

*“Exercising Discipline While Preserving Growth”*

**BUDGET PRESENTATION FOR  
FISCAL YEAR 2012/2013**

*Hon. Dean Barrow*

*Prime Minister and Minister of Finance and Economic Development*

*Belmopan*

Friday, 29 June, 2012

## SUMMARY OF RECURRENT AND CAPITAL BUDGETS

	BUDGET OUTTURN 2010/2011	APPROVED BUDGET 2011/2012	PRELIMINARY OUTTURN 2011/2012	PROPOSED BUDGET 2012/2013
<b>TOTAL REVENUES AND GRANTS</b>	<b>777,690,708</b>	<b>843,630,032</b>	<b>835,664,645</b>	<b>862,643,366</b>
TOTAL REVENUE	770,846,411	789,335,032	802,518,518	827,444,061
<b>RECURRENT REVENUE</b>	<b>766,157,288</b>	<b>784,049,119</b>	<b>794,679,073</b>	<b>819,369,434</b>
TAX REVENUE	659,348,428	687,266,405	669,869,470	683,285,352
Income and profits	240,128,781	256,741,782	236,963,590	226,156,812
<i>of which: Petroleum taxation</i>	55,595,699	48,874,044	52,966,924	42,640,246
Taxes on property	6,569,943	5,459,364	6,672,841	6,873,026
Taxes on Int'l trade & transactions	161,544,098	198,325,370	195,980,030	186,394,513
<i>of which: Import duties</i>	123,921,853	158,827,542	153,462,213	142,600,702
Taxes on goods and services	251,105,606	226,739,889	230,253,009	263,861,001
<i>of which: GST</i>	195,780,638	170,540,369	171,084,225	202,765,373
NON-TAX REVENUE	106,808,860	96,782,714	124,809,603	136,084,082
Property Income	17,631,818	12,229,037	24,118,653	20,608,608
Licenses	14,960,683	13,618,718	12,578,496	12,929,351
Royalties	29,380,751	28,842,826	35,367,977	31,709,138
<i>of which: Petroleum royalties</i>	16,390,599	16,368,249	20,980,533	16,890,071
Ministries/Departments	40,968,683	35,770,357	41,461,149	39,029,208
<i>of which: Oil working interest</i>	12,214,922	4,000,000	16,277,975	13,104,345
Repayment of old loans	3,866,925	6,321,777	11,283,328	31,807,777
<b>CAPITAL REVENUES</b>	<b>4,689,123</b>	<b>5,285,913</b>	<b>7,839,445</b>	<b>8,074,627</b>
<b>GRANTS</b>	<b>6,844,297</b>	<b>54,295,000</b>	<b>33,146,127</b>	<b>35,199,305</b>
<b>TOTAL EXPENDITURES</b>	<b>824,988,650</b>	<b>889,987,180</b>	<b>867,397,642</b>	<b>937,857,347</b>
<b>RECURRENT EXPENDITURE</b>	<b>682,066,496</b>	<b>729,553,294</b>	<b>724,458,517</b>	<b>777,733,617</b>
<b>Primary Expenditure</b>	<b>585,217,551</b>	<b>617,472,641</b>	<b>624,436,474</b>	<b>641,648,486</b>
Personal Emoluments	279,052,932	300,368,173	296,421,334	294,742,564
Pensions	45,346,756	48,915,975	51,634,162	50,825,975
Goods & Services	163,613,306	168,079,907	171,791,906	172,617,034
Subsidies & Current Transfers	97,204,557	100,108,586	104,589,072	123,462,913
<b>Debt Service - Interest &amp; Other Charges</b>	<b>96,848,945</b>	<b>112,080,653</b>	<b>100,022,043</b>	<b>136,085,131</b>
<i>of which: External Interest Payments</i>	<b>85,568,824</b>	<b>93,350,077</b>	<b>81,654,720</b>	<b>114,354,695</b>
<b>CAPITAL EXPENDITURES</b>	<b>142,922,154</b>	<b>160,433,886</b>	<b>142,939,125</b>	<b>160,123,730</b>
Capital II Expenditures	73,083,127	48,193,840	72,824,731	79,329,605
Capital III Expenditures	53,284,722	107,280,960	65,268,666	77,541,305
Capital Transfers & Net Lending	16,554,305	4,959,086	4,845,728	3,252,820
<b>RECURRENT SURPLUS/[DEFICIT]</b>	<b>84,090,792</b>	<b>54,495,825</b>	<b>70,220,556</b>	<b>41,635,817</b>
<b>PRIMARY SURPLUS/[DEFICIT]</b>	<b>49,551,003</b>	<b>65,723,505</b>	<b>68,289,046</b>	<b>60,871,150</b>
<i>As Percentage of GDP</i>	1.76%	2.23%	2.34%	2.00%
<b>OVERALL SURPLUS/[DEFICIT]</b>	<b>(47,297,942)</b>	<b>(46,357,148)</b>	<b>(31,732,997)</b>	<b>(75,213,981)</b>
<i>As Percentage of GDP</i>	-1.68%	-1.57%	-1.09%	-2.47%
AMORTIZATION	(57,209,000)	(63,000,000)	(56,224,303)	(64,617,893)
<i>of which: External Repayments</i>	(54,416,000)	(54,857,118)	(54,813,051)	(60,128,186)
<b>FINANCING:</b>	<b>(104,506,942)</b>	<b>(109,357,148)</b>	<b>(87,957,300)</b>	<b>(139,831,874)</b>
External Sources	63,923,000	97,563,552	70,400,300	108,553,103
Domestic Sources	40,583,942	11,793,596	17,557,000	31,278,771
GDP (in millions of Bz dollars)	2,822	2,951	2,924	3,042

# OUTLINE OF BUDGET SPEECH FOR FISCAL YEAR 2012/2013

## “EXERCISING DISCIPLINE WHILE PRESERVING GROWTH”

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## **INTRODUCTION**

Mr. Speaker,

I rise to move the first reading of the General Revenue Appropriation Bill for Fiscal Year 2012/2013.

The presentation of our country's Draft Estimates involves, inevitably, a mass of facts, figures and details. Since the bulk of this material is unavoidably technical and dry, the regular citizen can hardly be expected to experience any sustained interest in the reading of the Budget Speech. Recognizing this, I thought I would begin this year by attempting a simple and straightforward overview of where our economy is, and where we see it going. That is, in any case, the essential backdrop to any Budget. And hopefully this introductory section, at least, will prove intelligible and useful to our people.

I start, then, by emphasizing two points. The first is that the Belize economy is exports-driven. We depend largely on inflows from abroad to generate jobs, incomes and Government revenue; and our overall level of economic performance in any given year is very much dependent on the size of those inflows. The main sources of those inflows are:

1. our exports of goods and services (petroleum, agricultural and marine products, sugar, and tourism)
2. foreign direct investment (minus the profits that are sent back out by the foreign investors)
3. borrowing from abroad by Government, the private sector, and individuals (less repayments and interest)
4. grants, gifts, and family remittances

These inflows provide the funding required to buy materials and equipment, to pay salaries and wages, and to produce the revenue required to run the Government. Also, since the inflows come in foreign currency they provide the (mostly) US dollars needed to pay for all that we import.

The second point I want to make is that we are in the middle of the worst global economic crunch since the Great Depression of the 1930s. The financial crisis that started in the US in 2007 with the crash of the real estate market there, has turned into what has been called the Great Recession; and economic growth has slowed sharply or turned negative in most of the developed countries. Thus, despite the stimulus efforts in the US and the UK, GDP growth is anemic, and the UK is actually expected to slip back into recession this year. Other countries in the developed world have been even more unfortunate. We are all aware of the meltdown in Greece and the protracted difficulties in Spain, Cyprus and even Italy. The European situation poses very real risks for the global economy; and continued Euro instability will inevitably affect North America's trade and finance, with continuing and further negative consequences for Belize and this region.

The importance of these two situations for us, i.e. our dependence on earnings and inflows from abroad, and the economic weakness in the countries that are our main sources of such inflows, is self-evident. Our fortunes are inextricably linked with those of the big countries. Take tourism as just one example. People in that industry are only too aware of the effects on them of the global contraction since 2007. Now visitor arrival numbers are once again growing, and this is a tribute to our marketing efforts and to the inventiveness of stakeholders. But we are still not where we want to be and the recovery will remain precarious as long as the global storm clouds persist. That is why, as well, the construction industry is currently operating below 2007 levels, and jobs in that sector continue not to be as abundant as before.

The thing is, though, that this current situation need not extend into the medium and longer term. And I will tell you in a little while just how we propose to reposition ourselves in order to minimize the adverse impact on us of the unfavourable international developments.

Before I do so, however, it is important to remember that the problems of the global crisis have been compounded in our case by the legacy of the 1998 to 2008 period. I do not intend a detailed

recapitulation of the financial difficulties that the Government and people of Belize have been left to deal with by what I can only describe as a “rogue” Administration. But it must be said that responding to those difficulties continues to cost us tremendously in terms of money for interest and legal fees, and in terms of the time and effort that have had to be diverted from promoting the development of our country.

