*“ Bouncing Back – A Bold Belizean Recovery “*

# BUDGET SPEECH

# FOR

# FISCAL YEAR 2017/2018

*Rt. Hon. Dean Barrow*

*Prime Minister and Minister of Finance and Natural Resources*

*Belmopan, Belize*

Monday, March 13, 2017

## SUMMARY OF RECURRENT AND CAPITAL BUDGETS

| | ACTUAL OUT-TURN 2015/16 | APPROVED BUDGET 2016/17 | PROJECTED OUT-TURN 2016/17 | DRAFT BUDGET 2017/18 |
|---|---|---|---|---|
| | | | | |
| **TOTAL REVENUES AND GRANTS** | **1,000,131,929** | **1,088,539,568** | **1,078,473,139** | **1,186,770,284** |
| **RECURRENT REVENUE** | **973,719,026** | **1,041,042,266** | **1,030,553,698** | **1,134,105,078** |
| **TAX REVENUE** | **864,299,513** | **936,597,430** | **944,806,858** | **1,032,902,996** |
| INCOME & PROFITS | 255,643,552 | 256,050,980 | 265,471,891 | 270,781,328 |
| TAXES ON PROPERTY | 5,457,365 | 5,682,158 | 6,107,981 | 6,230,140 |
| TAXES ON INTERNATIONAL TRADE & TRANSACTIONS | 248,826,967 | 308,676,911 | 174,716,689 | 204,011,023 |
| TAXES ON GOODS & SERVICES | 354,371,629 | 366,187,381 | 498,510,298 | 551,880,505 |
| **NON-TAX REVENUE** | **109,419,513** | **104,444,836** | **85,746,840** | **101,202,082** |
| PROPERTY INCOME | 36,904,907 | 20,064,464 | 16,690,843 | 31,024,660 |
| LICENCES | 14,013,866 | 12,645,862 | 9,842,496 | 10,039,347 |
| ROYALTIES | 28,035,919 | 41,801,990 | 33,424,856 | 33,777,353 |
| OTHER GOVERNMENT MINISTRIES | 29,637,524 | 27,193,683 | 24,719,698 | 25,270,442 |
| REPAYMENT OF OLD LOANS | 827,297 | 2,738,837 | 1,068,947 | 1,090,280 |
| **CAPITAL REVENUES:** | **6,259,005** | **5,916,434** | **2,511,907** | **5,983,694** |
| SALE OF EQUITY | 228,950 | 234,210 | 155,527 | 159,415 |
| SALE OF CROWN LANDS | 6,030,055 | 5,682,224 | 2,356,380 | 5,824,280 |
| **GRANTS** | **20,153,898** | **41,580,868** | **45,407,534** | **46,681,511** |
| | | | | |
| **TOTAL EXPENDITURES** | **1,264,548,104** | **1,151,104,412** | **1,238,917,901** | **1,180,103,128** |
| **TOTAL RECURRENT EXPENDITURE** | **904,278,104** | **959,192,958** | **995,421,042** | **1,030,405,076** |
| PERSONAL EMOLUMENTS | 384,011,781 | 402,731,463 | 408,772,435 | 422,373,201 |
| PENSIONS & EX-GRATIA | 77,199,239 | 67,169,087 | 75,970,838 | 79,080,192 |
| GOODS & SERVICES | 197,245,910 | 223,566,646 | 235,578,625 | 235,564,372 |
| SUBSIDIES AND CURRENT TRANSFERS | 160,812,051 | 165,725,762 | 170,461,354 | 184,332,696 |
| DEBT SERVICE-INTEREST & OTHER CHARGES | 85,009,123 | 100,000,000 | 104,637,790 | 109,054,615 |
| **TOTAL CAPITAL EXPENDITURES** | **360,270,000** | **191,911,454** | **243,496,859** | **149,698,052** |
| CAPITAL II EXPENDITURES | 99,622,645 | 93,431,778 | 121,594,718 | 66,243,403 |
| CAPITAL III EXPENDITURES | 160,771,756 | 95,972,929 | 119,482,537 | 81,156,025 |
| CAPITAL TRANSFER & NET LENDING | 99,875,599 | 2,506,747 | 2,419,604 | 2,298,624 |
| | | | | |
| **RECURRENT SURPLUS/[DEFICIT]** | **69,440,922** | **81,849,308** | **35,132,656** | **103,700,002** |
| **PRIMARY SURPLUS/[DEFICIT]** | **(179,407,053)** | **37,435,156** | **(55,806,972)** | **115,721,771** |
| As Percentage of GDP | -5.15% | 1.00% | -1.59% | 3.14% |
| **OVERALL SURPLUS/[DEFICIT]** | ***(264,416,176)*** | ***(62,564,844)*** | ***(160,444,763)*** | ***6,667,156*** |
| As Percentage of GDP | -7.59% | -1.68% | -4.56% | 0.18% |
| | | | | |
| AMORTIZATION | (75,318,965) | (86,854,688) | (85,149,148) | (88,482,576) |
| **FINANCING** | **(339,735,141)** | **(149,419,532)** | **(245,593,911)** | **(81,815,420)** |
| | | | | |
| **GDP (in billions of Bz) (Current prices)** | ***3.484*** | ***3.728*** | ***3.520*** | ***3.684*** |

### OUTLINE OF BUDGET STATEMENT FOR FISCAL YEAR 2017/2018

## Table of Contents

## INTRODUCTION

Madam Speaker,

I rise to move the second reading of the General Revenue Appropriation Bill for Fiscal Year 2017/2018.

In so doing, I perform the twin tasks of reporting on the current budget for FY 2016/17 and presenting the Government's 2017/18 Budget Proposals. The performance of the former and the projections of the latter will surprise many a critic; and will, I am convinced, reassure our well-wishers and provide them with a renewed sense of pride and purpose.

It is true that any macro-economic contraction, even as modest as the 2016 one that we now confirm, is unwelcome.

And yes, Government's exertion of our national sovereignty, our refusal to surrender to those who would pick the pockets of our grandchildren, has redirected precious energy and resources.

But never have we been more convinced than today of the justness of our cause. And never have we been more confident that our legal, political and economic victory is well worth its cost. After all, a BTL now subject to the PUC, our laws and competition, is locally owned, benefiting the consumer, expanding its provision of first class social, technical and commercial service. And over the long haul it will more than pay for its acquisition and earn handsome returns for Belizean pockets, pride and sovereignty. Overall, then, we see our way clear, and BTL is part of the national equation in which Belize's recovery and long-term prosperity are assured.

And here is why: notwithstanding the economic tightening of last year, I will report that government's recurrent revenues remained buoyant, rising by almost 6.0 percent over that of the previous fiscal year.

I will share the CBB's forecast that the economy will experience a muscular 3.5 percent recovery in 2017, with the attendant increase in jobs and investment opportunities.

And I will outline a financial plan for consolidation that's tailored to bolster revenue, bridle waste and protect the pro-poor and productive sector incentives that have distinguished this UDP administration.

Credit to the private sector expanded last year and is forecast to broaden even more in 2017; interest rates have fallen yet again, and should fall further; the health of the commercial banking system is the best in over a decade with non-performing loans falling below 5 percent; foreign reserves easily surpass the adequacy benchmark; and correspondent banking arrangements are the steadiest since this challenge arose.

