Central Government Operations

Government expenditure slightly outpaced revenues in 2013 yielding an overall deficit equivalent to 1.1% of GDP and a primary surplus of 0.8% of GDP. Expenditure rose by 1.8% during the year, driven by increased outlays for wages and salaries, goods and services, subsidies, and capital projects. Meanwhile, total revenues were up by 0.8% to $885.0mn (27.4% of GDP) with a general buoyancy in tax collections compensating for sizeable decreases in income from the oil industry and grants.

Tax revenues expanded by a robust $54.3m (7.8%) as improved monitoring and reporting resulted in higher collections of business and personal income taxes as well as the GST, which was also boosted by its imposition on fuel imports in place of the fixed import duty previously levied. The buoyancy of tax revenues was somewhat offset by a $28.2mn (21.5%) decrease in non-tax revenues, a reduction that was largely attributable to lower inflows from the repayment of old loans and licenses, and reduced royalties and dividends from the petroleum industry. On a positive note, even with the drop in petroleum royalties, income from rent and royalties rose by $2.1mn due to a $6.1mn increase in receipts from the registration of ships and international business companies that occurred with Government's acquisition of both registries in June.

Table 7.1: Summary of Revenue and Expenditure

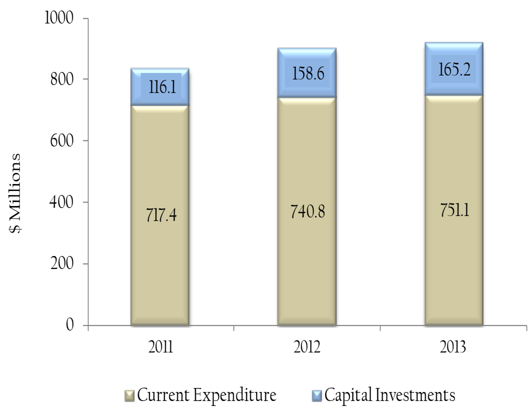
	Jan-Dec 2012	Jan-Dec 2013
Ratio to GDP (%)		
Current Revenue	26.2	26.4
Tax Revenue	22.1	23.2
Non-Tax Revenue	4.2	3.2
Current Expenditure	23.6	23.2
CURRENT BALANCE	**2.7**	**3.1**
Capital Revenue	0.2	0.2
Capital Expenditure (Capital II local sources)	2.1	2.9
OPERATING SURPLUS	**0.8**	**0.4**
Grants to GDP	1.4	0.9
Total Revenue and Grants	27.9	27.4
Total Capital Expenditure	5.1	5.2
Total Expenditure	28.7	28.5
of which: Interest Payment on Public Debt	3.0	1.8
Primary Balance to GDP	**2.2**	**0.8**
Primary Balance without Grants to GDP	*0.7*	*-0.1*
Overall Balance to GDP	**-0.8**	**-1.1**
Overall Balance without Grants to GDP	*-2.2*	*-1.9*

Sources: CBB and MOF

Current expenditure increased by 1.4% to $751.1mn (23.2% of GDP), and except for interest payments and pensions, increases were across-the-board. Interest payments contracted by 37.3% because of the payment of only one of the normally required biannual interest payments on the super bond as well as the progressive decline in domesticTreasury bill yields. Outlays on wages and salaries rose by 2.3% due to the payment of annual increments, and the reclassification of a portion of teachers' salaries accounted for the 16.6% rise in subsidies and current transfers. Spending on goods and services rose by 10.8% mainly due to the legal and administrative fees incurred for the restructuring of the super bond.

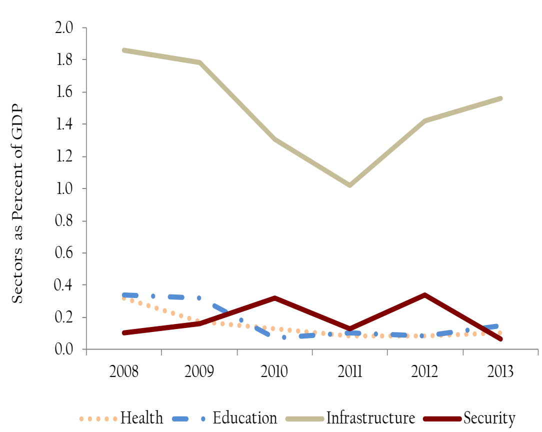
Central Government Operations *continued*

