



**DELIVERING A BETTER QUALITY
OF LIFE FOR ALL BELIZEANS**
**Budget Presentation for
Fiscal Year 2005/2006**

Hon. Said Musa

Prime Minister and Minister of Finance and Defence

Belmopan

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Freedom is both the primary objective and the principal means of development ... What a people can positively achieve is influenced by economic opportunities, political liberties, social powers and the enabling conditions of good health, education, and the encouragement and cultivation of initiatives.

Economic growth cannot sensibly be treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy.

- Amartya Sen: Development as Freedom

Madame Speaker:

The proposed budget for fiscal year 2005/2006 is the result of an unprecedented process of consultation and reflection. It is designed to reduce overall deficit, give priority to Health, Education and Poverty Elimination, provide Ministries with adequate operational budgets to address priorities and ensure that we meet our debt commitments.

It is a budget that sees a free people – given the opportunity – becoming more actively involved in shaping their own destiny, breaking the cycle of persistent poverty and assuming the benefits and responsibilities of freedom.

It is a Budget that recognizes that development is not just about growth of the GDP, but also about delivering a better quality of life for all Belizeans.

It is about ensuring that the policy choices we make today are affordable and sustainable in the medium to long term.

It is a Budget that strengthens our economic fundamentals, putting Belizeans on a solid foundation of economic stability.

And it is a Budget that advances a modern framework of more efficient public services while maintaining an environment conducive to private investment and jobs.

The International Economy in 2004

It is important to first understand the international environment in which our economy must operate and by which it is significantly affected.

Despite soaring oil prices that depressed real incomes and raised energy costs in many countries, the world economy expanded by an estimated 4.0% to 5.0% in 2004 with average growth in the OECD countries estimated at around 3.6%. Consumption in the United States was fueled by loose monetary policy and increased spending on homeland security and defense. Japan also made a strong comeback fueled by exports, a recovery in investment, employment and consumption.

With a couple exceptions such as the Dominican Republic and Haiti, the Latin American countries are estimated to have grown by an average of 4.6% as the oil producers in this region benefited from soaring oil prices, increased demand for exports and private financial inflows linked to strong growth in the United States, Europe, Japan and China.

In comparison, growth in Central America is expected to be lower at 3.2% as the rapid rise in oil prices fueled inflation. Apart from Trinidad & Tobago, which benefited from record high oil prices, growth in the Caribbean generally slowed, with several countries experiencing fiscal difficulties or suffering from the adverse impact of an intense hurricane season.

International factors which had a significant impact on our economy in 2004 include the massive rise in oil prices and falling commodity prices which depressed earnings from domestic exports including: citrus, sugar, bananas and farmed shrimp. Although domestic production was significantly higher overall, earnings from domestic exports dipped by 0.9% to \$343.7million.

OUTTURN OF BELIZEAN ECONOMY 2004/2005

Real Sector Developments

Belize 's gross domestic product [GDP] grew by an estimated 4.7% in real terms over the first three quarters of 2004 with production of all major commodities increasing except for molasses, marine products and sawn wood. Real GDP growth should be between 4% and 4.5% for the entire year.

Nominal GDP is estimated at \$2.247 **billion** in 2004.

Sugar

Deliveries of sugarcane for the 2003/04 crop-year increased by 7.1% to 1.15 million long tons largely due to favourable weather, greater efforts by farmers to maximize deliveries and higher yields from the BSI Cane Growing project. Improvements in operations and lower mud levels in the sugarcane contributed to an improvement in the factory's throughput. As a result, production of sugar rose by 11.6% to 116,515 long tons. Earnings from sugar exports increased by 12.7% to \$78.9 million as the higher volume of exports outweighed lower prices in the CARICOM and US markets.

Citrus

Citrus deliveries rose by 25.4% to 6.4 million boxes with orange and grapefruit deliveries growing by 22.3% and 37.2%, respectively, in the 2003/04 crop-year. The surge in yields was attributable to good weather, increased usage of field inputs and the implementation of a Mexican Fruit Fly control program. Citrus juice output rose by 20.0% to 34.1 million pounds solid as production of concentrates and not-from-concentrates (NFC) increased by 20.1% and 17.8%, respectively. Citrus juice earnings shrank by 28.5% to \$39.2 million. Export volume contracted only marginally but export prices fell sharply in response to large global harvests and high inventories. The profit margin was further reduced as a result of increases in fuel and shipping costs.

Bananas

By the end of October, there were 6,135 acres under banana cultivation producing 65,927 metric tons of bananas- an increase of 5.4% over production in the comparable period of 2003.

While banana exports rose by 7.2%, receipts stood at \$49.7 million, only a marginal increase over last year as downward pressure on prices led to a 4.6% fall in the average price per box.

Marine Products

Producers of marine products also experienced the impact of lower prices. Export earnings fell by 4.2% to \$98.2 million largely due to the sharp fall in the price of farmed shrimp. While farmed shrimp exports declined only marginally, a sharp fall in the average price per pound of farmed shrimp occurred as a result of increased competition from Asia and South

America .

Tourism

The tourism industry continued on its path of strong growth in 2004 with visits by stay-over tourists and cruise ship visitors rising by 6.0% and 62.8%, respectively. By the end of October, 175,035 stay-over visitors had been recorded and cruise ship passenger arrivals totaled 569,642.