These are the factors which make for optimism. These are the ingredients that help to solve the objective difficulty of our economic and fiscal circumstances: 60 cents of every dollar government collects goes directly to wages, pensions and benefits for 14,000 public servants, while another 20 cents pays for the goods and services that support the needs of our citizens. Satisfying the clamor to make good the public weal, to make social and infrastructure investments for 370,000 Belizeans dispersed across 200 villages, 9 municipalities and 6 districts, is no trifling matter. But nation-building was always a task for giants. So the United Democratic Party will continue to prove that we are the titans who can more than get the job done. Not for us the cold feet of those who seem to have refrigerated theirs in what I didn't realize must be the frigid waters of Orange Walk's New River.

I now turn to recent economic developments.

# RECENT ECONOMIC DEVELOPMENTS

### INTERNATIONAL AND REGIONAL DEVELOPMENTS

In 2016, weaker than expected performances in the major developed economies caused estimates of world growth to be scaled down from the 3.2 percent of 2015 to 3.1 percent. Under pressure from factors such as low commodity prices, high debt burdens, structural bottlenecks and fiscal consolidation efforts to rebuild buffers and resiliency, Caribbean countries grew only by an estimated 0.7 percent. Growth efforts were further complicated by the loss of correspondent banking services, as our region was among the most affected.

### ECONOMIC DEVELOPMENTS IN BELIZE

***Real Sector Developments***

Madam Speaker, In the case of Belize, the Statistical Institute of Belize reported that Gross Domestic Product (GDP) contracted by 0.8 percent during 2016. The downturn was due to a sharp plunge in primary sector output, since the secondary sector and services actually expanded. All major agricultural export crops contracted except sugarcane. This, with the advent of the Santander operations in the West, increased by 24.6 percent to 1.45 million long tons for the 2016/2017 crop year. Damage caused by Hurricane Earl reduced output of banana, corn and citrus. Hurricane apart, citrus also lost ground to greening; and banana productive capacity was impacted by the loss of the Meridian group of farms. The June closure of operations in Belize by the major producer led to a three-quarters fall in papaya production. Further deepening the drop in sectoral output was the 71.7 percent reduction in farmed shrimp output, as farmers grappled with adaptation strategies to cope with the Early Mortality Syndrome that had caused substantial losses in the previous year. Meanwhile, the expansion in the secondary sector was attributable to construction and the utilities, as petroleum extraction declined further. The buoyancy in services was fueled in large part by tourism, which benefitted from increases of 13.2 percent in overnight arrivals and 4.9 percent in cruise ship disembarkations. A notable development during the year was the commencement of port calls to Harvest Caye in November.

With the bulk of job growth occurring in service-based industries during the peak of the tourism season, the average annual unemployment rate fell from 10.1 percent in 2015 to 9.5 percent in 2016. The average annual inflation was 0.7 percent, with prices rising across board for all categories of goods and services.

***The External Sector***

In the case of external sector, the 2016 current account deficit of the balance of payments remained high at 10.0 percent of GDP, on par with that of 2015. This performance mostly reflected a 12.0 percent expansion in the merchandise trade deficit, as exports declined faster than imports. While tourism earnings increased, disruptions to correspondent banking services delayed cross-border flows. The Government's payment for the portion of the BTL settlement due in 2016 contributed to a drawdown of gross international reserves, which contracted by 13.8 percent to $0.75 billion. This, however, is still the equivalent of 4.5 months of merchandise imports.

***The Monetary Sector***

On the monetary front, the broad measure of money supply expanded by 2.8 percent. This was attributable to a surge in borrowing by the Government and a 1.6 percent growth in lending to the private sector. The net foreign assets of the banking system contracted due to lower export earnings, the substantial payments for BTL and the purchase of the local branch of First Caribbean International Bank. The credit unions also increased lending by 9.2 percent or $48.9 million. New issue of government securities targeted at financial institutions and institutional investors made virtually no dent in the high level of banking system liquidity. Consequently, the weighted average interest rates on new loans and deposits declined further, resulting in the weighted average interest rate spread decreasing by 13 basis points to 7.63 percent.

Notwithstanding the disruptions in correspondent banking services affecting some banks, prudential indicators for the banking system improved during the year. The aggregate capital adequacy was 23.8 percent, compared to the 9.0 percent regulatory requirement, and the ratio of non-performing loans (net of specific provisions) to total loans finally fell below the 5.0 percent threshold to 3.0 percent.

***Financial System Modernization***

In other developments, the Central Bank of Belize, in collaboration with Central Government and local financial institutions, operationalised the Automated Payment and Securities Settlement System (APSSS). The system connects directly with the local operating environment of banks to improve the quality and speed of electronic payments in Belize, thereby enabling them to transfer funds and clear cheques faster, safer and more reliably. Of the three components which make up the APSSS, two have been implemented – the Real Time Gross Settlement (RTGS) and Central Securities Depository (CSD). The RTGS enables the continuous real-time settlement of large value funds or securities transferred individually on an order by order basis. The CSD facilitates liquidity management, electronic auctions, custody and registry of ownership of Government securities. Supporting legislation has been completed and passed into law in early 2017.

***Central Government's Debt***

Madam Speaker, In the new fiscal year, the quantum of fresh financing required by the regular budget itself (and not including the off-budget settlement payment for the BTL shares) has been dramatically reduced. Indeed, it will be at the lowest level since 2008, just about 2 percent of GDP or about $82 million. Measured against our recurrent income flows, the amount to be financed will be about 8 cents of every dollar of revenue.

By comparison, last year's budget required financing of some 7 percent of GDP or 23 cents of every recurrent dollar.

This change is decisive.

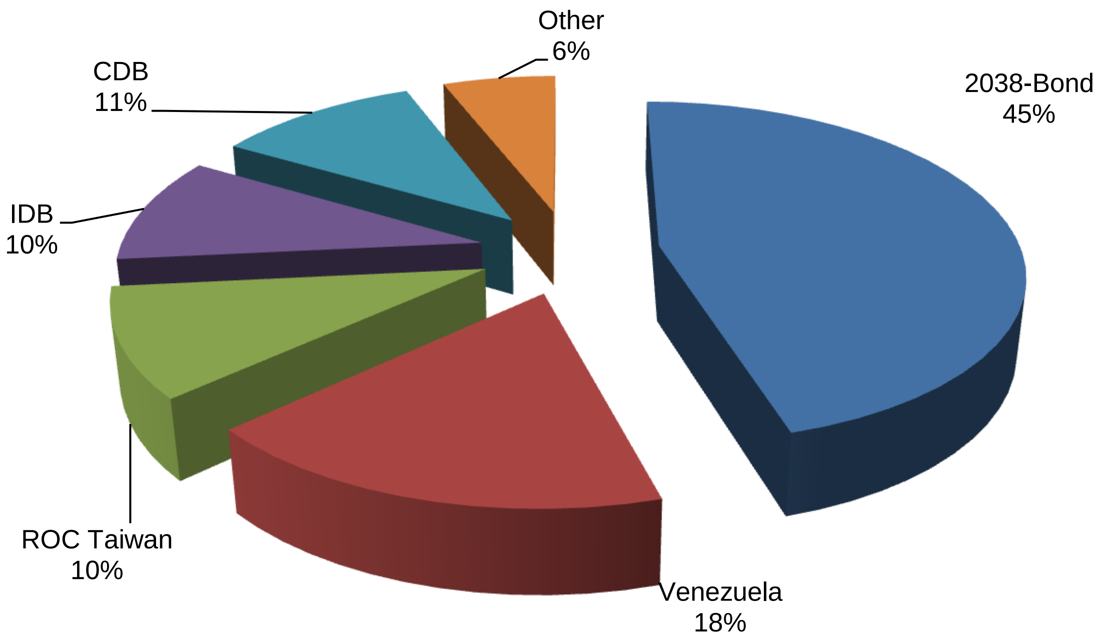
At the close of January 2017, external public debt amounted to 70 percent of GDP, some $2.3 billion; and domestic debt totaled 22 percent of GDP, some $750 million. The interest cost of these obligations is projected at $104.6 million for this fiscal year and is expected to rise slightly to $109.1 million during FY 2017/18.

