0.2	0.0	0.0	0.0	0.0
Memorandum items:					
Primary balance	-7.3	-6.7	-5.8	-4.5	1.1
Overall balance excluding hurricane reconstruction expenditure	-6.6	-7.7	-8.7	-8.1	-2.7
Overall balance excluding DFC lending	-9.7	-9.8	-8.7	-6.5	-2.7

Sources: Ministry of Finance; CBB; and Fund staff estimates and projections.

1/ Donor and multilateral financed projects.

2/ Comprises mainly refinancing operations.

3/ Includes other changes in deposits abroad.

4/ Sale of mortgages.

Table 3. Belize: Consolidated Operations of the Nonfinancial Public Sector, 2000/01 - 2004/05

(In percent of GDP)

	2000/01	2001/02	2002/03	Proj.	
				2003/04	2004/05
Total revenue & grants	24.8	27.9	25.8	25.3	24.9
Revenue	23.4	26.9	24.8	25.0	24.6
Current revenue	22.6	26.0	24.5	24.0	23.9
General government	22.3	25.7	24.3	23.8	23.8
Central government	20.1	22.8	21.4	21.0	21.1
Social security board	2.1	2.9	2.8	2.8	2.8
NFPE's current surplus	0.4	0.3	0.2	0.2	0.0
Capital revenue	0.7	0.9	0.3	1.0	0.7
Grants	1.4	1.0	1.0	0.3	0.3
Total expenditure	34.2	38.1	34.4	32.0	27.2
Current expenditure	18.8	21.1	21.3	21.7	20.3
General government	18.8	21.1	21.3	21.7	20.3
Central government	17.6	19.1	19.1	19.6	18.2
Social Security Board	1.2	2.0	2.2	2.1	2.1
NFPE's current deficit	0.0	0.0	0.0	0.0	0.0
Capital expenditure	15.5	17.0	13.2	10.3	6.9
General government	13.9	15.5	12.9	10.1	6.8
Central government	13.7	15.2	12.6	9.9	6.6
Social security board	0.1	0.3	0.3	0.2	0.2
Public enterprises	1.6	1.5	0.3	0.1	0.1
Unidentified expenditure	0.2	-0.8	0.8	0.0	0.0
Overall balance	-9.6	-9.3	-9.4	-6.7	-2.3
Privatization	3.5	0.3	2.5	0.9	0.0
Borrowing requirement	6.1	9.0	6.9	6.5	1.5
External	12.5	5.9	12.9	12.4	3.0
Domestic	-6.5	3.2	-5.9	-5.9	-1.5
Banking system	-4.4	4.0	-6.5	-5.3	-0.3
Central bank	-4.8	4.7	2.8	1.5	-0.2
Commercial banks	1.2	-0.5	-1.2	-0.8	-0.2
Development finance corporation	-0.8	-0.1	-8.1	-6.0	0.0
Private sector bonds	-0.1	-0.1	0.0	0.0	0.0
Other	-2.0	-0.7	0.5	-0.6	-1.2
Exceptional financing 1/	0.2	0.0	0.0	0.0	0.0
Memorandum items:					
Savings	5.3	5.9	4.2	2.6	3.9
Central government	4.0	4.7	3.3	1.7	3.1
Social security board	0.9	0.9	0.7	0.7	0.7
Nonfinancial public enterprises	0.4	0.3	0.2	0.2	0.0

Sources: Ministry of Finance; CBB; and Fund staff estimates and projections.

1/ Sale of mortgages.

Table 4. Belize: Operations of the Banking System, 2000-04

	2000	2001	2002	Prel. 2003	Proj. 2004
(In millions of Belize dollars)					
I. Central Bank					
International reserves (net)	227.7	205.5	206.5	146.6	146.6
Net domestic assets	-112.5	-80.2	-73.9	-19.0	-14.5
Credit to the public sector (net)	65.9	97.2	-3.1	49.0	58.4
Central government	-13.0	62.9	-0.5	42.5	51.8
Rest of the public sector	78.8	34.3	-2.6	6.5	6.6
Net position of commercial banks	-81.8	-83.0	-58.6	-76.0	-65.5
Development Finance Corporation	3.1	82.7	10.6	9.6	9.6
Medium- and long-term external liabilities	-84.0	-93.5	-18.5	-7.5	-7.5
Capital and other assets (net)	-15.6	-83.6	-4.4	5.9	-9.5
Currency issue	115.2	125.3	132.7	127.6	132.1
II. Consolidated Banking System and DFC					
Net foreign assets	235.9	184.4	239.5	116.5	116.5
Net domestic credit	939.0	1,177.2	1,096.3	1,201.2	1,303.8
Public sector (net)	-2.7	66.0	-142.4	-121.0	-233.5
Central government (net)	52.2	110.5	-94.1	-83.8	-196.4
Social Security Board	-8.3	-12.8	-14.7	-18.5	-19.4
Rest of public sector	-46.5	-31.7	-33.5	-18.7	-17.7
Credit to private sector	926.2	1,084.9	1,280.8	1,436.5	1,529.1
Official capital and other assets (net)	15.5	26.4	-42.2	-114.3	8.2
Medium- and long-term external liabilities	212.5	309.9	250.6	154.1	154.1
Liabilities to the private sector	962.3	1,051.7	1,085.2	1,163.5	1,266.1
Money and quasi-money (M2)	829.8	892.7	894.5	950.1	1,039.2
Foreign currency deposits	18.7	26.3	29.3	31.8	45.4
Capital and reserves	113.8	132.7	161.4	181.6	181.6
(Annual changes in percent of liabilities to the private sector at beginning of period)					
Net international reserves	14.0	-5.4	5.2	-11.3	0.0
Net domestic assets	22.0	24.8	-7.7	9.7	8.8
Credit to the public sector	-5.9	7.1	-19.8	2.0	-9.7
Credit to the private sector	22.3	16.5	18.6	14.3	8.0
Money and quasi-money (M2)	13.2	6.5	0.2	5.1	7.7
(Annual percentage change)					
Credit to private sector	25.0	17.1	18.1	12.2	6.4
Liabilities to private sector	15.6	9.3	3.2	7.2	8.8
Money and quasi-money	15.3	7.6	0.2	6.2	9.4
(In percent of GDP, unless specified otherwise)					
Domestic credit	56.4	67.4	60.2	59.8	61.2
Credit to the public sector	-0.2	3.8	-7.8	-6.0	-11.0
<i>Of which:</i>					
Central government	3.1	6.3	-5.2	-4.2	-9.2
Credit to the private sector	55.6	62.1	70.3	71.5	71.8
M2	49.8	51.1	49.1	47.3	48.8
Velocity (M2)	2.0	2.0	2.0	2.1	2.1

