



# ***REALIZING THE POSSIBILITIES***

**BUDGET PRESENTATION FOR**

**FISCAL YEAR 2008/2009**

Hon. Dean Barrow  
Prime Minister and Minister of Finance  
Belmopan  
Monday, 14 July, 2008

	<b>APPROVED ESTIMATES 2007/2008</b>	<b>REVISED ESTIMATES 2007/2008</b>	<b>DRAFT PROPOSED ESTIMATES 2008/2009</b>
<b>TOTAL REVENUES AND GRANTS</b>	<b>678,522,913</b>	<b>720,004,008</b>	<b>816,939,660</b>
RECURRENT REVENUE			
TAX REVENUE	593,922,989	591,664,674	628,802,000
Income and profits	170,256,298	180,092,770	225,780,000
Taxes on property	5,617,722	6,521,745	7,016,000
Taxes on international trade and transactions	180,138,867	168,974,658	151,600,000
Taxes on goods and services	237,910,103	236,075,502	244,406,000
NON-TAX REVENUE	56,998,180	72,941,994	92,229,500
Property Income	7,700,000	12,425,004.78	12,800,000.00
Licenses	10,423,300	13,219,068.22	14,972,500.00
Other	38,874,880	47,297,920.55	64,457,000.00
<b>TOTAL RECURRENT REVENUE</b>	<b>650,921,169</b>	<b>664,606,668</b>	<b>721,031,500</b>
CAPITAL REVENUES:			
SALE OF CROWN LANDS	3,328,909	3,021,838	5,000,000
SALE OF EQUITY	6,797,524	27,112,549	3,508,024
<b>TOTAL CAPITAL REVENUES</b>	<b>10,126,433</b>	<b>30,134,387</b>	<b>8,508,024</b>
GRANTS	<b>17,475,311</b>	<b>25,262,953</b>	<b>87,400,136</b>
<b>TOTAL EXPENDITURES</b>	<b>703,235,731</b>	<b>735,342,504</b>	<b>824,774,756</b>
RECURRENT EXPENDITURE			
PERSONAL EMOLUMENTS	235,313,278	233,951,133	262,868,201
DEBT SERVICE-INTEREST & OTHER CHARGES	107,938,208	113,389,753	108,885,090
PENSIONS	39,019,482	42,299,527	39,902,214
GOODS & SERVICES	202,965,322	208,658,051	237,943,658
<b>TOTAL RECURRENT EXPENDITURE</b>	<b>585,236,290</b>	<b>598,298,464</b>	<b>649,599,163</b>
CAPITAL EXPENDITURES			
CAPITAL II EXPENDITURES	49,956,293	71,787,688	78,664,395
CAPITAL III EXPENDITURES	64,835,148	62,050,086	93,304,932
CAPITAL TRANSFER & NET LENDING	3,208,000	3,206,266	3,206,266
<b>TOTAL CAPITAL EXPENDITURES</b>	<b>117,999,441</b>	<b>137,044,040</b>	<b>175,175,593</b>
RECURRENT SURPLUS/[DEFICIT]	<b>65,684,879</b>	<b>66,308,204</b>	<b>71,432,337</b>
PRIMARY SURPLUS/[DEFICIT]	<b>83,225,390</b>	<b>98,051,256</b>	<b>101,049,994</b>
OVERALL SURPLUS/[DEFICIT]	<b>(24,712,818)</b>	<b>(15,338,497)</b>	<b>(7,835,096)</b>
AMORTIZATION	61,653,891	61,695,545	63,902,871
<b>FINANCING</b>	<b>36,941,073</b>	<b>46,357,048</b>	<b>56,067,775</b>
<b>GDP (in billions of Bz)</b>	<b>2.558</b>	<b>2.428</b>	<b>2.558</b>
<b>OVERALL SURPLUS/DEFICIT (+/-) AS A % OF GDP</b>	<b>-0.97%</b>	<b>-0.63%</b>	<b>-0.31%</b>
<b>PRIMARY SURPLUS/DEFICIT (+/-) AS A % OF GDP</b>	<b>3.25%</b>	<b>4.04%</b>	<b>3.95%</b>

# **OUTLINE OF BUDGET SPEECH 2008/2009**

## **REALIZING THE POSSIBILITIES**

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## **INTRODUCTION**

Mr. Speaker,

It is with some sense of occasion, history even, that I rise to move the first reading of the General Revenue Appropriation Bill for Fiscal Year 2008/2009: The first budget, in other words, of the United Democratic Party Government 2008-2013.

I present this Budget today, Mr. Speaker, in the full consciousness that the people of Belize will look at it as a benchmark Budget; a tone setting and a mood shaping Budget. It is the first paving stone, if you will, on the road to reconstruction that it is the mandate and the destiny of the United Democratic Party to build. It comes in the middle of great challenges confronting our country, some of which we expected and some of which have blindsided us. What I wish to make clear at the outset though, is that we seek no excuses. Not even in consequence of the trials visited upon us by mankind's worst food and fuel crises do we flinch from our obligation to deliver. And not even in the face of the moral, political and economic wasteland bequeathed to us by those that for ten long years plundered our resources , do we give in to any talk of despair, any contemplation of the slough of despond.

No! For we believe that by pluck and courage and dexterity; by unrelenting and uncomplaining hard work and dedication; by unshakeable commitment to good governance and the lifting up of the Belizean people, we will succeed in this noble rescue mission on which we are now embarked. This Budget is therefore designed to furnish vindication of the unsinkable confidence we have in ourselves and in the Belizean people.

Mr. Speaker: this, then, is the beginning of the realization of the possibilities we always knew are inherent in our blessed country; in our bountiful land of deep blue sky and bright green grass and limitless potential. By the time we are done here today, we will expect to have produced nothing less than a renewal of hope. Let the doubters be vanquished and let the naysayers go hither. The conquering army of the people of Belize, led by the United Democratic Party, marches on; and we intend to carry this on every day.

## **FRAMEWORK FOR THE BUDGET**

The United Democratic Party was voted into office at a very difficult time in the history of Belize. Externally, the global environment was, and continues to be, characterized by substantial political instability and by military and paramilitary action, or the threat of it; by high levels of crime and violence; by slowing economic growth; and by the unprecedented increases in commodity prices, particularly for fuel and energy, food, and construction materials. These developments have, of course, had woeful effects on Belize, with our own situation being unforgivably worsened by the endless ways in which the former administration came loose from its moorings: the misappropriation and misuse of assets that belong to the people of Belize; a callous indifference to the dire consequences that this violation of trust, this criminal behavior, had on our people. While there is general awareness of the worst aspects of what has come to be called, unfortunately for that country, the Haitian model of country management (ie, once you have gained control of the State, the State's assets are yours for the taking), I think that it is important to highlight those particular items that continue to pose great difficulties for us as we move this country forward.

Of primary importance is the state of the public finances, and there are features of the present situation that must be rehearsed if only for the sake of the historical record.

Firstly, the public debt has never been higher, and the servicing of that debt became such an impossible burden that the former administration, and its perhaps just as guilty creditors, were forced into an involuntary restructuring to pay off the then existing levels of external commercial debt over the next twenty years. As a result, the country is now unable to access external commercial sources of finance, and some of our domestic firms, including financial institutions, have been experiencing difficulty maintaining external credit lines because of the confidence gap that the national default and restructuring caused. What compounds the entire sorry mess, is the fact that there is little visible benefit to show for the gargantuan amounts of money borrowed; and two of the public sector institutions involved in some of the associated transactions – the Development Finance Corporation and the Social Security Board, the first of which has, as we all

know, suffered bankruptcy and liquidation – became the subject of enquiries forced on the last administration as a result of the scandals involved in their chain of sordid actions.