The average interest rate on all public debt for this FY is thus around 3.4 percent and this rate is not expected to increase materially during FY 17/18.

Just under a third – 28 percent of the external debt – is owed to Belize's main bilateral partners: the Bolivarian Republic of Venezuela and the Republic of China on Taiwan; the balance of the external debt is sourced from the IFIs, principally the CDB and the IDB which together hold 21 percent of our external loans.

"Blessed are the young," Herbert Hoover once joked, "for they shall inherit the national debt." In our case, for every citizen and not just the young, the debt inheritance bequeathed them in 2008 by the PUP is no joking matter.

**Chart 1: Composition of External Debt, FY 2016/2017**




Half of all interest payments during this fiscal year and fully a third of the outstanding public debt – almost $1.1 billion - is linked to the Monster Superbond, the product of that bacchanal of extortionate borrowing during the Musa/Fonseca epoch.

Last week, this administration won the consent of more than the 75 percent of superbond holders required to reduce, for a second time in four years, the value of their claim against Belize. Measured in today's dollars, and after accounting for costs, there will be a 25 percent reduction to the value of the bonds, savings estimated at the massive sum of BZ$170 million. As Belizeans now know, the coupon rate on these bonds will actually be less than the current 5.0 percent, and

27 percent lower than the 6.7 percent that would have applied in August of this year. More critically, principal repayments of some $610 million previously payable between 2019 and 2029, will be deferred to five so-called soft bullets payable from 2030 to 2034.

These immense savings are in addition to the $236 million in debt relief achieved by the first UDP re-negotiation in FY 2012/2013.

Our predecessors, those across the aisle, who trafficked in high-interest bonds and promissory notes, laid a debt trap before leaving office: they drove up the public debt from 48 percent of GDP in 1998 to 89 percent of GDP in 2008. This deprived their successors of the critical option of borrowing which, when done prudently, is one of the most effective tools to combat recession and economic crisis. The PUP's pace of public borrowing, on average, was a "double-up" and "triple-up" approach: borrow two dollars for every dollar of economic growth, borrow three dollars for every new dollar of revenue: clearly a case of irrationality, cognitive dissonance, and corrupt use of unmonitored debt funds to fill ministerial and crony pockets.

This PUP debt trap was not just the official borrowing, but all their off-balance, secret agreements including BTL, GDG, UHS, BB, and so forth. But this minefield notwithstanding, this administration has succeeded in steadying overall debt levels relative to GDP, and in growing the economy for 7 of the 9 years in office.

What appears to be a constant grudge of the Opposition, and Opposition sympathizers masquerading as independents, is our PetroCaribe Investment Program. They fly in the face of historic reality and refuse to either acknowledge the growth and job inducing impact of the program, or applaud the transformative difference of PC projects nationwide. But no fake facts or alternative reality can obviate the spectacular strides made, the thousands of jobs created, the hundreds of streets, roads, drains and bridges constructed, the modern sporting and community facilities erected, all in consequence of the UDP's superb and transparent execution of its PetroCaribe multi-year investment program.

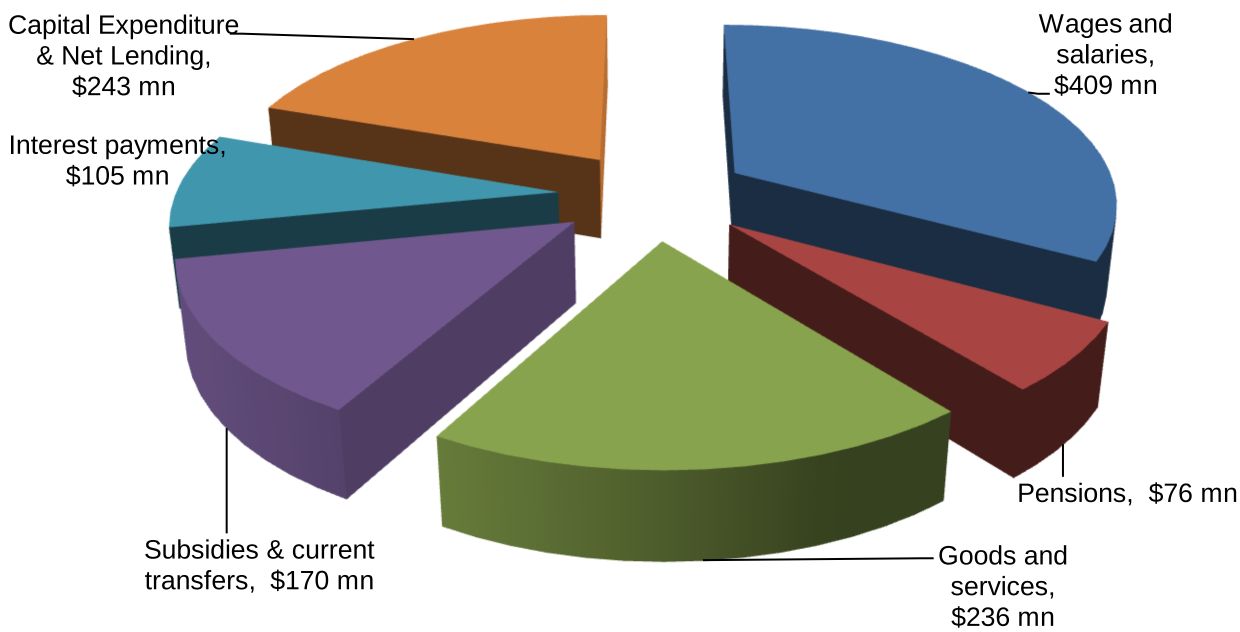
Moreover, today the interest paid on the public debt is less than half of what it was when the PUP left office because this government has refrained from contracting a single non-concessionary loan. At less than 10 cents of every recurrent dollar, the interest costs are at the lowest level since 1997.

Further stabilizing the public debt without retrenchment, wage freeze or pension cuts is our unalterable medium-term ambition, and this budget is its advancement.

***Fiscal Performance***

Madam Speaker, 2 ½ weeks from the end of the current Fiscal Year 2016/2017 I report now that the budget performance has been mixed. While total expenditure is projected to be $1.24 billion or $87.8 million above budget, total revenue and grants should be $1.08 billion or $10.1 million below. And this is projected to yield a primary deficit equivalent to 1.6 percent of GDP and an overall deficit of 4.6 percent of GDP by end fiscal year.

