MF Country Report No. 19/364

BELIZE

December 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2019 Article IV consultation with Belize, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 27, 2019 consideration of the staff report that concluded the Article IV consultation with Belize.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 27, 2019, following discussions that ended on November 27, 2019, 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 November 12, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Belize.

The documents listed below have been separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
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Press Release No. 19/448
FOR IMMEDIATE RELEASE
December 9, 2019

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

IMF Executive Board Concludes Article IV Consultation with Belize

On November 27, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belize.[1]

Belize's economic recovery continues but the pace is slowing. Real GDP grew by 3.2 percent in 2018 and unemployment has reached at a historic low amid near-zero inflation. However, recent data indicate a slowdown in economic activity, reflecting a severe drought. Growth for 2019 as a whole is projected at 1½ percent. The current account deficit remained large in 2018, at 7.9 percent of GDP. The financial sector is stable. The government implemented significant fiscal consolidation over the past two years, but the primary fiscal surplus is expected to narrow this year and remain below 2 percent of GDP for the following two years.

The medium-term outlook remains challenging. Real GDP growth is projected at just below 2 percent over the medium term. The current account deficit is expected to remain large, with international reserves at about 3 months of imports of goods and services. Public debt remains elevated, at above 90 percent of GDP. Belize is vulnerable to weaker U.S. growth, which would impact tourism, to higher oil prices, and weather-induced natural disasters. Violent crime poses risks to growth, competitiveness, and macroeconomic stability. The financial system remains vulnerable to a loss of CBRs. The government continues to contest legacy claims, which could lead to large public financing needs. On the upside, an intensification of structural reform could further raise investment, income, and employment.

Executive Board Assessment[2]

Executive Directors commended the authorities' ongoing efforts to enhance Belize's policy and regulatory frameworks, noting the historically low unemployment and near zero

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[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.

[2] 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. An explanation of any qualifiers used in summings up can be found here: https://www.imf.org/external/np/sec/misc/qualifiers.htm.

inflation. Directors, nevertheless, acknowledged that the country continues to face challenges, including high public debt and external imbalances, modest potential growth, and vulnerability to natural disasters and climate change. They encouraged the authorities to accelerate structural reforms to strengthen inclusive growth; reduce public debt; strengthen financial sector oversight; and build resilience to climate change.

While welcoming the significant fiscal adjustment achieved over the past two years, Directors called for continued fiscal consolidation over the medium term to ensure Belize's external stability and debt sustainability. In this regard, Directors encouraged further efforts to broaden the tax base, phase out exemptions and tax incentives, restrain current spending, including through the wage bill and pension reforms, and improve the efficiency of spending through public financial management reforms. These measures could provide fiscal space for social programs to alleviate poverty and needed infrastructure. To support the fiscal adjustment, Directors encouraged the authorities to consider a rule based fiscal framework based on a debt anchor.

Directors welcomed the significant progress in enhancing financial soundness. They encouraged further efforts to strengthen bank supervision and the resolution framework for financial stability. In this context, Directors welcomed the authorities' commitment to conduct an asset quality review to assess banks' capital buffers and underscored the importance of intensifying supervision and enforcement in the international financial services sector to bolster investor confidence and prevent a loss of Correspondent Banking Relationships. Directors emphasized the need to further strengthen the AML/CFT framework and implement international standards on virtual assets.

Executive Directors encouraged the authorities to accelerate structural reforms to improve the business climate and address supply side bottlenecks to promote inclusive economic growth. While welcoming the recently launched National Financial Inclusion Strategy and the planned establishment of a credit bureau, Directors called for further reforms to facilitate access to credit, streamline procedures for starting a business, fight corruption and crime, and expand training programs, particularly for the youth.

Directors commended the authorities' efforts and commitment towards natural disaster resilience, including their plan to develop a Disaster Resilience Strategy based on a multi-year macro fiscal framework which would provide a comprehensive guide to Belize's resilience building needs and plans. Directors also encouraged the authorities to continue making investments into climate resilient infrastructure and to optimize the use of risk management instruments.

Table 1. Belize: Selected Social and Economic Indicators 2015–2024

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2017	106
Population (thousands), June 2019	408.5	Under-five mortality rate (per thousand), 2017	14
GDP per capita, (current US$), 2018	5,025	Unemployment rate (percent), April, 2019	7.6
Life expectancy at birth (years), 2017	70.6	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2015-24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices	(Annual percentage changes, calendar year)									
GDP at constant prices	3.4	-0.6	1.4	3.2	1.5	2.5	1.8	1.7	1.7	1.7
Consumer prices (average)	-0.9	0.7	1.1	0.3	0.4	1.2	1.7	1.8	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)									
Revenue and grants	28.2	28.9	29.5	30.6	30.5	30.7	30.8	31.0	31.0	31.0
Current non-interest expenditure	23.1	23.8	24.1	24.2	24.4	24.4	24.4	24.4	24.4	24.4
Interest payment	2.5	3.3	3.1	3.1	3.2	3.1	3.1	3.1	3.0	2.9
Domestic	0.4	0.5	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9
External	2.1	2.8	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.0
Capital expenditure and net lending	10.2	7.0	6.5	4.3	4.6	4.6	4.6	4.6	4.6	4.6
Capital expenditure	7.3	6.9	4.0	4.0	4.4	4.4	4.4	4.4	4.4	4.4
Net lending	2.8	0.1	2.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Primary balance	-5.1	-1.9	-1.1	2.1	1.5	1.7	1.9	2.0	2.0	2.0
Overall balance	-7.5	-4.2	-3.9	-1.0	-1.7	-1.5	-1.3	-1.1	-1.0	-1.0
Public debt	(In percent of calendar year GDP)									
Central government debt	78.5	84.8	92.3	90.4	89.8	89.1	87.7	85.0	80.9	76.4
Public debt 2/	80.8	94.7	94.5	93.8	94.2	93.6	92.4	90.0	87.6	84.8
Domestic debt	14.0	28.3	27.1	27.1	26.6	24.8	23.2	22.2	22.4	23.1
External debt	66.8	66.4	67.4	66.7	67.6	68.8	69.2	67.9	65.2	61.7
Principal payment	2.1	2.2	2.4	2.2	2.4	3.4	3.6	4.7	4.8	4.6
Domestic	0.0	0.0	0.0	0.0	0.0	0.8	0.7	1.7	1.8	1.7
External	2.1	2.1	2.4	2.2	2.4	2.5	2.9	3.0	3.0	2.9
Money and credit	(Annual percentage changes, calendar year)									
Credit to the private sector	4.8	-3.0	3.9	3.2	1.9	3.7	3.5	3.6	3.8	3.8
Money and quasi-money (M2)	7.3	2.6	-0.3	2.6	1.9	3.7	3.5	3.6	3.8	3.8
External sector	(Annual percentage changes, unless otherwise indicated)									
External current account (percent of GDP) 3/	-9.8	-8.4	-7.7	-7.9	-8.0	-8.1	-7.6	-7.4	-7.0	-6.7
Real effective exchange rate (+ = depreciation)	6.5	1.7	-1.7	...	...	...	...	...	...	...
Gross international reserves (US$ millions)	437	377	312	294	286	315	326	339	349	360
In months of imports	4.8	4.2	3.3	3.0	2.8	3.0	3.0	3.0	3.0	3.0
Memorandum items										
Primary balance (excl. one-off capital transfer) 4/	-5.1	-1.9	1.3	2.1	1.5	1.7	1.9	2.0	2.0	2.0
Nominal GDP (BZ$ millions)	3,525	3,613	3,725	3,857	3,930	4,077	4,221	4,373	4,538	4,710

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; 2009 Poverty Country Assessment; and Fund staff estimates.

1/ Fiscal year (April to March).

2/ Public debt includes central government debt as well as external financial and non-financial public sector debt.

3/ Including official grants.

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

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

November 12, 2019

Outlook and risks. Belize's economic recovery continues but the pace is slowing. Real GDP grew by 3.2 percent in 2018, but recent data indicate a slowdown, reflecting a severe drought, with growth projected to average 2 percent during 2019-20. The primary fiscal surplus reached 2.1 percent of GDP in FY2018/19—a 4 percent of GDP rise from two years ago—but the primary surplus is expected to narrow this year and remain below 2 percent of GDP for the following two years. Public debt remains above 90 percent of GDP, the current account deficit is projected to remain large over the medium term, and international reserves are just below 3 months of imports of goods and services. The pace of structural reform has been slow. Downside risks, including from slower U.S. growth, natural disasters, crime, and renewed pressures on correspondent banking relationships (CBRs) could weaken growth and financial stability.

Focus of the consultation. Discussions focused on structural reforms to raise growth and social inclusion; strengthening resilience to natural disasters; balanced medium-term fiscal consolidation; tax reform; and strengthening financial oversight and anti-money laundering and combating the financing of terrorism (AML/CFT) actions.

Key policy priorities:

- Accelerate the implementation of reforms to improve the business climate, fight crime, and promote shared prosperity, in close collaboration with development partners, and intensify building resilience to natural disasters.
- Implement fiscal measures to gradually raise the primary surplus to about 4 percent of GDP and reduce public debt to below 60 percent of GDP over the long term, guided by well-calibrated fiscal rules based on a debt anchor.
- Reform the tax system to enhance fairness, efficiency, and revenues.
- Fortify the bank resolution framework and step up financial sector surveillance, informed by a bank asset quality review.
- Further strengthen AML/CFT efforts by properly regulating and supervising the international financial services sector and ensuring that beneficial ownership information of legal persons and arrangements is available without impediments.

Approved By
Krishna Srinivasan (WHD) and Ana Corbacho (SPR)

Discussions took place in Belize City and Belmopan during September 24–October 3, 2019. The team, comprising Daniel Leigh (head), Serhan Cevik, and Julian Chow (all WHD), and Ke Chen (LEG), met Prime Minister Dean Barrow, Financial Secretary Joseph Waight, Central Bank Governor Amb. Joy Grant, senior officials, representatives of the private sector, the political opposition, and public-sector unions. Benjamin Rankin (OED) participated in some of the meetings. Vibha Nanda, Sheng Tibung and Nicolas Landeta (all WHD) contributed research assistance editorial support from headquarters.

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TABLES

ANNEXES

A CONTINUING BUT SLOWER RECOVERY

1. **Belize's economic recovery continues but the pace is slowing.** Real GDP grew by 3.2 percent in 2018 (above the 2.2 percent forecast at the time of the 2018 Article IV) and by an estimated 4 percent (y/y) in 2019Q1. The unemployment rate reached a historic low of 7.6 percent in April 2019. Tourist arrival growth exceeded 10 percent in 2016-18, reflecting marketing initiatives, more flights from major cities, and strong trading-partner growth. Tourism now directly contributes an estimated 15-20 percent to GDP. However, recent data indicate a slowdown in economic activity, with a minor contraction in 2019Q2 reflecting a severe drought, which has negatively affected agriculture as well as hydropower generation that provides around half of the country's electricity. Additionally, tourism arrivals have slowed, with growth of 4 percent (y/y; annualized rate) in the first 8 months of 2019, compared with 15 percent in 2018, reflecting the grounding of 737 MAX aircraft and the weakening global expansion. Growth for 2019 as a whole is projected at 1½ percent. Inflation remained near zero in 2019, with fuel and transport prices declining. The current account deficit widened to 7.9 percent of GDP in 2018 from 7.7 percent in 2017, despite higher tourism earnings, reflecting increased imports of construction materials, including for large foreign-financed projects.

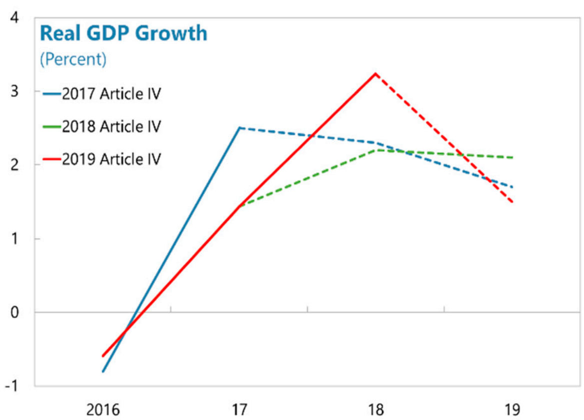
2. **The government implemented significant fiscal consolidation over the past two years.** The primary fiscal surplus reached 2.1 percent of GDP in FY2018/19, a 4 percent of GDP rise from the FY2016/17 level. Rising taxes on goods and services, supported by base-broadening measures, explain much of the adjustment in FY2018/19.[1] This adjustment conformed with the authorities' commitment to bondholders at the time of the 2017 bond restructuring to tighten the fiscal stance by 3.0 percentage points of GDP in FY2017/18 and to maintain a primary fiscal surplus of 2.0 percent of GDP for the subsequent three years.[2] In his FY2018/19 budget speech, the Prime Minister underscored the importance of building the primary surplus further, to achieve a reduction in public debt to 60 percent of GDP over the long term.

[1] Tax measures introduced in FY2018/19 raised revenues by an estimated 0.5 percent of GDP and included broadening the base of the General Sales Tax (GST) by removing zero-rated items; higher excises on fuel; and higher import duties on selected items.

[2] In March 2017, the government reached a restructuring agreement with private external bondholders on its US$526 million bond (about 30 percent of GDP).

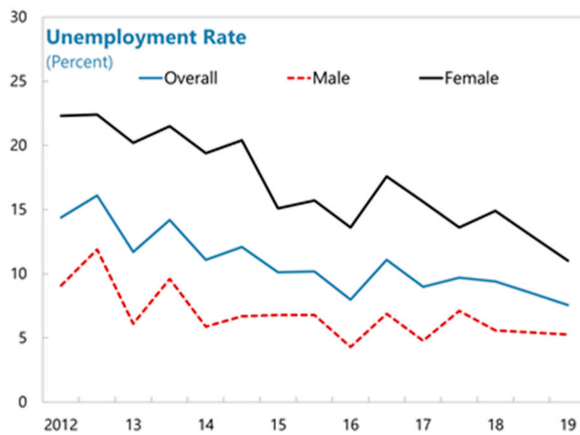
Figure 1. Belize: Slower Economic Recovery

Growth accelerated in 2018 but slowed in 2019.

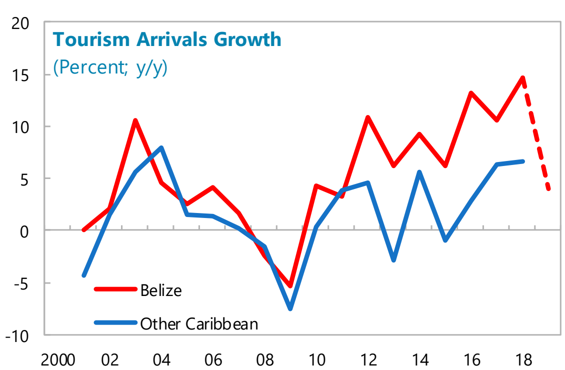


Note: Dashes indicate IMF staff forecasts.

Unemployment has declined.

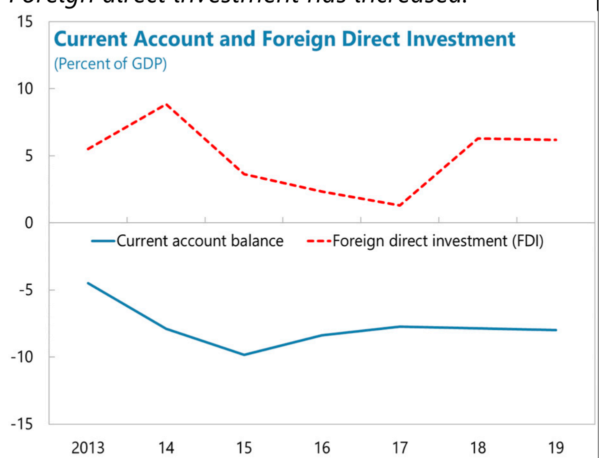


Growth in tourist arrivals slowed in 2019.

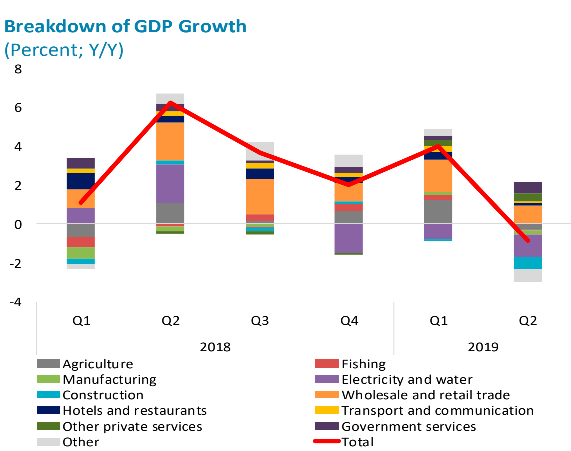


Source: National authorities; IMF staff calculations.
Note: Dashes indicate annualized growth for January-August 2019.

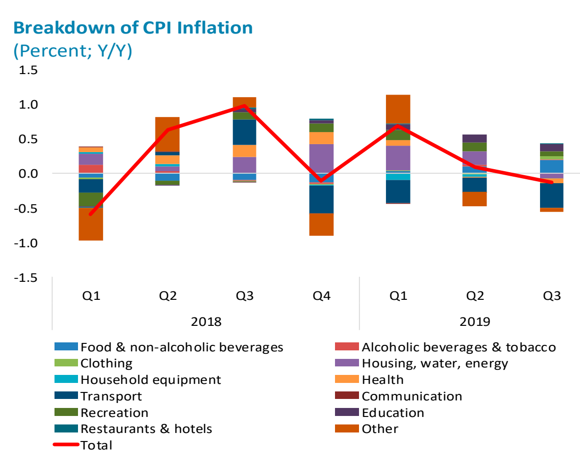
Foreign direct investment has increased.



Electricity, construction and agricultural output contracted in 2019Q2.



Inflation has remained near zero in 2019.



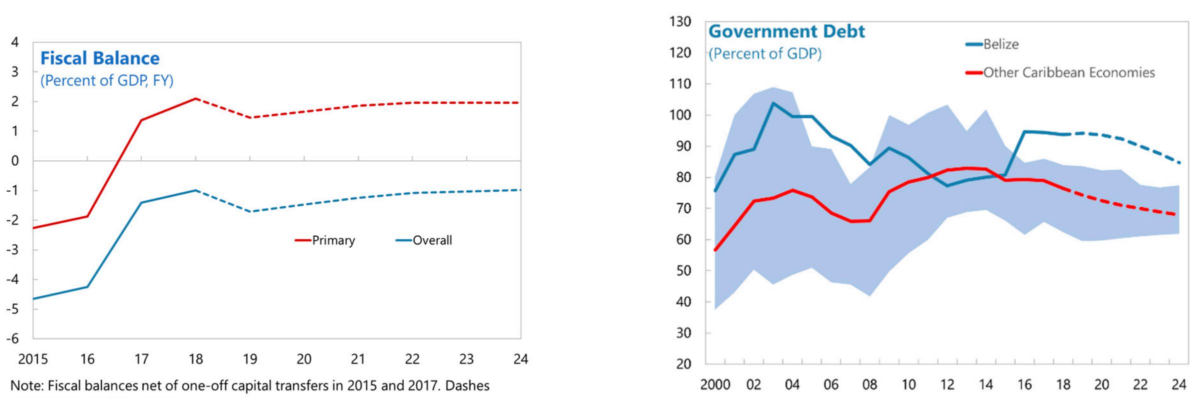
3. **The primary fiscal surplus is expected to narrow this year.** The FY2019/20 budget targets a primary fiscal surplus of just above 2 percent of GDP, but recent data indicate more spending on wages and public investment and weaker revenue than expected, putting the budget's target at risk. Staff now expects a primary fiscal surplus of 1½ percent of GDP. Undershooting the 2 percent of GDP primary fiscal surplus target would not be consistent with the 2017 restructuring agreement with private external bondholders, under which the authorities committed to maintain a primary fiscal surplus of 2 percent of GDP in FY2018/19 and the subsequent two years. The agreement states that if Belize fails to meet the primary fiscal surplus target, the authorities will pay interest payments on the restructured bond on a quarterly rather than a semi-annual basis (for the subsequent 12 months that the target is missed).[3] The authorities increased pension contribution rates in July 2019 to shore up the sustainability of the social security scheme.