In the context of all this, I count it a matter of great pride to be able to report that Belize has been, and is, doing well economically. We have been able to maintain an average annual rate of GDP growth in excess of 2% since 2008 and despite the global crisis. We have sustained primary surpluses, on the Government's accounts, of over 2%. This when G7 rich countries have averaged primary deficits of more than 7%. In addition, we have not only maintained but have stepped-up our pro-poor programmes, namely the BOOST, FOOD-PANTRY and CHRISTMAS CHEER operations. Also, our educational cash grants continue apace to ensure that, particularly, our secondary school students are in a better position to learn and develop. And we have intensified our efforts to improve the physical and social quality of life for disadvantaged citizens, particularly in at-risk neighbourhoods. There are thus comprehensive infrastructure works either ongoing or about to start on both the South and North sides of Belize City; and we have extended our municipal improvement programme to every district in the country. We have made particular strides in housing, not only in building new homes and repairing existing ones for the poor, but also in relieving a very large number of families and households countrywide of the need to continue making mortgage payments to Government, SSB and, now, the DFC. And we are even today taking similar action to write off student loans. Let it also not be forgotten that we have exempted or zero-rated from GST an entire range of basic items, particularly food and household consumables, and have taken off import duties from numerous items including refrigerators, stoves, and washing machines. And we have been able to do all this while coping with serious floods and a hurricane; with steadily increasing prices for imported fuel; and with a rise in violent crime that is now our #1 nemesis.

Because, though, it is not all sweetness and light, we are only too conscious that serious strategy and action are required to preserve and expand our economic and fiscal gains. So as part of the larger effort to address production and export issues, and with them employment and incomes, I

convened a Business Forum in November of last year. There the private sector was invited to identify their issues and constraints and to work together with Government to address them. A Steering Committee, comprising representatives from both the private and public sectors, was established, and it has been meeting regularly.

Even earlier, as part of the effort to expand sugar production and to address financing problems faced by Belize Sugar Industries Ltd (BSI), the Government had entered into negotiations with outside parties with a view to their investing in the industry. As things have now transpired, another group, American Sugar Refinery (ASR), is about to consummate a deal to become the new majority owners of BSI. This comes hard on the heels of the most successful sugar crop in recent memory, with expected bonuses to cane farmers of around \$30.0 million.

Going forward, we are in the process of putting arrangements in place for the export of live cattle to Mexico on a completely legal basis. And further down the road, we propose to restructure the Belize Marketing and Development Corporation (BMDC) into an agency that will work together with the Ministry of Agriculture and with private sector stakeholders to organize, aggregate, and export agricultural production from Belize. The hope is to convert BMDC into a successful, private-sector-steered entity, providing a guaranteed export marketing outlet for farm production.

We do recognize, however, that there are limits to the extent of employment and incomes that we will be able to secure from goods production in Belize and its agriculture sector. Accordingly, we propose to look at ways to expand the supply of services, and in particular services to tourism. Currently there is a limit to the range of cultural attractions available to tourists. But with the appropriate investment in training, we can begin to offer the so-called mind products: drama, creative dancing, music and folklore presentations, tropical fashions clothing, paintings and literature. Much of this could be organized for daytime consumption especially for the cruise passengers, and would generate significant additional income and employment. It would also, of course, contribute to greater cultural development and self-awareness while constructively channeling some of the excess energy of urban youth.

Finally, a large part of our internal restructuring effort will inevitably need to focus on our institutional capacity. We need to encourage sustained improvement in public sector

performance in order to support what we are asking the private sector to do. Accordingly, I will be asking our public sector managers to review their work programmes, job allocations, and performance measurement systems in the light of the new sense of discipline and commitment we will be trying to forge. As a start, I will be asking each Ministry, Department, and Agency that is not now doing so to include as part of their yearly task the preparation of an annual report. This will help not only in providing an historical record of the performance of the entity, but will result in a more focused approach to work programme development and implementation.

And now, Mr Speaker, after that (I hope helpful) stage-setting, let me turn to the bricks and mortar of the formal Draft Estimates.



## **RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS**

### **INTERNATIONAL ECONOMIC DEVELOPMENTS**

International growth decelerated slightly in 2011 as the growth momentum of the United States and other advanced economies slowed. This trend has continued into the first quarter of 2012, as the global economic recovery remained subdued amid weaker-than-expected growth in the United States and a deepening recession and political paralysis in the Euro area. On the upside, most emerging and developing economies continued to perform well with high commodity prices and easy external financing conditions providing strong tailwinds. Closer to home in the Caribbean, growth remained constrained by rising prices and high debt levels, which continue to negatively impact the external competitiveness of the region.

Europe's economic crisis intensified during the first quarter with an increasing number of countries in the 17-nation Euro area and the UK slipping into a technical recession. Much uncertainty prevails in the embattled economies of Europe, especially Greece and Spain, as the magnitude and execution of possible bailouts continue to challenge the international community. Germany, the biggest economy in the EU, bounced back from a 0.2% contraction in the last quarter of 2011 to post a marginal gain of 0.5%.

### **ECONOMIC DEVELOPMENTS IN BELIZE - 2011**

Here at home, while growth also slowed from 2.7% to 2.0%, this was principally due to bad weather and crop diseases with disputes at the managerial level and financial insolvency adding to the difficulties. Offsetting this were buoyant distribution activities and increased stay-over tourist arrivals, which translated into greater value added in hotel, restaurant, transportation and communication activities. There was also a rebound in manufacturing, which reflected productivity hikes in sugar and citrus juice processing. On the downside, construction declined for a second consecutive year, the sugarcane harvest was the lowest in 23 years, banana yields fell due to storm damages, fishing output declined with the closure of the largest shrimp farm, and petroleum production decreased in line with the downturn in output of the major oilfield.

Domestic price pressures picked up slightly, underpinned by higher fuel acquisition costs, which pushed the annual average inflation rate from 0.9% to 1.5%. Except for "*Household Goods and Maintenance*" and "*Clothing and Footwear*", which recorded price declines, increases were across the board with the largest occurring in "*Personal Care*" and "*Transportation and Communications*". The latter was due to higher prices at the pump for diesel and gasoline.

The current account deficit of the balance of payments narrowed for the third consecutive year, falling to 2.5% of GDP, as a notable reduction in profit repatriation masked a small increase in the merchandise trade deficit as well as lower net inflows from services and transfers. The surplus on the capital and financial account was larger as official capital flows helped to offset a marginal decrease in foreign direct investment. The net result was a \$36.2 million increase in the gross international reserves to \$472.2 million, equivalent to 4.3 months of merchandise imports.

Broad money supply expanded by 5.6% and commercial bank liquidity maintained an upward trend during the year that reflected subdued credit demand and above average foreign inflows. While the banking system's net foreign assets ratcheted upward by 19.9%, net domestic credit contracted by 1.5%.

Against the backdrop of expanded liquidity in which statutory and cash holdings were, respectively, 46.8% and 54.8% in excess of requirements, interest rates began to gradually decline. This downward trend was reinforced by the Central Bank's decision to further lower the minimum interest rate on savings deposits from 3.5% to 2.5% in October. Annual declines of 196 basis points and 76 basis points were consequently recorded in the weighted average deposit and lending rates, respectively.

Mr. Speaker, I will address separately later the matters relating to the fiscal and public debt developments.

### **ECONOMIC PROSPECTS FOR 2012**

The GDP is now forecast to grow by 2.0% in 2012. This forecast is supported by a preliminary first quarter growth of 6.0%, which the Statistical Institute of Belize has estimated, even though that growth is a little lower than the 7.8% recorded for the similar period of 2011. The main

drivers of the economy will be banana and sugarcane production in the primary sector; sugar and electricity production in the manufacturing sector; and tourism, transportation and communication in the services sector.

Banana acreages have fully recovered from storm-related damages of 2011; and assuming citrus greening is kept under control, the citrus industry should continue to benefit from higher international prices and a continuing recovery from the lingering effects of the last hurricane. The sugar industry is poised for spectacular growth as the forthcoming majority purchase of, and huge equity investment in, BSI by ASR, should result in factory expansion and increased farmer productivity. Marine production should also rebound, especially because a new investor/partner has been found in aquaculture and for the BAL shrimp farm.

Growth in the secondary sector will be mixed as petroleum production declines even as sugar production and electricity generation increase. The latter should be boosted by a full year of uninterrupted operations at the cogeneration plant.

We also expect growth in the services sector to be sustained. Continued buoyancy in tourism is anticipated despite a shaky recovery in the United States market. Transportation should be growing in tandem with activity in agriculture and tourism, while communication services are slated to expand, as the two telecommunication providers-and especially Telemedia-continue to invest in new generation technology

So we stress the essential soundness of our country's economic development trajectory, and some clearly and immediately exciting prospects for growth. But, as always, there are cautions. We have now entered what already is a most active hurricane season. And in addition to this reminder of ever-present dangers from natural disasters, there are also warning signs of possible economic and financial pitfalls. US economic recovery is weaker than anticipated, while the Euro Zone is still in the middle of the maelstrom. These are factors that can well add to commodity price volatility and curtail demand for our tourism product. So to take care of business and better prepare ourselves against vicissitudes, fiscal and debt sustainability has become, for this Administration, even more of a priority. And that is why we are bent on success in renegotiating the terms of the super bond.

## **BUDGET PERFORMANCE IN FISCAL YEAR 2011/2012**

### **PRELIMINARY OUTTURN**

The preliminary figures relating to the outturn for Fiscal Year 2011/2012 indicate that Central Government outperformed its budgeted estimates. The Government achieved a primary surplus that amounted to 2.3% of GDP, as compared to a budgeted figure of 2.2%; and posted an overall deficit of \$31.7 million, the equivalent of 1.1% of GDP, as compared to a budgeted deficit of 1.6% of GDP. Mr Speaker, it is cause for celebration.

