“ Moving Ahead With Strong and Steady Economic Growth; Expansion of Opportunities for Business and Personal Advance; And Rededication to Basic Social Protection “

BUDGET SPEECH

FOR

FISCAL YEAR 2019/2020

Rt. Hon. Dean Barrow
Prime Minister and Minister of Finance, Labour, Local Government, Rural Development, Public Service, Energy and Public Utilities
Belmopan, Belize
Friday, March 15, 2019

SUMMARY OF RECURRENT AND CAPITAL BUDGETS

	ACTUAL OUT-TURN 2017/18	APPROVED BUDGET 2018/19	PROJECTED OUT-TURN 2018/19	DRAFT BUDGET 2019/20
TOTAL REVENUES AND GRANTS	**1,111,454,839**	**1,183,327,175**	**1,174,349,123**	**1,226,771,198**
RECURRENT REVENUE	**1,079,432,196**	**1,134,914,949**	**1,144,288,264**	**1,198,915,868**
TAX REVENUE	**967,445,481**	**1,022,580,052**	**1,046,022,903**	**1,088,786,237**
INCOME & PROFITS	270,222,939	277,321,572	288,996,863	305,023,302
TAXES ON PROPERTY	6,383,939	6,421,331	6,313,567	6,439,838
TAXES ON INTERNATIONAL TRADE & TRANSACTIONS	157,807,938	170,295,554	167,705,887	167,019,037
TAXES ON GOODS & SERVICES	533,030,666	568,541,595	583,006,587	610,304,060
NON-TAX REVENUE	**111,986,715**	**112,334,897**	**98,265,361**	**110,129,631**
PROPERTY INCOME	20,832,481	30,020,584	13,754,922	14,030,021
LICENCES	20,334,675	16,947,328	21,619,641	22,052,034
ROYALTIES	45,940,248	39,748,006	35,079,569	45,680,123
OTHER GOVERNMENT MINISTRIES	24,390,658	24,976,996	27,605,015	28,157,116
REPAYMENT OF OLD LOANS	488,651	641,983	206,213	210,338
CAPITAL REVENUES:	**1,798,984**	**3,300,908**	**2,506,225**	**2,556,349**
SALE OF EQUITY	193,745	202,122	126,354	128,881
SALE OF CROWN LANDS	1,605,239	3,098,786	2,379,871	2,427,468
GRANTS	**30,223,659**	**45,111,318**	**27,554,634**	**25,298,981**
TOTAL EXPENDITURES	**1,160,918,767**	**1,208,717,414**	**1,185,894,997**	**1,256,208,969**
TOTAL RECURRENT EXPENDITURE	**1,006,597,949**	**1,051,353,704**	**1,028,399,545**	**1,077,000,794**
PERSONAL EMOLUMENTS	426,107,271	431,681,060	432,295,633	440,596,070
PENSIONS & EX-GRATIA	94,672,377	91,428,047	96,038,393	97,113,118
GOODS & SERVICES	210,906,621	238,375,250	227,352,086	250,172,089
SUBSIDIES AND CURRENT TRANSFERS	172,725,170	177,968,300	175,267,159	174,045,978
DEBT SERVICE-INTEREST & OTHER CHARGES	102,186,511	111,901,047	97,446,274	115,073,538
TOTAL CAPITAL EXPENDITURES	**154,320,818**	**157,363,710**	**157,495,452**	**179,208,175**
CAPITAL II EXPENDITURES	59,176,486	61,920,948	61,343,078	74,777,640
CAPITAL III EXPENDITURES	92,845,707	93,144,138	87,853,751	96,131,911
CAPITAL TRANSFER & NET LENDING	2,298,624	2,298,624	8,298,624	8,298,624
RECURRENT SURPLUS/[DEFICIT]	**72,834,247**	**83,561,245**	**115,888,720**	**121,915,074**
PRIMARY SURPLUS/[DEFICIT]	**52,722,583**	**86,510,808**	**85,900,400**	**85,635,767**
As Percentage of GDP	1.44%	2.22%	2.21%	2.12%
OVERALL SURPLUS/[DEFICIT]	***(49,463,928)***	***(25,390,239)***	***(11,545,874)***	***(29,437,771)***
As Percentage of GDP	-1.35%	-0.65%	-0.30%	-0.73%
AMORTIZATION	(83,164,734)	(92,711,964)	(94,739,307)	(103,011,334)
FINANCING	**(132,628,662)**	**(118,102,203)**	**(106,285,181)**	**(132,449,105)**
GDP (in billions of Bz) (Current prices)	***3.665***	***3.902***	***3.888***	***4.030***

OUTLINE OF BUDGET STATEMENT FOR FISCAL YEAR 2018/2019

Table of Contents

Introduction 2
RECENT ECONOMIC DEVELOPMENTS 4
International and Regional Developments 4
Economic Developments in Belize 4
Real Sector Developments 4
The External Sector 4
The Monetary Sector 5
Financial System Oversight 6
Public Debt 6
Fiscal Performance 7
ECONOMIC ENVIRONMENT 10
Economic Prospects for 2019 10
Financial System Modernization 10
Strengthening In Tax Administration 10
Public Financial Management 11
SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2019/2020 13
Underlying Priorities for the Budget 13
Summary Estimates for 2019//2020 13
Estimates of Revenue 2019/2020 13
Estimates of Total Expenditure 2019/2020 14
Estimates of Recurrent Expenditure 2019/2020 14
Estimates of Capital Expenditure 2019/2020 14
Financing of the Budget in 2019//2020 15
ARBITRATION AWARDS AND OTHER SETTLEMENTS 19
INTERNATIONAL TAX AND REGULATORY INITIATIVES 20
OECD Forum and EU Concerns on Tax Matters 20
Automatic Exchange of Information for Tax Purposes 20
CONCLUSION 22
ANNEX 1: TABLES AND CHARTS 24
ANNEX 2: FISCAL STRATEGY STATEMENT - FISCAL YEAR 2019/2020 30

INTRODUCTION

Madam Speaker,

I rise to present to this Honourable House and to the nation my Administration's Budget for the Fiscal Year 2019/20.

This is our twelfth National Budget, each one conscientiously crafted, sometimes in difficult circumstances, to increase investment and propel development. This while always ensuring that necessary fiscal risk-taking does not balloon into irresponsible fiscal excess. We have sought to maintain essential stability even as we pushed boundaries in our crusade for national betterment. In the end, then, we have never deteriorated into adventurism, And balance and equilibrium have ultimately been our watchwords.

This is because the welfare of the people has always been at the core of the equation we have tried to calibrate. And so it is with the budget proposals I submit today. How Government spends monies and allocates resources in these upcoming 12 months of the new financial year is driven by one central preoccupation, one sacred mission: to benefit the citizens of our nation, those that inhabit, make their way and organize their lives in our villages and towns and cities and open countryside. It is they, in their flesh and blood reality, that are the corporeal sap and sinew of this wonderful, unique, many-splendored jewel. And it is to them that we owe allegiance and fealty and an unyielding obligation to perform and produce.

Every Belizean, then, is a grantee of this annual budget rite. The Annual Estimates is the fountainhead for the running of our society. And Government must make sure of a smooth, inclusive operation. So we have tried, especially in this age of social-media skepticism and relentless fault-finding, to provide something for everyone and every sector in this our twelfth stanza.

The Budget funds and facilitates the frame and the plinths of national development. That is why we are so pleased to report that this presentation is made at a time when our thriving economy is on the cusp of generating an annual output of 4 billion dollars. This, I am proud to say, is 1.3 billion dollars larger than when we took office in 2008. That is why we are generating jobs for almost 156 thousand Belizeans out of a total workforce of around 172 thousand. That is why we have created a dynamic marketplace for the earning of livelihoods, where-furthermore- the rights of the worker are protected by the rule of law, untrammeled unionism and active public sector oversight.

I ask you to consider too, that it is this growing economy that enables the 107 thousand or so students from kinder to college to sit and learn in classrooms mostly built by the state, taught by educators mostly paid by the state.

Then I appeal to you as you listen to this Budget, to think of our hospitals where almost 452 thousand patient visits were made to primary care facilities last year as a result of a national health system where no one is turned away from our Government facilities.

And reflect as well that as a result of this Budget some 15 thousand or so Public Officers, teachers, Police women and men, soldiers, Coast Guard and others provide myriad daily services including the protection of our borders and the safeguarding of our land and sea territories.

Finally for this introduction, do digest the fact that this Budget will continue the decade-long transformation of the national infrastructure grid. An unprecedented number of our almost 400 thousand citizens in our two cities, seven towns and two hundred villages have at least close, if not always immediate, access to paved, passable or improved roads. Ditto for potable water, schools and clinics and essential public services.

Madam Speaker, Members, Citizens: the immeasurable, the unmatched, advances, loom even larger when you process the fact that they have taken place across a territory of almost 9 thousand square miles, with the 5th lowest population density in all of Latin America and the Caribbean. These signal improvements have also been scored against the backdrop of a fiercely competitive international economic system. One in which, it has often seemed, the industrialized countries are determined to marginalize if not completely destroy, certainly our efforts at financial sector diversification.

So it is after pointing you to a canvas that boasts, without exaggeration, great success against very many odds, that I now turn to recent economic developments.

RECENT ECONOMIC DEVELOPMENTS

INTERNATIONAL AND REGIONAL DEVELOPMENTS

The International Monetary Fund (IMF) projected that global output weakened slightly, slowing from 3.8 percent in 2017 to 3.7 percent in 2018. The slower growth was mainly attributed to dampened economic activity in Europe and Asia. As the US-China trade dispute escalated, financial conditions in advanced and emerging market countries tightened, and uncertainties in relation to the United Kingdom's withdrawal from the European Union (BREXIT) grew. In the Caribbean, average regional growth strengthened, but still lagged world output. The Caribbean Development Bank reported that economic growth among its 19 borrowing member countries rose to 1.8 percent in 2018, up from 0.6 percent in 2017. Regional growth was lifted mainly by higher tourist arrivals and, to a lesser extent, buoyant construction activity. To some degree, the latter was due to rebuilding efforts in the aftermath of the devastating 2017 hurricane season.

ECONOMIC DEVELOPMENTS IN BELIZE

Real Sector Developments

All indicators show that Belize's economic performance easily outshone the regional average. For the first three quarters of 2018, the Statistical Institute of Belize (SIB) estimated that Belize's real domestic gross product (GDP) grew by 3.4 percent compared to the same period of 2017. More recently, the SIB estimated a GDP growth of 3.1 percent for 2018, easily doubling the 1.4 percent achieved in 2017.

