IMF Staff Completes 2016 Article IV Mission to Belize

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End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will result in a Board discussion.

An International Monetary Fund (IMF) team led by Jacques Bouhga-Hagbe visited Belize during May 11–25 to hold discussions in the context of the country's 2016 Article IV Consultation. At the conclusion of the visit, Mr. Bouhga-Hagbe issued the following statement:

"The economy is slowing and fiscal and external vulnerabilities are rising. Falling oil production and multiple shocks in the primary sector reduced GDP growth to 1 percent in 2015. The decline in prices of energy and other commodities led to deflation in 2015, although the increase in fuel tax restored positive inflation, at 0.1 percent in March. The current account deficit widened to 9.8 percent of GDP as exports fell by 9 percent (mainly oil and marine products) and imports continued to grow, partly due to investment projects. Following partial compensation payments for the two nationalized companies, international reserves fell to 4.6 months of imports in March 2016. The fiscal deficit widened to 8 percent of GDP due to a one-off payment related to a settlement of a loan to one of the nationalized companies, an increase in public sector wages and transfers, and a large overrun in capital expenditure. As a result, the stock of public debt climbed to 82 percent of GDP. The banking system continued to strengthen, although the challenges posed by loss of correspondent banking relationships with international banks have increased since the 2015 Article IV Consultation.

"The economic outlook has worsened further since the 2015 Article IV Consultation and is subject to significant downside risks. Growth is projected to decline further to 0.5 percent in 2016 and average less than 2 percent in the medium term. In the absence of fiscal measures, rigid current spending would fuel high fiscal deficits and add to the already high public debt burden. The current account deficit would slowly improve due to recovery of exports, but would still remain high, putting downward pressure on international reserves. These vulnerabilities could be exacerbated by both domestic and external risks, such as a the end of PetroCaribe financing, protracted period of weak growth in trading partners, and challenges posed by withdrawal of correspondent banking relationships.

"Sustained fiscal consolidation, supported by strong structural reforms, is required to put public finances on a more sustainable footing. Placing public debt path firmly on the downward path is the foremost priority, which requires raising the primary fiscal surplus to 4–5 percent of GDP by 2021. This can be achieved by a combination of strong revenue and expenditure measures, including broadening the tax base and implementing other tax reforms, containing the public sector wage bill, initiating a parametric reform of the public pension system and strengthening controls in multiple areas of public financial management system.

"The authorities' determination to keep the financial system under tight supervision is welcome. The mission supports the authorities' prudent provisioning requirements and recommends raising them to 100 percent given uncertainties on the collateral values. Further strengthening the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) framework may assist in preventing further loss of correspondent relationships with global banks. This particularly includes strengthening AML/CFT risk-based supervision of banks, registered agents, and company service providers, and enhancing the transparency of legal persons and arrangements.

"The structural reforms are needed to improve potential growth and improve competitiveness, which are needed to reduce the external vulnerabilities. The adoption of the Growth and Sustainable Development strategy is a welcome development. It should be complemented by reforms increasing labor market flexibility, further development of the financial markets, and developing a well-designed framework for public private partnerships. There is also room for improvement in areas such as starting a business, getting credit, cross-border trade, timely resolution of contract disputes, and strengthening small business."

During its visit, the IMF team met with Prime Minister Dean Barrow, Financial Secretary Joseph Waight, Central Bank Governor Glenford Ysaguirre, other government and central bank officials, representatives of the private sector and members of the opposition. The mission thanks the authorities for their cooperation and openness.

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