

“RECOVERY TODAY, PROSPERITY TOMORROW”

BUDGET PRESENTATION FOR

FISCAL YEAR 2010/2011

Hon. Dean Barrow
Prime Minister and Minister of Finance
Belmopan
Monday, 15 March, 2010

SUMMARY OF RECURRENT AND CAPITAL BUDGETS

	APPROVED ESTIMATES 2009/2010	REVISED ESTIMATES 2009/2010	PROPOSED ESTIMATES 2010/2011
TOTAL REVENUES AND GRANTS	807,029,745	718,205,409	811,589,453
RECURRENT REVENUE	751,270,517	674,625,795	784,268,353
TAX REVENUE	670,112,037	594,865,150	703,493,483
Income and profits	210,472,231	207,298,148	247,548,804
Taxes on property	7,706,381	4,061,057	7,003,385
Taxes on international trade and transactions	190,561,319	165,998,351	175,835,935
Taxes on goods and services	261,372,106	217,507,594	273,105,359
NON-TAX REVENUE	81,158,480	79,760,645	80,774,870
Property Income	10,734,203	10,693,142.00	6,930,273.00
Licenses	9,446,864	10,098,897.00	11,780,118.00
Other	60,977,413	58,968,606.00	62,064,479.00
CAPITAL REVENUES:	5,600,000	4,205,492	4,800,000
SALE OF CROWN LANDS	3,600,000	4,174,749	4,200,000
SALE/RETURN OF EQUITY	2,000,000	30,743	600,000
GRANTS	50,159,228	39,374,122	22,521,100
TOTAL EXPENDITURES	859,676,761	799,816,784	876,325,468
RECURRENT EXPENDITURE	689,760,217	674,010,231	721,590,717
PERSONAL EMOLUMENTS	276,520,883	270,937,420	291,226,891
DEBT SERVICE-INTEREST & OTHER CHARGES	106,567,323	105,985,528	118,778,113
PENSIONS	43,915,975	49,826,030	50,415,975
GOODS & SERVICES	262,756,036	247,261,252	261,169,738
CAPITAL EXPENDITURES	169,916,544	125,806,553	154,734,751
CAPITAL II EXPENDITURES	63,379,230	50,525,151	65,229,811
CAPITAL III EXPENDITURES	100,078,228	68,822,316	83,045,854
CAPITAL TRANSFER & NET LENDING	6,459,086	6,459,086	6,459,086
RECURRENT SURPLUS/[DEFICIT]	61,510,300	615,564	62,677,636
PRIMARY SURPLUS/[DEFICIT]	53,920,307	24,374,153	54,042,098
OVERALL SURPLUS/[DEFICIT]	(52,647,016)	(81,611,375)	(64,736,015)
AMORTIZATION	(70,774,909)	(69,864,353)	(62,985,868)
FINANCING REQUIREMENT	(123,421,925)	(151,475,728)	(127,721,883)
FOREIGN LOAN DISBURSEMENTS (PROJECTS)	50,619,000	34,881,475	65,524,754
FOREIGN LOAN DISBURSEMENTS (GENERAL)	7,000,000	55,000,000	35,000,000
DOMESTIC DEPOSITS/BORROWING	65,802,925	61,594,253	27,197,129
GDP (in billions of Bz \$)	3.035	2.925	3.071
OVERALL SURPLUS/DEFICIT (+/-) AS A % OF GDP	-1.73%	-2.79%	-2.11%
PRIMARY SURPLUS/DEFICIT (+/-) AS A % OF GDP	1.78%	0.83%	1.76%

OUTLINE OF BUDGET SPEECH FOR FISCAL YEAR 2010/2011

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Table of Contents

INTRODUCTION	2
FRAMEWORK FOR THE BUDGET	4
RECENT ECONOMIC DEVELOPMENTS	7
INTERNATIONAL ECONOMIC DEVELOPMENTS	7
ECONOMIC DEVELOPMENTS IN BELIZE - 2009	7
BUDGET PERFORMANCE IN FISCAL YEAR 2009/2010	12
PROJECTED OUTTURN	12
<i>Revenue Performance</i>	12
<i>Expenditure Performance</i>	14
<i>Central Government’s Debt</i>	15
BUDGET PROPOSALS FOR FISCAL YEAR 2010/2011	17
UNDERLYING PRIORITIES FOR THE BUDGET	17
SOCIAL SECTOR SUPPORT AND POVERTY ALLEVIATION PROGRAMMES	19
SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2010/2011	20
NEW TAX MEASURES.....	21
TAX RELIEF MEASURES	22
ESTIMATES OF REVENUE 2010/2011	28
ESTIMATES OF RECURRENT EXPENDITURE 2010/2011	30
ESTIMATES OF CAPITAL EXPENDITURE 2010/2011	31
REFORM MEASURES IN TRAIN	33
REFORM OF PUBLIC FINANCIAL MANAGEMENT	33
MULTI-YEAR BUDGET	35
MONETARY POLICY REFORM	36
CONCLUSION	38

INTRODUCTION

Mr. Speaker,

I rise to move the first reading of the General Appropriation Bill for Fiscal Year 2010/2011.

I have tried to signal, certainly since the latter part of 2009, that the worst effects of the global crisis were catching up on us. As we end the fiscal year the figures confirm just how comprehensively we have been injured by the planetary meltdown. Against that backdrop, the core objective of the Budget for fiscal year 2010/2011 may be simply stated. It is to nurture national recovery and return to secure and sustained growth. Sacrifices will have to be made, but only in order to move this great country forward.

Now all budget presentations are attended by a mass of figures and statistics that, however necessary, can be mind-numbing. So I have set myself the task today of attempting to ensure that throughout this presentation we don't lose sight of the central message. Before I turn to the formal stuff, I therefore wish to set out in straightforward terms what I see as the main pillars of the recovery effort.

The first is the social investments, the bread and butter interventions that this government must continue to make on behalf of the poor. The United Democratic Party is the preacher of no particular 'ism'. We do operate a system that seeks always to empower the private sector as a preferred instrument of stimulation and economic growth. But we are also statist in a sense, in that we do not shirk from a large activist role for government, especially when it comes to protecting the poor. This is not some new conviction forced upon us by the circumstances that have obliged even the most hallowed bastion of capitalism to reexamine the magic of the marketplace. No! We have long since considered so-called big government a moral and practical imperative in aid of the poor. We will make no real progress against violence, marginalization, diseases, except through the agency of a muscular central government. And the dispossessed in this country must always know that the strong arm and watchful eye of the United Democratic Party will ever be the guardians of their welfare, promoters of their interests, and guarantors of their survival. I will detail later the myriad ways, the many programmes, and the multiple initiatives of this budget for the assistance of the poor.

Job-creation is the second of the recovery tools that I would like to address. Insofar as the private sector is concerned we will continue aggressively to promote new investment. The tourism industry, in particular, will benefit from special marketing efforts headed by a new high-powered Director, and the continuing efforts to lower airline fees and attract new carriers. Government will assist with an expansion of the duty exemption regime, waiving the levies even on consumer items for the industry.

But there is an extent to which the private sector has been hamstrung by the crisis, which in turn means that it is again for Government to step into the breach. The public sector investment programme must, therefore, be accelerated; and the job-creating infrastructure projects must be implemented at a faster clip. Some of the Cap III under-spending for the year just ending is a clear result of capacity constraints locally that must be corrected. Every project delayed is employment deferred precisely when we need it most. That is why we have this year created new, properly staffed project implementation units in both the Ministry of Works and the Ministry of Agriculture. The grant funds, most especially from the EU, must be drawn down more quickly, so that the work on the roads and bridges and streets and drains can proceed apace and bring jobs, jobs and more jobs.

The third pillar of the reconstruction effort is access to credit. Self-evidently, a return to growth presupposes the availability to the private sector of affordable financing. And here, I insist, the commercial banks must do their part. It is inconceivable to me that interest rates can be as low as they are internationally, and as high as they are locally. While it is a complex matter, the fact is that something will have to give. I will say more later on government's determination to bring rates down. But for now let me just indicate that an IDB mission will visit Belize by mid-year, headed by the president of the bank himself. He will have in tow the private sector and investment promotion arms of the bank, and the purpose of the mission will be precisely to arrange greater credit access for the Belizean private sector.

Here and now, though, government will act, is acting, on this all-important issue. We have already revived the DFC, and I am pledging that by the middle of the year there will be an additional capitalization of not less than five million dollars. That apart, we will charter a dedicated small fund for new and, especially, young entrepreneurs. The intermediary through

which it will be channeled will be decided later, but rest assured there will be no repeat of the PUP government-abused small farmers and business bank. Then, just a few weeks ago, at the George Price Centre, there was the launch of another initiative concentrating on access to credit for the rural poor, and using the Credit Unions as the implementing agents.

The fourth and final ingredient in this synopsis of the rescue mix, is the effort to combat crime and violence. Later you will hear of the multi-faceted initiatives in this connection that this budget is funding. But I wanted to signal immediately that outside of the Estimates, there is a public safety project that the IDB, when I went for the regional Governors meeting last week in El Salvador, agreed to fund. Under the project five youth-friendly, drop-in centres will be built/renovated in Belize City to provide skills training, sports and recreational activities, counseling services etc. Community outreach and involvement will also be a key, as well as strengthening of the Belize Police Department. The project will cost not less than 10 million dollars.