The acceleration in output was driven by great growth in services, since the overall value added contributions from primary and secondary industries actually contracted. The growth in services was headlined by record increases in tourism arrivals. But there were also expansions in other service based-industries, namely merchandise distribution, transport, communication, real estate, financial and government services. Tourism's star turn featured an overnight arrivals increase of 12.6 percent in 2018 to a record-high 438,261 visitors. For its part, cruise ship disembarkations rose by 19.1 percent to 1.1 million visitors. It was the first time in industry history that we passed the million-mark milestone.

Meanwhile, output in the other sectors was mixed. In the primary sector, agricultural production was stymied by plant diseases and heavy rainfall in the first quarter of the year. Consequently, banana production dipped by 5.1 percent and citrus deliveries fell by 22.1 percent compared to 2017. In contrast, though, national sugarcane deliveries expanded by 2.2 percent, mainly on account of higher production by the Santander Group. In aquaculture, farmed shrimp exports recorded a 2.6 percent increase over the previous year. This was great news, representing the first increase in annual farmed shrimp exports since 2014. Most importantly, it signaled that farmers are having some success in controlling the early mortality syndrome (EMS) bacterial disease, which blight has crippled the industry since 2015.

Turning to livestock, its production expanded robustly owing to record-setting cattle and swine production.

But, meantime, output in the secondary sector weakened as downturns in agro-processing, electricity generation and petroleum extraction outweighed gains from a rebound in rum and soft drink production.

There was a minuscule increase in the unemployment rate as of April 2018, up marginally to 9.4% from April 2017's 9.3%. This slightest of deteriorations was because new entrants into the labour force outpaced the undoubted job gains of 2018. On the other hand, inflationary pressure for households remained low. The average annual inflation rate for 2018 was just 0.3 percent, attributable to rising costs for house rentals, medical services, liquefied petroleum gas and other fuels. These increases were partly offset by reductions in air fares and, most significantly, locally produced food items such as rice, meat, seafood and cheese.

The External Sector

On the external front, the current account deficit of the balance of payments actually narrowed from 7.7 percent of GDP in 2017 to 6.1 percent of GDP in 2018. This good news resulted principally from the increase in tourism inflows, but as well from other business service export earnings and inward remittances. Altogether the combination substantially exceeded the outflows for merchandise imports and profit repatriation.

Also, net capital and financial inflows rebounded to US$101.9 million, as a result of grants from the European Union, fresh foreign investments in tourism-related construction projects and real estate, and proceeds from public sector borrowings. Notwithstanding, the gross official international reserves declined by US$17.8mn to US$ 294.2mn, the still safe equivalent of 3.6 months of merchandise imports.

The Monetary Sector

In monetary developments, broad money supply rose by 2.7 percent in 2018, driven by an $87.6 million expansion in net domestic credit, while the net foreign assets of the banking system contracted by $4.6 million. During the year, domestic banks' credit to the private sector and utilities rose by $56.6 million and $42.8 million, respectively, reflecting the largest increase in domestic bank lending since 2008. Net loan disbursements were widely distributed, with sizeable advances to sugar and beverage producers in the manufacturing sector and to tourism and distributive firms in the tertiary sector. Households also benefited, receiving $10.6 million in net disbursements during the year. In contrast, net credit to Central Government from the banking system contracted by $11.8 million. On the other hand, the 0.5% contraction in net foreign assets occurred as the $37.8 million decline in the Central Bank's net foreign asset position exceeded the $33.2 million build up in domestic banks' foreign balances as a result of the boost in tourism revenue.

Meanwhile, liquidity conditions tightened but remained well above statutory limits. Domestic banks' excess statutory liquid assets declined by $28.5 million to $240.7 million or 38.6 percent above requirement, while their excess cash reserves contracted by $87.4 million to $196.6 million or 85.4 percent above requirement. Against this backdrop, the annual weighted average interest rates on loans and deposits maintained their downward trend, sliding to 9.0 percent and 1.2 percent, respectively. Consequently, the interest rate spread narrowed to 7.7 percent, down from 8.1 percent a year earlier.

Financial System Oversight

The Central Bank's prudential oversight assured that Belize's financial system remained safe and sound. On 29 June 2018, the Central Bank as a consequence of regulatory concerns revoked Choice Bank Limited's license to operate as an international bank in Belize. On the other hand, the CBB registered a new credit union, the Spanish Lookout Credit Union, which commenced operations in August 2018.

Consistent with the overall good health of Belize's financial sector, domestic banks' soundness indicators in all respects continued to exceed minimum required standards. For example, at year end the aggregate capital adequacy ratio of domestic banks improved to 24.6 percent, well above the 9.0 percent regulatory requirement. Additionally, the ratio of non-performing loans (net of specific provisions) to total loans stood at 2.7 percent, weakening slightly from 2.4 percent a year ago, but still significantly below the 5.0 percent industry threshold.

Public Debt

Madam Speaker, According to the Central Bank of Belize, the outstanding external debt as of December 2018 totaled $2.556 billion, the equivalent of 66.4 percent of GDP, while the domestic debt stood at $1.045 billion or 27.2 percent of GDP. This gave rise to a total debt of $3.601 billion or 93.6 percent of GDP.

Before detailing the cost of this debt, it is essential to illustrate how sparingly, how utterly prudentially, this administration has acted with regard to contracting public debt during our three terms of office.

In their 2 terms, between 1998 and 2007, those on the other side quadrupled the national debt in dollar terms, from $653.3 million to $2.267 billion; that is, from 47.2 percent of GDP when they took office to 87.8 percent of GDP when they were voted out. This is what fabricated the façade of PUP growth during that era: borrowed money, contracted at extortionate foreign commercial interest rates. Quite to the contrary, in 12 years and over 3 terms, this UDP Government has added only 5.8 percentage points of GDP to the public debt. So we effectively slimmed by almost half, in present value terms, that monstrosity of a legacy created by the beast labeled the Super bond. And we have, wonderful to relate, shrunk the external debt, the foreign currency denominated debt, as a percentage of total debt from 75.4 percent to 66.4 percent of GDP. The big attendant reduction in foreign exchange obligations is, history will record, a centerpiece of UDP success. And the conspicuousness of that success is thrown into even starker relief by reference to the cost details of our public debt mix: that is, real interest payments. Last year, according to the CBB, interest paid on Belize's external debt totaled $87.0 million and interest on domestic debt was $34.5

million for a total of $121.5 million. But twelve years ago, in the final full year of the PUP Administration, that expenditure line was $143.4 million. That is 15 percent greater and $21.9 million more than we paid in 2018.

Even more striking is that last year our debt servicing cost 11 cents of every recurrent tax dollar collected. In 2007, it was 21 cents of every recurrent tax dollar. Calculated by aggregate interest rate, in 2018 we paid 3.4 percent on the total debt stock. In contrast, those on the other side paid 6.3 percent or almost 50 percent more during their final year in office.

There, in plain unchallengeable numbers, stand the bright and bold differences between the woeful record of PUP debt practices and ours. So their bleating now about our current debt metrics, is of the whited sepulcher variety. Borrowing is a necessary part of the financial operations of all governments. But It is we who always seek, in our debt equations, to be activist but careful; to ultimately not overburden the public purse; to maximize what we borrow for pro-poor, pro-development spending; and to utilize all resources for honest-to-goodness investment rather than the Mahogany heist, Galleria Maya, pork barrel projects of those across the aisle. This is why, yet again, in the fiscal year now ending and for the one just beginning, our administration has not taken and will not take a single dollar in commercial borrowing. We continue to source capital exclusively from concessionary multilateral and bilateral lenders. And we tap the domestic market for only what is absolutely necessary to bridge out budget needs. We thereby ensure ample credit for private sector expansion, credit that the numbers show is being used more than ever now by the business community.

Fiscal Performance

Madam Speaker, with another two weeks before the end of the present fiscal year, I can report that the Government is projecting the outturn for FY 2018/2019 to outperform the budget that was approved by this House last year. We therefore expect to achieve a primary surplus of 2.2 percent of GDP, and to limit the overall deficit to only 0.3 percent of GDP. With this we have satisfied the commitment made to our bondholders. More importantly, we have demonstrated to the Belizean public our allegiance to sound finances and an investment framework of maximum stability.

Total revenue and grants are projected at $1.174 billion or almost $9.0 million below budget. But this is more than compensated for by total expenditure that is $1.186 billion or $22.8 million below budget.

Notwithstanding a court ruling that allowed the Belize Bank to withhold almost $14.0 million in tax payments, receipts from the taxes on income and profits, GST and the stamp duties from land transactions are projected to be significantly higher than estimated. On the other hand, a $17.6 million decline in grants outweighs these increases.

The lower than expect out-turn in total outlays is driven largely by a combined decrease of $25.4 million on interest payments on the debt and expenditure on goods and services.

In addition to the performance of total revenue and grants and expenditure, the Government also projects the payment of $94.7 million on amortization or principal payments on the debt. As per international guidelines, this amount is captured under the financing line for the purposes of the budget presentation.

ECONOMIC ENVIRONMENT

ECONOMIC PROSPECTS FOR 2019

Going forward, the Central Bank projects that the pace of Belize's economic growth will decelerate slightly to 2.8 percent in 2019. There will be output expansion in primary activities and continued growth in service industries. But the secondary sector is expected to contract. The upturn in the primary sector will be driven by the turnaround in farmed shrimp production resulting from the success of the new techniques being employed to reduce mortality rates. Furthermore, sugarcane and banana yields are expected to recover from the weather-related setbacks suffered last year. Meanwhile, the continued growth in the tertiary sector will be tempered by the fact that the increase in tourist arrivals will not be as great in 2019 as 2018's record performance. The slightly reduced increase would, of course, dampen a little the performance of related industries, particularly accommodation, food and beverage, transportation and distributive trade services. The woes in the secondary sector will likely persist due to further declines in: (i) citrus juice production due to the adverse impact of diseases, (ii) crude oil extraction with the natural decline in the Spanish Lookout oil field and, (iii) hydroelectricity generation because of below average rainfall.

This CBB forecast is, as it should be, conservative. And even then subject to the usual vicissitudes. But it is worth noting that their forecast for 2018 was 2 percent and we in fact grew by 3.1 percent. Thus it is not at all unrealistic to believe that in 2019 we can once again outperform the forecast and perhaps by a similarly whopping 50 percent.

FINANCIAL SYSTEM MODERNIZATION

Madam Speaker, the Central Bank commenced two major strategic initiatives in 2018 aimed at enhancing financial system development, and these undertaking will be advanced in 2019. The initiatives are: (i) drafting of a national financial inclusion strategy to reduce poverty and expand access to financial products countrywide; and (ii) development of a direct debit scheme and mandate management system that will allow customers to make recurrent payments from their bank accounts to recipients' bank accounts based on mandates between the transacting parties.

