

EXTERNAL DEBT IN BELIZE

BY

D. LESLIE

Paper Presented at the Twelfth Annual Regional Monetary Studies
Conference, Belize City, October 29-31, 1980

Monetary Authority Of Belize
Belize City

EXTERNAL DEBT AND THE BELIZEAN ECONOMY

External borrowing to support capital investment is traditional, and provided that the return on the investment surpasses the interest rate such borrowings is appropriate.

The inflow of foreign capital as a part of the development process should enable the recipient country to raise its level of investment and increase its imports. The economic growth of most developing countries is largely dependent on international (foreign) aid for stimulation as most operate within a certain foreign exchange constraint. The inflow of funds is thus needed to allow the necessary projected development to occur.

The Belizean economy is in this aspect no different than most Caribbean economies and those of other developing countries. It is heavily dependent on foreign aid and the inflows thus produced plays a vital role in the effort to bridge the gap between import requirements and foreign exchange earnings.

Over recent years expansion in external debt has been widespread. What caused this expansion? Some factors are the escalated petroleum prices, the failure of the growth in demand for exports to keep up with the growth in imports, and the continued expansion in capital investment without the backing of adequate reserves to run down.

This paper deals with the external debt of Belize, and gives a view of the basic structure and the growth of foreign debt between 1972 and 1979. It also takes a look at the role it plays in the economy.

(i) STRUCTURE OF EXTERNAL DEBT

Whereas the need to borrow abroad may arise for several reasons, the basic reasons in the case of Belize are (i) to finance capital expenditures on the part of public corporations, and (ii) financing of budgetary deficits, (iii) current account deficits in balance of payments. Financing of capital expenditures for public corporations presently carries the bulk of total loans outstanding, and by 1978 and 1979 ran at 79.1 percent and 86.4 percent of total foreign debt.

Belize's main sources of foreign aid are the U.K, C.D.B., CIDA and E.D.F. Aid takes the form of grants-in-aid and direct loans.

The United Kingdom as in the case of all British colonies is the traditional source of foreign aid. This holds true in the case of Belize and it is only in recent years that other international and regional institutions have begun to make any impact on the lender structure. So much so, to the extent that borrowings from CDB is now the largest component of total external debt.

Direct loans tend to have maturities ranging from five to twenty years with a few having extended maturity to forty years. Interest is charged at rates ranging from 2 1/2 to 8 percent for Central Government loans and 4 - 12 percent for the rest of the public sector. Repayments tends to start one year after final disbursement dates in the case of

CDB loans whilst others tend to have grace periods of anything up to twenty years. These amortizations are mostly on a semi-annual basis with interest being charged on amounts outstanding. There are several loans however, that are payable on a quarterly basis.

Debt is divided into Central Government's and government-guaranteed debt.

Central government's debt includes U.K. loans for development, several Hurricane Reconstruction loans and loans taken up by government from CDB, CIDA and others for the improvement of infrastructure. Several loans to various statutory bodies are considered a part of central government's total as few of the public sector entities are financially viable. There is also a loan from a private source that is considered a part of government's total, and that is a Telecommunications loan from the Banco di Lavarò to Belize Telecommunications Authority.

Government guaranteed debt consists of those loans from CDB and others to institutions such as Cane Farmers Association - Development Finance Corporation, Reconstruction and Development Corporation, Government Housing Loans Board and a few others. Repayments for the larger portion of this section are undertaken by the institution's themselves, in contrast to those under Central government's total.

The holder composition of foreign borrowings has changed between 1972 and 1979. (See Table I) Compared to 1972 where Central government's total holdings of public debt was 91.1 percent, its share