Consumer Prices

Higher international oil prices were significant in pushing up the domestic price level. Between August 2003 and August 2004, the **Consumer Price Index** rose by 3.4% with year-on-year prices increasing across all major commodity groups except for '*Personal Care*'. Higher acquisition costs for butane, diesel and gasoline products caused the largest growth in prices to be recorded in '*Rent, Water, Fuel and Power*' at 6.2%, followed by '*Transport and Communication*' at 6.0%.

Monetary Sector Developments

The broad measure of money supply (M2) rose by 13% during 2004 driven mainly by an expansion in net domestic credit to both the private and public sectors.

While there was a small contraction in savings deposits, demand and time deposits grew by 12% and 19%, respectively. Increased competition among the commercial banks led to a narrowing of the interest rate spread in the banking system to 8.7%. Interest rates on personal and other miscellaneous loans maintained a downward trend but rates on residential and commercial loans increased.

During 2004, net domestic credit expanded by \$176.9 million to \$1,325.4 million of which \$108.0 went to the private sector. Commercial bank credit to the private sector was largely dominated by loans for real estate, construction and the private utilities.

The net foreign assets of the banking system registered a contraction of \$20.1 million to \$113.2 million at the end of December.

In order to reduce pressure on the foreign reserves, the Central Bank, on December 1st, 2004, instituted a 1.0% increase in the cash and secondary reserve requirements of the commercial banks. The necessary statutory instrument was also signed to eliminate the co-mingling of offshore and domestic deposits and avoid the artificial expansion in statutory liquidity that results from such co-mingling. At the end of December, official international reserves stood at \$130.9 million, equivalent to 1.7 months of imports.

Balance of Payments

The trade deficit narrowed by 12.7% to \$301.8 million at the end of October, notwithstanding the contraction in export earnings, as imports fell by an even greater amount. Tourism earnings boosted service sector earnings by 51.9% to \$167.4 million also contributing to improvement in the current account.

During the first nine months of the year, the current account deficit of the balance of payments contracted by 17.4% to \$195.7 million.

This deficit was financed by the \$155.7 million surplus on the capital and financial accounts

and the drawing down of reserves by \$46.7 million. The surplus on the financial account amounted to \$147.7 million, reflecting the positive impact of foreign direct investment inflows which were partially offset by debt repayments. Foreign direct investment amounted to an estimated \$254.8 million in 2004.

Public Sector Finances - Review of 2004/2005

The budget that was brought to the house last year anticipated strong economic growth and set out to rebalance that growth to ensure that all would benefit from it.

The budget could not have anticipated that oil prices would have risen to unprecedented heights with immediate impact on the cost of both public and private sector activities.

It also could not have anticipated the impact on the international **financial** markets of the oil price increases, the continued conflict in Iraq and uncertainties associated with the US elections. These factors, and others, led investors to shy away from emerging markets like Belize and frustrated our initial efforts to re-finance impending foreign debt obligations.

This refinancing was a critical component of the fiscal and debt management effort which underpinned the 2004/2005 budget.

Belize is a member of the international community of nations and a party to the various institutions that govern the global system, including, of course, the international financial institutions [IFI's]. The views of these institutions affect the stance of the international financial markets to countries like Belize. The information published by the IFI's factors into the advice that global investment managers give to their clients. It is therefore important for us to have good working relations with the IFI's.

We took the opportunity presented by the Annual Meetings of the World Bank and the IMF held in October 2004 to update the IFI's on the strategic changes the Government of Belize was making in the management of the public finances and the public debt and to invite them to Belize to review and comment on our strategies and to present their own views on Belize's fiscal and debt performance.

The IMF, World Bank, CDB and IDB came to Belize on a joint mission at the beginning of November 2004 and engaged in broad consultation with government officials and other stakeholders. At the end of their mission, the IMF took the lead in presenting to the Government what they felt was a necessary set of policy actions to strengthen Belize's fiscal and external debt situation in the shortest possible time.

The IMF way would have had the Government of Belize imposing retrenchment, wage freeze and large increases in sales, business and excise taxes. The IMF way would have significantly lowered the income tax threshold to include many persons now currently exempted from income taxes.

The Government of Belize, however, decided to stick to its own program to improve collections of existing taxes and constrain expenditure growth before contemplating new revenue measures.

We set our fiscal consolidation and debt stabilization targets for the present fiscal year at: an overall fiscal deficit not greater than \$98.6 million or 4.7% of GDP and net international reserves of not less than \$184.6 million at the end of March 2005.

The results are before you today. We are doing well against our targets and expect that by

the end of the fiscal year, we will have achieved them all.

FISCAL PERFORMANCE 2004/2005

Government operations are expected to result in an overall deficit of \$94.3 million with total revenue and grants of \$477 million and total expenditure of \$571.3 million. The projected overall deficit, at 4.2% of GDP is a strong improvement from an overall deficit of 8% of GDP in fiscal year 2003/04. This improvement is explained by a 7% reduction in expenditure and a 5% growth in revenue and grants.

Measured against our target, therefore, the performance is more than commendable. At 4.2% of GDP, our projected overall deficit is well within the target of 4.7%.