STRENGTHENING IN TAX ADMINISTRATION

Madam Speaker, Cabinet just two weeks ago approved the consolidation of the Income Tax and General Sales Tax Departments into one new Department and further approved the procurement and installation of new Integrated Tax Administration System (ITAS). The latter will achieve improvement in efficiency, interconnectivity, accountability, and transparency in tax collection.

It is expected that with the consolidation of the two tax departments, Government will provide a more efficient service to taxpayers, improve internal processes, and achieve a significant boost in revenue collection. The closing of administrative loopholes that lead to revenue leaks due to inefficiency should also help add buoyancy to the system.

Government will in the next month or two be introducing the necessary legislation to facilitate the merger of the two departments.

Madam Speaker, in addition to this major administrative reform, the Government is also supporting other initiatives. These include addressing the PAYE anomalies in threshold and rates and also providing properly weighted incentives in renewable and energy efficient technology. Madam Speaker, we intend to come back to this Honourable House with proposals on these two initiatives within the current year.

PUBLIC FINANCIAL MANAGEMENT

Madam Speaker, for the past several years the Government of Belize, with the support of a number of development partners has been involved in a rigorous program of Public Financial Management Reform. This is aimed at improving the efficiency and effectiveness of the Government's financial system and at providing better value and services to our taxpayers and to our citizenry as a whole. Areas of reform, based on a 2013 PEFA (Public Expenditure and Financial Accountability) Assessment, which are now being addressed, include the following:

- Through the Caribbean Regional Technical Assistance Centre (CARTAC) - technical assistance for implementing a new Chart of Accounts, improving the budget processes, training of staff in cash management, improving fiscal analysis, and improving the comprehensiveness and content of the GOB financial statements to make them IPSAS (International Public Sector Accounting Standards) compliant;

- Through Supporting Economic Management in the Caribbean (SEMCAR) - technical assistance focused on identifying the key changes in policies, institutional reforms, improvements in formal processes, and actual work practices that are needed to take place quickly in tax, customs, and PFM to effectively implement new ICT systems.
- Through the Supporting Fiscal Management in the Caribbean Project (FMCP) project – technical assistance focused on drafting detailed financial instructions for Line Ministries, systematizing banking relations and transactions, and cash management and cash basis IPSAS;
- Through the Inter-American Development Bank (IDB) - technical assistance and training in Taxation (Belize tax and trade regime, technical assistance from the Inter-American Centre of Tax Administration, Automatic Exchange of Information, General Sales Tax Office Analysis and Training, support in re-purposing free zones) and Public Procurement;
- Through CARICOM - support in drafting the procurement legislation.

Madam Speaker, recently GOB has entered into another PFM Project, this time with the European Union under the 11th European Development Fund Program with Belize. This Project is aimed at providing general support to GOB's PFM Reform, as well as specific assistance for the creation of an Internal Audit Unit, and help to the Office of the Auditor General and the office of the Contractor General.

SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2019/2020

UNDERLYING PRIORITIES FOR THE BUDGET

Madam Speaker, as in recent years, our priorities for the Budget for FY2019/2020 are to continue to provide resources for investments in roads and bridges, for education and health, for poverty alleviation and for citizen security and defense ; and to do all this while maintaining our commitment to fiscal and debt sustainability.

We continue to confront the challenge of having to provide more and better services to a growing population, particularly to the poor and marginalized. At the same time we must achieve the level of savings necessary to pay down debt and to build buffers and resilience against natural disasters and climate change. We seek to meet our challenges head on. And with the cooperation and commitment of our public service, teachers and other social partners, we are determined to overcome them.

What is non-negotiable in the balancing act we must perform, is steadfastness in our pro-poor policies. This Budget therefore continues the unstinting support for BOOST and Food Pantry; for the Apprenticeship Program; for the High School Subsidies; for the payment by GOB of students' CXC exams; for funding of the Second Chance Opportunities; for a plethora of Tuition Assistance and Full Scholarships; for construction of New Classrooms, Rural Water Supply Systems, Health Posts and Polyclinics.

SUMMARY ESTIMATES FOR 2019//2020

The proposed Budget targets a preliminary Primary Balance of positive 2.1 percent of GDP and an Overall Balance of negative 0.7 percent of GDP. Total Expenditure is budgeted at $1.256 billion while Total Revenue and Grants are estimated at $1.227 billion. When taken together, these result in a small Overall Deficit of $29.4 million which is the equivalent of 0.7 percent of GDP.

To this figure we must apply $103.0 million for Loan Amortization requirements bringing the total financing requirement to $132.5 million.

ESTIMATES OF REVENUE 2019/2020

The Draft Estimates has total Revenue and Grants amounting to $1.226 billion for FY 2019//2020 and this is comprised of $1.199 billion in Recurrent Revenue, $2.6 million in Capital Revenue and $25.3 million in Grants.

Madam Speaker, the estimate of Recurrent Revenue for the upcoming Fiscal Year is some $54.5 million above the projected outturn for this current fiscal year. This is explained by several things: by the natural growth in revenue linked to the growth in GDP; by improvements in tax administration including the start of the new Integrated Tax Administration System; and by the positive effect of the recent amendment to the Income and Business Tax law to bring into the tax net several thousand International Business Companies. And the projection we make, Madam Speaker, is despite the recent court judgement undermining our collection targets.

ESTIMATES OF TOTAL EXPENDITURE 2019/2020

The Draft Estimates has total Expenditure of $1.256 billion comprised of $1.077 billion in recurrent expenditure and a further $179.2 million in Capital Expenditure. This compares to a projected total expenditure of $1.185 billion in the current fiscal year.

ESTIMATES OF RECURRENT EXPENDITURE 2019/2020

The Draft Estimates of Recurrent Expenditure is proposing a total of $1.077 million in recurrent expenditure up by $48.6 million over the projected outturn of $1.028 million for FY 2018//2019.

Of this proposed amount, some $440.6 million is for Personal Emoluments, $97.1 million for Pensions, $250.2 million for Goods and Services, $174.0 million for Subsidies and Current Transfers, and $115.1 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 annual merit awards across the public service. Another driver of the recurrent expenditure is the higher outlays for goods and services including utility costs, rents and fuel; and a rise in interest payments reflecting the increase in interest rates for both external and domestic obligations.

ESTIMATES OF CAPITAL EXPENDITURE 2019/2020

Madam Speaker, my Government is proposing to allocate some $179.2 million to its capital program in the upcoming fiscal year, made up of some $74.8 million in locally funded Capital II expenditure and some $96.1 million in the externally funded Capital III expenditure.

This is a slight increase over the projected outturn of $157.5 million in the capital program for the current year and is reflective in large part of the continued emphasis on road and bridge infrastructure. These are investments that will continue the transformation of the economy by lowering transportation costs and increasing access to new rural areas. They will also boost employment and contribute in the round to continued economic growth.

In the Capital II Budget, provisions have been made for some $12 million to the Ministry of Works to meet counterpart financing for various externally funded projects; another $12 million for land acquisition payments; and $5.0 million to commence construction of a new office complex in the Lake I area of Belize City. There is, as well, $43.7 million for a number of smaller projects.

In the Capital III Budget provisions of over $64 million have been made to finance the following key infrastructure projects:

- Continuation of the upgrading of the Hummingbird Highway including the replacement of five single-lane bridges with modern double-lane bridges ($6.0 million);
- Continuation of the Belize City Southside Poverty Alleviation Project ($3.0 million);
- Continuation of work on the upgrading of new sections the George Price Highway including the new double-lane bridge at Roaring Creek. ($10.0 million)
- Commencement of work on a upgrading of a new section of the Philip Goldson Highway ($5.0 million);
- Continuation of work on the Airport Link Road joining the access road to the PGIA with the George Price Highway ($8.0 million);
- Continuation of work on the New Haulover Bridge ($3.0 million);
- Commencement of work on Phase I of the CARACOL Road Project ($4.0 million).

- Education Quality Improvement ($7.0 million)
- Belize City Urban Rejuvenation ($3.0 million)
- Sustainable Tourism ($3.0 million)
- Climate Vulnerability Reduction Infrastructure (6.0 million)

In addition to this veritable cornucopia of good things, provisions of $24.3 million have also been made for projects in the Education and Health Sectors, for Agriculture, Environment and Sustainable Development, and for National Security programs. And also, a further $5.0 million is provided for the New Integrated Tax System Project.

Madam Speaker, I should point out that as we have done since first taking office in 2008, we will again be financing our Capital Program wholly from concessional sources provided by our international development partners. We will NOT be borrowing any money on commercial terms.

Madam Speaker, I pause to acknowledge and thank our partners in development including our key multilateral partners (the CDB, the IDB, the OFID and Kuwait Funds, the World Bank, and others) and our key bilateral partner, the Government of the Republic of China (Taiwan). I also acknowledge the past support that we have received from the Bolivarian Republic of Venezuela under the PetroCaribe Program.

Madam Speaker, it gives me particular pleasure to announce that we have received a commitment from the Government of Taiwan for funding the upgrading of the Corozal Town to Sarteneja Road to paved standard. The funding also includes the construction of two new bridges to replace two existing ferries along what we should now call this Highway. The funding is for a total of US$50 million, and we expect to be in a position to execute a Loan Agreement with the Government of Taiwan in the next few months and to commence preliminary feasibility and design work shortly thereafter. This is in addition to the current bilateral cooperation program with the Taiwan Government, and we again thank our Taiwanese allies for their continued generous support.

In addition, Madam Speaker, I also announce that our friends from the Kuwait Fund have preliminarily agreed the financing of the Orange Walk Town to Progresso Road upgrade. They have placed an indicative figure of US$15.0 million in their program for Belize and a signed loan agreement should be concluded before the end of June 2019. So in assessing our full infrastructure panorama, we must take into account these additional commitments for a minimum of US$ 65 million, Madam Speaker. And they are to be formally signed for in the first quarter of the financial year. So, Madam Speaker, we are really looking at Capital 3 pipeline projects worth $BZ226 million. That, Madam Speaker, ought perhaps to be the greatest takeaway from this presentation. And it is really of a piece with, a continuation of, the fabled infrastructure narrative that is the success story of this Government. So as you and Belizeans go around this country, Madam Speaker, feast your eyes on all the UDP-built wonders to behold. And ponder on the fact of just how great will have been our achievements in a little over 10 years.

How much do we in the UDP love and remake Belize, Madam Speaker? Let me count the ways.

