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11:45 a.m., November 27, 2019

## 3. Belize—2019 Article IV Consultation

Documents: SM/19/255; and Correction 1; and Supplement 1; SM/19/260; and Correction 1

Staff: Leigh, WHD; Ahuja, SPR

Length: 33 minutes

**Executive Board Attendance**

T. Zhang, Acting Chair

| Executive Directors | Alternate Executive Directors |
| --- | --- |
| D. Mahlinza (AE) | |
| | L. Nankunda (AF), Temporary |
| | R. Morales (AG), Temporary |
| | C. White (AP) |
| | Z.Mohammed (BR), Temporary |
| | Y. Zhao (CC), Temporary |
| | M. Tabora (CE), Temporary |
| L. Levonian (CO) | |
| | S. Benk (EC) |
| | P. Rozan (FF) |
| | K. Merk (GR) |
| | Y. Indraratna (IN) |
| | A. Korinthios (IT), Temporary |
| | H. Mori (JA), Temporary |
| | M. El Qorchi (MD) |
| | D. Fadhel (MI), Temporary |
| | S. Harutyunyan (NE), Temporary |
| | K. Karjanlahti (NO), Temporary |
| | D. Shestakov (RU), Temporary |
| | R. Alkhareif (SA) |
| | Z.Mahyuddin (ST), Temporary |
| | P. Trabinski (SZ) |
| | T. Chrimes (UK), Temporary |
| | R. Farber (US), Temporary |

H. Al-Atrash, Acting Secretary
E. Tsounta, Summing Up Officer
A. Lalor, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

**Also Present**
Fiscal Affairs Department: A. Klemm. Legal Department: G. Otokwala. Office of Executive Directors: M.OEDMD AT TABLE El Qorchi. Strategy, Policy, and Review Department: A. Ahuja, D. Hart. World Bank Group: A. Ouedraogo. Western Hemisphere Department: S. Cevik, T. Chow, D. Leigh, K. Srinivasan. Alternate Executive Director: M. Psalidopoulos (IT). Senior Advisors to Executive Directors: P. Braeuer (GR), G. Vasishtha (CO). Advisors

to Executive Directors: M. Bangrim Kibassim (AF), P. Mooney (CO), K. Osei-Yeboah (MD), B. Rankin (CO), J. Yoo (AP), F. Bouvet (FF).

## 3. BELIZE—2019 ARTICLE IV CONSULTATION

Ms. Levonian and Mr. Rankin submitted the following statement:

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 the Fund and other partners.

Belize's economic recovery continues. Real GDP grew by 3.2 percent in 2018 and by an estimated 4 percent (y/y) in 2019Q1. Unemployment reached a historic low in 2019 (7.6 percent) and inflation remains very low and stable. In addition, Belize welcomed a record number of tourists last year, including over 1 million cruise ship visitors, which has helped further diversify the economy. While growth ultimately slowed in 2019 due to a severe drought, it is expected to rebound next year as environmental conditions normalize. International reserves remain at around 3 months of imports.

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

The significant fiscal consolidation over the past two years, reflects our authorities' strong commitment to fiscal responsibility and debt sustainability. Our authorities have targeted a gradual reduction of public debt from 94 percent of GDP to 80 percent of GDP by 2023 and 60 percent of GDP over the long run. To place public debt on a steady downward trajectory, the Government's Fiscal Strategy targets an annual primary fiscal balance of at least 2 percent of GDP. Our authorities recognize that additional fiscal adjustments over the medium term must be gradual to maintain social consensus and balance the need for capital investment to build climate resilience and achieve sustainable growth. IMF CARTAC technical assistance has helped improve budget processes, fiscal analysis, and broader public financial management. Our authorities are interested in further discussions on the potential role fiscal rules and fiscal councils could have in Belize.

Tax reforms are increasing transparency, efficiency, and domestic revenue mobilization. The Government's Fiscal Strategy also seeks to increase the revenue-to-GDP ratio by 2 percentage points over the next two years. To this end, our authorities are in the process of merging the two domestic tax departments, broadening tax bases, as well as eliminating non-essential exemptions, each of which will help increase revenues without increasing tax rates. Working with international taxation standard setters, our authorities have adapted Belize's tax framework to meet current best practices and welcome recent endorsements from both the OECD and European Union. Our authorities remain concerned that ever-evolving demands from standard setters -- including separate demands from their individual members -- put significant pressure on small states.

Targeted structural reforms under Belize's Growth and Sustainable Development Strategy are supporting stronger, more inclusive growth. Our authorities welcome staff advice on policy options to further improve Belize's business climate. They are pleased to confirm that, as per IMF advice, legislation to establish a credit bureau will be submitted to Parliament by end of this fiscal year. In addition, Belize's flagship targeted social programs, coupled with historically low unemployment, are helping alleviate poverty and community-based initiatives are helping fight crime. Our authorities take note of staff findings on the benefits of further encouraging female labor force participation. They agree with staff that Belize's rich biodiversity, multi-cultural heritage, and unique location bode well for further development of the tourism sector and thank staff for their useful Selected Issue Paper. While our authorities remain committed to advancing structural reforms, the pace of reform has been affected by the need to focus limited resources on drafting and adopting legislation to address ever-evolving demands from international taxation standard setters.

Climate change is a macro-critical threat for Belize. Belize is exceptionally vulnerable to natural disasters and climate change, as demonstrated by this year's severe drought, as well as increasingly severe hurricanes, flooding, sea level rise, coastal erosion, coral bleaching, and sargassum. Our authorities take note of staff advice to make substantive investments into climate-resilient infrastructure and therefore welcome staff's proposal to help prepare a Disaster Resilience Strategy (DRS). A DRS could provide development partners with a comprehensive guide to ongoing resilience-building investments and risk management initiatives, while placing the required financing into a sustainable multi-year macro-fiscal framework.

The Central Bank of Belize (CBB) continues its close supervision of the banking sector. The CBB is conducting on-site examinations of domestic banks, offshore banks, and credit unions to assess regulatory compliance, including with AML/CFT international best practices. Banks are well capitalized and NPLs have declined. Our authorities are also strengthening the bank resolution framework, drawing on technical assistance from the Fund. This year the CBB took resolute action, putting two troubled, non-systemic, offshore banks into liquidation, demonstrating its commitment to keep the financial sector safe.

While the correspondent banking relationship (CBR) situation has stabilized, the withdrawal of CBRs remains an existential threat for small states like Belize. Our authorities follow best practices but recognize that CBR withdrawal is often driven by exogenous factors beyond their control. Our authorities continue to encourage the Fund to work with all countries impacted by the withdrawal of CBRs to better understand the drivers, impacts, and potential solutions.

Our authorities consent to publish the staff report and all related documents.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the reports and Ms. Levonian and Mr. Rankin for their useful statement. We commend the authorities for the marked progress in policy implementation since 2017, and their commitment to put Belize on a sustainable macroeconomic path. Although growth is projected to slow in 2019, we take positive note that the unemployment rate reached a historic low earlier this year. That said, Belize continues to grapple with high public debt, relatively low growth, wide current account deficit, and high vulnerability to climate change and natural disasters. Despite the challenges facing Belize, there is substantial potential to accelerate growth with the continued pursuit of robust macroeconomic management, implementation of growth-enhancing policies and rigorous structural reforms.

We commend the authorities on the significant fiscal adjustment undertaken to put the public debt ratio on a firm downward trajectory. Against the backdrop of substantial downside risks and the current moderate economic slowdown, we urge the authorities to strengthen their fiscal consolidation efforts to meet their targeted primary surplus of 2 percent of GDP. We note the authorities' concern regarding the maintenance of the social consensus. Accordingly, a balanced approach to fiscal consolidation, utilizing both expenditure controls and revenue enhancing measures while preserving social harmony is warranted to strengthen fiscal buffers, create some fiscal space and reduce the public debt ratio. We see merit in adopting further tax reforms to enhance the tax system's equity and efficiency and help support additional revenue mobilization. On the expenditure side, we believe that restraining current spending including the wage bill would help create space for priority investment spending. There are merits in the implementation of public financial management reforms, as well as the adoption of some sort of rules-based fiscal framework as it could support and guide the fiscal adjustment in a transparent, accountable and predictable manner.

Enhanced supervision and regulation are necessary to safeguard financial stability. We welcome the additional steps taken to fortify regulatory oversight and risk-based supervision and agree that undertaking an asset quality review merits consideration. Moreover, the authorities are encouraged to be vigilant regarding the temporary measures on regulatory forbearance that were implemented to alleviate the effects of this year's drought as they may cause distortions to the operation of the financial system. The progress made by banks in reestablishing correspondent bank relationships (CBRs) or setting alternative payment mechanisms is welcome. We concur with staff that further strengthening the capacity of the Central Bank of Belize to conduct AML/CFT supervision and enforcement in banks and in the international financial services sector would help preserve CBRs and pre-empt financial integrity concerns.

Implementation of structural reforms should be expedited to address the various bottlenecks and challenges to buttress growth over the medium-term. Over the recent years, the rapidly expanded tourism sector has bolstered growth. Nevertheless, we agree with staff that easing the supply-side constraints identified in Box 1 is important to ensure the sector's continued dynamism. Moreover, a broad set of structural reforms is needed to reinforce growth including improving the business climate and strengthening governance.

We commend the authorities for their continued commitment to investing in climate-resilient infrastructure. We welcome the authorities' aim to prepare a Disaster Resilience Strategy and encourage them to proceed as quickly as possible, as it could guide development partners' resilience-building investment and facilitate donor coordination. The support from the international community is essential in helping Belize build resilience to natural disasters. We take positive note of the establishment of a Contingent Credit Facility with the Inter-American Development Bank (IDB) for natural disaster emergencies and the inclusion of a Contingent Emergency Response Component in projects financed by the World Bank. We also welcome the authorities' commitment to establish a natural disaster reserve fund.

Mr. Villar and Mr. Tabora Munoz submitted the following statement:

We thank staff for its report and Ms. Levonian and Mr. Rankin for their useful buff statement. Belize has continued recovering from the recession experienced in 2016, although at a slower pace, downside risks are still significant, and the medium-term outlook remains challenging. In that context, the pace of reform needs to be accelerated to strengthen competitiveness, increase economic inclusive growth, maintain low unemployment and preserve macroeconomic stability. As a small and vulnerable state, keeping resource mobilization efforts are paramount to support the poverty alleviation strategy and to mitigate the impact of fiscal consolidation. Reducing crime, recovering the financial sector credibility and strengthening the anti-corruption framework are essential for a faster and stronger economic recovery. We broadly share staff's appraisal and have a few comments and questions.

We commend the authorities for the significant fiscal consolidation achieved over the past two years. Acknowledging the impact of the severe drought on the economic recovery pace, faster growth is necessary to facilitate debt reduction, build buffers to address weather-related shocks, and create more fiscal space to support flagship social programs. We welcome the authorities' decision to increase pension contribution rates in July 2019 to shore up the sustainability of the social protection network, and we concur with staff's comment regarding the urgent need to update poverty statistics to improve the effectiveness of social policies and interventions.

It is imperative to highlight the importance of achieving the targeted primary fiscal surplus of 2 percent of GDP in 2019, as well as keeping it above that level in the following years. We notice that the authorities see that balance as enough to place public debt on a steady downward trajectory. While we understand the more ambitious approach of staff for building buffers, we wonder about the political feasibility of the proposed 4 percent primary surplus and the risks of losing ownership over a process of adjustment in which much has already been achieved. A rules-based fiscal framework centered on a debt anchor could be very useful to bolster public support in this context. In that regard, we would like to ask staff what is the authorities' willingness and the social consensus to move on with the Fiscal Responsibility Law?