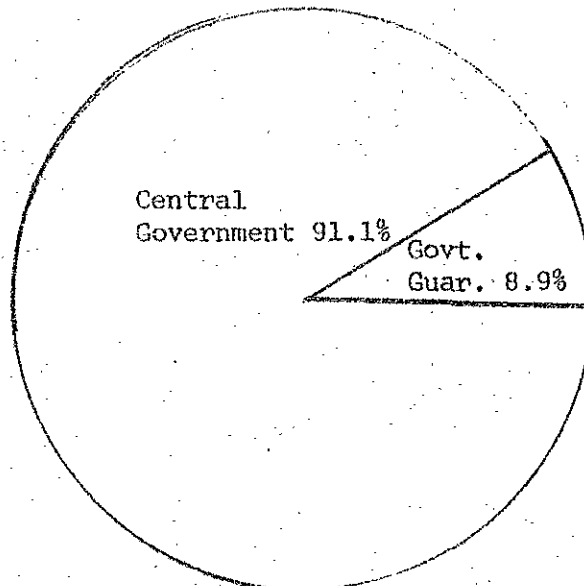
has declined over the years to reach 53.3 percent by the end of 1979. This decrease should not be taken as evidence of any reduction in the nominal value of their share, but rather due to the subsequent effect of the increase in government guaranteed debt. Government guaranteed debt has risen substantially over the past few years primarily as D.F.C. has expanded as an institution, so has its borrowing capacity. Borrowings on the part of D.F.C. now accounts for 14.1 percent of total external debt and 30.3 percent of government guaranteed debt. (Central government carries certain student loans as a part of their external borrowings).

TABLE I

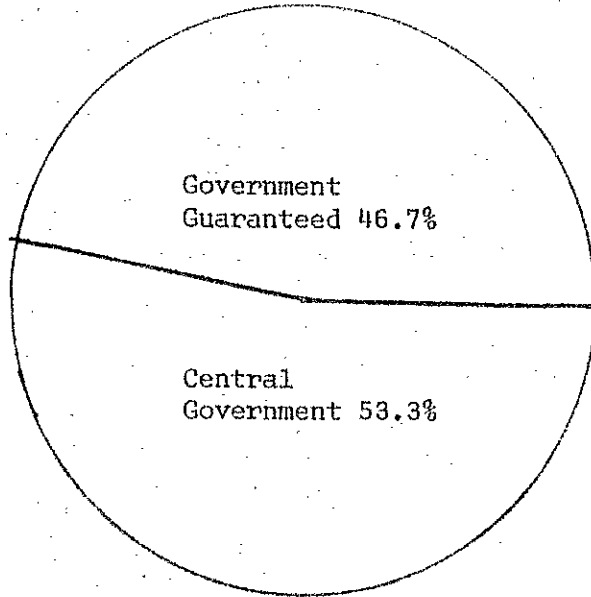
EXTERNAL DEBT
COMPOSITION BY HOLDER

(IN PERCENT)

1972



1979

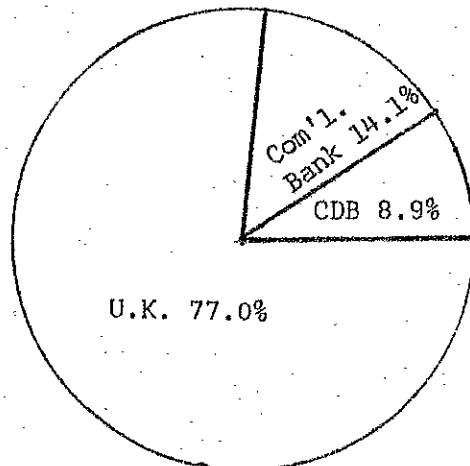


Composition by lender has become more diversified, and the structure base more broadened in recent years as more sources have opened up. (See Table II) In 1972 lender composition was primarily made up of U.K. loans with a smaller portion being extended by commercial banks. C.D.B.'s percentage share was in the area of 8.9 percent. When compared to 1979 the change seems dramatic. CDB loans now account for 60.3 percent of total loans. The U.K. portion has been reduced visibly.

