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EBS/84/225

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November 5, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Belize - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Belize for a stand-by arrangement equivalent to SDR 7.125 million. A draft decision appears on page 21.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Lindgren (ext. (5)7151).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

BELIZE

Request for Stand-By Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Eduardo Wiesner and Manuel Guitian

November 2, 1984

I. Introduction

A staff mission visited Belize City and Belmopan between August 17 and September 1, 1984 to negotiate an adjustment program in support of which the authorities are requesting a stand-by arrangement from the Fund. The representatives of Belize in these discussions included the Minister of Economic Development, the Governor of the Central Bank, and senior officials of the Ministry of Finance and the Ministry of Economic Development. The mission also met with the Prime Minister and Minister of Finance. The staff representatives were Mr. C-J. Lindgren (Head-WHD), Mr. A. Lopez-Claros (WHD), Mrs. M. Schulze-Ghattas (FAD), Miss E. Suss (WHD), and Miss V. Rowles (Secretary-WHD). Mr. R. Joyce, Executive Director for Belize, participated in the policy discussions.

In a letter dated October 26, 1984 (attached), the Prime Minister and Minister of Finance, the Minister of Economic Development, and the Governor of the Central Bank of Belize request access to Fund resources in an amount equivalent to SDR 7.125 million, which is 75 percent of Belize's quota of SDR 9.5 million, within the framework of a stand-by arrangement for the period through March 31, 1986. On an annual basis access would be about 55 percent of quota. The entire amount requested under the arrangement would come from ordinary resources. The proposed phasing of purchases under the stand-by arrangement is shown in Table 1.

As of September 30, 1984, the Fund's holdings of Belize dollars amounted to SDR 13.1 million or 138 percent of quota. Full use of the requested resources under the stand-by arrangement would raise the Fund's holdings of Belize dollars to 213 percent of quota. Further information on Belize's relations with the Fund is presented in Appendix I.

Table 1. Belize: Projected Purchases and Scheduled Repurchases
November 1984-March 1986

	Outstanding Sept. 30 1984	Operations During Period of Arrangement: Nov. 1984-Jan. 1985	Feb.-Apr. 1985	May-July 1985 1/	Aug.-Oct. 1985	Nov. 1985-Jan. 1986	Feb.-Mar. 1986	Outstanding Mar. 31, 1986
		(In millions of SDRs)						
Purchases								
Under tranche policies		1.200	1.185	1.185	1.185	1.185	1.185	7.125
Ordinary resources		(1.200)	(1.185)	(1.185)	(1.185)	(1.185)	(1.185)	(7.125)
Enlarged access		(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases		--	--	--	--	--	--	--
Net purchases		1.200	1.185	1.185	1.185	1.185	1.185	
Memorandum items								
Total holdings	13.100							20.225
Quota	9.500							9.500
Under tranche policies	--							7.125
Ordinary resources	(--)							(7.125)
Enlarged access	(--)							(--)
Compensatory financing	3.600							3.600
		(In percent of quota)						
Use of Fund credit	37.9							112.9
Excluding compensatory financing facility	--							75.0

Source: International Monetary Fund.

1/ Purchases cannot take place after June 30, 1985 unless consultation with the Fund has been completed.

II. Background

In recent years economic activity in Belize has weakened sharply. After growing at an average annual rate of about 5 percent in the 1970s, real GDP rose by 1 percent in 1981 and fell by over 5 percent in 1982. This weakening resulted from a substantial decline in real income caused by a worsening in Belize's terms of trade due to lower international sugar prices and by the adverse effects on Belize's service sectors of the depreciation of the Mexican peso in 1982. These developments were preceded by a rise in inflationary pressures as a boom in sugar prices led to large wage increases in the sugar sector in 1980, which in turn triggered off a wave of wage increases throughout the economy. The increase in consumer prices picked up from 7 percent in 1980 to 13 percent in 1981, but slowed to about 8 percent in 1982 as wage pressures subsided and prices of imports (particularly from Mexico) in terms of local currency declined.

The combination of declining world sugar prices, the virtual cessation of a flourishing entrepot trade with Mexico following the depreciation of the Mexican peso, and domestic demand pressures resulted in a widening in the deficit of the current account of the balance of payments from the equivalent of 2 1/4 percent of GDP in 1980 to 11 percent of GDP in 1982 (Table 2). However, the balance of payments was in approximate equilibrium in 1982 owing to large capital inflows, including a balance of payments loan of US$4.6 million from the United States.

In 1983 real GDP grew by 1 percent and inflation slowed to about 3 percent. The current account deficit of the balance of payments narrowed to the equivalent of a little more than 6 percent of GDP, as the volume of exports increased and imports contracted. However, there was a sharp decline in net inflows of official capital and a large net outflow of private capital associated with net repayment of external debt by commercial banks and the sugar industry. As a result, net official international reserves fell by US$4.3 million and the public sector accumulated US$5.1 million of external payments arrears during 1983 (see Table 2).

In 1984 real GDP is projected to increase by about 2 percent on the strength of a moderate recovery of the commerce sector and a significant increase in citrus production, and inflation is expected to stay at around 3 percent. In the first half of 1984 the overall balance of payments, as measured by the change in the net international reserves of the Central Bank, showed a deficit of US$4.4 million; moreover, public sector payments arrears increased by a further US$0.3 million.

In the early 1980s, there was a marked deterioration of the public finances. The overall deficit of the nonfinancial public sector increased from 4 percent of GDP in FY 1980/81 to 9 percent of GDP in FY 1982/83,1/ reflecting a sharp increase in the deficit of the Central

1/ The fiscal year is April 1 to March 31.

Table 2. Belize: Summary Balance of Payments

	1980	1981	1982	1983	Projected 1984	Projected 1985
	(In millions of U.S. dollars)					
Current account	-3.7	-4.7	-18.4	-11.0	-15.8	-14.0
Trade balance	-38.9	-43.0	-54.4	-45.2	-47.4	-46.1
Exports, f.o.b.	(82.0)	(74.7)	(59.8)	(65.1)	(70.0)	(77.7)
Imports, c.i.f.	(-120.9)	(-117.7)	(-114.2)	(-110.3)	(-117.4)	(-123.8)
Services (net)	13.2	14.1	11.0	9.6	9.0	10.5
Private transfers (net)	16.5	18.5	17.6	17.7	18.9	19.8
Official transfers (net)	5.5	5.7	7.4	6.9	3.7	1.8
Capital account	5.5	2.4	18.2	2.0	9.7	23.6
Public sector (net)	4.9	8.4	8.9	3.5	12.9	25.2
Nonfinancial	(2.9)	(7.4)	(7.2)	(0.5)	(12.1)	(20.6)1/
Financial	(2.0)	(1.0)	(1.7)	(3.0)	(0.8)	(4.6)
Private sector (net)	0.8	1.8	11.2	-5.5	-3.2	-1.6
Commercial banks	(0.8)	(1.8)	(7.5)	(-2.7)	(-5.0)	(-1.6)
Sugar industry	(...)	(...)	(3.7)	(-2.8)	(1.8)	(--)
Net errors and omissions	-0.2	-7.8	-1.9	4.0	--	--
Change in arrears	--	--	--	5.1	-0.4	-4.6
Change in net official reserves (increase -)2/	-1.8	2.3	0.2	4.3	6.5	-5.0
	(In percent of GDP)					
Current account	-2.2	-2.6	-11.1	-6.3	-8.6	-7.1
Trade balance	-22.7	-23.5	-32.7	-26.0	-26.1	-23.5
Exports	(47.9)	(40.8)	(36.0)	(37.4)	(38.3)	(39.7)
Imports	(-70.6)	(-64.3)	(-68.7)	(-63.4)	(-64.2)	(-63.2)
Services and private transfers	17.3	17.8	17.2	15.7	15.2	15.5
Official transfers	3.2	3.1	4.4	4.0	2.0	0.9

Sources: Belize authorities; and Fund staff estimates.

1/ Includes US$10 million assistance from U.S. AID.
2/ Includes change in net foreign assets of Central Government and Government Savings Bank.

Government and growing operating deficits in the public enterprises. The deficit is estimated to have been reduced to about 8 percent of GDP in FY 1983/84 through sharp cuts in capital expenditure (Table 3).

After a small increase in FY 1981/82, total revenue and grants of the nonfinancial public sector were virtually unchanged in absolute terms through FY 1983/84, as a decline in central government revenue was offset by increases in external grants and receipts of the Social Security Board established in FY 1981/82. Notwithstanding substantial tax-raising measures,1/ central government tax revenue fell from 21 percent of GDP in FY 1980/81 to 19 percent of GDP in FY 1983/84, reflecting poor profits in the sugar and commerce sectors and the sharp decline in recorded imports after the 1982 devaluation of the Mexican peso.2/

The deterioration of the fiscal situation in the last few years also has reflected large increases in expenditure. Total expenditure of the consolidated nonfinancial public sector rose from 31 percent of GDP in FY 1980/81 to an estimated 37 percent of GDP in FY 1983/84. Current outlays of the Central Government for wages and salaries and goods and services rose from 15 percent of GDP in FY 1980/81 to 19 percent of GDP in FY 1983/84, owing to a large general wage increase in mid-1981 and new defense spending following independence in 1981. The operating deficit of the public enterprises more than tripled from FY 1980/81 to FY 1983/84 mainly as a result of a widening of the Electricity Board's operational deficit due to inefficiencies in management which were manifested in inappropriate purchasing policies of spare parts and fuel, unreliable power generation, and inadequate revenue collections. There were also operational deficits in the Marketing Board that reflected inappropriate purchasing and pricing policies in the Board's trade in basic food staples, and in the Banana Control Board as a result of production inefficiencies.

Public sector investment fell from an average of about 12 1/2 percent of GDP in FY 1980/81-FY 1982/83 to 10 1/2 percent of GDP in FY 1983/84 as a number of projects were completed. The decline in public investment was also due in part to a slowdown in the execution of projects as the Government found it increasingly difficult to provide the necessary domestic counterpart funds.

In FY 1981/82 and FY 1982/83 over one half of the overall deficit of the nonfinancial public sector was financed by net external credits, but the completion of projects noted above resulted in a significant drop in external financing in FY 1983/84. Meanwhile, net domestic financing rose sharply in FY 1983/84, and the composition of this financing was modified, with credit from the Central Bank expanding sharply

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1/ For a complete description of these measures see Appendix I of SM/84/126 (6/5/84).

2/ The staff estimates that, in the period following the depreciation of the Mexican peso in 1982, about 30 percent of total imports were unrecorded; the proportion of such imports has since declined.

