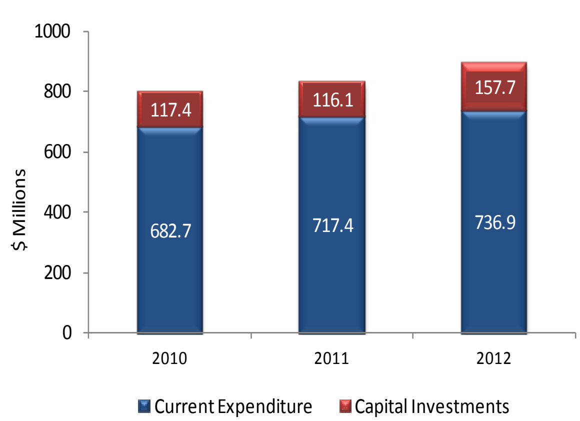
# Central Government Operations

Table 7.1: Summary of Revenue and Expenditure

| | Jan-Dec 2011 | Jan-Dec 2012 |
|---|---|---|
| **Ratio to GDP (%)** | | |
| Current Revenue | 26.6 | 25.8 |
| Tax Revenue | 22.5 | 21.6 |
| Non-Tax Revenue | 4.1 | 4.2 |
| Current Expenditure | 24.2 | 23.3 |
| **CURRENT BALANCE** | **2.4** | **2.5** |
| Capital Revenue | 0.2 | 0.2 |
| Capital Expenditure (Capital II Local Sources) | 2.4 | 2.1 |
| **OPERATING SURPLUS** | **0.2** | **0.6** |
| Grants to GDP | 0.8 | 1.4 |
| Total Revenue and Grants | 27.6 | 27.5 |
| Total Capital Expenditure | 4.1 | 5.1 |
| Total Expenditure | 28.3 | 28.4 |
| of which Interest Payment on Public Debt | 3.5 | 3.0 |
| **Primary Balance to GDP** | **2.7** | **2.0** |
| *Primary Balance without Grants to GDP* | *1.9* | *0.5* |
| **Overall Balance to GDP** | **-0.8** | **-1.0** |
| *Overall Balance without Grants to GDP* | *-1.6* | *-2.4* |

*Sources*: CBB and MOF

Chart 7.1: Current Expenditure and Capital Investments

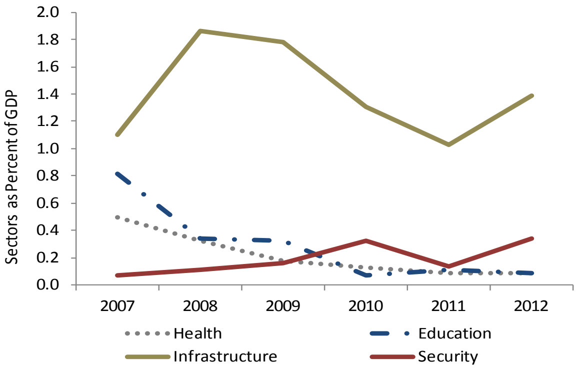



*Source:* MOF

Government operations yielded an overall deficit of 1.0% of GDP and a primary surplus equivalent to 2.0% of GDP in 2012. There was bouyancy in both revenue and expenditure with the latter growing at a faster pace mainly due to an upsurge in capital expenditure and, to a lesser extent, increases in current subsidies and transfers.

Notwithstanding a 17.1% decline in receipts from the petroleum industry, fiscal revenues expanded by $51.8mn to $868.0mn (27.5% of GDP). Current revenue grew by 3.7% and accounted for more than half of the income growth with tax and non-tax revenues up by $17.5mn and $11.5mn, respectively. Receipts were boosted by higher collections from the GST and taxes on international trade with the GST outturn partly reflecting the government's decision to impose it on fuel imports rather than the fixed import duty that had been levied. Because of the expansion in total imports, the amount collected in import duties rose by $1.8mn, notwithstanding the aforementioned tax shift. Non-tax revenue benefitted from the one-off loan repayments of $10.0mn from BSI and $7.0mn from BTL that outweighed the $11.2mn decline in property income caused by the court-mandated withholding of BTL dividends. Grant receipts also regained prominence during the year, rising to $45.6mn (5.3%

Chart 7.2: Capital Expenditure as a Percentage of GDP




*Source:* MOF

of total revenues) with most of this coming from the EU to provide support for the banana and sugar programmes.

