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November 8, 2018

**Statement by Mr. Virolainen and Mr. Bernatavicius on Belize
(Preliminary)
Executive Board Meeting
November 12, 2018**

We thank staff for their reports and Ms. Levonian, Ms. McKiernan, and Mr. Hart for their informative BUFF statement. We commend the authorities for important steps toward debt reduction. Belize's economic growth is strengthening but it is still too low for sufficient reduction of the elevated public debt level without additional measures. Further efforts are also needed to strengthen the AML/CFT framework and replenish international reserves. **We broadly concur with the thrust of the staff appraisal.**

Despite significant fiscal adjustment last fiscal year, further efforts are needed to reach the public debt-to-GDP target of 60 percent over the long term. We agree with staff that the government's current projected primary surplus level of 2 percent will not be sufficient to reach the targeted debt ratio and additional consolidation measures are needed. Given the challenges involved in raising the primary surplus to a sufficient level, about 4 percent of GDP, we underline the importance of implementing reforms that increase potential growth and, hence, reduce the primary surplus needed to reach the targeted debt-to-GDP ratio. We concur with staff that a well-designed fiscal rule, a broader tax base, and expenditure rationalisation would support the fiscal adjustment and create space for strengthening Belize's social safety net.

Structural reforms are critically needed to reinforce medium-term growth. On average, total factor productivity during 2000-15 contributed negatively to annual GDP growth. Structural reforms to alleviate poverty, improve education outcomes, reduce crime, and improve governance need to be substantially stepped up. This would also help to reduce the large current account deficit and increase international reserves.

Belize's sustained track record of low inflation shows that the exchange rate peg to the US dollar has worked well. We agree with staff that the Central Bank of Belize should gradually stop financing of government spending. Such financing should ideally be conducted through government debt auctions with the aim of developing the domestic capital market.

Despite recent steps in the right direction taken by the authorities, there is a need to further strengthen the AML/CFT framework and supervision of the offshore sector. We agree with staff that there is a need to rethink the overall benefits and costs of the offshore center with due attention to the investor confidence, reputational risks, and pressures on correspondent banking relations.

Finally, we welcome the joint IMF-World Bank Climate Change Policy Assessment and support the authorities' ongoing efforts to build ex ante resilience to natural disasters.