Budget Presentation for Fiscal Year 2007/2008:

FACING, FIXING, MOVING AHEAD

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PRIME MINISTER AND MINISTER OF FINANCE AND THE PUBLIC SERVICE
BELMOPAN
MARCH 2, 2007.

	APPROVED ESTIMATES 2006/2007	REVISED BUDGET 2006/2007	DRAFT PROPOSED ESTIMATES 2007/2008
TOTAL REVENUES AND GRANTS	**598,648,177**	**626,885,289**	**678,522,913**
RECURRENT REVENUE			
TAX REVENUE	513,901,622	528,837,402	593,922,989
Income and profits	135,067,420	136,279,526	170,256,298
Taxes on property	6,115,000	5,316,191	5,617,722
Taxes on international trade and transactions	170,427,516	164,281,950	180,138,867
Taxes on goods and services	202,291,685	222,959,735	237,910,103
NON-TAX REVENUE	49,043,206	53,519,944	56,998,180
Property Income	4,500,000	4,500,000	7,700,000
Licenses	11,179,600	10,248,700	10,423,300
Other	33,363,606	38,771,244	38,874,880
TOTAL RECURRENT REVENUE	**562,944,828**	**582,357,346**	**650,921,169**
CAPITAL REVENUES:			
Sale of Crown Lands	7,172,500	5,388,577	6,797,524
Return on Equity	-	4,292,698	3,328,909
TOTAL CAPITAL REVENUES	**7,172,500**	**9,681,275**	**10,126,433**
GRANTS & DEBT SERVICE RECEIPTS	**28,530,849**	**34,846,668**	**17,475,311**
TOTAL EXPENDITURES	**667,901,273**	**702,905,572**	**703,235,731**
RECURRENT EXPENDITURE			
Personal Emoluments	223,564,558	220,259,920	235,313,278
Debt Service – Interest and Other Charges	145,571,920	169,528,568	107,938,208
Pensions	39,802,215	39,802,215	39,019,482
Goods Services	152,746,569	159,681,570	202,965,322
TOTAL RECURRENT EXPENDITURE	**561,685,262**	**589,272,273**	**585,236,290**
CAPITAL EXPENDITURES			
CAPITAL II EXPENDITURES	54,157,460	79,948,328	49,956,293
CAPITAL III EXPENDITURES	48,850,551	30,476,972	64,835,148
CAPITAL TRANSFER & NET LENDING	3,208,000	3,208,000	3,208,000
TOTAL CAPITAL EXPENDITURES	**106,216,011**	**113,633,300**	**117,999,441**
RECURRENT SURPLUS/[DEFICIT]	**1,259,566**	**(6,914,926)**	**65,684,879**
PRIMARY SURPLUS [DEFICIT]	**76,318,824**	**93,508,285**	**83,225,390**
OVERALL SURPLUS/[DEFICIT]	***(69,253,096)***	***(76,020,283)***	***(24,712,818)***
AMORTIZATION	(122,982,893)	(99,123,682)	(61,653,891)
FINANCING	**(192,235,989)**	**(175,143,965)**	**(86,366,709)**
GDP (in BZbillions)	***2.414***	***2.428***	***2.558***
Overall Surplus/Deficit (+/-) as a % of GDP	**-2.87%**	**-3.13%**	**-0.97%**
Primary Surplus/Deficit (+/-) as a % of GDP	**3.16%**	**3.85%**	**3.25%**

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BUDGET PRESENTATION FOR FISCAL YEAR 2007/2008

INTRODUCTION

Madame Speaker,

I move the first reading of the General Revenue Appropriation Bill for Fiscal Year 2007/2008.

Last year when we presented the budget proposals we laid out certain policy undertakings which the Government intended to pursue in the course of the year. Ambitious targets were set for fiscal performance. We challenged ourselves to chart a new way forward in order to achieve medium term stability and sustainability.

Overall performance for the year, I am pleased to report, is generally good with the out turn expected to exceed the targets set in most cases.

In this year's budget proposals, Belizeans will see that we are not only securing the gains we have made in our public finances but also addressing the priority needs of our young growing nation.

It is a Budget that ensures our country continues to grow in a steady sustainable way:

- A Budget that will generate more and better paying jobs;
- A Budget that invests more in the human capital of Belize through education and training for more productive living;
- A Budget that tackles the challenges facing families right now by creating healthier and stronger communities;
- A Budget that invests in our nation's economic infrastructure; and
- A Budget that still ends the year with a much reduced deficit and another primary surplus.

THE ECONOMY OF BELIZE IN 2006

The Central Bank and the Statistical Institute estimate that real GDP growth was around 4% for 2006. The combination of tight fiscal and monetary policies and strong performance by exporters of goods and services led to a significant improvement in the balance of payments position during the year.

The annual labour force survey showed that unemployment fell from 11 to 9.4% largely due to the vibrancy of the services sector, especially tourism.

The Consumer Price Index rose by 4.3%. All major commodity groups were affected especially "Transport and Communications" and "Rent, Water, Fuel and Power".

Production and Exports of Goods and Services

The primary sector performed well even though some producers faced challenges in the form of unfavourable weather, disease and financial constraints in 2006. There was a $145.4 million (36.6%) increase in domestic exports to $543.1 million during 2006.

On the down side, marine export production fell, mostly due to an 18% contraction in shrimp output. The value of marine exports totaled $84.9 million down from $98 million the previous year.

In the case of sugar, favourable weather conditions during growing and harvesting pushed sugarcane deliveries up by 26% to 1,173,469 long tons for the crop year and a total of 111,394 long tons of sugar were produced. Molasses production increased by 11.1% to 41,179 long tons. Papaya production rose by 20% to 76 million pounds. The petroleum industry, produced 811,199 barrels of crude oil, of which 715,872 barrels were exported and 45,692 barrels were sold locally.

With f.o.b. earnings of approximately $81.2 million, petroleum accounted for more than half of the increase in export earnings.

In spite of a decline in production, the volume of citrus exports rose by 19.9% as stocks were drawn down. Citrus export earnings rose by 55.0% to $120.1 million, breaking all previous records.