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

Table 5. Belize: Financial Soundness Indicators of the Domestic Banking System, 1998-2003 1/

(In percent)

	1998	1999	2000	2001	2002	Sept. 2003
Capital adequacy						
Primary capital/assets	7.9	8.5	10.5	10.4	12.3	12.8
Equity/gross loans	11.0	11.8	15.3	16.2	16.4	16.5
Asset growth rate 2/	6.3	10.9	10.4	17.6	6.4	4.8
Capital growth rate 2/	2.8	19.0	36.8	16.6	25.7	8.6
Capital/deposits	9.2	9.8	12.2	12.2	14.6	15.9
Asset quality						
Nonperforming loan ratio	5.5	5.4	6.2	4.5	3.9	3.7
Provisions/nonperforming loans	45.3	42.7	45.3	64.0	65.5	...
Earnings						
Return on average assets	2.5	3.2	5.1	4.6	4.7	3.2
Return on equity	30.5	36.2	46.6	41.0	36.8	25.9
Net interest margin	7.9	7.7	9.3	9.0	8.8	8.0
Net interest income/operating income	74.8	72.2	76.3	77.2	77.1	80.6
Noninterest income/operating income	25.2	27.8	23.7	22.8	22.9	19.4
Liquidity						
Deposit growth rate 2/	5.4	11.9	10.2	16.1	5.4	5.8
Loans/total assets	72.1	71.9	68.4	64.2	74.8	77.6
Net loans/deposits	82.9	82.1	77.9	74.0	87.5	94.1
Liquid assets/deposits	27.7	28.0	31.6	36.7	24.8	25.7

Source: Central Bank of Belize.

1/ Includes the five domestic banks supervised by the FSSD. It does not include the DFC.

2/ Annual growth rates.

Table 6. Belize: Balance of Payments, 2000-04

	2000	2001	2002	Prel. 2003	Proj. 2004 1/
(In millions of U.S. dollars)					
Current account balance	-155.4	-156.5	-159.8	-158.2	-89.3
Trade balance	-170.1	-186.7	-190.9	-196.6	-155.8
Exports, f.o.b.	291.5	273.8	307.0	344.4	396.0
Imports, fob	-461.6	-460.5	-497.9	-541.0	-551.8
Services	17.3	38.4	52.8	72.8	92.4
<i>Of which:</i> travel	77.3	81.4	86.8	108.7	130.4
Income	-63.0	-77.6	-99.7	-107.7	-120.7
<i>Of which:</i> public sector interest payments	-27.8	-43.8	-54.3	-63.1	-76.9
Transfers	60.3	69.5	78.1	73.3	94.8
Private (net)	51.8	60.3	64.3	67.9	81.6
Official (net)	8.5	9.2	13.7	5.4	13.2
Capital and financial account balance	233.7	154.3	154.0	117.8	89.3
Public sector	210.9	115.6	122.2	52.3	5.0
Disbursements	204.7	116.4	243.9	173.4	85.2
Amortization	-33.0	-47.7	-145.5	-80.7	-55.0
Privatization proceeds	0.0	24.8	0.0	0.0	0.0
Securitization and other	39.2	22.2	23.9	-40.4	-25.2
Private sector	22.8	38.7	31.8	65.5	84.3
Errors and omissions	-26.6	-8.3	6.3	10.5	0.0
Overall balance	51.7	-10.5	0.5	-29.9	0.0
(In percent of GDP)					
Current account balance	-18.7	-18.0	-17.2	-15.8	-8.4
Trade balance	-20.4	-21.5	-20.6	-19.6	-14.6
Services	2.1	4.4	5.7	7.3	8.7
Income	-7.6	-8.9	-10.7	-10.7	-11.3
Transfers	7.2	8.0	8.4	7.3	8.9
Capital and financial account balance	28.1	17.8	16.6	11.7	8.4
Public sector	25.3	13.3	13.2	5.2	0.5
Private sector	2.7	4.4	3.4	6.5	7.9
Errors and omissions	-3.2	-1.0	0.7	1.0	0.0
Overall balance	6.2	-1.2	0.1	-3.0	0.0

Sources: CBB; and Fund staff estimates and projections.

1/ Fund staff adjustment scenario.