**Chart 2: Distribution of Government's $1,239 mn Projected Expenditure in FY 2016/17**




The projected shortfall in total revenue and grants is attributable to higher than expected declines in oil mining and prospectus licenses and from royalties and working interest from the domestic petroleum sector. Tax revenue and grants, though, are to rise by $12.0 million.

In the case of expenditure, increases are projected under all the major categories. The primary categories of current expenditure are to expand by $36.2 million or 3.8 percent, while capital expenditure accelerates by $51.6 million or 26.9 percent. Wage and wage-related outlays account for the largest category of expenditures, as these are projected to take up 54.6 percent of total revenue and grants in FY 2016/2017.

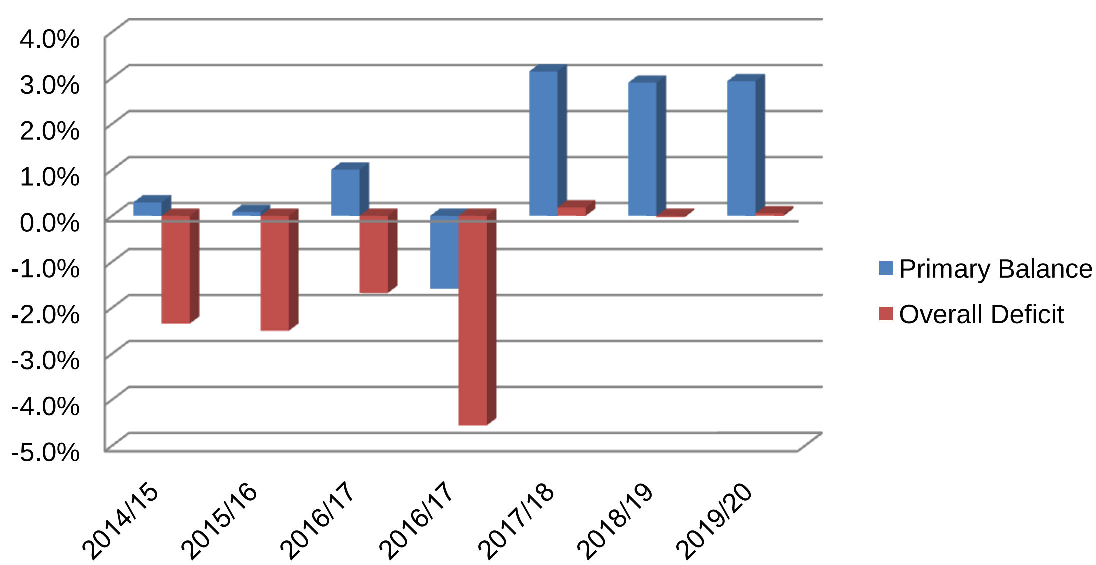
This projected outturn is exclusive of the $196.5 million settlement that the Government made on the BTL compensation, which is reflected as a below the line transaction as per the Government Finance Statistics System. As pointed out earlier, the financing of this settlement was achieved through the issue of new government securities.

## REVIEW OF FISCAL STRATEGY

Madam Speaker, the legal framework for our budget is entrenched in the Belize Constitution, the Finance and Audit Reform Act and other subsidiary legislations. The priorities in the budget are guided by Belize's Growth and Sustainable Development Strategy (GSDS), which was launched by the Government a year ago, and it covers the period 2016 to 2019.

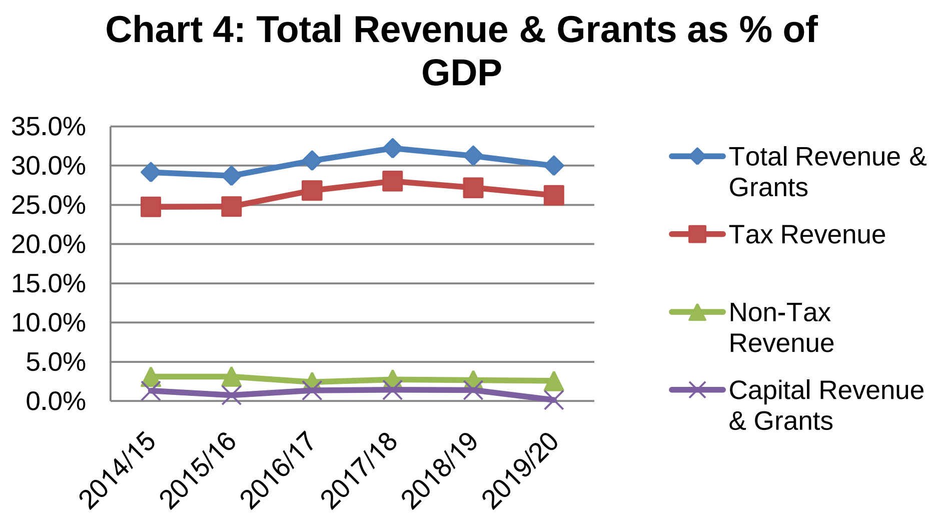
The Government's policy for the next three financial years is to pursue a measured level of fiscal consolidation that will yield an average primary surplus of 3.0 percent of GDP for FY 2017/2018, and 2.0% of GDP through FY 2019/2020. This consolidation will be achieved by revenue enhancing measures equivalent to 2.0 percent of GDP and expenditure restraining actions of 1.0 percent of GDP over the projected outturn for FY 2016/2017. These initial measures will be followed up by improved revenue collections and wide range of cost-saving actions during the outer years.

**Chart 3: Fiscal Balance as Percent of GDP**




With the revenue measures that the Government is taking, the current revenue will be maintained at an average of 29.8 percent of GDP over the next three years, while keeping current expenditure at an average of 27.0 percent during the same period. Given the primary surpluses that are targeted, the Central Government's debt trajectory will begin to trend downward starting in FY 2018/2019 after a peak of 90.0 percent of GDP in FY 2017/2018.

The IMF's World Economic Outlook Update issued in January 2017 projects a 3.4 percent increase in global output in 2017 from an estimated 3.1 percent in 2016. In Latin America and the Caribbean, it is expected that growth will be 1.2 percent in 2017 after a contraction of 0.7% in the previous year. A caveat to these projections is the impact of changing US policies.




Here at home, the Central Bank of Belize expects an economic recovery in 2017 with real GDP growth between 3.0 % and 3.5%. The improvement is based on an expected upturn in crop and livestock production as well as higher farmed shrimp production based on the field trials' outcome in late 2016. In the secondary sector, citrus juice production and petroleum extraction will dampen output, while services should remain buoyant with continued expansion in tourism, transport and communication, the distributive trade and government services. Major downside risks include economic slowdowns in the developed countries that trade with Belize, a setback in farmed shrimp recovery, de-risking, US trade policies, outcomes from Brexit and natural disasters.

## SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2017/2018

### UNDERLYING PRIORITIES FOR THE BUDGET

Madam Speaker, our priorities for the Budget for FY 2017/2018 are to continue to provide resources for investments in road infrastructure, in health and education, and in national security. At the same time, we are undertaking the consolidation needed to achieve lasting fiscal and debt sustainability.