4. **Belize is adapting its tax regime in response to concerns from multilateral institutions regarding potentially harmful features.** In late 2018, Parliament adopted legislative changes to the international tax regime to comply with OECD transparency standards and signed an agreement to strengthen its tax treaties for the *Multilateral BEPS Convention*. Recognizing this progress, the OECD's January 2019 *Progress Report on Preferential Regimes* assessed Belize's tax regime as "not harmful." However, in March 2019, the European Union Code of Conduct Group (COCG) designated Belize as a non-cooperative tax jurisdiction, citing concerns regarding lower tax rates offered in Belize's special tax regimes and insufficient economic substance requirements for companies benefiting from tax exemptions for foreign-source income. In October, Belize enacted a new Economic Substance Act to tighten economic substance requirements for entities doing business in and through Belize, as well as related amendments to tax provisions in relevant legislation, and remains committed to further reforms. In early November, the Economic and Financial Affairs Council of the European Union agreed to remove Belize from the list of non-cooperative tax jurisdictions.

Figure 2. Belize: Progress Toward Fiscal Health

Significant adjustment has occurred since 2015...

... with government debt stabilizing.

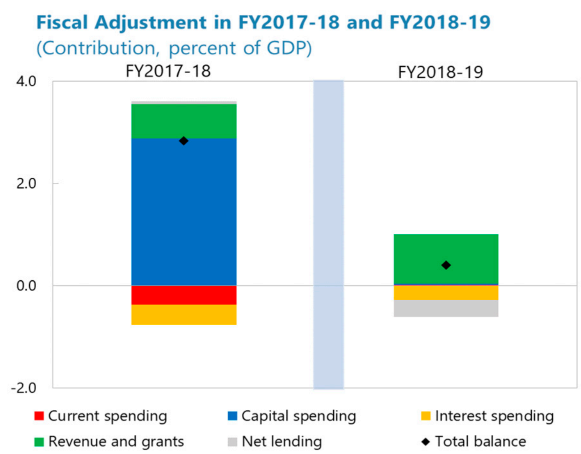


Note: Fiscal balances net of one-off capital transfers in 2015 and 2017. Dashes indicate IMF staff forecasts.

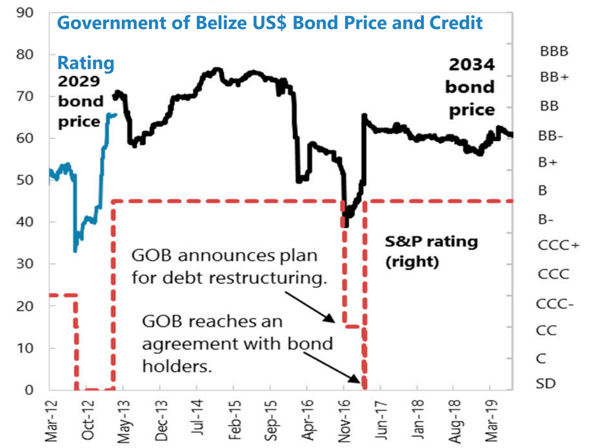
[3] In addition, in such an event, Belize committed to requesting an IMF technical assistance (TA) mission to (i) determine why the primary surplus target was missed; and (ii) recommend remedial measures. The authorities also committed to publishing the findings of any such mission as well as the annual Article IV Consultation reports.

Figure 2. Belize: Progress Toward Fiscal Health (concluded)

Public investment cuts and revenue increases drove the adjustment since 2016.

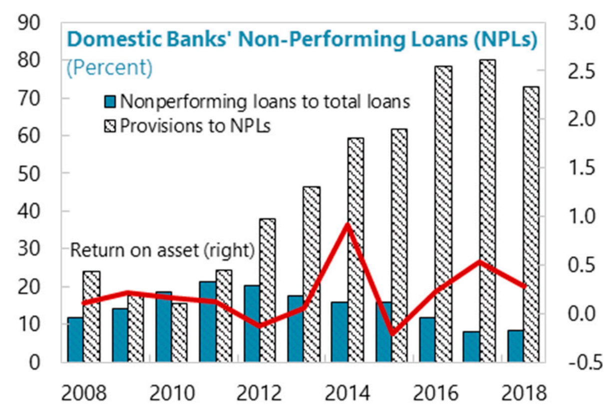


Belize's credit rating has improved since the 2017 bond restructuring and the bond price is stable.



Sources: Central Bank of Belize, IFS; and IMF staff estimates.

5. The financial system is stable but remains vulnerable to a loss of correspondent banking relationships (CBRs).



- *Domestic banks*. Domestic banks' gross non-performing loan (NPL) ratio declined to 6.5 percent in June 2019 (1.7 percent net of provisions) from 7.5 percent at end-2017. Banks remain well-capitalized. Domestic banks' credit to the private sector grew 3.9 percent in 2018 with new loans to sugarcane and banana producers and to home builders. At the same time, financial conditions have gradually tightened with the average T-bill yield rising from near zero in 2016 to 1.2 percent in 2018 in tandem with higher U.S. interest rates. Bank lending rates have slightly increased in recent months.[3]

- *CBRs.* Banks affected by the loss of CBRs during 2015-16 have established new CBRs or alternative ways of processing transactions but the reliance on a small number of CBRs exposes banks to counterparty concentration risks. International efforts have sought to support Belize and other countries in the region in addressing CBR risks by providing forums for the public and private sectors to identify workable solutions, such as the strengthening

[3] Inward and outward capital transactions (such as FDI, portfolio investments, foreign currency loans and deposits, and overseas investments) require the prior approval of the CBB. Belize maintains a foreign exchange system that is generally liberal with regards to payments and transfers for current international transactions.

of communication with global banks and standard setters regarding expectations and requested information; and by providing technical assistance (TA) and training to improve AML/CFT frameworks and to strengthen respondent banks' capacity to manage risk. Belize benefited from such TA in November 2018.

- *International banks*. In the international financial services sector, a bank lost CBRs in late 2018 after the U.S. Federal Trade Commission implicated it in real-estate fraud. In May 2019, the Central Bank of Belize (CBB) revoked the bank's license and placed it into liquidation. The bank is assessed as not systemic, with limited linkages to the rest of the financial system. The liquidation of another international bank whose license was revoked in June 2018 is proceeding. The CBB has built capacity on bank resolution and contingency planning, supported by IMF TA.

6. The authorities have made progress in implementing recent Article IV recommendations although the primary fiscal surplus is expected to narrow this year and the pace of structural reform has been slow (Annex I). The limited progress on structural reform in part reflects the authorities' focus of their limited resources on drafting and enacting legislation to address the concerns of multilateral institutions regarding Belize's tax regime. The ruling center-right United Democratic Party (UDP) of Prime Minister Dean Barrow retains a comfortable parliamentary majority and the next general election is due by November 2020.

A RANGE OF RISKS TO THE OUTLOOK

7. Belize's medium-term outlook remains challenging and is broadly unchanged from the assessment made during the 2018 Article IV Consultation (Tables 1-5). Real GDP growth is projected to rebound to 2½ percent in 2020, as the drought subsides and airlift supply recovery supports tourism, and to moderate to just below 2 percent over the medium term, reflecting waning U.S. growth and domestic structural bottlenecks. A primary fiscal surplus that is larger than targeted in the FY2019/20 budget is needed to reduce public debt from its end-2018 level (94 percent of GDP) to prudent levels over the long term and build buffers against shocks.[4] The external current account deficit is projected to gradually narrow but remain at about 7½ percent of GDP, under current policies. The external stability assessment (Annex II) indicates that Belize's external position is weaker than the level consistent with medium-term fundamentals and desirable policy settings, with a current account gap of 3.6 percent of GDP (of which policy gaps account for about 1.8 percent of GDP) and a REER gap of 9 percent. International reserves are projected to average about 3 months of imports of goods and services over 2019–2024, below standard adequacy metrics.

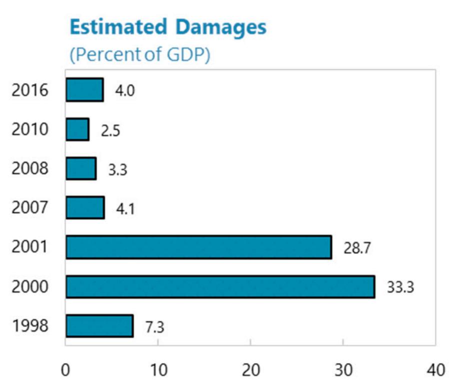
8. Downside risks remain substantial (Annex III). External risks include weaker U.S. growth; which would impact tourism, a tightening of global financial conditions; higher oil prices; and weather-induced natural disasters, to which Belize remains exceptionally vulnerable. Domestically, elevated rates of crime problem pose risks to growth. The murder rate remains among the highest in

[4] Public debt includes central government debt as well as external financial and non-financial public sector debt.

the world with the vast majority of Belizean youth exposed to violent crime, implying risks to tourism, competitiveness, and macroeconomic stability (see World Bank, 2016, and IMF, 2017). Renewed pressures on CBRs could weaken banks. The Government of Belize continues to contest various legacy claims, estimated at US$116.6 million (5.9 percent of GDP), which would lead to large public and external financing needs. Overall, such adverse developments could undermine public support for reforms and endanger debt sustainability (Annex IV). On the upside, an intensification of structural reforms could further raise FDI, strengthen the expansion of tourism, BPO, and agricultural output, and result in a sustained rise in income and jobs.

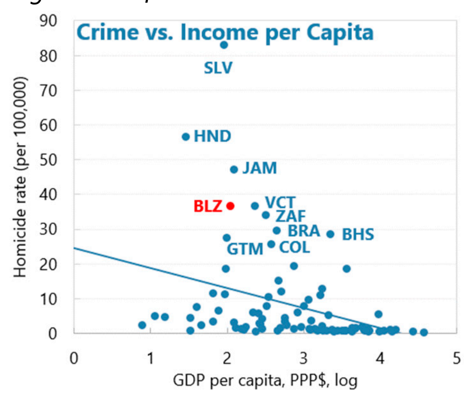
Figure 3. Belize: Structural Vulnerabilities

Frequent weather-induced natural disasters.



Source: EM-DAT; and IMF staff calculations.

High rates of violent crime.



Sources: World Bank; and IMF staff calculations.

STRENGTHENING THE FOUNDATION FOR DURABLE, INCLUSIVE GROWTH

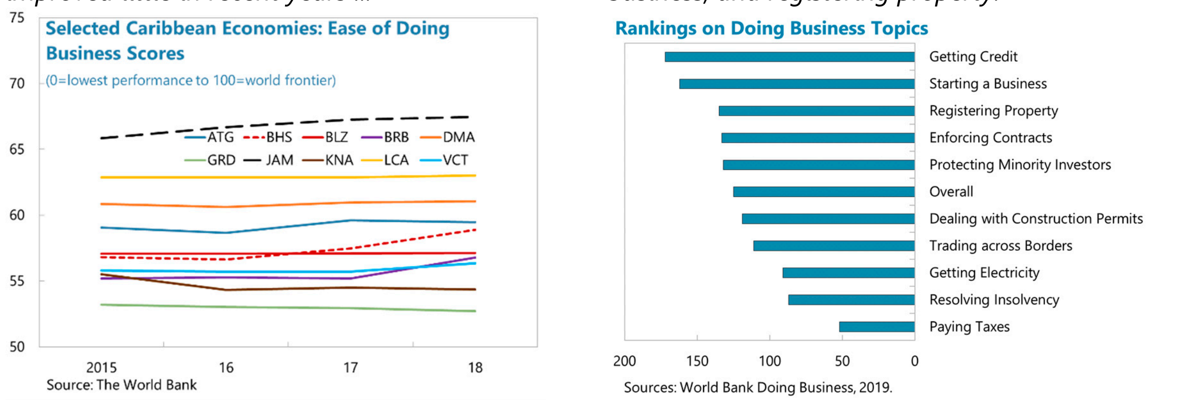
9. Enhancing medium-term growth prospects is essential for addressing Belize's challenges and risks and for improving the wellbeing of all Belizeans. Since the early 2000s, as in other Caribbean economies, there has been little rise in Belize's GDP per capita (see 2018 Article IV for a diagnostic). Faster growth is necessary to support poverty alleviation, facilitate debt reduction, create fiscal space for more priority spending, and bolster public support for reform.

10. Sustaining Belize's recent economic expansion, spurring private investment, and facilitating structural diversification hinges on strengthening the business environment. Belize's ease of doing business ratings have improved only slightly in recent years, with top challenges including getting credit, starting a business, and registering property. Reform priorities, building on Belize's 2016–19 *Growth and Sustainable Development Strategy* (GSDS), include further facilitating access to credit by establishing a credit bureau and collateral registry; streamlining procedures for starting a business; expanding technical and "soft skill" vocational training programs; and fighting crime and corruption. In 2016, Belize acceded to the United Nations Convention Against Corruption (UNCAC) and has since undergone the first cycle of voluntary peer review of its anti-corruption legal and institutional framework, which point to important deficiencies in criminalization of corruption and international cooperation that call for legislative reforms. Stronger implementation and enforcement of the asset declaration regime through the Integrity Commission and strengthening the rules on conflict of interest for senior public officials, are needed to enhance the effectiveness of anti-corruption efforts. To fight crime, expanding support for multifaceted initiatives that steer "at-risk" youth toward formal employment and minimize their exposure to crime, including the Community Action for Public Safety and National Youth Apprenticeship programs, is warranted. Reforms in these areas could be implemented in the near term without significant fiscal costs. Enhancing the business environment would also facilitate Belize's ongoing diversification into new products and services, including in agro-processing and information and communication technology industries.

Figure 4. Belize: Addressing Obstacles to Private Sector Growth

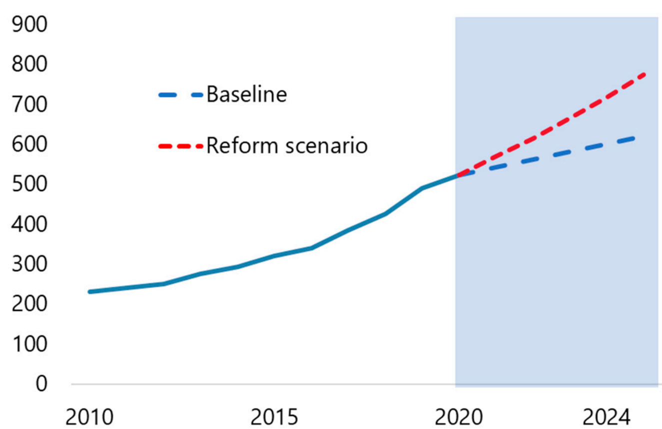
Belize's ease of doing business ratings have improved little in recent years …

… reflecting difficulties in getting credit, starting a business, and registering property.



11. Easing supply-side constraints is especially important for ensuring sustained growth in the tourism sector, where the number of tourist arrivals has doubled since 2010 to 130 percent of Belize's population. The authorities' multi-faceted strategic reforms, such as marketing initiatives, upgrading tourism transport infrastructure, and developing a variety of tourism experiences while minimizing the environmental impact, guided by the 2012-2030 [*National Sustainable Tourism Master Plan* (NSTMP)], have supported this growth, which exceeds the Caribbean average. Ensuring the tourism sector's continuing dynamism will require further addressing supply-side constraints and risks, such as shortages of adequate infrastructure and skills, crime, and damage from natural hazards (Box 1). Staff analysis suggests that reforms that address these bottlenecks could increase the level of tourism arrivals by a further 60-70 percent over the long term compared to baseline, implying an increase in real GDP growth by about 1 percentage point

Tourism: Illustrative Gains from Structural Reforms
(Arrivals in thousands)



Note: Figure indicates projected impact from reforms that narrow gap between Belize and best performing Caribbean economy by 75 percent along key structural dimensions. See SIP "Reforms for Ensuring Sustained Growth of Belize's Tourism Sector."

Box 1. Belize: Sustaining Growth of Tourism Sector

Belize's country's rich biodiversity, multi-cultural heritage, and unique location both in Central America and on the Caribbean Sea bode well for further development of tourism. Sustaining the sector's dynamism will, however, require addressing a number of supply-side constraints and risks.

Characteristics Relevant for Tourism (Red = least favorable ranking; green = most favorable) 1/	
Natural factors	
Forest area (% of land area)	
Marine protected areas (% of territorial waters)	
Natural disaster vulnerability 2/	
Price competitiveness 3/	
Education and human capital	
Primary school enrollment	
Human Capital Index 4/	
Labor force with advanced education	
Youth not in education, employment or training	
Infrastructure	
Access to electricity 5/	
Access to basic drinking water 5/	
Access to basic sanitation 5/	
Access to Internet 5/	
Governance and Crime	
Regulatory quality 6/	
Government effectiveness 6/	
Political stability and absence of violence 6/	
Violent crime	

1/ Color shows ranking compared to Caribbean and EMDE countries.
2/ IMF (2016) "Small States' Resilience to Natural Disasters and Climate Change - Role for the IMF."
3/ IMF "Week at the Beach Index" measuring the average cost of a 7-day-trip in a beach destination.
4/ Indicates the contributions of health and education to worker productivity.
5/ In % of population.
6/ Based on estimate of governance performance; ranges from -2.5 (weak) to 2.5 (strong).

Sources: The World Bank and IMF staff calculations.

- **Diversification of source markets and attractions.** Tourists still focus on a small number of attractions (especially those centered on the reef) and North America comprises 75 percent of arrivals, implying saturation and concentration risks. More diversified marketing could reduce such risks.

- **Damage from natural hazards.** Belize is exceptionally vulnerable to hurricanes and other weather-induced damage, which dissuade tourist arrivals. A significant influx of sargassum seaweed has led to travel cancellations and in some cases closure of tourism businesses.

- **Infrastructure gaps**. Belize's water and sanitation infrastructure and coastal facilities are currently stretched. Enhancements to the way visitation centers and valuable tourism resources are presented to tourists and to transportation to national tourism sites are needed. Expanding ICT infrastructure would cater to changing tourist demographics.

- **Skill shortages**. Availability of appropriately skilled labor in the tourism industry is tight and finding replacement staff is difficult. Promoting formal tourism degrees and tourism graduate programs would mitigate such shortages.

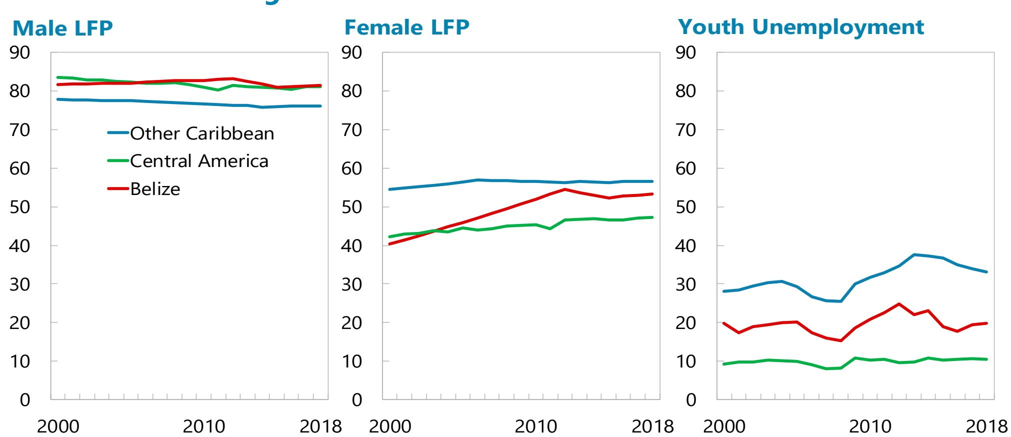
- **Crime**. Confronting safety and security risks to tourism is a priority.

- **Governance perceptions**. Diversifying the tourism sector will require enhancing the business environment and enhancing governance perceptions, including in customs and public procurement.

- ***Shared economy*.** The expanding presence of rent-share and peer-to-peer accommodation may be reducing expenditure levels per visitor. "High-end" branding and offering higher quality services and adequate physical tourism infrastructure could alleviate this risk.

