INTERNATIONAL MONETARY FUND

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BELIZE

May 2023

2023 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 2023 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 May 8, 2023 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 May 8, 2023, following discussions that ended on February 14, 2023, 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 April 18, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Belize.

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
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Belize

FOR IMMEDIATE RELEASE

Washington, DC – **May 9, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belize.

Economic activity has rebounded strongly from the pandemic. After contracting by 13.4 percent in 2020, real GDP expanded by 15.2 percent in 2021 and 12.1 percent in 2022, led by retail and wholesale trade, tourism, and business process outsourcing. Real GDP growth is projected to slow to 2.4 percent in 2023 and 2 percent over the medium term as tourism returns to pre-pandemic levels. Inflation increased from near zero in 2020 to 3.2 percent in 2021 and 6.3 percent in 2022, led by higher global energy and food prices despite measures to fix domestic diesel and regular gasoline prices at the pump since April 2022. Inflation is projected to fall to 4.1 percent in 2023 and 1.2 percent over the medium term, in line with the projected fall in commodity prices and global inflation. Risks to the outlook remain tilted to the downside, including a sharp global slowdown, further increases in commodity prices, and climate-related disasters.

The fiscal position has strengthened significantly. Public debt declined from 101 percent of GDP in 2020 to 64 percent of GDP in 2022, driven by the debt for marine protection swap with The Nature Conservancy, a significant reduction in the fiscal deficit helped by expenditure restraint, strong growth, high inflation, and a discount in the Petrocaribe debt owed to Venezuela. The primary balance rose from –8.1 percent of GDP in FY2020 to 1.2 percent of GDP in FY2022 due to expenditure containment, including a temporary 10 percent cut in public sector wages and the suspension of wage increments in FY2021-22, and a strong recovery of revenue. In an unchanged policies scenario, the primary balance is projected to remain at 1.2 percent of GDP over the medium term, with public debt declining to 53 percent of GDP by 2028. Public debt is assessed as sustainable over the medium term, although with still high near-term risks.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the strong recovery in economic activity and the sharp reduction in public debt over the last two years. Directors highlighted that growth and inflation are projected to moderate and risks are to the downside, including from a sharp slowdown in advanced economies, further increases in commodity prices, and climate related disasters. They underscored the importance of reforms to address constraints to long term growth and enhance resilience to shocks.

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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: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors encouraged continued fiscal consolidation to further reduce public debt and ensure adequate buffers to respond to adverse shocks. They called for measures to enhance revenues and reprioritize expenditures, while increasing priority spending on infrastructure, targeted social programs, and crime prevention. Important measures include expanding the tax base, strengthening revenue administration, and pension reform. Noting the need to further improve public financial management, Directors recommended strengthening multi-year budget preparations, fiscal risk assessment, and public investment management. A few Directors saw merit in adopting a Fiscal Responsibility Law to enhance credibility of the fiscal framework.

Directors underscored that efforts to enhance growth should center on structural reforms to ease access to credit for micro, small, and medium sized enterprises, enhance governance, and build resilience to climate change and related disasters. They highlighted that adopting a Disaster Resilience Strategy, based on a consistent multi-year macro-fiscal framework, could help to unlock multilateral and donor funding to support these efforts.

Directors highlighted that implementing the planned fiscal consolidation and growth-enhancing structural reforms would also help to reduce external imbalances, improve the adequacy of reserves, and strengthen the currency peg. These measures should be supported by steps to limit central bank financing to the government.

Directors encouraged continued efforts to preserve financial stability and strengthen the AML/CFT framework. While noting the authorities' effectiveness in resolving problem loans and strengthening domestic banks' balance sheets after the pandemic, Directors cautioned that risks remain, requiring continued vigilance. They encouraged the authorities to complete the update of the national assessment of Money Laundering/Terrorism Financing risks and the action plan, ahead of the mutual evaluation by the Caribbean Financial Action Task Force in November 2023

Table 1. Belize: Selected Social and Economic Indicators

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2021	123
Population (thousands), 2022	444.8	Under-five mortality rate (per thousand), 2020	11.7
GDP per capita, (current US$), 2022	6,722	Unemployment rate (percent), October 2022	5.0
Life expectancy at birth (years), 2019	74.6	Poverty (percent of total population), 2022	35.7

II. Economic Indicators

			Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028
National income and prices			(Annual percentage changes, calendar year)						
GDP at constant prices	-13.4	15.2	12.1	2.4	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.3	4.9	6.7	3.1	2.0	1.2	1.2	1.2	1.2
Consumer prices (average)	0.1	3.2	6.3	4.1	2.5	1.6	1.2	1.2	1.2
Central government 1/			(In percent of fiscal year GDP)						
Revenue and grants	21.8	21.7	22.5	22.7	22.7	22.7	22.7	22.7	22.7
Current non-interest expenditure	20.0	16.7	15.4	15.6	15.6	15.6	15.6	15.6	15.6
Interest payment	1.5	1.2	1.7	1.8	1.8	1.8	1.8	1.8	1.7
Capital expenditure and net lending	10.0	5.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Capital expenditure	9.6	4.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Net lending	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-8.1	0.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Overall balance	-9.7	-1.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5
Public debt			(In percent of calendar year GDP)						
Public debt 2/	101.4	80.1	63.7	60.4	58.4	56.9	55.7	54.6	53.4
Domestic debt	31.6	26.4	22.2	18.7	16.5	15.6	15.6	15.9	15.7
External debt	69.9	53.7	41.6	41.7	41.8	41.4	40.1	38.6	37.7
Principal payment	6.3	6.7	4.4	4.0	3.5	2.8	2.2	2.3	2.3
Domestic	4.1	4.6	3.2	2.5	1.5	0.7	0.2	0.3	0.5
External	2.3	2.1	1.2	1.5	2.0	2.1	2.0	1.9	1.8
Money and credit			(Annual percentage changes, calendar year)						
Credit to the private sector	3.1	2.6	4.5	4.1	3.8	3.6	3.2	3.2	3.2
Money and quasi-money (M2)	10.7	12.3	4.7	4.0	3.6	3.5	3.2	3.2	3.2
External sector			(Annual percentage changes, unless otherwise indicated)						
External current account (percent of GDP) 3/	-6.1	-6.3	-8.5	-8.0	-7.7	-7.6	-7.4	-7.2	-7.0
Real effective exchange rate (+ = depreciation)	-0.3	-1.6	0.3	...	...	...	...	...	...
Gross international reserves (US$ millions)	349	415	481	487	494	500	503	507	513
In months of imports	3.4	3.3	3.7	3.6	3.6	3.5	3.4	3.4	3.3
Memorandum items									
Output gap (percent of potential output)	-19.2	-9.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Nominal GDP (BZ$ millions)	4,160	4,983	5,938	6,332	6,620	6,858	7,081	7,310	7,548

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators; and staff estimates and projections.
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.

INTERNATIONAL MONETARY FUND

BELIZE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

April 18, 2023

KEY ISSUES

Outlook and Risks. Economic activity is projected to moderate after a strong recovery from the pandemic. After growing by 15 percent in 2021 and 12 percent in 2022, real GDP is projected to grow by 2.4 percent in 2023 and 2.0 percent over the medium term as spare capacity is exhausted. Revenue growth and fiscal consolidation have increased the primary balance to 1.2 percent of GDP from FY2022 onwards, which is projected to reduce public debt from 64 percent of GDP in 2022 to 53 percent in 2028. Risks to the outlook are tilted to the downside, including a sharp slowdown in advanced economies, further increases in commodity prices, and climate-related disasters.

Policy Advice. The key policy priorities include reducing public debt to a level that provides sufficient buffers, increasing expenditure in priority areas, implementing growth enhancing structural reforms, and building resilience to climate change. These policies would boost growth and make it more inclusive.

- *Fiscal Policy*. Reducing public debt to 50 percent of GDP by 2028 would provide sufficient buffers and keep it manageable relative to revenue. Reaching this debt target requires raising the primary balance to 2 percent of GDP from FY2025. Priority spending on infrastructure, targeted social programs, and crime prevention should also be increased. This and the additional fiscal consolidation should be financed with additional revenue and expenditure reprioritization.

- *Structural Reforms*. Boosting potential growth requires enhancing access to domestic credit, ensuring predictable access to FX to attract FDI, reducing crime, and adopting a disaster resilience strategy that strengthens structural, financial, and post-disaster resilience and is based on a multi-year macro-fiscal framework.

- *Monetary Policy*. Strengthening the sustainability of the currency peg requires implementing additional fiscal consolidation and growth-enhancing structural reforms, as well as limiting government financing by the Central Bank.

- *Financial Sector Policy*. Reducing NPLs and overseeing bank recapitalization is necessary to preserve financial stability and increase the supply of credit to boost economic growth. Improving the AML/CFT framework would help to strengthen correspondent banking relationships.

Approved By
Patricia Alonso-Gamo (WHD) and Andrea Schaechter (SPR)

Discussions took place in Belize City and Belmopan during February 2–14, 2023. The IMF team was comprised of: Jaime Guajardo (Head), Thomas Dowling, Shane Lowe, Rafael Machado Parente (all WHD) and Ke Chen (LEG). Ziana Ahmed and Philip Jennings (both OED) attended some meetings. The team met with Mr. Kareem Michael, Governor of the Central Bank of Belize; Mr. Christopher Coye, Minister of State, Mr. Joseph Waight, Financial Secretary; and other senior government officials, representatives of the opposition, private sector, and public sector unions. Siyao Chen and Sheng Tibung (WHD) contributed with excellent research assistance and administrative support.

CONTENTS

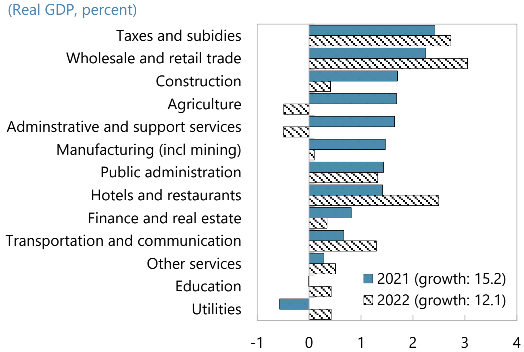
ANNEXES

CONTEXT

1. **Economic activity has rebounded strongly from the pandemic**. The rebased national accounts show that after contracting by 13.4 percent in 2020, real GDP rebounded by 15.2 percent in 2021 and 12.1 percent in 2022, led by retail and wholesale trade, tourism, and business process outsourcing (Annex I). As a result, the unemployment rate declined from 13.7 percent in 2020 to 5.0 percent in 2022. Visitor arrivals reached 74 percent of pre-pandemic levels in 2022 as COVID-19 restrictions eased amid vaccination efforts in Belize and source markets. Vaccination rates in Belize have now plateaued, with 54 percent of the population fully vaccinated, almost a quarter of whom have received a booster. The authorities have removed COVID-19 related restrictions for entry into and movement within the country. Inflation increased from near zero in 2020 to 3.2 percent in 2021 and 6.3 percent in 2022, led by higher global food and fuel prices despite measures to fix domestic diesel and regular gasoline prices at the pump at relatively high levels since April 2022.[1]

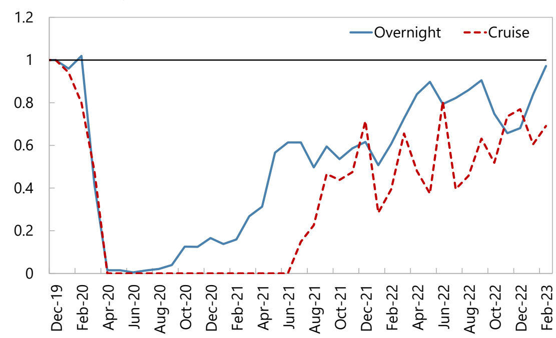
Figure 1. Belize: Economic Growth and Visitor Arrivals

Contributions to Growth, 2021 and 2022
(Real GDP, percent)



Sources: Statistical Institute of Belize and IMF staff calculations.

Visitor Arrivals: Overnight and Cruise
(Relative to respective month in 2019)



Sources: Belize Tourism Board and IMF staff calculations.

2. **The fiscal position has strengthened significantly after the pandemic in line with the strong recovery in economic activity**. The primary balance increased from –8.1 percent of GDP in FY2020 to zero in FY2021 and 1.2 percent of GDP in FY2022 due mostly to expenditure containment, including a temporary 10 percent cut in public sector wages and the suspension of wage increments in FY2021 and FY2022, and a recovery of revenue, which more than offset the 0.5 percent of GDP loss of revenue due to the fuel tax cuts implemented in April 2022 and the 0.5 percent of GDP one-off increase in public expenditure related to Hurricane Lisa.[2],[3]

3. **The public debt-to-GDP ratio has declined sharply**. The GDP rebasing led to a large fall in the public debt-to-GDP ratio in 2020, from 133 percent of the old GDP to 101 percent of the new

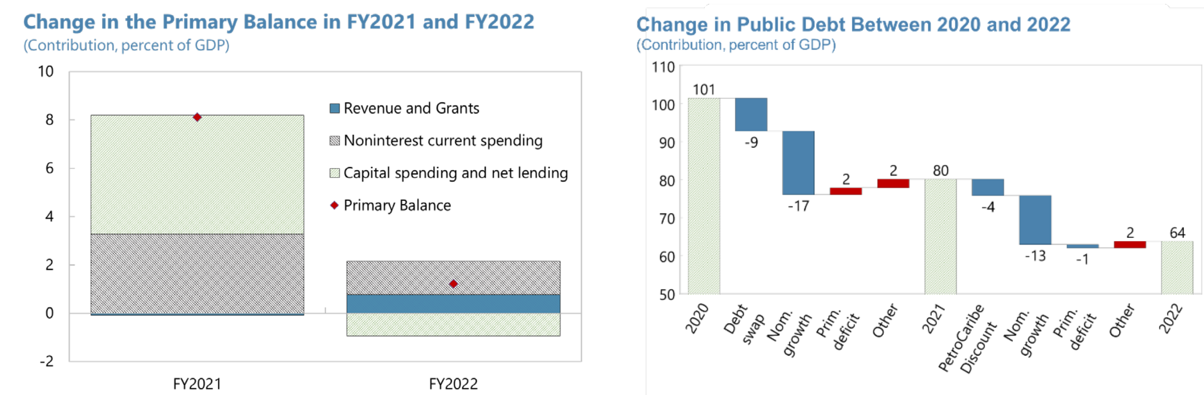
[1] The authorities cut taxes on diesel and regular gasoline to fix the prices at the pump since April 2022 to mitigate the impact of higher global fuel prices on the domestic economy.

[2] Belize's fiscal year runs from April 1st to March 31st.

[3] Hurricane Lisa made landfall on November 2, 2022, as a category one hurricane. The damage, which centered in Belize City, was insufficient to trigger payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

GDP. Public debt fell further to 64 percent of GDP in 2022 due to a debt for marine protection swap with The Nature Conservancy, a significant narrowing of the primary fiscal deficit, strong growth, high inflation, and a 4.3 percent of GDP discount on the Petrocaribe debt owed to Venezuela,.[4]

Figure 2. Belize: Fiscal Adjustment and Debt Reduction



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

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

4. **The policies implemented by the authorities have been broadly aligned with staff advice and technical assistance provided by CARTAC and the IMF** (Annexes II and III). The authorities have contained expenditure and increased the primary balance but have not broadened the tax based significantly. They passed the credit reporting act and are establishing a credit bureau and collateral registry. They are also promoting the formalization of MSMEs by introducing an electronic invoicing module and updating the Fiscal Incentives Act. The Central Bank has placed some banks under enhanced supervision to help them repair their balance sheets, while the national ML/TF risk assessment is being updated. These efforts have been supported with technical assistance from CARTAC and the IMF on the areas of tax policy, revenue administration, public financial management, financial sector regulation and supervision, and statistics.

RECENT DEVELOPMENTS AND OUTLOOK

5. **Real GDP growth and inflation are projected to moderate starting in 2023**. Real GDP growth is projected at 2.4 percent in 2023 and 2 percent over the medium term as tourism returns to pre-pandemic levels and the business process outsourcing sector matures. The output gap is projected to close in 2023. Inflation is projected to moderate to 4.1 percent in 2023 and 1.2 percent over the medium term, in line with the projected decline in commodity prices and global inflation (Annex IV and 2023 Selected Issues Paper, Chapter 1).

6. **The primary balance is projected to remain in surplus over the medium term**. In an unchanged policies scenario, the primary balance is projected to remain at 1.2 percent of GDP in FY2023, above the 0.4 percent of GDP projected by the authorities reflecting staff's cautious forecast

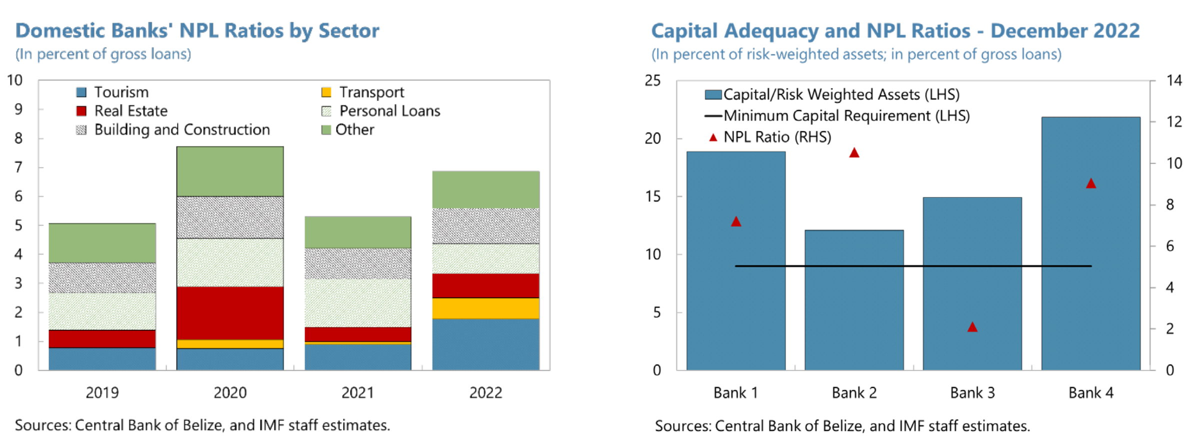
[4] In December 2022, the authorities of Belize and Venezuela agreed to reduce Belize's Petrocaribe debt by between US$129 million and US$164 million. Staff uses the lower bound of this range in its macroeconomic framework.

on an unchanged revenue, including grants, ratio to GDP compared to the authorities' even more cautious revenue assumption. The primary balance is projected to remain at 1.2 percent of GDP over the medium term, with public debt falling to 53 percent of GDP by 2028. This level of public debt is assessed as sustainable, although with still high near-term risks (Annex V).

7. **The current account deficit is projected to moderate and remain fully financed by foreign direct investment (FDI) and official loans**. The current account deficit is estimated to have widened to 8.5 percent of GDP in 2022 due to higher imports, larger profit repatriation, and lower remittances, partly offset by higher tourism receipts. Going forward, the current account deficit is projected to fall gradually as commodity prices decline and tourism continues to recover, remaining fully financed by FDI and multilateral and bilateral loans. As a result, international reserves are projected to remain above 3 months of imports during 2023-28.

8. **Risks to financial stability remain elevated due to legacies from the pandemic.** The domestic banks' regulatory capital—at 16.6 percent of risk weighted assets in 2022—is higher than the 9 percent minimum requirement but lower than before the pandemic. Nonperforming loans (NPLs) increased from 5 percent of gross loans in 2021 to 7 percent in 2022 as the COVID-19 forbearance measures expired, but banks more exposed to the sectors most affected by the pandemic have experienced larger increases in NPLs. Growth in private sector credit, at 4.5 percent in 2022, remains constrained by low supply as banks repair their balance sheets and weak demand due to spare capacity in the economy. Continued weak private sector credit growth will likely constrain real GDP growth once spare capacity in the economy is exhausted.

Figure 3. Belize: Domestic Banks' NPL Ratios, Asset Quality, and Capital Adequacy



RISKS

9. **Risks to the outlook remain tilted to the downside.** While the risk of an intensification of the pandemic has receded, other risks have become more prominent, including a sharp slowdown in advanced economies and climate-related disasters, which could weaken the recovery of tourism (Annex VI). Further increases in food and fuel prices due to Russia's invasion of Ukraine could

exacerbate imported inflation, widen the current account deficit, and reduce international reserves. A slowdown in domestic economic activity could also exacerbate existing vulnerabilities in the banking sector. The tightening of global financial conditions, including from the global banking turmoil, is not expected to impact Belize significantly, as the country does not borrow from private external creditors and the central bank has the appropriate tools to manage capital outflows.

Authorities' Views

10. The authorities broadly agreed with the views on the outlook and risks. They noted the strong economic recovery in 2021-22, led by the rebound in tourism and strong growth in business process outsourcing, with real GDP already above its pre-pandemic level by a sizable margin. The authorities expect growth to slow starting in 2023, but are more optimistic about the medium-term outlook, with average growth projected at 2.7 percent during 2023-27. They also expect the current account deficit to narrow more sharply over the medium-term due to a more positive outlook for tourism. The authorities noted that public debt is now on a more sustainable path and are confident that it will continue to decline over time as the primary balance is projected to stay in surplus. The FY2023 budget projects a primary surplus of 0.4 percent of GDP in FY2023, lower than staff's projections due to conservative revenue projections, and surpluses of around 1.2 percent of GDP in FY2024-25. The authorities agree with the assessment of risks to the outlook and highlighted the risks to inflation and the fiscal balance should downside risks materialize.

POLICY DISCUSSIONS

Belize's key policy priorities include reducing public debt to below 50 percent of GDP by FY2028, which requires gradually increasing the primary balance to 2 percent of GDP; raising priority expenditure on infrastructure, targeted social programs, and crime prevention, financed with additional revenues and expenditure reprioritization; implementing structural reforms to boost growth and make it more inclusive and resilient to natural disasters; and remaining vigilant to financial stability risks.

