



GUATEMALA

FISCAL TRANSPARENCY EVALUATION

December 2016

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FISCAL AFFAIRS DEPARTMENT



GUATEMALA

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August 2016

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ABBREVIATIONS AND ACRONYMS

ANADIE	National Agency of Partnerships for the Development of Economic Infrastructure
BANGUAT	Banco de Guatemala (Central Bank of Guatemala)
CAPTAC-DR	Central America, Panama, and the Dominican Republic Technical Assistance Center
CGC	Office of the Controller General
CHN	National Mortgage Credit
COFOG	Classification of the Functions of Government
CONADUR	National Urban and Rural Development Council
CONRED	National Coordinator for Disaster Reduction
CORFINA	National Financial Corporation
CPCE	Categories of State Third Party Liabilities
CUT	Treasury Single Account
DAAFIM	Directorate of Assistance to Municipal Financial Administrations
DAPF	Directorate of Fiscal Analysis and Policy
DBOT	Design-Build-Operate-Transfer
DCE	Directorate of Public Accounting
DCP	Directorate of Public Credit
DEF	Directorate of Fiscal Evaluation
DSA	Debt Sustainability Analysis
DTP	Technical Budget Directorate
EBU	Extrabudgetary unit
EMETRA	Metropolitan Regulator of Transport and Transit in the Guatemala City Municipality
EMPAGUA	Municipal Water Company of Guatemala
EMPORNAC	Santo Tomás de Castilla National Port Company
EMT	Municipal Transport Company
ENERGUATE	Guatemala Power Company
EPNCH	Champerico National Port Company
EPQ	Quetzal Port Company
FAD	Fiscal Affairs Department
FEGUA	Railways of Guatemala
FHA	Institute for the Development of Insured Mortgages
FNPRD	National Permanent Disaster Reduction Fund
FOPA	Savings Insurance Fund
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GDDS	General Data Dissemination System
GFSM	Government Finance Statistics Manual

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GFSY	Government Finance Statistical Yearbook
GIZ	German technical assistance agency
GUATEL	Guatemalan Telecommunications Company
IDB	Inter-American Development Bank
IGSS	Guatemalan Social Security Institute
IMF	International Monetary Fund
INDE	National Electrification Institute
INDECA	National Agricultural Marketing Institute
INE	National Statistics Institute
INFOM	Municipal Development Institute
INTOSAI	International Organization of Supreme Audit Institutions
IPM	Military Welfare Institute
IVS	Disability, Old Age, and Survival
JM	Monetary Board
LCE	Law on State Procurement
LOIGSS	Organic Law on the Guatemalan Social Security Institute
LOP	Organic Budget Law
LPA	Annual Budget Law
MEM	Ministry of Energy and Mines
MINFIN	Ministry of Finance
MTBF	Medium-term Budget Framework
NFPS	Nonfinancial Public Sector
ONSEC	Civil Service National Office
PGG	General Policy on Governance
PGN	Office of the Attorney General
PND	National Development Plan
PPP	Public-Private Partnership
SAT	Superintendency of Tax Administration
SEGEPLAN	Secretariat of Planning and Programming in the Office of the President
SIB	Superintendency of Banks
SIAF	Integrated Financial Management Information System
SICOIN	System of Integrated Accounting
SICOIN-DES	System of Integrated Accounting - Decentralized Entities
SICOIN-GL	System of Integrated Accounting - Local Governments
SIGES	Electronic Management System
SINIP	Public Investment Information System
SISMICEDE	System of Information Management in Case of Emergency or Disaster
SNIP	National Public Investment System
TN	National Treasury
USAC	San Carlos de Guatemala University
VAT	Value-added tax
WHD	Western Hemisphere Department
ZOLIC	Free Industry and Trade Area

PREFACE

A mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Guatemala City, Guatemala, from March 29 to April 11, 2016 to undertake a Fiscal Transparency Evaluation (FTE) in accordance with the standards described in the IMF's Fiscal Transparency Code (FTC). The mission consisted of Mario Pessoa (FAD, head), Ramón Hurtado (FAD), Jean-Baptiste Gros (CAPTAC-DR), Carlos Janada (WHD), Óscar Lora (IDB), and Felipe Bardella (consultant).

During the visit, the mission met with the Minister of Finance, Mr. Julio Héctor Estrada, the Vice Ministers in the Ministry of Finance (MINFIN), and the Directors in the Directorate of Fiscal Analysis and Policy (DAPF), the Directorate of Assistance to Municipal Financial Administrations (DAAFIM), the Directorate of Public Accounting (DCE), the Directorate of Public Credit (DCP), the Technical Budget Directorate (DTP), the Directorate of Public Procurement Standardization, the Directorate of Planning and Institutional Development, the Directorate of Trusts, the National Treasury (TN), the Directorate of Fiscal Evaluation (DEF), and other departments of the MINFIN.

It also met with executives of the central bank (Banco de Guatemala—BANGUAT), the Superintendency of Banks (SIB), the Ministry of Public Health and Social Welfare, the Ministry of Energy and Mines (MEM), the Ministry of Environment and Natural Resources, the Guatemala City Municipality, the Congress of the Republic, the Office of the Controller General (CGC), the National Electrification Institute (INDE), the Guatemalan Social Security Institute (IGSS), the Civil Service National Office (ONSEC), the Superintendency of Tax Administration (SAT), the National Statistics Institute (INE), the Social Research and Studies Association of Guatemala, the Central American Fiscal Studies Institute, the Guatemalan Chamber of Construction, the Office of the Attorney General (PGN), the Secretariat of Planning and Programming in the Office of the President, the Guatemalan Confederation of Cooperative Federations, and the Santo Tomás de Castilla National Port Company.

The mission would like to thank all the institutions for their cooperation, hospitality, and courtesy, as well as for the frank and open dialogue. In particular, we would like to express our gratitude to Mr. Herman Elías, Mr. Juan Sebastián, Mr. Blas García, and Mr. Raimundo Rodas Anleu of the MINFIN's DAPF for the impeccable organization of the work schedule and the full access to information.

EXECUTIVE SUMMARY

Guatemala has transparency practices that achieve the ratings of basic, good, and advanced as regards three-quarters of the principles established in the IMF's FTC. The wealth of information available and the systems in place related to the public sector's execution of its budget, finances, and accounts allow for easy access by the population to an impressive volume of fiscal data. Also noteworthy is the prudent way in which the budgets are compiled and executed, which has facilitated the maintenance of fiscal stability.

Although the report presenting the public accounts encompasses only 30 percent of the 569 entities making up the public sector, it provides information that covers 75 percent¹ of public sector expenditure. The MINFIN prepares and publishes on a monthly basis a number of accounting, statistical, financial, and debt reports, that facilitates the adequate monitoring of budget and financial execution. The Integrated Financial Management Information System (SIAF) is well developed, covers the revenue and expenditure of the public sector entities, and could be used in a short space of time, despite being segmented into three modules that are not yet fully integrated (System of Integrated Accounting—SICOIN), to produce consolidated reports on the subsectors (central government, local governments, decentralized entities, public corporations, etc.) and on the public sector as a whole. The various electronic systems produce reliable information as they use consistent budget classifiers and chart of accounts. This consistency is strengthened through the conduct of audits on most of the public sector entities.

In recent years the MINFIN and the BANGUAT have made major strides in developing tools to assess the fiscal risks for medium-term fiscal sustainability. The pertinent instruments include the debt sustainability analysis (DSA) and the medium-term budget framework (MTBF). These reports provide 3-5 year projections under various scenarios derived from possible changes in the main macroeconomic variables, but not all of them are published regularly. In addition, some social security actuarial projections are available, although not for all of the pension programs. Despite full awareness of the challenges, there is as yet no active management of the main fiscal risks.

Guatemala has much room for improvement in the area of fiscal transparency, regarding which the following points are noteworthy:

- **Coverage of the fiscal reports:** Building on the existing fiscal reports, the coverage should be broadened through consolidation of the available information provided by the various public subsectors. In addition to the advantages in having more comprehensive consolidated fiscal information, this would help reveal the actual composition of the

¹ A quarter of the budget expenditure executed by the 44 entities covered in the General Budget of the Republic is composed of transfers to the public sector entities. This circumstance implies that the economic objective of the remaining 25 percent of the budget expenditure is not disclosed in the fiscal reports.

expenditure made by means of transfers from the national budget and therefore foster more efficient fiscal decision making;

- **Classification of the fiscal information.** Changing the economic classification by adopting the methodology presented in the IMF's 2001/2014 Government Finance Statistics Manual (GFSM) would make the fiscal reports consistent with international standards and compliant with the requirements established through the most advanced practices prescribed in the FTC. The reconciliation of data in the reports produced by the various entities would improve the information's quality;
- **Fiscal policy objectives and assessment of the fiscal forecasts.** Establishing a new fiscal pact in which the medium-term fiscal targets are defined would help create fiscal predictability and ensure that the major challenges of social and economic development are met. In addition, increasing the capacity to prepare and analyze macroeconomic and fiscal scenarios would foster more efficient public financial management;
- **Fiscal risk management.** The main areas in which there is room for improvement include the preparation of reports on the fiscal risks that are primarily related to macroeconomic issues, natural disasters, and social security liabilities. It is advisable to conduct fiscal sustainability analyses that cover the long term, with projections for up to at least 10 years, and to prepare actuarial studies on social security revenue, expenditure, debt and reserves, and on public debt.

Table 0.1 shows a consolidation of flows and stocks of Guatemala's public sector, and Table 0.2 provides a summary of the FTE. Of the 36 indicators, eight indicators (22 percent) are rated "good" and "advanced," 17 indicators (47 percent) are rated "basic," and 10 indicators (28 percent) are rated "not met." One dimension was not assessed, as there is currently no public-private partnership (PPP) contract under implementation.

Table 0.1. Summary of Public Sector Flows and Stocks – 2014
(in percent of GDP)

	Budgetary Central Gov.	Extra Budgetary Units	Social Security	Local Gov.	Consol.	General Gov.	Public Corpor ations	Central Bank	Consol.	Public Sector
Transactions										
Revenue	11.5	2.0	2.3	2.5	-3.0	15.2	1.5	0.2	0.0	17.0
Expenditure	13.4	2.0	2.2	2.9	-3.0	17.5	1.6	0.6	0.0	19.7
Balance	-1.9	0.0	0.0	-0.4	0.0	-2.3	0.0	-0.4	0.0	-2.7
Assets	19.3	2.6	12.5	6.7	-10.0	31.1	4.7	19.6	-10.3	45.2
Non Financial Assets	12.6	1.2	0.5	5.4	...	19.7	1.9	0.1	...	21.7
Financial Assets	6.7	1.4	12.0	1.3	-10.0	11.4	2.8	19.5	-10.3	23.5
Liabilities	36.6	0.3	5.6	1.0	-10.0	33.5	4.7	19.6	-10.2	47.6
Debt	25.2	0.0	0.0	0.4	-3.7	21.9	0.5	5.6	-0.9	27.0
Other Liabilities	11.4	0.3	5.6	0.6	-6.3	11.6	4.2	14.0	-9.3	20.6
Net Financial Worth	-29.9	1.1	6.4	0.3	0.0	-22.1	-1.9	-0.1	0.0	-24.1
Net Worth	-17.3	2.4	6.9	5.7	0.0	-2.4	0.0	0.0	0.0	-2.4
Net Worth, excl. equity	-20.7	2.4	6.8	5.6	0.0	-5.9	2.4	1.1	0.0	-2.4

Source: Report on 2014 Budget Validation and Closure of the Accounts, 2015 CGC Audit Report on Central Administration, 2015 CGC Audit Report on Decentralized Entities, 2015 CGC Audit Report on Guatemala City Municipality, 2014 Financial Statements: USAC, IGSS, IPM, Guatel, Zolic, Empornaq, Epq, Epnch, Fegua, Indeca, Inde, Emetra, Empagua, Metropolitan Housing and Urban Development Company, EMT, BANGUAT, CHN, FHA, SIB, National Financial Corporation (CORFINA), Local Governments Portal, SICOIN, 2016 Report on Public Credit Operations, Report on Public Finance, Executive Report on the Consolidation of Local Government Financial and Nonfinancial Debt.

Obs: Calculations by IMF staff. The "Debt" heading covers bonds (debt securities) and lending operations. This presentation format does not follow the definition of debt of the 2001/2014 GFSM.

Table 0.2. Guatemala: Summary of the Fiscal Transparency Evaluation

LEVEL OF IMPORTANCE	LEVEL OF THE PRACTICE		
	1. Fiscal Reporting	2. Fiscal Forecasting and Budgeting	3. Fiscal Risk Analysis and Management
HIGH	Coverage of institutions	Budget unity	Macroeconomic risks
	Coverage of stocks	Macroeconomic forecasts	Specific fiscal risks
	Coverage of flows	Fiscal policy objectives	Long-term fiscal sustainability analysis
			Environmental risks
AVERAGE	Tax expenditure	Medium term budget framework	Financial sector exposure
	Internal consistency	Investment projects	Budgetary contingencies
	External audit	Performance information	Sub-national governments
	Comparability of fiscal data		Public corporations
			Asset and liability management
LOW	Frequency of in-year fiscal reporting	Fiscal legislation	Natural resources
	Timeliness of annual financial statements	Timeliness of budget documents	Guarantees
	Classification	Public participation	Public Private Partnerships
	Historical consistency	Independent evaluation	
	Statistical integrity	Supplementary budget	
		Forecast reconciliation	

LEGEND	LEVEL OF THE PRACTICE			
	Not Met	Basic	Good	Advanced

INTRODUCTION

- 1. One of the most important issues for sound fiscal management is the government's ability to formulate and communicate its fiscal policies.** It is essential to produce and publish fiscal reports that are timely, comprehensive, and in accessible language. The same is true as regards the budget's preparation, approval, and implementation. Similarly, it has become increasingly important to identify and manage fiscal risks, considering that the recent international crises demonstrated that some risks were outside the areas customarily monitored.
- 2. The FTC formulated by the IMF's FAD is an instrument used in an effort to disclose the fiscal transparency situation in a country and help prevent fiscal crises.** The evaluation is divided into three pillars: (i) fiscal reporting; (ii) fiscal forecasting and budgeting; and (iii) fiscal risk analysis and management. Chapters I, II, and III of the report follows this same sequence of the Code.
- 3. The FTC is divided into 36 dimensions.** For each dimension, the situation is evaluated on the basis of practices rated "**BASIC**" (yellow color), "**GOOD**" (light green color), or "**ADVANCED**" (dark green color). In the event that the practice does not achieve the "Basic" evaluation, the label "**NOT MET**" (red color) is used.

FISCAL REPORTING

A. Introduction

Table 1.1. List of the Main Fiscal Reports

Report	Responsible Unit	Contents	Coverage	Frequency/ Publication Deadline
Monthly Report on Public Finance	DAPF	Revenue, expenditure, and financing in cash	Budgetary central government	Monthly/ 15 days
Half-yearly Report on Public Finance	DAPF	Revenue, expenditure, and financing in cash	Budgetary central government	Half-yearly/ 1 month
Annual Report on Public Finance	DAPF	Revenue, expenditure, and financing in cash	Budgetary central government	Annual/ 1 month
Report on Budget Execution	DCE	Revenue, expenditure, and financing in cash	Budgetary central government	Every four months/ 1 month
Report on Budget Validation and Closure of the Accounts	DCE	Revenue, expenditure, and financing in cash; financial and nonfinancial assets; liabilities; and net worth	Budgetary central government + sample of EBUs, local governments, and public corporations	Annual/ 5 months
Quarterly Statistics Summary	BANGUAT	Revenue, expenditure, and financing in cash	Budgetary central government	Quarterly/ 3 months
Report on Debt	DCP	Debt approved by the Congress	Budgetary and backed central government	Annual*
Report on Tax Expenditure	SAT	Tax and nontax revenue	Taxes administered by the SAT	Annual
Consolidated Report on Budget Validation and Financial Statements	DAAFIM	Revenue, expenditure, and financing in cash; financial and nonfinancial assets; liabilities; and net worth	Municipalities	Annual/ 3 months
Audit Reports and Opinions	CGC	Auditors' opinion on the financial statements of public sector bodies	All public sector bodies	Annual/ 6 months
Citizens' Budget	MINFIN	Report containing summarized information on the budget passed, for the general public	In the budget of the budgetary central government	Annual/ the first month of the year
Annual Report of the MINFIN	MINFIN	Performance of the annual activities of the MINFIN	Activities of the MINFIN	Annual/ February 10 of each year

*The data are annual even though it is not known whether the publication deadline and frequency will be maintained, the first report having appeared in February 2016.

B. Coverage

1.1. Coverage

1.1.1 Coverage of institutions **(Not Met)**

4. The public sector in Guatemala is made up of 569 entities (Table 1.2), and its breakdown into subsectors is consistent with international standards (Table 1.3). The central government consists of 44 budgetary units, including the Office of the President, ministries, secretariats, and departments of the Executive Branch (called central administration²), 125 extra budgetary units (EBUs)³—21 decentralized entities and 38 autonomous entities, legislative and judicial authorities; and 66 trust funds set up by central government bodies); and two social security funds. There are 370 entities in the local government sector (municipalities, groups of municipalities, trust funds, and a social security fund), eight national and 15 municipal public nonfinancial corporations, and five national financial corporations, including the BANGUAT. The public sector's breakdown into subsectors and institutional classification are defined in a Manual of Budget Classifications consistent with the definitions in the 2001/2014 GFSM of the IMF.⁴

5. The fiscal reports that are prepared during the fiscal year for periods shorter than the fiscal year cover only the budgetary central government. Based on the records in the SIAF,⁵ the MINFIN's DCE prepares reports on budget execution containing individualized revenue, expenditure, and financing data on the budgetary central government. The reports on public finances compiled by the DAPF show only aggregated revenue, expenditure, and financing data on the budgetary central government. The DAPF also forwards data to the BANGUAT for publication in its *Boletín Estadístico Trimestral* (Quarterly Statistical Survey). In terms of the totality of public expenditure in Guatemala, these reports cover 76 percent of general government expenditure and 68 percent of public sector expenditure (Table 1.4 and Figure 1.1). Similarly, a quarter of the budgetary expenditure is made up of transfers to the other public sector entities, which implies that the final economic destination of 25 percent of the budget expenditure is not disclosed in the fiscal reports.

² The "budgetary central government" subsector in Guatemala is called "central administration" in the statistical reports.

³ For the purposes of this report, we define EBUs as all extrabudgetary units that have their own budget approved by their own entity, but not approved by the Congress.

⁴ See Manual of Budget Classifications for the Guatemalan Public Sector:

<http://www.minfin.gob.gt/index.php/Manual>

⁵ The SIAF contains the accounting, budget, cash management, public credit, procurement, and audit subsystems. The SIAF's components are: the system of integrated accounting for the central government (SICOIN), the system of integrated accounting for the autonomous and decentralized entities, as well as for the Guatemala City municipality (SICOIN-DES); and the system of integrated accounting for the municipalities (local governments—SICOIN-GL).

Table 1.2. Composition of the Public Sector – 2014

Category	Number of Institutions
Public sector (I + II)	569
I. General government (A+B)	541
A. Central government	171
Budgetary central government	44
EBUs	125
Decentralized entities	21
Autonomous entities	38
Trust Funds*	66
Social security	2
B. Local governments	370
Municipalities	334
Groups of municipalities	22
EBUs (trust funds)*	13
Social security	1
II. Public corporations	28
Central government nonfinancial corporations	8
Municipal nonfinancial corporations	15
Financial corporations	5

Source: Manual of Budget Classifications for the Guatemalan Public Sector.

Note: * Trust funds receive transfers only from the corresponding central government bodies and municipalities and do not generate their own revenue.

Table 1.3. Breakdown of the Public Sector into Subsectors as Prescribed in the Manual of Budget Classifications – 2014

Public Sector	General Government	Central Government	<ul style="list-style-type: none"> - Central Administration 	<ul style="list-style-type: none"> - Legislative - Judiciary - Presidency, Ministries, Secretaries and other government units - Other autonomous entities 	
			<ul style="list-style-type: none"> - Non-market decentralized agencies - Non-market autonomous entities - Social Security entities 		
		Local Governments	<ul style="list-style-type: none"> - Municipalities - Non-market local entities - Social Security local entities - Grouping of municipalities 		
	Public Corporations	Nonfinancial		<ul style="list-style-type: none"> - National 	
				<ul style="list-style-type: none"> - Local 	
		Financial		<ul style="list-style-type: none"> - National 	
				<ul style="list-style-type: none"> - Local 	

Source: Manual of Budget Classifications for the Guatemalan Public Sector.

6. The annual financial statements have a broader coverage, but there is no consolidation among the subsectors.⁶ They include information on the revenue, expenditure, and net worth of all those public sector entities that, for purposes of consolidation, have formally submitted budget execution and financial statements in a timely way to the DCE in compliance with the Organic Budget Law (LOP). In the case of the 2014 accounts, only 146 institutions complied with the requirement to submit this information. In the annexes to the financial statements containing the “consolidation of budgetary revenue and expenditure,” the revenue and expenditure data are aggregated without the elimination of transfers of resources from one subsector to another. For compilation of the consolidated balance sheet, the net worth of the entities that have presented accounts is incorporated with the net worth of budgetary central government, through use of the equity method. Line-by-line consolidation is still not applied.