Accelerating the implementation of growth-enhancing reforms, including improvements to the business climate, tax system, and reducing crime are essential for durable inclusive growth. Confronting safety and security risks, as well as improving the business climate, especially easing supply-side constraints such as getting credit, starting a business, registering property, and enforcing contracts are fundamental for ensuring sustained growth, particularly in the tourism sector. Enhancing fairness, efficiency and transparency of the tax system to make it more equitable and less distortionary will buttress the credibility of the tax regime to guarantee resource mobilization and to strengthen the expansion of tourism, attract more FDI, and facilitate industrial diversification to reduce dependence on tourism. It is equally important to continue addressing governance issues related to strengthening fiscal transparency and anti-corruption efforts.

Building resilience to natural disasters remains a top priority to reduce Belize's structural vulnerabilities. Belize's Climate Change Policy Assessment (CCPA) of 2018 made evident its vulnerability toward natural disasters and climate change, so that preparing a Disaster Resilience Strategy (DRS) focusing on structural, financial and post-disaster resistance, and investing more in climate-resilient infrastructure in line with the Belize's 2013 National Climate Resilience Investment Plan (NCRIP) are fundamental. Despite the authorities' commitment, our question is how, in this context of fiscal restrictions, do the authorities plan to create fiscal space to generate the natural disaster reserve fund and when do they expect to conclude the DRS?

The financial sector remains stable but strengthening the regulatory framework is needed to bolster investors' confidence. We commend the authorities for enacting a package of laws to enhance the international financial service sector, but it is imperative to continue strengthening the regulatory, supervisory and enforcement powers of the International Financial Services Commission (IFSC). We support the authorities' aim to fortify the bank resolution framework to clearly designate the Central Bank of Belize (CBB) as the sole resolution authority, although it is also necessary to continue strengthening the capacity of the CBB to conduct effectively anti-money laundering and combating the financing of terrorism supervision. We welcome the recently launched "National Financial Inclusion Strategy" that supports inclusive growth and enable access to financial services. We would like to ask staff if there are specific plans and a timeline to implement these actions.

Banks have established new Correspondent Banking Relationships (CBRs) but the financial system remains vulnerable to counterparty concentration risks due to a loss of CBRs. Authorities have taken important steps toward the strengthening of the overall AML/FCT framework, but an in-depth assessment of reputational risks and costs associated with the international financial sector is required to bolster international banks' confidence. In addition to strengthening the CBB and IFSC enforcement powers, prohibiting the provision of virtual asset-related services, implementing a stricter licensing process for international financial service providers, and ensuring that beneficial ownership information of legal persons is accurate, up-to date, and available to the public are all crucial. Staff's comments on the implementation process of these actions are welcome.

Mr. Ronicle and Mr. Chrimes submitted the following statement:

We thank staff for the well-rounded papers, and Ms. Levonian and Mr. Rankin for their clear and informative buff statement.

Staff's assessment rightly recognizes some important progress made by the authorities, while highlighting the challenges ahead and competing policy objectives. There are some positive indicators, including historically-low unemployment. But with the pace of the recovery slowing and downside risks to growth, we recognize the difficult trade-offs facing the authorities. We think the focus of the discussions on structural reforms, strengthening resilience, fiscal consolidation and tax reform, strengthening financial oversight and AML/CFT actions was appropriate.

High public debt and the current account deficit both remain concerning. While there has been good progress on fiscal consolidation in recent years, we share staff's concern that the primary fiscal surplus will be reduced this year. We also note staff's projection that public debt is now expected to decline to 85 percent of GDP in 2024, rather than the interim objective of 80 percent. Over a ten-year horizon, the difference between the baseline and the active scenarios on public debt is striking. The active scenario charts a delicate course navigating further fiscal consolidation, structural reforms (with a focus on those delivering near-term growth benefits), targeted social safety nets and other inclusive policies (including through tax reform), and building buffers to address weather-related and other economic shocks. We encourage continuing close collaboration between staff and the authorities to help deliver the above objectives amid implementation constraints. We also share staff's view that, while there have been some important steps in the right direction, moves to further strengthen the financial system are required.

We would appreciate further elaboration from staff on the risks and policy implications stemming from low international reserves, in the context of Belize's pegged exchange rate and staff's view that the current account deficit will likely remain large over the medium term.

We welcome the continued focus on climate- and disaster-related risks in the report. The shared objective of developing a Disaster Resilience Strategy, as outlined in the buff statement, is positive. We also welcome work with the World Bank towards a natural disaster reserve fund. More generally, we think this report and last year's Climate Change Policy Assessment represent good examples of factoring longer-term issues into bilateral surveillance. We hope to see this built on going forwards, both in relation to Belize and more systematically elsewhere. We are encouraged to see this emerging as a theme in discussions on the Comprehensive Surveillance Review.

Related to this, we would be interested in an update from staff on the extent to which they have continued to engage on the substance of last year's Climate Change Policy Assessment, including through these Article IV discussions, any reflections on that process, and future plans.

Mr. Mahlinza and Ms. Gasasira-Manzi submitted the following statement:

We thank staff for the comprehensive set of reports and Ms. Levonian and Mr. Rankin for the helpful buff statement.

The Belize economy has continued to recover supported by the tourism sector and supportive policies. However, growth prospects remain challenged by high public debt levels, slow global growth, natural disasters including a severe drought experienced in 2019, crime, and renewed pressures on correspondent banking relationships (CBRs). Against this background, we urge the authorities to remain steadfast in the implementation of prudent macroeconomic policies to reduce debt, build buffers, and advance structural reforms to strengthen resilience and promote inclusive and sustainable growth.

Further fiscal consolidation efforts are needed to bring debt down to sustainable levels and create adequate policy space. In this regard, we see merit in efforts to broaden the tax base, restrain current spending, including through wage bill and pension reforms, and improving the efficiency of spending through public financial management reforms. Moreover, supportive measures to ensure better targeting of social safety nets and growth-friendly infrastructure would be important. Further, we take note of the concerns by the authorities that additional fiscal adjustment would need to be gradual to maintain social consensus and wonder whether this was explored further during the consultations. We also note that the authorities welcomed the discussion of fiscal rules and how they could be adapted to Belize's experience. Could staff elaborate on whether there are any next steps in this regard?

Strengthening the supervision and monitoring framework in both the domestic and international financial services sector is crucial to safeguard stability and reduce the pressure on correspondent banking relationships. Although the financial system is generally stable, we underscore the need to address vulnerabilities to loss of CBRs. In addition, we urge the authorities to continue strengthening the bank resolution and crisis preparedness frameworks. That said, we welcome the recently implemented cybersecurity framework but see room to reinforce supervision and enforcement in the anti-money laundering and combating the financing of terrorism (AMF/CFT) framework. At the same time, continued initiatives to promote financial deepening and inclusion remain important. In this regard, we welcome the recently launched National Financial Inclusion Strategy.

Structural reforms remain important to build resilience and support strong, sustainable and inclusive growth. In this context, we urge the authorities to progress reforms to improve the business climate, including by combating crime and corruption, in order to promote tourism, foreign direct investment (FDI) and diversification. In addition, efforts to improve access to finance, regulatory procedures, closing infrastructure gaps and improving human capital would be beneficial. We welcome the authorities' commitment to continue investing in climate-resilient infrastructure and expanding the use of natural disaster risk management instruments. We urge the authorities to develop a Disaster Resilience Strategy to provide development partners with a comprehensive guide to ongoing resilience building investments and risk management initiatives. Further we encourage efforts to ensure adequate financing and scaling up of the country's flagship social programs to efficiently address humanitarian needs in the event of natural disasters.

We commend the authorities' commitment to strengthen their international tax regime and welcome the OECD's assessment that the tax regime is not harmful as well as the removal from the list of non-cooperative tax jurisdictions by the European Union. However, we note the authorities' concerns regarding the ever-evolving demands from international tax standard setters, which place significant pressures on small states, as indicated in the buff statement. We would appreciate staff comments on how best small states can be assisted in dealing with this challenge.

Mr. White and Mr. Yoo submitted the following statement:

We thank staff for their informative reports and Ms. Levonian and Mr. Rankin for their insightful buff statement. We broadly concur with the staff assessment and have the following comments.

Sustained fiscal consolidation is pivotal to ensure Belize's external stability as well as debt sustainability. Given that the exchange rate is pegged to the US dollar and the level of external debt is high (67 percent of GDP in 2018), one of the key policies to address external imbalances (almost minus 8 percent of GDP in 2018) is credible commitment to fiscal consolidation. In this regard, we welcome the significant fiscal adjustment achieved over the past two years and encourage the authorities to undertake further measures to increase revenue mobilization and to reprioritize government expenditure. Further broadening the base of GST and streamlining corporate income tax are needed to enhance revenue. On the spending side, restraining the public sector wage bill and moving on pension reform would enable more resources to be used for social programs as well as capital spending, while keeping total government expenditure under control. These measures will contribute to improvements in both equity and efficiency. We commend the authorities for having decided to undertake a Fund staff-conducted Public Investment Management Assessment (PIMA). Fund TA on a rules-based fiscal framework, drawing on other Caribbean experience, would greatly assist. Regarding the target for the primary fiscal surplus, we suggest that authorities could be more ambitious than 2 percent of GDP, particularly taking into account the need to build buffers to address natural disasters and climate change.

Accelerating structural reforms is essential for sustainable economic growth. In particular, a number of critical reforms to improve the business environment can be made without significant fiscal costs or negative effects on near-term growth. These include facilitating access to credit, streamlining and modernizing regulations on starting a business, expanding vocational training programs, and fighting crime and corruption. We commend the authorities for pushing forward with the establishment of a credit bureau to mitigate information asymmetry in credit markets.

We would like to emphasize that reducing crime is critical among reform priorities. The extent of exposure of Belizean youth to violent crime undermines labor force participation, thereby posing risks to mid- and long-term growth. High crime also impacts growth by discouraging tourism, a sector that accounts for around 40 percent of GDP and total employment, when summing up direct and indirect effects. We strongly encourage authorities to make every effort to minimize youth exposure to crime through improving the quality of education, promoting job training, and engaging with local communities.

We welcome the authorities' commitment to continue investing in climate-resilient infrastructure and staff's proposal to develop a Disaster Resilience Strategy (DSR) based on a multi-year macro-fiscal framework. We concur with staff that the authorities need to strengthen ex-ante risk management and welcome the intention to establish a disaster reserve fund. Contingent lines of credit and participation in regional insurance options would also assist. How do staff think that authorities best address the under-insurance problem of both public and private assets?

We commend authorities for making significant progress on the bank supervision and resolution framework. We welcome the agreement to conduct an asset quality review to assess banks' capital buffers. As Correspondent Banking Relationships (CBRs) remain vulnerable, we encourage authorities to further strengthen the AML/CFT framework and to intensify supervision and enforcement in the international financial services sector.

Mr. Benk and Mr. Bukovina submitted the following statement:

We would like to thank the staff for the comprehensive set of papers, as well as Ms. Levonian and Mr. Rankin for their informative buff statement. We broadly share staff's appraisal and would like to emphasize the following aspects.

While at a slower pace, Belize's economic recovery continues, and the unemployment rate is at a historic low driven by buoyant tourism, due to strong growth in trading partner economies. Despite these favorable outcomes, public debt levels persist at 94 percent of GDP. The current account deficit remains high and will deplete international reserves below standard adequacy metrics. We commend the authorities for having implemented considerable fiscal consolidation, but share staff's recommendations to accelerate additional measures and advance structural reforms to meet their target of reducing the public debt below 60 percent of GDP over the long term.

