

EBS/84/225
Correction 1

CONFIDENTIAL

November 29, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Belize - Request for Stand-By Arrangement

The following corrections have been made in EBS/84/225 (11/5/84):

Page 8, Table 4, column 4, lines 5 and 6: for "16.0" and "(16.0)"
read "17.0" and "(17.0)"

columns 5 and 6, line 3: for "(2.1)" and "(4.5)"
read "(4.7)" and "(4.8)"

line 4: for "(59.7)" and "(74.0)"
read "(57.1)" and "(73.7)"

column 5, lines 11 and 12: for "59.7" and "(48.5)"
read "57.1" and "(45.9)"

A corrected page is attached.

Att: (1)

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
<u>Total</u>	<u>44.6</u>	<u>51.7</u>	<u>59.5</u>	<u>65.1</u>	<u>78.0</u>	<u>89.5</u>
<u>By creditor</u>						
Multilateral and						
bilateral	37.6	37.5	44.5	48.1	61.8	78.5
12 years or less	(--)	(--)	(0.8)	(2.7)	(4.7)	(4.8)
More than 12 years	(37.6)	(37.5)	(43.7)	(45.4)	(57.1)	(73.7)
Banks and suppliers	7.0	14.2	15.0	17.0	16.2	11.0
12 years or less <u>2/</u>	(7.0)	(14.2)	(15.0)	(17.0)	(16.2)	(11.0)
More than 12 years	(--)	(--)	(--)	(--)	(--)	(--)
<u>By maturity</u>						
12 years or less	7.0	14.2	15.8	19.7	20.9	15.8
Nonfinancial public						
sector <u>2/</u>	(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	57.1	73.7
Nonfinancial public						
sector	(30.5)	(29.8)	(34.5)	(35.1)	(45.9)	(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.