Table 7. Belize: Indicators of External Vulnerability, 2000-04

	2000	2001	2002	Est. 2003	Proj. 2004 1/
Exchange rate indicators					
Real effective exchange rate (+ appreciation; end of period)	1.4	1.9	-0.7	-5.3	...
Exchange rate (per U.S. dollar; period average)	2.0	2.0	2.0	2.0	2.0
Trade indicators					
Exports (percent change, U.S. dollars basis)	10.1	-6.1	12.1	12.2	15.0
Imports (percent change, U.S. dollars basis)	26.1	-0.2	8.1	8.6	2.0
Terms of trade (percent change)	-6.6	4.0	0.8	0.6	...
Debt indicators					
Total external public debt in percent of GDP	65.6	75.6	86.2	85.7	83.1
Public debt	45.1	47.6	52.7	60.1	59.6
Publicly guaranteed debt	20.5	28.0	33.5	25.6	23.5
Total external public debt in percent of exports 2/	122.0	144.9	159.0	158.8	151.6
Public debt	83.9	91.3	97.3	111.4	108.8
Publicly guaranteed debt	38.2	53.7	61.7	47.4	42.9
Public debt service in percent of GDP 3/	7.3	10.6	23.3	17.7	12.9
Amortization 4/	4.0	5.6	17.4	11.4	5.7
Interest	3.3	5.0	5.9	6.3	7.2
Public debt service in percent of exports	13.5	20.6	43.0	31.5	21.2
Amortization 4/	7.4	10.8	32.2	20.3	9.4
Interest	6.2	9.8	10.8	11.2	11.9
Public debt service in percent of current government revenue 5/	22.5	26.1	46.7	29.5	31.4
Amortization 4/	14.9	14.9	35.6	13.6	16.0
Interest	7.6	11.2	11.1	15.9	15.3
International reserves indicators					
Gross official reserves (US\$ million)	114.7	104.2	106.2	76.2	75.3
In months of imports	2.3	2.1	2.0	1.3	1.3
In percent of amortizations due in the following year	236.1	64.5	92.8	125.6	106.3
In percent of base money	116.4	100.1	111.1	78.2	75.1
Available gross official reserves (US\$ million) 6/	12.4	17.4	93.5	71.9	71.0
In months of imports	0.2	0.4	1.8	1.3	1.2
In percent of amortizations due in the following year	25.4	10.8	81.7	118.6	100.3
In percent of base money	12.5	16.7	97.8	73.8	70.9
Balance of payments					
Current account balance	-18.7	-18.0	-17.2	-15.8	-8.4
Capital and financial account balance	28.1	17.8	16.6	11.7	8.4
Public sector	25.3	13.3	13.2	5.2	0.5
Private sector	2.7	4.4	3.4	6.5	7.9

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

1/ Fund staff adjustment scenario.

2/ Exports of goods and nonfactor services.

3/ Includes debt service on public and publicly guaranteed debt.

4/ Includes refinancing operations in 2002 and 2003.

5/ Only central government debt service.

6/ Net of CBB collateral deposits in creditor banks.

Table 8. Belize: Medium-Term Balance of Payments 2000-08

	Prel.	Staff estimates and projections 1/					
	2002	2003	2004	2005	2006	2007	2008
(In millions of U.S. dollars)							
Current account balance	-159.8	-158.2	-89.3	-51.4	-50.9	-50.3	-50.3
Trade balance	-190.9	-196.6	-155.8	-145.0	-152.2	-159.9	-168.5
Exports, f.o.b.	307.0	344.4	396.0	440.3	468.0	497.3	528.0
Imports, fob	-497.9	-541.0	-551.8	-585.3	-620.2	-657.2	-696.4
Services	52.8	72.8	92.4	96.6	98.3	100.0	100.3
<i>Of which:</i> travel	86.8	108.7	130.4	137.0	141.1	145.3	148.2
Income	-99.7	-107.7	-120.7	-103.5	-103.5	-103.2	-101.8
<i>Of which:</i> public sector interest payments	-54.3	-63.1	-76.9	-57.5	-55.5	-53.1	-49.4
Transfers	78.1	73.3	94.8	100.5	106.5	112.9	119.6
Capital and financial account balance	154.0	117.8	89.3	58.6	67.1	79.3	94.0
Public sector	122.2	52.3	5.0	-50.9	-53.9	-49.0	-42.1
Disbursements	243.9	173.4	85.2	39.5	11.5	16.6	21.1
Amortization	-145.5	-80.7	-55.0	-65.0	-40.0	-39.9	-37.3
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securitization and other	23.9	-40.4	-25.2	-25.3	-25.5	-25.7	-25.9
Private sector	31.8	65.5	84.3	109.4	121.0	128.3	136.0
Errors and omissions	6.3	10.5	0.0	0.0	0.0	0.0	0.0
Overall balance	0.5	-29.9	0.0	7.2	16.2	29.0	43.7
(In percent of GDP)							
Current account balance	-17.2	-15.8	-8.4	-4.6	-4.2	-4.0	-3.8
Trade balance	-20.6	-19.6	-14.6	-12.8	-12.7	-12.6	-12.6
Capital and financial account balance	16.6	11.7	8.4	5.2	5.6	6.3	7.0
Public sector	13.2	5.2	0.5	-4.5	-4.5	-3.9	-3.1
Private sector	3.4	6.5	7.9	9.7	10.1	10.1	10.2
Errors and omissions	0.7	1.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.1	-3.0	0.0	0.6	1.4	2.3	3.3
Memorandum items:							
Public and publicly guaranteed external debt (end-of-period)	86.2	85.7	83.1	75.6	68.5	62.3	57.3
Net international reserves							
In months of imports	2.0	1.3	1.3	1.4	1.6	1.9	2.5
As a percentage of 12-month debt service	44.7	41.4	48.0	55.8	81.6	107.5	152.2

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

1/ Fund staff adjustment scenario.

Table 9. Belize: Public Debt by Creditor and Borrowing Agency

	1999	2000	2001	2002	Prel. 2003
(In millions of U.S. dollars)					
Amount outstanding (end-of-period)	389.8	595.9	724.8	816.5	925.3
Domestic debt	35.4	50.0	67.7	16.4	64.7
Public and publicly guaranteed external debt 1/	354.3	546.0	657.1	800.1	860.6
Public external debt 2/	253.3	375.2	413.8	489.4	603.7
Bilateral and multilateral	197.7	183.1	212.3	244.9	262.4
Banks, bonds, and suppliers	55.7	192.1	201.5	244.5	341.3
Publicly guaranteed debt 1/ <i>Of which: DFC</i>	101.0 69.9	170.8 141.3	243.2 201.5	310.7 254.7	256.9 200.9
Public external debt service 2/ 3/	32.5	106.0	121.5	151.1	84.4
Official	21.1	19.6	29.2	21.5	23.8
Private	11.4	86.4	92.3	129.6	60.6
(In percent of total)					
By creditor					
Bilateral and multilateral	78.0	48.8	51.3	50.0	43.5
Banks, bonds, and suppliers	22.0	51.2	48.7	50.0	56.5
(In percent of GDP)					
By creditor					
Amount outstanding (end-of-period)	53.1	71.6	83.4	88.0	92.2
Domestic debt	4.8	6.0	7.8	1.8	6.4
Public external debt	34.5	45.1	47.6	52.7	60.1
Bilateral and multilateral	26.9	22.0	24.4	26.4	26.1
Banks, bonds, and suppliers	7.6	23.1	23.2	26.3	34.0
Publicly guaranteed external debt 1/	13.8	20.5	28.0	33.5	25.6
External public debt service 2/ 3/	4.4	12.7	14.0	16.3	8.4

Source: Central Bank of Belize.