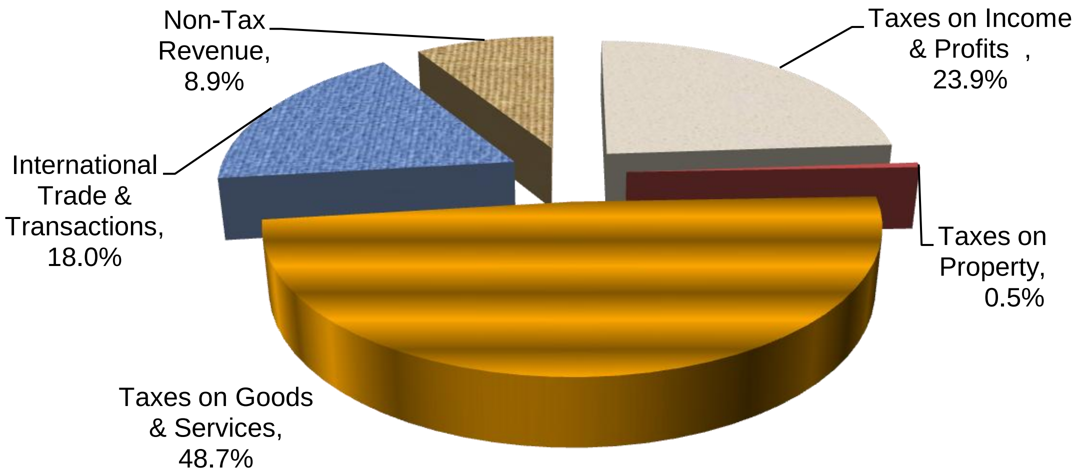
Even with the fiscal challenges we face, there are certain commitments that we will not retreat from, particularly the commitment to implement the third and final stage of the Salary Adjustment Package for the Public Servants and Teachers. Madam Speaker, this increase was originally due to be implemented in this current year, but it was deferred until the upcoming fiscal year following the devastation caused by Hurricane Earl last August. The increase of an across- the-board of 3.0% for all public officers, police (including the BDF and Coast Guard), teachers, and pensioners, will require an additional $15 million in resources. But we are determined to keep our word even though to do so means having to forgo other potential expenditures in goods and services. It bears repeating again that over the last four years public officers and teachers have received an aggregate increase of 25% in wages and salaries, costing the Government over $90 million. I say once more that Government has been happy to empower our employees with this gargantuan increase, even though it does impose a tremendous strain on our financial resources.

### SUMMARY ESTIMATES FOR 2017//2018

The proposed Budget targets a preliminary Primary Balance of positive 3.1 percent of GDP and an Overall Balance of positive 0.18 percent of GDP. Total Expenditure is budgeted at $1.180 billion while Total Revenue and Grants are estimated at $1.186 billion. When taken together, these result in a small Overall Surplus of $6.7 million, being that 0.18 percent of GDP.

To obtain the aggregate financing requirement of both budgetary and off-budgetary expenditure we must apply some $88.5 million for Loan Amortization requirements, and also a further $180 million for settlement of the Telemedia Arbitration Award bringing the total financing requirement to $261.5 million.

**Chart 5: Sources of Government's $1,134 mn Current Revenue in FY 2017/18**




**ESTIMATES OF REVENUE 2017/2018**

The Draft Estimates has total Revenue and Grants amounting to $1.186 billion for FY 2017//2018 and this is comprised of $1.134 billion in Recurrent Revenue, $6.0 million in Capital Revenue and $46.7 million in Grants.

Madam Speaker, the estimate of Recurrent Revenue for the upcoming Fiscal Year is some $104 million above the projected outturn for this current fiscal year. This is explained, in part, by natural growth in revenue and improvements in administration - particularly closer coordination among the tax departments, aggressive collection of arrears, and improvements in auditing and risk profiling. But the larger contributing factor is implementation of a package of tax measures which is expected to yield an additional $80.0 million for some 2.2 percent of GDP.

Cautious Consolidation

For many months prior to this presentation, the Ministry of Finance has been evaluating a range of options for supplemental revenues, receiving suggestions from the social partners and tax experts. The IMF’s recipe has been publicly rehearsed: raise the GST, eliminate those items, mostly basic food and medical supplies, that are zero-rated, cancel exemptions for the productive sector and raise the tax take from personal and business income.

But we are pro-poor and pro-people. And so we reject those options as regressive and punitive to both citizens and enterprise. Instead we have come up with our own formula. And it does involve measured consolidation. But it does this without imposing any onerous hamstring on business, and while preserving the protective armor for the poor, the food pantry and Boost shield for those at the margins. It as well reiterates our faith in Public Officers, and Labour and the middle classes generally. Continued investment in these sectors, keeping intact their salary and quality of life gains, is the way to grow the economy, and improve efficiencies. We are determined not to stifle and demoralize productivity and morale. Conventional austerity is counterintuitive, if not oxymoronic, in the context of the renewed, Herculean efforts we now ask all our people to make as we surge our recovery and rebound.

I should therefore report that before considering a single step relating to additional taxes, Cabinet froze non-essential goods and services expenditure for FY 2016/17. That belt tightening put the brakes on the otherwise inexorable growth in expenditure, especially on telephone and electricity consumption, fuel, rents, and medical supplies, to name a few. While this effort did not result in an actual reduction in expenditure year- over- year, as the implementation began mid-year, it did arrest the growth and has set the stage for greater tightening in the year to come. This relentless campaign to trim expenditure fat will therefore intensify in the new fiscal year.

We are listening to the loud and clear message by the private sector and the unions, repeated in all our budget consultations, that Ministries and Departments must aggressively curtail costs before seeking additional revenue collections.

And I should also report that the very first revenue measure to be adopted in the new financial year will be this: all statutory boards are hereafter required to contribute 10 percent of their 2017/18 income to the Consolidated Fund. If the expenses of these quasi government entities cannot be as vigorously policed as Ministries and Departments, then the next best alternative is to reduce their income flows.

Now, satisfied that the cost reduction as well as the statutory board contribution must be supplemented to achieve our consolidation targets, Cabinet proposes the following limited measures:

- Adjust the excise levy on aerated water, beer and stout, cement and fuel to generate 0.77 percent of GDP
- Amend the departure fee for non-Belizeans to $40 to yield 0.30 percent of GDP

- Bump the environmental charge on imported goods by 1 percent producing 0.41 percent of GDP
- Shift the social fee on Free Zone cigarettes to 20 percent, generating 0.29 percent of GDP
- Lower the tax threshold for electricity consumption from $200 to $100 yielding 0.19 percent of GDP
- Amend by 50 basis points the stamp duty on foreign exchange permits to yield 0.22 percent of GDP

Taken together, supplementary revenues will increase by 2.2 percent of GDP which, when combined with our cost containment efforts, will produce an overall adjustment of over 3 percent of GDP for FY 2017/18.

Our target is to maintain these gains so that in the coming fiscal years, a primary surplus of at least 2 percent of GDP will be attained.

**ESTIMATES OF TOTAL EXPENDITURE 2017/2018**

The Draft Estimates has total Expenditure of $1.180 billion comprised of $ 1.030 billion in recurrent expenditure and a further $149.7 million in Capital Expenditure. This compares to a projected total expenditure of $1.238 billion in the current fiscal year. The difference of $58.8 million represents a reduction of some 1.5 percent of GDP.

