FOR AGENDA

EBS/85/135

CONFIDENTIAL

May 24, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Belize - Staff Report for the 1985 Article IV Consultation and Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Belize and the review under the stand-by arrangement. A draft decision appears on pages 23 and 24.

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

Mr. L. Pérez (ext. 7154) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

BELIZE

Staff Report for the 1985 Article IV Consultation and Review Under the 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 S. T. Beza and Manuel Guitian

May 23, 1985

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I. Introduction

The 1985 Article IV consultation discussions with Belize, the review under the stand-by arrangement, and the negotiation of the program for the period of the arrangement falling in FY 1985/86 (April 1-March 31) were conducted in Belize City and in Belmopan in the period from March 4 to March 22, 1985. The representatives of Belize in these discussions included the Prime Minister, who is also the Minister of Finance, the Governor of the Central Bank of Belize, and senior officials of the Ministries of Finance, Foreign Affairs and Economic Development, Trade and Industry, Natural Resources and Agriculture, and of the public sector enterprises. The staff representatives were Messrs. Perez (Head-WHD), Basanti (STAT), Haas (RES), Mansur (FAD), Lopez-Claros (EP-WHD), and Ms. Lake (Secretary-RES).1/ Mr. G. Pickering, Advisor to the Executive Director for Belize, participated in the policy discussions during the last week of the mission.

Belize's stand-by arrangement was approved on December 3, 1984 for the period through March 31, 1986 in the amount of SDR 7.125 million, equivalent to 75 percent of Belize's quota. Performance criteria were initially set out for the period through March 31, 1985 and a consultation with the Fund to review the stand-by arrangement and reach understanding on policies for the period of the arrangement remaining after March 31, 1985 was to be held by June 30, 1985. The policies that Belize will pursue during the remainder of the stand-by arrangement are described in the attached letter of intent from the Belize authorities dated May 9, 1985.

Belize made a first purchase of SDR 1.2 million following approval of the stand-by arrangement and a second purchase of SDR 1.175 million in February 1985, bringing its purchases outstanding under the stand-by arrangement to 25 percent of quota and the Fund's holdings of Belize's currency to 125 percent of quota (Table 1). The second purchase was SDR 10,000 less than the amount originally programmed because two of the quantitative performance criteria were not observed as of December 31, 1984 (Table 2).2/ Belize was not able to make its third purchase scheduled for April 1985 because two quantitative performance criteria also were not observed on March 31, 1985. Compliance with the performance criteria at the end of June 1985 and the completion of the mid-term review are required for Belize to be able to make a purchase totaling SDR 2.38 million in July 1985 and two additional purchases of SDR 1.185 million each are subject to compliance with the performance criteria of September 30 and December 31, 1985, respectively.

1/ The mission was assisted by Mr. Mullings, a CBD panel expert who is an advisor in the Research Department of the Central Bank of Belize and Mr. Osei, a FAD panel expert who is a budget advisor in the Ministry of Finance.

2/ Belize could have made a first purchase for SDR 2.38 million after the approval of the stand-by arrangement, but the plan was to distribute the purchases equally during the duration of the stand-by arrangement.

Table 1. Belize: Purchases and Repurchases During Period of Arrangement

	Outstanding at Beginning of Arrangement (November 30, 1984)	Operations During Period of Arrangement		
		Nov. 1984– Jan. 1985	Feb.–Apr. 1985	May 1984– Mar. 1986
	(In millions of SDRs)			
Transactions under tranche policies				
Purchases		1.200	1.175	4.750
Ordinary resources		(1.200)	(1.175) 1/	(4.750)
Enlarged access resources		(--)	(--)	(--)
Repurchases		--	--	--
Ordinary resources		(--)	(--)	(--)
Enlarged access resources		(--)	(--)	(--)
Total Fund credit outstanding (end of period)	3.600	4.800	5.975	10.725
Under tranche policies	--	1.200	2.375	7.125
Compensatory financing facility	3.600	3.600	3.600	3.600
	(As percent of quota)			
Total Fund credit outstanding (end of period)	37.89	50.52	62.89	112.89
Under tranche policies	--	12.63	25.00	75.00
Compensatory financing facility	37.89	37.89	37.89	37.89

Source: Fund staff estimates.

1/ Second purchase held to the amount which would bring purchases outstanding under the stand-by arrangement to 25 percent of quota, rather than the programmed SDR 1.185 million.

Table 2. Belize: Performance Under Stand-By Arrangement

	March 31, 1984	September 30, 1984	Program Period: December 31, 1984	Program Period: March 31, 1985
	(In millions of Belize dollars)			
Net domestic assets of the Central Bank				
Ceiling			32.0	26.0
Actual	17.7	24.4	32.4	25.6
Margin under ceiling (excess -)			-0.4	0.4
Net credit from banking system to nonfinancial public sector				
Ceiling			71.0	67.0
Actual	66.0	67.1	68.6	67.7
Margin under ceiling (excess -)			2.4	-0.7
	(In millions of U.S. dollars)			
Public sector external debt (maturity of 12 years or less)				
Ceiling			21.0	20.0
Actual	...	18.7	19.0	17.5
Margin under ceiling (excess -)			2.0	2.5
External payments arrears				
Ceiling			5.0	4.5
Actual	6.5	6.3	6.3	5.8
Margin under ceiling (excess -)			-1.3	-1.3

Source: Central Bank of Belize.

II. Background and Performance Under Stand-By Program

After nearly a decade of uninterrupted growth, economic activity in Belize weakened in 1981-82 as the country's terms of trade worsened because of declining international sugar prices and entrepot trade activities experienced a slowdown in the aftermath of the depreciation of the Mexican peso. Real GDP growth slowed to less than 1 percent in 1981 and output declined by about 5 percent in 1982. The financial position of the public sector deteriorated, with the overall deficit increasing to 9 percent of GDP in FY 1982/83, compared with a deficit of 4 percent of GDP two years earlier. Government revenue declined and expenditure continued to rise owing to a large general salary increase in 1981 and increased defense outlays following Belize's independence. The deficit in the external current account widened in 1982, but the overall balance of payments was close to equilibrium because of large capital inflows (Table 3). Large wage increases in the sugar sector in 1980 and in the public sector in 1981 contributed to an acceleration of domestic inflation from 7 percent in 1980 to an average of about 10.5 percent in 1981 and 1982.

While inflationary pressures abated in 1983 reflecting a moderation in wage settlements as well as declining inflation abroad, the economy experienced only a modest recovery that year as output grew by 1.5 percent. In FY 1983/84 public capital expenditure was reduced by 3 percent of GDP as a result of a lack of counterpart funds, but the overall deficit of the public sector declined only marginally (to 8 percent of GDP) because of a stagnation of revenue growth and a continued increase in current expenditures. In contrast to previous years, the deficit was financed primarily by central bank credit. The continued large public sector deficit combined with declining inflows of development assistance and large outflows of private capital resulted in an overall balance of payments deficit of US$4.8 million in 1983 and in an accumulation of US$5.1 million in external payments arrears of the public sector.1/

Against this background, the Government adopted an adjustment program in mid-1984 designed to strengthen the balance of payments and to provide the basis for a restoration of economic growth and the achievement of relative price stability. The stand-by arrangement was approved in support of this adjustment program. To achieve the balance of payments objective the program called for a reduction of the overall public sector deficit to a level that could be financed by long-term bilateral and multilateral external financing. Thus, the deficit was programmed to decline to 5.7 percent of GDP in FY 1984/85 and to 5.2 percent in FY 1985/86. Consistent with the overall deficit targets, public savings were expected to rise from 8 percent of GDP in FY 1983/84 to 5.7 percent

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1/ Public entities have incurred external payments arrears because of lack of domestic resources and thus they have not been able to deposit the domestic counterpart of the arrears in the Central Bank. For this reason these arrears are not part of the international liabilities of the Central Bank.

Table 3. Belize: Summary Balance of Payments

	Rev. 1982	Est. 1983	1984 Prog.	1984 Est.	1985 Prog.	1985 Rev. Prog.
	(In millions of U.S. dollars)					
Current account	-17.4	-12.6	-15.8	-6.4	-14.0	-5.2
Trade balance	-48.5	-42.2	-47.0	-38.3	-46.1	-36.3
Exports, f.o.b.	(57.6)	(62.7)	(70.0)	(68.6)	(77.7)	(71.6)
Imports, c.i.f.	(-106.0)	(-105.0)	(-117.4)	(-106.8)	(-123.8)	(-107.9)
Services (net)	12.8	11.6	9.0	10.4	10.5	10.7
Private transfers (net)	10.9	11.2	18.9	13.2	19.8	13.7
Official transfers (net)	7.4	7.0	3.7	8.3	1.8	6.7
Capital account	18.1	--	9.7	-1.4	23.6	16.5
Public sector (net)	8.7	7.2	12.9	3.9	25.2	16.7
Nonfinancial	(8.0)	(3.9)	(12.1)	(2.6)	(20.6)	(10.6) 2/
Financial	(1.1)	(2.8)	(0.8)	(2.0)	(4.6)	(4.7)
Other public	(-0.4)	(0.5)	(--)	(-0.7)	(--)	(1.4)
Private sector (net)	9.3	-7.2	-3.2	-5.3	-1.6	-0.2
Commercial banks	(6.9)	(-2.7)	(-5.0)	(-3.4)	(-1.6)	(-2.0)
Sugar industry	(3.7)	(-2.8)	(1.8)	(0.6)	(--)	(3.0)
Other	(-1.3)	(-1.7)	(--)	(-2.6)	(--)	(-1.2)
Errors and omissions	-1.3	2.6	--	-0.5	--	--
Change in arrears	--	5.1	-0.4	1.2	-4.6	-6.3
Change in net official reserves (increase -)	0.6	4.8	6.5	7.2	-5.0	-5.0
	(In percent of GDP)					
Current account	-10.5	-7.2	-8.7	-3.5	-7.3	-2.7
Trade balance	-29.2	-24.3	-26.0	-21.0	-24.0	-18.8
Exports	(34.8)	(36.0)	(38.4)	(37.6)	(40.3)	(37.2)
Imports	(-64.0)	(-60.3)	(-64.4)	(-58.6)	(-64.3)	(-56.0)
Services and private transfers	14.3	13.1	15.3	12.9	15.7	12.7
Official transfers	4.5	4.0	2.0	4.6	0.9	3.5

Source: Belize authorities; and Fund staff estimates.

1/ The current account estimates for 1982-85 have been done on the basis of a revised methodology developed by the Central Bank of Belize.
2/ Includes US$6.8 million balance of payments assistance from U.S. AID.

in FY 1985/86. A major tax package was implemented in mid-1984, which included a doubling of the excise tax on locally produced beer, 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. On the expenditure side, current expenditure of the public sector was to be reduced by about 1.5 percent of GDP.

In 1984 the current account deficit of the balance of payments narrowed sharply as imports stagnated for a second year in a row. However, net external financing from multilateral and bilateral sources was substantially less than originally envisaged in the program due to delays associated with the execution of some development projects and the postponement of others. As a result, the loss of net official reserves of the Central Bank was of US$7.2 million, US$0.7 million larger than projected in the program. In addition, external payments arrears increased by US$1.2 million instead of being reduced by US$0.4 million.

Real GDP growth is estimated to have remained essentially unchanged in 1984 at 1.3 percent as the drop of output in most agricultural subsectors, except citrus, was offset in part by improvements in manufacturing, construction, and services. The average inflation rate, as measured by the consumer price index, increased from 2.7 percent in 1983 to 3.9 percent in 1984, as a result of the increase in indirect taxes mentioned earlier and the phasing out of some price controls in late 1984.