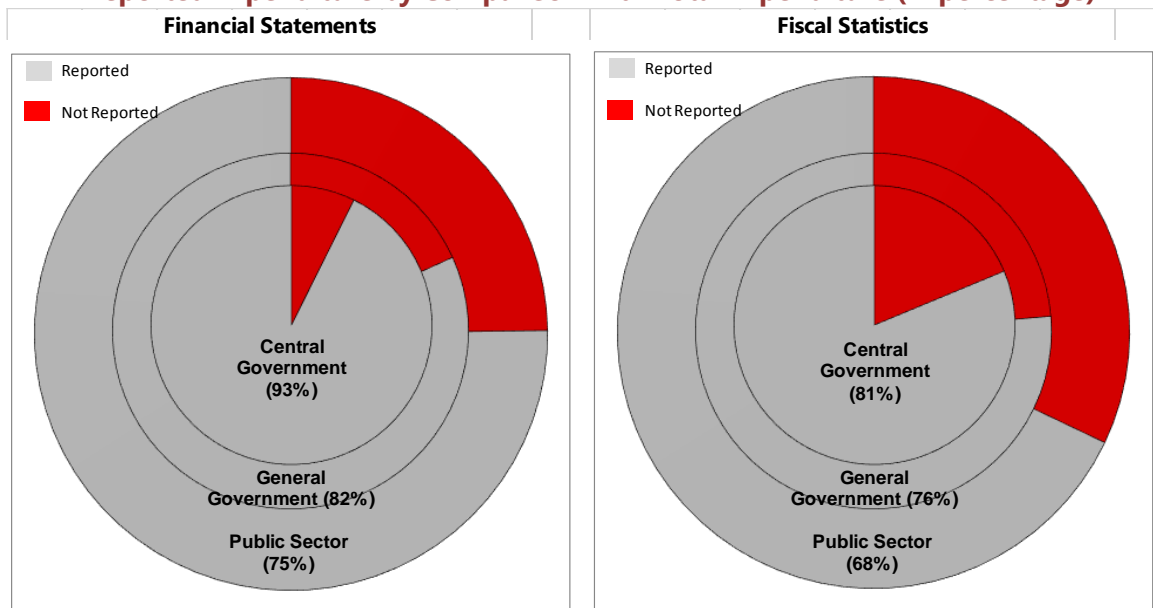
7. The MINFIN produces and publishes annually a consolidated report on all municipalities. This report includes the financial statements and the budget validation, which are published on the web page of the local governments portal.⁷ The unit responsible for the operation is the DAAFIM.

⁶ The annual financial statements have the following annexes: Consolidation of Budget Revenue, Consolidation of Budget Expenditure, Treasury Bill Issuance, Public Debt Service, Profit and Loss Statement of Budgetary Central Government, Balance Sheet of the Budgetary Central Government, Balance Sheet of the Consolidated General Government (which includes the entities’ net worth, using the equity method), Notes to the Financial Statements, and Financial Position Report.

⁷ See <http://portalgl.minfin.gob.gt/Paginas/PortalGobiernosLocales.aspx>

Figure 1.1. Institutional Coverage of the Public Sector in Fiscal Reports – 2014

Reported Expenditure by Comparison with Total Expenditure (in percentage)



Source: 2014 Report on Budget Validation and Closure of the Accounts; 2015 CGC Audit Report on Central Administration; 2015 CGC Audit Report on Decentralized Entities; 2015 CGC Audit Report on Guatemala City Municipality, 2014 Financial Statements: USAC, IGSS, IPM, Guatel, Zolic, Empornaq, Epq, Epnch, Fegua, Indeca, Inde, Emetra, Empagua, Metropolitan Housing and Urban Development Company, EMT, BANGUAT, CNH, FHA, SIB, CORFINA, local governments portal, SICOIN, 2016 Report on Public Credit Operations, Report on Public Finance, and Executive Report on Consolidation of the Financial and Nonfinancial Debt of the Local Governments.

Obs.: Calculations by IMF staff.

Table 1.4 Reported and Unreported Public Sector Revenue and Expenditure – 2014

	Reported (Q million)	Unreported (Q million)	Total (Q million)	Reported (% of GDP)	Unreported (% of GDP)	Total (% of GDP)
FINANCIAL STATEMENT						
CENTRAL GOVERNMENT						
Revenue	61,229	4,929	66,157	13.5	1.1	14.5
Expenditure	69,321	5,478	74,799	15.2	1.2	16.4
Outturn	-8,092	-549	-8,642	-1.8	-0.1	-1.9
GENERAL GOVERNMENT						
Revenue	56,980	12,354	69,334	12.5	2.7	15.2
Expenditure	65,175	14,513	79,687	14.3	3.2	17.5
Outturn	-8,194	-2,159	-10,353	-1.8	-0.5	-2.3
PUBLIC SECTOR (Consolidated)						
Revenue	59,189	18,232	77,421	13.0	4.0	17.0
Expenditure	67,351	22,188	89,539	14.8	4.9	19.7
Outturn	-8,162	-3,956	-12,118	-1.8	-0.9	-2.7
FISCAL STATISTICS						
CENTRAL GOVERNMENT						
Revenue	52,255	13,902	66,157	11.5	3.1	14.5
Expenditure	60,818	13,982	74,799	13.4	3.1	16.4
Outturn	-8,562	-79	-8,642	-1.9	0.0	-1.9
GENERAL GOVERNMENT						
Revenue	52,255	17,079	69,334	11.5	3.8	15.2
Expenditure	60,818	18,870	79,687	13.4	4.1	17.5
Outturn	-8,562	-1,791	-10,353	-1.9	-0.4	-2.3
PUBLIC SECTOR (Consolidated)						
Revenue	52,255	25,166	77,421	11.5	5.5	17.0
Expenditure	60,818	28,721	89,539	13.4	6.3	19.7
Outturn	-8,562	-3,556	-12,118	-1.9	-0.8	-2.7

Source: Report on 2014 Budget Validation and Closure of the Accounts, 2015 CGC Audit Report on Central Administration, 2015 CGC Audit Report on Decentralized Entities, 2015 CGC Audit Report on Guatemala City Municipality, 2014 Financial Statements: USAC, IGSS, IPM, Guatel, Zolic, Empornaq, Epq, Epnch, Fegua, Indeca, Inde, Emetra, Empagua, Metropolitan Housing and Urban Development Company, EMT, BANGUAT, CNH, FHA, SIB, CORFINA, Local Governments Portal, SICOIN, 2016 Report on Public Credit Operations, Report on Public Finance, and Executive Report on Consolidation of the Financial and Nonfinancial Debt of the Local Governments.
Obs.: Calculations by IMF staff.

1.1.2 Coverage of stocks **(Basic)**

8. The balance sheet of the budgetary central government is presented in the annual financial statements, but the information provided is not comprehensive. The balance sheet contains data on financial and nonfinancial assets, on liabilities, and on the government's net worth, whereas fiscal reports for periods shorter than the fiscal year contain only the stock of public debt, using a restrictive definition.⁸ However, the existence of unreported items and recording problems means that the balance sheet cannot fully reflect the government's net worth position:

- **The nonfinancial assets are not fully recorded.** Most of them (87 percent of the total) are recorded in the balance sheet under the heading "Construction in process," without details of their economic classification. This occurs because any time an entity executes an investment in the SIAF, an automatic accounting record is generated in the "Construction in process" suspense account. Notwithstanding, once the investment has been completed, the existing balance is not transferred to the definitive account where the incorporated asset should be recorded, which makes it difficult to ascertain the composition of the government's net worth. This heading covers 69 percent of the total assets shown in the balance sheet. In addition, the government lacks assessments of the volume and value of the subsoil reserves, and this prevents the recording of those assets in the accounts⁹ (see section 3.2.6);
- **Debt to the BANGUAT is not reported.** Net deficits accumulated over several years and not covered by the MINFIN in accordance with the provisions of the Organic Law of the BANGUAT¹⁰ totaled Q21.7 billion (4.8 percent of GDP) in 2014. This amount is not recognized as a liability in the government's balance sheet, whereas the BANGUAT records it as an asset in its own balance sheet. Moreover, in 2010, Treasury bills valued at Q3.5 billion were issued to cover the above-mentioned net deficits, which were not reflected either in the government's balance sheet. Accordingly, the total unincorporated liabilities generated by the relationship with the BANGUAT stands at Q25.2 billion (5.5 percent of GDP). The MINFIN argues that it would have to obtain authorization from the Congress to incorporate those liabilities (see section 3.3.2);
- **Debt to Social Security is not reported.** The Organic Law of the Guatemalan Social Security Institute (LOIGSS) established that the costs of the social security system would be financed

⁸ Only the following operations approved by the Congress of the Republic are deemed public debt: multilateral loans, bilateral loans, debenture debt, and government-guaranteed debt of public corporations. Debt to the BANGUAT and to Social Security is not included.

⁹ The mission was unable to establish estimates of the value of the subsoil reserves because of the lack of available data, even though that value does not seem significant.

¹⁰ The Organic Law of the Banco de Guatemala (Decree 16-2002) states in its article 9, "Allocation of net deficits," that the MINFIN must, within a period of 30 days, provide in the next fiscal year's budget for the coverage of net deficits, by issuing Treasury bills or other financial instruments. The Congress has authorized the issuance of only some of the securities.

with contributions from workers and employers and with transfers from the state, in the proportion of 25 percent, 50 percent, and 25 percent, respectively. The government has not met this legal requirement as regards transfers to the IGSS since the latter's creation, and this has led to a liability of Q25.2 billion (5.5 percent of GDP) that is not shown in the balance sheet. In addition, the government's contributions as an employer for the coverage of civil servants in the sickness, maternity, and accidents (EMA) program are not paid in full. This liability stood at Q2.4 billion (0.6 percent of GDP) at end-2014. Liabilities to the IGSS not recorded by the government total Q27.6 billion (6.1 percent of GDP). Similarly, the MINFIN contends that the Annual Budget Laws (LPAs) have not provided it with the support needed to contribute those resources and record such liabilities, and that the [LOIGSS] provided for the creation of a tax that has not materialized. The Constitution also provided for a specific tax that has not been implemented (see section 3.1.3).

- **The pension systems' actuarial liabilities are not calculated.** There is no regular assessment of the actuarial liabilities of any of the 18 public sector pension plans (more details in section 3.1.3). Those liabilities correspond to the present value of the promised benefits and should be incorporated into the public sector balance sheet with respect to the civil service pension systems (see Box 1.1).

Box 1.1. Summary of Civil Service Pension Systems

Pension systems in Guatemala

In Guatemala there are 18 major social security plans, the most important of which are: (i) the disability, old age, and survival (IVS) program of the IGSS, serving formal workers in the private sector; (ii) the Categories of State Third Party Liabilities (CPCE) Program, serving civil servants; and (iii) the retirement system of the Military Welfare Institute (IPM), which provides benefits to military personnel. There are 14 other plans maintained by the decentralized and autonomous entities of the central government and one run by the local governments.

Statistical treatment of the public sector pension systems

According to the 2001/2014 GFSM, the statistical treatment of public sector pension systems depends on the nature of system. The nature of a pension system will depend on whether or not it is contributory, whether it is a defined-benefits system or a defined-contributions system, and whether it is a social security system or an employment-related pension plan.

- **Contributory systems.** The requirement for insured persons, or third parties acting on their behalf, to pay social contributions so as to obtain the right to benefits indicates the existence of a social insurance system.
- **Defined-benefit systems.** In these plans the benefit is calculated on the basis of a formula already included in the terms of the social insurance system.

Box 1.1. Summary of Civil Service Pension Systems (continued)

Defined-benefit contributory systems (social insurance) tend to generate liabilities to the government. However, the statistical treatment of those liabilities differs, depending on the type of beneficiaries in the system: when the beneficiary is the population in general or most of it, the system would be deemed a social security system, whereas if the beneficiaries are government employees and their dependents, the system would be considered an employment-related pension plan. Its statistical treatment is different:

- In social security systems the relationship between benefits and contributions is not deemed strong enough to give rise to a financial claim by the contributor. As a result, liabilities are not recorded; however, an estimate of the net value of the implicit obligations to be generated by future social benefits should be presented as a note on the balance of assets; and
- In employment-related pension plans, on the other hand, contractual debts to employees are considered valid and should therefore be recorded as a liability.

Statistical treatment of pension systems in Guatemala

The most salient characteristic of major pension systems in Guatemala is that they fall within the category of contribution-defined as well as benefits-defined systems. From the standpoint of financing, apportionment, or capitalization, the system can be classified as mixed, but with a predominance of apportionment over capitalization. These mixed systems should be treated as defined-benefits contributory systems in the macroeconomic statistics.

Focusing on the three above-mentioned types of major plans, the IPM and the CPCE should be deemed employment-related pension plans as they cover specific groups of government employees, and as a result, the net value of the future obligations should be recorded as a liability in the balance sheet of the pertinent public sector unit. In turn, because the IVS is aimed at coverage of the bulk of the population, it should be considered a social security system and as a result, the net value of the implicit future obligations should be disclosed in a note on the financial statements of the government body responsible for the system. Any amounts due and remaining unpaid should be recorded as liabilities.

9. Table 1.5 presents estimates from the public sector balance sheet in Guatemala for 2014, broadening the institutional coverage, adding unreported items, and eliminating transactions among subsectors. The public sector's total assets are estimated at 45.2 percent of GDP, of which 21.7 percentage points correspond to nonfinancial assets. The financial assets total 23.5 percent of GDP, of which 2.3 percentage points relate to cash positions and deposits, and 11.9 percent to debentures, virtually all of which correspond to tranches of liquidity and of the portfolio of international reserves invested in foreign government bonds. The public sector's total liabilities represent 47.6 percent of GDP, of which 17.2 percentage points are Treasury bills and BANGUAT bills, and 9.9 percentage points represent loans. The public sector's net worth is negative and less than that reported in the annual financial statements, their value being estimated at 2.4 percent of GDP.

Table 1.5. Estimated Public Sector Balance Sheet – 2014

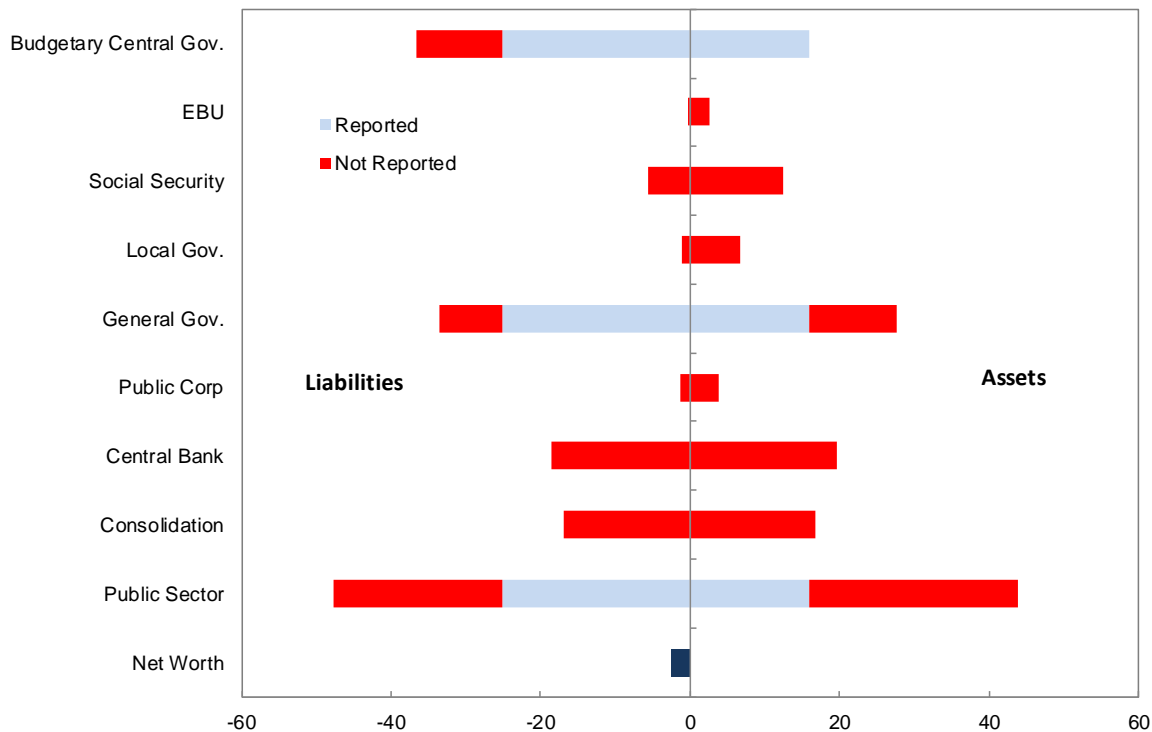
	Budgetary Central Gov.	EBU	Social Sec.	Local Gov.	Consol.	General Gov.	Public Corp.	Central Bank	Consol.	Public Sector
Assets	19.3	2.6	12.5	6.7	-10.0	31.1	4.7	19.6	-10.3	45.2
Non Financial Assets	12.6	1.2	0.5	5.4	...	19.7	1.9	0.1	...	21.7
Financial Assets	6.7	1.4	12.0	1.3	-10.0	11.4	2.8	19.5	-10.3	23.5
Currency and Deposits	1.2	0.4	0.1	0.6	...	2.3	0.5	0.3	-0.8	2.3
Debt Securities	0.0	0.1	3.7	0.0	-3.7	0.1	0.4	12.3	-0.9	11.9
Equities and Participations	3.5	0.5	1.6	0.0	...	5.6	0.2	0.8	-3.4	3.2
Others	1.9	0.4	6.7	0.7	-6.3	3.3	1.7	6.2	-5.1	6.1
o/w: Social Contributions	...	...	6.3	...	-6.3	...	...	...	...	...
Contribution to Central Bank	...	...	...	...	...	...	...	5.1	-5.1	...
Others Accounts Receivable	1.7	0.3	0.3	0.7	0.0	2.9	1.3	-0.3	-5.1	4.0
Liabilities	36.6	0.3	5.6	1.1	-10.0	33.5	4.7	19.6	-10.3	47.6
Debt Securities	16.4	0.0	0.0	0.0	-3.7	12.7	0.0	5.4	-0.9	17.2
Loans	8.7	0.0	0.0	0.4	...	9.2	0.5	0.2	...	9.9
Equities and Participations	0.0	0.0	0.0	0.0	...	0.0	2.4	1.1	-3.4	0.0
Pensions	0.0	0.0	5.6	0.0	...	5.6	0.0	0.0	...	5.6
Others	11.4	0.3	0.1	0.6	-6.3	6.1	1.9	13.0	-5.9	15.0
o/w: Social Contributions - not register	6.3	...	...	...	-6.3	...	...	...	...	...
Contributions to Central Bank - nc	5.1	...	...	...	...	5.1	...	...	-5.1	...
Other accounts Payable	0.0	0.2	0.1	0.6	0.0	0.9	1.3	0.0	0.0	2.2
Financial Net Worth	-29.9	1.1	6.4	0.3	0.0	-22.1	-1.9	-0.1	0.0	-24.1
Net Worth	-17.3	2.4	6.8	5.6	0.0	-2.4	0.0	0.0	0.0	-2.4
Net Worth, (excl. Equities and participations)	-20.7	2.4	6.8	5.6	0.0	-5.9	2.4	1.1	0.0	-2.4

Source: Report on 2014 Budget Validation and Closure of the Accounts, 2015 CGC Audit Report on Central Administration, 2015 CGC Audit Report on Decentralized Entities, 2015 CGC Audit Report on Guatemala City Municipality, 2014 Financial Statements: USAC, IGSS, IPM, Guatel, Zolic, Empornaq, Epq, Epnch, Fegua, Indeca, Inde, Emetra, Empagua, Metropolitan Housing and Urban Development Company, EMT, BANGUAT, CNH, FHA, SIB, CORFINA, local governments portal, SICOIN, 2016 Report on Public Credit Operations, Report on Public Finance, and Executive Report on Consolidation of the Financial and Nonfinancial Debt of the Local Governments.

Obs.: Calculations by IMF staff.

10. The annual financial statements of most of the public sector bodies are published individually by the CGC, but there is no consolidation of the public sector. Figure 1.2 summarizes the effects of consolidating the assets and liabilities of the various subsectors making up the public sector in Guatemala. In the annual financial statements of the budgetary central government an additional table is included to show the impact, calculated using the equity method, of the incorporation of some of the public sector bodies, but no overall consolidation is done. Table 1.6 shows the details of consolidation to facilitate identification of the reported and unreported financial statements.

Figure 1.2. Reported and Unreported Public Sector Assets and Liabilities - 2014



Source: Report on 2014 Budget Validation and Closure of the Accounts, 2015 CGC Audit Report on Central Administration, 2015 CGC Audit Report on Decentralized Entities, 2015 CGC Audit Report on Guatemala City Municipality, 2014 Financial Statements: USAC, IGSS, IPM, Guatel, Zolic, Empornaq, Epq, Epnch, Fegua, Indeca, Inde, Emetra, Empagua, Metropolitan Housing and Urban Development Company, EMT, BANGUAT, CNH, FHA, SIB, CORFINA, local governments portal, SICOIN, 2016 Report on Public Credit Operations, Report on Public Finance, and Executive Report on Consolidation of the Financial and Nonfinancial Debt of the Local Governments.

The mission was unable, because of a lack of available data, to estimate the value of the reserves in the subsoil and the actuarial liabilities of the pension systems.

Table 1.6. Reported and Unreported Public Sector Assets and Liabilities – 2014

	Reported (Q million)	Unreported (Q million)	Total (Q million)	Reported (% of GDP)	Unreported (% of GDP)	Total (% of GDP)
BUDGETARY CENTRAL GOVERNMENT (Not consolidated)						
Assets*	72,122	0	72,122	15.9	0.0	15.9
Liabilities	113,491	52,762	166,253	25.0	11.6	36.6
Net worth*	-41,370	-52,762	-94,132	-9.1	-11.6	-20.7
EXTRABUDGETARY UNITS						
Assets	0	11,926	11,926	0.0	2.6	2.6
Liabilities	0	1,182	1,182	0.0	0.3	0.3
Net worth	0	10,744	10,744	0.0	2.4	2.4
SOCIAL SECURITY						
Assets	0	56,795	56,795	0.0	12.5	12.5
Liabilities	0	25,700	25,700	0.0	5.6	5.6
Net worth	0	31,095	31,095	0.0	6.8	6.8
LOCAL GOVERNMENTS						
Assets	0	30,496	30,496	0.0	6.7	6.7
Liabilities	0	4,858	4,858	0.0	1.1	1.1
Net worth	0	25,639	25,639	0.0	5.6	5.6
PUBLIC CORPORATIONS						
Assets	0	21,548	21,548	0.0	4.7	4.7
Liabilities *	0	10,778	10,778	0.0	2.4	2.4
Net worth	0	10,771	10,771	0.0	2.4	2.4
CENTRAL BANK						
Assets	0	89,341	89,341	0.0	19.6	19.6
Liabilities *	0	84,496	84,496	0.0	18.6	18.6
Net worth	0	4,844	4,844	0.0	1.1	1.1
CONSOLIDATION						
Assets	0	-76,704	-76,704	0.0	-16.9	-16.9
Liabilities	0	-76,704	-76,704	0.0	-16.9	-16.9
Net worth	0	0	0	0.0	0.0	0.0
PUBLIC SECTOR (Consolidated)						
Assets	72,122	133,403	205,524	15.9	29.3	45.2
Liabilities	113,491	103,071	216,562	25.0	22.7	47.6
Net worth	-41,370	30,331	-11,038	-9.1	6.7	-2.4

Source: Financial statements

Obs: Calculations by IMF staff. "Reported" means that the item is included in the Report on Budget Validation and Closure of the Accounts. * Excludes equity in public corporations and in the BANGUAT.

