



Government of Belize

Economic Update



March 2021

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Table of Contents

1. Belize's economic recovery was undone by climate shocks and the COVID-19 pandemic 3
2. Turning the ship towards safe harbor: An ambitious fiscal adjustment and economic recovery program 13



Context

- Immediately after the restructuring of the Superbond in March 2017, Belize managed to achieve a primary surplus. External conditions were favourable at that time, which gave Belize the opportunity to expand the economy and set Belize on a path towards sustainable public finances
- Belize is prone to the devastating effects of climate-induced emergencies such as droughts and hurricanes. The cost of these natural disasters becomes more consequential with each year, and each time it takes longer for Belize to recover. Such was the case of the 2019 drought that helped to push Belize into a recession.
- Unfortunately, 2020 was not the year of recovery as the country was hit with a once-in-a-lifetime pandemic, completely paralyzing tourism and other contact-intensive sectors vital to the economy. Combined with a severe hurricane season, Belize closed the year as one of the hardest-hit countries in the region. Any progress hoped for after 2017 was undone.

Today, the situation is grim, and the downside risks remain important. Public debt levels are unsustainable

- Tackling the COVID-19 pandemic required an increase in government spending, while a steep fall in revenues led to a historic and dangerous increase in the primary deficit, reaching 8.3% for 2020.
- Today, public debt as % of GDP is at 126% compared with 98% of GDP in 2019. Public sector gross funding needs are well above the IMF sustainability thresholds.
- Continued primary deficits and high public debt limit Belize's access to external financing, impacting international reserves and jeopardizing the currency peg.

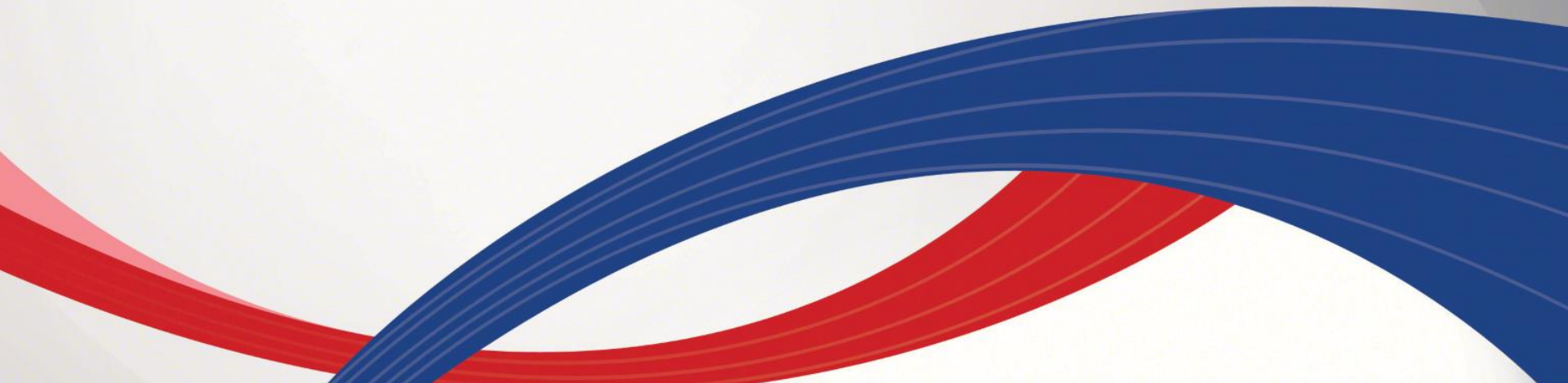
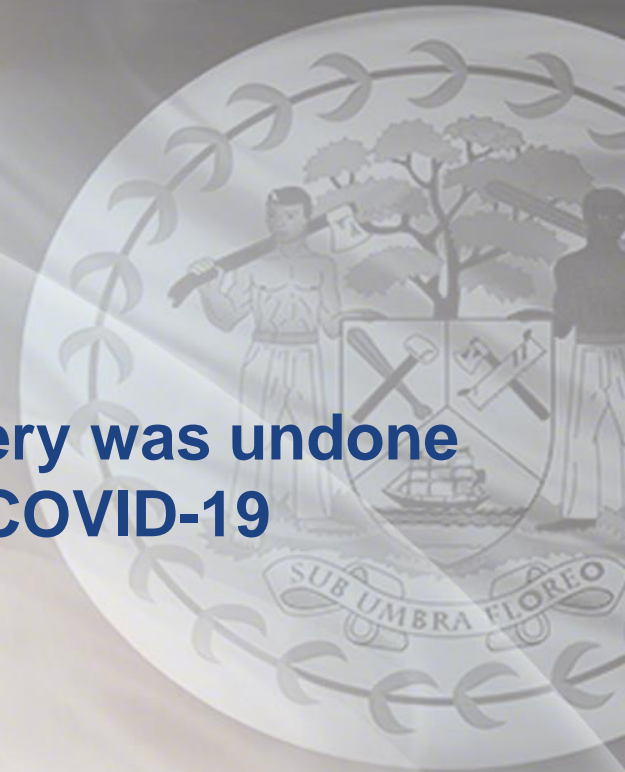
Road to recovery

- The 2020 general election brought a new government with a strong mandate, and a majority in parliament, and bringing an integrated strategy to achieve sustainable fiscal and economic recovery. Beyond an immediate response to the crisis, the key policy imperative for Belize is to restore public debt sustainability and strengthen the currency peg.
- To target a reduction of public debt to 70 % of GDP by 2030, the Government is working to:
 1. Implement an ambitious, yet realistic, fiscal consolidation
 2. Expand growth-enhancing structural reforms
 3. Restructure its debt with the support from external creditors





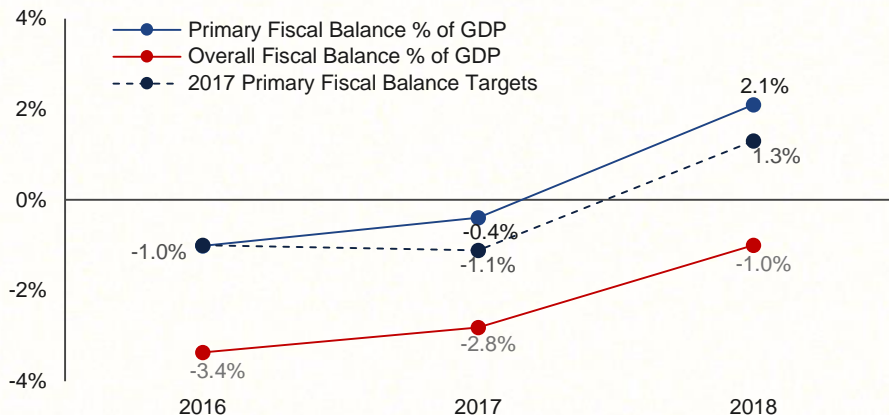
1. Belize's economic recovery was undone by climate shocks and the COVID-19 pandemic



After the 2017 restructuring, Belize achieved a primary surplus

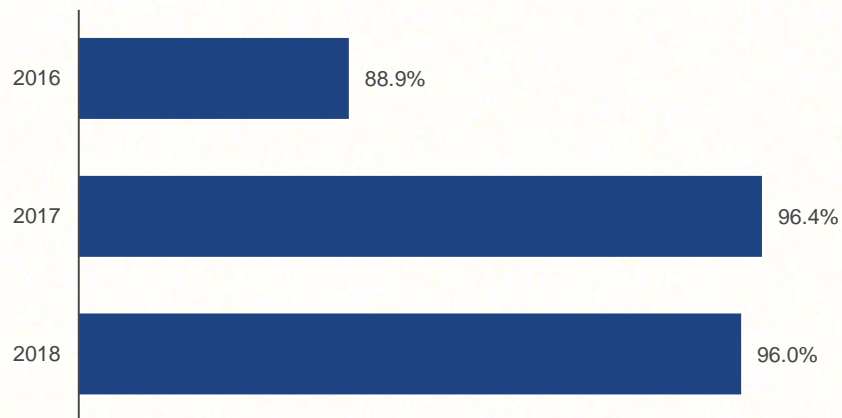
Significant fiscal consolidation resulted in primary fiscal surplus, vastly exceeding targets established in 2017.