The Government's adjustment program resulted in a reduction in the public sector deficit from 8.0 percent of GDP in FY 1983/84 to 3.7 percent of GDP in FY 1984/85 (Table 4). Public sector savings reached 3.6 percent, which was significantly stronger than the 2.3 percent programmed and implied an improvement of 5.7 percent of GDP from the previous fiscal year. This performance was the result of the achievement of the targeted increase of general government revenue, a reduction in total expenditure and the achievement of a surplus in the operations of public sector enterprises.

The targeted increase in general government revenue was achieved even though the yield from the doubling of the excise tax on domestically produced beer and new excise tax on soft drinks was less than projected. Considerable success was achieved in the reduction of outstanding income tax arrears and income tax receipts were raised by about one third. The revenue of the Social Security Board increased from 1.9 percent of GDP to 2.8 percent primarily as a result of increases in contributions and collection of arrears. The reduction of total expenditure was mostly the result of the austere expenditure policy of the Central Government, which accounts for slightly more than 90 percent of total expenditure. As part of this expenditure policy, no general salary increase was granted in the Central Government for a third year in a row. The achievement of an operating surplus in the operations of public enterprises was the result of an adjustment in electricity and water tariffs as well as success in reducing operating costs.

Table 4. Belize: Consolidated Operations of the Nonfinancial Public Sector 1/

	1982/83	1983/84	1984/85 Prog.	1984/85 Prel. Est.	1985/86 Program	1985/86 Revised Program
(In millions of Belize dollars)						
Total revenue and grants	101.2	100.5	111.3	112.5	115.1	121.8
Revenue	84.2	84.4	101.8	103.9	109.6	115.9
Central Government	(78.9)	(77.8)	(93.6)	(92.4)	(100.0)	(98.2)
Social Security Board	(5.3)	(6.6)	(8.2)	(10.4)	(9.6)	(10.3)
Public enterprises' operating surplus	(--)	(--)	(--)	(1.1)	(--)	(7.4)
Grants	17.0	16.1	9.5	8.6	5.5	5.9
Total expenditure 2/	131.4	128.8	132.5	126.2	135.7	141.3
Current expenditure	85.2	91.9	92.6	90.8	95.7	97.4
General government	(82.4)	(87.5)	(91.4)	(90.8)	(95.7)	(97.4)
Central Government	/81.6/	/85.8/	/88.6/	/89.2/	/91.7/	/95.0/
Social Security Board	/0.8/	/1.7/	/2.8/	/1.6/	/4.0/	/2.4/
Public enterprises' operating deficit	(2.8)	(4.4)	(1.2)	(--)	(--)	(--)
Capital expenditure	46.2	36.9	39.9	35.4	40.0	43.9
General government	(27.7)	(24.6)	(31.4)	(27.4)	(30.9)	(34.3)
Central Government	/27.5/	/24.4/	/31.2/	/27.2/	/30.7/	/34.0/
Social Security Board	/0.2/	/0.2/	/0.2/	/0.2/	/0.2/	/0.3/
Public enterprises	(18.5)	(12.3)	(8.5)	(8.0)	(9.1)	(9.6)
Overall balance (- deficit)	-30.2	-28.3	-21.2	-13.7	-20.6	-19.5
Change in external arrears 3/	0.4	3.9	-2.9	-0.4	-1.4	-4.2
Financing (net)	29.8	24.4	24.1	14.1	22.0	23.7
External financing (net) 4/	18.3	8.3	28.1	12.6	31.2	24.7
Domestic financing (net)	11.5	16.1	-4.0	1.5	-9.2	-1.0
Banking system	(11.9)	(16.9)	(-4.0)	(1.7)	(-9.2)	(-1.0)
Central Bank	/0.4/	/14.0/	/3.7/	/13.5/	/-6.8/	(...)
Commercial banks	/11.5/	/12.9/	/-7.7/	/-11.8/	/-2.4/	(...)
Other	(-0.4)	(-0.8)	(--)	(-0.2)	(--)	(--)
Memorandum items						
Public sector savings	-1.0	-7.5	9.2	13.1	13.9	18.5
(As percent of GDP)						
Revenue	24.9	23.9	27.3	28.1	28.0	29.6
Grants	5.1	4.6	2.6	2.3	1.4	1.5
Total expenditure	39.0	36.5	35.6	34.1	34.6	36.0
Current expenditure	25.3	26.0	25.0	24.5	24.4	24.8
Public sector savings	-0.4	-2.1	2.3	3.6	3.6	4.7
Capital expenditure	13.7	10.5	10.8	9.6	10.2	11.2
Overall deficit	-9.0	-8.0	-5.7	-3.7	-5.3	-5.0
External financing	5.5	1.3	7.6	3.4	8.0	6.3
Domestic financing	3.4	5.6	-1.1	0.4	-2.3	-0.3
Change in outstanding arrears 3/	0.1	1.1	-0.8	-0.1	-0.4	-1.0

Sources: Belize authorities; and Fund staff estimates.

1/ Fiscal year April 1-March 31.
2/ Commitment basis.
3/ External payments arrears on interest and other current payments.
4/ Includes changes in principal external arrears.

The monetary program of the Government was framed to be consistent with limiting the loss of net international reserves to no more than US$2.1 million during the second half of 1984 (US$6.5 million for the year as a whole). A 2 percentage point increase in the legal cash reserve ratio on November 1, 1984 was to absorb the existing excess reserve deposits of commercial banks at the Central Bank. By increasing treasury bill rates, which were significantly lower than rates charged by commercial banks on loans to the private sector, and by the use of moral suasion, the authorities sought to eliminate the potential pressure on the Central Bank's reserves which could result from a sudden reduction in net credit from the commercial banks to the public sector.

In the event, the Government did not adjust the interest rates for treasury bills and the commercial banks reduced significantly their holdings of bills during the last four months of 1984 in order to lend to the private sector at interest rates that were more attractive. The reduction in net commercial bank credit to the public sector allowed banks to expand credit to the private sector in 1984 by 10 percent over its level at the end of 1983, compared with the programmed rate of 6 percent. As the commercial banks reduced their holdings of treasury bills, the Central Bank increased its bill holdings and, as a result, the Central Bank exceeded its net domestic assets ceiling marginally at the end of 1984.

The larger than originally targeted reduction in the public sector deficit in FY 1985/86 was not sufficient to compensate for the shortfall in net projected external financing, and the public sector increased its reliance in domestic credit instead of reducing it as envisaged in the program. The consequence was the deviations noted above in respect of the foreign reserve objective and the targeted reduction of external arrears. In terms of the performance criteria, Belize exceeded the US$5.0 million external payments arrears ceiling by US$1.3 million and the BZ$32 million ceiling on the net domestic assets of the Central Bank by BZ$0.4 million on December 31, 1984, while the ceiling on net bank credit to the public sector and to the stock of external debt with a maturity of less than 12 years were met. On March 31, 1985, (the end of FY 1984/85), the BZ$67 million ceiling on net bank credit to the public sector was exceeded marginally by BZ$0.7 million, while the ceiling on external payments arrears was again exceeded by US$1.3 million.1/

1/ When the limit on bank credit to the public sector was originally set, it was not certain that a disbursement of BZ$5 million under a U.S. AID Economic Stabilization Facility (USAID ESF) loan would take place as projected in the first quarter of 1985. For this reason the limit on bank credit to the public sector included a margin in the event that this disbursement did not take place.

III. Report on the Discussions and Program for FY 1985/86

The discussions with the Belize authorities centered on a review of the progress achieved during FY 1984/85 in the implementation of the stand-by program and on the policies that would form the basis for the establishment of the targets and limits for the period of the stand-by arrangement in FY 1985/86. The new Belize authorities, who assumed office after a general election in December 1984, stressed their commitment to the program supported by the stand-by arrangement negotiated by the previous Government. They confirmed their intention to continue to pursue policies aimed at establishing conditions conducive to price stability and a satisfactory balance of payments position with a view to achieving sustained economic growth.

The authorities' program for FY 1985/86 seeks to limit the public sector deficit to 5 percent of GDP, a ratio slightly lower than agreed upon when the program was negotiated. However, because of delays in the elimination of external arrears, the financing needs of the public sector will be now 6 percent of GDP in FY 1985/86, compared with 5.6 percent envisaged in the original program. As previously, the monetary program seeks an increase in net international reserves of US$5 million in 1985. The target for the elimination of external payments arrears in 1985 is to be maintained and the elimination of the arrears is to be facilitated by the rescheduling of US$1 million in arrears to a private supplier, already negotiated, and of US$1.9 million in arrears to the State Petroleum Company of Mexico (PEMEX). The authorities expect to conclude the negotiations with the Mexican Government on the rescheduling of the arrears to PEMEX by the end of May 1985. The 1985 program is also consistent with the reduction of the outstanding external debt with a maturity of less than 12 years from US$19 million at the end of 1984 to US$16 million at the end of 1985.

To achieve the fiscal and balance of payments objectives of the program, the following quantitative performance criteria have been established for the remaining period of the stand-by arrangement: (1) ceilings on the net domestic assets of the Central Bank; (2) limits on the 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 three other criteria is subject to testing at the end of each calendar quarter. In addition, the customary performance criteria on the introduction of exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII, import restrictions for balance of payments purposes, as well as the injunction against overdue financial obligations to the Fund remain applicable during the remaining period of the arrangement.

Table 5. Belize: Quantitative Performance Criteria

	1985				1985
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31
	(In millions of Belize dollars)				
Net domestic assets of the Central Bank	26.0	26.2 1/	24.1 1/	23.8 1/	22.3 1/
Net credit from the domestic banking system to the nonfinancial public sector	67.0	69.3 1/	69.4 1/	66.7 1/	67.2 1/
	(In millions of U.S. dollars)				
Outstanding external payments arrears	4.5	2.5	--	--	--
Outstanding external debt of the public sector with a final maturity of 12 years or less	20.0	18.0	17.5	16.0	15.0

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

1/ These limits will be adjusted downward to the extent by which cumulative disbursements under the U.S. AID Economic Stabilization exceeds US$6.8 million.

1. Fiscal policy

The authorities stressed their determination to continue to implement a prudent fiscal policy with the objective of limiting the overall deficit of the public sector on a commitment basis to 5.0 percent of GDP in FY 1985/86. While this deficit would be somewhat higher than that of the previous year, it was nonetheless in line with the deficit originally projected, and consistent with the expected elimination of external arrears and with the achievement of the program's original target of a US$5 million increase in net official reserves in 1985. The authorities attributed the widening of the fiscal deficit from FY 1984/85 to FY 1985/86 to higher investment expenditures.

The public sector deficit is to be financed entirely by long-term loans from bilateral and multilateral agencies, including a BZ$13.5 million nonproject-related credit from the U.S. AID Economic Stabilization Facility at highly concessional terms. The disbursements from the U.S. AID loan as well as the rescheduling of US$2.9 million in external payments arrears described above are expected to facilitate the elimination of public sector external arrears. The public sector is to make net amortization payments to the domestic banking system of the order of BZ$1 million.

Public sector revenue, excluding grants, is expected to increase by the equivalent of 1.5 percent of GDP in FY 1985/86 as the result of a rise in the operating surplus of public enterprises. Central government revenue, which accounts for 85 percent of public sector revenue, is projected to stay constant in relation to GDP at about 25 percent, as new revenue measures have been adopted to compensate for a shortfall in receipts from the 1984 tax package (mostly attributable to shortfalls in the collection of excise taxes on spirits and beer and of import duties). In April 1985 the stamp duty rate was increased from 8 percent to 10 percent, the customs administration charges on entrepot trade was raised from 2 percent to 3 percent, and the travel tax was doubled. In addition, legislation is being prepared to remove the import duty exemption for imports by state enterprises except for petroleum imports by the Electricity Board, and various other service fees of the Central Government have been increased. The yield of these new measures for the Central Government is estimated to be close to 1 percent of GDP on an annual basis. The authorities also intend to continue to increase tax yields by improving collection procedures, especially by reducing income tax arrears.