A. Fiscal Policy

11. The authorities should leverage the large reduction in public debt achieved in the last two years and target a level of public debt that provides sufficient buffers. With unchanged policies, public debt is projected to fall to 53 percent of GDP by 2028, a level assessed as sustainable but with insufficient buffers to respond to adverse shocks. Reducing debt below 50 percent of GDP by 2028 would provide sufficient buffers, staying below the 70 percent of GDP threshold for sustainability over a five-year horizon with 95 percent probability based on past shocks. This debt target would also ensure that the debt-to-revenue ratio remains manageable at around 200 percent; it would provide sufficient buffers for more frequent and severe climate related disasters; and it would increase the level of international reserves and strengthen the currency peg. Achieving the debt target requires gradually raising the primary balance to 2 percent of GDP by FY2025 by preserving the fiscal savings achieved in FY2021-22 and implementing additional fiscal consolidation of 0.8 percent of GDP over three years (Text Table 1). Anchoring this plan in a medium-term fiscal strategy with clear targets and specific measures while preparing the groundwork for the adoption of a Fiscal Responsibility Law (FRL) with specific fiscal rules would enhance its credibility.

12. Belize can increase fiscal space significantly with revenue and expenditure measures. Belize has ample space to mobilize revenues by broadening the tax base, increasing excise taxes, and strengthening revenue administration. On expenditure, reforming the Pension Plan for Public Officials (PPPO) could free resources, depending on the depth of the reforms. In particular,

- Tax and revenue administration measures could raise 2.2 percent of GDP in additional revenue by FY2025. The General Sales Tax (GST) has many items taxed at a zero rate, including processed foods, non-prescription drugs, utilities, appliances, household items, government purchases, and business inputs. Taxing some zero-rated items at the standard 12.5 percent GST rate could raise 1.6 percent of GDP in revenue. Standardizing personal income tax exemption thresholds could raise another 0.2 percent of GDP. Following the fuel tax cuts adopted in FY2022 to fix fuel prices at the pump and given the recent decline in global fuel prices, the authorities should consider allowing domestic fuel prices move in line with global prices, while raising excise taxes on fuel above pre-pandemic levels to recoup the revenue lost and discourage the use of fossil fuels, and expanding targeted social measures to protect the most vulnerable. This, plus higher fees on vehicle registrations and driver licenses, could raise 0.2 percent of GDP in revenue. Strengthening customs and tax administration further, including by improving the efficiency and autonomy of the Belize Tax Service Department (BTSD) and facilitating information exchange between the BTSD and the Belize Customs and Excise Department, could raise another 0.2 percent of GDP in revenue.

- Reforming the PPPO could reduce government spending by 0.1 percent of GDP over three years and by much more in the long term (Annex VII and 2023 Selected Issues Paper, Chapter 2). The PPPO is a non-contributory defined-benefits pension system with a low retirement age and generous benefits. The PPPO deficit totaled 1.1 percent of GDP in FY2022 and is projected at 4.1 percent of GDP by 2072, with the present value of the cumulated deficits during 2023-72 estimated at 77.3 percent of GDP. Introducing and gradually increasing the contribution rate to 10 percent, raising the retirement age from 55 to 65, and reducing the replacement rate from 67.5 percent to 50 percent, would lower the PPPO's long-run deficit by two-thirds. The sooner these reforms are implemented, the more gradual and less disruptive they can be.

13. Besides raising the primary balance, the extra fiscal space should be used to expand spending on infrastructure, targeted social programs, and crime prevention. Vasilyev (2019) finds that infrastructure gaps and crime are two key constraints to growth.[5] In addition, the poverty rate in Belize remains high at 35.7 percent according to the 2022 Census. Increasing spending on infrastructure, targeted social programs, and crime prevention would boost growth and make it more inclusive and resilient to climate change and related disasters. Increasing infrastructure investment by 0.8 percent of GDP from FY2025 onwards would help enhance road connectivity,

[5] https://www.imf.org/en/Publications/WP/Issues/2019/02/04/Reinvigorating-Growth-in-Belize-46496

expand airport capacity, improve water and sewer systems, invest in renewable energy, and make infrastructure more resistant to storms and raising sea levels. Increasing targeted social spending by 0.5 percent of GDP from FY2025 onwards would allow strengthening the social safety net to protect vulnerable households against adverse shocks, including higher food and fuel prices; expanding conditional cash transfer programs such as BOOST, which support poor families and ensure that children attend school; and subsidizing childcare to raise female labor force participation, which stood at 44 percent in October 2022, well below the 73 percent of males. These benefits can be appropriately targeted with the updated data on the vulnerable segments of the population from the 2022 Census. Increasing spending on crime prevention by 0.2 percent of GDP from FY2025 onwards would help strengthen law enforcement, enhance the use of technology to prevent and address crime, and expand the programs that support the youth at risk.

Text Table 1. Belize: Recommended Fiscal Consolidation Measures
(In percent of GDP, Deviations from the Unchanged Policies Scenario)

	Annual Yields			Cumulative Yields		
	FY2023	FY2024	FY2025	FY2023	FY2024	FY2025
Expenditure measures	**0.04**	**-0.71**	**-0.71**	**0.04**	**-0.67**	**-1.38**
Public pensions /1	0.04	0.04	0.04	0.04	0.08	0.12
Infrastructure investment		-0.40	-0.40	0.00	-0.40	-0.80
Social expenditure 2/		-0.25	-0.25	0.00	-0.25	-0.50
Crime prevention 3/		-0.10	-0.10	0.00	-0.10	-0.20
Revenue Measures	**0.00**	**1.10**	**1.10**	**0.00**	**1.10**	**2.20**
Personal income taxes (PIT)		0.10	0.10	0.00	0.10	0.20
Taxes on goods and services		0.90	0.90	0.00	0.90	1.80
Gross sales tax (GST)		0.80	0.80	0.00	0.80	1.60
Excises and fees		0.10	0.10	0.00	0.10	0.20
Revenue administration		0.10	0.10	0.00	0.10	0.20
Total Fiscal Consolidation	**0.04**	**0.39**	**0.39**	**0.04**	**0.43**	**0.82**
Memorandum items						
Primary balance (baseline scenario)				1.2	1.2	1.2
Primary balance (active scenario)				1.2	1.6	2.0

Source: IMF staff estimates.
1/ Savings from gradually reforming the pension plan for public officials.
2/ Expansion of targeted social programs such as BOOST and subsidized childcare.
3/ Expenditure on initiatives to strengthen low enforcement and support youth at risk.

14. The government should also prepare contingency plans. The materialization of adverse shocks could increase the fiscal deficit and public debt, while some fiscal consolidation measures discussed above may prove difficult to implement. In this context, it will be important to prepare contingency revenue and expenditure measures that could be implemented in case public debt does not decline as expected, including taxing a larger share of zero-rated items at the 12.5 percent GST rate, raising the GST rate, and reducing nonpriority expenditure.

15. Further improvements in Public Financial Management (PFM) systems and procedures are needed. Areas to strengthen include multi-year budget preparations, fiscal risk assessment, public investment management, coverage of government accounts, accounting and fiscal reporting, and internal audit. Progress in these areas would facilitate future adoption of fiscal rules to enhance the credibility of fiscal policy. Publishing procurement contracts and beneficial ownership information of awardees would also ensure transparency and accountability.

Authorities' Views

16. The authorities broadly agreed with staff's recommendations on the debt target and the proposed fiscal measures. They acknowledge that the reduction in public debt due to the GDP rebasing left the debt-to-revenue ratio unchanged and thus requires a lower target of public debt to GDP than recommended during the 2022 Article IV Consultation. They reiterated their commitment to continue reducing public debt and maintaining primary surpluses while increasing expenditure in infrastructure, targeted social programs, and crime prevention. They have already enhanced revenue administration by allocating more staff in Customs to combat fraud and creating a Tax Recovery Unit in the Belize Tax Services Department. Their plans focus on improving tax administration and widening the tax base, including by reducing the number of zero-rated items under the GST; passing a Fiscal Incentives Act to help bring micro, small and medium size enterprises into the formal sector; consolidating revenue collection within an autonomous and unified tax department; and introducing an electronic tax invoicing system and a single electronic window for Customs. Discussions are also underway to remove income thresholds for business taxes and the GST. The authorities are planning to increase the excise taxes on fuel to recoup the revenue lost in FY2022. They acknowledged that the PPPO deficit will grow as population ages and have started negotiations with the labor unions on possible reforms to the system. They are not planning to adopt a Fiscal Responsibility Law but would welcome staff's analytical work on appropriate fiscal rules to guide fiscal policy in Belize.

B. Structural Reforms and Climate Change

17. Real GDP growth is projected to remain modest in the medium term without structural reforms. Growth was modest in the decade before the pandemic, averaging 2.1 percent in 2010-19 and implying near zero real GDP per capita growth. Vasilyev (2019) identified several constraints to growth in Belize, including the high cost of finance, risks of fiscal and debt sustainability, deficiencies in human capital, crime, natural disasters, and infrastructure gaps. Many of these factors are still in place, which will likely constrain growth when the excess capacity in the economy is exhausted. Boosting medium term growth will require additional investment, including FDI.

18. Enhancing access to credit and FX would boost domestic investment and FDI. The authorities are adopting measures to ease the access to affordable credit for micro, small, and medium sized enterprises (MSMEs). They passed the Credit Reporting Act and are working on the establishment of the credit bureau and collateral registry. They are promoting the formalization of MSMEs by introducing an electronic invoicing module and updating the Fiscal Incentives Act. They are also helping MSMEs prepare business plans. Continuing these efforts and ensuring effective implementation would enhance access to domestic credit and boost investment. As FX earnings return to pre-pandemic levels, more predictable access to FX going forward would boost FDI and reduce uncertainty for foreign firms about their ability to repatriate profits.

19. Building resilience to climate change and related disasters would reduce volatility and boost growth. Belize is highly vulnerable to climate change and related disasters, including floods, droughts, hurricanes, sea level rise, coral bleaching, and coastal erosion. Investments in

(i) infrastructure resilience to storm and sea level rise; (ii) an early warning system; and (iii) coastal and broad ecosystem conservation would help to build resilience, especially in tourism, agriculture, and aquaculture. Access to financing from multilateral creditors, the Green Climate Fund, and The Conservation Fund for resilience building initiatives could be enhanced with the adoption of a Disaster Resilience Strategy (DRS) that focuses on improving structural, financial, and post-disaster resilience and is based on a consistent multi-year macro-fiscal framework. On mitigation, in line with the updated Nationally Determined Contribution, Belize plans reduce greenhouse gas emissions by protecting and restoring forests, mangroves, and seagrass ecosystems; expanding renewable energy generation; reducing the use of conventional transportation fuel; and enhancing energy efficiency. However, significant gaps remain in the financing of these initiatives.

20. Further improvements to the rule of law are needed to enhance business confidence. While Belize has improved on third-party indicators of rule of law, further efforts are needed to strengthen the technical capacity of the judiciary and promote greater access to relevant legislation and judicial decisions. Several digitalization projects are underway, including the land and business registries, the single investment window, and the digitalization of firms and government services. However, the ministerial discretion allowed in several business-related processes generates uncertainty for doing business and should be gradually replaced with a more predictable and rules-based system.

Authorities' Views

21. The authorities broadly shared the views on the constraints to growth and the need to raise its long run potential. They noted their efforts to formalize MSMEs through the provision of tax incentives and electronic invoicing, which should ease access to affordable credit. They also noted the increasing use of technology to prevent and address crime, and the need for additional funding for law enforcement and programs to support the youth at risk. The authorities highlighted their initiatives to reduce poverty and enhance female labor force participation, including efforts to improve the quality of education and raise the mandatory schooling age, provide housing for the most vulnerable, and develop a pilot program for subsidized childcare in the BPO sector. They have a pipeline of infrastructure projects, including for water, sewer, road connectivity, and renewable energy, for which they are seeking external financing and plan to use Public Private Partnerships. They are also seeking financing for climate adaptation and mitigation from donors, multilateral creditors, and the Green Climate Fund. The government is undertaking reforms to improve governance and reduce ministerial discretion in business processes.

C. Monetary and Financial Policies

22. Belize's external position in 2022 is assessed as moderately weaker than warranted by fundamentals and desirable policies. The EBA-lite current account model estimates the current account norm at –7.1 percent of GDP while the cyclically adjusted current account is –8.2 percent of GDP, implying a gap of –1.2 percent of GDP (Annex VIII). International reserves are projected to remain above three months of imports and short-term external debt, but below the ARA metric.[6] In the absence of exchange rate flexibility, reducing the current account deficit and strengthening the level of reserves requires implementing additional fiscal consolidation and growth-enhancing structural reforms, as well as limiting government financing by the Central Bank.

23. The Central Bank must remain vigilant about risks in the financial sector and continue strengthening the AML/CFT supervision of banks. The Central Bank's process for strengthening the domestic banks' balance sheets and resolving problem loans after the pandemic has been well executed, with some banks placed under enhanced supervision. However, banks remain vulnerable to shocks and some institutions may require recapitalization in 2023 if the quality of their loan portfolios continues to deteriorate. The Central Bank has sufficient tools should it need to intervene, including the provision of liquidity, imposing limits on the distribution of dividends, and an appropriate bank resolution framework as outlined in the Domestic Banks and Financial Institutions Act. However, the Central Bank expects that the banks' owners will inject the needed capital as they have done in the past. Low capital and elevated NPLs could keep the growth in private sector credit subdued, with potential adverse feedback loops between economic activity and financial stability. The Central Bank has developed guidelines for imposing penalties for non-compliance with AML/CFT requirements and is considering issuing a penalty. These efforts are welcome and should be taken forward by testing the guidelines and updating them as necessary to ensure proportionate and dissuasive sanctions for violations of AML/CFT requirements.

24. The authorities must continue strengthening the AML/CFT framework and implementation, especially in the international financial services (IFS) sector, ahead of the mutual evaluation by the Caribbean Financial Action Task Force in November 2023. The authorities expect to complete the update of the national assessment of money laundering and terrorism financing (ML/TF) risks and the action plan to strengthen the AML/CFT framework in the coming months. They should use this opportunity to gain a better understanding of the ML/TF risks in the IFS sector to inform policies. The enactment of the new Companies Act (which covers both domestic and international corporations) and the development of an online business registry are positive steps but more needs to be done to enhance the transparency of beneficial ownership (BO) of legal entities and trusts. The authorities should ensure that all registered agents (who hold BO information of international corporations) have a physical presence and keep the BO records in Belize and are subject to adequate AML/CFT supervision.[7] This will require additional Financial Services Commission's supervisory resources. The authorities are encouraged to require BO information to be filed with the registry by agents or corporations to facilitate access to that information by competent authorities. Regarding virtual assets, the authorities have prepared a bill that proposes to prohibit virtual asset services until the end of 2025.

[6] The high ARA metric for Belize reflects the high level of other liabilities (long-term external debt) and broad money, which measure the risk of capital outflows from nonresidents and residents, respectively.ever, these risks are not significant for Belize as most external debt is with multilateral and bilateral creditors, which reduces the risk of capital outflows by nonresidents, and the central bank has appropriate tools to limit capital outflows by residents.

[7] Physical presence of office and certain mind and management elements of international corporations in Belize is required under the Economic Substance Law enacted in 2019. The grace period for registered agents to comply with the law expired in June 2022, and some of them are yet to become compliant.

Authorities' Views

25. **The authorities broadly agree with the assessment of monetary and financial sector issues**. They remain committed to the currency peg, which has served the country well, and agree that additional fiscal consolidation and growth-enhancing structural reforms are necessary to strengthen international reserve buffers. They see scope to increase exports and reduce imports by increasing the domestic production of processed foods and further expanding the tourism industry. The authorities noted the need to continue improving the asset quality of domestic banks and credit unions and stressed that the central bank has the appropriate tools should it need to intervene.

D. Illustrative Reform Scenario

26. **Implementing the recommended fiscal measures and structural reforms would reduce public debt to below 50 percent of GDP by 2028**. The illustrative reform scenario presented Text Table 2 assumes an increase in the primary balance to 2 percent of GDP from FY2025 onwards and a rise in spending on infrastructure, targeted social programs, and crime prevention in line with the recommendations in Text Table 1. It also assumes the implementation of reforms to ease access to financing for MSMEs and build resilience to natural disasters, which together with the recommended fiscal measures increase growth by 0.25 percent in 2026 and 0.5 percent in 2027-28. As a result, public debt in 2028 falls from 53 percent in the baseline scenario to 49 percent in the illustrative reform scenario, in line with the target to reduce public debt to a level that provides sufficient buffers and is manageable in percent of revenues.

Text Table 2. Belize: Baseline and Illustrative Reform Scenario

(In percent of GDP unless otherwise noted)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline Scenario: Current Policies									
Growth (percent)	-13.4	15.2	12.1	2.4	2.0	2.0	2.0	2.0	2.0
Overall fiscal balance (percent of GDP)	-9.7	-1.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5
Primary fiscal balance (percent of GDP)	-8.1	0.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Public debt (percent of GDP)	101.4	80.1	63.7	60.4	58.4	56.9	55.7	54.6	53.4
Public sector GFN (percent of GDP)	15.4	9.9	6.1	4.5	4.3	3.7	3.1	3.3	3.4
Current account balance (percent of GDP)	-6.1	-6.3	-8.5	-8.0	-7.7	-7.6	-7.4	-7.2	-7.0
International reserves (percent of external GFN)	162.9	139.5	156.8	148.2	145.6	147.1	147.3	148.3	149.2
International reserves (months of imports)	3.4	3.3	3.7	3.6	3.6	3.5	3.4	3.4	3.3
Illustrative Reform Scenario: Fiscal Measures and Structural Reforms 1/									
Growth (percent)	-13.4	15.2	12.1	2.4	1.8	1.8	2.3	2.5	2.5
Overall fiscal balance (percent of GDP)	-9.7	-1.3	-0.6	-0.6	-0.2	0.2	0.3	0.3	0.4
Primary fiscal balance (percent of GDP)	-8.1	0.0	1.2	1.2	1.6	2.0	2.0	2.0	2.0
Public debt (percent of GDP)	101.4	80.1	63.7	60.3	58.0	55.9	53.7	51.5	49.2
Public sector GFN (percent of GDP)	15.4	9.9	6.1	4.5	3.9	2.8	2.3	2.5	2.6
Current account balance (percent of GDP)	-6.1	-6.3	-8.5	-7.9	-7.5	-7.1	-6.9	-6.7	-6.5
International reserves (percent of external GFN)	162.9	139.5	156.8	148.5	150.1	156.0	158.4	159.6	160.6
International reserves (months of imports)	3.4	3.3	3.7	3.6	3.7	3.8	3.8	3.8	3.8

Source: IMF Staff estimates.

1/ The illustrative reform scenario assumes the implementation of 0.8 percent of GDP in fiscal consolidation over three years, which increases the primary balance to 2 percent of GDP in FY2025. It also assumes a fiscal multiplier of -0.5 in line with the estimates in Chapter 4 of the April 2018 Regional Economic Outlook: Western Hemisphere. This scenario also assumes an increase in expenditure in infrastructure, targeted social programs, and crime prevention, in line withy the recommendations in Text table 1. On the structural side, the scenario assumes the implementation of growth-enhancing structural reforms noted above, which together with the recommended fiscal measures increase real GDP growth by 0.25 percent in 2026 and 0.5 percent in 2027-28.

STAFF APPRAISAL

27. Belize has experienced a strong recovery from the COVID-19 pandemic. After declining by 13.4 percent in 2020, real GDP rebounded by 15.2 percent in 2021 and 12.1 percent in 2022 led by the recovery of tourism activity and the expansion of the business processing outsourcing sector. Inflation increased from near zero in 2020 to 3.2 percent in 2021 and 6.3 percent in 2022 in line with the increase in global food and fuel prices and global inflation.

28. Debt sustainability has been restored through a combination of GDP rebasing, fiscal consolidation, debt operations, strong growth, and high inflation. The primary balance rose from –8.1 percent of GDP in FY2020 to 1.2 percent in FY2022 driven by a cyclical recovery of revenue and spending restraint, including a temporary 10 percent cut in public sector wages and the suspension of wage increments in FY2021 and FY2022. The GDP rebasing reduced the public debt-to-GDP ratio in 2020 from 133 percent to 101 percent. In addition, the reduction in the primary deficit during FY2021-22, together with the debt for marine protection swap with The Nature Conservancy, a discount in the Petrocaribe debt owed to Venezuela, and a strong increase in nominal GDP, reduced public debt further to 64 percent in 2022. As a result, public debt is now assessed as sustainable, although with still high near-term risks.

29. Growth and inflation are projected to moderate starting in 2023, while the primary balance is projected to remain in surplus. Real GDP growth is projected to slow to 2.4 percent in 2023 and 2 percent over the medium term, with the output gap closing in 2023. Inflation is projected to fall to 4.1 percent in 2023 and 1.2 percent over the medium term in line with the expected decline in global food and fuel prices. With unchanged policies, the primary balance is projected to stabilize at 1.2 percent of GDP, with public debt declining further to 53 percent of GDP by 2028. Risks to the outlook remain tilted to the downside.

30. The authorities should build on the successful reduction in public debt during 2021-22 and target a level of public debt that provides sufficient buffers. Reducing public debt to 50 percent of GDP by 2028 would imply that it stays below the 70 percent of GDP threshold for sustainability over a 5-year horizon with a 95 percent probability based on past shocks. It would also keep it manageable relative to revenue. Achieving this debt target requires implementing 0.8 percent of GDP of fiscal consolidation to increase the primary balance to 2 percent of GDP from FY2025 onwards.