Table 3. Belize: Consolidated Operations of the Nonfinancial Public Sector 1/

	1980/81	1981/82	1982/83	Prel. 1983/84	Prog. 1984/85	Prog. 1985/86
	(In millions of Belize dollars)					
Total revenue and grants	94.5	99.7	101.2	100.5	111.3	115.1
Revenue	81.6	86.4	84.2	84.4	101.8	109.6
Central Government	(81.6)	83.7)	(78.9)	(77.8)	(93.6)	(100.0)
Social Security Board	(--)	(2.7)	(5.3)	(6.6)	(8.2)	(9.6)
Grants	12.9	13.3	17.0	16.1	9.5	5.5
Total expenditure 2/	108.3	122.1	131.4	128.8	132.5	135.7
Current expenditure	66.0	78.0	85.2	91.9	92.6	95.7
General government	(64.8)	(76.5)	(82.4)	(87.5)	(91.4)	(95.7)
Central Government	/64.8/	/76.2/	/81.6/	/85.8/	/88.6/	/91.7/
Social Security Board	/--/	/0.3/	/0.8/	/1.7/	/2.8/	/4.0/
Public enterprises' operating deficit	(1.2)	(1.5)	(2.8)	(4.4)	(1.2)	(--)
Capital expenditure	42.3	44.1	46.2	36.9	39.9	40.0
General government	(34.9)	(31.9)	(27.7)	(24.6)	(31.4)	(30.9)
Central Government	/34.9/	/31.9/	/27.5/	/24.4/	/31.2/	/30.7/
Social Security Board	/--/	/--/	/0.2/	/0.2/	/0.2/	/0.2/
Public enterprises	(7.4)	(12.2)	(18.5)	(12.3)	(8.5)	(9.1)
Overall deficit (-)	-13.8	-22.4	-30.2	-28.3	-21.2	-20.6
Change in external arrears 3/	--	--	0.4	3.9	-2.9	-1.4
Financing (net)	13.8	22.4	29.8	24.4	24.1	22.0
External financing (net) 4/	8.6	12.9	18.3	4.7	28.1	31.2
Domestic financing (net)	5.2	9.5	11.5	19.7	-4.0	-9.2
Banking system	(4.3)	(9.9)	(11.9)	(18.1)	(-4.0)	(-9.2)
Central Bank	/-2.2/	/13.5/	/0.4/	/14.0/	/3.7/	/.../
Commercial banks	/6.5/	/-3.6/	/11.5/	/4.1/	/-7.7/	/.../
Other	(0.9)	(-0.4)	(-0.4)	(1.6)	(--)	(--)
Memorandum item						
Public sector savings	15.6	8.4	-1.0	-7.5	9.2	13.9
	(In percent of GDP)					
Revenue	23.4	24.1	24.9	23.9	27.3	27.5
Grants	3.7	3.7	5.1	4.6	2.6	1.4
Total expenditure	31.1	34.1	39.0	36.5	35.6	34.0
Current expenditure	18.9	21.8	25.3	26.0	24.9	23.9
Capital expenditure	12.1	12.3	13.7	10.5	10.7	10.1
Overall deficit (-)	-4.0	-6.3	-9.0	-8.0	-5.7	-5.1
External financing (net)	2.5	3.6	5.5	1.3	7.5	7.8
Domestic financing (net)	1.5	2.7	3.4	5.6	-1.1	-2.3
Change in outstanding arrears	--	--	0.1	1.1	-0.8	-0.4
Memorandum item						
Public sector savings	4.5	2.3	-0.3	-2.1	2.5	3.5

Sources: Belize authorities; and Fund staff estimates.

1/ Fiscal year April 1-March 31.
2/ Commitment basis.
3/ Arrears on interest and external transfers.
4/ Includes changes in principal arrears.

and credit from the commercial banks being cut back. As credit from the Central Bank to the Government reached the legal limits 1/ and the commercial banks were increasingly reluctant to provide additional financing, the nonfinancial public sector defaulted on external payments obligations mainly related to the servicing of external debt. The increase in external payments arrears in FY 1983/84 amounted to more than 1 percent of GDP.

Reflecting the above developments, Belize's public sector external debt rose from US$45 million (26 percent of GDP) at the end of 1980 to US$65 million (40 percent of GDP) at the end of 1983 (Table 4). The bulk of the debt is on concessional terms from bilateral and multilateral sources, although short- and medium-term debt from commercial sources increased sharply in 1981. Debt service rose from the equivalent of 1 1/2 percent of exports of goods and nonfactor services in 1981 to 8 1/2 percent in 1983 (Statistical Appendix Table 11).

In the last several years, monetary policy focused on interest rates. A flexible interest rate policy was pursued in 1980-81 to keep deposit rates in Belize in line with interest rates abroad. Although external rates declined in 1982, domestic rates were not reduced and the resulting domestic premium over interest rates abroad provided a strong incentive for financial savings in Belize. As a result, banking system's liabilities to the private sector grew faster than nominal GDP in 1981-82. At the same time, net domestic assets of the banking system grew at an average annual rate of about 16 percent, more than twice the average rate of increase in liabilities to the private sector. This rapid credit expansion, which was largely facilitated by foreign borrowing of the commercial banks, was the result of strong credit demand in both the public and private sectors. Although domestic interest rates were reduced in 1983, banking system liabilities to the private sector grew more than three times faster than nominal GDP. Meanwhile, the rate of growth of net domestic assets accelerated to 20 percent due to a sharp increase in the demand for credit by the public sector. This credit expansion combined with a net amortization of foreign debt by the commercial banks led to the above-mentioned decline in net international reserves of the Central Bank.

III. The Government's Financial Program

1. Main objectives

The Government's adjustment program initiated in June 1984, in support of which Belize is requesting the stand-by arrangement, seeks to establish conditions conducive to economic growth, higher employment,

1/ The Central Bank of Belize Law stipulates that external assets must be equal to at least 40 percent of the Central Bank's demand liabilities, and limits direct advances to the Government to no more than 15 percent of current revenue of the Government in any fiscal year.

Table 4. Belize: External Public Debt by Creditor and Maturity 1/

(In millions of U.S. dollars)

	December 31					
					Proj.	
	1980	1981	1982	1983	1984	1985
Total	44.6	51.7	59.5	65.1	78.0	89.5
By creditor						
Multilateral and bilateral	37.6	37.5	44.5	48.1	61.8	78.5
12 years or less	(--)	(--)	(0.8)	(2.7)	(2.1)	(4.5)
More than 12 years	(37.6)	(37.5)	(43.7)	(45.4)	(59.7)	(74.0)
Banks and suppliers	7.0	14.2	15.0	16.0	16.2	11.0
12 years or less 2/	(7.0)	(14.2)	(15.0)	(16.0)	(16.2)	(11.0)
More than 12 years	(--)	(--)	(--)	(--)	(--)	(--)
By maturity						
12 years or less	7.0	14.2	15.8	19.7	20.9	15.8
Nonfinancial public sector 2/	(7.0)	(14.2)	(15.8)	(18.0)	(17.7)	(12.3)
Development Finance Corporation	(--)	(--)	(--)	(1.7)	(3.2)	(3.5)
More than 12 years	37.6	37.5	43.7	45.4	59.7	73.7
Nonfinancial public sector	(30.5)	(29.8)	(34.5)	(35.1)	(48.5)	(57.8)
Development Finance Corporation	(7.1)	(7.7)	(9.2)	(10.3)	(11.2)	(15.9)

Sources: Belize authorities; and Fund staff estimates.

1/ Excludes reserve liabilities of the Central Bank.
2/ Includes short-term debt of nonfinancial public sector.

and price stability by strengthening the public sector finances and restoring the balance of payments to a sustainable position. Specifically, the program aims at reducing the overall deficit of the nonfinancial public sector and at financing the deficit entirely from bilateral and multilateral external sources. The substantial reduction of the overall public sector deficit is projected to lead to a narrowing of the current account deficit of the balance of payments in relation to GDP in 1985. The loss in the net international reserves of the Central Bank is to be limited to US$6.5 million in 1984 and is to be followed by an increase of US$5 million in 1985; moreover, US$5 million of payments arrears projected to remain outstanding at the end of 1984 are to be eliminated during 1985. Other aims of the program are an absolute reduction in public external debt with maturities of 12 years or less, and a gradual elimination of trade restrictions, which are presently maintained for development reasons.

2. Performance criteria

The program includes the following quantitative performance criteria: (1) ceilings on the net domestic assets of the Central Bank; (2) limits on net credit from the domestic banking system to the nonfinancial public sector; (3) limits on the outstanding stock of public sector external payments arrears; and (4) limits on the outstanding external debt of the public sector with a maturity of 12 years or less (Table 5). The first criterion is to be observed at all times, while performance under the other three criteria is subject to testing at the end of each calendar quarter. All external payments arrears are to be eliminated by September 30, 1985. To coincide with the remainder of the current fiscal year, quantitative performance criteria have been established only for the period through March 31, 1985. A consultation with the Fund before June 30, 1985 to review the progress made in implementing the program and to reach understandings on policies for the portion of the program that falls into FY 1985/86 is a performance criterion under the stand-by arrangement; a staff team is expected to visit Belize in early March 1985 to discuss the limits and ceilings for FY 1985/86, on the basis of the targets for fiscal, monetary, and balance of payments performance referred to in the letter of intent. Additional performance criteria are the customary injunctions against overdue financial obligations to the Fund, the introduction of multiple currency practices, restrictions on payments and transfers for current international transactions, and bilateral payments agreements with Fund members, as well as the injunction against the introduction of import restrictions for balance of payments reasons.

3. Financial policies

a. Fiscal policies

The thrust of the program is a reduction of the overall deficit of the nonfinancial public sector from 8 percent of GDP in FY 1983/84 to 5 3/4 percent of GDP in FY 1984/85 and to 5 percent of GDP in FY 1985/86. These deficits are to be financed entirely by long-term loans from bilateral and multilateral agencies, as the nonfinancial public sector is to make net amortization payments to the domestic banking system and eliminate external payments arrears during the program period (see Table 3). These overall targets are to be achieved through an increase in public sector savings equivalent to 5 1/2 percent of GDP from FY 1983/84 to FY 1985/86; at the same time, external grants would decline from the equivalent of 4 1/2 percent of GDP in FY 1983/84 to 1 1/2 percent of GDP in FY 1985/86. This is to be accomplished through the reduction of the deficit of the Central Government, the maintenance of the surplus of the Social Security Board, and the gradual elimination of the operating deficits of public enterprises.

