“ Maintaining Steadiness; Consolidating Stability; Advancing Growth “

BUDGET SPEECH

FOR

FISCAL YEAR 2018/2019

Rt. Hon. Dean Barrow

Prime Minister and Minister of Finance and Natural Resources

Belmopan, Belize

Friday, March 9, 2018

SUMMARY OF RECURRENT AND CAPITAL BUDGETS

	ACTUAL OUT-TURN 2016/17	APPROVED BUDGET 2017/18	PROJECTED OUT-TURN 2017/18	DRAFT BUDGET 2018/19
TOTAL REVENUES AND GRANTS	**1,051,723,535**	**1,186,770,285**	**1,106,611,142**	**1,183,327,177**
RECURRENT REVENUE	**1,003,804,114**	**1,134,105,079**	**1,066,501,116**	**1,134,914,952**
TAX REVENUE	**924,672,689**	**1,032,902,996**	**968,647,110**	**1,022,580,052**
INCOME & PROFITS	261,707,011	270,781,328	266,981,933	277,321,572
TAXES ON PROPERTY	6,799,211	6,230,140	6,295,423	6,421,332
TAXES ON INTERNATIONAL TRADE & TRANSACTIONS	166,819,764	204,011,023	160,583,876	170,295,554
TAXES ON GOODS & SERVICES	489,346,703	551,880,505	534,785,877	568,541,595
NON-TAX REVENUE	**79,131,425**	**101,202,083**	**97,854,007**	**112,334,900**
PROPERTY INCOME	16,742,365	31,024,661	18,117,435	30,020,584
LICENCES	11,885,227	10,039,347	16,615,029	16,947,329
ROYALTIES	25,181,505	33,777,352	38,691,549	39,748,006
OTHER GOVERNMENT MINISTRIES	24,397,409	25,270,443	23,800,599	24,976,997
REPAYMENT OF OLD LOANS	924,918	1,090,280	629,396	641,984
CAPITAL REVENUES:	**2,511,887**	**5,983,694**	**3,236,184**	**3,300,907**
SALE OF EQUITY	155,527	159,415	198,158	202,122
SALE OF CROWN LANDS	2,356,360	5,824,280	3,038,025	3,098,786
GRANTS	**45,407,534**	**46,681,511**	**36,873,841**	**45,111,318**
TOTAL EXPENDITURES	**1,206,370,712**	**1,180,103,137**	**1,143,715,463**	**1,208,717,402**
TOTAL RECURRENT EXPENDITURE	**952,822,921**	**1,030,405,076**	**1,010,990,681**	**1,051,353,694**
PERSONAL EMOLUMENTS	403,047,517	422,393,401	422,790,412	431,681,063
PENSIONS & EX-GRATIA	83,485,473	79,080,192	88,934,563	91,428,047
GOODS & SERVICES	211,586,347	235,706,122	225,339,324	238,375,238
SUBSIDIES AND CURRENT TRANSFERS	164,081,908	184,170,746	168,324,170	177,968,299
DEBT SERVICE-INTEREST & OTHER CHARGES	90,621,676	109,054,615	105,602,212	111,901,047
TOTAL CAPITAL EXPENDITURES	**253,547,791**	**149,698,061**	**132,724,782**	**157,363,708**
CAPITAL II EXPENDITURES	113,677,320	66,243,405	59,125,293	61,920,948
CAPITAL III EXPENDITURES	137,043,493	81,156,032	71,078,402	93,144,136
CAPITAL TRANSFER & NET LENDING	2,826,977	2,298,624	2,521,087	2,298,624
RECURRENT SURPLUS/[DEFICIT]	**50,981,193**	**103,700,003**	**55,510,435**	**83,561,258**
PRIMARY SURPLUS/[DEFICIT]	**(64,025,501)**	**115,721,763**	**68,497,891**	**86,510,822**
As Percentage of GDP	-1.75%	3.14%	1.82%	2.22%
OVERALL SURPLUS/[DEFICIT]	***(154,647,177)***	***6,667,148***	***(37,104,321)***	***(25,390,225)***
As Percentage of GDP	-4.22%	0.18%	-0.98%	-0.65%
AMORTIZATION	(85,088,617)	(88,482,576)	(89,653,698)	(92,711,964)
FINANCING	**(239,735,794)**	**(81,815,428)**	**(126,758,019)**	**(118,102,189)**
GDP (in billions of Bz) (Current prices)	***3.665***	***3.684***	***3.769***	***3.902***

OUTLINE OF BUDGET STATEMENT FOR FISCAL YEAR 2018/2019

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INTRODUCTION

Madam Speaker,

I rise to move the second reading of the General Revenue Appropriation Bill for Fiscal Year 2018/2019.

In this age of human affairs, whether for empire or emerging nation, fate and fortune are tied to the real economy and, consequently, march to its fiscal and monetary drumbeats. For all Belizeans then, this annual economic report and budget presentation is an important gauge of national well-being.

At the time of the very first UDP Budget, 10 years and 3 terms ago, the world was mired in the turbulence and utter uncertainly of the Great Recession. When this was coupled with the borrowing and spending excesses of our predecessors, it became a tale foretold of a bumpy and bleak future for our people and country.

The UDP decade since 2008 defied that initial negative track, delivering instead a period of steady and stable economic growth; of judicious fiscal and monetary management; of shrewd stewardship of the public debt; of collaboration with and respect for fellow social actors; and of unrelenting advances towards an egalitarian promised land for our citizenry.

During this UDP decade, Belize's economy and budgets, on average, have outperformed those of the Caribbean/Latin American region. We thus completely avoided the steep, disruptive cyclical swings, those bubbles and busts that hurt the most vulnerable citizens. Even in the face of the financial crisis and global recession early in the decade, we achieved a 10-year average of 2.2 percent GDP growth, a 1.5 percent of GDP overall fiscal deficit, and fostered a prolonged climate of confidence and calm.

And the performance of the current budget, to be augmented by our new targets for FY 2018/19, will have achieved that near-impossible objective of consolidation programs, the near holy grail of adjustments: that is, to enhance revenue collections while still growing the economy. In fact, this FY will have delivered a primary balance of 1.8% of GDP and an overall deficit of 1.0 percent of GDP. This represents a spectacular turnaround of just about 3.6 percent of GDP, valued at some $134 million.

This is not to suggest that our economy and the public finances have been rendered invulnerable, or that formidable challenges do not yet confront us. And the foremost of these challenges is the PUP legacy debts. These bundle liabilities stemming from the vile UHS transaction, the Intelco-related claim, and the illegal tax giveaways to that most notorious PUP patron. A decade on, these are what most threaten the treasury and our hard-earned foreign currency reserves. Precious resources that could amplify the constant quest for citizen security and for poverty reduction continue to be diverted in order to minimize the multiple money traps laid during our predecessors' terms of office.