How are we achieving this?

Revenue

On the revenue side, performance for the full fiscal year 2004/05 will be boosted by the improvements in revenue collections beginning in November and the early impact of the revenue measures which will be set out below.

Recurrent revenue is expected to reach \$450 million by the end of the fiscal year.

Of this, \$410 million is tax revenue. Non-tax revenue is expected to amount to \$34 million. Capital revenue is expected to total 21.3 million and grants \$4.9 million. This is a decline from capital revenue and grants in fiscal year 2003/2004 reflecting the reduction in the sale of government equity/property and the completion of significant grant-funded Capital III projects.

Expenditure

Total expenditure for FY 2004/05 is projected to amount to \$571.3 million of which 78% is recurrent expenditure and 22% is capital expenditure.

Total recurrent expenditure is expected to reach \$447.8 million by the end of the fiscal year representing a 6% increase over the approved budget. This increase is due largely to increased allocations for debt servicing and pensions and increased fuel costs.

Over the course of the fiscal year, efforts aimed at containing staff costs and rationalizing goods and services continued.

Consequently, the actual expenditure on staffing is expected to be 0.6% lower than the approved budget and the expenditure on goods and services is expected to be 1.3% above the approved budget.

Capital II and Capital III expenditure is expected to amount to \$49.0 million and \$74.5 million, respectively. Capital II expenditure fell some \$3.3 million below the approved budget as some projects were cancelled or reprogrammed for completion in the next fiscal year as Government sought to contain the fiscal deficit this year.

The bulk of Capital III (foreign -funded) expenditure was targeted to education, health, poverty alleviation and infrastructural development.

The projected total expenditure on Capital II and Capital III projects of \$123.5 million

represents a decline of \$31.6 million from total Capital expenditure of \$155.1 million in fiscal year 2003/2004.

Again, this reflects the implementation of Government's policy on expenditure control and improved financial management.

Public Sector Debt

The public sector's total disbursed outstanding external debt as of November 31, 2004 stood at US\$ 968.8 Million [81 % of GDP]. This includes:

- the direct liabilities of the Government of Belize [US\$755.9 million]
- liabilities of the Financial Public Sector [US\$32.8 million]
- Government guarantees to privatized entities [US\$50.7 million]
- Government's contingent liabilities to the Financial Public Sector [US\$31.2 million], and
- Government contingent liabilities to the private sector [98.3 million].

In this fiscal year we have taken a two-pronged approach to stabilizing Belize's public debt.

First, in the short term we have successfully re-financed those debts which required immediate heavy allocations for debt service and amortization payments in this fiscal year. While we were not successful in floating the US\$225 million dollar bond which we brought to the House at the start of the fiscal year, we have been able to successfully refinance facilities which were held with the Royal Bank of Trinidad and Tobago and with the International Bank of Miami.

This refinancing is the immediate aspect of our debt management strategy designed to stabilize the debt position and to place it in a longer term overall economic policy framework.

In the medium to long term, the Government of Belize has decided to limit further undertakings of commercial debt. Whereas in the past we have undertaken commercial borrowings to fund capital projects, any new commercial credit will be limited to refinancing existing commercial credit and boosting international reserves.

We are currently analyzing the possibility of a new US\$125 million facility that would allow the refinancing of a portion of Belize's foreign commercial debt and boost our international reserve position. We will in due course, once initial discussions with the financial advisers are completed, bring this facility to the National Assembly for consideration.

The ultimate aim of our debt management strategy is to make debt service manageable in terms of its call on both government revenue and foreign exchange reserves – both of which are required to meet debt service and amortization obligations.

Development Finance Corporation

The Development Finance Corporation has been a central mechanism through which Government fueled post-hurricane reconstruction and economic growth during the past 6 years. During this period, the assets of the DFC expanded sharply as significant private sector investments were financed in the housing, tourism, agriculture, and services sectors. These investments were a major factor in the strong GDP growth experienced under this PUP

administration.

As a consequence of the rapid expansion of the asset base of the institution, however, the quality of the assets has deteriorated, the loan recovery rate has declined and the number and value of loans in arrears has grown. In addition, the full cost of financing mobilized through asset securitization was not passed on to the borrowers. These factors have combined to place the DFC in the position of being unable to meet all of its current financing needs and having to call on Government for financial support.

The DFC, with the support of Government, is seeking to take corrective action. Late last year, Cabinet approved the liquidation of the assets of the DFC and work is underway to ensure an orderly liquidation in order to maximize income, while ensuring that the DFC can effectively pursue the asset liquidation process and the ongoing loan management processes related to the asset securitization transactions.

We expect, over the next several months, to receive technical assistance in this process from the IDB. It makes sense to keep the IFI's informed and involved for the simple reason that these are the institutions that have access to low-cost long-term development financing that Belize will need to access in the future.

MUCH HAS BEEN ACHIEVED

Madame Speaker:

We all know the constraints we have faced during this fiscal year. But even in the face of these difficulties, much has been done to improve the lot of the Belizean people. A tremendous amount of life-enhancing work for the people throughout Belize has been accomplished despite the financial constraints.

This fiscal year, a substantial number of public sector projects have generated employment, furthered our national development goals and assisted in our poverty reduction efforts countrywide.