Current outlays of the public sector are projected to increase somewhat in relation to GDP to 24.8 percent, because of a rise in interest payments. The most important component of public sector current expenditure is central government expenditure on wages and salaries. For a fourth year in a row, the Central Government will not grant general salary increases in FY 1985/86; salary adjustments from regrading or reclassification, which in previous years were common, are to be restricted. The Central Government also expects to implement a policy of gradually dismissing workers who were hired on a temporary basis and had stayed on the government payroll. As a result, the central government wage bill is projected to decline from 11.6 percent of GDP in FY 1984/85 to 10.9 percent of GDP in FY 1985/86.

To improve Belize's infrastructure, the authorities intend to step up public investment. The public investment program emphasizes the expansion and repair of the road network, the improvement of the water and sewerage system, and an extension of the power distribution system which should help provide the necessary infrastructure for economic growth. The projected increases in capital expenditure of the public sector from 9.6 percent of GDP in FY 1984/85 to 11.2 percent of GDP in FY 1985/86 brings public investment to a level closer to the one which the authorities and the World Bank believe is necessary to facilitate achieving economic growth rates similar to those that prevailed in the 1970s. While the World Bank has not done a detailed public sector investment review of Belize, on the basis of its 1984 Economic Memorandum its medium-term investment strategy also emphasizes the transportation and power sectors.

About 80 percent of public sector capital expenditure is to be carried out by Central Government. The central government investment budget includes BZ$6.3 million in capital transfers to public enterprises to help them service their external debts, which in the past were handled to some extent outside the budget. After taking into account the increase in capital expenditure, the central government overall deficit is expected to rise from 6.3 percent in FY 1984/85 to 8.9 percent of GDP in FY 1985/86, but this increase will be compensated by increased savings of the public enterprises, which are expected to show a surplus of 2.8 percent of GDP compared to virtual overall balance last year (Statistical Appendix Tables 8 and 9).

The improved performance of the public enterprises would reflect a containment of labor costs, a reduction of other current outlays in real terms, a scaling down of some of the Marketing Board's commodity programs, and an increase in the sales of some enterprises. The Electricity Board is not expected to increase its wage bill in real terms and intends to cut its fuel bill as a new and more efficient transformer comes on stream. The operating surplus of the Telecommunication Authority is estimated to increase by about one third as a result of an increase in revenue from an expansion of telephone services which can be carried out without adding to the existing capacity. A 15 percent increase in port charges is expected to increase the operating surplus of the Port Authority. Government efforts to sell the Banana Control Board will be expedited by accelerating the sales of some of the banana plantations to the private sector.

As part of the efforts to increase the operating surpluses of the public enterprises, the Ministry of Finance, through its representatives in the boards of directors of the public enterprises, will strengthen its supervision of these enterprises. Also, with the assistance of the credit from U.S. AID, the Government is re-evaluating the activities of the Marketing Board, concentrating on ways to eliminate the losses incurred in its rice and corn programs and reviewing the organizational structure and the operations of the Electricity Board so as to come up with proposals to improve its efficiency.

2. Monetary policy

In view of the monetary developments in 1984 that were discussed above, on January 26, 1985 the authorities, in consultation with the staff, adopted a number of steps to limit the expansion of credit to the private sector, encourage private financial savings, and protect the central bank reserves. The cash reserve requirement was increased from 7 percent to 9 percent effective March 1, 1985, and the liquid asset ratio, which includes cash in vault and treasury bill holdings were increased from 20 percent to 25 percent effective March 1, 1985 and to 30 percent as of April 1, 1985. The increases in the liquid asset ratio were designed to absorb the excess liquidity held by commercial banks in January 1985. The Central Bank halted lending to commercial banks to finance reserve requirements and announced that the penalties stipulated by law for reserve deficiencies (5 percent per month) would be strictly enforced in the future.

The January 1985 measures also included a 3 percentage point increase in the rates for term deposits and treasury bills, and a 2 percentage point increase in the prime lending rate. By increasing the interest rates the authorities hoped to slow down the expansion of credit to the private sector and eliminate the interest rate margin which had developed against Belize during 1984 vis-a-vis international market rates (Chart 1).

As a result of the above measures, there was a noticeable improvement in the net international reserve position of the Central Bank and a decline in credit to the private sector during the first quarter of 1985 (Table 6). The monetary program for the remainder of 1985 is consistent with a US$5 million increase in net international reserves for the year; for FY 1985/86, it contemplates a small decline in the net bank credit to the public sector while allowing growth of bank credit to the private sector approximately in line with the growth of nominal GDP. The authorities are confident that the recent tightening of monetary policy will keep the growth of credit to the private sector in accordance with program projections, thus facilitating attainment of the targeted increase in the net international reserves of the Central Bank.

In the discussions, the staff emphasized the need to pursue a flexible interest rate policy in the future, so as to provide incentives to domestic savings and to help strengthen the balance of payments. The authorities concur with this view and in their letter of intent have specifically expressed their commitment to continue to manage interest rates flexibly.

Table 6. Belize: Summary Operations of the Banking System

(In millions of Belize dollars)

	1984 Mar.	1984 Dec.	Program 1985 Mar.	Program 1985 June	Program 1985 Sep.	Program 1985 Dec.	Program 1986 Mar.
I. Banking System							
Net international reserves	8.9	-4.3	2.2	2.2	4.8	5.7	7.2
Net domestic credit	179.7	196.3	196.1	196.9	197.5	199.9	201.0
Public sector (net)	66.0	68.6	67.7	68.8	68.9	66.2	66.7
Private sector	128.2	136.8	129.1	131.0	133.0	134.9	136.8
Other assets (net)	-14.5	-9.1	-0.7	-2.9	-4.4	-1.2	-2.5
Net foreign liabilities of commercial banks	26.7	22.0	19.4	17.3	17.7	18.1	18.4
Liabilities to private sector 1/	161.9	170.0	178.9	181.8	184.6	187.5	189.8
II. Central Bank							
Net international reserves	8.9	-4.3	2.2	2.2	4.8	5.7	7.2
Assets	17.7	12.2	15.0	15.0	22.4	25.7	29.6
Liabilities	-8.8	-16.5	-12.8	-12.8	-17.6	-20.0	-22.4
Net domestic assets	17.7	32.4	25.6	26.2	24.1	23.8	22.3
Public sector (net)	39.3	54.0	52.8	53.4	53.0	49.8	49.8
Commercial banks (net)	-9.9	-7.7	-16.2	-14.0	-14.2	-14.5	-14.7
Other assets (net)	-11.7	-13.9	-11.0	-13.2	-14.7	-11.5	-12.8
Currency issue	26.6	28.1	27.8	28.4	28.9	29.5	29.5
III. Commercial Banks							
Net position with Central Bank 2/	12.8	11.6	18.9	16.7	16.9	17.2	17.4
Net domestic credit	152.1	156.2	154.3	156.7	159.2	161.6	164.0
Public sector (net)	26.7	14.6	14.9	15.4	15.9	16.4	16.9
Private sector	128.2	136.8	129.1	131.0	133.0	134.9	136.8
Other assets (net)	-2.8	4.8	10.3	10.3	10.3	10.3	10.3
Net foreign liabilities	26.7	22.0	19.4	17.3	17.7	18.1	18.4
Liabilities to private sector	138.2	145.8	153.8	156.1	158.4	160.7	163.0

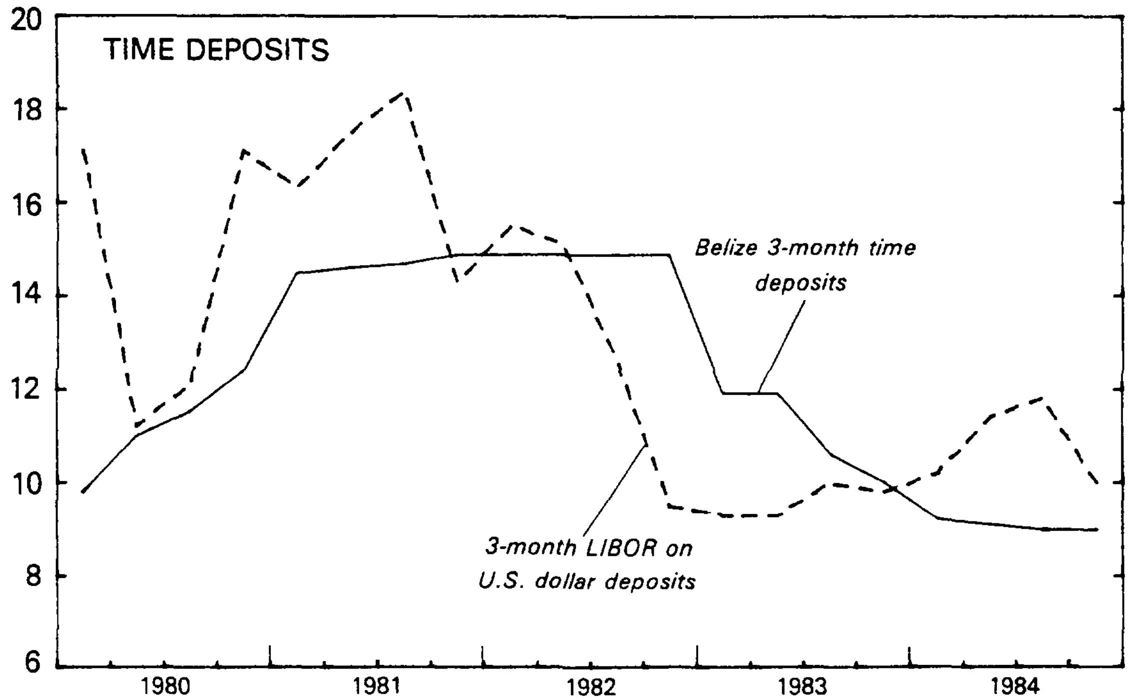
Sources: Belize authorities; and Fund staff estimates.

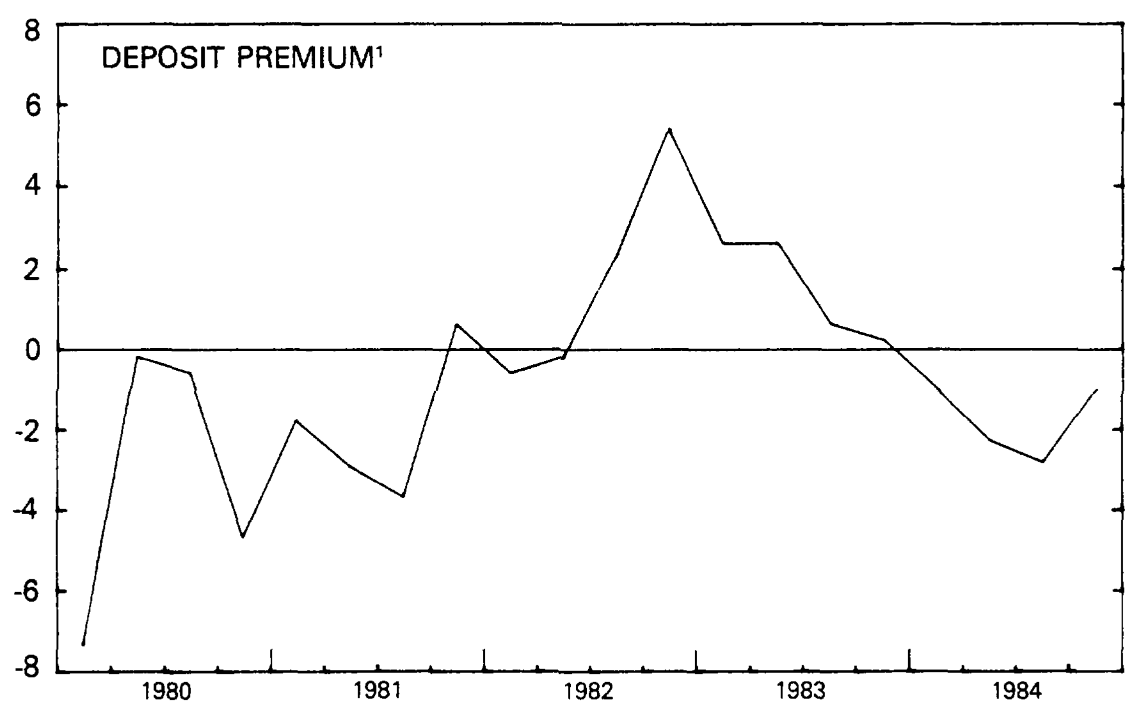
1/ Includes currency issue of Central Bank net of cash in vault.
2/ Includes cash in vault.