Higher sugar sales to preferential markets in the US and EU pushed sugar export earnings up by 43.2% to $100.1 million.

The vigorous growth in domestic exports exceeded an 11.0% rise in imports, causing the trade deficit to narrow. Much of the rise in imports was due to substantial capital investment by export processing zones and an increase in the cross border trade from the commercial free zone. The trade statistics show that the EPZ’s and the CFZ accounted for some 41.0% of the increase in imports during the first three quarters of 2006.

Fuel imports were up due to higher acquisition costs, while other substantial increases were recorded in imports of vehicles and intermediate inputs such as construction materials.

The performance of tourism was mixed. Stay-over visitor arrivals rose by an estimated 4.7% to 237,716, but there was a decline in the number of cruise ship calls that contributed to a fall in cruise ship visitor arrivals to 590,336. However, earnings from tourism increased by 23.7% because the increase in overnight visitors resulted in a higher average daily expenditures.

Balance of Payments

The combination of a reduction in the trade deficit, higher foreign exchange earnings from tourism and other services, and inflows of remittances, substantially offset an increase in outflows for interest payments and profit repatriation. The result was a marked improvement in the current account deficit of the balance of payments from $235.7 million during the first nine months of 2005 to $58.4 million for the comparable period of 2006. This was an impressive turnaround.

Money Supply and Credit

An expansion in net domestic credit to meet the demands of the private sector plus foreign inflows from loan disbursements and earnings by exporters of goods and services contributed to a 13.3% rise in broad money supply in 2006. The net foreign assets of the banking system expanded by $127.0 million (94.6%) with the net foreign asset holdings of the Central Bank and commercial banks registering increases of $65.8 million and $61.2 million, respectively. At the end of December, the official foreign reserves stood at $208.9 million, equivalent to 2.2 months worth of merchandise imports.

The Central Bank sought, during the year, to address the rapid expansion in domestic liquidity so as to restrain credit expansion and avoid excess demand for foreign exchange. After implementing a 1% increase in statutory reserve requirements at the start of 2006 and overseeing the removal of offshore deposits that had been artificially inflating domestic liquidity, the Central Bank intervened again with a further 1% increase in the cash and secondary reserve requirements that took effect at the beginning of September.

Notwithstanding these interventions, bank liquidity remained at high levels and credit grew twice as fast than in 2005.

In 2006, the 11.1% expansion in net domestic credit reflected a $151 million rise in loans to the private sector and a $38 million increase in net credit to Central Government. Credit to the primary and tertiary sectors expanded while the secondary sector experienced net repayments.

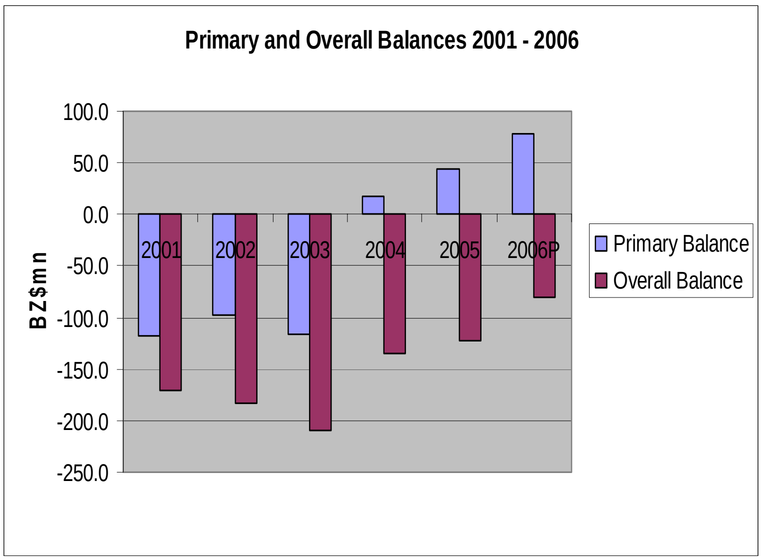
There was a slight narrowing of the commercial banks' interest rate spread during the year as a result of a 30 basis points increase in the weighted average deposit rate to 5.8%, and a 10 basis points decline in the weighted average lending rate to 14.2%.

Madame Speaker, I now turn to the Government's fiscal performance for the current fiscal year, 2006/2007.

BUDGET PERFORMANCE IN FISCAL YEAR 2006/2007

Expected Outturn for the Fiscal Year 2006/2007 - The Approved and Revised Estimates

This year, the Government of Belize continued on its programme to achieve medium term stability and sustainability in its fiscal and debt operations. Over the past several years, this programme has resulted in a sharp decline in the overall deficit from over 8% of GDP to 3.3% of GDP last year. At the same time, the primary balance moved into surplus, an achievement that came from strong fiscal discipline and firm commitment to the objective of securing stability and sustainability in Government finances.



At the start of this fiscal year, the Government set ambitious targets for fiscal performance. The objectives of the budget for 2006/2007 reflected an overall deficit of $69 million [2.9% of GDP] and a primary surplus of $76.3 million [3.2% of GDP]. In most cases, outturn is expected to exceed the targets set, which reflects continued improvements in fiscal performance over last year.

For fiscal year 2006/2007, total revenue and grants were approved at $598.6 million. By the end of the fiscal year total revenue and grants are expected to amount to $626.9 million. Total Expenditure was budgeted at $667.9 million. By the end of the current fiscal year, total expenditures are expected to reach $702.9 million. As a result the overall deficit, at $76 million, is expected to be $6.8 million larger than was budgeted. However, the primary surplus, which was budgeted at $76.3 million, is expected to reach $93.5 million by the end of the fiscal year. Moreover, the financing requirement [the overall deficit plus amortization] which was budgeted at $192.2 million, will be $17.1 million less at $175.1 million.

Revenue Performance

Revenue collections for the current fiscal year are expected to exceed targets in all major revenue categories. This reflects two major factors. First, economic activity, as measured by nominal GDP, grew faster than was projected at the start of the budget year. This is reflected in a revised projection of nominal GDP of $2.428 billion as compared with the original projection of $2.414 billion. This improvement had a positive impact on revenue collections. Secondly, strengthened tax administration also improved revenue performance.