Secondly, economic growth has slowed dramatically in the last few years, clearly demonstrating the extent to which the country's earlier performance, the occasion for much self praise by the then Prime Minister and his Svengali, had in fact been propped up by the unsustainable borrowing. Any job creation was temporary, illusory. And we cannot borrow to build this house of cards again even if we wanted to (which we don't) because no one will lend us.

Thirdly, our ability to raise revenue and to collect taxes has been greatly constrained by special arrangements and dubious legal structures (including secret agreements) that have seen particularly rich business enterprises exempted from paying their fair share of taxes. Exhibit one is, of course, the BTL scenario which has caused the new government far too much time, energy and expense to try to set right.

Fourthly, the provision of a number of tax holidays and arrangements to guarantee particular rates of return in order to notionally stimulate private sector investment has turned out rather to be a device for the imposition of a double whammy on the public: even as the favored few have been allowed to deprive the people of much needed revenue, they have also raised their prices to consumers. Thus, a perfectly acceptable tool of private sector encouragement has been in too many cases mangled and distorted beyond recognition. The warped actions of those whose departure has accurately been termed the end of an error has thus produced a perfect storm of less revenue to government and higher prices to the consumer.

On the expenditure side, the situation is even more serious. Very large sums of money have been spent without much visible result in terms of developing the country. Substantial funds and public assets have been notoriously diverted to the benefit of specific individual and group cronies. Worse, agreements have been entered into which are forcing us to make payments that we had no idea that we would have had to meet: the

latest in this area is an BZ\$8.8 million arbitration award for breach of contract in respect of the management of the Philip Goldson International Airport. The housing programme, in which funds from the DFC and from Social Security, in addition to moneys borrowed from foreign banks all over the place, played such an important part, has been a disaster. And the waste, reckless spending and criminal diversion of funds continued with the misappropriation of the \$40 million gifted to the people of Belize by Venezuela and Taiwan.

At the heart of these developments, indeed encouraging or at least permitting these developments, have been the serious deficiencies in governance and management in the public sector in Belize. It is difficult not to come to the conclusion that these deficiencies were deliberately engineered in order to make it easier for those elected to manage the country's affairs in the interests of its entire population, to in fact mismanage, with a single-minded focus on enriching themselves and their associates at the expense of the rest of nation.

As a result of these things, and in order to straighten these things, we have put good governance, good management, transparency, accountability, and fiscal prudence at the forefront of our programme. We are setting about the creation of a new public affairs template, the better to help us realize our agenda of progress and development.

An important part of the governance improvement arrangements has to do with reducing the power of individual government members, and of the Government, and giving citizen groups greater ongoing say in the management of the country's affairs. As you are aware, we are proposing to limit the length of time an individual can serve as Prime Minister to three terms. We are proposing to remove the Government's majority in the Senate, and at the same time to broaden the powers of the Senate in order to allow it to operate properly as a general oversight body, representing citizens' groups, over the Government. And we are proposing to provide for the recall of ministers and elected officials that violate their mandate and fail to live up to their commitment to the people.

An equally important part has to do with the provision of financial information on the public sector. With the assistance of our overseas development partners we are in the process of putting in place arrangements under which there will be regular and detailed reporting on our public finances management performance, so that anyone who is interested will be able to see how the resources collected by way of taxes and otherwise are being utilized. We have already moved on amendments to the Freedom of Information Act, by which we have outlawed secrecy in contracts and agreements entered into by the Government of Belize. This is the all important backdrop, the all embracing backdrop, against which we present this Budget today.

## **RECENT ECONOMIC DEVELOPMENTS**

### **GLOBAL ECONOMIC DEVELOPMENTS**

Mr. Speaker, the world economy is continuing to slow down in the wake of the meltdown of the US sub-prime mortgage market and the consequential housing downturn. In an effort to slow the decline, and shore up growth prospects, the US Federal Reserve has been aggressive in cutting interest rates and the European central banks have adopted similar policies. Notwithstanding these efforts, there has been a general weakening in the global economic outlook, as the fall-out from the mortgage crisis is exacerbated by rising inflation reflecting the skyrocketing of oil prices. Monetary authorities worldwide are therefore being forced to grapple with the challenge of devising a policy mix that will keep inflation in check while avoiding the development of a full-fledged economic recession. The indications are that growth in Europe will be much lower than in the previous year and the IMF is forecasting that the US economy will experience zero growth in 2008.

These developments are likely to have a negative impact on economic growth in Belize and other CARICOM and Central American countries this year, since these economies are heavily dependent on imports and external demand for goods and services, including tourism. Continued increases in international oil prices combined with a slowing of inflows from the tourism sector would make it extremely difficult for these economies to maintain stability in the balance of payments.

In the case of Belize, additional shocks from natural phenomena such as tropical storms or crop disease would further aggravate the fragile economic situation.

### **ECONOMIC DEVELOPMENTS IN BELIZE – 2007**

In 2007, the last full year of the previous era, Belize experienced economic slowdown with real GDP growth falling to a mere 1.6% as compared to 5.3% in 2006. Output of papaya, sugarcane, banana, citrus, farmed shrimp, garments and electricity fell for a variety of reasons including weather, crop disease and the impending termination of trade preferences granted under the Caribbean Basin Initiative.

A substantial 34.1% increase in production of petroleum helped to offset this and the services sector also saw continued growth in free zone trade and telecommunications as well as a small increase in stay-over tourist visitors.

In the month of April 2007, the rate of unemployment stood at 8.5%. This subsequently rose to 12.1% in September partly due to the hurricane and the seasonal downturn in demand for labor.

Because of the decline in production of several key export commodities – papaya, sugarcane, banana, citrus, farmed shrimp, garments - domestic exports contracted by 7.6% and growth in total export receipts, which include CFZ trade and other re-exports, grew by only 0.3% compared to the 31.3% expansion in the previous year. Imports in the meantime grew by 4.9%, resulting in a widening of the trade deficit and a more than doubling of the external current account deficit to 3.4% of GDP.

There was nevertheless a slight improvement in the international reserve position mainly due to foreign direct investment inflows for projects in tourism, aquaculture, real estate and electricity. The restructuring of the public sector's external debt earlier in the year also contributed to the improved reserve position by lowering, if only temporarily, both interest and principal payments. Consequently, at the end of the year the Central Bank's gross official international reserves increased to \$217.1mn which was sufficient to cover 2.3 months of merchandise imports.

In fact, the international reserve coverage was consistently below the benchmark of 3 months of imports since 2002 indicating to the previous authorities the need for sustained fiscal and monetary policy efforts to strengthen the balance of payments position. But, of course, there was relaxation, not to say abandonment, of fiscal policy near the end of 2007, with Government expenditure accelerating in the period prior to the general elections, as the People's United Party sought desperately to buy their way back into power. Monetary policy, though, was unchanged with commercial banks' cash and statutory reserve requirements being held to 10.0% and 23.0%, respectively, of average deposit liabilities.

Growth in money supply was strong during the year with boosts coming from a 14.4% expansion in net domestic credit as well as inflows from foreign direct investment, bilateral grants to the government and private remittances. Commercial bank excess liquidity fell slightly over 2007, while the weighted average interest rates on deposits and loans increased by 30 basis points and 10 basis points respectively.