Also, Mr. Speaker, it was no flash-in-the pan. The record shows that for the last three fiscal years, the primary surplus averaged 2.2% of GDP, and the overall deficit averaged 1.3% of GDP. This fiscal consolidation was achieved even in the face of severe economic challenges on the world stage. But I will discuss this later within the context of the public debt and liability management.

<b>Table 1: Summary of Budget Estimates, FY 2009/2010 to FY 2012/2013</b>					
(Bz\$million)					
	Budget Outturn 2009/2010	Budget Outturn 2010/2011	Approved Estimates 2011/2012	Preliminary Outturn 2011/2012	Draft Estimates 2012/2013
Total Revenue and Grants	735.7	777.7	843.6	835.7	862.6
Total Expenditure	768.5	825.0	890.3	867.4	937.9
Primary Balance	64.4	49.6	65.4	68.3	60.9
<i>As % of GDP</i>	2.4%	1.8%	2.2%	2.3%	2.0%
Overall Deficit	(32.8)	(47.3)	(46.7)	(31.7)	(75.2)
<i>As % of GDP</i>	-1.2%	-1.7%	-1.6%	-1.1%	-2.5%
Amortization	(69.7)	(54.4)	(63.0)	(56.2)	(64.6)
Financing Requirement	(102.5)	(101.7)	(109.7)	(88.0)	(139.8)
GDP in current market prices	2,723	2,822	2,951	2,924	3,042

### ***Revenue Performance***

Total revenue and grant inflows amounted to \$835.7 million, which was made up of \$802.5 million in revenue and \$33.1 million in grants. The total revenue and grant receipts came in at \$7.9 million below budget, with revenue outperforming by \$13.2 million as grants fell \$21.2 million.

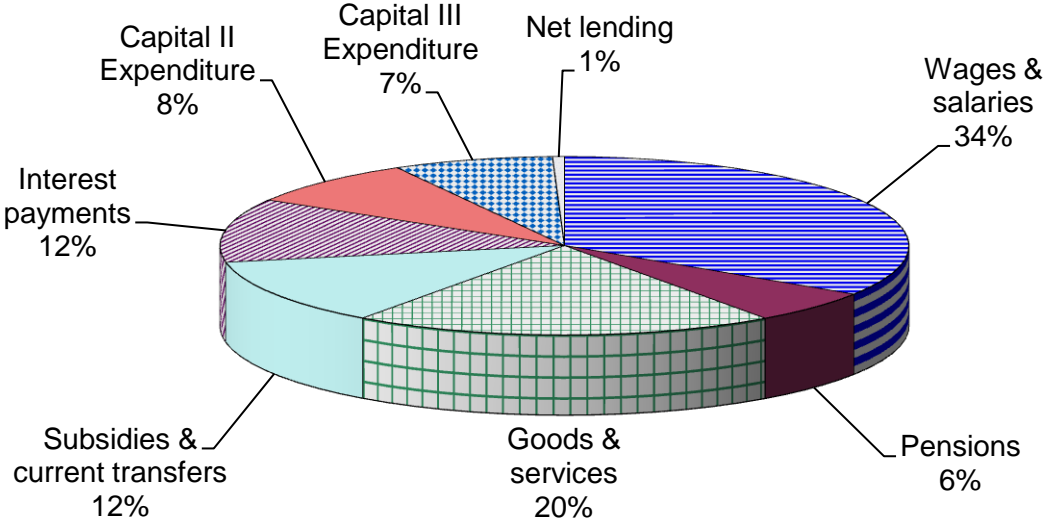
While the inflows of \$90.2 million from the domestic petroleum sector and \$19.2 million in dividends from BTL were primarily responsible for the higher revenue intake, the slump in grant receipts was attributable to Belize not being successful in securing a promised grant from the Russian Federation.

Based on current technical information, we are advised that the exports of Belizean petroleum, and consequentially the Government revenue collections from this industry, peaked during the fiscal year that just ended. I will discuss the implications of this on the proposed budget for fiscal year 2012/2013 later.

***Expenditure Performance***

During the Fiscal Year 2011/2012 total Government outlay was \$867.4 million, of which \$724.5 million (or 24.8% of GDP) was Current Expenditure; and \$142.9 million (or 4.7% of GDP) was Capital Expenditure.

**Chart 1: Distribution of Government’s \$867.4 million Expenditure in FY 2011/2012**



The pressure on Government's primary spending over the past 3 years was noticeable in the increment-driven amounts on wages and salaries to public officers, teachers, nurses and police officers. Primary expenditure encompasses the payments of "Wages and salaries", "Pensions", "Goods and services" and "Subsidies and current transfers". By the end of the fiscal year, primary expenditure amounted to \$624.4 million, which was 1.0% above budget but 6.7% higher than the outturn for Fiscal Year 2010/2011. But in a real way, this represented seminal progress. I say this because the greatest causes of the extra spending were the Government's trademark social programs, namely: RESTORE Belize, Food Pantry and BOOST. And as all the world now knows, these represent the summit of the UDP's achievement in defining and deploying a social justice philosophy that is succeeding measurably in building a better, more equal Belize.

Historically, some teachers' salaries have been provided for under "Wages and salaries". But with the ongoing Educational Reform, the amount to this sector will be moved to "subsidies and current transfers" reflecting the policy change that attempts to holistically fund the education of Belizean children instead of merely paying teachers' salaries. The initial phase of this transition began during the Fiscal Year that just ended, and the impact of this move was that while the outturn for "Wages and salaries" was lower than budget, there was a compensating hike in "Subsidies and current transfers". This transformation will continue and will be more pronounced in the next Fiscal Year.

During the review period, the interest payments on Central Government's debt equaled \$100.0 million. Some 81.6% of the total interest payments went on the external debt, most of which was on the Superbond. I will discuss the issue of the debt in more detail later in this speech.

While the payments on capital expenditure were lower than budget, the outlay on the foreign-funded projects under Capital III amounted to \$65.3 million, which was 22.5% higher than the budget out-turn in Fiscal Year 2010/2011. This appears to be a testament to the positive impact that the Project Execution Units are now having on our implementation capacity.

## **BUDGET PROPOSALS FOR FISCAL YEAR 2012/2013**

### **UNDERLYING PRIORITIES FOR THE BUDGET**

Mr. Speaker, in the face of declining oil revenues, and in the face of burgeoning interest and amortization payments, we will clearly have to exercise a heightened level of fiscal discipline and expenditure restraint as we seek to recapture that lost, pre-1998, era of UDP debt sustainability.

We have approached our international partners for continued financing support, and we are also engaging our creditors for the relief that is morally and existentially our due.

But we must also do our share.

On the expenditure side, we have to show-on the back of the last three years of sound stewardship-that we are even more determined in the prudential management of our fiscal affairs. We are therefore introducing budget proposals that will show no increase, in real terms, over last year's outturn and also no increase, again in real terms, in the wage bill.

But even in the face of these strictures, and by way of this continuing small miracle that is UDP performance, we will absolutely provide the resources necessary to fund the following high priority areas:

**Poverty Reduction and Social Protection** – We will continue the uplift of the poor and the marginalized through our signature Food Pantry Program, providing basic nutritional support especially to the depressed urban areas that are currently breeding-grounds for crime and violence. There will also be an expansion in the Conditional Cash Transfer initiative, known as BOOST. This program meaningfully incentivizes youths and single mothers to engage in productive lifestyles, and also offers a small safety net for the old and indigent.

**Citizen Security** – The struggle to take back Belize may never result in the restoration of what increasingly seems like the lost golden age of my admittedly faraway youth. But better, far better, must be done and can be done. That is why, strictures notwithstanding, we will provide more resources to all the security services, but especially the Police. Increased street patrols,

better mobility, improved equipment and critical mass in interdiction and prevention efforts, are the perfectly achievable goals that this Budget's funding is designed to secure. For social amelioration and community participation and outreach, we will continue to support RESTORE Belize, intending thereby also to provide employment opportunities for youth-at-risk.

**Education** –We will continue the implementation of reforms for education financing to ensure more access and equity in the education system, particularly at the secondary school level, with continuing emphasis on early childhood education and day care facilities. Provision is also being made for support to alternative education, especially the community resource centers in the south side of Belize City, and, of course, to ITVET.

**Health** – We will protect the level of funding for the NHI. We will also provide the counterpart resources for two major initiatives supported by the World Bank and the IDB for primary health care and education to reduce the incidence of life-style and non-communicable diseases.

**Physical Infrastructure**- we will continue to expand and upgrade the primary and secondary road network throughout Belize, while at the same time allocating as much as we can toward the all-important maintenance of streets and drains in our cities and main towns. In this regard, the Ministry of Works has articulated a Maintenance Plan that has funds allocated to the upgrade of the Toledo District Highway to the Guatemalan Border; the new Macal River Crossing; and the commencement of the Drainage Project in the North Side of Belize City. Resources are also provided to assist the infrastructure work the in the district towns under the Government's loan from the World Bank.

Under Infrastructure, I must as well mention the **Flagship Basketball/Multipurpose Arena**.

Our Administration had announced, some time ago, the in-principle commitment of the Government of Mexico to finance the construction of a new basketball arena and multi-purpose facility at the current City Center location. Because Mexico has lent priority to the completion of the new bridge spanning the Rio Hondo and the related border crossing, the line of support for the Center has been delayed. But we fully expect our Mexican partners still to come through. If not, though, Government will undertake, with expected corporate support from BTL and the



Social Security Board, to commence construction early next year. In this eventuality, a supplemental provision would be made in the Budget. The point is that one way or another we will get it done, the City Center Phoenix will rise, and the basketball facility it will house will be world class.

