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# **Research Update:**

Ratings On Belize Raised To 'B-/B' On Expected Completion Of Debt Exchange; Outlook Stable; Bonds Due In 2038 Rated 'B-'

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# **Research Update:**

# Ratings On Belize Raised To 'B-/B' On Expected Completion Of Debt Exchange; Outlook Stable; Bonds Due In 2038 Rated 'B-'

#### Overview

- Creditors holding 86% of Belize's \$547 million bonds due in 2029 have accepted the debt exchange offer, and today the Government of Belize will exchange the 2029 bonds for new bonds maturing in 2038.
- We are raising our long- and short-term foreign and local currency issuer credit ratings on Belize to 'B-/B'.
- We are assigning a 'B-' senior unsecured foreign currency rating on Belize's new proposed bonds due in 2038.
- The stable outlook on Belize reflects our expectation that the debt exchange will moderate some medium-term fiscal pressure but that the government's debt burden will remain heavy and economic growth prospects modest.

# **Rating Action**

On March 20, 2013, Standard & Poor's Ratings Services raised its long- and short-term foreign currency sovereign credit ratings on Belize to 'B-/B' from 'SD/SD'. We also raised our long- and short-term local currency sovereign credit ratings on Belize to 'B-/B' from 'CCC+/C'. The outlook is stable. At the same time, we assigned a 'B-' senior unsecured foreign currency rating on Belize's new bonds due in 2038. In addition, we affirmed our 'B-' transfer and convertibility assessment.

#### Rationale

We expect the Government of Belize will conclude today a debt exchange of its US\$547 million bonds due in 2029 for new proposed bonds maturing in 2038, following the acceptance by creditors holding 86% of Belize's 2029 bonds. The par value of the new bonds will equate the sum of 90% of the principal of the 2029 bonds plus accrued capitalized interest arrears through March 19, 2013 on the 2029 bonds. The new bonds will begin to amortize in 2019, and their step-up interest rate will accrue at 5% from March 20, 2013 to Aug. 19, 2017, and then rise to 6.767% thereafter. Official multilateral debt and the government's domestic treasury notes and bills are excluded from this exchange offer.

We expect that Belize will continue to face a heavy debt burden, absent stronger medium-term GDP growth and fiscal consolidation. The debt exchange will reduce Belize's gross general government debt to 71% of GDP in 2013 from 77% in 2011. The debt rescheduling will moderate debt service over the medium term, lowering the general government interest burden to a projected 10% of fiscal revenues (2.5% of GDP) in 2014-2015 from 23% of revenues (6% of GDP) in 2011. Belize's medium-term growth prospects--we project 2.5% average annual growth for 2013-2015--are weaker than those of peers rated in the 'B' category.

Large net external liabilities -- more than 170% of current account receipts -- will pose significant vulnerabilities and constrain the rating over the medium term, in our view. We expect that the government's access to the international capital markets will likely remain limited, constraining external liquidity. However, Belize is likely to retain access to financing from multilateral lenders. The country's gross foreign exchange reserves have been stable--just over US\$300 million as of March 6. We expect that improved tourism receipts, investment in the sugar sector, growth of bovine exports, and sustained infrastructure and project financing disbursements from the Caribbean Development Bank, Inter-American Development Bank, and Central American Bank for Economic Integration will support reserves over the next two years. However, declining oil production will continue to exert downward pressure on foreign reserves, absent robust growth of alternative exports. Furthermore, compensation claims stemming from the nationalization of Belize Telemedia Ltd. (in 2009) and Belize Electricity Ltd. (in 2011), both currently under litigation, pose contingent liabilities that could total 8% of GDP, according to government estimates (which are lower than claimants' estimates). These claims could, in our view, still pose some risk to the government's ability to service its newly issued debt.

The issuer credit ratings on Belize are also constrained by our view of Belize's weak political institutions, medium-term growth prospects, and its education and infrastructure investment needs. The government's financing options are limited, reflecting shallow domestic capital markets. Like all Caribbean nations, hurricanes pose a constant risk.

#### Outlook

The stable outlook on Belize reflects our expectation that the completion of the debt exchange will moderately alleviate medium-term fiscal pressure. However, the government's debt burden will remain large, and the country's economic growth prospects will remain affected by infrastructure and a shortage of skilled labor. We would most likely raise the rating if Belize's fiscal and debt indicators improve, growth and investment prospects accelerate sustainably, and external liquidity rises. We would most likely lower the ratings if external liquidity worsens.

#### **Related Criteria And Research**

- Belize, Dec. 28, 2012
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Principles Of Credit Ratings, published Feb. 16, 2011
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- Rating Implications Of Exchange Offers And Similar Restructurings, Update,
  May 12, 2009

# **Ratings List**

UPGRADED		
	То	From
Belize		
Sovereign Credit Rating		
Foreign Currency	B-/Stable/B	SD//SD
Local Currency	B-/Stable/B	CCC+/Stable/C
Senior Unsecured	B-	CCC+
Short-Term Debt	В	С
NEW RATING		
Senior unsecured debt due 2038	B-	
NOT RATED ACTION		
	То	From
Senior Unsecured debt due 2029	NR	D
AFFIRMED		
Transfer & Convertibility Assessment		
Local Currency	B-	

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