31. Priority expenditure on infrastructure, targeted social programs, and crime prevention should be increased. This would boost growth and make it more inclusive and resilient to climate change and related disasters. The additional expenditure and fiscal consolidation should be financed with revenue and expenditure measures. Belize has ample room to raise revenue by taxing zero rated items at the standard 12.5 percent GST rate, enhancing revenue administration, and raising excises and fees. Expenditure could be reduced by reforming the PPPO, including by making it contributory, increasing the retirement age, and reducing the replacement rate. The authorities should also prepare contingency measures in case public debt does not fall as planned.

32. Boosting growth also requires easing access to credit for MSMEs, building resilience to climate change and related disasters, and enhancing governance. Progress in these areas would increase private investment, including FDI. Easing access to affordable credit for MSMEs requires establishing a credit bureau and a collateral registry, formalizing these firms, and helping them prepare business plans. Developing a DRS that focuses on improving structural, financial, and post-disaster resilience, and is based on a consistent multi-year macro-fiscal framework, would help unlock multilateral and donor funding for these initiatives. Improving governance and reducing ministerial discretion in business processes would enhance business confidence.

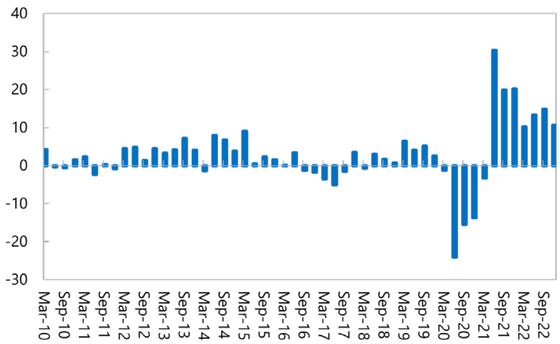
33. Implementing additional fiscal consolidation and growth enhancing structural reforms would also strengthen the currency peg and lower external imbalances. Belize's external position is assessed as moderately weaker than warranted by medium term fundamentals and desirable policies. In the absence of exchange rate flexibility, reducing the current account deficit to its equilibrium level and improving reserve adequacy requires implementing additional fiscal consolidation and growth-enhancing structural reforms in line with staff recommendations. It also requires reducing central bank financing to the government.

34. Preserving financial stability and enhancing the AML/CFT framework are important priorities. The process for resolving problem loans and strengthening the domestic banks' balance sheets after the pandemic has been well executed, with some banks put on enhanced supervision. However, risks remain, and the Central Bank must remain vigilant to developments in the financial sector. The authorities must complete the update of the national assessment of ML/TF risks and the action plan before the mutual evaluation by the Caribbean Financial Action Task Force in November 2023. The Financial Services Commission needs more resources to fulfill its supervisory role.

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

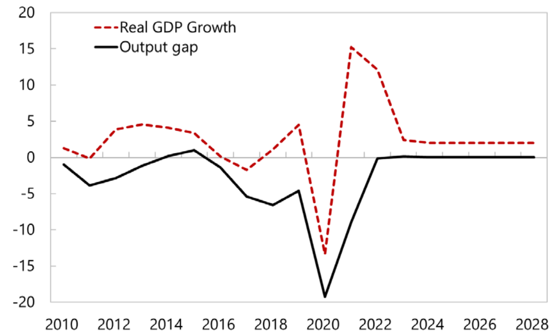
Figure 4. Belize: Real Sector Indicators

Real GDP Growth
(In percent, year on year, quarterly frequency)



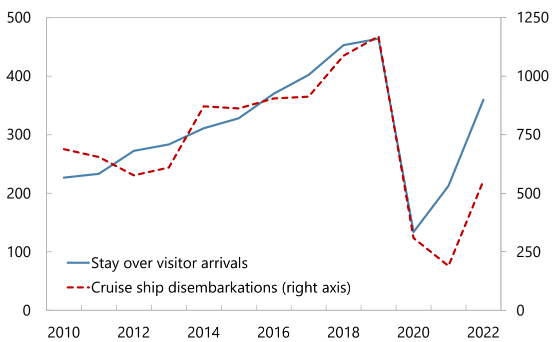
Sources: Statistical Institute of Belize.

Real GDP Growth and Output Gap
(In percent)



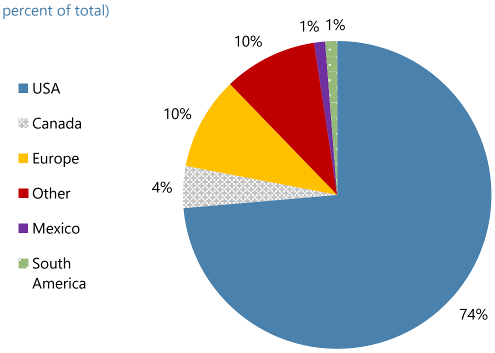
Sources: Belize Statistical Institute; and IMF staff estimates.

Tourist Visitor Arrivals
(In thousands)



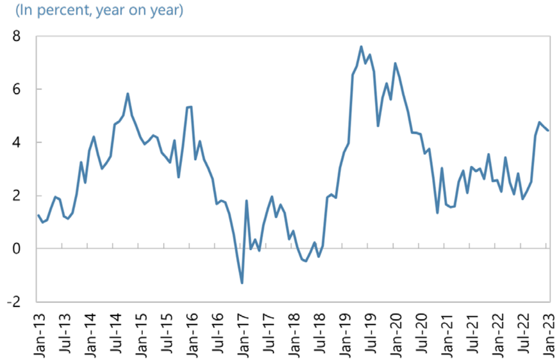
Sources: Central Bank of Belize; and IMF staff estimates.

Composition of Stay Over Visitor Arrivals by Origin, 2022
(In percent of total)



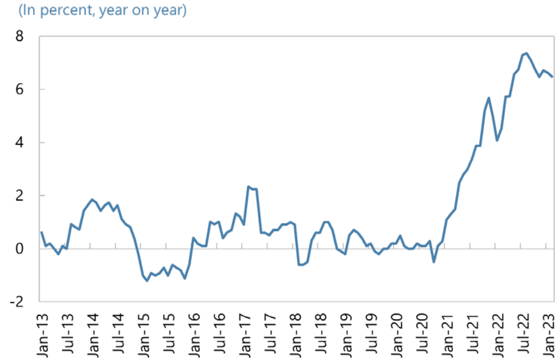
Sources: Belize Tourism Board; and IMF staff calculations

Private Sector Credit Growth
(In percent, year on year)



Sources: Central bank of Belize.

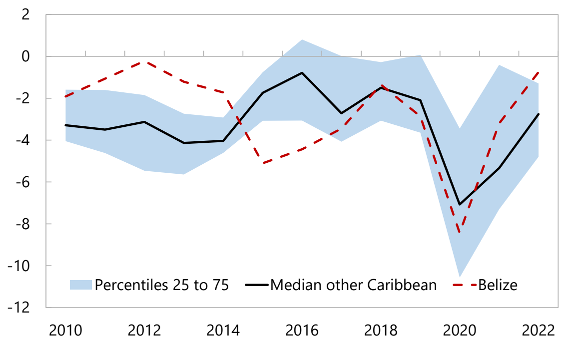
Consumer Price Inflation
(In percent, year on year)



Sources: Statistical Institute of Belize

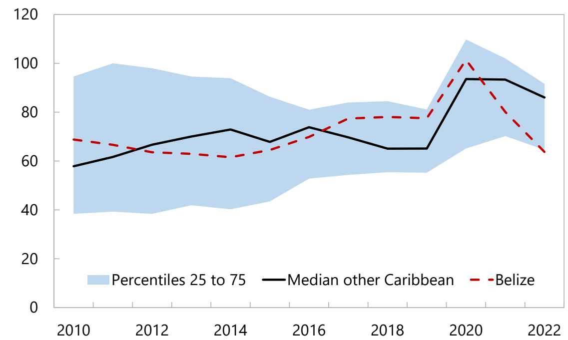
Figure 5. Belize: Public Sector Indicators 1/

Government Balance
(In percent of GDP)



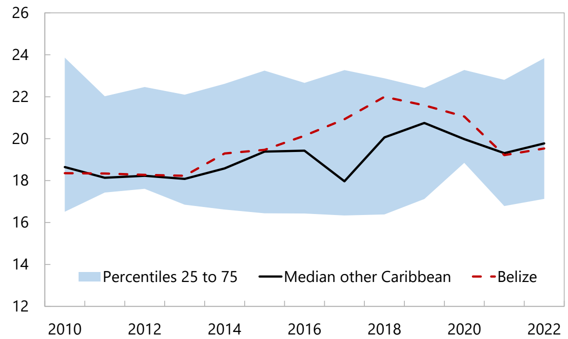
Sources: Country authorities and IMF staff estimates.

Public Sector Debt
(In percent of GDP)



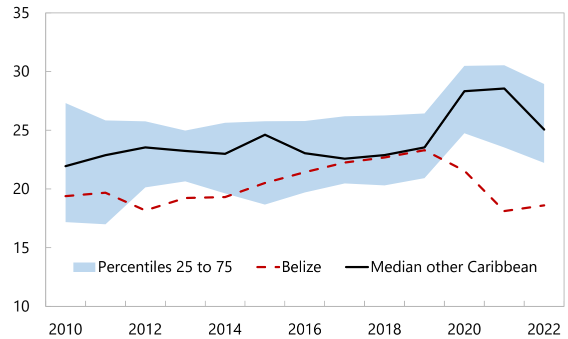
Sources: Country authorities and IMF staff estimates.

Government Tax Revenue
(In percent of GDP)



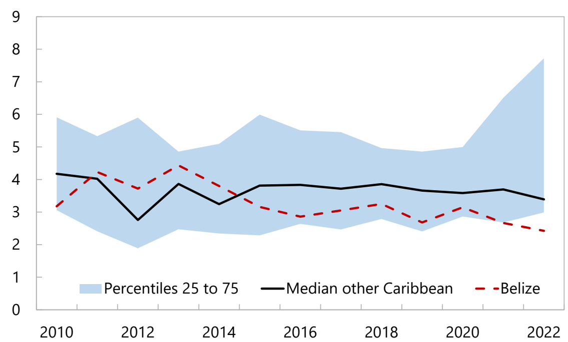
Sources: Country authorities and IMF staff estimates.

Government Current Expenditure
(In percent of GDP)



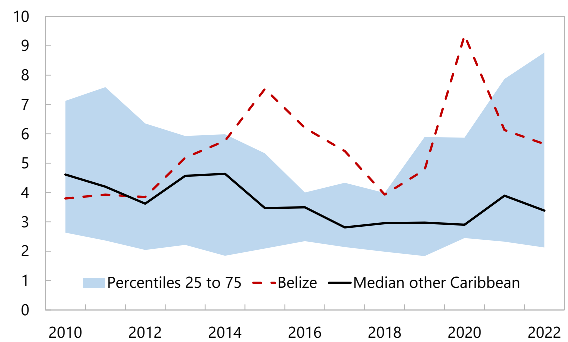
Sources: Country authorities and IMF staff estimates.

Government Nontax Revenue plus Grants
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

Government Capital Expenditure
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.

1/ The other Caribbean group includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Figure 6. Belize: External Sector Indicators

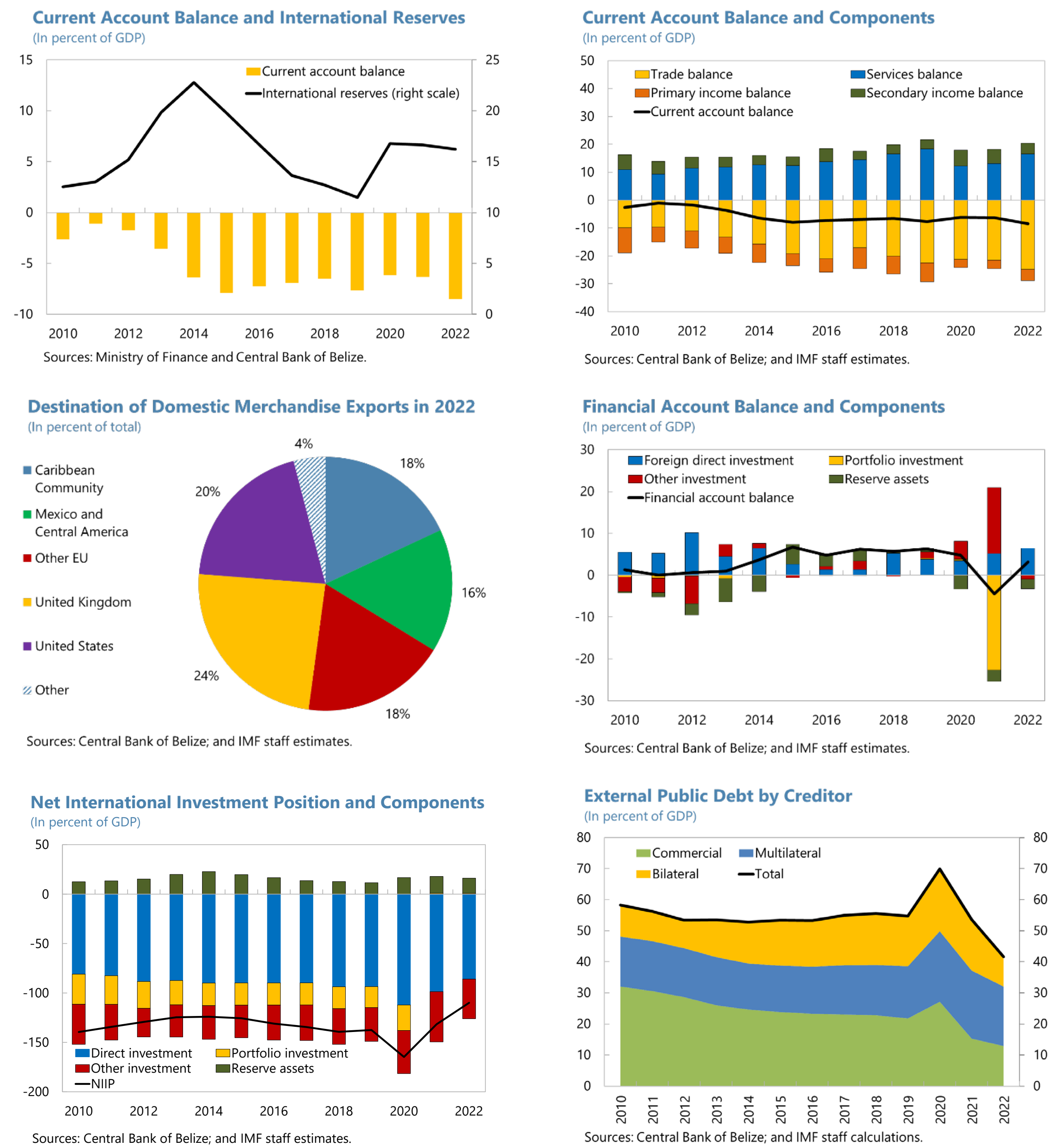


Table 1. Belize: Selected Social and Economic Indicators

I. Population and Social Indicators

Area (sq.km.)	22,860	Human development index (rank), 2021	123
Population (thousands), 2022	444.8	Under-five mortality rate (per thousand), 2020	11.7
GDP per capita, (current US$), 2022	6,722	Unemployment rate (percent), October 2022	5.0
Life expectancy at birth (years), 2019	74.6	Poverty (percent of total population), 2022	35.7

II. Economic Indicators

			Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028
National income and prices	(Annual percentage changes, calendar year)								
GDP at constant prices	-13.4	15.2	12.1	2.4	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.3	4.9	6.7	3.1	2.0	1.2	1.2	1.2	1.2
Consumer prices (average)	0.1	3.2	6.3	4.1	2.5	1.6	1.2	1.2	1.2
Central government 1/	(In percent of fiscal year GDP)								
Revenue and grants	21.8	21.7	22.5	22.7	22.7	22.7	22.7	22.7	22.7
Current non-interest expenditure	20.0	16.7	15.4	15.6	15.6	15.6	15.6	15.6	15.6
Interest payment	1.5	1.2	1.7	1.8	1.8	1.8	1.8	1.8	1.7
Capital expenditure and net lending	10.0	5.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Capital expenditure	9.6	4.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Net lending	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-8.1	0.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Overall balance	-9.7	-1.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5
Public debt	(In percent of calendar year GDP)								
Public debt 2/	101.4	80.1	63.7	60.4	58.4	56.9	55.7	54.6	53.4
Domestic debt	31.6	26.4	22.2	18.7	16.5	15.6	15.6	15.9	15.7
External debt	69.9	53.7	41.6	41.7	41.8	41.4	40.1	38.6	37.7
Principal payment	6.3	6.7	4.4	4.0	3.5	2.8	2.2	2.3	2.3
Domestic	4.1	4.6	3.2	2.5	1.5	0.7	0.2	0.3	0.5
External	2.3	2.1	1.2	1.5	2.0	2.1	2.0	1.9	1.8
Money and credit	(Annual percentage changes, calendar year)								
Credit to the private sector	3.1	2.6	4.5	4.1	3.8	3.6	3.2	3.2	3.2
Money and quasi-money (M2)	10.7	12.3	4.7	4.0	3.6	3.5	3.2	3.2	3.2
External sector	(Annual percentage changes, unless otherwise indicated)								
External current account (percent of GDP) 3/	-6.1	-6.3	-8.5	-8.0	-7.7	-7.6	-7.4	-7.2	-7.0
Real effective exchange rate (+ = depreciation)	-0.3	-1.6	0.3	…	…	…	…	…	…
Gross international reserves (US$ millions)	349	415	481	487	494	500	503	507	513
In months of imports	3.4	3.3	3.7	3.6	3.6	3.5	3.4	3.4	3.3
Memorandum items									
Output gap (percent of potential output)	-19.2	-9.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Nominal GDP (BZ$ millions)	4,160	4,983	5,938	6,332	6,620	6,858	7,081	7,310	7,548

Sources: Belize authorities; UNDP Human Development Report; World Development Indicators; and staff estimates and projections.
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.

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

(In millions of Belize dollars, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
			Projections						
Revenue and grants	**953**	**1,136**	**1,360**	**1,455**	**1,518**	**1,571**	**1,622**	**1,675**	**1,729**
Revenue	**922**	**1,097**	**1,328**	**1,422**	**1,483**	**1,535**	**1,585**	**1,636**	**1,690**
Current revenue	906	1,092	1,320	1,413	1,474	1,526	1,575	1,626	1,679
Tax revenue	819	1,003	1,212	1,298	1,354	1,402	1,447	1,494	1,543
Income and profits	239	225	347	378	394	408	421	435	449
Goods and services	447	585	642	681	710	735	759	784	809
General Sales Tax	244	320	351	372	388	402	415	428	442
Taxes on international trade	127	185	217	233	243	252	260	268	277
Nontax revenue	87	89	108	115	120	124	128	132	136
Capital revenue	16	5	8	9	9	10	10	10	11
Grants	**31**	**39**	**31**	**33**	**35**	**36**	**37**	**38**	**39**
Total expenditure	**1,375**	**1,201**	**1,393**	**1,494**	**1,560**	**1,611**	**1,665**	**1,716**	**1,769**
Current expenditure	940	939	1,033	1,115	1,165	1,203	1,243	1,282	1,320
Wages and salaries	452	413	446	468	488	505	522	539	556
Pensions	89	98	97	100	104	108	111	115	119
Goods and services	179	210	205	230	240	248	256	265	273
Interest payments	66	64	105	115	122	123	128	130	132
Transfers	154	153	179	202	211	218	226	233	240
Capital expenditure and net lending	434	262	360	379	395	408	421	435	449
Capital expenditure	421	256	358	376	392	406	419	432	446
Domestically financed expenditure (Capital II)	210	149	210	209	218	225	233	240	248
Foreign financed expenditure (Capital III)	211	104	139	158	165	171	176	182	188
Net lending	13	7	2	2	3	3	3	3	3
Primary balance	**-356**	**-1**	**72**	**76**	**80**	**83**	**85**	**88**	**92**
Overall balance	**-422**	**-66**	**-33**	**-39**	**-42**	**-40**	**-43**	**-42**	**-40**
Financing	**422**	**66**	**33**	**39**	**42**	**40**	**43**	**42**	**40**
Privatization (net)	0	0	-77	0	0	0	0	0	0
Domestic	38	-561	17	-121	-74	-11	44	49	17
Of which: Amortization	184	220	180	142	87	39	16	29	39
External	384	626	92	160	116	52	-2	-8	23
Disbursements	480	722	169	263	249	195	139	132	157
Amortization	96	96	77	104	133	143	140	139	134
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3/	**-356**	**-1**	**72**	**76**	**80**	**83**	**85**	**88**	**92**
Structural primary balance	-128	111	74	74	79	83	85	88	91
Nominal GDP (in BZ$ millions)	4,366	5,222	6,037	6,404	6,679	6,914	7,138	7,370	7,609
Non-interest expenditure	1,309	1,137	1,288	1,379	1,438	1,488	1,536	1,586	1,637
Wages and salaries before reclassification	330	330	330	330	330	330	330	330	330
Oil revenue	2	2	2	3	3	3	3	3	3
Public sector debt 4/	4,182	3,954	3,745	3,782	3,824	3,865	3,908	3,952	3,993
Domestic	1,313	1,316	1,316	1,184	1,095	1,066	1,106	1,165	1,186
External	2,869	2,639	2,429	2,598	2,729	2,798	2,802	2,787	2,807

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

1/ Fiscal year ends in March.

2/ Excludes extrabudgetary funds.