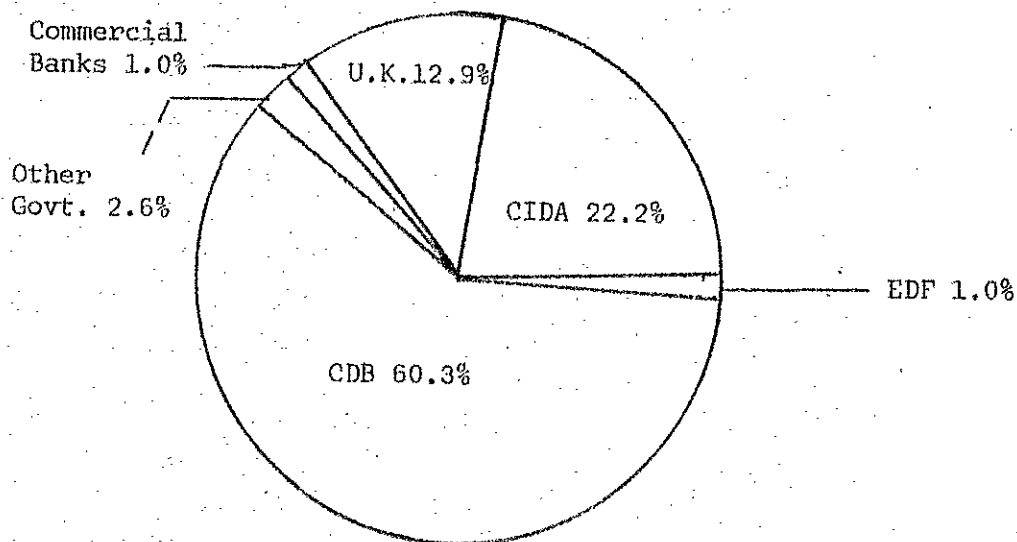
TABLE II

EXTERNAL DEBT
COMPOSITION BY LENDER
(percent)

1972



1979

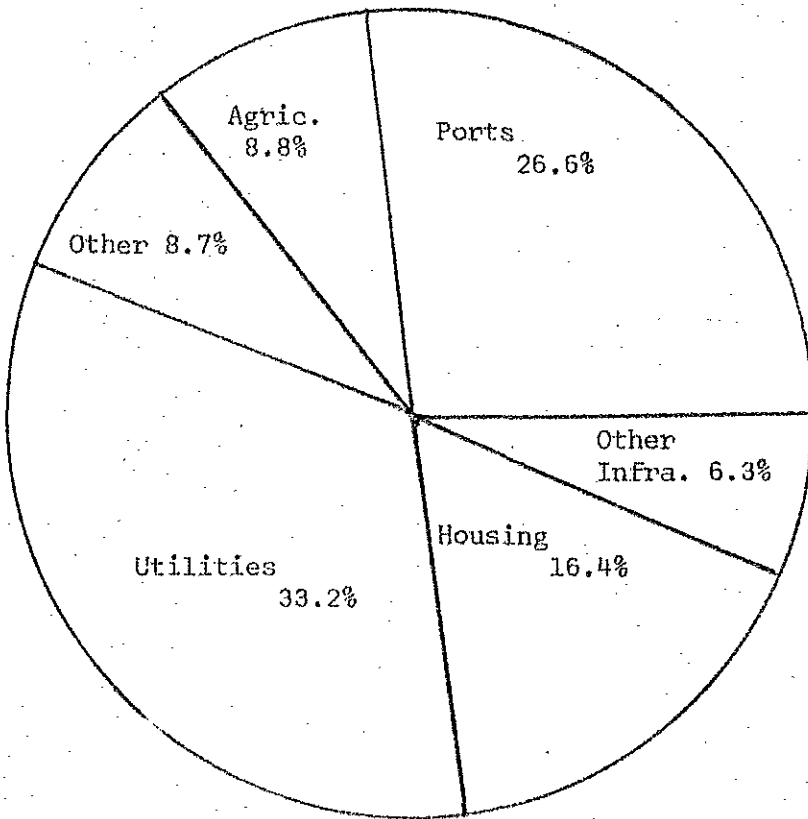


The commercial banks portion which was one loan has not only been reduced through repayment, but also as a result of the entrance of other sources on the scene. By the end of 1979 Other Governments (excluding U.K.) held U.S.\$1.6 million of our foreign debt, U.S. \$0.9 million of which are U.S. Dollar debentures floated by the Government of Belize in an effort to finance - BEB, BCB and ReConDev. The proceeds of the debentures taken up were then relent to the statutory bodies at concessionary rates.

The emphasis on the production base is evident in the structure of the external debt which has broadened in recent years. (See Table III) Agriculture, Ports and Utilities carry the greater portion.

