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GRAY/18/3044

November 8, 2018

Statement by Mr. Rashkovan, Mr. Jost, and Ms. Harutyunyan on Belize (Preliminary)
Executive Board Meeting
November 12, 2018

We thank staff for the comprehensive report and Ms. Levonian, Ms. McKiernan and Mr. Hart for their informative Buff statement. We welcome Belize's progress with enhancing economic recovery, alleviating the debt burden and strengthening the financial sector. However, medium-term challenges persist related to high external and internal imbalances, elevated public debt, weak competitiveness, low international reserves and financial vulnerabilities. We broadly agree with the thrust of staff's appraisal and would like to add the following comments for emphasis.

On the fiscal front, given the contested legacy claims and elevated public debt, fiscal consolidation remains crucial. We welcome the significant fiscal tightening in FY2017/2018 and the authorities' aim to raise the primary fiscal surplus to 2 percent of GDP in the baseline scenario. Nevertheless, we encourage the authorities to follow staff's recommendations for containing the current expenditures, especially public wage and social security spending bills, thereby creating fiscal space for priority sector investments. In addition, we encourage the authorities to keep a balanced fiscal consolidation approach with both revenue mobilization and expenditure control.

Belize's external position remains weak with persisting current account deficits and low international reserves. Although the current account deficit is expected to gradually narrow over the medium-term, it remains high and will deplete foreign exchange reserves below standard adequacy metrics by end-2022. A weaker global outlook and contingent liabilities pose additional risks. In this respect, we join staff in urging the authorities to accelerate the implementation of productivity-enhancing reforms and fiscal policies to restore external competitiveness and strengthen sustainability of the exchange rate peg.

On the financial sector, while decisive actions have been taken to enhance financial soundness and integrity, the situation remains vulnerable. We welcome the authorities' progress with strengthening the financial sector resilience with tighter supervision, higher provisioning requirements and strict restrictions. NPLs are on the decline and banks have found replacement CBRs and alternative methods of international transactions. Notwithstanding this, we echo staff's call for continued tight supervision and further strengthening of regulations and legal frameworks, including the AML/CFT framework, to address existing financial system vulnerabilities and to contain the risk of further pressures on CBRs.

We fully support the IMF-WBG partnership in developing the Climate Change Policy Assessment for Small States (CCPA) and welcome the third pilot report for Belize. The CCPA provides helpful guidance for disaster preparedness and presents mitigation and adaptation strategies to help vulnerable countries respond adequately to macroeconomic challenges stemming from natural hazards. We welcome the thorough joint WBG-IMF assessment by staff which explicitly links climate developments to GDP data and the debt risk profile. We agree with staff that it will be crucial for the authorities to continue building resilience to natural disasters. In our view, the case of Belize unfortunately illustrates the impact adverse climate developments can have on macro-critical economic indicators, more generally. Whereas vulnerable members might be more impacted in the near term, climate developments are likely to impact the membership more broadly in the medium- to long-term. In this sense, we appreciate staff's efforts in the present context and look forward to further CCPAs being carried out going forward. We would like to take the opportunity to ask staff whether they have information on how many countries in the Western Hemisphere are considered to be susceptible to extreme weather events and how many could benefit from a CCPA?"