Chart 7.1: Current Expenditure and Capital Investments



Sources: CBB and MOF

Chart 7.2: Capital Expenditure as a Percentage of GDP



Sources: CBB and MOF

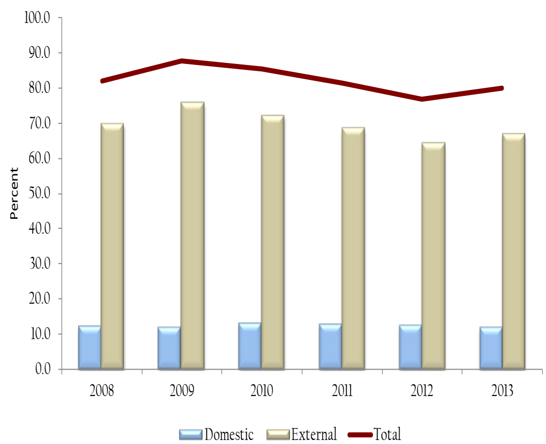
Capital expenditure and net lending increased by 3.9% to 5.2% of GDP with road infrastructure, the major component of the investment programme, accounting for 30.6% of the capital budget. The latter included developments on the south side of Belize City, completion of works on the Southern Highway, the construction of the Macal Bridge, and the maintenance and rehabilitation of highways. Natural resources, namely land and solid waste management, accounted for 11.8%, the sustainable tourism project was alloted 10.3%, and 13.2% went on environmental projects. A medley of disbursements for education, health, science, technology, housing, security and agriculture accounted for 9.9%, while social protection projects received 9.0%. The remainder was spent on projects such as the Belize Sport Centre, establishment of the National Bank of Belize, furniture, equipment and upgrading of office buildings.

Public Sector Debt

Reversing a three-year declining trend, the ratio of the public sector debt (external and domestic) to GDP increased from 76.9% to 78.9%, which was still below the ten-year average of 86.0%. Substantial, concessionary borrowing from Venezuela under the Petrocaribe Agreement pushed government debt up by 5.4% to $2,548.1mn, and this raised the ratio of the public sector external debt to GDP from 64.5% in 2012 to

Central Government Operations *continued*

Chart 7.3: Public Sector Debt as a Percentage of GDP



66.9%. The domestic debt edged down in the meanwhile from 12.4% of GDP to 11.9% of GDP.

Central Government's Domestic Debt

The surge in external borrowing reduced government's need for domestic financing, and with no new disbursements and a decrease in its overdraft balance, Central Government's domestic debt declined by 1.2% to $385.2mn (15.1% of its total outstanding obligations). At $55.1mn, the overdraft balance held with the Central Bank was comfortably below the legislated ceiling of $69.0 million for fiscal year 2013/2014.

Debt service payments (principal and interest) declined by 1.7% to $20.0mn during the year. Principal payments amounted to $3.5mn and included $1.0mn to commercial banks for infrastructural loans, $1.0mn and $0.3mn, respectively, to Belize Guardian Life and Fort Street Tourism Village for the retirement of those loans, and $1.2mn to non-bank entities. The $16.5mn in interest payments included payments to the Central Bank of $5.4mn for short-term credit provided through the overdraft facility and $7.5mn on longer-term Treasury notes and Defence bonds holdings. The commercial banks and non-bank entities received $2.6mn and $1.0mn, respectively, on credit provided by way of securities and loans.

Due to the continued decline in the interest rate on Treasury bills, the annual effective interest rate on the domestic debt fell to 4.3% in 2013, down from 4.5% in 2012 and 7.5% in 2009. Notably, since the shift in 2010 to greater reliance on and competitive bidding for government paper to meet financing needs, the Government has saved approximately $29.0mn in interest payments.

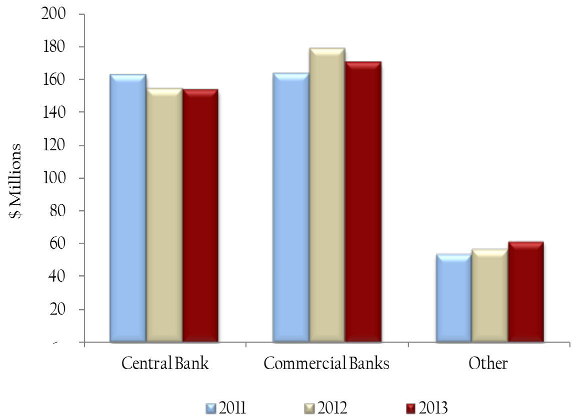
At year-end, the commercial banks held 44.2% of Central Government's domestic debt, while the Central Bank and non-bank entities accounted for 39.9% and 16.0%, respectively. The bulk of the domestic debt (66.2%), which consists mostly of Treasury bills, matures in one year or less. Of the remainder, 23.3% matures in two to five years, and 10.5% matures in 10 years.