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

4/ Calendar year. Public debt includes central government debt and 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)

			Projections						
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Revenue and grants	**21.8**	**21.7**	**22.5**	**22.7**	**22.7**	**22.7**	**22.7**	**22.7**	**22.7**
Revenue	**21.1**	**21.0**	**22.0**	**22.2**	**22.2**	**22.2**	**22.2**	**22.2**	**22.2**
Current revenue	20.8	20.9	21.9	22.1	22.1	22.1	22.1	22.1	22.1
Tax revenue	18.8	19.2	20.1	20.3	20.3	20.3	20.3	20.3	20.3
Income and profits	5.5	4.3	5.7	5.9	5.9	5.9	5.9	5.9	5.9
Goods and services	10.2	11.2	10.6	10.6	10.6	10.6	10.6	10.6	10.6
General Sales Tax	5.6	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Taxes on international trade	2.9	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nontax revenue	2.0	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Capital revenue	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	**0.7**	**0.7**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Total expenditure	**31.5**	**23.0**	**23.1**	**23.3**	**23.3**	**23.3**	**23.3**	**23.3**	**23.2**
Current expenditure	21.5	18.0	17.1	17.4	17.4	17.4	17.4	17.4	17.4
Wages and salaries	10.4	7.9	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Pensions	2.0	1.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Goods and services	4.1	4.0	3.4	3.6	3.6	3.6	3.6	3.6	3.6
Interest payments	1.5	1.2	1.7	1.8	1.8	1.8	1.8	1.8	1.7
Transfers	3.5	2.9	3.0	3.2	3.2	3.2	3.2	3.2	3.2
Capital expenditure and net lending	10.0	5.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Capital expenditure	9.6	4.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Domestically financed expenditure (Capital II)	4.8	2.9	3.5	3.3	3.3	3.3	3.3	3.3	3.3
Foreign financed expenditure (Capital III)	4.8	2.0	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Net lending	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**-8.1**	**0.0**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**
Overall balance	**-9.7**	**-1.3**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.5**
Financing	**9.7**	**1.3**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**
Privatization (net)	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.9	-10.7	0.3	-1.9	-1.1	-0.2	0.6	0.7	0.2
Of which: Amortization	4.2	4.2	3.0	2.2	1.3	0.6	0.2	0.4	0.5
External	8.8	12.0	1.5	2.5	1.7	0.7	0.0	-0.1	0.3
Disbursements	11.0	13.8	2.8	4.1	3.7	2.8	1.9	1.8	2.1
Amortization	2.2	1.8	1.3	1.6	2.0	2.1	2.0	1.9	1.8
Memorandum items:									
Primary balance (excluding one-off capital transfer) 3/	**-8.1**	**0.0**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**
Structural primary balance	-2.4	1.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Nominal GDP (in BZ$ millions)	4,366	5,222	6,037	6,404	6,679	6,914	7,138	7,370	7,609
Public sector debt 4/	101.4	80.1	63.7	60.4	58.4	56.9	55.7	54.6	53.4
Domestic	31.6	26.4	22.2	18.7	16.5	15.6	15.6	15.9	15.7
External	69.9	53.7	41.6	41.7	41.8	41.4	40.1	38.6	37.7

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

1/ Fiscal year ends in March.

2/ Excludes extrabudgetary funds.

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

4/ Calendar year. Public debt includes central government debt and external financial and non-financial public sector debt.

Table 3a. Belize: Balance of Payments
(In millions of US dollars, unless otherwise indicated)

			Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-128**	**-158**	**-252**	**-252**	**-256**	**-260**	**-262**	**-264**	**-265**
Trade balance	-443	-534	-737	-727	-752	-774	-793	-812	-831
Total exports, f.o.b.	289	422	469	509	532	551	569	587	606
Of which: Oil	2	4	2	1	1	0	0	0	0
Total imports, f.o.b.	731	956	1,206	1,236	1,284	1,325	1,361	1,399	1,437
Of which: Fuel and lubricants	80	134	211	191	188	185	191	196	202
Services	255	328	491	588	615	637	658	679	701
Income	-59	-78	-120	-214	-224	-232	-240	-247	-255
Of which: Public sector interest payments	-26	-20	-23	-34	-35	-37	-38	-39	-40
Current transfers	118	127	114	101	105	109	112	116	120
Private (net)	112	126	118	110	115	120	123	127	132
Official (net)	6	1	-5	-10	-10	-11	-11	-11	-12
Capital and financial account balance	**183**	**193**	**319**	**257**	**264**	**266**	**265**	**268**	**272**
Capital transfers	14	241	158	20	15	16	16	17	17
Public sector	124	451	-97	83	60	27	-5	-17	1
Change in assets	-1	-1	-1	-1	-1	-1	-1	-1	-1
Change in liabilities	125	452	-97	84	60	28	-5	-16	2
Disbursements	174	508	77	139	133	107	73	62	79
Central government	167	458	69	132	131	106	72	62	79
Amortization	-49	-56	-45	-55	-72	-80	-78	-78	-76
Central government	-47	-52	-36	-47	-65	-72	-70	-70	-69
Private sector 1/	45	-500	258	154	189	223	254	268	253
Foreign Direct Investment, net	72	129	190	171	146	151	156	161	166
Other private flows	-33	-63	68	-17	43	72	98	107	87
Commercial banks	-25	-148	-12	-7	18	32	46	50	40
Other private nonbanks	-2	-480	80	-10	25	40	52	57	47
Errors and omissions	**14**	**33**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**69**	**68**	**66**	**5**	**8**	**6**	**2**	**4**	**6**
Financing	**-69**	**-68**	**-66**	**-5**	**-8**	**-6**	**-2**	**-4**	**-6**
Memorandum items:									
Gross international reserves	349	415	481	487	494	500	503	507	513
In percent of next year's gross external financing needs	163	139	157	148	146	147	147	148	149
In percent of next year's total debt service	507	607	564	445	420	420	422	433	465
In months of next year's imports	3.4	3.3	3.7	3.6	3.6	3.5	3.4	3.4	3.3

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

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

Table 3b. Belize: Balance of Payments
(In percent of GDP, unless otherwise indicated)

			Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	**-6.1**	**-6.3**	**-8.5**	**-8.0**	**-7.7**	**-7.6**	**-7.4**	**-7.2**	**-7.0**
Trade balance	-21.3	-21.4	-24.8	-23.0	-22.7	-22.6	-22.4	-22.2	-22.0
Total exports, f.o.b.	13.9	16.9	15.8	16.1	16.1	16.1	16.1	16.1	16.1
Of which: Oil	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total imports, f.o.b.	35.2	38.4	40.6	39.0	38.8	38.6	38.5	38.3	38.1
Of which: Fuel and lubricants	3.9	5.4	7.1	6.0	5.7	5.4	5.4	5.4	5.4
Services	12.3	13.1	16.5	18.6	18.6	18.6	18.6	18.6	18.6
Income	-2.8	-3.1	-4.0	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
Of which: Public sector interest payments	-1.2	-0.8	-0.8	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Current transfers	5.7	5.1	3.8	3.2	3.2	3.2	3.2	3.2	3.2
Private (net)	5.4	5.1	4.0	3.5	3.5	3.5	3.5	3.5	3.5
Official (net)	0.3	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Capital and financial account balance	**8.8**	**7.7**	**10.7**	**8.1**	**8.0**	**7.7**	**7.5**	**7.3**	**7.2**
Capital transfers	0.7	9.7	5.3	0.6	0.5	0.5	0.5	0.5	0.5
Public sector	6.0	18.1	-3.3	2.6	1.8	0.8	-0.1	-0.5	0.0
Change in assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in liabilities	6.0	18.1	-3.3	2.6	1.8	0.8	-0.1	-0.4	0.1
Disbursements	8.4	20.4	2.6	4.4	4.0	3.1	2.1	1.7	2.1
Central government	8.1	18.4	2.3	4.2	3.9	3.1	2.0	1.7	2.1
Amortization	-2.4	-2.3	-1.5	-1.7	-2.2	-2.3	-2.2	-2.1	-2.0
Central government	-2.3	-2.1	-1.2	-1.5	-2.0	-2.1	-2.0	-1.9	-1.8
Private sector 1/	2.2	-20.1	8.7	4.9	5.7	6.5	7.2	7.3	6.7
Foreign Direct Investment, net	3.5	5.2	6.4	5.4	4.4	4.4	4.4	4.4	4.4
Other private flows	-1.6	-2.5	2.3	-0.5	1.3	2.1	2.8	2.9	2.3
Commercial banks	-1.2	-5.9	-0.4	-0.2	0.5	0.9	1.3	1.4	1.1
Other private nonbanks	-0.1	-19.3	2.7	-0.3	0.8	1.2	1.5	1.6	1.2
Errors and omissions	**0.7**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**3.3**	**2.7**	**2.2**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.2**
Financing	**-3.3**	**-2.7**	**-2.2**	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.2**
Change in reserves (- increase)	-3.3	-2.7	-2.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2

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

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

Table 4. Belize: Operations of the Banking System
(In millions of Belize dollars, unless otherwise indicated)

				Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028
Central Bank of Belize (CBB)									
Net foreign assets 1/	648	726	851	861	877	888	893	902	914
Net international reserves	699	848	967	977	992	1,004	1,009	1,017	1,030
Medium-term foreign liabilities 2/	-52	-122	-116	-116	-116	-116	-116	-116	-116
Net domestic assets	404	433	480	564	600	640	685	727	768
Credit to the public sector (net)	421	449	522	460	419	409	433	466	481
Central government	425	458	529	463	419	405	425	454	465
Other public sector	-4	-10	-8	-4	0	4	8	12	16
Capital and other assets (net)	-17	-16	-42	105	181	231	252	261	287
Base money	1,052	1,159	1,331	1,426	1,477	1,528	1,578	1,629	1,682
Currency issue	503	528	604	663	738	801	882	951	1,040
Reserves of commercial banks	548	631	727	763	739	727	695	678	642
Commercial banks									
Net foreign assets	301	597	553	567	531	467	375	275	195
Net claims on central bank	619	701	804	838	824	806	784	760	734
Of which: cash in vault	71	71	81	75	85	79	89	82	92
Net domestic assets	2,628	2,682	2,701	2,830	2,972	3,149	3,370	3,587	3,791
Credit to the public sector (net)	61	-14	-69	-127	-163	-168	-139	-101	-81
Central government	318	249	203	137	92	78	98	127	138
Other public sector	-258	-263	-272	-264	-255	-246	-237	-228	-219
Credit to the private sector	2,254	2,312	2,417	2,516	2,612	2,706	2,793	2,884	2,978
Other assets (net)	313	384	353	441	523	611	716	803	895
Liabilities to the private sector	3,548	3,980	4,058	4,235	4,327	4,421	4,529	4,622	4,720
Monetary survey									
Net foreign assets	949	1,322	1,404	1,428	1,407	1,355	1,268	1,176	1,109
Medium-term foreign liabilities of CBB	52	122	116	116	116	116	116	116	116
Net domestic assets	3,032	3,114	3,177	3,394	3,573	3,789	4,055	4,314	4,559
Credit to the public sector (net)	481	435	452	332	256	241	294	366	400
Central government	743	707	732	600	511	483	523	581	603
Other public sector	-261	-272	-280	-268	-255	-242	-229	-216	-203
Credit to private sector (by comm. banks)	2,254	2,312	2,417	2,516	2,612	2,706	2,793	2,884	2,978
Other items (net)	296	367	308	546	705	842	968	1,064	1,181
Liabilities to the private sector	3,980	4,437	4,581	4,823	4,980	5,144	5,323	5,491	5,668
Money and quasi-money (M2)	3,534	3,969	4,155	4,323	4,478	4,634	4,784	4,939	5,100
Currency in circulation	432	457	523	588	653	722	794	869	948
Deposits	3,101	3,512	3,631	3,735	3,825	3,911	3,990	4,071	4,152
Foreign currency deposits	116	162	149	153	157	161	164	167	170
Capital and reserves of commercial banks	447	468	426	500	502	510	539	551	568
Memorandum items:									
Private sector local currency deposits (growth, percent)	9.8	13.2	3.4	2.9	2.4	2.3	2.0	2.0	2.0
Base money (growth, percent)	23.0	10.2	14.9	7.1	3.6	3.5	3.2	3.2	3.2
Credit to priv. sector by comm. banks (growth, percent)	3.1	2.6	4.5	4.1	3.8	3.6	3.2	3.2	3.2
Money and quasi-money growth (M2, percent)	10.7	12.3	4.7	4.0	3.6	3.5	3.2	3.2	3.2
Net international reserves to M2 (percent)	19.8	21.4	23.3	22.6	22.2	21.7	21.1	20.6	20.2
Required cash reserve ratio (percent)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Loan-deposit ratio (percent)	70.1	62.9	63.9	64.7	65.6	66.4	67.2	68.1	68.9

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										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	(Annual percentage change)												
GDP and prices													
GDP at constant prices	-13.4	15.2	12.1	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP at current market prices	-13.9	19.8	19.2	6.6	4.6	3.6	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Prices (GDP deflator)	-0.6	4.0	6.3	4.1	2.5	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Consumer prices (end of period)	0.4	4.9	6.7	3.1	2.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	(In percent of GDP, unless otherwise indicated)												
National accounts													
Consumption	80.5	79.9	80.3	79.3	78.5	78.2	78.0	77.7	77.6	77.4	77.2	77.1	76.9
Gross domestic investment 1/	28.5	28.4	28.0	25.1	25.6	25.8	26.0	25.9	25.9	26.0	26.2	26.3	26.5
Net exports	-9.0	-8.3	-8.3	-4.4	-4.1	-4.0	-4.0	-3.6	-3.4	-3.4	-3.4	-3.4	-3.4
Gross national savings	19.6	17.2	14.0	14.0	13.9	14.0	14.3	14.6	15.0	15.1	15.3	15.4	15.6
Central government 2/													
Revenue and grants	21.8	21.7	22.5	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7
Total expenditure	31.5	23.0	23.1	23.3	23.3	23.3	23.3	23.3	23.2	23.2	23.1	23.1	23.0
Noninterest expenditure	30.0	21.8	21.3	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Primary balance	-8.1	0.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest	1.5	1.2	1.7	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.5
Overall balance	-9.7	-1.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3
External sector													
Current account balance	-6.1	-6.3	-8.5	-8.0	-7.7	-7.6	-7.4	-7.2	-7.0	-7.0	-7.0	-7.0	-7.0
Of which: Exports of goods and services	34.4	41.9	43.3	44.6	44.6	44.5	44.5	44.5	44.5	44.5	44.5	44.5	44.5
Of which: Petroleum exports	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Imports of goods and services	-43.4	-50.1	-51.6	-48.9	-48.7	-48.5	-48.5	-48.2	-48.0	-48.0	-48.0	-48.0	-48.0
Capital and financial account	8.8	7.7	10.7	8.1	8.0	7.7	7.5	7.3	7.2	7.3	7.3	7.2	6.6
Public sector disbursements	8.4	20.4	2.6	4.4	4.0	3.1	2.1	1.7	2.1	2.0	2.0	1.9	2.3
Public sector amortization	-2.4	-2.3	-1.5	-1.7	-2.2	-2.3	-2.2	-2.1	-2.0	-1.8	-1.6	-1.6	-2.6
Other capital and fin. account transactions 3/	2.8	-10.4	9.7	5.5	6.1	6.9	7.6	7.8	7.1	7.1	7.0	6.9	6.9
Change in reserves (- increase)	-3.3	-2.7	-2.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.2	0.4
Gross official reserves (in months of imports)	3.4	3.3	3.7	3.6	3.6	3.5	3.4	3.4	3.3	3.3	3.2	3.2	3.0
Public debt 4/	101.4	80.1	63.7	60.4	58.4	56.9	55.7	54.6	53.4	52.2	51.0	49.8	48.6
Domestic	31.6	26.4	22.2	18.7	16.5	15.6	15.6	15.9	15.7	15.3	14.7	14.3	14.3
External	69.9	53.7	41.6	41.7	41.8	41.4	40.1	38.6	37.7	36.9	36.2	35.5	34.2

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.

Table 6. Belize: Domestic Banks: Financial Soundness Indicators
(In percent)

	2017	2018	2019	2020	2021	2022
Capital Adequacy						
Regulatory Capital to Risk Weighted Assets	24.2	24.6	22.8	19.8	19.2	16.6
Primary Capital to Risk-Weighted Assets	23.2	23.6	21.7	18.6	18.2	13.7
Non-Performing Loans (Net of Specific Provisions) to Regulatory Capital	11.1	11.7	11.4	23.9	13.2	25.5
Large Exposure to Capital	117.5	96.5	94.5	139.3	153.6	182.7
Asset Quality						
Non-Performing Loans to Total Gross Loans	6.4	6.2	5.1	7.7	5.0	7.0
Non-Performing Loans (Net of Specific Provisions) to Total Gross Loans	2.4	2.7	2.4	4.4	2.5	4.4
Loan Loss Coverage	77.6	72.3	71.9	57.3	70.1	63.8
Profitability/Efficiency						
Return On Equity (Net Income to Average Capital)	9.2	19.8	13.3	3.2	5.7	2.8
Return On Assets (Net Income to Average Assets)	1.3	3.1	2.0	0.4	0.6	0.3
Interest Margin to Gross Income	68.1	66.9	65.5	69.2	66.0	65.5
Non-Interest Expenses to Gross Income	62.6	61.0	63.4	62.1	68.3	61.5
Liquidity						
Liquid Assets to Total Assets	27.3	25.8	24.3	28.1	33.8	34.2
Liquid Assets to Short-Term Liabilities	41.7	38.6	36.1	38.5	46.6	54.4
Customer Deposits to total (Non-Interbank) Loans	130.4	127.8	128.4	138.1	155.1	152.1

Source: Central Bank of Belize.

Annex I. The Impact of the Rebasing of the National Accounts on the Macroeconomic Framework and Policy Recommendations

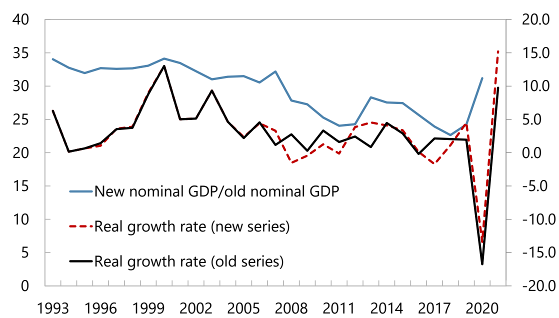
The authorities have rebased the national accounts, updating the base year from 2000 to 2014 and upgrading the System of National Accounts (SNA) to the 2008 SNA. The new GDP series is 30 percent higher than the previous series on average between 1993 and 2020, reflecting new sectoral weights and an updated business registry. As a result, key macroeconomic indicators such as the fiscal and current account balances, and public debt, have declined in percent of GDP. This has contributed to the change in staff's assessments of the external position and public debt sustainability.

1. **In 2020, the Statistical Institute of Belize (SIB), with support from CARTAC, the IMF, and Statistics Canada, rebased the national accounts**. This involved updating the statistical business registry by conducting an economy wide industrial survey to improve the coverage of activity of small and medium sized enterprises and updating the base year's price structure and weights from 2000 to 2014. The new data is also more granular. The national accounts series with base 2014 have a total of 34 industry groupings and subgroupings, while the national accounts series with base 2000 only had 18 groupings. The SIB also upgraded the manual used for compiling the statistics from the 1993 System of National Accounts (SNA) to the 2008 SNA.

2. **Nominal GDP and recent real GDP growth were revised up**. Nominal GDP rose by an average of 30 percent relative to the old series between 1993 and 2020. These revisions reflect new sectoral weights and an updated business registry. Real GDP growth in recent years was also revised up by 2.5 percentage points in 2019, 3.4 percentage points in 2020, and 5.5 percentage points in 2021. These revisions reflect larger weights on sectors that expanded rapidly during this period compared to the old national accounts series.

Comparing the New and Old GDP Series

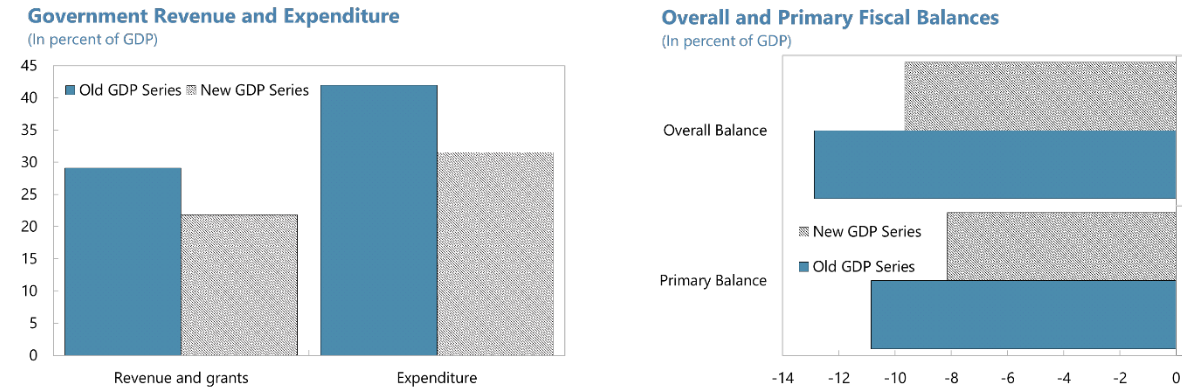
(Left axis: ratio between new and old nominal GDP series minus one; Right axis: real GDP growth rate; percent)



Sources: Statistical Institute of Belize and IMF staff calculations.

3. **Key macroeconomic indicators have declined in percentage of GDP**. Before the rebasing, the ratios of tax revenues and government expenditures to GDP in Belize were among the highest in Latin America and the Caribbean due to incomplete coverage of economic activity. The new series brings Belize's ratios of revenue and expenditure to GDP more in line with regional peers of similar income per capita. Consequently, the primary and overall fiscal deficits have declined as shares of GDP. The current account deficit has also fallen in percent of GDP, narrowing by 2.4 percentage points in 2021 when staff assessed Belize's external position as weaker than the level justified by medium term fundamentals and desirable policies. Staff now assesses the external position in 2022 as moderately weaker than the level warranted by fundamentals and desirable policies despite a widening of the current account deficit compared to 2021.