1.1.3 Coverage of Flows **(Basic)**

11. The fiscal reports are prepared on a cash basis, including budget execution. The reports cover all revenue, expenditure, and financing. Revenue is recorded on a cash basis¹¹ by the SAT and includes all tax and nontax revenue. Expenditure is presented in the fiscal reports according to the budgetary principle of accrual.¹² However, the amounts accrued match those paid in most of the budgetary records (Figure 1.3).¹³ As a result, in practice, the fiscal reports treat revenue and expenditure on a cash basis. The expenditure covered is budgetary, including, among other items, employee remuneration, purchases of goods and services, social benefits, grants, and investments in nonfinancial assets. Figure 1.3 shows the information on commitments, accruals, and payments¹⁴ pertaining to budget execution over a four-month period.

12. Reports are not produced with general government coverage. The coverage of the only reports published is limited to either budgetary central government or local government. For 2014, the deficit estimated by the mission for general government was 2.3 percent of GDP. Total revenue was 15.2 percent of GDP, and expenditure was 17.5 percent of GDP. In the case of central government, the deficit was 1.9 percent of GDP (Table 0.1). The data on budget execution by local governments and the budgetary units are available individually on the portals of the accounting systems contained in the System of Integrated Accounting - Local Governments (SICOIN-GL) and the System of Integrated Accounting - Decentralized Entities (SICOIN-DES) but are not used in the preparation of fiscal reports. The report on the annual validation of the government budget and the closure of the accounts for the fiscal year contains the revenue and expenditure of the municipalities and budgetary units that formally submit their data to the DCE (30 percent of all entities in 2014). However, transactions among the subsectors are not eliminated for consolidation purposes.

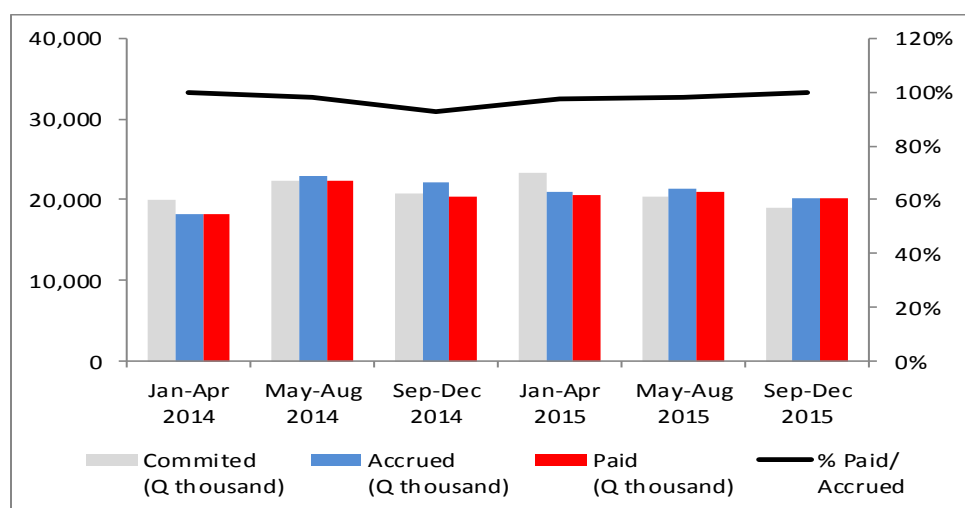
¹¹ Recording on a cash basis or based on actual revenue collection occurs at the time when the funds are received or are made available to a collections office. Some revenue items are recorded on an accrual basis, such as earnings and dividends in favor of the state.

¹² In other words, some operations are carried out on an accrual basis and others, on a cash basis, depending on the type of record involved, primarily the case of advances to contractors, revolving funds, and trust funds, among others.

¹³ The LOP (Decree 101-1997) states in its article 14 that in the case of budget revenue and expenditure the accounting basis is the time of accrual. Art. 17 of the regulations (Governmental Agreement 540-2013) defines when the budgetary concept of accrual occurs. This definition is in keeping with the accrual concept described in the 2001/2014 GFSM, which states that in accrual basis accounting flows are recorded at the time when the economic value is created, transformed, exchanged, transferred, or extinguished.

¹⁴ Art. 17 of the regulations (Governmental Agreement 540-2013) defines the three stages when expenditure is recorded: commitment – arrangements are made for use of the budget appropriation by the executing unit; accrual – the payment obligation requirement is met with the certified receipt of the goods and services in question; and payment – the check is issued, the transfer of funds to the creditor's or the beneficiary's account is formally established or is concretized through the hand-over of cash or other assets.

Figure 1.3. Four-month Expenditure Execution: Committed, Accrued, and Paid (in quetzals)



Source: SICOIN.

13. The treatment of capital transfers from the budgetary central government to the municipalities and the decentralized and autonomous entities is not symmetrical. These transfers are recorded as expenditure in the profit and loss statements of the budgetary central government, but are not recorded as revenue in the profit and loss statements of the municipalities and the decentralized and autonomous entities. This makes it difficult to reconcile flows among the various subsectors.¹⁵

14. The development of accounting records for the recognition of accrued flows is still in an initial stage in Guatemala. The public corporations and decentralized entities present in their financial statements a number of accrued flows (such as depreciation) and other economic flows generated by changes in foreign exchange and by losses. However, in the central government no records are maintained of depreciation, of appropriation of pension liabilities, or of other accrued commitments (such as payment arrears). In fiscal 2014, the flow of outstanding transfers to the IGSS and the contribution not made to the BANGUAT totaled 1.0 percent of GDP.¹⁶

¹⁵ Given that the legislation governing transfers to the local governments (Political Constitution of the Republic of Guatemala, Law on VAT, and other ordinary laws) allocates a percentage to "investment" and another percentage to "functioning," the functioning portion is reflected in the profit and loss statement, and that of investment, in the balance sheet.

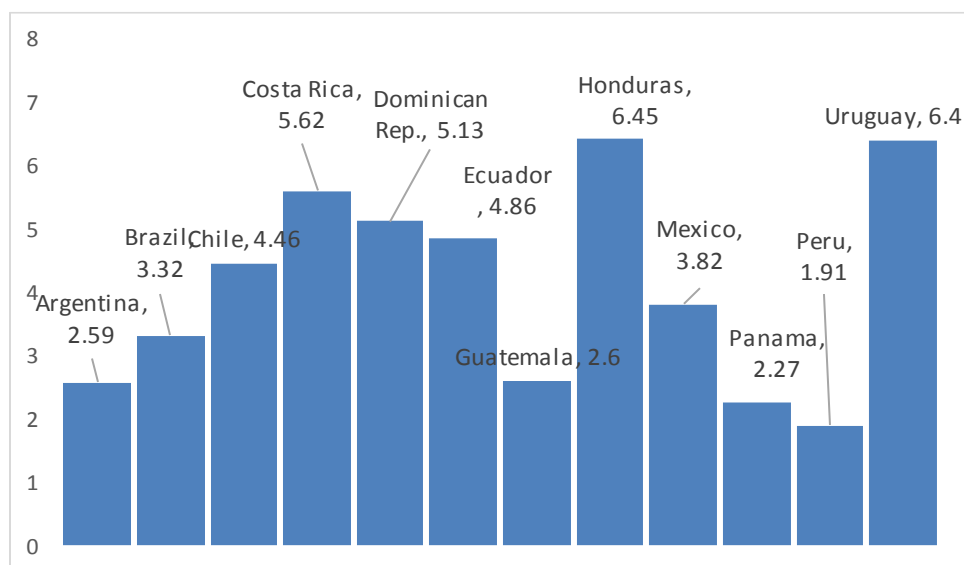
¹⁶ See the description of these operations in paragraph 8.

1.1.4 Coverage of tax expenditure (Good)

15. Tax expenditure is authorized by law, and revenue losses are estimated by type of tax and beneficiary and are published annually as part of the budget documents. The SAT prepares a Report on Tax Expenditure with annual estimates of tax expenditure by tax and by beneficiary sector, in addition to a multiyear estimate of tax expenditure that is forwarded to the DTP for inclusion in the budget documents. The 2012, 2013, and 2014 reports have been published on its web page.¹⁷ Total tax expenditure for 2014 is estimated at 2.5 percent of GDP, 1.6 percent of which corresponds to value added tax (VAT), with 0.6 percent representing income tax, and the remaining 0.3 percent related to other taxes. For 2015 and 2016 tax expenditure was estimated at 2.5 percent of GDP. The report explains the methodology adopted, presents the legal basis for exemptions, and breaks down the information by economic sector. Figure 1.4 presents a comparison of tax expenditure in various countries that serves as a comparative reference with Guatemala.

16. The estimate of tax expenditure covers only the central government, and budget controls or objectives are not established to facilitate supervision of its size. The tax expenditure published does not cover tax exemptions granted by the subnational governments. The introduction of explicit controls and budgetary objectives that can lead to the monitoring and measurement of tax expenditure would bring Guatemala in line with the most advanced practices.

**Figure 1.4. Estimates of Tax Expenditure in Various Countries – 2013
(in percentage of GDP)**



Source: SAT.

¹⁷ See <http://portal.sat.gob.gt/sitio/index.php/estadisticas/47-estadicas-tributarias/7897-analisis-y-estudios-tributarios.html>

C. Frequency and Timeliness

1.2. Frequency and Timeliness

1.2.1 Frequency of in-year reporting **(Advanced)**

17. The fiscal statistics reports are published monthly, within a month of the end of the period covered. Guatemala produces and publishes a wide range of fiscal reports with varying periodicities. The DAPF produces, on a monthly and a half-yearly basis, fiscal statistics on the budgetary central administration and publishes them within two weeks and one month, respectively, following the end of the period covered. Every four months, the DCE produces reports on budget execution of the central administration and publishes them within the month following the end of the period covered. The DCP produces an annual report on debt approved by the Congress, such as described in paragraph 9 of this report, and publishes it within the first quarter following the end of the period covered. The BANGUAT produces quarterly fiscal statistics that are published within three months following the end of the period covered.

18. Guatemala does not have fiscal reports with a periodicity of less than a year, neither for the municipalities nor for the decentralized and autonomous entities. The reports available for these entities, which contain information on budget and accounting execution, are produced annually. Notwithstanding, the SICOIN facilitates online monitoring of the budget execution of each of the municipalities and decentralized and autonomous entities.¹⁸

1.2.2 Timeliness of the audited financial statements **(Advanced)**

19. The annual financial statements of the entities making up the budgetary central government are audited by the CGC and published within six months following the closure of the fiscal year. The audited financial statements of the budgetary central government are audited and published by June 30 of the following year. The financial statements are composed of the balance sheet, the statement of transactions, and the statements of budget execution. Under the Constitution, all entities are required to submit their financial statements for audit by the CGC within three months following the end of the fiscal year, and the CGC has two months to issue its opinion and submit it to the Congress for approval.

20. The DCE compiles and publishes a consolidated financial statement composed of the individual financial statements of the decentralized and autonomous entities that, within the period established by the legislation, have been submitted to the DCE for consolidation purposes. This financial statement consists of an aggregation of the items individually contained in the budget executions and, using the equity method, through consolidation of the entities' individual balance sheets and profit and loss statements. Legal and operating problems prevent the DCE from including all entities when compiling this report as an official accounting document to be submitted to the CGC. Notwithstanding, there would be no

¹⁸ See SICOIN <https://sicoin.minfin.gob.gt/sicoinweb/login/frmlogin.htm>

major difficulty to the DCE's compilation of an annual consolidated balance sheet that includes all of these entities, as the data are already available in the SIAF.

D. Quality

1.3 Quality

1.3.1 Classification **(Basic)**

21. The fiscal reports show revenue and expenditure, using an administrative and functional classification generally consistent with international standards and an economic classification based on the 1986 Government Finance Statistics Manual (GFSM), which is now obsolete (Table 1.7). The reports on public finances published by the DAPF provide revenue and expenditure details in accordance with an administrative, economic, and functional classification, including information on the sources of financing. The economic classification of the information contained in these fiscal statistics is consistent with that established in the 1986 GFSM and with the administrative and functional classification in the 2001 GFSM. However, for the submission of these data to the IMF, they are converted to the presentation adopted in the 2001/2014 GFSM. The reports on budget execution use also a functional classification consistent with that contained in the United Nations classification of the functions of government (COFOG).

22. A coherent classification is used by the various levels of government. Budgetary and accounting data on entities belonging to the nonfinancial public sector (NFPS) are recorded in a number of information systems. Although diverse systems are employed to process accounting and budgetary information, use is made of a single budget classifier¹⁹ and a single chart of accounts applicable to virtually all public sector entities.²⁰ This ensures consistency in the processing of information and facilitates consolidation.

¹⁹ The classifiers in the Manual are: institutional classification; geographic classification; classification by objective, function, and division; classification by type of expenditure; classification by source of financing; classification of resources by heading; economic classification of resources; classification by expenditure purpose; and economic classification of expenditure.

²⁰ Art. 8 of the LOP Regulations establishes the mandatory nature of the Manual of Budget Classifications for the entire public sector, and the LOP and its Regulations indirectly establish the compulsory nature of the chart of accounts for the whole NFPS, setting up the DCE as the governing unit with the responsibility to issue the necessary rules under which financial statements are to be compiled in the NFPS.

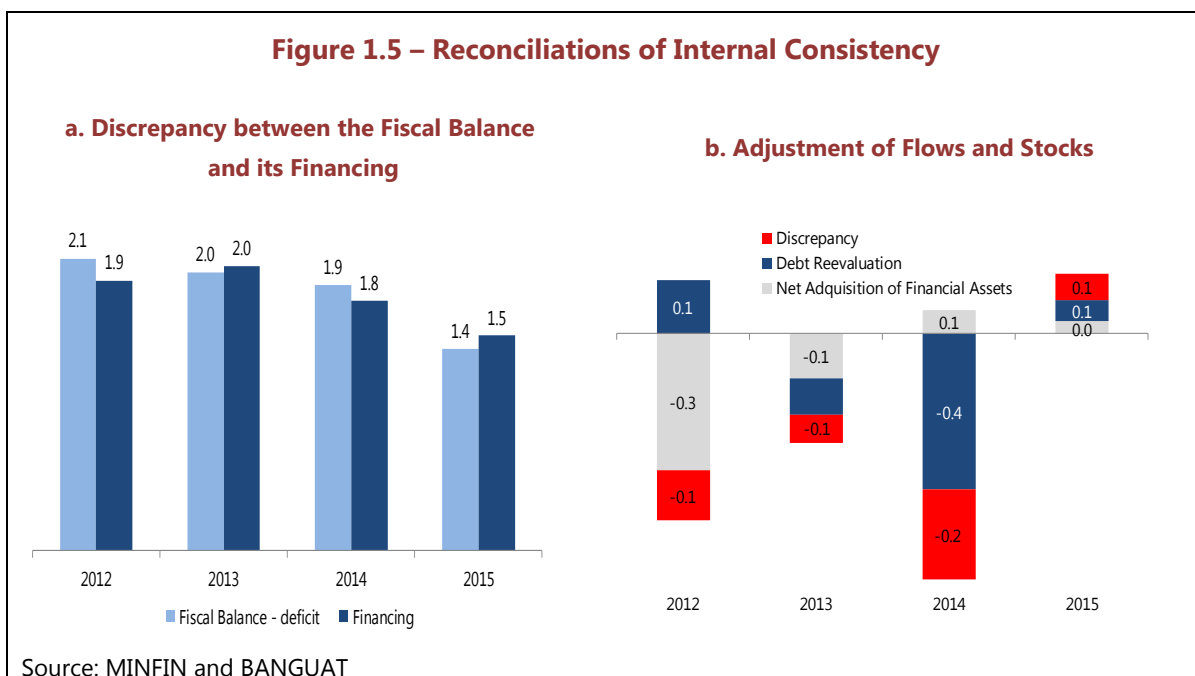
Table 1.7. Classifications in Guatemala versus International Standards

Classification	Purpose	International Standard	General Government of Guatemala
Administrative	Budget accountability and management.	Specific to each country but generally including branch, ministry, budgetary unit.	Distinguishes between branch, ministry, and budgetary unit (Tables 1.2 and 1.3).
Economic	Control/ supervision of the fiscal aggregates, macroeconomic analysis, and fiscal reporting.	2001/2014 GFSM International Financial Reporting Standards/ International Public Sector Accounting Standards.	1986 GFSM.
Functional	Historical and comparative analysis of policies, formulation, and accountability in the execution.	Classification of functions, subfunctions, and objectives of the government (COFOG).	The classification of functions is consistent with the COFOG.
Source of financing	To identify sources of financing, facilitate consolidation, and report separately on all public funds.	Specific to each country but generally includes at least domestic sources, external sources, and grants.	Resources from the treasury/ own resources, domestic/external credit, and domestic/external grants.

Source: MINFIN, Manual of Budget Classifications.

1.3.2 Internal consistency **(Basic)**

23. The fiscal reports present only the reconciliation between the fiscal outturn and financing. This reconciliation is presented in the reports on public finances and in the “Statement of Financial Position,” included as an annex to the annual financial statements. There is no discrepancy between the fiscal outturn and financing because the “variation in cash” item under “Financing” functions as a residual one. Taking the data on actual changes in the cash balance managed by the BANGUAT, the estimated discrepancies show an average representing 0.1 percent of GDP for the period 2012–15 (Figure 1.5).



24. In the report on public credit operations separate tables are presented, including the stocks, issuances, and servicing of debt; but reconciliations are not done. The estimates show that the main component that explains the adjustment of flows and stocks (difference between net financing and the change in debt) during the period 2012–15 is the revaluation of the foreign currency-denominated debt resulting from changes in foreign exchange. However, there is also an unexplained statistical discrepancy averaging 0.1 percent of GDP.

1.3.3 Historical consistency (Basic)

25. The previous statistics are revised when there are methodological changes or revisions, but the changes are not explained. The revised statistics are published in the fiscal reports as new figures, without any comparison or explanation with reference to the information reported earlier. The mission was unable to ascertain the magnitude of those revisions precisely, but they are not expected to be significant. The data for the year prior to the current fiscal year are described as provisional in the reports. The data provided to the IMF for publication in the *Government Finance Statistical Yearbook* (GFSY) are not revised.

E. Integrity

1.4.1 Statistical integrity (Basic)

26. The fiscal statistics are prepared, compiled, and disseminated by the DAFP according to the 1986 GFSM, whereas the data are forwarded to the IMF in accordance with the presentation defined in the 2001/2014 GFSM. The reports on public finances are produced by the DAFP, based on the data on budget execution contained in the SIAF. The economic classification is still consistent with the 1986 GFSM, and in practice the accounting

basis for recording is cash. The institutional coverage encompasses only the budgetary central government entities. The DTP is the directorate responsible for supplying fiscal data for the GFSY. To that purpose, it uses the budget execution data of the SIAF and converts it into the 2001/2014 GFSM presentation by means of bridging tables. Guatemala is a member in good standing of the IMF's General Data Dissemination System (GDDS).

1.4.2 External audit (Good)

27. The annual financial statements of the central government are subject to audit conducted and published by the supreme national audit institution, the CGC, which is an independent audit body that adheres to the International Standards of Supreme Audit Institutions. The CGC does its audit work on the basis of its internal regulations, which are generally consistent with the International Standards on Auditing issued by the International Organization of Supreme Audit Institutions (INTOSAI). The CGC's objective is to apply directly the standards issued by the INTOSAI as of June 2016. Its work is geared toward the ex-post supervision of budget execution and of the individual financial statements of supervised institutions, with a view to the future performance of management, compliance, and financial audits, as well as the issuance of audit opinions on the central government's consolidated financial statements. The CGC issues an audit opinion on whether the financial statements provide a fair and truthful presentation of the audited entity's financial position.

28. All public sector bodies are subject to supervision, except those of a financial nature and others that are subject by law to external audit, as well as any private entities receiving public resources.²¹ The audits done in 2014 covered all central government entities and 200 of the 338 existing municipalities, which are those deemed high-risk and average-risk according to the CGC's classification of risks.

29. The opinion issued by the CGC on the central administration contains a significantly qualified opinion.²² Opinions on the autonomous and decentralized entities are contained in Table 1.8. By legal limitation, the CGC does not issue opinions either on the comprehensive consolidated financial statements or on two central government institutions, namely, the

²¹ Art. 2 of the Organic Law of the CGC (Decree 31-2002): "The CGC is assigned the function of externally performing governmental supervision and monitoring of the assets and liabilities, rights, revenue, expenditure, and in general any budgetary interest of state bodies; autonomous and decentralized entities; municipalities and their companies; trusts constituted with public funds; development boards; public institutions or bodies that provide services by delegation of the state; institutions belonging to the NFPS; of any person, entity, or institution receiving funds from the state or collecting public funds; and of nonfinancial corporations in whose capital the state holds equity, under any name, as well any companies in which those corporations hold shares. Also subject to such supervision and external monitoring are public works contractors, nongovernmental organizations, associations, foundations, boards, committees, regional and international agencies, trusts, and any individual or legal entity, whether public or private, national or foreign, that, on behalf of the state, receives, invests, or manages public funds, including grants received and executed by the state, as regards the management of those funds."

²² See the CGC's reports and audit judgments at http://www.contraloria.gob.gt/reports_auditoria.html.

BANGUAT and the SIB,²³ whose financial statements are subject to supervision by private auditors.

Table 1.8. Audit Opinions Issued by the CGC to Autonomous and Decentralized Entities – 2015

TYPE OF JUDGMENT	QUANTITY
CLEAN AUDIT OPINION	23
QUALIFIED AUDIT OPINION	11
AUDIT OPINION WITH DISCLAIMER	1
ADVERSE AUDIT OPINION	1
AUDIT OPINION WITH LIMITATIONS AND QUALIFICATIONS	8
TOTAL	44

Source: CGC, Audit Opinions of the 2014 Financial Statements.