But the record of the restorative UDP decade, the real results of this year's performance and the aggressive program for further fortification of the nation's economic backbone and budget, guard against this poisoned chalice and, I am happy to report, leave little to chance, save that of exigencies beyond our best endeavors.

Mr. Speaker, I now turn to recent economic developments.

RECENT ECONOMIC DEVELOPMENTS

INTERNATIONAL AND REGIONAL DEVELOPMENTS

Broad-based economic expansion underpinned the acceleration in global growth from 3.2 percent in 2016 to 3.7 percent in 2017. Closer to home, the Caribbean region grew by 0.6 percent, notwithstanding the devastation by Hurricanes Irma and Maria, high debt burdens, worsening fiscal balances and structural bottlenecks. Tourism and construction activities fueled growth in tourism-intensive economies, while higher oil and metal prices benefited the commodity exporters.

ECONOMIC DEVELOPMENTS IN BELIZE

Real Sector Developments

Here at home a projected increase in economic activity during the fourth quarter will likely lift annual growth above the 0.5 percent expansion recorded for the first nine months of the year. The turnaround from the 0.5percent contraction of 2016 reflected a recovery in primary sector output, with the major agricultural export crops rebounding from flood and storm damages. Sugarcane deliveries grew by 12.3 percent due to higher production in the West, banana output increased by 19.9 percent, while citrus deliveries remained virtually stable. The performance of “Fishing” was subdued, as farmed shrimp production declined yet again due to continuing challenges faced by producers in coping with the “Early Mortality Syndrome” bacterial disease. Meanwhile, secondary sector activity edged up marginally with higher hydro-electricity generation, and the sugar output and construction activities actually managed to outweigh the continuing downturn in petroleum extraction. Constrained by lower distribution activities, growth of the tertiary sector moderated somewhat despite being fueled by heightened output in transportation, communication, financial services, real estate services and government services. The tourism industry reported increases of 9.1 percent in overnight visitors and 0.9 percent in cruise ship disembarkations. Cruise ship dockings increased by 13 to 336 ships with Harvest Caye accounting for 25.0 percent of all port calls.

The expansion in service-based industries underpinned increased employment and a lowering of the annual average unemployment rate from 9.5 percent in 2016 to 9.3 percent in 2017. And notwithstanding rising fuel prices the inflation rate of 1.1 percent was modest.

The External Sector

On the external front, the current account deficit of the balance of payments widened from 8.1 percent of GDP in 2016 to 8.9 percent of GDP in 2017. This was attributable to lower grant receipts, larger profit outflows to foreign shareholders and the one-off payment of financial fees associated with the bond restructuring. And it occurred even as the merchandise trade deficit narrowed due to an increase in exports and a contraction in imports. The final payment for Belize Telemedia Limited (BTL) and public sector debt servicing were mostly responsible for the decline in gross official international reserves to US$297.0 million. This, of course, is still the healthy equivalent of 3.8 months of merchandise imports.

The Monetary Sector

On the monetary front, broad money supply decreased by 0.4 percent as a $127.2 million reduction in the net foreign assets of the banking system outweighed an $81.4 million expansion in net domestic credit. The BTL settlement, which brought to a final conclusion the Nationalization epic that is still a crowning achievement of the UDP Government, naturally came at a price. And it was a price well worth paying even though it drove up net domestic credit and reduced the system's net foreign assets.

Domestic bank lending also grew by $6.6 million, despite substantial loan write-offs that finally brought all loans in conformity with the new loan loss provisioning standards instituted in 2011. In contrast, lending by the 5 largest credit unions contracted by $1.0 million due in part to $7.8 million in loan write-offs. The purchase of securities and shares of BTL and Belize Electricity Limited by banks and other investors reduced excess statutory liquid assets by 39.4 percent and excess cash balances by one-third. With the banking system still very liquid, the weighted average interest rates on new loans and deposits declined, and there was a 30 basis-point reduction in the weighted average interest rate spread to 7.33 percent.

Prudential indicators for the domestic banking system improved during the year. The aggregate capital adequacy ratio was 24.2 percent, compared to the 9.0 percent regulatory requirement; and the ratio of non-performing loans (net of specific provisions) to total loans, a measure of asset quality, improved from 3.0 percent in 2016 to 2.4 percent in 2017. This was comfortably below the 5.0 percent threshold.

Financial System Modernization

The first phase of the modernization of Belize's national payment system infrastructure was completed in 2017 with the July launch of automated cheque processing on the Automated Payment and Securities Settlement System (APSSS). This replaced the manual system in which staff of domestic banks met daily at the Central Bank to physically exchange, clear and settle cheques. A beneficiary's account can now be credited within 24 hours, down from a delay of three to seven business days.

Public Debt

Mr. Speaker, At the close of 2017, the national debt stood at approximately $3.535 billion, some 93.8 percent of estimated 2017 GDP. This was made up of $2.509 billion in obligations to external creditors, representing 71 percent of the total amount owing. The remaining 29 percent, or approximately $1.026 billion, constituted the domestic debt stock.

With regard to GoB's external debt portfolio - that is, debt obligations denominated in foreign currency and requiring foreign currency repayments - $1.055 billion is owed to commercial bondholders; some $400m is owing to the PetroCaribe Loan Program sponsored by the Bolivarian Republic of Venezuela; $305.3 million to the CDB; $242 million to the Republic of China on Taiwan and $227 million to the IDB. Thus, 41 percent or 4 of every 10 dollars of the national debt is payable to concessionary lenders, either bilateral, as in the case of Venezuela and Taiwan, or multilateral as with the CDB and the IDB.

The average 2017 interest rate on GoB's concessionary loans was 2.13 percent. And in the case of the commercial bonds, our two re-negotiations in 2013 and 2016 lowered the coupon to just below 5 percent. This is to be compared to the 11% plus historical rate of PUP commercial loans.

With regard to the domestic debt, a quarter of this portfolio is made up of short-term Treasury Bills, 62 percent is longer-term Treasury Notes and the balances are the periodic cash management advances drawn down by GoB.

Some 40 percent of GoB's domestic debt stock is currently held by the commercial banks, 38 percent by the CBB and the remaining 22 percent by other institutional and individual creditors. The 2017 average interest rate on the domestic debt was 5.8 percent.

During our three terms of national office there are few areas where this administration has as much set ourselves apart from our PUP predecessors, as we have in our management of the public debt.

At the time the people of this country entrusted us with governance, the public debt – external and domestic – stood at 88 percent of annual GDP or some $2.267 billion, half of which was that terrifying SuperBond that carried blood-sucking interest rates as high as 8.5 percent. In addition to the 51 percent of the public debt that was this monster super bond, another 35 percent of the national debt was to other external creditors. Overall then, 86 percent of the public debt at the start of 2008 was external financing, for which the Government had to find, in 2007, $297.2 million to meet annual interest payments.