1/ Includes the guaranteed debt of BEL, WASA, and securitization operations of DFC/SSB.

2/ Includes central government, CBB, nonfinancial public sector.

3/ Includes refinancing operations in 2002.

Table 10. Belize: Public Sector Debt Sustainability Framework, 2003-08

(In percent of GDP, unless otherwise indicated)

	Projections						Debt-stabilizing primary balance 1/
	2003	2004	2005	2006	2007	2008	
I. Baseline Projections							
Public sector debt 2/	92.2	89.2	84.0	78.7	73.3	67.4	0.6
<i>Of which: foreign-currency denominated</i>	90.3	83.0	78.2	73.0	65.8	59.3	
Public sector debt-to-revenue ratio 2/	355.1	339.5	296.5	272.9	252.2	232.1	
Gross financing need 3/	20.7	11.3	6.7	5.4	4.5	3.7	
in billions of U.S. dollars	0.2	0.1	0.1	0.1	0.1	0.0	
Key macroeconomic and fiscal assumptions							Proj. average
Real GDP growth (in percent)	5.5	3.5	5.0	4.9	4.5	4.5	4.6
Average nominal interest rate on public debt (in percent) 4/	7.4	9.1	7.0	6.9	6.8	6.5	7.3
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.9	6.6	6.0	5.9	5.8	5.0	5.7
Nominal appreciation (increase in US dollar value of local currency, in percent)
Inflation rate (GDP deflator, in percent)	2.5	2.5	1.0	1.0	1.0	1.5	1.6
Growth of real primary spending (deflated by GDP deflator, in percent)	21.8	-21.4	-4.1	7.3	5.7	1.9	1.9
Primary deficit (calendar year basis)	6.2	-1.8	-4.4	-4.6	-4.8	-5.0	-3.4
II. Stress Tests for Public Debt Ratio							Debt-stabilizing primary balance 1/
A. Alternative scenarios							
A1. Key variables are at their historical averages in 2004-08 5/	92.2	92.2	96.0	99.8	103.6	107.4	0.3
A2. Primary balance under no policy change in 2004-08	92.2	96.7	105.8	115.3	125.4	136.5	6.5
B. Stress tests							
B1. Real interest rate is at historical average plus two standard deviations in 2004 and 2005	92.2	92.7	91.6	86.4	81.1	75.3	0.7
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005	92.2	96.7	102.7	101.0	99.2	97.0	0.9
B3. Primary balance is at historical average minus two standard deviations in 2004 and 2005	92.2	99.8	109.4	104.4	99.2	93.5	0.8
B4. Combination of 2-4 using one standard deviation shocks	92.2	100.6	113.6	108.5	103.3	97.8	0.9
B5. One time 30 percent real depreciation in 2004 6/	92.2	131.7	126.8	121.9	116.8	111.3	1.0
B6. 10 percent of GDP increase in other debt-creating flows in 2004	92.2	99.2	94.1	88.9	83.5	77.8	0.7

Source: Fund staff projections.

1/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

2/ Refers to gross public and publicly guaranteed debt. Assumes implementation of Fund recommendations.

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

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

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

6/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

BELIZE: FUND RELATIONS

(As of January 31, 2004)

I. Membership Status:

Joined: March 16, 1982

Status: Article VIII

II. General Resources Account:

	SDR Million	% Quota
Quota	18.80	100.00
Fund holdings of currency	14.56	77.45
Reserve position in Fund	4.24	22.55

III. SDR Department:

	SDR Million	% Allocation
Holdings	1.56	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

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

VI. Projected Obligations to Fund: None

VII. Implementation of HIPC Initiative: None

VI. 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. Since the second quarter of 1995, the central bank has been resorting to the rationing of its sales of foreign exchange to commercial banks on an ad-hoc basis, except for some essential import items, which has given rise to restrictions on the making of payments and transfers for current international transactions. The existence of a parallel exchange market that trades at rates that differ by more than 2 percent from the official rate and foreign exchange houses that can trade at rates that differ by more than 2 percent from the official rate give rise to multiple currency practices.

VII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on November 1, 2002 the relevant documents were IMF Country Report No. 02/255 and Country Report 02/256. Belize is on the standard 12-month consultation cycle.

VIII. Technical Assistance

- During November 1994–June 1995, an FAD panel expert visited Belize on four occasions to assist the authorities with the implementation of the VAT.
- In December 1995 another mission from FAD visited Belize to provide technical assistance to strengthen tax administration.
- Mr. Krysl (MAE consultant) visited Belize in February 1998 to advise the authorities on banking supervision.
- Mr. Albrecht (MAE consultant) visited Belize during March 19–30, 2001 to start a series of visits aimed at improving on-shore and off-shore banking supervision.
- Mr. Fontaine (STA) visited Belize in April 2001 to advise the authorities on balance of payments statistical issues.
- Mr. Nun (MAE consultant) visited Belize in July 2001 to conduct a review and assessment of the Development Finance Corporation.
- Mr. Murad (CARTAC) visited Belize in January 2002 to advise the Central Statistical Office on improving National Income Accounting.
- Messrs. Bradshaw and dos Santos (CARTAC) visited Belize in January 2002 to assess the country's needs in terms of technical assistance to be provided by CARTAC.
- Mr. Fritz-Krockow (WHD) visited Belize in July 2003 to advice on design of a tax reform.
- Mr. Abbott (MFD) visited Belize in August 2003 for a Module 2 Offshore Financial Center Assessment. The mission updated and extended an OFC assessment undertaken in September 2001, assessing Belize's efforts towards anti-money laundering and combating the financing of terrorism, the Basel Core Principles for banking supervision, and the Insurance Core Principles.