CHART 1

BELIZE

INTEREST RATE DIFFERENTIAL





Sources: IFS and Central Bank of Belize.

[1] Defined as the difference between the Belize interest rate on 3-month time deposits and LIBOR on 3-month U.S. dollar deposits.

3. External policies

The authorities noted that the adjustment in the current account of the balance of payments in 1984 had been stronger than expected as a result of continued import stagnation and a 9.5 percent increase in exports. However, these better-than-expected results in the current account were more than offset by developments in the capital account. A net capital outflow of US$1.4 million was recorded as net capital imports by the nonfinancial public sector, which had declined significantly in 1983, did not resume as expected in the program.

Since mid-1983 Belize's public entities have encountered difficulties in servicing their external obligations.1/ During 1984 external arrears increased by US$1.2 million to US$6.3 million. Of these, some US$4.4 million corresponded to principal payments, with the remainder relating to interest payments due and other current external obligations.

The program for the remainder of the stand-by arrangement aims at a turnaround in the overall balance of payments from the US$7.2 million deficit in 1984 to a surplus of US$5 million in 1985 and, as noted, the elimination of all the external payments arrears by September 1985. Gross official reserves are to be increased from the equivalent of three weeks of imports at the end of 1984 to five weeks of imports at the end of 1985.

This improvement in the balance of payments is expected to result from a further adjustment of the current account in relation to GDP and a virtually assured recovery in net capital receipts. In relation to GDP, the current account deficit is expected to decline from 3.5 percent in 1984 to about 2.7 percent of GDP in 1985. Imports are expected to continue to stagnate reflecting a modest rate of growth of the economy in 1985 (real GDP is projected to grow by 1.5 percent in 1985 compared with 1.3 percent in 1984). The projected increase in public sector foreign borrowing is not expected to result in a significant recovery in imports because a considerable amount of the foreign financing is to be used to repay external arrears and because the public investment program for 1985 has a high local component. Exports are projected to grow by about 4.5 percent on the strength of an almost 12 percent increase in nonsugar exports. Sugar exports are projected to decline by 13.5 percent in value terms because of a reduction in Belize's sugar quota in the U.S. market.

1/ The 1982 Bank of Belize Act places limits on the Central Bank's loans and advances to the Government. This limit was exceeded in FY 1984/85. In addition, the Act obliges the Central Bank to hold foreign assets equal to at least 40 percent of its demand liabilities, which restricts the capacity of the Central Bank to provide credit to the Government for purchase of foreign exchange. This external asset ratio has been somewhat below 40 percent since early in 1984.

To maintain a favorable external debt maturity structure the authorities intend to rely on long-term concessional credits while reducing the use of commercial credits; thus, disbursements of external credits in 1985 are estimated to be entirely from bilateral and multilateral sources. The ratio of debt service payments to exports of goods and nonfactor services is projected to rise from 5 percent in 1984 to 9 percent in 1985 (a debt burden level which is still quite manageable) as amortization payments of development credits start maturing. The outstanding public external debt of Belize which amounted to US$69.4 million at the end of 1984 (38 percent of GDP) is projected to rise to US$78.7 million (41 percent of GDP) by the end of 1985.

The program establishes limits on the outstanding external debt of the public sector with a maturity of up to 12 years or less, excluding the foreign reserve liabilities of the Central Bank (see Table 5). Such debt amounted to US$19 million at the end of 1984, including suppliers' credits in arrears, and is projected to decline to less than US$16 million by the end of 1985 (Table 7). The Government also does not intend to extend any loan guarantees for private commercial activities, including sugar production.

To ensure the implementation of the external debt strategy, the Government intends to reactivate the External Debt Management Commission--created in 1984 before the general elections--which is responsible for making recommendations to the Cabinet regarding the approval of all new external credits and all government guarantees extended to public entities. The work of the Commission would be supported by a unit in the Central Bank to maintain external debt statistics and monitor all public external debt transactions.

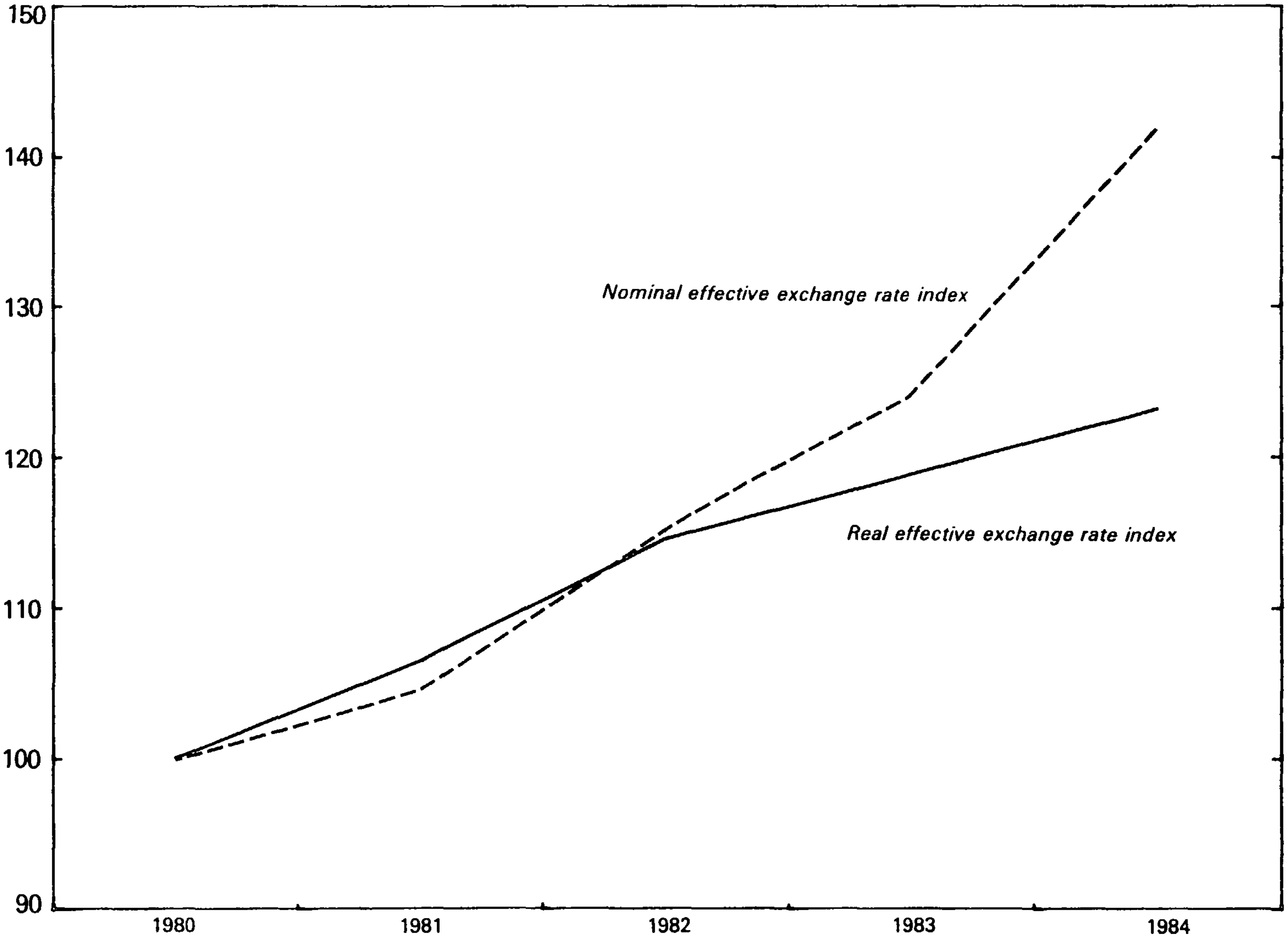
The Belize dollar has been pegged to the U.S. dollar at BZ$2 per U.S. dollar since 1976. As a result of the appreciation of the U.S. dollar against many of the currencies of Belize's trading partners, the real effective trade-weighted exchange value of the Belize dollar increased by 19 percent from 1980 to 1983 and by an additional 4 percent in 1984 (Chart 2). The appreciation which has occurred against the pound sterling has reduced the profitability of the exports of sugar to the United Kingdom, which accounted for almost 40 percent of total sugar shipments in 1984. This development, combined with the low sugar prices in the international sugar market and the reductions of the Belize quota in the U.S. market, has resulted in losses to the Belize sugar industry in recent years, notwithstanding low costs of production and high capacity utilization in the industry.

The authorities were concerned with the financial situation of the sugar industry, but noted that its situation should improve over the next few years as sugar prices are expected to recover. They also pointed to the available evidence concerning the other main export sectors which suggests that they continue to be competitive. The citrus industry, which exports mainly to the U.S. market, has been particularly profitable

CHART 2
BELIZE

EFFECTIVE EXCHANGE RATE INDEXES[1]

(1980 = 100)



Sources: Belize authorities; and Fund staff estimates.

[1] Trade-weighted indexes.

and additional investment is being carried out at the present time which should increase exports sharply over the medium term. Garment exports have done well and new investment is taking place in other nontraditional export sectors such as shrimp farming. After taking these factors into account the authorities felt that an adjustment of the exchange rate was not warranted at the present time.

Table 7. Belize: External Public Debt by Creditor and Maturity

(In millions of U.S. dollars)

	December 31					
	1980	1981	1982	1983	1984	Proj. 1985
Total	49.2	56.6	63.1	68.4	69.4	78.7
By creditor						
Multilateral and bilateral	42.2	42.1	48.8	51.9	54.4	66.5
12 years or less	(0.2)	(0.2)	(1.0)	(2.9)	(3.2)	(2.9)
More than 12 years	(42.0)	(41.9)	(47.8)	(49.0)	(51.2)	(63.6)
Banks and suppliers	7.0	14.5	14.3	16.5	15.0	12.2
12 years or less 2/	(7.0)	(14.5)	(14.3)	(16.5)	(15.0)	(12.2)
More than 12 years	(--)	(--)	(--)	(--)	(--)	(--)
By maturity						
12 years or less	7.3	14.7	15.3	19.3	19.0	15.1
Nonfinancial public sector 2/	(7.1)	(14.5)	(15.1)	(17.4)	(16.0)	(13.2)
Development Finance Corporation	(0.2)	(0.2)	(0.2)	(1.9)	(2.2)	(1.9)
More than 12 years	41.9	41.9	47.8	49.1	51.2	63.6
Nonfinancial public sector	(34.6)	(34.3)	(39.4)	(39.8)	(39.8)	(47.2)
Development Finance Corporation	(7.3)	(7.6)	(8.4)	(9.3)	(11.4)	(16.4)
Adjustment 3/	--	--	--	--	-0.8	--

Sources: Belize authorities; and Fund staff estimates.

