Central Government Operations

Table 8.1: Summary of Revenue & Expenditure

	Jan-Dec 2010	Jan-Dec 2011
Ratio to GDP (%)		
Current Revenue	**26.9**	**27.4**
Tax Revenue	23.1	23.3
Non-Tax Revenue	3.9	4.0
Current Expenditure	**24.4**	**24.7**
of which Interest Payment	3.4	3.6
CURRENT BALANCE	**2.5**	**2.7**
Capital Revenue	**0.1**	**0.2**
Capital Expenditure (Capital II)	**2.7**	**2.4**
OPERATING SURPLUS	**0.0**	**0.5**
Grants	**0.4**	**0.3**
Total Revenue and Grants	**27.5**	**27.9**
Total Capital Expenditure	**4.8**	**3.5**
Primary Balance	**1.8**	**3.3**
Primary Balance w/out Grants	**1.3**	**3.0**
Overall Balance	**-1.7**	**-0.3**
Overall Balance w/out Grants	**-2.1**	**-0.6**

Sources: CBB and Ministry of Finance

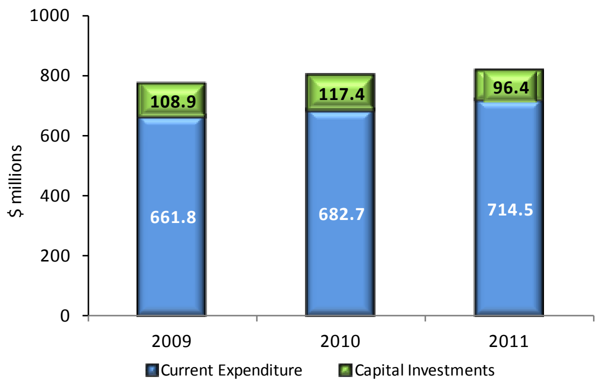
Boosted by import duties and heightened receipts from the petroleum industry, revenues rose by 5.1% while total expenditure was held in check, edging up by only 0.1% ($0.7mn), year-on-year. As a consequence, the primary surplus almost doubled from 1.8% to 3.3% of GDP and the overall deficit shrank from 1.7% to 0.3% of GDP. The latter was mostly financed from external sources and to a lesser extent, through the Central Bank overdraft facility and additional sales of BTL shares.

Current revenues grew by 5.2% to $792.9mn (27.4% of GDP), reflecting higher collections of petroleum related receipts, social fees, excise taxes and import duties. Although petroleum production declined, high international crude oil prices ramped up tax receipts and also triggered windfall taxes that become applicable when the US$90 per barrel threshold is exceeded. As a result, oil income accounted for 55.3% of the growth in current revenues and 12.4% of total revenue and grants.

The most notable development in the non-oil tax revenue was the government's decision to remove the GST from fuel imports and replace it with a fixed duty. GST receipts consequently fell by 3.2%, while import duties, boosted by higher demand and the fuel tax change, increased by 14.3%. Dividends from BTL and loan repayments by the Development Finance Corporation (DFC) more than offset a return to normalcy in the revenues of government departments that had experienced inflated receipts in 2010 due to income received from fines levied in a maritime case. After peaking at 11.2% of total revenues in 2007, grants fell to $9.8mn (1.2% of total revenues) in 2011, as it continued a downward trend, reflecting consecutive declines from 2008 onwards.

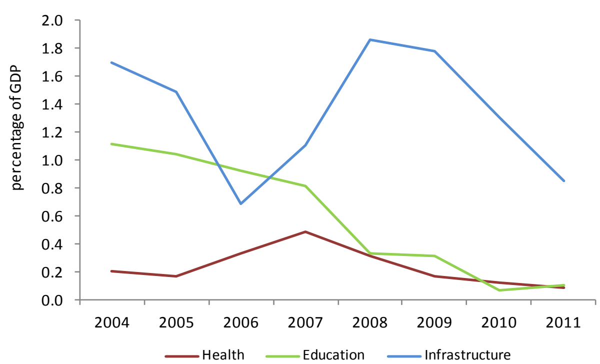
Current expenditure rose by 4.7% to $714.5mn, reflecting general spending increases with 40.7% of these outlays being accounted for by wages and salaries. The latter was up by $12.7mn, while higher payments on contractors, maintenance, materials and supplies bumped up spending on goods and services by $6.9mn. Subventions to students, non-

Chart 8.1: Current Expenditure vs Capital Investments



Source: Ministry of Finance

Chart 8.2: Capital Expenditure as a Percentage of GDP



Source: Ministry of Finance

government organizations and non-profit entities accounted for a 1.4% growth in domestic subsidies and current transfers. The step-up to 6.0% in the interest rate on the external restructured debt was largely responsible for an 8.1% increase in annual interest payments.