As of the end of 2017, without the borrowings that were necessary in the nationalizations of BTL and BEL, estimated at 17 percent of GDP, the public debt would stand at 79 percent. The poisonous Accommodation Agreement alone, representing 60 percent of the final BTL award, added 7 percent of GDP to the national debt. Let me repeat that number for emphasis: almost a quarter of a billion dollars was deemed to be the value attributable to the Accommodation Agreement signed by two former PUP Party Leaders, in their capacities as Prime Minister and Attorney General, and executed without the knowledge or the consent of this Honourable House.

Without our renegotiations of the SuperBond, Belizeans would have paid $157 million in interest payments in 2017 alone; instead, the actual interest paid was $115 million, a 27 percent reduction or $42 million less.

This administration, in stark contrast to those on the other side, has not contracted a single dollar of commercial debt during 11 national budgets. Instead we have maximized concessionary lines of credit from friendly countries and development banks; reduced the average interest rate on the overall debt stock from 6.7 percent in 2007 to 2.1 percent last year; and trimmed the ratio of external debt to total debt by almost a fifth.

Looking forward, there is no escape from the national objective of reducing the public debt to a level - optimally 60 percent of the value of GDP - that can withstand the inevitable shocks of higher interest rates, natural disaster or cyclical economic downturns. The immediate goal is to reduce the debt to 80 percent of GDP in the next five years. If Belize can sustain and build our fiscal primary surplus position, and if we can, in collaboration with private enterprise, spark just a few years of higher than average economic expansion, then this key criterion of sovereign economic and fiscal health can be fully restored.

The creep, and in some instances, the surge in the level of public debt is not unique to Belize. Of 20 countries in the Caribbean, almost three fourths now have debt to GDP levels exceeding 60 percent. And Belize's debt ratio, despite the deluge of PUP legacy debts, remains below that of our sister neighbors Jamaica and Barbados, among others.

Fiscal Performance

Mr. Speaker, with only a few weeks to go before the end of the current fiscal year, preliminary data shows a mixed picture. There is clear evidence that successful fiscal consolidation is underway. But it is also clear that we will not meet the perhaps overly ambitious budgeted Primary Surplus Target of 3.1 percent of GDP which we had set for ourselves at the beginning of the fiscal year.

Instead the outturn is likely to be closer to 1.8 percent of GDP. It is extremely noteworthy, though, that this is still within the commitment of a 3.0 percent of GDP turnaround in the Primary Balance which we made to our creditors last year as a term and condition of the 2017 SuperBond restructuring.

The lower than expect out-turn is due to revenue shortfalls arising from weaker than expected economic activity and some slowdown in government investment.

Total expenditure less interest payments to the end of the fiscal year is projected to stand at $1.037 billion while total revenue and grants is expected to come in at $1.106 billion. This would yield a positive primary surplus of 69.2 million or about 1.8 % of GDP and is to be compared with a primary deficit of 1.8% of GDP in the prior fiscal year. Altogether it represents a turnaround of 3.6% of GDP in the primary balance between the two years, and it is to this we point and of this we boast when we claim fiscal consolidation success.

In this context, the new revenue measures introduced at the beginning of the fiscal year have performed broadly in line with expectations though in the end fell somewhat short because of an underperformance in both Import Duties and the General Sales Tax.

Expenditure on the other hand, went according to budget, particularly the outlays for salaries and wages and for transfers. Pensions and Interest charges also performed on budget.

Mr. Speaker, this projected outturn does not include the sum of $208 million paid as the final installment of the compensation for the acquisition of the BTL shares. In keeping with the guidelines in the IMF Government Financial Statistics reporting, these were properly posted as a Below-the-Line transaction and were not factored into the computations of the Primary and Overall Balances.

ECONOMIC ENVIRONMENT

ECONOMIC PROSPECTS FOR 2018

Looking ahead, the Central Bank of Belize projects that the economy should grow between 1.5 percent and 2.0 percent in 2018 due to increased output from the primary and tertiary sectors. The scheduled expansion of sugarcane production in the West should provide a boost to agriculture, while fresh investments in shrimp farms and a strengthening of phytosanitary standards should help to reverse the 3-year decline in farmed shrimp output. In the secondary sector, lower citrus juice production and petroleum extraction will dampen output, while services will remain buoyant, underpinned by another year of solid growth in tourist arrivals. Major downside risks include a slowing of growth in the country's major trade partners, continued problems in the successful management of the Early Mortality Syndrome in farmed shrimps, inclement weather such as the record rainfall at the start of the year which has already caused projections for banana output to be revised downward, and external shocks. Notwithstanding, official international reserves are expected to remain in line with 2017's outturn.

In the upcoming year, the country will also have to address, at a minimum, specific harmful tax practices identified by the European Union Code of Conduct Group by the end of 2018 to avoid being listed as a non-cooperative jurisdiction for tax purposes. This listing will be subject to annual reviews. In addition, the National Risk Assessment report on the vulnerabilities in the country's anti-money laundering and counter-financing of terrorism (AML/CFT) framework is due for completion in 2018. Action plans to address the identified vulnerabilities will be implemented with the objective of reducing the country's international AML/CFT risk profile.

ADMINISTRATIVE REVENUE COLLECTION MEASURES

In this year's budget, there were several measures introduced to buttress major sources of revenues to GoB. While broad-category adjustments such as excise duties, the environmental levy, the foreign exchange stamp duties and the social fee were effective, the Ministry of Finance's technicians have recommended, and Cabinet has agreed to propose as part of the FY 2018/2019 Budget, several further amendments, to reduce evasion and to ensure the resilience of collections.

The total target yield of these adjustments is estimated at around $20.5 million, and include the following:

First, GST is to apply to the purchase of data services by telecom clients. For some time now, this sector has been in a dynamic transition where revenues have shifted dramatically from voice to data, and with this shift has come a commensurate reduction in GST collections. Making tax application even more difficult is the bundling of services, effectively obfuscating taxable elements from those untaxed. This proposed alteration will simply restore GST revenues lost in this voice to data transition. Of course, the measure will not affect internet to schools as this service will continue to be provided free of cost by the proudly Belizean-owned BTL.

Second, exemptions for the broad categories of land clearing, crop dusting and harvesting will come to an end, thus curtailing rampant abuse of a loophole which, rather than providing an incentive to the agriculture sector, has been a source of misuse and inequity.

Third, GoB contracts, imports and purchases will be standard GST-rated rather than exempt, again to rectify collections from sources that have posed great administrative difficulty.