In the area of education, a new building was constructed for the Corozal Junior College , and another for the Agricultural and Natural Resources Institute in the Stann Creek District. Wesley College Sixth Form was constructed in Belize City and 14 new community pre-schools were built in rural communities across the country. The construction /rehabilitation of Centres for Employment training has commenced in Corozal Town , San Ignacio/Santa Elena and Dangriga.

More than 100 new classrooms were constructed countrywide, which significantly increased access at both primary and secondary levels. Government assumed payment of salaries for an additional 33% of pre-school teachers to support the expansion of early childhood education. An additional 100 full tuition scholarships to the University of Belize were granted, and increased grant assistance was provided to students for higher education in Belize and abroad.

In the area of culture, we inaugurated the Bliss Centre for the Performing Arts in Belize City and the Garifuna Museum in Dangriga. The infrastructure at our major cultural heritage sites were improved, including Caracol, Lamanai, Xunantunich, Altun Ha, Cerros and Cahal Pech.

In terms of infrastructure, the new Marine Parade Boulevard significantly eases the flow of cruise tourism-related traffic while modernizing the coastline of Belize City . The single lane Sibun River Bridge was replaced by a new double lane bridge. Eight miles of all-weather

road were completed to connect Dolores in the Toledo District to the rest of Belize . Municipal drainage projects and upgrading of streets were carried out in Dangriga and Punta Gorda.

The Caye Caulker airstrip is being reconstructed. The San Pedro Town Commercial Marina , designed to withstand hurricanes, was inaugurated. The Jordan bridge which spans the Moho River in the Toledo District was constructed and now allows the villages of Santa Teresa, Dolores, Mabilha, San Lucas, Corazon, Otoxha and Hicatee in the Toledo District all-weather access even at the height of the rainy season.

The road from Burrell Boom to Willows Bank was upgraded. Next week Thursday the Orange Walk Bypass will be inaugurated, a major development that will have a significant impact on traffic flows in Orange Walk Town .

In the rural communities, over 250 wells were drilled, hand pumps installed and another 250 wells disinfected.

Under our low-income housing program, construction has begun on over 200 houses and a special program commenced to provide houses at Mahogany Heights at repayments not exceeding \$200 per month, primarily for public officers.

The Ministry of Human Development initiated the implementation of the National Plan of Action for Children in the areas of health, education, HIV/AIDS, child protection and the family.

In the area of health, under the health sector reform project, major renovations were carried out on the Matron Roberts Health Center , the Cleopatra White Health Center and a second San Pedro Polyclinic, and a program of sustained maintenance of community health outposts countrywide was carried out.

Under the Social Investment Fund, over \$6.3 million was spent on ongoing important community projects that have a direct impact on the lives of poor people.

Some examples include:

- the Rudimentary Water System Projects in Monkey River , Cristo Rey, Yo Chen, Trinidad and the Rootsville Area of Lake Independence that brought potable water to over 500 households,
- the electrification of areas in the Red Bank, Steadfast, Maya Center and Hummingbird communities,
- a number of extensions to schools and day care centers in Belize City , Burrell Boom and Patchakan, and
- other projects related to skills training, starter homes and support for abused children.

Yes, Madame Speaker, much has been done for the people of Belize by this PUP government despite all adversities, and much more will be done with the support of the people in the coming years.

Public Finance Reform

This year's budget cannot be divorced from the public debate on public finance reform. The

case for it is compelling. I say so because since we are calling upon Belizeans to make sacrifices this year, then it is only right that the government demonstrates that it is administering public finances in a transparent and accountable manner and in the national interest.

On Wednesday, I unveiled an official government working paper on public finance reform. The paper outlines substantial reforms that are already underway as well as a number of reforms that the government will be embarking upon to enhance transparency and accountability in the administration of public finances. The paper has been widely disseminated and at the end of the public consultation process, the various reforms will be fully implemented.

One of the major pillars of this reform is the Finance and Audit [Reform] Bill which has already been introduced in this Honourable House. In deference to many requests from our social partners, we await their further suggestions to improve this Bill before attempting to take it through its remaining stages, and we ask them to move expeditiously on this matter so as not to unduly delay the passing of this important piece of legislation which will significantly improve governance of the people's resources.

New approach to public finance and debt management

To meet the challenges that face us, we in Cabinet have taken a new, focused and more consultative approach to fiscal and debt management. Cabinet established the Public Finance Committee, chaired by the Prime Minister and comprising several Ministers, which now has oversight of all matters in relation to public finances and public enterprises.

This committee has been meeting weekly to consider and formulate strategies to keep Belize's public finances and public debt on track. The Committee meets regularly with our social partners, reports back to Cabinet on its findings and presents recommendations for consideration and decision by the full Cabinet.

The Public Finance Committee is supported and advised by a team of senior technicians from the Ministry of Finance and the Central Bank.

The work of this technical team has been instrumental to the deliberations of the Public Finance Committee and underpins the draft budget before you today.

Making consultation an integral part of the budget process

In this process, we felt that it was important to re-invigorate consultations at two critical levels: nationally with our social partners and internationally with the international financial institutions.

We have held several meetings of the National Economic Council [NEC] and held other informal consultations with social partner organizations.