In the fiscal area, enhancing the tax system by broadening the tax base and introducing electronic tax filing as well as amending the business tax law to address tax rates differentiation across sectors and the variety of special regimes, could over time raise revenues by more than 2 percent of GDP. Additionally, restraining the wage bill and reforming the pension system could yield savings between 1 and 2 percent of GDP. To support fiscal adjustment, the authorities should consider a rules-based fiscal framework based on a debt anchor, drawing on the beneficial experience of Caribbean peers.

Structural reforms can help amplify the impact of the already implemented and planned fiscal consolidation. At the same time, structural reforms will strengthen the country's position against a range of external risks in the absence of nominal exchange rate flexibility. Belize's tourism sector is still underdeveloped compared to its Caribbean neighbors. Improving the supply-side constraints, especially the sanitation and transport infrastructure accompanied by reducing crime and improving marketing activity could increase tourist arrivals and raise real GDP growth by about 1 percentage point. We advise the authorities to enhance anti-corruption efforts and steer "at-risk" youth toward employment as these reforms can be effectively implemented without significant fiscal costs. Ease of doing business improved only marginally in recent years. Could staff elaborate on what barriers prevent a significant improvement in the ease of doing business? We welcome the government's efforts and substantial investments into infrastructure mitigating the impact of climate change. The World Bank's technical assistance to establish and administer a natural disaster reserve fund is much appreciated in that respect.

We positively note that the financial system is stable, banks are well-capitalized and NPLs have declined. We welcome the authorities' measures to enhance financial soundness and mitigate the risks of correspondent banking relationships (CBRs) loss. We concur with staff that intensified AML/CFT supervision and enforcement in the international financial services sector is crucial to bolster investor confidence and prevent a loss of CBRs. In this vein, we welcome that the authorities' actions and commitments have led to Belize's recent removal from the EU list of non-cooperative jurisdictions for tax purposes. We trust the authorities will continue in these efforts and further improve tax regime transparency.

Finally, we reiterate our call on the authorities to address statistical weaknesses and improve data provisioning.

Mr. Palei and Mr. Shestakov submitted the following statement:

We thank staff for a set of well-written papers and Ms. Levonian and Mr. Rankin for their insightful buff statement. The Belizean economy has strengthened over the recent year, with low unemployment and higher than expected GDP growth. The robust economic recovery is expected to be halted by a severe draught, while the medium-term outlook remains challenging with elevated public debt and external imbalances. Going forward, the Belizean authorities will need to accelerate reforms to support growth and build resilience to shocks.

Durable medium-term growth will require speeding up the pace of structural reforms after the effects of the 2019 draught dissipate. We strongly agree with staff that improving the business environment is crucial for bolstering Belize's economic growth. The authorities should prioritize access to credit, registering property, streamlining procedures for starting a business, and expanding training programs, particularly for the youth. We welcome the legislation to establish a credit bureau and expect it to take effect the next year. The enhanced business climate will facilitate Belize's diversification and build resilience against downside risks.

Exogenous negative shocks loom large for the Belizean economy, which is vulnerable to the adverse headwinds in international trade and natural disasters brought by the climate change. The authorities should step up their efforts to enhance infrastructural, financial, and post-disaster resilience. A continually high level of the investment projects focused on adaptation of infrastructure and the buildup of the natural disaster reserve fund should serve as bulwarks against downside climate risk. Do staff possess a ballpark estimate for an adverse scenario based on natural disaster probabilities and how large of a risk they pose for the medium-term outlook?

Another vulnerability comes from high debt-to-GDP ratio. An important progress was made in debt reduction and buildup of fiscal surpluses during the last two years. At the same time, further efforts are needed to reach the authorities' objective of reducing public debt to below 80 percent of GDP in five years. Further broadening of the tax base should be supported by the introduction of the Corporate Income Tax, new anti-avoidance legislation, and phasing out exemptions. We welcome the changes in the tax regime to comply with international transparency standards. Such policies will create space for priority spending and poverty alleviation. The promising way forward is to build institutional capacity for fiscal resilience, in the form of rule-based frameworks. We understand that the Belizean authorities are open to the idea of fiscal rules and fiscal councils. Could staff elaborate on their plans for capacity development in this area, adopted to the region's experience?

Belize's rich biodiversity and multi-cultural heritage buttress a high potential for further growth in the tourism sector. The regression analysis in the SIP neatly summarizes the structural bottlenecks to be addressed in the tourism development, including regulatory quality, crime rate, internet access, and disrupting natural disasters. Narrowing the gaps along these lines suggests a projected increase in tourist arrivals by as much as 66 percent, which would imply an additional GDP growth up to 1.1 ppt. Building resilience against climate change related perils and addressing drawbacks in water and sanitation infrastructure will ensure the long-term health of the tourism sector.

With these remarks, we wish the Belizean authorities success.

Mr. Doornbosch, Mr. Psalidopoulos, Ms. Harutyunyan and Ms. Korinthios submitted the following joint statement:

We thank staff for the comprehensive set of papers and Ms. Levonian and Mr. Rankin for their informative buff statement. Belize's economic recovery continues, albeit at a slower pace. Inflation remains low, the unemployment at a historical low level and the tourism sector has grown significantly in recent years. The financial system is well-capitalized, NPLs have continued to decline, and significant progress has been made with financial sector reforms. That said, the medium-term outlook remains challenging with elevated public debt, large external imbalances, inadequate international reserves and weather-related natural disasters. Against this background, we stress the importance of a balanced and sustained medium-term fiscal consolidation and further strengthening of climate change resilience. We broadly agree with staff's assessment and would like to offer the following comments for emphasis.

Despite the significant fiscal consolidation over the past two years, Belize's public debt still remains elevated with high risks to debt sustainability and various legacy claims contested. Against this background, we see that the authorities and staff have different views on the fiscal adjustment path. Particularly, staff recommends an additional fiscal adjustment to raise the primary surplus to around 4.0 percent of GDP over the medium term, while the authorities consider this adjustment as challenging. We would appreciate staff's comments in this regard. Also, we emphasize the importance of a rules-based fiscal framework with a debt anchor to support the fiscal adjustment in a transparent and accountable manner.

Notwithstanding the significant progress on enhancing financial soundness and integrity, further efforts are needed to strengthen bank supervision and the resolution framework. We welcome the authorities' decisive actions on conducting on-site financial examinations to assess compliance with regulations and putting two troubled banks into liquidation. The recently implemented cybersecurity framework is an important step forward strengthening cybersecurity supervision. Notwithstanding this, existing financial system vulnerabilities and the risk of renewed pressures on CBRs call for further action. To this end, we encourage the authorities to enhance supervision and enforcement in the international financial services sector, including the AML/CFT framework, and to continue keeping the financial system under tight supervision. In this context, we emphasize the need to further strengthen the bank resolution legal framework based on international best practices and to conduct an asset quality review of all banks. Strengthening the powers and resources of the International Financial Services Commission (IFSC) along with identifying and sanctioning IFSC licensees providing virtual asset-related services without authorization is essential.

Structural reforms are paramount to promote sustainable inclusive growth and strengthen external competitiveness. This is especially important given the limited role of the exchange rate in the external adjustment process, high foreign currency denominated debt and a protracted current account deficit. Against the background of limited progress with structural reforms, we urge the authorities to accelerate the implementation of productivity-enhancing reforms to improve the business climate, restore external competitiveness and ensure long-term fiscal sustainability. We welcome the recently launched National Financial Inclusion Strategy aimed at enhancing access to financial services and inclusive growth. We stress the importance of establishing a credit bureau and collateral registry as well as streamlining procedures to start a business. To this end, we are looking forward to the submission of the legislation on establishing a credit bureau to the Parliament by the end of FY 2019/2020.

Further strengthening of the resilience to natural disasters and climate change in line with the 2018 Climate Change Policy Assessment (CCPA), is macro critical. We note that the authorities have made some progress over the last year with building resilience to adverse weather-related shocks. In this context, we welcome the agreement with the Inter-American Development Bank (IDB) in 2019 on a contingent line of credit and the substantial investments in adaptation infrastructure projects. That said, we note that climate change and natural disaster related risks weigh heavily on Belize's macro-sustainability, and more efforts are needed going forward. To this end, we urge the authorities to enhance their efforts to prepare a Disaster Resilience Strategy (DRS) in cooperation with the IMF, WB and other development partners. Also, we stress the importance of continuous investments into climate-resilient infrastructure and self-insurance, particularly the establishment and administration of a natural disaster reserve fund. And finally, we encourage the authorities to make greater use of disaster risk transfer and retention mechanisms, including the ex-ante contingent lines of credit and optimized participation in regional insurance. We note that the 2018 CCPA recommended some immediate priority actions. Could staff briefly update on the state of play of these actions?

With these remarks, we wish the Belizean authorities all the success in their future endeavors.

Mr. Tan, Mr. Harada, Mr. Mahyuddin and Ms. Mori submitted the following joint statement:

We thank staff for the comprehensive set of reports on Belize and Ms. Levonian and Mr. Rankin for the informative buff statement. Economic recovery in Belize is slowing, affected by the severe drought and slower growth in tourism arrivals. Downside risks from lower US growth, natural disasters, crime and pressure on CBRs could weaken the growth outlook. Moreover, public debt remains high and current account deficit is expected to remain large over the medium term. As such, reviving structural reforms, prioritizing fiscal consolidation, building resilience to natural disasters and climate change as well as strengthening financial system supervision remain important to face these challenges. We broadly agree with the thrust of the staff appraisal and would like to offer the following comments for emphasis.

Advancing structural reforms is key to enhance the business climate and promote higher, inclusive growth. Structural reforms, especially those targeted at improving the business environment are important to attract investment and create jobs. The positive spillover benefits would help to tackle structural challenges to the reduction of public debt and the strengthening of public spending for poverty reduction and infrastructure upgrading for tourism.

Comprehensive fiscal consolidation measures are needed to reduce public debt and create space for priority spending. We see merit in staff's proposal for a rule-based fiscal framework, drawing from the region's experience and we welcome the authorities' interest to engage with staff on the potential role of the fiscal rules. However, we note that raising the primary fiscal surplus to meet the active scenario can be challenging and a gradual approach is needed to maintain social consensus and ensure ample space for priority investment. Based on staff's projection on the baseline and active scenarios for public debt reduction, we could see a potential midpoint scenario towards sustainable debt level in the medium term. In this regard, we would encourage staff and the authorities to continue to work towards a credible framework that could gradually improve the fiscal consolidation needed for debt reduction. Such framework should include public financial management reforms and thus we welcome the authorities' request for PIMA to further improve public investment management.

Further tax reforms can mobilize additional revenue. We agree with staff that phasing out exemptions from GST that are not well targeted and removing the special tax regime can enhance revenue and reduce leakages. At the same time, we encourage staff to explore targeted benefit programs such as using innovative digitization that could address the distributional concerns by the authorities on the impact of phasing out of selected GST exemptions. We agree with staff's assessment that there is no urgency in transitioning from current business tax to Corporate Income Tax (CIT). Capacity and resource constraints to administer potential leakages and establish the necessary preconditions may outweigh the cost efficiency. However, CIT can be considered over the medium term to address inefficiency and encourage investment. We welcome the decision by the Economic and Financial Affairs Council of the European Union to remove Belize from the list of non-cooperative jurisdictions. Could staff elaborate the impact of this on foreign direct investment and whether it would provide upside to the growth outlook?

Steadfast efforts should continue to build resilience to natural disasters and climate change and promote macroeconomic sustainability. We welcome the authorities' strong commitment towards environmental reforms and investments into climate-resilient infrastructure. We support staff's recommendation for the authorities to formulate a Disaster Resilience Strategy (DRS) that focuses on structural, financial and post-disaster resilience. As highlighted in the buff, DRS could provide development partners with a comprehensive guide to ongoing resilience-building investments and risk management initiatives, while placing the required financing into a sustainable multi-year macro-fiscal framework. These efforts would lessen the adverse impact of natural disasters to public debt level and tourism activity over the long-term.