### **ECONOMIC DEVELOPMENTS IN BELIZE – 2008**

The hangover from 2007 is, of course, a reality with which we now have to deal. Consequently, in 2008, GDP growth is already being affected by lower output of sugarcane and papaya, the two crops most severely affected by last year's hurricane. The closure of the Williamson sewing factory, lower electricity output and a decrease in hotel and restaurant activities stemming from a sharp fall in cruise ship arrivals, are also taking their toll. The Statistical Institute of Belize estimates that GDP grew by only 0.6% in the first quarter. This marginal growth mainly reflects growth in the marine sector, distributive trade and petroleum extraction.

The Statistical Institute of Belize also reported that the domestic price level (as measured by the average annual increase in the Consumer Price Index) was up by 2.3% during 2007 with food prices increasing by 5.3%. Price hikes in imported food staples and fuel raised the Consumer Price Index to 4.7% over the twelve months to February 2008, an upward trend that is likely to continue and one that, as we have already acknowledged, will pose a grave challenge to both consumers and producers alike.

While exports, in the first quarter of 2008, were down by 1.1%, imports expanded by 19.5% driven by Commercial Free Zone activity and increased expenditure on a range of items including fuel, telecommunication equipment, construction materials, vehicles and electricity. This was exacerbated by a substantial outward movement of funds in the form of repatriation of profits by the Belize Bank to the tune of almost \$60 million. The quarterly current account of the balance of payments consequently shifted from a surplus of \$40.5mn in the comparable period of 2007 to a deficit of \$64.6mn this year.

The impact of last year's hurricane is being seen this year in the reduction in production of several major agricultural commodities.

Both the quantity and the quality of sugarcane have declined in the current crop year. Delivery of cane to the factory was down by almost 12% and sugar production shrank by 14.0%.

At 16.5mn pounds, papaya output between January and April of this year was almost 50.0% lower than in the comparable period of 2007. Meanwhile, citrus deliveries for the 2007/2008 crop year up to April has declined by a 7.0% decline, with decreases in orange and grapefruit deliveries of 8.0% and 4.5%, respectively. Juice production, has declined by 6.0%.

In contrast, banana producers increased both production and exports. Banana export volume rose by 74.0% to 27,194 metric tons while earnings were up by 92.2% to \$23.5mn in the first four months of 2008 as compared with the same period last year. Exports of petroleum also increased – by 11.0% with earnings increasing by 108.0%. These increases didn't fully compensate for declines in other export commodities, however, and the trade deficit consequently has increased by 62.8% (\$89.2mn) relative to same period of 2007.

In part due to the economic slowdown in the US and competition from other destinations, there has also been decline in the number of stay-over visitors (2.1%) and cruise ship arrivals (19.0%) with total visitor arrivals amounting to 344,801 between January and April 2008 as compared to 405,337 for the same period last year.

Notwithstanding the difficulties in some sectors and bearing in mind the fact that the extent of flood damage to the citrus industry is not yet known, the Central Bank's baseline forecast points to a slight economic acceleration with GDP expected to grow between 2.0% and 2.5% this year largely because of an expected increase in petroleum extraction and higher output from banana and aquaculture projects.

These forecasts may turn out to be even more improved if the Fifth Freedom arrangements with Mexico produce the tourism spillover with the air links we will be establishing with Cancun, Merida, Chetumal and Mexico City. Also, the just negotiated petroleum surcharges will also yield higher GDP growth, but more on this later.

## **BUDGET PERFORMANCE IN FISCAL YEAR 2007/2008**

### **PRELIMINARY OUTTURN**

The Budget for 2007/2008 had two objectives forced by the external agencies on the last administration in an effort to curb their profligacy and fiscal indiscipline.

The authorities were told that they needed to achieve a strong Primary Surplus and a small Overall deficit, both necessary for fiscal and debt sustainability into the medium term. The targets set for the Primary Balance and the Overall Deficit were 3.25% of GDP and negative 0.97% of GDP respectively.

The Preliminary Outturn for the fiscal year shows that both targets were met. The Primary Surplus of \$98.1 million amounted to 4.04% of GDP while the Overall Deficit of \$15.3 million was measured at negative 0.63% of GDP.

<b>Summary of Approved Budget and Preliminary Outturn for FY 2007/2008 – BZ\$mn</b>		
	<b>Approved Estimates</b>	<b>Projected Outturn</b>
Total Revenue and Grants	678.5	720.0
Total Expenditure	703.2	735.3
Primary Surplus	83.2	98.1
Overall Deficit	(24.7)	(15.3)
Amortization	61.7	61.7
Financing Requirement	-36.9	-46.4
Overall Deficit as a % of GDP	-0.97%	-0.63%
Primary Surplus as a % of GDP	3.25%	4.04%
GDP (in BZ \$billions)	2.558	2.428

Amortization payments of \$61.7 million were covered from concessional borrowings.

#### **REVENUE PERFORMANCE**

Total Revenue is estimated at 694.7 million or some \$33.7 million above the budgeted figure of \$661.0 million. This increase over the budgeted figure takes into account strong growth of some taxes and significant declines in others.

Income and Business Tax and Royalties both increased, reflecting increased collections from domestic oil production. Income Tax collected on domestic oil production amounted to \$25.0 million while Royalty Receipts amounted to \$15.0 million. Capital Revenue also increased by \$20 million largely as a result of the controversial sale of land at North Ambergris Caye, which

<b>Summary of Revenue Collections 2007/2008 - \$BZ mn</b>		
	<b>Approved Estimates</b>	<b>Projected Outturn</b>
Total Revenue and Grants	678.5	720.0
Recurrent Revenue	650.9	664.6
Tax Revenue:	593.9	591.7
Income and Profits	170.3	180.1
Taxes on Property	5.6	6.5
Taxes on International Trade & Transactions	180.1	169.0
Taxes on Goods & Services	237.9	236.1
Non-Tax Revenue:	57.0	72.9
Property Income	7.7	12.4
Licenses	10.4	13.2
Other	38.9	47.3
Capital Revenue	10.1	30.1
Grants	17.5	25.3

initially, included portions of the Bacalar Chico World Heritage Site.

On the other hand, Taxes on International Trade recorded a sharp decline as the Government, especially after the change in February of this year, rolled back Revenue Replacement Duties to cushion some of the impact of increasing world oil prices. Collections from Revenue Replacement Duty amounted to \$49.4 million compared with a budgeted sum of \$61.4 million. In order to make concrete the extent of the RRD given up, it is necessary to point that without that RRD foregone, gas prices at the pump would now be \$15 or \$16 per gallon.

The General Sales Tax performed as budgeted yielding some \$174.5 million or some \$2.0 million above budget.

Capital Revenue for the year amounted to \$30.1 million mainly reflecting proceeds from the sale of the 3,000 acres of land in North Ambergris Caye for \$12.0 million, other land sales aggregating to \$10.0 million and the sale of the Libertad Factory and lands which, even at its undervalue in order to favor a friend of the last administration, brought in a further \$3.0 million dollars.

Grants amounted to \$25.3 million of which some \$18.0 million originated from the Government of Venezuela under the Housing Assistance Program. As we all too sadly know by now, that figure was \$20 million greater but that last amount was illegally diverted by the then government.

**EXPENDITURE PERFORMANCE**

The preliminary outturn for Total Expenditure is \$735.3 million, comprised of \$598.3 million in Recurrent Expenditure, \$71.8 in Local Capital Expenditure and \$65.2 million in Capital Expenditure financed from external sources. In addition, the Government also paid out \$61.7 million to amortize its debt, which, following established international practices, is recorded as financing item.

Within the recurrent budget, \$233.9 million was spent on salaries and wages, slightly under the budgeted allocation of \$235.3 for this main component.