1/ Excludes reserve liabilities of the Central Bank.
2/ Includes short-term debt of nonfinancial public sector.
3/ Adjusts for differences in valuation changes used by the Ministry of Finance and the Central Bank.

The staff saw merit in the authorities' views but stressed that the real effective appreciation of the Belize dollar was a matter of serious concern and that it was necessary to keep the exchange rate policy under close scrutiny. The staff also stressed the importance of exercising wage restraint in the public sector, not on fiscal grounds but also because of the demonstration effects on the private sector. The authorities noted that a cautious wage policy had been followed in the Central Government since 1981 when a 25 percent general pay raise had been given and that, although salaries have been raised since that time as a result of regrading and reclassifications of positions, overall salary increases in the Central Government do not appear to have exceeded the increase in consumer prices. Available information, albeit incomplete, suggest that private wages also have increased in line with consumer prices. The authorities recognized the importance of a cautious wage policy for Belize's international competitiveness and, as noted earlier, they were not planning to grant a general salary increase in the Central Government in the current fiscal year. They also intend to extend this salary policy to all public enterprises in FY 1985/86; however, in the Social Security Board a general salary increase was granted in December 1984, shortly after the general elections.

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 such restrictions. Import bans were introduced in late 1982 to protect local production of certain foodstuffs, construction materials, and various manufactured products, following the sharp change in the value of the Mexican peso. In order to promote efficiency in these sectors, the Government intends to substitute moderate tariffs for import restrictions during FY 1985/86. It also will phase out during the current fiscal year the system of export controls applied to certain agricultural commodities so as to facilitate the responsiveness of Belize's agricultural sector to opportunities in foreign markets.

IV. Medium-Term Outlook

The authorities have stated their intention to pursue policies consistent with a satisfactory balance of payments situation and the restoration of growth over the medium term. The hallmark of this policy is a prudent management of the public finances, which is expected to result in improved confidence and a recovery of activity in the private sector.

The medium-term balance of payments projection presented in Statistical Appendix Table 12 is based on a projection of real GDP growth of 3 percent over 1986-1990, compared with about 5.5 during 1977-80, and a rise in the deflator of 4 percent a year. Total exports are projected to grow by about 8 percent a year, a slightly higher rate of increase than that of nominal GDP. Prices of Belize sugar exports are expected to improve substantially from their currently depressed levels, by about 11 percent a year on average in the three destination markets during 1986-88, and to increase in line with domestic inflation in 1989-90.1/ This average sugar price assumption is based on a cumulative 78 percent increase in the free international market during 1986-88 (compared with an assumption made by the 1985 World Economic Outlook of a 94 percent increase during the same period). Sugar prices are assumed to stay unchanged in the protected U.S and EEC markets. The volume of sugar exports, after reaching 108 thousand tons in 1985, is forecast to decline by 5 percent in 1986 and remain at that level in subsequent years which would be consistent with a more normal degree of capacity utilization. The prices of citrus and fish are projected to increase less than 4 percent a year, which is the expected increase in the GDP deflator; the prices of all other exports are projected to increase at approximately the same rate as domestic prices. The volume of nontraditional exports--such as citrus, fish, and garments--is expected to grow in the range of 4 percent to 7 percent a year, reflecting the growth of investment in these areas.

Imports are forecast to grow faster than GDP in 1986-88, and thus recover somewhat from the depressed levels of recent years, reaching the equivalent of 60 percent of GDP in 1988. During 1989-90 import growth is expected to keep pace with GDP. The medium-term forecast assumes that domestic agricultural production will increase substantially and that the reliance on imported foodstuffs will decrease.

All official borrowing is projected to be obtained at the current highly concessional terms and interest payments are thus projected to be made at the prevailing average interest rate of 4.5 percent. Most service receipts and payments, as well as private transfers, are expected to move in line with nominal GDP. Official transfers are forecast to stay constant in nominal terms from 1986 onward. With the expected reactivation of the economy, beginning in 1986 the current account deficit is projected to widen to 5-6 percent of GDP. The overall balance of payments is expected to show small surpluses during this period.

To finance the projected current account deficits, the net public external indebtedness would rise from 41 percent of GDP at the end of 1985 to 53 percent at the end of 1990. Debt service would not exceed 9.0 percent of exports of goods and nonfactor services over the same period. Foreign financing of these magnitudes would be consistent with an increase of gross domestic investment from about 16 percent of GDP in 1985 to 23 percent in 1990 on the assumption that there is at the same time an increase in gross domestic savings of 3 percentage points to 16.5 percent of GDP over the same period. Altogether the overall balance of payments is expected to show small surpluses during 1986-1990.

1/ Belize expects to sell 39 percent of its 1985 sugar exports in the EEC, 38 percent in the international market, and 23 percent in the United States.

The medium-term outlook is particularly sensitive to sugar price developments; should sugar prices increase on average at half the rate assumed in the scenario, the current account deficit would average close to 8 percent of GDP instead of 5-6 percent during 1986-90, and the debt service ratio would increase to 10.5 percent by 1990. The medium-term outlook would also be affected if the interest rate paid by Belize for its foreign borrowing increases over the medium-term from its highly concessional level, 4.5 percent, to 9 percent, a rate closer to the one currently charged by the World Bank. Under this scenario the current account deficit would average 7 percent and the debt service ratio would rise to 14.5 percent by 1990.

The medium-term outlook for Belize's balance of payments could also be significantly affected by the result of the negotiations taking place between the foreign owner of the only two sugar mills in the country and the Government. The foreign owner would like the Government to take over the ownership of the industry, and had offered to accept a delayed payment for its investment until the finances of the sugar industry improve. During this period the foreign owner would also like to remain associated with the industry through a management contract. At the moment it is considering the closing of one of the two sugar mills if it cannot sell it to the Government; if a mill is closed sugar output probably would decline by 20-40 percent. Although the sugar sector is very important for Belize's economy, the Government is opposed to direct public sector participation in the industry. It currently favors an arrangement whereby the ownership and management would be maintained by the current owner, while making it possible for the it to take all the steps necessary to streamline the production process and reduce operating costs.

V. Staff Appraisal

Economic and financial performance in Belize weakened significantly in 1981-83. There was a deterioration in the public finances which resulted in a substantial widening of the current account deficit of the balance of payments. While an overall balance of payments deficit was avoided in 1982 because of large net capital inflows, a decline of capital inflows in 1983 resulted in a sizable loss of foreign official reserves and the emergence of external payments arrears. The Government responded to these developments by adopting an adjustment program in mid-1984, which was subsequently supported by a 16-month stand-by arrangement approved in December 1984.

The adjustment program aims at strengthening the net international reserve position of the Central Bank, eliminating external payments arrears, and lowering the reliance on commercial debt by reducing the overall public sector deficit. Public sector savings are to improve on the basis of a combination of revenue measures and restraint in current spending. This saving effort is to permit a recovery in public investment while reducing the overall deficit.

In FY 1984/85 the fiscal situation registered an improvement as the overall public sector deficit was smaller than those registered over the previous two years and the one envisaged in the stand-by arrangement. The current account deficit of the balance of payments was halved to about 3.5 percent of GDP in 1984, as a result of the tightening of the fiscal position and of the financial policy stance in general. However, the reduction in the public sector deficit was not sufficient to compensate for the shortfall in projected external financing in 1984 and the authorities were not able to comply with the ceiling on external arrears, and the loss in net international reserves of the Central Bank was slightly larger than expected.

The authorities intend to continue with their prudent fiscal policy in FY 1985/86. Accordingly, they have adopted revenue measures to compensate for a likely revenue shortfall from the 1984 tax package and from lower import duty collections. While expenditures are expected to rise somewhat in relation to GDP, this increase would reflect mostly a growth of investment to be financed by foreign long-term loans. Moreover, the authorities intend to continue their efforts to improve tax administration and to collect tax arrears. To this effect, a tax-review mission of the Fiscal Affairs Department of the Fund is expected to visit Belize in the third quarter of 1985. The staff welcomes these efforts as well as those being made by the Office of Budget and Management to coordinate and monitor expenditure of all public entities. The staff also would urge the authorities to strengthen the efforts to formulate fiscal policy for the public sector on a consolidated basis.

The authorities plan to follow closely the operations of public enterprises to ensure that expenditures are maintained within the approved limits. The authorities will undertake with the help of multilateral and bilateral donors a review of the operations of the Electricity Board and the Marketing Board during the next year with a view to improving their efficiency. The staff supports these efforts as well as the authorities' plans to sell to the private sector some of the assets of public enterprises.

The staff agrees with the authorities' policy of reducing the public sector deficit to the amount that can be financed by long-term credits from bilateral and multilateral sources on concessional terms. This strategy is expected to allow for a substantial increase in public investment that would be directed to improving the country's infrastructure. This emphasis coincides with the World Bank's medium-term lending strategy for Belize. Also, with this kind of external financing, the debt service would remain at a reasonable ratio in relation to exports of goods and nonfactor services. In this connection, the staff welcomes the decision to reactivate the External Debt Commission to advise the Cabinet on external debt management and the establishment of a unit at the Central Bank to monitor external debt transactions.

The fiscal policy planned for FY 1985/86 has made it possible to formulate a monetary program consistent with a significant gain in net international reserves while affording an adequate margin for the expansion of credit to the private sector. The increases in reserve requirements and interest rates announced at the end of January 1985 should help in the implementation of the monetary program; in particular, the upward adjustment of domestic interest rates will contribute to the reduction of the interest rate differential which developed against Belize in the past year. The staff would urge the authorities to follow interest rate developments closely and to be ready to adjust domestic rates further if events should indicate that is necessary.

The authorities are committed to continue to operate an exchange system free of restrictions on current payments and transfers. The staff welcomes this policy stance as well as the plans to replace import prohibitions with moderate tariffs and to eliminate export controls which have hampered the responsiveness of some agricultural exports to developments in foreign markets. The planned elimination of external payments arrears will help to improve Belize's international creditworthiness.

The authorities view the appreciation of the real exchange rate of the Belize dollar with concern, but they believe that overall developments in the main export sectors in general do not indicate a need for exchange rate action at present. The authorities are also aware of the key role that wage policy plays in the maintenance of cost competitiveness and, for this reason, intend to follow a prudent wage policy in the public sector while at the same time encouraging wage restraint in the private sector. The staff can go along with the authorities' decision on exchange rate policy at this time, but it would emphasize that the course they have taken involves some risk and would note that the degree to which Belize's competitiveness can be strengthened through a cautious wage policy is limited. For this reason, the staff stresses that the adequacy of the exchange rate policy should be monitored very closely, in light of developments in the balance of payments.

A large degree of uncertainty surrounds the role that the sugar sector will play in Belize in the future. The staff supports the Government's intention to avoid direct public involvement in the sugar sector and it strongly encourages the Government to make a thorough analysis of the industry's medium-term prospects before making additional financial commitments to the sector. The staff also would underscore the importance of additional steps to reduce operating costs in the industry.

The Belize authorities are committed to carrying out the policies described above which they consider adequate to attain the objectives of the current stand-by arrangement. The staff believes that the program objectives are attainable with the announced policies and that implementation of these policies should help to create the conditions for sustained economic growth over the medium term. Finally it is recommended that the next Article IV consultation with Belize be held in the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Belize has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Belize (EBS/84/225, Sup.1) and paragraph 15 of the letter dated October 26, 1984 from the Prime Minister and Minister of Finance, the Governor of the Central Bank, and the Minister of Economic Development, in order to review the implementation of the measures described in that letter, to reach understandings regarding policies and measures that Belize will pursue over the fiscal year 1985/86, and to establish the performance criteria for the remaining period of the stand-by arrangement.