Capacity constraints and administrative delays in accessing funds resulted in a 23.3% year-on-year reduction in capital spending. Outlays of $102.1mn were considerably below budget expectations, with expenditures on locally (Capital II) and externally (Capital III) funded projects down by 7.1% and 36.9%, respectively. Included in the backlog of major capital III projects were those for rural electrification, upgrade of medical buildings, the Macal and Kendall Bridges, the Belize/Mexico international crossing, EU sugar support, water systems, the Social Investment Fund (SIF) poverty alleviation, and assistance to small growers of papaya and cashew. Among the projects receiving significant disbursements during the year were the completion of the Southern Highway, the upgrading of the Placencia Road and infrastructural works in South-side Belize City, streets and drains that combined for a total of 25.6% of capital outlays. Waste management and land development projects accounted for 13.4% and 10.0% went on projects to protect the environment. Miscellaneous education, health and social development projects, security, purchases of furniture and equipment, and contributions to international agencies accounted for 28.5%, while the share for housing, tourism and agriculture projects was 13.4% and disbursements for youth, sports and culture combined for 6.6%.

Central Government's Domestic Debt

Central Government's domestic debt rose by 3.7% to $381.2mn (13.2% of GDP) as amortization payments to Belize Social Security Board (BSSB), the Debt for Nature Swap, Fort Street Tourism Village and commercial banks were more than offset by a $14.1mn increase in overdraft financing and a new $1.5mn loan from a commercial bank. The latter was on-lent to the San Pedro Town Council to refurbish streets, while the hike in the Central Bank overdraft to $48.1mn (6.3% of the previous fiscal year's current revenue) facilitated the payment of salaries and increased outlays for debt servicing.

Table 8.2: Central Government's Domestic Debt

$mn

Instrument	2009	2010	2011
Loans & Advances	139.4	46.0	59.4
Treasury Bills	100.0	175.0	175.0
Treasury Notes	70.8	136.8	136.8
Defence Bonds	10.0	10.0	10.0
Total	**320.2**	**367.8**	**381.2**

Sources: CBB and Ministry of Finance

Chart 8.3: Sources of Central Government's Domestic Debt

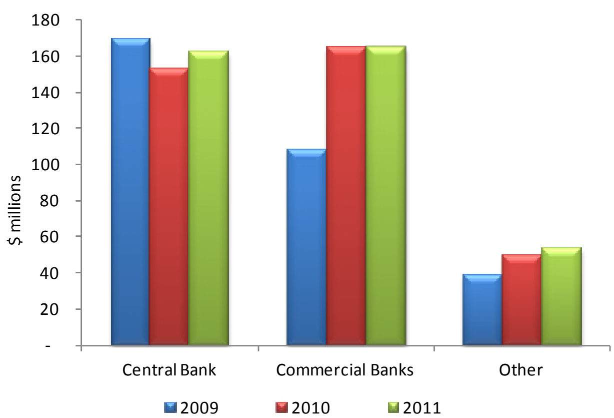
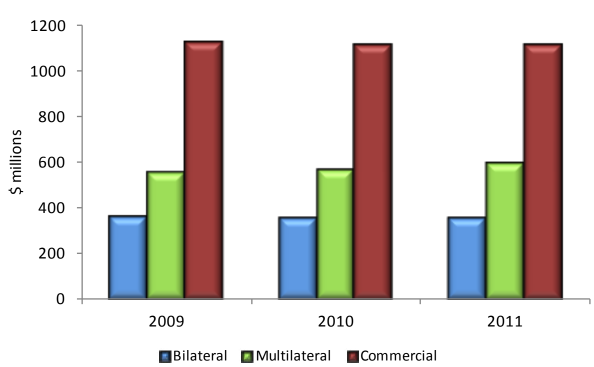


Chart 8.4: External Debt By Creditor Category



Benefitting from a full year of greater reliance on lower cost securities to meet its financing needs, the average effective interest rate on the government's domestic debt dropped from 5.3% to 4.9%. Of the $18.4mn paid in interest, $5.0mn went to the Central Bank for short-term credit provided by way of the overdraft and Treasury bills and $6.1mn was paid to the Bank on its holdings of long-term Treasury notes and Defence bonds. Commercial banks and non-bank entities earned $4.6mn and $1.7mn, respectively, on their holdings of government securities. Interest on loans amounted to $0.9mn and included payments to BSSB, the Debt for Nature Swap, commercial banks and an insurance company.