1.4.3 Comparability of fiscal data **(Basic)**

30. The four-monthly reports on budget execution are the only reports prepared on the same basis as the budget. The reports on budget execution and the annual financial statements are compiled by the DCE, and the fiscal statistics are prepared by the DAPF. In the reports on budget execution, tables are presented, comparing the revenue collected and the expenditure executed with the estimates contained in the approved budget and its subsequent amendments. The same institutional coverage, budgetary central government, and administrative, economic, and functional classification are adopted, so that comparison with the budget is immediate.

31. The fiscal statistics and financial statements have the same institutional coverage as the budget but do not show reconciliations with budget outturns. In the SIAF, tables can be automatically generated on reconciliations between budget executed and the expenditure reported in the profit and loss statements (essentially based on not including in the accounts as revenue or expenditure those budgetary flows related to financing, which are treated as accounting balances). In the case of revenue, this reconciliation is not automated, but must be done in a specific, manual way outside of the system. These reconciliation tables are not published.

²³ According to the organic law governing the CGC, those public sector entities that are subject by law to other external regulatory entities, as occurs with the BANGUAT and the SIB, are outside of its jurisdiction.

F. Recommendations and Conclusions

32. Table 1.9 summarizes the evaluation of practices in Guatemala by comparison with the FTC's Pillar 1 (Fiscal Reporting). The situation is advanced as regards the frequency of the reports and timeliness of the publication of financial statements. Also noteworthy is the large volume of fiscal information available on each of the sectors, and that the information on the public sector can be consolidated. The following recommendations focus on consolidation, considering the importance and the positive impact it could have in a short space of time:

- 1- Prepare and publish consolidated fiscal reports for the public sector and its subsectors, based on the data available in the various information systems (budgetary, accounting, and statistical). Start with the fiscal statistics (DAPF), so as to proceed subsequently with accounting and the budget (DCE). This would enable the CGC to produce a report and its pertinent audit opinion on the consolidated central government;
- 2- Migrate gradually toward observance of the 2001/2014 GFSM, with greater emphasis on economic classification.

Table 1.9. Summary of the Evaluation of Fiscal Reporting Practices				
	Principle	Evaluation	Importance	Rec.
Coverage				
1.1.1	Coverage of institutions	Not Met: The fiscal reports cover only 19 of the 544 public sector bodies. Coverage of the annual financial statements is broader, but there is no consolidation among the subsectors.	High: 75% of all public sector expenditure is reflected in the annual financial statements. In addition, a quarter of that expenditure represents transfers to other entities.	1
1.1.2	Coverage of Stocks	Basic: The balance sheet contains data on financial and nonfinancial assets, and on liabilities. However, there are important items not reported and major recording problems.	High: The unreported accounts payable to the BANGUAT and to the IGSS represent 11.6% of GDP. There is no evaluation of the actuarial liabilities of the pension plans.	1
1.1.3	Coverage of flows	Basic: The fiscal reports are prepared on a cash basis.	High: In 2014, the total transfers outstanding to the IGSS and the BANGUAT represented 1.0% of GDP.	1
1.1.4	Coverage of tax expenditure	Good: Tax expenditure is estimated annually, by tax and by beneficiary sector, but there is no overall ceiling.	Average: For 2015 and 2016, tax expenditure was estimated at 2.5% of GDP, equivalent to 25% of the volume of taxes managed by the SAT.	
Frequency and timeliness				
1.2.1	Frequency of in-year fiscal reporting	Advanced: The monthly reports on fiscal statistics are published during the subsequent month.	Low: There are no fiscal publications during the fiscal year, either for the municipalities or for the decentralized and autonomous entities.	
1.2.2	Timeliness of the annual financial statements	Advanced: The financial statements of the budgetary central government bodies are audited and published within six months following the closure of the fiscal year.	Low: The reports are timely.	

Quality				
1.3.1	Classification	Basic: Administrative and functional classifications consistent with international standards are used. The economic classification follows the 1986 MGFS.	Average: The economic classification should be moved toward the framework in the 2001/2014 GFSM.	2
1.3.2	Internal consistency	Basic: The fiscal reports present only the reconciliation between the fiscal outturn and financing.	Average: From 2012 to 2015 the discrepancy between the fiscal outturn and financing averaged 0.1% of GDP, and the adjustment of flows and stocks averaged 0.1% of GDP.	
1.3.3	Historical consistency	Basic: The previous statistics are revised when there are methodological changes, but the latter are not explained.	Low: The magnitude of the revisions is not expected to be significant.	
Integrity				
1.4.1	Statistical integrity	Basic: The fiscal statistics are compiled by the DAPF in accordance with the 1986 MGFS. The DTP uses the presentation in the 2001/2014 GFSM for submissions to the IMF.	Low: In both cases, the source used is the budget execution data posted in the SIAF.	
1.4.2	External audit	Good: The annual financial statements are audited by the CGC, an independent body that issues an audit judgment.	High: The judgment issued on the central administration contains an extensively qualified opinion.	1
1.4.3	Comparability of fiscal data	Basic: The four-monthly reports on budget execution are the only reports prepared on the same basis as the budget.	Average: The budget outturn is not reconciled with the fiscal statistics or the financial statements.	

FISCAL FORECASTING AND BUDGETING

A. Introduction

Table 2.1. List of Budget Documents

Report	Responsible Unit	Contents
Multiyear Program	DTP	Medium Term Budget Framework
Report on the Performance of Fiscal Policy and the Macroeconomic Situation	MINFIN	Budget execution of the public finances
Report on Monetary Policy	BANGUAT	Evolution of the main macroeconomic variables
Annual Budget	MINFIN	Budget of revenue, expenditure, and financing

B. Comprehensiveness

2.1.1 Budget unity **(Not Met)**

33. The budget system is extremely fragmented: only some of the central government entities have their budgets approved by the Congress. Of the 569 public sector entities, only 44 institutions, together called central administration, have their budgets approved by the Congress. There are 21 decentralized entities, 38 autonomous entities, 334 municipalities, 22 groups of municipalities, two national and one municipal social security institutes, eight national public nonfinancial corporations, 15 municipal public corporations, five national public financial corporations, 66 trust funds²⁴ constituted by central government entities, and 13 trust funds constituted by local government entities that have their budgets approved by various organs of the Executive (e.g., managing boards and boards of directors) or by the Heads of the pertinent legislative and judicial authorities, and other autonomous entities (Table 2.2). The most extreme case is that of the San Carlos de Guatemala University (USAC), which is exempt from sending its budget to the Executive and to the Congress.

²⁴ In 2016, there are 29 trust funds in existence, and those remaining are in the process of being closed or liquidated.

Table 2.2. Public Sector Entities

Entities	No.	%
Central government	184	32.34
Central administration	44	7.73
Noncommercial decentralized entities	21	3.69
Noncommercial autonomous entities	38	6.68
National social security funds	2	0.35
Nonfinancial public corporations	8	1.41
Financial public corporations	5	0.88
Trust funds constituted by central government entities	66	11.60
Local governments	385	67.66
Municipalities	334	58.70
Trust funds constituted by local government entities	13	2.28
Municipal social security fund	1	0.18
Groups of municipalities (Mancomunidades)	22	3.87
Municipal public corporations	15	2.64
Total	569	100.00

Source: MINFIN, Manual of Classifications in the Budget.

34. The revenues and expenditures are presented in gross terms in the budget, and the Constitution prohibits confidential expenditure. The Constitution establishes the compulsory nature and unity of the budget and of its program-based structure, the necessity of a law authorizing agencies and decentralized and autonomous entities to have own budgets and funds, and (art. 237) the obligation to send all budgets annually to the Executive and to the Congress for information and integration. Currently that integration still does not occur fully.

35. Despite this fragmentation, budget execution can be monitored individually through the SIAF. The SIAF has three independent modules that present the information on budget execution in three categories: central administration, in the SICOIN; decentralized entities, in the SICOIN-DES; and municipalities, in the SICOIN-GL. These modules are accessible for consultation by the public on the MINFIN's web page.²⁵ The MINFIN is negotiating a loan with the Inter-American Development Bank (IDB) to develop the SIAF 4, one of whose objectives

²⁵ For central administration (SICOIN), see <https://SIA.minfin.gob.gt/SIAweb/login/frmlogin.htm>; decentralized entities (SICOIN-DES), <https://DSIA.minfin.gob.gt/SIAweb/login/frmlogin.htm>; and municipalities (SICOIN-GL), <https://SIAGl.minfin.gob.gt/presentacion/login/frmLoginNuevo.aspx>.

is the consolidation of the budgets and the financial statements. Table 2.3 shows, by entities, the main reports available in each category.

Reports	Central Adm.	Descentrali zed Entities	Municipali ties
Revenue Execution			
Reports	X	X	X
Consult Consolidated Budget Revenues	X	X	X
Consult Budget revenues by Entity	X	X	X
Expenditure Execution			
Budget Modifications	X	X	X
Consult Budget Execution by Entity	X	X	X
Consult Consolidated Budget Execution	X	X	X
Consult by Thematic Classification	X	X	X
Quarterly Programming	X	X	X
Reports	X	X	X
Thematic Budget Information			
By geographic classification	X		
Budget output by geographic location	X		
Budget information by subject	X		
Budget information by budgetary entity	X		
Reports of the Law on Public Information Access			
Budget Execution of Revenue and Expenditure	X	X	X
Internal and External Modifications of Budgetary revenues and Expenditures	X	X	X
Budgetary Tax Collection	X	X	X
Monthly Budget Execution Information by Economic Classification	X	X	X
Bank Deposits Constituted by Public Funds	X	X	X
Bank Accounts of the Treasury and Deposited in Central and Commercial Banks	X	X	X
Inventories of Physical Assets	X	X	X
Transfers of Public Funds to other entities	X	X	X
Trusts created with public resources (fideicomisos)	X	X	X
One thousand Window program (Ventana de los Mil Dias)	X	X	X
Strategic Results of the Government	X	X	X
Zero Hunger Pact Plan	X	X	X
Gender Budget	X	X	X
Accountability Reports			
Financial execution	X	X	X
Physical Execution	X	X	X
Comparison Between Phynancial and Physical execution	X	X	X
Financial Execution by Revenue Classification	X	X	X
Economic and Financial Results	X	X	X
Analysis and Justifications of the Main Variations	X	X	X

Source: MINFIN, SICOIN, Law on Access to Information.

2.1.2 Macroeconomic forecasts (Basic)

36. The fiscal and budget documentation provides an elementary analysis of the essential macroeconomic forecasts on the basis of which the budget is formulated. The budget analysis includes the forecasts for the ongoing year and, as a reference for the next two years, the main macroeconomic variables, such as the nominal and real GDP growth rates, the inflation rate, and the growth of exports f.o.b. and imports f.o.b., prepared by the BANGUAT. The budget debate does not include a detailed analysis of the assumptions on which the macroeconomic forecasts are based, nor does it present alternative macroeconomic scenarios that could be important for the case of Guatemala.²⁶ The forecasts for the ongoing year and the next two years are prepared and forwarded by the BANGUAT to the MINFIN in April of each year, and the draft budget is sent to the Congress for approval at the beginning of September. During this period, the macroeconomic assumptions remain unchanged. The MINFIN contends that updating them would delay the delivery of the budget proposal, given the numerous institutions involved and the many phases through which this process must go for its preparation.

37. The Guatemalan macroeconomic forecasts used in preparation of the one-year budget and for the next two years are revised each April. Differences exist between what is forecast and what is actually executed (Table 2.4). However, there is no documentation that reconciles the previous year's macroeconomic projections with actual performances during the ongoing year, nor is there any analysis of the factors that caused the deviations from the forecasts. There is a technical committee, composed of MINFIN and BANGUAT representatives, that assess, among other topics, the gaps between the projections and the actual performances. It would be advisable to conduct an exercise for reconciliation and analysis of those gaps that could prove helpful in avoiding biases in the forecasts.²⁷

²⁶ The BANGUAT reports three macroeconomic scenarios that serve as a basis for preparation of the budget; the MINFIN takes into account the most conservative of these three scenarios for the purposes of its estimates.

²⁷ The MINFIN publishes in July of each year a document in which it gives details on the budget execution of the public finances in the first half of the year (*Report on the Performance of Fiscal Policy and Activities in the First Half of 2015*; <http://www.minfin.gob.gt/index.php/report-de-medio-ano>). The MINFIN also prepares a similar report, but every four months; this can be consulted at http://www.minfin.gob.gt/index.php/?option=com_content&view=article&id=586&Itemid=358. The BANGUAT conducts quarterly analyses of the evolution of the main macroeconomic variables as a part of its Report on Monetary Policy, available at (<http://www.banguat.gob.gt/inc/main.asp?id=121516&aud=1&lang=1>).

**Table 2.4. Guatemala: Main Macroeconomic Assumptions
(growth rates, percentage)**

	Budget Document Ex-Ante			Executions - Ex-Post		
	Nominal GDP	Real GDP	Consumer Price Index	Nominal GDP	Real GDP	Consumer Price Index
2011	7,8	2,7	5,0	11,4	4,2	6,2
2012	7,7	3,1	4,5	6,4	3,0	3,8
2013	7,5	3,4	4,0	7,2	3,7	4,3
2012	8,4	3,7	5,6	6,4	3,0	3,8
2013	8,1	3,9	5,5	7,2	3,7	4,3
2014	8,2	4,0	6,0	7,5	4,2	3,4
2013	7,6	3,5	n.a.	7,2	3,7	4,3
2014	7,7	3,6	n.a.	7,5	4,2	3,4
2015	7,6	3,5	n.a.	7,5	4,0	2,4
2015	7,7	3,4	3,0	7,5	4,0	2,4
2016	7,5	3,4	3,0	n.a.	n.a.	n.a.
2017	7,7	3,5	3,0	n.a.	n.a.	n.a.
2011-15	7,9	3,3	4,5	8,1	3,7	4,2

Source: Multyear Program 2011-13, 2012-14, 2013-15 and 2015-17, and IMF staff calculations.

* The budget for 2014 was presented by the government but not approved by the Congress.

2.1.3 Medium-term budget framework (Basic)

38. The MTBF includes medium-term projections of revenue, expenditure, and public debt. It contains the approved budget for the previous year, the budget recommended or proposed for the ongoing year, and a projection of the budgetary aggregates (tax revenue, nontax revenue, current expenditure, capital expenditure, etc.) for the next two years.²⁸ The MTBF covers only the central administration but not the NFPS because of the lack of aggregation of information available. Consolidation of the public sector's finances would require a considerable logistic effort as well, it is argued, as changes in the legal framework. The former could be achieved by making the change gradually. The MTBF is submitted together with the budget to the Congress at the beginning of September. The amendments made by the Congress in the budget for the following year are not reflected in the MTBF for the next two years. It would be advisable, once the Congress amends the budget, for the changes made to be incorporated into the projections for the next two years, so that consistency can be maintained in the forecasts; and accordingly, once the MTBF has been amended, it can serve as a basis for the subsequent one.²⁹

39. The fiscal projections in the MTBF follow a process of estimation in detail. The projections of the main fiscal aggregates are prepared on the basis of an estimation process in which all central administration entities participate and which goes from the requirements for the most elementary inputs to the main fiscal aggregates.³⁰ As required by the MTBF, this process is repeated for the next two years.³¹ Despite this level of detail in the budget's formulation, at an aggregated level the main fiscal variables are over-estimated (Table 2.5). For example, fiscal revenue in the period 2011–15 was over-estimated, on average, by about 5 percent; however, the fiscal deficit was over-estimated to an even greater extent. This was possible because the rise in expenditure was greater than the decline in revenue. Given that the growth rates of nominal and real GDP were under-estimated in 2011–15, the over-estimation of tax revenue was the result of a reduction in collection during the period.³²

²⁸ The government started to design a medium-term fiscal framework or a multiyear budget since the middle of the [first decade of the] 2000s. As of 2010, expenditure ceilings were introduced for the various entities of the central administration. The framework presents two-year revenue and expenditure forecasts on a basis comparable with the budget.

²⁹ In fact, when the MTBF is prepared, its preparation starts practically from scratch. In the preparation of the 2016 budget, no reference was made to what was projected for the year in the 2015 MTBF. This lack of links between MTBFs reduces the usefulness and importance of a multiyear exercise for the budget.

³⁰ For example, for each vaccination campaign, a calculation is made of the number of vaccines needed and the costs of each necessary input related to this purpose.

³¹ The various agencies of the central administration use the SICOIN as the technological platform for recording needs in the form of inputs, goods, and services at each entity.

³² The ratio of tax revenue to GDP fell from 10.9 percent in 2011 to 10.2 percent in 2015. The government implemented a tax reform in 2012, but it was gradually reversed by judicial decisions of the Constitutional Court, with an unfavorable impact on collection.

Table 2.5. Main Macroeconomic Variables in the Budget
(millions of quetzals, percentage)

	Total Revenues	Recurrent Revenues	Tax Revenues	Non Tax Revenues	Capital Revenues	Total Expenditure	Recurrent Expenditure	Capital Expenditure	Fiscal Deficit
* Budget (Approved)									
2011	42082	42055	38790	3265	27	52178	39462	12716	-10096
2012	47002	46971	43611	3360	31	57299	44592	12707	-10297
2013	54026	54015	50376	3639	11	64592	49698	14894	-10566
2015	58430	58410	54556	3854	20	68415	54495	13920	-9985
* Executed									
2011	43154	43141	40292	2849	13	53511	40092	13419	-10357
2012	45874	45855	42820	3035	19	55320	43881	11439	-9446
2013	49260	49251	46336	2915	9	58269	45555	12714	-9009
2015	52760	52734	49731	3003	26	59891	49257	10634	-7131
* Difference (as a percentage of the budgeted)									
2011	2,5	2,6	3,9	-12,7	-52,1	2,6	1,6	5,5	2,6
2012	-2,4	-2,4	-1,8	-9,7	-40,0	-3,5	-1,6	-10,0	-8,3
2013	-8,8	-8,8	-8,0	-19,9	-15,8	-9,8	-8,3	-14,6	-14,7
2015	-9,7	-9,7	-8,8	-22,1	-29,7	-12,5	-9,6	-23,6	-28,6
Average									
2011-15	-5,2	-5,2	-4,4	-16,4	-25,0	-6,4	-5,0	-11,1	-12,2

Source: Multyear Programs 2011-13, 2012-14, 2013-15 and 2015-17, and IMF staff calculations.

*The budget for 2014 was presented by the government but not approved by the Congress.

2.1.4 Investment projects (Basic)

40. The government partly discloses the value of the debt contracted in the context of multiyear investment projects, submits the main projects to feasibility analysis, and establishes that all major projects must be contracted through bidding; but this does not generally occur. Data on projects financed by trust funds are unavailable.

41. To be included in the budget, and in accordance with the provisions of the LOP (Decree 101-97) in its article 30 and with the related regulations as well as with the Standards of the National Public Investment System (SNIP) for the year, investment projects must be entered in the SNIP.³³ Public investment entities implementing projects, whether or not they generate fixed capital, with funds governed by the LOP, including trust funds and projects with refundable and nonrefundable cooperation funds, are required to record the pertinent document in the SNIP and officially forward it to the Secretariat of Planning and Programming in the Office of the President (SEGEPLAN) for the required evaluation, as well as to maintain the information updated in the National Public Investment Information System (SINIP). The SICOIN allows only for the payment of invoices for projects that are recorded in the SINIP.

42. Each project requires a pre-feasibility and feasibility study before resources are allocated in the budget; but that does not systematically occur for cost-benefit analysis. There is a specific rule spelling out the studies that must be done for a project's inclusion in the SNIP: market, technical, administrative and legal, and financial. The rule states that a cost-benefit analysis must be prepared, and indicators presented, such as net present value (NPV) and internal rate of return (IRR) for productive projects, but this does not occur systematically. Nor are the amounts in the system always updated when contractual changes occur in values and levels of services.³⁴

43. The Law on State Procurement (LCE) requires that all major investments be submitted to the process of competitive bidding; however, in practice there is much direct contracting. Up to December 2014, the typical procurement mechanism throughout the civil service was direct contracting.

³³ See <http://systems.segeplan.gob.gt/snip>.

³⁴ For example, of the 495 projects in the portfolio of the Ministry of Communications, Infrastructure, and Housing in 2015, there were 277 projects under implementation, and none had any indication of when they would end, as payment information was very limited (data verified on April 7, 2015). <http://systems.segeplan.gob.gt/snip>.

C. Orderliness

2.2.1 Fiscal legislation **(Advanced)**

44. The legal framework establishes the budgetary timetable, the main requirements on the budget proposal's contents, and the powers of the Congress to amend the Executive's budget proposal. The Constitution, the LOP, and the LPA set out the main roles and responsibilities of the Legislature and the Executive in the budget's preparation, approval, execution, amendment, and accounting presentation. It is the Executive's role to submit the general budget for approval by the Congress, and it is the latter's responsibility to approve, amend, or reject it.

45. The Executive is required to present the LPA proposal to the Congress 120 days before the start of the fiscal year, and the Congress must approve it 30 days before the beginning of the fiscal year. The Constitution sets dates for the budget's presentation and approval in its article 171 and states that the Congress must approve, amend, or reject the State Revenue and Expenditure Budget 30 days before its entry into force. In the event that the budget is not passed before the beginning of the fiscal year, the budget in effect for the previous year remains valid and may be adjusted or amended by the Congress. This happened in 2014 when the Congress did not pass the budget, and the budget for the previous year remained in effect, with the amendments approved by the Congress.

46. All government entities must, within 90 days following the end of the fiscal year, present their accounts to the CGC, which has 60 days to issue its audit opinion. The Congress has the role of approving or rejecting the accounts of the individual entities. The time limits for the presentation of accounts and the issuance of opinion by the CGC have been mostly observed; however, approval by the Congress has been late in some cases by over three years.

2.2.2 Timeliness of budget documents **(Advanced)**

47. In FY 2015 and FY 2016, the budget was presented to the Legislature more than three months before the beginning of the year, passed before November 30, and published in December. The Congress did not pass the 2014 budget proposal before November 30. Accordingly, the budget in force was the same as for the previous fiscal year, with the amendments made by the Congress (Table 2.6).