Summary of Approved Budget and Expected Outturn for FY 2006/2007 - $BZ mn		
	Approved Estimates	**Projected Outturn**
Total Revenue and Grants	598.6	626.9
Total Expenditure	667.9	702.9
Primary Surplus	76.3	93.5
Overall Deficit	(69.3)	(76.0)
Amortization	123.0	99.1
Financing Requirement	-192.2	-175.1
Overall Deficit as a % of GDP	-2.87%	-3.13%
Primary Surplus as a % of GDP	3.16%	3.85%
GDP (in BZ $billions)	2.414	2.428

Total recurrent revenue was budgeted at $562.9 million. By the end of the fiscal year, total recurrent revenue is expected to reach $582.4 million – almost $20 million above target.

Tax revenue is projected to exceed targets by $14.9 million. Of this, taxes on income and profits, at $136.3 million, are expected to be close to the approved budget of $135.1 million and taxes on property, at $5.3 million will be just below the approved budget of $6.1 million.

Taxes on international trade and transactions will show a shortfall of $6.1 million against the budgeted amount of $170.4 million. This reflects the fact that upon the introduction of the General Sales Tax [GST] in July 2006, the price formula for petroleum products was adjusted to reduce the element of Revenue Replacement Duty [RRD]. This was with the intention that the introduction of the GST, which is calculated on a different basis than the previous Sales Tax, would not have had the effect of increasing petroleum prices. As a result, RRD collections, which is included in international trade and transactions taxes, declined but this was offset by the resulting increase in GST collections.

Summary of Revenue Collections 2006/2007 - $BZ mn		
	Approved Estimates	**Projected Outturn**
Total Revenues and Grants	**598.6**	**626.9**
Recurrent Revenue	**562.9**	**582.4**
Tax Revenue:	**513.9**	**528.8**
Income and profits	135.1	136.3
Taxes on property	6.1	5.3
Taxes on international trade & transactions	170.4	164.3
Taxes on goods and services	202.3	223.0
Non-tax Revenue:	**49.0**	**53.5**
Property Income	4.5	4.5
Licenses	11.2	10.2
Other	33.4	38.8
Capital Revenue	**7.2**	**9.7**
Grants and Debt Service Receipts	**28.5**	**34.8**

Taken together, collections of revenue from taxes on international trade and transactions and taxes on goods and services will exceed approved estimates by $14.6 million.

Non-tax revenue is expected to total $53.5 million by the end of this fiscal year, $4.5 million above the approved estimates. This largely reflects the commencement of collections of royalties on petroleum, which is estimated to total $6.0 million this year.

Petroleum income taxes will be collected with effect from assessment year 2006, but will factor into revenues for fiscal year 2007/2008.

Grant receipts are expected to total $34.8 million. Grants were boosted this fiscal year with significant contributions of $21 million from the Republic of China Taiwan, which was included in the approved estimates, and $11.8 million from the Bolivarian Republic of Venezuela which was negotiated during the fiscal year.

Expenditure Performance

Total expenditure is expected to reach $702.9 million by the end of the current fiscal year. This will be comprised of $589.3 million in recurrent expenditure and $113.6 million in capital expenditure.

Summary of Expenditure 2006/2007 - $BZ mn

	Approved Estimates	Projected Outturn
Total Expenditure	**667.9**	**702.9**
Recurrent Expenditure:	**561.7**	**589.3**
Personal Emoluments	223.6	220.3
Debt Service	145.6	169.5
Pensions	39.8	39.8
Goods and Services	152.7	159.7
Capital Expenditure:	**106.2**	**113.6**
Capital II Expenditure	54.2	79.9
Capital III Expenditure	48.9	30.5
Capital Transfer and Net Lending	3.2	3.2
Amortisation	**123.0**	**99.1**

In recurrent expenditure, personal emoluments are expected to total $220.3 million, $3.3 million less than the approved estimates of $223.6 million. This reflects the impact of the staff containment policy of Government which is intended to restrain growth in staff costs while allowing for the filling of critical vacancies, particularly in the health and education sectors.

Pension payments are expected to be right on target with the budgeted amount.

Expenditure on goods and services exceeded the budgeted amount of $152.7 million by $7.0 million. This reflected increased fuel costs as well as additional allocations for purchases of medical supplies, school textbooks and commitments to grant aided primary and secondary schools.

Debt service payments of $169.5 million will exceed the budgeted amount of $145.6 million. This reflects the decision taken by the Government, during the recent debt restructuring process, not to capitalize any accrued interest on the affected debt – which would have had the effect of increasing the total amount of principal owed. As a result, creditors were paid out the full amount of all interest accrued as of the effective date of the restructuring – February 20, 2007. Some of this accrued interest had payment dates in the upcoming fiscal year and therefore payment in the current fiscal year had the effect of increasing debt service payments beyond the original allocation for the year.

The debt restructuring had the opposite effect on amortization which was budgeted at $123.0 million but is expected to total $99.1 million this year. Principal repayments were halted on the announcement of the exchange offer in December 2006 and the outstanding principal balances of that date were eligible to be tendered into the exchange offer.

Capital expenditure is expected to total $113.6 million by the end of the fiscal year, as compared to the budgeted amount of $106.2 million. Capital II [locally funded] projects exceeded the budgeted allocation and the additional allocations were largely met from Venezuela grant funding. Capital III [externally funded] projects experienced slow rates of implementation and therefore lagged behind the budgeted allocation. This reflected both capacity constraints as well as delays in the approval processes of funding agencies. As a result, a number of activities that were to take place this year have been carried over to the upcoming fiscal year 2007/2008. Capital projects for which additional allocations were made during the year included:

- $3.0 million for repairs to school buildings countrywide
- $1.5 million for housing
- $2 million for the National Health Insurance Scheme
- $1.8 million for emergency road and street repair
- $1.0 million for refurbishment of the Karl Heusner Memorial Hospital