After surrendering $1.5mn to the Central Bank and non-bank entities, the commercial banks ended the year with 86.3% of the outstanding Treasury bills. In contrast, the Central Bank was the largest holder of Treasury notes, followed by the non-bank entities. At year-end, commercial banks held 43.2% of government's domestic debt, while the Central Bank and non-bank entities held 42.7% and 14.1%, respectively.

Public Sector External Debt

A one-off shift of $23.1mn in liabilities from the private to the public sector due to the nationalization of BEL figured significantly in the $23.2mn increase in the external public sector debt during the year. At year-end, the debt stood at $2,045.5mn (70.6% of GDP) with other loan disbursements ($74.6mn) and amortization payments ($74.3mn) essentially offsetting each other. The value of the debt stock also registered a slight decline of $0.2mn due to the appreciation of the US dollar against the Euro and SDR. Three loans amounting to $1.5mn were retired,

Chart 8.5: External Debt Principal Payment by Major Creditors

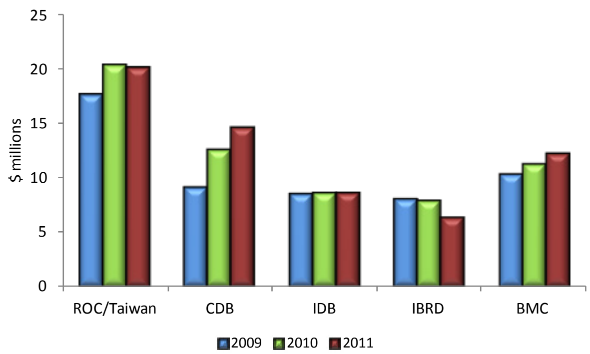
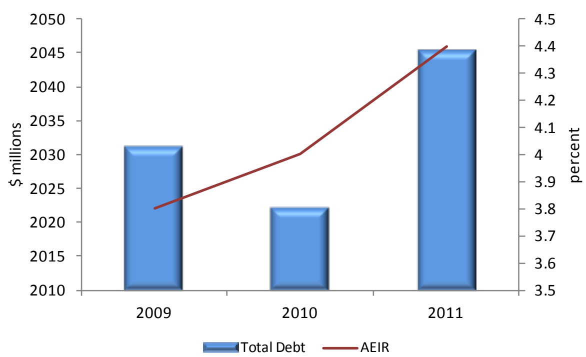


Chart 8.6: External Debt Annual Average Effective Interest Rate (AEIR)



leaving $9.4mn of the present portfolio to mature within the next twelve months, $177.6mn that will mature within the next ten years and $1.9bn with a maturity exceeding ten years.

Interest and other payments amounted to $88.8mn (3.1% of GDP), with Central Government accounting for 96.2%. The 6.0% interest rate on the super bond translated into interest payments of $66.1mn over the year and an increase in the annual average effective interest rate from 4.0% in 2010 to 4.4% in 2011.

Box 6: Major Fiscal Initiatives in 2011

19 March, 2011 – The GST was amended to zero-rate gasoline (regular and premium), kerosene, diesel oil and gas oils, effective 12 March, 2011.

19 March, 2011 – The Revenue Replacement Duty (RRD) on cigarettes was amended, effective 1 April, 2011 as follows:

Item	**RRD Rate**
Cigarettes containing tobacco	CARICOM countries from $88.00 per lb to $65.00 per 1,000 cigarettes Non-CARICOM countries from $117.50 per lb to $236.00 per 1,000 cigarettes

4 April, 2011 – (1) Several reductions in customs and excise duties became retroactively effective on 22 March 2012 in order to give effect to the Economic Partnership Agreement between CARIFORUM and the European Union and the Partial Scope Agreement between Guatemala and Belize.
(2) Due to the GST zero rating applied on gasoline, kerosene, diesel oil and gas oils, the rates of customs and excise duties on locally extracted crude oil and import duties on other motor spirits were amended retroactively to 22 March 2012 as follows:

a) Locally extracted crude oil from $1.00 to $2.00 per barrel (of 42 US gals.)
b) Application of duty rates on imported fuel:

Description of Goods	Rate of Duties
Premium Gasoline	from $2.58 to $3.79 per Imp. Gal.
Regular Gasoline	from $2.46 to $3.66 per Imp. Gal.
Diesel Oil	from $1.52 to $2.58 per Imp. Gal.
Gas oils (other than Diesel oil)	from $1.52 to $2.58 per Imp. Gal.

20 June, 2011 – The Electricity Act, Chapter 221 of the Laws of Belize was amended to provide for assumption of control over electricity supply by the Government in the public interest, effective 20 June 2011.

25 October, 2011 – The Belize Constitution was amended to ensure that the Government shall at all times have majority ownership and control of public utilities.

29 December, 2011 – The Environmental Tax Act was amended to remove the tax on CARICOM imports, effective 3 January 2012.