Fourth, the GST application to Business Processing Outsourcing or so-called BPOs will be harmonized, with operating expenses becoming ineligible for classification as inputs. This policy will apply to all BPOs ensuring a level playing field across this sector.

Fifth, excise tax applied to kerosene imports will now be synchronized with that of jet fuel, and those applied to fuel oils will be the equivalent of the rate on diesel. Again, this change will prevent mislabeling and abuse.

Sixth, the Free Zone social fee applied to goods other than cigarettes, liquor and fuel will be modified to 3.0 percent and

Finally, a social fee will now apply to inbound duty free merchandize at the PGIA.

These refinements will prevent revenue slippage, promote equity and minimize incentives for corruption and abuse by collectors and payees alike.

SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2018/2019

UNDERLYING PRIORITIES FOR THE BUDGET

Mr. Speaker, our priorities for the Budget for FY2018/2019 are to continue to provide resources for investments in physical infrastructure, mainly roads and bridges, for education and health, for poverty alleviation and for citizen security and defense. Thus, while maintaining the consolidation required for fiscal and debt sustainability, it is imperative that we also maintain the ample infrastructure and human capital resource flow that is so critical for growth. It is therefore our challenge, which we willingly embrace, to improve the delivery of services to our growing population while holding the line on the wages and salaries we so munificently raised, and on our wage-related transfers. We are also challenged in meeting our pension commitments while grappling with an admittedly too-low retirement age for public officers. Mr. Speaker, I repeat: we grasp the nettle with both hands, we rise to meet the challenges, and we will overcome them. This year's budget is structured accordingly and there therefore can and will be no retreat from our signature pro-poor policies: BOOST and Food Pantry; the Apprenticeship Program; the High School Subsidies; the Payment by GOB for students' CXC exams; Funding of the Second Chance Opportunities; Tuition Assistance and a plethora of Full Scholarships; Construction of New Classrooms, Rural Water Supply Systems, Health Posts and Hospitals certainly in San Pedro (from public/private funding currently being pursued) and PG.

SUMMARY ESTIMATES FOR 2018//2019

The proposed Budget targets a preliminary Primary Balance of positive 2.2 percent of GDP and an Overall Balance of negative 0.7 percent of GDP. Total Expenditure is budgeted at $1.208 billion while Total Revenue and Grants are estimated at $1.183 billion. When taken together, these result in a small Overall Deficit of $25.4 million which is the equivalent of 0.7 percent of GDP.

To this figure we must apply $92.7 million for Loan Amortization requirements bringing the total financing requirement to $118.1 million.

ESTIMATES OF REVENUE 2018/2019

The Draft Estimates has total Revenue and Grants amounting to $1.183 billion for FY 2018//2019 and this is comprised of $1.134 billion in Recurrent Revenue, $3.3 million in Capital Revenue and $45.1 million in Grants.

ESTIMATES OF REVENUE 2018/2019

The Draft Estimates has total Revenue and Grants amounting to $1.183 billion for FY 2018//2019 and this is comprised of $1.134 billion in Recurrent Revenue, $3.3 million in Capital Revenue and $45.1 million in Grants.

Madam Speaker, the estimate of Recurrent Revenue for the upcoming Fiscal Year is some $67.5 million above the projected outturn for this current fiscal year. This is explained, in part, by natural growth in revenue linked to the growth in GDP, improvements in tax administration, and to the small number of measures aimed at improving the buoyancy in our tax system. These latter actions are expected to raise some $20.5 million or about 0.5 percent of GDP.

ESTIMATES OF TOTAL EXPENDITURE 2018/2019

The Draft Estimates has total Expenditure of $1.208 billion comprised of $1.051 billion in recurrent expenditure and a further $157.4 million in Capital Expenditure. This compares to a projected total expenditure of $1.143 billion in the current fiscal year.

ESTIMATES OF RECURRENT EXPENDITURE 2018/2019

The Draft Estimates of Recurrent Expenditure is proposing a total of $1.057 million in recurrent expenditure up by $40.3 million over the projected outturn of $1.011 million for FY 2017//2018.

Of this proposed amount, some $431.7 million is for Personal Emoluments, $91.4 million for Pensions, $238.4 million for Goods and Services, $178.0 million for Subsidies and Current Transfers, and $111.5 million for Interest Payments on the Debt.

The rise in Current Expenditure is driven largely by increases in personal emoluments as provisions have to be made for the award of annual merit increases across the public service.

Another driver of the recurrent expenditure is the increase in transfers to cover teachers' salaries in the schools managed by the various religious denominations established in our country.

Mr. Speaker, in executing the budget renewed efforts will be made to hold down on the increase in the wage bill by capitalizing on natural staff attrition. At the same time, in partnership with our unions, we will continue the effort to save costs where we can and to improve the overall output and quality of service provided by all who are being paid from the public purse.

ESTIMATES OF CAPITAL EXPENDITURE 2018/2019

Mr. Speaker, my Government is proposing to allocate some $157.4 million to its capital program in the upcoming fiscal year, made up of some $61.9 million in locally funded Capital II expenditure and some $93.1 million in the externally funded Capital III expenditure.

This is a slight increase over the projected outturn of $132.7 million in the capital program for the current year and is reflective of the scheduled commencement of several new large-scale capital investments especially in road and bridge infrastructure. These are Investments that will continue the transformation and continue to bring the jobs to lower even more the unemployment rate and lift lives and the economy.

In the Capital III Budget provisions of over $43 million have been made to finance the following key infrastructure projects:

- Continuation of the upgrading of the Hummingbird Highway ($11.0 million);
- Continuation of the Belize City Southside Poverty Alleviation Project ($4.0 million);
- Commencement of work on the upgrading of new sections the George Price Highway including the construction of a new double lane bridge at Roaring Creek. ($13.0 million)
- Commencement of work on a upgrading of a new section of the Philip Goldson Highway ($5.0 million);

- Commencement of work of an new Airport Link Road joining the access road to the PGIA with the e Western Highway ($3.0 million);
- Commencement of work of New Haulover Bridge ($3.0 million); and
- Commencement of work on Phase I of the CARACOL Road Project ($4.0 million).

In addition, provision of $9.5 million has also been made available for projects in the Education and Health Sectors, and towards our vaunted Poverty Alleviation programs.

Mr. Speaker, I should point out that as we have done in all the years since taking office, we will again be financing our Capital Program wholly from concessional sources provided by our international development partners. We will NOT be borrowing any funds on commercial terms.

Mr. Speaker, I would like to pause to acknowledge and thank our partners in development particularly our bi-lateral partner, the Government of the Republic of China (Taiwan). I would also like to thank the Government of the Bolivarian Republic of Venezuela which continues to assist us even while facing domestic and international challenges of their own.