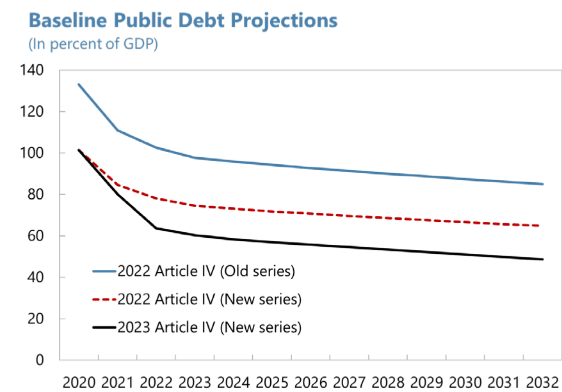
Figure 1. Belize: Effects of GDP Rebasing on Fiscal Indicators (FY2020)



Sources: Ministry of Finance, Statistical Institute of Belize and IMF staff estimates.

Sources: Ministry of Finance, Statistical Institute of Belize and IMF staff estimates.

4. **The path of the public debt-to-GDP ratio has declined relative to the 2022 Article IV Consultation, in part due to the GDP rebasing**. The rebasing reduced the public debt-to-GDP ratio in 2020 from 133 percent of the old GDP to 101 percent of the new GDP. In 2022, staff recommended lowering public debt to 60 percent of GDP (180 percent of revenue) in 2031 through fiscal consolidation and structural reforms. Without reforms, public debt was projected to remain high at 86 percent of GDP in 2031. Using the new GDP series up to 2020 and extending it with the baseline projections in the 2022 Article IV Consultation, would have reduced public debt to 66 percent of GDP in 2031, much closer to the recommended target in percent of GDP, but still high in percent revenue (289 percent) as revenues did not increase with the GDP rebasing. In line with the implicit debt-to-revenue target recommended in 2022, staff now recommends reducing public debt to 50 percent of GDP (201 percent of revenue) in 2028.



Sources: Central Bank of Belize and IMF staff estimates and projections.

5. **Strong growth, high inflation, fiscal consolidation, and debt operations have also contributed to the fall in the public debt to GDP ratio**. In the current baseline scenario without reforms, public debt is projected to fall to 53 percent of GDP by 2028, a level assessed as sustainable although with a still high debt to revenue ratio. In addition to the GDP rebasing, the public debt to GDP ratio fell in 2021-22 because of a strong 44 percent increase in nominal GDP during 2021-22, relatively high primary surpluses, a debt for marine protection swap with The Nature Conservancy in 2021 and a discount in the debt owed to Venezuela under Petrocaribe in 2022. This level of public debt is assessed as sustainable as it is projected to remain below 70 percent of GDP in the baseline scenario, although with a still higher than recommended debt to revenue ratio. This contrasts with the assessment in the 2022 Article IV Consultation, in which public debt was still assessed as unsustainable. The change in the assessment is not only reflects the GDP rebasing, but also the improved fiscal position, strong economic growth, high inflation, and sizable debt operations.

Annex II. Implementation of 2022 Article IV Consultation Recommendations

2022 Article IV Recommendation	Implementation
Fiscal Consolidation and Debt Reduction Implement a medium-term fiscal strategy aimed at reducing public debt to 60 percent of GDP by 2031 through a credible multiyear fiscal consolidation plan and growth enhancing structural reforms. Raise the primary balance to 2.5 percent of GDP by FY2025 and keep it at 2 percent of GDP thereafter. Limit growth of noninterest current expenditure to inflation and raise social and resilience spending. Broaden the GST base, standardize PIT exemption thresholds, raise excise taxes and fees, and strengthen revenue administration.	**Significant Progress** Public debt declined to 64 percent of GDP in 2022, due in part to the rebasing of GDP, a discount on the Petrocaribe debt, fiscal consolidation, strong growth, and high inflation. Despite the fuel tax cut, costs arising from Hurricane Lisa, the reinstatement of the 10 percent public sector wage cut, and the authorities' delay in implementing the revenue measures recommended during the 2022 Article IV consultation, the primary balance increased in FY2022, due to a recovery of revenue and strict expenditure containment. In an unchanged policies scenario, where the primary balance stabilizes at 1.2 percent of GDP over the medium term, public debt would fall to 53 percent of GDP by 2028.
Growth Enhancing Structural Reforms Enhance the business climate by improving access to credit, easing business registration, enhancing human capital, upgrading infrastructure, and reducing crime. Build resilience to natural disasters and climate change by elaborating a comprehensive Disaster Resilience Strategy that focuses on strengthening structural, financial, and post-disaster resilience and is based on a consistent multi-year macro-fiscal framework.	**Some Progress** The authorities passed the credit reporting act and are working on the establishment of the credit bureau and collateral registry. They are promoting the formalization of MSMEs by introducing an electronic invoicing module and updating the Fiscal Incentives Act. The authorities have sought funding from the Green Climate Fund and international financial institutions to finance investments to boost disaster resilience.
Financial Sector Reform Ensure that any exceptional measures to address credit losses after the end of forbearance measures are time-bound and targeted, and financial institutions resume regular classification and restructuring procedures. Intensify Central Bank on-site supervision.	**Progress** The Central Bank found vulnerabilities in domestic banks' and credit unions' loan portfolios after the end of forbearance measures. Some banks were placed under enhanced supervision and may require recapitalization in 2023 if the quality of their loan portfolios continues to deteriorate. Regular loan classification and restructuring procedures have resumed, after the end of forbearance measures.
AML/CFT Reforms Strengthen AML/CFT supervision, enforce sanctions for non-compliance, centralize the information on beneficial ownership for accurate recording and ease of access, increase the resources and capacity of the Financial Services Commission, and introduce legal reforms to implement AML/CFT standards on virtual assets and virtual asset services.	**Some Progress** The national ML/TF risk assessment is being updated ahead of the 2023 comprehensive evaluation by the Caribbean FATF. The Financial Services Commission has hired new staff and the authorities are working on a legal framework for restricting activities involving virtual assets.

Annex III. Integrating Surveillance and Capacity Development

Sector	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Tax Policy and Administration	Mobilize revenue to reduce the fiscal deficit and expand priority expenditure by taxing some zero-rated items at the 12.5 percent gross sales tax rate, increasing excise taxes and fees, standardizing the personal income tax exemption thresholds, and strengthening revenue and customs administration.	Belize received technical assistance on tax policy from FAD in 2013, which is still relevant given that the tax structure has no changed much since. In 2020, FAD advised on tax reform options and LEG on income taxation. More recently, FAD and CARTAC have provided technical assistance on revenue and customs administration, including on adopting a new IT system, implementing a tax compliance plan to improve filing and payment, enhancing audit capacity, increasing tax arrears collection, and building capacity.
Expenditure Policy	Reduce nonpriority expenditure and increase spending on infrastructure, targeted social programs, and crime prevention to boost growth and make it more inclusive and resilient to climate change and related disasters. Reform the pension plan for public officials to make it sustainable.	The World Bank will conduct a Public Expenditure Review. Staff has provided recommendations on expenditure policy during the Article IV Consultations, but the authorities would benefit from more granular technical assistance in this area.
Public Financial Management	Improve multi-year budget preparations, fiscal risk assessment, public investment management, coverage of government accounts, accounting and fiscal reporting, and internal audit. Publishing procurement contracts and beneficial ownership information of awardees.	A 2020 public investment management assessment noted some good practices, such as a strong integration of public investment in the budget and recommended improving the costing and performance frameworks for future decisions; enhancing the appraisal and selection processes; and preparing timely government financial statement. CARTAC and STA will provide technical assistance on accrual accounting and government financial statistics in 2023.
Structural Reforms	Enhance access to affordable credit and FX; strengthen resilience to climate change and related disasters; improve the technical capacity of the judiciary and ease access to relevant legislation and judicial decisions; reduce ministerial discretion in business processes and adopt a rules-based system.	A Climate Change Policy Assessment was completed in 2018, which recommended implementing a Disaster Resilience Strategy that focuses on improving structural, financial, and post-disaster resilience and is based on a consistent multi-year macro-fiscal framework.
Financial Sector	Continue to strengthen financial sector regulation and supervision. Remain vigilant to risks to financial stability, especially given the deterioration in loan portfolios after the COVID-19 pandemic.	During the last few years, CARTAC delivered several technical assistance missions on implementing Basel II-III and strengthening risk-based supervision. It also delivered technical assistance on stress testing tools and provided drafting support for the new Securities Act and Insurance Legislation and Regulation. MCM provided technical assistance on bank resolution and NPL management in 2021 and on the FX Regulatory Framework and FX reserve management in 2022.

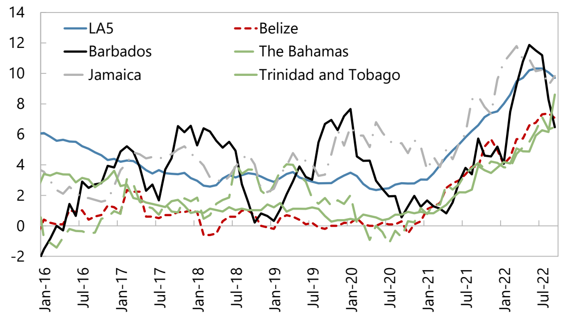
Sector	Surveillance Recommendations	Capacity Development Recent Actions/Plans
AML/CFT	Continue strengthening the AML/CFT framework and implementation, especially in the international financial services sector. enhance the transparency of beneficial ownership (BO) of legal entities and trusts by requiring BO information to be filed with the registry by agents or corporations to facilitate access to that information by competent authorities.	MCM delivered technical assistance on cybersecurity regulation and supervision in 2019.
Statistics	Improve the accuracy and timeliness of statistics.	CARTAC provided technical on rebasing the national account and back casting GDP by expenditure in 2020. STA provided technical assistance on producing new Financial Soundness Indicators in line with the FSIs Guide.

Annex IV. Analyzing Inflation Dynamics

Inflation has surged in Belize since mid-2021. Using a Principal Component Analysis (PCA) and an estimated Phillips curve, staff finds that global factors, including commodity prices and US inflation, have contributed significantly to both the historical variation of inflation and the recent surge of inflation. The Phillips curve also projects that global factors will reduce Belize's inflation significantly going forward in line with the projected decline in global commodity prices and US inflation.

1. **Belize's inflation increased substantially since mid-2021, in line with the trends in regional peers**. This increase has likely been due to both external and domestic factors. External factors include disruptions in global value chains, higher shipping costs, and increased food and fuel prices. Domestic factors include the closing of output gaps as economic activity recovered from the pandemic, currency depreciations, and higher inflation expectations in some countries.

Headline Inflation in Latin America and the Caribbean
(In percent, year on year)

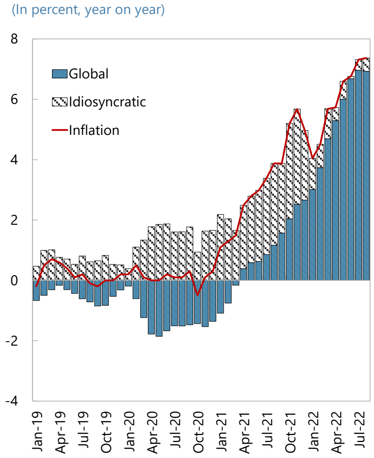


Sources: Haver Analytics and IMF staff calculations.
Note: LA5 = simple average of Brazil, Chile, Colombia, Mexico, and Peru.

2. **Using a PCA, this annex finds that global factors explain over 70 percent of the historical variation of inflation in Belize and nearly all the increase since mid-2021**. A PCA applied to inflation data for 68 countries during 2000-22 identifies three global factors driving inflation across countries. These factors explain 71.2 percent of inflation variation in Belize and nearly all the rise in inflation since mid-2021 (Figure 1). The first factor, which is strongly correlated with global food and fuel prices, explains 69.2 percent of the inflation variation in Belize. If Factor 1 had not risen since mid-2021, inflation in Belize would have been much lower in 2022.

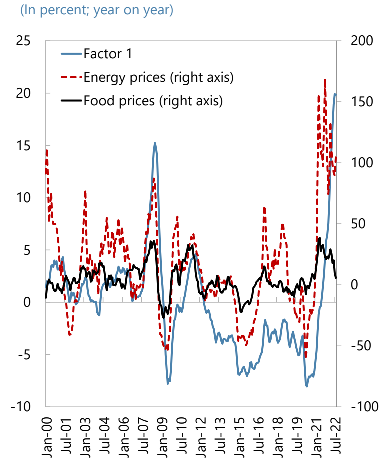
Figure 1. Belize: The Importance of Global Factors for Inflation

Contributions to Inflation in Belize
(In percent, year on year)



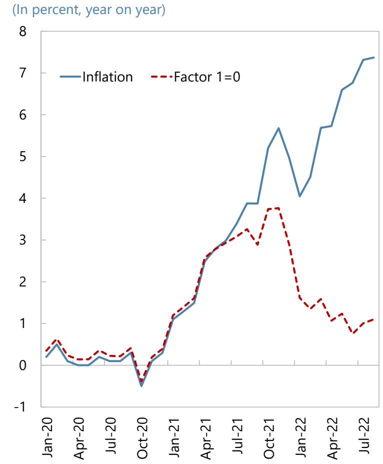
Sources: IMF staff calculations.

Factor 1, Energy Prices, and Food Prices
(In percent; year on year)



Sources: World Economic Outllok; and IMF staff calculations.

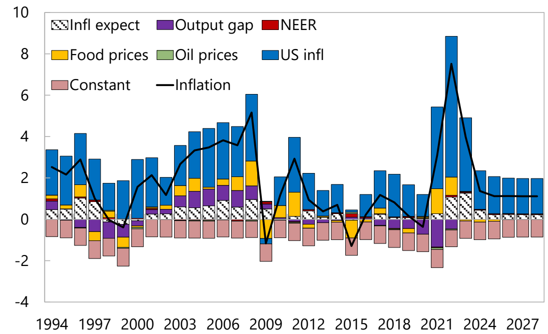
Inflation with Factor 1 = 0 from May 2021
(In percent, year on year)



Sources: IMF staff calculations.

3. An estimated Phillips curve corroborates the importance of global factors as drivers of Belize's inflation. Staff estimated a Phillips curve in which current inflation depends on past inflation, the output gap, the nominal effective exchange rate, global energy and food prices, and US inflation. The model fits the data well, tracking closely the peaks and troughs of inflation and the surge since mid-2021. It also shows that US inflation and food prices have been the main drivers of Belize's inflation in the past, and especially during 2021-22.

Contributions to Fitted and Projected Inflation
(In percent, year on year)



Sources: IMF staff estimates.

4. Global factors are projected to reduce Belize's inflation significantly going forward. The explanatory variables of the Phillips curve are projected using the January 2022 World Economic Outlook database, which in turn are used to project Belize's inflation for the next six years. The results indicate that the predicted inflation for Belize is projected to decline sharply, from a peak of 7.5 percent in 2022 to 4.0 percent inflation in 2023 and 1.2 percent over the medium term.[1] This decline is due mostly to the projected fall in US inflation and food prices.

[1] Inflation estimates in the chapter are model-based and do not necessarily represent Staff's most recent inflation projections. Staff views this chapter's estimates as a guide to medium and long run projections.

Annex V. Debt Sustainability Analysis

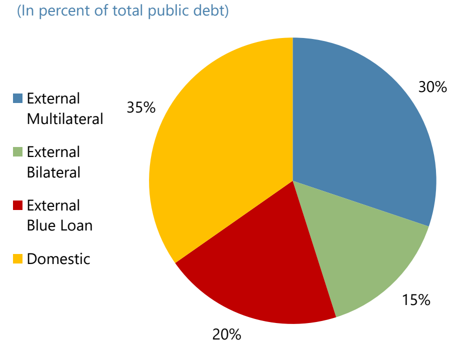
Belize's risk of sovereign stress is assessed as moderate. Belize's public debt declined from 101 percent of GDP in 2020 to 64 percent in 2022, led by a large fiscal consolidation, a debt for marine protection swap, a discount in the bilateral debt with Venezuela, strong real GDP growth, and high inflation. [1] *Going forward, public debt is projected to decline to 53 percent of GDP in 2028 in a scenario with unchanged policies. Medium- and long-term risks are contained, with debt firmly on a downward path and manageable gross financing needs. However, near term risks remain elevated given the still high level of public debt and large share denominated in foreign currency. This assessment is robust to adverse shocks to growth, the fiscal position, banking sector stability, and climate-related disasters.*

A. Recent Developments and Public Debt Structure

1. After surging in 2020, public debt declined sharply in 2021 and 2022. The COVID-19 pandemic led to a sharp rise in public debt from 78 percent of GDP in 2019 to 101 percent in 2021, due to a 13.9 percent decline in nominal GDP and a fall in the primary balance from –1.0 percent of GDP in FY2019 to –8.1 percent in FY2020. However, public debt fell to 80 percent of GDP in 2021, led by a strong rebound in real GDP and inflation, a debt for marine protection swap with The Nature Conservancy (TNC) that reduced public debt by 9 percentage points of GDP, and a rise in the primary balance to near zero in FY2021 due to sizable fiscal consolidation and a recovery of revenue. Public debt fell further to 64 percent of GDP in 2022 reflecting strong growth, high inflation, a primary surplus, and a discount on the debt owed to Venezuela under Petrocaribe.

2. The structure of public debt has been shaped by the reliance on official financing, the debt for marine protection swap with TNC, and the discount on the debt owed to Venezuela. In 2021, Belize used funds from a blue loan from TNC to repurchase the superbond at a discount, reducing public debt by 9 percent of GDP (Belize 2022 Staff Report, Annex II). The blue loan's 10-year grace period and low interest rates also reduced Belize's debt service payments until FY2034. In December 2022, the authorities of Belize and Venezuela agreed to reduce Belize's Petrocaribe debt by about 4.3 percent of GDP. At end-2022, almost two thirds of public debt was denominated in foreign currency and owed to external creditors: 30 percent to multilateral institutions, 15 percent to bilateral creditors, and 20 percent to private creditors (blue loan). The other 35 percent was denominated in local currency and owed to domestic creditors: 18 percent to the Central Bank, 9 percent to domestic banks, and 8 percent to other domestic financial institutions.

Composition of Public Debt by Creditor, 2022
(In percent of total public debt)



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

[1] The rebasing of GDP reduced the public debt to GDP ratio in 2020 from 133 percent of the old GDP to 101 percent of the new GDP. However, the public debt to revenue ratio remained unchanged as both revenue and debt were not affected by the rebasing of the national accounts.

B. Baseline Assumptions and Projections

3. The macroeconomic projections assume a recovery in tourism to pre-pandemic levels and additional growth in the business process outsourcing sector. After growing by 12.1 percent in 2022, real GDP is projected to grow by 2.4 percent in 2023 and 2 percent over the medium-term, with the output gap expected to close in 2023. Inflation is projected to decline from 6.3 percent in 2022 to 4.1 percent in 2023 and 1.2 percent over the medium term in line with the expected decline in global food and fuel prices and the projected moderation of global inflation.

4. In calendar years, the primary balance increased from –1.8 percent of GDP in 2021 to 0.9 percent in 2022 and 1.2 percent of GDP from 2023 onwards. This improvement has been driven by strict expenditure containment and a recovery in revenues. In an unchanged policies scenario, staff expects the primary surplus to stabilize at 1.2 percent of GDP over the medium-term, which is feasible given the authorities' commitment to reducing debt.

5. Public debt is projected to fall from 64 percent of GDP in 2022 to 47 percent in 2033. Gross financing needs are also expected to decline from 6.4 percent of GDP in 2022 to 3.7 percent in 2031, before rising to 4.7 percent of GDP in 2032 when the principal repayments on the blue loan commence. Domestic debt is expected to decline faster than external debt over the medium-term, as the authorities rely more on external financing from official creditors and less on financing from the domestic private sector and the Central Bank.

C. Near-Term Risk Analysis

6. Near-term risks have moderated but remain elevated. The sharp decline in public debt during 2021-22, especially that denominated in foreign currency, has reduced near term risks. However, these risks remain elevated due to a still sizable debt stock and high share denominated in foreign currency, which makes it vulnerable to sharp adjustments in the exchange rate. Near-term risks are also exacerbated by the high level of global financial volatility, although the impact on Belize should be limited as the country does not borrow from private external creditors.

D. Medium-Term Risk Analysis

7. Medium-term risks are assessed as low, in line with the mechanical signals, although the Debt Fanchart index and the GFN Financeability index produced mixed signals.

- The **Debt Fanchart** tool produces a score of 1.6, above the low-risk threshold of 1.1, but below the high-risk threshold of 2.1. This score balances the risks associated with uncertainty around the debt trajectory, evidenced by the wide fan, and a relatively moderate level of public debt by 2028 with a high probability that debt will stabilize in the medium term. Higher growth or larger fiscal consolidation than envisaged in the baseline scenario would reduce these risks further.

- The **GFN financeability** tool produces a score of 4.2, well below the low-risk threshold of 7.6. Gross financing needs are expected to average 3.8 percent of GDP over the medium-term, reflecting small fiscal deficits and a favorable repayment profile for the blue loan. Moreover, a large share of public debt is owed to official creditors and carries less rollover risk than debt owed to the private sector.

- **Stress tests** suggest that the mechanical signals are robust to the impact of natural disasters. The natural disaster stress test assumes an increase in debt of 4.5 percent of GDP in 2024 and a 1.3 percent fall in real GDP growth in the same year, which does not reverse and results in a permanent output loss. Debt rises but remains below 70 percent of GDP over the medium term. Gross financing needs rise in 2024 but remain below 10 percent of GDP over the horizon.