Table 5. Belize: Quantitative Performance Criteria

	1983	1984		1985
	Dec. 31	June 30	Dec. 31	Mar. 31
(In millions of Belize dollars)				
Net domestic assets of the Central Bank	17.0	25.4	32.0 1/	26.0 2/
Net credit from the domestic banking system to the nonfinancial public sector	60.2	67.3	71.0	67.0 2/
(In millions of U.S. dollars)				
Outstanding external payments arrears	5.1	5.4	5.0	4.5
Outstanding external debt of the public sector with a final maturity of 12 years or less	19.7	...	21.0	20.0

Sources: Tables 4 and 6; and Tables 1, 2, 3, and 4 annexed to the letter of intent.

1/ This limit applies from the beginning of the stand-by arrangement to February 28, 1985.
2/ These limits will be adjusted downward to the full extent of any disbursements made under the US$10 million U.S. AID facility.

In June 1984 a major tax package was approved by Parliament which, together with some tax measures introduced in March 1984, is expected to yield additional revenue for the Central Government in an amount equivalent to 2 1/2 percent of GDP in FY 1984/85 and 3 1/2 percent of GDP on a full fiscal year basis. The measures adopted included a doubling of the excise tax on locally produced beer (implemented in two steps in March and June 1984), a new excise tax on soft drinks, a new 1.25 percent tax on sales of foreign exchange, a 33 percent increase in the stamp tax, and a 50 percent increase in the tax on gasoline. In relation to GDP, central government revenues are projected to increase from 22 percent of GDP in FY 1983/84 to 25 percent of GDP in FY 1984/85 and to remain at that level in FY 1985/86.

Furthermore, the authorities intend to increase tax yields by improving collection procedures, including a reduction of outstanding tax arrears. To this end, the collection of a number of taxes that heretofore had been the responsibility of various governmental departments and agencies will be centralized in the Ministry of Finance. In addition, the penalty rate for nonpayment of taxes was increased in March 1984 and judicial procedures are to be streamlined. No additional revenue from these administrative reforms has been included in the projections underlying the program, but the authorities expect that the reforms will yield substantial amounts over the next few years.

The strengthening of revenue performance is to be complemented by the pursuit of a cautious public expenditure policy; total expenditure of the nonfinancial public sector is programmed to increase by 3 percent in FY 1984/85 and by 2 1/2 percent in FY 1985/86. The central government budget for FY 1984/85 calls for a reduction of current expenditures in real terms, principally by not granting any general salary increase or permitting any increase in government staff. In relation to GDP, central government current expenditures are projected to decline from 25 1/2 percent of GDP in FY 1983/84 to 25 percent in FY 1984/85 and to 24 percent of GDP in FY 1985/86. Notwithstanding some salary increases expected to result from a regrading and reclassification of positions, wages and salaries, which account for nearly one half of current expenditure, are projected to fall from 12 1/4 percent of GDP in FY 1983/84 to 10 3/4 percent of GDP in FY 1985/86.

The Government is also making a concerted effort to increase the operating efficiency of the public enterprises, and steps have been taken to improve the management of most public enterprises. In the Electricity Board, expenditures have been curtailed through a 20 percent reduction in employment, even as operations have been streamlined and service has been made more reliable; in addition, an effort to improve revenue collections has been initiated. The purchasing and pricing policy of the Marketing Board has been revised with a view to avoid trading losses. Private sector partners have been brought into a state-owned beef company and the Government is actively seeking to divest itself of the rice operations of the Marketing Board and of its assets in the banana industry.

In general, the authorities' aim regarding public enterprises is to ensure that the prices and rates charged by public enterprises cover operating costs and generate surpluses for investment. Accordingly, in June 1984 electricity rates were increased by 16 percent and water rates by 33 percent. In all, the operating deficit of the public enterprises as a group, which amounted to 1 1/4 percent of GDP in FY 1983/84, is expected to be eliminated by FY 1985/86.

Capital expenditure of the nonfinancial public sector in FY 1984/85 is projected to remain at about its FY 1983/84 level in relation to GDP and to decline slightly in FY 1985/86. The public investment program emphasizes infrastructure, particularly the expansion of the road network, the water and sewerage system, and power distribution. Importance is also given to investment in health and housing, although the Government plans to support private sector initiatives in these areas by providing government loan guarantees rather than a direct public sector involvement. Given Belize's development needs, the World Bank considers that the emphasis of the public investment program is appropriate and that there is room for increasing further the public investment effort.

In the last two fiscal years, the Central Government introduced expenditure control procedures to assure a stricter compliance with the budget, and last year an Office of Budget and Management was established in the Ministry of Finance to strengthen further the budgetary process. However, existing control procedures with regard to the operations of public enterprises are still inadequate, and the authorities are planning remedial actions in this area. Moreover, to implement fiscal policy more effectively, the authorities intend to prepare for the first time in FY 1985/86 a consolidated budget for the nonfinancial public sector.

b. Monetary policies

As was noted above, the monetary program outlined in the attached letter of intent is consistent with a loss of net international reserves of the Central Bank of no more than US$6.5 million in 1984, followed by a gain of US$5 million in 1985. Banking system net credit to the nonfinancial public sector is programmed to increase by about 4 percent in 1984 and to decline by 6 1/2 percent in 1985.1/ Liabilities to the private sector are projected to grow in line with nominal GDP, which would leave room for an adequate growth of bank credit to the private sector (Table 6). To monitor the monetary program, the authorities have established limits on the net domestic assets of the Central Bank and on net credit from the banking system to the nonfinancial public sector.

At the end of June 1984 reserve deposits of the commercial banks in the Central Bank stood at BZ$9 million, or about BZ$2 million above the minimum legal level of 5 percent of average deposit liabilities. The commercial banks also held voluntarily substantial amounts of government securities; such holdings equaled approximately 8 percent of deposit liabilities. For the duration of the program, monetary policy

1/ Measured in relation to the stock of financial system liabilities to the private sector at the beginning of the year.

Table 6. Belize: Summary Operations of the Banking System

(In millions of Belize dollars)

	1983 Dec.	1984 Mar.	1984 June	1984 Dec.	Program 1985 Mar.	Program 1985 Dec.
I. Banking System						
Net international reserves	10.1	8.9	1.4	-2.8	7.1	7.2
Net domestic credit	177.8	179.7	183.8	188.9	181.4	187.9
Public sector (net)	63.5	65.0	67.1	69.9	60.9	60.2
Private sector	124.4	128.2	131.4	131.9	134.2	140.4
Other assets (net)	-10.1	-13.5	-14.7	-12.9	-13.7	-12.7
Net foreign liabilities of commercial banks	27.9	26.7	24.9	17.9	17.3	14.8
Liabilities to private sector	160.0	161.9	160.3	168.2	171.2	180.3
II. Central Bank						
Net international reserves	10.1	8.9	1.4	-2.8	7.1	7.2
Assets	18.6	17.7	9.7	14.0	20.3	27.6
Liabilities	-8.5	-8.8	-8.3	-16.8	-13.2	-20.4
Net domestic assets	16.3	17.7	26.2	30.5	21.0	22.5
Public sector (net)	36.7	39.3	48.0	51.6	43.0	44.1
Commercial banks (net)	-9.9	-9.9	-9.2	-10.3	-10.4	-11.0
Other assets (net)	-10.5	-11.7	-12.6	-10.8	-11.6	-10.6
Currency issue	26.4	26.6	27.6	27.7	28.1	29.7
III. Commercial Banks						
Net position with Central Bank 1/	13.7	12.8	12.0	14.1	13.2	14.8
Net domestic credit	151.6	152.1	148.4	148.1	150.0	154.4
Public sector (net)	26.8	25.7	19.1	18.3	17.9	16.1
Private sector	124.4	128.2	131.4	131.9	134.2	140.4
Other assets (net)	0.4	-1.8	-2.1	-2.1	-2.1	-2.1
Net foreign liabilities	27.9	26.7	24.9	17.9	17.3	14.8
Liabilities to private sector	137.4	138.2	135.5	144.3	145.9	154.4

Sources: Belize authorities; and Fund staff estimates.

1/ Includes cash in vault.

has been designed to avoid a sudden reduction of the commercial banks' net position in the Central Bank and in their net credit to the public sector. A 2 percentage point increase in the legal cash reserve ratio as of November 1, 1984, will be more than sufficient to absorb the existing excess reserve deposits. Moreover, the authorities will increase treasury bill rates and use moral suasion to avoid a reduction in commercial bank holdings of government securities below the level outstanding at the end of June 1984. Furthermore, with the exception of a loan that is being amortized under a special arrangement, the authorities intend to roll over to March 1985 loans and advances from commercial banks to the public sector outstanding at the end of June 1984. Subsequently, they intend to consolidate all such debt and stretch out the repayment periods. Negotiations regarding this rollover are presently under way. In the event that commercial banks were to reduce their credit to the nonfinancial public sector through March 1985, the authorities intend to take compensatory measures such as the withdrawal of deposits held by the Social Security Board in the commercial banks.

In 1983 and early 1984 domestic interest rates were adjusted downward; the rate on three-month time deposits was reduced from about 15 percent in 1982 to 9 percent by early 1984. These downward adjustments, together with the rise in U.S. dollar interest rates, led to the development of an interest rate margin against Belize. In the discussions, the staff emphasized the need for a flexible interest rate policy and for the attainment of domestic rates that would provide an adequate incentive for domestic savings and would help support the balance of payments. The authorities in their letter of intent have stated their intention to manage interest rates flexibly in order to achieve these aims. The authorities pointed out that real interest rates in Belize remain positive; nevertheless, they have agreed to review interest rate policy in the coming months so as to ensure that domestic rates are competitive with those abroad.

c. Wage policies

In 1980-81 there were large wage increases, but since then wage pressures have subsided in line with the slowdown in inflation. In the Central Government there has been no general increase in wages and salaries since a 25 percent pay raise in mid-1981. Although there were no general salary increases in the Central Government in 1982-84, salaries increased because of regrading and reclassification of positions. Overall, wages in the private and public sectors appear to have increased roughly in line with the consumer prices.

