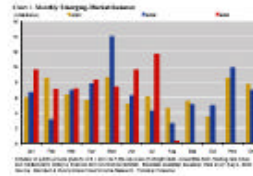




## Emerging Markets Weekly



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### ***Belize: Outlook Still Negative***

Belize has been struggling with severe external liquidity constraints for some time, reflecting the government's inability to address this nagging problem. On 13 June 2006, S&P affirmed its CCC- credit sovereign rating on Belize, one notch above Selective Default (SD) and kept its negative outlook. The credit rating on Belize is constrained by several factors, including the uncertainty surrounding the government's ability to meet its external debt commitments. Belize's ability to access commercial external financing is also limited, given the precarious position of the country's external accounts.

The economy of Belize is heavily dependent on tourism, which is the number one foreign-exchange earner, followed by marine and various agricultural products, including sugar, bananas and citrus. Expansionary monetary and fiscal policies initiated in 1998 have led to strong GDP growth of an annual average of 5% from the period 1999-2005. Current economic conditions are characterized by healthy growth in most sectors, continuous private investment despite political turbulence, and improving (albeit still narrow) export structure that reflect ongoing diversification efforts. Despite a relatively strong macro-economy, the country's sizeable trade deficit and the foreign debt continue to undermine its credibility.

Bilateral support from Taiwan and Venezuela has improved Belize's capacity to meet its debt obligations in 2006, although longer term prospects remain bleak, as debt servicing is expected to be extremely difficult in 2007. The International Monetary Fund (IMF) is expected to begin Article IV consultations with the authorities in August 2006, when the government's longer-term debt management strategy should be announced even though the risk remains that there will be further delays in finalizing the plan.

According to S&P, the Belizean government faces US\$70.4 million (of which amortization is US\$36.6 million) in public sector external debt servicing from June to December 2006. This compares to current international reserves of less than US\$80 million. If one adjusts the country's stock of reserves for support to the Belizean peg and the amounts set aside as part of a 2005 private placement, then international reserves are considerably lower. The government should be able to meet its 2006 obligations, thanks to a balance of payments concessionary loan from the Central Bank of Venezuela.

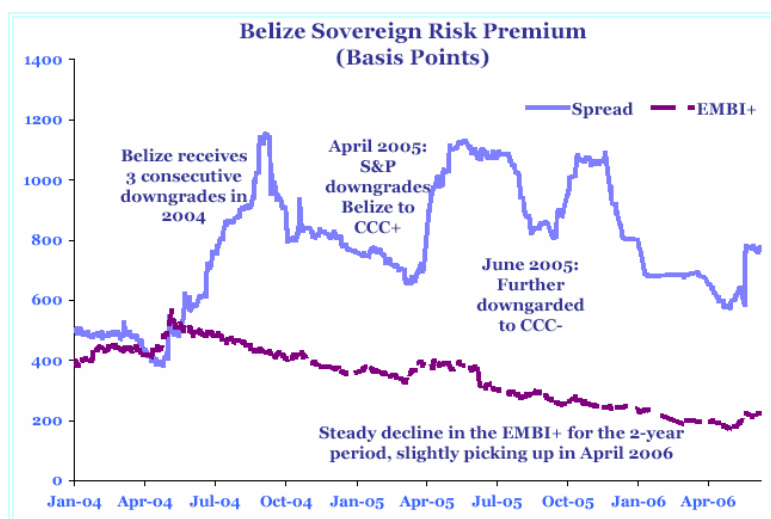
However, 2007 could prove to be the turning point. Belize's public-sector external debt due for repayment

stands at US\$137 million in 2007, which makes debt servicing quite a challenge. The country's external current account deficit, which is estimated at around 9% of GDP in 2006 and 2007, will come under further pressure as international crude oil prices soar and the preferential arrangement for sugar has ended. Additionally, tourism revenues can easily be eroded as Belize is susceptible to hurricanes and tropical storms.

An expected improvement in the fiscal position should see government debt reverse its upward trend. The 2006/07 Budget contemplates a rein on capital spending and cut in oil subsidies while seeking to implement a 10% VAT from 1 July. On this basis, the general government debt, which is estimated at around 97% of GDP in 2005, should decline to about 87% of GDP by the end of 2006. Despite this however, the risk of debt default is extremely high. It seems that the government will have little choice but to enter into a comprehensive debt restructuring program in the near future, given its difficulty to secure additional financing to cover its large gap in 2007. S&P also noted that should the government's current debt management strategy lead to debt restructuring, the credit rating on Belize will be revised downward to selective default (SD).

The diagram below shows the extreme volatility associated with the Belize 2012 bonds. After crossing the 1000 basis points (bps) threshold in 2004, spreads retreated to under 700 bps. However, subsequent to the downgrade in April 2005 to CCC+, the risk premium again soared, peaking at 1130 bps. The further downgrade in June 2005 to CCC-, one notch above Selective Default, prompted yields to remain at elevated levels, surpassing 15%. Since the beginning of 2006, the yield on the Belize 2012 has averaged 11.62%, while the spread between the 2012's and the US 10-year Treasury averaged close to 580 bps. The JP Morgan EMBI+ has averaged 200 bps for the same period, highlighting the high risk associated with Belizean debt.

**Figure 1: Risk Associated With Belizean Debt**



## FINANCIAL & ECONOMIC INDICATORS

As at 15 June 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	114.75	114.24
Euro	1.26	1.27
Jamaica	65.88	65.74
Guyana	200.70	200.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	69.50	70.35
Natural Gas (US\$/mmbtu)	6.45	5.83
Gold (US\$/Troy Ounce)	577.05	613.25

### Eurobond Indices (Returns, % YTD as of 15-June-06)

Lehman Brothers Global Aggregate Index	-0.45
JP Morgan EMBI+	-6.28
CMMB Eurobond Index	-2.96

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.00	5.00
Euro Zone	2.75	2.50
Japan	0.00	0.00
Brazil	15.25	15.25
Trinidad	7.00	7.00
Jamaica	12.45	12.45
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.71	4.86
US 10-Yr Treasury	5.10	5.00
3-month UK Libor	4.73	4.72
Japan 90-day T-Bill	0.20	0.20
Brazil 90-day T-Bill	15.00	15.05
TT 90-day T-Bill	6.00	6.00
Jamaica 90-day T-Bill	12.28	12.28
Barbados 90-day T-Bill	6.05	6.05

*Sources: Bloomberg, CMMB Research Centre, CMMB Risk Department, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)*

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