TABLE III

COMPOSITION BY SECTOR
(in percent)



(ii) GROWTH OF EXTERNAL DEBT

There are several reasons for concern with the external debt situation in Belize as in most developing countries. The growth of external debt in recent years has been phenomenal. By the end of 1979 total external debt of Belize had nearly quadrupled since 1972. Between 1972 and 1978 the change was 165.7 percent (although repayments accounted for a slight decline in the nominal value between 1972 and 1973). By the end of 1979, estimated figures shows a further 45.6 percent increase over 1978. The overall trend in total external debt has been an upward one as can be seen in Table IV. A look at the data reveals that the growth in external debt was marginal in the early seventies although the change between 1974 and 1973 was substantial due to a large telecommunication loan, the pattern in the following two years conformed to the norm with the growth rate running at 9.13 percent and 7.0 percent in 1975 and 1976. Not until 1977 did there begin to be sizeable increases. The widespread fear that maturities have been dangerously shortened as a result of the shift towards private sources of financing does not necessarily hold true for Belize, in that that particular area of our external debt presently accounts for a small portion. The fact that we are not yet independent, and the Monetary Authority does not fulfill the entire role of a Central Bank, has constrained the expansion of our external debt. We are still forced to rely heavily on international government sources for grants-in-aid, and other regional institutions as sources of credit. This constraint

TABLE IV

a/
EXTERNAL DEBT OPERATIONS 1972 - 1979

U.S. \$ MILLIONS

	1972	1973	1974	1975	1976	1977	1978	Est. 1979
<u>OUTSTANDING & DISBURSED AT END OF PERIOD</u>	10.8	10.2	11.8	12.9	13.8	18.5	28.7	41.8
<u>OUTSTANDING & DISBURSED AT BEGINNING OF PERIOD</u>	8.9	10.8	10.2	11.8	12.9	13.8	18.5	28.7
Plus: NET DRAWINGS	1.9	-0.3	2.0	1.1	2.2	4.6	10.4	12.8
(DRAWINGS)	(2.4)	(1.0)	(3.3)	(2.8)	(3.2)	(5.7)	(10.8)	(13.5)
(AMORTIZATION)	(0.5)	(1.3)	(1.3)	(1.7)	(1.0)	(1.1)	(0.4)	(0.7)
Valuation Adjustment	-	-0.3	-0.4	-	-1.3	0.1	-0.2	0.3
<u>DEBT SERVICE PAYMENTS</u>	<u>0.9</u>	<u>1.7</u>	<u>1.7</u>	<u>2.1</u>	<u>1.7</u>	<u>1.9</u>	<u>1.6</u>	<u>1.7</u>
AMORTIZATION	0.5	1.3	1.3	1.5	1.0	1.1	0.4	0.7
INTEREST	0.4	0.4	0.4	0.6	0.7	0.8	1.2	1.0
	(IN PER CENT)							
OUTSTANDING & DISBURSED BALANCE/GDP <u>b/</u>	18.2	16.0	15.0	13.6	16.9	20.1	27.6	36.2
NET DRAWINGS/GDP	3.2	-0.5	2.5	1.2	2.7	5.0	10.0	11.1
DEBT SERVICE/GDP	1.2	2.7	2.2	2.2	2.1	2.1	1.5	1.5
DEBT SERVICE/ESPORT OF GDS & NON FACTOR SERVICES	2.3	4.1	2.9	2.6	2.8	2.4	1.6	1.4
AVERAGE INTEREST RATE <u>c/</u>	4.5	3.7	3.9	5.1	5.4	5.8	6.5	3.5
DEBT SERVICE/GOV'T REVENUE	4.9	12.9	10.1	9.4	7.8	8.6	5.6	5.2

a/ Includes Central Government and Central Government guaranteed debt.

b/ At current factor cost

c/ Ratio of interest payments to debt at beginning of period.

has perhaps proven an asset as it has slowed down the growth rate and at the same time any immediate increase in debt service.

A look at the data reveals that the growth in external debt was marginal in the earlier part of the decade, running at 9.5 percent and 7.0 percent in 1975 to 1976. Not until 1977 did there begin to be sizeable increases.

The expansion in Central government's total was mainly the effect of vast improvements and restructuring within various statutory bodies. The expansion and development of the infrastructure led to the need for restructuring on the part of the statutory bodies. In particular were, Belize Electricity Board, Belize Telecommunications Authority and Water and Sewerage Authority. The increasing number of subscribers and the lack of adequate facilities at these institutions, meant overloading and subsequent inadequate service. Between 1972 and 1979, consumption of electrical power alone increased at an average annual rate of 10.0 percent. The limited credit facilities available from local sources, combined with the large capital outlays called for, made the need for capital inflows from external sources imminent. The need for vast improvement in these utilities was recognized by government in their public sector development plans, and therefore led to the negotiations and securing of loans on their behalf.