**ESTIMATES OF RECURRENT EXPENDITURE 2017/2018**

The Draft Estimates of Recurrent Expenditure is proposing a total of $1.030 million in recurrent expenditure up by $35 million over the projected outturn of $995.4 million for FY 2016//2017.

Of this proposed amount, some $422.4 million is for Personal Emoluments, $79.0 million for Pensions, $235.6 million for Goods and Services, $184.3 million for Subsidies and Current Transfers, and $109.1 million for Interest Payments on the Debt.

The rise in Current Expenditure is driven largely by increases in personal emoluments and in wage related transfers as provisions have been made for the implementation of the third stage of the three-year salary adjustment package. Also contributing to this increase is the reclassification of some $16 million of previously miss-classified capital expenditure into, more properly, the recurrent expenditure budget. But on the other hand, we will see a reduction of the Capital II budget of an equal amount.

Madam Speaker, at the same time, outlays on Goods and Services, which is the second largest budget line, are being frozen in the upcoming year. This is in keeping with Government commitment to undertake a substantial belt-tightening needed to restore fiscal balance. A freeze is a reduction in real terms, with the implication being that Ministries and Department will have less to spend on utilities, fuel, material and supplies, and equipment. They will therefore be bound to manage their budgets more effectively in order to maintain, over even increase, their levels of output with fewer inputs.

**ESTIMATES OF CAPITAL EXPENDITURE 2017/2018**

Madam Speaker, my Government is proposing to allocate some $149.7 million to its capital program in the upcoming fiscal year, made up of some $66.3 million in locally funded Capital II expenditure ad some $81.3 million in the externally funded Capital III expenditure.

This is a substantial reduction from the projected outturn of $243.5 million in the capital program for the current year and is reflective of a policy decision to moderate the level of capital expenditure as part of the overall fiscal consolidation effort. It is also explained by the fact that many new projects (particularly the new road projects) are still at their study and design stages, when spending is typically lower than in the actual later construction stages.

In the Capital III Budget, provisions of over $30 million have been made to finance the following Road Infrastructure Projects:

- Continuation of the Belize City South Side Poverty Alleviation Project Phase III
- Continuation of the upgrading of the Hummingbird Highway
- Completion of the New Macal River Bridge
- Design of a New Haulover Bridge
- Commencement of rehabilitation work on a new sections of both the George Price and the Philip Goldson Highways
- Feasibility Study and Design of the Caracol Road

And further $12 million is allocated for the completion of the Belize City Sports Center.

In the Ministries of Tourism and Forestry, both have allocations of $5.0 million each.

And, there is a further $8.5 million allocation for the Sugar and Banana Support Programs funded by the European Union.

Madam Speaker, in the interest of time I would refer those who are interested in this section's details to the Capital III Section the Estimates Book. I do point out at once, though, that the entire Capital III Budget is financed wholly by a combination loans and grants from our bi-lateral and multilateral partners. There will be no recourse to commercial borrowings.

Madam Speaker, I also point out that even as we embark on the journey of caution and consolidation, we have not neglected the needs of the Social Sector.

In the upcoming budget we have made provisions to fund projects in Youth and Community Transformation, Poverty Alleviation, and for Quality Improvement and Policy and Strategy Development in Education.

**FINANCING OF THE BUDGET IN 2017//2018**

Madam Speaker, The financing needs of the budget amounting to $261.5 million will be met from the following sources:

- Disbursement of $41.5 million from Loans already contracted with our multi-lateral development partners to fund our Capital III Expenditure Program;
- Disbursement of $20 million in budget support financing from the Republic of China (Taiwan) under the on-going bilateral economic cooperation program.
- A further draw-down of PetroCaribe financing in the amount of $20 million.
- Access to some $125 million in domestic financing; and
- Proceeds of $55 million from the sale of Government-held shares in Belize Electricity Ltd. and Belize Telemedia Ltd.

## ARBITRATION AWARDS

### COMPENSATION PAYMENTS FOR SHARES ACQUIRED IN BELIZE TELEMEDIA LIMITED

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

The Court found that the value was Belize Dollars 5.645 per share. When this value was applied against the shares formerly held by both Dunkeld and by the BTL Employees Trust, and when the interest from the time of the nationalization was added, it came to a total compensation due to both shareholders, expressed in Belize dollars, of just over BZ$448.2 million.

Under the terms of a Settlement Agreement dated September 2015 with the two former shareholders, the GOB agreed to first offset the amount due by immediately paying down some US$ 65.1 million and to then pay the remaining balance in two equal installments in July 2016 and again in July 2017 in a mix of US Dollar and Belize Dollar Currencies.

There was a dispute between the parties as to the actual composition of the currencies and ultimately the matter was put before the Caribbean Court of Justice which ruled that the first installment was due to be paid all in US Dollars. The GOB subsequently paid the full 50% of the liability in US dollars amounting to some US$95.3 million.

The second installment, expressed in BZ dollars, amounts to approximately BZ$180 million. Under the Settlement Agreement mentioned above, the GOB is of the view that almost the entire second amount is payable in Belize Dollars. Not surprisingly, the Ashcroft Alliance is of a different view. It wishes both to perpetrate a further predatory raid on our foreign exchange, and short change the amount properly earmarked for the funding of charitable local projects. Thus, in resisting this, GOB will once again have recourse to the CCJ.

Madam Speaker, also of importance is how these funds are treated in this budget. In accordance with the rules and guidelines of the IMF's Government Finance Statistics Manuals, such transactions are treated as capital items reported Below-the-Line. They are Off-Budget Expenditure and are not reported Above-the-Line in the Budget. Regardless, they have to be financed and in the case of these compensation payments, Government financed, and is financing, the payments by domestic borrowing through the issue of Treasury Bills and Notes.

#### STATUS OF OTHER ARBITRATION AWARDS

Madam Speaker, there are four other Arbitration Awards against the Government of Belize. These are the Belize Social Development Ltd Award for US$22.5 million; BCB Holdings Award for US$27.4 million; NEWCO Ltd Award for US$4.4 million and finally the Belize Bank Ltd Award for US$35.2 million. The US Supreme Court recently declined to hear Government of Belize petitions with respect to the first three cases, therefore leaving the Awards to stand. The fourth Award is still before the US Circuit Court of Appeal.

The position of the Government is that while there may be attempts to enforce these awards abroad, any such attempts would be futile as GOB has no assets which can be the subject of any form of attachment.

Furthermore, NEWCO apart, all these awards are rooted in the illegal and corrupt bargains made by the PUP Administration with the Ashcroft Alliance. Our courts have pronounced them unenforceable in this country and we therefore, Madam Speaker, see no need to make any provisions in the Budget for the settlement of what is tainted, repugnant and unconstitutional.

## CONCLUSION

Madam Speaker,

The headline takeaway from this speech is simple: the conditions of the economy and the public finances will improve appreciably in the coming financial period, and this will be secured both by natural rebound and by our Measured Consolidation.

Living within our means, supporting Belize's families, investing in the skills of our young people, making Belize a better place to do business and to live – these are the priorities that will immutably define our Administration's governance trajectory.