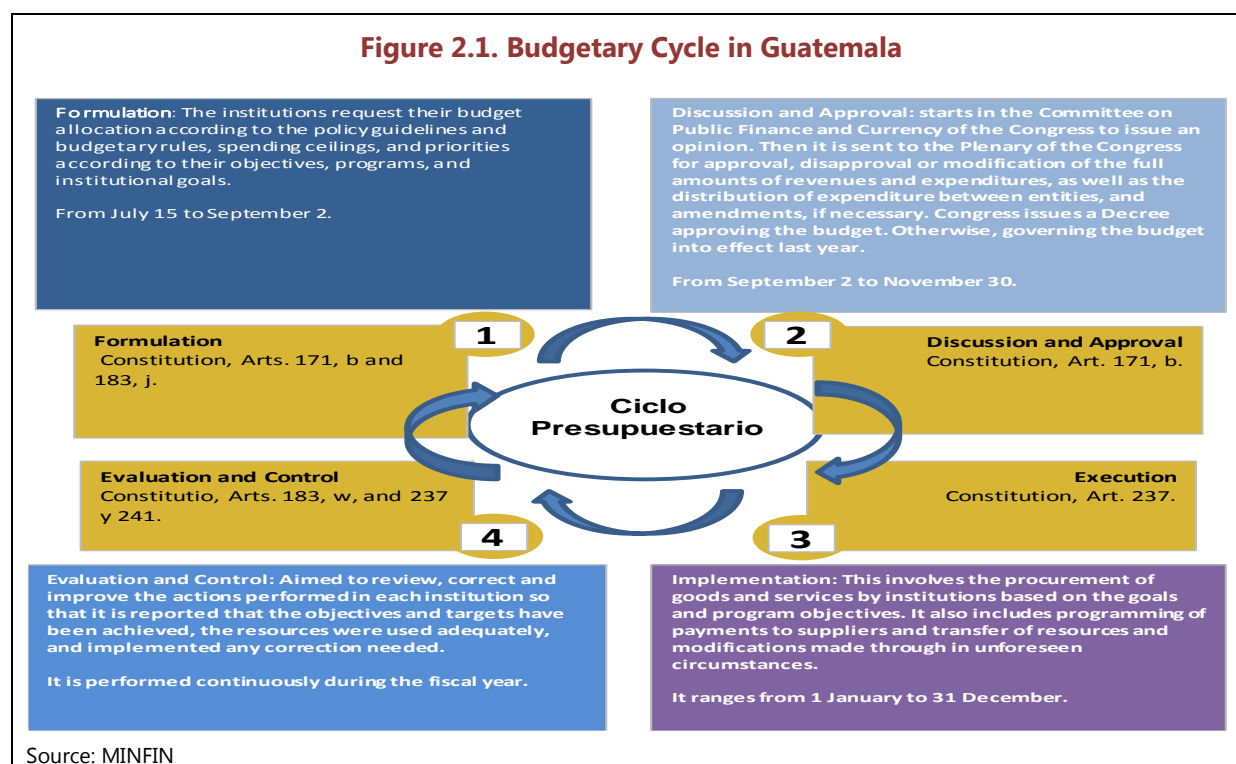
Table 2.6. Dates of Budget Proposal and Approval 2013–16

Budget	2013	2014	2015	2016
Date of presentation of the budget proposal to the Congress by the Executive	August 31, 2012	August 29, 2013	September 1, 2015	August 31 2015
Date of publication of the budget approved by the Congress	October 23, 2012 Decree 30-2012	The 2014 budget proposal was not approved by the Congress of the Republic. The previous year's budget remained in effect.	December 4, 2014 Decree 22-2014	December 16, 2015 Decree 14-2015

Source: MINFIN.

48. The budgetary cycle is structured in the phases of formulation, debate and approval, execution, and control. Each phase has clearly specified dates and procedures,³⁵ and they are all generally well organized (Figure 2.1).

Figure 2.1. Budgetary Cycle in Guatemala



³⁵ These phases are established in article 7 bis of Decree 101-97 of the LOP.

D. Policy Orientation

2.3.1 Fiscal policy objectives **(Not Met)**

49. The fiscal policy objectives are not explicitly announced; nor are there numerical fiscal rules with verifiable time limits. Although the MTBF analyzes the fiscal revenue and expenditure contained in the budget, this analysis lacks a reference framework to guide fiscal policy decisions in the medium term. There are no numerical fiscal objectives in Guatemala, for example, or any fiscal responsibility law on the basis of which fiscal policy objectives can be set (e.g., tax collection target, and debt, fiscal deficit, and expenditure ceilings). Given the lack of a reference framework for the medium term, it is difficult to identify and assess fiscal policy objectives and performance. However, as a result of the 1997 Peace Accords, it was agreed to adopt tax collection representing no less than 12 percent of GDP and, over time, a fiscal deficit representing no more than 2 percent of GDP was adopted as an implicit rule. The former guideline has been rarely met³⁶ (Figure 2.2), whereas the latter rule (Figure 2.3) was observed in the middle of the period between 1998 and 2015 and adopted by the authorities in recent years.³⁷

50. The priority objectives should be to preserve fiscal stability and at the same time improve tax collection. The fiscal deficit between 1998 and 2015 averaged 2.1 percent of GDP, which was essentially moderate and quite close to the guideline of 2 percent for the fiscal deficit. Tax collection during the same period averaged 11.1 percent, that is, below the 12 percent level recommended for it. Although fiscal policy management has adjusted expenditure to maintain a moderate deficit, collection has been declining in recent years (11.0 percent, 10.8 percent, and 10.2 percent of GDP in 2013, 2014 and 2015, respectively). Even though there are no explicit fiscal policy objectives in Guatemala, the society seems to place great store by disciplined fiscal policy.

³⁶ Between 1998 and 2015, the central administration's tax collection exceeded 12 percent of GDP only in 2007.

³⁷ In the 2015 and 2016 draft budgets placed before the Congress, the proposed fiscal deficit was 2 percent of GDP.

Figure 2.2. Tax Revenue (Percentage of GDP)

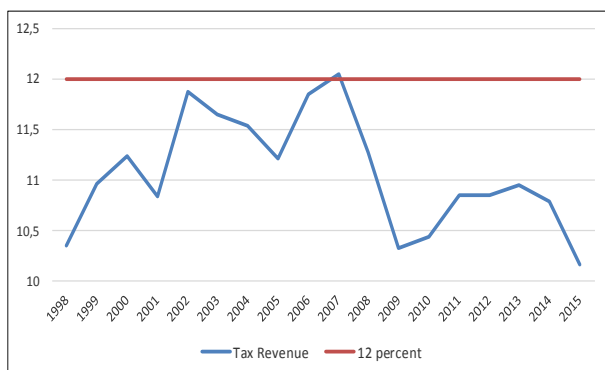
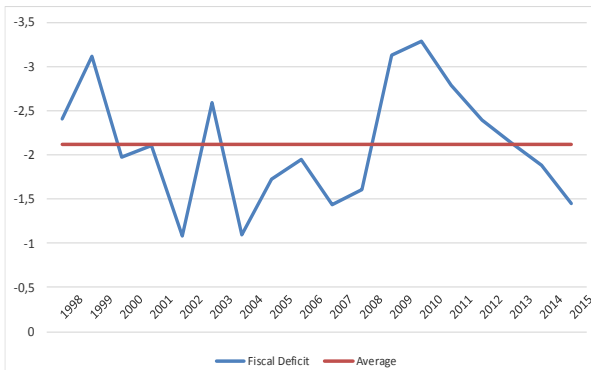


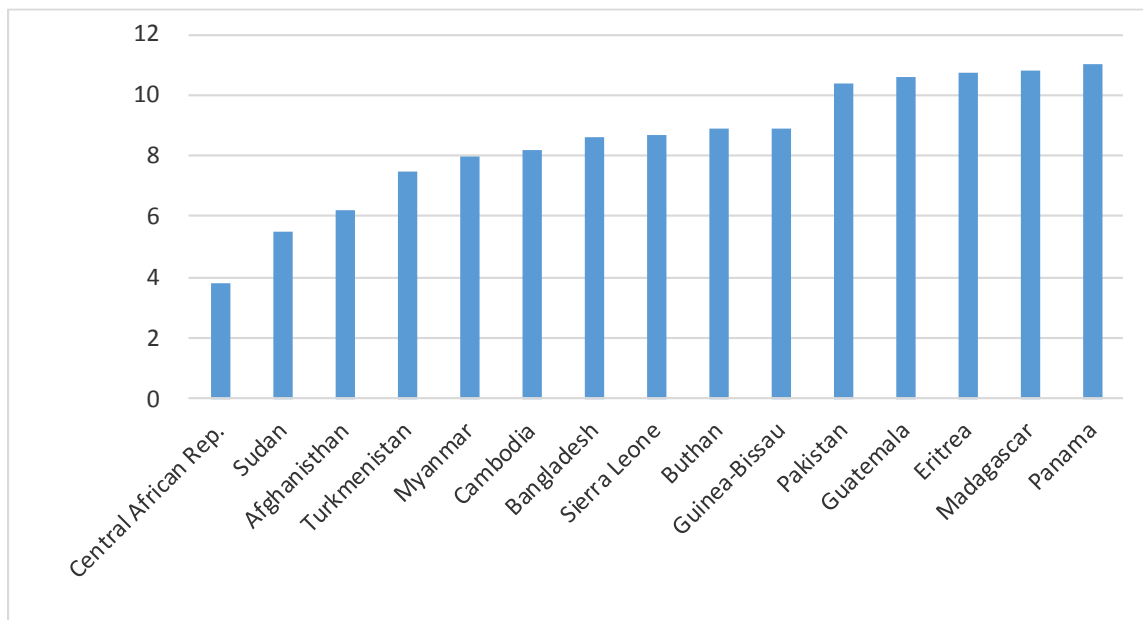
Figure 2.3. Fiscal Deficit (Percentage of GDP)



Source: MINFIN.

51. Guatemala is among the group of countries around the world with the lowest tax-to-GDP ratio collection (Figure 2.4). This situation limits the opportunities for adequate expenditure on essential services such as health and education that can, in turn, generate growth with inclusion over the long term. In this context, perhaps the adoption of a fiscal rule is not a priority at this stage, but fiscal policy efforts should be focused on how to improve tax collection.

Figure 2.4. Tax-to-GDP ratio in Various Countries



Source: "Tax Capacity and Growth: Is There a Tipping Point?" Vitor Gaspar, Laura Jaramillo, and Philippe Wingender; FAD Seminar Series, December 9, 2015.

2.3.2 Performance information (Basic)

52. The budget documents present the targets set for the objectives to be accomplished by each major sphere of government policies and the progress achieved. As of FY 2010, the budget proposal for the central government institutions has been presented on a program basis including a target for each outcome, and the accompanying documentation includes a methodological note on performance-based management. Still, there is no systematized presentation of the progress achieved in each of the programs.

53. Since the LOP was amended in November 2013, it has expanded the coverage to include the entire public sector. Article 4 of the LOP states that public sector entities must prepare and publish annually, on a freely accessible, open, web site at no cost, a report presenting their accounts for the previous fiscal year, before the end of the first quarter of each year, and that such reports must contain, among other things:

- Targets, indicators, outputs, and outcomes that measure the impact of public policies;
- Number of beneficiaries, geographic location, and mechanisms for meeting the targets; and
- Measures implemented regarding transparency and quality of spending.

54. No report is prepared on information of project's inputs, costs, and targets, and that information is not reported to the Congress for the budget's approval. The information is registered by the executing units in the Management Information System (SIGES) and then transferred to the SICOIN, which can serve as a basis for assessment of the projects when the budget proposal is formulated and approved. The CGC and the Congress have full access to the system.

55. The program framework with its targets and indicators was adopted to improving the link between development and strategic plans and the budget, but the lack of an assessment of the indicators limits its impact. The National Development Plan (PND), *K'atun: Nuestra Guatemala 2032*, formulated with representatives of various sectors of the population within the National Urban and Rural Development Council (CONADUR), defines in five key areas³⁸ the institutional and sectoral planning documents at the various geographic levels. Those documents, and especially the recently created General Government Policy (PGG)³⁹ should serve as a basis in the establishment of the budget's targets.

³⁸ Urban and rural Guatemala; Well-being for the People; Wealth for All; Natural Resources Today and for the Future; and The State as Guarantor of Human Rights and Driver of Development.

³⁹ The 2016–20 PGG, which establishes 27 targets to be met in 2019 and the pertinent indicators, is the new government's action plan and has been approved by the CONADUR as regards its consistency with the PND.

2.3.3 Public participation **(Basic)**

56. Since FY 2011, the government has been publishing a Citizens' Budget.⁴⁰ The purpose of this report is to provide an accessible description of performance and recent economic and fiscal forecast,⁴¹ as well as a detailed explanation of the budget's impacts on a typical citizen. That report is prepared and published on line after the budget's approval by the Congress.⁴² Between FY 2011 and FY 2014 it was becoming customary to translate it into four Mayan languages and into English, and it was distributed in hardcopy, among other formats, through the MINFIN's fiscal culture program.

57. There is no formal process whereby citizens can express their views on the central government's budget proposal; however, there is some space for debate on priority projects at the local level. Within the framework of the budget preparation process, the MINFIN usually provides information to various social sectors in an informal way. Those sectors are consulted in the context of the formulation of investment plans channeled through the CONADUR. At the national level, members of those sectors (representatives of the indigenous and Garifuna communities, of the cooperative sector, of the rural organizations, workers' organizations, unions, nongovernmental organizations, women's' organizations, and others) participate in the CONADUR,⁴³ which analyzes and suggests changes in the pre-investment and investment proposed for the following year and, as such, in the definition of the Geographical List of Investments. At the regional and departmental level, those sectors are also represented. During budget debate in the Congress, the Commission of Public Finances and Money may request opinions from the social sectors, but this is not done systematically, and the Commission has no decision-making power.

E. Credibility

2.4.1 Independent evaluation **(Not Met)**

58. There is no independent entity in Guatemala that assesses the credibility of the government's economic and fiscal forecasts. A fiscal council is a permanent body with a legal or executive mandate to assess publicly and independently the government's fiscal policies, plans, and performance with the established objectives. These councils generally tend to provide transparent, independent analysis of the public finances that can reduce the bias of the macro-fiscal forecasts

⁴⁰ See <http://www.minfin.gob.gt/index.php/budget-ciudadano>

⁴¹ This document was generated by a request of the *International Budget Partnership*, which stresses in its latest survey (2015) that since 2012, the Guatemalan government has reduced the availability of information, publishing the Citizens' Budget in an untimely way and only in Spanish.

⁴² For FY 2016, it was published at the beginning of April. In previous years it was published with delay and in some occasions in the second half of the ongoing year.

⁴³ Article 5 of the Law on Development Boards (Decree 11-2002).

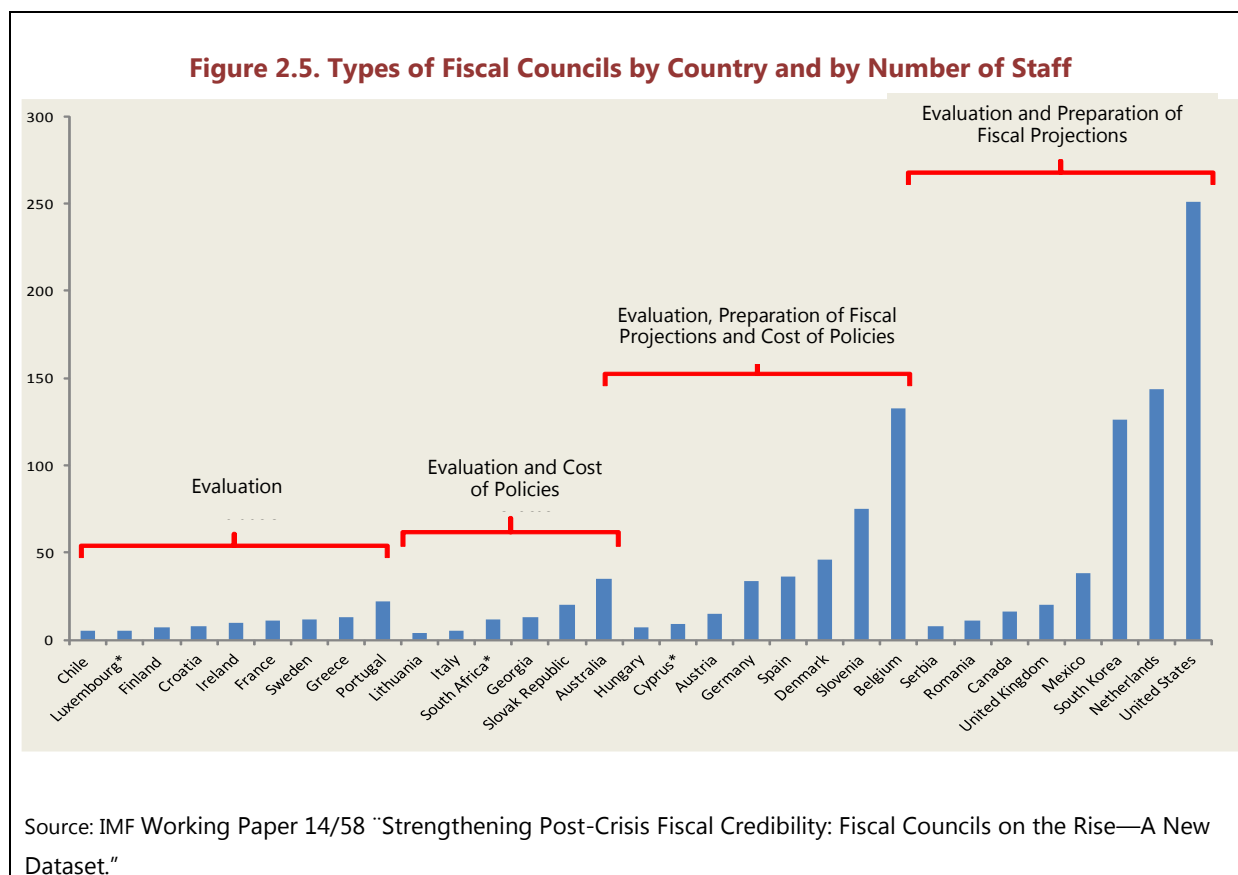
and estimated policy costs, improve the accountability of decision makers, and increase public awareness of the benefits of sound fiscal policy (Box 2.1).

59. The Monetary Board (JM) is an institution created by the Constitution to formulate monetary, foreign exchange, and credit policies and has played a major role in the coordination between fiscal and monetary policies. Despite not having the basic characteristics of an independent fiscal council, the JM has had a major role by providing advice to the government in terms of financial policies. The JM is composed of the President of the BANGUAT, who chairs it, the Ministers of Finance, Economy, and Agriculture, a member of the Congress of the Republic, a member of the business associations, a member of the national private banks, and a member of the USAC. Of note is the publication of the JM's Resolutions; reports on the evaluation of monetary, foreign exchange, and credit policies; and quarterly reports on monetary policy.⁴⁴

Box 2.1. International Experience of Fiscal Councils

In recent years, there has been a tendency to create independent fiscal councils in various countries. The most common functions of fiscal councils are evaluation of forecasts, costing of public policies, and preparation of fiscal projections. The sizes of such councils vary, depending generally on the specific responsibilities assigned to them. Some of the characteristics of independent fiscal councils are: responsibilities defined by law or regulations, duration of the members' term of office, independence to prepare and publish reports and communicate with the press, having an adequate budget and member remuneration commensurate with public functions involving similar responsibility, and freedom to define their work agenda. Figure 2.5 presents the responsibilities and size of some fiscal councils.

⁴⁴ See <https://www.banguat.gob.gt/inc/main.asp?id=121516&aud=1&lang=1>.



2.4.2 Supplementary budget (Good)

60. A supplementary budget is required before any significant amendment can be made to the total budgeted expenditure (in the case of increases as well as reductions). Exceptions to that requirement can be included in the budget law. Recently, such an exemption was granted for an increase in the disposable proceeds of donations or asset forfeitures valued at less than Q700 million for the year.

61. The Congress has to pass a supplementary budget before additional resources can be executed. When the additional resources come from a new loan, the decree authorizing that loan usually specifies which expenditure items are to benefit from that funding. If the increase in resources is the result of an increase in tax revenue, a decree is prepared, stating which items are to be obtained with the additional funds. Since January 2013 there have been only two decrees on amendments⁴⁵ to the budget law by the Congress, both in 2014.

62. The LOP establishes the rules on budgetary transfers and amendments that have no impact on the total budgeted expenditure and can therefore be executed directly by the Executive. For such transfers, governmental, MINFIN, or ministerial agreements are issued, as applicable (see article 32 of the LOP) and are not subject to approval by the Congress. However, the

⁴⁵ An increase in January and an amendment in February.

DTP has to report each month to the Congress on the amendments made. The SICOIN provides public information on initial and amended budgets, by entity and by budget item.

2.4.3 Forecast reconciliation **(Not Met)**

63. The MTBF does not analyze differences between consecutive medium-term fiscal forecasts. The MTBF does not compare its aggregated fiscal forecasts of recent years with the latest forecasts or, alternatively, with the actual outturns, and as a result it does not offer reasons for differences between these forecasts, even when in some cases the differences are considerable on both revenues and expenditures.⁴⁶ The incorporation of reconciliation tables that break down the relative impact of the various factors explaining revisions would help increase the credibility of the official forecasts.

F. Recommendations and Conclusions

64. Table 2.7 summarizes the evaluation of practices in Guatemala by comparison with the FTC's Pillar 2, "Fiscal Forecasting and Budgeting." The situation is advanced as regards the timeliness of the budget documents and the fiscal legislation. It would be important to move forward on the consolidation of budgets and their joint approval by the Congress; the statement of medium-term fiscal objectives; integration of the budgetary, financial, and accounting systems; and the reconciliation and analysis of deviations from the fiscal forecasts. The following recommendations are geared mainly to addressing those priorities:

- 3- Prepare a consolidated budget of the central government (central administration and decentralized and autonomous entities) for approval by the Congress (DTP);
- 4- Perform an exercise to reconcile and analyze deviations between the forecasts and actual performances (DAPF and BANGUAT);
- 5- Set explicit the medium-term fiscal policy objectives (DAPF); and
- 6- Improve the integration of the budget information systems, make the costs of projects and activities more realistic, and refine the definition of the targets in planning (SICOIN, SNIP, SIGES, DTP, DCE, and SEGEPLAN).