12. To support the authorities' poverty alleviation strategy, strengthening social programs is warranted. Belize's last poverty assessment is almost 10 years old and an update is needed for improving the effectiveness of social policies. The 2009 assessment suggested that poverty is higher in rural areas characterized by lower levels of schooling, and that households where women work are far less likely to be poor. Efforts to encourage female labor force participation (LFP) could **include** tax credits or subsidies for childcare payments and improving transportation infrastructure.[5] Campaigns to further increase awareness of Belize's flagship targeted social protection programs, such as Building Opportunities for Our Social Transformation (BOOST), Food Pantry, and the Conditional Cash Transfer Program, and amplifying support for them, are also warranted. To reduce poverty in old age, ensuring that Belize's Non-contributory Pension (NCP) scheme continues to provide sufficient benefits, subject to strict eligibility criteria in terms of age, is important. Belize's recently launched National Financial Inclusion Strategy is a step toward making growth inclusive by increasing the share of the population with access to financial services.

Figure 5. Belize: Labor Market Inclusion



Source: World Bank; and IMF staff estimates.
Note: LFP = Labor Force Participation rate.

Authorities' Views

13. The authorities concurred that Belize's economic recovery has slowed due to the severe drought, following rapid growth in 2018, and expected growth to rebound next year. They noted that the historically low unemployment rate together with Belize's flagship targeted social programs are supporting poverty alleviation. They agreed with the need to further improve the business climate, and broadly concurred with staff's assessment of reform priorities, including establishing a credit bureau. They observed that the pace of structural reform has been affected by the need to focus limited resources on drafting and adopting legislation to address evolving demands from international standard setters but that legislation for establishing a credit bureau would be submitted to Parliament by the end of FY2019/20. They also welcomed the recent launch of the National Financial Inclusion Strategy, which they expected to further enhance inclusive

[5] See Novta and Wong, 2017, "Women at Work in Latin America and the Caribbean," IMF Working Paper 17/34.

growth. They expressed their determination to keep fighting crime, including through community-based prevention initiatives.

BUILDING RESILIENCE TO NATURAL DISASTERS AND CLIMATE CHANGE

14. Belize has stepped up efforts to build resilience to natural disasters and climate change. Resilience-building and engagement with development partners on environmental reforms have been central to Belizean policymaking for years, as recognized in the 2018 Belize Climate Change Policy Assessment (CCPA).

15. Efforts to limit the disruption caused by natural disasters should continue to focus on three areas: structural, financial, and post-disaster resilience. To provide development partners a comprehensive guide to the authorities' needs and plans in these areas, and to facilitate coordination of donor support, the authorities could benefit from preparing a Disaster Resilience Strategy (DRS) based on a multi-year macro-fiscal framework, with input from stakeholders.

16. Structural resilience. The authorities are making substantial investments into infrastructure to limit the impact of natural disasters and adapt to climate change, guided by Belize's 2013 *National Climate Resilience Investment Plan* (NCRIP). About 40 percent of the investment projects in the FY2018/19 budget (1.6 percent of GDP) focused on adaptation infrastructure, including through retrofitting roads and bridges to higher climate resilience, with more than 80 percent foreign-financed on concessional terms. Maintaining this level of investment going forward would allow Belize to cover the bulk of the needs identified in the NCRIP for addressing future climate scenarios although getting financing will require continued efforts. Costing and prioritization of resilience-building projects are underway and could benefit from further technical support from development partners with the relevant expertise and global knowledge. The authorities are also developing an investment promotion strategy to increase access to grants and climate funds. Stronger implementation of building codes and land use regulations would further reduce Belize's exposure to weather shocks.

17. Financial resilience. Belize would benefit from a layered approach for building buffers and managing the financial risk of natural disasters. A natural disaster reserve fund of about US$20 million (1 percent of GDP) is needed to accelerate the financing of immediate recovery and response costs associated with the projected average annual loss (AAL) arising from flood and hurricane hazards.[6] The authorities are receiving World Bank TA to build capacity for establishing and administering a contingency fund. To manage risks associated with medium- to high-severity events, a mix of risk-retention and risk-transfer instruments, such as ex-ante contingent lines of credit and optimized participation in regional insurance options is needed. The authorities reached

[6] See actuarial analysis of historical direct and indirect damage to each sector from wind and flood-related events (World Bank Group, 2018, "Advancing Disaster Risk Finance in Belize").

agreement with the Inter-America Development Bank (IDB) in 2019 on a US$10 million Contingent Credit Facility for Natural Disaster Emergencies and a Contingent Emergency Response Component (CERC) has been incorporated into Belize's World Bank-financed climate resilient infrastructure projects to allow quick access to resources should a disaster strike. Belize also participates in the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC). Addressing the under-insurance of public and private assets is needed.[7]

18. Post-disaster resilience. Belize has institutions for physical emergency responses following a disaster, coordinated by the National Emergency Management Organization (NEMO). Reforms to existing social protection programs to allow them to scale up rapidly after a disaster would enhance their ability to address humanitarian needs early on. Strengthening post-disaster responses also requires improving data management at NEMO and the Ministry of Finance. Reforming budget classification to capture disaster events of all magnitudes, along with the associated damages and expenditures, is needed for better tracking, assessing, and designing improvements to relief and reconstruction interventions.

Authorities' Views

19. The authorities expressed their commitment to continue investing in climate-resilient infrastructure and recognized the need to expand the use of natural disaster risk management instruments. They welcomed the proposal to prepare a Disaster Resilience Strategy (DRS) and agreed that it could provide development partners with a guide to their ongoing resilience-building investments and risk management initiatives, while placing the required financing into a sustainable multi-year macro-fiscal framework. They indicated their intention to build capacity for establishing and administering a natural disaster reserve fund and welcomed the recently established IDB Contingent Credit Facility for Natural Disaster Emergencies. They agreed that specifying plans for rapidly scaling up Belize's flagship social programs in the event of a natural disaster would support their efforts to address humanitarian needs early on.

BALANCED AND SUSTAINED MEDIUM-TERM FISCAL CONSOLIDATION

20. The authorities' objective of reducing public debt to below 80 percent of GDP in five years, and below 60 percent of GDP over the long term is prudent and requires additional fiscal consolidation alongside reforms that enhance potential growth. The baseline scenario assumes that the primary fiscal surplus gradually returns to the 2 percent of GDP target specified in the government's Fiscal Strategy Statement by 2022. This projection reflects the stronger tax administration enabled by the August 2019 merger of the General Sales Tax (GST) and Income Tax departments, which is expected to raise tax revenue by about ⅓ percent of GDP by FY2021/22, as

[7] The total buffer needed to provide timely financing for the fiscal costs of disasters without endangering debt sustainability is estimated at about 7 percent of GDP (CCPA), inclusive of the natural disaster fund and risk management instruments.

well as the expected recovery from the recent growth slowdown. However, with the primary fiscal surplus below the Fiscal Strategy Statement's 2 percent of GDP target during 2020-2021, staff projects that public debt will decline slower than planned, and the external current account imbalance will be more pronounced. Staff now projects that the public debt-to-GDP ratio will decline to about 85 percent in 5 years instead of to the targeted 80 percent.

Belize: Baseline and Active Scenarios, 2018–2029

	2018	2019	2020	2021	2022	2023	2024	2029
Baseline scenario								
Growth (percent)	3.2	1.5	2.5	1.8	1.7	1.7	1.7	1.7
Inflation (percent, period average)	0.3	0.4	1.2	1.7	1.8	2.0	2.0	2.0
Primary fiscal balance (percent of GDP)	2.1	1.5	1.7	1.9	2.0	2.0	2.0	2.0
Overall fiscal balance (percent of GDP)	-1.0	-1.7	-1.5	-1.3	-1.1	-1.0	-1.0	-0.6
Public debt (percent of GDP)	94	94	94	92	90	88	85	74
External current account balance (percent of GDP)	-7.9	-8.0	-8.1	-7.6	-7.4	-7.0	-6.7	-6.7
Gross official reserves (US$ million)	294	286	315	326	339	349	360	432
Gross official reserves (months of imports)	3.0	2.8	3.0	3.0	3.0	3.0	3.0	3.0
Active scenario								
Growth (percent)	3.2	1.5	2.3	1.7	1.8	1.9	2.1	2.7
Inflation (percent, period average)	0.3	0.4	1.1	1.5	1.8	2.0	2.0	2.0
Primary fiscal balance (percent of GDP)	2.1	1.5	2.1	2.7	3.0	3.4	3.7	4.0
Overall fiscal balance (percent of GDP)	-1.0	-1.7	-1.0	-0.4	0.0	0.4	0.8	2.0
Public debt (percent of GDP)	94	94	94	92	89	85	80	55
External current account balance (percent of GDP)	-7.9	-8.0	-7.9	-7.2	-6.9	-6.2	-5.8	-5.3
Gross official reserves (US$ million)	294	286	320	340	365	391	424	674
Gross official reserves (months of imports)	3.0	2.9	3.1	3.2	3.3	3.4	3.5	4.5
Natural Disaster Reserve Fund (percent of GDP)	0.0	0.0	0.2	0.4	0.6	0.8	1.0	-0.2

Box 2. Government Debt Reduction in the Presence of Economic Uncertainty[1/]

Belize's goal of reducing government debt to below 80 percent in 5 years, and below 60 percent of GDP over the long term is prudent and consistent with debt ceilings set in other countries, including those in the region, which mostly fall between 40 percent and 70 percent of GDP.

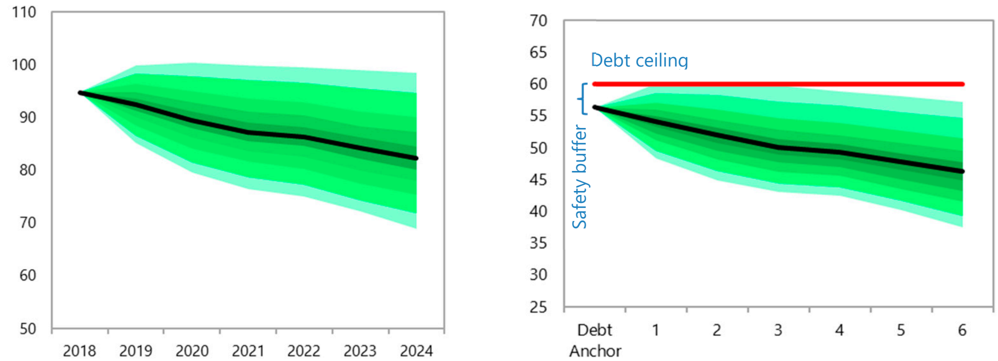
In the presence of the types of shocks that have repeatedly hit Belize in the past, including from natural disasters and contingent liabilities, achieving the desired debt reduction with a high level of confidence requires increasing the primary fiscal surplus to above the baseline projection of 2 percent of GDP. Stochastic simulations based on Belize's historical distribution of macroeconomic and fiscal shocks, which affect the evolution of government debt, suggest that a primary fiscal surplus of 4 percent of GDP would reduce debt to below 80 percent of GDP within 5 years with a probability of 85 percent.

In the long term, ensuring that debt remains below a ceiling of 60 percent of GDP requires, in presence of shocks, incorporating a safety buffer. As the right-hand side figures below show, a buffer of 5 percent of GDP, consistent with a debt-to-GDP ratio of about 55 percent, would comply with the debt ceiling with a probability of 95 percent over the medium term, even in the presence of economic uncertainty.

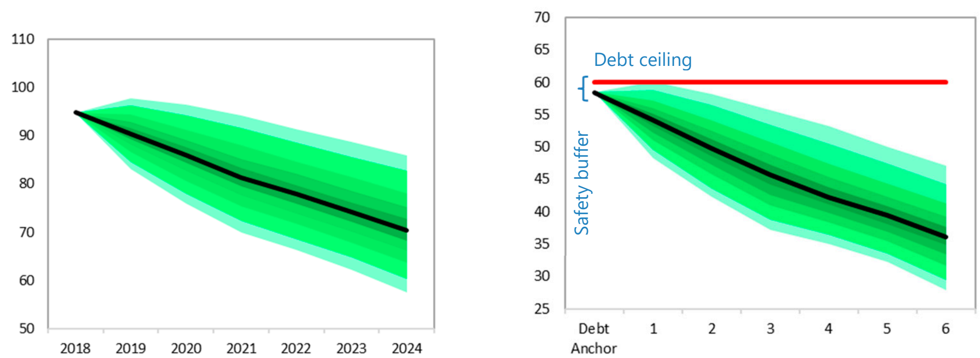
Box 2. Government Debt Reduction in the Presence of Economic Uncertainty (concluded)

Government Debt Simulations

Panel A based on a primary surplus of 2 percent of GDP



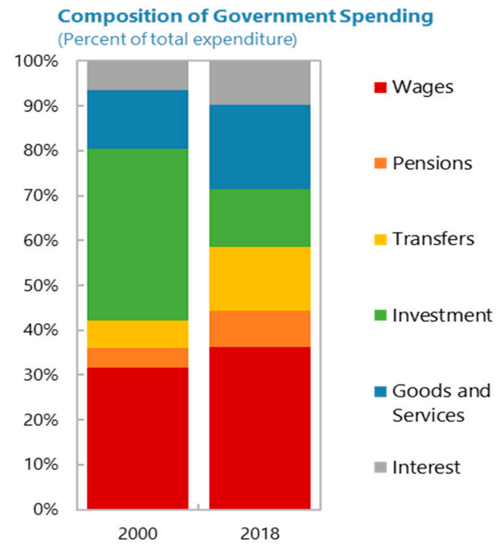
Panel B based on a primary surplus of 4 percent of GDP



1/ See IMF Working Paper No. 19/242 "Back to the Future: Designing Fiscal Rules for Sustainability in Belize."
Note: Fan charts show 5th to 95th percentile of distribution. Each shade represents a 10 percent level of likelihood.

21. **Achieving the targeted debt reduction and building buffers to address weather-related and other economic shocks requires measures that raise the primary surplus to 2 percent next year and to about 4 percent of GDP gradually over the medium term.** (See text table: baseline and active scenarios and Box 2.) Reforms that increase potential growth would reduce the primary surplus needed to achieve the targeted debt reduction. The active scenario conservatively assumes that implementation of the afore-mentioned structural and resilience-building reforms gradually raises growth by 1 percentage point over ten years to about 2.7 percent, closer to but below the growth average of previous decades. Focusing on structural reforms with near-term gains and better targeting social safety nets would help mitigate the impact of fiscal consolidation on the near-term outlook. Given implementation constraints, significant downside economic risks, and possibly large contingent liabilities, preparing fiscal contingency plans is warranted.

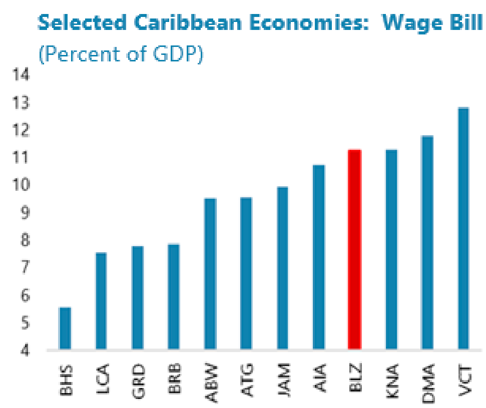
22. There is a menu of policy options to achieve gradual, balanced, and sustained debt reduction. Measures that could achieve the targeted adjustment include:



Sources: National authorities and IMF staff calculations.

- *Enhancing government revenue*. Further broadening the tax base by phasing out exemptions on GST and excises and tightening tax incentives is a priority (see below). Electronic tax filing and payment should be enhanced, as less than 10 percent of registered tax payers file or pay their taxes electronically. Together, these reforms could, over time, raise revenues by more than 2 percent of GDP.

- *Restraining current spending*. The share of Belize's budget absorbed by wages, pensions, and transfers has increased from about 40 percent in 2000 to about 60 percent in 2018, crowding out priority spending, including on infrastructure. Civil service reforms, such as implementing a 2–5 replacement ratio to gradually reduce the number of public sector employees and limiting salary increments to the rate of inflation could reduce the wage bill by about 1 percent of GDP over the medium term. The unfunded, noncontributory defined-benefit Pension Plans for Public Officials (whose budgetary cost reached 2.5 percent of GDP in FY2018/19) should be made contributory and the retirement age should gradually rise from 55 to 65 years, reflecting increased life expectancy. For the GSSS, the minimum retirement age of 60 years should also be raised and the mandatory retirement age of 65 could be removed. These additional parametric reforms could yield savings of 1-2 percent of GDP over the medium term.



Source: WEO and IMF staff calculations

23. Such policies would both reduce public debt and create space for priority spending. In the staff's active scenario, the medium-term fiscal consolidation measures, which are conservatively estimated to total 3 percent of GDP, are offset by additional priority spending of 1 percent of GDP, resulting in a 2 percent of GDP rise in the primary fiscal surplus above the baseline projection (see text table: active scenario). Moreover, the active scenario assumes a gradual expansion in resilience-building investment by ½ percent of GDP over the medium term to allow the authorities to continue meeting the needs of the NCRIP. The remaining ½ percent of GDP of additional priority spending could finance reforms such as those to alleviate poverty, improve education, and enhance safety. Fiscal consolidation and competitiveness-enhancing reforms would also contribute to addressing Belize's external imbalance by bringing the current account closer to surplus, raising international reserves, and reinforcing the sustainability of the exchange rate peg.

24. A rules-based fiscal framework based on a debt anchor could, if underpinned by public consensus, support the fiscal adjustment. Belize could benefit, as a number of Caribbean countries have, from a fiscal responsibility law (FRL) with explicit rules designed to guide the debt reduction process in a transparent and predictable manner, while creating a mechanism for public oversight and accountability. Central features of a rule-based fiscal framework in Belize, drawing on the experience of other countries in the region, could comprise:

- *Debt anchor*. The framework could target a reduction in government debt to below 60 percent of GDP in 10 years.
- *Primary balance target*. The framework could target an increase in the primary fiscal surplus to 4 percent of GDP in 5 years and prescribe maintaining it at that level until the debt ratio declines to below 60 percent of GDP. Once the primary surplus target is achieved, an expenditure rule linked to long-run nominal GDP growth could help to avoid procyclical swings in priority spending.
- *Escape clauses*. To permit a rapid response to natural disasters, the rule should include an escape clause, limited to major adverse shocks and triggered only with Parliamentary approval. The clause would pre-define a clear list of events or shocks that could have a serious adverse impact on public finances, and specify measurable conditions for triggering the clause, such as declines in projected GDP or fiscal revenues from previous estimates.
- *Automatic correction mechanism*. The rule could establish an automatic correction mechanism that would be triggered by substantial cumulative deviations from the annual primary fiscal balance target. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations and bring fiscal performance back in line with the rules.
- *Oversight, transparency, and accountability*. An independent fiscal council with a mandate to produce unbiased projections and evaluate compliance with fiscal rules would enhance transparency and accountability of fiscal operations and buttress credibility of the fiscal policy framework. The Minister of Finance could be required to explain deviations that are inconsistent with the fiscal rules in a mid-term budget review in Parliament, and to outline corrective steps. A public-private forum to monitor and comment on the conduct of fiscal policy, along the lines of Jamaica's Economic Program Oversight Committee (EPOC), could further strengthen public awareness and consensus regarding fiscal policy goals.

25. Public financial management (PFM) reforms would further support Belize's fiscal adjustment, enhance monitoring, and increase the efficiency of government spending. A multi-year budget would strengthen the continuity of fiscal policy. Belize already conducts multiyear planning, with a five-year Fiscal Strategy Document published with the budget, but appropriations are annual, which undermines the certainty aimed at by forward planning. An increase in overall spending beyond the ceilings approved by Parliament should require parliamentary approval in the context of a revised budget. Adopting CARICOM model procurement legislation in the near term would support the systematic tendering of capital projects, increase competition and achieve savings. To further improve public investment management, the authorities have requested a Fund staff-conducted Public Investment Management Assessment (PIMA). Over the medium term, to mobilize more private funding for infrastructure projects, the authorities could establish a framework for public-private partnerships (PPPs), with well-defined safeguards to manage fiscal risks. Publishing the financial accounts of parastatal agencies, such as the Belize Tourism Board, as part of the annual budgetary documentation would further enhance fiscal transparency.

Authorities' Views

26. The authorities welcomed the recognition of the significant fiscal adjustment achieved over the past two years and concurred with the need for balanced medium-term consolidation but saw the adjustment proposed by staff as challenging. The FY2019/20 budget targeted a 2 percent of GDP primary fiscal balance, which the authorities saw as sufficient to place public debt on a steady downward trajectory. The authorities recognized the risks highlighted by staff to achieving the budget's target this year, given the economic slowdown triggered by a severe drought and significant approved priority spending, and that a smaller-than-planned primary fiscal surplus would imply a slower pace of debt reduction. At the same time, they underscored that any additional fiscal adjustment would need to be gradual to maintain social consensus and leave room for priority investments. They expected that their ongoing efforts to strengthen revenue administration would, together with the projected growth rebound, restore the primary fiscal surplus to 2 percent of GDP within three years. They did not have plans to raise the primary fiscal surplus to 4 percent of GDP over the medium term as recommended by staff. They welcomed the discussion of the region's experience with fiscal rules and fiscal councils and remained open to learning more about how such rules could be adapted to Belize's context.