2. The letter dated May 9, 1985 from the Prime Minister and Minister of Finance, the Governor of the Central Bank, and the Financial Secretary of the Ministry of Finance shall be annexed to the stand-by arrangement for Belize, and the letter dated October 26, 1984 shall be read as modified and supplemented by the letter dated May 9, 1985 and the tables appended thereto.

3. Accordingly, Belize will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Belize currency in the credit tranches beyond 25 percent of quota during any period after June 30, 1985, 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 referred to in paragraph 14 of the attached letter of May 9, 1985 and set forth in Table 1 thereof; or

(ii) the limits on net credit from the domestic banking system to the nonfinancial public sector referred to in paragraph 14 of the attached letter of May 9, 1985 and set forth in Table 2, thereof; or

(iii) the limits on external payments arrears referred to in paragraph 15 of the attached letter of May 9, 1985 and set forth in Table 3 thereof; or

(iv) the limits on the outstanding external debt of public sector referred to in paragraph 16 of the attached letter of May 9, 1985 and set forth in Table 4 thereof;

are not observed.

4. The Fund finds that no additional understandings are necessary in the light of the letter of May 9, 1985, and that Belize may proceed to make purchases under the stand-by arrangement.

5. In accordance with Executive Board Decision No. 7908-(85/26) of February 20, 1985 on overdue payments to the Fund, the stand-by arrangement for Belize is amended to read as set forth in the Attachment I.

Fund Relations with Belize
(As of April 30, 1985)

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 13.6 million or 143 percent of quota.

(c) Fund credit: Of which:	Millions of SDRs	Percent of Quota
Compensatory financing	3.60	37.9
Stand-by	2.38	25.0
(d) Reserve tranche position:	1.90	20.0

III. Current Stand-By Arrangement and Special Facilities

(a) Current stand-by arrangement:

(i) Duration: From December 3, 1984 to March 31, 1986
(ii) Amount: SDR 7.125 million
(iii) Utilization SDR 2.375 million
(iv) Undrawn balance: SDR 4.750 million

(b) Compensatory financing facility:

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

IV. SDR Department

(a) Net cumulative allocation: None

(b) Holdings: SDR 107,165

V. Overdue Financial Obligations to the Fund: None.

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 or restrictions on payments and transfers for current international transactions.

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 October 1982, an FAD panel expert has been assigned to the Ministry of Finance to advise on budgetary and accounting procedures; since August 1983 a CBD panel expert has been assigned to the Central Bank to advise on banking supervision; and since October 1984 a CBD expert has been assigned as research adviser to the Central Bank of Belize.

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

Belize: Selected Economic and Financial Indicators

	1981	1982	1983	Est. 1984	Prog. 1985
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	0.7	-4.9	1.5	1.3	1.5
GDP deflator	6.0	-3.8	3.7	3.5	4.0
Consumer prices (average)	13.0	7.8	2.7	3.9	4.0
External sector (on the basis of U.S. dollars)					
Total exports, f.o.b.	-8.7	-20.0	8.9	9.3	4.5
Nonsugar exports, f.o.b.	-6.0	-16.0	15.4	26.2	11.7
Imports, c.i.f.	-2.6	-9.9	-1.0	1.8	1.0
Terms of trade (deterioration -)	-9.2	-21.8	-0.3	13.4	...
Nominal effective exchange rate (depreciation -)	4.8	9.4	12.5	10.2	...
Real effective exchange rate (depreciation -)	6.5	7.4	3.8	3.9	...
Public sector 1/					
Revenue	5.9	-2.5	0.2	23.1	11.6
Grants	3.1	27.8	-5.3	-46.6	-31.4
Total expenditure	12.7	7.6	-2.0	-2.0	12.0
Money and credit					
Domestic credit 2/	16.2	17.4	16.7	16.5	2.1
Public sector (net)	7.8	9.3	12.9	3.9	-1.4
Private sector	13.6	9.1	5.9	8.3	-1.1 3/
Money and quasi-money	16.4	5.3	12.4	11.7	5.0
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	14.4	...
(In percent of GDP)					
Public sector 1/					
Savings	2.3	-0.4	-2.1	3.6	4.7
Overall deficit (-)	-6.3	-9.0	-8.0	-3.7	-5.0
Change in current arrears	--	0.1	1.1	-0.1	-1.0
Foreign financing	3.6	5.1	2.3	3.4	6.3
Domestic financing	2.7	3.8	4.6	0.4	-0.3
Gross domestic investment	24.0	24.2	19.1	16.1	16.2
Gross national savings	21.4	13.7	11.9	12.6	13.5
Current account deficit (-) (including external official grants)	...	-10.5	-7.2	-3.5	-2.7
Current account deficit (-) (excluding external official grants)	-5.7	-15.3	-10.3	-8.0	-6.2
External debt (excluding IMF)	28.5	37.1	39.3	38.1	40.8
External debt (including IMF)	28.5	37.1	41.5	40.7	45.7
Debt service	1.1	2.4	2.3	2.8	4.9
(In percent of exports of goods and nonfactor services)					
Debt service	2.4	4.6	4.3	4.9	9.0 4/
(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	--	-0.5	-4.3	-7.0	5.2
Gross official reserves (months of imports)	1.1	1.1	1.1	0.7	1.2
External payments arrears	--	--	4.9	6.4	--

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/ For the period from April 1, 1985 to March 31, 1986 the expected increase is 4.3 percent.
4/ 14.7 percent if payments of arrears are included.

Belize--Statistical Issues

1. Outstanding Statistical Issues

a. Prices

The technical assistance mission, which took place in June 1984, recommended that a consumer price index should be prepared at least on a quarterly basis. It is understood that the Central Statistical Office is still reviewing the feasibility of this project.

b. Merchandise trade

At present the *IFS* correspondent reports preliminary monthly trade data which refer to Belize Port only. Subsequently, after some delay, trade data based on complete customs records are reported and are considerably higher. The present delay is expected to be reduced to less than one month so that it would not be necessary to report preliminary data in the future.

c. Balance of payments

Balance of payments statistics are not currently being compiled. It is expected that a staff member of the Central Bank will attend the next balance of payments methodology course starting in July 1985. After that, a technical assistance mission could be scheduled to help establish a reporting and compilation system.

d. Government finance

The data in the 1984 *Government Finance Statistics Yearbook* are available through 1982, but there are problems with the data in Table C, Expenditure and Lending Minus Repayments by Economic Type and on the derivation table. There is also need to compile data on financing and debt.

IFS includes only annual data derived from those published in the *GFS Yearbook*.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Belize in the May 1985 issue of *IFS*. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Belize which during the past year have been provided on a timely basis, although the coverage of real sector data is inadequate and balance of payments data are not reported.

Status of IFS Data

		Latest Data in May 1985 IFS
Real Sector	- National accounts	1983
	- Prices	n.a.
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982 (partial)
	- Financing	1980
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	February 1985
	- Deposit Money Banks	January 1985
	- Other Financial Institutions	Q4 1984
	- Interest Rates	March 1985
External Sector	- Merchandise Trade: Value	February 1985
	Prices	1982
	- Balance of Payments	n.a.
	- International Reserves	March 1985
	- Exchange Rates	March 1985

IBRD Operations in Belize

The IBRD approved its first loan for Belize, a road maintenance and rehabilitation loan (Loan 2273/BL), in May 1983 in an amount of US$5.3 million; US$3.2 million of this loan has been disbursed so far. The Bank also recently appraised an electricity power project for which a World Bank loan of US$7.5 million could be approved. This project would provide additional generating capacity; expand and improve the Belize Electricity Board's (BEB) distribution system; and improve BEB's financial viability and institutional capacity. The Bank is also exploring the financing of a possible public administration reform project that would aim at strengthening the constitutional structure of a number of public sector agencies.

The IBRD issued an economic memorandum on Belize (Report No, 5244-Bel) on October 29, 1984 as the basis for formulating the Bank's medium-term lending strategy. On the basis of this report, the Bank's medium-term lending strategy is expected to be concentrated in the transportation and power sectors.

Table 8. Belize: Operations of the Central Government

	1982/83	1983/84	1984/85 Prog.	1984/85 Prel. Est.	1985/86 Prog. Orig.	1985/86 Prog. Rev.
(In millons of Belize dollars)						
Revenue and grants	91.7	90.9	99.1	98.0	102.4	102.9
Revenue	78.9	77.8	93.6	92.4	100.0	101.5
Tax	(67.3)	(67.8)	(82.8)	(81.8)	(88.9)	(87.2)
Nontax	(11.3)	(9.7)	(10.5)	(9.1)	(10.8)	(13.7)
Capital	(0.3)	(0.3)	(0.3)	(1.5)	(0.3)	(0.6)
Grants	12.8	13.1	5.5	5.6	2.4	1.4
Total expenditure 1/	124.0	118.2	124.1	121.4	124.9	137.9
Current expenditure	87.3	90.5	90.9	93.2	94.2	97.6
Capital expenditure and net lending	36.7	27.7	33.2	28.2	30.7	40.3
Of which: development expenditure	(27.5)	(24.4)	(28.7)	(23.6)	(30.7)	(32.3)
Overall deficit	-32.3	-27.3	-25.0	-23.4	-22.5	-35.0
Change in outstanding arrears 2/	0.4	3.9	...	...	...	...
(In percent of GDP)						
Revenue and grants	27.3	25.8	26.8	26.5	26.1	26.3
Of which: revenue	(23.5)	(22.1)	(25.3)	(25.0)	(25.5)	(25.9)
Tax revenue	20.0	19.2	22.4	22.1	22.7	22.2
Nontax revenue	3.4	2.8	2.8	2.5	2.8	3.5
Total expenditure	36.9	33.5	33.5	32.8	31.9	35.2
Current expenditure	25.9	25.6	24.6	25.2	24.0	24.9
Capital expenditure	11.0	7.9	9.0	7.6	7.8	10.3
Of which: development expenditure	(8.2)	(6.9)	(7.8)	(6.4)	7.8	8.2
Overall deficit	-9.6	-7.7	-6.8	-6.3	5.7	8.9

Sources: Belize authorities; and Fund staff estimates.

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

Table 9. Belize: Operations of the Nonfinancial Public Enterprises

(In millions of Belize dollars)

	1982/83	1983/84	1984/85 Prog.	1984/85 Prel. Est.	1985/86 Prog.	1985/86 Rev. Prog.
Operating balance	-2.8	-4.4	-1.2	1.1	--	7.4
Operating revenue 1/	36.8	37.6	41.6	49.9	44.8	55.4
Operating expenditure 1/	-39.6	-42.0	-42.8	-48.8	-44.8	-48.0
Nonoperating revenue	19.1	11.0	8.3	8.0	5.9	13.3
Current transfers 2/	5.7	4.7	2.3	2.8	2.8	2.6
Capital transfers 3/	9.2	3.3	2.0	1.0	--	6.2
Grants	4.2	3.0	4.0	3.0	3.1	4.5
Other	--	--	--	1.2	--	--
Development expenditure	18.5	12.3	8.5	8.0	9.1	9.6
Overall deficit (-)						
Including nonoperating revenue	-2.2	-5.7	-1.4	1.1	-3.2	11.1
Excluding nonoperating revenue	-21.3	-16.7	-9.7	-6.9	-9.1	1.5

Sources: Belize authorities; and Fund staff estimates.

1/ Derived from financial statements of individual NFPEs with adjustments made for some transactions between the NFPEs and the Central Government.

2/ Transfers from the Central Government in the form of interest payments on behalf of the NFPEs' outstanding domestic and foreign debt, and some transfers for their current operation.