In this process of consultation, Government has provided an unprecedented amount of information to enable fruitful discussions. For the first time in the history of Belize, we shared with the social partners summary details of the Draft Estimates of Revenue and Expenditure even before laying these estimates before the National Assembly. We have taken into account, as much as possible, the proposals of the social partners in the proposed budget.

We have begun a consultative process that can grow and mature into one which forges

consensus in the national interest. We are committed to continuing and strengthening this consultative process as we move ahead to implement our budget for fiscal year 2005-2006 and beyond.

We are guided by the fact that the budget process involves preparation, approval, execution and oversight. Consultations will continue, therefore, long after the debates are over and the budget is passed.

We will continue consultations within the National Economic Council to monitor the implementation of the budget and to evaluate our performance with a view to improving it. In this regard, we will conduct a mid-year review of budget implementation and share the results with the NEC and the public.

We have started a revolution -- the UDP administration never thought of it, or never dared implement it -- and we will see it through, so that in preparation for next year's budget we will broaden consultations to include communities throughout Belize, so that it will become truly a People's Budget, not only for the people, as all PUP Government budgets have strived to be. But it will also become a budget **by** the people.

Proposed Estimates of Revenue and Expenditure 2005/2006

I will now present the outlines of the expenditure and revenue proposals for the next fiscal year. Our proposals represent realistic targets designed to reduce the fiscal deficit and increase international reserves, while accomplishing the objective of improving the quality of life of all Belizeans.

The proposed estimates of revenue and expenditure for FY 2005/06 forecast an overall deficit of \$ 66.1 million or 2.8% of GDP. Total expenditures are projected at \$640.2 million and total revenue and grants at \$574.2 million.

We have managed to contain expenditure in the estimates by a painful process of containing the cost of government operations to the minimum while :

- providing adequate services to the people,
- continuing the effort to reduce poverty, and
- maintaining a climate conducive to economic growth and development.

This budget will therefore require all of us as Belizeans to respond in a rational manner, and with the necessary spirit of solidarity, to the challenges that face us.

Let us not forget how far we have come since 1998, as a direct result of the policies of the People's United Party Government.

In 1998 my government inherited a languishing economy with a mere 1.4% economic growth, a value added tax of 15%, tax on income of all those earning \$10,400 and above and a public service where 800 officers had been fired and no increments paid for two years.

We transformed the economy to one that averaged a 5% growth since 1998, replaced the 15% VAT with an 8% sales tax that had a long list of exemptions to benefit the poor, exempted all those earning \$20,000 and below from income tax, abolished the 5% tax on savings and modified the business tax by reducing most rates, except for professionals.

No to IMF retrenchment

In clear distinction to the UDP government's treatment of public officers, we restored transfer grants, the rural hardship allowance, the commuting allowance, and the rent allowance for school principals, all of which had been taken away under the UDP.

The wages bill for public officers which stood at \$128.8 million in 1998 today stands at \$225.5 million and, along with pension payments, accounts for 52% of government's recurrent expenditure. Under this government, public officers have continued to receive annual increments in an unbroken fashion.

The IMF says this is too much and calls for no increments to be paid and for retrenchment. But the PUP Government says "No" to retrenchment.

At the same time, we must frankly acknowledge that the high percentage of government spending devoted to paying salaries is clearly a ground for serious criticism. This is a matter that must be kept under constant review along with our social partners.

Keeping our commitment to public officers and teachers

Since signing the Collective Bargaining Agreement with the public officers and teachers in February of 2003, we have honored our commitment to raise the salaries of junior and senior public officers by 5% and 8%, respectively. We have thus raised public officers' salaries as well as the amounts paid to pensioners twice in two successive years, which cost the public purse many millions of dollars. We intend to honor the final increase under this agreement, but we ask the unions to join the national effort of working to reduce the fiscal deficit and focus the resources on the priorities of health, education and poverty elimination.

We think this is a very reasonable request considering the benefits that have been enjoyed over the past six years. After consultation with the respective Unions, therefore, we propose that the agreed increases in salaries for all public officers, and the increases for pensioners, be staggered over the next 3 years beginning July 2005.

And, with due regard to the interests of all Belizeans, and especially of the working poor, we must insist that the system of meritocracy contemplated by the Collective Bargaining Agreement be expeditiously implemented so that any increase in salary is based on proven performance in providing better service to the people.

And speaking of our working poor, it cannot be right that so much of our scarce resources are spent on employees whose pay far exceeds the minimum wage and that no provision is made for those who work so hard for a minimum wage that does not provide them with a living wage. I have therefore instructed the Minister of Labour to speed up the process of the current consultations being carried out by the Labour Advisory Board and to ensure that as soon as practicable the minimum wage is raised to an appropriate level.

At the same time, in the spirit of sharing the burden, members of my Cabinet have agreed to take a 10% pay cut, and I am asking all members of the National Assembly to do likewise in a spirit of solidarity.

The increase in pay for public officers reduces significantly the amount of money we have to spend in projects benefiting the Belizean people, so we need to prioritize and ensure that every dollar is well targeted and well spent.

IMPROVING THE LIVES OF PEOPLE

Estimates of Expenditure

The proposed Estimates of Expenditure give priority to Health, Education and Poverty Elimination and provide all ministries with adequate operational budgets.