## **SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2012/2013**

The draft estimates have been prepared on the assumption that nominal GDP will grow, in real terms, by about 2.0%% over the fiscal year, reflecting projected increases in the primary and services sectors and continued strong public sector investment especially in road and bridge infrastructure.

We are also assuming a moderate 2% in inflation, although this may be tempered by the sharp decline in world oil prices.

Mr. Speaker, for the proposed Budget for Fiscal Year 2012-2012, we have set a preliminary target for the Primary Surplus of 2.0% of GDP and a target for the Overall Deficit of 2.47% of

GDP.

Total Revenue and Grants are estimated at \$862.6 million. This is an increase of \$26.9 million over the expected outturn for last fiscal year.

<b>Table 2: Summary of Revenue and Grants, FY 2009/2010 to FY 2012/2013</b>					
(Bz\$ million)					
	Budget	Budget	Approved	Preliminary	Draft
	Outturn	Outturn	Estimates	Outturn	Estimates
	2009/2010	2010/2011	2011/2012	2011/2012	2012/2013
<b>Total Revenue and Grants</b>	<b>735.7</b>	<b>777.7</b>	<b>843.6</b>	<b>835.7</b>	<b>862.6</b>
<b>Total Revenue</b>	<b>702.1</b>	<b>770.8</b>	<b>789.3</b>	<b>802.5</b>	<b>827.4</b>
<b>Current Revenue</b>	<b>697.3</b>	<b>766.2</b>	<b>784.0</b>	<b>794.7</b>	<b>819.4</b>
<i>Tax Revenue</i>	604.7	659.3	687.3	669.9	683.3
Taxes on Income & Profits	213.5	240.1	256.7	237.0	226.2
Taxes on Property	5.3	6.6	5.5	6.7	6.9
Taxes on Goods & Services	220.6	251.1	226.7	230.3	263.9
International Trade & Transactions	165.4	161.5	198.3	196.0	186.4
<i>Non-Tax Revenue</i>	92.6	106.8	96.8	124.8	136.1
Property Income	12.2	17.6	12.2	24.1	20.6
Licenses	11.2	15.0	13.6	12.6	12.9
Royalties	24.9	29.4	28.8	35.4	31.7
Ministries & Departments	38.3	41.0	35.8	41.5	39.0
Repayment of old loans	6.1	3.9	6.3	11.3	31.8
<b>Capital Revenue</b>	<b>4.8</b>	<b>4.7</b>	<b>5.3</b>	<b>7.8</b>	<b>8.1</b>
<b>Grants</b>	<b>33.7</b>	<b>6.8</b>	<b>54.3</b>	<b>33.1</b>	<b>35.2</b>

Total Expenditure is estimated at \$937.9 million. Taken together, the result is an overall deficit, before Amortization, of \$75.2 million, equal to the 2.4% of GDP.

The provision for amortization payments has increased slightly to \$64.6 million which, when added to the Overall Deficit, results in an Overall Financing Requirement of \$139.8 million.

This financing requirement will be met from the following already secured sources of financing:

Draw-downs from our multi-lateral development partners of approximately BZ\$62.5 million in project-related, external loans committed to fund the Capital III Program;

A Drawdown of BZ\$20 million from a multi-year, Republic of China (ROC) – Budget Support Loan first approved in 2009; and

Domestic financing of approximately \$31.2 million together with a modest drawdown of about \$11.0 million from deposits in the domestic banking system.

Mr. Speaker, as in past years, we continue to finance our capital program largely through borrowings from bilateral and multilateral sources on concessionary terms, which have below-market interest rates and extended repayment periods. It bears repeating that since taking office at the beginning of 2008, we have not resorted to any commercial borrowing.

#### **TAX AMENDMENTS**

Mr. Speaker, as recently as two weeks ago, I repeated a pledge made in the run-up to elections last March that there will be no new or additional taxes. And this budget delivers on that pledge.

One of the reasons we have constructed our budget with such discipline and expenditure restraint, is precisely to avoid the need for any new taxes. We have made clear our conviction that such would be anti-growth.

So there will be no new taxes. However, Mr. Speaker, we will introduce a couple of administrative amendments that are aimed at improving the overall efficiency and equity of the tax system; to remove distortions; and to provide for wider sector-inclusion.

## **Reverting to GST on Petroleum Products**

Last year in the face of spiraling oil prices on the world market and the impact this was having on the prices of imported petroleum products here in Belize, we took measures to fix the level of taxes applied on these items. This was done so that there would be no unintended tax increases, however marginal, arising from the ad valorem nature of the tax regime in place at the time.

We did this by removing the GST and applying instead a specific rate of import duty on the three major fuel products. At the same time, we made provisions so that GST credits would continue to be granted to qualifying businesses and individuals who used fuel in the course of their operations.

One year has passed and we have had the opportunity to review the effect of these measures. While it has achieved the objective of completely stabilizing all taxes on fuel, we have seen unanticipated distortions in the GST refund system; and we have now received a number of requests from businesses to revert to the former regime that consisted of a combination of GST and Import Taxes. This is also made desirable by the precipitous drop in imported oil prices.

We are therefore receptive to the requests and have taken the decision to reintroduce the GST on Fuel, lower Import Duty in a commensurate amount, and remove the GST Special Credit (as this would no longer be relevant). Mr. Speaker, we plan to introduce these measures by SI at the time of the next shipment of fuel due sometime early next month.

The technicians in the Ministry of Finance and the Revenue Departments advise that there should be no negative impact on pump prices from this move.

## **Income and Business Tax**

Mr. Speaker, in other business of the House today, we will be introducing a bill to amend the Income and Business Tax Act to lower the rate of business tax on entities licensed to provide electricity, from 6.5% to 1.75%. Through this amendment, we propose to revert to the rate that was in effect prior to April 2010. This is deemed appropriate as Belize Electricity Limited, now under national ownership and management, is no longer extracting excessive profits from its operations. Rather, the people-owned BEL has instead managed to lower rates across the board

to Belizeans and still generate a small surplus. All this while “keeping the lights on” and saving us from the rolling blackouts that under Fortis seemed not so much a threat as a promise. The impact to revenue of this decrease is estimated to be in the region of \$6.0 million on an annual basis. On the other side of the coin, we anticipate this would increase the net income of the company which would therefore pass through as an increase in dividends to shareholders, including the Government of Belize. It is noteworthy that BEL has already started paying SSB the dividends that Fortis owed, and will also settle with the small individual shareholders by year's end. Bravo for Belize and BEL!

### **Consolidation of Public Financial Flows**

Mr. Speaker, we are reviewing the funding and operational modalities of several funding agencies, with the view of consolidating public financial flows under one roof (through the enhanced use of a Single Treasury Account). This is expected to improve the capacity of the Government to manage public sector finances at an aggregate level.

As a first step, we will institute processes whereby taxes and fees collected by these agencies will be paid into the Central Government Consolidated Fund in the first instance and a percentage of such collections will be transferred back to these Agencies for their operations.

Two agencies, BELTRAIDE and the Belize Tourism Board (BTB), will be the first to be included in this new methodology during this fiscal year.

### **Reform of Taxation on the Tourism Sector**

Mr. Speaker, following an in-depth study of the taxation of tourism sector in Belize undertaken with IDB support earlier this year, which included consultations with a wide cross section of the industry, recommendations have been made to Government to reform the taxation regime. The idea is to increase the equity and efficiency of the taxes currently applied to this sector, and to provide incentives for further investment and growth.

One key recommendation that the Government has accepted in principle and expects to adopt in the coming months, is to bring the hotel and accommodation sector wholly into the GST net while at the same time repealing the Hotel and Tourist Accommodation Taxes.

This will have the effect of making hotel accommodation services fully taxable at the standard GST rate (currently 12.5%) while removing the hotel tax currently charged to the industry. As the proceeds from these latter taxes are currently collected and retained by the Belize Tourism Board for product promotion and marketing and other services, the GOB will concurrently put in place a mechanism to transfer a portion of the revenue collected from the GST to the BTB. This will fully offset the “loss” of net income that the Board is currently receiving from the hotel tax.

This measure will address a long-standing complaint from the hotel and tourist accommodation providers that they are unable to claim refunds for GST paid on their inputs as currently such services are “Exempt” for the purposes of the GST. This action is also expected to contribute to improve the buoyancy of the tax system.

Mr. Speaker, we will be introducing legislation at the next practicable opportunity to provide for this reform, which we intend to make effective on 1<sup>st</sup> January 2013. This commencement date should give us sufficient time to ratify the support from the tourism sector, and put in place the necessary structures and mechanisms to ensure the success of the change.

### **Trade Liberalization**

Mr. Speaker, as we steadily move toward greater economic integration with our regional partners, we must again examine our current system of trade restrictions in order to become more compliant with WTO rules and with the commitments made under the EU Economic Partnership Agreement (EPA).

In particular, we need to look again at our system of import licensing and quantitative restrictions (QRs).

While the arguments for protection are well understood, we do need to strike a balance. And the fact is that, unless very carefully calibrated, QRs can easily result in widespread economic distortions, bestow special privileges to those who obtain licenses, and generally result in higher costs to consumers.