Financing the Deficit

The approved budget provided for a financing requirement of $192.2 million for the current fiscal year. The outturn, at $175.1 million is significantly better and is comprised of an overall deficit of $76 million and amortization of $99.1 million. This financing requirement has been fulfilled primarily through non-project related loans from international financial institutions and bi-lateral partners as follows:

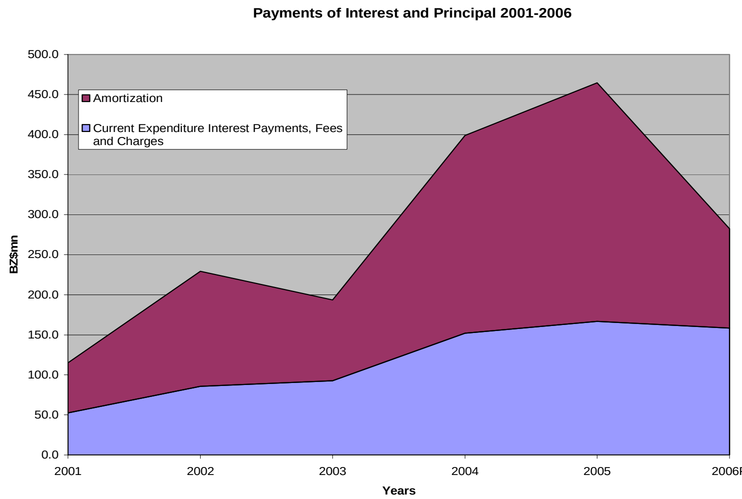
- The Inter-american Development Bank approved a US$25 million Policy Based Loan [PBL] of which the first disbursement of US$10 million was received in December 2006.
- The Republic of China Taiwan provided a loan of US$15 million which was fully disbursed during the fiscal year.
- The Bolivarian Republic of Venezuela provided loans of US$50 million which were fully disbursed during the fiscal year.
- The Caribbean Development Bank has also approved a PBL loan of US$25 million to be disbursed during the upcoming fiscal year.

These loans reflected the support of the financial institutions for Belize's programme to stabilize fiscal and debt operations and achieve medium term sustainability. This support has been a critical component of the success we have achieved with the debt restructuring.

In addition to non-project related financing, there also were net disbursements on project loans amounting to about $16 million. As a result of the success in raising concessional external loans this year, Government's call on financing from domestic sources was less than $11 million.

The Public Debt

At the end of December 2006, the external public debt approximated $1,911 million and the domestic public debt amounted to $299.8 million, the latter including a new issue of Treasury Notes, valued at $31.0 million.



By the end of the 2006/2007 fiscal year, Government expects to pay $170.6 million in interest and $99.1 million in principal on the domestic and external debt.

In view of the heavy burden of servicing the external debt, the Government undertook a detailed analysis of its debt profile and repayment capacity and, in August of 2006, announced its intention to seek a comprehensive restructuring of its private commercial debt. The specific objectives of the restructuring were to:

- Smooth out the sharp fluctuations in Belize's debt service profile;
- Generate cash flow savings so as to eliminate the projected medium term financing shortfalls; and
- Place Belize's debt firmly on a sustainable footing;

Results of the Debt Restructuring by Instrument

Instrument	**Restructured**
Bear Stearns 9.50% Note due 2012	91.5%
Bear Stearns 9.75% Note due 2015	100.0%
RBTT 9.95% Fixed Rate Bonds due 2014	100.0%
RBTT 9.50% Fixed Rate Bonds due 2010	100.0%
Citicorp 8.95% Fixed Rate Bonds due 2013	100.0%
Citicorp 9.75% Fixed Rate Bonds due 2008	100.0%
Citicorp 9.75% Fixed Rate Bonds due 2007	100.0%
IBOM 10% Note due 2012	100.0%
IBOM 9.25% Note due 2011	100.0%
IBOM Tranche Note due 2010	100.0%
Belize Sovereign Investments I due 2015	100.0%
Belize Sovereign Investments II due 2010	100.0%

The financing shortfalls which Government sought to close via the restructuring were projected in the context of medium term fiscal and balance of payment projections which were calculated on the assumption that government would continue the implementation of the ongoing fiscal reform programme.

The underlying objectives were to prevent an eventual balance of payment crisis from emerging and threatening the fixed exchange rate and to improve Belize's general economic outlook and investment climate.

The results are in. The Government of Belize has successfully restructured the commercial debt of Belize. An overwhelming majority of our creditors agreed to exchange their existing instruments for a new US Dollar bond with the following terms and conditions:

- A duration of 22 years with a final maturity in February 2029;
- Principal repayments in equal semi-annual instalments beginning in August 2019;
- A step-up interest rate structure with 4.25% payable in years 1-3; 6.00% payable in years 4-5; and 8.50% payable from year 6 through to maturity;
- **Government may redeem the bonds at face value at any point after the end of the grace period**.

In total, 98.1% of the total commercial debt has been restructured. This success rate is virtually unprecedented in the history of sovereign debt restructurings.

The restructuring has resulted in an improved outlook for the future. Belize's debt service profile has been transformed from one that was unsustainable to one that is certainly sustainable. There are no more spikes reflecting imminent bullet payments or put options.

The new debt service profile provides Belize with considerable net cash flow relief between 2007 and 2015 amounting to US$481.5 million. And because government can redeem the bonds at par at any time after the grace period, this Government, or indeed any future Government, can opt to pay off the debt early, taking into consideration cash flow and the implications for fiscal and macroeconomic developments. There will be no penalties for early payment.

The success of the restructuring has already begun to reap benefits for Belize in the international financial markets:

- Standard and Poors has upgraded Belize's credit rating into the B category with a stable outlook;
- Moody's Investor Services has also upgraded Belize's credit ratings, into the Caa category;
- Bear Stearns, after expressing some doubts in the run-up to the exchange offer, has now offered its congratulations and is already making a market in the new bonds, signalling that no long term damage has been done to Belize's relations with its creditors as a result of the restructuring;
- Creditors have acknowledged that Belize restructuring process was very transparent and consultative; and
- The innovative approach taken by Belize is fast becoming the standard by which emerging market debt restructurings will be judged in the future.