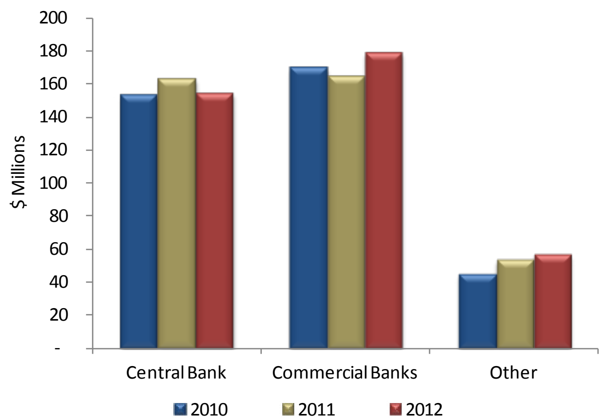
Following a contraction in 2011, capital outlays vaulted upward by 32.3% to 5.1% of GDP, as spending on Capital III (externally funded) projects doubled. Road infrastructure accounted for 27.9% of the total and included developments on the south side of Belize City, completion of works on the Southern Highway, the construction of Big Falls border road, the completion of the Kendal Bridge and maintenance and rehabilitation of highways. Another 19.5% was spent on agriculture, mostly for EU funded road infrastructure in the sugar belt and rehabilitation of banana fields. Natural resources and solid waste management accounted for 21.9%, security for 6.8%, and a medley of disbursements on education, health, housing, tourism, science, technology, furniture, equipment and contributions to international agencies made up 13.2%. The remainder was devoted to social protection projects and development of sports infrastructure such as the Belize Sport Centre.

Current expenditure rose by 2.7%, though there was a slight dip in its ratio to GDP from 24.2% to 23.3%. Spending on all line items rose except for interest payments, which declined by 9.8% mainly due to the partial withholding of the August interest payment on the super bond. The most notable increase was in subsidies and transfers, which was due to the reclassification of teachers' salaries in order to more accurately reflect the public/private partnership underpinning most of the nation's educational institutions. Even with this shift, outlays on wages and salaries rose by $8.7mn and accounted for 40.5% of current spending. Goods and services outlays rose by 1.0%, reflecting moderate growth in rents and other operating costs.

**Central Government's Domestic Debt**

The government’s domestic debt rose by 2.4% to $389.9mn (12.4% of GDP), as an $8.2mn increase in Central Bank overdraft financing combined with loan disbursements of $3.8mn outweighed the amortization payments it made to the

Chart 7.3: Sources of Central Government's Domestic Debt




BSSB, the Debt- for-Nature-Swap, Fort Street Tourism Village and commercial banks.

The maturity structure of the portfolio remained dominated by short-term credit, with medium and long-term debt accounting for 37.0% and 3.4%, respectively. Treasury bills continued to be the primary instrument for raising short-term funds from the domestic market and accounted for 44.8% of total domestic debt. Advances to the government by way of the Central Bank overdraft facility amounted to $56.3mn (7.1% of the previous fiscal year's current revenue) to facilitate the payment of salaries and higher government outlays. The Central Bank's share of the domestic debt fell from 42.7% in December 2011 to 39.5%, with its surrender of $22.3mn in Treasury bill holdings in the first eight months of the year. The commercial banks' share rose from 43.3% to 45.9%, while that of non-bank entities increased from 14.0% to 14.6%.