Pensions and Gratuity Payments accounted for \$42.3 million while Goods and Services amounted to \$208.7

million. This latter figure reflected increased outlays for fuel, utilities, grant aided schools and the University of Belize.

Also included in the recurrent expenditure, is some \$113.4 million in interest payments, of which some \$48.0 million was for payment of interest on the “Super Bond”.

Local capital expenditure of \$71.7 million was well above the budgeted figure of \$49.9 million for the fiscal year. This was due to substantial un-programmed expenditure for

<b>Summary of Expenditure 2007/2008 - \$BZ mn</b>		
	<b>Approved Estimates</b>	<b>Projected Outturn</b>
<b>Total Expenditure</b>	703.2	735.3
<b>Recurrent Expenditure</b>	585.2	598.3
Personal Emoluments	235.3	234.0
Debt Service	107.9	113.4
Pensions	39.0	42.3
Goods and Services	203.0	208.7
<b>Capital Expenditure</b>	118.0	137.0
Capital II Expenditure	50.0	71.8
Capital III Expenditure	64.8	62.1
Capital Transfer & Net Lending	3.2	3.2
<b>Amortization</b>	61.7	61.7

health facilities, textbooks, and streets and drains, in the run up to the February 2008 general elections.

While the Capital III [externally financed] budget shows that expenditure at \$62.0 million was just within the approved budget of \$64.8 million, the actual composition of the expenditure was very different than originally programmed. Many of the projects that were slated for implementation, in the areas of rural development and agricultural support, were set aside or slow in starting. On the other hand, there was the new Housing Assistance Program funded by a grant from the Government Venezuela under which some \$18.0 million was spent in the six weeks immediately before the elections and without the approval of the National Assembly as required by the Finance and Audit (Reform) Act.

When total expenditure is applied against total revenue and grants, an overall deficit of \$15.3 million emerges for the last fiscal year. To this amount, we must add the figure of \$61.7 million in amortization payments to arrive at the total financing gap of \$77.0 million for the fiscal year.

This gap was filled with the following inflows:

A Drawdown of US\$15.0 million from the IDB Policy Based Loan;

A Drawdown US\$12.5 million from the CDB Policy Based Loan;

A Drawdown of US\$4.5 million from the ROC for Hurricane Relief ; and

Other smaller loan disbursements of approximately US\$6.5 million.

### **THE PUBLIC DEBT**

At the end of April, 2008, the outstanding Public Sector **and** Publicly Guaranteed Debt stood at \$2,249 million, up marginally from \$2,240 million in the twelve months before.

The Public Sector Debt itself was \$2,135 million made up of \$1,822 in External Debt and \$312.8 million in Domestic Debt, while the Publicly Guaranteed Debt amounted to \$95.2 million, mostly in respect of privatized enterprises.

The Public Sector Debt was comprised of bonds (58.8%), multilateral loans (23.6%) , bilateral loans (17.0%) and commercial loans (0./6%). To service this debt, the Government paid out \$113.4 million in interest costs, and a further \$61.7 million in amortization payments during the fiscal year.

The largest single external obligation of the Government of Belize is the New Bonds (or the so called “Super Bond”) which was the result of the forced debt restructuring exercise completed in February 2007. This bond amounts to US\$546.8 million representing slightly over 98% of the outstanding commercial debt and carries a step-up interest rate ranging between 4.25 % and 8.50% and is to be amortized over a ten year period commencing August 2019. As a result of the impossibility of new commercial borrowings, for the first time in many years Government had to service its debt without, in fact, resorting to new commercial borrowings.

## **BUDGET PROPOSALS FOR FISCAL YEAR 2008/2009**

The new government assumed office just seven weeks before the end of the 2007/2008 Fiscal Year. Given the short time before the end of the financial year on March 31, 2008, Government took an early decision not to rush the budget process in order to pass a new Appropriation Act before the end of the financial year. We opted instead to use a provision in the Finance and Audit (Reform) Act, through which the Minister of Finance may, by warrant and subject to certain limitations, authorize the withdrawal of moneys from the Consolidated Revenue Fund for a period of up to four months from the beginning of the new financial year, to carry on the services of Government. The new budget, when approved, would make provision for the entire fiscal year, thereby providing retroactive approval to cover amounts spent during the four month period of April to July 2008.

This strategy allowed the new Government to settle into office, to take stock of the state of the public finances, and to consult with a broad cross section of the population on the focus and form of a new budget that is as responsive to the needs of the citizenry as ingenuity, creativity and the limits of the possible will allow.

#### **NATIONAL CONSULTATIONS ON THE BUDGET FOR FY 2008/2009**

Mr. Speaker, when we began this budget process, we were determined to do things differently. In keeping with our commitment to make the policy and planning processes open and transparent, we sought to engage in a process of national consultations during which a technical team met with a wide range of persons and groups. Because we want government policy to be relevant and effective in meeting the needs of the people, the team met with the private sector, labour unions, women's organizations, environmental organizations, agricultural producers, fishermen's cooperatives, rural communities and the tourism industry. The range of groups consulted was somewhat limited because of the short time frame within which we had to complete the process, but we are committed to keeping the consultation process moving and expanding.

As I said at the Symposium of June 11, this consultative process is an important part of the good governance framework because it promotes inclusiveness and participation and contributes positively to the environment for debate on public policy issues.

A report of the consultations – which included a Symposium on June 11 – has been placed on the Government of Belize website to facilitate broad access to the information and to stimulate further discussions.

As you would see in that report, the discussions focused on budget issues, but also included matters of wider economic policy as well as sectoral issues. Furthermore, because the consultations took place early in the budget preparation process – not at the end of the process as was done in the past – the outcome of the consultations was able to influence the content of the budget. Therefore, Mr. Speaker, many of the issues raised in the budget consultations had in any event been engaging the attention of the new government and several key recommendations proposed by stakeholders have been all too willingly taken on board.

Some of the issues included:

The importance of promoting the development of micro, small and medium enterprises to create jobs and generate sustainable economic growth;

The urgency of implementing mechanisms for addressing the impact of rising food and fuel prices, particularly on the poor and the vulnerable;

The importance of promoting agriculture through repair and maintenance of roads, reducing the cost of agricultural inputs and providing additional resources to provide more and better extension services by the Ministry of Agriculture;

The requirement of extra resources to promote rural development, including resources for education, health, village road, potable water etc;

The glaring gap of a proper Solid Waste Management System, given the importance of the environment to our economy;

The need to keep the tax system under review to continue the process of reform towards greater equity;

The expectation that, under this new administration, the process of strengthening the management of public finances will accelerate with penalties for deliberate breaches of the fiduciary duties owed the Belizean public by both ministers and public officers.

The absolute need for better planning and implementation of government programmes, especially programmes that are to benefit vulnerable groups such as single mothers and young people, so that positive results are realized and in a cost effective manner.

Mr. Speaker, many of these issues require medium to long term policy responses; but some issues are so immediate and so critical that the need to define right away short term solutions could not be postponed. It is in this context, notwithstanding the objective constraints, that we have fashioned this Budget.

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

##### **1. Human resource development**

Mr. Speaker, Government has prepared this budget to reflect three fundamental objectives: to restore fiscal sanity, moral well-being, and honesty in administering the business of government; to take the development agenda forward, investing especially in education, health, infrastructure, agriculture and tourism; and to look after poor people. We pledged in our election manifesto a few months ago to immediately address the state of the education. We want to create an education system that is capable of providing “Education for Self”, Education for Strength” and Education for Life.” This means providing resources at all levels of the education system - from pre-school to university – to improve both quality of and access to education. We are beginning to do that in this budget by way of myriad increases in education allocations as I will detail later on.