At the end of the day, however, servicing Belize's debt will, in fact, be sustainable as long as prudent policies continue to be maintained. This Government has therefore pledged to our creditors and to the Belizean people that it will continue to manage its finances in a responsible manner. This will be reflected in the draft estimates put before this honourable house today.

The Development Finance Corporation

Almost 2 years ago, in July 2005, a new Board of Directors was appointed to manage the affairs of the Development Finance Corporation (DFC). That Board found that DFC had outstanding debt of $529 million and a portfolio of 8,900 loans totalling $324 million of which 48% were non-performing.

DFC's debt, all of which are guaranteed by the Government of Belize, included:

- $78.5 million to the Belize Mortgage Company
- $50 million to the Belize Social Security Board,
- $42 million to the Caribbean Development Bank, and
- $259 million to the Government of Belize.

DFC was also under the threat of "Immediate Liquidation".

The Board approached the DFC situation with a view that the liquidation should be focused on DFC's proper management of the debt and not exclusively on the sale of the assets. The objectives were, then, and still are as follows:

1. To repay DFC's debt and therefore reduce Belize's debt exposure
2. To minimize any subsidy from the Government of Belize and, therefore, the people of Belize
3. To collect on the outstanding loans in an orderly manner.

Restructuring DFC's Portfolio:

	Balance Outstanding BZ$ mn	
DFC's Creditors	**Dec-04**	**Feb-07**
Belize Mortgage Company	78.4	66.2
Belize Social Security Board	50.0	13.5
Caribbean Development Bank	42.0	34.8
Government of Belize	259.4	60.7

DFC's outstanding debt has been reduced from $529 million in December 2004 to about $180 million as of February 2007, a 60% reduction.

DFC has prepaid most of the debt owed to the Belize Social Security Board and plans to fully pay-off the remaining balances by the end of 2007. The debt reduction has been accomplished by aggressive collection of all loans and receivables. In the case of the debt owed to the Government of Belize, the reduction has been accomplished by netting off amounts owed to Government against amounts due from Government.

The collections strategy has resulted in a reduction in the number of outstanding loans from 8,900 to 4000; and a reduction in the number of non-performing loans from 4,500 to 800.

On its present path, and on the assumption that the DFC will continue to pursue collections aggressively, the DFC will continue to see its debt reduced to approximately $70 million by 2012, when the Belize Mortgage Company Bonds mature. At that point, the outstanding debt would be only to the CDB and the Government of Belize.

Loan Portfolio			
2004	**2007**	**2004**	**2007**
Number of Loans		**Value of Loans - BZ$mn**	
8,900	4,000	$324	$186
Non-Performing Portfolio			
Number of Loans		**Value of Loans - BZ$mn**	
4,500	800	$154	$60

Financial Support from the Government of Belize

Government last provided for an allocation to cover DFC's projected cash deficit in the budget of 2005/2006. The amount, which was $20 million, was not utilised and DFC has not had to call on the Government of Belize for any subsidy since then. Based on current projections, DFC would not have to call for financial support from Government for the next 5 years.

Orderly Liquidation

The DFC was operating in 2005 and 2006 under the constant threat of liquidation. After much debate and discussion internally and with the IDB, it was agreed that DFC be liquidated in orderly manner so as to maximize collections and maximize payment of its debts. In November 2006, the DFC Act was amended to limit DFC to managing the Belize Mortgage Company and its other obligations. The Belize Mortgage Company has non-callable Bonds until 2012.

The Future:

As the operations of the DFC are reduced, Government has been planning for the new development financing mechanism to provide credit for small, medium and micro enterprises in the productive sector. With the assistance of the CDB, a study is about to commence which will inform the scope and the structure of the new mechanism. This study will be completed by mid-year and it is expected that the recommendations will be considered immediately and implementation will be fast tracked to ensure that the gap resulting from absence of a development financing mechanism is effectively addressed.

This ongoing study also has implications for the housing sector, particularly Government's stated intention to establish a national housing corporation to manage the existing public sector housing stock and to facilitate financing for home construction.

BUDGET PROPOSALS FOR FISCAL YEAR 2007/2008

Background

Madame Speaker, last year when I tabled the budget proposals for fiscal year 2006/2007, I had laid out certain policy undertakings which the Government intended to pursue during the financial year. I now wish to provide on update on what has been done so far in pursuit of these undertakings.

The undertaking to continue to **improve financial management and accountability** has been substantially pursued:

- The process of reviewing and streamlining the budget to conform to international standards is now largely completed with the reclassification this year of $25 million in expenditure from Capital II to Recurrent Expenditure. These include all contributions to statutory boards and grants to organizations, which were previously included in Capital II and are now properly classified as recurrent expenditure.
- The Accountant General has submitted financial statements to the Office of the Auditor General for all outstanding years, including 2005/2006. These statements are under audit review, but there will be need for additional time, for which the approval of the National Assembly will be sought as required by the Finance and Audit (Reform) Act. The fact is, that some of the un-audited statements go back to the 1990's and this is presenting some major challenges to the audit process.
- The Central Statistics Office [CSO] has been legally transformed into the autonomous Statistical Institute of Belize and that organization is in the transition process. Much planning has been done to ensure that the new Statistical Institute has access to the financial and technical resources needed to ensure autonomy and quality.
- Belize has also formally joined the General Data Dissemination System of the IMF in the interest of international comparability and transparency of statistical methodology.

In the upcoming fiscal year, the Government will continue to **improve financial management and accountability** by modernising the Financial Orders, Stores Orders and Control of Public Expenditure handbook. We will be assisted in this effort by the Caribbean Development Bank through the provision of Technical Assistance Resources. In this process, the Finance and Audit (Reform) Act of 2005 will also be reviewed for strengthening.

We made an undertaking last year to facilitate the **strengthening of Oversight Institutions**. So far we have supported the Office of the Auditor General through staff upgrading and training. We have also improved the office accommodations for the Integrity Commission and are providing, for the first time, full time support staff to that Office.

We undertook last year to **consult with the people to define the Poverty Elimination Strategy**. After broad consultations across districts, communities and sectors, an updated Poverty Elimination Strategy and Action Plan was recently launched. This Strategy and Action Plan has informed the spending proposals for next year as well as the sectoral policies of the relevant ministries.