Public Sector External Debt

Government's successful closure of the US$547.5mn debt exchange offer on 8

Central Government Operations *continued*

Chart 7.4: Sources of Central Government's Domestic Debt



March 2013, with 86.2% of creditors signalling agreement relative to the required creditor participation rate of 75.0% was a notable development. The main features of the exchange included a principal haircut of 10.0%, an increase in maturity by nine years to February 2038, equal semi-annual principal amortizations commencing in August 2019, a step-up coupon structure with annual interest payments set at 5.0% for the first four years after issuance of the new bond, then rising to 6.678% thereafter through to maturity, and the capitalisation of the unpaid portion of the August 2012 interest payment and interest accrued from August 2012 through to 19 March 2013. The new terms effectively achieved a 43.3% reduction in net present value and lowered debt service payments to a more manageable level.

Even so, the public sector external debt grew by 6.7% to $2,162.9mn during the year with disbursements soaring to $252.6mn, as compared to the $71.5mn received in 2012, and the $68.7mn averaged over the previous three years. Fuelling this credit boom were Venezuelan disbursements to Central Government that totalled $143.0mn, which accounted for 85.0% of bilateral disbursements and 60.0% of all foreign borrowing during the year. Multilateral disbursements summed to $77.5mn and included $21.3mn from the Caribbean Development Bank (CDB), $19.6mn from the OPEC Fund for International Development (OFID) and $20.3mn from the Inter-American Development Bank (IDB) for various projects such as the Santa/Elena Bypass, south side poverty alleviation, Social Investment Fund, water expansion, solid waste and land management projects. The share of the total external debt held by bilateral creditors rose from 16.8% to 22.3% while the share of multilateral institutions remained relatively stable at 29.0%, and commercial suppliers (namely, the restructured 2038 bond) accounted for 48.8%.

Annual debt service payments declined by 21.6% during the year. Principal payments, excluding the $107.9mn haircut on the restructured bond, remained stable at $80.8mn, while interest payments plummeted by 44.7% to $43.1mn. Central Government repaid $28.7mn to bilateral lenders, the ROC/Taiwan in particular, and $34.8mn to multilateral creditors, principal

Central Government Operations *continued*

Chart 7.5: External Debt by Creditor Category

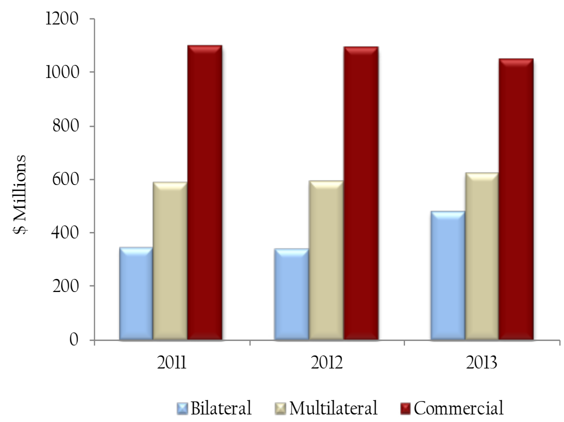


Chart 7.6: External Debt Service

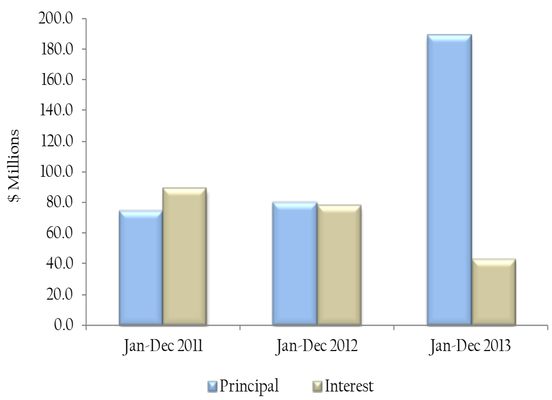
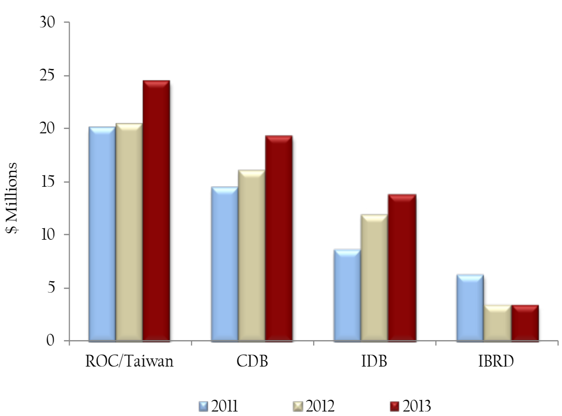