Apart from Corozal Town to Sarteneja and Orange Walk Town to Progreso, there is the Airport Link Road, the Coastal Highway and the Caracol Road. And before the end of this term we will have replaced the country's three most crucial bridges: the Hawkesworth, the Haulover and the Kendall. In this same vein we are also replacing, what has been necessary for so long, all the narrow bridges along the Hummingbird. And all this is in addition to rebuilding the two most trafficked stretches of the George Price Highway and the Phillip Goldson Highway: those between Ladyville and Belize City and between Belmopan and Santa Elena. Place in the mix as well, Madam Speaker, the transformation of street and drain infrastructure in our two Cities and seven Towns. We are talking, without exaggeration, of hundreds of paved and concrete streets and tens of miles of flood-mitigating drains.

Without a doubt then, Madam Speaker, this is a record not just currently unprecedented but unmatchable for generations to come.

FINANCING OF THE BUDGET IN 2019//2020

Madam Speaker, The financing needs of the budget amounting to $132.5 million will be met from the following sources:

- Disbursement of $76.0 million from Loans already contracted with our multilateral development partners to fund our Capital III Expenditure Program;

- Disbursement of $20.0 million in budget support financing from the Republic of China (Taiwan) under the on-going bilateral economic cooperation program; and
- Access to some $36.5 million in domestic financing.

ARBITRATION AWARDS AND OTHER SETTLEMENTS

Madam Speaker, in the course of this financial year we managed to settle two long outstanding and vexing matters which were wholly the legacy inherited from the previous PUP administration.

The first was the settlement of a 2008 international arbitration award in the sum of US$4.2 million plus interest in favour of a company named NEWCO Belize Ltd. The award was for the wrongful breach of a Concession Agreement for the management and expansion of the Philip Goldson International Airport. It was a breach that the then PUP Minister in charge engineered in order to cancel a legitimate contract with NEWCO. And, of course, the unjust cancellation was for the purpose of diverting the money to make another down payment on the friends and family plan. In other words, it was so that PUP nomenklatura could instead be given, without any competitive process, the gold mine that management of the PGIA represented. So ultimately we had to settle in the amount of US$6.0 million, the award stemming from this flagrant piece of PUP corruption. The settlement sum is payable in two equal installments, the first of which was made in October 2018. And we have now provided in this Budget the funds for the second installment due in September 2019.

The other matter that was settled was a long-standing claim in the US Courts from a company by the name of GDG Acquisitions Ltd. And it was in respect of an alleged breach of a Lease Agreement for some telecom equipment provided for the Government's Wide Area Network back in 2002. The Claim was upwards of US$9.0 million and after extended negotiations we settled for a sum of US$2.5 million. Again, with the prior approval and appropriation of funds by this House, this amount was paid in full in December 2018. And again, it was money we were forced to pay as a result of the corrupt bargain made between the PUP Government and the Intelco telecoms outfit owned by their inside man Glenn Godfrey.

INTERNATIONAL TAX AND **REGULATORY INITIATIVES**

OECD FORUM AND EU CONCERNS ON TAX MATTERS

Madam Speaker, in October 2017 Belize was cited in an Organization of Economic Cooperation and Development's (the OECD's) Forum on Harmful Tax Practices (FHTP) Report. The charge was that our International Business Companies (IBC) Regime contained potentially harmful tax features. In response, the Government of Belize gave an undertaking to the OECD, that the regime would be amended to remove any such features. In December 2018, this Honourable House passed a number of amendments to the International Business Companies Act; the Income and Business Tax Act; and Stamp Duty Act. At the same time it also passed a new Designated Business Processing Act to replace the Export Processing Zone Act about which the OECD had also complained.

Subsequently, the FHTP after reviewing the action taken by Belize reached a new conclusion that Belize's IBC regime was no longer harmful.

And that, Madam Speaker, was the end of that. Or so we thought!

Because lo and behold in a parallel assessment and subsequent conclusion, the European Union's Code of Conduct Group found that Belize's IBC regimes still contained harmful tax features. They demanded, under pain of being "black-listed", more action on the part of Belize. Now it must be stressed that all this was despite the fact that EU Code of Conduct Group is itself a senior member of the OECD Forum. The same OECD Forum that just a few weeks before, with the full involvement of the Code of Conduct Group, had given Belize a "Clean Bill of Health".

On the face of it, Madam Speaker, this is outrageous. But the power disparity in international relations is all that counts. And thus the EU treats us with nothing but rank contempt in these matters. And there is no point in troubling deaf heaven with our bootless cries. So we are once again forced to eat injustice and perform the usual contortions to satisfy a new set of unconscionable dictates. We will therefore be introducing at this sitting of the House further amendments to the IBC and IFSC Acts to try to bring them into compliance with the new moving targets.

AUTOMATIC EXCHANGE OF INFORMATION FOR TAX PURPOSES

Madam Speaker, Another undertaking visited upon us by the OECD and the Global Forum is the development of a standard for the Automatic Exchange of Information (AEOI) between tax authorities. This provides 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, perforce, signed on to this initiative. And in the course of this year, albeit at great financial and human resource expense, established a fully functioning and well-staffed AEOI Unit in our Income Tax Department.

CONCLUSION

Madan Speaker,

In commending this Budget for consideration and passage to the House, it is impossible for me not to feel pride at the spectacular prolongation of UDP fiscal and economic probity.

Once again, this Administration configures a Budget for the new fiscal year that ticks all the right boxes: the attainment of another impressive primary surplus; the augmentation of the services and salaries of the public sector; the funding of an ever-expanding envelope of strategic capital investments; the rightsizing of the debt obligations placed upon this and future generations; and above all, the constraining of the cost of living and maintenance of the strength of the Belize dollar.

And we do all this without any increase in taxes.

We also do it without the pillage and plunder that preceded us.

We do it by restoring the red line, serially violated pre 2008, to stop national assets from being treated as Party spoils.

And we do it with the least possible friction between the social actors and their government.

I therefore feel confident in saying that never before has there been such an extended period of fairness, balance and stability in Belize's financial and economic affairs.

But that is because no hitch nor hurdle has ever flickered our faith in destiny's draw.

We have never wavered.

Not even in those early days when, new, we were immediately set upon by the hydra-headed legacy of the SuperBond, corruption overhang and secret contracts to be paid in metaphorical blood and literal treasure;

Not when, against the slope of history, we fought to retake ownership of the utility sectors;

Not in the face of surging petroleum costs;

Nor the more recent loss of key preferential markets;

Nor the debilitating diseases that descended on major export commodities;

Nor climate change, nor weather events, nor cyclical downturns;

None of this has, none of this will, cramp our forward march.

And as we seek with all our might to scale the heights of collective prosperity, this is our eternal pledge. We shall always maintain our allegiance to the popular will. And we will ever be guided by that uniquely Belizean ethos of fellow feeling, selfless service, and the all-embracing empowerment of our community, our citizenry and our nation.

Madam Speaker, I commend this Budget to the Honourable House.

Thank you.

ANNEX 1: TABLES AND CHARTS

Tables

Table 1: Select Indicators.. 25
Table 2: Summary of Budget Estimates, FY 2016/17 to FY 2021/22.............................. 26
Table 3: Summary of Revenue and Grants, FY 2016/17 to FY 2021/22 26
Table 4: Central Government’s External Debt, FY 2016/17 to FY 2019/20.................... 26
Table 5: Summary of Expenditure, FY 2016/17 to FY 2021/22 27
Table 6: Central Government’s Debt, FY 2016/17 to FY 2019/20 27
Table 7: Central Government’s Domestic Debt, FY 2016/17 to FY 2019/20.................. 27

Charts

Chart 1: Composition of Government’s External Debt ($2.402 billion), FY 2018/19 ………..... 28
Chart 2: Sources of Government’s $1.199 billion Current Revenue in FY 2019/20 ….……........ 28
Chart 3: Government’s $1.186 billion Projected Expenditure in FY 2018/19 ………................ 29

Table 1: Select Indicators

	2014	2015	2016	2017^R	2018^P
POPULATION AND EMPLOYMENT					
Population (Thousands)	358.9	368.3	378.0	387.9	398.1
Employed Labour Force (Thousands)	134.6	138.1	145.6	150.1	155.9
Unemployment Rate (annual average) (%)	11.1	10.1	9.5	9.3	9.4
INCOME					
GDP at Current Market Prices ($mn)	3,386	3,525	3,613	3,725	3,850
Per Capita GDP ($, Current Mkt. Prices)	9,434	9,571	9,559	9,604	9,670
Real GDP Growth (%)	3.7	3.4	(0.6)	*1.4*	*3.1*
Sectoral Distribution of Constant 2000 GDP (%)					
Primary Activities	14.4	12.4	9.7	*10.4*	*10.0*
Secondary Activities	14.9	14.0	14.2	*14.1*	*13.5*
Services	60.1	62.6	66.6	*67.5*	*68.3*
TOURISM					
Stay Over Arrivals (Thousands)	297.4	314.9	356.6	389.2	438.2
Cruise Ship Passsenger Arrivals (Thousands)	871.3	862.2	904.9	912.8	1,087.3
MONEY AND PRICES ($mn)					
Inflation (Annual average percentage change)	1.2	(0.9)	0.7	1.1	0.3
Currency and Demand deposits (M1)	1,313.8	1,528.4	1,471.8	1,565.9	1,598.5
Quasi-Money (Savings and Time deposits)	1,358.2	1,345.4	1,478.4	1,372.6	1,418.8
Money Supply (M2)	2,672.1	2,873.9	2,950.2	2,938.5	3,017.3
Excess statutory liquidity	338.8	453.3	443.7	269.0	240.6
Excess cash liquidity	335.8	445.7	426.0	284.0	196.6
Excess securities	162.9	150.0	151.7	136.7	187.7
CREDIT ($mn)					
Commercial Bank Loans and Advances	1,933.0	1,985.7	2,015.0	2,018.2	2,119.9
Public Sector	17.6	11.3	8.7	5.3	50.6
Private Sector	1,915.5	1,974.4	2,006.3	2,018.9	2,069.3
INTEREST RATE (%)					
Weighted Average Lending Rate	10.7	10.0	9.7	9.3	9.0
Weighted Average Deposit Rate	1.7	1.5	1.3	1.2	1.2
Weighted Average Interest Rate Spread	8.9	8.6	8.4	8.1	7.7
BALANCE OF PAYMENTS (US $mn)					
Merchandise Exports (f.o.b.)(1)	589.2	537.9	442.8	457.1	454.9
Merchandise Imports (f.o.b.)	938.7	961.3	(875.1)	(848.3)	(900.9)
Trade Balance	(349.6)	(423.4)	(432.3)	(391.1)	(446.0)
Remittances (Inflows)	78.0	82.4	87.2	87.9	89.8
Tourism (inflows)	349.7	352.1	390.4	389.2	485.1
Services (Net)	285.6	277.1	293.1	293.2	387.7
Current Account Balance	(127.8)	(171.7)	(151.6)	(143.7)	(116.5)
Capital and Financial Flows	218.6	100.9	89.6	68.4	101.9
Gross Change in Official International Reserves	81.8	(50.1)	(60.3)	(64.6)	(17.8)
Gross Official International Reserves(2)	486.8	436.9	376.6	312.0	294.2
Import Cover of Reserves (in months)	5.7	5.0	4.5	4.0	3.6