We have examined the list of over 121 items currently subject to import licenses. And after careful analysis and consultation, we have taken the decision to remove some 62 items from that

list and impose instead a temporary tariff surcharge of 20% on those items. This will be for a period of 24 months to afford a continuing degree of protection while providing time for these items to become more competitive. Mr. Speaker, the Hon Minister of Trade will, before the next session of this House, sign an Order reducing the number of items covered by QRs .

### **Budget Transparency**

We have introduced lines in the budget, under the Heading of Capital Transfers & Net Lending, to show explicitly the fiscal flows between the Central Government and the recently nationalized public utilities. Apart from a relatively small transfer of \$3.3 million to the Belize Water Services Limited (BWSL) to meet the debt services on two old water services expansion loans from the CDB, there are no transfers programmed from the GOB to either Belize Electricity Limited (BEL) or to BTL for the new budget year.

To the contrary, GOB expects to receive some \$10.0 million from BTL by way of dividends and loan repayments, and we also anticipate a much smaller inward transfer from Belize Electricity Ltd. as this company returns to profitability.

The point I would like to emphasize, Mr. Speaker, is that since Government and people assumed control of these three companies, there has been NO NEED for GOB support or bailouts. Rather, in the case of BEL the lights remain brightly lit to better illumine the path of Belizean nationalism and progress; in the case of BTL the phones and the Internet are cheaper and more plentiful and will soon be working at 4g speeds; and in the case of BWSL the reduced-cost potable water continues to flow!

### **ESTIMATES OF REVENUE 2012/2013**

The Draft Estimates of Revenue and Grants are comprised of \$819.4 million in Recurrent Revenue, \$8.1 million in Capital Revenue and \$35.2 million in Grants.

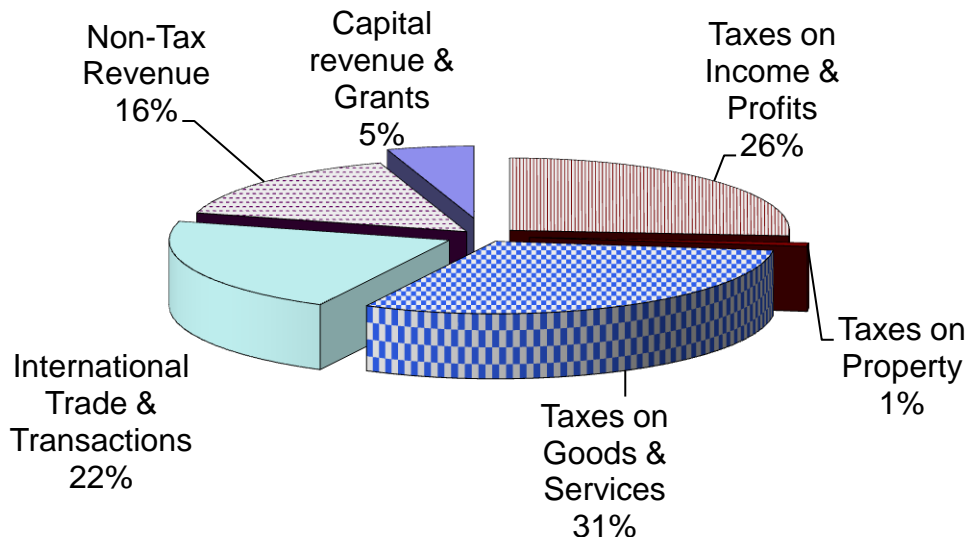
Recurrent Revenue is made up of \$683.3 million in Tax Revenue and \$136.1 million in Non-Tax Revenue.

The overall rise of \$24.7 million in Recurrent Revenue over last year's outturn is attributed to the following:

1. A \$33.6 million increase in Taxes on Goods and Services arising principally from improved tax administration.
2. An increase of some \$20.5 million in loan repayments from the Development Finance

**Chart 2: Distribution of Government's \$862.6 million Revenue in FY 2012/2013 2011/2012**

Corporation and the Belize Sugar Industries.



However, Mr. Speaker, almost one-half of the above increases has been negated by a sharp fall-off in the revenues from the local petroleum sector. Production from the Spanish Lookout field is expected to decline sharply in 2012 (by almost 10%) as the field has matured and is now beginning its downward depletion. Production from the second field in Never Delay, while helpful, has not been able to compensate for the decline in the Spanish Lookout Field.

In addition, Mr. Speaker, world oil prices have recently begun to tumble downward, from a high of US\$115 per barrel a year ago to about US\$80 per barrel in the last week. This is well below



the threshold of U\$90 per barrel which is the trigger for the application of our windfall Petroleum Tax.

Now this is good news for the consumers, as we still import all our refined fuels. But it has a large negative impact on the earnings of the sector. The double whammy of deterioration in both volume and prices, will result in much lower tax revenue from this all-important sector. Mr. Speaker, at the current prices and volumes we are projecting that this year we will receive some BZ\$19.5 million less in revenue than what was collected last fiscal year.

Capital Revenue is estimated to remain almost flat at \$8.0 million mostly from the sale of land and from the disposal of unserviceable vehicles and equipment. Similarly, grant flows are budgeted to rise only marginally to \$35.2 million from \$33.1 million.

### **ESTIMATES OF RECURRENT EXPENDITURE 2012/2013**

The Draft Estimates of Recurrent Expenditure is proposing a total of \$777.7 million in recurrent expenditure up from an outturn of \$724.5 million the year before. The proposed increase of \$53.2 million reflects the steady upward pressure on the wage bill due to annual salary increments for our hard-working Public Officers. We restored these immediately after 2008 and remain indissolubly committed to them and to the salary grants to our teachers. Also non-negotiable, are the budget lines for assistance to, and protection of, the poor and indigent. Another critical factor in the mix is the provision of adequate resources for the security services. Again, it is pointless to talk about creating a soundly managed Belize if we cannot dedicate, as a first priority, the funds essential to combating this terrible scourge of urban and youth violence.

In the Recurrent Budget, we are also proposing some \$136.1 million to meet the interest payments and other charges on our debt obligations for the year.

Although not shown explicitly in the recurrent budget due to the GFS-format of the presentation and for accounting purposes, we have to provide an additional sum of \$60.6 million to meet debt amortization payments. When added to the Overall Deficit of \$75.2 million, it results in an Overall Financing Requirement of \$135.8 million.

<b>Table 3: Summary of Expenditure, FY 2009/2010 to FY 2012/2013</b>					
(Bz\$ million)					
	Budget	Budget	Approved	Preliminary	Draft
	Outturn	Outturn	Estimates	Outturn	Estimates
	2009/2010	2010/2011	2011/2012	2011/2012	2012/2013
<b>Total Expenditure</b>	<b>768.5</b>	<b>825.0</b>	<b>890.3</b>	<b>867.4</b>	<b>937.9</b>
<b>Current Expenditure</b>	<b>668.9</b>	<b>682.1</b>	<b>730.1</b>	<b>724.5</b>	<b>777.7</b>
<b>Primary Expenditure</b>	<b>571.7</b>	<b>585.2</b>	<b>618.0</b>	<b>624.4</b>	<b>641.6</b>
Wages and salaries	273.7	279.1	300.4	296.4	294.7
Pensions	48.1	45.3	48.9	51.6	50.8
Goods and services	156.8	163.6	168.4	171.8	172.6
Subsidies and current transfers	93.1	97.2	100.3	104.6	123.5
<b>Interest payments &amp; other charges</b>	<b>97.2</b>	<b>96.8</b>	<b>112.1</b>	<b>100.0</b>	<b>136.1</b>
<b>Capital Expenditure &amp; Net Lending</b>	<b>99.6</b>	<b>142.9</b>	<b>160.2</b>	<b>142.9</b>	<b>160.1</b>
Capital II	53.7	73.1	48.0	72.8	79.3
Capital III	40.7	53.3	107.3	65.3	77.5
Net lending	5.2	16.6	5.0	4.8	3.3
<b>Amortization</b>	<b>(69.7)</b>	<b>(54.4)</b>	<b>(63.0)</b>	<b>(56.2)</b>	<b>(62.3)</b>

#### ESTIMATES OF CAPITAL EXPENDITURE 2012/2013

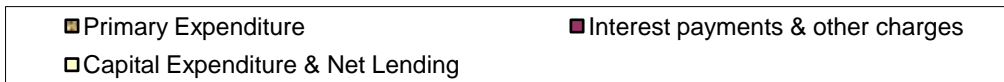
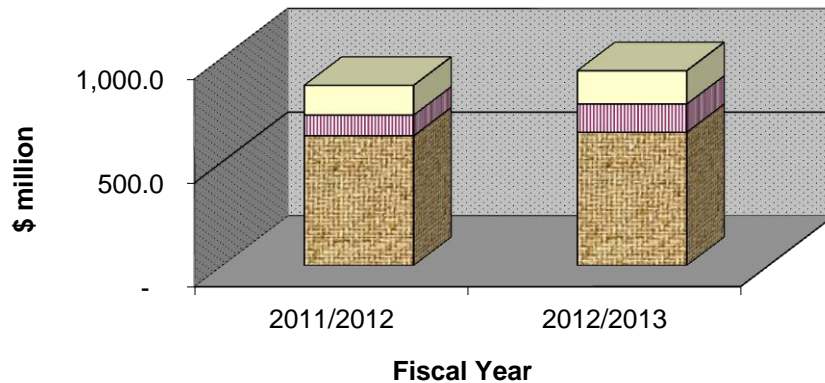
Mr. Speaker, Government is proposing to allocate some \$160.1 million to its capital program in the upcoming fiscal year. The locally funded Capital II Program is estimated at \$ 79.3 million while the externally funded Capital III Program will receive an allocation of \$77.5 million.