Further strengthening of financial supervision and the bank resolution legal framework is essential for financial system stability. We positively note the Fund's technical assistance to fortify the bank resolution framework and we welcome the authorities' commitment to conduct asset quality review to assess banks' capital buffers. In addition, the authorities' efforts to further reinforce the AML/CFT framework and in-depth assessment of the reputational risks and costs associated with the international financial sector, including the provision of virtual asset-related services are important to prevent a loss of CBRs.

We wish the authorities all the success in their future endeavors.

Mr. Trabinski and Mr. Danenov submitted the following statement:

We thank staff for the insightful set of papers and Ms. Levonian and Mr. Rankin for their informative buff statement. Belize's economic recovery continues, with unemployment reaching a historic low and the tourism sector showing its potential for rapid growth. Yet, the outlook remains challenging amid high public debt, limited buffers and external risks. Narrowing the gaps in education, climate- resilient infrastructure and private sector development could significantly improve further growth prospects.

We commend the authorities for the achieved progress in fiscal consolidation in recent years, but the high public debt remains a concern. We agree with staff that, since almost 70 percent of total public debt is denominated in foreign currency, any depreciation would result in a further debt increase. It is therefore key to reduce public debt by meeting the targeted primary surplus and raising the competitiveness of the economy. At the same time, we understand the authorities' willingness to favor a gradual approach for any additional fiscal adjustments in order to maintain social consensus and leave sufficient room for capital investments. We share staff's view that the gradual consolidation could be achieved by adopting tailored measures on both the revenue and expenditure side, including through the pension and tax reforms or containment of the wage bill. We would also like to encourage the authorities to step up their efforts in tightening the special regimes, to avoid revenue leakage.

Further economic growth will be contingent on improvements in the business climate and tourism development. We commend the authorities' efforts in implementing the Fund's advice, in particular in as far as the establishment of the credit bureau goes. Tourism has the potential to contribute a lot more to overall growth. We agree with the comparative advantages and the challenges mentioned in the staff's selected issues paper. We presume that by narrowing the gaps in infrastructure, homicide rates and internet access, Belize could considerably improve the competitiveness of its tourism industry.

Building resilience to natural disasters is important for the long-term growth perspectives. As climate change is a macro-critical threat to Belize, we welcome the authorities' readiness to join forces with staff in order to prepare a Disaster Resilience Strategy. This work will not only clarify the infrastructure needs and facilitate donor coordination, but will also have a positive impact on the investors' confidence in the long term. We welcome the establishment of a Contingent Credit Facility for Natural Disaster Emergencies with the Inter-America Development Bank and the incorporation of a Contingent Emergency Response Component into Belize's World Bank-financed projects.

The regulatory framework of the financial sector needs to be enhanced. The efforts of the Central Bank of Belize in that regard are commendable, including strengthening the bank resolution framework and assessing regulatory compliance of the banks. We welcome the reestablished correspondent bank relationships and the progress in strengthening the overall AML/CFT framework, but the financial system needs further enhancement. Going forward, we see merit in undertaking an asset quality review. The recently launched "National Financial Inclusion Strategy" should contribute to more inclusiveness and increased access to financial services.

Mr. Bhalla and Ms. Indraratna submitted the following statement:

We thank the staff for their detailed reports and Ms. Levonian and Mr. Rankin for their informative buff statement.

Belize's economic recovery continues, although at a slower pace with significant downside risks, while the outlook for the medium-term remains challenging. A high level of public debt, a large external current account deficit together with low reserve coverage point to the need for accelerated reforms to strengthen macroeconomic stability, improve competitiveness and enhance growth. In this context, key policy priorities include fiscal and structural reforms to raise growth, policies to strengthen the financial sector and compliance with AML/CFT standards to boost investor confidence. We broadly concur with the staff analysis and wish to make the following remarks for emphasis.

We commend the efforts taken by the Belizean authorities towards fiscal adjustment in recent years, but however, urge the authorities to maintain the primary balance at committed levels while reducing debt in the medium-term. In this context, we agree with the staff proposals to continue with revenue enhancing reforms and expenditure rationalization measures. On the revenue front, we see merit in further broadening the tax base by phasing out exemptions in GST and replacing tax incentives in the form of lower tax rates with investment allowances. We agree with the staff view that the publication of tax expenditures would increase transparency. We would like to inquire from staff whether there are plans by the authorities to publish tax expenditures at least with the budgetary cycle? We also concur with the staff recommendation to introduce a corporate income tax in place of the current turnover based business tax which is inefficient, complicated and discourages investment. On the expenditure front, we note that there is a need to rationalize current expenditures, particularly in the areas of civil service reforms and pensions. We concur with the staff view that the current unfunded non-contributory pension scheme for public officials should be made contributory and the retirement age raised to reflect increased life expectancy. Such reforms could enhance the fiscal space available for essential public investments. In order to strengthen the fiscal consolidation process, we welcome the staff proposal to introduce a rules-based fiscal framework which would strengthen fiscal discipline while increasing the transparency and accountability of fiscal operations. Can staff inform whether the authorities have plans to introduce such fiscal rules in the near future?

Building resilience to natural disasters and climate change is a priority for Belize. We note that Belizean authorities have relied on donor support and budget finance to meet its expenditures on account of climate-related disasters. We commend the authorities for making substantial investments in adaptation infrastructure in line with the National Climate Resilience Investment Plan (NCRIP), although it is not clear how such expenditure could be sustained going forward in view of tight budgetary constraints. In view of budgetary constraints, can staff comment on how funding for climate-related public investments will be maintained at required levels to safeguard the country from weather-related risks? We note that the authorities are also developing an investment promotion strategy to increase access to grants and climate funds. Can the staff inform as to when this strategy will be finalized?

Similarly, would the staff comment on the financing mechanism for the natural disaster reserve fund? We agree with the staff recommendation that Belize could benefit from the preparation of a Disaster Resilience Strategy (DRS) that could help development partners identify the authorities needs and plans in climate and disaster resilience whilst facilitating coordination of donor support.

The financial system appears stable although we note that the authorities need to strengthen the bank supervision and resolution framework through stricter monitoring and supervision, restrict regulatory forbearance, implement a resolution framework based on international standards and produce a crisis preparedness plan. In this regard, we echo the view of the staff that an asset quality review be undertaken especially in the context of rising levels of NPL's. Do the authorities have a timeline and plan to implement this measure? We commend the CBB for strengthening cybersecurity supervision, but we note that further measures are needed to strengthen AML/CFT supervision and enforcement in banks in the international financial services sector which would also support CBRs.

Belize should move ahead with structural reforms to raise growth over the medium term. We broadly concur with the staff view that reform priorities should aim at enhancing competitiveness through improvements in the ease of doing business ratings, easing supply side constraints to tourism development and fighting corruption and crime. Improvements in these areas will strengthen the external sector and promote growth.

We wish the Belizean authorities success in their future endeavors.

Mr. Beblawi and Mr. Al-Kohlany submitted the following statement:

We thank staff for their report and Ms. Levonian and Mr. Rankin for the helpful buff statement. Belize's growth has moderated this year, reflecting a severe drought, lower agriculture yields, and lower hydropower generation. The economy continues to face a challenging outlook stemming from a weak external position, high public debt, elevated rates of crime, and vulnerability to natural disasters. Looking ahead, improving the business environment, strengthening the fiscal framework, implementing structural reforms, and continuing to invest in climate-resilient infrastructure are needed to reinforce Belize's economic growth. We agree with the staff's appraisal and offer the following comments for emphasis.

We welcome the significant fiscal consolidation over the past two years, demonstrating the authorities' commitment to fiscal responsibility and to placing public debt on a steady downward trajectory. We note staff recommendation to raise the primary surplus target to four percent of GDP, with a combination of revenue and expenditure measures. High quality revenue measures, including broadening the base of GST and streamlining corporate income tax, are warranted. Restraining current spending including wage bill reduction and pension reform are also necessary in order to create the fiscal space needed for priority pro-growth spending climate change resilience, and for debt reduction. However, we sympathies with the authorities' view that fiscal adjustments over the medium term should be gradual in order to maintain social consensus. Could staff comment on the political feasibility of the staff proposed adjustment path and its likely impact on growth?

On the financial sector, we agree that renewed pressures on Correspondent Banking Relationships (CBRs) can weaken financial stability and negatively impact growth. The new alternate CBRs, replacing the ones lost in 2015-2016, remain small, concentrated, and expose banks to counterparty concentration risks, which add to the vulnerability of the banking sector. To this end, addressing shortcomings in the AML/CFT regime and strengthening respondent banks' capacity to manage risks can help mitigate further CBRs losses. Strengthening communication and exchange of information with international banks and standard setters are also important. We encourage staff to continue to work with the authorities to help address challenges associated with CBRs withdrawals, by providing the needed technical assistance and training. We also support the authorities' actions to further strengthen the bank supervision and resolution frameworks.

Access to credit is a key impediment to private sector growth (Figure 4). We support the authorities' reform priorities in this area including to establish a credit collateral registry, to broaden the types of eligible collateral, and to establish a credit bureau. We urge the authorities to finalize the pending necessary legislation in this area. We also take note of the national financial inclusion strategy which aims to advancing access to financial services. Could staff provide further details on the national financial inclusion strategy and its key elements?

The external position is weaker than the level consistent with medium-term fundamentals, and remains susceptible to adverse shocks to global growth, weather-related damages, and a materialization of contingent liabilities. We note staff assessment that international reserves are uncomfortably low and projected to remain so under the baseline over the medium term. In this context, maintaining the fixed exchange rate regime requires that the authorities accelerate their fiscal and structural reforms in order to improve the reserve adequacy metric, strengthen the country's external position, and reinforce the sustainability of the exchange rate peg. Tourism is the main source of foreign exchange earnings as indicated in the staff's helpful Selected Issues Paper, we therefore welcome the authority's commitment to further develop this important sector, including by upgrading the tourism infrastructure.

Mr. Farber, Ms. Pollard and Mr. Grohovsky submitted the following statement:

Belize's economy has continued to slow while fiscal and external weaknesses remain. Despite considerable progress, debt levels are still high and fiscal restraint will be required to bring debt down to a sustainable level. Meanwhile, the external sector is still weaker than warranted by fundamentals and reserves are below standard adequacy metrics. While tackling these issues is no small challenge, the authorities have demonstrated a commitment to improving macroeconomic policies and moving in the right direction. With a greater focus on implementing structural reforms, Belize can rebuild its buffers and create a path towards stronger, more sustainable growth.

We commend the authorities' fiscal consolidation efforts to date but continue to recognize the challenge of maintaining this level of surplus with growth slowing. The slowdown highlights the urgency needed in implementing structural reforms that will improve the business climate and resolve supply-side bottlenecks. We welcome the thorough analysis of supply-side constraints in the report and the focus on corruption issues, which are an acute concern. The detailed recommendations in the report are helpful and we would welcome similar detail on growth-enhancing measures more regularly in Article IVs.

In addition to boosting growth, the authorities can further improve debt sustainability by addressing weaknesses in fiscal policy. Eliminating the numerous tax exemptions and preferences appears to be an efficient way of generating more revenues, while reining in current spending could generate savings and free up some space for needed capital investment. We also welcome the authorities' recent efforts to better align the tax regime with international best practice.

Meanwhile, we agree that further steps are needed to strengthen the bank supervision and resolution framework, including taking necessary enforcement actions, phasing out forbearance, strengthening the resolution framework, and improving the AML/CFT regime. We commend the authorities' initial steps in this direction and their actions to deal with problems at two banks during the past few years. Given the long list of potential improvements, we also welcome the ongoing IMF TA.