3/ Transfers from the Central Government in the form of principal repayments on behalf of the NFPEs and some domestic currency counterpart capital expenditure.

Table 10. Belize: Summary of External Debt Operations

	1981	1982	1983	1984	Proj. 1985
	(In thousands of U.S. dollars)				
Debt outstanding at end of period 1/	56,552	63,118	68,383	69,438	78,651
Transactions during period					
Medium- and long-term borrowing (net)	6,312	8,566	3,106	1,055	9,213
Nonfinancial public sector	6,055	7,713	571	-1,344	4,517
Drawings	8,672	12,438	3,770	4,282	15,652
Amortizations	806	2,394	2,037	1,719	11,135 2/
Valuation adjustments	-1,811	-2,331	-1,162	-3,907	--
Financial public sector	257	853	2,535	2,399	4,696
Drawings	863	1,375	3,173	4,029	5,386
Amortizations	195	283	355	467	690
Valuation adjustments	-411	-239	-283	1,163	--
Short-term borrowing (net)	1,000	-2,000	2,159	--	--
Interest payments	1,328	1,247	1,638	2,879	3,707
Debt service payments	2,329	5,924	4,030	5,065	9,481
	(In percent)				
Outstanding debt/GDP	31.3	38.2	39.3	38.1	40.8
Debt service/GDP	1.3	3.6	2.3	2.8	4.9
Debt service/exports of goods and nonfactor services	...	6.9	4.3	4.9	9.0

Sources: Belize authorities; and Fund staff estimates.

1/ Includes arrears.
2/ Includes the elimination of US$6.1 million in arrears.

Table 11. Belize: External Public Debt by Creditor and by Debtor

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	Proj. 1985
Amount outstanding (end of period)	49.2	56.6	63.1	68.4	69.4	78.7
By creditor						
Multilateral and bilateral	42.2	42.1	48.8	51.9	54.4	66.5
United Kingdom Government	2.5	2.2	2.0	2.0	2.3	5.1
Trinidad and Tobago Government	0.1	0.1	0.9	1.1	1.1	1.1
United States Government	--	--	4.6	4.6	6.8	16.4
Canadian International Development Agency	10.1	10.1	9.9	9.8	9.2	9.0
Caribbean Development Bank	25.8	25.3	26.4	25.4	24.7	22.0
Commonwealth Development Corporation	1.7	1.7	1.7	4.5	4.3	5.2
European Development Fund	0.5	1.1	1.7	2.3	1.9	2.0
IBRD	--	--	--	0.9	2.3	3.6
Caribbean Central Banks	1.4	1.4	1.4	1.4	1.4	--
European Investment Bank	--	--	--	--	0.3	2.0
Commercial credits	7.1	14.5	14.3	16.4	15.0	12.2
Banks	--	1.8	1.7	1.6	2.7	2.4
Suppliers	7.1	12.7	12.6	14.8	12.3	9.8
By debtor						
Nonfinancial public sector	41.7	48.8	54.5	57.2	55.9	60.0
Central Government	9.3	11.0	16.3	18.4	20.7	...
Rest of nonfinancial public sector	32.5	37.7	38.2	38.8	35.2	...
Belize Electricity Board	(4.4)	(10.6)	(10.1)	(11.1)	(10.2)	(...)
Telecommunication Authority	(6.0)	(5.2)	(4.4)	(4.4)	(2.9)	(...)
Banana Control Board	(2.1)	(2.1)	(4.4)	(5.0)	(4.8)	(...)
Water and Sewerage Authority	(6.5)	(6.6)	(6.4)	(6.4)	(6.0)	(...)
Port Authority	(11.5)	(10.9)	(10.4)	(9.5)	(9.0)	(...)
Marketing Board	(1.9)	(1.9)	(2.1)	(2.1)	(2.0)	(...)
Sugar Board	(--)	(0.3)	(0.3)	(0.3)	(0.3)	(...)
Development Finance Corporation	7.5	7.8	8.6	11.2	13.6	18.3

Sources: Belize authorities; and Fund staff estimates.

Table 12. Belize: Balance of Payments Medium-Term Outlook

			Projected				
	1984	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)						
Current account	-6.4	-5.2	-9.5	-12.2	-13.7	-15.2	-15.3
Trade balance	-38.3	-36.3	-40.9	-45.0	-48.0	-51.0	-52.8
Exports, f.o.b.	(68.6)	(71.6)	(76.5)	(82.8)	(91.1)	(97.8)	(106.4)
Imports, c.i.f.	(106.8)	(107.9)	(117.4)	(127.8)	(139.1)	(148.8)	(159.2)
Services and private transfers (net)	23.6	24.4	26.4	27.8	29.2	30.8	32.5
Official transfers (net)	8.3	6.7	5.0	5.0	5.0	5.0	5.0
Capital account	-1.9	16.5	10.3	12.5	14.3	16.0	16.4
Official capital	3.9	16.7	10.3	12.5	13.5	14.0	14.0
Private capital 1/	-5.8	-0.2	--	--	0.8	2.0	2.4
Change in arrears	1.2	-6.3	--	--	--	--	--
Overall balance	-7.2	5.0	0.8	0.3	0.6	0.8	1.1
External debt							
Public sector debt outstanding (end of period)	69.4	78.7	88.9	101.4	114.9	128.9	142.9
Gross disbursements	8.3	21.2	15.0	17.3	19.0	20.2	21.0
Amortization 2/	2.2	11.8 3/	4.7	4.8	5.5	6.2	7.0
Interest 2/	2.9	3.7	3.9	4.4	5.0	5.6	6.3
	(In percent of GDP)						
Current account (including official transfers)	-3.5	-2.7	-4.6	-5.6	-5.9	-6.1	-5.7
Capital account	-1.0	8.5	5.0	5.7	6.1	6.4	6.1
Overall balance (surplus -)	4.5	-5.8	-0.4	-0.1	-0.2	-0.3	-0.4
Public external debt	38.1	40.8	43.6	46.4	49.2	51.6	53.4
Memorandum Item							
Current account (excluding official transfers)	-8.1	-6.2	-7.1	-7.9	-8.0	-8.1	-7.6
	(In percent of exports of goods and services)						
Debt service	4.9	9.0	7.7	7.6	8.0	8.4	8.7
Interest payments	1.6	3.5	3.5	3.7	3.8	4.0	4.1

Sources: Belize authorities; and Fund staff estimates.

1/ Includes net errors and omissions.
2/ Amortization excludes repurchases to the Fund; interest includes charges to the Fund.
3/ Includes the elimination of US$6.1 million in arrears 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 December 3, 1984 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, 5, and 6 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 tranche 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, 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 will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. 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 eligiblity of Belize. When notice of a decision of formal ineligiblility or of a decision to consider a proposal is given pursuant to this paragraph 6, 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.

7. 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.

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

9. (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.

10. 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.

11. 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.

Belmopan, Belize
May 9, 1985

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

Dear Mr. de Larosière:

1. After nearly a decade of uninterrupted growth, economic activity in Belize weakened in the early 1980s as the country's terms of trade deteriorated because of declining sugar prices, and as the service sectors were adversely affected by developments in Mexico. A deterioration in the public finances was brought about by the decline in fiscal revenue associated with these external developments together with a rise in current expenditures stemming largely from a general salary increase in 1981, additional hiring in the public sector, and increased defense outlays following independence. The overall deficit of the nonfinancial public sector increased to 9 percent of GDP in 1982/1983 from only 4 percent of GDP two years earlier. These developments led to an acceleration in the inflation rate, as measured by the consumer price index, from 7 percent in 1980 to an average of 11 percent in 1981 and 1982 and to a widening in the deficit of the current account of the balance of payments in 1982. However, a loss of net international reserves of the Central Bank was prevented by large capital inflows.

2. While in 1983/1984 the authorities reduced capital expenditures, the overall deficit of the nonfinancial public sector declined only marginally to 8 percent of GDP because of stagnant revenues and an increase in current expenditure. In contrast with previous years, this deficit was financed primarily by central bank credit. Although inflation fell to 2 percent in 1983, reflecting developments abroad as well as moderate domestic wage settlements, the economy experienced only a modest recovery. Net international reserves of the Central Bank fell by US$5 million and, in addition, the public sector accumulated external payments arrears of US$5 million.

3. The deterioration in the balance of payments continued during the first half of 1984 and, against this background, the previous administration adopted a financial adjustment program in mid-1984 in order to strengthen the balance of payments and restore sustainable economic growth. In support of this financial adjustment program, the Government of Belize entered into a stand-by arrangement with the International Monetary Fund in the amount of SDR 7.125 million in December 1984 to cover the remainder of the 1984/1985 fiscal year and the 1985/86 fiscal year. This program called for limiting the loss in net international reserves of the Central Bank to US$6.5 million in

1984 and increasing net reserves by US$5 million in 1985. The external payments arrears of the Government were to be repaid by September 1985 to improve the creditworthiness of Belize.

4. In order to achieve these objectives the finances of the public sector were to be strengthened by a turnaround in public sector savings from a negative 2.1 percent of GDP in fiscal year 1983/84 to an average of 3 percent of GDP during the program period. This turnaround in public sector savings was to be achieved by a revenue package consisting of increases in the rates of the stamp tax, excise taxes and the tax on gasoline, as well as by a decline of current expenditure in real terms. The overall deficit of the nonfinancial public sector was to be narrowed from 8.0 percent of GDP in fiscal year 1983/84 to 5.7 percent of GDP in fiscal year 1984/85 and 5.2 percent of GDP in fiscal year 1985/86. The programmed reduction in the overall public sector deficit was to be achieved through improved public sector savings which would allow for a level of investment adequate for the continued growth and diversification of Belize's economy. Public sector deficits were to be financed fully by an expected increase in the flow of external development assistance. This expected level of external development assistance, combined with compliance with the fiscal target, would have allowed for a reduction in the public sector's net indebtedness to the domestic banking system. The external debt contracted at commercial terms was also to be restrained.

5. The implementation of the 1984/85 fiscal program was thus far broadly in line with its targets. Central government revenue was within BZ$1.2 million of the targeted level but current expenditure was BZ$2.3 million higher than the programmed level. Shortfalls in tax revenue expected from the increase on the excise tax rate on beer and from the introduction of a new excise tax on soft drinks, as well as from taxes on international trade were compensated for by an increase in income tax revenue. The increase in income tax revenue came about as a result of an improvement in overall collection procedures and the collection of income tax arrears. Capital expenditure of the Central Government fell short by BZ$5.0 million from the targeted amount because of a decline in external finance, and, as a result, the central government deficit was BZ$23.4 million versus the programmed BZ$25 million. The overall surplus of the Social Security Board was BZ$3.4 million higher than the originally projected level of BZ$5.2 million, reflecting a successful effort to collect contributions in arrears. The performance of nonfinancial public sector enterprises was also slightly better than programmed resulting in a small operating surplus of BZ$1 million (including interest payments). Altogether the public sector savings of the consolidated nonfinancial public sector were BZ$13.1 million (3.5 percent of GDP) versus the targeted BZ$9.2 million (2.5 percent of GDP). The overall deficit was BZ$13.7 million (3.7 percent of GDP versus the originally targeted BZ$21.2 million (5.7 percent of GDP) as a result of the noted improvement in public sector savings and a decline in capital expenditure associated with implementation problems of development projects.

6. Notwithstanding that the fiscal deficit targets were met during 1984/85, monetary developments and the shortfall in expected external financing caused Belize to exceed its net domestic asset ceiling and the external payments arrears target at the end of 1984. During the second half of 1984 commercial banks reduced their holdings of treasury bills leading to a corresponding increase in central bank holdings of these bills and consequently to an increase in net domestic assets of the Central Bank. This, combined with the fact that the Government resorted to central bank financing, led to the program's ceiling on net domestic assets to be slightly exceeded. The US$5 million ceiling on outstanding external arrears was also exceeded by US$1.3 million on December 31, 1984. Available data for mid-March suggest that Belize is likely to slightly exceed its ceilings on net domestic assets, banking system credit to nonfinancial public sector and external payments arrears on March 31, 1985.