Overall and Primary Fiscal Balance % GDP



This allowed for the stabilization of debt levels by 2018.

Government Debt as of % GDP

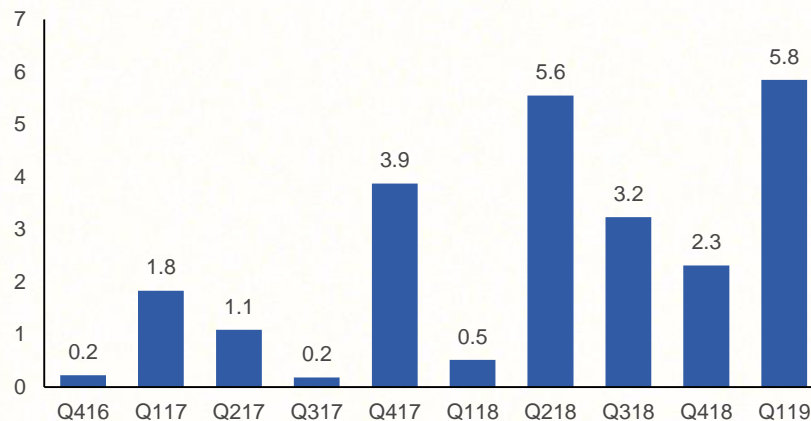


Significant fiscal consolidation resulted in primary fiscal surplus in 2017.

- As part of the March 2017 restructuring agreement, the government committed to implementing wide-ranging fiscal consolidation, targeting a gradual shift to a primary surplus of 1.3% of GDP in 2018
- The government initially delivered on these commitments, outperforming its fiscal targets, and quickly setting itself on a path towards sustainable public finances
- These efforts were underpinned by a fruitful combination of pro-growth capital spending in key sectors and favorable climate conditions:
 - An expansion in infrastructure, a double-digit growth in tourism and FDI in tourism related infrastructure, and expanded production in the agricultural sector

Embedded in positive Q4 2016 to Q1 2019 performance yoy %

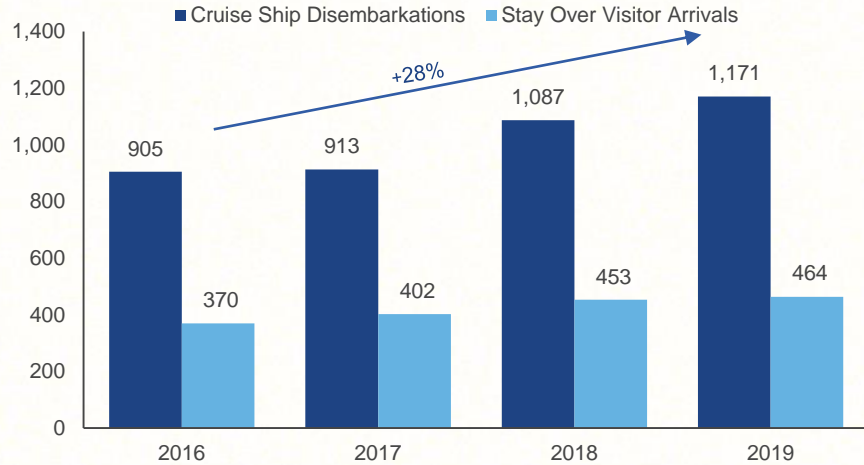
yoy % change of GDP (nominal)



Accompanied by highly favorable external conditions

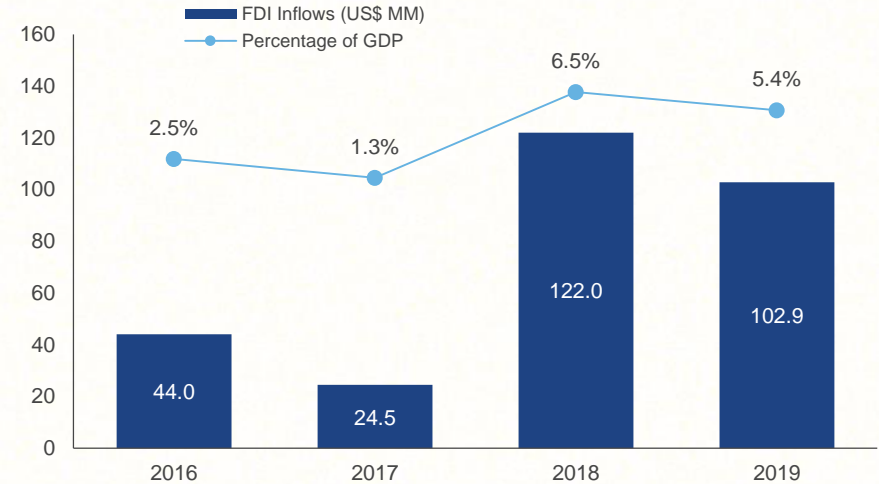
Tourism, an important engine of economic growth, increased over 28% since 2016

Stay Over and Cruise Arrivals ('000s)



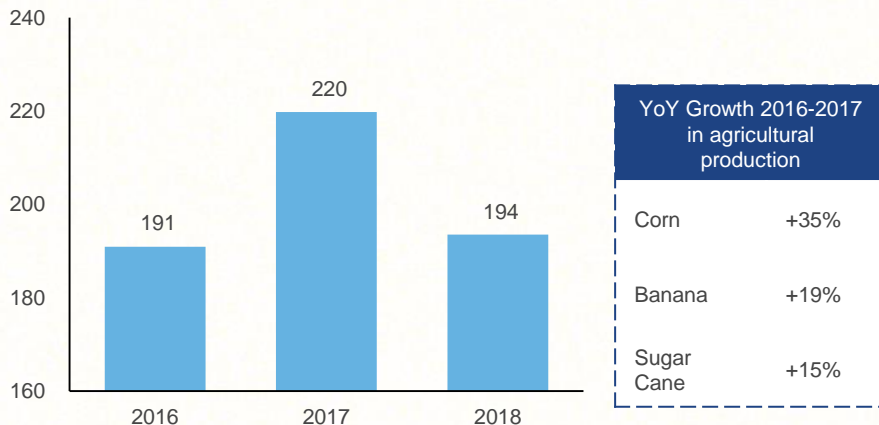
And FDI inflows recovered from historical low levels