TAX REFORM TO ENHANCE FAIRNESS, EFFICIENCY, AND REVENUES

27. Further reforms to Belize's tax system are needed to make it more equitable and less distortionary, with fewer exemptions and tax preferences, and, given the still elevated debt and the resources needed for priority investments, to mobilize additional revenue.[8]

28. GST tax expenditures. Further broadening the base of the GST would enhance revenue and level the playing field. Numerous products remain either zero-rated or exempt from GST, amounting to about 2 percent of GDP in foregone revenue and creating administrative challenges. The exemptions are not well targeted to protect low-income groups and small businesses.

29. Business tax inefficiency. The current (turnover-based) business tax is inefficient, discouraging investment, and inequitable, with tax rates differing widely across economic sectors. A more efficient Corporate Income Tax (CIT) should be introduced over the medium term. It could initially be applied to a small number of large companies that account for most revenues.

[8] See SIP "Taxation Issues in Belize."

Preconditions for introducing a CIT include the introduction of anti-avoidance legislation, transfer pricing regulations, and educating taxpayers.

30. Revenue leakage from special regimes. Belize's special tax regimes constitute a parallel tax system with much lower tax rates and potential for significant domestic revenue losses (see text table). They include International Business Company (IBC) status, recently made fully available to Belizean businesses, and Designated Processing Areas (DPAs) offered to priority sectors. To address risks to domestic revenues, conditions offered in special regimes should be tightened, which is feasible while maintaining an attractive system. For IBCs undertaking international activities, the low tax rates are of little relevance, given Belize's territorial system, and raising tax rates is a near-term priority. Purely international activities may however be constrained by the recently enacted Economic Substance Act. For DPAs, there may, in some cases, be a policy reason for lower effective taxation, but eligibility criteria should be tightened and more effective incentives, such as investment allowances, used instead of reduced rates.[9] Publishing estimates of tax expenditures due to special regimes would enhance transparency.

Belize: Special Tax Regimes

	Income tax	**Dividend and interest**	**Cross-border withholding**	**Customs duties, excises, and property taxes**
Regime [1/]	Rate, in percent	Exemption		
IBC (previous IBC)	1.75-3 (0)	Yes	Yes	No
Public Investment Company	0 for 30 years, renewable	Yes	Yes	Yes, also stamp duties
DPA (previous EPZ)	1.75-3 (0)	Yes	Yes	Yes (also stamp duties), for 10 (20) years
CFZ	0 for 10 years	No	No	Yes
Fiscal Incentives Act	Standard	No	No	Yes

[1/] Table reports tax regime, rules, and tax rates applicable before December 2018 in parentheses.

Source: Tax Laws, IMF Staff Compilation.

31. Digitalization. Taxation should be tightened for digital transactions, including the importation of goods through digital platforms and the purchase of digital services in Belize. Given the prevalence of low-value imports in the digital economy, removing existing low-value import thresholds would support GST and excise revenues on such transactions.

Authorities' Views

32. The authorities welcomed the staff's analysis of options for enhancing the efficiency and fairness of the tax system and for mobilizing additional revenue. They saw merit in further broadening the tax base, while emphasizing the importance of preserving certain limited

[9] See IMF, OECD, UN, and World Bank (2015) for options on the effective and efficient use of tax incentives.

exemptions on indirect taxation aimed at ensuring the affordability of household staples. They expressed concern regarding the evolving demands of multilateral standard setters regarding international taxation but underscored their commitment to amending tax laws as needed by end-2019. They recognized the need to avoid risks to domestic revenues stemming from Belize's special tax regimes and the importance of reducing tax incentives over time. Shortly after the Article IV consultation discussions in Belize, a package of laws relating to the international financial service sector was enacted. The authorities welcomed the subsequent decision of the Economic and Financial Affairs Council of the European Union to remove Belize from the list of non-cooperative jurisdictions.

KEEPING THE FINANCIAL SYSTEM SAFE

33. Steps to further strengthen the bank supervision and resolution framework are needed, building on the authorities' resolute steps to deal with two troubled international banks during 2018-19. Actions that would further enhance supervision, resolution, and preparedness include:

- *Intrusive monitoring and supervision*. In a welcome step in the right direction, the CBB has shortened the bank examination schedule to 18-24 months. The CBB should remain prepared to take appropriate enforcement actions if banks are at risk of non-compliance with regulations.

- *Restricting and phasing out forbearance.* The authorities recently implemented measures to alleviate the effects of the severe drought, which triggered the declaration of a partial state of emergency, including exceptions on NPL recognition for past-due lending and extended repayment terms for agricultural sectors. Any regulatory forbearance of this nature should be restricted to categories set out explicitly and a specific timeframe should be adopted for phasing it out, with a supervisory action plan and close monitoring.

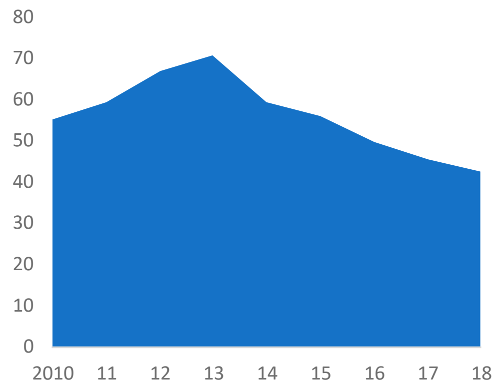
- *Resolution*. The bank resolution legal framework should be fortified based on international best practice to clearly designate the CBB as the sole resolution authority, enable irreversible resolution actions, and introduce a broader range of resolution tools.

- *Crisis preparedness.* All banks should be required to prepare recovery plans, with the CBB developing resolution plans for systemic banks. Legislative amendments should authorize extraordinary actions during a crisis, such as providing official support (with strong safeguards and conditions) and protecting depositors and creditors.

34. The financial system should remain under tight supervision. An asset quality review of all banks—a risk-focused loan portfolio examination—would help assess banks' credit exposures and capital buffers. The CBB recently implemented a cybersecurity framework, an important step toward strengthening cybersecurity supervision. The CBB should further strengthen capacity and resources to conduct anti-money laundering and combating the financing of terrorism supervision of banks effectively and enhance enforcement, which would also support CBRs.

35. Intensifying supervision and enforcement in the international financial services sector is needed to bolster investor confidence and prevent a loss of CBRs. In addition to strengthening the overall AML/CFT framework, an in-depth assessment of the reputational risks and costs associated with the international financial sector, in which about 36,000 IBCs are registered, including regarding the provision of virtual asset-related services is needed to inform policy making. The recently updated international standards on AML/CFT (Financial Action Task Force, 2019) require countries to put in place market entry controls for virtual asset service providers that are located or incorporated in Belize and cover them in the AML/CFT regime if the country chooses to authorize them. Policy priorities include: (i) increasing the resources and capacity of the International Financial Services Commission (IFSC) to properly license, regulate and supervise international financial service providers, and imposing dissuasive and proportionate penalties when breaches are identified; (ii) legal reforms informed by the risk assessment to implement international standards on virtual assets; (iii) identifying and sanctioning IFSC licensees providing virtual asset-related services without authorization; and (iv) ensuring that beneficial ownership information of legal persons and arrangements established by registered agents is accurate, up-to-date, and available without impediment, which would benefit from centralizing such information and only permitting reliance by registered agents on third-party intermediaries when the criteria set out in the FATF standard are met.

Number of International Business Companies
(IBCs; thousands)



Source: Belize IBC registry

Authorities' Views

36. The authorities agreed that the financial system remains stable. They expressed their intention to fortify the bank resolution framework, drawing on the related Fund staff TA, which they welcomed. They agreed with conducting an asset quality review to assess banks' capital buffers. They highlighted that supportive regulatory measures introduced in response to the severe drought are temporary and restricted to directly affected agricultural loans. They recognized that, owing to Belize's relatively low volume of international transactions, CBRs remain vulnerable, and expressed commitment to strengthening investor confidence by further reinforcing the AML/CFT framework, prohibiting the provision of virtual asset-related services by IFSC licensees and IBCs, and strengthening the powers and resources of the IFSC.

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37. Belize's economic recovery continues but the pace is slowing. Real GDP grew by 3.2 percent in 2018 and unemployment has reached at a historic low amid near-zero inflation. However, recent data indicate a slowdown in economic activity, reflecting a severe drought, and growth is expected to average about 2 percent during 2019-20. The financial system is stable, supported by the authorities' resolute steps to enhance financial soundness and reduce risks to CBRs. Banks are well-capitalized and NPLs have declined.

38. **The government implemented significant fiscal consolidation over the past two years, but the primary fiscal surplus is expected to narrow this year and remain below 2 percent of GDP for the following two years.** The approved FY2019/20 budget targeted a primary fiscal surplus of just above 2 percent of GDP, but recent data indicate more spending on wages and public investment and weaker revenue than expected, putting the budget's target at risk.

39. **The medium-term outlook remains challenging.** Real GDP growth is projected at just below 2 percent in the medium term, reflecting structural bottlenecks. The pace of structural reform to raise growth has been slow. Public debt remains elevated, the current account deficit is expected to remain large over the medium term, and international reserves are projected at below standard adequacy metrics. Staff assesses the external position as weaker than the level consistent with medium-term fundamentals and desirable policy settings.

40. **Downside risks remain substantial.** Belize is vulnerable to weaker U.S. growth, which would impact tourism, to higher oil prices, and weather-induced natural disasters. Violent crime poses risks to growth, competitiveness, and macroeconomic stability. The financial system remains vulnerable to a loss of CBRs. The government continues to contest legacy claims, which could lead to large public financing needs. On the upside, an intensification of structural reform could further raise investment, income, and employment.

41. **Reinforcing Belize's economic growth hinges on improving the business environment.** Reform priorities include facilitating access to credit by establishing a credit bureau and collateral registry; streamlining procedures for starting a business; expanding training programs; fighting corruption; and expanding support for programs that minimize youth exposure to crime. To support the authorities' poverty alleviation strategy, enhancing social programs merits consideration.

42. **Intensifying efforts to build resilience to natural disasters would reduce economic volatility and raise long-term growth.** Belize should continue to make substantial investments into climate-resilient infrastructure; and needs to strengthen risk management through a natural disaster fund, ex-ante contingent lines of credit, and optimized participation in regional insurance options. To provide development partners with a comprehensive guide to Belize's resilience-building needs and plans, and to facilitate donor coordination, the authorities could benefit from preparing a Disaster Resilience Strategy based on a multi-year macro-fiscal framework, with input from stakeholders.

43. **Reducing public debt to prudent levels requires additional fiscal consolidation alongside structural reforms that raise growth.** Reducing government debt to below 60 percent of GDP in 10 years and building buffers to address weather-related and other shocks requires raising the primary surplus to 2 percent next year and to about 4 percent of GDP gradually over the medium term. Fiscal consolidation and competitiveness-enhancing reforms would bring the current account closer to surplus, raise international reserves, and reinforce the sustainability of the

exchange rate peg. Revenue measures include further broadening the tax base by phasing out exemptions and tax incentives and reinforcing tax administration. On the spending side, making space for priority investments requires restraining the wage bill and pension reform. A rule-based fiscal framework based on a debt anchor could, if underpinned by public consensus, support the fiscal adjustment.

44. Reforms to Belize's tax system are needed to make it more equitable, less distortionary, and to mobilize additional revenue. The turnover-based business tax is inefficient, discouraging investment, and inequitable, and a more efficient Corporate Income Tax should be introduced over the medium term. Belize's special tax regimes with lower tax rates constitute a significant risk to revenues. To address such risks, conditions offered in special regimes should be tightened, which is feasible while maintaining an attractive overall system.

45. The financial system should remain under tight supervision. An asset quality review would help assess banks' capital buffers. The bank resolution legal framework should be fortified to clearly designate the CBB as the sole resolution authority and enable irreversible resolution actions. The CBB should further strengthen capacity and resources to conduct anti-money laundering and combating the financing of terrorism (AML/CFT) supervision of banks effectively and enhance enforcement.

46. Intensifying supervision and enforcement in the international financial services sector is needed to bolster investor confidence and prevent a loss of CBRs. In addition to strengthening the overall AML/CFT framework, an in-depth assessment of the risks and costs associated with the international financial services sector including regarding virtual assets is needed to inform policy making. Policy priorities include: (i) increasing the resources and capacity of the International Financial Services Commission (IFSC) to properly license, regulate and supervise international financial service providers, and imposing dissuasive and proportionate penalties when breaches are identified; (ii) legal reforms informed by the risk assessment to implement international standards on virtual assets; (iii) identifying and sanctioning IFSC licensees providing virtual asset-related services without authorization; and (iv) ensuring that beneficial ownership information of legal persons and arrangements is accurate, up-to-date, and available without impediment.

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

Table 1. Belize: Selected Social and Economic Indicators

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2017	106
Population (thousands), June 2019	408.5	Under-five mortality rate (per thousand), 2017	14
GDP per capita, (current US$), 2018	5,025	Unemployment rate (percent), April, 2019	7.6
Life expectancy at birth (years), 2017	70.6	Poverty (percent of total population), 2009	42.0

II. Economic Indicators, 2015-24

	2015	2016	2017	2018 Prel.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
National income and prices	(Annual percentage changes, calendar year)									
GDP at constant prices	3.4	-0.6	1.4	3.2	1.5	2.5	1.8	1.7	1.7	1.7
Consumer prices (average)	-0.9	0.7	1.1	0.3	0.4	1.2	1.7	1.8	2.0	2.0
Central government 1/	(In percent of fiscal year GDP)									
Revenue and grants	28.2	28.9	29.5	30.6	30.5	30.7	30.8	31.0	31.0	31.0
Current non-interest expenditure	23.1	23.8	24.1	24.2	24.4	24.4	24.4	24.4	24.4	24.4
Interest payment	2.5	3.3	3.1	3.1	3.2	3.1	3.1	3.1	3.0	2.9
Domestic	0.4	0.5	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9
External	2.1	2.8	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.0
Capital expenditure and net lending	10.2	7.0	6.5	4.3	4.6	4.6	4.6	4.6	4.6	4.6
Capital expenditure	7.3	6.9	4.0	4.0	4.4	4.4	4.4	4.4	4.4	4.4
Net lending	2.8	0.1	2.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Primary balance	-5.1	-1.9	-1.1	2.1	1.5	1.7	1.9	2.0	2.0	2.0
Overall balance	-7.5	-4.2	-3.9	-1.0	-1.7	-1.5	-1.3	-1.1	-1.0	-1.0
Public debt	(In percent of calendar year GDP)									
Central government debt	78.5	84.8	92.3	90.4	89.8	89.1	87.7	85.0	80.9	76.4
Public debt 2/	80.8	94.7	94.5	93.8	94.2	93.6	92.4	90.0	87.6	84.8
Domestic debt	14.0	28.3	27.1	27.1	26.6	24.8	23.2	22.2	22.4	23.1
External debt	66.8	66.4	67.4	66.7	67.6	68.8	69.2	67.9	65.2	61.7
Principal payment	2.1	2.2	2.4	2.2	2.4	3.4	3.6	4.7	4.8	4.6
Domestic	0.0	0.0	0.0	0.0	0.0	0.8	0.7	1.7	1.8	1.7
External	2.1	2.1	2.4	2.2	2.4	2.5	2.9	3.0	3.0	2.9
Money and credit	(Annual percentage changes, calendar year)									
Credit to the private sector	4.8	-3.0	3.9	3.2	1.9	3.7	3.5	3.6	3.8	3.8
Money and quasi-money (M2)	7.3	2.6	-0.3	2.6	1.9	3.7	3.5	3.6	3.8	3.8
External sector	(Annual percentage changes, unless otherwise indicated)									
External current account (percent of GDP) 3/	-9.8	-8.4	-7.7	-7.9	-8.0	-8.1	-7.6	-7.4	-7.0	-6.7
Real effective exchange rate (+ = depreciation)	6.5	1.7	-1.7	…	…	…	…	…	…	…
Gross international reserves (US$ millions)	437	377	312	294	286	315	326	339	349	360
In months of imports	4.8	4.2	3.3	3.0	2.8	3.0	3.0	3.0	3.0	3.0
Memorandum items										
Primary balance (excluding one-off capital transfer) 4/	-5.1	-1.9	1.3	2.1	1.5	1.7	1.9	2.0	2.0	2.0
Nominal GDP (BZ$ millions)	3,525	3,613	3,725	3,857	3,930	4,077	4,221	4,373	4,538	4,710

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators, World Bank; 2009 Poverty Country Assessment; and Fund staff estimates.

1/ Fiscal year (April to March).

2/ Public debt includes central government debt as well as external financial and non-financial public sector debt.

3/ Including official grants.

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

Table 2a. Belize: Operations of the Central Government [1/ 2/]

(In millions of Belize dollars)

	2015/16	2016/17	2017/18	2018/19		Projections					
				Budget	Proj.	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue and grants	**1,000**	**1,052**	**1,111**	**1,183**	**1,187**	**1,208**	**1,261**	**1,314**	**1,367**	**1,418**	**1,472**
Revenue	**980**	**1,006**	**1,081**	**1,138**	**1,150**	**1,178**	**1,230**	**1,277**	**1,326**	**1,376**	**1,428**
Current revenue	974	1,004	1,079	1,135	1,144	1,176	1,227	1,274	1,323	1,373	1,425
Tax revenue	864	925	967	1,023	1,034	1,063	1,110	1,153	1,198	1,243	1,290
Income and profits	256	262	270	277	288	310	321	333	345	358	372
Goods and services	354	489	533	569	577	583	615	641	667	693	719
General Sales Tax	270	292	292	…	317	329	352	368	385	399	414
Taxes on international trade	249	167	158	170	164	161	164	169	175	181	188
Nontax revenue	109	79	112	112	110	113	117	121	125	130	135
Capital revenue	6	3	2	3	6	3	3	3	3	3	3
Grants	**20**	**45**	**30**	**45**	**37**	**30**	**31**	**37**	**41**	**42**	**44**
Total expenditure	**1,264**	**1,206**	**1,258**	**1,209**	**1,225**	**1,276**	**1,322**	**1,367**	**1,415**	**1,466**	**1,519**
Current expenditure	904	953	1,013	1,051	1,057	1,093	1,131	1,171	1,211	1,255	1,300
Wages and salaries	384	403	426	432	439	451	467	484	502	521	540
Pensions	77	83	95	91	99	97	101	104	108	112	116
Goods and services	197	216	215	238	228	240	249	258	267	277	288
Interest payments	85	87	105	112	120	126	129	133	135	138	141
Transfers	161	164	173	178	171	179	186	192	199	207	215
Capital expenditure and net lending	360	253	245	157	168	183	190	197	204	212	220
Capital expenditure	260	251	151	155	155	175	181	188	195	202	210
Domestically financed expenditure (Capital II)	100	114	59	62	66	75	78	80	83	87	90
Foreign financed expenditure (Capital III)	161	137	92	93	89	100	104	107	111	115	120
Net lending	100	3	95	2	13	8	9	9	9	10	10
Primary balance	**-179**	**-68**	**-42**	**87**	**81**	**58**	**68**	**79**	**87**	**90**	**93**
Overall balance	**-264**	**-155**	**-147**	**-25**	**-39**	**-68**	**-61**	**-54**	**-49**	**-48**	**-47**
Financing	**264**	**155**	**147**	**-25**	**39**	**68**	**61**	**54**	**49**	**48**	**47**
Privatization (net)	-135	-196	-153	…	0	0	0	0	0	1	3
Domestic	266	296	270	…	-31	-17	-61	-36	16	67	92
Of which: Amortization	1	1	1	…	0	9	33	42	76	82	81
External	133	54	30	…	70	85	122	90	32	-20	-47
Disbursements	208	134	118	…	157	181	230	213	163	115	89
Amortization	75	80	88	…	87	96	108	123	131	135	136
Memorandum items:											
Primary balance (excluding one-off capital transfer) 3/	**-179**	**-68**	**50**	**87**	**81**	**58**	**68**	**79**	**87**	**90**	**93**
Structural primary balance 3/	-97	-57	66	…	83	64	66	77	86	90	95
Nominal GDP (in BZ$ millions)	3,547	3,641	3,761	3,902	3,875	3,967	4,113	4,258	4,414	4,581	4,754
Public sector debt 4/	2,848	3,418	3,508	…	3,605	3,690	3,805	3,886	3,924	3,959	3,978
Domestic	494	1,022	1,010	…	1,045	1,045	1,011	980	969	1,017	1,089
External	2,354	2,396	2,498	…	2,560	2,645	2,794	2,906	2,955	2,942	2,889

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

1/ Fiscal year ends in March.