Given the need to contain public sector expenditure and to preserve Belize's international competitiveness, the authorities intend to exercise wage restraint both in the Central Government and in other public sector entities. Wage restraint is expected to be facilitated by a continuing low rate of increase of consumer prices. The Government believes that a cautious public sector wage policy will have a positive demonstration effect for wage settlements in the private sector, and that wage moderation is essential to preserve and strengthen Belize's international competitiveness.

d. External policies

As noted above, the program aims at a turnaround from an overall balance of payments deficit of US$6.5 million in 1984 to a surplus of US$5 million in 1985. Gross official international reserves are to be increased from the equivalent of about two weeks of imports in June 1984 to about eight weeks of imports at the end of March 1986. The current account deficit, which is expected to be entirely financed through official capital inflows from bilateral and multilateral sources, is projected to narrow from 8 1/2 percent of GDP in 1984 to 7 percent of GDP in 1985. The adjustment in the current account is even stronger if net official transfers are excluded; on this basis, the current account would improve from 10 1/2 percent of GDP in 1984 to about 8 percent in 1985. The improvement in the current account would mainly be the result of a strong increase in exports, especially of citrus products, as imports are projected to grow slightly slower than nominal GDP.

The Belize authorities emphasized that, to cope with the external imbalances, they had not considered restricting either current or capital transactions. Thus, Belize's exchange system remains free of restrictions on payments and transfers for current international transactions. There are no quantitative trade restrictions for balance of payments reasons and the Government does not intend to introduce any such restrictions. Import bans were introduced in late 1982 to protect local production of certain foodstuffs, construction materials, and some manufactured products. No substantial beneficial effects are evident from these restrictions and the authorities therefore intend to replace them gradually with moderate import tariffs.

The exchange rate of the Belize dollar has been pegged to the U.S. dollar (at BZ$2 per U.S. dollar) since 1976. As a result of the appreciation of the U.S. dollar against many of the currencies of Belize's trading partners, the real trade-weighted exchange value of the Belize dollar increased by some 15 percent from 1980 to mid-1984. Nevertheless, available evidence suggests that the main export sectors continue to be competitive. Despite weak world market conditions, the sugar sector has been able to keep its losses small as a result of productivity increases, the citrus industry has been very profitable, and developments in other export sectors do not indicate a need for an exchange rate adjustment at this time. The authorities recognize, however, that a strengthening of Belize's cost competitiveness is necessary for the promotion and diversification of exports, and they therefore intend to implement prudent wage policies and to keep exchange rate policy under review.

To limit the burden of servicing the public external debt and to preserve the favorable maturity structure of that debt, the authorities' plan is to increase the reliance on long-term concessional credits while reducing the utilization of short- and medium-term credits. Disbursements of external credits in 1984 and 1985 are projected to come entirely from bilateral and multilateral sources. With the exception of US$10 million of balance of payments assistance from the United States in 1985, all disbursements are scheduled to be project related.

The program establishes limits on the outstanding external debt of the total public sector with a maturity of 12 years or less, excluding the foreign reserve liabilities of the Central Bank; such debt is to increase from US$20 million at the end of December 1983 to US$21 million at the end of 1984, and to decline to US$20 million by March 31, 1985, and to US$16 million by the end of 1985. These limits accommodate a projected substantial increase in medium-term borrowing by the Development Finance Corporation from bilateral and multilateral sources for relending to the private sector, and a US$1.3 million loan to the Government for onlending to local sugar farmers for the first payment on their purchase of Belize's two sugar factories. As a result of the above policies, the public external debt service is projected not to exceed 9 percent of exports of goods and services over the next few years. The Government does not intend to extend any loan guarantees for private commercial activities, including sugar production.

Belize's external debt management has been hampered by a decentralized process of debt contracting and inadequacies in the data on external debt transactions. To improve external debt management, a commission headed by the Prime Minister and Minister of Finance has been established to advise the Cabinet on any new debt obligations to be incurred by any public sector entity. In addition, an office has been established in the Central Bank to monitor all public external debt transactions.

Since mid-1983 Belize's public entities have been increasingly unable to service their external obligations as a result of a lack of domestic currency resources, and by the end of June 1984 overdue external payments obligations had reached US$5.4 million. Of these, about US$3.2 million correspond to principal payments, with the remainder relating to interest and other current external obligations. The budgets for FY 1984/85 and FY 1985/86 include provisions for the elimination of these payments arrears; the program calls for the reduction of external payments arrears to US$5 million at the end of December 1984 and to US$4.5 million at the end of March 1985, and for their complete elimination by September 30, 1985. The phased elimination of external arrears is consistent with the limits on external debt.

IV. Medium-Term Outlook

The authorities have stated their intention to pursue policies consistent with the achievement of a sustainable balance of payments position and a restoration of real economic growth over the medium term. They intend to achieve these aims through prudent management of the public finances, which is expected to result in improved confidence and a recovery of activity in the private sector. The authorities intend to maintain an adequate level of public sector savings which, combined with an increased use of bilateral and multilateral external financing, would make possible a rise in public sector investment and in the country's productive capacity.

A medium-term balance of payments projection, which incorporates the assumptions regarding GDP and export volume growth made by the World Bank in its recent assessment of the Belize economy, is presented in Statistical Appendix Table 13. Real GDP growth is expected to be about 4 percent a year after 1985 on the strength of a broadly based recovery of the major sectors, while the GDP deflator is assumed to rise by 4 percent a year. The volume of sugar exports stays essentially unchanged during the projection period, while the export volume of nonsugar exports is projected to increase on an annual basis within a 4-6 percent range. Imports, as well as net nonfactor service and private transfer receipts, are expected to grow roughly in line with nominal GDP. On the basis of a strengthening of the trade balance, the deficit in the current account--excluding official transfer receipts--is projected to decline from 10 1/2 percent of GDP in 1984 to about 6 1/2 percent of GDP in the period 1987-89, which would be consistent with projected net official capital inflows. Because of the uncertainties that exist, the projections do not allow for net inflows of private capital or direct investment even though the authorities expect that there will be some inflows of this kind.

The authorities and the World Bank staff believe that public investment equivalent to about 12 percent of GDP is necessary to achieve economic growth rates similar to those that prevailed in the 1970s. To achieve this investment objective, Belize will rely considerably on external financing from official sources and, as a result, the stock of public sector external debt is projected to increase from about 45 percent of GDP in 1984 to about 55 percent of GDP at the end of the 1980s. Nevertheless, given the concessional nature of the debt, service payments are not expected to exceed 9 percent of exports of goods and nonfactor services through the end of the 1980s.

The above medium-term outlook is based on the assumption that there will be a recovery of world sugar prices. The poor profitability of the sugar industry in Belize in the last two years, and the uncertain outlook for sugar production in general, have led the foreign owner of Belize's two sugar factories to offer them for sale to the Government. The authorities have decided against any direct government participation in the sugar industry and have negotiated instead an arrangement whereby the local sugar farmers gradually would purchase the factories. To facilitate this purchase, the Government has agreed to make a first payment to the foreign owner on behalf of the sugar farmers; this payment will be recovered through a levy on sugar exports. Within the next two years, the Government intends to undertake a comprehensive study of the sugar industry in the light of external price and market developments and the domestic cost structure, so as to determine an appropriate medium-term strategy.

V. Staff Appraisal

In 1981-82 economic activity in Belize weakened as the country's terms of trade worsened and the service sectors were adversely affected by developments in neighboring Mexico. As a result, fiscal revenue declined which, together with a rise in expenditure stemming from large salary increases in 1981 and increased defense outlays following Belize's independence, brought about a deterioration in the public finances. The deficit in the current account of the balance of payments widened substantially in 1982, but the overall balance of payments was kept in approximate balance by large capital inflows.

To deal with the fiscal imbalances, the authorities took measures to raise revenue and to restrain expenditure, but these efforts did little more than arresting the deterioration of the public finances. The continued large overall fiscal deficit--equivalent to about 8 percent of GDP in FY 1983/84--combined with the drying up of external financing led to a sizable overall balance of payments deficit in 1983 and to the emergence of external payments arrears. In June 1984 the authorities embarked on a comprehensive adjustment program, for which they are seeking Fund support through a stand-by arrangement.

The program aims at reducing significantly the overall fiscal deficit and at eliminating the need for domestic financing. Public sector savings are to improve by the equivalent of 5 1/2 percent of GDP from FY 1983/84 to FY 1985/86 through a combination of revenue measures and restraint in current spending. This savings effort will permit the public sector to maintain its investment at about 10 percent of GDP, while reducing the overall deficit from the equivalent of 8 percent of GDP in FY 1983/84 to 5 percent of GDP in FY 1985/86. This improvement in the public finances is expected to occur despite a large reduction in foreign grants.

As a step toward a lasting improvement in fiscal management, the authorities will for the first time prepare a consolidated budget for the nonfinancial public sector for FY 1985/86. Furthermore, management in the public enterprises is being strengthened, and changes in pricing and other operating policies are expected to result in the elimination of their operating deficits. The staff supports the above efforts as well as the authorities' plans to seek private sector participation in commercial activities presently being undertaken by public enterprises.

The staff supports the authorities' strategy of limiting the deficit of the nonfinancial public sector to the amount of long-term credits from bilateral and multilateral sources. While this approach will result in an increase in the ratio of public external debt to GDP over the next few years, the improved terms of the credits in question will make it possible to stabilize the burden of servicing the debt at a moderate level in relation to exports of goods and nonfactor services. The staff notes that the achievement of these aims should be facilitated by the establishment of a high level commission to advise the Cabinet on external debt management and of an office in the Central Bank to monitor debt transactions. The staff welcomes the Government's intention not to extend loan guarantees for private sector commercial activities.

The planned improvement in the fiscal position has permitted the Government to formulate a monetary program consistent with a reduction in the net international reserve losses of the Central Bank for the remainder of this year and a large gain in net international reserves next year, while making room for adequate credit to the private sector. The staff supports the authorities' decisions to increase legal cash reserve requirements and use other measures as needed to keep commercial bank credit to the nonfinancial public sector at programmed levels.

The authorities have stated their intention to manage interest rates flexibly. Interest rates in Belize remain substantially positive in real terms, but in view of the emergence of an interest differential against Belize in recent months, the staff would recommend that the authorities follow interest rate developments closely and be ready to adjust domestic rates as may be required to protect the balance of payments.

The staff commends the authorities for undertaking the adjustment effort without recourse to exchange or trade restrictions. It also welcomes their intention to reduce import restrictions that had been introduced in previous years and thus to promote a more efficient resource allocation. The planned elimination of external payments arrears is an important step toward a normalization of external payments and should help to improve Belize's international creditworthiness. The authorities also intend to reduce public external debt with a maturity of 12 years or less. The achievement of these aims, as well as the substantial net international reserve gain envisaged for 1985, will be facilitated by balance of payments assistance from the United States.