E. Long-Term Risk Analysis

8. Long-term risks are assessed as moderate. The large amortization module illustrates that gross financing needs are expected to rise from 2032, after principal payments on the blue loan commence. Still, even with a primary deficit of -1.2 percent of GDP (the 10-year historical average), gross financing needs would remain below 15 percent of GDP in the long-term and public debt would remain below 70 percent of GDP through 2050. Long-term debt sustainability is generally robust to additional spending related to climate adaptation, even after reducing the primary balance by an additional 1 percent of GDP per year relative to the baseline, with debt only rising above 70 percent of GDP after 2045. However, public debt is more vulnerable to an additional 4.1 percent of GDP per year investment in climate change mitigation.[2] Debt and gross financing needs remain vulnerable to the future path of public pension deficits, but periodic adjustments to the General Social Security Scheme and plans to reform the Pension Plan for Public Officials limit broader risks from population aging.

F. Public Debt Sustainability

9. Staff assesses Belize's public debt as sustainable. With no change in policies, public debt is projected to fall to 53 percent of GDP by 2028, with a high probability of stabilizing in the medium term. Even with a natural disaster or real exchange rate adjustment, public debt is expected to fall below 60 percent of GDP over the medium term. Gross financing needs and rollover risks are expected to remain manageable over the medium term, with new financing sourced mostly from multilateral and bilateral creditors.

G. Overall Risk of Sovereign Debt Stress

10. Belize's overall risk of sovereign stress is assessed as moderate. This assessment balances still high risks in the near term with low risks in the medium term and moderate risks in the long term. Although debt has fallen sharply in percent of GDP, it remains high in percent of revenue, while the share of it denominated in foreign currency remains high. Medium- to long-term risks are contained due to continued primary surpluses that are projected to keep the debt-to-GDP ratio on a

[2] Costs are consistent with Belize's 2021 Updated Nationally Determined Contribution.

downward path and low liquidity risks, partly offset by higher gross financing needs starting in 2032 when the blue loan principal repayments commence.

11. The assessment of moderate risk of sovereign stress is subject to both downside and upside risks. Sovereign stress could rise if a sharp slowdown in advanced economies weakens the recovery of tourism, slows Belize's GDP growth, and delays the reduction in debt. Moreover, further increases in food and fuel prices due to Russia's invasion of Ukraine could prompt additional broad-based fiscal support, reducing the primary balance and increasing gross financing needs. A deterioration in existing vulnerabilities in the banking sector could also force the authorities to intervene and increase public debt. At the same time, structural reforms that boost growth and enhance resilience to climate change and related disasters could reduce public debt faster than expected, mitigating medium-term risks of sovereign stress.

H. External Debt Sustainability Analysis

12. External debt has declined but is still high and vulnerable to external shocks.[3] Public external debt fell from 70 percent of GDP in 2020 to 54 percent in 2021, reflecting strong growth, high inflation, and the debt for marine protection swap with TNC. Public external debt declined further to 42 percent of GDP in 2022, in part due to the discount on debt owed to Venezuela under Petrocaribe and is expected to fall further to 34 percent of GDP by 2032 in an unchanged policies scenario. Greater reliance on official lending and the debt swap have reduced rollover risks, while external financing needs are projected to gradually fall. External debt is sensitive to current account and exchange rate shocks. A widening of the noninterest current account deficit by 0.6 percent of GDP increases external debt to 40 percent of GDP in 2032, while a 30 percent depreciation pushes external debt to 50 percent of GDP over the same horizon. Half standard deviation shocks to real GDP growth or interest rates have smaller effects on external debt. A combined one-quarter standard deviation shock would increase external debt to 39 percent of GDP in 2032.

[3] Given the lack of data on private external debt, the external DSA covers only external public debt.

Table 1. Belize: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	…	Moderate	Belize's overall risk of sovereign stress is assessed as moderate.
Near Term 1/			
Medium Term	Low	Low	Medium-term risks are assessed as low against a mechanical low signal. Gross financing needs are expected to remain low under the baseline and below 15 percent of GDP in a combined stress scenario. Public debt is expected to fall to 53 percent of GDP by 2028 in an unchanged policies scenario. Consequently, the probability of debt stabilization is high under the baseline.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test	…	…	
Long Term	…	Moderate	Long-term risks are moderate. GFNs are vulnerable to higher rollover risks after principal payments commence on the blue loan, but remain below 10 percent of GDP even if the primary balance falls to its debt-stabilizing level. Debt sustainability is resilient to additional spending on climate adaptation, but is vulnerable to investments in climate change
Sustainability Assessment 2/	…	Sustainable	The projected debt path is expected to stabilize and GFNs will remain at manageable levels under the baseline projections and even with shocks to the exchange rate or from natural disasters. Therefore, debt is assessed as sustainable.
Debt Stabilization in the Baseline			Yes

DSA Summary Assessment

Commentary: Belize's overall risk of sovereign stress is assessed to be moderate. Further, Belize's public debt is assessed to be sustainable. The government has made substantial progress on improving the fiscal position and has reduced public debt from 101 percent of GDP in 2020 to 64 percent of GDP in 2022. On its current trajectory, public debt is projected to fall to 53 percent of GDP by 2028. Consequently, the probability of debt stabilization is high in the medium-term. Gross financing needs (GFNs) are low after the debt-for-marine protection swap, with most debt now owed to official creditors. Still, debt and GFNs are vulnerable to natural disasters, costs associated with climate change mitigation, and the path of public pension deficits.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Belize: External Debt Sustainability Framework 2019–2028

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External debt	54.7	69.9	53.7	41.6			**41.7**	**41.8**	**41.4**	**40.1**	**38.6**	**37.7**	**-4.3**
Change in external debt	-0.8	15.2	-16.1	-12.1			0.1	0.2	-0.5	-1.3	-1.5	-1.0	
Identified external debt-creating flows (4+8+9)	1.5	11.5	-10.2	-6.5			1.6	2.5	2.4	2.2	2.0	1.9	
Current account deficit, excluding interest payments	5.7	4.6	5.8	7.5			6.8	6.4	6.3	6.0	5.9	5.8	
Deficit in balance of goods and services	4.2	9.0	8.4	8.3			4.4	4.1	4.0	3.8	3.6	3.4	
Exports	45.6	34.4	41.9	43.3			44.6	44.6	44.5	44.5	44.5	44.5	
Imports	49.8	43.4	50.3	51.6			48.9	48.7	48.5	48.4	48.2	48.0	
Net non-debt creating capital inflows (negative)	-3.8	-3.5	-5.2	-6.4			-5.4	-4.4	-4.4	-4.4	-4.4	-4.4	
Automatic debt dynamics 1/	-0.4	10.4	-10.9	-7.6			0.3	0.5	0.5	0.6	0.6	0.5	
Contribution from nominal interest rate	1.9	1.6	0.7	1.0			1.2	1.3	1.3	1.4	1.3	1.3	
Contribution from real GDP growth	-2.4	8.5	-8.9	-5.5			-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	
Contribution from price and exchange rate changes 2/	0.1	0.3	-2.7	-3.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.3	3.6	-6.0	-5.6			-1.5	-2.4	-2.8	-3.5	-3.5	-2.8	
External debt-to-exports ratio (in percent)	119.9	203.4	128.2	96.1			93.5	93.9	92.9	90.1	86.7	84.6	
Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.2	0.3			0.3	0.3	0.3	0.3	0.3	0.3	
in percent of GDP	9.3	8.4	8.6	9.7	10-Year	10-Year	9.5	9.7	9.7	9.4	9.1	8.9	
Scenario with key variables at their historical averages 5/							**41.7**	**40.7**	**39.0**	**36.5**	**34.1**	**32.4**	**-4.6**
					Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline					Average	Deviation							
Real GDP growth (in percent)	4.5	-13.4	15.2	12.1	3.0	7.8	2.4	2.0	2.0	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	-0.1	-0.6	4.0	6.3	1.8	2.2	4.1	2.5	1.6	1.2	1.2	1.2	
Nominal external interest rate (in percent)	3.6	2.5	1.2	2.3	2.9	0.8	3.1	3.4	3.3	3.4	3.4	3.4	
Growth of exports (US dollar terms, in percent)	2.9	-35.2	46.1	23.0	4.1	20.7	9.8	4.5	3.6	3.2	3.2	3.2	
Growth of imports (US dollar terms, in percent)	4.2	-25.0	38.9	22.2	5.3	16.7	1.2	4.0	3.2	2.9	2.8	2.9	
Current account balance, excluding interest payments	-5.7	-4.6	-5.8	-7.5	-5.2	1.3	-6.8	-6.4	-6.3	-6.0	-5.9	-5.8	
Net non-debt creating capital inflows	3.8	3.5	5.2	6.4	4.0	1.9	5.4	4.4	4.4	4.4	4.4	4.4	

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.

Figure 1. Belize: Debt Coverage and Disclosure

	CG	GG	NFPS	CPS	Other	Comments
1. Debt Coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors Included in the Chosen Coverage in (1) Above:

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected	3	Social security funds (SSFs)	Yes	Included in nonfinancial corps
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	Yes	IMF SDR allocation included
CPS	8	Other public financial corporations	Yes	

3. Instrument Coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting Principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt Consolidation Across Sectors:

Consolidated	Non-consolidated

Color Code: Chosen Coverage; Missing from Recommended Coverage; Not Applicable

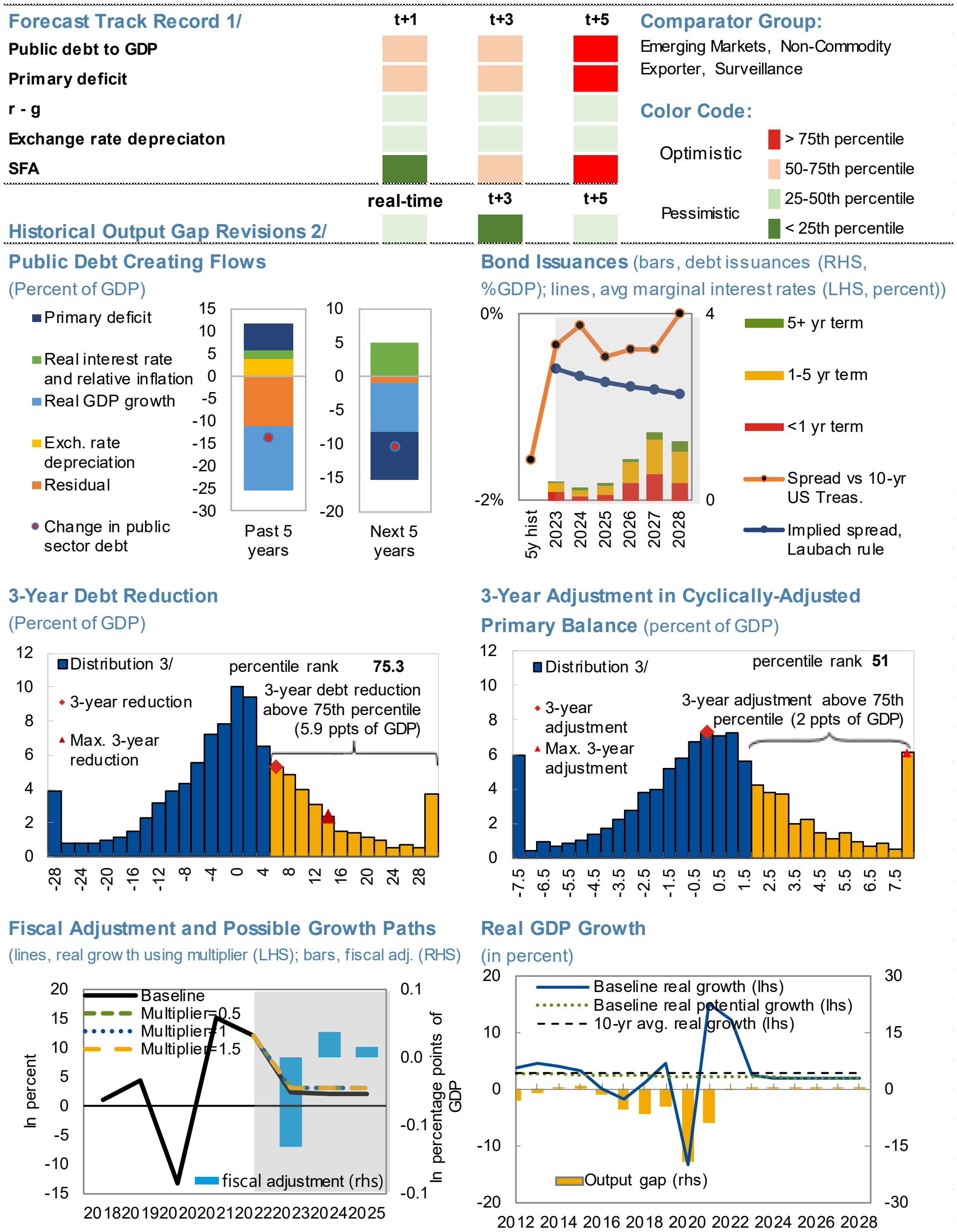
Reporting on Intra-Government Debt Holdings

	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt							11.4		11.4
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	11.4	0	11.4

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The SRDSA uses Belize's public sector debt, which comprises central government debt and external financial and non-financial public sector debt. The Social Security Board is not treated as part of the general government as the Central Bank (CBB) classifies it as other non-financial public corporation. The IMF's SDR allocation to the CBB is included in public debt. Despite wide coverage of external public sector debt, data on domestic debt and debt service (including SOE debt) needs to be improved.

Figure 2. Belize: Realism of Baseline Assumptions



Commentary: The sharp economic contraction in 2020 and the subsequent recovery complicate the interpretation of the realism tools. The large rise in debt between 2017 and 2021 was largely driven by the economic contraction, the large primary deficit in 2020, and low inflation. Nominal GDP growth was strong in 2022, and is expected to be strong in 2023 due to remaining spare capacity and still high average inflation. These, together with a return to primary surpluses, should contribute to a material fall in

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates) and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

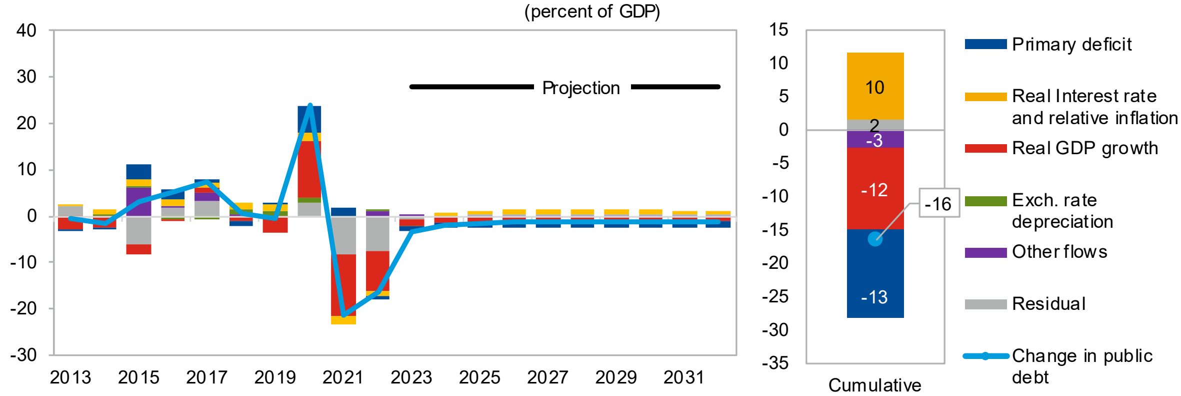
Figure 3. Belize: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	63.7	60.4	58.4	56.9	55.7	54.6	53.4	52.2	51.0	49.8	48.6	47.3
Change in public debt	-16.4	-3.4	-2.0	-1.5	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.3
Contribution of identified flows	-8.9	-2.7	-1.9	-1.7	-1.5	-1.5	-1.4	-1.5	-1.5	-1.4	-1.5	-1.5
Primary deficit	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Noninterest revenues	22.0	22.6	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7	22.7
Noninterest expenditures	21.0	21.4	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Automatic debt dynamics	-9.3	-1.5	-0.5	-0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.0	-0.1
Real interest rate and relative inflation	-1.0	0.0	0.7	0.9	1.1	1.2	1.2	1.1	1.1	1.0	0.9	0.9
Real interest rate	-2.6	-0.7	0.6	1.2	1.5	1.5	1.4	1.4	1.3	1.2	1.2	1.1
Relative inflation	1.5	0.7	0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Real growth rate	-8.7	-1.5	-1.2	-1.2	-1.1	-1.1	-1.1 .	-1.1	-1.0	-1.0	-1.0	-1.0
Real exchange rate	0.4	…	…	…	…	…	… .	…	…	…	…	…
Other identified flows	1.3	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Contingent liabilities	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Contribution of residual	-7.5	-0.7	-0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Gross financing needs	6.4	4.6	4.3	3.7	3.2	3.3	3.4	3.6	3.7	3.7	4.7	4.9
of which: debt service	6.0	5.7	5.5	4.9	4.4	4.5	4.6	4.8	4.9	4.9	5.9	6.1
Local currency	3.9	3.1	2.1	1.2	0.7	1.0	1.3	1.3	1.3	1.3	1.3	1.6
Foreign currency	2.2	2.6	3.4	3.7	3.6	3.5	3.4	3.5	3.6	3.7	4.6	4.5
Memo:												
Real GDP growth (percent)	12.1	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	6.3	4.1	2.5	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Nominal GDP growth (percent)	19.2	6.6	4.6	3.6	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Effective interest rate (percent)	2.5	3.0	3.5	3.7	3.9	3.9	3.9	3.9	3.8	3.7	3.6	3.5

Contribution to Change in Public Debt

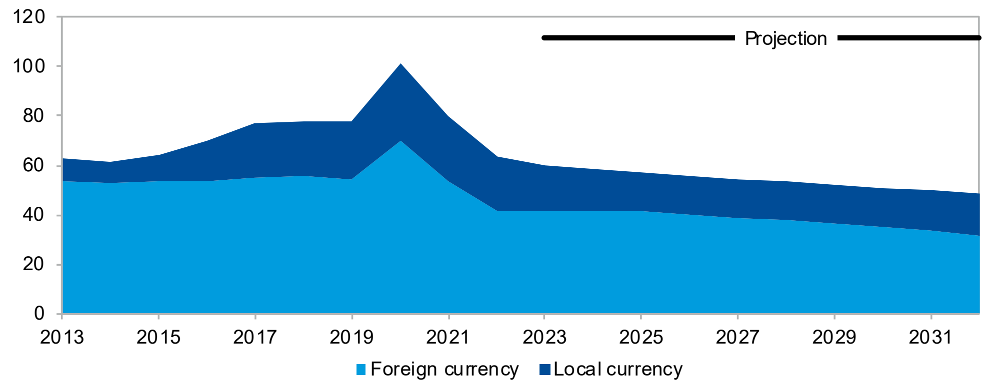
(percent of GDP)



Staff commentary: Staff projects the primary balance to stabilize at 1.2 percent of GDP from 2023 onwards. Real GDP expanded by 12.1 percent in 2022 and is projected to grow by 2.4 percent in 2023, as tourism returns to pre-pandemic levels and the BPO sector continues to develop, before growth returns to potential at 2 percent over the medium-term. Together, this will put debt on a downward path. Public debt fell to 64 percent of GDP in 2022 and is projected to decline to 53 percent by 2028.

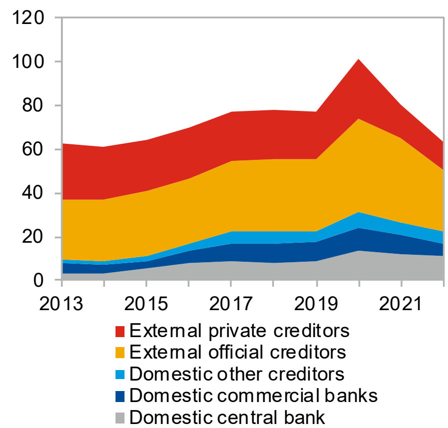
Figure 4. Belize: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



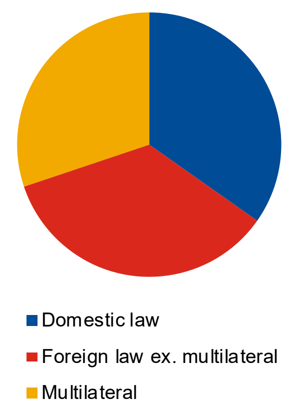
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (percent of GDP)



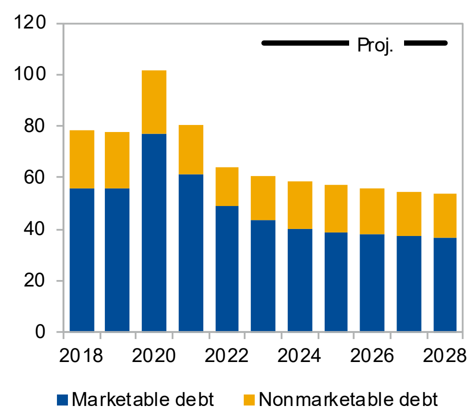
Note: The perimeter shown is consolidated public sector.

Public Debt by Governing Law, 2022 (percent)



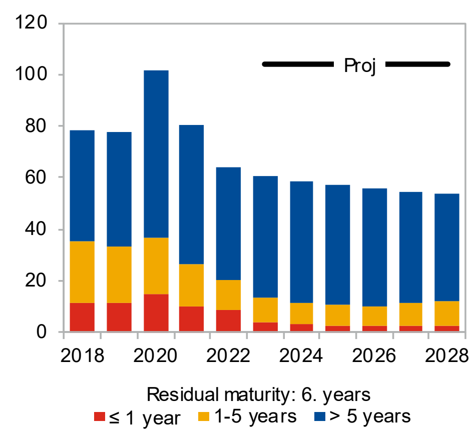
Note: The perimeter shown is consolidated public sector.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is consolidated public sector.