Interest payments totalled $17.5mn, 4.8% lower than the previous year and equivalent to an average effective interest rate of 4.5% compared to the 4.9% of 2011. The fall in costs was largely due to the downward trajectory in Treasury bill yields. The Central Bank received $5.8mn for funding provided through the overdraft and Treasury bills and $6.9mn for holdings of longer term government securities. Interest payments to commercial banks summed to $3.9mn, and an additional $0.9mn was paid to non-bank entities.

**Public Sector External Debt**

At the end of the year, the public sector external debt stood at $2,035.7mn (64.4% of GDP), a decline of $8.5mn, as disbursements of $71.5mn were outweighed by amortization payments of $80.1mn. Disbursements included $20.0mn from the Republic of China (ROC/Taiwan) for budget support and $50.0mn from multilateral lenders such as the Inter-American Development Bank (IDB), the Organisation of the Petroleum Exporting Countries (OPEC) Fund for International Development (OFID) and the Caribbean Development Bank (CDB). CDB funding was

Chart 7.4: External Debt Service

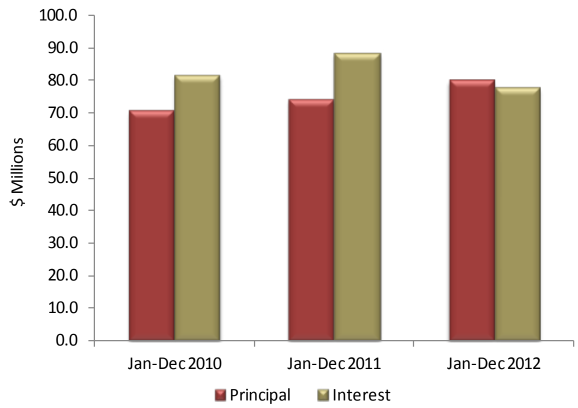
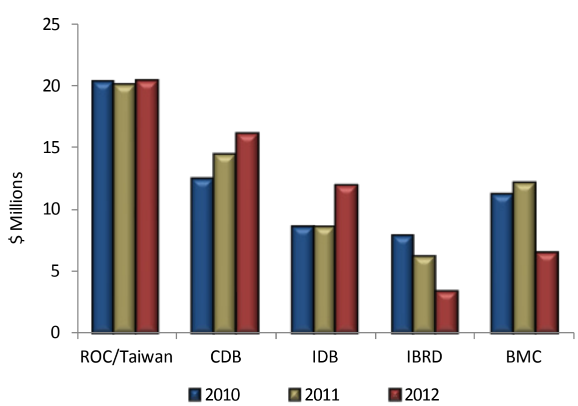



Chart 7.5: External Debt Principal Payment by Major Creditors




channelled into projects such as solid waste management, sustainable tourism, health sector reform, the Kendal Bridge, the Santa Elena/San Ignacio Bypass and the Social Investment Fund.

Annual debt service payments totalled $158.0mn, a 3.0% dip, as lower interest payments eclipsed a 7.8% rise in amortisation that reflected higher repayments by Central Government and other non-financial public sector bodies. Central Government repaid $27.3mn to bilateral creditors (of which $20.4mn went to ROC/Taiwan) and $29.5mn to multilateral lenders that included the CDB, IDB, World Bank (IBRD) and OFID. The Development Finance Corporation (DFC) paid $1.3mn to the CDB as well as the final installment on the North American Securitization debt. Central Bank repayments to the IMF for funds received under the Emergency Natural Disaster Assistance facility totalled $5.3mn and the non-financial public sector made repayments to multilateral lenders, commercial banks and the Government of Kuwait that summed to $9.9mn.