The real exchange rate of the Belize dollar has appreciated in recent years. While the staff can go along with the authorities' view that developments in the main export sectors--despite the extraordinarily adverse world market conditions for sugar--do not indicate a clear need for exchange rate action at present, it would emphasize that the promotion and diversification of Belize's exports will require the maintenance and strengthening of cost competitiveness. The prudent wage policies that the authorities intend to follow should help in this regard, but it has to be recognized that the improvements in competitiveness achieved in this fashion are likely to be limited in scope and to come only slowly. The staff therefore wishes to stress that the adequacy of the exchange rate policy should be monitored closely in light of developments in the balance of payments.

The staff agrees with the Government's decision to avoid direct involvement in the sugar sector; at the same time, it understands the decision to facilitate the purchase by local sugar farmers of Belize's two sugar factories. However, it strongly cautions against any additional financial commitments for the sugar industry, including loan guarantees, particularly since the medium-term prospects of the industry have yet to be analyzed.

The Belize authorities have embarked on an adjustment program designed to reduce Belize's external and internal imbalances and to improve management of the public finances. The staff believes that the program is suitably designed to meet its objectives and to create the necessary conditions for sustained economic growth.

VI. Proposed Decision

The following draft decisions are proposed for adoption by the Executive Board:

1. The Government of Belize has requested a stand-by arrangement for the period   to March 31, 1986 for an amount equivalent to SDR 7.125 million.

2. The Fund approves the stand-by arrangement set forth in EBS/84/225.

3. The Fund waives the limit in Article V, Sec. 3(b)(iii) of the Articles of Agreement.

Fund Relations with Belize
(As of September 30, 1984, unless otherwise indicated)

I. Membership Status

(a) Date of membership: March 16, 1982
(b) Status: Article VIII

A. Financial Relations

II. General Department

(a) Quota: SDR 9.5 million

(b) Total Fund holdings of Belize dollars: SDR 11.2 million or 118 percent of quota.

(c) Fund credit: Of which:	Amount	Percent of quota
Compensatory financing	3.6	37.9
(d) Reserve tranche position:	1.9	

III. Current Stand-By Arrangement and Special Facilities

(a) No current stand-by arrangement.

(b) Compensatory financing facility:

(i) Date of approval: June 17, 1983
(ii) Amount: SDR 3.6 million

IV. Overdue Financial Obligations to the Fund: None

V. SDR Department

(a) Net cumulative allocation: None

(b) Holdings: SDR 31,629

B. Nonfinancial Relations

VI. Exchange Rate: The Belize dollar is pegged to the U.S. dollar, the intervention currency, at the rate of BZ$2 per U.S. dollar. Belize does not maintain any multiple currency practices nor any other restrictions on payments and transfers for current international transactions, bilateral payments agreements with Fund members or import restrictions for balance of payments reasons.

VII. Last Article IV Consultation: The 1984 Article IV consultation was completed on June 20, 1984 (EBM/84/97). Belize is on the standard 12-month consultation cycle.

VIII. Technical Assistance: Since September 1980, a CBD expert has been assigned as research advisor to the Central Bank of Belize; since October 1982, a FAD panel expert has been assigned to the Ministry of Finance to advise on budgetary and accounting procedures; and since August 1983 a CBD panel expert has been assigned to the Central Bank to advise on banking supervision.

IX. Statistical Data: The coverage of Belize's statistical data in the IFS is limited due to shortcomings in the compiling of data in Belize; the data published in the IFS are reasonably current.

Belize: Selected Economic and Financial Indicators

	1981	1982	1983	Prog. 1984	Prog. 1985
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	0.9	-5.7	1.0	2.0	3.0
GDP deflator	6.0	-3.8	3.7	3.0	4.0
Consumer prices (average)	13.0	7.8	2.7	3.0	4.0
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	-8.9	-19.9	8.9	7.5	11.0
Imports, c.i.f.	-2.6	-3.0	-3.4	6.4	5.5
Terms of trade (deterioration -)	-8.8	-16.1	-5.4	...	...
Nominal effective exchange rate (depreciation -)	4.1	5.0	5.4	...	...
Real effective exchange rate (depreciation -)	3.1	7.5	5.8	...	...
Public sector 1/					
Revenue	5.9	-2.5	0.2	20.6	7.7
Total expenditure	12.7	7.6	-2.0	2.9	2.4
Money and credit					
Domestic credit 2/	15.3	17.4	21.7	6.9	-0.6
Public sector (net)	7.8	9.3	13.6	4.0	-5.8
Private sector	13.6	9.1	6.1	4.7	5.1
Money and quasi-money	16.4	5.3	18.3	5.1	7.2
Interest rate (annual rate on three-month time deposits)	14.7	14.9	11.1	9.1	...
Prime lending rate (annual rate)	19.9	19.4	16.4	14.2	...
(In percent of GDP)					
Public sector 1/					
Savings	2.3	-0.3	-2.1	2.5	3.5
Overall deficit (-)	-6.3	-9.0	-8.0	-5.7	-5.1
Foreign financing 3/	3.6	5.6	2.4	6.8	7.4
Domestic financing	2.7	3.4	5.6	-1.1	-2.3
Gross domestic investment	23.1	26.5	19.9	21.0	23.0
Gross national savings	20.5	15.4	13.6	12.4	15.9
Current account deficit (-) (including external official grants)	-2.6	-11.1	-6.3	-8.6	-7.1
Current account deficit (-) (excluding external official grants)	-5.7	-15.3	-10.3	-10.6	-8.0
External debt (excluding IMF)	28.2	35.8	37.4	42.6	46.4
External debt (including IMF)	28.2	35.4	39.6	45.2	51.3
Debt service	1.4	2.9	4.6	3.9	5.0
(In percent of exports of goods and nonfactor services)					
Debt service	2.5	5.4	8.4	7.1	8.8
(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	-1.9	-0.2	-4.0	-6.3	5.0
Gross official reserves (months of imports)	1.2	1.2	1.0	0.7	1.4
External payments arrears	--	--	4.9	5.0	--

Sources: Belize authorities; and Fund staff estimates.

1/ Fiscal year starting April 1.
2/ In relation to liabilities to the private sector at the beginning of the period.
3/ Including changes in outstanding external payments arrears.

Belize: Summary Financial Program

Targets

1. Reduction of the nonfinancial public sector deficit to about 5 3/4 percent of GDP in FY 1984/85 and to 5 percent of GDP in FY 1985/86.

2. A turnaround in public sector savings from dissavings of 2 percent of GDP in FY 1983/84 to a savings level equivalent to 2 1/2 percent of GDP in FY 1984/85 and 3 1/2 percent of GDP in FY 1985/86.

3. Limiting the loss of net international reserves of the Central Bank of Belize to US$6.5 million in 1984 and achievement of a US$5 million increase in such reserves in 1985.

4. Elimination of external payments arrears by September 30, 1985.

5. Improvement of the maturity structure of the public external debt and a reduction of the debt service burden from the equivalent of 10 percent of exports of goods and nonfactor services in 1984 to about 7 percent in 1986.

6. Elimination of quantitative trade restrictions imposed earlier for development reasons.

Instruments

Nonconsolidated public sector

1. Increased revenue through new tax measures introduced in March and June of 1984; these measures, which included increases in the excise tax on locally produced beer, a new excise tax on soft drinks, and increases in the gasoline and stamp taxes, are projected to yield the equivalent of 2 1/2 percent of GDP in FY 1984/85 and 3 1/2 percent of GDP on a full fiscal year basis.

2. Improve revenue collection procedures through improved administration.

3. Implement austere central government expenditure budgets insofar as current spending is involved, both in FY 1984/85 and FY 1985/86.

4. Improve operating efficiency of public sector enterprises by streamlining their operations and by the adoption of pricing policies which will eliminate operating deficits and generate surpluses for investment purposes.

5. A strengthening of the Office of Budget and Management to improve expenditure control procedures in the Central Government and to extend such procedures to the rest of the public sector. The introduction of a consolidated budget for the nonfinancial public sector for the first time in FY 1985/86.

External financing

6. Limits on outstanding external debt of the public sector with maturity of 12 years or less. A limit of US$21 million has been set for December 31, 1984 and of US$20 million for March 31, 1985.

7. The establishment of a high-level commission to approve all external debt transactions and of an office in the Central Bank to monitor such transactions.

8. Limits on outstanding external payments arrears of US$5.0 million on December 31, 1984 and of US$4.5 million on March 31, 1985; all such arrears are to be eliminated completely by September 30, 1985.

Monetary policy

9. Limits on the net domestic assets of the Central Bank of Belize; a ceiling of BZ$32 million has been established for the period from October 1, 1984 to February 28, 1985 and of B$26 million for the month of March 1985.

10. Limits on outstanding net credit of the domestic banking system to the nonfinancial public sector; a limit of B$71 million has been established for December 31, 1984 and one of B$67 million for March 31, 1985.

11. An increase of 2 percentage points in the legal cash reserve ratio applicable to the commercial banks.

12. A rollover of outstanding balances of treasury bills and loans and advances to the nonfinancial public sector held by commercial banks until March 1985.

Commercial policy

13. A gradual substitution of moderate import tariffs for the existing quantitative import restrictions imposed in late 1982.

Main assumptions

1. Real GDP growth of 2 percent in 1984 and 3 percent in 1985.

2. A rate of inflation, as measured by the consumer price index, of 3 percent in 1984 and 4 percent in 1985.

Belize--Stand-By Arrangement

Attached hereto is a letter dated October 26, 1984, from the Prime Minister and Minister of Finance of Belize, the Minister of Economic Development of Belize, and the Governor of the Central Bank of Belize requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Belize intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of Belize intend to pursue through June 30, 1985; and

(c) understandings of Belize with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Belize will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from to March 31, 1986, Belize will have the right to make purchases from the Fund in an amount equivalent to SDR 7.125 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 1.2 million until January 31, 1985, the equivalent of SDR 2.385 million until April 30, 1985, the equivalent of SDR 3.570 million until July 31, 1985, the equivalent of SDR 4.755 million until October 31, 1985, and the equivalent of SDR 5.940 million until January 31, 1986.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Belize currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. Belize will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Belize currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limits on net domestic assets of the Central Bank of Belize set forth in Table 1 annexed to the attached letter, or

(ii) the limits on net credit from the domestic banking system to the nonfinancial public sector set forth in Table 2 annexed to the attached letter, or

(iii) the limits on external payments arrears set forth in Table 3 annexed to the attached letter,

are not observed; or

(b) if Belize fails to observe the limits on the outstanding external debt of the public sector set forth in Table 4 annexed to the attached letter; or

(c) during any period after June 30, 1985 until the review contemplated in paragraph 15 of the attached letter has been completed and suitable performance criteria for the remaining period of the arrangement have been established pursuant to such review, or after such performance criteria have been established, while they are not being observed; or

(d) during the entire period of the stand-by arrangement, while Belize has any overdue financial obligation to the Fund, or if Belize:

(i) imposes restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes import restrictions for balance of payments reasons.