Finally, given the weakness of the external position, we would have welcomed more focus on this area in the report. Could staff provide details on the large foreign-financed projects that are helping to drive the increased current account deficit, and whether this effect with persist? Near zero inflation is also problematic as it weighs on debt sustainability. As monetary policy was also not addressed in the report, we would welcome staff comment on the drivers of low inflation.

Mr. Sigurgeirsson and Ms. Karjanlahti submitted the following statement:

We thank staff for the reports and Ms. Levonian and Mr. Rankin for their informative BUFF statement. For the past two years growth in Belize has been strong, combined with low inflation and significant fiscal consolidation. However, going ahead, growth is slowing towards meager potential. With debt levels still elevated, the economy is vulnerable to significant external risk such as slowing growth in the US, oil price hikes or weather-related shocks. Thus, we encourage the authorities to continue building buffers and intensifying efforts to address structural bottlenecks and improve resilience to climate shocks. We broadly concur with the staff assessment and have the following comments.

Bringing elevated debt levels down will require continued consolidation efforts. We commend the authorities for the past years' fiscal efforts, which have been important towards restoring fiscal credibility. However, debt levels remain elevated and with growth slowing meeting the 2 percent primary surplus target appears to be at risk. Reforms in the civil service and pension system will be important to curtail current spending as well as create space for spending on resilience building and social safety nets. Strengthening the revenue base will be integral for meeting fiscal targets and we are encouraged by the authorities' commitments to continue broadening the tax base and removing tax exemptions. We commend the authorities for upgrading the tax regime to meet international standards and prevent harmful tax competition, but encourage them to continue with the reforms, including by tightening taxation for special tax regimes and digital transactions. We encourage discussion on a potential fiscal rule and establishing a fiscal council which would together with continued PFM reforms help to institutionalize prudential fiscal management.

Structural bottlenecks and vulnerabilities to climate shocks stifle much needed growth. Belize's growth potential is low offering little hope for better living standards without a significant focus on structural reforms. Improving the business environment and strongly addressing corruption will be important, while improving safety through fighting crime will improve people's lives and provide a boost for business and, in particular, tourism. The tourism sector has been performing well amidst the launch of the National Sustainable Tourism Plan (NSTP). Addressing supply-side constraints related to infrastructure and human capital would help to further tap into the significant growth potential as identified by staff in the SIP. Furthermore, managing climate related risks will be central to support tourism and improve growth potential in Belize. The authorities have clearly taken these issues forward with a broad range of initiatives e.g. on building resilient infrastructure, establishing a contingency fund and improving post-disaster resilience. We are also encouraged by the interest in developing a Disaster Resilience Strategy, which will help to bring all actors together and integrate resilience building into Belize's macro-economic framework

Correspondent banking relationships (CBRs) remain a risk to the financial system. While the financial system is assessed stable, vulnerabilities remain. We concur with staff's view on keeping the financial system under tight supervision and enforcement. This would also help to address the vulnerabilities arising from relying on a limited number of CBR's. Furthermore, while part of the problem is outside the control of Belize, we also encourage the authorities to continue strengthening the respondent banks risk management as well as their AML/CFT frameworks.

Mr. Rozan and Ms. Albert submitted the following statement:

We thank staff for their interesting report, as well as Ms. Levonian and Mr. Rankin for their clear buff statement. We commend the efforts made by the authorities to strengthen fiscal and financial resilience. As external and fiscal vulnerabilities are significant, we encourage the authorities to pursue their efforts to increase resilience to adverse shocks and prepare a Disaster Resilience Strategy. On the fiscal front, we thank staff for their detailed work and see tax reform as a key priority to place debt on a firm downward trajectory, while paying more attention to the most vulnerable. We generally share staff's analysis and recommendations and would like to add the following comments for emphasis.

With a slowing growth, externals risks need to be monitored carefully. In a context of a slowing economic recovery, we note the elevated current account deficit as well as the low level of reserves. Structural reforms and continued efforts on the fiscal front should gradually help to reduce the large external vulnerabilities. As the United Kingdom is one of the main Belize's export destination, we would welcome staff comments on the impact of a disorderly Brexit on Belize's economy. We also thank staff for its quantitative analysis of the impact of a natural disaster on government debt and encourage this type of analysis in the other countries exposed to natural disasters.

We encourage the authorities to continue to pursue their public debt reduction effort and bring more attention to the progressivity of the tax system as well as the protection of the most vulnerable. Debt remains high and we also note that the materialization of legacy claims risks would have a significant impact on the baseline. We thank staff for their detailed work to assist the authorities to bring the debt level about 60 percent of GDP in the medium term. We encourage the authorities to generate more fiscal space, especially for necessary infrastructures and social spending, even though maintaining a surplus of 4 percent of GDP over the medium term with a potential growth around 2 percent and elevated development needs seems challenging. We also note the authorities' concern about maintaining social consensus.

Continued efforts will need to be pursued to enhance the progressivity and efficiency of the tax system. We commend the authorities' efforts that have led to the recent removing of the country from the EU's list of non-cooperative tax jurisdictions. We encourage the authorities to phase out exemptions and inefficient tax incentives, as well as to reinforce tax administration to enhance revenue collection. We also see room for a more redistributive tax system and encourage further efforts to ensure that the burden of the tax system does not lie on low-income groups and small businesses. According to the selected issues, we note that personal income tax is lower than the global comparator, that employed labor is subject to a flat rate tax of 25 percent and that capital gains, pension income and most types of interest are not taxed. Could staff further detail its analysis regarding the progressivity of the current PIT and what type of reforms could be done in order to improve it?

We see the phasing out of the Central Bank credit to the government as a top priority. Is staff considering specific technical assistance in this field?

We encourage the authorities to continue their ongoing reforms to enhance financial stability. Improving bank supervisory and resolution framework is important. We also share staff's recommendation regarding the need to improve the AML/CFT framework in order to mitigate the risks of new pressures on CBRs. We encourage staff to continue to bring technical assistance on this issue if necessary.

Acceleration in structural reforms is needed and we see three priorities. First, the authorities' poverty alleviation strategy needs to gain traction. More attention should be dedicated to this issue, as the last poverty' assessment is almost 10 years old. We also note from the 2016 Systemic Country Diagnostic framework from the World Bank that poverty and shared prosperity could have worsened, in contrast of the LAC performance. Could staff give some details about the next steps the authorities plan to do in this area, and if specific IMF and / or World Bank technical assistance is envisaged to obtain new data? Second, the improvement of competitiveness to boost potential growth is key and fighting crime (the country has one of the highest crime rates in the world) and corruption are crucial. We welcome staff's comments and analysis on these issues in the report. Finally, we support the preparation of a Disaster Resilience Strategy, which could be a useful tool to deal appropriately with natural disasters.

Mr. Di Tata and Mr. Morales submitted the following statement:

We thank staff for the informative set of papers and Ms. Levonian and Mr. Rankin for their very helpful buff statement. We welcome Belize's progress in implementing appropriate macroeconomic policies in recent years. However, the ongoing slowdown, due in part to a severe drought, highlights the urgency of accelerating structural reforms to continue addressing macroeconomic imbalances while supporting sustainable growth. As Ms. Levonian and Mr. Rankin indicate, policy priorities should include climate-resilient infrastructure; a sound, more inclusive financial sector; a supportive business climate; and a reduction in crime and poverty.

The recent economic recovery has been facilitated by a pickup in tourist arrivals and foreign direct investment. Tourist arrivals have registered double-digit growth rates since 2016, triggering investment interest in major international hotels and other related development projects, as discussed in the staff's Selected Issues Paper. The 2013 National Sustainable Tourism Master

Plan appears to have been effective in guiding the development of the tourist sector. Signs of a slowdown in tourist arrivals in the first 8 months of 2019 are a reason for concern, as the expansion of tourism has been an important factor behind the decline in unemployment to a historic low in 2019. Moreover, the drought's impact on agriculture and hydropower generation could compound the effects on the tourism sector. In this regard, we welcome the staff's analysis of structural-institutional factors affecting tourism, which suggests that narrowing the gaps in regulatory quality, crime, internet access and natural disaster damage by ¼ to ¾ relative to the best-performing Caribbean economies could significantly encourage tourist arrivals. Increasing female labor participation would also help raise Belize's growth potential and improve inclusion.

The authorities have underscored the importance of further strengthening the primary surplus in order to achieve a reduction in the public debt to 60 percent of GDP over the medium term. The higher overall fiscal surplus in FY2018/19 reflects rising taxes on goods and services and a broadening of the tax base. However, the primary fiscal surplus is expected to decline below the government's target of 2 percent of GDP in FY2019/20 because of weaker revenue and higher wage and public investment outlays, threatening to reverse recent progress on fiscal consolidation. We agree that an additional fiscal effort is necessary over the medium term to accommodate higher capital investment to build climate resilience and achieve sustainable growth. In this regard, further broadening the tax base by phasing put GST exemptions should be a priority. This should be accompanied by rationalization of wages, pensions, and transfers, whose share in the budget has increased from 40 to 60 percent in the last 18 years. Containing the wage bill and pension parametric reforms could yield savings of more than 2 percent of GDP over the medium term.

We welcome the government's fiscal strategy aimed at increasing the revenue-to-GDP ratio by 2 percentage points of GDP over the next two years. In this regard, we look forward to the outcome in terms of broadening the tax base and eliminating non-essential exemptions. Complementing these efforts, an open dialogue with international taxation standard setters would help Belize avoid undue leakages from special regimes, as discussed in the Selected Issues Paper. Tightening conditions offered in special regimes would mitigate the risk of falling again in the list of non-cooperative jurisdictions, while more effective incentives, including investment allowances, are introduced over time. At the same time, however, we agree with the authorities that ever-evolving demands from standard setters put disproportional pressure on small states.

We note the authorities' intention to further discuss a rules-based fiscal framework, drawing on the experience of other countries in the region. While we agree with the importance of introducing oversight, transparency and accountability provisions, including by establishing an independent fiscal council, we wonder if other features such automatic correction mechanisms and escape clauses should be adopted only after PFM reforms are further advanced. Staff's comments are welcome. On a related issue, adopting a Disaster Resilience Strategy (DRS) could guide ongoing resilience-building investments and risk management initiatives within a multi-year macro-fiscal framework.

The Central Bank of Belize (CBB) has confirmed its commitment to financial stability and soundness by taking decisive action to liquidate two non-systemic banks. Going forward, we agree with staff that the CBB should remain prepared to take enforcement actions as needed. We also welcome the intensification of financial supervision, the shortening of the examination schedule, and the strengthening of banking resolution in line with Fund technical assistance. At the same time, however, we agree with staff that the recent introduction of exceptions to recognize non-performing loans for the agricultural sector as a drought emergency measure should be phased out within an explicit timeframe. Moreover, we are not convinced that not reflecting non-performing loans in banks' balance sheets constitutes an effective alleviation measure. Wouldn't it be better to encourage banks to reflect the impact of the drought on their balance sheets and introduce temporary schemes to remedy the situation? We agree with Ms. Levonian and Mr. Rankin that the withdrawal of correspondent banking relations remains a threat for small states like Belize, despite a relatively calm recent period. Regarding financial inclusion measures, we welcome that legislation to establish a credit bureau is planned to be submitted to Parliament by the end of this fiscal year.

Lastly, we encourage the authorities to embark on an ambitious AML/CFT agenda. In this regard, we welcome the authorities' commitment to reinforce the AML/CFT framework by prohibiting the provision of virtual asset-related services by IFSC licensees and International Business Companies and strengthening the powers and resources of the International Financial Services Commission. These reforms should be complemented by the implementation and enforcement of the asset declaration regime through the Integrity Commission and a strengthening of the rules on conflicts of interest for senior public officials.