Last year we undertook to continue the process of tax reform and strengthening revenue administration. The GST was successfully implemented in July. Government and the private sector continued to collaborate in the fight against contraband activities and a project was prepared to modernize the Customs Department. This project will implement the newest version of the ASYCUDA system and will transform the way the Customs Department operates internally and relates with importers and exporters. It will speed up the processing of Customs Declarations, lower the cost of business to the private sector and reduce the scope for corrupt practices. Funding for this project will be provided by the Caribbean Development Bank.

In the upcoming year, the work on revenue reform must continue apace. Government will shortly be re-convening the Tax Reform Committee to advise on several matters.

First, the Tax Reform Committee will be asked to review proposals to increase the threshold of income tax to $24,000 and reintroduce tax exemptions for charitable contributions to registered organisations, schools and athletic organizations.

Secondly, Government will ask the Committee to review the Excise Tax regime to remove the perverse incentives to engage in contraband activities. Although there has been some success in enforcement and interdiction, contraband activities continue to exist in flagrant contravention of the laws and at great cost to revenue.

Thirdly, Government will ask the Tax Reform Committee to review the GST with a view to making recommendations for improvements which may be necessary.

The Tax Reform Committee will be asked to make its recommendations on these 3 matters by June 30, 2007.

During this year, Government will also review the petroleum price formula to remove the RRD and fix the taxes per gallon of petroleum so that when prices fall, there is a full and immediate pass through to the consumer.

Madam Speaker, I now turn to the specific revenue and expenditure proposals for the upcoming fiscal year.

The Draft Estimates for Fiscal Year 2007/2008

As in the past two years, the draft budget for the coming fiscal year continues to emphasize health, education and poverty alleviation. In addition, however, this budget gives greater priority to the implementation and maintenance of economic infrastructure than in previous years.

The draft budget is prepared on the assumption that real GDP will grow by between 1.5% and 2% in 2007 and that nominal GDP will grow by about 6%. On this basis, there should be natural growth in tax revenue of at least 6% with incremental increases accruing because of improvements in revenue administration.

As in previous years, emphasis will continue to be placed on expenditure control in order to achieve the targets for the primary and overall balances. The underlying objective is to ensure that the primary surplus remains above 3% of GDP and the overall deficit declines towards 1% of GDP.

Summary of the Draft Estimates for 2007/2008

The Draft Estimates propose Total Revenue and Grants of $678.5 million, an increase of almost $51.6 million over the expected outturn of 2006/2007. It also proposes Total Expenditure of $703.2 million, resulting in an overall deficit of $24.7 million. The overall deficit is estimated to decline to 0.97% of GDP next year and the primary surplus to GDP ratio is estimated to decline slightly to 3.25% of GDP.

After declining to $99.1 million in fiscal 2006/2007, amortization payments are estimated to decline further to $61.7 million, reflecting the impact of the debt restructuring. As a result, the financing requirement [the overall deficit plus amortization] is estimated at $86.4 million.

Summary of Draft Estimates for 2007/2008 and Expected Outturn for FY 2006/2007 -$BZ mn		
	Projected Outturn 2006/2007	**Draft Estimates 2007/2008**
Total Revenue and Grants	626.9	678.5
Total Expenditure	702.9	703.2
Primary Surplus	93.5	83.2
Overall Deficit	(76.0)	(24.7)
Amortization	99.1	61.7
Financing Requirement	-175.1	-86.4
Overall Deficit as a % of GDP	-3.13%	-.97%
Primary Surplus as a % of GDP	3.85%	3.25%
GDP (in BZ$ billions)	2.428	2.558

Financing the Deficit

This financing requirement of $86.4.1 million will be met from confirmed disbursements of $93 million under concessional loans as follows:

- The second disbursement, of US$15 million, under the PBL from the IDB;
- The first disbursement under the PBL from the CDB of US$12.5 million
- Disbursements on Project loans - $40.8 million

There will, therefore, be no recourse to domestic financing in 2007/2008 and, in fact, there should be some reserve accumulation in keeping with the medium term projections.

Estimates of Revenue 2007/2008

The Draft Estimates of Revenue and Grants include $650.9 million in Recurrent Revenue, $10.1 million in Capital Revenue and $17.5 million in Grants.

	Projected Outturn 2006/2007	**Draft Estimates 2007/2008**
Total Revenue and Grants	**626.9**	**678.5**
Recurrent Revenue	**582.4**	**650.9**
Tax Revenue:	**528.8**	**593.9**
Income and profits	136.3	170.3
Taxes on property	5.3	5.6
Taxes on international trade and transactions	164.3	180.1
Taxes on goods and services	223.0	237.9
Non-Tax Revenue	**53.5**	**57.0**
Property Income	4.5	7.7
Licenses	10.2	10.4
Other	38.8	38.9
Capital Revenue	**9.7**	**10.1**
Grants & Debt Service Receipts	**34.8**	**17.5**

Recurrent Revenue is comprised of $593.9 million in Tax Revenue and $57 million in non-tax revenue. The strong growth in Tax Revenue reflects the following:

- A $34.0 million increase in collections of taxes on income and profits of which $20 million is a contribution from the Petroleum Fund which is soon to be established to receive all the revenues from the Petroleum Industry – the remaining $14 million increase reflects natural growth in line with economic expansion.

- Property Taxes will see a marginal increase of $0.3 million next year
- International Trade and Transactions Taxes will increase by $15.9 million
- Taxes on goods and services will increase by $15 million.

Non-tax revenue is expected to increase by $3.5 million and Capital Revenue by $0.4 million.

Grants are expected to decline by $17.4 million.

Estimates of Recurrent Expenditure 2007/2008

The Draft Estimates of Recurrent Expenditure propose a total of $585.2 million, a reduction over the expected outturn for fiscal year 2006/2007. This reduction largely reflects the decline in debt service payments following the successful debt restructuring operations.

Proposed provisions include:

- $235 million for Personal Emoluments, which provides for essential staff primarily in the health, education and security sectors, as well as salary increments following the implementation of the new performance appraisal system.
- Pension payments will remain steady at about $39 million.