Sources: Statistical Institute of Belize and Central Bank of Belize

(1) Includes CFZ gross sales

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

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

Table 2: Summary of Budget Estimates, FY 2016/17 to FY 2021/22

	Budget Outturn 2016/2017	Budget Outturn 2017/2018	Approved Estimates 2018/2019	Projected Outturn 2018/2019	Draft Estimates 2019/2020	FORECAST 2020/2021	FORECAST 2021/2022
							(Bz$million)
Total Revenue and Grants	1,021.5	1,035.8	1,183.3	1,174.3	1,226.8	1,258.2	1,292.6
Total Expenditure	1,206.4	1,160.9	1,208.7	1,185.9	1,256.2	1,271.9	1,295.5
Primary Balance	(94.2)	(22.9)	86.5	85.9	85.6	97.9	112.2
As % of GDP	*-2.6%*	*-0.6%*	*2.2%*	*2.2%*	*2.1%*	*2.3%*	*2.6%*
Overall Deficit	(184.9)	(125.1)	(25.4)	(11.5)	(29.4)	(13.7)	(2.9)
As % of GDP	*-5.2%*	*-3.4%*	*-0.7%*	*-0.3%*	*-0.7%*	*-0.3%*	*-0.1%*
Amortization	(82.4)	(83.2)	(92.7)	(94.7)	(103.0)	(109.2)	(117.9)
Financing Requirement	(267.3)	(208.3)	(118.1)	(106.3)	(132.4)	(122.9)	(120.8)
GDP in current market prices	3,578	3,665	3,902	3,888	4,030	4,182	4,341

Table 3: Summary of Revenue and Grants, FY 2016/17 to FY 2021/22

	Budget Outturn 2016/2017	Budget Outturn 2017/2018	Approved Estimates 2018/2019	Projected Outturn 2018/2019	Draft Estimates 2019/2020	FORECAST 2020/2021	FORECAST 2021/2022
							(Bz$ million)
Total Revenue and Grants	**1,021.5**	**1,035.8**	**1,183.3**	**1,174.3**	**1,226.8**	**1,258.2**	**1,292.6**
Total Revenue	**976.3**	**1,005.6**	**1,138.2**	**1,146.8**	**1,201.5**	**1,233.4**	**1,266.7**
Current Revenue	**973.7**	**1,003.8**	**1,134.9**	**1,144.3**	**1,198.9**	**1,230.8**	**1,264.1**
Tax Revenue	*864.3*	*924.7*	*1,022.6*	*1,046.0*	*1,088.8*	*1,109.0*	*1,134.0*
Taxes on Income & Profits	255.6	261.7	277.3	289.0	305.0	312.6	320.5
Taxes on Property	5.5	6.8	6.4	6.3	6.4	6.5	6.7
Taxes on Goods & Services	354.4	489.3	568.5	583.0	610.3	620.1	634.6
International Trade & Transactions	248.8	166.8	170.3	167.7	167.0	169.7	172.2
Non-Tax Revenue	*109.4*	*79.1*	*112.3*	*98.3*	*110.1*	*121.7*	*130.1*
Property Income	36.9	16.7	30.0	13.8	14.0	32.4	33.0
Licenses	14.0	11.9	16.9	21.6	22.1	17.3	17.6
Royalties	28.0	25.2	39.7	35.1	45.7	44.4	49.7
Ministries & Departments	29.6	24.4	25.0	27.6	28.2	27.0	29.0
Repayment of old loans	0.8	0.9	0.6	0.2	0.2	0.7	0.7
Capital Revenue	**2.5**	**1.8**	**3.3**	**2.5**	**2.6**	**2.6**	**2.7**
Grants	**45.2**	**30.2**	**45.1**	**27.6**	**25.3**	**24.9**	**25.9**

Table 4: Central Government's External Debt, FY 2016/17 to FY 2019/20

	ACTUAL 2016/2017	ACTUAL 2017/2018	PROJECTED 2018/2019	FORECAST 2019/2020
				(Bz$ million)
Total Debt (Bz$ Million)	**2,351.8**	**2,414.6**	**2,401.8**	**2,427.7**
Bilateral	697.5	736.2	706.8	694.1
Commercial	1,053.0	1,053.0	1,053.0	1,053.0
Multilateral	601.3	625.4	642.0	680.6

Table 5: Summary of Expenditure, FY 2016/17 to FY 2021/22

							(Bz$ million)
	Budget Outturn 2016/2017	Budget Outturn 2017/2018	Approved Estimates 2018/2019	Projected Outturn 2018/2019	Draft Estimates 2019/2020	FORECAST 2020/2021	FORECAST 2021/2022
Total Expenditure	**1,206.4**	**1,160.9**	**1,208.7**	**1,185.9**	**1,256.2**	**1,271.9**	**1,295.5**
Current Expenditure	***952.8***	***1,006.6***	***1,051.4***	***1,028.4***	***1,077.0***	***1,086.5***	***1,107.8***
Wages and salaries	403.0	426.1	431.7	432.3	440.6	451.6	463.5
Pensions	83.5	94.7	91.4	96.0	97.1	102.7	108.2
Goods and services	211.6	210.9	238.4	227.4	250.2	247.3	247.3
Subsidies and current transfers	164.1	172.7	178.0	175.3	174.0	173.2	173.6
Interest payments & other charges	90.6	102.2	111.9	97.4	115.1	111.6	115.1
Capital Expenditure & Net Lending	***253.5***	***154.3***	***157.4***	***157.5***	***179.2***	***185.4***	***187.7***
Capital II	113.7	59.2	61.9	61.3	74.8	72.7	81.0
Capital III	137.0	92.8	93.1	87.9	96.1	110.5	104.4
Net lending	2.8	2.3	2.3	8.3	8.3	2.3	2.3
Amortization	**(82.4)**	**(83.2)**	**(92.7)**	**(94.7)**	**(103.0)**	**(109.2)**	**(117.9)**

Table 6: Central Government's Debt, FY 2016/17 to FY 2019/20

	Disbursed Outstanding Debt			
	ACTUAL 2016/2017	ACTUAL 2017/2018	PROJECTED 2018/2019	FORECAST 2019/2020
Total Debt (Bz$ Million)	**3,163.2**	**3,452.7**	**3,471.9**	**3,514.1**
Domestic Debt	811.4	1,038.1	1,070.1	1,086.4
External Debt	2,351.8	2,414.6	2,401.8	2,427.7
Total Debt (AS Percent of GDP)	**88.4%**	**94.2%**	**89.0%**	**90.4%**
Domestic Debt	22.7%	28.3%	27.4%	27.9%
External Debt	65.7%	65.9%	61.6%	62.4%

Table 7: Central Government's Domestic Debt, FY 2016/17 to FY 2019/20

	Disbursed Outstanding Debt			
	ACTUAL 2016/2017	ACTUAL 2017/2018	PROJECTED 2018/2019	FORECAST 2019/2020
Total Debt (Bz$ Million)	**811.4**	**1,038.1**	**1,070.1**	**1,086.4**
Overdraft/Loans from Central Bank	62.2	58.8	62.3	64.0
Treasury Bills	245.0	245.0	260.0	275.0
Treasury Notes	500.0	640.0	655.0	655.0
Other Bonds & Loans	4.2	94.3	92.8	92.4