With these comments, we wish the Belizean authorities every success in their future endeavors.

The Acting Chair (Mr. Zhang) made the following statement:

As you know, the Belizean economy continues to recover. However, as you pointed out in your grays, the pace of recovery is slowing, and the country continues to face substantial downside risks. During the process of the Article IV consultation, staff's discussion with the authorities very much focused on these challenges, and the wide range of challenges include raising growth, social inclusion, and strengthening resilience to natural disasters and climate change.

The staff representative from the Western Hemisphere Department (Mr. Leigh) made the following statement[1]:

Thank you, Chair. Good morning. As you mentioned, Chair, a central topic of our Article IV consultation discussions with the authorities was structural reform to raise growth and social inclusion and strengthening resilience to natural disasters, guided by last year's IMF-World Bank joint Climate Change Policy Assessment (CCPA). The discussions on policy options in these areas have continued to benefit from very close collaboration with staff from the World Bank and the Inter-American Development Bank given their considerable expertise in these areas, and we look forward to the team continuing this close collaboration with our sister IFIs next year as we respond to the authorities' request to prepare a disaster resilience strategy.

The discussions focused on the authorities' efforts to strengthen their tax transparency and safeguard correspondent banking relationships (CBRs), and we have continued the discussions on these topics since the Article IV in a closed-door workshop at the Annual Meetings for Caribbean authorities to share their experience. They appreciated this, so we plan to continue these kind of discussions at the Spring Meetings and extending it actually to authorities from other regions so that they can share lessons on how to address the standard setters' expectations in tax and AML/CFT. Recently the authorities have had success in implementing reforms that led to their removal from the EU tax list, and that is a very welcome development.

[1] Prior to the Board meeting, SEC circulated the staff’s additional responses by email. For information, these are included in an annex to these minutes.

Finally, the discussions focused on the appropriate fiscal path for achieving the authorities' goal of reducing debt to prudent levels and fiscal rules, how they can support the adjustment. Let me address some of the questions that came up in relation to this.

On the appropriate fiscal policy path, our assessment is that achieving the authorities' targeted debt reduction and building buffers to address shocks requires raising the primary surplus from the baseline projection of 2 percent of GDP to about 4 percent of GDP over the medium term. Reforms that increase potential growth would reduce the level of the primary surplus needed to achieve the targeted debt reduction.

There was a question about political feasibility.  The authorities have emphasized that any additional fiscal adjustment would need to be gradual to maintain social consensus and leave room for priority investments, so that is why the fiscal adjustment path we recommend involves gradually increasing the primary surplus over the coming six years. We also recommend focusing the adjustment on revenue base broadening and current expenditure restraints while gradually expanding spending on resilience building, infrastructure, poverty alleviation, improving education, and enhancing safety.

Regarding the impact on growth, the gradual but steady fiscal consolidation is likely to restrain growth below staff's baseline forecast in the near term. We assume a near-term multiplier of around 0.5 in line with evidence for the region. Implementing structural reforms with near-term gains and better targeting social safety nets would help mitigate the impact on the near-term outlook.

On the role of fiscal rules, staff advises that Belize could benefit from a fiscal responsibility law with explicit rules for guiding the debt reduction process in a predictable manner, including escape clauses to permit the response to major adverse shocks while creating a mechanism for accountability. The authorities welcomed the discussions we have had over the past year, including with the participation of the Caribbean Regional Technical Assistance Centre (CARTAC) experts, on the region's experience with fiscal rules and fiscal councils, and they remain open to learning more about how such rules could be adapted to Belize's context. We are not aware of plans to move ahead with a rules-based fiscal framework at this point, but we stand ready to engage with the authorities in this area, including by providing technical assistance and policy advice on public financial management (PFM) reforms and the drafting of fiscal responsibility legislation.

Mr. Alkhareif made the following statement:

We have not issued a gray, but we broadly share staff's conclusions on policy recommendations. We would like to commend the authorities for their efforts to ensure macroeconomic stability. We take positive note that the unemployment rate is at a historical low. Inflation remains very stable. We also commend the authorities for the significant fiscal consolidation over the past two years. I agree with the points raised in the gray of Mr. White and Mr. Yoo that the credible commitment to fiscal consolidation is one of the key policies to address external imbalances and preserve the peg of the exchange rate. We encourage the authorities to further build international reserves and step up their efforts to improve revenue mobilization and rationalize government expenditure. In particular, we encourage the authorities to use the fiscal space towards necessary infrastructure and social spending.

We welcome the authorities' efforts to strengthen the banking supervision and regulation. We encourage the authorities to further strengthen the AML/CFT framework and focus on addressing correspondent banking relationships issues.

On climate change, I would like to thank the mission chief's statement on the engagement between the IMF and the World Bank and other international organizations on these issues. We truly appreciate the positive engagement with countries on where climate change is macrocritical. We are also encouraged by the authorities' commitment to continue investment in climate change resilience infrastructure. Countries like Belize where they contribute little to climate change but they are mostly affected by natural disasters, focusing on climate change adaptation is critical.

We very much welcome the emphasis on building financial and structural resilience, and we take positive note that the budget envisaged a 40-percent investment project that is related to climate change building resilience. We welcome these efforts, and we wish the authorities continued success.

Mr. Rozan made the following statement:

We commend the authorities for the very good progress done, as highlighted by the report, on financial and structural issues related to climate resilience. I think there is great leadership being done in the country on this issue, and we think the reports adequately highlighted that.

I just wanted to focus on the one specific issue on the fiscal challenge. We acknowledge that there is quite a significant challenge for the country going forward because this challenge is compounded by the need to balance a significant stock of debts, social pressures, and outward pressures coming in the form of climate-related shocks. It is not an easy task. We acknowledge the objective of 4 percent highlighted in the report. It is quite ambitious, and we note the comments that have been made that it is over the medium term. Still I think it is quite ambitious, but if it is to go forward, I think there are two things that would be needed to assist the authorities in this goal. The first thing would be to look at tax progressivity. We have noted the answers to our questions, that there has not been yet an analysis of the progressivity of the personal income tax (PIT). I think it is something that would be useful to assess the political economy of reform and the redistributive impact of the measures that are proposed to the authorities.

Second is the issue of the database to know what populations are vulnerable or not, and we note that the last assessment was in 2010, as you mentioned in the response; so updating it in early 2020 would be very useful to know exactly who is affected by the reforms.

Last point, on the Climate Change Policy Assessment (CCPA), we very much welcome the update that has been done in the report. I think it is very useful to keep track of the CCPA year after year to know what the implementation is. We look forward to the disaster relief strategy that the authorities are working on, and we would look forward to the last pilot project in Tonga. I think we are going to need an assessment of the work done on CCPA going forward because we think it is a very useful format. Probably we can work on it to improve it and ensure better traction for authorities, but I think next year will be a significant work to stock take on this regard.

Ms. Indraratna made the following statement:

Although Belize continues to make recovery from drought conditions, the outlook for the medium term remains challenging. A high level of public debt, a large external current account deficit, together with low reserves coverage, point to the need for accelerated reforms to strengthen macroeconomic stability and enhance growth. However, given the weakness in the external sector, we agree with Mr. Farber, Ms. Pollard, and Mr. Grohovsky that the report should have focused more on the external sector.

We broadly agree with the policies proposed by the staff. As debt reduction is a priority for Belize, we urge the authorities to continue fiscal consolidation with tax reforms and expenditure rationalization measures. On the revenue front, we see merit in broad basing and simplifying the tax structure. We concur with the staff recommendation to introduce a corporate income tax in place of the current turnover based business income tax. We would also like to see a tax expenditure analysis. On the expenditure front, there is a need to rationalize current expenditures, particularly in the areas of civil service reforms and pensions.

While commending the authorities for making substantial investments in adaptation infrastructure, we stress the need to procure adequate funding for weather-related disasters, especially from donors and climate funds. In this regard, we also welcome the proposed disaster resilience strategy.

Belize should also undertake structural reforms to raise growth over the medium term. Reform priorities should aim at enhancing the country's competitiveness to strengthen the external sector and promote growth.

Mr. Mahlinza made the following statement:

We have issued a gray wherein we have appreciated the supportive policies that the authorities have put in place to support the economy. We, however, note the challenging outlook; and in this respect, we just wanted to highlight our concern with the renewed pressures on correspondent banking relationships. We appreciate the efforts that are being made in the region to try and assist countries that are affected by CBRs and would like to urge staff to continue to find ways to assist the authorities in terms of trying to address these challenges.

We also wanted to commend staff for the continued focus on climate change in their Belize report, as well as their engagement with the World Bank. We want to welcome the authorities' commitment to continue investing in climate change infrastructure and expanding the use of natural disaster risk management instruments. We want to urge the authorities to develop the disaster resilience strategy to guide ongoing resilience planning investments. With this, we wish the authorities all the best.

Ms. Korinthios made the following statement:

We would like to thank staff for the report, and also we would like to point out that Belize implemented a significant consolidation in the last two years, but at the same time, we note that public debt is still elevated while the financial system remains vulnerable. We share staff's view on the importance to continue making efforts, but we note that on the recommended fiscal adjustment, as explained also by the staff, authorities and staff have different views. In particular, the authorities consider the adjustment proposed by staff is challenging. In this regard, we see merit in a more gradual fiscal adjustment to maintain social consensus and leave room for priority investment.

Finally, considering that Belize remains highly vulnerable to climate change and natural disasters, we strongly encourage the authorities to continue investing in climate resilience infrastructure.

Mr. Tabora made the following statement:

We commend the authorities for the significant fiscal consolidation achieved in the last two years; however, we believe that a rules-based fiscal framework focused on debt anchor could be very useful in strengthening the public support for fiscal consolidation. Maintaining resource mobilization efforts is essential to support the poverty alleviation strategy and mitigate the impact of fiscal consolidation. Faster growth is necessary to facilitate debt reduction, build buffers to address weather-related shocks, and create more fiscal space to support flagship social programs. In that context, the pace of reforms must accelerate to strengthen competitiveness, increase inclusive economic growth, maintain low unemployment, and preserve macroeconomic stability reforms, including improvements in the business climate, the tax system, recovering the credibility of the financial sector, strengthening the anticorruption framework, and crime reduction, are critical to achieve faster and lasting inclusive growth.

As a former Executive Director for Belize at the Inter-American Development Bank (IDB), I know that building resilience to natural disaster remains a top priority to reduce Belize's structural vulnerabilities. So in that regard, preparing a disaster resilience strategy, focusing on structural, financial, and past disaster resistance is key, as well as investing in more climate-resilient infrastructure. The financial sector remains stable, and we commend the authorities for enacting a package of laws to enhance the international financial service sector, but it is imperative to continue strengthening the regulatory, supervisory, and enforcement powers of the International Financial Service Commission, as well as fortifying the banking resolution framework and strengthening the capacity of the Central Bank of Belize (CBB) to conduct effective anti-money laundering (AML) supervision.

Finally, we applaud the authorities for taking important steps toward the strengthening of the overall anti-money laundering framework and for establishing new correspondent banking relationships, but we are concerned that the financial system remains vulnerable to the counterparty concentration risks. We wish all the best to the authorities.

The staff representative from the Western Hemisphere Department (Mr. Leigh), in response to further questions and comments from Executive Directors, made the following additional statement:

Thank you, Chair. We have a lot of agreement with the suggestions that were made for next year's consultations, including, for example, the focus on the progressivity of the tax system, and we look forward to taking this work forward. I did not take note of any specific questions, so let me just say that we would like to thank the authorities for their hospitality and cooperation and their willingness to engage in very extensive and open policy discussions, which we found extremely useful for strengthening our understanding of the issues as they are seen in Belize.