Mr. Speaker,

These are some of the critical platforms on which this budget is premised. As I said, they will be spelled out some more in the course of the presentation. But as I also said, I thought it important to establish the trajectory right from the start.

I now turn to the more formal parts of the speech:

FRAMEWORK FOR THE BUDGET

Mr. Speaker, the Budget for the upcoming Fiscal Year was prepared against the background of continuing adverse effects from the severe shocks the Belizean economy experienced in 2008 and again in 2009. To recapitulate, these include:

1. The world economic crisis and the financial chaos in the industrialized economies,
2. The two major flooding events of 2008, and
3. The sharp volatility in the international prices of petroleum.

The damage and dislocations of 2008 caused by Tropical Storm Arthur's flooding of southern Belize in May/June, and by Tropical Depression Number 16 in the western, central and northern Belize in October/November, continue to affect agricultural production and road transport. Recovery is underway, but we are still some distance off from returning to the pre-flood production levels in grains and other agricultural crops. At the same time, we continue to have to set aside millions of dollars to rehabilitate our highway and feeder road network, as well as urban streets and drains.

The volatility in world oil prices has resulted in uncertainties and pressures on both our balance of payments and our fiscal accounts. When prices were at their peak in early 2008, we experienced widening current account deficits, greater demand for foreign exchange to meet our oil import bill, and fall in revenue as this government rolled back taxes to mitigate pump prices.

When the prices slumped in the early part of 2009, there was some all-too-fleeting relief to the consumers and on the Balance of Payments position. Now that prices are on the rebound again, pressures on the balance of payments and on consumer prices have returned.

This volatility has also affected the domestic petroleum industry, which in 2008, in a climate of unprecedented high prices, rapidly expanded exploration activities and incurred significant capital costs, in the hope of finding more oil. There has been no success so far. But such costs, under the present state of the law, are deductible expenses for income tax purposes. This has therefore resulted in lower taxable income and consequently lower tax receipts for the government and people of Belize. But the exploration mandate of BNE, the only current producer, runs out this year. The absence of any continued exploration expenses on their part will thus boost their net profits and government's tax bottom line.

In 2009 Belize experienced the full brunt of the economic and financial depression that first manifested itself in the industrialized countries in 2008 and in early 2009. Particularly hard hit were tourism, foreign direct investment, and the demand for, and prices of, our key agricultural exports. Aquaculture, specifically farmed shrimp, was a major example of this. The result has been a dramatic slowdown in economic activity and an equally sharp decline in tax revenues.

There are now signs of preliminary economic recovery in the industrialized countries. But it will take some time before this trickles down to the small developing countries like Belize.

RECENT ECONOMIC DEVELOPMENTS

INTERNATIONAL ECONOMIC DEVELOPMENTS

Given the magnitude of the upheavals caused by the global financial crisis during 2009, any signs that the world economy is, however unsteadily, beginning to regain its footing, are to be welcomed. The recovery has, it is well known, been heavily dependent on a massively orchestrated policy stimulus comprised of aggressive monetary expansion and sizeable fiscal injections engineered to stabilize financial markets, grease the wheels of credit and restore business confidence in many of the developed countries. We hope that there will be no premature withdrawal of Keynesian packages that have worked and kept inflation under control.

Closer to home, the external shocks from the global financial turmoil caused the Caribbean and Latin American region to experience an estimated 1.8% contraction in GDP, breaking a six year streak of positive growth. Exports and employment levels fell sharply, as commodity prices plunged and output volumes decreased. The cost of international borrowing increased while capital flows turned negative. Remittances and tourism receipts collapsed in the face of lower financial wealth, job uncertainty and higher debt burden in advanced economies.

Financial systems in the Caribbean, while generally sound, battled to cope with increasing levels of non-performing loans, declining profitability and the debacles of the CLICO and Stanford groups. These adversities forced many economies to seek external financing to cushion international reserves and bolster budgets in the face of dwindling government revenues. Economic output contracted in most CARICOM countries, with Guyana and Haiti being the only exceptions. In addition, several countries including Jamaica, St. Lucia and Grenada, were forced into the clammy embrace of the IMF. And, given CARICOM's overarching reliance on external factors such as tourism, foreign direct investments, family remittances and offshore financial services, regional prospects for 2010 remain pessimistic.

ECONOMIC DEVELOPMENTS IN BELIZE - 2009

With contagion from global crisis being transmitted to us through trade and investment channels, the Statistical Institute of Belize reports that the Belizean economy contracted by 0.8% during 2009.

The largest declines occurred in '*Hotels & Restaurants*' and '*Wholesale & Retail Trade*' activities, following a sharp contraction in tourist arrivals, a significant fall-off in cross border trade at the commercial free zone, and weakening of domestic demand as a consequence of lower foreign inflows and attendant unemployment. Overnight tourist arrivals declined for the second consecutive year, though, on the upside, cruise ship disembarkations increased by 18.1%. This is explained by the diversion of some ships from Mexico due to the H1N1 swine flu scare and an aggressive marketing campaign by the cruise ship companies to counter the economic slowdown.

Putting another damper on growth in Belize were the lingering effects of the 2008 floods. The result was lackluster performance by most of the major export crops and a decline in overall agricultural production during 2009. Papaya production was also hampered by fungus and other fruit diseases, either caused or exacerbated by flood conditions. With flood damage more extensive than initially estimated, sugarcane deliveries for the 2008/2009 crop year declined by 6.4% to 917,728 long tons, the smallest harvest since 1988. In a beneficial twist, the relatively dry harvest weather aided in heightening the crop's sucrose content, so that sugar production rose by 18.0% to 92,325 long tons. Unfavorable agronomic conditions for the first harvest (which is usually the bigger of the two undertaken annually), also caused citrus yields for the 2008/2009 crop year to decline by 6.4% to 6.6 million boxes. Orange production contracted by 2.5% to 5.5mn boxes, while grapefruit deliveries plummeted by 22.0% to 1.1 million boxes. Partially countering the lower crop output was a higher average juice outturn per box of fruit, so that juice production fell by only 2.5% to 38.9 million pounds solids. Banana production also declined by 0.7% and amounted to 4.4 million boxes.

Softening the declines in agriculture and key services was the buoyancy of the secondary sector. Manufacturing was boosted by a 24.3% increase in petroleum production, and construction activity remained very strong. Furthermore, the domestic production of electricity increased by 19.2% with the addition of generation capacity from a local shrimp farm and the modest start of operations from Belize Sugar Industry's cogeneration plant.

In other developments, and on the good news front, inflationary pressures subsided with the Consumer Price Index recording an annual average deflation of 1.1%. This is compared to the 6.4% price hike recorded in 2008 following the spike in world crude oil prices. Fuel prices at the

pump declined significantly in the first three quarters, with the weakening in international crude oil prices. *'Transportation & Communication'* consequently registered the largest price fall of 5.6%, precipitated by double digit declines in gasoline and diesel prices. *'Rent, Water, Fuel & Power'* also experienced a 3.9% deflation, reflecting an 18.4% fall in butane prices. Compared to its 13.3% price surge in 2008, the cost of *'Food, Beverages & Tobacco'* was up by only 1.6% due to a significant moderation in food prices that occurred in the second half of the year. Falling prices for agricultural inputs and feed lowered prices for food staples such as rice, flour, eggs and whole chicken.

On the external front, the current account deficit shrank by almost 50.0% to \$147.0 million in 2009 as a substantial contraction in imports and profit repatriation more than offset lower inflows from domestic exports, tourism, other services, grants and private transfers. Exports declined by 18.9% due to a combination of production shortfalls, lower commodity prices (in particular crude oil prices) and the drop in CFZ sales. Facilitated by the absence of the sizeable capital imports that occurred in 2008, lower electricity imports and falling commodity prices, the import bill contracted as well by 21.8%, causing the merchandise trade deficit to narrow by 26.2%. Lower earnings from tourism and business services as well as smaller inflows to embassies and military units reduced net service inflows by 11.2%. The surplus on current transfers also contracted by 20.6% with lower grant receipts and reduced inflows to credit unions, religious organizations and insurance companies.

While the current account improved markedly, the surplus on the capital and financial account fell by 54.6% due in large part to the halving in foreign direct investment inflows and the swing in private sector flows from net loan disbursements during 2008 to net repayments in 2009. Government continued borrowing, under concessional terms, from its multilateral and bilateral partners and sizeable inflows to the Central Bank from the IMF contributed to the increase in gross official reserves by \$104.1 million to \$427.4mn, the equivalent of 4.3 months of merchandise imports. These inflows were, I hasten to make clear, for balance of payments support and came without conditionalities.

Public sector transactions resulted in a 5.9% increase in the external public sector debt to \$2,025.2 million (76.2% of GDP) with loan disbursements of \$196.4 million and amortization

payments of \$84.4 million. The disbursements included the \$70.6 million for the Central Bank from the IMF for, as I said, balance of payments purposes. They came by way of an emergency disaster loan facility and new SDR allocations; and while appreciated, they had nothing to do with budget support or the type of project funding that the G20 had so stirringly but, as it turned out, so emptily promised at the start of 2009.