FDI Inflows, US\$ Million and % of GDP



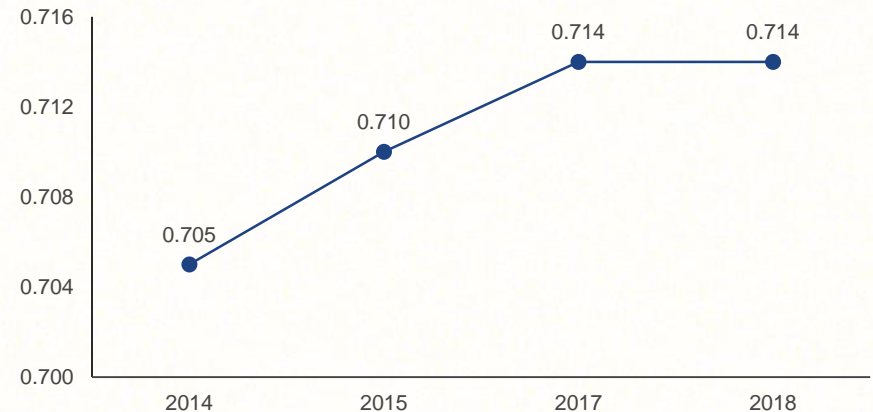
Sustained by favorable climate that provided a rebound in the harvest for Belize's main agricultural exports in 2017

Total Value of Domestic exports in US\$ Million



All of which ultimately resulted in a bounce to quality of life

UN Human Development Index



The 2019 historic drought dealt a heavy blow to Belize's economy

The agricultural sector is key to supporting households in Belize. While Belize started the first quarter of 2019 with positive GDP growth, the drought contributed to a recession by the second half of the year

Cost of the Drought



Estimated crop losses total **BZ\$50 million**, and warranted a partial **State of Emergency** across the country



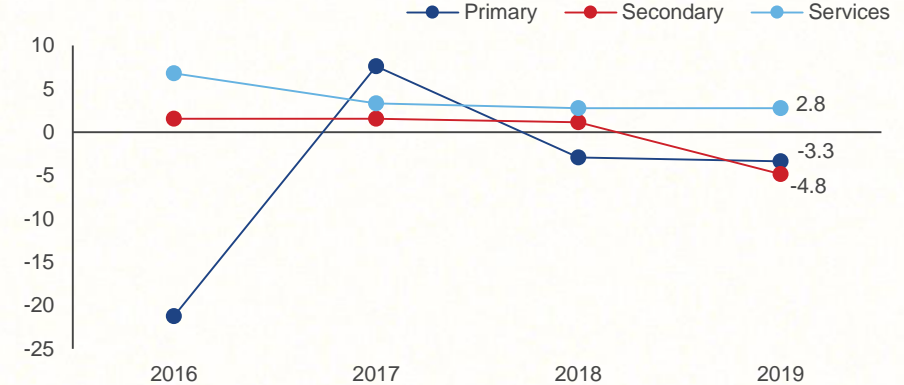
The Government accessed a **BZ\$1 million loan** from Belize's Development Finance Corporation to offer tax and duty exemptions on agricultural imports to address the shortfall



National food security and the **strength of the banking sector** depend on the agricultural sector, which comprises the largest group of domestic borrowers. Commercial banks and the government provided forbearance on loans as temporary relief.

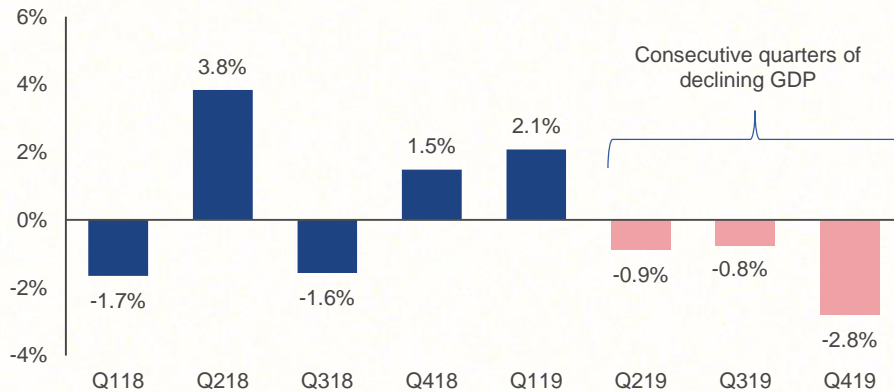
The drought spoiled crops and killed livestock, sharply reduced production of key economic sectors

YoY % change Real GDP by Sector

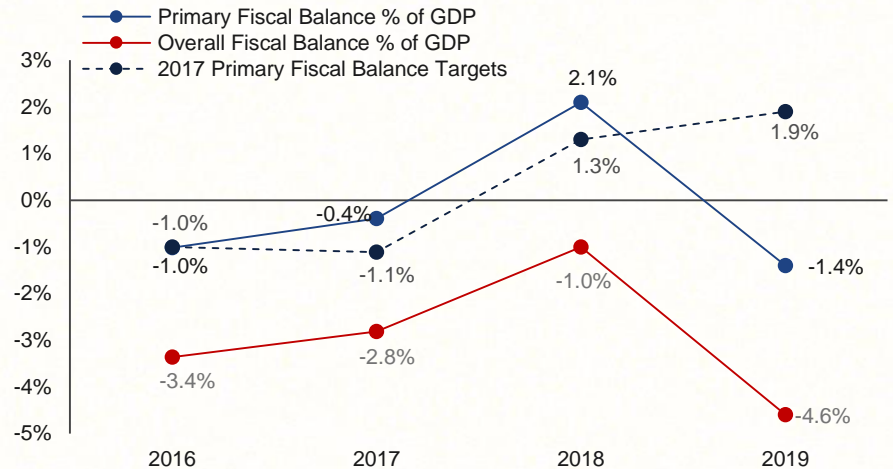


The economic impact of the drought caused Belize to enter into a recession

Quarter on Quarter GDP % change (Nominal)



The drought negatively impacted fiscal performance in 2019



2020 left no hope of economic recovery

After the blow of 2019, Belize's economic prospects severely deteriorated in 2020, driven by two additional major shocks.

1

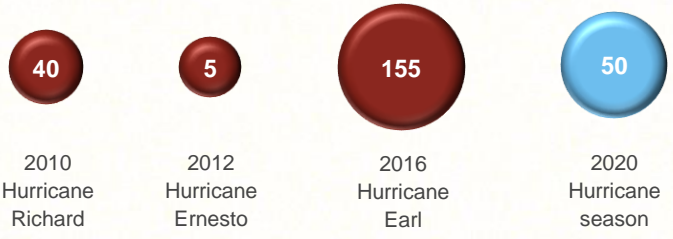
COVID-19

- Belize has the highest numbers of cases and deaths per capita in the Caribbean
- Measures imposed to fight the virus resulted in the loss of 64,000 jobs and many SMEs going out of business
- Severe loss of tourism related income

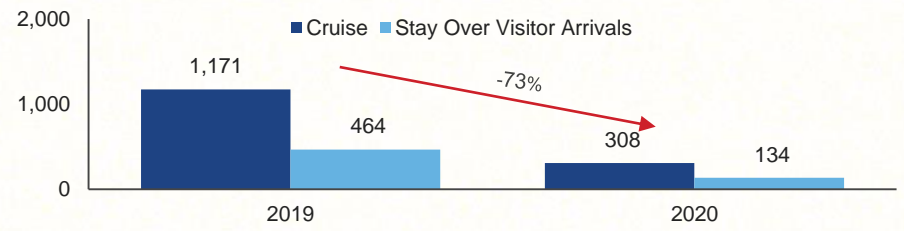
2

SEVERE HURRICANE SEASON

Estimated Hurricane Damage for 2020 is one of the largest seen in recent years
US\$ Million