We are also giving high priority to health, which is the “foundation of a productive and successful society”. In this first budget, we are completing the Health Sector Reform Project. Of even greater personal impact and in a historic first for the country, we are removing GST from a broad range of medicines, and exempting medical services from GST. We are also assuming the full cost of NHI to the extent that it has been rolled out so far – the Social Security Board will not any longer be meeting any of those costs.

## 2. Poverty reduction

This government believes that sustained reduction in poverty comes from creating and providing equitable access to opportunities – opportunities for education, healthy living, entrepreneurship and business development, home ownership and community participation.

We are committed to creating an environment in which micro and small enterprises can grow beside the larger enterprises by moving to facilitate access to affordable financing. We will promote land/home ownership for low income persons, skills training and child care services for single mothers and reduce taxes on a number of basic food items. We will target the rural communities for special programmes to upgrade social and economic infrastructure. These programs will begin now with this budget.

## 3. Food security

Food security and agricultural development go hand in hand. Almost half of our population lives in the rural area and more than 40% of the labour force works in the agriculture sector. We believe that the current food price crisis presents not just the challenge that we've all so dolefully been suffering through, but an opportunity for Belize to increase food production to supply the local market at lower prices than the imports. This is also time to seize the day and expand food exports to create new wealth in our long-suffering rural communities. Of course, this requires solid support from government. Therefore, in this budget we are seeking to assist the agriculture sector to reduce the cost of operational inputs and capital investment.

## 4. Public safety

Strengthening citizen security is a key priority of this budget. We believe that this can be achieved, but it requires a multi-sectoral approach. We will strengthen the Police Department by providing more human, financial and technical resources to fight crime. However, we will also seek to strengthen our social fabric to combat the causes of crime. This means working with youth at risk to counter gang violence by providing viable

alternatives, work on which has already started via the rechartered CYDP, and promoting and enabling family life and building a strong economy that creates jobs.

#### 5. Environment

Belize derives its economic sustenance from our environment. Proper management and sustainable use of our environment is therefore critical to long term economic growth. The government will strengthen framework and processes for environmental management including enforcement of environmental compliance.

In particular, great priority is given to solid waste management and efforts are being made to fast track development of a national solid waste management plan.

#### 6. Economic and social stability

Economic and social stability go to the heart sustainable development. This government believes that prudent fiscal and monetary policies, attended by strong governance and accountability processes are key elements of economic and social stability. We are therefore committed irrevocably, to a new order in public affairs, to proper economic management and good, honest, accountable governance.

This means promoting laws and administrative procedures that strengthen public financial management. It means encouraging and facilitating public participation in policy discussions and creating a framework in which persons feel free to contribute to such discussions.

### **SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2008/2009**

The draft estimates have been prepared on the assumption that nominal GDP will grow by 5.3% in the face of rising import prices, while real GDP will grow at approximately 2.0%. On the revenue side, apart from the proposed Petroleum Surcharge which will be brought to the National

Assembly at its next sitting, there will be no new taxes. Consultations, hard fought but never rancorous, have taken place with the oil industry in the past few weeks. We have only just completed these, well after the draft

<b>Summary of Draft Estimates for 2008/2009 and Expected Outturn for FY 2007/2008 - \$BZ mn</b>		
	<b>Projected Outturn 2007/2008</b>	<b>Draft Estimates 2008/2009</b>
Total Revenue and Grants	720.0	816.9
Total Expenditure	735.3	824.8
Primary Surplus	98.1	101.0
Overall Deficit	(15.3)	(7.8)
Amortization	61.7	63.9
Financing Requirement	-46.4	-56.1
Overall Deficit as a % of GDP	-0.63%	-0.31%
Primary Surplus as a % of GDP	4.04%	3.95%
GDP (in BZ \$billions)	2.428	2.558

budget and appropriation bill was prepared and printed. As a place-holder, we allocated the sum of \$10.0 million under Taxes on Income and Profits to be collected during the remainder of this fiscal year.

Having now a clearer picture of the nature and scope of the new Petroleum Surcharge, we are reworking the estimated receipts, and will circulate an amendment to the Revenue Estimates which will increase total revenue, increase the primary balance and improve the bottom line. These amendments will be circulated when I table the Supplemental Petroleum Tax Bill.

In addition to no new taxes on the Belizean people in this Budget, we are, of course, actually providing positive relief especially to the poor. We will thus be lowering or removing tax on a number of basic items and services.

Apart from the Petroleum Surcharge, we expect strong growth in the income tax, royalty, and production share revenues from the local petroleum industry as a consequence of the very sharp rise in the price of world oil prices and an increase in production from the oil producing field.

On the expenditure side, we are proposing an expansion in the recurrent budget to take account of moderate growth in wages and salaries, and increased operating expenditure reflecting rising prices of fuel and utilities.

We have set a preliminary target for the Primary Surplus of 4% of GDP and a target for the overall deficit of negative 0.3% of GDP.

Total Revenue and Grants are estimated at \$816.9 million. This is an increase of \$96.9 million over the expected outturn for last fiscal year. Total Expenditure is estimated at \$824.8 million. Taken together, the result is an Overall Deficit of \$7.8 million or -0.31% of GDP. Provision for amortization payments are held steady at \$63.9 million, which, when added to the Overall Deficit, results in a financing requirement of \$71.5 million.

This financing requirement is programmed to be met from the following sources:

- A Drawdown of US\$12.5 million from the CDB Policy Based Loan,
- A Drawdown of US\$5.0 million from the Petrocaribe Loan Facility, and
- Other disbursements from other project related loans of approximately US\$23.5 million.

#### **ESTIMATES OF REVENUE 2008/2009**

The Draft Estimates of Revenue and Grants are comprised of \$721.0 in Recurrent Revenue, \$8.5 million in Capital Revenue and \$87.4 million in Grants.

Recurrent Revenue is made up of \$628.8 million in Tax Revenue and \$92.2 million in Non-Tax Revenue.

The significant rise in Recurrent Revenue is attributed to the following:

- A \$45.0 million increase in taxes on Income and Profits of which at least an additional \$25 million is expected to come from tax on the domestic oil industry.
- A \$19.3 million rise in Non-Tax Revenue of which an additional \$10 million is expected to come from Royalties and Rents from the domestic oil industry.
- These increases are, on the other hand, moderated by a fall of Taxes in International Trade resulting from the removal of the Revenue Replacement Duty on fuel and on butane gas.

As of the 1<sup>st</sup> of August, the remaining Revenue Replacement Duty will be removed from both Regular and Premium Gasoline, and on Aviation Spirits and Jet Fuel. This tax will be replaced by a lower flat tax per gallon which will be added to the existing customs duties applicable to these products. This will have the effect of stabilizing the taxes applied to these products and would also result in future changes in acquisition costs passing directly through to the price.

Capital Revenue is estimated to decline to \$8.5 million as Government is not proposing any further sales of large

tracts of our precious land in the new budget year.