Commentary: After the debt-for-marine protection swap in 2021, the government has relied increasingly more on official sector debt to meet its gross financing needs. This is likely to continue in the medium-term.

Figure 5. Belize: Medium-Term Risk Analysis

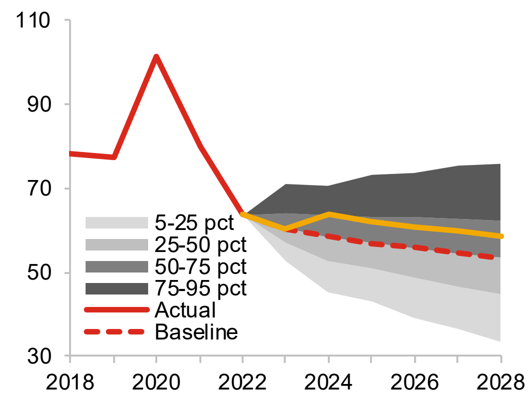
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

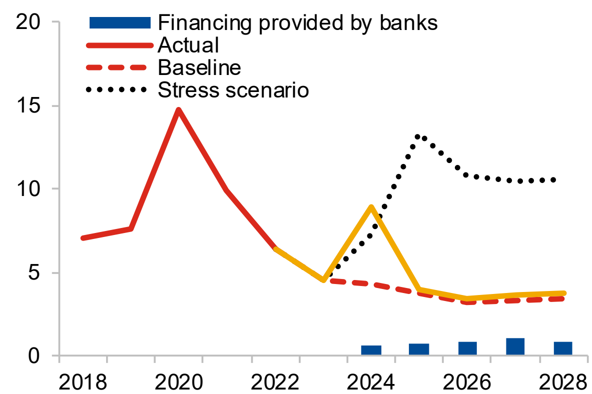
Module	Indicator	Value	Risk index	Risk signal	Emer. Mkt, Non-Com. Exp, Surveillance (0 – 25 – 50 – 75 – 100)
Debt Fanchart Module	Fanchart width	42.3	0.6	…	
	Probability of debt not stabilizing (pct)	23.2	0.2	…	
	Terminal debt level x institutions index	38.2	0.8	…	
	Debt fanchart index	**…**	**1.6**	**Moderate**	
GFN Finance-ability Module	Average GFN in baseline	3.8	1.3	…	
	Bank claims on government (pct bank assets)	6.1	2.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	2.9	1.0	…	
	GFN financeability index	**…**	**4.2**	**Low**	

Legend: Interquartile Range Belize

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

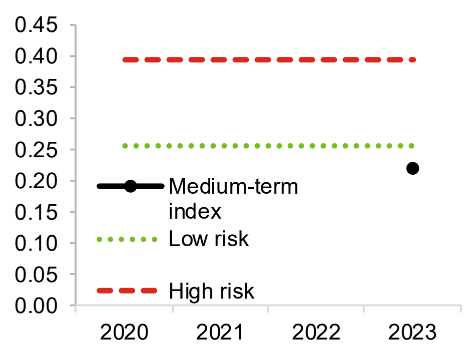


Triggered Stress Tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.2, Low

Prob. of missed crisis, 2023-2028 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 48.9 pct.

Commentary: The aggregate mechanical signal for the medium-term risk analysis is low. This corresponds to a moderate assessment of risk for the Debt Fanchart index and a low level of risk for the GFN Financeability index. The triggered stress tests suggest that natural disasters would not increase risks sufficiently to justify a change in the overall assessment.

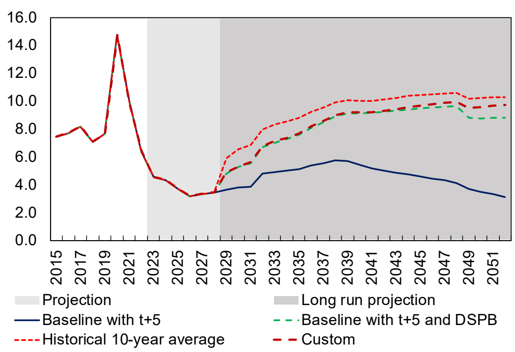
Figure 6. Belize: Long-Term Risk Analysis

Large Amortization

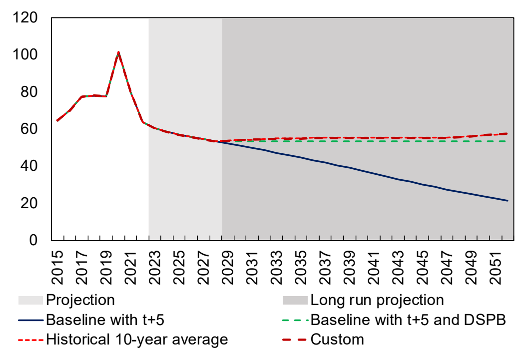
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

GFN-to-GDP ratio

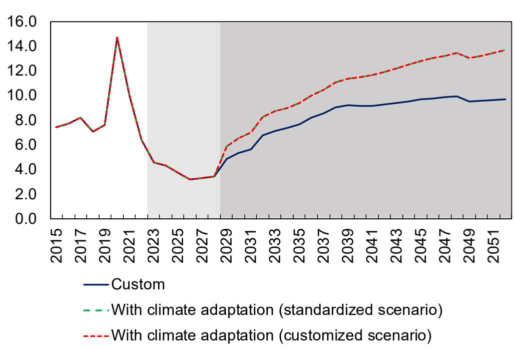


Total Public Debt-to-GDP ratio

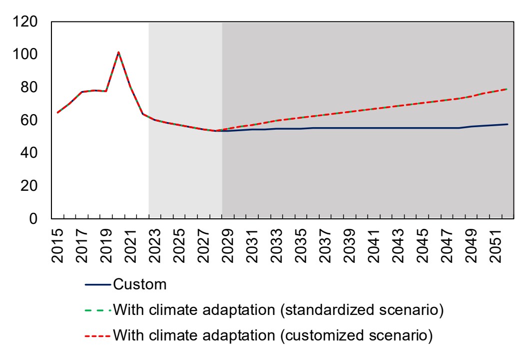


Climate Change: Adaptation

GFN-to-GDP ratio

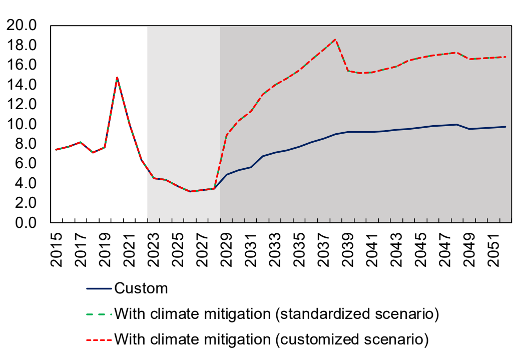


Total Public Debt-to-GDP ratio



Climate Change: Mitigation

GFN-to-GDP ratio



Total Public Debt-to-GDP ratio

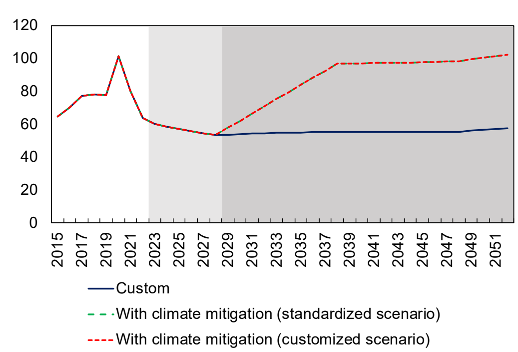
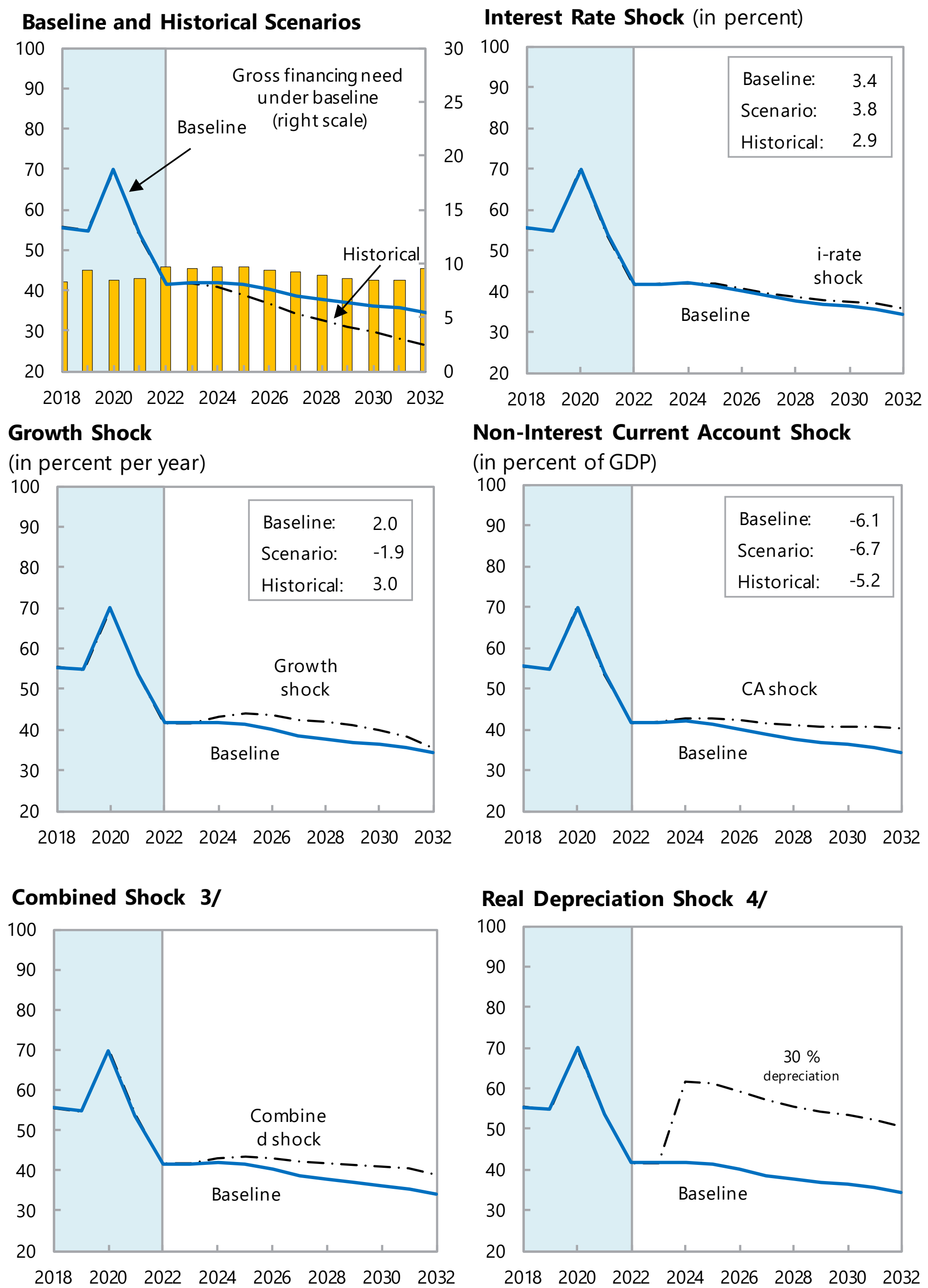


Figure 7. Belize: External Debt Sustainability: Boundary Tests 1/ 2/
(External debt in percent of GDP)



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 2024.

Annex VI. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood[1]**	**Impact**	**Policy Response**
Abrupt global slowdown. Global and idiosyncratic factors lead to a synchronized sharp growth slowdown, spillovers through trade and financial channels, and lower some commodity prices.	↓	**Medium**	High	Reprioritize government spending to support the most vulnerable; implement structural reforms to reinvigorate growth; monitor closely the banks' balance sheets for potential vulnerabilities.
Intensifying regional conflicts. Escalation of Russia's war in Ukraine or other regional conflicts disrupt trade and financial flows and increase commodity prices, affecting commodity-importers severely.	↓	**High**	High	Increase targeted support to the most vulnerable and avoid broad based fuel subsidies. Over the medium term, reduce the reliance on imported food and fuel by investing in renewable energy generation and domestic food production.
Miscalibration of monetary policy. Amid high uncertainty, major central banks slow monetary policy tightening prematurely, de-anchoring inflation expectations and triggering a wage-price spiral.	↓	**Medium**	Medium	Reprioritize government spending to support the most vulnerable; implement structural reforms to reinvigorate growth; monitor closely the banks' balance sheets for potential vulnerabilities.
Country-Specific Risks				
Higher frequency and severity of natural disasters related to climate change	↓	**Medium**	High	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, strengthen financial and post disaster resilience.
Further pressure on Corresponding Banking Relationships (CBRs)	↓	**Medium**	High	Strengthen the AML/CFT framework. Monitor CBRs and communicate with global banks and standard setters.
Social discontent and political instability	↓	**Medium**	Medium	Implement targeted measures to support vulnerable households and businesses.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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.

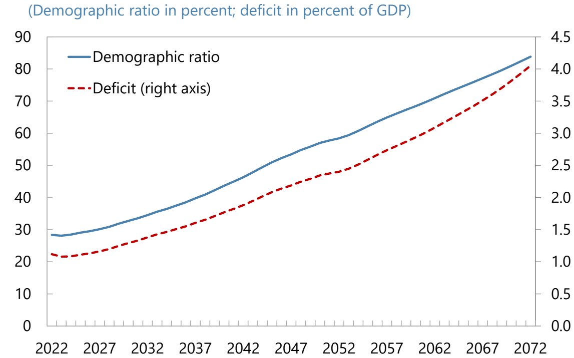
Annex VII. Reforming the Pension Plan for Public Officials[1]

Belize's Pension Plan for Public Officials (PPPO) is a non-contributory defined benefit retirement plan with low retirement age and high pension benefits. Without reforms, the PPPO deficit is projected to rise from 1.1 percent of GDP in 2022 to 4.1 percent of GDP in 2072, totaling 77.3 percent of GDP in present value over the next 50 years. Adopting a 10 percent contribution rate, raising the retirement age from 55 to 65, and reducing replacement rates from 67.5 percent to 50 percent, would lower the long-run deficit to 1.6 percent of GDP and cut its 50-year present value to 26.1 percent of GDP.

1. **Belize's public officials participate in two pension systems**. They participate in the long-term branch of the General Social Security Scheme, a contributory defined benefit pension system with a retirement age of 65 (or between 60 and 64 if not employed) and an average replacement rate for public officials of 27.9 percent. They also participate in the PPPO, a non-contributory defined pension scheme with high pension benefits and a retirement age of 55. Pensions benefits under the PPPO accumulate with the number of years in public service and peak at two-thirds of the highest salary received during this period. Adding both pension benefits, the average replacement rate for public officials is close to 100 percent, much higher than in peer countries.

2. **Without reforms, the PPPO deficit is projected to grow significantly due to population aging and the system's generosity**. Population aging is expected to raise the PPPO's demographic ratio (current retirees over current workers) from 28.4 percent in 2022 to 83.8 percent in 2072. As a result, the PPPO's deficit is projected to rise from 1.1 percent of GDP in 2022 to 4.1 percent in 2072, with a present value of the deficits accumulated over 50 years of 77.3 percent of GDP. Making the system sustainable will require applying reforms. The sooner these reforms are implemented, the less disruptive they need to be.

PPPO Demographic Ratio and Deficit
(Demographic ratio in percent; deficit in percent of GDP)



Sources: IMF staff calculations.

3. **In line with the authorities' preferences, the analysis focuses on parametric reforms**. It does not study fundamental changes to the PPPO such as switching from defined benefit to defined contribution or from pay as you go to individual accounts, but rather on parametric reforms such as increasing the contribution rate, raising the retirement age, and reducing the replacement rate. The benchmark reforms studied are: (i) reducing the replacement rate for new retirees by 1 percentage point per year starting in 2023 until it reaches 50 percent in 2040; (ii) increasing the contribution rate by 1 percentage point per year, starting in 2023 until it reaches 10 percent by 2032; and (iii) raising the retirement age to 56 for workers that are 49 in 2022, 57 for those that are 48, 58 for those that are 47, 59 for those that are 46, 60 for those that are 45, 61 for those that are 44, 62 for those that are 43, 63 for those that are 42, 64 for those that are 41, and 65 for those that are 40 or younger.

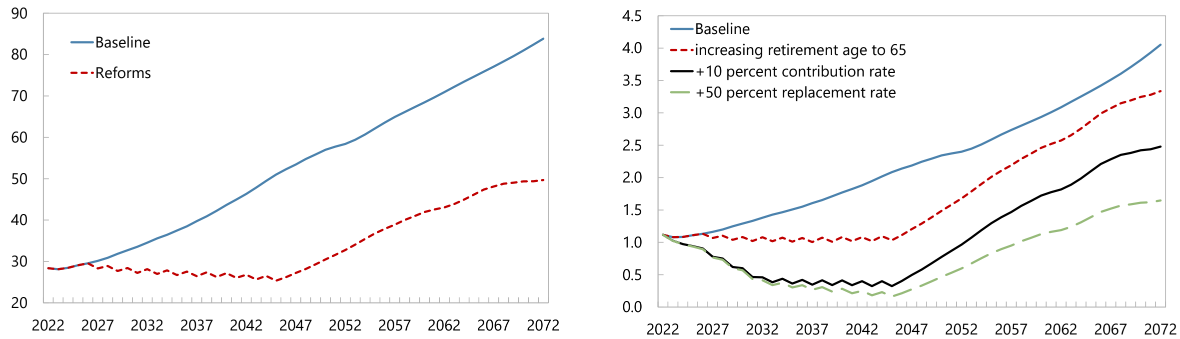
[1] This annex summarizes the findings in Chapter 2 of Belize's 2023 Selected Issues Papers.

4. The benchmark reforms reduce the PPPO's deficit to 1.6 percent of GDP in the long run and cut its 50-year present value by two thirds. Raising the retirement age lowers the demographic ratio significantly (Figure 1, left panel). When put together, the three benchmark reforms reduce the PPPO deficit to 1.6 percent of GDP in the long run (Figure 1, right panel), with the present value of these deficits during 2023-72 falling to 26.1 percent of GDP. Each reform contributes broadly the same amount to the reduction of the PPPO deficit in the long run.

Figure 1. Belize: Impact of the Proposed Reforms to the PPPO

PPPO's Demographic Ratio: Baseline versus Reforms
(In percent)

Contributions to the Reduction in the PPPO Deficit
(In percent of GDP)

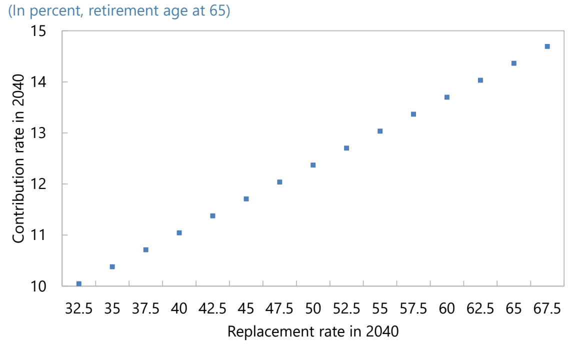


Sources: IMF staff calculations.

Sources: IMF staff calculations.

5. Different combinations of parametric reforms can yield the same deficit reduction. The less ambitious is the reform package in one dimension, the more ambitious it will need to be in other dimensions to reach the same reduction in the PPPO deficit. For example, if the goal is to lower the PPPO deficit to zero by 2045 with a retirement age of 65, a smaller reduction in the replacement rate will require a larger rise in the contribution rate to reduce the PPPO deficit to zero by 2045.

Combinations of Contribution and Replacement Rates that Reduce the PPPO Deficit to Zero by 2045
(In percent, retirement age at 65)



Sources: IMF staff calculations.

6. Indexing the retirement age to life expectancy would lower the impact of population aging on fiscal spending and avoid frequent changes to the PPPO parameters. One-time parametric reforms can reduce the PPPO deficit for some time, but the deficit will rise again as population continues to age. For example, Figure 1 shows that raising the retirement age to 65 and the contribution rate to 10 percent, and reducing the replacement rate to 50 percent, lowers the PPPO deficit from 1.1 percent of GDP in 2022 to 0.2 percent of GDP in 2046. However, as the reform effort stops, the PPPO deficit increases again, reaching 1.6 percent of GDP in 2072. Indexing the retirement age to life expectancy would help with sustaining a low PPPO deficit and avoid frequent changes to the system's parameters. Containing the wage bill would also help moderate the increase in the PPPO deficits going forward.

Annex VIII. External Sector Assessment

Overall Assessment: *Belize's external position in 2022 is assessed as moderately weaker than warranted by fundamentals and desirable policies*. The EBA-lite current account model estimates the current account norm at –7.1 percent of GDP while the cyclically adjusted current account is –8.2 percent of GDP, implying a gap of -1.1 percent of GDP. The current account deficit is expected to remain financed by FDI and official loans to the government, with international reserves remaining above 3 months of imports and short-term external debt, but below the ARA metric. The risk of capital outflows is modest as most external debt is with official creditors and the Central Bank has the appropriate tools to manage capital outflows if needed.

Potential Policy Responses: Increasing the level of international reserves closer to the ARA metric would strengthen the sustainability of the currency peg and permit more predictable access to FX. This would require implementing additional fiscal consolidation and growth enhancing structural reforms that increase competitiveness and exports and attract FDI. It would also require investing in infrastructure to improve road connectivity, enhance airport capacity, and build resilience to climate change and related disasters, which would help the agriculture and tourism sectors grow and become more interconnected.