The Capital II makes provision for counterpart funds for the large externally funded civil works project for the Southside Poverty Alleviation Program, the new Macal River Crossing, and the Big Falls to Jalacte Road Project. Also in the Capital II are provisions for Health Facilities, Basic Needs Programs executed by the Social Investment Fund, and counterpart resources for various European Union Programs in the Agriculture Sector. Furthermore, we have protected the budget lines for the Food Pantry Program (2.7 million) and for RESTORE Belize (2.2 million).

In the Capital III Program provisions are made for the following major job-creating, economy-lifting projects:

- \$4.0 million from the CDB to continue works on the access boulevards under the new Macal River Crossing Project;

**Chart 3: Distribution of Government's \$862.6 million Revenue in FY 2012/2013 2011/2012**



- \$7.0 million from the IDB for the Solid Waste Management Project;
- \$5.0 million from the IDB for the Sustainable Tourism Project;
- \$6.0 million from the OPEC and the Kuwait Fund for the Big Falls to Guatemala Border Road;
- \$5.0 million from the OFID Fund for the civil works for the Southside Poverty Alleviation Project;
- \$1.5 million from the IDB for the Community Action for Public Safety Project; and
- \$1.5 million from the IDB for the Belize City Flood Mitigation Project.

## **REFORM OF PUBLIC FINANCE MANAGEMENT**

Mr. Speaker, Work continued on the reform of the Public Finance Management (PFM) System in Fiscal Year 2011/2012. The consolidation of revenue administration and the strengthening of public revenues intensified with quarterly meetings between the Ministry of Finance and Management of Customs, Income Tax and the GST Departments. Working drafts of Strategic Plans and Codes of Conduct were completed and circulated for discussion and should be finalized shortly. In Fiscal Year 2012/2013, we will modernize and strengthen tax administration further by consolidating the Income Tax and GST Departments. Implementation of the ASYCUDA World virtual software progressed satisfactorily with further roll-outs at various ports of entry across the country and an electronic payment system for customs duties was introduced at one of the commercial banks.

Budget formulation and execution skills were strengthened this Fiscal Year with assistance from CIDA, IMF and the World Bank under the regional Supporting Economic Management in the Caribbean (SEMCAR) programme. CEOs, Finance Officers and their support staff from large spending ministries participated in the first of these workshops and early indications are that the budget process this year benefited from the new and improved skills. Treasury and the Revenue Departments also participated in separate SEMCAR workshops designed to identify areas that could be improved in the short and medium term with further SEMCAR technical assistance. Also with the assistance of SEMCAR, work is to commence shortly on updating the Finance and Audit (Reform) Act of 2005 and the several pieces of related Subsidiary Legislation.

The IDB is financing a consultancy to support Procurement Reform, which will include the drafting of Procurement Guidelines, Standard Bidding Documents, the training of public and private persons in the use of the Guidelines, and a Government of Belize Procurement Portal. This should be completed in 2013 and discussion has commenced with stakeholders that will result in the design of a framework for the procurement of goods and services that will be based on international best practices.

Our efforts this year were also directed toward improving the governance, transparency and accountability of all major projects in the Public Sector Investment Programme (PSIP). Consequently, Project Steering Committees (PSCs) and Project Oversight Committees (POCs) were established to strengthen ownership of projects and project management practices, and enhance procurement, financial and accounting practices. The planning and public investment functions have been integrated with the budget formulation and implementation via the amalgamation of the Ministries of Finance and Economic Development. Managers and support staff in all IDB financed project management units benefited from training in project management, procurement and financial processes and practices.

Mr. Speaker, also on the fiscal front, we are currently finalizing technical assistance support from the IMF and from the IDB for a review of the Tax System in Belize and for a review of the Fiscal Incentive Regime, respectively. The objective is to modernize our tax system and to introduce more efficiency and equity into our tax system. Both are due to commence before the end of this year.

## **PUBLIC DEBT AND LIABILITY MANAGEMENT**

Mr. Speaker, the perils and pitfalls of sovereign debt – the liabilities of nation states – have not, in recent memory, been more pronounced to the public eye. In Europe, where the storm has been raging, hitherto vibrant economies have been buffeted by the gale force winds of unsustainable debt burdens. Ireland, Portugal and most conspicuously, Greece, have been thrown financial life jackets from the rescue mechanisms of their monetary union. Spain and Italy teeter on the precipice, and their borrowing costs have surged in recent months, threatening to unhinge the Union itself and unleash contagion far worse than that witnessed post-Lehman.

Closer to home, in the Caribbean region, in just the three years since 2008 when the Great Recession began, public sector debt as a percentage of average weighted GDP has jumped by a startling 54%, from 37% of GDP to 91%, according to a May 2012 S&P Report.

In the case of Belize, our Government's prudent and scrupulous husbandry of the nation's resources has resulted in a modest, but in the circumstances exceptional, decline in the overall level of recorded debt since 2007. We have gone from 91% of GDP to 81% of GDP now. This reduction in our debt has, of course, come at a price. Each of our four national budgets since 2008 has had to be squeezed so as to achieve primary surpluses that yield monies for the repayments of these huge, inherited, PUP debts.

It became clear, though, as our first term of office ended, that continuing with this inordinate annual pressure on the national budget was becoming a vicious circle and a counter-productive trap. This could not be our only alternative to address the public debt in the medium term. Our Party thus expressly sought a mandate from the people to re-examine the construct of the public debt and to renegotiate the millstone represented, in particular, by the super bond. The electorate gave us this mandate on March 7.

Immediately after the return to office, then, we announced an urgent, comprehensive debt review, and appointed for this endeavor a blue-ribbon team to examine Belize's debt dynamics and to make recommendations for a sustainable path forward. I make absolutely clear that this review was not triggered by any casual adventurism, or blithe decision simply to renege on

Belize's obligations. On the contrary, the issue was always the factual recognition that our country does not have the ability to meet all its commercial obligations under the current Superbond terms, if it is to meet all its social obligations under the political, economic and existential compact with its citizens.

Mr Speaker, it is said that morality plays no role in statecraft. But it is still useful to remind ourselves as to the nature of these monies that the PUP borrowed and the bondholders lent. *And, these original debt creatures that had to be caged into this Superbond* were all, without a single exception, loans that provided little or no tangible benefit to Belizeans.

The Super bond is made up of:

- **Two** Bear Stearns bonds, a US\$125 million Bond and a US\$100 million Bond;
- **Two** other bonds; one from the RBTT Merchant Bank Limited for US\$76 million and another from the Royal Merchant Bank and Finance Company for US\$25 million, respectively;
- **Three** Bonds from Citicorp Merchant Bank Ltd. totaling US\$21.5 million;
- **Six** Promissory Notes to The International Bank of Miami for the aggregate sum of US\$52.5 million;
- **Two** other Bear Stearns-designed Insured Loans amounting to a net amount of US\$96.0 million; and
- **Two** short term Promissory Notes issued in favor of the Bolivarian Republic of Venezuela for US\$50.0 million;

All together 17 separate PUP Administration loans totaling BZ\$1.1 Billion with an effective average interest rate, before the 2007 debt restructuring, of a staggering 11.25%."

And now there are all these factors making it impossible for us to repay on the terms and conditions contracted by those that got us into this mess.

Firstly and inarguably, global and regional recessionary conditions have dampened the forecast economic growth rates.

Secondly, the step-up interest rate on the Super bond, now at a harrowing 8.5%, demands some BZ\$93 million per year. This is in excess of 3% of GDP at a time when international interest rates are at historically low levels. The imperative for restructuring is therefore irresistible.

(Imagine: Just the 2.5 percentage point increase, effective this year, in the interest rate on the Super bond, represents a whopping BZ\$27.5 million).

Thirdly, Government's petroleum-related revenues have, as I am obliged to point out again and again in this Speech, peaked; and are projected to decline from 3.1% of GDP in the last Fiscal Year to 1.4% of GDP, or less than half this level, two years hence.

And finally, there is the matter of compensation for the former owners of BTL and BEL.

The fundamental premise of the step-up feature of the Super bond was an assumption that, when we got to this point, Belize's economy would be robust enough to support an interest rate of 8.5 percent. But as things turned out, events outside of Belize caused a worldwide recession that, of course, reached our shores. The current interest rate on the Super bond is, in all the circumstances, obviously unsustainable.

Indeed, all the elements have combined to create the Belizean equivalent of a "fiscal cliff."

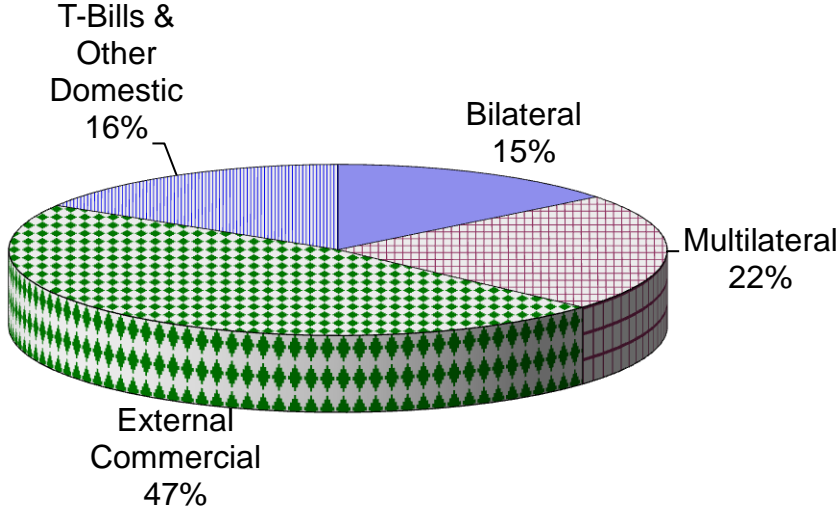
It is these elements, and others, that were considered and modeled into macro-economic forecasts by our Debt Team during the past several months. The Team has also engaged in assistance-seeking dialogue with Belize's multilateral partners including the IMF, the IDB, the CDB and the World Bank. I can now confirm, therefore, that Belize is properly and professionally embarked - as a matter not just of desirability but of necessity - on this enterprise of renegotiating the current terms of Belize's external commercial debt.

