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November 8, 2018

**Statement by Mr. Di Tata and Mr. Vogel on Belize
(Preliminary)
Executive Board Meeting
November 12, 2018**

We thank staff for the informative set of papers, and Ms. Levonian, Ms. McKiernan, and Mr. Hart for their helpful Buff statement.

Belize is recovering from the 2016 recession, supported by a favorable global environment. At the same time, the country continues to face substantial vulnerabilities and challenges. The medium-term growth rate is projected at around 2 percent, the public debt remains high at 94 percent of GDP, and the external position is vulnerable. Moreover, the economy is highly exposed to natural disasters and a slowdown in growth in the country's main trading partners. Risks are exacerbated by the continuation of contested legacy claims that could lead to large public and external financing needs. In this context, we concur with staff on the need to vigorously move ahead with stronger policies and structural reforms to foster growth and ensure debt sustainability.

Following Belize's debt restructuring agreement in March 2017, the government delivered a significant fiscal adjustment in FY 2017/2018, with the primary fiscal balance improving by more than 3 percentage points of GDP, to a surplus of 1.3 percent of GDP (excluding one-offs). Looking forward, the staff report presents a medium-term baseline scenario and an active scenario. The baseline scenario assumes that the primary fiscal surplus increases to 2 percent of GDP in 2018/19 (as envisaged in the budget) and remains at that level thereafter, while the active scenario incorporates an additional gradual fiscal effort to achieve a primary surplus of 4 percent of GDP by 2023. Under the baseline scenario, the public debt remains elevated, with high risks to debt sustainability, while under the active scenario the debt falls below 60 percent of GDP within 10 years (an objective shared by the authorities). To achieve the additional fiscal consolidation, staff proposes several measures to strengthen revenues and restrain current spending. *Although we agree with the thrust of the proposed measures, we would welcome staff's views on the feasibility of implementing the measures from a*

political and social perspective. Could staff also comment on the feasibility of establishing a fiscal rule? The staff report indicates that the poverty rate was 42 percent in 2009. Are the authorities planning to conduct an updated poverty assessment soon?

We fully agree with staff on the need to phase out Central Bank of Belize financing of the government, which averaged 6-7 percent of GDP per year in 2016-17, putting significant pressure on the international reserve position. As noted by staff, such financing should be replaced by more regular government debt auctions. *Could staff elaborate on the authorities' plans regarding these auctions?*

We are encouraged by the strengthening of the financial system and the authorities' actions to reduce risks to correspondent banking relationships (CBRs). At the same time, we agree with staff on the importance of maintaining a tight supervision and implementing pending regulations and taking further steps to address possible renewed pressures on CBRs. In this regard, the authorities' plans to enhance the AML/CFT framework are welcome. We also share the staff's recommendation of undertaking a study on the overall benefits, costs, and risks of the offshore center.

On the structural front, we concur with staff on the need to move ahead with reforms to improve the business climate and achieve higher sustained growth. Regarding this matter, we are encouraged by the efforts underway in the context of the Growth and Sustainable Development Strategy, with collaboration from development partners. *Could staff comment on the prospects for the adoption of the legislation and other steps envisaged in this area?*

We welcome the staff's valuable paper on Climate Change Policy Assessment and commend the authorities for the country's general preparedness and commitment to meeting the demanding agenda going forward. The report rightly underscores that Belize's high debt and the required fiscal effort in the coming years leave the government little space to expand climate-related spending. Under these circumstances, in addition to a high dose of fiscal prudence, addressing climate investment and insurance on a sustainable basis would require adequate donor support. The upcoming IMF-WBG conference scheduled to take place at the end of this month provides a good opportunity to discuss these matters.

With these comments, we wish Belize and its people every success in their future endeavors.