Coinciding with the downturn in economic activity, growth in the broad money supply decelerated to 6.4% in 2009, less than half of 2008's 13.3% expansion. That 6.4% was due, in turn, to a 32.7% improvement in the net foreign assets of the banking system and, to a lesser extent, a 4.1% increase in private sector credit that was much tamer than the 10.6% growth of 2008. The former was facilitated by a build-up in gross official reserves that came mostly from bilateral and multilateral flows and included a marked reduction in commercial banks' foreign liabilities.

Notwithstanding the buildup in commercial bank liquidity throughout the year, the Central Bank kept the cash and liquid asset reserve requirements constant at 10.0% and 23.0%, respectively, for the third consecutive year. The deceleration in credit growth (part of which was due to portfolio consolidation) coupled with inflows from the start of the peak tourist season caused excess liquidity to rise from \$84.1mn to \$105.0 million, an annual increase of 25.0%. Likewise, excess cash liquidity almost trebled from \$15.0mn at the end of 2008 to \$40.0mn in 2009. I will have more to say later about liquidity and interest rates.

As regards the real economy, preliminary projections for 2010 indicate a rebound in GDP growth of about 1.5%, with the Central Bank allowing for the possibility of even 2%. Growth will be underpinned by a substantial increase in electricity generation (as the Vaca Dam and BELCOGEN cogeneration plants become fully operational in the second and third quarters), and a small recovery in banana export production. Petroleum production is also projected to increase following the addition of new wells in the last quarter of 2009. On the other hand, construction is forecast to decline, coinciding with the wrap-up of major projects such as the Vaca Dam and the BELCOGEN plant. On the external front, the current account deficit of the balance of payments is expected to deteriorate slightly. This is in line with an increase in import demand to support

the return to growth of the economy, and higher prices for oil and other petroleum related products.

BUDGET PERFORMANCE IN FISCAL YEAR 2009/2010

PROJECTED OUTTURN

Notwithstanding the full brunt of the global recession on Belize and on the Government's accounts during the current fiscal year 2009/2010, we project the fiscal outturn to be only marginally lower than the approved budget.

For the fiscal year, which ends on March 31, 2010, we project a primary surplus equivalent to 0.8% of GDP and an overall deficit equivalent to 2.8% of GDP.

Both these major indicators of fiscal performance are projected one percentage point lower than the budgeted estimates of fiscal year 2009/2010.

The overall deficit and the amortization are projected to be financed by \$113.2 million in external loan disbursements and \$38.3 million from the domestic system.

Summary of Approved Budget & Projected Outturn for FY 2009/2010 - (Bz\$million)		
	Approved Estimates	Projected Outturn
Total Revenue and Grants	807.3	718.2
Total Expenditure	859.7	799.8
Primary Balance	54.2	24.4
<i>As % of GDP</i>	1.79%	0.83%
Overall Deficit	(52.3)	(81.6)
<i>As % of GDP</i>	-1.72%	-2.79%
Amortization	(70.8)	(69.9)
Financing Requirement	(123.1)	(151.5)
GDP in current market prices	3,035	2,925

Revenue Performance

The impact of the recession was very much pronounced on Government's revenue collections. Total revenue is projected at \$678.8 million or 10.3% below budget, as both recurrent revenue and capital revenue underperformed. The projected decline in recurrent revenue to \$674.6 million is 10.2% below the approved budget and is attributable to shortfalls in both tax revenue and non-tax revenue. On the other hand, the projected total inflow of \$45.0 million from the local petroleum sector, as made up of royalties, income tax, working interest, production sharing, surface rental and environmental monitoring fees, has been a boon. It underscores the point I never tire of making. We must manage this sector in such a way as not to scare off those that are seeking to find more oil. Lack of certainty, arbitrary, huge unilateral increases in the tax regime, threats of nationalization, will do just that.

Tax receipts are projected at \$594.9 million or 11.2% below budget, and collections from the four major types of tax revenue are projected to decrease. While the direct taxes tended to be more resilient in the face of the economic downturn, the indirect taxes were severely hit. Hence, the taxes on income and profits are expected to decline by 1.5% to \$207.3 million. Taxes on property are projected at \$4.1 million or 47.3% below budget, a decline largely due to the difficulties in the application of the current land tax regime. These are difficulties used by some to avoid paying at all, and are difficulties that must be fixed. The taxes on goods and services are projected at \$217.5 million or 16.8% below budget, and the single largest contributor to this underperformance is the expected decline of 19.3% in general sales tax (GST) receipts. Taxes on international trade and transactions are projected at \$166.0 million or 12.9% below budget, primarily due to a 10.7% fall in import duties. This decrease in import duties was ameliorated by the additional collections of \$30.0 million from the increase in the import duty on fuel imports that the House approved last year. The substantial decline in merchandise imports that I referred to earlier was the primary contributor to the sharp decreases in tax receipts from the GST and international trade and transactions.

Non-tax revenue is projected at \$79.8 million or 1.7% below the approved estimates. This, in the circumstances, extremely modest shortfall is because this category of revenue is buoyed by a

\$0.8 million rise in receipts from oil mining and prospecting licenses and by the higher receipts from Ministries attributed to the \$6.1 million collected as Government's share of the working interest in petroleum operations for 2006 to 2008.

Summary of Revenue & Grants for FY 2009/2010		
	(Bz\$ million)	
	Approved Estimates	Projected Outturn
Total Revenue and Grants	807.3	718.2
Total Revenue	756.9	678.8
Current Revenue	751.3	674.6
Tax Revenue	670.1	594.9
Taxes on Income & Profits	210.5	207.3
Taxes on Property	7.7	4.1
Taxes on Goods & Services	261.4	217.5
International Trade & Transactions	190.6	166.0
Non-Tax Revenue	81.2	79.8
Capital Revenue	5.6	4.2
Grants	50.5	39.4

Capital revenue is projected at \$4.2 million or \$1.4 million below budget.

The figure for grants is projected at \$39.4 million or 22.0% below budget. The slower pace of the execution of certain projects contributed to the lower than expected flow in grant funds. Of course, the money doesn't go away. But, nevertheless, the new project implementation units, especially in the Ministry of Works, ought to help with capacity building and more timely execution. The most significant contributor to the grants was the CARICOM Petroleum Fund which gifted \$18.0 million to the Government of Belize to assist with the negative effects of the global economic crisis.

Expenditure Performance

Total expenditure for fiscal year 2009/2010 is projected to be \$799.8 million or 7.0% below budget, as recurrent expenditure falls by \$15.8 million to \$674.0 million while capital expenditure declines \$44.1 million to \$125.8 million. With the dramatic fall in revenue that I have just mentioned, Government also had to take some expenditure-reducing measures in order to keep the deficit within acceptable levels.

With the exception of the pensions that should increase by 13.5% to \$49.8 million, all other categories of recurrent expenditure are projected to fall below the budgeted estimates. The continued upward trend in pension payments underscores the rising number of pensioners and

recipients of gratuities. Also, the non-contributory pension regime is a direct call on Government's resources, and as such, the need to reform the pension scheme becomes increasingly important. The IDB has agreed to fund a study of the present system

With a number of positions remaining unfilled, expenditure on wages and salaries is projected at 270.9 million or 2.0% below budget.

Summary of Expenditure for FY 2009/2010		
(Bz\$ million)		
	Approved Estimates	Projected Outturn
Total Expenditure	859.7	799.9
Current Expenditure	689.8	674.0
Wages and salaries	276.5	270.9
Pensions	43.9	49.8
Goods and services	262.8	247.3
Interest payments on debt	106.6	106.0
Capital Expenditure	169.9	125.8
Capital II	63.4	50.5
Capital III	100.1	68.8
Net lending	6.5	6.5
Amortization	70.8	69.9

With the exception of transfers that performed as per budget, the expenditure on all other categories of goods and services is projected to be 5.9% below budget at \$247.3 million.

Interest paid on Central Government's debt is projected at \$106.0 million and just marginally lower than budget. Some 44.2% of this amount was paid on the "Superbond" at an interest rate of 4.25%. In relation to superbondage, one of the worst of the many bad legacies of the PUP, it is of note that we made the final interest payment under this initial period at this 4.25% rate last month. This coming August marks the start of a far more onerous stage when the interest rate on the "Superbond" rises to 6.0% and, it will jump even further to 8.50% in August 2012. The country also needs to prepare itself for the amortization of this bond starting in 2019. I will address the full impact of these increases later within the context of the medium term fiscal framework, stopping now only to say that this superbond is the rack on which the previous government broke the Belizean body politic.

Total capital expenditure is projected at \$125.8 million or 26.0% below budget. While net lending to the DFC is projected to be on target at \$6.5 million, the development expenditure on Capital II and Capital III projects is projected to be \$44.1 million below budget as a consequence of, again, capacity constraints and delays in the execution of projects.

Central Government's Debt

During the period December 31, 2008 to December 31, 2009 the Central Government's debt increased by 1.9% to \$2.2 billion, as a \$56.7 million (3.1%) rise in external debt outweighed a \$15.9 million (4.7%) decline in domestic debt.

