***SOVEREIGN*: Belize**

Introduction

This is a follow up to our recommendation on Belize in mid-2017 where we have a sell recommendation on the sovereign's bond. Based on our assessment of Belize's macro-fiscal framework, improvements are expected over the medium-term, in particular a reduction in the fiscal deficit and positive real growth. Notwithstanding this downside risks are elevated, as shocks could reverse much of the gains that have been made in the recent past. This is compounded by the narrow economic base, high debt overhang, and low fiscal and external buffers. Any event which causes a negative shift in the flow of fiscal resources could see the government prioritising other spending at the expense of debt servicing. This has been amply demonstrated in the past by the actions of the fiscal authorities having engaged in three debt restructurings within the last decade, which weighs heavily on our assessment of the sovereign's risk.

Table 1: SWOT Analysis of Belize

Strength	**Weakness**
✓ Strong democratic tradition rooted in English Common law and smooth political transition since independence from Britain in 1981 ✓ Multi-lingual population and high FDI flows, particular in tourism	✓ The currency peg with the US dollar does not permit the central bank to influence economic outcomes via monetary policy ✓ Small population with entrenched educational challenges inhibits human capital development and productivity
Opportunities	**Threats**
✓ History of centric political philosophy minimise the risk of radical shift in economic and social policy measures ✓ Potential to expand ecotourism given the fast expanse of forest and Mayan heritage as well as proximity to large source market in North America	✓ The social and economic prospects of the sovereign is being undermined by drug trafficking and associated criminality ✓ High level of poverty, estimated at over 40%, and wide income disparity threaten social stability. Belize's income disparity is ranked as one of the highest in Central America

Ratings: S&P, B- (Stable) and Moody's Caa2 (Stable)

Outlook

Belize is likely to experience improved but low economic growth over the medium term predicated on expansion in agriculture and tourism. Having gone through a third debt restructuring, a contraction in public spending to put the debt on a lower path is part of the covenants of the new bond. This is likely to act as a headwind to growth in the coming years. The economy remains very susceptible to shocks, and there are no public buffers to lessen the impact on the economy should any such event occur. Public finance is precariously poised, as the sovereign will remain dependent on domestic debt issuances and support from official sources over multiple periods. The door to international capital market issuances has effectively been slammed shut owing to multiple debt restructurings.

Table 2: Selected Macroeconomic Indicators

Indicator Name	2013	2014	2015	2016	2017	2018	2019	2020
Population	344,181	351,694	359,288	366,954	374,681	382,444	390,231	398,007
GDP per capita, USD	4,688	4,852	4,862	4,810	4,846	4,936	5,035	5,134
Real GDP growth, % y-o-y	1.3	4.1	2.3	-0.8	1.8	2.0	2.1	2.0
Unemployment, % of labour force, ave	11.7	11.1	10.1	8.0	8.5	9.0	9.5	11.9
Inflation, % y-o-y, eop	-14.2	-0.1	-0.6	1.1	0.8	2.0	2.0	2.0
BZD/USD, eop	1.98	2.00	2.00	1.99	2.00	2.00	2.00	2.00
Total revenue, % of GDP	29.2	29.5	28.7	29.8	29.9	29.9	29.8	29.7
Fiscal balance, % of GDP	-1.7	-3.8	-7.5	-4.1	-3.6	-3.1	-2.9	-2.9
Current account balance, % of GDP	-8.5	-7.5	-5.0	-4.0	-3.0	-1.9	-1.0	-0.1
Foreign reserves ex gold, USDbn	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.5
Import cover, months	5.5	6.3	5.5	4.9	5.1	5.6	5.7	5.8
Total external debt stock, % of GDP	77.4	75.4	76.2	76.2	77.2	76.0	74.5	73.1
Total external debt stock % of XGS	125.0	124.6	130.4	133.5	135.3	133.1	130.2	128.3
Total government debt, % of GDP	79.0	77.0	81.7	89.0	89.1	87.4	85.9	84.7
Total debt service, % of XGS	13.6	8.9	9.3	9.8	9.3	9.5	9.5	9.4
Total debt service, % of GDP	8.4	5.4	5.4	5.6	5.5	5.5	5.5	5.5
Interest payments, % of GDP	1.9	2.6	2.6	2.7	2.60	2.5	2.4	2.3

Source: BMI and JMMBIR

The most recent debt restructuring that was undertaken in 2017 has resulted in an extended maturity profile, but because there was no nominal haircut it has not done much to improve the debt dynamics over the short- to medium-term (see "Belize: Another Debt Default, What lies ahead?" 2017). Debt to GDP remains elevated and is estimated at 89% in 2017. The debt ratio however is expected to fall marginally over the medium-term. Much of the change in the debt is predicated on a primary balance surplus and GDP growth of around 2%. Given the very low fiscal buffer, shocks to the economy could easily lead to derailment in the primary surplus target. Likewise these events could adversely affect real sector growth which is already fragile, as the economic base is narrow and sector resilience is weak. Marked negative deviation in either the primary balance or growth could result in higher debt levels. The inflexibility of monetary policy, because of the fixed-exchange rate, makes it almost impossible for the authorities to use monetary tools to influence growth outcomes, which would have been very helpful in this period of fiscal austerity.