Total proposed expenditure of \$640.2 million includes:

- \$493.7 million [77.1%] in recurrent expenditure, and
- \$146.5 million [22.9%] in capital expenditure.

Of the total recurrent expenditure:

- \$225.0 million [45.6%] is for personal emoluments,
- \$118.4 million [24%] is for debt servicing,
- \$34.6 million [7%] is for pensions and gratuities, and
- \$115.8 million [23.5%] is for goods and services.

Total outlay on Capital II projects is proposed at \$80.8 million and on Capital III, \$65.8 million.

In addition, a total of \$100.6 million is proposed to cover amortization which comes due in 2005/2006.

Madam Speaker, I will now highlight some aspects of proposed expenditure that focus on the key priorities of my government.

Health

Government's expenditures in the health sector for Fiscal Year (FY) 2004/05 is projected to amount to \$50.9 million, including expenditures on Health Sector Reform and on furthering the national HIV/AIDS Strategy. The proposed estimates for FY 2005/06 will see expenditure increasing to \$61.5 million including accelerated implementation of the Health Sector Reform project and the national HIV/AIDS strategic plan.

In relation to the latter, significant counterpart funding is being provided against external grants which are being mobilized through the National AIDS Commission and other agencies to strengthen the national fight against HIV/AIDS.

Very significantly, in the context of Health Sector Reform, we propose to roll out the National Health Insurance system to begin to benefit, in the coming financial year, the people of the southern districts.

Education

Government's outlays on primary and secondary education is expected to total \$128.4 million for FY 2004/2005. The estimates for FY 2005/06 envisage an increase to \$152.6 million. This includes an increased allocation for pre-schools, more than \$67 million in funding to primary schools, and \$30 million to secondary schools. There are also significant

expenditures on construction of Centers for Employment Training (CETs). A significant part of this investment is recurrent in nature as GOB provides financial support for teachers in primary, secondary and tertiary level schools throughout the country. Seven million dollars has also been provided for the University of Belize .

Poverty alleviation

The Social Investment Fund [SIF] is the primary agency through which the Government implements projects which impact positively and directly on the lives of Belizeans struggling with poverty.

In fiscal year 2005/2006 total Capital III expenditure through the SIF is proposed to include :

- \$5.1 million from a concessional loan from the CDB which was signed in fiscal year 2004/2005 but should commence active implementation in 2005/2006
- \$6.2 million in grant funding from the CDB under its Basic Needs Trust Fund
- \$4.1 million in grant funding under the Commonwealth Debt Initiative

In addition, Government is providing \$4.3 million from local resources to the SIF, to meet counterpart contributions for the foreign funding and to meet the operational expenditures of the SIF.

SIF funding is targeted towards basic health, education, water and sanitation and road infrastructure in poorer rural and urban communities.

Maintaining and expanding social and economic infrastructure

We are cutting back expenditure on non-essential infrastructure, but we are ensuring that critical elements are provided for. A total of \$26.9 million is allocated in Capital II and Capital III for expansion, maintenance and upgrade of economic infrastructure. This includes:

- \$3.1 million for maintenance of bridges, roads and drainage in villages and rural communities and municipalities
- Over \$11 million for other roads including the Placencia Road , the Blue Creek to Orange Walk Road and the Southern Highway
- \$2.0 million for basic infrastructure projects for poverty alleviation on South Side of Belize City. This is expected to be channelled into addressing the problems of drainage and sanitation, expanding potable water and electricity.

Maintaining Internal and External Security

Government's promise of maintaining internal and external security was fulfilled in FY 2004/05 with outlays of \$62.6 million. This included the strengthening of sections of the Police Department, like the Police Dragon Unit and the National Crimes Investigation Branch, as well as improving immigration services and providing for the prison system.

The estimates for FY 2005/06 envisage outlays of \$64.3 million on the internal and external security of Belize . Of the proposed allocation, an estimated 62% will be for the Police and 32% for the BDF. We are also providing for the startup of the Coast Guard. And we are

doing so in a pragmatic way. Rather than seeking to add significantly to our personnel and capital costs, we are proposing to set up the Coast Guard by bringing together the existing agencies to pool available resources. In this way, we will be able to keep additional costs only to those strategic elements that are not currently available.

Control of Public Expenditure

Even as we set out this plan to focus our efforts on the social and economic needs of our most vulnerable, we are continuing our efforts to control and better manage the public finances.

With this budget, we are implementing our decisions to reduce expenditure on foreign representation. We are reducing foreign representation by closing several embassies and consulates and streamlining human and financial resources in the remaining.

We are eliminating expenditure on new non-essential infrastructure.

We are implementing new strategies to control expenditure on high cost goods and services, especially fuel and telecommunications services.

We are providing no funds to acquire new vehicles this fiscal year – the public service will use existing vehicles as efficiently as possible in support of efforts to provide the services which the people of Belize demand, need and indeed pay for through taxes. This will mean firm implementation of policies already in place in relation to access and use of vehicles, particularly, but not limited to the use of vehicles for commuting to work.

We are seeking to improve internal controls by ensuring compliance with existing regulations and strengthening those which need to be strengthened.