	Projected Outturn 2060/2007	**Draft Estimates 2007/2008**
Total Expenditures	**702.9**	**703.2**
Total Recurrent Expenditure:	**590.8**	**585.2**
Personal Emoluments	220.3	235.3
Debt Service	169.5	107.9
Pensions	39.8	39.0
Goods and Services	159.7	203.0
Total Capital Expenditure:	**113.6**	**118.0**
Capital II Expenditure	79.9	50.0
Capital III Expenditure	30.5	64.8
Capital Transfer and Net Lending	3.2	3.2

- Debt service payments will decline by $61.6 million from $169.5 million to $107.9.
- Payments for goods and services will increase from $159.7 million to $203 million. It must be borne in mind, however, that $25 million of this increase is the result of the reclassification of expenditure from Capital II to Recurrent Expenditure. Other sources of increases in provision for goods and services include: increases in utility rates, street lighting and additional maintenance requirements after 2 years of delayed repair and maintenance of furniture and equipment.

Estimates of Capital Expenditure 2007/2008

Capital Expenditure is proposed to increase slightly to $118.0 million. Capital II expenditures are expected to decline from $79.9 million to $50.0 million. This primarily reflects the previously mentioned reclassification of capital expenditures to “recurrent”. Capital III expenditure is proposed to total $64.8 million, an increase of $34.4 million, as a number of major projects are commencing while several are already ongoing.

The Plan of Action for the Future

Education

In this new fiscal year, education accounts for 25% or $143 million of the recurrent budget with an increase of $17.3 million over last year's expenditure. We are indeed a nation unquestionably committed to education. The goal is for every child to have access to primary and secondary education. This year we are going further. Government will provide free basic primary school textbooks in Mathematics, Science, English and Social Studies to all needy students.

With the building of the new State of the Art Technical and Vocational schools in the districts, we are expanding choice and relevance in our educational system and training our young people for jobs in new or expanding sectors such as tourism and information technology.

The building of more class-rooms and the training and hiring of more teachers continues. The teaching of African and Maya history is being extended to the high schools.

More pre-schools are opening. More sixth forms established. This September, Escuela México, which is presently ongoing a major expansion in classrooms and work-shops, expects to launch a Sixth Form programme which will cater mainly to high school graduates from the rural communities of the Corozal district.

The budget provides $8.5 million in support to the University of Belize.

Youth and Sports

Work on the design and plans for building a world class indoor sports auditorium at the Marion Jones stadium is now completed and construction will soon be put out to tender.

The Dangriga Sports facility will also be undertaken.

Support for semi-pro and amateur sports continues. So too is our government's support for physical education in schools and promotion of fitness and wellness programmes.

We are expanding the facilities for the Youth Cadet Services Corp. Our commitment to the Youth for the Future programmes as well as for other young people organizations like the Guides and Scouts, YWCA and YMCA is reflected in the budget.

Playing fields with adequate lighting in villages across the country continue to receive our attention.

Affordable Health Care

The recurrent budget for the Ministry of Health has been increased from $62 million to $76.7 million - a 24% increase. This includes an allocation of $4.0 million to allow the expansion of NHI to the rest of the country.

The IDB-CDB funded Health Reform project which is now scheduled for completion in mid-2008, has constructed and or renovated a number of health centers and polyclinics across the country.

The Health Reform Project will receive new impetus in this budget year with the upgrading of Regional Hospitals and the expansion of the National Health Insurance Programme to the rest of the country.

Construction of the new San Ignacio Community Hospital is programmed in this new budget. The building of a new Mental Health Facility in Belmopan and a Community Polyclinic in San Antonio, Toledo as well as improvements to the Belmopan and Corozal Town hospitals will also be carried out as part of the Capital Budget of the Ministry of Health.

Home Ownership and Quality of Life

Belize City, the old capital, is the commercial and most highly populated centre of the country. It is a city of contrasts – with areas having some of the most opulent homes while other areas have some of the most deplorable conditions for human habitation.

The building of more low-income houses with repayments not exceeding $200.00 per month will be stepped up. Further steps will also be made to reduce mortgage payments on all social housing i.e. low income houses, to an affordable rate not exceeding $200.00 for month.

The programme to provide 30,000 house lots for first time Belizean families is proceeding apace.

We have abolished the stamp duty on land valued under $20,000.00

We remain committed to working with municipal bodies and village councils to providing space for more parks, playgrounds and sporting facilities.

Government is presently working on a project at Mile 12 Northern Road to provide 1,000 more house lots.

Removal of $10 service charge on electricity bills by BEL will be effected by the end of the first quarter of the fiscal year.

Rural Development and Poverty Elimination

The Social Investment Fund will continue its programme of providing funding for the classrooms, health centers, water systems, training and capacity building for poorer areas of rural and urban communities.

Today more than 90% of rural communities throughout the country have good running drinking water. Our task now is to complete this major success story.

In addition more community projects will be undertaken thorough the EU funded Rural Development Project, the Sugar Adaptation Fund and the Banana Support Programme.

The Southside Poverty Improvement Project has been designed to address urban poverty in a significant way. The planning phase has taken longer than was expected, but we are now at the stage where tenders will soon be awarded. The construction of streets and drains will soon begin.

Economic Infrastructure

To further improve the quality of life for all Belizeans while serving as a solid foundation to attract new investments, improve transport and communication, create jobs and increase economic growth and development, the budget plan of action will see the implementation of the following infrastructure projects:

- A new international bridge at the Belize/Mexico border.
- The Placencia Road

- A major upgrading of the road from Blue Creek to Orange Walk Town.
- The paving of the road from San Estevan to Progresso Village and upgrading the road to Sarteneja.
- The upgrading of the Old Northern Highway
- The rebuilding of the Crooked Tree Causeway.
- The completion of the paving of the Southern Highway and thereafter the road from Julian Cho High School junction to the village of San Antonio on to Jalacte in the Toledo District.
- A $3.8 million contribution to the Cobble Stone Street Project in San Pedro Ambergris Caye, which is beginning this year and will be completed next year.