Interest payments declined by $10.7mn to $77.9mn due to lower rates on several external loans that are tied to LIBOR and the withholding of a portion of the interest payment due on the super bond. The annual effective interest rate

Chart 7.6: External Debt Annual Average Effective Interest Rate (AEIR)

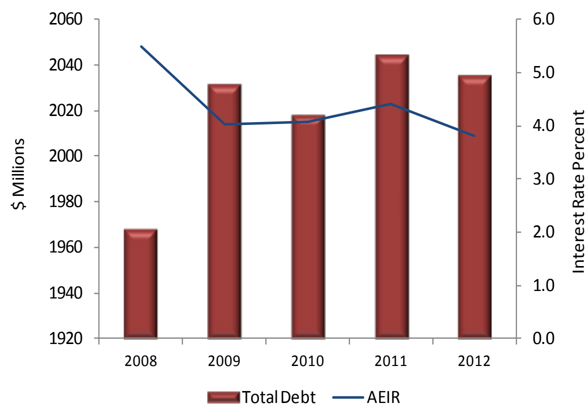
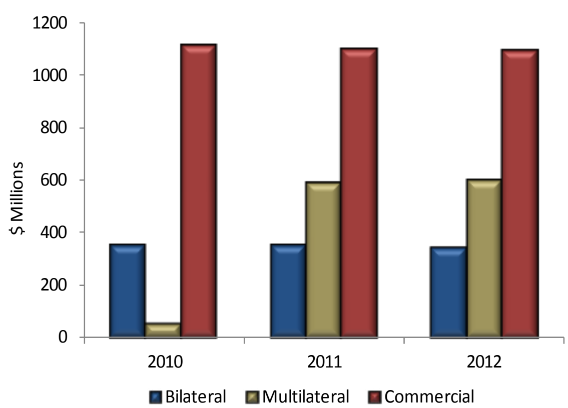



Chart 7.7: External Debt by Creditor Category




consequently averaged 3.8%, compared to 4.4% in 2011. Holders of the super bond received 72.8% of the scheduled interest due in 2012. Payments to bilateral creditors totalled $9.1mn with payments to ROC/Taiwan accounting for nearly 80.0% of this, while interest payments to multilateral lenders summed to $11.9mn, the bulk of which went to the CDB.

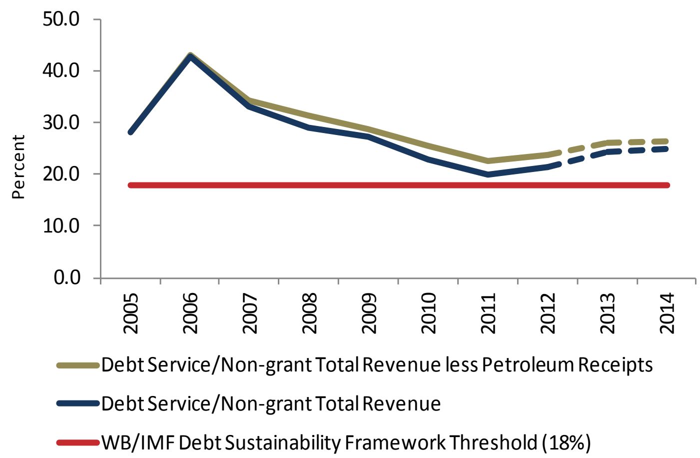
The lowering of interest payments led to improvement in several indicators of debt sustainability in 2012. Debt service payments as a percentage of GDP decreased from 5.5% to 5.0%, indicating a marginal improvement in the country's resource generating ability to service its obligations. However, a decline in the ratio of debt servicing to government revenues from 20.7% to 19.4% represented only a slight easing in the government's fiscal space for non-debt related expenditures. An improvement in short term liquidity was highlighted by the decline in the ratio of external debt service payments to earnings from exports of goods and services from 8.6% to 7.9% with the latter occurring as a result of stronger export performance during the year.

At year-end, 94.5% of the outstanding external debt was attributed to Central Government and the financial and non-financial public sector accounted for 3.6% and 1.8%, respectively. Only $0.4mn of the existing portfolio will mature in 2013. Another $72.3mn will mature over the next ten years, leaving $1.96bn with a maturity schedule that exceeds ten years.

