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Statement by the IMF Mission on the 2009 Article IV Consultation Discussion with Belize

An International Monetary Fund (IMF) mission headed by Przemek Gajdeczka, Advisor in the IMF's Western Hemisphere Department, issued the following statement on Thursday March 26, 2009 at the end of its discussions in Belize City:

"During the past two weeks, as part of its routine annual Article IV consultation with Belize, an IMF team met with government officials and private sector representatives to review recent economic and financial developments and to discuss economic prospects and policies.

"Belize's economic performance in 2008 was broadly favorable, notwithstanding the losses from two tropical storms estimated at 4.8 percent of GDP. Real GDP rose by 3 percent, boosted by expanding oil extraction and foreign direct investment (FDI)-related investments. Following a surge in prices last summer, 12-month inflation declined to 4½ by year end. International reserves now stand at US$166 million, equivalent to about two months of imports. Reflecting the impact of the global slowdown, already felt in the latter part of last year, the economy is projected to grow by 1 percent in 2009, and inflation is expected to ease further to 2.5 percent. The fiscal position in FY2008/09 is projected to shift to a surplus, largely on account of lower-than-originally budgeted capital expenditure. The FY2009/10 budget targets a fiscal deficit of 1.8 percent of GDP, to be financed with external loans. In the budget, current spending is projected to rise by nearly 7 percent. Overall, the government budget is increasingly dependent on volatile revenue sources (grants and oil) and external borrowing.

"The discussions centered on the impact of the global slowdown on Belize and on the medium-term strategy of fiscal consolidation and structural reforms to improve macroeconomic management and enhance growth prospects. It was recognized that Belize is vulnerable to global developments, as the economy is likely to be affected by declining tourism receipts and remittances, as well as lower FDI inflows, and that high external debt and relatively low external reserves limit the space for counter-cyclical policies.

"Over the near term, safeguarding international reserves and strengthening the oversight of the financial system are key priorities. Public sector expenditure restraint would help contain wage bill growth in the economy and reduce pressures on the balance of payments. Liquidity conditions in banks and other financial institutions will need to be monitored closely to help protect the stability of the domestic financial system. Fiscal policies aimed at lowering debt ratios substantially are the key element of the authorities' medium-term strategy. This will require significant adjustments to the fiscal position starting in 2010, to reduce reliance on external borrowing and meet rising interest obligations on the private debt restructured in 2007. In addition, progress is needed to ensure financial viability of key public sector programs, including the social security, the pension system for the public servants, the National Health Insurance, and the Development Finance Corporation, and to improve transparency of the taxation regime for the petroleum industry.

"The mission thanks the authorities and private sector representatives for fruitful discussions and for their warm hospitality."

On its return to Washington D.C., the team will prepare a staff report that is tentatively scheduled to be discussed by the IMF's Executive Board in April. It is expected that the staff report will soon thereafter be made available to the general public, including by its posting on the IMF's external website.