Chart 7.7: External Debt Principal Payment to Major Creditors



among which were the CDB and the IDB. The Development Finance Corporation (DFC) made repayments to CDB of $1.1mn and the Central Bank repaid $7.1mn to the IMF for the Emergency Natural Disaster Assistance facility. The non-financial public sector paid $4.2mn to CDB and $3.9mn to commercial suppliers.

Of the $43.1mn in interest payments during 2013, $22.0mn went to the holders of the restructured bond. Bilateral lenders were paid $8.2mn, of which $6.3mn went to ROC/Taiwan, and the CDB and IDB accounted for most of the $12.9mn paid to multilateral lenders. The average interest rate on the external debt fell from 3.8% to 2.0% during the year, mainly due to the concessional nature of the Venezuelan loans (1.0% annual interest and repayment period of 25 years) and the fact that only one of two biannual interest payments was made on the restructured bond.

With an external debt to GDP ratio of 66.9%, Belize remains in the 'highly indebted' category. Continued efforts are thus necessary to bring the ratio below the 60.0% threshold that would be more conducive to long term sustainability for Belize. During the year, the ratio of external debt service payments to GDP improved to 3.9% (compared to 5.0% in 2012), mostly due to the one-off lowering of interest payments arising from the restructuring exercise. A

Central Government Operations *continued*

Chart 7.8: External Debt Annual Average Effective Interest Rate (AEIR)

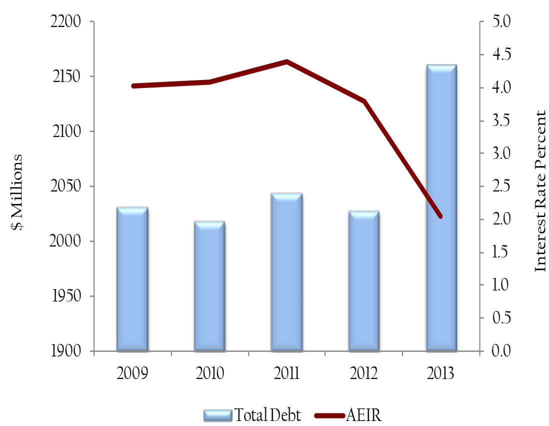
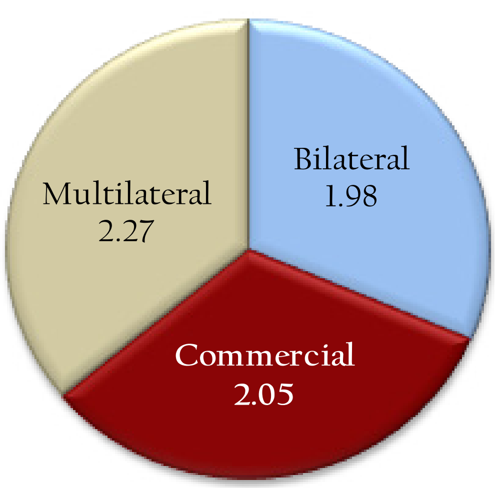