The fall in the domestic debt to \$317.0 million was largely driven by a reduction in Government's overdraft facility with the Central Bank and the prepayment of a commercial loan.

The rise in the external debt to \$1.9 billion was attributable to disbursements of \$125.9 million.

Central Government's Debt 2008-2009		
	(Bz\$ million)	
	DOD	DOD
	31-Dec-08	31-Dec-09
Total Debt	2,152.7	2,193.5
Domestic Debt	332.9	317.0
Overdraft	131.0	124.8
Securities & bonds	180.8	180.8
Loans	21.1	11.4
External Debt	1,819.8	1,876.5
<i>of which: Superbond</i>	<i>1,093.5</i>	<i>1,093.5</i>

These disbursements are all concessionary debt and we remain thankful to our bilateral and multilateral partners for the loans that we received during the review period. We obtained these very favourable funds from the ROC (\$40.0 million) for budget support, the CDB (\$25.0 million) under a policy based loan and the IDB (\$15.0 million) for a social policy-based loan. We also benefited from \$2.9 million and \$0.5 million from OPEC and the Kuwait Fund, respectively, as well as \$17 million as trade credit on fuel from the Bolivarian Republic of Venezuela.

Of the \$1.9 billion in external debt, the “Superbond” accounted for fully \$1.1 billion or 58.3%. The rest of the debt, I repeat, is concessionary.

BUDGET PROPOSALS FOR FISCAL YEAR 2010/2011

UNDERLYING PRIORITIES FOR THE BUDGET

In the context of the limited resources available to us and based on the information gathered from the two previous years' budget consultation processes, much of which remains relevant and pertinent today, we will continue to emphasize education, health and physical infrastructure. We believe the progress already made in all three areas is undeniable, and of that we are immensely proud. Added to this priority list, is a heightened emphasis on domestic security and the maintenance of Law and Order.

In the education sector, we will continue the expanded scholarship program, particularly the assistance being given to our high school students. We will also continue with the increased transfers to denominational schools for teachers' salaries and scholarships, with the emphasis on improved teacher training; increased transportation for students in the rural areas; the expanded school feeding programs; and the full roll out of the ITVET. We will also maintain the high level of financial support to our national university, the University of Belize.

In the health sector, we will provide yet more resources to the National Health Insurance Scheme to allow for increased participation, especially in the southern region of our country. We will allocate more resources for equipment for the KHMH and will maintain funding for kidney dialysis treatment. We announce today the waiver of all duties on dialysis supplies, resulting in a per session cost reduction from \$680 to \$450. As well, Cabinet last week approved the MOU with WORTH, which should mean even lower costs and expanded treatment rosters. At the same time we are providing resources for the Ministry of Health to promote healthy lifestyles through proper dieting and exercise.

With regards to increased food security, we will provide more funding to the districts and to small farmers to improve farming practices and techniques. We will also support efforts at livestock and pig rearing to bring cash income to the small farmers. Our attempts at securing export markets are now being crowned with success. For example, the Partial Scope Agreement with Guatemala was effectively signed by President Colom last Friday when I visited that country. And liberalization under the Economic Partnership Agreement (EPA) with Europe has

meant that as of January 1, 2010 there has been duty free, quota free access of Belizean rice into the Union.

In the area of physical infrastructure, we will continue to emphasize the rehabilitation and upgrading of our primary and secondary road network, with special allocations directed toward the improvement of our feeder and farm roads. With the assistance of our international development partners, employment creating work on the replacement of the Kendal and Mullins River Bridges will commence this year. Under the Accompanying Measures for Sugar (AMS) some \$20 million ultimately will be spent on Phase II of the northern district road rehabilitation project

In the social sector, we will continue to implement the final phases of the Low Income Housing Construction and Improvement Program funded through grants from the Government of Venezuela, stolen by the last government and recovered by the UDP.

To combat crime and to maintain law and order, we will provide resources for another intake of new police recruits and also find funding for ballistic testing equipment for the forensic laboratory. In this connection, I repeat the announcement of the IDB funding of the Community Action for Public Safety programme.

In keeping with what I said at the start of this presentation, the greatest emphasis will be on Poverty Reduction and Social Protection, with programmes aimed at alleviating poverty and providing a safety net for the marginalized and disadvantaged. This will be complemented with skills training to empower youth and single mothers, to provide them access to credit, and to make them financially self sufficient in the medium term.

Mr. Speaker, I say again that we in the United Democratic party can conceive of no higher duty than that of looking after the poor.

SOCIAL SECTOR SUPPORT AND POVERTY ALLEVIATION PROGRAMMES

I will now spell out the larger of these new social sector and poverty alleviation programmes.

The first is a **Conditional Cash Transfer Programme**. This is being funded with \$4.0 million from local resources and will target the most deprived and disadvantaged in urban and rural areas. Again, we will look particularly at youth and single mothers. The Programme will give cash in return for the beneficiaries engaging in activities such as immunization, school attendance, and health and family education.

Then there will be a **Food Assistance Program** with an initial \$1.0 million to provide at a subsidized cost basic food items to the elderly poor and marginalized women and children.

Next, we will reactivate a **Countrywide Apprenticeship Program** with another \$1.0 million. This was first successfully done under the 1984 UDP government and will see us pay young people to learn a practical trade by way of apprenticeship to skilled crafts persons.

Finally, we are allocating half a million dollars for the refurbishment of the old bus terminal on Magazine road, and its conversion to an **Education Facility for Early School Leavers on the Southside of Belize City**.

Let me just note that all this in addition to on-going programmes that will be extended this year. Thus, the **Single Mothers Skills Training Pilot Project** will continue on the southside of Belize City, as will the sewing cooperative for Port Loyola and Queen's Square. There is \$1 million in the budget for the immediate extension of the Belize City Urban Rejuvenation Project. And the Southside Poverty Alleviation Project which, since 2008, has among other things repaired or replaced over 400 homes, is being amplified. The social side of this Project now kicks in, and accordingly, there is \$1.6 million for education, skills training and employability initiatives.

Of course, the \$2 million in increased social assistance for the poor that we voted in our first budget, has now become, a recurrent staple.

SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2010/2011

The draft estimates have been prepared on the assumption that nominal GDP will grow, in real terms, by about 1.5 % over the fiscal year, reflecting a slight recovery of certain key agricultural activities (such as sugar, rice, vegetables, and corn); a modest rebound in the number of overnight tourist arrivals; a marked increase in electricity generation as the Vaca Dam facility and the BELCOGEN facility come fully on line; and lastly, a modest increase in output in domestic petroleum.

It is also based on a continued moderation in the rise in food prices coupled with a gradual upward creep in energy prices.

However, Mr. Speaker, this projected recovery in growth following on the heels of three quarters of contraction and a fourth quarter of a slight rebound, which together resulted in an annual average of negative 0.8% of GDP, will not impact revenue sufficiently to restore fiscal balance. In fact, based on preliminary estimates, the fiscal position for the coming year, in the absence of any revenue enhancing measures, is expected to result in an un-financed gap of about \$61 million dollars or a full 2.0% of GDP. Mr. Speaker, this gap persists even after applying the most stringent of cost containment measures. In estimating the gap, allowances have been made for the impact of some very important tax relief and duty removal measures which I will announce later in this budget presentation. I would pause here only to say that the duty removal exercise will be the start of a continuing process that I hope will lead to virtual elimination of import duties.

Mr. Speaker, if not closed, the gap would have increased the Overall Deficit to almost *negative* 4.2% of GDP. We simply do not have access to concessionary external funding to close this gap. More importantly, if left as it is, this would have resulted in the creation of a level of domestic credit that would have put unbearable pressure on our foreign reserves position and would have crowded out the private sector. It would have reversed all the gains that we have made over the past two years to restore fiscal balance and to ensure long-term debt sustainability. Ultimately, it would even have threatened the stability of the exchange rate peg.

Therefore, we need to take the very difficult but unavoidable actions to close the gap.

We, therefore, propose a set of measures that we have carefully calibrated so that, with only one exception, they fall only on those most able to afford them. Accordingly we will:

NEW TAX MEASURES

- **Increase Business Tax for the supply of Electricity Services from 1.75% to 6.5%** - projected to yield an additional \$10.0 million. This tax is based on the profitability and the perceived ability to pay. It is still far less than such suppliers would be paying if they were under an Income Tax on Profits regime, since we note, according to the PUC, profits in the sector continue to be bountiful.
- Impose an **Excise Tax on Locally Produced Crude Oil** at a rate of \$1.00 per barrel – projected to yield \$1.8 million per annum. This is to provide additional revenue to government in view of the increased road maintenance on the Western and Hummingbird Highways necessitated by the transport of the crude oil to the port at Big Creek. I repeat what I said earlier about the need not to destabilize the nascent petroleum industry. But at a time like this, the sole producer cannot be boasting abroad of how well it is doing without being prepared to give a little more to the country and society that have enabled its bonanza.
- **Levy a Social Fee at a rate of 5% on the value of all Goods and Services imported into an Export Processing Zone – projected to yield a further \$3.5 million.** It is felt that a small fee to offset the duty free status of the EPZs would not threaten their operations or their international competitiveness.
- **Press the collection of Outstanding Tax Arrears – expected to yield \$4.2 million.** We are looking at two things here. One is some still outstanding taxes never paid by the previous owners of BTL. The other has to do with land. When the land tax regime was changed by the last government, a howl of protest went up from the big landowners. In consequence, the new dispensation was never implemented, and collections were done by reversion to the status quo. Even so, too many of those same landowners still refuse to pay. The idea now is still only

to collect at the old, easier rates but to use all available processes to collect at those rates.