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

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

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

Table 2b. Belize: Operations of the Central Government [1/ 2/]

(In percent of GDP; unless otherwise indicated)

	2015/16	2016/17	2017/18	2018/19		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				Projections							
				Budget	Proj.						
Revenue and grants	**28.2**	**28.9**	**29.5**	**30.3**	**30.6**	**30.5**	**30.7**	**30.8**	**31.0**	**31.0**	**31.0**
Revenue	**27.6**	**27.6**	**28.7**	**29.2**	**29.7**	**29.7**	**29.9**	**30.0**	**30.0**	**30.0**	**30.0**
Current revenue	27.5	27.6	28.7	29.1	29.5	29.6	29.8	29.9	30.0	30.0	30.0
Tax revenue	24.4	25.4	25.7	26.2	26.7	26.8	27.0	27.1	27.1	27.1	27.1
Income and profits	7.2	7.2	7.2	7.1	7.4	7.8	7.8	7.8	7.8	7.8	7.8
Goods and services	10.0	13.4	14.2	14.6	14.9	14.7	15.0	15.1	15.1	15.1	15.1
General Sales Tax	7.6	8.0	7.8	...	8.2	8.3	8.5	8.7	8.7	8.7	8.7
Taxes on international trade	7.0	4.6	4.2	4.4	4.2	4.1	4.0	4.0	4.0	4.0	4.0
Nontax revenue	3.1	2.2	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Capital revenue	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	**0.6**	**1.2**	**0.8**	**1.2**	**1.0**	**0.8**	**0.8**	**0.9**	**0.9**	**0.9**	**0.9**
Total expenditure	**35.6**	**33.1**	**33.5**	**31.0**	**31.6**	**32.2**	**32.1**	**32.1**	**32.1**	**32.0**	**32.0**
Current expenditure	25.5	26.2	26.9	26.9	27.3	27.5	27.5	27.5	27.4	27.4	27.3
Wages and salaries	10.8	11.1	11.3	11.1	11.3	11.4	11.4	11.4	11.4	11.4	11.4
Pensions	2.2	2.3	2.5	2.3	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Goods and services	5.6	5.9	5.7	6.1	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Interest payments	2.4	2.4	2.8	2.9	3.1	3.2	3.1	3.1	3.1	3.0	3.0
Transfers	4.5	4.5	4.6	4.6	4.4	4.5	4.5	4.5	4.5	4.5	4.5
Capital expenditure and net lending	10.2	7.0	6.5	4.0	4.3	4.6	4.6	4.6	4.6	4.6	4.6
Capital expenditure	7.3	6.9	4.0	4.0	4.0	4.4	4.4	4.4	4.4	4.4	4.4
Domestically financed expenditure (Capital II)	2.8	3.1	1.6	1.6	1.7	1.9	1.9	1.9	1.9	1.9	1.9
Foreign financed expenditure (Capital III)	4.5	3.8	2.4	2.4	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Net lending	2.8	0.1	2.5	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Primary balance	**-5.1**	**-1.9**	**-1.1**	**2.2**	**2.1**	**1.5**	**1.7**	**1.9**	**2.0**	**2.0**	**2.0**
Overall balance	**-7.5**	**-4.2**	**-3.9**	**-0.7**	**-1.0**	**-1.7**	**-1.5**	**-1.3**	**-1.1**	**-1.0**	**-1.0**
Financing	**7.5**	**4.2**	**3.9**	**-0.7**	**1.0**	**1.7**	**1.5**	**1.3**	**1.1**	**1.0**	**1.0**
Privatization (net)	-3.8	-5.4	-4.1	...	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Domestic	7.5	8.1	7.2	...	-0.8	-0.4	-1.5	-0.9	0.4	1.5	1.9
Of which: Amortization	0.0	0.0	0.0	...	0.0	0.2	0.8	1.0	1.7	1.8	1.7
External	3.8	1.5	0.8	...	1.8	2.1	3.0	2.1	0.7	-0.4	-1.0
Disbursements	5.9	3.7	3.1	...	4.0	4.6	5.6	5.0	3.7	2.5	1.9
Amortization	2.1	2.2	2.3	...	2.2	2.4	2.6	2.9	3.0	2.9	2.9
Memorandum items:											
Primary balance (excluding one-off capital transfer) 3/	**-5.1**	**-1.9**	**1.3**	**2.2**	**2.1**	**1.5**	**1.7**	**1.9**	**2.0**	**2.0**	**2.0**
Structural primary balance 3/	-2.8	-1.6	1.8		2.1	1.6	1.6	1.8	1.9	2.0	2.0
Nominal GDP (in BZ$ millions)	3,547	3,641	3,761	3,902	3,875	3,967	4,113	4,258	4,414	4,581	4,754

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

1/ Fiscal year ends in March.

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

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

Table 3a. Belize: Balance of Payments
(In millions of US dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections					
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of US dollars)									
Current account balance	**-174**	**-152**	**-144**	**-152**	**-157**	**-166**	**-161**	**-163**	**-158**	**-159**
Trade balance	-423	-432	-391	-445	-479	-515	-528	-529	-526	-548
Total exports, f.o.b.	538	443	457	451	463	445	462	497	537	555
Of which: Oil	18	11	14	13	8	4	1	1	1	1
Total imports, f.o.b.	961	875	848	897	942	960	990	1,026	1,063	1,103
Of which: Fuel and lubricants	134	107	130	174	159	153	149	149	152	157
Services	276	293	300	397	402	426	449	451	456	480
Income	-95	-111	-125	-182	-174	-175	-181	-185	-190	-193
Of which: Public sector interest payments	-37	-51	-40	-42	-46	-48	-49	-50	-50	-48
Current transfers	70	98	72	78	94	98	99	101	102	103
Private (net)	73	95	78	90	101	101	103	104	105	107
Official (net)	-4	3	-5	-11	-6	-4	-4	-4	-4	-4
Capital and financial account balance	**124**	**75**	**67**	**136**	**149**	**195**	**171**	**176**	**168**	**170**
Capital transfers	9	16	16	24	20	20	17	17	17	17
Public sector	55	29	47	22	19	67	45	21	-10	-9
Change in assets	1	1	-1	-1	-1	-1	-1	-1	-1	-1
Change in liabilities	55	28	48	23	19	68	46	22	-9	-9
Disbursements	140	69	95	67	67	121	108	90	62	64
Central government	140	65	88	52	56	108	101	83	55	57
Amortization	-88	-41	-44	-45	-48	-53	-62	-68	-71	-72
Central government	-86	-41	-43	-42	-44	-52	-59	-63	-65	-65
Private sector 1/	60	30	4	89	109	109	109	137	161	162
Foreign Direct Investment, net	64	42	24	121	122	95	95	123	147	149
Of which: Repatriation of compensation 2/	0	-98	-131	131	0	0	0	0	0	0
Other private flows	-4	-12	-20	-32	-12	13	14	14	14	13
Commercial banks	-5	23	2	-17	-28	-3	-3	-3	-3	-3
Other private nonbanks	0	-35	-22	-16	16	16	16	17	17	16
Errors and omissions	**0**	**16**	**12**	**-1**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-50**	**-60**	**-65**	**-18**	**-9**	**30**	**11**	**13**	**10**	**11**
Financing	**50**	**60**	**65**	**17**	**9**	**-30**	**-11**	**-13**	**-10**	**-11**
Memorandum items:										
Gross international reserves	437	377	312	294	286	315	326	339	349	360
In percent of gross external financing needs	167	196	166	150	139	144	146	147	152	156
In percent of next year's total debt service	480	436	363	305	282	280	271	278	286	0
In months of imports	4.8	4.2	3.3	3.0	2.8	3.0	3.0	3.0	3.0	3.0

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

1/ Detailed data on private sector flows are not available.
2/ Compensation to former owners of nationalized companies.

Table 3b. Belize: Balance of Payments

(In percent of GDP)

	2015	2016	2017	2018 Prel.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
					Projections					
(In percent of GDP, unless otherwise stated)										
Current account balance	**-9.8**	**-8.4**	**-7.7**	**-7.9**	**-8.0**	**-8.1**	**-7.6**	**-7.4**	**-7.0**	**-6.7**
Trade balance	-24.0	-23.9	-21.0	-23.1	-24.4	-25.2	-25.0	-24.2	-23.2	-23.3
Total exports, f.o.b.	30.5	24.5	24.5	23.4	23.6	21.8	21.9	22.7	23.7	23.6
Of which: Oil	1.0	0.6	0.7	0.7	0.4	0.2	0.0	0.0	0.0	0.0
Total imports, f.o.b.	54.5	48.4	45.5	46.5	48.0	47.1	46.9	46.9	46.9	46.9
Of which: Fuel and lubricants	7.6	5.9	7.0	9.0	8.1	7.5	7.1	6.8	6.7	6.7
Services	15.6	16.2	16.1	20.6	20.5	20.9	21.3	20.6	20.1	20.4
Income	-5.4	-6.1	-6.7	-9.4	-8.9	-8.6	-8.6	-8.5	-8.4	-8.2
Of which: Public sector interest payments	-2.1	-2.8	-2.2	-2.2	-2.3	-2.3	-2.3	-2.3	-2.2	-2.0
Current transfers	4.0	5.4	3.9	4.1	4.8	4.8	4.7	4.6	4.5	4.4
Private (net)	4.2	5.3	4.2	4.6	5.1	5.0	4.9	4.8	4.6	4.5
Official (net)	-0.2	0.2	-0.3	-0.6	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Capital and financial account balance	**7.0**	**4.2**	**3.6**	**7.0**	**7.6**	**9.6**	**8.1**	**8.0**	**7.4**	**7.2**
Capital transfers	0.5	0.9	0.9	1.2	1.0	1.0	0.8	0.8	0.8	0.7
Public sector	3.1	1.6	2.5	1.2	1.0	3.3	2.1	1.0	-0.4	-0.4
Change in assets	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	3.1	1.5	2.6	1.2	1.0	3.3	2.2	1.0	-0.4	-0.4
Disbursements	7.9	3.8	5.1	3.5	3.4	5.9	5.1	4.1	2.7	2.7
Central government	7.9	3.6	4.7	2.7	2.9	5.3	4.8	3.8	2.4	2.4
Amortization	-5.0	-2.3	-2.4	-2.3	-2.4	-2.6	-2.9	-3.1	-3.1	-3.1
Central government	-4.9	-2.3	-2.3	-2.2	-2.2	-2.5	-2.8	-2.9	-2.8	-2.8
Private sector 1/	3.4	1.7	0.2	4.6	5.6	5.3	5.2	6.3	7.1	6.9
Foreign Direct Investment, net	3.6	2.3	1.3	6.3	6.2	4.7	4.5	5.6	6.5	6.3
Of which: Repatriation of compensation 2/	0.0	-5.4	-7.0	6.8	0.0	0.0	0.0	0.0	0.0	0.0
Other private flows	-0.3	-0.7	-1.1	-1.7	-0.6	0.7	0.7	0.6	0.6	0.6
Commercial banks	-0.3	1.3	0.1	-0.9	-1.4	-0.1	-0.1	-0.1	-0.1	-0.1
Other private nonbanks	0.0	-1.9	-1.2	-0.8	0.8	0.8	0.8	0.8	0.7	0.7
Errors and omissions	**0.0**	**0.9**	**0.6**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**-3.3**	**-3.5**	**-0.9**	**-0.4**	**1.4**	**0.5**	**0.6**	**0.5**	**0.5**
Financing	**2.8**	**3.3**	**3.5**	**0.9**	**0.4**	**-1.4**	**-0.5**	**-0.6**	**-0.5**	**-0.5**
Change in reserves (- increase)	2.8	3.3	3.5	0.9	0.4	-1.4	-0.5	-0.6	-0.5	-0.5

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

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

2/ Compensation to former owners of nationalized companies.

Table 4. Belize: Operations of the Banking System

	2015	2016	2017	Prel. 2018	2019	2020	Projections 2021	2022	2023	2024
				(In millions of Belize dollars)						
Central Bank of Belize (CBB)										
Net foreign assets 1/	776	656	527	491	474	533	554	580	601	623
Net international reserves	825	704	578	541	524	583	604	630	650	672
Medium-term foreign liabilities 2/	-50	-48	-51	-50	-50	-50	-50	-50	-50	-50
Net domestic assets	291	398	397	355	388	362	372	380	395	411
Credit to the public sector (net)	206	312	308	274	271	241	220	226	262	310
Central government	207	328	319	281	278	247	224	227	259	303
Other public sector	-2	-16	-11	-7	-7	-6	-4	-1	3	7
Capital and other assets (net)	86	86	89	81	117	121	152	154	133	101
Base money	1,067	1,053	924	846	862	895	926	960	996	1,033
Currency issue	395	418	434	447	484	536	585	643	700	765
Reserves of commercial banks	672	636	489	399	379	359	341	317	296	268
Commercial banks										
Net foreign assets	275	234	231	264	320	325	330	336	341	347
Net claims on central bank	726	694	547	461	439	423	404	384	362	338
Net domestic assets	1,991	2,117	2,261	2,394	2,380	2,476	2,573	2,672	2,779	2,892
Credit to the public sector (net)	-182	-70	102	164	168	141	123	130	164	210
Central government	107	205	291	316	313	282	259	261	291	333
Other public sector	-289	-275	-189	-153	-145	-140	-135	-131	-127	-123
Credit to the private sector	2,224	2,158	2,241	2,313	2,357	2,445	2,531	2,623	2,722	2,825
Other assets (net)	-51	29	-83	-83	-145	-111	-81	-81	-107	-143
Liabilities to the private sector	2,992	3,045	3,039	3,119	3,139	3,224	3,307	3,391	3,482	3,577
Monetary survey										
Net foreign assets	1,051	890	757	755	794	858	885	916	942	969
Net domestic assets	2,282	2,514	2,657	2,749	2,769	2,838	2,945	3,052	3,174	3,303
Credit to the public sector (net)	23	241	410	438	439	382	343	356	427	521
Central government	314	533	610	598	591	529	483	488	550	636
Other public sector	-291	-291	-199	-160	-152	-146	-139	-132	-124	-116
Credit to private sector (by comm. banks)	2,224	2,158	2,241	2,313	2,357	2,445	2,531	2,623	2,722	2,825
Other items (net)	35	115	6	-2	-28	10	71	73	26	-43
Liabilities to the private sector	3,333	3,404	3,415	3,504	3,563	3,696	3,830	3,967	4,116	4,272
Money and quasi-money (M2)	2,924	2,998	2,990	3,067	3,125	3,242	3,356	3,477	3,609	3,745
Currency in circulation	341	359	376	385	424	472	522	576	634	695
Deposits	2,583	2,639	2,614	2,682	2,702	2,770	2,834	2,902	2,975	3,050
Foreign currency deposits	114	103	99	96	97	99	102	104	107	109
Capital and reserves of commercial banks	409	406	424	437	437	454	473	490	507	526
Memorandum items:										
Private sector local currency deposits (growth, percent)	6.1	2.2	-0.9	2.6	0.7	2.5	2.3	2.4	2.5	2.5
Base money (growth, percent)	22.6	-1.3	-12.3	-8.4	1.9	3.7	3.5	3.6	3.8	3.8
Credit to priv. sector by comm. banks (growth, percent)	4.8	-3.0	3.9	3.2	1.9	3.7	3.5	3.6	3.8	3.8
Money and quasi-money growth (M2, percent)	7.3	2.6	-0.3	2.6	1.9	3.7	3.5	3.6	3.8	3.8
Net international reserves to M2 (percent)	28.2	23.5	19.3	17.6	16.8	18.0	18.0	18.1	18.0	18.0
Required cash reserve ratio (percent)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Loan-deposit ratio (percent)	82.5	78.7	82.6	83.3	84.2	85.2	86.2	87.3	88.3	89.4

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

1/ Includes Central Government's foreign assets.

2/ Includes SDR allocation.

Table 5. Belize: Baseline Medium-Term Outlook

					Projections					
	2015			2018 Prel.	2019	2020	2021	2022	2023	2024
				(Annual percentage change)						
GDP and prices										
GDP at constant prices	3.4	-0.6	1.4	3.2	1.5	2.5	1.8	1.7	1.7	1.7
GDP at current market prices	4.1	2.5	3.1	3.5	1.9	3.7	3.5	3.6	3.8	3.8
Prices (GDP deflator)	0.7	3.1	1.6	0.3	0.4	1.2	1.7	1.8	2.0	2.0
Consumer prices (end of period)	-0.6	1.1	1.0	-0.1	0.8	1.6	1.7	2.0	2.0	2.0
				(In percent of GDP, unless otherwise indicated)						
National accounts										
Consumption	84.9	89.7	85.9	82.6	82.9	83.8	83.6	83.5	82.1	81.8
Gross domestic investment 1/	23.5	18.1	19.0	19.9	21.0	20.6	20.1	20.1	21.0	21.1
Net exports	-8.4	-7.7	-4.9	-2.5	-3.9	-4.3	-3.7	-3.6	-3.1	-2.9
Gross national savings	12.6	10.2	10.5	12.0	13.0	12.4	12.5	12.6	14.0	14.3
Central government 2/										
Revenue and grants	28.2	28.9	29.5	30.6	30.5	30.7	30.8	31.0	31.0	31.0
Total expenditure	35.6	33.1	33.5	31.6	32.2	32.1	32.1	32.1	32.0	32.0
Noninterest expenditure	33.3	30.7	30.7	28.5	29.0	29.0	29.0	29.0	29.0	29.0
Primary balance	-5.1	-1.9	-1.1	2.1	1.5	1.7	1.9	2.0	2.0	2.0
Interest	2.4	2.4	2.8	3.1	3.2	3.1	3.1	3.1	3.0	3.0
Overall balance	-7.5	-4.2	-3.9	-1.0	-1.7	-1.5	-1.3	-1.1	-1.0	-1.0
External sector										
Current account balance	-9.8	-8.4	-7.7	-7.9	-8.0	-8.1	-7.6	-7.4	-7.0	-6.7
Of which: Exports of goods and services	63.9	52.5	53.0	55.7	56.0	55.1	55.5	55.6	55.9	55.9
Of which: Petroleum exports	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Imports of goods and services	-72.3	-60.2	-57.9	-58.2	-60.0	-59.4	-59.2	-59.1	-59.0	-58.8
Capital and financial account	7.0	4.2	3.6	7.0	7.6	9.6	8.1	8.0	7.4	7.2
Public sector disbursements	7.9	3.8	5.1	3.5	3.4	5.9	5.1	4.1	2.7	2.7
Public sector amortization	-5.0	-2.3	-2.4	-2.3	-2.4	-2.6	-2.9	-3.1	-3.1	-3.1
Other capital and fin. account transactions 3/	4.1	2.6	0.9	5.9	6.6	6.3	6.0	7.0	7.8	7.6
Change in reserves (- increase)	2.8	3.3	3.5	0.9	0.4	-1.4	-0.5	-0.6	-0.5	-0.5
Gross official reserves (in months of imports)	4.8	4.2	3.3	3.0	2.8	3.0	3.0	3.0	3.0	3.0
Public debt 4/	**80.8**	**94.7**	**94.5**	**93.8**	**94.2**	**93.6**	**92.4**	**90.0**	**87.6**	**84.8**
Domestic	14.0	28.3	27.1	27.1	26.6	24.8	23.2	22.2	22.4	23.1
External	66.8	66.4	67.4	66.7	67.6	68.8	69.2	67.9	65.2	61.7

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

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

Annex I. Implementation of 2018 Article IV Consultation Recommendations

2018 Article IV Recommendation	Implementation
Fiscal consolidation Gradually raise the primary balance to 4 percent of GDP with a combination of revenue and expenditure measures, including broadening the tax base and reducing current expenditure. Implement pension reform, including raising contribution rates.	**Some progress** The primary fiscal surplus reached 2.1 percent of GDP in FY2018/19, a 4 percent of GDP rise from the FY2016/17 level. The FY2019/20 budget, approved by parliament, targeted a primary fiscal surplus of just above 2 percent of GDP but recent data suggest that the budget's target is at risk. Start of phased rise in pension contribution rate implemented in July 2019.
Financial sector reform Keep the financial system under tight supervision and continuing addressing banking sector vulnerabilities, including by raising provisioning requirements, maintaining restrictions on a systemic bank, and conducting an asset quality review of all banks to assess the strength of capital buffers. Strengthen the bank resolution legal framework.	**Significant progress** The Central Bank of Belize (CBB) has taken resolute actions, placing two troubled banks into liquidation, and conducting on-site examinations on a number of domestic banks, international banks, and credit unions to assess compliance with regulations. The CBB received IMF technical assistance for strengthening contingency planning and the bank resolution framework.
AML/CFT reforms Further strengthen the effectiveness of the AML/CFT framework and support the recovery of (correspondent banking relations (CBRs) by enhancing entity transparency, requiring a physical presence of institutions licensed the International Financial Services Commission (IFSC), improving the CBB's capacity to conduct risk-based supervision of banks, licensed financial operators in the international financial services sector, and registered agents and trust services.	**Some progress** The CBB has stepped up examinations to ensure compliance with AML/CFT regulations and received IMF technical assistance for strengthen the AML/CFT framework and its enforcement.
Structural reform Accelerate the implementation of growth-enhancing reforms to improve the business climate, including reducing the cost of doing business and establishing a credit bureau and a credit/collateral registry.	**Limited progress** Legislation to establish a credit bureau and a credit/collateral registry are yet to be submitted to parliament.
Resilience building Build resilience to natural disasters through adaptation infrastructure investment, greater self- insurance through a natural disaster reserve fund, and optimized use of risk management instruments.	**Some progress** The authorities are investing about half of the capital expenditure budget to resilience-building projects and have secured an IDB contingent line of credit.