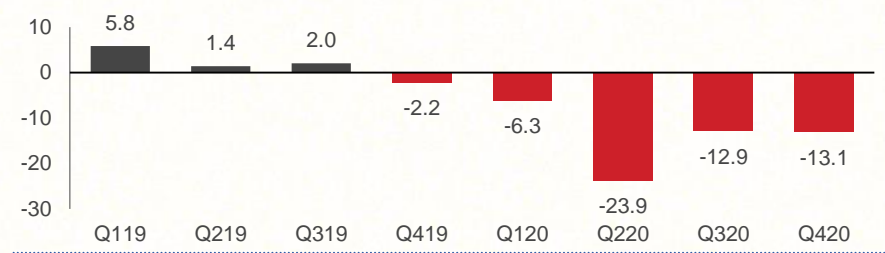


Global COVID-19 measures drastically reduced tourism flows which account for ~ 60 % of foreign exchange earnings and ~40 % of GDP ('000s)



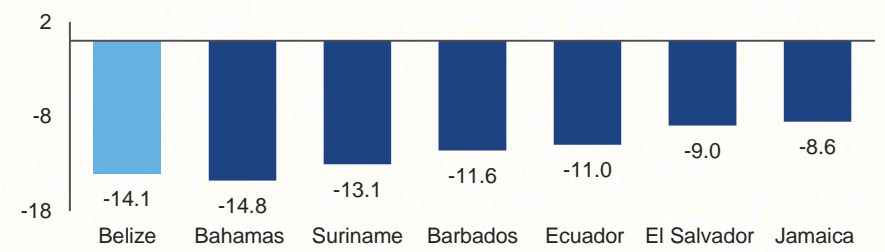
Sudden drop in tourism, quarantine measures and a severe hurricane season led to 3 consecutive quarters of double digit economic contractions...

(year on year % change GDP, Nominal)



... Making Belize one of the hardest hit countries in the region in 2020

2020, Real GDP contraction, %



Source: Belize Government, National Emergency Management Organization (NEMO), 2018 IMF Climate Change Policy Report, and Haver, retrieved as of February and March 2021



2020 election brings a new government with a strong mandate

...elected with an overwhelming supermajority, reflecting a strong pro-growth mandate, as outlined in the Party's Plan Belize Manifesto

John Antonio Briceño was elected as Prime Minister in the general election on November 11, 2020



- PM Briceño was sworn into office on November 12 with a **peaceful transition of power**. He previously served as Deputy Prime Minister and Minister of the Natural Resources and the Environment.
- **PUP won 58.8% of the general vote**, and 26 out of 31 parliamentary seats, gaining a Parliamentary majority. In its first 100 days, the Briceño government has so far passed a **Public Health Act**, **General Revenue Supplementary Appropriation Act** and a **Resolution on a Government-wide Reform Agenda**.
- The parliamentary majority will allow the new government to accelerate implementation of key agenda items which include: **economic recovery initiatives, restructuring the government debt, healthcare, private investment, and agricultural development**.

'Plan Belize' Key Pillars



Economic Growth

- Reopen the tourism sector and establish a BZ\$10 million COVID-19 recovery fund
- BZ\$150+ million in investments over the next five years on tourism-related infrastructure projects
- Increase economic diversification: agriculture and technology



Health

- Ensure compliance of public health measures that will support the containment of COVID-19
- Source COVID-19 vaccines
- Increase healthcare investments in human capital and technologies



Private Sector

- Implement ease-of-doing-business initiatives that incentivize domestic and foreign investment, particularly those that prioritize jobs and exports
- Support local production and manufacturing



Fiscal

- Restructure the debt profile to place the public finances on a sustainable path with the goal of reaching 85% of debt to GDP by 2025 and 70% by 2030



Agricultural Development

- Introduce new technological advancements for agriculture industry
- Increase investments in agriculture
- Embrace innovative and environmentally sustainable fishing techniques



Entrepreneurship

- Establish a Ministry of Technology and Digital Transformation to spearhead technology innovation

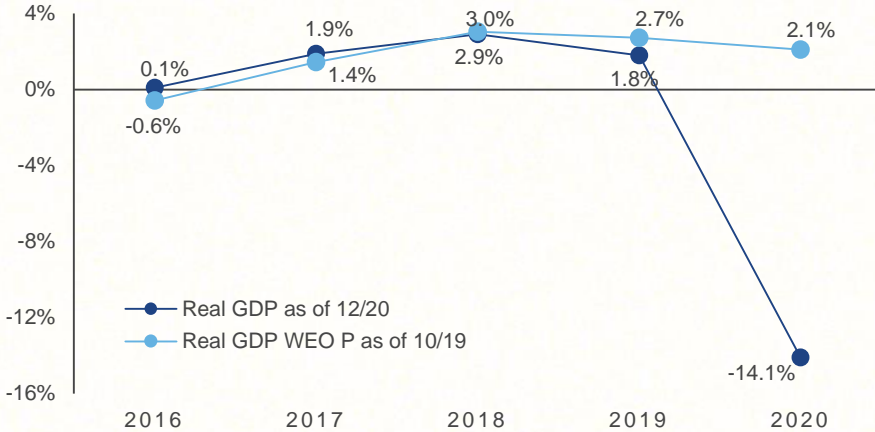
#planBelize



Today, Belize's financial position is untenable

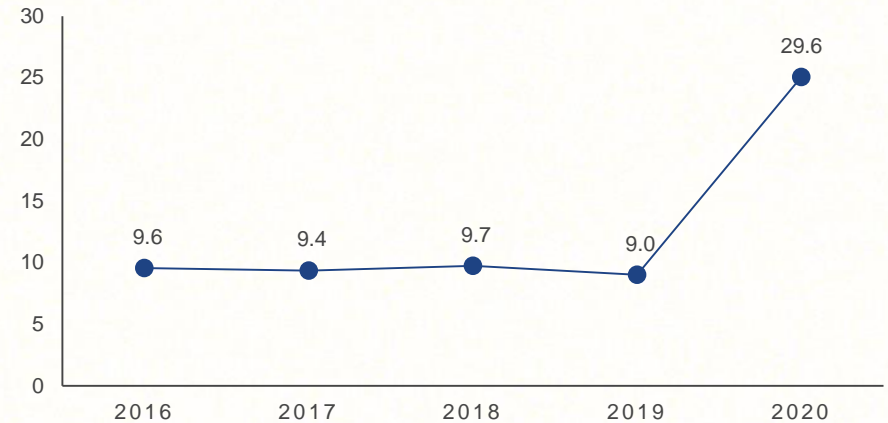
The devastating impact of two consecutive years of historical exogenous shocks shrank the economy by 14.1% in 2020

Real GDP Growth YoY%

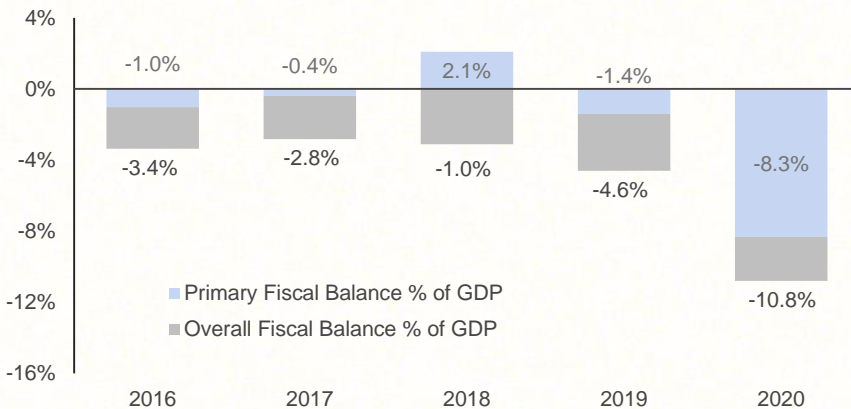


The measures imposed to fight the virus pushed the unemployment rate to 29.6%, adding to the economic distress