⁴⁶ For example, in 2015 tax revenue was nearly 9 percent less than initially projected, whereas current expenditure was almost 10 percent less than initially projected.

Table 2.7. Summary of the Evaluation of Fiscal Forecasting and Budgeting Practices				
	Principle	Evaluation	Importance	Rec
Comprehensiveness				
2.1.1	Budget unity	Not Met: The Congress passes the budgets of only 19 out of the 159 bodies that make up the central government.	High: The budgetary coverage is very low, but there is information available that would make broader coverage possible.	3
2.1.2	Macroeconomic forecasts	Basic: The budget documents provide preliminary analysis of the macroeconomic forecasts, on the basis of which the budget is formulated for the ongoing year and the next two years.	High: Medium-term forecasts covering all of the main macroeconomic indicators would add value to the fiscal analyses.	4
2.1.3	Medium term budget framework	Basic: The MTBF contains projections on revenue, expenditure, and public debt.	Average: It would be beneficial to explain the medium-term fiscal targets so as to give more certainty to fiscal policy.	5
2.1.4	Investment projects	Basic: The disclosure and analysis of multiyear investment projects is not fully achieved.	Average: All major investment projects should have a cost-benefit analysis and be contracted through competitive bidding.	6
Orderliness				
2.2.1	Fiscal legislation	Advanced: The normative framework establishes the calendar, contents, and congressional powers to amend the Executive's draft budget, as well as the obligation to present accounts.	Low: The fiscal legislation has the basic elements.	
2.2.2	Timeliness of budget documents	Advanced: The budget is presented to the Congress at least three months before the beginning of the fiscal year, with the various phases of the cycle well defined.	Low: The budget is presented and passed in a timely way.	

Policy Orientation				
2.3.1	Fiscal policy objectives	Not Met: There are neither explicit fiscal objectives nor numerical fiscal rules with verifiable time limits, and the low level of tax collection is remarkable.	High: It would be beneficial, for fiscal policy purposes, to state the medium-term fiscal objectives.	5
2.3.2	Performance information	Basic: The budget documents contain, for the entire public sector, the targets set by public policies, even though there is no systematic evaluation of achievements.	Average: The evaluation of the results of the main programs should be introduced.	6
2.3.3	Public participation	Basic: A Citizens' Budget is published with accessible information on performance and the fiscal forecasts, but this participation is not institutionalized in debates on the draft budgets.	Low: Participation could be expanded.	
Credibility				
2.4.1	Independent evaluation	Not Met: There is no independent unit with this function. The JM coordinates monetary and fiscal policies.	Low: Deviations from the forecasts are not significant.	
2.4.2	Supplementary budget	Good: Significant amendments to expenditure or revenue require the passage of a supplementary budget by the Congress.	Low: Supplementary budgets are not very often used.	
2.4.3	Forecast reconciliation	Not Met: The MTBF does not analyze the differences between consecutive fiscal forecasts.	Low: An analysis of deviations from the forecasts can contribute to the quality of projections.	4

FISCAL RISK ANALYSIS AND MANAGEMENT

A. Introduction

Table 3.1. Reports on Fiscal Risks		
Report	Responsible Unit	Contents
Debt Sustainability Analysis	MINFIN – DAPF	Debt sustainability
Debt Sustainability Analysis	MINFIN – DCP	Debt sustainability, macroeconomic and external shocks (not published)
Debt Sustainability Analysis	BANGUAT	Debt sustainability, macroeconomic risks (not published)
Debt sustainability strategy	MINFIN – DCP	Debt sustainability, risk management (not published)
Report on public credit operations and guaranteed debt	MINFIN – DCP	Debt, guarantees
Report on the municipal debt position	MINFIN – DAAFIM	Municipal debt
Social security actuarial projections	IGSS	Revenue and expenditure on pension systems and health coverage
Report on the Savings Insurance Fund	BANGUAT	Provisions for bank deposit insurance
Statistical Survey of the Financial System	SIB	Information on the assets, liabilities, and net worth of the financial institutions

B. Risk Disclosure and Analysis

3.1.1 Macroeconomic risks **(Not Met)**

65. The annual MTBF does not present an analysis of the sensitivity of the fiscal forecasts to the macroeconomic assumptions, nor does it evaluate the fiscal assumptions and macroeconomic alternatives. A comprehensive fiscal analysis needs to be accompanied by an assessment of the sensitivity of its forecasts to its macroeconomic assumptions, so as to facilitate

progress toward a meaningful risks assessment. Similarly, additional analysis is also necessary on alternative assumptions for investigating potential outturns in various scenarios.⁴⁷

66. Tax revenue shows greater volatility than that of its main underlying assumptions, and this affects the fiscal risks assessment. The change in tax revenue has been greater than the change in its two main formulation assumptions (nominal GDP growth rate and inflation rate—Table 3.2).⁴⁸ This suggests that tax revenue is subject to considerable volatility, not counting the volatility of its main underlying assumptions. This volatility is even greater if we compare the variables in question in real terms.

Table 3.2. Indicators of Tax Revenue Volatility and its Main Macroeconomic Assumptions (1998-2015, percentage)

	Average	Standard Deviation	Variation Coefficient
Nominal GDP Growth Rate	9,4	2,7	28,7
Inflation Rate	5,9	2,4	40,8
Nominal Tax Revenue Growth Rate	9,4	6,4	67,4
Real GDP Growth Rate	3,5	1,3	35,7
Real Tax Revenue Growth Rate	3,3	5,5	163,5

Elaboration: IMF staff.

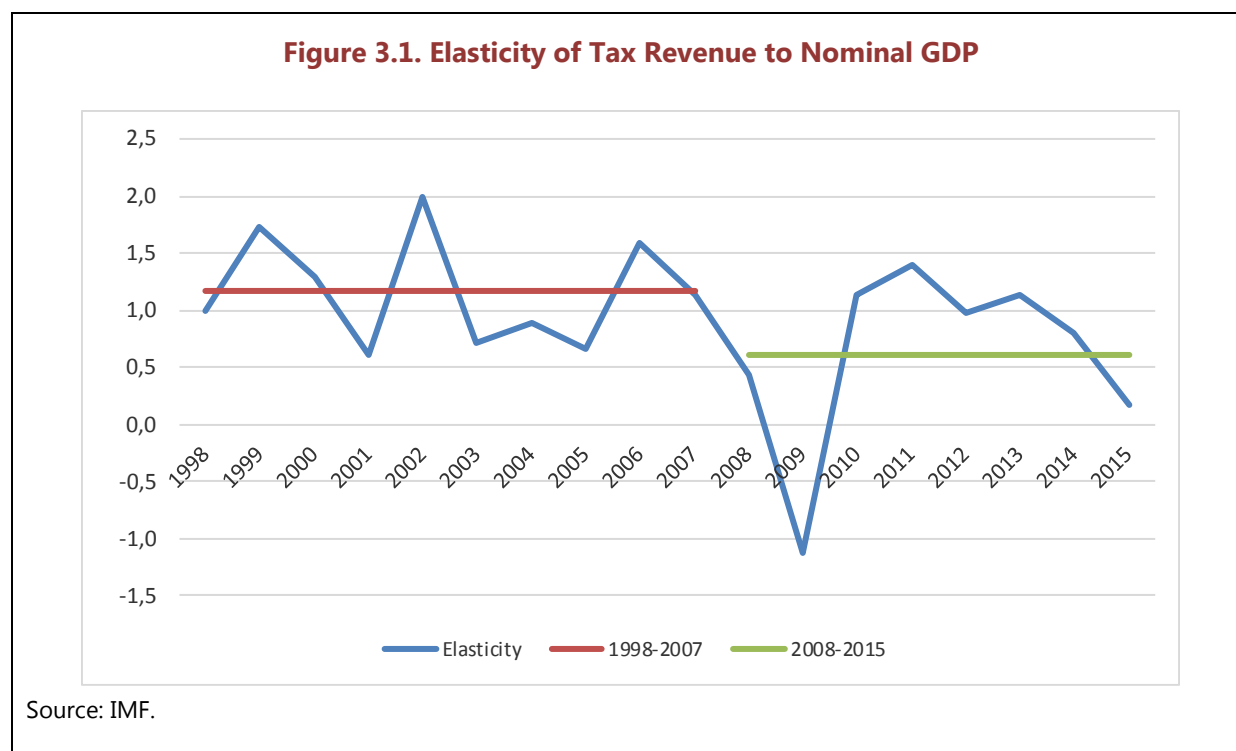
67. While this volatility had a positive impact on tax revenue up to 2007, since then the impact has been negative. The elasticity of tax revenue to nominal GDP was 1.2 percent between 1998 and 2007, and this declined by half, to 0.6 percent, between 2008 and 2015 (Figure 3.1). As a result, the ratio of tax revenue to nominal GDP fell from 11.4 percent between 1998 and 2007 to 10.7 percent between 2008 and 2015. Clearly, factors exogenous to the main assumptions used in budget preparation have had an adverse effect over the past few years (Figure 2.2) and have placed Guatemala in the group of countries around the world with the lowest tax collection (Figure 2.4).⁴⁹ As observed in section 2.1.3, the fiscal revenue shown in the 2011–

⁴⁷ For example, a base scenario could relate to the current oil price, whereas two alternative scenarios would envisage an increase and a reduction of the same size. Given the importance of the external component in the public debt balance, other scenarios could consider various exchange rate levels.

⁴⁸ The growth rate of nominal GDP between 1998 and 2015 rose to 9.4 percent, whereas its standard deviation was 2.7 percent. As a result, its ratio of change (standard deviation/average deviation) increased to 28.7 percent, whereas the similar indicator for the inflation rate was 40.8 percent. The ratio of change in the nominal tax revenue during the same period as for the two above-mentioned variables was 67.4 percent.

⁴⁹ See footnote on page [42] in section 2.1.3.

15 MTBF includes an over-estimation by approximately 5 percent of the tax revenue collected (Table 2.5).



3.1.2 Specific fiscal risks **(Not Met)**

68. The main specific risks are linked to the legal framework, corruption, and judicial claims. Despite the fact that the recurring impacts of these problems are known and widely discussed, their fiscal repercussions have still not been evaluated.

Legal framework

69. The Constitution specifies in great detail the rules on the budget's organization. There are at least 32 articles of the Constitution dealing with budgetary and public finance standards. This is not the norm in most countries and unnecessarily complicates the implementation of fiscal, budgetary, and accounting policy. In addition, it greatly reduces flexibility for public financial management and makes the debate dependent on decisions of the Constitutional Court. Various tax reforms have been rejected by the Constitutional Court, making it difficult, for example, to achieve the tax collection increase necessary for the implementation of essential social and economic policies.

70. The Constitution and other laws earmark a considerable amount of the budget for specific public policies and institutions. Examples of such earmarking are: 3 percent to promote physical education and sport, 5 percent to the USAC, 2 percent to the Supreme Court of Justice, and 10 percent to the municipalities. Other specific laws earmark resources for decentralized and

autonomous entities. Despite the laudable intention to protect certain sectors, in practice this tends to lead to distortions, to the extent that earmarks to those sectors are subject to parameters frozen in time, rather than to the sectors' specific needs and to the budget's capacity to finance them.

71. There are many contradictory provisions that result in conflicts of interpretation and prevent efficient financial management. On the one hand, the Constitution establishes mandatory rules on the budget's preparation and approval, but on the other hand, certain institutions are exempt from them, as is the case with the independence of the autonomous and decentralized entities and the USAC (art. 134), which are not obliged to have their budgets approved by the Congress. These exemptions generate an incentive in the sense of approving laws that grant full autonomy but that, at the same time, undermine the capacity of the Congress and the Executive to set the priorities for public policies and the management of public resources. As a result, the various budgets are passed and managed by a number of entities making it difficult to have a full, comprehensive view of public finances. The ideal approach would be to eliminate all exemptions.

Corruption

72. There has been a deep concern among the Guatemalan authorities and society to combat corruption, leading to actions that include the strengthening of fiscal transparency. The PGG for 2016–19 mentions zero tolerance for corruption, with specific targets for increasing the effectiveness of good governance and improving the country's position as regards the perception of corruption.⁵⁰ International experience shows that there is a good correlation between fiscal transparency and the fight against corruption, insofar as transparency lays bare the acts of public entities and expands the people's capacity to know and monitor how public resources are collected and spent.

73. Legal and institutional strengthening measures have been defined recently. In 2015 the Second National Action Plan on Open Government, 2014–15, established the following commitments:

- To implement the complementary legislation for ensuring the right of access to public information;
- To comply with the IMF's new Fiscal Transparency Code and Manual;
- To publish all documents related to the budget;
- To open and institutionalize spaces for citizens' participation in the process of budget formulation;
- To reform the SICOIN;

⁵⁰ See the SNIP standards, 2017: <http://systems.segeplan.gob.gt/snip>.

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- To reform the SICOIN-GL;
- To integrate and link the systems and subsystems related to financial management;
- To comply with the Standard of the Global Forum on Tax Transparency of the Organization for Economic Cooperation and Development (OECD);
- To publish the tax collection targets and the annual plan for tax collection, monitoring, and supervision;
- To make tax exemptions and tax expenditure transparent;
- To regulate and ensure the transparency of direct purchases and exceptional contracting in public procurement;
- To strengthen the creation of reference prices for procurement under open contract procedures;
- To strengthen the units and offices responsible for the planning of public procurement, as well as internal audit units; and
- To update the Internet portals of trust funds, nongovernmental organizations, and budgetary transfers.

74. The recent amendment to the LCE may contribute considerably to a reduction in costs and corruption. International experience shows that the adoption of electronic purchasing methods, reverse auctions, wide competition among providers, and the use of reference prices contributes directly to price reduction (Box 3.1).

Box 3.1. International Experience in Public Procurement

In Latin America, the two most prevalent purchasing and contracting methods are “framework agreements” and “reverse auctions.” The expression “framework agreement” is a general term for agreements with one or more providers, selected through public tender, that establish standardized terms and conditions on the basis of which specific purchases can be made during the validity of the agreement. They are used for products, works, or services for which the establishment of specifications and prices is required on a repetitive basis.

In Brazil, by contrast, the main purchasing method consists of electronic reverse auctions that are settled within eight working days. Adopted in 2000, this method is a process of “selling in reverse,” in the sense that it is the purchasing entity that controls the event. Once the entity advertises to purchase a particular good or service in the online procurement portal, interested and qualified suppliers are allowed to submit and resubmit bids virtually by providing successively lower-priced or better ranked bids. The main advantages are to increase competition among suppliers, lower prices, and reduce procurement cycle time. Electronic reverse auctions also enhance objectivity and equal access to information the course of tenders, given that the system provides a single channel of information and communications during the bidding process. Furthermore, the selection of suppliers is processed automatically, ensuring strict neutrality.

Chile’s electronic purchasing and contracting system is one of the most advanced in Latin America. Despite initial setbacks resulting from lack of participation on behalf of purchasing agencies and suppliers, the site now facilitates over US\$9,500 million worth of transactions annually, amounting to approximately 3.5 percent of Chile’s GDP. Through the system, more than 850 state entities—from municipalities to hospitals and universities—transact with more than 100,000 businesses.

Paraguay adopted the use of electronic reverse auctions in 2008 with the support of IDB. Since the first purchase made using the system of reverse auctions, the absolute value of public procurement and contracting has increased considerably, reaching close to US\$2,000 million in 2011, or approximately 34.3 percent of total public expenditure. Of this, approximately 18.6 percent corresponds to goods and services procured through electronic reverse auctions. In terms of categories, the primary purchases were of fuels and lubricants (29 percent), construction (15 percent), and medical equipment (14 percent). In 2011, the government estimated that these auctions reduced final prices by 19 percent, compared to initial offerings, and 12 percent compared to the amount initially estimated in the call for tenders.

Source: Carlos Pimenta and Mario Pessoa, editors, 2015. Public Financial Management in Latin America: The Key to Efficiency and Transparency, at <https://publications.iadb.org/handle/11319/7123?locale-attribute=es&>

Judicial claims

75. There is no consolidation on the financial impact of judicial claims against the state.

The number of labor suits being dealt with by the PGN alone exceeds 2,500, whereas there is no estimate of how much the compensation may cost. There are also cases of tax, contractual, and even international claims that may represent significant impact on the public finances. In the past few years the amount paid out has reached an annual average of less than 0.02 percent of GDP (Table 3.3). The DCE does not record as liabilities the legal claims already lost but not yet paid.

**Table 3.3. Budgetary Execution of Legal Claims Settled and Paid
(in thousands of quetzals)**

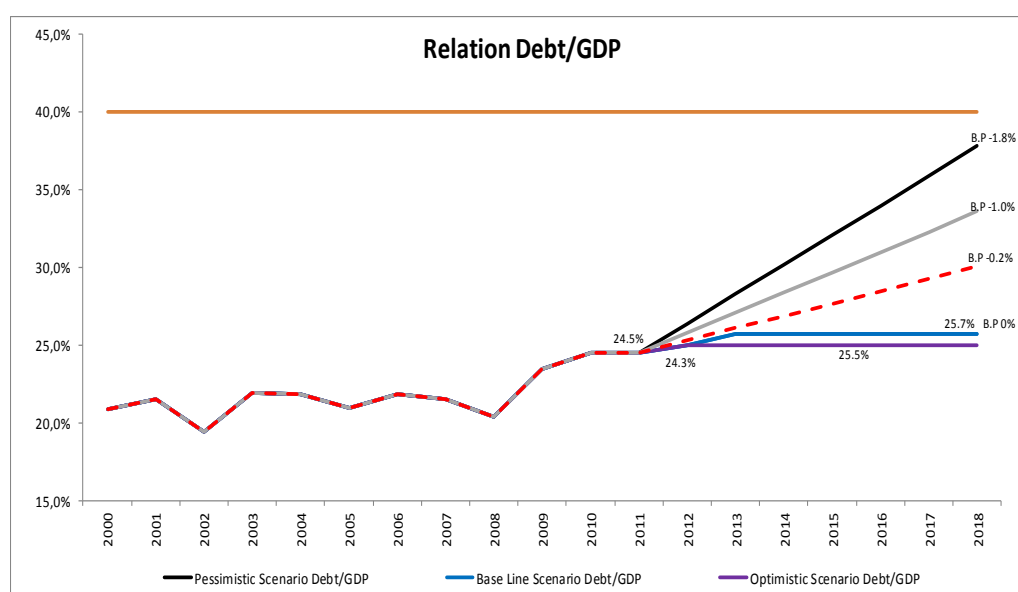
Entity	2010	2011	2012	2013	2014	2015
Office of the President of the Republic						96
Ministry of External Relations	395	28	60			1,119
Ministry of Governance	1,729	2,953	4,759	3,689	5,930	6,807
Ministry of National Defense			15			
MINFIN	21		177	1,255	869	870
Ministry of Education	1,124	373	573	5,131	1,844	4,052
Ministry of Public Health and Social Assistance	1,779	2,149	829	7,926	2,192	15,037
Ministry of Labor and Social Welfare	1,731	1,086	1,947	69	706	1,648
Ministry of Economy		864		64	303	709
Ministry of Agriculture, Livestock, and Food	17	139	2,507	297	2,537	3,406
Ministry of Communications, Infrastructure, and Housing	825	2,124	13,164	61,858	21,441	4,286
Ministry of Energy and Mines	2,868		104	116	136	51
Ministry of Culture and Sport	324	850	1,062	717	2,354	1,542
Secretariats and Other Departments of the Executive	51,060	54,808	31,536	8,042	4,829	9,997
Ministry of Environment and Natural Resources					776	3,241
Government bonds payable by the Treasury		1,706				
Ministry of Social Development					28	151
PGN	3	1,155	61	341	913	862
TOTAL	61,880	68,242	56,800	89,511	44,866	53,881
In percent of GDP	0.02	0.02	0.01	0.02	0.01	0.01

Source: MINFIN

3.1.3 Long-term fiscal sustainability analysis **(Not Met)**

76. The studies on fiscal sustainability cover only the medium term and are not published regularly. The DAPF and the BANGUAT periodically prepare a medium-term DSA. In some cases, this information is not updated and periodically made available to the public, and in other cases it is published. In 2012, the MINFIN prepared and published a DSA that presented projections of the debt/GDP ratio for seven periods, including scenarios derived from alternative assumptions for the primary deficit (Figure 3.2). Similarly, in 2013 the medium-term fiscal framework was published, containing a debt sustainability and risks analysis for the period 2013–16, as well as information on public debt service up to 2043.⁵¹ More recently, in the context of the external debt sustainability management strategy, the MINFIN prepared a DSA in 2015 with a 2020 horizon, some of whose balances are presented in Table 3.4, but that document was not published.⁵² Analyses of this type are also done by the BANGUAT, which regularly prepares a medium-term DSA for its own internal institutional use, with projections for five years. Despite this progress, the analytical information on fiscal sustainability presents limitations as, on the one hand, it does not cover the long term and, on the other hand, it contains only partial information on public debt, covering only debt and guaranteed debt of the central administration.

Figure 3.2. Results of the Debt Sustainability Analysis Published – 2012



Source: MINFIN. DSA, 2012.

⁵¹ The DAPF is currently working on the development of a financial programming model.

⁵² This analysis was done using the methodology provided by the IMF. In addition to the estimation of a baseline scenario, the analysis contains scenarios that simulate the effects on the public debt/GDP ratio of shocks on GDP growth, primary balance, interest rate, and exchange rate. In these four cases, the impacts on the debt sustainability position are moderate.

**Table 3.4. Analysis of Public Sector Debt Sustainability
(in percentage of GDP, unless indicated otherwise)**

	Observed		Projections					
	2004-12	2013-14	2015	2016	2017	2018	2019	2020
Gross Public Debt (percentage)	22,5	24,8	25,3	25,9	26,4	27,1	28,1	28,9
Financing Needs (percentage)	3,4	3,1	3,6	4,1	3,4	3,7	3,9	4,0
Public Debt (as percentage of potential GDP)	22,5	24,7	25,6	26,3	26,9	27,6	28,6	29,4
Real GDP growth (percentage)	3,5	3,7	3,0	3,7	3,6	3,5	3,4	3,4
Inflation (GDP deflator, percentage)	5,8	3,4	3,6	4,0	4,0	4,0	4,0	4,0
Nominal GDP growth (percentage)	9,6	7,2	6,7	7,9	7,8	7,6	7,5	7,5
Effective interest rate (percentage)	7,1	6,8	6,3	6,2	6,2	6,3	6,2	6,2

Source: MINFIN, DCP, Debt Sustainability Analysis, May 2015.