External financing was obtained by the Water and Sewerage Authority (WASA) from CIDA to undertake the project of setting up a sewerage system in Belize City, and further expansion in the water supply

system. The initial financing of Bze.\$18.8 million however proved inadequate in implementing only one-half of the original design, and was later revised.

The single largest contributor to the increase in foreign borrowings has been the Port Authority, which in itself is responsible for Bze.\$20.4 million (U.S.\$10.2 million) - 24.4 percent of total external debt. The objective in financing and construction of the deep water port in Belize City, is to meet the expected increase in foreign trade, minimise the transport costs and provide an economic return. Belize City handles about 75 percent of the foreign trade of Belize.

The increasing current account deficit in the Balance of Payments brought about by the slowdown in exports and the increase not only in the volume, but the nominal value of imports due to increasing prices of petroleum, also exhibits the dependency on capital inflows to meet the resource gap.

The growth rate of total external debt has been phenomenal in recent years, and these only include those that have been actually disbursed. There are still large portions that have already been approved, and depending on the rate of expansion in the next few years will further add tremendously to the existing burden. Furthermore, the Development Plan for 1980/84 calls for additional external financing of some Bze\$275.2 million - 69.0 percent of total financing requirements of this Bze\$275.2 million Bze\$70.0 million has already been committed. This projection of necessary financing also takes into account the estimated increase in the

current account surplus for Central Government. The rate of contribution on the part of the rest of the public sector is optimistically expected to rise over the next few years, however the only foreseeable savings on their part would be through the implementation of a drastic revision of existing rates.

(iii) DEBT SERVICE

Debt service payments are generally required in convertible currencies and therefore become a fixed charge on export earnings, hence the higher the ratio of debt - servicing payments to export earnings, the greater the likelihood of default for any given fluctuation in export receipts. Also, the productivity of capital inflows should exceed the rate of interest on foreign borrowings in order that income and therefore domestic savings should increase. The allocation of such resources is therefore an essential point and should be to its most productive use. Investments should be in such projects as will maximize the increase in income and thereby contribute to the growth in the availability of foreign exchange, as a rapid accumulation of foreign capital will make the debt servicing less burdensome in a developing country.

The debt service operations for the Belizean public sector can be seen in TABLE IV.

There has been little fluctuation in the actual debt service payments during the period under survey. The only noticeable change has been in the composition of these payments. Whereas in the earlier part of the period amortization payments accounted for the greater portion of

debt servicing, the trend has now reversed and interest payments have increased to the point where they are now 58.8 percent. This is due to the fact that the earlier debt service payments were largely composed of interest-free U.K. loans. The increase in interest payments reflects the fact that the interest charged on CDB acquired funds is on that amount actually disbursed although actual repayments are not charged until the entire loan has been fully disbursed.

The overall expansion rate of GDP was less than that of external borrowings over the period. The ratio of total external debt to GDP (see Table IV) dipped slightly between 1972 and 1975, but thereafter inclined steadily to reach 36.2 percent. The ratio of debt service payments to the foreign reserve position exhibited no noticeable trend and has fluctuated considerably. After dipping in 1977 and 1978, it has started to rise again and by the end of 1979 was 16.7 percent, due to the illiquidity of the entire banking system. This picture however should necessarily give cause for concern as the percentage of debt service to foreign exchange earnings accounts for only 1.4 percent in 1979. This ratio exhibited a downward trend since 1973, and reflects the steady increase in the nominal value and volume of exports over the period. This growth performance in the export sector reflects the expansion in agriculture (especially sugar) and garment industry. Despite adverse weather conditions in 1979, and the consequent fall in sugar production GDP grew by 3.3 percent (against an average of 5%).

The underlying implication is that foreign exchange earnings are sufficient to cover present debt service charges, and vice versa the

low debt service ratio indicates that no real burden is presently produced on the export earnings of the country.

Principal repayments by the end of 1979 accounted for 41.1 percent of the total debt service. However the final drawdowns on several large projects and impending final disbursements in others within the next year or so can make a substantial difference to the picture. The ultimatum is therefore either continuing reliance on capital grants or rescheduling of debt repayments.

Debt service payments are presently rather low but this is due to the fact that a considerable portion of external borrowing contains a high grant element. It is hopeful that this aspect will remain in the next few years, as any hardening of aid terms will result in the intensification of the magnitude of the debt burden and consequently prolong the time burden before self-sustaining growth can be achieved.