BELIZE: RELATIONS WITH THE WORLD BANK GROUP

(As of October 27, 2003)

I. Projects

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

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

II. Financial Relations

IBRD/IDA/IFC Operations
(In millions of U.S. dollars)

IBRD loans	Disbursed	Undisbursed
Roads and Municipal Drainage	10.0	3.0
Other instruments		
Community-Managed Sarastoon-Temash Conservation (GEF)	0.3	0.5
Memorandum item:		
Total approved loans (including six closed loans)	78.0	3.0
<i>Of which</i>		
Repaid to the Bank	34.6	
Unpaid	43.4	
IFC investments		
Nova-Ambergris	4.4	0.0

BELIZE: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of January 15, 2004)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Rehabilitation of the Southern Highway	16.0	0.1
Land Administration II	7.0	5.7
Modernization of Agricultural Health Services	3.6	0.8
Hurricane Reconstruction and Emergency Preparedness	21.3	9.2
Tourism Development Project	11.0	3.5
Health Sector Reform Project	9.8	8.4
Total	68.7	27.7

II. Loan Transactions

	1998	1999	2000	2001	2002	2003
Net flows	0.4	3.5	10.3	16.3	11.8	12.2
Gross disbursements	0.7	3.9	11.1	18.3	14.3	15.3
Amortization	0.0	0.0	0.0	0.0	0.0	0.5
Interest and charges	0.3	0.4	0.8	2.0	2.5	3.1

III. Economic and Sector Work

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

From 1998 to 2003, the Bank approved seven operations in Belize: Rehabilitation of the Southern Highway (1998); Modernization of Agriculture Health Services and Hurricane Reconstruction and Emergency Preparedness (1999), Tourism Development, Health Sector Reform and Hurricane Keith Emergency Reconstruction (2000); and Land Administration II (2001). There were no loan approvals during 2002–03. However, the Bank has been very active through technical cooperation projects from the Multilateral Investment Fund, which approved five (5) operations for a total of US\$3.5 million during the same time period.

BELIZE: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK
(As of December 31, 2003)

I. Current Portfolio

(In millions of U.S. dollars)

Loan	Approved	Undisbursed
Disaster Preparedness	9.2	4.9
Orange Walk Bypass	11.5	4.0
Fifth Line of Credit	7.3	0.6
Second Water and Sewerage Project	13.8	2.2
Rural Development	3.4	2.7
Health Sector Reform Program	5.6	5.6
National Disaster Management (Hurricane Keith)	0.5	0.2
Enhancement of Technical and Vocational Education	16.1	15.7
Southern Highway Rehabilitation	1.8	1.1
Caribbean Court of Justice	2.2	2.2
Social Investment Fund	7.1	7.1
Total	78.5	46.3

II. Loan Transactions

	1999	2000	2001	2002	2003
Net flows	3.0	3.4	1.9	0.0	2.5
Gross disbursements	9.5	9.0	9.3	7.6	9.5
Amortization	3.6	2.3	3.3	3.9	3.4
Interest and charges	2.9	3.3	4.1	3.7	3.6

III. Economic and Sector Work

The CDB Country Strategy Paper (CSP) on Belize was presented to the Board in May 2000. The strategy covered the period 2000 to 2002 and proposed an allocation of US\$39.5 million to projects in tourism development, bridge construction/rehabilitation, human resource development, and health sector reform. It also included a line of Credit to the DFC and about US\$0.4 million in technical assistance. The TA activities include a study on service exports expansion, family health survey, land use plan for northern Belize, restructuring of the public enterprise sector, a study on health sector institutional restructuring and a review of education sector financing. In 2003, a loan for the Social Investment Fund and a loan for the funding of the Caribbean Court of Justice were also approved, which are both additional to resources that had been allocated under the CSP.

BELIZE: STATISTICAL ISSUES

1. Outstanding statistical issues

In general, the quality, coverage, and timeliness of Belize's statistical information do not permit an adequate monitoring of economic developments. There are shortcomings in national accounts, prices, external trade and debt, government finance, and labor statistics. The authorities have indicated that they would be interested in receiving technical assistance in all these areas. The Central Bank of Belize publishes, in irregular intervals, a quarterly bulletin covering developments in the real, fiscal, monetary, and external sectors, as well as an annual report and a statistical digest.

2. 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.

3. Balance of payments

The compilation of Belize's balance of payments is based on the fifth edition of the *Balance of Payments Manual (BPM5)*. Belize has recently completed the transition to the *BPM5*. In addition, the authorities are refining the process for collecting relevant data that will enable the presentation of quarterly balance of payments statistics. As for the coverage, currentness and reporting of data for publication in the *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*, Belize has reported annual data on balance of payments statistics albeit with some lags. An STA mission visited Belize in April 2001 to provide assistance on balance of payments data issues.

4. Real sector

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

5. Fiscal accounts

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

6. Development Finance Corporation

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

Belize: Core Statistical Indicators
As of February 2, 2004

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance 1/	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed	11/03	12/03	12/03	12/03	11/03	Q3/03	07/03	2002	12/01	2001	2001
Date Received	n.a.	1/09/04	1/29/04	1/29/04	1/29/04	1/29/04	10/14/03	10/14/03	8/03	2/28/02	3/04/02	3/01/02
Frequency of Data	n.a.	D	W	W	W	M	Q	M	A	M	A	A
Frequency of Reporting	n.a.	D	W	W	W	M	Q	M	A	M	A	A
Source of Data 1/	n.a.	CB	CB	CB	CB	CB	CSO	CB CSO	CB	MoF	CSO	CB
Mode of Reporting	n.a.	E-mail	E-mail	E-mail	E-mail	C	C E-mail	C E-mail	C	C	C	C
Confidentiality 2/	n.a.	D	D	D	D	D	D	D	D	D	D	D
Frequency of Publication	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1/ CB = Central Bank; MoF = Ministry of Finance; CSO = Central Statistical Office.

