DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

BUFF/ED/18/134

November 7, 2018

Statement by Ms. Levonian, Ms. McKiernan, and Mr. Hart on Belize
Executive Board Meeting
November 12, 2018

Our Belizean authorities thank the mission team for the consultations, valuable analysis, and constructive exchange of views. They largely share staff's assessment of the economic outlook and policy priorities for the period ahead. They also welcome the recognition of the good progress that has been made since last year's staff report. This progress reflects an ongoing effort by our authorities to enhance their policy and regulatory frameworks, supported by technical assistance from partners such as the Fund.

Our authorities are encouraged by the renewed focus on enhancing growth and climate change resilience. These issues are a top priority for our Belizean policymakers and regulators, and they welcome the report's policy recommendations focused on achievable, well-sequenced reforms in these areas. The remainder of this statement will highlight a few key points.

Belize's economy is strengthening after a difficult couple of years that included setbacks from, among other things, natural disasters, the loss of major correspondent banking relationships (CBRs), and adverse legal rulings. Tourism remains the bright spot, complemented by a rebound in agriculture and the services sector. Inflation is low and stable, and the current account deficit narrowed. Prospects for significant foreign investments in tourism and agriculture are also encouraging, which in turn could generate higher growth, employment, and foreign exchange.

That said, the relatively positive outlook remains subject to significant risks. Like many countries in the region, Belize is grappling with high public debt, modest potential growth, weak competitiveness, and a vulnerability to natural disasters and other external economic shocks. In the face of these challenges, policy priorities to support sustainable, inclusive growth include: climate-resilient infrastructure; a sound, more inclusive financial sector; supportive business climate; and a reduction in crime and poverty.

Our authorities have taken decisive steps to strengthen fiscal resilience, notably via measures that contributed to a fiscal adjustment of 3.2 percent of GDP in 2017/18. In addition to meeting commitments to their external private creditors, this major effort allowed Belize to generate a primary surplus (after one-offs) of 1.3 percent. Debt service costs have also been reduced via a shift towards concessional borrowing from multilateral and bilateral partners.

However, our authorities recognize that further fiscal prudence is required. In his 2018/19 budget speech, the Prime Minister targeted a gradual reduction in public debt to 80 percent of GDP in five years (from 94 percent this year), and 60 percent of GDP over the long run. To that end, the budget outlines additional measures to raise the primary surplus to about 2 percent of GDP, mainly through broadening the tax base, higher excise taxes on fuel, higher import duties on targeted items, and stronger tax administration. This should be sufficient to place public debt on a steady downward trajectory. Any additional fiscal adjustment will need to be gradual in order to maintain the social consensus and leave room for adverse developments. Our authorities are also open to learning more about fiscal rules, drawing on the experience of other countries in the region.

Fiscal responsibility will be complemented by measures to support stronger, more inclusive growth under the Growth and Sustainable Development Strategy. We welcome staff's analysis and the constructive dialogue with our authorities on identifying and prioritizing measures with lowest cost and highest impact. Along these lines, work on developing a credit bureau and credit collateral registry will continue, as will efforts to strengthen and expand Belize's targeted, effective social assistance programs.

The Central Bank of Belize (CBB) continues its close supervision of the banking sector. Domestic bank balance sheets are relatively sound, NPLs continue to decrease, profitability is improving, credit growth is recovering, and the modernization of the payments system continues. Building upon the successful resolution of a troubled offshore bank, the CBB is seeking to strengthen its risk-based supervision and develop a bank resolution framework in line with international best practice. Fund technical assistance to support this work would be welcomed and valued by the CBB, who have submitted a formal request to this effect.

While the CBR situation has stabilized, it remains subject to considerable risks. We welcome the Fund's recognition that the problem goes beyond AML/CFT considerations to include factors beyond our authorities' control. The Fund's analysis of this dynamic is welcome, but we encourage staff and management to continue to use the Fund's convening power to foster a pragmatic, solutions-oriented dialogue with relevant actors on this critical issue, building on the recent roundtable discussion in The Bahamas.

Our authorities are committed to continue to strengthen their AML/CFT and anti-corruption frameworks, as well as oversight of the offshore sector. The International

Business Corporations Act was amended in July 2017 to enhance transparency requirements, and further amendments to the Act are being considered. Belize is also undergoing a peer review under UNCAC. Meanwhile, the offshore non-bank regulator is working to strengthen its human capital and relevant regulations. This will be further supported by a Fund technical assistance mission in late November. With respect to the specific concern flagged by staff around cryptocurrencies, our authorities note that many countries are struggling with how to approach and regulate this sector (helpfully supported by the framework set out in the Bali Fintech Agenda) and would emphasize the importance of being evenhanded in their assessments of this topic.

Finally, our authorities welcome the joint IMF-World Bank Climate Change Policy Assessment (CCPA). Natural disasters are a macro-critical threat for Belize, and close collaboration between IFIs in this space is required. The report rightly recognizes the good work being undertaken already, noting that further efforts are needed to build *ex ante* climate resilience. However, financing this effort (e.g., via resilient infrastructure or tailored financial instruments) is very expensive. This presents a major challenge for countries with limited fiscal space, like Belize. Therefore, our authorities would welcome the IMF and World Bank's assistance to help leverage the CCPA to improve coordination with the international donor community and unlock the necessary financing for much-needed climate investment and insurance on sustainable terms. More generally, our authorities support the shift in emphasis by the Fund towards building resilience in countries vulnerable to natural disasters. They look forward to further discussing how to make progress in this area at the upcoming IMF-WBG conference on Nov 26th.