All this, in addition to several bridges, feeder roads, village streets and drains as well as maintenance work of existing highways.

The roads and bridges programme already carried out by the government is impressive. The list is long. To mention a few:

- Most of the Southern Highway is completely paved. New bridges have been built on the Hummingbird Highway at Caves Branch Sibun River and Silver Creek. Also built were the Moho River bridge, the Valley of Peace (Agripino Cawich) bridge, the new Beaver Dam bridge, the Jordan bridge.
- We completed the paving of the Orange Walk Town Bypass and the Burrel Boom-Hattieville road. The road to Rancho Dolores, the road to Barranco; 15 miles of road to Caracol, the road to Jaguar Paw, the Caye Caulker airstrip were all upgraded.
- The municipal drainage projects in the district towns have been completed.
- A new bridge at Middlesex is planned for construction this year.
- And now, well underway and nearing completion, is the expansion of the runway at the Phillip Goldson International Airport, with private sector investment.

CONCLUSION

This Plan of Action is designed to create fundamental and positive changes in the way we live and work together. It is designed to improve our security as a nation and our safety as a people. It strengthens the capability of our security forces – the police and the BDF.

It also recognizes that long term solutions to crime and violence lie not only in law enforcement but in strengthening our system of justice with an independent judiciary under the rule of law.

This Plan of Action, the policies and programmes presented today, aim to solidify the gains we have made through prudent financial stewardship and the hard work of the Belizean people – our professionals in the public service, our teachers, our health workers, our security forces, our farmers, fisherfolk and other producers and workers in the services sector, our artists and cultural workers – all who believe in Belize and work to create a better life for themselves, their families, their communities and their country.

Belize is back on track. The path ahead is clear now. The horizon has the glow of hope and the promise of a brighter future. As in life there will be new challenges to face; the work of reform must continue. Embracing change and seizing opportunities for innovation and progress must be our guiding principles.

Some people may say “sorry that’s too ambitious. Sorry that is just rhetoric. Sorry it can’t be done.” I say: Belize is not a sorry country, we are not a sorry people. It can be done if you have the will, the vision, the courage and determination to do it. Together we can. After all, we are living in a good country.

Let us continue our journey to build a fairer, gentler society – a people committed to economic and social justice where the fruits of development are shared more equitably. Respect, compassion, dignity will crown our efforts when all Belizeans have a seat at the table of God’s bounteous gifts to this land of the free by the Carib Sea.

BELIZE: MAJOR ECONOMIC INDICATORS 2006

	2001	2002	2003	2004	2005	2006P
POPULATION AND EMPLOYMENT						
Population (Thousands)	257.3	265.2	273.7	281.1	289.9	299.8
Annual Population Growth	3.0%	3.1%	3.2%	2.7%	3.1%	3.4%
Employed Labour Force (Thousands)	85.9	84.7	89.2	95.9	98.6	102.2
Unemployment Rate (%)	9.1	10.0	12.9	11.6	11.0	9.4
INCOME						
GDP at Current Market Prices ($mn)	1,737.6	1,853.0	1,961.6	2,071.2	2,214.0	n.a.
Per Capita GDP ($, Current Mkt. Prices)	6,753	6,987	7,167	7,368	7,637	n.a.
Real GDP Growth (%)	4.9	5.1	9.3	4.6	3.3	2.9(1)
MONEY AND PRICES ($mn)						
Inflation (Annual average percentage change)	1.1	2.2	2.6	3.1	3.7	4.3
Currency and Demand deposits (M1)	364.8	358.1	365.1	406.7	423.1	463.1
Quasi-Money (Savings and Time deposits)	676.0	705.3	740.0	841.5	906.8	1041.8
Money Supply (M2)	1,040.8	1,063.4	1,105.1	1,248.2	1,329.9	1,504.9
Ratio of M2 to GDP (%)	59.9	57.4	56.3	60.3	60.1	n.a.
CREDIT ($mn)						
Commercial Bank Loans and Advances	788.5	904.5	1,041.7	1,176.6	1,254.7	1390.5
Public Sector	12.9	15.9	26.4	46.3	62.2	27.9
Private Sector	775.6	888.6	1015.3	1,129.7	1,193.0	1362.6
INTEREST RATES (%)						
Weighted Average Lending Rate (WALR)	15.4	14.5	14.2	14.0	14.3	14.2
Weighted Average Deposit Rate	4.3	4.5	4.9	5.2	5.5	5.8
Weighted Average Spread	11.1	10.0	9.3	8.8	8.8	8.5
EXTERNAL TRADE TRANSACTIONS (US $mn)						
Domestic Exports f.o.b.	161.2	148.4	179.8	187.8	198.9	276.6
Merchandise Exports f.o.b.	269.1	309.7	315.5	307.5	324.4	318.9(1)
Merchandise Imports f.o.b.	477.7	496.9	522.3	480.7	556.2	449.6(1)
Trade Balance	-208.6	-187.2	-206.8	-173.2	-231.8	-130.7(1)
Tourism (inflows)	110.5	121.5	149.7	168.1	204.2	179.0(1)
Services (net)	44.0	42.3	74.9	89.3	139.9	145.4(1)
Gross Official International Reserves	120.1	114.7	84.6	53.4	71.8	104.4
Import Cover of Reserves (in months)	3.2	3.2	2.1	1.4	1.7	2.2
PUBLIC SECTOR DEBT						
Disbursed Outstanding External Debt (US $mn)	473.6	587.3	761.4	856.3	936.0	955.6
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	54.5	63.4	77.6	82.7	84.6	n.a.
External Debt Service Payments (US $mn)	76.9	73.0	75.6	89.9	218.6	126.9
External Debt Service Ratio (%)	17.4	15.6	14.3	16.6	35.3	n.a.
Disbursed Outstanding Domestic Debt ($ mn)	208.8	172.2	256.4	278.6	279.5	299.8
Domestic Debt Service Payments ($ mn)	17.7	19.2	13.7	18.8	23.1	25.8

Sources: Central Bank of Belize, Ministry of Finance, Central Statistical Office

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(1) Data for January to September 2006

n.a. Not available