TABLE V

BELIZE - CENTRAL GOVERNMENT OPERATIONS
1972-79

(BZ\$ million)

	1972	1973	1974	1975	1976	1977	1978	Est. 1979
Total Current Expenditure	16.0	18.7	22.7	27.5	35.7	38.3	43.7	55.7
Total Current Revenue	18.4	22.5	30.5	40.1	43.5	44.0	56.9	65.7
<u>Current Account Surplus</u>	<u>2.4</u>	<u>3.8</u>	<u>7.8</u>	<u>12.6</u>	<u>7.8</u>	<u>5.7</u>	<u>13.2</u>	<u>10.0</u>
Capital Revenue	0.1	0.2	0.2	0.4	0.5	0.6	0.9	1.8
Capital Expenditure	8.1	6.8	12.6	14.2	15.8	23.4	30.7	38.6
<u>Overall Surplus/Deficit</u>	<u>-5.6</u>	<u>-2.8</u>	<u>-4.6</u>	<u>-1.2</u>	<u>-7.5</u>	<u>-17.1</u>	<u>-16.6</u>	<u>-26.8</u>
<u>Financing</u>	<u>5.6</u>	<u>2.8</u>	<u>4.6</u>	<u>1.2</u>	<u>7.5</u>	<u>17.1</u>	<u>16.6</u>	<u>26.8</u>
<u>Net External Financing</u>	<u>8.3</u>	<u>4.2</u>	<u>5.2</u>	<u>3.0</u>	<u>11.</u>	<u>11.8</u>	<u>5.7</u>	<u>16.1</u>
Grants	6.4	4.1	5.8	7.9	8.	8.2	7.6	16.2
Loans	3.4	1.5	3.4	0.2	1.0	1.7	---	1.4
Amortization	-0.4	-1.8	-1.8	-0.7	-0.6	-1.1	-0.2	-0.5
Change in Foreign Assets	-0.8	0.4	-2.2	-4.4	3.1	3.0	-1.7	-1.0
<u>Net Domestic Financing</u>	<u>-2.7</u>	<u>-1.4</u>	<u>- .</u>	<u>-1.8</u>	<u>-4.</u>	<u>5.3</u>	<u>10.9</u>	<u>10.7</u>
Monetary Authority	0.2	0.1	-0.1	0.7	0.8	2.2	1.3	6.5
Rest of Financial System	0.9	-0.1	-1.4	-1.6	0.1	3.7	4.6	-2.6
Rest of Public Sector	-0.3	-2.4	-4.3	-3.4	-1.4	-3.0	-2.7	-3.6
Other	-3.5	1.0	4.8	.25	-3.7	2.4	7.7	10.4

Source: Ministry of Finance, mission estimates

TABLE VI

BELIZE - ACTUAL AND PROJECTED CENTRAL GOVERNMENT OPERATIONS
1977-84

(BZE\$ million)

	Actual		Est. 1979	Projected				
	1977	1978		1980	1981	1982	1983	1984
<u>Current Revenues</u>	<u>44.0</u>	<u>56.9</u>	<u>65.7</u>	<u>74.9</u>	<u>98.3</u>	<u>98.3</u>	<u>111.0</u>	<u>125.0</u>
Tax Revenue	36.2	48.5	64.3	64.0	73.7	83.9	94.8	106.7
Direct Taxes	12.2	15.9	16.0	19.4	22.4	25.5	28.8	32.4
Indirect Taxes	24.0	32.6	40.3	44.6	51.3	58.4	66.0	74.3
Non Tax Revenue	7.8	8.4	9.4	10.9	12.6	14.4	16.2	19.3
<u>Current Expenditure</u>	<u>38.3</u>	<u>43.7</u>	<u>55.7</u>	<u>65.6</u>	<u>75.6</u>	<u>84.8</u>	<u>94.8</u>	<u>106.4</u>
Wages and Salaries	18.0	18.5	24.6	27.1	32.5	37.0	41.8	47.1
Goods and Services	13.6	17.4	20.8	25.3	27.5	31.3	35.3	39.8
Interest	1.1	1.4	2.8	3.6	4.9	4.4	4.1	4.5
Pensions and Other Transfers	5.6	6.0	7.5	9.6	10.7	12.1	13.6	15.0
<u>Current Surplus</u>	<u>5.7</u>	<u>13.2</u>	<u>10.0</u>	<u>9.3</u>	<u>10.7</u>	<u>13.5</u>	<u>16.2</u>	<u>18.6</u>
Capital Receipts	0.6	0.9	1.8	1.2	1.2	1.3	1.3	1.4
Capital Expenditure	23.4	30.7	38.6	44.5	45.5	39.5	40.8	56.3
Overall Surplus/Deficit	<u>-17.1</u>	<u>-16.6</u>	<u>-26.8</u>	<u>-34.0</u>	<u>-33.6</u>	<u>-24.7</u>	<u>-23.3</u>	<u>-36.3</u>