The significant increase in Grants is comprised of a general budget-support grant of \$50.0 million which has been committed by the Republic of China Taiwan as well as several other smaller

	<b>Projected Outturn 2007/2008</b>	<b>Draft Estimates 2008/2009</b>
<b>Total Revenue and Grants</b>	<b>720.0</b>	<b>816.9</b>
<b>Recurrent Revenue</b>	<b>664.6</b>	<b>721.0</b>
<b>Tax Revenue:</b>	<b>591.7</b>	<b>628.8</b>
Income and Profits	180.1	225.8
Taxes on Property	6.5	7.0
Taxes on International Trade & Transactions	169.0	151.6
Taxes on Goods & Services	236.1	244.4
<b>Non-Tax Revenue:</b>	<b>72.9</b>	<b>92.2</b>
Property Income	12.4	12.8
Licenses	13.2	15.0
Other	47.3	64.5
<b>Capital Revenue</b>	<b>30.1</b>	<b>8.5</b>
<b>Grants</b>	<b>25.3</b>	<b>87.4</b>

grants from traditional sources such as the European Union, the Caribbean Development Bank under the Basic Needs Trust Fund Program and the United Kingdom under its Commonwealth Debt Initiative.

#### **REVENUE MEASURES TO PROVIDE SOME RELIEF FROM RISING PRICES**

In preparing its estimates of revenue, the Government is proposing several measures aimed at providing some relief to those whose lives are most badly affected by the sharp rise in food and fuel prices. This was an issue that arose several times during the budget consultation process and several suggestions were made to reduce GST and or Import Duties on an expanded list of basic food items, medicines and medical services. This was, of course, preaching to the converted, and the suggestions were quickly taken up by a willing government, a determined government, a government already committed to providing relief for the people of this country. The new measures thus include:

- ❖ The removal of the General Sales Tax by applying a zero rate on a wide range of over-the-counter and prescription medicines and medical supplies including analgesics, cough and cold preparations, diagnostic testing kits for glucose in the blood and urine, insulin and insulin syringes, oral rehydration salts and solutions, dialysis fluids, oxygen, and anti-retroviral drugs.
- ❖ The classification of medical, dental, hospital, optical and paramedical services as Exempt Items for the purposes of the GST. The effect of this is to ensure that the providers of such services will no longer be adding GST to their invoices for the services they provide. This is a first step towards the zero-rating of medical services, a step that the government proposes to take after consultation with the Medical Service Providers to ensure that the benefits of zero-rating will be passed on to consumers through lower costs for medical services.
- ❖ The removal of GST from a number of basic food items including powdered milk, cooking oil, chicken Vienna sausages, corned beef, coffee and tea.

## **REVENUE MEASURES TO SUPPORT AGRICULTURE AND FOOD PRODUCTION**

The agriculture sector has been facing difficult challenges from storms and floods as well as from the rising cost of inputs. Fertilizers and agro-chemicals have their origin in the petroleum industry and, therefore, the increase in oil prices has had the effect of increasing the cost of critical agricultural inputs. These developments have resulted in a sharp rise in food prices as well as instability in the supply of basic food items.

To help government to define appropriate policy responses, we have established a National Commodities Commission to advise the Government on the development of a detailed national strategy to take advantage of opportunities that have arisen out of the global increase in food prices.

This work is being done on the basis of the recognition that the rise in food prices present a historic opportunity for farmers to increase production, including for export, with the end result of increasing their income and the country's foreign exchange earnings. To provide some immediate support to the agriculture sector as farmers seek to overcome the challenges and to take advantage of the opportunities, government is proposing:

- ❖ The removal of Revenue Replacement Duty from Fertilizers,
- ❖ The removal of Customs Duties from Animal Feed Concentrate, and
- ❖ The provision of import duty exemptions for agricultural machinery and implements, particularly by small farmers seeking to expand production.
- ❖ The provision later on of a significant line of credit for agricultural expansion

## **REVENUE MEASURES TO PROVIDE SUPPORT TO THE TOURISM SECTOR**

The tourism sector has grown into the major source of employment, income generation and foreign exchange earnings for Belize. Accordingly, the industry has begun to make notable contributions to the development of small communities in the rural areas where poverty is highest. The potential for even greater strides is enormous, and that is why we keep saying that tourism is perhaps the major star to which we've hitched our wagon.

With the economic slowdown in North America, however, the industry is facing the difficult challenge of maintaining visitor arrival levels in the context of increasing competition from other destinations. It is therefore critical for the tourism industry to improve and maintain the quality of the services provided. The stakeholders in the industry are engaged in a process of strategic planning to meet the challenges which lie ahead and have already signaled the difficulty they are facing, particularly the smaller hoteliers, in undertaking the investments necessary to improve the quality of their facilities because of rising operational costs. Tourism operators have insistently pressed to review the structure of taxation of the industry. This is an especially complex matter and we have, therefore, agreed to continue the process of consultation. As an interim act of relief, though, and to assist the relatively large number of smaller tourism operators to deliver a better quality of service, government proposes the following revenue measures:

- ❖ The provision of import duty exemptions on capital imports for small registered hoteliers seeking to expand and/or improve the quality of their facilities.
- ❖ The provision of import duty exemptions on passenger vans to allow small tour operators to improve the quality of their tourist transportation services.

## **REVENUE MEASURES TO INCREASE NATIONAL BENEFIT FROM PETROLEUM EXTRACTION**

### **Petroleum Surcharge**

Mr. Speaker: the United Democratic Party Government has recognized a need to revisit the arrangements under which the proceeds from the sale of our petroleum are shared between the companies and the Government and people of Belize. After signaling our intention some time ago, we have over the past few weeks been engaged in sit-downs with the industry. These negotiations have taken place in as constructive an atmosphere as could have been expected given the millions of dollars that were at stake. I am now at liberty to say that we have made some important breakthroughs which I expect to detail at a press conference on Wednesday. But the bottom line is that the flow of resources to the Government will increase, in response to the movement that has taken place in

international oil prices. The expectation is that oil prices will remain high in the foreseeable future, and it is important that the country, as both an oil exporter and an oil importer, offset the high prices we pay for the refined products by obtaining a larger share of the export earnings.

#### ❖ Excise Tax on Locally Refined Fuel Products

With the discovery and extraction of crude oil in Belize, several entrepreneurs have expressed an interest in establishing micro-refineries to process and blend the locally produced crude oil into refined gasoline, kerosene, and diesel oil for the local market. Two local companies have invested substantially in refining equipment and are poised to produce a refined diesel and gasoline for the local market. Together these two producers project that they can supply more than 50% of the local market within the next few years, but starting almost immediately, at prices significantly lower than what we pay now.

With this new commercial activity, it has become necessary to apply an excise tax. While we keep well in mind the need not to unduly burden this local refining, the excise tax, in keeping with WTO and CARICOM obligations, can be no more favorable than the taxes applied to similar products which are imported into Belize.

Accordingly we are proposing to establish an Excise Tax on locally produced Diesel, Gasolines, Kerosene and Jet Fuel, which would be equal to sum of the Import Duty and Environmental Tax being currently being applied to the imported counterpart.

Notwithstanding the Excise Tax, I repeat that it is expected that the final price to the consumer for the locally produced products will lower than the imported since international freight, insurance and handling costs will be eliminated. In this context, I should also mention that BNE is developing a facility for the supply of locally produced butane gas at prices again lower than what we pay for the imports. Their butane should be commercially available by September of this year and they expect to meet the needs of at least 30% of the local market.

#### **OTHER REVENUE MEASURES**

#### ❖ Excise Tax on Cigarettes

In 2005, the Excise Tax on Cigarettes was increased twice: from \$4.00 to \$12.00 per carton of 200 sticks in March, and from \$12.00 to \$18.00 in July, 2008. This was done under the erroneous assumption that the collections from this tax would have also increased by a similar magnitude. However, the resulting increase in the price of cigarettes quickly led to a thriving contraband market in cigarettes, a reduction in local production, and an actual decline in revenues collected from this source.

In an effort to reduce the incentive for engaging in the contraband cigarette trade, which results from the price differential between locally and foreign manufactured cigarettes, we will be reducing the excise tax on a carton of cigarettes from the present level of \$18.00 to \$12.00 per carton of 200 sticks.