Unemployment rate as % of Labor Force

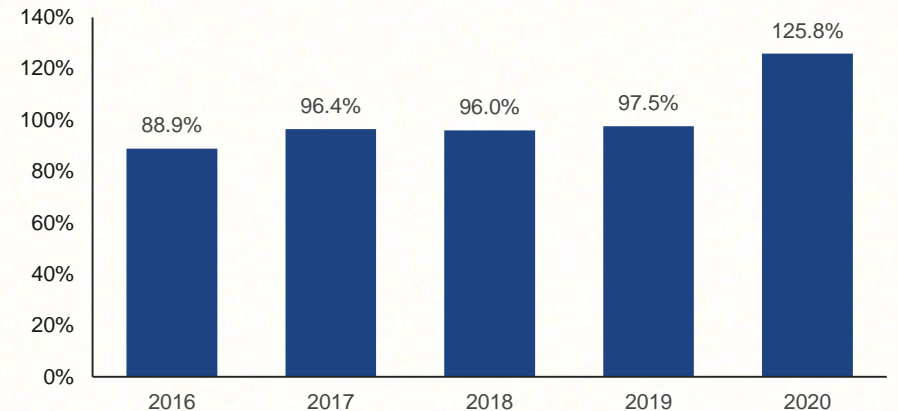


A sharp fall in government revenues and increased spending to support the population drove the fiscal deficit to historical levels



With debt already unsustainable prior to the COVID-19 shock, 2020 brought a further large upward jump in government debt

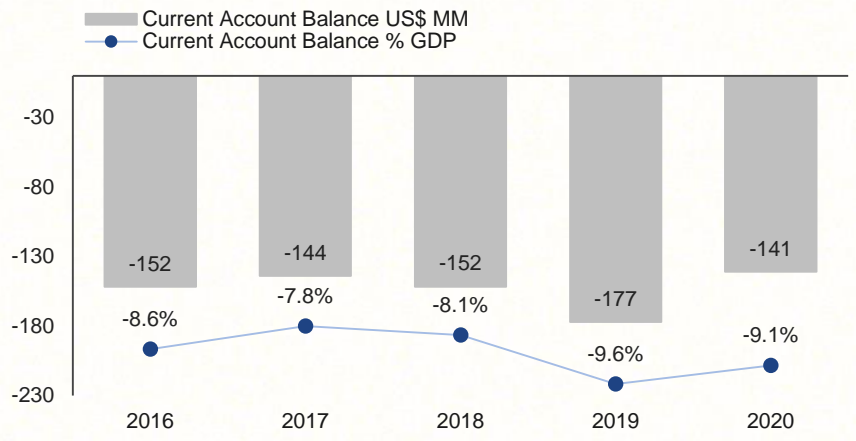
Government debt as % of GDP



Structural balance of payments vulnerabilities worsened in 2020

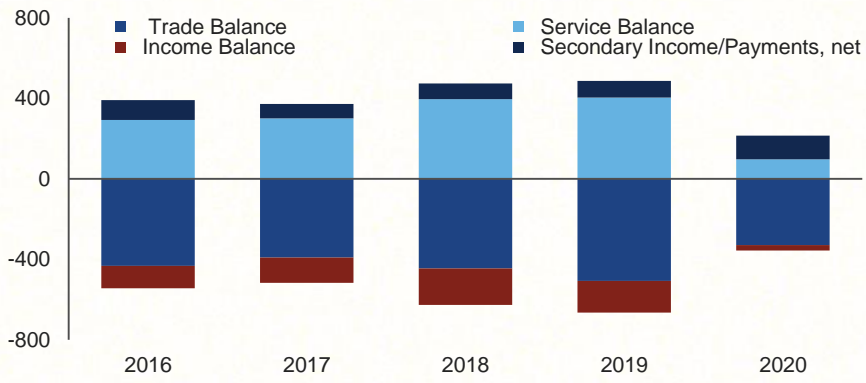
The current account (CA) deficit remains large, and international reserves hover around the minimum 3-months of imports. This, combined with the reduction in FDI inflows and lack of commercial debt access, has compelled Belize to rely on credit from bilateral and multilateral partners.

Belize's dependence on imports and the decline in overall exports drive the wide structural CA deficit



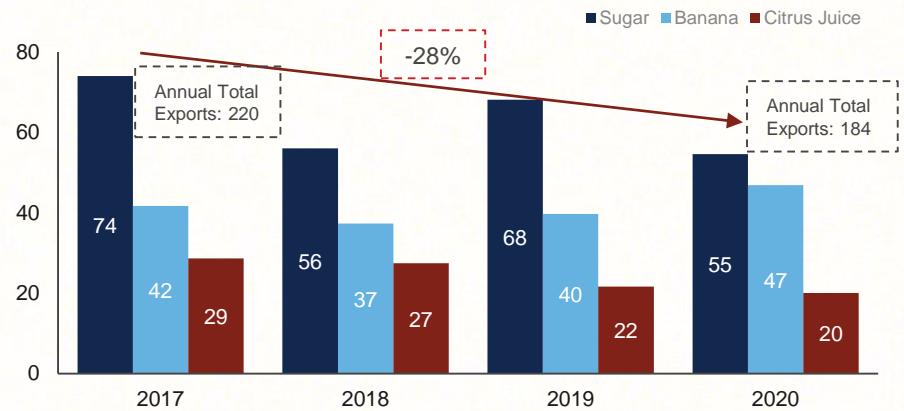
Initially high tourism receipts supported the CA in recent years. An uptick in remittances in 2020 offset weaker tourism inflows.

Composition of the CA balance in US\$ Million



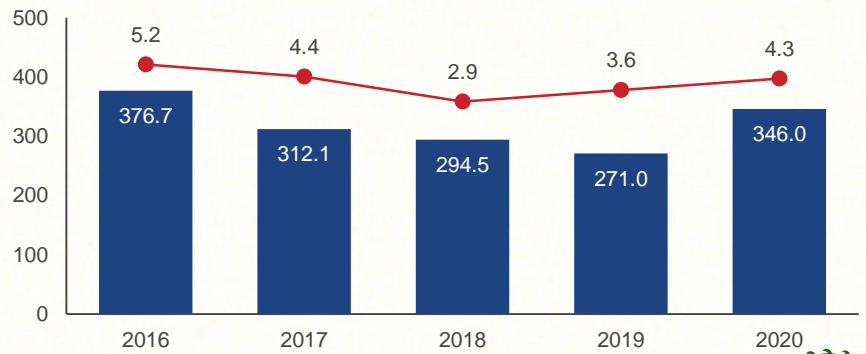
Agricultural exports experienced significant declines in value since the 2017 peak as commodity prices have tumbled

Value of exports US\$ Million



Subdued imports and inflows of multilateral lines of credit during 2020 contributed to rising FX reserves and sharply improved import cover. But with few options to finance a widening CA deficit, reserves may resume a downward trajectory.