Source: Ministry of Finance, mission estimates

TABLE VII

BELIZE - FINANCING OF PUBLIC SECTOR
INVESTMENT 1972-79
(BZ\$ million)

	1972	1973	1974	1975	1976	1977	1978	Est. 1979
<u>Public Sector Capital</u>								
<u>Expenditure</u>	<u>8.4</u>	<u>9.9</u>	<u>16.6</u>	<u>18.1</u>	<u>19.8</u>	<u>26.4</u>	<u>41.8</u>	<u>59.6</u>
Central Government	8.1	6.8	12.6	14.2	15.8	23.4	30.7	38.6
Rest of Public Sector	0.3	3.1	4.0	3.9	4.0	3.0	11.1	21.0
<u>Financing</u>	<u>8.4</u>	<u>9.9</u>	<u>16.6</u>	<u>18.1</u>	<u>19.8</u>	<u>26.4</u>	<u>41.8</u>	<u>59.6</u>
<u>Public Sector Savings</u>	<u>2.3</u>	<u>3.5</u>	<u>7.6</u>	<u>10.7</u>	<u>6.2</u>	<u>1.8</u>	<u>9.5</u>	<u>10.2</u>
Central Government	2.4	3.8	7.8	12.3	7.8	5.7	13.2	10.0
Rest of Public Sector	-0.1	-0.3	-0.2	-1.9	-1.6	-3.9	-3.7	0.2
<u>Capital Revenue</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.9</u>	<u>1.8</u>
<u>Net Domestic Borrowing</u>	<u>-2.2</u>	<u>2.2</u>	<u>2.0</u>	<u>1.6</u>	<u>-2.4</u>	<u>3.3</u>	<u>3.7</u>	<u>3.6</u>
Monetary Authority	0.2	0.1	-0.1	0.7	0.8	2.2	1.3	4.6
Rest of Financial System	1.8	0.2	-1.3	-0.9	2.1	3.9	6.5	-1.7
Others	-4.2	1.9	3.4	1.8	-5.3	-2.8	-4.1	-0.7
<u>Net External Financing</u>	<u>8.2</u>	<u>4.0</u>	<u>6.8</u>	<u>5.4</u>	<u>15.3</u>	<u>20.7</u>	<u>27.7</u>	<u>44.0</u>
Grants	6.1	4.1	5.8	7.9	8.0	8.4	8.6	19.2
Loans	3.4	1.5	5.3	5.0	6.4	11.4	21.6	27.0
Amortization	-0.5	-2.0	-2.1	-3.1	-2.0	-2.1	-0.8	-1.2
Change in Foreign Assets	-0.8	0.4	-2.2	-4.4	3.1	3.0	-1.7	-1.0

Source: Ministry of Finance, mission estimates.

TABLE VIII

BELIZE - ACTUAL AND PROJECTED FINANCING OF
PUBLIC SECTOR INVESTMENT 1977-84
(BZ\$ million)