Chart 1: Composition of Government's External Debt ($2.402 billion) FY 2018/19

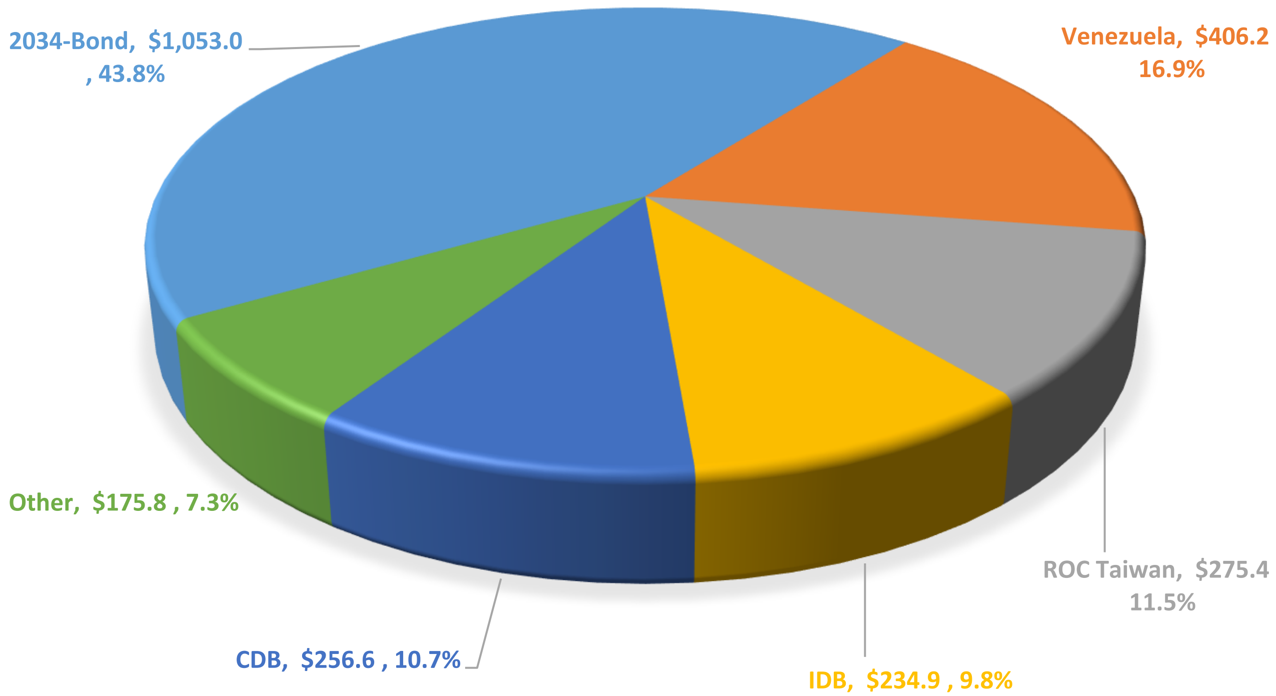


Chart 2: Sources of Government's $1.199 billion Current Revenue in FY 2019/20

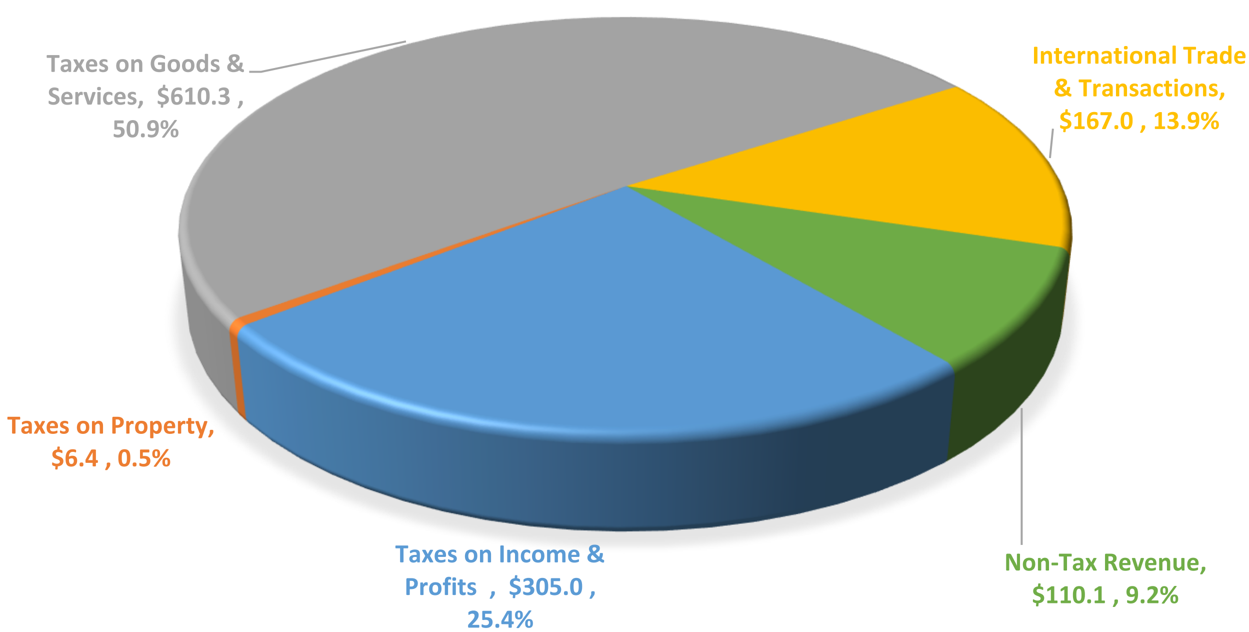
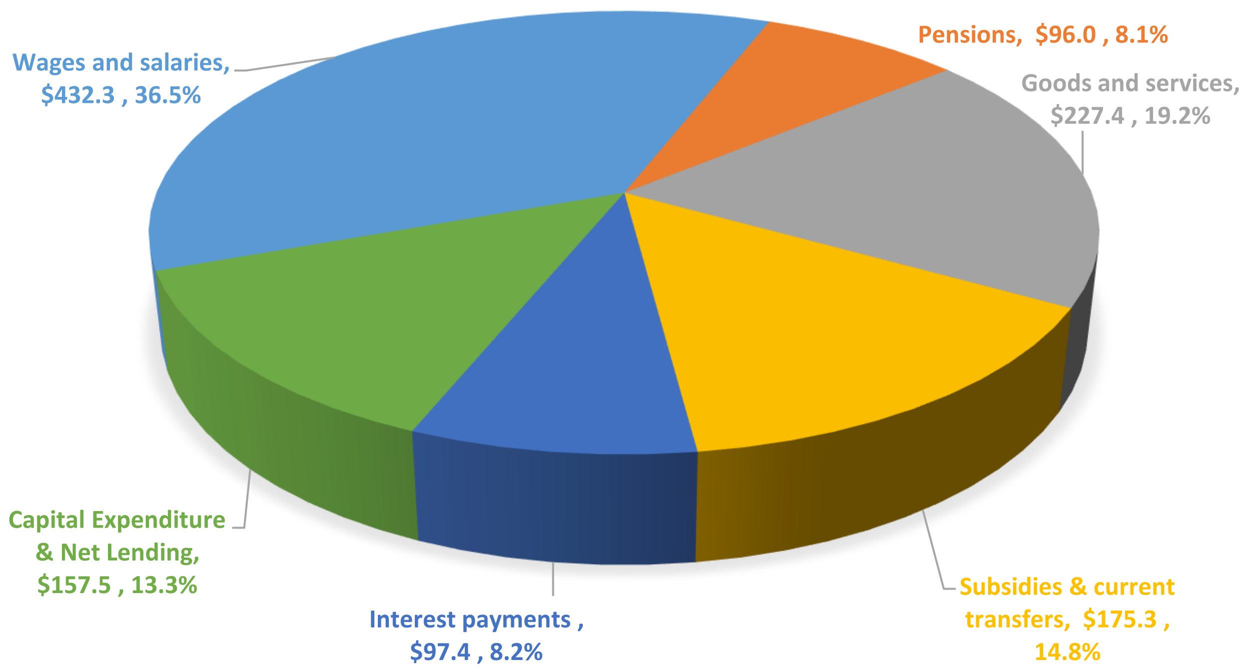


Chart 3: Distribution of Government's $1.186 billion Projected Expenditure in FY 2018/19



ANNEX 2: FISCAL STRATEGY STATEMENT - FISCAL YEAR 2019/2020

Fiscal Strategy Statement

FISCAL YEAR 2019/2020

Contents

1. Purpose 32

3. Background 33

3.1 Debt and Debt Service 34

Chart 1: Public Debt in Percent of 2018 GDP for Select Countries 34

Chart 2: Belize's Public Debt in Percent of GDP, 2016 - 2023 35

3.2 Recent Fiscal Policy 35

Chart 3: Fiscal Balance as Percent of GDP 36

3.3 Economic Growth 36

Chart 4: Annual GDP Growth (%) 37

4. Fiscal Objectives 37

5. Medium-Term Fiscal Framework 40

Chart 5: Annual CPI Inflation Rate, 2012 - 2018 40

6. Fiscal Risks 41

Table 1: Medium Term Fiscal Framework 42

1. Purpose

This Fiscal Strategy Statement highlights the Government's fiscal strategy, which provides a framework for the conduct and evaluation of fiscal operations over a time period. The Fiscal Strategy requirement is set out under the *Fiscal Transparency and Responsibility Regulations*, ***Statutory Instrument No. 95* of 2010,** it provides for the Minister of Finance to present the Statement to the National Assembly and to make it available to the public as part of a much wider effort to increase public awareness of the conduct of fiscal policy and to improve on *fiscal discipline.*

The overall objective of the fiscal strategy is to ensure fiscal sustainability over the medium term while delivering essential services. Sustainability is always a core requirement of fiscal policy. A sustainable fiscal position provides greater certainty for business, and encourages foreign investment. It helps the Government to focus the budget on policies that strengthen long-run economic growth.

2. Summary

Belize's economy continues to be challenged by fluctuating growth and levels of public debt that are manageable but high. The Government sets a five-year time frame for the Fiscal Strategy so as to systematically address these challenges. The objectives are always to stimulate private sector growth and enhance Government investment while managing overall public expenditure. The Fiscal Strategy contains the following quantitative key elements:

- *Increase the ratio of revenue to GDP by 2 percentage points of GDP* over the next two years. This shall be achieved without further increases in tax rates. Tax compliance shall improve through a more effective tax collection, especially with the merger of the two domestic tax departments. The Government will make the tax system fairer by simplifying and broadening tax bases and eliminating non-essential exemptions.
- *Reduce current, non-interest expenditure by 2 percentage points of GDP* over the coming five years. The Government shall contain the public wage bill and other personnel at their current level, while giving more emphasis to crime prevention. Subsidies will be shifted from industries that have matured to conditional social programs that reduce poverty.
- *Improve debt management and keep interest payments constant as a percentage of GDP.* This is to be achieved by a continued aggressive management stance, with the objective of moving towards less expensive forms of financing, such as Treasury Bills and Notes and concessional multilateral debt. This will over time alleviate the burden of debt service to the Budget, and prevent interest payments from rising significantly.

- *Maintain the level of capital spending at 5 percent of GDP.* The Government shall evaluate the efficiency of capital projects but will ensure that their level does not fall below 5 percent of GDP. Capital spending, especially in infrastructure, is essential for achieving higher economic growth rates.
- *Contain the fiscal deficit to 1.5 percent of GDP.* This is a level that could be financed by domestic sources and keep the debt level from rising.
- Ensure that *the primary surplus does not fall below 2 percent of GDP.* A primary surplus of 2 percent of GDP is the minimum required for stabilizing the debt level. Accordingly, over the medium term the primary balance shall improve substantially.
- *Reduce the level of public debt by 10.2 percentage points of GDP by 2023.* A decline in the debt ratio from 90.4 percent to 80.2 percent will send a strong
- Signal of commitment by the government to sound policies.
- *Structure reforms* to make the economy more productive and competitive removing trade barriers, monopolies and infrastructure bottlenecks. This includes creating a simpler and fairer tax system, and encouraging private credit.

3. BACKGROUND

Belize's fiscal policy is preparing for important challenges ahead. Recent years saw a slowing down in real economic output, flat tax revenues and a growing deficit. At the same time, financial conditions for debt service have become relatively benign following the third debt exchange in March 2017.

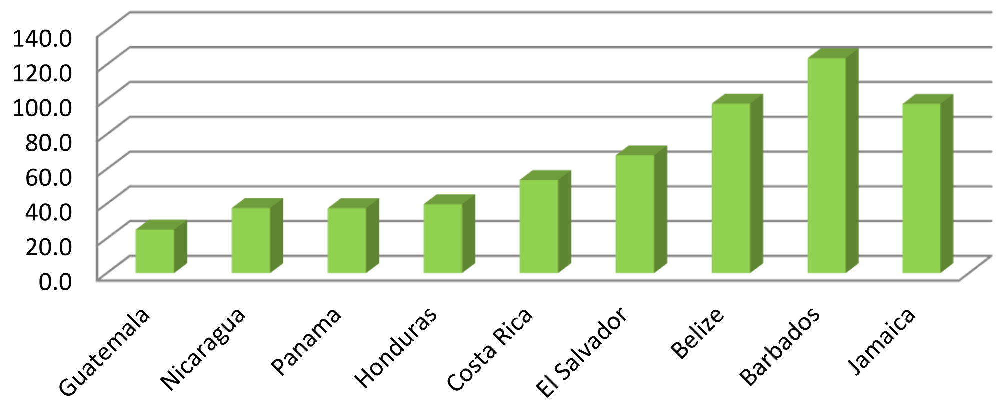
Accordingly, challenges are already being addressed with some visible success. The effort in this regard is helped by the agreement with the private external bondholder, which agreement is anchored by a commitment to fiscal adjustment. The Government has pledged to bondholders to tighten the fiscal stance by 3 percentage points in Fiscal Year 2017/18 and to maintain a primary surplus of 2 percent of GDP for the subsequent 3 years. In addition, Belize would be required to submit a Report to the National Assembly if it fails to meet the primary surplus targets. We have also agreed to request technical assistance (TA) from the International Monetary Fund (IMF) to: i) identify the reasons for the missed primary surplus targets; and ii) recommend remedial measures. Belize has committed to publish the findings of any such IMF TA as well as the Annual Article IV Consultation Reports. Additionally, if the primary surplus target is missed, interest payments on the restructured bond will become due quarterly rather than semi-annually (for the subsequent 12 months that the target is missed).