77. Guatemala's long-term social security system is extremely fragmented. There are at least 18 long-term social welfare systems operating in the country.⁵³ The main retirement pension systems are the IVS program of the IGSS, serving formal workers in the private sector;⁵⁴ the CPCE (also known as Montepío), serving civil servants and managed jointly by the ONSEC and the MINFIN through the DCE; and the IPM's retirement system.⁵⁵ The autonomous entities, including the municipalities, have special systems, including the retirement plan for employees of the Guatemala City municipality and the Benefits Plan for municipal employees.

78. Based on the significant long-term fiscal impacts, it is advisable to have information on the current and projected social security position in fiscal sustainability analyses. As a result of the demographic transition, Guatemala will, in coming decades, face a process characterized by the greater relative participation of most of the adult population (Figure 3.3). This demographic trend has major implications for social security as, on the one hand, it establishes the need to make retirement benefits a fact for persons covered by the existing plans⁵⁶ and, on the other hand, it implies the need for more resources for health, because care for the adult population is recurrent and costly. In this context, it is advisable for long-term fiscal sustainability analyses to incorporate

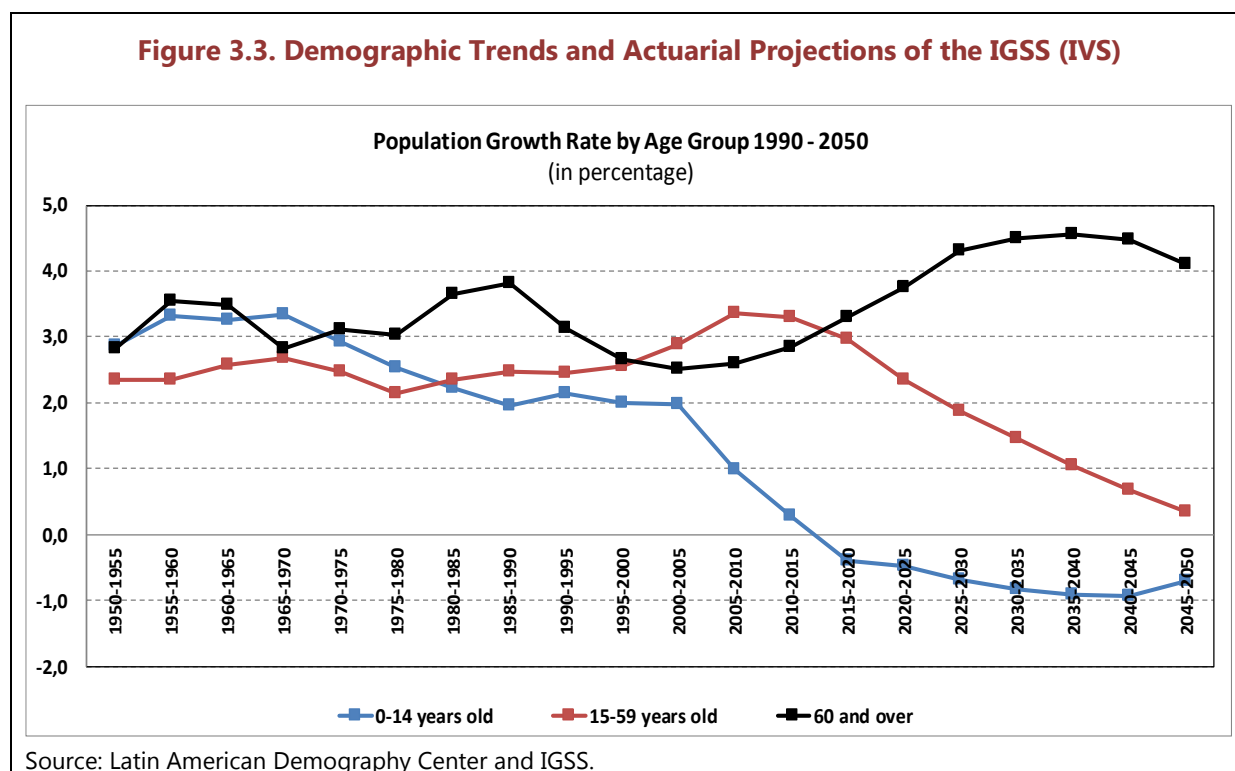
⁵³ See details in Martínez (2015): *El Régimen de fondos de pensiones guatemalteco a nivel privado y su proyección social y legal en Guatemala* (The Guatemalan System of Private Pension Funds and its Social and Legal Projection in Guatemala). Universidad Rafael Landívar (mimeo.).

⁵⁴ The IGSS also manages the short-term social security program (health care) called the EMA Program, which provides coverage for public and private sector workers in and outside the labor force. As at December 2014, persons insured under the EMA Program totaled three million.

⁵⁵ In 2014 the IVS program of the IGSS had a million enrollees (about 24 percent of the labor force); the CPCE program had about 160,000 contributing members and 101,000 beneficiaries; and the IPM program had about 5,700 active contributing members.

⁵⁶ In many Latin American countries (including Argentina, Bolivia, Brazil, Ecuador, El Salvador, and Mexico, among others), various reasons—such as the systems' low coverage, low level of benefits, or the impact of poverty among the adult population—have led to the establishment of noncontributory social welfare systems that require a huge fiscal effort.

projections of social security revenue and expenditure. Information on the actuarial projections made by the IVS program of the IGSS is produced, updated, and published regularly, with data on revenue, expenditure, and technical reserves projected with a horizon of 13 years (Figure 3.3).⁵⁷ In the case of the CPCE, the latest actuarial studies available date back to 2006, presenting projections up to 2020, and need to be updated. In terms of the management of fiscal risks resulting from social security, the following issues are noteworthy: (i) the IGSS program of retirement systems would go into a position of deficit in the middle of the decade of the 2020s; (ii) the health care program managed by the IGSS (which also takes care of civil servants) would face a situation of imbalance as of 2017; and (iii) the CPCE program generates major needs for annual financial appropriation in the national budget.⁵⁸



⁵⁷ In addition, the IGSS prepares and disseminates actuarial projections related to benefits in its health care program.

⁵⁸ The national budget for 2016 includes a net appropriation (expenditure minus contributions) of Q2,764 million for the care of the country’s unemployed categories. This is estimated as equivalent to 0.5 percent of GDP and 3.9 percent of the central government’s annual expenditure budget.

C. Risk Management

3.2.1 Budgetary contingencies **(Not Met)**

79. The budget does not establish any contingency reserve. That modality is not included in the LOP. In case of emergency, the government seeks specific financing or amends the existing budget. There are specific funds and mitigation mechanisms for risks of certain types,⁵⁹ but there is no item or fund that can be used for any type of contingency.

80. The Constitution provides for exceptional execution and financing mechanisms to be used in cases of grave emergency or public disaster. In such a situation, the President of the Republic can issue the necessary ruling, on which account must be given to the Congress at its immediate sessions (art. 183 of the Constitution). The Constitution also authorizes the BANGUAT to grant extraordinary loans to the government in the event of public catastrophes or disasters (art. 133 of the Constitution), but this prerogative has never been used.

3.2.2 Asset and liability management **(Basic)**

81. The public debt must necessarily be authorized by the Congress, which sets annual ceilings in the LPA. The Constitution and the LOP state that all debt to be assumed by state institutions must be authorized by the Congress. The applicability of this provision also extends to the Municipal Development Institute (INFOM), to the municipalities (including their corporations), and to those public corporations that require the government's guarantee. In addition, the LPA sets quantitative debt ceilings,⁶⁰ including references to the breakdown into domestic debt and external debt and to the types of instruments authorized (net placement of bonds and long-term external loans).⁶¹ According to the current legal framework, public sector entities (including municipalities, in the case of guaranteed debt) may not initiate proceedings to engage in public credit operations without the MINFIN's prior authorization. The DCP is responsible for the negotiation and management of external financing for the central administration, decentralized and autonomous entities, and municipal governments in the case of guaranteed debt; under the guidelines of the liabilities and risks management.⁶²

⁵⁹ As examples, mention can be made of the National Permanent Disaster Reduction Fund (FNPRD), the bonds for risks associated with mining and hydrocarbons exploration, and the insurance funds for the financial sector.

⁶⁰ Ceilings expressed in quetzals in the revenue budget.

⁶¹ Art. 171(i) of the Political Constitution of the State, Art. 61 of the LOP (legal scope of public credit), and specific provisions in the LPAs (for the case of 2016, see Art. 1 of Decree 14-2015).

⁶² MINFIN Staff Rules and Regulations. Governmental Agreement 26-2014.

82. Under the municipal legal framework, local governments have the capacity to contract debt. The Constitution grants to municipalities the power to obtain their own resources, including through debt operations.⁶³ Loans are approved by the respective municipal councils, as well as by the MINFIN and the Congress in the case of the external financing.⁶⁴ With risk management in view, the Municipal Code was amended in 2010, stipulating that municipalities must observe their payment capacity so as to ensure that any incurred debts do not undermine the national public finances.⁶⁵ Under the same amendment, it was established that municipalities may not contract credit liabilities whose repayment period exceeds the term of office of the leadership of the approving municipal council; since 2010, therefore, municipal debt not guaranteed by the government has been primarily short-term operations. For recording purposes, the municipalities are required to report all financing to the MINFIN, the task being assigned to the DAAFIM.

83. The contracting of external debt is managed on the basis of strategic guidelines. The MINFIN regularly prepares three-year debt sustainability strategies for internal use by its authorities. These documents are prepared by the DCP and contain, in addition to a DSA, strategic guidelines for debt management that include: (i) considerations on compliance with contractual commitments; (ii) a search for the government's greater benefit in light of the availability of alternative sources of funds; (iii) liquidity, exchange rate, interest rates, and market risk management; and (iv) macroeconomic impact projections.

84. Reports on aggregated public sector debt are not produced. Although information is available on the stocks and servicing of debt of the central administration, municipal governments, and other entities of holding debt guaranteed by the government, in practice aggregated reports on public sector debt are not produced. This limitation, which is also applicable to other areas of public financial management, partly results from the legal nature of the entities and affects not only the possibilities for having unified and comprehensive information but also the opportunities for developing analytical instruments on fiscal sustainability and risk management that cover the whole government (see section 3.1.3). Table 3.5 presents information on public debt from the two major sources of debt management: the DCP, which is the unit in charge of the public credit system; and the DAAFIM, which is responsible for compiling information on municipal debt. This information provides a good overview of the external and domestic debt of the central administration (including guaranteed debt)⁶⁶ as well as of the municipalities.

⁶³ These provisions apply to all municipalities, corporations, institutions, and other municipal legal entities.

⁶⁴ Domestic loans may only be contracted by the municipalities with banks of the national financial system.

⁶⁵ According to Article 115 of the Municipal Code, "the Municipal Council must present, within 10 days of the following month through the SIAF's debt module in any of its modalities, the details of the current domestic and external loans and the stock of debt to be contracted." The debt is already being recorded, so the local governments are compliant with the requirement to report to the MINFIN on loans obtained, through the debt module in the SICOIN-GL. In conformity with Agreement 26-2014 "MINFIN Staff Rules and Regulations" in its article 119 states that the DAAFIM is the directorate responsible for providing assistance and technical advice to the municipalities, groups of municipalities, departments, and municipal public corporations as regards the rules governing the SIAF and the standard budget methodology used by the sector.

⁶⁶ A nonfinancial public corporation (INDE), a financial public corporation (CORFINA), and a municipal public corporation (EMPAGUA).

Table 3.5 Information on Public Debt Reported by the MINFIN

	Million quetzales			Percentage of GDP		
	2013	2014	2015	2013	2014	2015
<i>Source 1. Report of Public Credit Operations, December 2015: Central Administration and Rest of the Entities Debt 1/</i>						
Central Administration	104.082,1	110.268,7	118.069,4	24,6	24,2	24,1
External	54.678,4	52.840,0	56.609,7	12,9	11,6	11,6
Domestic	49.403,7	57.428,7	61.459,7	11,7	12,6	12,6
Debt guaranteed other entities	656,0	553,7	556,3	0,2	0,1	0,1
External	656,0	553,7	556,3	0,2	0,1	0,1
Total Central Adm. And guaranteed	104.738,1	110.822,4	118.625,8	24,8	24,4	24,3
Loans	41.874,7	40.333,0	43.962,1	9,9	8,9	9,0
Bonds	62.863,4	70.489,4	74.663,7	14,9	15,5	15,3
<i>Source 2. SIAF-GL, Portal Local Government: Municipal Debt</i>						
	2013	2014	2015	2013	2014	2015
Municipal Debt	n.d.	1.882,7	1.266,2	n.d.	0,4	0,3

Source: IMF staff elaboration based on MINFIN and BANGUAT data.

1/ Related to INDE, CORFINA and EMPAGUA.

85. The management of public assets shows much fragmentation. The Common Fund Account- National Single Account, also called Treasury Single Account (CUT), has been in operation since 1997, when it was introduced through amendment to the LOP. Since then, the MINFIN, through the TN, has made considerable progress for centralizing and managing the revenue and expenditure in the national budget, even though there are still large amounts pending incorporation. Indeed, the CUT is the central depository of 100 percent of public revenue, except for that generated as own revenue by various entities not included in the central administration. Institutionally, it encompasses 19 central administration entities for which it fully performs functions as financial agency, including payments to suppliers. By contrast, outside the scope of the CUT are the following: judiciary, legislative, control bodies, development councils, decentralized and autonomous entities, social security, municipalities, and public corporations.⁶⁷ The coverage of the CUT was of 46.9 percent of the expenditure approved in the 2015 budget.⁶⁸

⁶⁷ Currently the National Treasury is working on a project to expand the coverage of the Common Fund, which will encompass, in an initial phase (to be implemented as of 2016), the development councils and, in a second phase, selected decentralized and autonomous entities. There are no plans in the medium term to incorporate municipalities into the Common Fund.

⁶⁸ The expenditure not executed through the Common Fund includes transfers to the public sector not covered by the CUT, debt service, and expenditure executed through rotating funds, which reached Q794 million in 2015.

86. The management of the public sector’s liquid assets outside the CUT leads to inefficiencies and costs for the government. Transfers of funds to all public entities that receive resources from the government and do not execute through the CUT take place entirely through the Common Fund in operation at the BANGUAT. Balances are deposited in a large number of accounts maintained in the national banking system; there is no record of the number of these accounts. From the standpoint of aggregates, the CUT’s incomplete coverage in its function to ensure the centralized holding of public resources leads to the existence of idle funds in accounts maintained by public entities,⁶⁹ whereas the TN simultaneously finances cash deficits. Liquidity management of this type makes the management of public assets less than optimal and implies the need to incur financing costs. In addition to their cash assets, the central administration’s decentralized and autonomous entities report the existence of 66 national public trust funds with liquid assets totaling about Q2,350 million (0.6 percent of GDP) deposited in the public and private financial systems.

3.2.3 Guarantees (Basic)

87. The existing legal framework allows the government to grant various types of formal guarantees. A number of laws make up a framework that establishes the possibility for the government to grant formal guarantees to public sector entities, private entities that engage in business ventures jointly with the state, and savers. In the first case, the LOP establishes the state’s option to grant guarantees for loans in favor of decentralized and autonomous entities, municipalities, and public corporations, with the approval of the Congress,⁷⁰ incorporating the provisions necessary for ensuring the repayment.⁷¹ In the second case, the Law on PPPs promulgated in 2010 explicitly envisages the possibility for public-private project contracts to allow for government guarantees in favor of private participants, depending on the type of contract, in which case there must be provisions in the budgets for the corresponding fiscal years. To date, no PPP contract has as yet been signed. In the case of savers, the Savings Insurance Fund (FOPA) envisages contributions primarily from the banking institutions themselves but also provides for state contributions among its sources of financing.

88. There are regularly disseminated information on the formal guarantees granted by the government. The MINFIN, through the DCP, publishes information each month on loan amounts and debit balances, among other things, pertaining to government-guaranteed external loans contracted by public corporations (Table 3.6). On the other hand, the BANGUAT publishes, also on a monthly basis, the FOPA’s financial statements (see section 3.2.5). This information discloses the beneficiaries of these guarantees and, for the debt, the gross exposure of the public sector. The published information is extremely helpful for assessing the magnitude of these guarantees. For

⁶⁹ It is estimated that the accounts of the decentralized and autonomous entities not included in the Common Fund (excluding municipalities) will show balances averaging Q27,000 million throughout 2015.

⁷⁰ The Law states that when a debtor entity does not possess financial resources to meet an installment payment due to a creditor, it shall so inform the MINFIN two months in advance of the payment due date, so that it can enter into a debt recognition agreement with the pertinent guarantee. That agreement must be concluded before the payment is made to the debtor entity’s account.

⁷¹ These provisions are established in article 66(d), (e), and (f) of the LOP.

instance, in 2006, after the closure of a private banking institution, guarantees granted to FOPA beneficiaries totaled Q2,150 million, or 0.9 percent of GDP at that time. For its part, the available information on guaranteed debt as at end-2015 shows that the outstanding balances payable by the beneficiary entities are relatively small, as they are equivalent to 0.11 percent of GDP.

**Table 3.6. Report on Guaranteed External Debt
(Balances as at February 2016, in millions of dollars)**

Entity	Contracted	Disbursed	To Be Amortized
National Financial Corporation (CORFINA)	6,5	6,5	0,1
Water Municipal Company (EMPAGUA)	77,9	70,9	15,1
National Institute of Electricity (INDE)	141,6	135,1	57,7
Total	226,0	212,5	72,9

Source: MINFIN.

Note: In addition to the entities presented in this table, the reports also present information on balances to be disbursed, and amortized.

3.2.4 Public-private partnerships (not evaluated)

89. In recent years, the government has set up a legal framework that opens the way to the development of PPPs. In 2010 and 2011 the Law on Partnerships for the Development of Economic Infrastructure and its Regulations⁷² were approved. The purpose of this legal framework is to encourage joint ventures between the government and the private sector for the construction and management of highway projects, generation and distribution of electricity, ports, airports, and other public works.⁷³ The law regulates primarily: (i) the institutional framework for the establishment of PPPs; (ii) the functions of the National Agency of Partnerships for the Development of Economic Infrastructure (ANADIE); (iii) the procedures for bidding and contracting; (iv) guarantees, including those granted by the government; and (v) the arrangements for supervision and dispute resolution. The law explicitly states that the risks resulting from business ventures will be shared and that their apportionment will be defined in each contract. The ANADIE, through its various organs,⁷⁴ has among its main functions the development of policy, prioritization of initiatives sought by public entities, support for the development of feasibility and design studies, approval of projects, supervision of the execution and implementation of information policies, and rendering of accounts.

⁷² Decree 16-2010 of April 2010 and Governmental Agreement 360-2011 of October 2011.

⁷³ According to the definition in the law, a PPP project is understood to be the “package of activities prioritized by the competent sectoral institution, whether centralized, decentralized, or autonomous, that will act as a contracting party, or the Council, that are formulated, coordinated, and linked with private participants, with a view to providing economic infrastructure that can help strengthen the economy, development, and an improvement in the people’s quality of life.”

⁷⁴ The Council, the Executive Directorate, and the Directorate of Supervision.

90. There are currently no active PPPs in Guatemala; however, the government is working to make PPPs a reality in various sectors. The ANADIE, at the request of entities of the central administration and of municipal governments, has compiled a portfolio of infrastructure projects on administrative services, ports, highways, airports, roadways, energy, and transportation (Table 3.7).⁷⁵ Most of the projects are formulated under Design-Build-Operate-Transfer (DBOT) modality, and in none of the cases is it envisaged for the government to establish explicit guarantees.⁷⁶ According to the current timetable, it is planned to invite bids in 2016 for four projects involving cumulative investments of Q4,087 million, whereas the execution of the remaining projects in the portfolio would assume cumulative investments of Q15,190 million between 2017 and 2020, this being estimated to represent about 2 percent of GDP in 2020. Although these potential investments would involve a large sum for the Guatemalan economy, their relative size in GDP terms would still be small by comparison with what is currently observed in some Latin American countries (Figure 3.4).

Table 3.7. Portfolio of Projects for Public-Private Partnerships

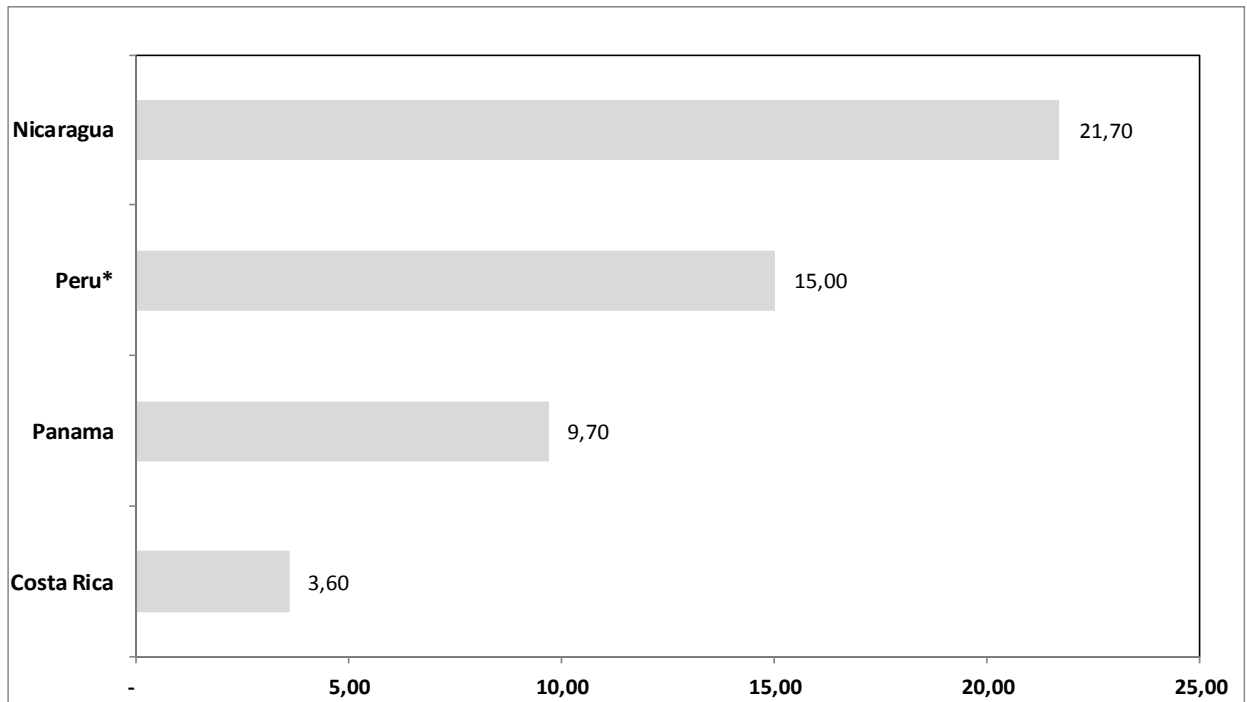
Project	Contracting Entity	Estimated Investment (US\$ million)	Estimated Implementation Period
Administrative Center	Ministry of Finance	240	2017-218
Port Tecún Umán	Ministry of Economy	40	2017-2018
Escuintla-Port Quetzal Highway	Ministry of Communication, Infrastructure and Housing	50	2017
Modernization of La Aurora Airport	Ministry of Communication, Infrastructure and Housing	196	2017
Norte-Oriente Beltway	Ministry of Communication, Infrastructure and Housing	180	2019-2020
Metropolitan train	Municipality of Guatemala	622	2018-2019
Antigua Guatemala Beltway	Municipality of Antigua Guatemala	75	2019-2020
Natural gas pipeline	Ministry of Energy	325	2019-2020
Pacific railway system	Ministry of Economy	240	2019-2020
Total		1.968	2017-2020

Source: ANADIE.