2/ D = Embargoed for a specific period and are thereafter for unrestricted use

**Statement by the IMF Staff Representative
March 24, 2004**

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

- **The authorities have recently introduced additional tax measures.** Parliament approved a package of revenue enhancements in February, including a 1 percentage point increase in the general sales tax. The staff estimates that the measures will yield just under 1 percent of GDP more during FY 2004/05 than the measures envisaged in the budget. While providing a welcome step toward achieving the authorities' deficit objective, further measures may still be required given the underlying lack of buoyancy of the tax regime and the risk of expenditure slippage.
- **The government recently nationalized the largest phone company.** This company had been privatized three years ago, and the government's action was in response to the company's inability to resolve a dispute with a competing operator regarding interconnection fees. The authorities have indicated their intention to reprivatize the company once the interconnection issue is settled.
- **The financial position of the Development Finance Corporation appears to have weakened further.** Following last week's bankruptcy of one of the DFC's largest borrowers—which accounted for 9 percent of the DFC's outstanding loans as of end-2003—the DFC's nonperforming loan ratio is estimated to have increased to 32 percent.
- **As discussed in the staff report, the Central Bank of Belize (CBB) has moved to tighten monetary policy.** On March 26, 2004 the Board of the CBB will consider an increase to the cash reserve requirement from 6 percent to 7 percent, to be effective May 1, 2004. In addition, mortgages will be eliminated from the list of approved liquid assets, effective April 1, 2004.

**Statement by Mr. Charles X. O’Loughlin, Executive Director for Belize
March 24, 2004**

At core, the Staff Report accords with my authorities’ assessments and intentions ...

1. The forward-looking, wide-ranging, and frank nature of the Article IV discussions in Belize last December was much appreciated by my authorities. They wish to acknowledge that the broad thrust of its analysis and recommendations accords with their own assessment and policy intent – even if they would not subscribe to each and every sentiment in the resulting Staff Report. Hence, as the staff suggest in the Report and confirm in their supplemental Statement, my authorities’ recent budget – and monetary policy action – incorporates *substantial* steps consistent with those recommendations.

They view the US\$ exchange peg as critical, and are committed to its maintenance ...

2. My authorities are absolutely committed to preserving the exchange peg to the US dollar, in view of the importance of stability to economic progress – especially in an economy as open as that of Belize. They are keenly aware of the potential implications for the peg of any continuation of the substantial public deficits – largely prompted by growing investment - and of the increasing indebtedness of recent years.
3. To this end, my authorities are targeting a reduction in the overall fiscal deficit of some 5 percent of GDP in the 2004/05 (April-March) fiscal year. As indicated later, their recent budget incorporates a significant slowdown in hitherto-high public investment, and substantial tax measures. My authorities are absolutely committed to achieving this target, and stand ready to take further measures should that prove necessary. They have also tightened monetary policy, in line with the staff recommendations, in support.

High deficits and borrowing fell less than foreshadowed to the Board in late 2002 ...

4. The Belize government acknowledges that, in the event, through 2002/03 and 2003/04 the fiscal deficit was scaled back less than foreshadowed at the time of the last Board discussion. The larger deficits primarily reflected stronger public investment (to complete the developmental program begun in 1999) and shortfalls in expected revenue receipts – in part as a result of growth-oriented tax policy measures, but also some underperformance against budgeted yields.
5. It is critically important, however, to assess those developments in a broad perspective. My authorities would particularly note that the high public investment of recent years has restored business-oriented infrastructure seriously damaged by hurricanes in 2000/01, strengthened the country’s economic infrastructure more generally and – with tax policy developments – has promoted enterprise, in addition to enhancing social capital.

But if debt rose, growth potential was clearly expanded ...

6. The capacity of Belize for economic progress, as evident from the Staff Report, has been greatly strengthened by the policies of recent years:
 - Real GDP was 40 percent higher last year – when Belize became a billion-US\$ economy – than in 1998;
 - Although output had not fully recovered from recent adversities (mainly, hurricane damage), visible exports reached US\$345m last year, up from US\$195m in 1998;
 - Private investment into and in Belize has continued apace; and
 - Imports related to this and other investment – natural in a country without an advanced manufacturing sector – were a significant contributor to the declining, but admittedly still substantial, deficit on the current account of the balance of payments.
7. Unsurprisingly, then, my authorities continued to enjoy the confidence of international private lenders through 2003 (*gross* loan disbursements exceeded US\$173m), albeit at a significant premium over comparable US Treasuries.
8. The social element of that public investment, of course, has also been invaluable. It has helped to underpin socio-political stability in a region which, unfortunately, has seen far too much unrest. This is a key strength which helps to explain why, notwithstanding an estimated 1¼ percent of GDP fiscal tightening in the budget year ending on March 31, Belize's economic growth in 2003 could exceed 5 percent. Growth *was* assisted by a further recovery of output from the adverse impact on agriculture of natural disasters and on tourism of 9/11 – as well as by the easing US\$/Euro parity. But the staff prognosis for 2004, economic growth of 3½ percent despite the intended five percentage points of GDP fiscal tightening, affirms my authorities' view of Belize as an economy with potential – in substantial measure the product of recent heavy public investment.

My authorities' growth expectations for 2004 are close to those of the staff ...

9. That estimate is close to my authorities' assessment of 4 percent in the recent budget. The difference reflects slightly divergent views about the impact of recent and planned business investment. Like the staff, my authorities are confident that further expansion in tourism, and fish-farming production in particular (with recent investment coming fully on stream), will deliver further strong export growth in 2004. The hurricane-hit citrus industry should complete its recovery, barring the unexpected. The sugar industry is negotiating linkage to the national power grid, and should expand biomass electricity generation beyond its own power needs this year – helping respond to the unwinding of sugar trade preferences and coincidentally reducing fuel import dependence.