External Accounts

Improvements are expected in the current account over the medium-term due to better terms of trade. This is conditioned on higher anticipated receipts from tourism and export crops while import prices and volumes are likely to remain relatively stable over the forecast horizon. Consequent on a lower current account balance and relatively stable capital inflows, the sovereign is expected to build reserves (See Table 2). Notwithstanding the expected improvements, the external accounts remain vulnerable to shocks and realization of said events could lead to significant reversal.

Ratings

In March 2017 following the restructuring of Belize's global bond, Standard and Poor's (S&P) raised the sovereign credit rating to 'B-' from 'SD' with a stable outlook. S&P noted that real economic recovery is likely to be slow and expects GDP growth of 1.6% in 2017-2019. The ratings agency noted that slow growth and the low level of investment by the private sector could make it difficult for the government to meet the primary balance surplus targets.

S&P advised that the stable outlook balances the near-term improvement in the government's ability to service the debt, vulnerability to external shocks, and monetary inflexibility. The ratings agency advised that downside ratings pressure could emerge if the authorities fail to capitalize on the short-term fiscal benefits of the debt rescheduling. Other risk factors such as low GDP growth, poor external liquidity, and a high debt burden weigh heavily on the country. On the other hand successful implementation of fiscal measures that lead to a reduction in the debt and higher GDP growth could have a positive impact on the sovereign's ratings

Comparatives

Table 3: Selective Sovereign and Corporate Bonds and Indicators

Bond	Ratings (S&P)	Maturity date	Face $MN	Minimum/ Increment ($)	Coupon (%)	Offer yield (%)	Duration
Argentina	B+	Dec 31-38	95.3	1/ 1	2.500	7.589	10.7
Barbados	CCC+	Mar 12-35	255.0	100,000/1,000	6.625	9.44	8.9
Belize	B-	Feb 20-36	529.9	100/100	4.937	10.1	8.5
National Gas Company	BBB	Jan 15-36	1,031.7	100,000/ 1,000	6.050	5.84	10.9
Jamaica	B	Feb 28-36	250.0	100,000/ 1,000	8.500	6.17	10.1
El Salvador	CCC+	Sep 21-34	1,071.6	10,000/ 1,000	7.625	6.748	9.3
Panama	BBB	Jan 26-36	1,267.2	1,000/ 1,000	6.700	4.438	10.8

Source: Bloomberg, Jefferies, JJMMBIR

There are not many sovereign global bonds in Latin America and the Caribbean with comparable maturity as the Belize 2036's that would allow comprehensive analysis using the relative value curve. We however found a subset of six bonds, including one corporate, with varying ratings that would allow some type of comparison.

The issue size of the Belize 2036 along with the relatively small minimum size and increment would suggest that the bond should be fairly liquid. A modest coupon and a very attractive yield also arguer well for the bonds relative attractiveness. However, we cannot ignore the precarious nature of the fiscal accounts, the sovereign's high vulnerability to shocks, and most importantly on our radar the reluctance of the authorities to service the debt at the early onset of fiscal pressures. These factors in our estimation make the bond riskier than any of the other bonds.

Opinion

Projected improvements in Belize's short-term growth trajectory do not negate our view on the sovereign. Belize is highly vulnerable to external shocks and has limited fiscal and external buffers to withstand the impact thereof. In the recent past where there have been shocks that adversely impact government finances and the external accounts, the government has shown a high level of unwillingness to prioritise debt servicing to the detriment of other budgetary allocations. The track record of the government not honouring the debt in times of crises speaks for itself, as the sovereign has had to restructure the debt three times in the last decade. The current development in the macroeconomy, particularly growth, is therefore no appeasement for Belize's sovereign risk. Only persons with a very high risk tolerance should hold this security in their portfolio. **As a result of the high vulnerability of the sovereign, the propensity for the government to default at the first sign of a crises, and recent debt restructurings, we maintain the SELL recommendation for Belize.**

Source:

Bloomberg
Business Monitor International (BMI)
https://www.cia.gov/library/publications/the-world-factbook/geos/bh.html
Jefferies

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.
PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO

MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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