When Belize is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Belize and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Belize's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision

of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Belize. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Belize and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchase under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Belize, the Fund agrees to provide them at the time of the purchase.

7. Belize shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) Belize shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Belize's balance of payments and reserve position improves.

(b) Any reductions in Belize's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement Belize shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Belize or of representatives of Belize to the Fund. Belize shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Belize in achieving the objectives and policies set forth in the attached letter.

10. In accordance with paragraph 15 of the attached letter, Belize will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Belize has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Belize's balance of payments policies.

Attachment

ATTACHMENT

Belmopan, Belize
October 26, 1984

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. During the 1970s the Belize economy grew at an average annual rate of about 5 percent, while domestic price movements roughly paralleled those of Belize's main trading partners. The current account deficits in the balance of payments and the deficits of the nonfinancial public sector were mainly financed with external grants and concessional credits. In 1981 real GDP growth slowed down markedly and output fell over 5 percent in 1982. The slowdown in economic activity was mainly attributable to a contraction in the manufacturing, construction, and commerce sectors as Belize's terms of trade deteriorated with the sharp decline in world sugar prices. In addition, the commerce sector was adversely affected by the impact of the depreciation of the Mexican peso in mid-1982, which brought to a virtual halt a flourishing entrepot trade with Mexico. Meanwhile, prices increased by 13 percent in 1981 following pay awards in the public and private sectors and by 8 percent in 1982. In 1983 economic activity recovered slightly on the strength of a record sugar crop and inflation slowed to about 2 1/2 percent.

2. Reflecting these developments, the current account deficit of the balance of payments increased from 2 percent of GDP in 1980 to an estimated 11 percent of GDP in 1982. Despite this deterioration, increased official and private capital inflows prevented a major overall balance of payments deficit from emerging. In 1983 the current account deficit of the balance of payments narrowed to 6 percent of GDP as exports recovered by a sharp decline in net official capital inflows and a net outflow of private capital resulted in a US$4.3 million loss of net official international reserves despite an accumulation of external payments arrears. There was a net reserve loss of the same magnitude in the first half of 1984.

3. The negative impact on the economy of Belize of the abovementioned external factors was exacerbated by fiscal developments. The overall deficit of the nonfinancial public sector widened from 4 percent of GDP in FY 1980/81 to 8 percent of GDP in FY 1983/84, as central government finances deteriorated sharply and the operating result of public enterprises worsened. Tax collections weakened dramatically as the economy slowed down while current expenditure rose rapidly, reflecting a general salary increase in mid-1981 and expenditures related to

national defense. As a result the balance of the public sector's current operations turned from a surplus equivalent to 4 1/2 percent of GDP in FY 1980/81 to a deficit of 2 percent of GDP in FY 1983/84. The deterioration in the fiscal situation would have been even larger had it not been for the introduction of new revenue measures in each of the last three fiscal years, the introduction of strict expenditure control procedures in the Central Government in FY 1983/84, and growing surpluses of the social security system established in mid-1981. Meanwhile, public sector investment declined. Through 1983 the growing financing requirements of the public sector were increasingly met with domestic bank credit, which amounted to 5 3/4 percent of GDP in FY 1983/84.

4. In view of the need to substantially reduce the internal and external imbalances, the Government therefore initiated a major financial adjustment program in June 1984. This program aims at establishing the basic conditions for economic growth, employment generation, and price stability by strengthening the finances of Belize's public sector and by restoring the balance of payments to a sustainable position while increasing the country's international reserves. The program aims at maintaining a high level of public investment, which is deemed necessary for the continued growth and diversification of Belize's economy, while reducing the overall fiscal imbalances to levels that can be financed by external development assistance. In support of its adjustment program, the Government of Belize requests access to the financial resources of the International Monetary Fund in the form of a stand-by arrangement in the amount of SDR 7.125 million to cover the remainder of the current fiscal year and the 1985/86 fiscal year that will end in March 1986.

5. In order to achieve a reduction in the nonfinancial public sector's overall deficit to a level that can be financed with external development credits and grants, while maintaining an adequate level of investment, a savings effort aimed at showing a surplus in the current operations of the nonfinancial public sector will be necessary. Specifically, the Government intends to achieve a surplus in the current operations of the nonfinancial public sector equivalent to 2 1/2 percent of GDP in FY 1984/85 and 3 1/2 percent of GDP in FY 1985/86. The execution of a public investment program equivalent to 10 percent of GDP in both FY 1984/85 and FY 1985/86 would result in overall deficits of the nonfinancial public sector of 5 3/4 percent of GDP in FY 1984/85 and 5 percent in FY 1985/86, which in both years would be financed by external development assistance. In these circumstances domestic financing of the nonfinancial public sector would be reduced in each fiscal year. The balance of payments target is to contain the loss of net international reserves of the Central Bank to US$6.5 million in 1984 and to obtain an increase in such reserves of US$5 million in 1985.

6. In the Central Government the adjustment effort will consist both of measures to increase revenue yields and to curtail current expenditure. On June 15, 1984 the Parliament approved a 33 percent

increase in the stamp tax, a new excise tax on soft drinks, a 62 percent increase in the excise tax on domestic beer, and a 50 percent increase in the tax on gasoline. These measures, together with some minor revenue measures introduced in March 1984, are estimated to represent a revenue effort equivalent to 3 1/2 percent of GDP on an annual basis and to yield 2 1/2 percent of GDP in FY 1984/85. The Government would wish to avoid further tax increases and instead intends to increase tax yields by strengthening collection procedures. To this end, the collection of a number of taxes that is presently the responsibility of various departments, will be centralized in the Ministry of Finance. In addition, the Government is seeking technical assistance to improve procedures for income tax and customs duty collections. The Government expects that these efforts together with a gradual strengthening of the economy will result in substantially higher revenue yields in the next few years.

7. The central government budget for FY 1984/85 is austere and calls for a reduction of current expenditure in real terms; it includes no general salary increase and no increase in government staff. In developing the budget for FY 1985/86 the Government recognizes the need to continue to observe a cautious stance. Following years of austerity the Government sees a limited scope for further reductions in current expenditure without a reduction in government services. The Government will therefore rely on expenditure control procedures introduced during the last two fiscal years for a strict implementation of the budget. It will further develop and strengthen these control procedures and intends to extend such procedures to the rest of the public sector with the aim of being able to manage the public finances on a consolidated basis as of next fiscal year.

8. In 1983 the Government took measures aimed at improving the management and operating efficiency of the public enterprises. In particular, the operations of the Electricity Board were rationalized and the purchasing policy of the Marketing Board became more cautious. The Government intends to further improve management and administer the public enterprises with the aim of assuring that their prices and rates cover operating costs and, to the extent possible, generate resources for their capital programs. To this end, electricity rates were increased by 16 percent and water rates by 33 percent in June 1984. The Government intends to strengthen the Office of Budget and Management in order to effectively monitor the operations of the public enterprises and furthermore to introduce budgetary and expenditure controls to ensure that they meet the above-mentioned objectives. In 1983 a beef company owned by the Government was partially divested to the private sector and the Government is presently exploring the possibilities of further divestitures, particularly in the banana and rice sectors.

9. The public investment program will focus heavily on infrastructure, particularly the expansion of the road system, water and sewerage and power distribution. There will also continue to be major investments in education and health. The Government intends to increase its emphasis

on investment in housing, but will aim at doing so by supporting private sector initiatives rather than by direct public sector involvement. Presently a large part of the public development effort is supported by project-related grants mainly from the United Kingdom and Canada. As projects are being completed such grant support is likely to decline and be replaced by project-related development credits. The Government intends to improve the capacity of the public sector to initiate and execute investment projects so as to be able to maintain a public investment effort equivalent to about 12 percent of GDP per year over the medium term, and the maximum utilization of external development assistance. Such a public investment effort is deemed consistent with a return of economic growth rates to the level of the 1970s.

10. The strengthening of the financial position of the public sector should permit a reduction of its indebtedness to the domestic banking system and thus allow for an adequate supply of bank credit to the private sector while meeting the targets for net international reserves. Consistent with the policies described above, the monetary program specifies ceilings on the net domestic assets of the Central Bank, as detailed in attached Table 1, and limits on net credit from the banking system to the nonfinancial public sector, as detailed in attached Table 2. Monetary policy will aim at preventing a drawdown of reserve deposits by commercial banks in the Central Bank through a 2 percent increase in the legal cash reserve ratio and commercial banks will be persuaded not to reduce their outstanding stock of net credit to the nonfinancial public sector substantially below its level at the end of June 1984. In the event that commercial banks would reduce their net credit to the pulic sector through March 1985, the Government will take compensatory measures. In recent years domestic interest rates have been maintained at levels substantially higher than domestic inflation and until this year also higher than international rates. The Government will continue to manage interest rates flexibly with the aim of providing incentives for savings and investment while protecting the balance of payments.

11. Since mid-1983 the public sector became increasingly unable to service certain external obligations. At the end of June 1984, such payments obligations overdue amounted to US$5.4 million, of which US$3.2 million related to principal payments and the remainder to current external obligations. The Government will reduce external payments arrears as set out in attached Table 3 and will eliminate all such arrears by September 30, 1985; after that date it will not accumulate any new external payments arrears during the remaining period of the program.

12. The inflation rate, as measured by the national consumer price index, is estimated to average about 3 percent in 1984. The recent slowdown in domestic inflation, which primarily has been due to lower external inflation and reduced local currency costs for many imports, especially from Mexico, was also facilitated by very moderate wage increases in the last two years. Considering that no upturn in the

inflation rate is in prospect for 1985, the Government will need to exercise restraint in wage settlements not only in the Central Government but also in all other public sector entities. The Government believes that its public sector wage policy also will become indicative for the private sector and that a general wage moderation will be the best way to maintain real wages and also to preserve and strengthen Belize's international competitiveness. Since 1976 the exchange rate of the Belize dollar has been pegged to the U.S. dollar. Although the United States is Belize's main trading partner, the appreciation of the U.S. dollar against the currencies of most other trading partners since 1980 has resulted in an appreciation of the trade-weighted real effective exchange rate for Belize. In view of productivity gains in the main export sectors in recent years, the present exchange rate is considered appropriate. The Government recognizes that the promotion of exports and the diversification of the economy will require the maintenance of cost competitiveness.