Ms. Levonian made the following concluding statement:

Thank you, Chair, and thanks to the mission chief, Daniel Leigh, and his team for the excellent work. I would also like to thank Directors for their constructive comments. I will be sure to convey them to my authorities. As mentioned in our buff statement, our authorities largely share the views of the report, and so I will therefore be able to be very brief. I am going to make a few points. First is on fiscal consolidation, which many of you have raised.

As Directors recognize, Belize has undertaken a very significant fiscal adjustment, and as mentioned, the primary surplus reached 2 percent of GDP in 2019, a 4-percentage point rise from just two years prior, and the authorities intend to maintain this surplus over the near term. They recognize that the primary surplus will need to rise over the medium term to reach their objective of bringing debt down to 60 percent of GDP. They feel strongly that additional fiscal adjustment must be gradual, both to maintain social consensus, as well as to protect fiscal space for priority capital investment. As Mr. Farber, Mr. Ronicle, Mr. Trabinski, and others identified, balancing the competing policy objectives of reducing public debt and increasing capital expenditures is a key challenge for Belize.

Many Directors highlighted that part of the answer lies in domestic revenue mobilization (DRM) and so, to that end, the authorities are planning to increase its revenue-to-GDP ratio by 2 percentage points over the next two years by simplifying revenue collection, broadening the tax base, and eliminating nonessential exemptions. Low borrowing costs are important, and in this respect, the authorities' capital program is actually financed entirely from concessional sources provided by development partners.

This brings me to my second point, which is on climate resilience. Nearly all Directors rightly highlighted the risk posed by climate change. Nevertheless, this is a point that deserves further emphasis. Among small states, Belize is actually the world's third most at risk of natural disasters and ranks fifth among small states at risk from climate change. The severe drought this year was an unfortunate reminder of Belize's exceptional vulnerability. It is for these reasons that our authorities very much welcome staff's proposal to help prepare a disaster resilience strategy and, as this Board discussed last May, disaster resilience strategies would not only help enhance resilience but could also help mobilize donor support.

Finally, many Directors underlined the risk of further withdrawal of CBRs. While the CBR situation in Belize one might think has stabilized, when I last met with the authorities, they described the withdrawal of CBRs as an existential threat that is just one phone call away. I would also add that from our authorities' perspective, improving AML/CFT frameworks to prevent CBR withdrawals is necessary but not sufficient. Indeed, CBR withdrawals, particularly in small states, is often driven by cost-benefit factors completely outside of the control of the country. There is no easy answer here, but I would like to thank Directors for keeping attention focused on this important issue.

I will leave it at that, but before closing I understand that this is actually Mr. Leigh's last official mission to Belize. At the risk of embarrassing Mr. Leigh, I would like to put on the record that the Prime Minister of Belize, Cabinet Ministers, senior officials, and my own advisors have all individually commended Mr. Leigh's collaborative and thoughtful approach. We wish Mr. Leigh could have stayed longer with us, but on behalf of my Belizean authorities and my own office and myself, I would like to sincerely thank you for your work and wish you the very best in your new role. With that I wish everyone a happy holiday. Thank you.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' ongoing efforts to enhance Belize's policy and regulatory frameworks, noting the historically low unemployment and near-zero inflation. Directors, nevertheless, acknowledged that the country continues to face challenges, including high public debt and external imbalances, modest potential growth, and vulnerability to natural disasters and climate change. They encouraged the authorities to accelerate structural reforms to strengthen inclusive growth; reduce public debt; strengthen financial sector oversight; and build resilience to climate change.

While welcoming the significant fiscal adjustment achieved over the past two years, Directors called for continued fiscal consolidation over the medium term to ensure Belize's external stability and debt sustainability. In this regard, Directors encouraged further efforts to broaden the tax base, phase out exemptions and tax incentives, restrain current spending, including through the wage bill and pension reforms, and improve the efficiency of spending through public financial management reforms. These measures could provide fiscal space for social programs to alleviate poverty and needed infrastructure. To support the fiscal adjustment, Directors encouraged the authorities to consider a rule-based fiscal framework based on a debt anchor.

Directors welcomed the significant progress in enhancing financial soundness. They encouraged further efforts to strengthen bank supervision and the resolution framework for financial stability. In this context, Directors welcomed the authorities' commitment to conduct an asset quality review to assess banks' capital buffers and underscored the importance of intensifying supervision and enforcement in the international financial services sector to bolster investor confidence and prevent a loss of Correspondent Banking Relationships. Directors emphasized the need to further strengthen the AML/CFT framework and implement international standards on virtual assets.

Executive Directors encouraged the authorities to accelerate structural reforms to improve the business climate and address supply-side bottlenecks to promote inclusive economic growth. While welcoming the recently launched National Financial Inclusion Strategy and the planned establishment of a credit bureau, Directors called for further reforms to facilitate access to credit, streamline procedures for starting a business, fight corruption and crime, and expand training programs, particularly for the youth.

Directors commended the authorities' efforts and commitment towards natural disaster resilience, including their plan to develop a Disaster Resilience Strategy based on a multi-year macro-fiscal framework which would provide a comprehensive guide to Belize's resilience-building needs and plans. Directors also encouraged the authorities to continue making investments into climate-resilient infrastructure and to optimize the use of risk management instruments.

It is expected that the next Article IV consultation with Belize will be held on the standard 12-month cycle.

APPROVAL: October 1, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

**Outlook and risks**

**1.** ***As the United Kingdom is one of the main Belize's export destination, we would welcome staff comments on the impact of a disorderly Brexit on Belize's economy.***

- Belize's exposure to such a scenario is relatively limited. The United Kingdom accounts for about one-third of Belize's goods exports (3½ percent of Belize's GDP) and 3 percent of tourism receipts (less than 1 percent of GDP).
- The impact on Belize of a disorderly Brexit could be expected to come primarily from the impact on UK foreign demand, which, for illustrative purposes, could be assumed to be in line with the estimates in the "no-deal Brexit" scenario published in the April 2019 WEO. Based on that scenario, where the negative impact on UK GDP is about 3½ percent by 2021, the negative impact on Belize's real GDP growth would very small—less than 0.1 percentage points in 2020 and 2021. This illustrative calculation is consistent with assessment in the April 2019 WEO that the impact on non-European regions would be on average negligible.

**Fiscal policy**

**2.** ***A rules-based fiscal framework centered on a debt anchor could be very useful to bolster public support in this context. In that regard, we would like to ask staff what is the authorities' willingness and the social consensus to move on with the Fiscal Responsibility Law?***

- Staff will address this question at the Board meeting.

**3.** ***We take note of the concerns by the authorities that additional fiscal adjustment would need to be gradual to maintain social consensus and wonder whether this was explored further during the consultations. We also note that the authorities welcomed the discussion of fiscal rules and how they could be adapted to Belize's experience. Could staff elaborate on whether there are any next steps in this regard?***

- Staff will address this question at the Board meeting.

**4.** ***We welcome the staff proposal to introduce a rules-based fiscal framework which would strengthen fiscal discipline while increasing the transparency and***

***accountability of fiscal operations. Can staff inform whether the authorities have plans to introduce such fiscal rules in the near future?***

- Staff will address this question at the Board meeting.

**5.** ***We understand that the Belizean authorities are open to the idea of fiscal rules and fiscal councils. Could staff elaborate on their plans for capacity development in this area, adopted to the region's experience?***

- Staff will address this question at the Board meeting.

**6.** ***While we agree with the importance of introducing oversight, transparency and accountability provisions, including by establishing an independent fiscal council, we wonder if other features such automatic correction mechanisms and escape clauses should be adopted only after PFM reforms are further advanced. Staff's comments are welcome.***

- The successful implementation of a rule-based fiscal policy framework will indeed depend critically on the quality of PFM rules and procedures, including strong macroeconomic and fiscal forecasting, a multi-year budget, reliable expenditure ceilings, and strengthened public investment management. The authorities appreciate the importance of PFM reforms and remain committed to accelerate the legislative process. To further improve public investment management, the authorities have requested a Fund staff-conducted Public Investment Management Assessment (PIMA).

**7.** ***We see that the authorities and staff have different views on the fiscal adjustment path. Particularly, staff recommends an additional fiscal adjustment to raise the primary surplus to around 4.0 percent of GDP over the medium term, while the authorities consider this adjustment as challenging. We would appreciate staff's comments in this regard.***

- Staff will address this question at the Board meeting.

**8.** ***Could staff comment on the political feasibility of the staff proposed adjustment path and its likely impact on growth?***

- Staff will address this question at the Board meeting.

**9.** ***We would like to inquire from staff whether there are plans by the authorities to publish tax expenditures at least with the budgetary cycle?***

- We have discussed with the authorities the importance of publishing estimates of tax expenditures for enhancing transparency.
- Staff is not aware of plans to publish such tax expenditures during the current budgetary cycle and encourages the authorities to publish estimates next fiscal year.

**10.** ***We note the authorities' concerns regarding the ever-evolving demands from international tax standard setters, which place significant pressures on small states, as indicated in the buff statement. We would appreciate staff comments on how best small states can be assisted in dealing with this challenge.***

- Fund staff have sought to support Belize and other Caribbean economies facing these challenges by (i) providing forums for policymakers from the region to discuss lessons and identify workable solutions, as in the workshop organized by FAD, LEG, and WHD at the 2019 Annual Meetings; and (ii) providing policy advice and analysis of options for enhancing the efficiency and fairness of the tax system and for mobilizing additional revenue as part of TA and surveillance, as in the August 2019 FAD and LEG mission to Belize and the associated Selected Issues Paper. Moreover, IMF Policy Papers on taxation, such as the March paper on Corporate Taxation in the Global Economy, contribute to a stronger understanding regarding recent developments in international aspects of corporate taxation, and potential cross-border implications.

**11.** ***We welcome the decision by the Economic and Financial Affairs Council of the European Union to remove Belize from the list of non-cooperative jurisdictions. Could staff elaborate the impact of this on foreign direct investment and whether it would provide upside to the growth outlook?***

- The removal of Belize from the list is a welcome development that removes a downside risk to the outlook for investment and trade flows.
- Removal from the list should also allow the authorities to redirect some of their limited resources to intensifying the implementation of structural reforms, which would further raise investment, income, and employment.

**12.** ***According to the selected issues, we note that personal income tax is lower than the global comparator, that employed labor is subject to a flat rate tax of 25 percent and that capital gains, pension income and most types of interest are not taxed. Could staff further detail its analysis regarding the progressivity of the current PIT and what type of reforms could be done in order to improve it?***

- A detailed analysis regarding the progressivity of the PIT was not undertaken. Progressivity of the PIT could be increased by broadening the tax base and taxing capital gains, pension income and more interest income.

**13.** ***We see the phasing out of the Central Bank credit to the government as a top priority. Is staff considering specific technical assistance in this field?***

- The 2018 Article IV consultation staff report recommended phasing out central bank financing of spending. The authorities have made progress in this area, with net credit to the government declining in both 2018 and in 2019. The authorities now also conduct regular government debt auctions.

**Monetary policy**

**14.** ***Near zero inflation is also problematic as it weighs on debt sustainability. As monetary policy was also not addressed in the report, we would welcome staff comment on the drivers of low inflation.***

- Inflation has been near zero in 2019, driven by declining fuel and transport prices.
- Belize's exchange rate peg has also underpinned its record of price stability.

**External position**

**15.** ***We would appreciate further elaboration from staff on the risks and policy implications stemming from low international reserves, in the context of Belize's pegged exchange rate and staff's view that the current account deficit will likely remain large over the medium term.***

- International reserves are projected to average about 3 months of imports of goods and services over 2019–2024, below standard adequacy metrics, including those that consider reserve needs related to vulnerabilities and risks stemming from natural disasters. In addition, the Government of Belize continues to contest various legacy claims, estimated at US$116.6 million (5.9 percent of GDP), which would lead to large public and external financing needs.
- Fiscal consolidation and competitiveness-enhancing reforms would contribute to addressing Belize's external imbalance by bringing the current account closer to surplus, raising international reserves, and reinforcing the sustainability of the exchange rate peg.