Annex II. External Stability Assessment

The external stability assessment indicates that Belize's external position is weaker than the level consistent with medium-term fundamentals and desirable policy settings. The analysis reveals policy and structural gaps, and underscores the importance of fiscal policy adjustment, banking sector reforms, and structural measures that enhance growth to address these gaps. International reserves, at around 3 months of imports of goods and services, are below risk-weighted adequacy metrics and are expected to remain so over the medium-term. The external position remains susceptible to adverse shocks to global growth, weather-related damages, and a materialization of contingent liabilities. Accelerating structural and fiscal reforms and mitigating natural disaster and climate change risks would address these vulnerabilities and increase reserves to more prudent levels over the medium-term.

1. Analysis based on the external stability (ES) approach indicates continued weakness in the external position under the staff's baseline medium-term macroeconomic assumptions. The ES approach assumes adjusting the NFA position from -135.9 percent of GDP at end-2018 to -95 percent of GDP by 2028 in the first scenario and to -90 percent by 2028 in the alternative scenario. Achieving these debt-stabilizing NFA levels would require reducing the current account deficit to 2.3 percent of GDP in the first scenario and to 1.9 percent of GDP in the alternative scenario (Table 1).[1] The current account deficit remains above these levels under staff's baseline assumptions, giving rise to REER gaps. The estimated REER gap peaks in 2019 at 14.5 percent in the first scenario and 15.4 percent in the alternative scenario and declines to about 11 percent and 11.9 percent, respectively, by end-2024. In the absence of additional reforms, including fiscal consolidation, the current account and REER gaps persist and the external position remains vulnerable to adverse shocks.

2. The results of the external balance (EBA-lite) approach are broadly consistent with those of the ES analysis and suggest that external imbalances reflect fiscal and structural policy gaps. The EBA-lite methodology identifies policy gaps that contribute to external imbalances. The EBA-lite results indicate a current account gap of 3.6 percent and a REER gap of 9 percent, which are mainly attributable to policy gaps (1.8 percent of GDP). The residual (1.8 percent of GDP) could be attributed to structural gaps. The fiscal policy adjustment and banking sector reforms recommended by staff would close the policy gaps related to fiscal policy and private credit. Accelerating the implementation of growth-enhancing reforms, including improvements to the business climate, and intensifying efforts to build resilience to natural disasters would significantly reduce the structural gaps.

3. Adverse shocks to the financial account could put pressure on reserves. The reduced debt service burden following the debt restructuring and fiscal policy adjustment agreed with bondholders in March 2017 has alleviated pressures on international reserves. However, a larger trade deficit and higher profit repatriation, which offset upturns in tourism earnings and remittance inflows in 2018, reduced reserves to 3 months of imports of goods

[1] The ES approach is based on staff's baseline GDP growth assumptions.

and services at end-2018, from 3.3 months at end-2017. Downside risks remain over the medium term, including from contingent liabilities. The government continues to contest various legacy claims, estimated at about US$117 million (5.9 percent of GDP). Financial inflows under the PetroCaribe agreement declined to zero in 2018.

Table 1. Belize: External Stability Assessment

(In percent of GDP, unless otherwise indicated)

	External Sustainability Approach (ES)		External Balance Assessment (EBA-lite)
	Baseline Reducing NFA to below -95 percent of GDP by 2027	Alternative scenario Reducing NFA to below -90 percent of GDP by 2027	Baseline
Equilibrium external current account (CA) 1/	-2.3	-1.9	-4.3
Underlying CA balance 2/	[-6.7 -8.1]	[-6.7 -8.1]	-7.9
CA elasticity to REER 3/	-0.40	-0.40	-0.40
Implied REER adjustment 4/ (in percent, "+" appreciation)	[-11.0 -14.5]	[-11.9 -15.4]	-9.0
Memo items			
Current account gap			-3.6
of which policy gap			-1.8

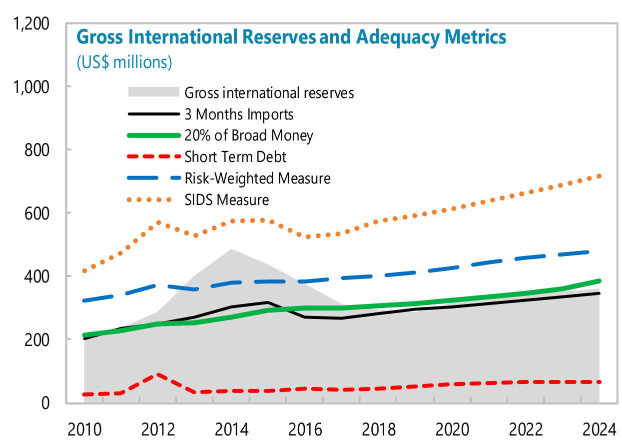
1/ Equilibrium CA is defined as the CA that will bring NFA to the desired level in the ES approach and as the CA norm in the EBA-lite approach.

2/ The values in brackets show the minimum and maximum projected current account deficits in the 2019-24 period for the ES approach and the estimated current account balance to GDP in 2019 for the EBA-lite approach.

3/ This elasticity is computed using the standard long-run real exchange rate elasticities for imports (0.29) and exports (-0.44), as well as the medium-term values of Belize's exports and imports of goods and services (in percent of GDP).

4/ The brackets indicate the minimum and maximum adjustment needed to bring the current account in line with the norm in the 2019-24 period.

4. **Both traditional and risk-weighted adequacy metrics suggest that international reserves are uncomfortably low in the baseline scenario without additional policy adjustment.** In the baseline scenario, reserves fall slightly below the traditional metric of 3 months of imports of goods and services in 2019 and 2020 due to setbacks in agricultural exports associated with a severe drought in 2019 (Figure 1 and Table 2). Reserves also remain below three risk-weighted adequacy metrics over the medium term. The first risk-weighted metric indicates that reserves would decline to 69 percent of the level considered adequate at end-2019



and 75 percent of that level by 2024. The second measure, calibrated for small island developing states (SIDS), indicates that reserves would be at 48 percent of the adequacy threshold at end-2019, and at 50 percent at end-2024.[2] The third measure—20 percent cover of broad money—indicates that reserves would decline to 97 percent of the level considered adequate at end-2019 and 94 percent 2024.

Table 2. Belize: Ratios of Reserves to Optimal Reserves Based on Various Measures
(In percent)

	Risk-Weighted Measure 1/	SIDS Measure 2/	3 months of Imports	20% of Broad Money	Short Term Debt
2015	114	76	161	150	1,137
2016	99	72	140	126	849
2017	79	58	111	104	740
2018	73	51	100	96	633
2019	69	48	94	91	551
2020	74	51	101	97	521
2021	74	51	101	97	512
2022	74	51	102	98	513
2023	75	51	101	97	522
2024	75	50	101	94	537
Adequate Region	100-150	75-100	100	100	100

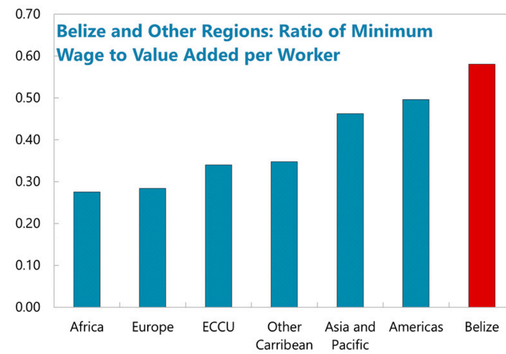
1/ Risk-Weighted Measure = 30% of STD at remaining maturity + 15% of other portfolio liabilities + 10% of broad money + 10% of exports (goods).

2/ SIDS = 95% of STD at remaining maturity + 10% of broad money + 35% of exports (goods and services).

5. **In the absence of nominal exchange rate flexibility, narrowing the policy gaps requires fiscal adjustment and structural reforms to strengthen productivity and external competitiveness**. The room for nominal exchange rate adjustment is constrained by the peg and high foreign currency denominated debt. In this context, a nominal exchange rate adjustment could significantly increase the debt burden and require an even steeper fiscal adjustment to restore external balance. A combination of fiscal adjustment and structural reform measures as illustrated in the active scenario will improve the reserve adequacy metrics, strengthen the country's external position, and reinforce the sustainability of the exchange rate peg.

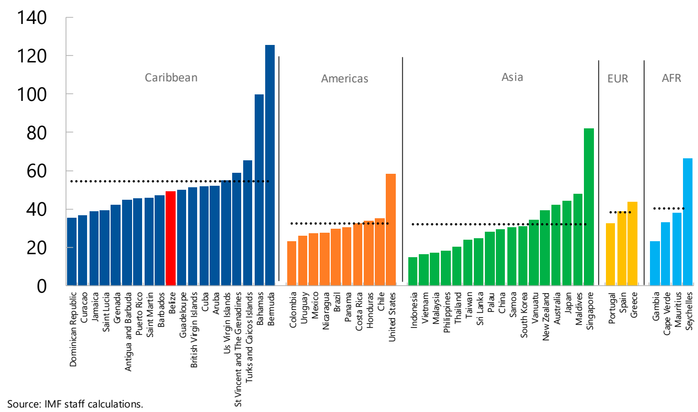
[2] The SIDS metric combines different reserve needs taking into account small state specificities, including vulnerability to natural disasters.

6. Belize continues to maintain its competitiveness in tourism. Tourism prices, as reflected in the lower cost of a one-week vacation based on the Fund staff's "Week at the Beach" Index, remained below the Caribbean average.[3] Belize's domestic electricity costs are among the lowest in the region. Nonetheless, other costs of doing business, and the ratio of minimum wages to value added per worker are high, underscoring the need for further educational, training, and institutional reforms to boost productivity and efficiency.



Sources: World Bank, *Doing Business 2018.*

Week at the Beach Index, December 2018 1/
(12 month moving average, Bahamas=100)



Source: IMF staff calculations.
1/ "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations. The Index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer. Dotted lines indicate regional averages.

[3] See Laframboise, Mwase, Park and Zhou (2014) for more details on the compilation of the "Week-at-the-Beach" index.

Annex III. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood**	**Impact**	**Policy Response**
Weaker-than-expected global growth. Economic slowdown in the U.S.	↓	Medium	High	Build fiscal and external buffers to offset potential shocks and accelerate structural reforms to support investment and growth.
Sharp rise in risk premia. An abrupt deterioration in market sentiment (e.g., prompted by policy surprises, renewed stresses in emerging markets, or a disorderly Brexit) could trigger risk-off events such as recognition of underpriced risk.	↓	High	Medium	Keep the financial sector under tight supervision, strengthen oversight and AML/CFT actions, and reduce external imbalances to build international reserves.
Large swings in energy prices.	↓	Medium	Medium	Reprioritize government spending to support the most vulnerable individuals.
Higher frequency and severity of natural disasters.	↓	Medium	High	Invest in climate resilient infrastructure, set up a natural disaster reserve fund, optimize risk management.
Further pressure on CBRs.	↓	High	High	Ensure systematic monitoring of CBRs and communication with global banks and standard setters. Strengthen AML/CFT actions.
Significant deterioration in the quality of banks' credit portfolio.	↓	Low	Medium	Strengthen risk-based supervision, introduce emergency liquidity assistance, and fortify bank resolution framework.
Higher-than-expected contingent liabilities. The government continues to contest legacy claims.	↓	Medium	High	Build fiscal buffers through fiscal consolidation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline scenario. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Debt Sustainability Analysis

Despite the significant fiscal adjustment amounting to 4 percent of GDP since the 2017 debt restructuring agreement, Belize's public debt remains high and its sustainability subject to risks, including from shocks to growth, interest rates, and the fiscal policy stance. The restructuring provided cash flow relief and NPV reductions, but not face value reductions.[1] *Debt is projected to decline to about 85 percent over the medium term, from 94 percent of GDP at end-2018. Reducing the debt ratio further over the long term will require structural reforms to boost economic growth and additional fiscal consolidation. Belize is expected to depend on domestic financing for the most part to meet its gross financing requirements in the near–medium term, as access to external financial markets will be limited. External debt is projected to gradually decline, with low refinancing risk due to the reprofiling of the external commercial debt.*

Macroeconomic Framework

1. **The baseline macroeconomic outlook remains challenging.** Real GDP growth is projected to average 1.9 percent during the period 2020-2024 in the baseline scenario. The current account deficit is projected to narrow but remain large over the medium term, with international reserves below the levels indicated by standard adequacy metrics.

2. **The authorities are expected to continue relying on mainly domestic financing and loans contracted with multilateral and bilateral development partners to meet gross financing needs.** The debt sustainability analysis (DSA) assumes no new issuance of external commercial debt given the recent debt restructuring. Nominal interest rates on government borrowing are expected to gradually rise over the medium term from their low levels, which reflect a substantial share of concessional debt and the interest rate relief from the 2017 debt restructuring. Over the medium term, gross financing needs are expected to remain below the 2016–17 level, reflecting improvements in the fiscal policy stance, and the cash flow relief from the 2017 restructuring.

3. **There appears to be little systematic bias in the projections for real GDP growth in recent years, with larger forecast errors for the primary fiscal balance and inflation (Figure 2).** The median forecast error (MFE) for GDP was -0.07 percentage point (corresponding to the 67th percentile of the sample of surveillance-case economies). The MFE for inflation projections was -0.58 percentage point (corresponding to the 39th percentile). The MFE for the primary fiscal balance was -1.37 (25th percentile).

[1] On March 23, 2017, the authorities completed restructuring of the private external commercial debt (US$526 million, or about 30 percent of GDP) which reduced the coupon rate on the bond to 4.9375 percent (the rate under the existing contract was set to step up from 5 to 6.767 percent in August 2017), and amended the amortization schedule by pushing back principal repayments to 2030-34 (instead of semiannual installments beginning in August 2019). See 2017 Belize Article IV Staff Report, IMF Country Report 17/286 for further details.

Public Debt

4. Based on the staff's baseline macroeconomic assumptions, Belize's public debt is projected to decline but remain elevated over the medium term (Figure 3 and 4). Public debt is projected at 94.2 percent of GDP in 2019 and 92.8 percent in 2020. By the end of the forecast period (2024), public debt is projected to fall to 84.8.2 percent of GDP, reflecting the government's commitment to restoring the primary fiscal surplus to 2 percent of GDP, as well as automatic debt dynamics.

5. Risks to debt sustainability remain high (Figure 1). Subjecting the baseline scenario to stress testing indicate that Belize's debt burden exceeds the benchmark for emerging markets in several areas. The heat map highlights significant risks to debt sustainability arising from changes in market perceptions (high spreads), and the currency composition of Belize's debt. Risks to gross financial requirements and to the residency of debt holders have moderated with the 2017 debt restructuring, as the share of short-term debt in total debt stabilized at around 30 percent. The fan charts indicate the possible evolution of debt over the medium term under both symmetric and asymmetric distributions of risk. Symmetric and asymmetric fan charts show that public debt could exceed 100 percent of GDP in the medium term with a probability of more than 25 percent.

6. Public debt continues to be exposed to adverse developments as highlighted by stress tests (Figure 5). The debt trajectory is particularly sensitive to an exchange rate shock, since almost 70 percent of total public debt is still denominated in foreign currency. A 10 percent real depreciation would increase total public debt to 97.9 percent of GDP in the first year and keep the debt-to-GDP ratio about 5 percentage points more than the baseline scenario over the medium term. Similarly, if GDP growth were to decline by one standard deviation, total public debt would end up almost 4.5 percentage points higher than the baseline projection over the medium term. A financial sector contingent liability shock that increases public spending by the equivalent of 10 percent of banking sector's assets associated with recapitalization needs of a few banks would raise total public debt to 99.6 percent of GDP. Since Belize is already dealing with various legacy claims, estimated at about US$100 million (about 5.4 percent of GDP), a contingent liability shock could lead to large public and external financing needs.

7. Belize's debt outlook is especially vulnerable to the impact of natural disasters and climate change. To illustrate this vulnerability, the staff scenario (Figure 5) assumes that a natural disaster causes 6 percent of GDP in economic damages, about half the size of the economic damage inflicted by Hurricane Earl in 2016. Following a disaster of such magnitude, real GDP is assumed to decline by 3 percent in the year of the disaster, compared to baseline, by a further 1 percent in the next year, and to accelerate by ½ percentage point in the following two years (reflecting reconstruction activity).[2] The scenario assumes that the cost borne by the government is, based on historical accounting, ⅔ of the economic damage, corresponding here to 4 percent of GDP. The associated government recovery and reconstruction expenditure is

[2] These assumptions are consistent with estimates of the relation between growth and natural disasters in IMF (2017) (Chapter 2, "Reinvigorating Growth in the Caribbean").

assumed to be spread over 3 years: 2 percent of GDP in the first year, and 1 percent of GDP in each of the next two years, respectively. The shock would have a material impact on government debt, shifting the entire trajectory up by around 6 percent of GDP above the baseline, with government debt at 90 percent of GDP by end-2024. Belize is also, as other Caribbean countries, exposed to adverse effects of climate change, which could weaken potential growth over the longer term and increase pressure on the government debt-to-GDP ratio. To prepare for the prospect of more frequent and intense natural disasters, Belize should increase self-insurance through a natural disaster reserve fund and manage remaining risks cost-effectively managed through a mix of risk-transfer and risk-retention instruments, such as ex-ante contingent lines of credit and optimized participation in regional insurance options.

External Debt

8. The external debt-to-GDP ratio is projected to gradually decline over the medium term from 67 percent of GDP in 2018 to 62 percent of GDP by 2024 (Figure 6 and Table 1).[3] Bound tests suggest that external debt is mostly sensitive to exchange rate and current account shocks. Under a hypothetical 30 percent depreciation of the national currency in 2019, external debt would rise to 99 percent of GDP in 2020 and remain elevated at 88 percent of GDP over the medium term. Further vulnerability stems from a non-interest current account shock that would keep the external debt at 73 percent of GDP over the medium term. An extreme two-standard deviation reduction in growth would raise external debt to 70 percent of GDP by 2024. A combined one-quarter standard deviation shock would keep the external debt at 69 percent by 2024. The residuals (2-3 percent of GDP) that account for most of the decline in the external debt-to-GDP ratio over the medium term reflect the expected use of reserves to service debt.

Assessment

9. Under the baseline scenario, Belize's public debt is projected to decline over the medium term, reflecting a tight fiscal stance and modest gains from automatic debt dynamics. Nonetheless, debt will remain elevated and the baseline scenario is vulnerable to adverse developments. The 2017 debt restructuring eased the debt service burden, and refinancing risks are expected to remain low. External debt is expected to gradually decline over the medium term, mainly reflecting non-debt creating inflows. Results from bound tests highlight the exposure of external public debt to various shocks, especially to the exchange rate.