We do not believe that this will lead to an overall increase in the consumption of cigarettes with its attendant health issues, but rather to a decrease in the contraband trade in cigarettes on one hand and a corresponding increase the lawful trade of cigarettes on the other, with the end result being an overall increase in the excise taxes collected from this source.

#### **ESTIMATES OF RECURRENT EXPENDITURE 2008/2009**

The Draft Estimates of Recurrent Expenditure propose a total of \$649.6 million up from an outturn of \$598.3 million in the year before. The proposed increase of \$51.3 million reflects the reality of increased costs faced by Government (which is also a major consumer of goods and services) as well as the need to make provisions for special programs in the areas of education, health and social development.

Government is proposing an allocation of \$262.8 million for Personal Emoluments, reflecting an addition of \$28.9 million, to provide for the filling of some critically need positions in health, education, and the security services as well as to pay for the restoration of the salary increments frozen by the last administration for a period of one year in 2005.

	<b>Projected Outturn 2007/2008</b>	<b>Draft Estimates 2008/2009</b>
<b>Total Expenditure</b>	<b>735.3</b>	<b>824.8</b>
<b>Recurrent Expenditure</b>	<b>598.3</b>	<b>649.6</b>
Personal Emoluments	234.0	262.9
Debt Service	113.4	108.9
Pensions	42.3	39.9
Goods and Services	208.7	237.9
<b>Capital Expenditure</b>	<b>137.0</b>	<b>175.2</b>
Capital II Expenditure	71.8	78.7
Capital III Expenditure	62.1	93.3
Capital Transfers & Net Lending	3.2	3.2
<b>Amortization</b>	<b>61.7</b>	<b>63.9</b>

Government is also proposing an allocation of \$237.9 million for Goods & Services to provide for increased cost of fuel, rents, material and supplies, and other essential items. Also included in this line are:

- (i) A brand new allocation of over \$3.0 million to provide for education grants first-year high school students on a needs basis,
- (ii) An increase of \$1.5 million in scholarship grants to tertiary level students.
- (iii) A new allocation of \$2.0 million to maintain the supply of textbooks to primary school students.
- (iv) an increase of \$1.5 million in grants to the University of Belize.
- (v) an increase of \$3.0 million to cover the full cost of basic primary health care under the National Health Insurance Program in those areas in which NHI has already been rolled out.

The government has decided to delay the full roll out of NHI pending the results of ongoing analysis of the costs and possible sources of revenue to meet those costs. We support the aims and objectives of the NHI programme, and we are committed to implementing it, but in a sustainable manner, with its revenue sources clearly identified.

In the recurrent budget, we are also proposing some \$108.9 million dollars to meet interest payments on our debt obligations for the year. Separately, we are providing a

further sum of \$63.9 million to meet amortization payments, which for purposes of international financial reporting, is not included in the recurrent budget.

Also in the recurrent budget is a provision of \$39.0 million to meet Pensions and Gratuities for retired public officers.

#### **ESTIMATES OF CAPITAL EXPENDITURE 2008/2009**

Government is proposing to increase Capital Expenditures significantly to \$175.2 million as the Government commences investment in new physical and social infrastructure projects in order to move forward the new national development agenda under the UDP.

In the Capital II [locally funded] program, Government proposes to expend \$78.7 million from its own resources, including provision for an adequate level of counterpart funds for externally financed projects in the Capital III Program.

In the Capital III [externally funded] program Government proposes major investments in a number of project including the following:

- (i) \$6.5 million toward the upgrading of the Placentia Road
- (ii) \$4.0 million for the completion of the Southern Highway
- (iii) \$5.3 million for the Belize City South Side Poverty Alleviation Project
- (iv) 4.8 million for the rehabilitation of sugar feeder roads
- (v) \$2.0 million for the temporary bridge structure at Kendall
- (vi) \$8.0 million in support to the Banana and Sugar Industries under the European Union Programme.
- (vii) Over \$11.9 million dollars in aggregate to fund community projects under the Social Investment Fund, the Commonwealth Debt Initiative, and the Basic Needs Trust Fund
- (viii) \$6.5 million to complete the Health Reform Project
- (ix) \$3.0 million to complete Enhancement of the Technical Vocational, Education and Training Project.

In order to help to alleviate the increased financial burden on the poor brought on by the sharp rise in food prices, we have allocated the sum of \$2.0 million for a food subsidy program aimed at the poorest of the poor. This program, the operational parameters of which are being worked out, will be funded by a soft loan from the proceeds of the sale of petroleum imported from Venezuela under the Petrocaribe Accord.

Also from this funding source, we are proposing to allocate the following:

- (i) \$1.0 million for a project to assist low income persons in getting proper titles to land through providing funding to pay for surveys
- (ii) \$2.0 million for housing improvements for low income persons
- (iii) \$1.7 million for maintenance of municipal streets and drains
- (iv) \$175,000 for a pilot project for skills training for single mothers.
- (v) \$1 million for rural water systems

**PRIORITY ISSUES BEING ADDRESSED: Micro-credit; agricultural expansion; governance**

Mr. Speaker, before concluding this presentation, I must speak to three issues that we see as critical component of the national agenda. And you will understand, Mr. Speaker, regarding two of them, what I said earlier bears repetition and expansion.

I turn first to the issue of credit to the small and medium sectors and the revival of the Development Finance Corporation.

#### **THE DEVELOPMENT FINANCE CORPORATION**

In June 2005, the then Government of Belize, at the behest of the international financial institutions, and as a result of the collapse precipitated by the crony loans, abuse and corruption, began to liquidate the operations of the Development Finance Corporation. The law was amended to prevent DFC from any further lending and a new Board of Directors was appointed to make the liquidation as orderly as possible.

But the demise of the DFC has left a gaping hole in Belize's small sector credit picture. There is now a critical and unsatisfied need for financing for small and medium enterprises and student loans, and the new Government has been discussing with the International Financial Institutions, the imperative of a revitalized and restructured DFC resuming small and medium size credit and student lending.

Mr. Speaker, I am happy to report that the Caribbean Development Bank (CDB) has agreed in principle to a new loan of \$25 million to the Government of Belize for the seeding of the new DFC. We expect our formal loan request to go to CDB's Board by October and for DFC to restart its lending operations by the end of the year.

#### **AGRICULTURAL DEVELOPMENT**

I spoke earlier about rising fuel, food and commodity prices and the tremendously deleterious impact this has been having on the citizens of this country. And as you have seen, we have come up with ways of providing some relief to the most affected and vulnerable members of our population. These efforts to provide compensation and

support will continue and expand. At the same time, we will also take advantage of the global shift in demand of supply for commodities that is behind the price increases.

To help us in this very important national effort, we are bringing together the best minds from the private and public sector. This private/public sector team will consult among themselves and with all interested stakeholders to advise government on the details of the policy and the action plan necessary for the implementation of this new agricultural push, the second coming of Belize's green revolution.

## **GOVERNANCE**

I have also already alluded to the critical importance of the issue of good governance. Mr Speaker, the UDP is determined that never again will it be possible for persons to disregard with impunity and clear criminal intent the processes and procedures laid down in the Laws of Belize. With the help of our overseas development partners we will do a detailed examination of all of our financial management legislation with a view to providing appropriate penalties for violations. Given the scale and extent of the breaches that have taken place in the past and the damage to the entire society that those have caused, we will be proposing criminal sanctions. We recognize that there will be occasions on which breaches take place under circumstances outside of the control of individuals, breaches that, with the best will in the world, may not be preventable. We will thus also be providing, in such cases, for the waiver of prosecution or penalties by resolution of the National Assembly. The provision of waivers will not be within the capacity of any Minister of Government, not even the Prime Minister, but of the entire National Assembly.