- **Increase the rate of the General Sales Tax from 10.0% to 12.5 % - projected to yield an additional \$ 42.0 million.** We have had no choice in this matter. And while it may be of small comfort, we point out that even at this new rate, Belize will still have the lowest GST charge in all of CARICOM. Every other state in the region is at a 15% minimum with some at 16 or even 17%.

But even as we raise the GST, we are mindful of our promise to protect the poor and lower income earners. We are therefore also proposing a slew of tax relief measures, designed to insulate the most vulnerable. The GST is a consumption tax, so we want to do two things. The first is to ensure that the absolutely essential items, and in particular foodstuff, will actually see a drop in prices notwithstanding the generalized GST increase. In other words, the basic ingredients for the average Belizean family's everyday meals, should now see a price drop after this budget.

Second, we want to increase the purchasing power of the fixed income people at the margins.

Accordingly, and starting with the latter point first, we are increasing the basic income tax deduction for employed individuals earning less than twenty four thousand dollars per annum.

TAX RELIEF MEASURES

That increase in the basic income tax deduction for employed individuals earning less than \$24,000 per annum, is from \$19,600 to \$23,600. This in effect would mean that all employed individuals earning less than \$24,000 per annum would be exempt from tax, while those individuals earning more than \$24,000 would continue to be eligible for the current basic deduction of \$19,600. Further, this change will take effect retroactively for the tax basis year commencing 1st January 2010. So under this United Democratic Party Government, no person with a salary of \$500 per week or less, will ever again have to pay a single penny in income tax.

It is useful to add here that we have allocated \$3 million as a place holder in the budget in contemplation of the modest improved incentives we are determined to give to our teachers and public officers.

Then we come to the **Removal of Import Duty**. We are doing this on a wide range of basic food items, powdered laundry detergents, agricultural equipment and machinery including tractor parts, agricultural packaging materials, and basic school supplies. I say again that we are trying to reach a point at which import duties will be eliminated altogether, save and except only in areas necessary for the protection of local industries. In making this start, we have looked at a list, and in this we have been aided by the Chamber of Commerce, especially of high contraband items. And our import duty busting exercise should also, then, begin to reduce the incentives to corruption.

Mr. Speaker, the import duty removal list includes the following:

Cooking Oil including

Olive oil

Ground nut oil

Palm oil

Coconut oil

Mustard Seed oil

Rape oil

Colsa oil

Linseed oil

Corn oil

Sesame oil

Other mixtures of cooking oils

Hot Dog Sausages

Luncheon Meat

Potted Meat

Macaroni and cheese dinner

Breakfast cereals
Cornflakes
Hot chocolate
Cocoa drink mix
Coffee in all forms
Coffee substitutes
Vitamins and supplements
Inactive yeasts
Powdered detergents
School bags
Carton boxes
Egg boxes and trays
Rice for sowing
Banana plants
Banana cable-ways (for agriculture industry)
Irrigation pipes or plastics
Tractor parts
Refrigerators
Washing Machines
Dialysis fluids

We are also implementing the **Removal of the General Sales Tax** on a similarly wide range of basic food items, powdered laundry detergent, agricultural equipment and machinery including tractor parts, agricultural packaging materials, and school basic supplies. This list includes the following :

Soybean Oil

Hot Dog Sausages

Luncheon Meat

Potted Meat

Macaroni and Cheese Dinner

Hot Chocolate

Cocoa drink mix

Percolated Coffee

Breakfast cereals

Cornflakes

Vitamins and supplements

Inactive yeasts

Powdered detergents

School bags

Banana cable ways (for agriculture industry)

Irrigation pipes of plastics

Tractor parts

Refrigerators

Washing machines

Stoves

Mr. Speaker, while this list may not appear to be identical to the list of items from which import duty is being removed, it is simply because some items on the Import Duty Removal List were already free of GST. So to repeat, every single one of the items that I have listed will henceforth carry neither import duty nor GST.

In addition, Mr. Speaker, we will remove the GST on the supply of electricity to consumers who now use up to \$200.00 of electricity per month – up from the current ceiling of \$150.00 per month. An Order signed by the Minister will be published in the Government Gazette shortly to give effect to this relief commencing 1st April 2010.

Mr. Speaker, in compliance with our **commitment to the tourism industry**, we will also **widen the scope of the import duty waivers we had already legislated for them last year**. We began then by agreeing to across-the-board duty free importation of small buses and vans. The law will be further changed now so that even consumable items imported by small licensed hotel and guest-house operators for the running of their businesses, will be eligible for exemption by the Ministry of Finance. Under this new initiative, bed linens, towels, carpets, restaurant supplies and other furnishings and fixtures will qualify.

Mr. Speaker, in trying to help some particular critical sectors, we have also looked at the sugar industry. We had already implemented an individual, duty free fuel allowance to cane farmers of \$2 per gallon. But the equipment malfunctions at the sugar factory have visited a tremendous misfortune upon the industry. We hear harrowing stories of trucks waiting an entire week to make one delivery. In this scenario, everybody is suffering and there are poor drivers, for example, that can now make only \$25 per week. Government is determined to help. We are, therefore, increasing the fuel allowance to \$2.50 per gallon. The difference between the actual amount of the duty that is waived at the pump, and the new ceiling of \$2.50, will be paid in cash by the government to the farmers.

It is being proposed that both the proposed amendment to the Custom & Excise Duty Act and the proposed GST Act will take effect on 1st April 2010.

Taken together these relief measures are a wide-ranging, effective, cost-controlling effort on behalf of the most pressured consumers. Let no one say, Mr. Speaker, that even in a crisis, this

government does not look after the poor, the struggling, the middle class. The price of these relief measures is some \$10.5 million in forgone revenue. This sum has already been factored into the estimation of the revenue side of the budget and in the estimation of the un-financed gap of \$61.0 million.

Mr. Speaker, for the proposed Budget for Fiscal Year 2010-2011, we have set a preliminary target for the Primary Surplus of 1.76% of GDP and a target for the Overall Deficit of *negative 2.11%* of GDP.

Total Revenue and Grants are estimated at \$811.6 million. This is an increase of \$103.4

million over the expected outturn for last fiscal year. Total Expenditure is estimated at \$876.3million. Taken together, the result is an Overall Deficit, before Amortization, of \$64.7 million, equal to the 2.11% of GDP just mentioned.

Provision for amortization payments has decreased slightly to \$62.9 million, which, when added to the Overall Deficit, results in an Overall Financing Requirement of \$ 127.7 million.

Summary of Draft Estimates 2010/2011 and Outturn for FY 2009/2010 - (Bz\$million)		
	Projected Outturn 2009/2010	Draft Estimates 2010/2011
Total Revenue and Grants	718.2	811.6
Total Expenditure	799.8	876.3
Primary Balance	24.4	54.0
<i>As % of GDP</i>	<i>0.83%</i>	<i>1.76%</i>
Overall Deficit	(81.6)	(64.7)
<i>As % of GDP</i>	<i>-2.79%</i>	<i>-2.11%</i>
Amortization	(69.9)	62.9
Financing Requirement	(151.5)	(127.7)
GDP in current market prices	2,925	3,071

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

- 1) Draw-downs of approximately US\$41.7 million in project-related loans already committed for the Capital III Program
- 2) A Drawdown of the Second Tranche of US\$7.5 million from the IDB Social Sector Support Policy Based Loan.
- 3) A Drawdown of US\$10.0 million from a new Republic of China (ROC) Budget Support Loan, and

- 4) A Moderate Amount of Domestic Financing equivalent to US\$4.7 million drawn from GOB account balances currently held on deposit in the Central Bank and other Commercial Banks in Belize.

Mr. Speaker, you will see that we continue to finance our capital program largely through borrowings from bilateral and multilateral sources, largely on concessionary terms which have lower than market interest rates and long repayment periods. This is the third budget presentation since this government has taken office, and this is the third time that we do not propose to engage in any borrowing on commercial terms. Limiting our financing sources to long-term concessionary debt is an essential component of our strategy to achieve long-term debt sustainability and to improve our international credit ratings.

ESTIMATES OF REVENUE 2010/2011

The Draft Estimates of Revenue and Grants are comprised of \$784.3 million in Recurrent Revenue, \$4.8 million in Capital Revenue and \$22.5 million in Grants.

Recurrent Revenue is made up of \$703.5 million in Tax Revenue and \$80.8 million in Non-Tax Revenue.

The rise of \$109.7 million in Recurrent Revenue over last year's outturn is attributed to the following:

- 1) A \$52 million rise in receipts from the General Sales Tax. Some \$42.0 million of this is directly attributed to the increase from the proposed increase in the rate of GST, while the remainder is expected from the rebound in GDP growth and from enhanced revenue administration.
- 2) A \$32 million increase in collections from the Business Tax. Some \$10 million of this sum is expected to come from the new rate being applied to the supply of electricity services, while another \$20 million is due from improved registration, auditing, and assessments, and also particularly concentrating on the larger and on new taxpayers.
- 3) A \$4.8 million rise in Company Tax to total \$31.6 million. Almost all of this total is derived from Income Taxes on Local Petroleum Operations.