Box 4: Belize's Debt Restructuring 2012-2013

The world financial crisis came on the heels of the restructuring of Belize's external commercial debt in 2007. While the benefits of the restructuring had been frontloaded to support the fixed exchange rate and provide some fiscal space in the short term, the overall medium and long term requirements were both ambitious and onerous given the weak fundamentals of the domestic economy. The terms of the super bond implied that the government would need to generate primary surpluses in the region of 4.0% per annum in order to meet its long term debt obligations. Meanwhile, a high rate of poverty and infrastructural shortcomings, juxtaposed with rising levels of crime and external security concerns constrained the government's fiscal options. Domestic efforts were also undermined by the impact of the global economic downturn on the tourism industry and several weather-related shocks to the agricultural sector.

Chart C: Debt Service to Fiscal Revenue




With considerable effort, the government was nevertheless able to achieve annual primary surpluses averaging 2.0% of GDP as fiscal revenues were supported by foreign grants and taxes on domestic petroleum production. As time passed, however, both of these revenue streams began to decline even as sharp step-ups in the interest charged on the super bond kicked in - from 4.5% to 6.0% in 2010 and then to 8.5% in August 2012. In taking stock of the situation in 2012, the government factored in the costs incurred as a result of the BTL and BEL nationalizations and other pending pecuniary obligations that were likely to push the country's debt to GDP ratio higher and worsen its cash flow position. Using The Joint World Bank-IMF's Debt Sustainability Framework for low income countries as a reference point, a debt service to revenue threshold of 18% signals significant vulnerabilities. In Belize's case, even after the first restructuring, debt service payments exceeded the threshhold and would be on an upward trajectory after 2012. This placed the country automatically in the bracket of high risk, heading rapidly toward debt distress. The government therefore determined that prudency required immediate action to restructure the super bond and avert a future fiscal and balance of payments crisis.

In June 2012, five years after the 2007 debt exchange, the Prime Minister convened a local debt team and appointed external financial and legal consultants (White Oak Advisory and Cleary Gottlieb Steen and Hamilton LLP) to help guide the negotiations with the bond holders. The government simultaneously entered into negotiations with

Box 4: Belize's Debt Restructuring 2012-2013 continued

the IADB aimed at obtaining a partial loan guarantee that would significantly improve the odds for a successful restructuring and material improvement in loan terms. Significant progress was made until the final moment when the IADB's president decided not to present the request to its Board. Notwithstanding the disappointing conclusion to what had seemed a certain beneficial outcome for Belize, the authorities pressed forward, adopting a "cooperative approach" in its dialogue with the creditors. After extensive consultations , the government launched its formal offer to exchange the US$547.5mn super bond for a new bond on 15 February 2013 with 8 March 2013 determined to be the closing date. The main elements are listed below:

- A principal haircut of 10.0% or US$54.8mn;
- Capitalisation of the unpaid portion of the August interest payment and the interest accrued from August 2012 through to 19 March 2013;
- An increase in maturity by 9 years to February 2038;
- Equal semi-annual principal amortizations commencing in August 2019;
- A step-up coupon structure with annual interest payments set at 5.00% for the first four years after issuance of the new bond, then rising to 6.678% thereafter through to maturity.

The debt exchange offer was successful at the closing date with 86.17% of creditors signalling agreement versus the required creditor participation rate of 75.0%. A 43.3% reduction in net present value was achieved and under the new loan repayment profile, debt service costs are projected to be significantly lower in the short and medium terms. The super bond would have matured in 2029 and a comparison of the cash flow with the new 2038 bond shows that payments over the 2013-2029 period will be $692.6mn lower. Since the repayment period has been lengthened, the assumption is that funds will be set aside perhaps through the establishment of a sinking fund that will help to meet the amortization costs for the remaining nine years until the bond matures in 2038.

The ease in the debt servicing burden should improve the country's long term development prospects by creating the much needed fiscal space for public investment. Belize still remains vulnerable to external shocks however, and its debt levels though lower, are still high. In view of this, the government has committed itself to implement reforms to the debt management framework that include the establishment of a National Debt Management Committee, the passage of a Public Debt Management Act and a new Securities and Capital Markets Act, as well as the modernization of the securities trading process. These reforms will ensure continued fiscal restraint in the management of public sector debt in the post-debt exchange era.