FINANCING OF THE BUDGET IN 2018//2019

Mr. Speaker, The financing needs of the budget amounting to $118.1 million will be met from the following sources:

- Disbursement of $63 million from Loans already contracted with our multi-lateral development partners to fund our Capital III Expenditure Program;
- Disbursement of $20 million in budget support financing from the Republic of China (Taiwan) under the on-going bilateral economic cooperation program; and
- A further draw-down of PetroCaribe financing in the amount of $15 million (which is already held in a GOB account); and
- Access to some $20 million in domestic financing.

ARBITRATION AWARDS

COMPENSATION FOR SHARES ACQUIRED IN BELIZE TELEMEDIA LIMITED

Mr. Speaker, in August 2016 the Permanent Court of Arbitration, issued its Award in respect of the Dunkeld International Investment Ltd. claim against the Government of Belize for the nationalization of Dunkeld's shareholding in Belize Telemedia Ltd.

The Court found that the value was Belize Dollars 5.645 per share, which was in itself a victory for Belize given that the Ashcroft Alliance was asking more than double that. When this value was applied against the shares formerly held by both Dunkeld and by the BTL Employees Trust, and when the interest from the time of the nationalization was added, total compensation due to both shareholders, expressed in Belize dollars, came to just over BZ$448.2 million. The Court also ordered that continuing interest at the rate of 8.3 percent be applied until the settlement was paid in full.

While the Arbitration Court had properly ordered its Award to be paid in US dollars, the GOB had sought to vary this under a Settlement Agreement with the former owners that stipulated payment in a mix of United States Dollars and Belize Dollars.

However, a dispute quickly arose between the parties as to the proper composition of the currencies. After several hearings the Caribbean Court of Justice ruled that almost all of the compensation was payable in United States Dollars. This in effect restored the Arbitration Court's original award which, absent the ultimately unsuccessful effort to vary this by negotiation, Belize was always bound to pay in US dollars. Thus, GOB has now fully complied with the Award and the CCJ and in aggregate has paid over the past two years the following sums in settlement to the Ashcroft Alliance: US$ 228.1 million and BZ$ 10.5 million. Those in Opposition have suggested that BTL has come at too steep a price. But this is a company that is totemic of nationalism and sovereignty. Furthermore it is already worth a billion and will earn billions more for Belizeans as it capitalizes on its dominance and takes advantage of financing opportunities to continue the rollout of its national broadband plan of fiber to homes and blinding internet speeds. Only the Pharisees who in the first place gave it away for next to nothing could claim now that its repatriation and the Belizeanization of its handsome profits is at a cost too dear.

Mr. Speaker, Of direct relevance to the budget is how these payments are financed and how they are reported. The payments were financed by a combination of domestic borrowing through the issuance of Treasury Bills and Notes amounting to approximately $354 million dollars and from the proceeds of the 115 million dollar sale, to Belizeans, of some of the acquired BTL shares.

In accordance with the rules and guidelines of the IMF's Government Finance Statistics Manuals, such transactions are treated as capital items reported Below-the-Line and are not reported Above-the- Line in the Budget.

INTERNATIONAL TAX AND **REGULATORY INITIATIVES**

OECD FORUM AND EU CONCERNS ON TAX MATTERS

Mr. Speaker, for some time now developed countries have expressed concerns about the ability of multinational enterprises operating across borders to use outdated international tax rules as well as the mismatch of laws between jurisdictions to undertake legal tax planning activities to significantly reduce their taxable income and, in some, cases , providing for the non-taxation of income. The effort to address these concerns has been spearheaded by groupings such as the Organization for Economic Co-operation and Development (OECD), the Global Forum, the European Union and the Group of 20.

Mr. Speaker, in response to the **OECD's Forum on Harmful Tax Practices (FHTP),** the Government of Belize has made a commitment to review its International Business Companies Regime to address certain features that are deemed to be harmful and not in line with the FHTP's criteria. Specifically, our IBC Regime has been listed as having potentially "harmful features" because it allows our IBCs to pay a very low rate of tax in Belize, thereby creating a preferential regime for a class of companies. Other concerns expressed include tax transparency, fair taxation, and the need to implement the so-called anti-**Base Erosion and Profit Shifting (anti-BEPS**) measures. Although we strongly disagree with what, dressed up in nice sounding arguments and fancy language, is nothing less than a hypocritical bushwhacking of our effort at economic diversification, we are powerless to do other than comply. It is still the way of the world that the small and weak are harried and bullied by the rich and the powerful. Thus, in order to avoid the destruction the industrialized world can visit on us by way of punishment, Belize has committed to have the necessary legislative amendments in place by October 2018.

Mr. Speaker, a similar commitment with a similar timetable was also made to the **European Union's Chair of Code of Conduct on Business Taxation**. The making of this commitment was essential to avoid being "black listed" and devastated by the EU.

We have, along with other ACP countries, protested in vain this laying waste to our financial services sector. That is because the revenues generated by this sector are significant to our budget and the income and employment in the private sector is also quite important. It will take some fancy footwork indeed to preserve some semblance of this business while at the same time complying with the new standards and criteria being set by the developed countries to muscle it out of existence. Resilience and creativity, together with the ingenuity of the service providers, will have to be the watchwords.

AUTOMATIC EXCHANGE OF INFORMATION FOR TAX PURPOSES

Mr. Speaker another initiative undertaken by the OECD and the Global Forum is the development of a standard for the A**utomatic Exchange of Information (AEOI**) between tax authorities, providing for the regular provision of bulk information using a common reporting standard, rather than the provision of information in response to specific requests. Belize has signed on to this initiative with a timetable to go live no later than by the end of this year. The Government of Belize is in the process of establishing an AEOI Unit in our Income Tax Department to be staffed by a small team of skilled and experienced officers dedicated to managing the AEOI system in an efficient and effective manner.

CONCLUSION

Mr. Speaker,

We have kept a keen ear to the ground throughout our shepherding of the economy and the public finances. There are those in the private sector who advocate an approach that would shrivel tax collections and shrink the social safety net upon the premise of compensatory growth: slash taxes these Supply Siders shout, and collections will rise.

Then there is the for us bootless cry of the IFIs, in particular the IMF, whose recipe, though unproven, remains unrelenting: gut the public service, pay down the debt, privatize any activity that is or can be profitable and the economy will swell.

And there even remains a constituency whose clamor is for the other extreme – broaden the subsidies, confine taxation to the upper echelons of the economy, ignore debt limits and generally make government-sponsored programs the answer to every societal challenge.

Our philosophy, the defining economic outlook of the UDP decade, does not envision government as either the problem or the panacea; rather, we view government as the activist enabler.