With determined fiscal action supporting confidence ...

10. Since the Article IV discussions, my authorities have adopted their 2004/05 budget. It targets a reduction of some 5 percentage points in the fiscal deficit, to below 3 percent of GDP. Three key elements contribute:

- The major infrastructure effort to date allows reduced public investment this year. Central government investment is budgeted at 1½ percent of GDP less than last year (although remaining about twice that of developed countries generally);
- It also allows my authorities to restore the Development Finance Corporation [DFC] to its traditional, primarily (small) enterprise support, role, for a similar saving. This year, net DFC outlays will be just ½ percent of GDP, to be fully financed by normal cash-flow and new (concessional) multi-lateral loans – instead of budget lending; and
- New tax measures – again focused on assets and consumption rather than enterprise and effort – are anticipated to yield in excess of 1½ percent of GDP.

11. Monthly monitoring has been put in place to ensure control of expenditure to budget. The staff feel that revenue may fall significantly short of target – notably on foot of concern about yield from a land tax “in the absence of a collection agency or a functional database of taxpayers”. My authorities agree that past land tax revenue collections have disappointed. However, they would note three recent key, relevant, policy steps. Early this year, oversight of collection was transferred to the Minister for Finance from the Department of the Environment. A new collector has been employed. Large landholders have *already* been invoiced for this tax, just weeks after it came into law. Nonetheless, my authorities emphasize that they stand ready, if a revenue shortfall appears threatened, to implement further revenue and/or expenditure measures to *fully* compensate. They are committed to carrying through the announced fiscal adjustment without fail.

An asset-disposal program amplifying the positive impact on debt ...

12. My authorities also plan to ease the debt ratio directly. A part-disposal of DFC assets was foreshadowed at the last Board discussion. It is now well-advanced. Initial offers have been received. They are still being evaluated, but my authorities are pointing to a yield of a few percentage points of GDP. They wish to assure the Board of their absolute intent to apply *all* such divestment proceeds to paying down existing debt.
13. On this basis, taking the prospective fiscal deficit into account, a downward trend in the debt-burden should be firmly established in 2004.

And supportive monetary policy, in line with the staff recommendations ...

14. Fiscal action will be supported by monetary policy, as noted in the Staff Statement:
- From April 1, new residential construction loans will not count as part of banks’ liquid assets. There will be a neutralizing reduction in the liquid asset requirement.
 - And the Board of the Central Bank will consider, on March 26, a proposal to raise the cash reserve requirement from 6 percent to 7 percent, effective May 1, 2004.
15. My authorities welcome the assessments (noted in the accompanying Selected Issues paper) that “the [domestic] banking system appears sound and profitable”, “financial soundness indicators for international banks also appear solid” and “domestic insurance supervision deals adequately with the products offered in Belize”. Nonetheless, they

acknowledge the scope to further improve supervision. As suggested by the staff during the Article IV discussions, the DFC has been subjected to Central Bank supervisory oversight since January. And a technical expert is preparing recommendations, for delivery by end-April, for the coordination of supervision of Belize's financial system (including credit unions, insurance companies and other non-bank institutions).

16. The Central Bank has sought the extension of its legal remit to allow it to publish financial statements of international banks – which it is not currently empowered to do. My authorities are actively considering this proposal. The Central Bank is seeking the agreement of those banks to voluntary disclosure in the meantime, and is increasingly confident that this will be forthcoming.

Excepting their advice concerning “cambios” – licensed exchange bureaux ...

17. My authorities understand the staffs' desire for steps to be taken which would promise to unify the foreign exchange market. At this juncture, however, they are not disposed to implement the suggestion to widen the allowable band in the *cambios*. Their preference, and aim, is to so adapt macroeconomic policies as to diminish, and in time to eliminate, incentive to/need for parallel market transactions. They view the two-stage process envisaged by the staff as carrying unacceptable risks to the exchange peg by cementing, for however short a time, “acceptability” of wider “official” spreads than now obtain.
18. Meanwhile, existing legislation is being revisited with a view to tightening control over the reporting and supervision of *cambios*, to provide better monitoring of their impact on the financial system.

While advances in producing key economic and budget data ...

19. Efforts to improve the comprehensiveness, quality and timeliness of economic and budgetary statistics will continue – adding to recent advances on statistics for monitoring purposes. Quarterly balance of payments data are available since 2002. Development of quarterly national accounts is underway. Although these have not reached publication stage, preliminary results have been provided to Fund staff since 2003. Monthly central government budget data are now reported to Fund staff within 2-3 weeks of each end-month, and arrangements are in place for related financing data to follow shortly after.

Enhance the basis for my authorities to monitor implementation of their resolve ...

20. In sum, the staff analysis and recommendations accord with my authorities' assessments and intentions. The exchange peg is crucial to retaining the confidence which recent policies have engendered in Belizean growth potential, exemplified by average annual economic growth of 7 percent over the past five years. The actions necessary to sustain the peg are in train. My authorities are adamant that they will be implemented in full.



INTERNATIONAL MONETARY FUND

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

IMF Concludes 2003 Article IV Consultation with Belize

On March 24, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.¹

Background

Since taking office in 1998, the current government embarked on a program to accelerate economic growth. The measures adopted included tax cuts, a sharp increase in government investment, and subsidized credit to the private sector through the state-owned Development Finance Corporation (DFC). The exchange rate has been pegged at BZ\$2 per US\$1 since 1976, and the authorities consider its maintenance a primary policy objective.