Gross International Reserves in US\$ Million and Months of Imports



Source: Belize Central Bank and IMF retrieved as of March 2021



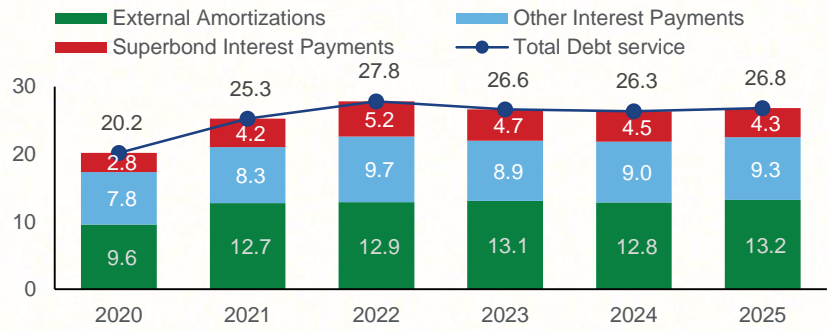
Dangerously high debt level imperils debt servicing capacity

Two consecutive years of severe exogenous shocks have markedly decreased economic output. As a result, debt as % of GDP has increased substantially as of December 2020. Without a fiscal adjustment program, we expect the debt level to remain in dangerously high territory, further increasing the debt service burden.

BZ\$ Million (Baseline Scenario)	2020	2021f	2022f	2023f	2024f	2025f
Primary Balance	(275.4)	(217.6)	(114.6)	(35.4)	(36.8)	(38.3)
Primary Balance as % of GDP	(8.3)	(6.4)	(3.1)	(0.9)	(0.9)	(0.9)
Interest Payments	97.6	120.5	155.8	157.9	164.2	171.7
<i>Superbond</i>	26.0	40.8	54.4	54.4	54.6	54.4
<i>Other</i>	71.6	79.7	101.4	103.5	109.6	117.3
External Principal Payments	88	123	135	153	156	167
<i>Super Bond</i>	0	0	0	0	0	0
Gross Funding Need+	(460.7)	(460.8)	(405.3)	(346.4)	(357.1)	(377.4)
Gross Funding Need as % of GDP	(13.9)	(13.6)	(11.0)	(8.8)	(8.8)	(8.9)
External Disbursements	275.5	260.2	168.0	101.9	78.8	29.3
Domestic Disbursements	192.9	89.7	62.8	69.1	68.5	69.6
Funding Gap		(110.9)	(174.5)	(175.4)	(209.8)	(278.5)
Government Debt	4,155.5	4,519.6	4,815.0	5,036.8	5,245.0	5,456.0
Government Debt as % of GDP	125.8	133.0	130.6	128.5	128.6	128.6

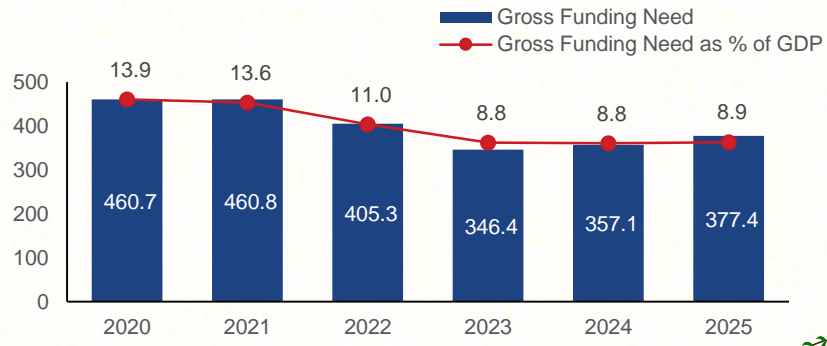
Unsustainable Debt Service in the Baseline Scenario

% of Government Revenue (excl. Domestic Principal)



Gross Funding Need

% of GDP and in BZ\$ Million (excl. Domestic Principal)



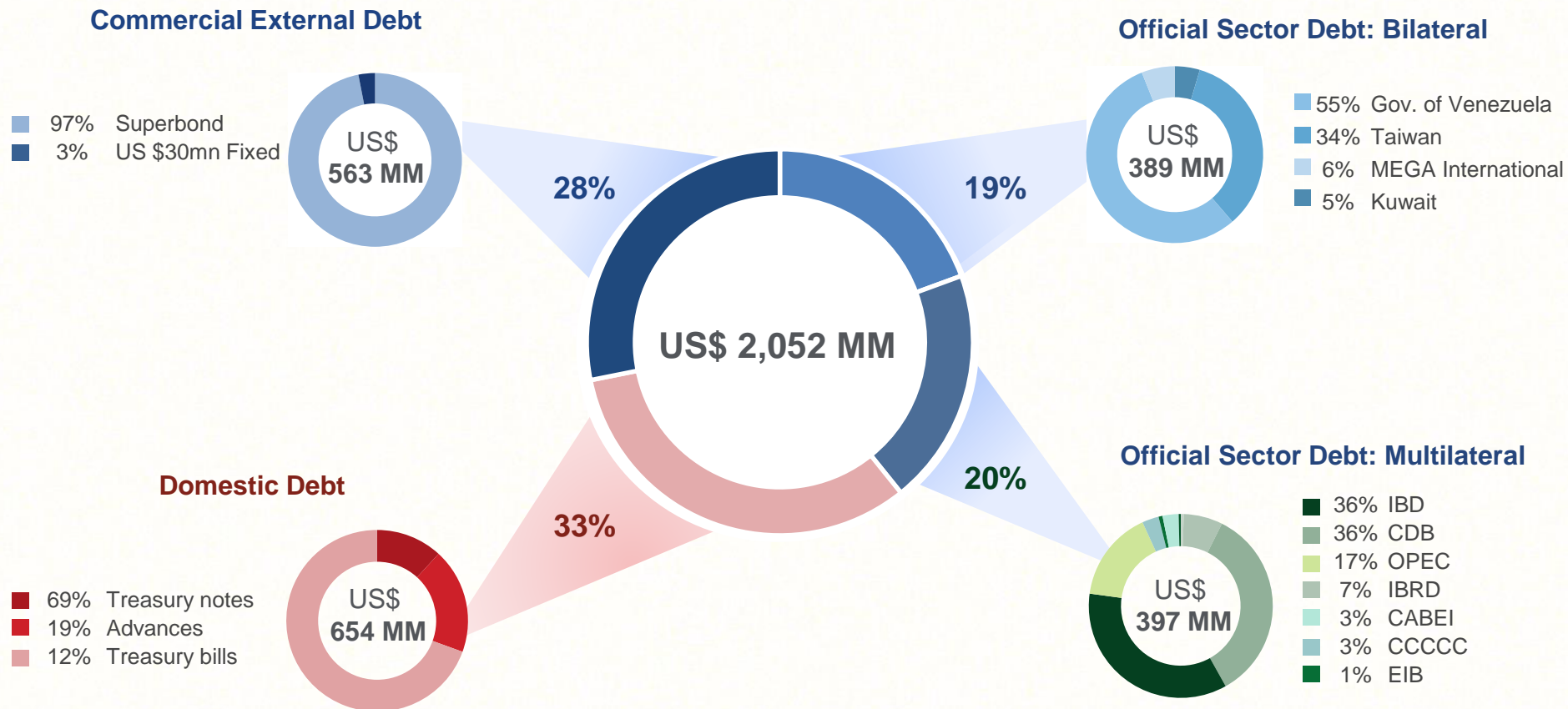
Note* = Gross Funding Need only includes Public Debt in need of refinancing, and may differ from latest figures published in the most recent Article IV, excludes funding needs for domestic principal maturing in the next 12 months



Addressing current debt dynamics is in Belize's interest

The government debt stock considered in the present analysis amounted to US\$ 2,051.8 million as of the end-2020, of which US\$ 1,398 million is external debt and US\$ 654 million is domestic debt.