The Financing Gap

On January 6, Government for the first time in Belize 's history, and in the new spirit of consultation with our social partners, shared the summary of the draft budget even as it was in preparation. We did so in order to facilitate meaningful discussion of strategies and to receive proposals from the social partners to close the financing gap. In these consultations we heard the views and received a number of very useful suggestions on closing the gap.

At the time of those discussions, the projections for the upcoming year included:

- Total revenues and grants of \$511.4 million,
- Total expenditures of \$655.8 million ,
- Overall deficit of \$144.45 million,
- Amortization of \$120.1 million, and
- Financing gap of \$264.5 million.

As we said to our social partners, clearly this financing gap needed to be closed, whether by reducing expenditures, raising revenues and/or new borrowings.

Following our consultations, we continued to fine-tune the proposed budget and through a combination of expenditure reduction and revenue measures, have reduced the projected financing gap to \$166.7 million as reflected in these estimates.

Total expenditure was reduced by \$15.6 million cutting across both recurrent and capital expenditures.

We also subtracted, from the provision for amortization, the sinking fund set aside for certain debt repayments which become due in 2005.

Total revenue **and grants** were increased by 62.8 million.

The net result of the changes made after our consultations with the social partners is as follows: the financing gap for fiscal year 2005/2006 is estimated at \$166.7 million including:

- A recurrent surplus of \$52.6 million
- An overall deficit of \$66.1 million
- And amortization of \$100.6 million.

We have hard choices to make here: after having cut the projected expenditure to the bone, consistent with our social and economic priorities, and taking into account the increases in pay to public officers, we faced the need to raise revenue to ensure that we could bring the deficit to below 3% of GDP.

I am in total agreement with our social partners when they insist that we must significantly improve our revenue collection record, so that we can reduce the need for any new revenue measures. We have already taken some measures, particularly with regard to Customs Duties, Land Taxes and Business Taxes and we are examining all the suggestions in this regard made by our social partners.

We have also engaged our international partners, and particularly the IDB, which has a mission in Belize this week dealing with best practices in both revenue and expenditure management, to assist us in improving our revenue collection in all areas, but particularly in the customs department.

And here we have to be frank and open with our people. It is a belief shared by government and all our social partners that millions of dollars of revenue that we desperately need to implement our pro-poor policies are lost because people corruptly evade paying taxes.

Consider that those who evade customs duties, for example, are twice robbing the people: first by denying them the revenue required for their essential services such as education and health, and secondly by charging them for the uncustomed goods as if they had paid the duties. The evasion of taxes directly affects the poor people by depriving the government of monies to carry out poverty alleviation programmes.

It is equally unacceptable for those individuals to refuse to pay legitimate taxes such as the land tax, which fell short by \$16 million in the current financial year. It cannot be right that those who own thousands of acres of Belizean land, the legitimate patrimony of the Belizean people, should refuse to pay their taxes, which really are quite small compared to the great wealth represented by these lands.

We cannot allow these big landowners to get away with that, for the effect is to place a greater burden on those who can least afford it. We will vigorously enforce the land tax laws, and once again I ask those who have been evading the tax, or refusing to pay it, to change their attitude and contribute fairly as they should to the development of our country and our people.

But it is wishful thinking to believe, as some of our social partners argue, that merely improving our collections on current taxes would close the finance gap. Regrettable as it is, and as much as it goes against the grain of a PUP government that is noted for having significantly reduced taxes over the past six years, we have to face the hard reality: new revenue measures are necessary.

New Tax Measures

In deciding on what revenue measures to propose, we have necessarily been guided by matters such as the effectiveness of a particular tax and the ease of collecting it. But above and beyond such practical considerations, I have been guided by the principle I stated in my New Year's message: that those who have benefited from the impressive economic growth of the past six years will agree with our policy that the burden of any new taxes should not fall disproportionately on the shoulders of the working poor.

In this context, the easiest tax to raise to get the quickest and surest return is the general sales tax, which is why the IMF recommends that we raise this tax, currently at 9%, by three percent, to make it 12%. But even though a large number of the items purchased by poor people are already exempt from this sales tax and will continue to be exempt, this is the tax that would most directly affect many ordinary Belizeans. **I am happy to announce, therefore, that we do not propose to raise this sales tax at all.**

There is **another** sales tax in the higher bracket of 13% for a very limited number of goods which impact mostly on those who are better able to afford such items - which we propose to raise to 14%. We will also move some goods that are clearly luxury items, such as private luxury boats, into this bracket. Let those who can best afford to pay taxes, bear their appropriate share of the burden.

For this very reason, we are proposing an increase in various business taxes. These are taxes that should be absorbed by the business people and not passed on to the consumer, and the relevant government agencies and consumer activists will, I am sure, be vigilant to ensure that this is the case and that they will expose any attempt by business to pass this tax on to the unsuspecting consumer.

We therefore propose to raise:

- Trade and other business taxes that are presently at 0.75%, 1.25% and 1.5%, to 1.75 %, except for radio, television and newspapers, for which there will be no tax increase.
- Business tax on professionals, from 4% to 6%.
- Business tax on banks under the Banks and Financial Institutions Act, from 10% to 15%.
- Business tax on Banks in PIC groups of companies to 8%
- Business tax on real estate agents from 4% to 15% on their commissions.
- Business tax on gross casino earnings from 4% to 15%.