The targets in the agreement with the bondholders are being met and are central to the Fiscal Strategy. But in this overall context the Government has developed its *Medium-Term Fiscal Strategy describing* the particular situation facing Belize and outlining the policy responses from Government.

3.1 Debt and Debt Service

Belize is the third most indebted country in the Caribbean after Jamaica and Barbados (chart 1), as the debt level exceeds thresholds above the internationally recommended (though there is beginning to be some questioning of the metric depending on particular circumstances) standard of 60 percent of GDP.
Up to the end of 1998, Belize's public debt was well below 50 percent of GDP, but by end 2007, it was above 87 percent of GDP. It was during this period that a hitherto conservative fiscal stance gave way to a more expansionary fiscal policy that was financed by commercial borrowing. After the current Government took office it immediately abandoned any recourse to commercial borrowing. And it is fully aware that the current debt level is, in its makeup and particulars, unsustainable despite the recent restructuring in March 2017. Thus, the policy objective is to place public debt on a sustained downward trajectory.

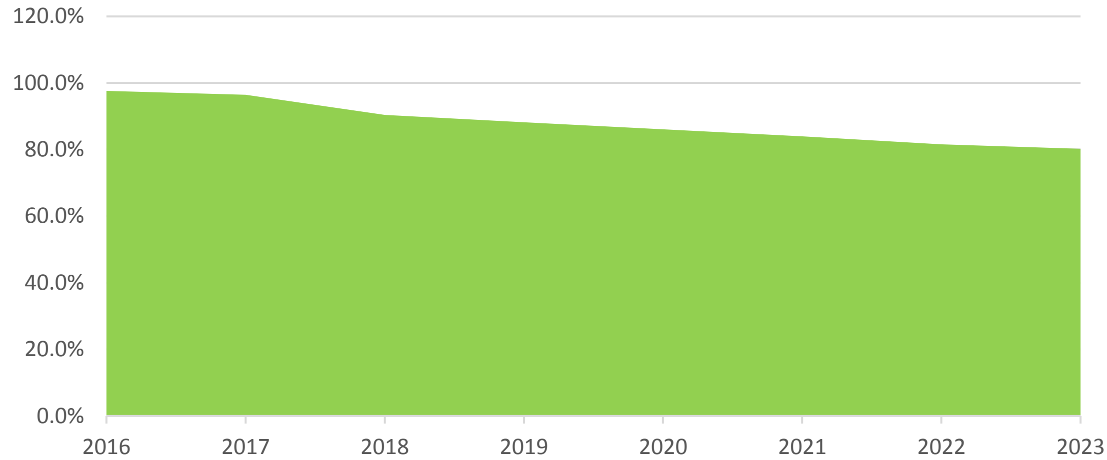
Chart 1: Public Debt in Percent of 2018 GDP for Select Countries



Source: IMF, Regional Economic Outlook, September 2018

The agreement with private external creditors in March 2017 reduces the debt service cost of a relatively more expensive portion of the external debt, and the Net Present Value gain is significant. However, for these gains to be lasting, however, the debt restructuring needs to be underpinned by a credible and sustained program of fiscal consolidation, combined with structural reforms to boost growth. The Fiscal Strategy aims to apply the right measures to address the challenges.

Chart 2: Belize's Public Debt in Percent of GDP, 2016 - 2023



Sources: Ministry of Finance and Central Bank of Belize.

3.2 Recent Fiscal Policy

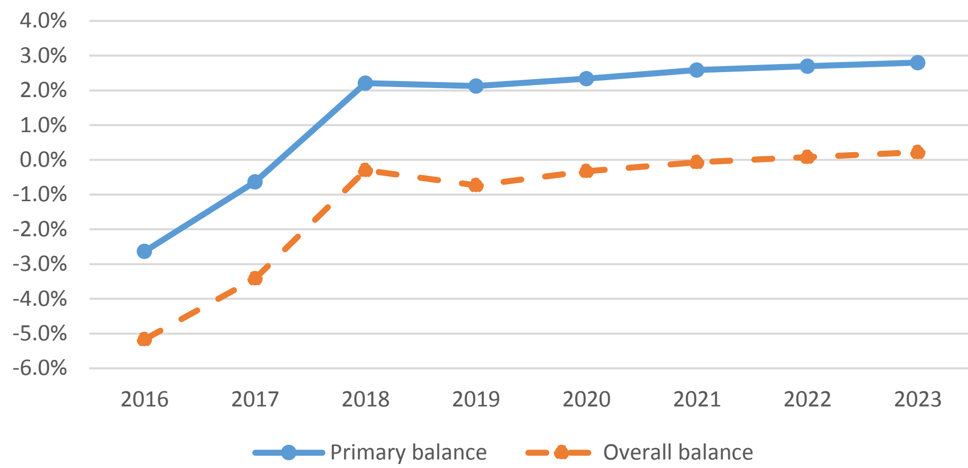
The fiscal consolidation efforts which began in the previous Fiscal Year will be maintained during the life of this Strategy. For Fiscal Year 2018/19, projections are expected to outperform budgeted targets. Accordingly, a primary surplus is expected at 2.21 percent of GDP, and the overall deficit is projected at 0.3 percent of GDP. This better than expected out-turn comes in the face of steadiness in both revenue receipts and government investment, while grants and current expenditure are expected to decline.

The revenues collected from the new measures which were introduced in the Fiscal Year 2017/18 budget continue to be buoyant in Fiscal Year 2018/19, while the receipts from both Income Tax and GST are also expected to outperform the budget.

During Fiscal Year 2018/19, the Government settled two court matters. This led to a US$3.0 million part payment on an international arbitration award and a full and final payment of US$2.5 million on a telecommunications claim that was in a US Court. Notwithstanding, the Official International reserves stood at 3.6 months of merchandise imports, down by 0.4 months from a year earlier.

The Government recognizes that the structure of public spending is rigid, and the space for fiscal policy is constantly shrinking. About 60 percent of revenues are absorbed by salaries, pensions and subsidies to pay school teachers. These items are effectively indexed on public wages and tend to move in lockstep. About 20 percent of revenues are consumed by supplies, materials and utilities, which are expensive in Belize. However, the functioning of public services depends on these expenses. Finally, interest payments on debt absorb another 10 percent of revenues.

Chart 3: Fiscal Balance as Percent of GDP



Sources: Ministry of Finance and Statistical Institute of Belize

A balanced budget leaves only about 5 to 10 percent for expenditures that promote growth and development, in particular capital spending. With increasing needs to fight crime and poverty, the space for capital expenditure is narrowing further. Without corrective actions, the ability of the Government to effectively influence the economy in a positive way becomes more challenging.

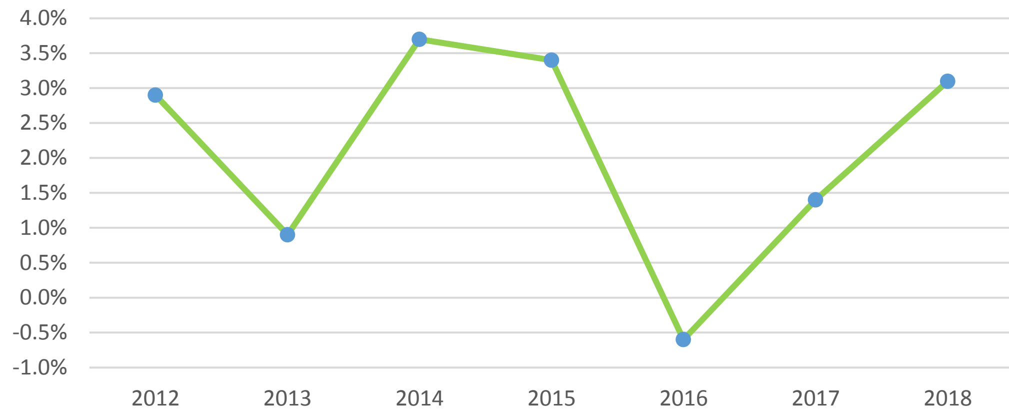
The current fiscal situation can therefore be described as requiring the sustained attention that Government has committed to it. As long as effective interest rates continue to exceed GDP growth, expenditures will tend to rise faster than revenues. So Government has to run a primary surplus.

All present indicators suggest that Belize needs to run an annual primary surplus of around 2 percent of GDP in order to reduce the debt to GDP ratio to 80 percent of GDP in 5 years. This will be a challenge so It is critical important to hold the line on expenditures to keep the debt under control.

3.3 Economic Growth

At the same time as debt has increased in Belize, GDP growth has slowed. But there is recovery and it was better than expected in 2018. Preliminary estimates suggest that the economy grew by 3.4 percent (y/y) on average in the first three quarters of 2018 and ended the year at growth rate of 3.1 percent. Agriculture and fisheries remain particularly weak on account of heavy rainfall and citrus fruit diseases, while crude oil production continues to decline. Overnight tourist arrivals increased by 12.6 percent, while cruise ship disembarkations went up by 19.1 percent. This resulted in corresponding growth in restaurant and hotel activity. Belize’s unemployment rate weakened slightly to 9.4 percent in April 2018, down from 9.3 percent a year earlier.

Chart 4: Annual GDP Growth (%)



Source: Statistical Institute of Belize & Central Bank of Belize

Underlying trends in labour, capital and factor productivity limit potential GDP growth in Belize. But higher growth is as essential to overcome the debt problem. Structural reforms are therefore necessary to remove obstacles to productivity growth. Small improvements in competitiveness can set off a virtuous cycle. A more productive economy with a lower debt burden becomes more attractive to foreign investment. This will increase capital accumulation and stimulate further growth. Structural reforms are thus a key part of the Medium-Term Fiscal Strategy.