Government Debt Structure, December 2020



Source: Ministry of Finance

External: Commercial, Official Sector

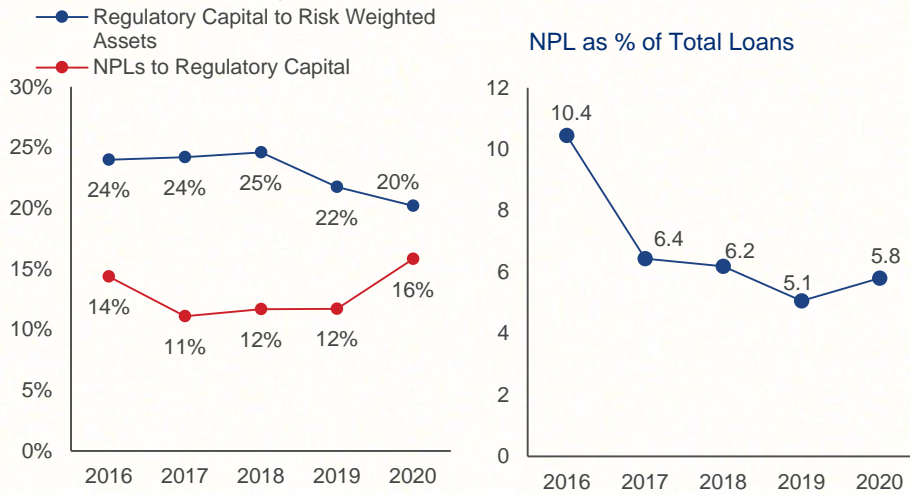
Domestic: Commercial, Public Sector



Belize's financial sector weakened by economic fallout

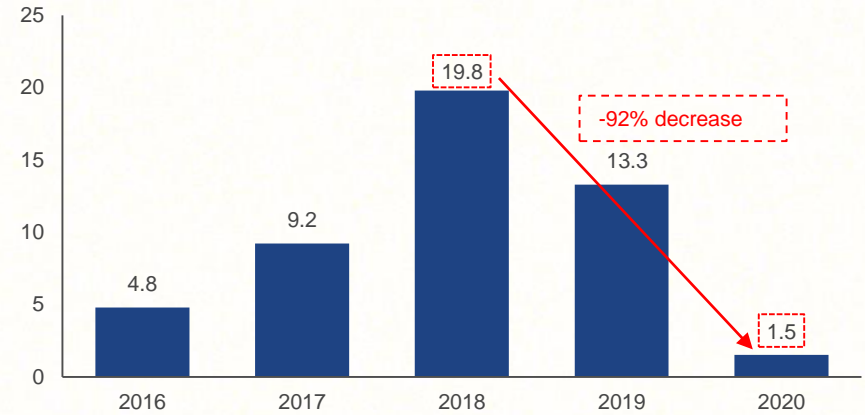
Commercial banks hold a large portion of government debt and have reached the limits of their absorptive capacity. Their continued support to restore government debt sustainability cannot be taken for granted

2020 developments caused a deterioration of asset quality and a weaker level of regulatory capital...



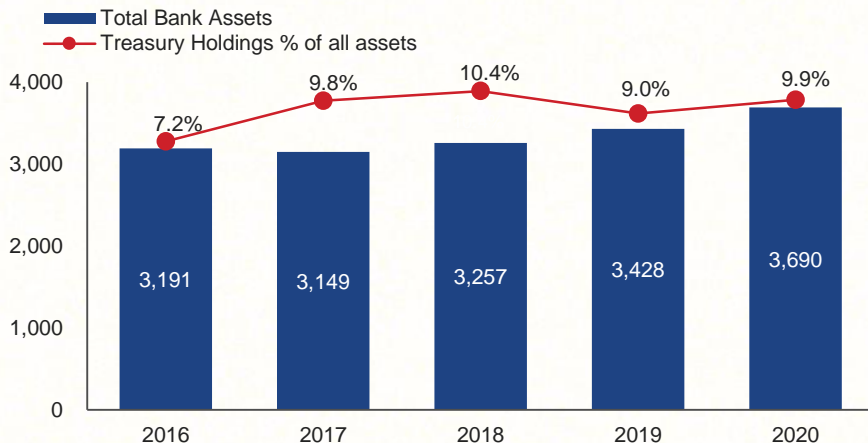
...in line with a significant decrease in profitability metrics since 2018

Return On Equity (ROE to Capital %)



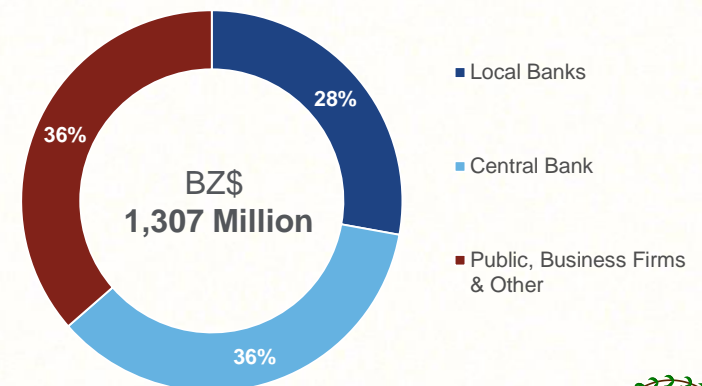
The banking sector holds an important share of treasury holdings as part of its asset base

BZ\$ Million, % of total



As of 2020, local banks hold almost 30% of Belize's domestic debt

equivalent US\$ 654 Million



Source: Belize Central Bank and IMF, retrieved as of March 2021





2. Turning the ship towards safe harbor: An ambitious fiscal adjustment and economic recovery program

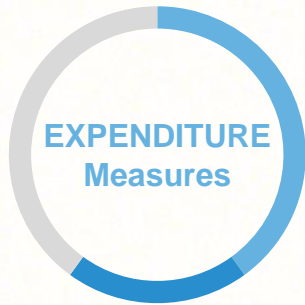


Returning to the only viable path of fiscal sustainability

Belize's new Government is laser focused on implementing its integrated medium term recovery program. The Government has pulled no punches in delivering an ambitious and feasible roadmap to achieve a sustainable fiscal and macro-economic recovery. Many of the strategies are already underway.



- Strengthen the enforcement in the GST collection process
- Adjust stamp duty to permissible limits on forex permits to support the local retail sector versus importing goods
- Enforce the registration of all businesses eligible for business tax and GST
- Strict enforcement of all import duties and taxes
- Consider progressive, additional revenue measures, as may be required, to support the primary balance target



- Target 10% reduction in public wages
- 15% reduction in goods and services
- Retain or appoint a Cost Control Czar to oversee reductions in outlooks for goods and services
- Implement pension reform
- Prioritize export and growth related capital investment
- Primary surplus target of 2% of GDP by 2023/24
- Formulate fiscal laws to enshrine budget and public debt markers



- Operationalize a Debt Management team
- Renegotiate the 2034 Bonds
- Seek more favourable terms to outstanding bilateral obligations
- Finalize multi-year net positive financing support from Taiwan
- Review and, where feasible, re-profile domestic debt instruments
- Resolve, on the best possible terms, any legitimate contingent liabilities
- Establish debt as % of GDP target of 85% for 2025, and 70% for 2030



- COVID-19 related forbearance for select financial sector's loan portfolios
- Adjust risk weighted provisioning for key sectors
- Review and strengthen financial sector capital requirement
- Protect CBB reserves through a "priority filter" in the forex process
- Deploy liquidity to vulnerable sectors including SMES and high employment industries



- Fast track approvals for strategic FDI projects
- Introduce flexible business and insolvency laws
- Enact high impact ease of doing business initiatives
- Pursue a green bond financed clean energy transformation
- Ongoing implementation of E-government
- Ongoing transparency agenda with private sector and social partners
- Effect rebase of the GDP
- Intensify the "Buy Belizean" campaign



Quantifiable impact for Belize's public finances

The ambitious revenue strategies and aggressive expenditure efficiencies will have a positive quantifiable impact on public finances, yielding more than 7.8% of GDP in cumulative savings over the recovery program period.