Last Wednesday, June 20, Government released publicly an all-encompassing fiscal and economic update, signaling the completion of the first stage of the review process and the commencement of the dialogue with creditors. This Update, posted to the websites of the Central



Bank of Belize and the Ministry of Finance, shows that as at the end of April 2012, the recorded public debt stood at US\$1,182,000 or 81% of GDP. Of this stock of debt, almost half-47 cents of every dollar- is the external commercial debt or Super bond.

**Chart 4: Distribution of Public Sector’s \$1.2 billion Debt as at April 2012**



Elevating the debt to GDP ratio, as I indicated earlier, is the additional liability of compensation for the now Belizean-owned BTL and BEL. Based on valuations from the reputable NERA Economic Consulting London firm, the Government has formally offered compensation for the shares acquired in both companies in the aggregate sum of approximately US\$85 million. The former owners have staked their claims at a combined sum of about US\$450 million. In both cases, counter-valuations have been shared between the Government and the Claimants, with the Government expressing its readiness to proceed in good faith to arrive at a reasonable settlement.

The Government is now recognizing two other liabilities, in addition to the compensation for BTL and BEL. First, there is the amount payable to various land owners whose properties have been acquired over the last several decades by multiple administrations. This additional debt is estimated at US\$43 million. There is also the judgment in favor of NEWCO, the former concessionaire at the Phillip Goldson International Airport, estimated at US\$4 million. Taken all

together, if we assume a mid-point for the BTL and BEL compensation levels – that is, to split the difference between what the Government has offered and what the former owners have claimed – this would bring the recorded debt to US\$1,497 billion or just under 100% of GDP.

No one should interpret our use (for modeling purposes) of the midpoint between NERA valuations and the claimants' demands, as indicating any willingness on our part to accept compensation quantification at, or even near, that higher level. We believe that the NERA valuations are fair and we will need to see a very convincing case from the claimants for any higher number. But for purposes of our modeling, we have had to recognize the possibility of a court (or tribunal) mandated midpoint figure.

Still further to these debts, are contingent liabilities of about US\$58 million, including the two London Court of International Arbitration (LCIA) awards linked to the infamous Accommodation Agreement, and the equally infamous PUP loan guarantee to the Universal Health Service.

This quantum of debt – those recorded, the additional liabilities Government now recognizes and those obligations currently classified as contingent - is, irrefutably, a destructive, utterly unsustainable load.

This is why we have concluded that the fiscal cliff that most people thought awaited Belize in 2019, when the yearly Superbond principal repayments of 3% of forecast GDP or 10% of forecast revenues were to be paid back, is upon us now.

But a very important point needs to be made. In contrast to the case of the 2007 PUP restructuring, our Government does not approach creditors with a weak hand. Our fiscal and monetary stewardship, unlike that of the PUP, has not been defined by reckless and runaway borrowing at what would be considered loan-shark interest rates. We have neither doctored the budgets nor cooked the books. Transparency, responsibility and reform have been our trademarks over these four budget periods.

In truth, Belize has produced impressive primary surpluses in every year since 2008, averaging over 2.3% of GDP. The vaunted G7 countries have run-up primary deficits of over 7% of GDP

on average in the last two years, while even BBB rated sovereigns have turned out primary deficits close to 2% of GDP. And while Belize commits, in an active scenario, to achieve a 2% primary surplus target in the medium term, that represents our optimal goal. And we will have to do this without punitive tax hikes, wage cuts or any scaling back of the vital functions of government.

Thus, no one can accuse this administration of taking the easy road. And Belizeans have walked the walk with us as we grew the economy, even in the midst of the worst headwinds of modern times, and produced robust primary surpluses.

It is against this backdrop that I can say now that this government will stand up for new terms that, at a minimum, re-orient this crushing debt burden on a downward track. One that is fiscally sustainable in Belize's particular circumstances.

Mr. Speaker, nothing I have said today will come as a surprise to the bond markets. The super bond -- notwithstanding its extraordinarily high interest coupon -- is trading at about 50 cents on the dollar. And the markets surely recognize that additional debt relief for Belize is unavoidable.

For the fiscal year 2012/2013, we have budgeted overall debt service payments at BZ\$200.7 million, of which approximately BZ\$174.5 million is related to external debts. Even though we are budgeting the interest payable under the current terms of the Superbond, some BZ\$93m, Government expects, and is determined to obtain, a reduction of this amount as a result of the debt restructuring operation. But as things now stand, debt service payments for this fiscal year will be 29% above the level for fiscal year 2011/2012.

For fiscal year 2012/13, Government hopes to source financing in a total sum of some BZ\$139.8 million – BZ\$108.5 million from external sources and BZ\$31.2 million from domestic borrowing. The external sources to be tapped this year include the Inter-American Development Bank (US\$10.3 million), the Caribbean Development Bank (US\$8.2 million), the OPEC Fund US\$(3.5 million), the Kuwait Fund (US\$3.0 million) and the Central American Bank for Economic Integration (US\$0.5 million).

In addition, we hope to secure the equivalent of US\$28.7 million in new financing from a combination of external and domestic sources.

## **MONETARY AND FINANCIAL SECTOR REFORM**

Developments in the banking system were framed by Central Bank measures to safeguard the system's stability given the continuing doldrums of the domestic construction and real estate sectors.

Temporary roadblocks impeding progress in the Bank's program of monetary policy reform included the insufficiency of marketable securities, weaknesses in the domestic legislation and inadequate payments infrastructure. Nevertheless, given the continued build-up in domestic bank liquidity, the Central Bank's policy initiative to foster competitive activity in the market for short-term government paper resulted in the continuation of a downward trend in Treasury Bill yields; and the Bank's decision to lower the interest rate floor on savings deposits to 2.5% aimed at bringing down the lending rates of the commercial banks, also yielded positive results as the notoriously onerous lending rates of the banks began to evince a declining trend during the year. The Central Bank also took steps to ensure that the interest paid to depositors on savings deposits was reflective of actual daily balances and fostered greater transparency on the part of commercial banks by requiring their disclosure of the annual effective interest rate on savings accounts.

Notable strides were made in 2011 toward improving the regulatory oversight of the financial system in order to strengthen its resiliency to various threats. Internationally, many of the rules and standards for financial system governance are being re-examined and upgraded in an effort to counteract the trend towards increased complexity and risk of financial institutions and markets. While many of these efforts are focused on the developed economies, small countries like Belize are also expected to adopt international "best practices" wherever these are considered relevant, and not unduly stifling in our particular context, in order to remain in good standing internationally. Furthermore, given the interconnectedness of international financial institutions, there is a worldwide and regional push to elevate the quality of oversight in all jurisdictions in order to minimize systemic risk and contagion. It was therefore strategically important for Belize to undergo its first Financial Sector Assessment Program (FSAP) in mid 2011 in order to identify any deficiencies in the regulatory framework and devise a program of corrective measures to strengthen the governance of the financial system.

The results of the FSAP provide a cohesive framework for moving forward to assure the safety and soundness of the financial system. Hence, loan loss provisioning standards were upgraded in December to bring these into conformity with international best practices and to incentivize the banks to focus on borrowers' capacity to repay as well as to set aside adequate provisions to cover non-performing loans. We expect that the CBB will keep the new requirements under continuing review. Still, for the commercial banks the year was therefore one of necessary adjustments, some of which resulted in short term losses. But these should ultimately reduce the difficulty and size of adjustments in the medium and long term.

Some of the recommended improvements to the regulatory framework hinge on the future enactment of several amendments to legislation. Substantial work has been done to revise the Banks and Financial Institutions Act and the Credit Union by-laws and these draft revisions have since been commented upon by key stakeholders. A final draft is being prepared and it is the intention of Government to submit a Bill for a new BFIA Act at the next sitting of the House.

The Central Bank has also been pushing forward with its efforts to reform the national payments system and establish a credit bureau, both of which are expected to have a positive developmental impact on the Belizean economy. The former is furthest advanced with a national payments system law having been drafted and a strategy paper prepared to carry the process forward. It is anticipated that the momentum of the payments system project will be maintained in 2012 as steps are taken to put in place the necessary financing arrangements.

## **PUBLIC UTILITIES**

Mr. Speaker, it was in August 2009 that the first nationalization of BTL unfolded. Even after these subsequent three years of public debate and ceaseless courtroom clashes, there remain those (directly or indirectly linked to the previous majority owners of BTL, and for that matter BEL) who persist in questioning our reasoning for the acquisitions. Since they do not tire in telling their story, neither will we tire in regaling Belize and the world with what is a glorious chapter in the nationalist history of our country.