Real GDP growth increased to 12 percent in 2000, but slowed to 4-5 percent thereafter as a result of the effects of several hurricanes, the tourism slump that followed the terrorist attacks in the United States, and a shrimp virus epidemic. However, there has been a loss in confidence as the fiscal and external current account deficits remained at unsustainable levels. The central government deficit remained at levels of around 9 percent of GDP since FY 2000/01 (fiscal year begins April) and is projected to decrease only slightly in FY 2003/04. Sharply increased interest payments, continued support for the de facto insolvent DFC, and a lack of buoyancy of the tax regime are straining the public finances, making it more difficult to reduce the deficit despite a severe compression of investment expenditure. Net international reserves fell by about a third during 2003, while public and publicly guaranteed debt has

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.

reached 92 percent of GDP, contracted mostly as external debt on commercial terms. The large and continued fiscal imbalance and the accommodative monetary policy are threatening the sustainability of the exchange rate peg.

There is an urgent need to put in place comprehensive fiscal adjustment measures and tighten monetary policy to prevent a balance of payments crisis, return Belize to a sustainable policy path, and enable the country to regain a margin of resilience to exogenous shocks.

The authorities agree that the central government deficit should be reduced to below 3 percent of GDP in FY 2004/05. Nonetheless, to achieve this target, there is a need implement a comprehensive tax reform to restore buoyancy to the system, freeze current expenditure, and reduce budget-financed capital expenditure further. Combined with a tightening of monetary policy, this adjustment in demand policies could halt the loss in international reserves in 2004.

Executive Board Assessment

Directors welcomed the recovery of Belize's economy and exports from the recent external shocks, including hurricanes, in an environment of price stability. However, Directors expressed concern that Belize's fiscal and external current account deficits have remained unsustainably large, putting pressure on international reserves and generating high and rapidly growing levels of public and publicly guaranteed indebtedness. The serious economic imbalances have also contributed to increasing costs in accessing international capital markets.

Directors agreed that, to re-establish a viable economic and financial position and help ensure the sustainability of the exchange rate peg, Belize will need to embark urgently on a comprehensive and sustained fiscal correction, to be supported by tight monetary policies and structural measures aimed at enhancing the long-term competitiveness of the economy. They were encouraged by the authorities' renewed commitment to adopt corrective policy measures, but stressed that these will need to be implemented vigorously and further strengthened in the period ahead.

Directors welcomed the authorities' intention to contain the fiscal year 2004/05 deficit to below 3 percent of GDP, as well as the recent adoption of a package of revenue enhancements. Against the backdrop of past budget overruns, Directors nevertheless considered that additional measures—beyond those currently envisaged—will most likely be needed to achieve the fiscal target as planned. To pave the way for a durable strengthening of the public finances, Directors urged the authorities to curtail nonpriority central government expenditures, freeze the wage bill, widen the tax base and reduce excessive and distortionary tax exemptions. Improvements in budget monitoring and control as well as in the management of Belize's public debt should also be given a high priority.

Directors welcomed the authorities' decision to restructure the Development Finance Corporation and to subject it to the supervision of the central bank. To contain the burden on the budget and limit further drain on scarce resources, it will now be important to curtail the

lending and investment operations of the DFC in advance of the completion of its restructuring and partial disposition of its assets.

Directors supported the authorities' decision to tighten monetary policy and contain credit growth. A firm monetary stance will be helpful in the short run to reduce pressures on the exchange rate. It will be essential in the longer run, along with a strong fiscal adjustment, to protect the balance of payments and support Belize's exchange rate peg, which the authorities rightly continue to view as a critical anchor for confidence and stability.

Directors urged the authorities to take steps to increase the transparency and efficiency of the foreign exchange regime, in particular by adopting clearer rules for foreign exchange transactions by the central bank and the foreign exchange houses. They noted that progress in this area will help improve the efficiency of the foreign exchange system, and support the eventual unification of the exchange markets.

Directors encouraged the authorities to strengthen the oversight capacity and independence of the bank supervisory authority. In this regard, they welcomed the ongoing efforts to improve banking supervision and the decision to consider improvements in the legal framework for supervision of non-bank financial institutions. They also welcomed the authorities' efforts to combat money laundering and the financing of terrorism, and the authorities' decision to include a collective action clause in their last bond.

Directors urged the authorities to continue to give consideration to phasing out the existing import restrictions by converting them into tariffs, which will improve resource allocation, increase revenues, and reduce administrative costs. In view of the anticipated loss of Belize's preferential trade access for sugar and banana exports, Director underscored the importance of continuing strong efforts to improve competitiveness and diversify the export base. They welcomed the progress on privatization.

While welcoming recent improvements in Belize's statistical base, Directors encouraged the authorities to continue to work—with Fund technical assistance—to improve the quality and timeliness of data reporting, including by developing a set of high frequency indicators.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Belize is also available.

Belize: Selected Economic Indicators

	1999	2000	2001	2002	2003
(Annual percentage changes)					
National income and prices					
GDP at constant prices	8.7	12.1	4.9	4.3	5.5
Consumer prices (end of period)	-1.2	0.6	1.2	2.3	2.5
Real effective exchange rate	-2.5	1.4	1.9	-0.7	-5.3
(Annual changes in percent of liabilities to the private sector at beginning of period)					
Money and credit					
Credit to the private sector 1/	7.4	25.0	16.8	18.1	12.2
Money and quasi-money (M2)	10.4	14.1	9.1	2.3	7.9
(In percent of GDP)					
Central government 2/					
Primary balance	-3.6	-7.3	-6.7	-5.8	-4.5
Overall balance	-5.6	-9.7	-9.8	-9.6	-8.1
Central government borrowing requirement	5.6	6.2	9.5	7.1	7.2
External sector					
External current account 3/	-9.7	-18.7	-18.0	-17.2	-15.8
Public and publicly guaranteed debt 4/	48.2	71.6	84.6	88.0	92.2
In percent of exports of goods and services 5/	8.4	16.6	21.7	40.2	22.0
In percent of government current revenue 6/	19.2	22.5	26.1	46.7	29.5

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

1/ Comprises credit by commercial banks and the Development Finance Corporation.

2/ Fiscal year starts on April 1.

3/ Including official grants.

4/ End of period.

5/ Public external debt. Includes refinancing operations in 2002.

6/ Central government debt. Includes refinancing operations in 2002.