- 4) An increase of \$4.0 million in Petroleum Royalties to \$18 million; and
- 5) A new inflow of \$1.8 million for an Excise Tax on locally produced crude oil; and
- 6) A further \$15.0 million in additional inflows from a number of smaller taxes and fees.

Capital Revenue is estimated to increase only modestly by \$0.6 million to \$4.8 million from the sale of crown land to citizens who have fulfilled the conditions of their leases and now are in the process of converting to freehold titles. We do not anticipate any sale of large parcels of land in the upcoming year, as it is the policy of this Government to limit the sale of land to productive purposes only and give preference to small farmers and to the ordinary citizen and first-time land

buyers. Gone is the practice, so often used by the last Government, of selling crown land, including cayes, to cronies at give-away prices. This was so that such individuals in turn could “flip” or re-sell the land, sometimes within hours of receiving title, at current market prices. In the process, they would obtain obscene windfall profits at the expense of the national treasury.

Summary of Revenue and Grants		
(Bz\$ million)		
	Projected Outturn 2009/2010	Draft Estimates 2010/2011
Total Revenue and Grants	718.1	811.6
Total Revenue	678.8	789.1
Current Revenue	674.6	784.3
Tax Revenue	594.9	703.5
Taxes on Income & Profits	207.3	247.5
Taxes on Property	4.1	7.0
Taxes on Goods & Services	217.5	273.1
International Trade & Transactions	166.0	175.8
Non-Tax Revenue	79.7	80.8
Property Income	10.7	6.9
Licenses	10.1	11.8
Other	58.9	62.0
Capital Revenue	4.2	4.8
Grants	39.3	22.5

As was the case last fiscal year, we again do not anticipate receiving any significant new commitments of grant resources from our bi-lateral and multilateral partners. Nor do we expect to receive much in the way of long term financing from the purchase and resale of petroleum products under the PetroCaribe Accord, as such activity has virtually been suspended due to an absence of appropriate storage and distribution facilities.

However, we do expect to receive continuing support from the Caribbean Development Bank through its Basic Needs Trust Fund Programme; from the United Kingdom through the last cycle of the Commonwealth Debt Initiative Program; and from the European Union through its Accompanying Measures for the Sugar and Banana Programmes. Altogether we expect to receive some \$22.5 million in grants from these sources. Mr. Speaker, in the course of this fiscal year, we have established project implementation units in the Ministry of Works and in the Ministry of Agriculture, specifically to manage the EU Sugar and Banana Support Programs, in order to ensure timely and efficient use of the EU grant resources.

ESTIMATES OF RECURRENT EXPENDITURE 2010/2011

The Draft Estimates of Recurrent Expenditure propose a total of \$721.6 million up from an outturn of \$674.0 million in the year before. The proposed increase of \$47.6 million reflects the almost inexorable upward creep in wages and salaries due to annual salary increments; and the filling of some vital posts, particularly in the Health and Education Sectors and in the Security Services.

The provision for Pension and Gratuities remains stable at around \$50 million. However,

according to our actuaries that have studied the Government pension scheme, this is but a temporary pause in the otherwise escalating long-term pension liabilities. With the assistance of the IDB, the Government is currently assessing the Pension Scheme to come up with possible options for its reform.

Summary of Expenditure		
(Bz\$ million)		
	Projected Outturn 2009/2010	Draft Estimates 2010/2011
Total Expenditure	799.8	876.3
Current Expenditure	674.0	721.6
Wages and salaries	270.9	291.2
Pensions	49.8	50.4
Goods and services	247.3	261.2
Interest payments & other charges	106.0	118.8
Capital Expenditure & Net Lending	125.8	154.7
Capital II	50.5	65.2
Capital III	68.8	83.0
Net lending	6.5	6.5
Amortization	(69.9)	(63.0)

Government is proposing an allocation of \$261.1 million in the Goods & Services line to cover essential payments for material and supplies to Education and Health, for grants to educational institutions, for foodstuff for the Police Department and the Belize Defence Force, for utilities bills and for street-lighting, and for the supply of fuels and lubricants for the Government vehicle fleet.

In addition, the Government is providing a small increase of \$0.8 million to the NHI Budget to boost enrollment in the areas of coverage in the Southern Region bringing the total allocation to this program to \$14.0 million.

In the Recurrent Budget, we are also proposing some \$118.6 million dollars to meet interest payments on our debt obligations for the year. The amount required is approximately \$12.9 million more than the previous year. This is due in large part to the increase, or step-up, in the rate of interest rate on the so called Super Bond. The increase which is from 4.25% to 6.00% per annum will require an additional US\$10 million in budgetary resources annually for the next two years. This demand is offset somewhat by lower debt requirements in respect of some other small loans and debt obligations, bringing the net increase in the debt service requirement to \$12.9 million.

Following generally-accepted international public finance methodology, we are providing separately a further sum of \$62.9 million to meet amortization payments. This is lower by some \$6.9 million over last year's amortization requirement because we have by now fully retired the medium-term debt to CASCAL BV for the re-purchase of the shares in BWSL.

While the amortization is not included in the recurrent budget, it is nevertheless, a very real cash-obligation which represents a priority call on the financial resources of the Government. This sum is included in the overall financing requirement of the budget which in total sums to \$127.7 million.

ESTIMATES OF CAPITAL EXPENDITURE 2010/2011

Mr. Speaker, Government is proposing to allocate some \$148.0 million in its capital program in Fiscal Year 2010-2011. In the locally funded Capital II Program we propose to spend some \$65.2 million mainly on small projects, and on meeting our counterpart commitments for

externally funded project in the Capital III Program. As tight as the financial situation currently is, and as small as is the recurrent balance, we have not forgotten the poor and the economically disadvantaged. In this Capital II Program, we have set aside a total of \$6.0 million to fund three pilot programs aimed directly at poverty alleviation and social support. These are, as I have earlier mentioned, a pilot Conditional Cash Transfer Program funded at \$4.0 million, a Food Assistance Program budgeted at \$1.0 million, and a Apprenticeship Program also at \$1.0 million. In addition, we have provided a further \$1.0 million to the Ministry of Works to continue the very successful Belize City Urban Rejuvenation Program.

The Capital III [externally funded] program makes provision for \$83.0 million which includes the following *new* Projects:

- 1) \$3.0 million from CABEI for new facilities at the new Santa Elena- Corozal Crossing
- 2) \$3.0 million from the IDB for the Third GOB-IDB Land Management Programme
- 3) \$4.0 million from CABEI and IFAD for a new Rural Finance Programme
- 4) \$2.0 million from IDB for the new Agricultural Services Program
- 5) \$8.0 million from OFID Fund for Lot B of the Big Falls to Jalacte Road
- 6) \$3.0 million from the World Bank for the new Municipal Development Project

In addition to these new Projects, we will continue the implementation of the following priority projects which are currently underway:

- 1) \$5.0 million this year from the EU for the Sugar Support Programme, with a possibility of going much higher depending on implementation,
- 2) \$4.1 million from the IDB and OFID Fund for the Solid Waste Management Project,
- 3) \$5.0 million from the IDB for the Sustainable Tourism Project,
- 4) \$8.0 million from CDB for the Placencia Road Upgrading Project,
- 5) \$6.0 million from CDB for the Kendal and Mullins River Bridges,

6) \$4.0 million from CDB for the BNTF and the Social Investment Fund Programmes

REFORM MEASURES IN TRAIN

REFORM OF PUBLIC FINANCIAL MANAGEMENT

Mr. Speaker, transparency in our public financial management and procurement systems, transparency and reform must continue to rule the day.

The Public Expenditure and Financial Accountability (PEFA) Assessment Report, which was funded by the European Union (EU) was completed in January 2009 and the purpose of the evaluation was to assess the current status of the Belize Public Financial Management (PFM) system. The Report concluded that the PFM system in Belize is not working well and is, in fact, performing below an average standard and in some areas is performing well below the standard.

My Government is committed to the reform of the PFM system and, with the help of the Inter-American Development Bank (IDB), is implementing a program to institutionalize fiscal transparency and discipline. Recognising the need for a comprehensive and integrated reform plan we agreed, early in our administration, to a Country Strategy with the IDB focusing on instituting good governance and ensuring an improved quality of life for all Belizeans. One of the principal medium-term pillars of this strategy is to ensure sound fiscal management and transparency and, in particular, address the key vulnerabilities identified in the PEFA Assessment. The work to strengthen and make safe the Finance and Audit Act is also complete. A legal drafter is being retained to put it all in legislative language with penalties for ministers and public officers that violate the provisions. The bad old days of the PUP, the impunity with which orders and regulations were regulated, the wholesale making off with and diversion of public monies, are gone forever.