Foreign Assets and Liabilities: Position and Trajectory

Background. Belize's net international investment position (NIIP) improved from –165 percent of GDP in 2020 to –110 in 2022, reflecting strong economic growth, a fall in portfolio investment liabilities related to the debt for marine protection swap with The Nature Conservancy and the discount in the Petrocaribe debt owed to Venezuela, and a fall in direct investment liabilities as the stock of FDI did not grow as fast as GDP. Gross liabilities amounted to 139 percent of GDP in 2022, with external debt amounting to 51 percent of GDP and FDI to 88 percent of GDP. Gross assets totaled 30 percent of GDP, with reserve assets amounting to 15 percent of GDP, other investment to 11 percent of GDP, direct investment to 3 percent of GDP, and portfolio investment to 1 percent of GDP.

Assessment. Belize's NIIP is assessed as broadly sustainable as it is projected to continue improving over the medium term in line with the projected decline in external debt.

2022 (% GDP)	NIIP: -110	Gross Assets: 30	Debt Assets: 12	Gross Liab.: 139	Debt Liab.: 51

Current Account

Background. The current account balance (CAB) is projected to decline from –6.3 percent of GDP in 2021 to –8.5 percent of GDP in 2022, as the rise in tourism-related receipts is more than offset by higher imports, larger repatriation of profits, and lower remittances. Going forward, the CAB is projected to gradually increase over time as commodity prices decline and tourism continues to recover.

Assessment. The EBA-lite current account model estimates a current account norm of –7.1 percent of GDP, while the cyclically-adjusted CAB is –8.2 percent of GDP, implying a current account gap of –1.2 percent of GDP and a small real effective exchange rate overvaluation of 3.6 percent. The cyclically-adjusted CAB reflects a cyclical adjustment of 0.2 percent of GDP and an adjustment of –0.5 percent of GDP due to natural disasters. A COVID-tourism adjustor was not used since tourism levels approached pre-pandemic levels in 2022. The current account gap places Belize in the range of [-2%, -1%] percent of GDP, thus as moderately weaker than the level implied by fundamentals and desirable policies.

Belize: Model Estimates for 2022
(In percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-8.5**	
Cyclical contributions (from model) (-)	0.2	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-8.2**	
CA Norm (from model) 2/	**-7.1**	
Adjusted CA Norm	**-7.1**	
CA Gap	**-1.2**	**7.0**
o/w Relative policy gap	1.4	
Elasticity	-0.3	
REER Gap (in percent)	**3.6**	**-21.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Belize's real effective exchange rate (REER) appreciated by 0.3 percent in 2022, reversing in part the 1.6 percent depreciation of 2021. Before that, it was broadly stable, averaging an appreciation of 0.1 percent per year during 2010-20.

Assessment. The EBA-Lite REER model estimates an undervaluation of 21.1 percent, much larger than that of the CA approach. Staff gives more weight to the CA model because it imposes multilateral consistency, which is not possible in the REER model due to the normalization of REER indexes.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial accounts balance surpassed the current account deficit by around 2 percent of GDP per year on average between 2020 and 2022. This reflected large multilateral and bilateral loans to the government, which net of amortization payments averaged 8.4 percent of GDP per year, and large FDI inflows, which averaged 5 percent of GDP. Going forward, the capital and financial accounts balance is projected to be in line with the current account deficit as FDI in the tourism and business process outsourcing sectors continues, and the government continues to rely on official loans. As a result, the overall Balance of Payments balance is projected at near zero over the medium term.

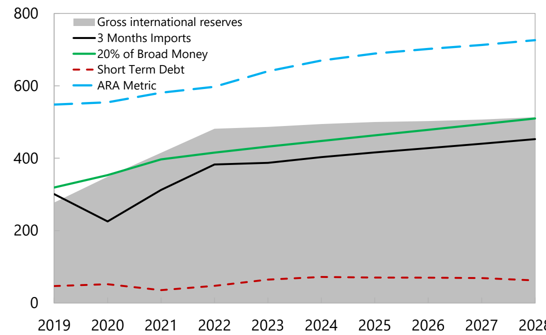
Assessment. There are no major risks of capital outflows from nonresidents as Belize is de facto excluded from the international capital market and the government relies on multilateral and bilateral loans. The risk of capital outflows from residents is also limited because the Central Bank has the appropriate tools to manage capital outflows if needed. However, FDI could be lower than in the baseline scenario if adverse shocks derail the recovery of tourism or strict limits on the use of FX constrain the capacity of foreign investors to repatriate profits.

FX Intervention and Reserves Level

Background. Gross international reserves stood at US$482 million or 3.7 months of imports at end-2022, US$205 million above the level in 2019. This rise in reserves reflects large official loans to the government, robust FDI inflows, and the IMF SDR allocation in 2021. No intervention data is published by the Central Bank, but the authorities maintain a fixed exchange rate against the US dollar.

Assessment. Increasing the level of international reserves closer to the ARA metric would strengthen the sustainability of the currency peg and allow more predictable access to FX. Belize's reserves are projected to remain above 3 months of imports or short-term external debt, but below the ARA metric, which also considers long term external debt and broad money as proxies of risks of capital outflows by nonresident and residents, respectively. Increasing the level of reserves requires implementing additional fiscal consolidation and growth-enhancing structural reforms that improve competitiveness, increase exports, and attract FDI. The latter would also be facilitated by making the access to FX more predictable.

Gross International Reserves Adequacy Metric
(Millions of USD)



Sources: IMF World Economic Outlook and IMF staff calculations.

Table 1. Belize: Classification of the Overall Assessments 1/

CA gap	Description in overall assessment
> 4%	… substantially stronger…
[2%, 4%]	… stronger…
[1%, 2%]	… moderately stronger…
[-1%, 1%]	The external position is broadly in line with the level implied by fundamentals and desirable policies
[-2%, -1%]	… moderately weaker…
[-4%, -2%]	… weaker…
< -4%	… substantially weaker…

1/ The qualitative assessment of the external position is primarily based on the CA gap. Due to different elasticities, the same CA gap could be associated with different REER gaps for different economies.

INTERNATIONAL MONETARY FUND

BELIZE

April 18, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of February 28, 2023)

Membership Status: Joined: March 16, 1982; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	26.70	100.00
IMF's Holdings of Currency (Holdings Rate)	20.49	76.73
Reserve Tranche Position	6.21	23.27

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	43.49	100.00
Holdings	37.35	85.89

Outstanding Purchases and Loans: None

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Dec 03, 1984	Jun 01, 1986	7.13	7.13

Overdue Obligations and Projected Payments to Fund 1/

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest	0.16	0.21	0.21	0.21	0.21
Total	0.16	0.21	0.21	0.21	0.21

1/ When a member has overdue financial obligations outstanding for more than three months, the among 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 Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement: The exchange rate arrangement is a conventional peg. 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 under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on May 10, 2022 (IMF Country Report No. 22/133). Belize is on the standard 12-month consultation cycle.

Recent Technical Assistance:

- 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.
- STA advised on financial soundness indicators in January 2019.
- 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.
- FAD conducted a public investment management assessment (PIMA) in January 2020.
- FAD advised on tax reform policy options in May 2020.
- LEG advised on income taxation in May 2020
- FAD advised on tax administration in April 2021.
- MCM advised on bank resolution in April 2021.
- MCM advised on NPL management in July 2021.
- MCM advised on improving the FX Regulatory Framework in February-June 2022.
- MCM advised on FX reserve management in March 2022.
- STA advised on the production of new Financial Soundness Indicators in line with the FSIs Guide in May-June 2022
- FAD advised on modernization of the Belize Tax Service Department (BTSD) and the Belize Customs and Excise Department (BCED) in October-November 2022
- FAD advised on the implementation of accrual accounting in March 2023

CARTAC Technical Assistance to Belize in FY2021–FY2023:

Description	Start Date	End Date
Customs and Tax Administration		
Risk management and post clearance audit	10/12/2020	10/21/2020
Strengthening audit capacity (training)	01/11/2021	01/23/2021
Strengthening risk management capacity	02/15/2021	02/24/2021
Tax Administration	05/01/2021	05/15/2021
Customs Developing Performance Targets and KPI	06/07/2021	06/11/2021
Strengthening Core Business Function - Arrears Management	06/29/2021	07/13/2021
Strengthening Core Business Functions - Arrears Management Training	11/01/2021	11/19/2021
Merger of different tax departments	08/29/2022	09/16/2022
Long Term Expert (LTX) Visit	10/05/2022	10/07/2022
Strengthening Performance Management	10/10/2022	10/21/2022
Strengthening Core Business function	11/07/2022	11/18/2022
Strengthening HQ function and performance management	02/06/2023	02/15/2023
Public Financial Management (PFM)		
Assisting with fiscal reporting challenges when transitioning to IPSAS	08/04/2020	08/07/2020
Review of Belize's PFM legislation	04/06/2021	04/15/2021
Providing internal audit support	03/26/2021	03/31/2021
Developing Performance Targets and KPI	06/07/2021	06/11/2021
Support development of new PFM Laws & Regulations FY22	05/10/2021	06/03/2021
Accruals Accounting Implementation Plan FY23	09/26/2022	09/30/2022
Improving Treasury reporting function FY23	01/09/2023	01/20/2023
Statistics		
National accounts – review of rebased GDP estimates	06/15/2020	07/03/2020
National accounts – back casting GDP expenditure measure	07/13/2020	07/17/2020
External Sector Statistics – Balance of payments & International Investment Position	02/14/2022	02/25/2022
Financial Markets		
Financial stability – Monitoring and detection of systemic risks	02/08/2021	02/21/2021
RBS Implementation	10/25/2021	11/02/2021
Review and Update of Insurance Legislation and Regulation	08/16/2021	01/14/2022
Drafting regulations supporting the new Securities Act	02/14/2022	03/25/2022
RBS Implementation (Follow-up)	05/11/2022	05/23/2022
Basel II-III - Implementation of LCR (Follow-up)	07/07/2022	07/15/2022
Scoping Mission	09/12/2022	09/16/2022
Development of Liquidity and Capital Standards for Registrants	10/12/2022	11/23/2022
Basel II-III - Implementation of Capital Buffers	10/12/2022	10/24/2022
RBS Implementation (Follow-up)	11/02/2022	11/14/2022
Macro stress testing	05/11/2022	06/14/2022
Basel II-III - Implementation of LCR and liquidity monitoring tools	02/13/2023	02/17/2023
Interactive learning capacity development (CD) activity on the implementation of RBS	02/20/2023	02/24/2023
FSC – Organizational Framework & Roadmap	02/27/2023	03/03/2023
Sources: https://www.cartac.org/content/CARTAC/Home/WorkPlans.html		

COLLABORATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

As of March 21, 2023, 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:

Institution	Link
The World Bank Group	https://www.worldbank.org/en/country/belize/overview
Inter-American Development Bank	https://www.iadb.org/en/countries/belize/overview
Caribbean Development Bank	https://www.caribank.org/countries-and-members/borrowing-members/belize

STATISTICAL ISSUES

(As of March 31, 2023)

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) disseminates several real sector statistics (GDP, CPI, population, labor force and employment statistics, and social indicators). The timeliness and frequency of the statistics is generally adequate for surveillance – except for the biannual labor force statistics and the poverty and literacy-related social indicators, which are available with large lags. There is room to strengthen the compilation of GDP on an expenditure basis, which is only available at annual frequency and with a significant lag.

In 2020, the Statistical Institute of Belize (SIB), with support from CARTAC, the IMF, and Statistics Canada, rebased the national accounts. The work improved the statistics methodology, updating it from the 1993 *System of National Accounts (SNA)* to the 2008 *SNA*. The work involved the update of the statistical business registry by conducting an economy wide industrial survey to improve the coverage of activity of small and medium sized enterprises and the update of the base year's price structure and weights from 2000 to 2014. The updated national accounts include additional breakdowns of industry categories, increasing the number of industry subgroupings from 18 to 34. Revised nominal GDP rose by an average of 30 percent relative to the old series between 1993 and 2020 (see Annex I for more details). While the new series is an improvement over the previous sources and methods, Belize can benefit from continued technical assistance.

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 Central Bank classifies the Social Security Board as a non-financial public corporation, and includes its claims (deposits) on the banking system as part of broad money. The Social Security Board should be classified as part of the general government, which implies revisions to the money and credit aggregates. Difficulties continue to persist in the compilation of capital expenditure as several Capital II (government-funded capital and project expenditures) items that started life as fixed-term project contributions have become permanent funding allocations. 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, data on domestic debt and domestic debt service needs to be improved, particularly regarding amortization.

Monetary and Financial Statistics: The monetary and financial statistics are compiled by CBB using the standardized report forms (SRFs) 1SR for central bank and 2SR for other depository corporations and are disseminated in *International Financial Statistics* with a lag of approximately two months. However, coverage of other depository corporations is limited to commercial banks, which comprise around 2/3 of financial system assets. Coverage should be expanded to include data for credit unions and international (offshore) banks, to provide a better understanding of financial system developments. The CBB reports data on several series indicators of the Financial Access Survey (FAS) including gender-disaggregated data and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Soundness Indicators: The CBB compiles 15 core FSIs and 10 additional FSIs for deposit takers, and two additional FSIs on real estate markets on a quarterly basis for dissemination in the IMF's FSIs website. Individual banks' financial soundness indicators (FSI) are available on quarterly basis. However, there is limited data on non-bank financial institutions, especially the offshore sector.

External Sector Statistics: The SIB disseminates trade data at monthly frequency on its website with a one-month lag, together with press releases that 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 data for surveillance could be improved if it is expanded to cover trade in services. The Central Bank of Belize is responsible for producing the Balance of Payments and International Investment Position statistics, which are compiled on quarterly and annual frequencies in BPM6 format. Efforts should be made to improve the timeliness of the balance of payments and international investment position data, which are disseminated with a significant lag.

II. Data Standards and Quality

Belize has been a participant in the Enhanced General Data Dissemination System (e-GDDS) since September 2006, and last updated its metadata posted on the Dissemination Standards Bulletin Board in 2011. Belize has yet to establish a National Summary Data Page (NSDP) – a data portal (recommended under the e-GDDS and required under the SDDS) for the dissemination of key macroeconomic data. With support of the IMF's Statistics Department, Belize has begun work on the development of an NSDP.	No data ROSC is available.

Belize: Table of Common Indicators Required for Surveillance
(As of March 21, 2023)

	Date of Latest Observation	Date Received	Frequency of Data [7]	Frequency of Reporting [7]	Frequency of Publication [7]
Exchange Rates	3/15/2023	3/15/2023	D	D	D
International Reserve Assets and Liabilities of the Monetary Authorities [1]	2/22/2023	3/7/2023	W	W	W
Reserve/Base Money	2/22/2023	3/7/2023	W	W	W
Broad Money	2/22/2023	3/7/2023	W	W	W
Central Bank Balance Sheet	1/31/2023	3/7/2023	M	M	M
Consolidated Banking System Balance Sheet	1/31/2023	3/7/2023	M	M	M
Interest Rates [2]	1/31/2023	3/7/2023	M	M	M
Consumer Price Index	1/31/2023	2/22/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing — General Government	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance, and Composition of Financing — Central Government [3]	9/30/2022	12/14/2022	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt [4, 5]	1/31/2023	3/7/2023	M	M	M
External Current Account Balance	2022Q3	3/20/2023	Q	Q	Q
Exports/Imports of Goods and Services	2022Q3	3/20/2023	Q	Q	Q
GDP/GNP	2022Q3	1/11/2023	Q	Q	Q
Gross External Debt (Public sector only)	1/31/2023	3/7/2023	A, M	A, M	NA
International Investment Position [6]	2022Q3	3/20/2023	A, Q	Q	Q

[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 Philip Jennings, Executive Director for Belize and Ziana Ahmed, Advisor to Executive Director

May 8, 2023

On behalf of the authorities of Belize, we express gratitude to Mr. Guajardo and the mission team for the consultations, valuable analysis, and constructive exchange of views. Our authorities broadly share staff's assessment of the economic outlook, risks, and policy priorities for the period ahead.

Since coming into office in 2020, our Belizean authorities have taken decisive steps through their ambitious homegrown reform agenda to reduce imbalances and anchor strong and inclusive growth. Economic activity has rebounded strongly from the pandemic. After declining by 13.4 percent in 2020, real GDP rebounded by 15.2 percent in 2021 and 12.1 percent in 2022 led by the recovery of tourism and strong growth in business process outsourcing, with real GDP already above its pre-pandemic level by a sizeable margin. The fiscal position has also strengthened significantly, with the primary balance increasing from -8.1 percent of GDP in 2020 to 1.2 percent of GDP in 2022 due to a combination of expenditure containment measures and recovery of revenue.

Debt sustainability has also been restored. The GDP rebasing in 2020 led to a large fall in the public debt-to-GDP ratio in 2020 from 133 percent of the old GDP to 101 percent of the new GDP. Through a combination of fiscal consolidation, debt operations (including the debt for marine protection swap with The Nature Conservancy and a discount on Petrocaribe debt owed to Venezuela), strong growth and high inflation, the public debt declined further to 64 percent of GDP in 2022. With the current policies, Belize is on track to reduce debt to 53 percent of GDP by 2028.

Macroeconomic Outlook and Policies

Despite the strong recovery from the pandemic and significant reduction in public debt, risks to the outlook remain tilted to the downside. High inflation, spillovers from Russia's war against Ukraine, including increased food and fuel prices, and climate-related disasters continue to weigh on the Belizean economy. Inflation increased from near zero in 2020 to 3.2 percent in 2021 and 6.3 percent in 2022, in line with the increase in global food and fuel prices and global inflation. Our authorities project growth to slow starting in 2023, with real GDP growth of about 2.7 percent over the medium term. Inflation is also expected to moderate to 4.1 percent in 2023 and 1.2 percent over the medium term. Risks to financial stability remain elevated, with a growing number of nonperforming loans since the expiry of the COVID-19 forbearance measures and weak private sector credit growth.

Fiscal Policy

Our Belizean authorities are committed to continue reducing public debt and creating fiscal space to build buffers to respond to adverse shocks and for growth-enhancing investments, through a combination of revenue and expenditure measures. Belize has already taken steps to enhance revenue administration by allocating more staff in Customs to combat fraud and creating a Tax Recovery Unit in the Belize Tax Services Department, and work is underway to introduce an electronic tax invoicing system and a single electronic window for Customs to help improve efficiency, with the help of Fund technical assistance. Our authorities also plan to widen the tax base, including by reducing the number of zero-rated items under the GST and passing the *Fiscal Incentives Act* to help bring micro, small and medium-sized enterprises (MSMEs) into the formal sector through various tax incentives. In addition, they plan to increase the excise tax on fuel to recoup revenue lost in FY 2022 as soon as conditions allow.

We are pleased to note that Belize's 2023 Budget announced reforms to the Pension Plan for Public Officials to improve its sustainability and reduce the deficit, broadly in line with staff's recommendation. Following consultations with labour unions, the government will pursue phased implementation of a new contributory pension scheme, beginning with new entrants to the public service as of July 1, 2023. The government will work with unions to finalize the design of the second phase, which will include existing public officers. Altogether, these efforts are expected to put the pension plan on a sustainable track, creating further fiscal space for priority long-term investments.

Structural Reforms

Boosting inclusive growth and building resilience to climate change are key priorities for the government. To this end, our authorities have an ambitious pipeline of physical and digital infrastructure projects, including for improved road connectivity, renewable energy, and climate resilient infrastructure as well as digitalized civil registry and land registry services. Belize is also working to expand access to credit through establishment of a credit bureau and credit collateral registry, and other tax incentives targeted at MSMEs. Finally, our authorities are committed to fighting crime and corruption through increased use of technology in surveillance, and reducing poverty through targeted social programs to increase the quality of education and mandatory age of schooling and provide housing and childcare to the most vulnerable. This ambitious reform agenda will ensure a robust social safety net that supports the poorest and most vulnerable.

Climate change is a macro-critical threat to Belize. Belize is exceptionally vulnerable to increasingly frequent and severe climate shocks, including hurricanes, flooding, sea level rise, coastal erosion and coral bleaching. Therefore, investment in adaptation and mitigation efforts, including the transition away from fossil fuels towards renewable energy, remain an economic imperative. While building climate resilience is an urgent national priority and efforts are underway, progress is constrained by Belize's limited fiscal space. To this end, our authorities are seeking grants and concessional loans from the Green Climate Fund and other development partners. Our authorities are committed to taking a proactive and preventative approach to climate change and underscore the important role of the IMF and MDBs in supporting such efforts.

Monetary and Financial Policies

Belize's currency peg is a key macroeconomic anchor. The currency peg has a long-proven track record of providing the stability needed to promote investment and growth in a small country like Belize. Our authorities are committed to maintaining the peg and undertaking additional fiscal consolidation and growth-enhancing structural reforms to help increase international reserves.

The Central Bank of Belize remains committed to closely monitoring financial sector risks and continue strengthening the AML/CFT supervision of banks. The Central Bank continues its close monitoring and supervision of the banking sector, particularly in the context of the recent rise in non-performing loans and deteriorating asset quality, and remains ready to act if the situation continues to deteriorate and some institutions require recapitalization. Belize is also committed to maintaining the highest level of compliance with international financial integrity standards. The Central Bank has developed guidelines for imposing penalties for non-compliance with AML/CFT requirements and is committed to continue strengthening the AML/CFT framework ahead of the mutual evaluation by the Caribbean Financial Action Task Force in November 2023.

Our Belizean authorities highly value the close collaboration and engagement with the Fund in developing their homegrown reform agenda. Our authorities are grateful for the Fund's continued policy advice and technical assistance, including through the Caribbean Regional Technical Assistance Centre (CARTAC), and are committed to continue listening to the Fund's advice going forward. They look forward to staying closely engaged with the Fund on implementing their reform agenda and building a Belize that works for everyone.