Chart 7.9: Effective Interest Rates by Creditor Category - 2013



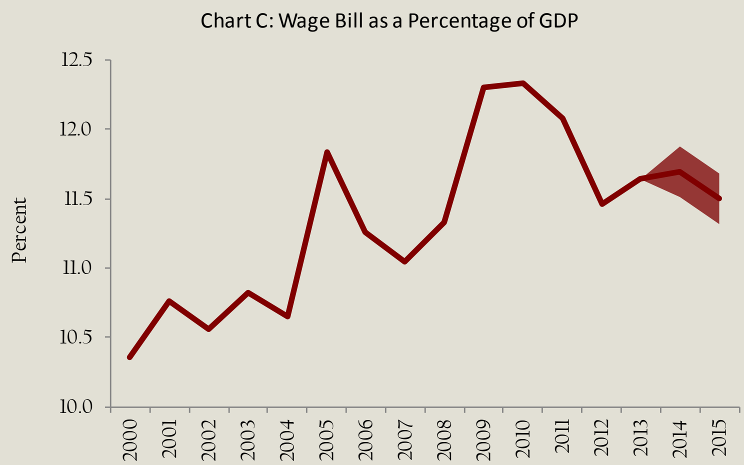
decline in the external debt service ratio (debt service payments to export earnings from goods and services) from 7.7% in 2012 to 5.9% in 2013 indicated an improvement in short term liquidity. The debt service/fiscal revenue ratio also improved from 18.0% in 2012 to 14.0% in 2013, implying greater fiscal space, as a lower proportion of revenue was devoted to external debt payments during the year.

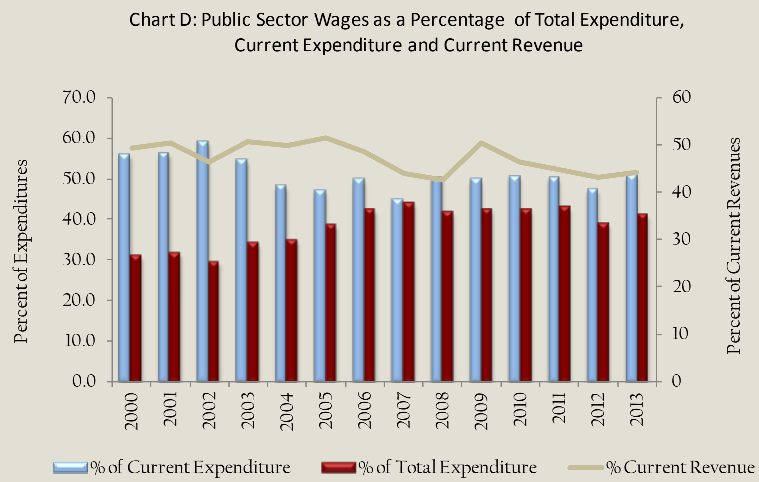
At the end of 2013, Central Government accounted for 95.6% of the outstanding external debt, and the financial and non-financial public sector for 3.0% and 1.3%, respectively. During 2014, $0.5mn of the present portfolio is scheduled to mature, and $139.7mn will mature during the next ten years, leaving $2.1bn with a maturity schedule that exceeds ten years.

Central Government Operations *continued*

Box 3: The Public Sector Wage Bill and Productivity

The scope and wage levels of the public sector differ dramatically across countries. According to a World Bank study, the government wage bill averages about 10.0% of GDP in advanced economies, and between 5.0% and 10.0% of GDP in emerging and low-income countries. Public employment levels largely reflect a combination of the particular economic circumstances a country faces and the prevailing political ideology. In certain instances where the fiscal space is adequate, governments may expand public employment in an effort to compensate for the inadequate supply of other goods and services such as healthcare, education and national security, or for social protection.





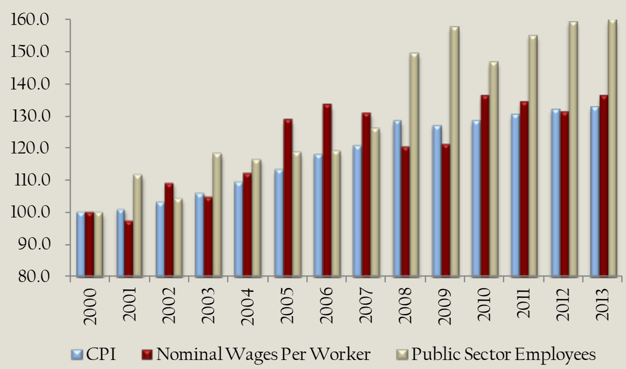
In Belize's case, the ratio of the public sector wage bill to GDP stood at 11.6% at the end of 2013, which is above the average for most countries. Since 2000, the public sector wage bill has increased at an annual average of 6.3%, mostly due to an increase in the workforce. According to the SIB's Labor Force Survey (LFS), the number of workers directly employed by Government (as civil servants, contract workers and on a part-time basis) at 2000, 2007 and 2013 was 10,434, 10,562 and 14,829, respectively. When salary contributions for teachers working in non-government schools and other workers in government institutions receiving subventions for salaries are also taken into account,

Central Government Operations *continued*

Box 3: The Public Sector Wage Bill and Productivity *continued*

the estimated numbers of public sector employees for the same years were 11,000, 13,883 and 17,594, respectively. In recent times, the mushrooming of the wage bill is largely explained by a steady increase in the number of teachers and security personnel, and, to a lesser extent, annual salary increments. An uptick in low level jobs and the addition of new government ministries have also contributed.