Large and sustained fiscal consolidation

Fiscal Measures	2021	2022	2023	2024	2025
Expenditure Rationalization	1.42%	1.33%	1.29%	1.18%	1.16%
Wages	1.34%	1.19%	1.10%	1.02%	0.95%
Goods & Services	0.02%	0.02%	0.02%	0.03%	0.03%
Subsidies	-	0.09%	0.10%	0.07%	0.07%
Revenue Mobilization	0.41%	0.39%	0.33%	0.12%	0.17%
Taxes on income and profit	0.19%	0.14%	0.16%	0.12%	0.18%
Taxes on property	0.04%	0.04%	0.04%	0.04%	0.04%
Taxes on goods & services	0.11%	0.12%	0.16%	0.16%	0.17%
Taxes on trade	0.07%	0.09%	-0.02%	-0.21%	-0.22%
Total adjustment % of GDP	1.84%	1.72%	1.63%	1.30%	1.33%

... in close consultation with Belize's key stakeholders through two main channels:

Broad national consultations

- The Prime Minister and his Cabinet Recovery Team understand that implementing Belize's Medium Term Plan to economic recovery is a collective effort
- The necessary structural changes to the economy that will spur job creation and generate export activity can only happen through the input and buy-in of key stakeholders;
- Therefore, broad national consultation are held with
 - Labor Unions
 - Private sector representative groups
 - Churches, NGOs and the general citizenry

Belize's Economic Recovery Advisory Team

- Chaired by Minister of State for Finance Christopher Coye, the advisory team is composed of 14 business representatives from key sectors of the economy
- The group provides recommendations to successfully emerge from the current economic crisis through
 - Engineering of sustainable economic activity,
 - Creation and protection of new jobs

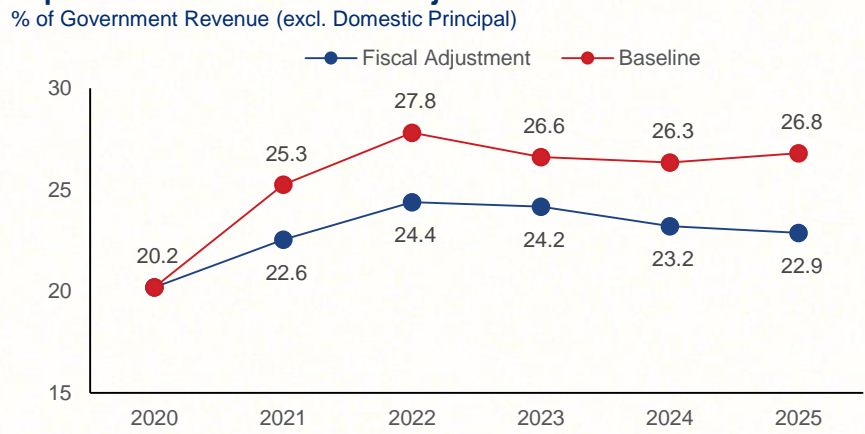


Fiscal program improves debt metrics, but more support is needed

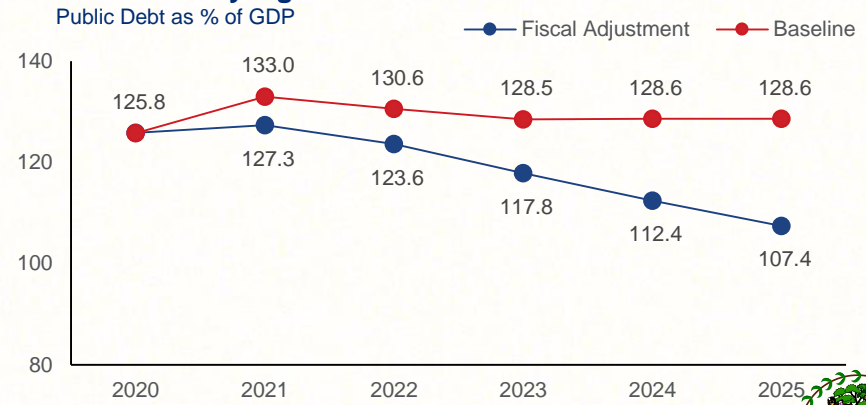
The Government's medium term plan to recovery guides the implementation of heroic fiscal efforts. While these bring substantial improvement in the debt servicing metrics, public debt as % of GDP still remains at unsustainable levels, projected to remain above the 100% mark until 2026

BZ\$ Million	2020	2021f	2022f	2023f	2024f	2025f
Primary Balance	(275.4)	(108.8)	(4.5)	51.3	67.5	93.6
Primary Balance as % of GDP	(8.3)	(3.2)	(0.1)	1.3	1.6	2.1
Interest Payments	97.6	118.2	149.4	148.8	151.9	154.3
<i>Superbond</i>	26.0	40.8	54.4	54.4	54.6	54.4
<i>Other</i>	71.6	77.37	94.96	94.40	97.30	99.91
External Principal Payments	88	122.8	135.0	153.1	156.1	167.4
<i>Super Bond</i>	0	0	0	0	0	0
Gross Funding Need*	(460.7)	(349.7)	(288.9)	(250.6)	(240.5)	(228.1)
Gross Funding Need as % of GDP	(13.9)	(10.2)	(7.9)	(6.4)	(5.7)	(5.1)
External Disbursements	275.5	260.2	168.0	101.9	78.8	29.3
Domestic Disbursements	192.9	89.7	62.8	69.1	68.5	69.6
Funding Gap		0	(58.1)	(79.6)	(93.2)	(129.1)
Government Debt	4,155.5	4,383.1	4,537.0	4,634.5	4,718.9	4,779.6
Government Debt as % of GDP	125.8	127.3	123.6	117.8	112.4	107.4

Improved debt service in the adjustment scenario



The debt trajectory will be on a declining path, but still unsustainably high



Note* = Gross Funding Need only includes Public Debt in need of refinancing, excludes funding needs for domestic principal maturing in the next 12 months



IMF Article IV statements

"The pandemic resulted in a sharp fall in revenue and a rise in expenditure aimed at combating the pandemic and supporting affected households and firms. This led to an increase in the primary deficit from 1.4 percent of GDP in FY2019/20 to 8.3 percent in FY2020/21, and a rise in public debt from 98 percent of GDP in 2019 to 126 percent in 2020. Public external debt also rose, while the net international investment position deteriorated."

"Public debt is assessed as unsustainable in staff's baseline scenario. Public debt is projected to remain well above the thresholds for sustainability in the debt sustainability analysis (DSA) framework. Public sector gross financing needs are also projected to remain above the DSA thresholds for sustainability over the next 10 years. Moreover, public debt and gross financing needs could increase further if prominent downside risks to the outlook materialize."

"Beyond the immediate response to the crisis, the key policy imperative for Belize is to restore public debt sustainability and strengthen the currency peg. This will require a fine balancing act involving ambitious, yet realistic, fiscal consolidation, growth-enhancing structural reforms, and debt restructuring, all aimed at targeting reduction of public debt to 60 percent of GDP by 2031."

"Complementing these measures, they (the Authorities) recently announced the intention to approach their external private sector creditors to seek a restructuring of the superbond to complement the efforts to restore debt sustainability through balanced and sustained fiscal consolidation and growth-enhancing structural reforms."





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