13. Because of the highly concessional terms of most of Belize's public external debt, the Government does not consider that the servicing of this debt will present an unmanageable problem over the medium term. In the last few years increased short- and medium-term borrowing by the Government and public enterprises at commercial terms has led to an increase in the burden of debt servicing, particularly in principal payments. In order to reduce the burden of debt servicing and to preserve the favorable maturity structure of the public external debt, the Government intends to reduce the outstanding external debt to commercial creditors and to rely on long-term development credits for the financing of the public sector. These objectives will be sought by setting limits on the outstanding public external debt with a final maturity of up to 12 years as shown in annexed Table 4. Furthermore, the Government intends to extend no guarantees for private sector borrowing except for projects in social infrastructure. A balance of payments support loan of US$10 million from the United States for disbursement in 1985 is expected to substantially facilitate the above-mentioned strategy. To facilitate an external debt policy consistent with the above aims, a commission has been established to make recommendations to Cabinet for the approval of all new credits to be contracted and all guarantees to be extended to public sector entities, and to negotiate all rescheduling agreements by such entities. In addition, an office has been established in the Central Bank to monitor all external debt transactions.

14. Belize has no restrictions on payments and transfers for either current international or capital transactions. During the period of the stand-by arrangement, the Government does not intend to introduce any multiple exchange rate practices, impose any restrictions on payments and transfers for current international transactions, or to conclude any bilateral payments agreement with any Fund member. During the period of the stand-by arrangement, the Government does not intend to impose restrictions on imports for balance of payments reasons. In 1982 certain imports were prohibited in order to protect local industry. In order to improve efficiency, the Government intends to gradually substitute moderate tariffs for import restrictions.

15. The policies described in this letter are regarded as adequate to achieve the objectives of the program, but the Government will take any further measures that may be appropriate for this purpose. During the period of the stand-by arrangement, the Belize authorities will periodically consult with the Fund, in accordance with the Fund's policies on such consultations about the progress being made in the implementation of the program described above and any policy adaptations judged to be appropriate for the achievement of its objectives. In any event, the Belize Government will consult with the Fund before June 30, 1985, in order to review the progress made in implementing the program and to reach understandings on the performance criteria for the remaining period of the stand-by arrangement.

Sincerely,

George C. Price
Prime Minister and
Minister of Finance

Said Musa
Minister of Economic
Development

Robert Swift
Governor of Central Bank

Attachments

Table 1. Belize: Limits on the Net Domestic Assets of the Central Bank of Belize 1/

(In millions of Belize dollars)

Period	Ceiling
October 1, 1984 - February 28, 1985	32
March 1 - March 31, 1985	26 2/

1/ Defined as the difference between currency issue and net international reserves of the Central Bank.
2/ This ceiling will be reduced by the amount of any disbursement under the US$10 million U.S. AID facility.

Table 2. Belize: Limits on Net Credit from the Domestic Banking System to the Nonfinancial Public Sector 1/

(In millions of Belize dollars)

Date	Limits
December 31, 1984	71
March 31, 1985	67 2/

1/ Defined as the net claims of the Central Bank and the commercial banks on the nonfinancial public sector.
2/ This limit will be reduced by the amount of any disbursement under the US$10 million U.S. AID facility.

Table 3. Belize: Limits on Outstanding External Payments Arrears 1/

(In millions of U.S. dollars)

Date	Limits
December 31, 1984	5.0
March 31, 1985	4.5

1/ Defined to include all external payments arrears, including overdue obligations of the Central Government, other public sector entities, and the Central Bank. Overdue obligations for purposes of defining arrears will include delays of more than seven banking days beyond the date on which payment is due.

Table 4. Belize: Limits on Outstanding External Debt of the Public Sector with a Final Maturity of 12 Years of Less 1/

(In millions of U.S. dollars)

Date	Limits
December 31, 1984	21
March 31, 1985	20

1/ Net disbursements of external debt, including suppliers' credits, to public sector entities; excluding reserve liabilities of the Central Bank, which are defined to include liabilities to the Fund and outstanding balances under a US$3 million loan to support the Central Bank's international reserves.

Table 7. Belize: Operations of the Central Government

	1981/82	1982/83	Prel. 1983/84	Prog. 1984/85	Prog. 1985/86
	(In millions of Belize dollars)				
Revenue and grants	97.0	91.7	90.9	99.1	102.4
Revenue	83.7	78.9	77.8	93.6	100.0
Tax	(73.1)	(67.3)	(67.8)	(82.8)	(88.9)
Nontax	(10.3)	(11.3)	(9.7)	(10.5)	(10.8)
Capital	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Grants	13.3	12.8	13.1	5.5	2.4
Total expenditure 1/	110.8	124.0	118.2	124.1	124.9
Current expenditure	76.2	87.3	90.5	90.9	94.2
Capital expenditure and net lending	34.6	36.7	27.7	33.2	30.7
Of which: development expenditure	(31.9)	(27.5)	(24.4)	(28.7)	(30.7)
Overall deficit (-)	-13.8	-32.3	-27.3	-25.0	-22.5
Change in outstanding arrears 2/	--	0.4	3.9	...	...
	(In percent of GDP)				
Revenue and grants	27.1	27.3	25.8	26.6	25.6
Of which: revenue	(23.4)	(23.5)	(22.1)	(25.1)	(25.1)
Tax revenue	20.8	20.0	19.2	22.3	22.3
Nontax revenue	2.4	3.4	2.8	2.7	2.7
Total expenditure	31.0	36.9	33.5	32.6	31.2
Current expenditure	21.3	25.9	25.6	24.4	23.5
Capital expenditure	9.7	11.0	7.9	8.2	7.7
Of which: development expenditure	(8.9)	(8.2)	(6.9)	(7.7)	(7.7)
Overall deficit (-)	-3.9	-9.6	-7.7	-6.0	-5.6

Sources: Belize authorities; and Fund staff estimates.

1/ Commitment basis.
2/ On interest and current transfers.

Table 8. Belize: Central Government Revenue

(In millions of Belize dollars)

	1981/82	1982/83	Prel. 1983/84	Prog. 1984/85	Prog. 1985/86
Total revenue	83.0	78.9	77.8	93.6	100.0
Tax revenue	73.1	67.3	67.8	82.8	88.9
Income tax	(16.6)	(18.6)	(15.2)	(16.0)	(16.0)
Taxes on property	(0.7)	(0.7)	(1.3)	(1.4)	(1.4)
Taxes on goods and services	(9.0)	(8.2)	(8.5)	(12.9)	(15.6)
Excise on spirits and beer	/5.5/	/4.4/	/4.9/	/7.3/	/9.5/
Excise on cigarettes	/0.9/	/0.7/	/0.8/	/0.9/	/0.9/
Excise on soft drinks	/--/	/--/	/--/	/1.5/	/2.0/
Entertainment tax	/0.4/ 1/	/0.2/	/0.2/	/0.2/	/0.2/
Hotel occupancy tax	/0.1/	/0.2/	/0.2/	/0.2/	/0.2/
Licenses	/1.2/	/1.6/	/1.6/	/1.8/	/1.8/
Other 2/	/0.9/	/1.1/	/0.8/	/1.0/	/1.0/
Taxes on international trade and transactions	(45.8)	(38.2)	(41.8)	(51.5)	(54.9)
Import duty	/31.9/	/25.5/	/26.8/	/29.0/	/32.5/
Revenue replacement duty	/2.4/	/3.9/	/6.5/	/8.3/	/8.9/
Stamp duties (customs)	/5.7/	/5.0/	/5.4/	/8.1/	/9.0/
Goods in transit charge	/3.5/	/1.6/	/0.6/	/0.6/	/1.5/
Export duties	/2.1/	/1.9/	/2.2/	/2.2/	/2.7/
Travel tax	/0.2/	/0.3/	/0.3/	/0.3/	/0.3/
Taxes on foreign currency transactions	/--/	/--/	/--/	/3.0/	/--/
Other taxes	(1.0)	(1.6)	(1.0)	(1.0)	(1.0)
Stamp duties (other department)	/0.9/	/1.6/	/1.0/	/1.0/	/1.0/
Fire rate	/0.1/	/--/	/--/	/--/	/--/
Nontax revenue	10.3	11.3	9.7	10.5	10.8
Property income 3/	(5.3)	(4.1)	(2.7)	(3.0)	(3.0)
Contributions to pension funds	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other 4/	(3.8)	(5.9)	(5.7)	(6.2)	(6.5)
Extrabudgetary revenue 5/	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Capital revenue	0.3	0.3	0.3	0.3	0.3
Sale of crown land	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Sources: Belize authorities; and Fund staff estimates.

1/ Including lottery tax.
2/ Oil mining and prospecting licenses.
3/ Central bank profits.
4/ Fines, fees, and charges, and rents and royalties.
5/ Revenue of the official charities fund.

Table 9. Belize: Central Government Expenditure 1/

(In millions of Belize dollars)

	1981/82	1982/83	Prel. 1983/84	Prog. 1984/85	Prog. 1985/86
Total expenditure 1/	110.8	124.0	118.2	124.1	124.9
Current expenditure	76.2	87.3	90.5	90.9	94.2
Wages and salaries	(33.8)	(41.8)	(43.2)	(42.5)	(43.0)
Pensions	(4.7)	(4.1)	(4.0)	(3.8)	(4.0)
Goods and services	(24.1)	(24.5)	(25.2)	(27.9)	(29.2)
Interest payments	(6.2)	(5.6)	(7.2)	(6.9)	(7.0)
Domestic	/.../	/4.3/	/5.7/	/5.9/	/6.0/
Foreign	/.../	/1.3/	/1.5/	/1.0/	/1.0/
Subsidies and current transfers	(6.1)	(11.3)	(10.9)	(9.8)	(11.0)
Foreign	/1.2/	/1.6/	/1.8/	/2.1/	/2.4/
Domestic private sector)	)	/4.0/	/4.4/	/5.4/	/5.8/
Nonfinancial public enterprises)	) /4.9/	/5.7/	/4.7/	/2.3/	/2.8/
Other	(1.3)	(--)	(--)	(--)	(--)
Capital expenditure	34.6	36.7	27.7	33.2	30.7
Development expenditure	(31.9)	(27.5)	(24.4)	(28.7)	(30.7)
Transfers to nonfinancial public enterprises	(2.7)	(9.2)	(3.3)	(2.0)	(--)
Net lending	(--)	(--)	(--)	(2.5)	(--)
Memorandum item					
Change in outstanding arrears 2/	--	0.4	3.9	...	...