7. There was little change in economic activity in 1984 as an expansion in trade, tourism and the secondary sectors was slightly offset by a decline in agricultural output. Real GDP is estimated to have grown by about 1.3 percent versus 1.5 percent in 1983, while the inflation rate increased on average to about 4 percent, a rate slightly higher than that of the previous year. The adjustment in the current account of the balance of payments was stronger than programmed declining from 6.5 percent of GDP in 1983 to 3.5 percent of GDP in 1984. Notwithstanding this stronger current account adjustment, the shortfall in external borrowing by the public sector combined with a net private capital outflow resulted in a decline in net international reserves of US$7.2 million, versus the original target of US$6.5 million.

8. For 1985/86 the Government is committed to achieve the objectives of the stand-by arrangement with the International Monetary Fund of strengthening the balance of payments and establishing the conditions for sustainable economic growth and price stability. The Government is committed to achieve a budget deficit target for the nonfinancial public sector of BZ$19.5 million, equivalent to about 5.0 percent of GDP. This is a level that can be financed with external development credits, despite the fact that a lower level of external financing is now envisaged than when the program targets were agreed upon. To ensure the achievement of this target, the savings effort of the nonfinancial public sector is to be further strengthened and is programmed to increase from 3.5 percent of GDP in 1984/85 to 4.7 percent of GDP in 1985/86. This higher level of public sector savings will allow a ratio of capital expenditure to GDP of 11.2 percent. While the original fiscal targets for 1985/86 were consistent with a decline in domestic financing of BZ$9.4 million, the financial program is now consistent with only a decline of BZ$1.8 million in domestic financing reflecting the diminished availability of external financing as well as the delays in eliminating external payments arrears. Additional program targets for calendar year 1985 call for an increase in the net international reserves of the Central Bank of US$5 million and for the elimination of all external payments arrears by September 30, 1985. The achievement

of these external sector targets is to be facilitated by a U.S. AID loan which could be as much as US$10 million in 1985/86. The Government will take the necessary measures to ensure that at least US$6.8 million will be disbursed during the 1985 calendar year and to the extent that actual disbursements are in excess of US$6.8 million, the difference will be reflected in the form of repayments to the domestic banking system.

9. Additional adjustment steps are to be taken by the Central Government to ensure the achievement of program targets in 1985/86. The stamp tax is to be increased from 8 percent to 10 percent, customs administration charges on intransit goods are to increase from 2 percent to 3 percent, and the travel tax is to be doubled. These measures will partially compensate for lower than expected yields from import duty collections, and excise taxes on spirits, beer, and soft drinks. In addition, various Government fees are to be increased to reflect more closely the cost to the government of providing some services. The expected yield of these revenue measures is estimated to be BZ$4.2 million, equivalent to 1.1 percent of GDP. The Government will also continue to strengthen tax collection procedures and expects to maintain the improved performance in income tax collection in future years. Moreover, as part of a new understanding between the statutory boards and the Central Government, the statutory boards will transfer to the Central Government approximately BZ$3.3 million in the form of dividend payments. However, the financial relations between the Central Government and the statutory boards concerning the debt between the boards and the Central Government and among the boards themselves, as well as the servicing of the boards' debts, still need to be formalized and the Government intends to do this during the program period.

10. The Central Government will continue to have an austere expenditure policy in 1985/86. There will be no general salary increase in the Government for a fourth consecutive year, and current expenditure (excluding interest payments) are to be held to the program target by reducing BZ$3.1 million from the levels of expenditures originally proposed in the budget. This restraint in operating expenditures will include reductions in both wages and in personnel.

11. The Government is undertaking a review of the operations of the statutory boards with the aim of streamlining their operations and privatizing some of their activities. During 1985/86 the Government will try to ensure that the operating balances of statutory boards generate resources for their capital programs and reduce their dependence on the Central Government for the servicing of their debt. The growth of the wage bill of public enterprises is to be restrained during 1985/86. Consequently, the wage bill envisioned in their budget requests to their boards of directors is to be reduced by BZ$1.9 million implying a real reduction of about 4 percent. The growth of current expenditures of the Belize Electricity Board is to be restrained and the operating deficit of the Water and Sewerage Authority will be eliminated by increasing collection efforts. The operating deficit of

the Banana Control Board will also be reduced by BZ$0.3 million in 1985/86 by expediting the sale of some of its land to the private sector and by not renewing the management contract with its foreign representative. The Belize Port Authority will increase its port charges by 15 percent to generate an additional revenue of BZ$0.5 million during the next fiscal year. Dividends payments by the Belize Telecommunications Authority to the Government are to rise, so as to generate a transfer of about BZ$2.6 million. As part of the new agreement with the U.S. AID, the Government has agreed to re-evaluate the activities of the Electricity Board and of the Marketing Board. For the latter such a re-evaluation will concentrate on ways to eliminate the losses incurred in rice and corn programs. Beginning in 1985/86 imports of the statutory boards will no longer be exempt from import duties, with the exception of fuel imports by the Electricity Board.

12. The foreign owner of the two sugar mills is negotiating with the Government about transferring the ownership of the mills to Belizian interests. The 1985/86 budget contains a provision of BZ$1.7 million to settle an outstanding tax reimbursement claim of the foreign owner as well as the owner's outstanding share in the sugar price stabilization fund which is to be dissolved. The policy of the Government is, however, to avoid any further actions which might have budgetary implications arising from the transferring of ownership of the sugar industry and intends to negotiate an arrangement by which a scaled-down sugar industry can remain in private hands. In addition, the Government does not intend to guarantee any of the outstanding or future debts of firms involved in the sugar sector.

13. The public investment program will continue to focus heavily on infrastructure, particularly on road, water and sewerage, and power distribution. The Government intends to increase its efforts to expedite the implementation of investment projects so as to be able to maintain an investment effort equivalent to 12 percent of GDP. This ratio of public investment to GDP over the medium term is deemed consistent with a return of economic growth rates to the level of the 1970s.

14. The achievement of the budget deficit target by the nonfinancial public sector will permit the financing of its deficit from external sources without further recourse to domestic banking credit. Consistent with the policies described above, the monetary program specifies ceilings on the net domestic assets of the Central Bank, as detailed in the attached Table 1, and limits on net credit from the banking system to the nonfinancial public sector, as detailed in the attached Table 2. On January 26, 1985 the Central Bank increased interest rates and reserve requirements to facilitate the success of the financial program with respect to the monetary targets. A 3 percentage point increase in term deposit rates and in treasury bill rates and a 2 percentage point increase in the prime lending rate were announced. In addition, the Central Bank on the same date announced increases in the cash reserve requirement from 7 percent to 9 percent and in the liquid asset requirement from 20 percent to 25 percent,

effective March 1, 1985. A further increase in the liquid asset requirement to 30 percent became effective April 1, 1985. The Government will continue to manage interest rates flexibly with the aim of providing incentives for savings and of protecting the balance of payments. In addition, the Central Bank announced on January 26, 1985 that it will no longer give advances to the commercial banks to meet their cash reserve requirements, except in cases when the financial system stability might be jeopardized.

15. As of December 31, 1984 the external payments arrears amounted to US$6.2 million, of which US$4.5 million related to principal payments and the remainder to current external obligations. The Government will reduce external payments arrears as set out in the 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. As part of its strategy to eliminate its external payments arrears, the Government is rescheduling its external payments arrears to the State Petroleum Company of Mexico in an amount of US$1.94 million.

16. In order to reduce the burden of debt servicing and to preserve the favorable maturity structure of the external public debt, the Government intends to reduce the outstanding external debt to commercial creditors and to rely on long-term development credits for financing 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 attached Table 4. The implementation of this policy will be ensured by reactivating the commission established in 1984 to make recommendations to the Cabinet for the approval of all new external credits to be contracted and all guarantees to be extended to public sector entities, and to negotiate all rescheduling agreements by such entities. This external borrowing commission will be assisted by the unit established in the Central Bank to monitor all external debt transactions.

17. Since 1976 the exchange rate of Belize has been pegged to the currency of its main trading partner, the United States. While the trade weighted real effective exchange rate for Belize has appreciated since 1980, the Government believes that the exchange rate is appropriate given the development of nontraditional export sectors during this period, and the lack of growth of imports in real terms. The Government is conscious, however, of the importance of maintaining cost competitiveness and will maintain the exchange rate policy under review. In this connection, the Government believes that the example set by the wage settlements in the public sector will have an important demonstration effect on private sector wages and will allow for the strengthening of Belize's international competitiveness.

18. Belize has no restrictions on payments and transfers for current international 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 nine *bilateral payments agreement with any Fund member.* In addition, the Government does not intend to impose restrictions on imports for balance of payments reasons during the remainder of the program. In 1982 certain imports were prohibited to protect local industry. In order to improve efficiency, the Government intends now to substitute moderate tariffs for import restrictions during 1985/86. It will also phase out the system of export controls applied to certain agricultural commodities during the coming fiscal year so as to facilitate the responsiveness of Belize's export sector to opportunities in foreign markets.

19. By May 10, 1985 the Government will notify the International Monetary Fund that all the fiscal measures described above are in place. In addition, the Government will inform the Fund that a final agreement has been reached with U.S. AID to ensure a disbursement of at least US$6.8 million from the U.S. AID facility in 1985/86 and that the negotiations for the rescheduling of the US$1.94 million external arrears to the State Petroleum Company of Mexico have been successfully concluded. The Government will inform the Fund by this date of the possible outcome of the negotiations concerning the transferring of the property of the sugar mills to Belizean interests, and will confirm that such an outcome will not have budgetary implications and, furthermore, that the Government is not guaranteeing the debt of the sugar firms.

20. 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 remaining period of the stand-by arrangement, the Belize authorities will periodically consult the Fund, in accordance with the Fund 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 the objectives.

Sincerely,

Manuel Esquivel
Prime Minister and
Minister of Finance

Robert Swift
Governor of the
Central Bank of Belize

Edward Cain
Financial Secretary
Ministry of Finance

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

(In millions of Belize dollars)

Period	Ceiling 2/
April 1, 1985 - June 30, 1985	26.2
July 1, 1985 - September 30, 1985	24.1
October 1, 1985 - December 31, 1985	23.8
January 1, 1986 - March 31, 1986	22.3

1/ Defined as the difference between currency issue and net international reserves of the Central Bank.

2/ In any quarter in which the cumulative disbursement under the U.S. AID Economic Stabilization Facility exceeds US$6.8 million, the ceiling of that quarter will be decreased by the extent of the excess.

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 2/
June 30, 1985	69.3
September 30, 1985	69.4
December 31, 1985	66.7
March 31, 1986	67.2

1/ Defined as the net claims of the Central Bank and the commercial banks on the nonfinancial public sector.
2/ In any quarter in which the cumulative disbursement under the U.S. AID Economic Stabilization Facility exceeds US$6.8 million, the ceiling of that quarter will be decreased by the extent of the excess.

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

(In millions of U.S. dollars)

Date	Limits
June 30, 1985	2.4
September 30, 1985	--

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 or Less 1/

(In millions of U.S. dollars)

Date	Limits
June 30, 1985	18.0
September 30, 1985	17.5
December 31, 1985	16.0
March 31, 1986	15.0

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, outstanding balances under a US$3 million loan to support the Central Bank's international reserves; and deposits by foreign governments and other financial institutions abroad.