Mr, Speaker, This Government is planning the way ahead very carefully. We are breathing new life into our democracy. We are adopting a consultative, careful and studied approach to defining policy.

The consultative approach that attended the preparation of this budget is not a one shot deal. We are engaged in even broader consultations on the constitutional amendment bill

which is before this honorable House. Let me take the opportunity of assuring all those that attended the public hearings that we will be making such changes as the positions expressed merit. This is the **UDP** way. We are always open to discussion. We are always willing to listen. We take all views into account as we secure now the future for Belize.

## **CONCLUSION – REALIZING THE POSSIBILITIES**

Mr. Speaker:

As I conclude what has perforce been a somewhat long presentation, I ask you to allow me a personal note. A Caribbean colleague spoke to me recently about the importance of appearances. As leader of a country, he said, you must always look as though you are enjoying your job. How can you communicate optimism to people if you allow your visage to be stamped with what can sometimes seem the overwhelming cares of office?

Initially, I thought he had been too much infected by the modern day subscription to greeting card philosophy, to drug store wisdom. But upon reflection, he has a point. I don't know about actual pleasure. But I do know that not a day goes by without my

experiencing a renewed sense of both gratitude and determination. Gratitude that the Belizean people have honored me and the United Democratic Party with the greatest trust possible in the context of our democratic arrangements. And determination to always remain personally unswerving in my commitment to honesty, integrity, and accountable government. This is the creed by which I and the United Democratic Party are sworn to live out the life of this current administration. And our fidelity to it is the principal standard by which I ask that we be judged. For it is my abiding faith that if we do right by this gospel all the rest will be that much easier. This is thus the platform on which we will continue to fashion the economic, social and political progress that this Budget begins; and which will ultimately mark the consummation of all those rich possibilities that we have tried to sketch in our compact with Belize.

I thank you.

<b>Economic Indicators</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>POPULATION AND EMPLOYMENT</b>							
Population (Thousands)	255.3	262.7	271.1	281.1	289.9	299.8	309.8
Employed Labour Force (Thousands)	85.9	84.7	89.2	95.9	98.6	102.2	111.8
Unemployment Rate (%)	9.1	10.0	12.9	11.6	11.0	9.4	8.5
<b>INCOME</b>							
GDP at Current Market Prices (\$mn)	1,742.7	1,864.3	1,975.2	2,110.4	2,229.6	2,427.3	2,534.0
Per Capita GDP (\$, Current Mkt. Prices)	6,826.1	7,096.7	7,285.9	7,507.2	7,691.6	8,097.3	8,180.5
Real GDP Growth (%)	5.0	5.1	9.3	4.6	3.0	5.3	1.6
Sectoral Distribution of Constant 2000 GDP (%)							
Primary Activities	14.4	13.3	16.9	17.7	17.7	15.8	13.0
Secondary Activities	17.2	17.2	15.2	15.6	14.6	17.5	18.7
Services	57.6	55.2	53.7	53.0	54.2	52.5	53.9
<b>MONEY AND PRICES (\$mn)</b>							
Inflation (Annual average percentage change)	1.1	2.2	2.6	3.1	3.7	4.2	2.3
Currency and Demand deposits (M1)	364.8	358.1	442.6	492.2	516.1	617.8	704.4
Quasi-Money (Savings and Time deposits)	676.0	705.3	659.7	756.1	815.8	887.1	1,031.7
Money Supply (M2)	1,040.8	1,063.4	1,102.3	1,248.3	1,331.9	1,504.9	1,736.1
Ratio of M2 to GDP (%)	59.7	57.0	55.8	59.1	59.7	62.0	68.5
<b>CREDIT (\$mn)</b>							
Commercial Bank Loans and Advances	788.5	904.6	1,056.6	1,176.5	1,254.7	1,390.5	1,599.6
Public Sector	12.9	16.0	30.0	46.3	62.4	48.6	40.8
Private Sector	775.6	888.6	1,026.6	1,130.2	1,192.3	1,341.9	1,558.8
<b>INTEREST RATE (%)</b>							
Weighted Average Lending Rate	15.4	14.5	14.2	14.0	14.3	14.2	14.3
Weighted Average Deposit Rate	4.3	4.5	4.9	5.2	5.5	5.8	6.0
Weighted Average Interest Rate Spread	11.1	10.0	9.3	8.8	8.8	8.5	8.3
<b>CENTRAL GOVERNMENT FINANCES (\$mn)</b>							
Current Revenue	372.1	425.8	422.2	451.9	511.5	566.0	649.9
Current Expenditure	333.7	333.4	393.0	474.1	561.2	550.8	635.7
Current Account Surplus(+)/Deficit(-)	38.4	92.3	29.1	-22.2	-49.7	15.2	14.2
Capital Expenditure	267.4	260.3	276.4	173.2	127.1	97.7	159.0
Overall Surplus(+)/Deficit(-)	-196.5	-108.8	-216.0	-133.6	-156.3	-47.3	-29.3
Ratio of Budget Deficit to GDP at mkt. Prices (%)	-11.3	-5.8	-8.9	-6.3	-7.0	-1.9	-1.2
Domestic Financing (Net)	72.7	-180.9	-62.4	-36.2	-19.0	-8.9	20.4
External Financing (Net) <sup>1</sup>	123.9	278.3	380.7	179.9	127.6	56.0	-2.0
<b>BALANCE OF PAYMENTS (US \$mn)</b>							
Merchandise Exports (f.o.b.) <sup>2</sup>	269.1	309.7	315.5	307.5	325.3	427.2	428.5
Merchandise Imports (f.o.b.)	477.7	496.9	522.4	480.7	556.2	612.0	642.0
Trade Balance	-208.7	-187.2	-206.9	-173.3	-231.0	-184.8	-213.5
Remittances (Inflows)	26.4	24.3	29.3	30.9	40.9	57.8	70.8
Tourism (inflows)	110.5	121.5	149.7	168.1	213.6	271.0	290.6
Services (Net)	44.0	43.6	69.7	88.2	143.0	223.6	231.6
Current Account Balance	-182.3	-165.6	-176.4	-155.9	-151.2	-16.2	-42.6
Capital and Financial Flows	173.5	151.6	174.5	127.3	147.3	78.3	74.6
Gross Change in Official International Reserves	2.7	5.4	30.1	31.4	-12.2	49.8	22.9
Gross Official International Reserves <sup>3</sup>	120.1	114.7	84.6	53.3	35.8	85.7	108.5
Import Cover of Reserves (in months)	3.2	3.2	2.1	1.4	0.8	1.8	2.3
<b>PUBLIC SECTOR DEBT</b>							
Disbursed Outstanding External Debt (US \$mn)	494.9	630.4	801.6	893.1	969.7	985.0	971.8
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	56.8	67.6	81.2	84.6	87.0	81.2	76.7
External Debt Service Payments (US \$mn)	79.2	77.4	83.0	96.9	89.0	134.5	134.8
External Debt Service Ratio (%) <sup>4</sup>	17.9	15.7	15.7	17.9	14.2	17.2	16.4
Disbursed Outstanding Domestic Debt (\$ mn)	208.7	171.9	256.5	278.5	279.4	299.9	321.9
Domestic Debt Service Payments (\$ mn) <sup>5</sup>	17.7	19.2	13.7	18.8	23.1	27.5	30.5

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