Mr. Speaker, this is my Government's third budget and I am happy to report that we have made significant progress in addressing several of the weaknesses identified in the PEFA Assessment. During the first two years of my administration, we engaged the Belizean public in consultations on the budget to improve the formulation of the budget and fiscal policy. This year, we have taken a further step in setting expenditure ceilings within which Ministries were asked to prepare their budget submissions, which were discussed with the Ministries of Finance and Economic

Development for the first time in several years. Ministries were also asked to provide details of their procurement plans and profiles of their cash requirements through the year. Payments will not be made by the Treasury unless they conform to previously agreed procurement and cash plans. Ministries will be responsible for ensuring that financial rules and controls are correctly applied, while the Ministry of Finance will establish an inspection unit to check on their performance. The Treasury will be reorganised so that reporting and accounting for revenue and expenditure, cash and debt can be radically improved. The revenue departments participated in the forecasting of the revenue envelope and were actively engaged in the discussions on improving collections and increasing efficiency.

Mr. Speaker, the draft budget for fiscal year 2010/11 includes a Medium-Term Fiscal Framework (MTFF) for the next three years, namely, 2010/11, 2011/12 and 2012/13. This Honourable House is being asked to agree the budget for the first year only as the second and third years are indicative budgets for the next two years; indicative of expected revenue and expenditure and assuming no change in fiscal policy. You will note Mr. Speaker that four ministries have submitted budgets over this three-year horizon. All ministries will eventually be required to prepare medium term budgets but we must first build technical capacities in the ministries.

Mr. Speaker, Cabinet approved a framework in November last year for the drafting of legislation to improve the formulation and reporting of fiscal policy through greater discipline, transparency and accountability. The framework focuses on setting standards of transparency for the Government's fiscal policy strategy and outturns through reporting rather than setting binding quantitative rules. My Government is committed to establishing a new fiscal framework aimed at producing better fiscal outcomes, and favours legislation that will prescribe procedural rules that will increase transparency throughout the entire budget process, that is, from preparation to monitoring and reporting.

With the assistance of the World Bank, Belize is implementing a small project aimed at developing and sustaining institutional capacity in the areas of external audit and public procurement with focus on the Audit Department and the Contractor-General's Office.

Mr. Speaker, we are earnest in our quest for comprehensive reform and greater openness and efficiency in our PFM system.

MULTI-YEAR BUDGET

Mr. Speaker, an aspect of reform that follows naturally from this package of measures has to do with multi-year budget framework. During the past year, we embarked on the first phase of a multi-year budgeting process, which involved four Government Ministries and the three main revenue departments. The select Ministries vary as regards the size of their budget but included the Ministries of Education and Human Development, representing the social sector, the Ministry of Agriculture, from the economic sector, and the Ministry of Works, whose activities are in the infrastructure sector.

Technical Assistance from both CARTAC and the IDB assisted the Government and particularly the staff at these Ministries and departments to develop their capacity in making medium term projections. An advantage of preparing forward budget estimates is that it provides a framework to evaluate the cost and timeframe needed to implement projects especially those that require more than a year to execute. Also, line Ministries will also be held more accountable for the delivery of outputs based on a set of performance indicators.

The multi-year budgeting that we are implementing will offer a three-year set of rolling fiscal forecasts that will be updated periodically. Year one will relate to the proposed estimates for FY 2010/2011, while year two and year three will be for FY 2011/2012 and FY 2012/2013, respectively. Next year, the current year two forecasts will form the basis of the budget for FY 2011/2012, the current year three figures will be updated and a new set of projections will be added for FY 2013/2014.

Even a cursory analysis of the medium term fiscal framework shows a steady rise in debt service payments and escalating from \$122.8 million in FY 2011/2012 to \$149.1 million in FY 2012/2013. Clearly, the fiscal impact cannot be understated given the existing constraints on our revenue base and the ever pressing demands of Belize's social and economic services and infrastructure. While I cannot say too much at this stage, we are working on a plan to comprehensively conserve forest resources, sequester carbon, and engage in swaps or trading

that will realize some non-traditional revenues to assist in taming this otherwise ungovernable debt monster bequeathed us by the PUP. The UDP will find a way.

MONETARY POLICY REFORM

The Central Bank has been collaborating closely with the Ministry of Finance in order to develop a framework that would enable the Central Bank to reduce its present monetary policy reliance on commercial bank reserve requirements and undertake a gradual shift to a market-based approach. In addition to improving the efficiency and cost structure of the banking system, the initiative is intended to provide further support to Belize's fixed exchange rate system by facilitating improved monitoring of foreign exchange flows as well by enabling the authorities to manage commercial bank liquidity and domestic credit expansion in a more proactive manner.

Several key measures were undertaken in 2009 that include the liberalization of the tendering process and discount rates on Treasury bills, the ongoing development of an improved monitoring and forecasting mechanism for systemic liquidity and the reduction of the inter-bank lending rate. Among the legislative measures being undertaken in 2010 are amendments to the Central Bank Act, the Treasury Bills Act, the Banks and Financial Institutions Act (BFIA) and the International Banking Act (IBA) that will, among other things, lengthen the maturity structure and raise the ceiling on the issuance of government securities. This is in order to improve the sourcing and management of the government's domestic debt whilst encouraging greater efficiency in the management of financial portfolios by commercial banks and other institutional investors. As these efficiencies are realized by the banking system, the expectation is that the broader society will be benefitted through a reconfiguration and lowering of the banks' interest rate structure. The Central Bank has also taken steps to ensure that commercial banks and other dealers do not sell US dollars at a higher price than the official selling rate of 2.0175 in order to eliminate inflationary pressure from this source. Where the lowering of interest rates is concerned, we have made clear to the Central Bank that the timeline for the conjunction of the new policy modality and moral suasion to work, is limited. The soft power approach, if not successful, will have to give way to the blunt instrument strategy; and we will not be afraid, if it comes to that, to actually legislate lower commercial interest rates. Everywhere, even in the most sacrosanct halls of market inviolability, the cry for regulation, for legislation, has gone out.

It is intolerable that our people should wait much longer to see interest rates, that have remained so low for so long in the developed world, go down in Belize. This is fast becoming both a moral and economic imperative.

In the upcoming period, other measures will be taken to continue the financial system's transition from reliance on static rules to one that is more responsive to and reliant on price signals. Included among these is a project to develop a national credit registry that would make it possible for financial institutions and businesses alike, to reduce the size of risk premiums that contribute to the high cost of credit in Belize. In addition to this, the Central Bank is spearheading a project to establish an electronic payments system, including an automated clearing house, that should further the development of the financial system and the economy by lowering the risk and cost of domestic financial transactions.

CONCLUSION

In concluding, Mr. Speaker, I acknowledge again, and regret again, the way we have been held hostage to fortune. We had nothing to do with the financial shenanigans in the developed countries that precipitated the world economic crisis, the global recession. But in this unequal life, the sins of the culpable big have been visited on the blameless small. The wonder of it all, Mr. Speaker, is how comparatively well we have managed in the circumstances. The dislocations here have been nowhere near as bad as in some of our sister Caricom countries. Our social compact, though frayed, still essentially holds. I believe there is resilience on the part of the private sector, grit on the part of the people, and conscience and determination on the part of the government. Accordingly, the green shoots of recovery discerned in the developed world, once transplanted to our country will find plenty of fertile soil. Also, always driving those core activities that I set out at the beginning of this speech, will be the non-negotiable reform advances that I described at the end. In that context I repeat my personal pledge to discharge my duty to Belize tirelessly and honourably. For in the interests of Belize I will say with Shakespeare's Henry V that if it be a sin to covet honour, I am the most offending soul alive. I am determined, therefore, that this democracy, this economy will be vindicated by the open, honest, caring husbandry of the United Democratic Party. At a particularly difficult juncture of this administration, I want to thank the people for their understanding. I and the UDP, to paraphrase Abraham Lincoln, continue to do the very best we know how, the very best we can. And we mean to keep on doing it to the end.

I have every confidence, Mr. Speaker, that that end will bring Belize all right. This country will dwell in light. And this government shall not rest until every Belizean is bathed in the circle of national brilliance.

I thank you.