Still, there is no doubt that this current stanza of the UDP rescue and recovery mandate, which started in 2008, will be the most hard-fought of our three iterations. We hope we have the understanding of the private sector, the Churches and the workers' unions. We believe they are seized of the enormous legacy hurdles we have confronted. And we are grateful for the ideas they offered during the Budget consultations. We assure them that what we have not used has not been discarded, but merely shelved for later integration as we seek to pace ourselves.

Of course, what I, my Cabinet and my Party are most determined to preserve, is the goodwill of the people. That is why, as this budget demonstrates and consolidation notwithstanding, we will continue to protect the poor and deliver

- job security not retrenchment,
- salary increases not wage and increment freezes,
- pension protection not pension cuts,
- a durable Belize dollar in a growing economy, never devaluation or economic decay.

Today's financial report and plan is neither pie in the sky nor all sweetness and light. But it assuredly gives the lie to all those naysayers, the Cassandras who predicted, and indeed wished for, doom and gloom. For there is no hobbling of business; no retreat from the gains of labour; no crippling of the middle class; no gutting of the masses.

That is why, in all the circumstances, I am convinced of the ultimate virtue and vigor of this Budget and commend it to the House.

Thank you.

**<u>TABLES</u>**

## List of Tables

*Table 1: Select Indicators*

| | 2012 | 2013 | 2014 | 2015R | 2016P |
|---|---|---|---|---|---|
| **POPULATION AND EMPLOYMENT** | | | | | |
| Population (Thousands) | 338.9 | 347.8 | 356.9 | 366.3 | 375.9 |
| Employed Labour Force (Thousands) | 126.7 | 131.4 | 134.6 | 138.1 | 146.9 |
| Unemployment Rate (annual average) (%) | 14.4 | 11.7 | 11.1 | 10.1 | 8.0 |
| **INCOME** | | | | | |
| GDP at Current Market Prices ($mn) | 3,147 | 3,227 | 3,413 | 3,485 | 3,480 |
| Per Capita GDP ($, Current Mkt. Prices) | 9,286 | 9,349 | 9,562 | 9,514 | 9,258 |
| Real GDP Growth (%) | 3.7 | 0.7 | 4.1 | 2.9 | (0.8) |
| Sectoral Distribution of Constant 2000 GDP (%) | | | | | |
| Primary Activities | 13.9 | 14.6 | 14.3 | 12.3 | 8.8 |
| Secondary Activities | 17.2 | 15.6 | 15.0 | 14.2 | 14.9 |
| Services | 60.3 | 15.6 | 59.9 | 62.0 | 64.8 |
| **TOURISM** | | | | | |
| Stay Over Arrivals (Thousands) | 257.3 | 272.3 | 297.4 | 314.9 | 356.6 |
| Cruise Ship Passsenger Arrivals (Thousands) | 576.7 | 609.6 | 871.3 | 862.2 | 904.9 |
| **MONEY AND PRICES ($mn)** | | | | | |
| Inflation (Annual average percentage change) | 1.3 | 0.5 | 1.2 | (0.9) | 0.7 |
| Currency and Demand deposits (M1) | 1,103 | 1,122 | 1,314 | 1,529 | 1,476 |
| Quasi-Money (Savings and Time deposits) | 1,341 | 1,355 | 1,358 | 1,346 | 1,478 |
| Money Supply (M2) | 2,444 | 2,477 | 2,672 | 2,874 | 2,954 |
| Excess statutory liquidity | 310.1 | 293.5 | 338.8 | 453.3 | 443.7 |
| Excess cash liquidity | 152.6 | 198.3 | 335.8 | 445.7 | 426.0 |
| Excess securities | 173.9 | 166.0 | 162.9 | 150.0 | 151.7 |
| **CREDIT ($mn)** | | | | | |
| Commercial Bank Loans and Advances | 1,803 | 1,854 | 1,933 | 1,986 | 2,015 |
| Public Sector | 17 | 24 | 18 | 11 | 9 |
| Private Sector | 1,786 | 1,831 | 1,916 | 1,974 | 2,006 |
| **INTEREST RATE (%)** | | | | | |
| Weighted Average Lending Rate | 11.9 | 11.1 | 10.7 | 10.0 | 9.7 |
| Weighted Average Deposit Rate | 2.6 | 2.2 | 1.7 | 1.5 | 1.3 |
| Weighted Average Interest Rate Spread | 9.4 | 9.0 | 8.9 | 8.6 | 8.4 |
| **BALANCE OF PAYMENTS (US $mn)** | | | | | |
| Merchandise Exports (f.o.b.)(1) | 621.6 | 608.1 | 589.2 | 537.9 | 442.8 |
| Merchandise Imports (f.o.b.) | 818.1 | 888.6 | 938.7 | 961.3 | 916.1 |
| Trade Balance | (196.5) | (280.5) | (349.6) | (423.4) | (473.3) |
| Remittances (Inflows) | 73.6 | 73.4 | 78.0 | 82.4 | 94.3 |
| Tourism (inflows) | 282.9 | 333.1 | 349.7 | 352.1 | 386.9 |
| Services (Net) | 221.6 | 253.0 | 285.6 | 277.1 | 319.7 |
| Current Account Balance | (19.3) | (72.4) | (127.8) | (171.7) | (165.0) |
| Capital and Financial Flows | 84.3 | 177.0 | 218.6 | 100.9 | 81.5 |
| Gross Change in Official International Reserves | 47.7 | 113.8 | 81.8 | (50.1) | (60.3) |
| Gross Official International Reserves(2) | 291.5 | 405.1 | 486.8 | 436.9 | 376.6 |
| Import Cover of Reserves (in months) | 3.9 | 5.0 | 5.7 | 5.0 | 4.5 |

Sources: Statistical Institute of Belize and Central Bank of Belize

(1) Includes CFZ gross sales

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

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

*Table 2: Summary of Budget Estimates, FY 2014/15 to FY 2019/20*

| | Budget Outturn 2014/2015 | Budget Outturn 2015/2016 | Approved Estimates 2016/2017 | Projected Outturn 2016/2017 | Draft Estimates 2017/2018 | FORECAST 2018/2019 | FORECAST 2019/2020 |
|---|---|---|---|---|---|---|---|
| | | | | | | | (Bz$million) |
| Total Revenue and Grants | 1,001.2 | 1,000.1 | 1,088.5 | 1,078.5 | 1,186.8 | 1,211.7 | 1,228.8 |
| Total Expenditure | 1,081.7 | 1,264.5 | 1,151.1 | 1,238.9 | 1,180.1 | 1,212.8 | 1,226.7 |
| Primary Balance | 10.0 | 2.9 | 37.4 | (55.8) | 115.7 | 112.3 | 120.0 |
| *As % of GDP* | *0.3%* | *0.1%* | *1.0%* | *-1.6%* | *3.1%* | *2.9%* | *2.9%* |
| Overall Deficit | (80.5) | (88.0) | (62.6) | (160.4) | 6.7 | (1.1) | 2.2 |
| *As % of GDP* | *-2.3%* | *-2.5%* | *-1.7%* | *-4.6%* | *0.2%* | *0.0%* | *0.1%* |
| Amortization | (67.9) | (75.3) | (86.9) | (85.1) | (88.5) | (92.9) | (90.6) |
| Financing Requirement | (148.4) | (163.3) | (149.4) | (245.6) | (81.8) | (94.0) | (88.4) |
| GDP in current market prices | 3,433 | 3,520 | 3,728 | 3,520 | 3,684 | 3,876 | 4,097 |

