

The contents of this document are preliminary and subject to change.

GRAY/18/3062

November 8, 2018

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

1. We thank staff for their informative reports and Ms. Levonian, Ms. McKiernan and Mr. Hart for their useful buff statement. Despite the recent recovery from the 2016 recession, Belize remains a highly indebted country with relatively low growth prospects. The economy is also extremely vulnerable to natural hazards. Addressing these interdependent challenges requires from the Belizean authorities perseverance in achieving continued fiscal sustainability, building resilience to natural disasters, and advancing structural reforms.
2. We welcome the progress made since last year's staff report. We welcome the significant fiscal consolidation achieved in FY2017/18. However, a significant part of fiscal adjustment has been achieved through reduced government investment. *Could staff estimate what could be the drag of such an investment cut on the economic growth?* We welcome the additional measures planned by the authorities for the FY2018/19. We encourage the authorities to adhere to the goal of reduction in public debt to 60 percent of GDP over the long term.
3. The central bank made great strides in strengthening the financial sector by closely monitoring and assessing banks' compliance with applicable regulations, including AML/CFT guidelines. Overall, the financial sector remains sound while NPLs are declining and profitability is improving. Nevertheless, despite some progress in improving the AML/CFT framework, the situation with Correspondent Banking Relationships (CBRs) remains uncertain, as evidenced in a thoughtful Selected Issues paper. In the SIP staff also emphasized the importance of CBR in reviving the bank credit and in supporting economic growth. We agree with staff that, while the Belizean authorities have limited scope to increase the volume of transactions, they still have to make every effort to reduce the transactions-related risks by strengthening the AML/CFT framework and by a proper

oversight of the offshore sector. *Could staff elaborate on whether and how new financial technologies could provide an alternative to traditional CBRs?*

4. We welcome the joint IMF-World Bank Climate Change Policy Assessment (CCPA). Macroeconomic sustainability in Belize is extremely vulnerable to the impact of natural hazards and climate change. Belize's annual average loss only from the wind-related events and floods constitutes about 7 percent of GDP, while there is a one percent probability in any year of a disaster with losses of more than 105 percent of GDP. We commend the authorities for undertaking resilience-building investments with allocations of around 1.7 percent of FY2018–19 GDP. As outlined in the CCPA, Belize is a good example of effective mainstreaming of climate-related projects into national planning. Belize has a well-articulated policy framework and sectoral strategies for resilience-building. At the same time, financing of these initiatives is heavily reliant on international support, while the supportive regulatory framework still has substantial gaps. We support the recommendation to build resilience buffers in Belize starting with a contingency fund, to introduce contingency financing arrangements, and to extend the use of risk transfer instruments.

5. According to staff, overall progress on structural reforms has been weak since the last review. A broad set of structural reforms is utterly needed to enhance the business climate and reinforce growth. The growth analysis in Annex VI provides evidence that total factor productivity on average subtracted one percentage point from annual growth during 2000–15. In the absence of nominal exchange rate flexibility, raising productivity should help in addressing Belize's external imbalances. *Can staff propose to the authorities a set of specific priority measures to facilitate total factor productivity growth?*