The balanced, gradual economic expansion enabled by this administration has sustained a population of almost 400,000 spread across 2 cities, 7 towns and 200 villages. The God-given bounty of our land and seas, and an economy on the cusp of producing $4 billion of goods and services each year, have been matched by the precious heritage of Belizean freedoms and rights. In this equation for economic and democratic expansion, the public sector's mission of service is supplemented by the vigorous advocacy of the Belizean citizenry, be it individual, press, corporate or NGO.

What spectacular, indeed singular, symmetry has evolved from the diversity of our peoples on the one hand, and the diversity of our economic and public finances on the other. Just as no other society in the hemisphere can lay claim to our particular mix of history and traditions, likewise no other small economy is buoyed by our unique blend of services and products. And it is for certain that none can boast of a public finance construct that yields as robust a revenue stream as 27 percent of GDP from such a variety of sources.

And what greater validation can there be for our purposeful forward March than the restoration of equilibrium to the lifeblood of the economy – the commercial banking system – which, after the battering by PUP bad loans and insider trading, teetered on the brink of collapse? Not only does private sector credit flow and grow, at the cheapest weighted average interest rates ever – 9.3 percent in 2017 – but historically low inflation protects the purchasing power of the Belize dollar. To add sauce to this delightful stew, the ratio of non-performing loans to total loans improved to 2.4 percent last year over the 3.0 percent in 2016.

With optimism brimming and confidence unremitting, this administration will surge ahead now on the current of a swift-moving economy. And our public finances will remain firmly anchored to an always more sturdy bedrock that is the plinth of a people who will ever progress and advance throughout the many years to come.

Mr. Speaker, I commend this Budget to the House.

Thank you.

ANNEX 1: TABLES AND CHARTS

Tables

Charts

Table 1: Select Indicators

	2013	2014	2015	2016^{R}	2017^{P}
POPULATION AND EMPLOYMENT					
Population (Thousands)	347.8	356.9	366.3	378.0	387.9
Employed Labour Force (Thousands)	131.4	134.6	138.1	145.6	150.1
Unemployment Rate (annual average) (%)	11.7	11.1	10.1	9.5	9.3
INCOME					
GDP at Current Market Prices ($mn)	3,227	3,413	3,485	3,640.3	3,711.8
Per Capita GDP ($, Current Mkt. Prices)	9,349	9,562	9,514	9,631.5	9,569.7
Real GDP Growth (%)	0.7	4.1	2.9	(0.5)	*0.8*
Sectoral Distribution of Constant 2000 GDP (%)					
Primary Activities	14.6	14.3	12.3	9.7	*10.3*
Secondary Activities	15.6	15.0	14.2	15.0	*15.0*
Services	15.6	59.9	62.0	66.2	*67.1*
TOURISM					
Stay Over Arrivals (Thousands)	272.3	297.4	314.9	356.6	389.2
Cruise Ship Passsenger Arrivals (Thousands)	609.6	871.3	862.2	904.9	912.8
MONEY AND PRICES ($mn)					
Inflation (Annual average percentage change)	0.5	1.2	(0.9)	0.7	1.1
Currency and Demand deposits (M1)	1,122	1,314	1,529	1,476.1	1,538.4
Quasi-Money (Savings and Time deposits)	1,355	1,358	1,346	1,478.4	1,372.6
Money Supply (M2)	2,477	2,672	2,874	2,954.5	2,939.4
Excess statutory liquidity	293.5	338.8	453.3	443.7	269.0
Excess cash liquidity	198.3	335.8	445.7	426.0	284.0
Excess securities	166.0	162.9	150.0	151.7	136.7
CREDIT ($mn)					
Commercial Bank Loans and Advances	1,854	1,933	1,986	2,015.0	2,018.2
Public Sector	24	18	11	8.7	5.3
Private Sector	1,831	1,916	1,974	2,006.3	2,018.9
INTEREST RATE (%)					
Weighted Average Lending Rate	11.1	10.7	10.0	9.7	9.3
Weighted Average Deposit Rate	2.2	1.7	1.5	1.3	1.2
Weighted Average Interest Rate Spread	9.0	8.9	8.6	8.4	8.1
BALANCE OF PAYMENTS (US $mn)					
Merchandise Exports (f.o.b.)(1)	608.1	589.2	537.9	442.8	457.9
Merchandise Imports (f.o.b.)	888.6	938.7	961.3	875.1	848.9
Trade Balance	(280.5)	(349.6)	(423.4)	(432.3)	(391.0)
Remittances (Inflows)	73.4	78.0	82.4	87.2	87.9
Tourism (inflows)	333.1	349.7	352.1	390.4	426.7
Services (Net)	253.0	285.6	277.1	293.1	327.0
Current Account Balance	(72.4)	(127.8)	(171.7)	(151.6)	(165.7)
Capital and Financial Flows	177.0	218.6	100.9	86.4	66.7
Gross Change in Official International Reserves	113.8	81.8	(50.1)	(60.4)	(94.1)
Gross Official International Reserves(2)	405.1	486.8	436.9	376.6	297.0
Import Cover of Reserves (in months)	5.0	5.7	5.0	4.5	3.8

Sources: Statistical Institute of Belize and Central Bank of Belize

(1) Includes CFZ gross sales

(2) Figures reflect only usuable reserves as defined by BPM5.

P: Preliminary R: Revised n.a.: Not Available

Table 2: Summary of Budget Estimates, FY 2015/16 to FY 2020/21

	Budget Outturn 2015/2016	Budget Outturn 2016/2017	Approved Estimates 2017/2018	Projected Outturn 2017/2018	Draft Estimates 2018/2019	FORECAST 2019/2020	FORECAST 2020/2021
(Bz$million)							
Total Revenue and Grants	1,015.5	1,051.6	1,186.4	1,106.6	1,183.3	1,206.0	1,231.3
Total Expenditure	1,277.0	1,206.4	1,180.1	1,143.7	1,208.7	1,236.8	1,231.1
Primary Balance	(172.7)	(64.2)	115.4	68.5	86.5	81.8	115.4
As % of GDP	*0.1%*	*-1.8%*	*3.4%*	*1.8%*	*2.2%*	*2.0%*	*2.8%*
Overall Deficit	(261.5)	(154.8)	6.3	(37.1)	(25.4)	(30.7)	0.1
As % of GDP	*-2.7%*	*-4.2%*	*0.2%*	*-1.0%*	*-0.7%*	*-0.8%*	*0.0%*
Amortization	(75.3)	(90.6)	(109.1)	(89.7)	(92.7)	(89.3)	(93.0)
Financing Requirement	(336.8)	(245.4)	(102.7)	(126.8)	(118.1)	(120.1)	(92.8)
GDP in current market prices	3,578	3,665	3,684	3,769	3,902	4,039	4,182

