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May 27, 2021

**Statement by Mr. Merk and Mr. Sattler on Belize
(Preliminary)
Executive Board Meeting
June 2, 2021**

We thank staff for the detailed report, and Ms. Levonian and Mr. Rankin for the helpful additional information provided in their Buff statement.

We agree with staff's assessment. With its large tourism sector, Belize was hit particularly hard by the pandemic. Despite the substantial effects of Covid-19 on the government finances and Belize's growth prospects, the structural impediments to growth as well as the dismal state of public finances preceded the pandemic. Therefore, we strongly encourage the authorities to set forward an ambitious reform agenda, to reduce budget deficits (while maintaining targeted crisis support) and to seek a timely and sufficiently deep debt restructuring agreement with creditors. Putting Belize back on a path of debt sustainability is of utmost importance for a lasting recovery and to be able to react to future shocks, as Belize is exposed to frequent natural disasters.

We agree with staff that the authorities should increase their efforts to reach fiscal sustainability and to reduce the public debt ratio to 60 percent of GDP by 2031. A more ambitious reduction may be needed for lasting resilience (for instance if natural disasters were to become more frequent), as the 60 percent of GDP yardstick seems to be calibrated based on shocks "of similar size and frequency as in the past". In order to realize this substantial reduction in public debt, we concur with staff's assessment that a medium-term fiscal consolidation strategy is urgently needed. Moreover, to anchor the path of debt reduction also in case of opposing political pressure, the introduction of a Fiscal Responsibility Law should constitute a key component of the overall crisis response. In this regard, we welcome the new administration's intention to implement such fiscal rules and encourage them to seek technical assistance from the Fund if necessary.

To substantially decrease debt ratios, the authorities also need to improve the primary balance without putting at risk the recovery from the pandemic. In this regard, we share staff's view that this should be done by both increasing revenue and reducing expenses. Nonetheless, the benefits of

increases in tax rates should be weighed against them potentially dragging down growth, in particular with an economy that needs to recover from the pandemic. In light of this, the proposed reform of the taxation of businesses in the tourism sector should be designed carefully to not endanger the recovery in this sector. Alternatives to increases in tax rates could include a broadening of the tax base, as well as increases in the compliance and efficiency of tax collection. Equally, the reduction in spending should be realized by reprioritizing expenses and by focusing on capital expenses with relatively higher fiscal multipliers (although short-term fiscal multipliers are likely very small, inter alia given high openness and potential adverse confidence effects). These investments should also include infrastructure projects that can increase potential growth and resilience against natural disasters.

As we understand from the report, in order for Belize to reach medium-term debt sustainability, a comprehensive debt restructuring is inevitable. We welcome the steps taken by the authorities of Belize to reach out to creditors and to start the negotiations for a debt restructuring agreement. Given the importance of correcting flow imbalances as well, key creditors seem willing to agree to such an agreement only if the authorities commit to an appropriately ambitious reform agenda under an IMF-supported program. *Could staff indicate how far negotiations with creditors have progressed?* We generally agree that a Fund supported program can inter alia help to lower information asymmetries and act as a commitment device for the authorities. Regarding the scope for Fund financial support, we would emphasize the need for a sufficiently large debt relief (also in reducing gross financing needs over the coming years) to limit the need for new financing (including potentially from the Fund). Against this background, adding a potentially large volume of Fund or other official financing could be a further obstacle towards debt sustainability. *Staff comments regarding the prospects of an arrangement as well as relevant consideration on the potential access level would be welcome.*

With low international reserves and a high and persistent current account deficit, the external position appears unsustainable. The authorities consider the currency peg to the USD a main macro-stabilizing force that should be maintained. However, with the current trajectory for international reserves and the capital flow dynamics, the credibility of the peg is at risk. Thus, a comprehensive reform program to regain investor confidence and restore debt sustainability is also urgently needed to reduce external imbalances. Against this background, we welcome that according to staff “the authorities have recognized the critical nature of their financial situation and are executing needed remedial measures”, and support staff’s call to limit central bank financing of the government.

We welcome that the financial system has so far shown resilience and appreciate the actions taken by the authorities to alleviate pressure particularly on the banking system. Nonetheless, some of the temporary forbearance measures introduced have, while reducing immediate pressures, increased vulnerabilities to financial stability. We therefore support staff’s view and encourage the authorities to phase out the measures and to improve banks’ provisioning for potential losses. We further echo staff’s assessment of the need to evaluate and potentially improve the AML/CFT framework, which will help to secure important correspondent banking relationships.

The economy's growth prospects were already subdued before the pandemic hit, which makes a shift towards growth-enhancing policies even more warranted. We agree with the priority areas proposed by staff. Reforms should facilitate the shift towards a more diversified economy by improving the business climate and encourage private (foreign) investment. Additionally, we support the proposals to increase resilience to natural disasters. The proposed strengthening of building codes and land use regulation appears to be a promising way to increase resilience.

We support staff's assessment that the social safety net needs to be strengthened. While we understand that this may further increase government expenditure, thus requiring higher revenue and/or spending cuts in other areas, there are potential benefits. For instance, increased social security can help lower crime rates, thereby improving business environment and foster growth. Furthermore, an extended social security net will act as an automatic stabiliser when a crisis hits in the future.