4. Fiscal Objectives

Government Revenues: The Government will aim to improve the efficiency of revenue collection rather than increase tax rates in the future. After carrying out a comprehensive review of the existing tax framework, the Government will:

- *Make revenue collection more effective and forceful.* Tax compliance should improve, which could increase tax revenues by 2 percentage points of GDP over the coming two years.

- *Make taxes simpler, broader and more equitable*. Eliminate certain tax privileges and exemptions, with the aim of reducing overall tax rates on the general public. A more equitable and efficient tax system is expected to be supportive of economic growth, and over time increase Government revenue.

- During Fiscal Year 2019/20 the Government will introduce legislation to facilitate the *merger of the Income Tax and General Sales Tax Departments* into one new Department and procure new tax software. These actions will help to improve the collection and administration of taxes.

Government Expenditures: The Government will aim to contain and reduce current expenditures, while at the same time protecting capital expenditures that promote economic growth. More specifically:

- *The bill for public wages and consultants shall increase by no more than the expected rate of inflation* over the medium term (about 2 percent per year). This implies managing carefully the levels of public sector employment, and limiting the increase in salaries. Included under this objective is employment in Government-owned agencies and subsidized employment in the private sector. Priorities within the public sector shall be reviewed, and special emphasis shall be given to security, education and health services.

- *Reduce transfers and subsidies by BZ$20 million by 2020.* Government owned agencies will be restructured to be more efficient and rely less on Government subsidies. Subsidies to privileged private industries will slowly be reduced and phased out to free resources for the poor.

- *Transfers shall be reoriented from industries towards reducing poverty*. The volume of targeted social programs shall increase, with specific conditions attached for the beneficiaries, such as undertaking efforts in education, health care, and job search.

- *Debt management shall become more aggressive so as to reduce debt service*, which now amounts to 15 percent of revenue. An example is the shift from bank overdraft to Treasury Bills and Notes, which cut domestic interest payments. Equally, external debt financing shall prioritize concessional loans from multilateral and bilateral sources. This debt shall over time replace the expensive commercial bank debt. If possible, commercial bank debt shall be retired early.

- *Capital expenditures will not fall below 5% of GDP.* While reducing capital expenditures may be easier than reducing current expenditures, it is detrimental to growth. Besides fiscal adjustment, the second pillar of Belize's Fiscal Strategy is promoting medium-term growth. The Government has also introduced new policies and procedures to ensure that capital expenditures are prioritized and productive via the Growth and Sustainable Development Strategy (GSDS).

Administrative and Public Financial Management Reforms: To contain expenditure, enhance expenditure management and achieve the fiscal targets, a number of administrative and public financial management reforms will be introduced:

- Implementation of a central treasury management system and the establishment of a single treasury account to improve the central Government's ability to manage scarce financial resources.
- Implementation of a strategy to enhance the internal audit functions of the Government.
- Strengthen capacities at the offices of the Contractor General and the Auditor General.
- A commitment control system established in the budget process.
- Standardization of bidding documents for public procurement to increase competition and savings in public procurement.
- Establish a single beneficiary system to streamline and better target subsidies and transfers to households.

- No new contracts or hiring of public servants including in statutory bodies and state-owned enterprises, with few exceptions (i.e. education, health and security to respond to population growth).
- Comprehensive civil service census and design of a civil service rationalization plan.
- Parametric pension reform to increase the average retirement age of civil servants and address the issue of contributions to the scheme.

Deficit and Primary Balance: The overall balance shall not exceed a deficit of 2 percent of GDP on average in the coming years. The primary balance (the deficit before interest payments) shall record a surplus of at least 2 percent of GDP. More specifically:

- *The overall deficit shall not exceed 2 percent of GDP.* This is an amount that may be financed safely from domestic sources in Belize. External concessional financing will primarily retire and replace expensive commercial bank debt, and finance capital spending.

- *The primary balance shall target a surplus of at least 2 percent of GDP.* The primary balance is the overall balance excluding interest payments. The target of 2 percent of GDP results from debt sustainability calculations and indicates the minimum surplus necessary to keep the debt ratio on a downward path.

Structural Reforms: The second pillar of the Fiscal Strategy of Belize is promoting the conditions for sustained, medium-term growth. The Government aims at improving the competitiveness of the economy and reducing the overall level of cost. In particular, it will:

- *Promote external trade and domestic competition.* The Government will give priority to the free flow of goods and services across borders, reduce trade barriers, promote domestic competition in all sectors, and eliminate tax exemptions, subsidies and other privileges to certain industries. Structural reforms will aim at creating a level playing field in the private sector, and reducing the cost of doing business.

- *Improve infrastructure.* By prioritizing capital expenditures in the budget, the Government will make a direct contribution to better business conditions in Belize. It shall improve the domestic infrastructure in transport and communications.

- *Simplify, broaden and lower taxes.* A simple, fair and efficient tax system is an important contribution to a good business environment, and will support productivity and economic growth.

- *Limit domestic government debt and promote private credit.* This prevents the Government from absorbing domestic savings and crowding out private investment. It helps lower interest rates on private credit and improves financing conditions for small and medium companies. Over time, this will promote private capital formation and economic growth.

- Simplify procedures to reduce time and costs of opening a business.

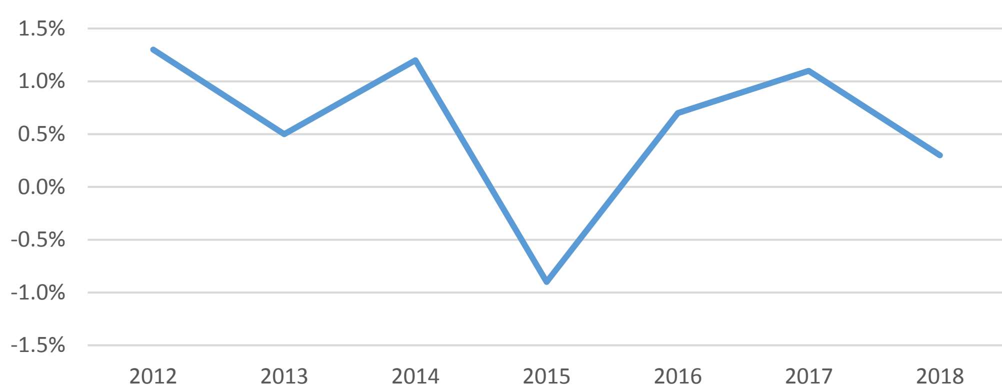
Public Debt: The Government aims at first stabilizing, then reducing the high level of public debt over the medium term. In particular, the ratio of public debt to GDP shall decline from currently 93.8 percent to 80.2 percent by 2022.

5. MEDIUM-TERM FISCAL FRAMEWORK

The Fiscal Responsibility legislation requires the Government to set measurable targets and indicators that can be monitored. The Medium Term Fiscal Framework (MTFF), which is featured at Table 1 of this document, presents an "Adjustment" scenario. The "Adjustment" scenario shows a projection that is consistent with the Fiscal Strategy outlined in the main text. The table also contains the main economic assumptions underlying the projections.

The MTFF will be updated periodically. Fiscal targets and policies depend crucially on the economic environment, in particular on economic activity in the rest of the world, changes in commodity prices, and an absence of natural disasters. External and internal developments that were not foreseen in the original MTFF and assumptions that will change the projections, as a matter of course can materialize. Hence, future Fiscal Strategy statements shall be modified by updated MTFF projections.

Chart 5: Annual CPI Inflation Rate, 2012 - 2018



Source: Statistical Institute of Belize

6. Fiscal Risks

The Medium-Term framework assumes a convergence of the economy towards long-term trends. The usual short-term risk factors are always present, however, and could complicate the road ahead. These standard risks include:

- Geopolitical tensions in the world at a high level that can adversely affect Belize's economy.

- A relapse of the world economy into recession. Many of the imbalances that caused the financial crisis of 2008 and the global recession of 2009 remain unresolved. While the private sector in many countries is reducing its indebtedness, the public sector is on an unsustainable debt path in the industrialized world. At some point, the public sector will not only withdraw stimulus money but embark on a painful and long adjustment process. If this combines with ongoing adjustment in the private sector, industrialized economies could slide back into recession, dragging Belize down in the process.

- Spiking commodity prices. Many commodity prices have not only recovered from the recession but surpassed pre-recession peaks. Continued supply shortages coupled with strong demand from Asian economies could lead to global spike in commodity prices, with negative consequences on growth and inflation in Belize.

- Natural disasters. Hurricanes and flooding have not been factored into the medium-term projections explicitly. Implicitly, the high frequency of hurricanes in Belize is always a factor to be reckoned with.

TABLE 1: MEDIUM TERM FISCAL FRAMEWORK

Fiscal Year beginning in April of	2016	2017	Est. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
				in millions of Bz dollars				
Revenue & grants	1,021.5	1,035.8	1,174.3	1,226.8	1,258.2	1,292.6	1,337.9	1,384.7
Expenditure	1,206.4	1,161.0	1,185.9	1,256.2	1,271.9	1,295.5	1,334	1,374.4
o.w. Interest payments	90.6	102.2	97.4	115.1	111.6	115.1	117.8	120.5
Primary balance	(94.3)	(23.0)	85.8	85.6	97.9	112.2	121.3	130.8
Overall balance	(184.9)	(125.2)	(11.6)	(29.4)	(13.7)	(2.9)	3.5	10.3
Public Debt	3,493	3,535	3,515	3,556	3,599	3,645	3,672	3,745
o.w. Central Government	811	1,038	1,070	1,086	1,113	1,169	1,225	1,274
Gross domestic product	3,578	3,665	3,888	4,030	4,182	4,341	4,500	4,670
				in percent of GDP				
Revenue & grants	28.5%	28.3%	30.2%	30.4%	30.1%	29.8%	29.7%	29.7%
Expenditure	33.7%	31.7%	30.5%	31.2%	30.4%	29.8%	29.7%	29.4%
Primary balance	-2.6%	-0.6%	2.2%	2.1%	2.3%	2.6%	2.7%	2.8%
Overall balance	-5.2%	-3.4%	-0.3%	-0.7%	-0.3%	-0.1%	0.1%	0.2%
Public Debt	97.6%	96.5%	90.4%	88.2%	86.1%	84.0%	81.6%	80.2%
o.w. Central Government	22.7%	28.3%	27.5%	27.0%	26.6%	26.9%	27.2%	27.3%
Memorandum Items:								
GDP growth (2000 prices)	-0.1%	1.8%	2.8%	2.1%	1.9%	1.8%	1.8%	2.0%
CPI inflation	2.8%	1.3%	0.6%	1.6%	1.8%	2.0%	1.9%	1.8%