*Table 3: Summary of Revenue and Grants, FY 2014/15 to FY 2019/20*

| | Budget Outturn 2014/2015 | Budget Outturn 2015/2016 | Approved Estimates 2016/2017 | Projected Outturn 2016/2017 | Draft Estimates 2017/2018 | FORECAST 2018/2019 | FORECAST 2019/2020 |
|---|---|---|---|---|---|---|---|
| | | | | | | | (Bz$ million) |
| **Total Revenue and Grants** | **1,001.2** | **1,000.1** | **1,088.5** | **1,078.5** | **1,186.8** | **1,211.7** | **1,228.8** |
| **Total Revenue** | **962.0** | **980.0** | **1,047.0** | **1,033.1** | **1,140.1** | **1,162.9** | **1,186.1** |
| **Current Revenue** | **956.4** | **973.7** | **1,041.0** | **1,030.6** | **1,134.1** | **1,156.8** | **1,179.9** |
| *Tax Revenue* | *849.4* | *864.3* | *936.6* | *944.8* | *1,032.9* | *1,053.6* | *1,074.6* |
| Taxes on Income & Profits | 273.8 | 255.6 | 256.1 | 265.5 | 270.8 | 276.2 | 281.7 |
| Taxes on Property | 5.5 | 5.5 | 5.7 | 6.1 | 6.2 | 6.4 | 6.5 |
| Taxes on Goods & Services | 345.6 | 354.4 | 366.2 | 498.5 | 551.9 | 562.9 | 574.2 |
| International Trade & Transaction | 224.5 | 248.8 | 308.7 | 174.7 | 204.0 | 208.1 | 212.3 |
| *Non-Tax Revenue* | *106.9* | *109.4* | *104.4* | *85.7* | *101.2* | *103.2* | *105.3* |
| Property Income | 12.6 | 36.9 | 20.1 | 16.7 | 31.0 | 31.6 | 32.3 |
| Licenses | 12.2 | 14.0 | 12.6 | 9.8 | 10.0 | 10.2 | 10.4 |
| Royalties | 49.6 | 28.0 | 41.8 | 33.4 | 33.8 | 34.5 | 35.1 |
| Ministries & Departments | 31.5 | 29.6 | 27.2 | 24.7 | 25.3 | 25.8 | 26.3 |
| Repayment of old loans | 1.0 | 0.8 | 2.7 | 1.1 | 1.1 | 1.1 | 1.1 |
| **Capital Revenue** | **5.6** | **6.3** | **5.9** | **2.5** | **6.0** | **6.1** | **6.2** |
| **Grants** | **39.2** | **20.2** | **41.6** | **45.4** | **46.7** | **48.8** | **42.7** |

*Table 4: Central Government's External Debt, FY 2014/15 to FY 2017/18*

| | Disbursed Outstanding Debt | | | |
|---|---|---|---|---|
| | ACTUAL 2014/2015 | ACTUAL 2015/2016 | PROJECTED 2016/2017 | FORECAST 2017/2018 |
| | | | | ($ million) |
| **Total Debt** | **2,194.4** | **2,268.2** | **2,312.2** | **2,331.2** |
| Bilateral | 587.1 | 636.1 | 662.4 | 658.2 |
| Commercial | 1,053.0 | 1,053.0 | 1,053.0 | 1,053.0 |
| Multilateral | 554.3 | 579.1 | 596.8 | 620.0 |

*Table 5: Summary of Expenditure, FY 2014/15 to FY 2019/20*

| | | | | | | | (Bz$ million) |
|---|---|---|---|---|---|---|---|
| | Budget Outturn 2014/2015 | Budget Outturn 2015/2016 | Approved Estimates 2016/2017 | Projected Outturn 2016/2017 | Draft Estimates 2017/2018 | FORECAST 2018/2019 | FORECAST 2019/2020 |
| **Total Expenditure** | **1,081.7** | **1,264.5** | **1,151.1** | **1,238.9** | **1,180.1** | **1,212.8** | **1,226.7** |
| ***Current Expenditure*** | ***830.2*** | ***904.3*** | ***959.2*** | ***995.4*** | ***1,030.4*** | ***1,043.3*** | ***1,064.6*** |
| Wages and salaries | 338.1 | 384.0 | 402.7 | 408.8 | 422.4 | 428.3 | 435.9 |
| Pensions | 64.4 | 77.2 | 67.2 | 76.0 | 79.1 | 86.0 | 93.1 |
| Goods and services | 186.4 | 197.2 | 223.6 | 235.6 | 235.6 | 235.5 | 237.8 |
| Subsidies and current transfers | 150.8 | 160.8 | 165.7 | 170.5 | 184.3 | 180.0 | 180.0 |
| Interest payments & other charges | 90.5 | 85.0 | 100.0 | 104.6 | 109.1 | 113.4 | 117.9 |
| ***Capital Expenditure & Net Lending*** | ***251.4*** | ***360.3*** | ***191.9*** | ***243.5*** | ***149.7*** | ***169.5*** | ***162.0*** |
| Capital II | 116.5 | 99.6 | 93.4 | 121.6 | 66.2 | 74.6 | 70.2 |
| Capital III | 132.2 | 160.8 | 96.0 | 119.5 | 81.2 | 92.6 | 89.6 |
| Net lending | 2.8 | 99.9 | 2.5 | 2.4 | 2.3 | 2.3 | 2.3 |
| **Amortization** | **(67.9)** | **(75.3)** | **(86.9)** | **(85.1)** | **(88.5)** | **(92.9)** | **(90.6)** |

*Table 6: Central Government's Debt, FY 2014/15 to FY 2017/18*

| | Disbursed Outstanding Debt | | | |
|---|---|---|---|---|
| | ACTUAL 2014/2015 | ACTUAL 2015/2016 | PROJECTED 2016/2017 | FORECAST 2017/2018 |
| **Total Debt (Bz$ Million)** | **2,669.0** | **2,796.7** | **3,065.0** | **3,315.2** |
| Domestic Debt | 416.1 | 528.5 | 752.8 | 984.0 |
| External Debt | 2,252.9 | 2,268.2 | 2,312.2 | 2,331.2 |
| | | | | |
| **Total Debt (AS Percent of GDP)** | **77.7%** | **79.5%** | **87.1%** | **90.0%** |
| Domestic Debt | 12.1% | 15.0% | 21.4% | 26.7% |
| External Debt | 65.6% | 64.4% | 65.7% | 63.3% |

*Table 7: Central Government's Domestic Debt, FY 2014/15 to FY 2017/18*

| | | | | ($ million) |
|---|---|---|---|---|
| | Disbursed Outstanding Debt | | | |
| | ACTUAL 2014/2015 | ACTUAL 2015/2016 | PROJECTED 2016/2017 | FORECAST 2017/2018 |
| **Total Debt** | **415.6** | **528.5** | **752.8** | **984.0** |
| Overdraft/Loans from Central Ban | 47.6 | 58.3 | 53.6 | 60.9 |
| Treasury Bills | 175.0 | 200.0 | 215.0 | 240.0 |
| Treasury Notes | 176.5 | 265.0 | 480.0 | 680.0 |
| Other Bonds & Loans | 16.5 | 5.2 | 4.3 | 3.1 |