However, in order to protect small and medium enterprises, we propose to raise the threshold for businesses taxable under business tax from \$54,000 to \$75,000. Business that gross \$75,000 or less shall no longer be required to pay business tax. Small businesses provide significant employment, and encouraging small businesses to be established and to grow is a

key aspect of our struggle against poverty.

We also propose to increase the environmental tax from 1% to 3%, and to increase the environment tax on vehicles over 4 cylinders to 5%, with a view to reducing the number of gas-guzzling and polluting vehicles such as the ubiquitous SUVs. The Environmental Tax does not apply to locally produced goods and has several exceptions for basic items.

We propose to triple the tax on firearms, except for shotguns used by farmers.

And then, finally, there are what are popularly known as the “sin taxes”. We propose to double the excise on alcohol from \$30 to \$60 per gallon, to increase the excise on tobacco from \$4 to \$12 per carton, to double the excise on soft drinks, and to increase the excise on beer by 100%, from \$1.80 to \$3.60 per gallon.

Of course, in order to compensate for the increases in excise and maintain the competitiveness of our local produce, we also propose to raise revenue replacement duty on imported beer, soft drinks, alcohol and tobacco.

With these new revenue measures, and taking into account incremental increases in revenue due to economic growth, estimates of revenue and grants for fiscal 2005/2006 are set at a total of \$574.2 million of which \$543.3 is recurrent revenue, \$13.5 million is capital revenue and \$14.4 is grant funding largely for Capital III projects.

The Way Ahead

This is not the IMF way. The IMF, as we all know, proposed large increases in sales tax as well as business tax; the lowering of the income tax threshold, so that all those people earning between \$15,000 and \$20,000 would have to pay income tax. They proposed large increases in excise taxes that would have greatly increased the cost of these products to the consumer. That is not the way we have chosen to go.

Neither do we propose to go the UDP way. After all the measures proposed today, the people of Belize are still not as heavily taxed as they were under the heartless UDP administration. There is no VAT at 15%, no 5% tax on savings, and no income tax on people earning as little as \$10,400. After the measures we are proposing are applied, people earning less than \$20,000 are still exempt from income tax; the general sales tax remains at 9%, and there is no tax on savings. Neither is there any retrenchment or freezing of increments.

Yes, we have had to propose new revenue measures, but we have been effective in reducing the amounts we needed to raise by sharply reducing government expenditure, and we have chosen the measures carefully to ensure that those best able to pay, bear a fair share of the burden, while avoiding undue hardship to public officers, teachers, and the working class. That is the PUP way.

CONCLUSION

The past year has been a tough one, full of challenge and adversity, but one that also presented us with opportunities to make things better.

For those of us in leadership positions, painful lessons have been learnt. The road ahead is hard, and we are under no illusions about that.

But we take comfort in the fact that despite adverse global economic conditions the Belizean economy has continued on the path to growing prosperity – increased agricultural production,

major expansion of shrimp farms and fish farms, new infrastructural development in our cities, towns and villages.

We have seen over \$250 million in major direct new private sector investments, and there is much more in the pipeline; and over thirty-five new small and medium enterprises have been established. All this activity created hundreds of new jobs in a growing economy.

We must maintain this hard won economic development in the face of the destabilizing effects of a market-driven globalization that show no pity for small states in our Caribbean region.

History shows that our PUP governments' greatest successes and greatest victories come when we stand up on the side of freedom and economic justice for our people.

As a responsible government we have chosen to face the challenges head-on, by pursuing political and financial reform, taking tough measures to reduce the fiscal deficit, and managing the country's debts in a prudent manner while delivering better services to the people and tackling the serious social and economic issues in our society.

The national interest demands that a government must govern for the common good. We must consult. We must dialogue. We must listen to the people. We must act. We may not always get it right. But in the end the people have the final say in deciding whether our achievements far outweigh our shortcomings.

The Belizean sense of national purpose, tolerance and fair-play is a powerful force that manifests itself in times of need.

The political will for change and good governance has been demonstrated and will continue and intensify. Sound management of public finances and the public debt is an unshakeable resolution, as is our commitment to improve the quality of life and the freedoms that Belizeans enjoy.

At a time like this I am reminded of the words spoken by the leader of a great country who faced his own stormy days: "If a free society cannot help the many who are poor it cannot save the few who are rich".

We have a lot of work to do.

We have to build communities that do not live in anger or in fear.

The eradication of poverty cannot be a hollow mantra but must become a genuine reality.

We must build an economy that values work fairly, where everyone has the opportunity to earn a living wage an economy where people participate in making decisions that affect their lives and work cooperatively to create a development that is sustainable and just.

Above all, we must build a better world for our children, who must enjoy the right to a happy home, good nutrition, sound education, healthy bodies and minds in an atmosphere where their creativity is given full sway and they become cultured people, for that is the meaning of freedom.

The measures we take today, the work we continue tomorrow, are done not with an eye to the next election but to the next generation.

Let us continue to work together, in solidarity and with justice, to create a new prosperity in this land of hope and promise for all Belizeans.

With hard work and the blessings of the Almighty we will emerge from our time of adversity as a stronger, more confident, stable and secure nation and people.