Sources: Belize authorities; and Fund staff estimates.

1/ Commitment basis.
2/ On interest and current transfers.

Table 10. Belize: Summary Accounts of the Banking System

(In millions of Belize dollars)

	December 31				
	1981	1982	1983	Prog. 1984	Proj. 1985
I. Banking System					
Net international reserves	20.3	19.3	10.1	-2.8	7.2
Net domestic credit	126.3	148.6	177.8	188.9	187.9
Credit to nonfinancial public sector (net)	33.2	45.2	63.5	69.9	60.2
Central Government	(29.2)	(45.5)	(68.2)	(...)	(...)
Loans and advances	/16.8/	/24.4/	/33.4/	/.../	/.../
Treasury bills and securities	/18.0/	/21.6/	/35.4/	/.../	/.../
Deposits	/-5.6/	/-0.5/	/-0.5/	/.../	/.../
Rest of the public sector	(4.0)	(-0.3)	(-4.7)	(...)	(...)
Credit to private sector 1/	104.5	116.2	124.4	131.9	140.4
Other assets (net)	-11.4	-12.8	-10.1	-12.9	-12.7
Net foreign liabilities of the commercial banks	18.2	33.2	27.9	17.9	14.8
Liabilities to private sector 1/	128.4	134.7	160.0	168.2	180.3
Money	41.5	40.4	43.5	45.8	49.4
Currency in circulation	(20.0)	(21.7)	(22.6)	(23.9)	(25.9)
Demand deposits	(21.5)	(18.7)	(20.9)	(21.9)	(23.5)
Quasi-money	78.3	85.8	105.8	111.1	118.9
Capital and surplus	8.6	8.5	10.7	11.3	12.0
II. Central Bank					
Net international reserves	20.3	19.3	10.1	-2.8	7.2
Assets	20.7	19.7	18.6	14.0	27.6
Liabilities	-0.4	-0.4	-8.5	-16.8	-20.4
Net domestic assets	3.0	6.2	16.3	30.5	22.5
Credit to nonfinancial public sector (net)	22.7	29.8	36.7	51.6	44.1
Central Government	(22.7)	(29.8)	(36.7)	(...)	(...)
Loans and advances	/12.6/	/10.2/	/18.0/	/.../	/.../
Treasury bills and securities	/15.5/	/19.6/	/18.7/	/.../	/.../
Deposits	/-5.4/	/--/	/--/	/.../	/.../
Rest of the public sector	(--)	(--)	(--)	(...)	(...)
Commercial banks (net)	-9.3	-12.7	-9.9	-10.3	-11.0
Official capital and surplus	-10.5	-11.5	-12.2	-10.8	-10.6
Other assets (net)	0.1	0.6	1.7		
Currency issue	23.3	25.5	26.4	27.7	29.7
III. Commercial Banks					
Net position with Central Bank	12.6	16.5	13.7	14.1	14.8
Cash in vault	3.3	3.8	3.8	3.8	3.8
Reserve deposits	9.3	12.7	9.9	10.3	11.0
Net domestic credit	114.0	129.7	151.6	148.1	154.4
Credit to nonfinancial public sector (net)	10.5	15.4	26.8	18.3	16.1
Central Government	(6.5)	(15.7)	(31.5)	(...)	(...)
Loans and advances	/4.2/	/14.2/	/15.4/	/.../	/.../
Treasury bills and securities	/2.5/	/2.0/	/16.7/	/.../	/.../
Deposits	/-0.2/	/-0.5/	/-0.5/	/.../	/.../
Rest of the public sector	(4.0)	(-0.3)	(-4.7)	(...)	(...)
Credit to private sector 1/	104.5	116.2	124.4	131.9	140.4
Other assets (net)	-1.0	-1.9	0.4	-2.1	-2.1
Net foreign liabilities	18.2	33.2	27.9	17.9	14.8
Liabilities to the private sector 1/	108.4	113.0	137.4	144.3	154.4
Demand deposits	21.5	18.7	20.9	21.9	23.5
Time deposits	50.6	59.3	75.1	78.9	84.4
Savings deposits	27.7	26.5	30.7	32.2	34.5
Capital and surplus	8.6	8.5	10.7	11.3	12.0

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

1/ Includes nonbank financial intermediaries.

Table 11. Belize: Summary of External Debt Operations 1/

	1981	1982	1983	Est. 1984	Proj. 1985
	(In thousands of U.S. dollars)				
Debt outstanding at end of period	51,686	59,472	65,088	78,018	89,519
Transactions during period 2/					
Medium- and long-term borrowing (net)	7,406	10,889	4,551	12,930	13,660
Nonfinancial public sector					
Drawings	6,988	11,557	3,560	13,510	15,070
Amortizations	-610	-2,394	-2,037	-1,349	-6,030 3/
Valuation adjustments	-869	-864	-884	--	--
Financial public sector					
Drawings	1,223	2,009	3,383	3,500	5,995
Amortizations	-195	-283	-355	-2,731	-1,375
Valuation adjustments	-415	-239	-210	--	--
Short-term borrowing (net)	1,000	-2,000	2,159	--	-2,159 3/
Interest payments	1,751	2,643	2,406	2,347	2,475
Debt service payments	2,556	7,320	8,037	10,076	10,549
	(In percent)				
Outstanding debt/GDP	28.2	35.8	37.4	42.6	46.4
Debt service/GDP 4/	1.4	2.9	4.6	3.9	5.0
Debt service/exports of goods and nonfactor services 4/	2.5	5.4	8.4	7.1	8.8

Sources: Belize authorities; and Fund staff estimates.

1/ Includes short-term debt.
2/ Transactions on a cash basis.
3/ Includes elimination of arrears.
4/ Debt service ratios on an accrual basis; excluding net amortization of short-term debt.

Table 12. Belize: External Public Debt by Creditor and by Debtor 1/

(In millions of U.S. dollars)

	1981	1982	1983	Est. 1984	Proj. 1985
Amount outstanding (end of period)	49.7	59.5	63.0	75.9	89.5
By creditor					
Multilateral and bilateral	37.5	44.5	48.1	61.7	78.5
United Kingdom Government	3.0	2.7	2.6	6.7	10.7
Trinidad and Tobago Government	0.1	0.9	1.1	1.1	1.1
United States Government	--	4.6	4.6	10.6	15.6
Canadian International Development Agency	8.5	8.3	8.2	8.1	8.0
Caribbean Development Bank	24.7	25.6	24.6	24.6	25.7
Commonwealth Development Corporation	--	--	2.9	4.8	8.1
European Development Fund	1.2	2.4	3.2	3.8	6.2
IBRD	--	--	0.9	2.0	3.1
Commercial credits	12.2	15.0	14.9	14.2	11.0
Banks	2.0	1.9	1.8	2.8	2.3
Suppliers	10.2	13.1	13.1	11.4	8.7
By debtor					
Nonfinancial public sector	42.0	50.3	51.0	61.4	70.4
Central Government	8.5	14.2	16.0	28.4	38.7
Rest of nonfinancial public sector	33.5	36.0	35.0	33.0	31.7
Belize Electricity Board	(6.9)	(8.3)	(7.4)	(...)	(...)
Telecommunication Authority	(6.0)	(6.0)	(6.0)	(...)	(...)
Banana Control Board	(0.5)	(2.4)	(2.8)	(...)	(...)
Water and Sewerage Authority	(6.6)	(6.4)	(6.3)	(...)	(...)
Port Authority	(10.6)	(10.1)	(9.2)	(...)	(...)
Marketing Board	(2.1)	(2.0)	(2.0)	(...)	(...)
Other	(0.8)	(0.9)	(1.3)	(...)	(...)
Development Finance Corporation	7.7	9.2	12.0	14.5	19.1

Sources: Belize authorities; and Fund staff estimates.

1/ Medium- and long-term debt.

Table 13. Belize: Medium-Term Outlook

	Prel. 1983	Projected 1984	1985	1986	1987	1988	1989
	(In millions of U.S. dollars)						
Balance of payments							
Current account	-11.0	-15.8	-14.0	-13.6	-13.6	-15.3	-17.1
Trade balance	-45.2	-47.4	-46.1	-45.5	-43.5	-43.5	-43.0
Exports, f.o.b.	(65.1)	(70.0)	(77.7)	(88.0)	(97.0)	(104.0)	(112.0)
Imports, c.i.f.	(-110.3)	(-117.4)	(-123.8)	(-133.5)	(-143.9)	(-154.7)	(-167.0)
Services and private transfers (net)	27.3	27.9	30.3	30.9	32.3	34.2	36.9
Official transfers (net)	6.9	3.7	1.8	1.0	1.0	1.0	1.0
Capital account	2.0	9.7	23.6	17.1	13.6	15.9	16.5
Official capital	3.5	11.7	25.2	17.1	13.6	15.9	16.5
Private capital 1/	-1.5	-2.0	-1.6	--	--	--	--
Overall balance 2/	-9.4	-6.1	9.6	3.5	--	0.6	-0.6
External debt							
Public sector debt outstanding (end of period)	65.1	78.0	89.5	102.2	115.5	131.4	147.9
Gross disbursements 3/	9.1	15.8	21.1 4/	18.7 4/	19.2	20.5	22.0
Amortization 5/	5.6 6/	4.4 6/	5.9	6.0	5.9	4.6	5.5
Interest 5/	2.4 6/	2.8 6/	3.9	5.0	6.1	7.3	8.5
	(In percent of GDP)						
Current account (including official transfers)	-6.3	-8.6	-7.1	-6.4	-5.9	-6.2	-6.4
Capital account	1.0	5.3	12.6	8.0	5.9	6.4	7.4
Overall balance (surplus -)	5.4	3.3	-4.9	-1.6	--	-0.2	0.2
Public external debt	37.4	42.6	46.4	48.9	51.0	53.7	57.1
Memorandum item							
Current account (excluding official transfers)	-10.3	-10.6	-8.0	-6.9	-6.4	-6.6	-6.8
	(In percent of exports of goods and services)						
Debt service	8.4	7.1	8.8	8.8	8.8	8.1	8.9
Interest payments	2.5	2.8	3.5	4.0	4.5	5.0	5.4

Sources: Belize authorities; and Fund staff estimates.

1/ Includes net errors and omissions.
2/ Includes change in payments arrears.
3/ Annual gross disbursements of project loans for the nonfinancial public sector are assumed to amount to the equivalent of 70 percent of the public investment program.
4/ Excludes balance of payments assistance from the United States.
5/ Amortization excludes repurchases to the Fund; interest includes charges to the Fund.
6/ Payments on accrued basis.