	1977	Actual		Projected				
		1978	Est. 1979	1980	1981	1982	1983	1984
<u>Uses</u>	<u>28.8</u>	<u>42.6</u>	<u>60.9</u>	<u>67.3</u>	<u>81.7</u>	<u>81.0</u>	<u>79.5</u>	<u>88.4</u>
Public Sector Capital Expenditure	26.4	41.8	59.6	63.5	77.1	71.8	69.5	77.4
(Central Government)	(23.4)	(30.7)	(38.6)	(44.5)	(45.5)	(39.5)	(40.8)	56.5
(Rest of Public Sector)	(3.0)	(11.1)	(21.0)	(19.0)	(31.6)	(32.3)	(28.7)	(21.1)
External Amortization	2.4	0.8	1.3	3.8	4.6	9.2	10.0	11.0
<u>Sources</u>	<u>28.8</u>	<u>42.6</u>	<u>60.9</u>	<u>67.3</u>	<u>81.7</u>	<u>81.0</u>	<u>79.5</u>	<u>88.4</u>
Domestic Financing	<u>10.3</u>	<u>14.1</u>	<u>15.8</u>	<u>13.5</u>	<u>20.7</u>	<u>26.2</u>	<u>29.5</u>	<u>32.8</u>
Public Sector Savings	1.8	9.5	10.2	10.3	15.9	19.5	23.0	26.0
(Central Government)	(5.7)	(13.2)	(10.0)	(9.3)	(10.7)	(13.5)	(16.2)	(18.6)
(Rest of Public Sector)	(-3.9)	(-3.7)	(0.2)	(1.0)	(5.2)	(6.0)	(6.8)	(7.4)
Capital Revenue	0.6	0.9	1.8	1.2	1.2	1.3	1.3	1.4
Net borrowing from banking system	7.9	3.7	3.8	--	--	--	--	--
Residuals - new tax measures	--	--	--	2.0	3.6	5.4	5.2	5.1
External Financing	<u>18.5</u>	<u>28.5</u>	<u>45.1</u>	<u>53.8</u>	<u>61.0</u>	<u>54.8</u>	<u>50.0</u>	<u>55.6</u>
External Loans and Grants	15.6	30.2	46.1	51.8	59.6	54.8	50.0	55.6
(Ongoing Projects) ^{a/}	(15.6)	(30.2)	(46.1)					
(New Projects)	(-)	(--)	(--)					
CDF	--	--	--	2.0	1.4	--	--	--
Other	2.9	-1.7	-1.0	--	--	--	--	--

^{a/} Includes Hurricane Rehabilitation Grants.

Well after the government has borrowed to finance its deficit, the debt it has incurred continues to have an influence on the structure of the economy. This influence is exerted in two directions: a liability effect upon the government which must pay interest on the debt and eventually repay it by increasing taxes, foregoing expenditures, or borrowing again; and an asset effect upon the debt holders which we need not concern ourselves with in this instance.

Foreign capital inflow needs be within the limit of the recipients capacity to repay, as such, until the recipients growth is more than selfsustaining, interest and amortizations on loans must themselves be paid from loans and grants. In light of this a country's development program needs to be taken into account in determining its capacity to service external debt.

The basic underlying problem in the need to incur foreign debt to strengthen the economy, is the rate at which this debt must be incurred in the near future. The resulting effect of the tremendous expansion in external debt will be extremely high debt service payments. Returns on these investment tends to be low in the first few years as the marginal productivity of capital in an underdeveloped country tends toward a sharp decline initially until the pace of development gains momentum. The strain on the reserve position will then be relatively high.

Reliance on external aid has heretofore been shown to be an extremely vital part of Belizean economy. The tendency is for government to encourage the inflow of foreign capital in light of its recognition of the need to strengthen the financial position of the economy. The development plans both for the period 1977-79, and 1980/83 takes this aspect into account, and emphasis has been placed on the developing of both

natural resources and the infrastructure for development in both the private and public sectors.

This rapid expansion in external borrowing has not only supported capital goods expansion, but at the same time eased the transition to the post-1973 petroleum prices. The inflow of funds from grants and loans have bolstered the net reserve position and defrayed drawdowns by helping to meet short term obligations. It is expected that the emphasis on financing the productive base especially the expansion in agriculture and industry should lead to economic growth stimulated by a higher export-earning capacity.

Central government should at the same time place an emphasis on controlling current expenditure in order to have a surplus with which to finance future capital expenditure and slow down the growth rate of external borrowings.

REFERENCES

- Economic Plan Of Belize 1980/83 - Central Planning Unit, Govt. Of Belize.
- Hughes, Helen - External Debt Situation Of LDC's
"Finance & Development" IMF & World
Bank, December 1977, Vol. 14, #14.
- Meirer, Gerald M. - International Economics Of Develop-
ment: Theory And Policy. Harper &
Row 1968.
- Prest A.R. - Public Finance In Under Developed
Countries - Wiedenfeld & Nicolson 1962.
1962.
- Therwall A.P. - "Financing Economic Development"
"Macmillan Studies In Economics
"London, England 1976.
- World Bank Economic Report On Belize, 1980.