**16.** ***Could staff provide details on the large foreign-financed projects that are helping to drive the increased current account deficit, and whether this effect with persist?***

- The large foreign-financed projects are mostly tourism-related. They include major international hotels—such as Marriot, Wyndham, and Four Seasons—and two cruise terminals, in additional to other accompanying infrastructures. The table below shows the estimated FDI pipeline, from 2019 to 2024, which amount to around US$1 billion or 52 percent of 2018 GDP.

| Sector | Estimated Value (US$ million) |
| --- | --- |
| Tourism | 504.1 |
| Energy/Infrastructure | 28.5 |
| Port | 213.8 |
| Offshore outsourcing | 142.0 |
| Agri- and Agro-related | 96.7 |
| Manufacturing | 20.6 |

- Given that these projects will extend into the medium term, imports of capital goods will continue to remain high, thus weakening the external current account. However, this deficit will be financed, to a large extent, by private sector FDIs that underpin these imports. In 2018, FDI accounted for 90 percent of Belize's external capital and financial account balance.

**Financial sector**

**17.** ***We commend the authorities for enacting a package of laws to enhance the international financial service sector, but it is imperative to continue strengthening the regulatory, supervisory and enforcement powers of the International Financial Services Commission (IFSC). We support the authorities' aim to fortify the bank resolution framework to clearly designate the Central Bank of Belize (CBB) as the sole resolution authority, although it is also necessary to continue strengthening the capacity of the CBB to conduct effectively anti-money laundering and combating the financing of terrorism supervision. We welcome the recently launched "National Financial Inclusion Strategy" that supports inclusive growth and enable access to financial services. We would like to ask staff if there are specific plans and a timeline to implement these actions.***

- See answer to question 18.

**18.** ***Could staff provide further details on the national financial inclusion strategy and its key elements?***

- The Belize National Financial Inclusion Strategy (NFIS), was developed with technical assistance from The World Bank. The strategy was launched on September 17, 2019, and will be implemented over the period 2019 to 2022. The overall objective is to increase access and use of responsible financial services to Belizeans. Main areas include public and private sector commitment; legal, regulatory environment, and supervisory capacity; financial infrastructure; innovative distribution channels; tailored financial products and services; financial education and capability; and financial consumer protection. The NFIS 2019-2022 document provides further details.

**19.** ***Authorities have taken important steps toward the strengthening of the overall AML/FCT framework, but an in-depth assessment of reputational risks and costs associated with the international financial sector is required to bolster international banks' confidence. In addition to strengthening the CBB and IFSC enforcement powers, prohibiting the provision of virtual asset-related services, implementing a stricter licensing process for international financial service providers, and ensuring that beneficial ownership information of legal persons is accurate, up-to date, and available to the public are all crucial. Staff's comments on the implementation process of these actions are welcome.***

- With regard to prohibiting the provision of virtual asset-related services by IFSC licensees and IBCs, the authorities would need to introduce a legal framework to this effect and ensure its enforcement. Staff will continue to support the authorities' efforts in this regard. For other actions, the authorities had prepared a draft bill at the time of the mission, which may have positive implications for these issues. The bill was enacted after the mission. Staff will review the new legislation and provide further advice in the coming months. Meanwhile, LEG TA provided advice on some practical steps that can be taken to implement them.

**20.** ***We echo the view of the staff that an asset quality review be undertaken especially in the context of rising levels of NPL's. Do the authorities have a timeline and plan to implement this measure?***

- The authorities plan to undertake their own in-depth special inspections of loan portfolios and credit quality. The central bank has been actively building capacity to conduct risk-focused loan portfolio examinations, supported by a recent CARTAC technical assistance in July.

**21.** ***We agree with staff that the recent introduction of exceptions to recognize non-performing loans for the agricultural sector as a drought emergency measure should be phased out within an explicit timeframe. Moreover, we are not convinced that not reflecting non-performing loans in banks' balance sheets constitutes an effective alleviation measure. Wouldn't it be better to encourage banks to reflect the impact of the drought on their balance sheets and introduce temporary schemes to remedy the situation?***

- Staff advice is that if such measures are introduced to alleviate the effects of a large shock, as in the case of a weather-induced natural disaster, then they should be restricted to categories set out explicitly and a specific timeframe should be adopted for phasing it out, with a supervisory action plan and close monitoring.

- Accordingly, the authorities have highlighted that the supportive regulatory measures introduced in response to the severe drought are temporary and restricted to directly affected agricultural loans.

**Climate change**

**22.** ***We would be interested in an update from staff on the extent to which they have continued to engage on the substance of last year's Climate Change Policy Assessment, including through these Article IV discussions, any reflections on that process, and future plans.***

- Staff has continued to engage with the authorities regarding their efforts to build resilience to climate change and natural disasters, guided by the 2018 CCPA. Staff has recommended focusing reforms in three areas: structural, financial, and post-disaster resilience. The authorities have made progress on a number of fronts (see answer to question 22).
- The CCPA is ongoing on a pilot basis. The sixth pilot (Tonga) is scheduled for February 2020. The review of the CCPA is currently underway that will take stock of the process and resources needed thereafter, with a targeted completion in 2020.

**23.** ***We note that the 2018 CCPA recommended some immediate priority actions. Could staff briefly update on the state of play of these actions?***

- The authorities have made progress on a number of fronts discussed in the CCPA, including strengthening structural and financial resilience.
- Regarding structural resilience, the CCPA recommended making significant investments into infrastructure to limit the impact of natural disasters and adapt to climate change. The authorities have continued to do so, guided by Belize's 2013 National Climate Resilience Investment Plan (NCRIP).
- Regarding financial resilience, the CCPA recommended adopting a layered approach for managing financial risks, including establishing a natural disaster reserve fund and ex-ante contingent lines of credit. The authorities have initiated work on establishing such a reserve fund, supported by World Bank TA. They also have reached agreement with the IADB on a contingent line of credit.
- Staff will continue to engage with the authorities on these macro-critical issues, including in the context of their preparation of a Disaster Resilience Strategy (DRS).

**24.** ***Do staff possess a ballpark estimate for an adverse scenario based on natural disaster probabilities and how large of a risk they pose for the medium-term outlook?***

- Belize exceptionally vulnerable to weather-induced natural disasters, with a macroeconomically significant disaster occurring every 3-4 years on average (Figure 3). With climate change, the macroeconomic impact of natural disasters is likely to worsen.
- To illustrate this vulnerability, staff prepared a scenario in which a natural disaster causes 6 percent of GDP in economic damages, about half the size of the average economic damage by hurricanes over the last two decades (Annex IV). In such a disaster scenario, real GDP is estimated to decline by 3 percent in the year of the disaster, compared to baseline, and by a further 1 percent in the next year. There would be, however, a post-disaster recovery, with real GDP growth accelerating by about ½ percentage point in the following two years thanks mainly to reconstruction activity). The scenario assumes that the cost borne by the government is, based on historical accounting, ⅔ of the economic damage, corresponding to 4 percent of GDP. The associated government recovery and reconstruction expenditure is assumed to be spread over 3 years: 2 percent of GDP in the first year, and 1 percent of GDP in each of the next two years, respectively. The shock would have a material impact on government debt, shifting the entire trajectory up by around 6 percent of GDP above the baseline, with government debt at 90 percent of GDP by end-2024.

**25.** ***In view of budgetary constraints, can staff comment on how funding for climate-related public investments will be maintained at required levels to safeguard the country from weather-related risks?***

- Staff's baseline scenario assumes that, as in recent years, resilience-building public infrastructure will continue to cover the bulk of Belize's adaptation infrastructure needs, as identified in the CCPA. The baseline scenario also assumes that such investments will continue to be based on concessional foreign-financed funding.
- However, additional space for priority investments is required to fully meet Belize's needs. To this end, staff recommends a balance of revenue-enhancing and current expenditure measures. Over the medium term, to mobilize more private funding for infrastructure projects, the authorities could establish a framework for public-private partnerships (PPPs), with well-defined safeguards to manage fiscal risks.

**26.** ***How, in this context of fiscal restrictions, do the authorities plan to create fiscal space to generate the natural disaster reserve fund and when do they expect to conclude the (Disaster Resilience Strategy) DRS?***

- Staff estimates that a natural disaster reserve fund of about 1 percent of GDP is needed to accelerate the financing of immediate recovery and response costs arising from flood and hurricane hazards. The authorities are receiving World Bank TA to build capacity for establishing and administering a contingency fund. Resources for the natural disaster reserve fund would come from either government revenue or debt financing.

- The authorities have welcomed the proposal to prepare DRS, which is currently being prepared by two other Caribbean economies (Dominica and Grenada). The authorities see the DRS as providing development partners with a guide to their ongoing resilience-building investments and risk management initiatives, while placing the required financing into a sustainable multi-year macro-fiscal framework.
- Staff will engage with the authorities on the preparation of the DRS in the coming year.

**27.** ***We concur with staff that the authorities need to strengthen ex-ante risk management and welcome the intention to establish a disaster reserve fund. Contingent lines of credit and participation in regional insurance options would also assist. How do staff think that authorities best address the under-insurance problem of both public and private assets?***

- Staff recommends expanding public-sector insurance to include key buildings and infrastructure, based on an inventory of public assets. The authorities should explore options for improving accessibility of affordability of catastrophe insurance for residential, and commercial needs, including agriculture and fisheries sectors.
- They should explore with private insurers the options for expanding the traditional market, both for housing and socially-desirable services such as flood and agriculture insurance, which may require public sector involvement.
- The authorities could strengthen public-private partnerships to (i) create an inventory of public assets such as critical infrastructure; (ii) extend non-life insurance of public assets; better communicate insurance policies to public sector authorities. The authorities should in turn explore options for improving accessibility of affordability of catastrophe insurance for residential, and commercial needs, including agriculture and fisheries sectors. The MoF should also invest in further expanding insurance regulatory and supervision capacity to reflect the increase in role of the private insurance market and to promote innovative non-life insurance products.

**28.** ***We note that the authorities are also developing an investment promotion strategy to increase access to grants and climate funds. Can the staff inform as to when this strategy will be finalized? Similarly, would the staff comment on the financing mechanism for the natural disaster reserve fund?***

- Please see the answer to question 26.

**Structural issues**

**29.** ***Could staff elaborate on what barriers prevent a significant improvement in the ease of doing business?***

- Belize's ease of doing business ratings have improved only slightly in recent years, with top challenges including getting credit, starting a business, and registering property.
- The limited progress on structural reform in part reflects the authorities' focus of their limited resources on drafting and enacting legislation to address the concerns of multilateral institutions regarding Belize's tax regime.

**30.** ***The authorities' poverty alleviation strategy needs to gain traction. More attention should be dedicated to this issue, as the last poverty' assessment is almost 10 years old. We also note from the 2016 Systemic Country Diagnostic framework from the World Bank that poverty and shared prosperity could have worsened, in contrast of the LAC performance. Could staff give some details about the next steps the authorities plan to do in this area, and if specific IMF and / or World Bank technical assistance is envisaged to obtain new data?***

- Belize's last poverty assessment was published in August 2010, and an update is needed for improving the effectiveness of social policies.
- Our understanding is that the authorities plan to update the poverty assessment as part of Belize's 2020 Population and Housing Census.
- The authorities are also benefiting from TA from development partners, including IADB staff, on utilizing satellite data to create poverty maps and further improve the targeting of social programs in Belize.