Table 3: Summary of Revenue and Grants, FY 2015/16 to FY 2020/21

	Budget Outturn 2015/2016	Budget Outturn 2016/2017	Approved Estimates 2017/2018	Projected Outturn 2017/2018	Draft Estimates 2018/2019	FORECAST 2019/2020	FORECAST 2020/2021
(Bz$ million)							
Total Revenue and Grants	**1,015.5**	**1,051.6**	**1,186.4**	**1,106.6**	**1,183.3**	**1,206.0**	**1,231.3**
Total Revenue	**979.5**	**1,006.3**	**1,139.7**	**1,069.7**	**1,138.2**	**1,160.7**	**1,184.2**
Current Revenue	**973.7**	**1,003.8**	**1,134.1**	**1,066.5**	**1,134.9**	**1,157.3**	**1,180.7**
Tax Revenue	*864.3*	*924.7*	*1,032.9*	*968.6*	*1,022.6*	*1,040.2*	*1,060.6*
Taxes on Income & Profits	255.6	261.7	270.8	267.0	277.3	282.8	288.3
Taxes on Property	5.5	6.8	6.2	6.3	6.4	6.5	6.7
Taxes on Goods & Services	354.4	489.3	551.9	534.8	568.5	575.2	585.6
International Trade & Transaction	248.8	166.8	204.0	160.6	170.3	175.6	180.0
Non-Tax Revenue	*109.4*	*79.1*	*101.2*	*97.9*	*112.3*	*117.1*	*120.1*
Property Income	36.9	16.7	31.0	18.1	30.0	32.4	33.0
Licenses	14.0	11.9	10.0	16.6	16.9	17.3	17.6
Royalties	28.0	25.2	33.8	38.7	39.7	39.8	39.7
Ministries & Departments	29.6	24.4	25.3	23.8	25.0	27.0	29.0
Repayment of old loans	0.8	0.9	1.1	0.6	0.6	0.7	0.7
Capital Revenue	**5.8**	**2.5**	**5.6**	**3.2**	**3.3**	**3.4**	**3.4**
Grants	**36.0**	**45.2**	**46.7**	**36.9**	**45.1**	**45.4**	**47.1**

Table 4: Central Government's External Debt, FY 2015/16 to FY 2018/19

	Disbursed Outstanding Debt			
	ACTUAL 2015/2016	ACTUAL 2016/2017	PROJECTED 2017/2018	FORECAST 2018/2019
Total Debt (Bz$ Million)	**2,268.2**	**2,349.7**	**2,401.5**	**2,441.0**
Bilateral	636.1	697.2	721.1	721.9
Commercial	1,053.0	1,053.0	1,053.0	1,053.0
Multilateral	579.1	599.5	627.4	666.1

Table 5: Summary of Expenditure, FY 2015/16 to FY 2020/21

(Bz$ million)	Budget Outturn 2015/2016	Budget Outturn 2016/2017	Approved Estimates 2017/2018	Projected Outturn 2017/2018	Draft Estimates 2018/2019	FORECAST 2019/2020	FORECAST 2020/2021
Total Expenditure	**1,277.0**	**1,206.4**	**1,180.1**	**1,143.7**	**1,208.7**	**1,236.8**	**1,231.1**
Current Expenditure	***904.3***	***952.8***	***1,030.4***	***1,011.0***	***1,051.4***	***1,066.0***	***1,082.4***
Wages and salaries	384.0	403.0	422.4	422.8	431.7	440.8	447.6
Pensions	77.2	83.5	79.1	88.9	91.4	97.8	103.8
Goods and services	193.5	211.6	235.6	225.3	238.4	240.7	241.6
Subsidies and current transfers	160.9	164.1	184.3	168.3	178.0	174.2	174.2
Interest payments & other charge	88.8	90.6	109.1	105.6	111.9	112.6	115.2
Capital Expenditure & Net Lending	***372.7***	***253.5***	***149.7***	***132.7***	***157.4***	***170.8***	***148.7***
Capital II	100.4	113.7	66.2	59.1	61.9	75.7	73.9
Capital III	183.4	137.0	81.2	71.1	93.1	92.8	72.5
Net lending	88.9	2.8	2.3	2.5	2.3	2.3	2.3
Amortization	**(75.3)**	**(90.6)**	**(109.1)**	**(89.7)**	**(92.7)**	**(89.3)**	**(93.0)**

Table 6: Central Government's Debt, FY 2015/16 to FY 2018/19

	Disbursed Outstanding Debt			
	ACTUAL 2015/2016	ACTUAL 2016/2017	PROJECTED 2017/2018	FORECAST 2018/2019
Total Debt (Bz$ Million)	**2,796.7**	**3,161.1**	**3,444.1**	**3,509.0**
Domestic Debt	528.5	811.4	1,042.6	1,068.0
External Debt	2,268.2	2,349.7	2,401.5	2,441.0
Total Debt (AS Percent of GDP)	**78.2%**	**86.3%**	**91.4%**	**89.9%**
Domestic Debt	14.8%	22.1%	27.7%	27.4%
External Debt	63.4%	64.1%	63.7%	62.6%

Table 7: Central Government's Domestic Debt, FY 2015/16 to FY 2018/19

	Disbursed Outstanding Debt			
	ACTUAL 2015/2016	ACTUAL 2016/2017	PROJECTED 2017/2018	FORECAST 2018/2019
Total Debt (Bz$ Million)	**528.5**	**811.4**	**1,042.6**	**1,068.0**
Overdraft/Loans from Central Bank	58.3	62.2	63.4	60.9
Treasury Bills	200.0	245.0	245.0	285.0
Treasury Notes	265.0	500.0	640.0	720.0
Other Bonds & Loans	5.2	4.2	94.2	2.2