In the first instance, the nationalization of BTL came 18 months after the UDP Government assumed office. In those 18 months, after the secret Accommodation Agreements were discovered by us, or shall I say, were provided to us, the Cabinet appealed for reason, for a just approach that would not violate Belizean rights and make us neo-colonials, to prevail. Only after these offers were rebuffed, and when the former owners insisted upon enforcing these illegal and immoral agreements lacking Parliamentary approval, did acquisition become an imperative.

According to the Claimants' own valuation, in the case of BTL, the estimated worth of the Accommodation Agreement is in excess of BZ\$231 million. How could our Government, any government, foist upon BTL customers and Belizean taxpayers and, for that matter, our creditors, including bondholders, such a massive, illegal subsidy?

And what of those shackles to economic growth represented by monopoly control of fiber optic lines, the permanent outlawing of VOIP, the booking of revenues offshore, the stifling of competition, the refusal to be regulated, and so forth? Fiscal and economic imperatives, as much as nationalism, compelled us to acquire Belize Telemedia.

As to BEL, the company was virtually illiquid at the time of acquisition, kept afloat only by Government's prepayments for public lighting and letters of credit. The Faustian bargain offered us by the then majority owners was either immediate rate increases or rolling blackouts, both of which would have been economically, politically, socially and psychologically unacceptable. As history records, we immediately and unalterably refused both choices. Those who can't see that this was in the interest of the people, the private sector and our development partners, are willfully, perversely blind.

In both cases, BTL and BEL, subsequent events have not only justified, but wonderfully vindicated, our stance. BTL customers enjoy lower rates. The company is investing BZ\$51 million in capital improvements this year alone, including a state of the art 4G network. And these investments add to the BZ\$61 million already spent in similar capital outlays in the two years since our acquisition. Shareholders received \$15 million in dividends last December. Prices for Internet access have been slashed while bandwidth is available to the private sector at reduced rates. Per second billing has given back some BZ\$8 million annually to Belize Telemedia Ltd. customers. And the company is paying its taxes while competing fiercely for market share. Altogether, a grand story well worth repeating.

Then last week, at its annual general meeting, BEL acknowledged net earnings of BZ\$1.9 million. Profits for 2012 are projected to be BZ\$6.9 million. In February, electricity rates came down by 7%, or approximately \$5.50 for anyone paying \$100 per month. Capital investments this year are planned at \$23.4 million, mostly to increase electricity access. For the five-year cycle 2012-2016, BEL's business plan contemplates total capital investments of approximately BZ\$145 million, 45% of which will be directed to increasing access for Belizeans to the electricity grid.

Again, an inspiring success for Belizean know-how and pride.

To complete this enchanted circle, in the case of BWSL rates were also reduced in early 2012 by 7.2%, or about \$3.60 on a monthly bill of BZ\$50. And for the next three years, the Board of Directors of BWSL has approved economy-stimulating capital investments to the tune of BZ\$62.7 million.

This Administration, as a matter of policy, allows all three utility companies to function as private-sector, public companies, offering value to their customers and shareholders and free from any political manipulation. Government has not and will not subsidize these utilities, which are, all self-sufficient, independent enterprises operating in growth sectors of the economy. Our approach is consistent with the model of public-private sector partnership first espoused by the 1984-89 UDP government when BTL was initially privatized. That model prospered so long as the mighty investors co-existed alongside the thousands of small Belizean shareholders whose



annual dividend check had been such a vital source of household income. There is scope in both companies for high-impact, strategic investors, foreign or domestic, once these investors are prepared to share the equity pie with small Belizean shareowners. I repeat: it is the enlightened, progressive return to a long held UDP philosophy, and its re-implementation now is yielding rich Belizean fruit.

And quite apart from the questions of lower rates and higher dividends derived from these Belizean majority-owned utilities, the effect of their aggregate capital expenditure is massive. Taken together, for example, BTL, BEL and BWSL will pump BZ\$86.0 million into the economy in capital spending for 2012 alone. This level of investment rivals that of the government's entire annual capital expenditure program.

Added to this, I am determined, will be a more aggressive investment approach by the SSB where millions, earning a pittance at the commercial banks, should now be available for more diversified investment activities. These are funds that, with the proper prudential safeguards in place, can stimulate private sector expansion particularly in agriculture, tourism, manufacturing and infrastructure improvements. To the extent that Central Government's capacities are constricted by revenue and debt realities, SSB must step forward. This is both for the sake of the nation's development, as well as to achieve a suitable return on the workers' assets.

## **CONCLUSION**

Mr. Speaker,

In concluding I want to make use of the following quotation from the Irish-born, American artist Augustus Saint-Gaudens:

"For we constantly deal with practical problems, with moulders, contractors, derricks, stonemen, trucks, rubbish, plasterers, and what-not-else, all the while trying to soar into the blue."

Saint-Gaudens was primarily a sculptor, but his observation about his craft holds equally true for the business of governance. The conundrum always is how to deal with the thousand myriad daily problems, while still thinking big; while still preserving and refining and renewing a comprehensive, articulate, even vaulting, vision.

Mr Speaker, I have tried to make clear that the UDP is about contemplation and implementation; about detail and daring; about hard slogging and sky walking. We work every day, in countless little ways, to make government more responsive, to improve incrementally the lives of the people. But we are also seized of this larger sense of mission, this zeal to create a great society out of our Belize. And our labours both large and small are ever imbued with certain simple but fundamental tenets: the imperatives of nationalism, egalitarianism, and social justice.

That is why, in these regards, the UDP can always commit to deploying the policies, actions and platforms that will make the word flesh, and our country grand.

Mr Speaker, I thank you.

**ANNEX 1: Some Select Indicators**

	2008	2009	2010	2011	Mar-11	Mar-12
<b>POPULATION AND EMPLOYMENT</b>						
Population (Thousands)	322.1	333.2	323.4	332.7		
Employed Labour Force (Thousands)	114.5	120.5	100.7	na		
Unemployment Rate at April (%)	8.2	13.1	23.3	na		
<b>INCOME</b>						
GDP at Current Market Prices (\$mn)	2,727	2,698	2,797	2,895		
Per Capita GDP (\$, Current Mkt. Prices)	8,468	8,097	8,650	8,702		
Real GDP Growth (%)	3.6	0.6	2.4	2.2	7.8	6.0
Sectoral Distribution of Constant 2000 GDP (%)						
Primary Activities	12.5	13.6	13.0	12.4		
Secondary Activities	18.7	20.9	20.4	20.2		
Services	60.2	52.5	53.1	53.7		
<b>TOURISM</b>						
Stay Over Arrivals (Thousands)	234.7	221.7	224.7	233.2	72.4	76.9
Cruise Ship Passenger Arrivals (Thousands)	537.6	634.7	688.2	654.8	199.9	214.3
<b>MONEY AND PRICES (\$mn)</b>						
Inflation (Annual average percentage change)	6.4	(1.1)	0.9	1.5	0.9	1.9
Currency and Demand deposits (M1)	706.2	713.3	707.9	839.4	551.8	930.8
Quasi-Money (Savings and Time deposits)	1,260.4	1,379.9	1,382.9	1,361.9	1,383.2	1,361.4
Money Supply (M2)	1,966.6	2,093.2	2,090.8	2,201.3	2,133.3	2,292.2
Excess statutory liquidity	84.0	105.0	160.1	221.1	189.8	281.7
Excess cash liquidity	15.1	40.0	60.5	95.7	51.7	110.9
Excess securities			24.7	151.5	61.0	150.4
<b>CREDIT (\$mn)</b>						
Commercial Bank Loans and Advances	1,742.4	1,805.4	1,762.0	1,757.7	1,750.7	1,759.5
Public Sector	17.8	7.1	5.7	5.4	8.5	11.6
Private Sector	1,724.6	1,798.3	1,756.3	1,752.3	1,742.2	1,747.9
<b>INTEREST RATE (%)</b>						
Weighted Average Lending Rate	14.1	14.0	13.8	13.0	13.6	12.7
Weighted Average Deposit Rate	6.4	6.1	5.6	3.7	5.2	3.2
Weighted Average Interest Rate Spread	7.8	7.9	8.2	9.4	8.4	9.5
<b>BALANCE OF PAYMENTS (US \$mn)</b>						
Merchandise Exports (f.o.b.) <sup>(1)</sup>	480.1	382.1	481.9	603.3	151.7	173.4
Merchandise Imports (f.o.b.)	788.2	620.5	615.7	773.9	176.6	184.3
Trade Balance	(308.2)	(238.4)	(133.8)	(170.7)	(24.9)	(11.0)
Remittances (Inflows)	74.1	76.2	74.5	73.3	18.7	18.0
Tourism (inflows)	278.5	256.2	248.6	253.7	78.8	81.9
Services (Net)	216.9	182.6	203.4	175.1	60.8	63.6
Current Account Balance	(132.4)	(84.6)	(5.3)	(36.8)	28.5	32.5
Capital and Financial Flows	235.7	135.5	13.6	40.9	(33.8)	22.5
Gross Change in Official International Reserves	57.9	47.3	4.3	(18.1)	11.8	(6.5)
Gross Official International Reserves <sup>(2)</sup>	166.4	213.7	218.0	236.1	206.2	242.6
Import Cover of Reserves (in months)	2.8	4.2	4.8	4.3	4.1	4.3

Sources: Ministry of Finance, Statistical Institute of Belize, & the Central Bank of Belize

(1) Includes CFZ gross sales

(2) Starting in 2005 these numbers have been revised to reflect only usable reserves as defined by BPM5.