Chart E: CPI, Public Sector Nominal Wages and Employment (base=2000)



Since 2000, the public sector wage bill has consumed an annual average of 47.3% of government's current revenue, compared to the internationally acceptable level of 40.0%. The wage bill also accounted for 51.0% of current expenditure and 38.2% of total spending over the same period. If not for the temporary wage freeze in 2007 and the relatively low inflation rates during the period, these ratios would have been significantly higher. An often used rule of thumb states that when the ratio of the wage bill to total expenditure rises above 25.0%, outlays for goods and services, maintenance and capital projects fall below acceptable levels.

Chart F: Trend in Productivity and Real Wages (Per Worker) of the Public Sector (base=2000)

Transparency, efficiency and sustainability are the general mandates of the public sector. It is therefore necessary that consideration be given to the link between wage growth and productivity (as measured by output per worker), as well as the efficiency and effectiveness of the public service when salary

Central Government Operations *continued*

Box 3: The Public Sector Wage Bill and Productivity *continued*

adjustments are on the table. In this regard, productivity growth in the public sector has been lackluster over the past 13 years, generally trailing behind real wage growth with the difference widening noticeably since 2004. To ensure sustainability, productivity should be growing faster than real wages, a reversal of the current scenario. In a recent IDB study, Belize and several other Caribbean and Latin American countries were ranked according to public sector performance and efficiency. While Belize ranked well where price stability and income distribution are concerned, it was below average in the areas of public sector performance and efficiency, being ranked the third lowest and second lowest of all the countries, respectively.

Table A: Public Expenditures (Percentage of GDP), Public Sector Performance and Efficiency Indicators and Economic Performance Indicators

Countries	Total Expenditure	Public Sector Performance Indicator[1]	Public Sector Efficiency Indicators[2]	Economic Performance Indicators
Belize	30.32	0.97	0.86	1.21
El Salvador	19.23	1	1.33	0.98
Guatemala	14.2	0.96	2.03	1.17
Guyana	30.77	1.06	0.71	0.81
Honduras	27.4	0.92	0.87	0.94
Jamaica	32.84	1.06	1.24	0.67
Suriname	28.58	1.02	0.96	0.92
Trinidad & Tobago	27.75	1.13	1.35	1.21
Average	*26.51*	*1.00*	*1.19*	*1.00*

Source: IDB, 2013

Note: Economic Performance uses indicators such as income distribution, economic stability and economic performance (also known as Musgravian indicators)

(1) Public sector performance indicators (PSP) are based on equal weighted observable socioeconomic variables that are assumed to be the output of public policies. These variables are: 1) administration which is broken down into: corruption, red tape, quality of judiciary and shadow economy 2) education: secondary school enrollment, quality of math and science 3) health: infant mortality, life expectancy and 4) public infrastructure: quality of infrastructure. Countries with PSP scores greater than one are seen as good performers as opposed to below one.

(2) Public sector efficiency indicators (PSE) relate performance to cost incurred to achieve it. Therefore each performance variable is weighted by their respective public expenditure.

The size and cost of the public sector are not the main determinants of efficiency and effectiveness, however, these are of considerable importance in relation to the potential crowding out effect on the national economy. The tradeoffs are substantial. As the wage bill continues to consume more resources, it must be evaluated in terms of its direct impact on Belize's long term performance and sustainability against the backdrop of employment and poverty levels, security (individual and national) and the sizeable external debt obligations.

Central Government Operations *continued*

Box 3: The Public Sector Wage Bill and Productivity *continued*

An increase in the share of public expenditure that is oriented toward consumption contributes to balance of payment pressures and results in slower growth over the medium to long-term. Looking at the current situation, it is clear that Belize's private sector should develop an entrepreneural culture that positions it to be the preeminent absorber of labour in the economy and thus relieve the government of this particular burden. In addition to providing the basic infrastructure, the government is responsible for developing the skills of the workforce and providing a stable and enabling business environment. There are some immediate challenges in the quest to achieve this. These include the implementation of pension reform and pay performance schemes that properly align the provision of government services with the goals of efficiency, effectiveness and sustainability.