10. Structural reforms to raise growth over the medium term and additional fiscal consolidation are needed to mitigate vulnerabilities and further improve the debt outlook. Staff recommends gradually raising the primary surplus to about 4 percent of GDP over the medium term to reduce public debt to prudent levels over the long term (see staff active scenario). Reforms to improve public debt management are also needed.

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

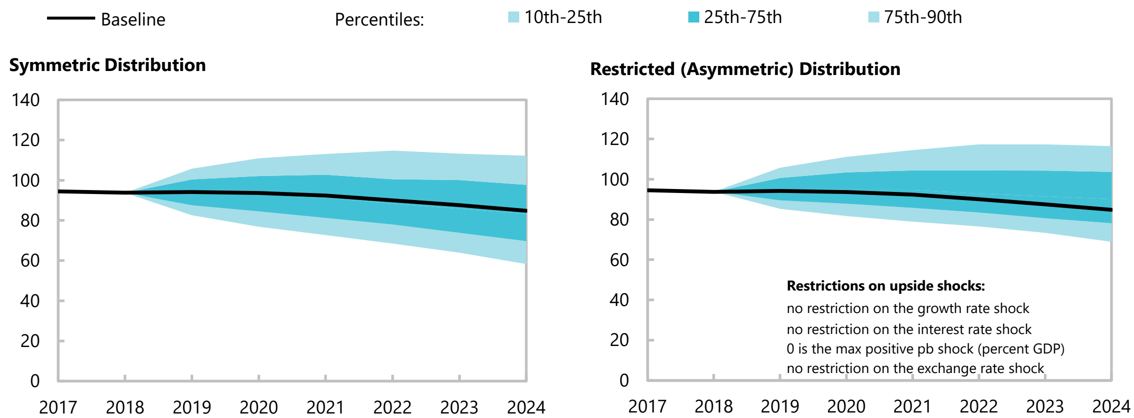
Figure 1. Belize: Public DSA Risk Assessment

Heat Map

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

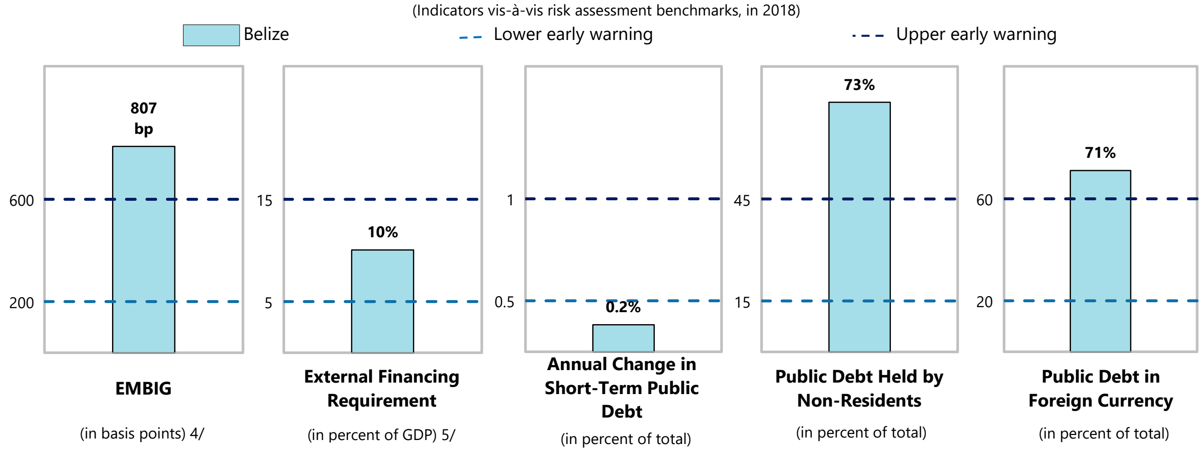
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

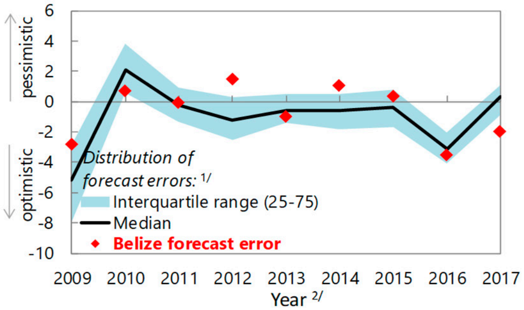
4/ EMBIG, an average over the last 3 months, 06-Apr-19 through 05-Jul-19.

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

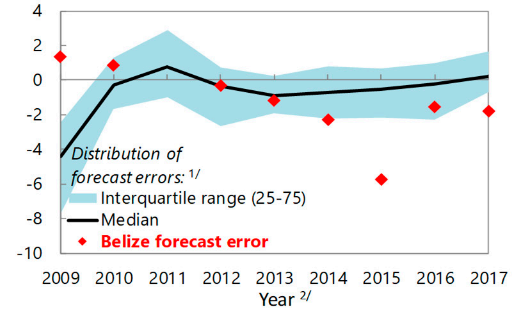
Figure 2. Belize: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

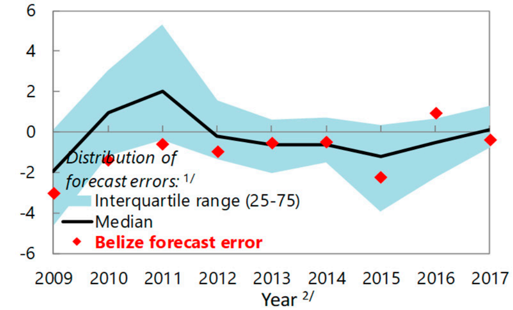
Real GDP Growth
(in percent, actual-projection)
Belize median forecast error, 2009-2017: -0.07
Has a percentile rank of: 67%



Primary Balance
(in percent of GDP, actual-projection)
Belize median forecast error, 2009-2017: -1.37
Has a percentile rank of: 25%

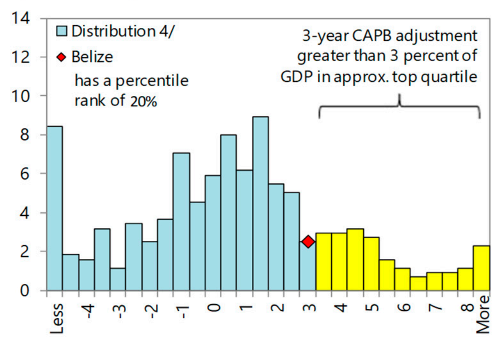


Inflation (Deflator)
(in percent, actual-projection)
Belize median forecast error, 2009-2017: -0.58
Has a percentile rank of: 39%

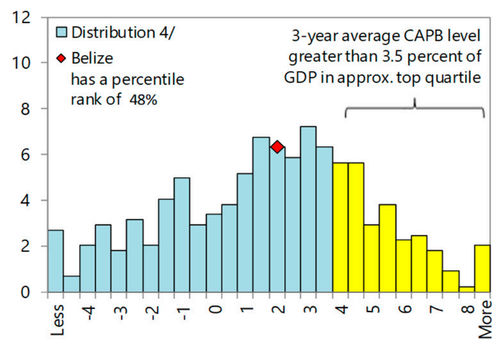


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

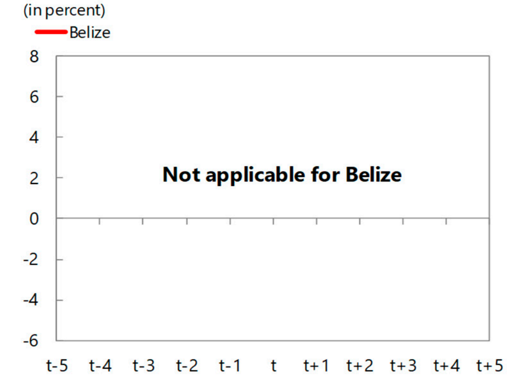


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Belize, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Belize Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

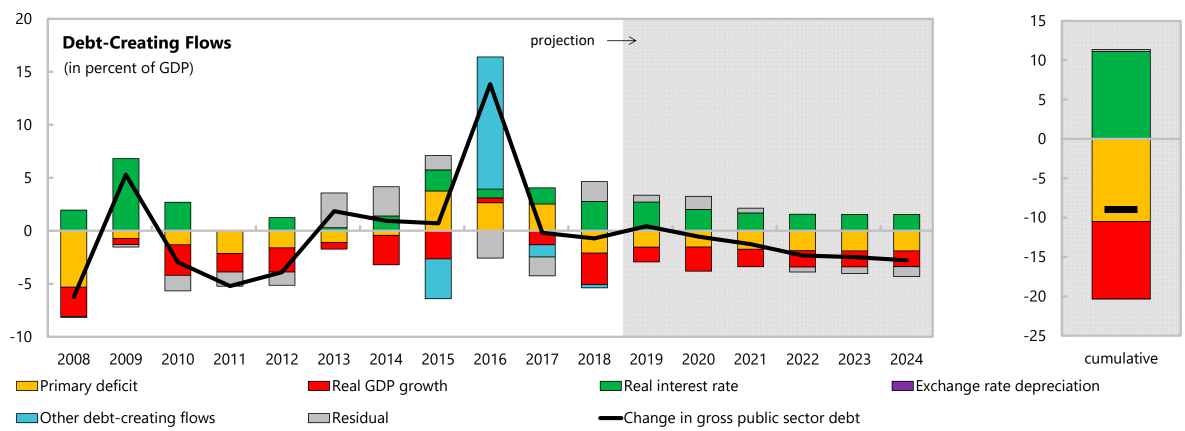
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	83.7	94.5	93.8	94.2	93.6	92.4	90.0	87.6	84.8
Public gross financing needs	5.2	8.0	3.1	3.9	4.7	5.3	6.2	6.9	7.8
Real GDP growth (in percent)	2.2	1.4	3.2	1.5	2.5	1.8	1.7	1.7	1.7
Inflation (GDP deflator, in percent)	1.6	1.6	0.3	0.4	1.2	1.7	1.8	2.0	2.0
Nominal GDP growth (in percent)	3.8	3.1	3.5	1.9	3.7	3.5	3.6	3.8	3.8
Effective interest rate (in percent) [4/]	4.0	3.3	3.3	3.3	3.5	3.6	3.6	3.8	3.9

As of July 05, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		836
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B-	B-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.5	-0.2	-0.7	0.4	-0.5	-1.3	-2.3	-2.5	-2.8	-9.0	
Identified debt-creating flows	0.4	1.6	-2.6	-0.2	-1.8	-1.7	-1.8	-1.9	-1.8	-9.2	
Primary deficit	-0.7	2.5	-2.1	-1.6	-1.5	-1.7	-1.9	-1.9	-1.9	-10.5	0.1
Primary (noninterest) revenue and grants	27.9	29.3	30.3	30.5	30.5	30.7	30.9	30.9	30.9	184.5	
Primary (noninterest) expenditure	27.3	31.8	28.2	29.0	29.0	29.0	29.0	29.0	29.0	174.0	
Automatic debt dynamics [5/]	0.2	0.2	-0.2	1.3	-0.3	0.0	0.0	0.0	0.1	1.3	
Interest rate/growth differential [6/]	0.2	0.2	-0.2	1.3	-0.3	0.0	0.0	0.0	0.1	1.3	
Of which: real interest rate	1.9	1.5	2.8	2.7	2.0	1.7	1.6	1.6	1.6	11.1	
Of which: real GDP growth	-1.8	-1.3	-3.0	-1.4	-2.3	-1.7	-1.5	-1.5	-1.5	-9.8	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.0	-1.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization and drawdown of deposits (negative)	-0.9	-1.9	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	1.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.0	-1.8	1.9	0.6	1.3	0.4	-0.5	-0.6	-0.9	0.3	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

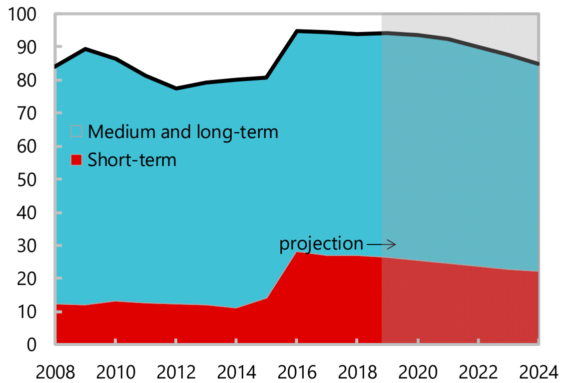
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

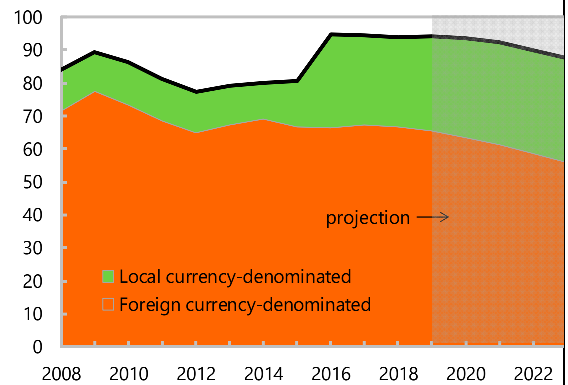
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

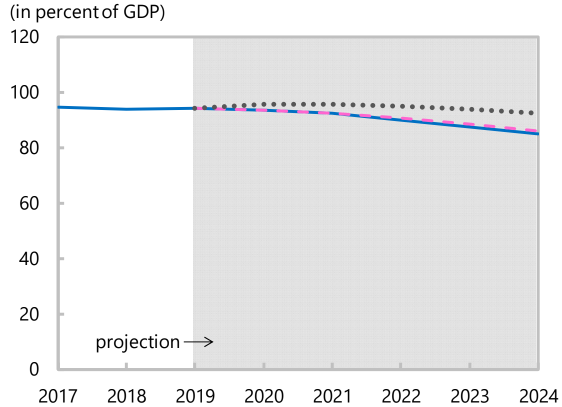


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

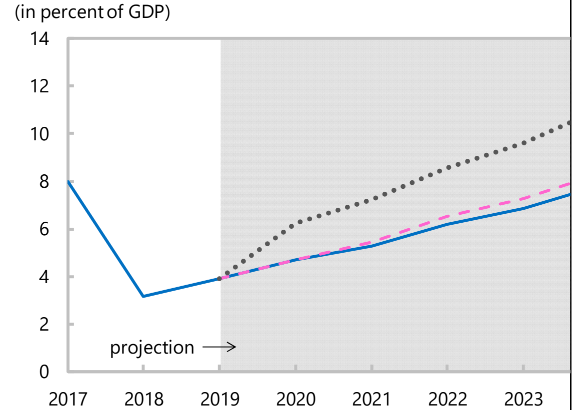
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

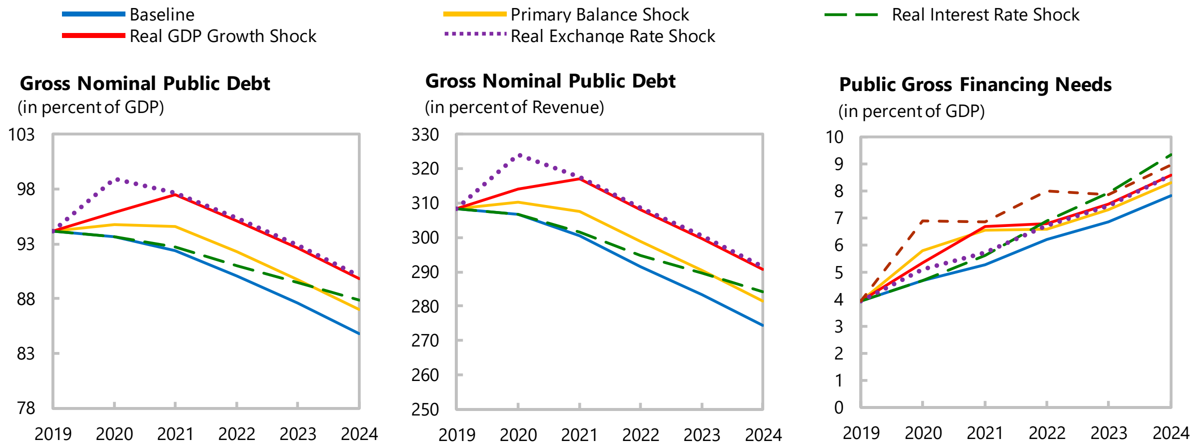
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	1.2	1.7	1.8	2.0	2.0
Primary Balance	1.6	1.5	1.7	1.9	1.9	1.9
Effective interest rate	3.3	3.5	3.6	3.6	3.8	3.9
Constant Primary Balance Scenario						
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	1.2	1.7	1.8	2.0	2.0
Primary Balance	1.6	1.6	1.6	1.6	1.6	1.6
Effective interest rate	3.3	3.5	3.6	3.6	3.8	3.9

Historical Scenario	2019	2020	2021	2022	2023
Real GDP growth	1.5	2.1	2.1	2.1	2.1
Inflation	0.4	1.2	1.7	1.8	2.0
Primary Balance	1.6	0.0	0.0	0.0	0.0
Effective interest rate	3.3	3.5	3.6	3.7	3.8

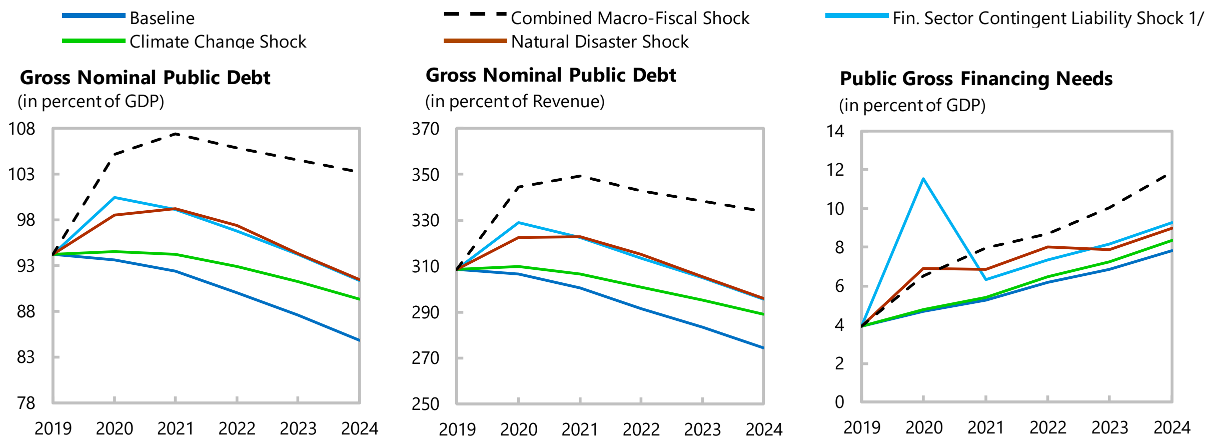
Source: IMF staff.

