**FOR AGENDA**

SM/14/153
Correction 1

June 19, 2014

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Belize—Selected Issues**

The attached corrections to SM/14/153 (6/12/14) have been provided by the staff:

**Typographical Errors**

**Page 47, Chapter Title, line 1:** for "Belize—Toward a Fiscally Sustainable Wage" read "Belize—Toward a Fiscally Sustainable Wage Negotiation Framework[1]"

**Page 47, Chapter Title:** footnote 1 added to read "The main authors of this note are Jacques Bouhga-Hagbe and Marcio Ronci (WHD), with very valuable contributions from labor union representatives and the Belizean authorities." Subsequent footnotes renumbered.

Questions may be referred to Mr. Bouhga-Hagbe (ext. 34219) and Mr. Ronci (ext. 38549) in WHD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

# BELIZE—TOWARD A FISCALLY SUSTAINABLE WAGE NEGOTIATION FRAMEWORK[1]

## Summary

1. **Containing the wage bill (including non-contributory pensions and teachers' salaries under transfers) is key to achieving fiscal sustainability in Belize.** Debt would increase from 76 percent of GDP in 2013 to about 90 percent of GDP in 2019 mainly because of assumed contingent liabilities (about 20 percent of GDP) and low primary fiscal surpluses (only 1 percent of GDP). The growth in the nominal wage bill is projected to add about 1 percent of GDP to spending every year during FY2014/15–FY2019/20. This very rigid spending item must be part of any credible fiscal consolidation strategy.

2. **Belize's wage bill is high by regional and international standards.** Even when one excludes non-contributory pensions and teachers' salaries under transfers, the wage bill in Belize represents about 10.5 percent of GDP, 45 percent of government spending and absorbs 47 percent of government revenues. In other parts of the world, the wage bill is on average 5–8 percent of GDP, represents 15–31 percent of government spending and absorbs 17–30 percent of government revenue.

3. **Weaknesses in payroll controls partly explain Belize's sizable wage bill.** The 2014 Public Expenditure and Financial Accountability (PEFA) assessment noted serious weaknesses in the degree of integration and reconciliation between personnel records and payroll, weaknesses in internal controls of changes to personnel records and the payroll, as well as weaknesses in payroll audits to identify control weaknesses and/or ghost workers.

4. **Belize's wage bill increased significantly since 2000 partly because of massive hiring, including teachers.** From 2000 to 2005, the government payroll doubled to 8,000. Since 2005, it further increased to its current level of 15,600 employees. Teachers in government and government-supported schools account for a significant share of the hiring. They certainly contributed to improving Belize's human capital, though educational achievement in Belize remains well below regional levels.

5. **The wage bill also increased because of very generous salary increases that were well above inflation.** On average, public sector wages increased by 5.5 per year during 2000-2013, compared with an inflation of 2.1 percent per year during the same period. Even during the period where the 2005 wage agreement was suspended, the wage bill continued to increase by an average of over 5 percent per year between FY2006/07 and FY2013/14, possible because the number of public employees increased and the government granted wage increases from previously agreed upon collective bargaining agreements.

[1] The main authors of this note are Jacques Bouhga-Hagbe and Marcio Ronci (WHD), with very valuable contributions from labor union representatives and the Belizean authorities.

6. **The generous salary increases were granted in the context of wage bargaining frameworks that did not take into account fiscal consolidation.** Government workers usually receive annual salary "increments" of 2.5 percent every year irrespective of performance or inflation. Additional salary increases are granted after wage agreements between the government and public sector unions, usually covering periods of three years. In past agreements, these additional wage increases exceeded 10 percent per year in some instances. Only considerations related to the cost of living have prevailed in public sector unions' wage demands. Fiscal sustainability has always been ignored, forcing the government to renege on its promise when public finances are in a dire situation.

7. **This note proposes a wage negotiation framework for Belize that builds on the existing framework and incorporates features that ensure fiscal sustainability.** The inclusiveness and transparency of the existing framework are preserved in the framework staff proposes. The main new features are the fiscal anchor (say the medium-term debt-to-GDP ratio) that should guide wage negotiations and the technical authority that would design and monitor the technical parameters needed in the negotiations. Once the fiscal anchor is chosen, the wage bill is derived as a residual item after realistic projections are made for revenue and non-wage spending. For illustrative purposes, staff used the FY2019/20 debt target of 70 percent of GDP. Assuming no net increase in the size of the government payroll, the annual salary increase implied by the new framework staff proposes is 2.4 percent, including the salary "increments" government workers have been enjoying. This would be well below projected salary increases for FY2014/15–FY2016/17, which are close to 7 percent per year.

## Introduction

8. **Containing the wage bill (including non-contributory pensions and teachers' salaries under transfers) is an important component of the Belizean authorities' efforts to bring the fiscal position on a sustainable path**. Despite its recent restructuring, Belize's debt remains elevated at about 76 percent of GDP at end-2013. The weak primary fiscal surpluses that are projected (only 1 percent of GDP) combined with an assumed increase in liabilities related to the nationalization of two utility companies (20 percent of GDP) would bring debt to about 90 percent of GDP by end-2019.[2] The wage bill, including non-contributory pensions and wage-related outlays under transfers, is the main spending item behind the rigid public spending structure in Belize and the low primary fiscal surpluses. It has increased from 11 percent of GDP in FY2000/11 to an estimated 13 percent of GDP in FY2013/14. With recent increases in public employees' wage and salaries, the burden of the wage bill is expected to further increase to 14.3 percent of GDP in FY 2014/15 and stay around or above that level in the medium term. In the last five years, annual increases in the nominal wage bill explained on average 60 percent of annual fiscal deficits. They are expected to add close to 1 percent of GDP to spending each year during FY2014/15–FY2019/20. Thus, any credible fiscal adjustment strategy will have to bring the wage bill under control.

[2] see Staff report.