ANNEX 1: Economics Indicators

	2005	2006	2007	2008	2009 ^P
POPULATION AND EMPLOYMENT					
Population (Thousands)	289.9	299.8	309.8	322.1	333.2
Employed Labour Force (Thousands)	98.6	102.2	111.8	114.5	120.5
Unemployment Rate at April (%)	11.0%	9.4%	8.5%	8.2%	13.1%
INCOME					
GDP at Current Market Prices (\$mn)	2,229.7	2,426.2	2,563.0	2,717.4	2,807.0
Per Capita GDP (\$, Current Mkt. Prices)	7,691.9	8,093.6	8,274.1	8,436.5	8,424.4
Real GDP Growth (%)	3.0%	4.7%	1.2%	3.8%	-0.8%
TOURISM ARRIVALS					
Stay-over Visitors (Thousands)	227.0	237.8	241.6	234.7	221.7
Cruise Ship Passenger (Thousands)	720.3	590.3	560.5	537.6	634.7
MONEY AND PRICES (\$mn)					
Inflation (Annual average percentage change)	3.7%	4.2%	2.3%	6.4%	-1.1%
Currency and Demand deposits (M1)	516.1	617.8	704.4	706.2	713.3
Quasi-Money (Savings and Time deposits)	815.8	887.1	1,031.7	1,260.4	1,379.9
Money Supply (M2)	1,331.9	1,504.9	1,736.1	1,966.6	2,093.2
Ratio of M2 to GDP (%)	59.7%	62.0%	67.7%	72.4%	74.6%
Excess Statutory Liquidity	58.4	64.3	58.5	84.0	105.0
Excess Cash Liquidity	8.7	15.2	8.7	15.1	40.0
CREDIT (\$mn)					
Commercial Bank Loans and Advances	1,254.7	1,390.5	1,599.6	1,742.4	1,805.4
Public Sector	62.4	48.6	40.0	17.8	7.1
Private Sector	1,192.3	1,342.8	1,559.6	1,724.6	1,798.3
INTEREST RATE (%)					
Weighted Average Lending Rate	14.3%	14.2%	14.3%	14.1%	14.0%
Weighted Average Deposit Rate	5.5%	5.8%	6.0%	6.4%	6.1%
Weighted Average Interest Rate Spread	8.8%	8.5%	8.3%	7.8%	7.9%
BALANCE OF PAYMENTS (US \$mn)					
Merchandise Exports (f.o.b.) ¹	325.3	427.2	425.5	474.9	385.1
Merchandise Imports (f.o.b.)	556.2	612.0	642.0	788.3	616.3
Trade Balance	(231.0)	(184.8)	(216.5)	(313.4)	(231.3)
Remittances (Inflows)	40.9	57.8	70.8	74.1	76.4
Tourism (inflows)	213.6	219.0	247.2	237.7	223.0
Services (Net)	143.0	210.7	231.1	216.9	192.5
Current Account Balance	(151.2)	(25.4)	(49.2)	(139.1)	(73.5)
Capital and Financial Flows	147.3	83.2	123.7	234.9	106.8
Gross Change in Official International Reserves	(12.2)	49.8	22.9	57.2	47.3
Gross Official International Reserves ²	35.8	85.7	108.5	165.8	213.7
Import Cover of Reserves (in months)	0.8	1.8	2.3	2.8	4.3
PUBLIC SECTOR DEBT					
Disbursed Outstanding External Debt (US \$mn)	969.7	985.7	972.5	954.1	1,012.6
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	87.0%	81.3%	75.9%	70.2%	72.1%
External Debt Service Payments (US \$mn)	89.0	134.6	133.4	96.9	79.7
External Debt Service Ratio (%) ³	14.2%	17.0%	16.2%	11.2%	11.0%
Disbursed Outstanding Domestic Debt (\$ mn)	279.4	299.9	321.9	332.8	317.0
Domestic Debt Service Payments (\$ mn)	23.1	27.5	30.5	47.7	45.2

Sources: Ministry of Finance, Statistical Institute of Belize, and Central Bank of Belize

P = Provisional

(1) Includes CFZ gross sales

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

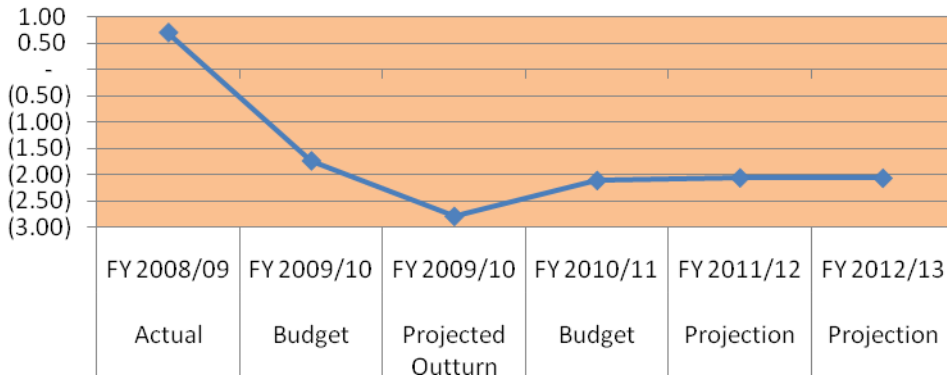
ANNEX 2: Central Government's Budget FY 2010/11 and Multiyear Projections

(\$ million)	Actual		Expected	Proposed	Projection	
	FY 2008/09	FY 2009/10	Outturn FY 2009/10	Estimates FY 2010/11	FY 2011/12	FY 2012/13
TOTAL REVENUE & GRANTS	786.8	807.0	718.2	811.6	868.3	910.7
Recurrent Revenue	686.4	751.3	674.6	784.3	838.9	881.3
Taxes on income & profits	196.7	210.5	207.3	247.5	285.2	310.3
GST	176.4	192.0	155.0	207.0	207.3	207.9
International Trade & Excise	167.7	217.4	186.2	196.6	202.2	207.8
Other tax revenue	53.2	50.3	46.4	52.3	55.3	58.3
Non-Tax revenue	92.4	81.2	79.8	80.8	88.9	97.0
Capital revenue	4.4	5.6	4.2	4.8	4.4	4.4
Grants	96.0	50.2	39.4	22.5	25.0	25.0
TOTAL EXPENDITURE	767.5	859.7	799.8	876.3	935.1	981.4
Recurrent Expenditure ⁽¹⁾	633.8	689.8	674.0	721.6	762.7	800.5
Ministry of Education	167.1	180.3	176.0	189.3	194.7	200.0
Ministry of Agriculture & Fisheries	8.7	10.2	9.7	10.2	10.5	11.0
Ministry of Human Development	6.2	9.0	8.1	9.5	9.8	10.0
Ministry of Works	8.5	7.8	8.1	8.8	9.1	9.3
Other Ministries	443.3	482.6	472.1	503.8	538.7	570.1
<i>of which: Interest Payments</i>	<i>104.1</i>	<i>106.6</i>	<i>106.0</i>	<i>118.8</i>	<i>122.8</i>	<i>149.1</i>
Capital Expenditure ⁽¹⁾	133.6	169.9	125.8	154.7	172.4	180.9
Ministry of Education	9.3	4.7	5.0	2.8	2.9	3.0
Ministry of Agriculture & Fisheries	9.1	13.5	8.2	12.4	12.7	13.1
Ministry of Human Development	0.9	1.0	0.7	6.2	6.3	6.5
Ministry of Works	37.2	52.6	49.6	40.1	41.2	42.4
Other Ministries	77.1	98.1	62.4	93.3	109.1	115.9
Recurrent Balance	52.5	61.5	0.6	62.7	76.2	80.8
Primary Balance	123.4	53.9	24.4	54.0	55.9	78.3
OVERALL BALANCE	19.3	(52.6)	(81.6)	(64.7)	(66.8)	(70.7)
Amortization	(81.3)	(70.8)	(69.9)	(63.0)	(62.1)	(65.7)
Financing Requirement	(62.0)	(123.4)	(151.5)	(127.7)	(128.9)	(136.4)
Foreign Loan Disbursements	86.2	57.6	89.9	100.5	79.2	81.3
Domestic Deposits/Borrowing	(24.2)	65.8	61.6	27.2	49.7	55.1
Memo Items:						
GDP at current market prices (\$mn)	2,757	3,035	2,925	3,071	3,246	3,425
Percentage change in GDP (%)		10.1	6.1	5.0	5.7	5.5
Tax Revenue as % of GDP	21.5	22.1	20.3	22.9	23.1	22.9
Primary Balance as % of GDP	4.48	1.78	0.83	1.76	1.72	2.29
Overall Balance as % of GDP	0.70	(1.73)	(2.79)	(2.11)	(2.06)	(2.07)
Government's External Debt (US\$m)	967.8	951.8	944.9	969.8	981.6	976.6
<i>As % of GDP</i>	<i>70.2</i>	<i>62.7</i>	<i>64.6</i>	<i>63.2</i>	<i>60.5</i>	<i>57.0</i>

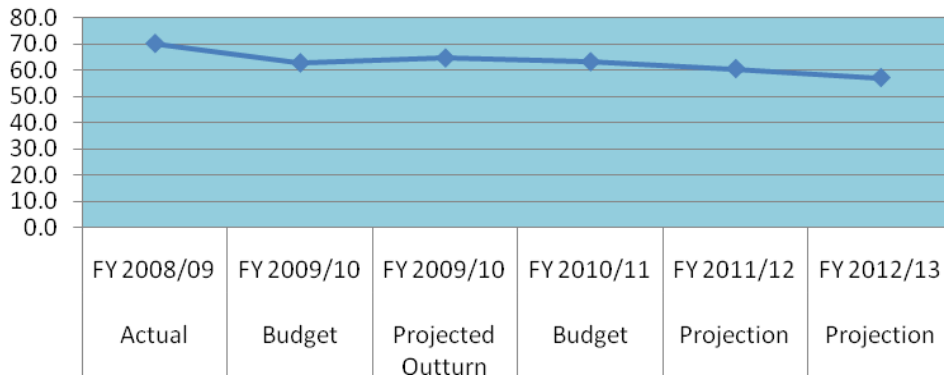
1 - The Ministries featured were the four selected for the piloting of the multi-year budget framework.

ANNEX 3

Overall Deficit as % of GDP



Central Government's External Debt as % of GDP



Tax Revenue as % of GDP