Figure 5. Belize: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

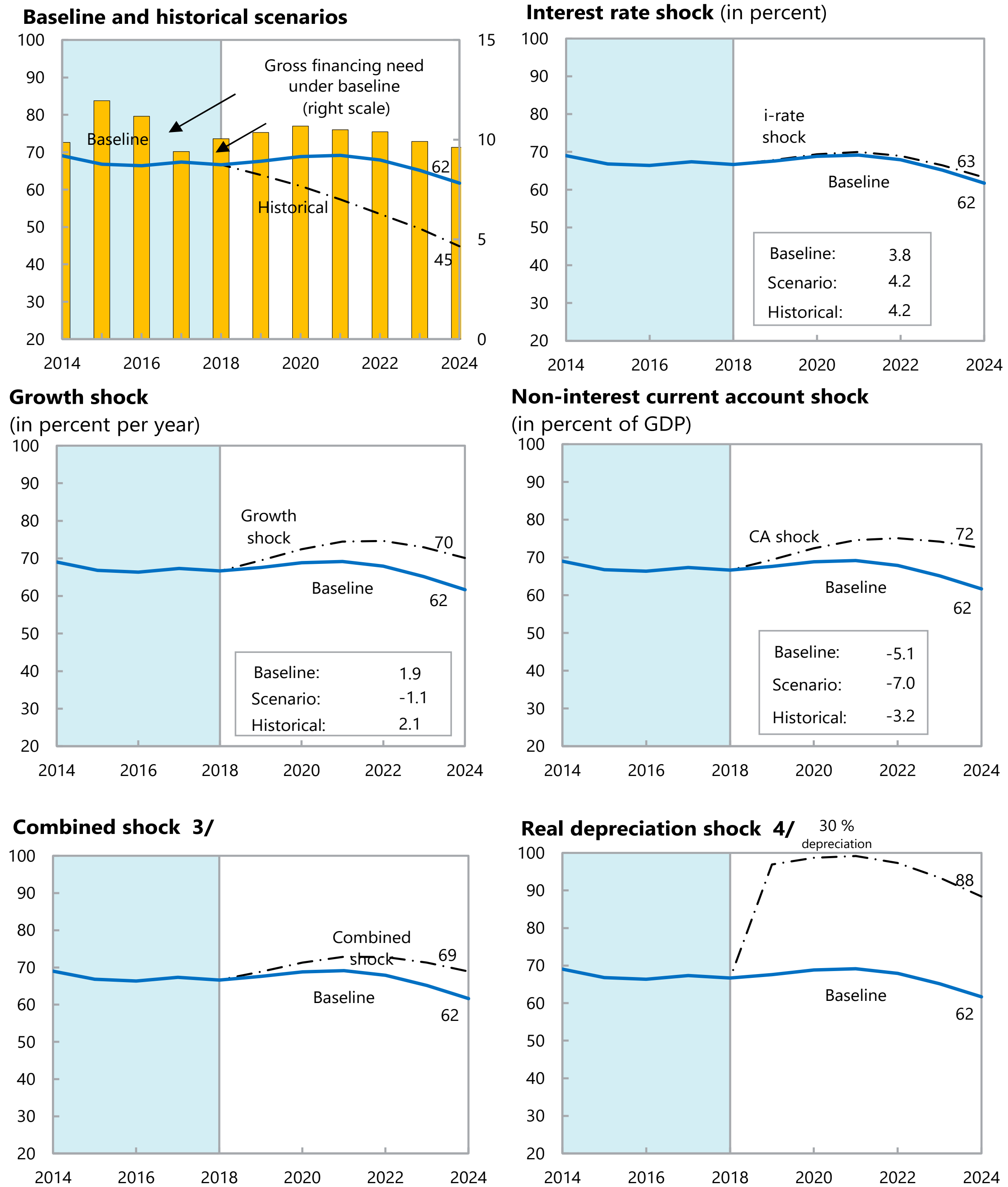
	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	1.2	1.7	1.8	2.0	2.0
Primary balance	1.6	0.5	0.6	1.9	1.9	1.9
Effective interest rate	3.3	3.5	3.6	3.7	3.8	3.9
Real Interest Rate Shock						
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	1.2	1.7	1.8	2.0	2.0
Primary balance	1.6	1.5	1.7	1.9	1.9	1.9
Effective interest rate	3.3	3.5	3.9	4.4	4.9	5.2
Combined Shock						
Real GDP growth	1.5	1.0	0.4	1.7	1.7	1.7
Inflation	0.4	0.8	1.3	1.8	2.0	2.0
Primary balance	1.6	0.5	0.6	1.9	1.9	1.9
Effective interest rate	3.3	3.8	4.0	4.5	5.0	5.3

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	1.5	1.0	0.4	1.7	1.7	1.7
Inflation	0.4	0.8	1.3	1.8	2.0	2.0
Primary balance	1.6	1.0	0.7	1.9	1.9	1.9
Effective interest rate	3.3	3.5	3.6	3.7	3.8	3.9
Real Exchange Rate Shock						
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	4.5	1.7	1.8	2.0	2.0
Primary balance	1.6	1.5	1.7	1.9	1.9	1.9
Effective interest rate	3.3	3.8	3.6	3.6	3.8	3.9
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	1.5	2.5	1.8	1.7	1.7	1.7
Inflation	0.4	1.2	1.7	1.8	2.0	2.0
Primary balance	1.6	-5.1	1.7	1.9	1.9	1.9
Effective interest rate	3.3	3.6	3.5	3.6	3.7	3.8

Source: IMF staff.

Figure 6. Belize: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Table 1. Belize: External Debt Sustainability Framework, 2014–2024

(In percent of GDP, unless otherwise indicated)

	Actual														
	2014	2015	2016	2017	2018	10-Year Historical Average	10-Year Standard Deviation	2019	2020	2021	2022	2023	2024	For debt stabilization	Debt-stabilizing non-interest current account 6/
Baseline: External debt	69.0	66.8	66.4	67.4	66.7			**67.6**	**68.8**	**69.2**	**67.9**	**65.2**	**61.7**		**-6.4**
Change in external debt	1.8	-2.2	-0.4	1.0	-0.7			0.9	1.2	0.3	-1.3	-2.7	-3.5		
Identified external debt-creating flows (4+8+9)	-3.6	3.8	5.7	3.7	-0.7			0.8	1.8	1.9	0.7	-0.7	-0.7		
Current account deficit, excluding interest payments	5.4	7.6	6.1	4.8	5.6			5.5	5.7	5.1	4.9	4.5	4.5		
Deficit in balance of goods and services	4.0	8.4	9.0	2.6	2.5			3.9	4.3	3.7	3.6	3.1	2.9		
Exports	68.1	63.9	51.2	55.8	55.7			56.0	55.1	55.5	55.6	55.9	55.9		
Imports	72.1	72.3	60.2	58.3	58.2			60.0	59.4	59.2	59.1	59.0	58.8		
Net non-debt creating capital inflows (negative)	-8.2	-3.3	-1.7	-1.4	-6.3			-6.2	-4.7	-4.5	-5.6	-6.5	-6.3		
Automatic debt dynamics 1/	-0.9	-0.5	1.3	0.3	0.0			1.6	0.8	1.3	1.4	1.3	1.2		
Contribution from nominal interest rate	2.5	2.2	2.9	2.3	2.3			2.5	2.4	2.5	2.5	2.4	2.3		
Contribution from real GDP growth	-2.4	-2.3	0.4	-0.9	-2.1			-1.0	-1.6	-1.2	-1.2	-1.1	-1.1		
Contribution from price and exchange rate changes 2/	-1.0	-0.4	-2.0	-1.1	-0.2			...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	5.5	-6.0	-6.1	-2.7	0.0			0.1	-0.6	-1.6	-1.9	-2.1	-2.8		
External debt-to-exports ratio (in percent)	101.3	104.5	129.6	120.8	119.8			120.6	124.9	124.7	122.2	116.5	110.3		
Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		
in percent of GDP	9.9	12.0	11.2	9.4	10.1			10.4	10.7	10.5	10.4	9.9	9.6		
Scenario with key variables at their historical averages 5/					**66.7**			**63.9**	**60.9**	**57.3**	**53.5**	**49.6**	**44.9**		**-6.4**
Key Macroeconomic Assumptions Underlying Baseline															
Real GDP growth (in percent)	3.7	3.4	-0.6	1.4	3.2	2.1	1.5	1.5	2.5	1.8	1.7	1.7	1.7	1.7	
GDP deflator in US dollars (change in percent)	1.5	0.7	3.1	1.6	0.3	1.6	1.9	0.4	1.2	1.7	1.8	2.0	2.0	2.0	
Nominal external interest rate (in percent)	3.9	3.3	4.5	3.5	3.5	4.2	0.8	3.9	3.7	3.7	3.8	3.7	3.6	3.6	
Growth of exports (US dollar terms, in percent)	9.1	-2.3	-17.9	12.3	3.3	3.0	11.7	2.6	2.0	4.2	3.8	4.5	3.7		
Growth of imports (US dollar terms, in percent)	12.6	4.5	-14.6	-0.2	3.2	3.8	12.3	5.0	2.8	3.1	3.5	3.6	3.5		
Current account balance, excluding interest payments	-5.4	-7.6	-6.1	-4.8	-5.6	-3.2	3.6	-5.5	-5.7	-5.1	-4.9	-4.5	-4.5		
Net non-debt creating capital inflows	8.2	3.3	1.7	1.4	6.3	6.6	3.9	6.2	4.7	4.5	5.6	6.5	6.3		

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

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

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

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

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

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

Annex V. Statistical Issues

1. **Data quality is broadly adequate for surveillance but the timeliness of compiling final fiscal, real, and external sector outcomes should be improved.** Priorities include addressing remaining statistical weaknesses, including in the compilation of the national accounts, the international investment position, and consolidated public-sector statistics. Participation in the Fund's Enhanced General Data Dissemination System (e-GDDS) with the establishment of a National Summary Data Page could further enhance the international dissemination of Belize's macroeconomic data.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 12, 2019

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of August 31, 2019)

Membership status. Joined: March 16, 1982.

General Resources Account	**SDR Million**	**Percent Quota**
Quota	26.70	100.00
Fund holdings of currency (Exchange Rate)	20.49	76.73
Reserve Tranche Position	6.21	23.27

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	17.89	100.00
Holdings	20.19	112.80

Outstanding Purchases and Loans

None

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec. 03, 1984	June 1, 1986	7.13	7.13

Projected Payments to the Fund (in SDR Million)[1]

	Forthcoming				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

[1] Based on existing use of resources and present holdings of SDRs. When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangement: Since 1976, the Belize dollar has been pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize has accepted the obligations of Article VIII, Sections 2, 3, and 4. The exchange regime is free of restrictions and multiple currency practices.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on November 12, 2018 (IMF Country Report No. 18/327). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- FAD advised on revenue administration in October 2014.
- MCM advised on loan loss provisioning under IFRS in April 2015.
- MCM advised on debt management in April 2015.
- FAD advised on developing regulations and treasury instructions to support the Public Financial Management (PFM) law in June 2017.
- FAD advised on building capacity in data analysis and cross-matching in July 2017.
- FAD advised on draft PFM legislation in September 2017.
- FAD advised on developing a framework to establish a joint Large Taxpayer Office (LTO) in September 2017.
- Joint MCM-LEG advised on jurisdictional review of the foreign exchange system in December 2017.
- FAD advised on establishing a data analytics function in tax administration in January 2018.
- FAD advised on reviewing and selecting a robust alternative IT system to replace SIGTAS for Tax Administration in January 2018.
- MCM advised on contingency planning in March 2019.
- MCM advised on cyber risk supervision framework in April 2019.
- FAD advised on tax and customs administration reform in April 2019.
- MCM advised on banking supervision and regulation in May 2019.
- FAD advised on mainstreaming international taxation in August 2019.

CARTAC Technical Assistance to Belize FY2019

In FY2019, CARTAC delivered approximately 25 field person weeks of TA to Belize, comprising deliveries in Customs and Public Financial Management.

Description	Start Date	End Date
Customs & Tax Administration		
Creating a framework for advance rulings	5/14/18	5/25/18
Integrating IT & GST	11/13/18	1/16/18
Integrating IT & GST	2/18/19	3/1/19
New Domestic Tax Department	2/25/19	3/1/19
Assessing tax & customs reform	3/27/19	4/9/19
Public Financial Management		
Fiscal rules (with WHD mission)	2/7/19	2/8/19
Monetary & Capital Markets		
Interconnectedness and CBR monitoring toolkit	10/8/18	10/19/18

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

As of August 31, 2019, Belize has collaborations with The World Bank Group, Inter-American Development Bank, and Caribbean Development Bank.

Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The World Bank Group	http://www.worldbank.org/en/news/infographic/2017/05/30/wbg-country-partnership-strategy-belize
Inter-American Development Bank	https://www.iadb.org/en/countries/belize/overview
Caribbean Development Bank	http://www.caribank.org/about-cdb/member-countries/regional-members/belize

STATISTICAL ISSUES

(As of August 31, 2019)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance.

Real sector: The Statistical Institute of Belize (SIB) publishes on its website a variety of real sector statistics (GDP, CPI, population and labor force/employment statistics, social indicators). The timeliness and frequency of the statistics is generally adequate for surveillance with the exception of social indicators related to poverty and literacy, which are available with large lags. This is largely due to capacity limitations at the SIB, which constrain the process of undertaking surveys and processing the data. There is room to further strengthen the compilation of GDP on expenditure basis, which is currently available only at annual frequency and with a significant lag. Future work will be concentrated on the methodology and source data for compiling the supply and use tables (SUT), improving the robustness of measurements of economic activity in export processing zones and the commercial free zone, including informal activity in GDP estimates, and rebasing the GDP to 2014. The SIB could also utilize data compiled by the Social Security Board (SSB) to strengthen the quality of labor statistics.

Fiscal accounts: Data on the consolidated operations of the public sector are unavailable. Priorities for the period ahead include preparing a comprehensive list of institutions that comprise the central government, general government, and the public sector including extra budgetary units. The Social Security Board is not treated as part of the general government. Instead, the Central Bank classifies the entity as other non-financial public corporation, and includes its claims (deposits) on the banking system as part of broad money. Also, difficulties persist in the compilation of capital expenditure as a number of Capital II (government-funded capital and project expenditures) items that started life as fixed-term project contributions have become permanent funding allocations. Authorities are aware of this shortcoming and are advising ministries to examine the continuing need and authority for such expenditures. In addition, the current accounting practices follow neither a cash basis nor an accrual basis of accounting, which contributes to an inconsistent accounting and reporting of assets, liabilities, revenues, and expenses. Finally, domestic debt data recording needs to be improved.

Monetary and financial statistics: Data on financial soundness indicators of individual banks are available on quarterly basis. However, there is very limited data on non-bank financial institutions, especially the offshore sector.

Balance of payments: The SIB publishes trade data at monthly frequency on its website with a one month lag and monthly press releases, which discuss key trends and driving factors. The data, however, do not cover services, which constrains the assessment of the overall external position as tourism revenue represents a large share of total exports. The usefulness of the dataset for surveillance could be improved if it is expanded to cover also trade in services and the international investment position. The Central Bank of Belize is responsible for producing the Balance of Payments, which is compiled on a quarterly and annual basis in BPM6 format.

I. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since September 27, 2006.	No data ROSC is available.

II. Reporting to STA

No fiscal data are being reported for publication in the Government Finance Statistics Yearbook or in the IFS.

Belize: Table of Common Indicators Required for Surveillance

(As of September 23, 2019)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
Exchange Rates	9/23/2019	9/23/2019	D	D	D
International Reserve Assets and Liabilities of the Monetary Authorities 1/	9/23/2019	9/23/2019	W	W	W
Reserve/Base Money	9/23/2019	9/23/2019	W	W	W
Broad Money	9/23/2019	9/23/2019	W	W	W
Central Bank Balance Sheet	8/31/2019	9/23/2019	M	M	M
Banking System Balance Sheet	6/30/2019	9/1/2019	M	M	M
Interest Rates 2/	7/31/2019	9/23/2019	M	M	M
Consumer Price Index	7/31/2019	9/1/2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing — Central Government 3/	6/30/2019	9/23/2019	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt 4/5/	6/30/2019	9/23/2019	M	M	M
External Current Account Balance	2019Q2	9/23/2019	Q	Q	Q
Exports/Imports of Goods and Services	2019Q2	9/23/2019	Q	Q	Q
GDP/GNP	2019Q2	9/1/2019	Q	Q	Q
Gross External Debt (Central Government only)	6/30/2019	9/23/2019	A, M	A, M	NA
International Investment Position 6/	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing — General Government	NA	NA	NA	NA	NA

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ Consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Ms. Louise Levonian, Executive Director for Belize and Mr. Benjamin Rankin, Advisor to the Executive Director Belize November 27, 2019

Our Belizean authorities thank the mission team for the consultations, valuable analysis, and constructive exchange of views. They largely share staff's assessment of the economic outlook and policy priorities for the period ahead. They also welcome the recognition of the good progress that has been made since last year's staff report. This progress reflects an ongoing effort by our authorities to enhance their policy and regulatory frameworks supported by technical assistance from the Fund and other partners.

Belize's economic recovery continues. Real GDP grew by 3.2 percent in 2018 and by an estimated 4 percent (y/y) in 2019Q1. Unemployment reached a historic low in 2019 (7.6 percent) and inflation remains very low and stable. In addition, Belize welcomed a record number of tourists last year, including over 1 million cruise ship visitors, which has helped further diversify the economy. While growth ultimately slowed in 2019 due to a severe drought, it is expected to rebound next year as environmental conditions normalize. International reserves remain at around 3 months of imports.

That said, the outlook remains subject to significant risks. Like many countries in the region, Belize is grappling with high public debt, modest potential growth, weak competitiveness, as well as exceptional vulnerability to climate change, natural disasters, and other exogenous shocks. In the face of these challenges, policy priorities include: climate-resilient infrastructure; a sound, more inclusive financial sector; supportive business climate; and a reduction in crime and poverty.

The significant fiscal consolidation over the past two years, reflects our authorities' strong commitment to fiscal responsibility and debt sustainability. Our authorities have targeted a gradual reduction of public debt from 94 percent of GDP to 80 percent of GDP by 2023 and 60 percent of GDP over the long run. To place public debt on a steady downward trajectory, the Government's Fiscal Strategy targets an annual primary fiscal balance of at least 2 percent of GDP. Our authorities recognize that additional fiscal adjustments over the medium term must be gradual to maintain social consensus and balance the need for capital investment to build climate resilience and achieve sustainable growth. IMF CARTAC technical assistance has helped improve budget processes, fiscal analysis, and broader public financial management. Our authorities are interested in further discussions on the potential role fiscal rules and fiscal councils could have in Belize.

Tax reforms are increasing transparency, efficiency, and domestic revenue mobilization. The Government's Fiscal Strategy also seeks to increase the revenue-to-GDP ratio by 2 percentage points over the next two years. To this end, our authorities are in the process of merging the two domestic tax departments, broadening tax bases, as well as eliminating non-essential exemptions, each of which will help increase revenues without increasing tax rates. Working with international taxation standard setters, our authorities have adapted Belize's tax framework to meet current best practices and welcome recent endorsements from both the OECD and European Union. Our authorities remain concerned that ever-evolving demands from standard setters -- including separate demands from their individual members -- put significant pressure on small states.

Targeted structural reforms under Belize's Growth and Sustainable Development Strategy are supporting stronger, more inclusive growth. Our authorities welcome staff advice on policy options to further improve Belize's business climate. They are pleased to confirm that, as per IMF advice, legislation to establish a credit bureau will be submitted to Parliament by end of this fiscal year. In addition, Belize's flagship targeted social programs, coupled with historically low unemployment, are helping alleviate poverty and community-based initiatives are helping fight crime. Our authorities take note of staff findings on the benefits of further encouraging female labor force participation. They agree with staff that Belize's rich biodiversity, multi-cultural heritage, and unique location bode well for further development of the tourism sector and thank staff for their useful Selected Issue Paper. While our authorities remain committed to advancing structural reforms, the pace of reform has been affected by the need to focus limited resources on drafting and adopting legislation to address ever-evolving demands from international taxation standard setters.

Climate change is a macro-critical threat for Belize. Belize is exceptionally vulnerable to natural disasters and climate change, as demonstrated by this year's severe drought, as well as increasingly severe hurricanes, flooding, sea level rise, coastal erosion, coral bleaching, and sargassum. Our authorities take note of staff advice to make substantive investments into climate-resilient infrastructure and therefore welcome staff's proposal to help prepare a Disaster Resilience Strategy (DRS). A DRS could provide development partners with a comprehensive guide to ongoing resilience-building investments and risk management initiatives, while placing the required financing into a sustainable multi-year macro-fiscal framework.

The Central Bank of Belize (CBB) continues its close supervision of the banking sector. The CBB is conducting on-site examinations of domestic banks, offshore banks, and credit unions to assess regulatory compliance, including with AML/CFT international best practices. Banks are well capitalized and NPLs have declined. Our authorities are also strengthening the bank resolution framework, drawing on technical assistance from the Fund. This year the CBB took resolute action, putting two troubled, non-systemic, offshore banks into liquidation, demonstrating its commitment to keep the financial sector safe.

While the correspondent banking relationship (CBR) situation has stabilized, the withdrawal of CBRs remains an existential threat for small states like Belize. Our authorities follow best practices but recognize that CBR withdrawal is often driven by exogenous factors beyond their control. Our authorities continue to encourage the Fund to work with all countries impacted by the withdrawal of CBRs to better understand the drivers, impacts, and potential solutions.

Our authorities consent to publish the staff report and all related documents.