Chart 1: Composition of External Debt, FY 2017/2018

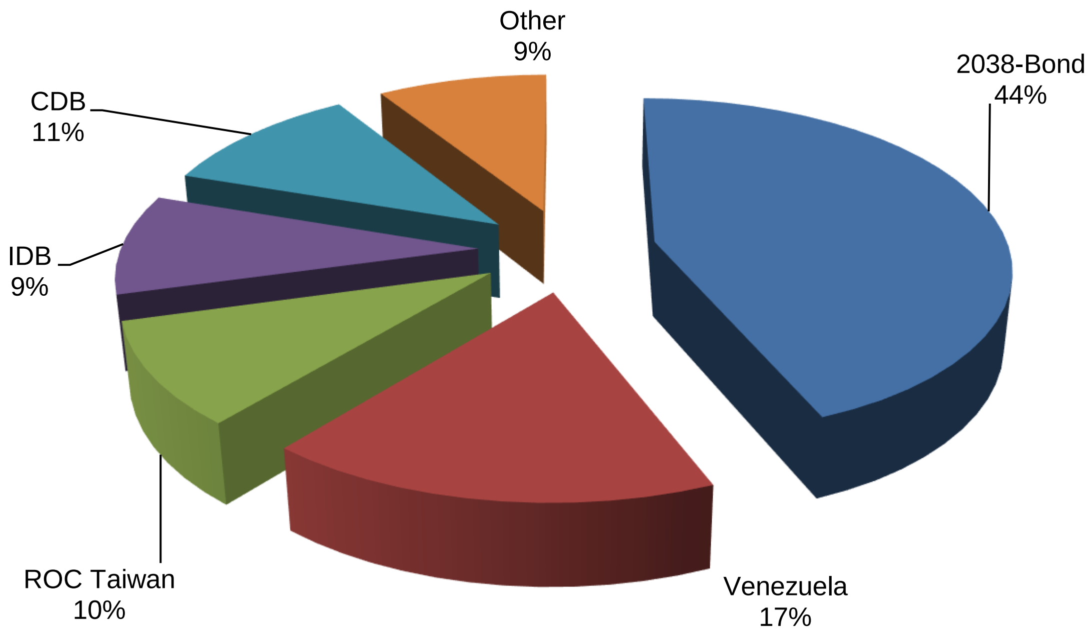


Chart 2: Government's $1,144 million Projected Expenditure in FY 2017/18

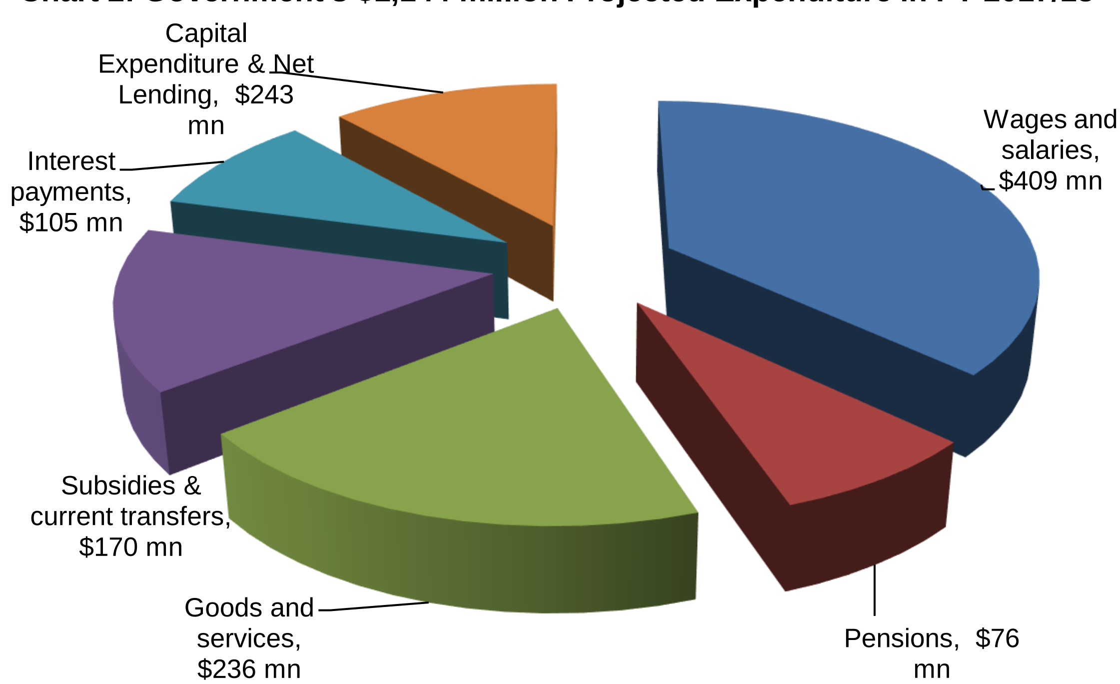
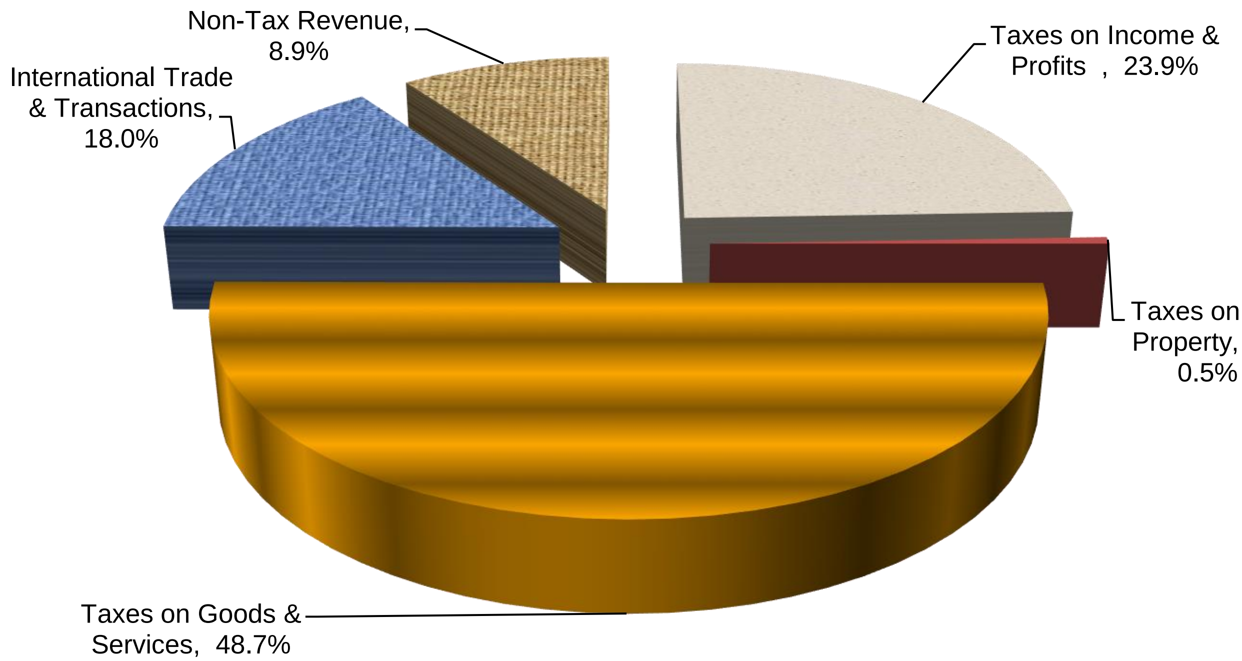


Chart 3: Sources of Government's $1,135 million Current Revenue in FY 2018/19



ANNEX 2: FISCAL STRATEGY STATEMENT - FISCAL YEAR 2018/2019