⁷⁵ <http://www.agenciadealianzas.gob.gt/wpsite/proceso-de-app-guatemala/>.

⁷⁶ The PPP Law establishes the possibility, if appropriate under the contract, for the MINFIN to budget resources for guarantees granted by the government to private participants.

**Figure 3.4. Cumulative Investments in PPPs Between 2002 and 2012 in Various Countries
(In percentages of GDP)**



* Estimate correspondent to period of 2000-2015.

3.2.5 Financial sector exposure (Good)

91. The SIB evaluates on a monthly basis the financial sector's stability and the level of support given to the financial sector. Each month, the SIB monitors the financial system's main indicators. Currently, the position as regards the financial system's liquidity, soundness, and profitability is deemed adequate for all of the prudential indicators above the regulatory standards. The SIB is responsible for the supervision of 104 financial institutions (Table 3.8), namely, 17 banks, 14 financial corporations, six offshore institutions, 28 insurance companies, nine corporations specialized in financial services, 14 general bonded warehouses, the BANGUAT, and 15 other financial institutions. The banks are depositories of 66 public trust funds, constituted by central government entities and 13 constituted by municipalities or decentralized entities.⁷⁷

Table 3.8. Financial Institutions Supervised by the Superintendency of Banks in December 2015

Type of Institution	No.	Assets Base (%)	In millions of quetzals			
			Assets	Liabilities	Capital	Balance
Banking system ⁽¹⁾	17	83.3	264,623.8	240,120.4	24,503.4	4,002.7
Financial corporations	14	2.9	9,306.4	8,189.7	1,116.7	176.1
Offshore institutions	6	8.0	25,423.2	22,876.5	2,546.7	305.1
Insurance companies	28	2.7	8,685.6	5,618.9	3,066.7	664.6
Corporations specialized in financial services ⁽²⁾	9	2.1	6,523.8	4,338.5	2,185.3	862.3
General bonded warehouses	14	0.1	245.8	51.3	194.5	39.9
Other institutions ⁽³⁾	15	0.9	2,961.7	2,135.5	826.2	126.2
Total	103	100.0	317,770.3	283,330.8	34,439.5	6,176.9
BANGUAT	1		94,463.3	90,963.0	3,500.3	(1,449.0)

Source: SIB of Guatemala.

Notes: (1) Includes 13 private financial corporations and the CORFINA, which is a public corporation.
(2) Includes six companies that issue credit cards, two financial leasing companies, and one factoring company.
(3) Includes three exchange houses, 10 brokerages, the FHA Institute, and the Pawn broking Department of the CHN of Guatemala, which are public bodies.

92. The SIB publishes once a month a statistical survey of the financial system.⁷⁸ Detailed information is available on the financial statements, cash holdings denominated in domestic and foreign currency, lending and borrowing weighted average rate, credit portfolio, matured portfolio,

⁷⁷ As at December, 31, 2014, there were 40 in operation, 19 matured and in the process of elimination, and 20 formally eliminated or in liquidation.

⁷⁸ See <http://www.sib.gob.gt/web/sib/informacionfinanciera/boletinestadisticas>.

credit assets, integration of trusts, classification of credit assets, and miscellaneous financial indicators. Table 3.9 presents some of the indicators, by sector.

Table 3.9. Financial Indicators of the Financial System - December 2015

Indicators	Banking system	Financial corporations	Offshore institutions
Immediate liquidity	18.93%	5.13%	11.20%
Non performing loan portfolio	1.35%	2.67%	1.20%
Coverage of at-risk credit portfolio	138.37%	142.87%	148.80%
Return on net worth	16.34%	15.77%	12%
Return on assets	1.51%	1.89%	1.20%
Capital adequacy ratio	14.11%	34.36%	14.50%

Source: SIB of Guatemala. Statistics Monthly Bulletin, December 2015.

93. There is a Fund (FOPA) to protect banking deposits in the event of closure of a banking institution.⁷⁹ This Fund has been used twice since 2006, its resources being enough to cover 100 percent of all insured and uninsured deposits, as well as labor liabilities. The sum insured is Q20,000 per individual or legal entity. The FOPA's assets as at December 31, 2015 were Q3,348 million. The CORFINA, which is a public financial corporation, is responsible for managing the assets remaining from those interventions that still have various pending tax liabilities totaling Q1,100 million. Table 3.10 presents the implementation costs for the two incidences of closure of financial institutions that were fully covered by FOPA resources, without the need for additional contributions from the government.

Table 3.10. Contributions of the Savings Insurance Fund

Bank	Deposits (million quetzal)	Number of Accounts	FOPA Total Coverage		
			Contributed to Trust Funds	Equivalent to Q20 thousand per account	FOPA saving by decision taken
Del Café S.A.	6.776,5	1.011.809	1.600,0	2.150,1	550,1
De Comercio S.A.	951,7	120.061	371,9	374,5	2,6
Total	7.728,2	1.131.870	1.971,9	2.524,6	552,7

Source: BANGUAT.

* These are trusts with exclusion of assets and liabilities, constituted as recommended in the law, rather than trusts for the execution of budget appropriations.

⁷⁹ See <https://www.banguat.gob.gt/inc/main.asp?id=116575&aud=1&lang=1>.

3.2.6 Natural resources **(Not Met)**

94. The government does not publish annual estimates of the volume and value of the main natural resource assets, but estimates the volume and value of sales and fiscal revenue for the previous fiscal year. The Ministry of Energy and Minas (MEM) prepares statistical reports on hydrocarbons as well as on mining products, indicating volume and price and, in some cases, revenue generated by the state.⁸⁰

95. Fiscal revenue from mining and oil represent a small portion of the revenue of the central administration (Table 3.11). It is estimated to have declined in recent years, in economic circumstances of low international prices⁸¹ (Figure 3.5). In 2013, this sector provided 2.1 percent of the state's revenue.⁸² However, it may represent a considerable portion of the revenue of the municipalities where the resources are mined. The fiscal revenue generated by nonrenewable natural resources are the taxes paid by the companies, the royalties, the shared hydrocarbons (share of the state in the profits earned), and "levies" (the MEM's earmarked revenue derived from rights of use of the territory and/or for permits).

96. The information produced by the private extractive companies on the reserves in the subsoil is estimated and not certified. The production of hydrocarbons and minerals is done mainly by a few foreign companies.⁸³ The government does not have any independent studies on the volume and value of the subsoil reserves; nor does it include in its financial statements the assets derived from natural resources.

⁸⁰ www.mem.gob.gt. In the case of hydrocarbons, the amount of taxes paid by the companies is not published. In the case of mining, the publication of the data on fiscal revenue was interrupted in 2015.

⁸¹ During the period 2013–15, the oil production volume was maintained below 3.6 million barrels per year.

⁸² Extractive Industries Transparency Initiative (EITI), Second Reconciliation Report for Guatemala (2015), reconciling data from the extractive companies with those of the Guatemalan government, on the amounts transferred by companies in the sector to the government.

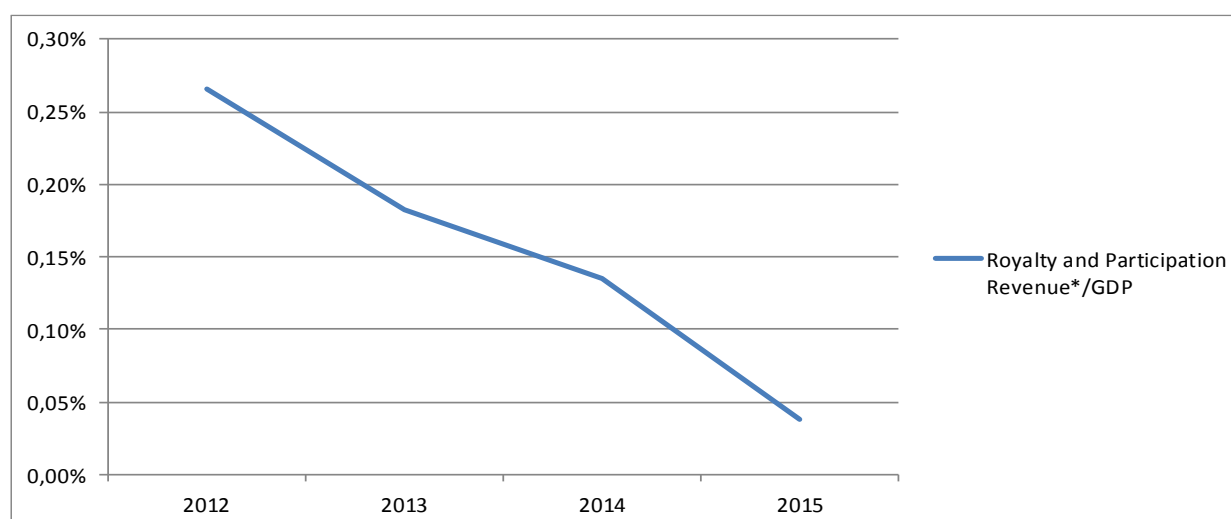
⁸³ Perenco was the company responsible for 92 percent of the oil production and Montana Exploradora was the company that accounted for 88 percent of the mining production in 2012–13.

Table 3.11. Fiscal Contributions of the Mining and Hydrocarbon Industries

(In thousands of quetzals)

	Total Contribution* (Reconciled Data)	2012	2013
1	Minerals	521,143	422,327
	<i>Of which: tax revenue</i>	392,690	245,920
2	Oil	1,097,089	1,010,050
	<i>Of which: tax revenue</i>	88,260	105,860
3	Extractive industry total (1+2)	1,618,232	1,432,377
	<i>Of which: tax revenue</i>	480,950	351,780
4	National General Budget	59,547,384	66,985,437
5	Share in the revenue of the state	2.7%	2.1%
6	Percentage of GDP	0.41%	0.34%

Source: IMF staff calculation, based on reconciled figures. Data for the national budget taken from Decrees N. 33-2011 and N. 30-2012. GDP obtained from the publication "Guatemala en Cifras (Guatemala in Figures), 2014" of the BANGUAT. Mining and oil contribution taken from the production reported by the companies to the MEM and published in the *Anuarios Estadísticos Mineros* (Mining Statistical

Figure 3.5. Hydrocarbon: Revenues to GDP (2012–15)

Source: Data presented in the EITI 2012–13 report. MEM (<http://www.mem.gob.gt/hidrocarburos/revenue-por-produccion-petrolera-nacional/revenue/>)

*The total inflow to the Fiscal Fund corresponds to the sum of royalties and revenue by the government's share, plus the contributions to the National Economic Fund and the variable payment. This excludes payments of taxes and the MEM's earmarked revenue.

In 2015, the data covered the first 11 months.

97. The environmental risks and the costs associated with rehabilitation of the mining and oil production areas are covered by a bond deposited by each of the extractive companies.

That mechanism is not complemented by any insurance mechanism. The government does not assess the risks associated with potential damages linked to mineral or oil exploration and has not devised a methodology for the compilation of information on environmental studies.

3.2.7 Environmental risks (Basic)

98. The government identifies and analyzes in qualitative terms the main fiscal risks resulting from natural disasters and has completed ad hoc estimates of the fiscal cost of past events. The evaluations provide data on human and material losses. The production of data on the impacts has been expanded to include less significant disasters, which are recorded in the System of Information Management in Case of Emergency or Disaster, (SISMICEDE).⁸⁴

99. Guatemala ranks fourth among the countries in the world most exposed to natural disasters, according to the Global Risk Index.⁸⁵ The threats arise primarily from hurricanes and earthquakes. According to Vega (2013),⁸⁶ 24,250 persons died between 1976 and 2012, and 9.6 million were injured by extreme natural events of geological and meteorological origin. The total cumulative economic impact is reported to have been Q26.3 billion, and expenditure on reconstruction, Q9.4 billion. Table 3.12 presents a summary of the most recent events and their respective fiscal costs.

100. Specific studies have made it possible to understand in greater detail the impacts of the main events that have affected the country. The German technical assistance agency (GIZ) in late 2012 and early 2013 financed the study on the main environmental contingent liabilities and their potential fiscal effects in Guatemala, which quantifies the cost of meteorological events and their fiscal impacts between 1998 and 2012. A 2009 IDB report on the risk profile of catastrophes in Guatemala estimated the values exposed and the risks in terms of fiscal impact.⁸⁷ The MINFIN itself also did an analysis of the impact of droughts.

101. The national policy for the reduction of disaster risks was approved in February 2011. The policy describes four key strategic areas: (i) risk identification, analysis, and assessment; (ii) preparation of skills and prerequisites for risk management; (iii) functions: mitigation, transfers, and adaptation; and (iv) post-disaster recovery.

⁸⁴ See http://www.conred.gob.gt/www/index.php?option=com_content&view=article&id=4408&Itemid=777

⁸⁵ World Risk Report 2014 (UNU-EHS).

⁸⁶ *Principales Pasivos Ambientales Contingentes y sus Potenciales Efectos Fiscales en Guatemala* (Main Environmental Contingent Liabilities and their Potential Fiscal Impact in Guatemala) Vega García, S. S., MINFIN – GIZ (2013).

⁸⁷ See IDB 2009 report on the risk profile of disasters in Guatemala.

102. Specific funds have been created to mitigate the impacts of climatic events. The National Permanent Disaster Reduction Fund⁸⁸ has a budget of Q8 million a year to respond to emergency situations. The resources not used at end-2015 returned to the Common Fund. In 2016 that interpretation was changed to make it possible for the Fund to accumulate unspent resources, and a more permanent reserve is being created. The Emergency Fund created by Governmental Agreement 105-2012 is capitalized with resources from an agreement for the payment of voluntary and extraordinary royalties by the extractive industry and earmarked for the mitigation of damages caused by acts of nature. As regards mitigation, the National Climate Change Fund⁸⁹ is intended to finance programs for reducing the emission of greenhouse gases and promoting activities for adaptation to climate change. Although the country was able to use a stand-by loan with the World Bank to defray a portion of the costs associated with the combined effects of the eruption of the Pacaya Volcano and Tropical Storm Agatha in 2010, to date there is no financial instrument of that type, nor has any insurance been contracted for natural disasters.

**Table 3.12. Source of Financing for Reconstruction after Hydrogeological Events
(In millions of quetzals)**

Source of Financing	Event				TOTAL
	MITCH (1998)	STAN (2005)	AGATHA & PACAYA (2010)	TT 12E (2012)	
Recurrent revenue	270.2	1,206.80	1,508.70	2.9	2,988.50
Domestic loans		824.4	305.8		1,130.20
External loans	140.7	805.3	582.5		1,528.40
Withdraw from Treasury accounts		702	25.4		727.4
Withdraw from other bank accounts		573.2	898.9		1,472.10
Withdraw from bank accounts related to domestic loans		300	-		300
External grants		78.1	25.2		103.3
Tax revenue (VAT, peace tax)			50.2		50.2
Other sources (domestic and foreign)	10	160.8	38.8		209.6
Total in millions of quetzals	420.8	4,650.50	3,435.50	2.90	8,509.80

Source: "Main Environmental Contingent Liabilities and their Potential Fiscal Effects in Guatemala", Vega García, S. S., MINFIN – GIZ (2013).

Note: Mitch, Stan, and Agatha are hurricanes. The eruption of the Pacaya Volcano occurred simultaneously with the passage of Agatha. TT 12E refers to a tropical storm linked to Hurricane Ernesto.

⁸⁸ Created by the Law on the National Coordinator for Disaster Reduction (legislative decree 109-1996).

⁸⁹ Created by the Framework Law on Climate Change (7-2013).

D. Fiscal Coordination

3.3.1 Sub-national governments (Basic)

103. The financial information of the subnational governments is available on line. The fiscal risk associated with the subnational governments is related to the performance of the 334 municipalities in the country. The departments are not autonomous functional units, and the municipal public corporations do not generally go directly to the financial market except through loans that the municipalities contract for them.

104. With the exception of Guatemala City, all subnational governments and municipal public corporations use the same system to manage their resources: the SICOIN-GL. The pertinent information is aggregated and reported on the Local Governments portal daily.⁹⁰ Guatemala City uses the SAP system for its management and reports its information through the SICOIN-DES,⁹¹ which is the system used by the central government's autonomous and decentralized entities.

105. The MINFIN monitors the local governments' financial statements. Although the data are incomplete, the government prepares an annual report presenting a consolidation of the local governments' financial and nonfinancial debt. This report, which is not published, compiles data on the financial debt generated by financial sector loans obtained through the INFOM, the nonfinancial debt corresponding to electricity power services not paid for and reported by the INDE, Energuate, and Empresa Eléctrica de Guatemala S.A., and the social contributions claimed by the IGSS and the Municipal Employee Benefits Plan. The debt contracted directly by the municipalities with the banks in the financial market is recorded in the SICOIN-GL and is part of the financial information. The nonfinancial debt of the municipalities is made up of accounts payable, which are partially recorded in the financial statements of the municipalities. According to the report, debt to the financial system represented only a quarter of the municipalities' total estimated debt at end-2014. However, that figure does not include the debts contracted with the banks without the INFOM's intermediation. The DAAFIM has established a set of indicators for monitoring the financial situation of the local governments.

106. The central government risk related to the debt of the municipalities is concentrated in Guatemala City, given its size. The financial debt of Guatemala City represented 41 percent of the total municipality debt at end-2014.⁹² The debt of the next nine most indebted municipalities represented only 13 percent of the total.

⁹⁰ See <https://SIAGl.minfin.gob.gt/presentacion/login/frmLoginNuevo.aspx> for access to the SICOIN-GL.

⁹¹ See <https://DSICOIN.minfin.gob.gt/SIAweb/login/frmlogin.htm> for access to the SICOIN-DES, financial system SICOIN for decentralized entities.

⁹² As at February 2016, Guatemala City's debt stood at Q767 million (0.2 percent of GDP), Q460 millions of which was guaranteed by the central government (Table 3.13).

**Table 3.13. Guatemala City Loans by Project
(February 2016, in Quetzal)**

Contract No.	Use	Loan Date	Loan Balance
MFP-564	VAT on import of 800 buses	5/15/1997	32,086,721
MFP-1201	Purchase of 800 buses	5/15/1997	369,825,560
MFP	MUNITRANS project	12/28/1994	20,000,000
MFP-65	Waste treatment project	2/16/1988	13,479,329
167/197/176/564	Transmetro	8/7/2009	307,046,863
BANGUAT-178	Other supplementary items, Beltway	6/11/1981	24,444,947
Total			766,883,420

Source: Guatemala City, based on data in the SICOIN-DES.

107. A few municipalities present a large volume of liabilities by comparison with their nonfinancial revenue. In December 2014, 20 municipalities had liabilities exceeding half of their annual nonfinancial revenue, with only two of them having a ratio of more than 1.

108. Article 110 of the Municipal Code establishes that the municipalities' loans should not have a duration longer than the period for which the municipal government was elected.

Consequently, the maximum term of new debt is four years. However, the municipalities hold long-term debts accumulated before the rule changed. The municipalities' debt reported by the DAAFIM as at December 31, 2014 was Q1,883 million (0.3 percent of GDP). The municipalities are only authorized to contract advances, loans, and other debts with financial institutions or individuals supervised by the SIB and with the INFOM (art.113 of the Municipal Code).

109. The banks often require that municipalities make their debt repayments (principal and interest) by direct transfer from the revenue account that receives transfers from the government and is managed by the INFOM. The INFOM charges 2 percent of the value lent for doing that intermediation work. Under the Constitution (transfers from the central government corresponding to 10 percent of the state's "ordinary revenue") as well as under article 10 of Decree 27-92, Law on the Value Added Tax, VAT-PAZ (1.5 percent of 12 percent of the VAT amount), there are strict rules on assignment, prohibiting its use for operating expenditure. The amount of the municipal financial debt is a very small fraction of the banks' total portfolio overall and at the level of each of the lending banks, and for that reason, the debt in question does not present a systemic risk for the banks. Indeed, since 2012 the debt of the municipalities has represented no more than 0.84 percent of the financial institutions' loans and 0.27 percent of GDP.

3.3.2 Public corporations (Basic)

110. All budgets and financial statements of the public corporations are published, but there is no consolidation of the sector. The public corporations have their budgets approved individually by their own governing structures and they are then forwarded to the Executive and the Congress for information. Only the public nonfinancial corporations present accounts to the CGC.

The BANGUAT and the public financial corporations are supervised by the SIB. The MINFIN does not produce any consolidated financial statement of the public corporations. The financial statements are available on the respective web pages of these corporations.

111. The government has accumulated outstanding liabilities to the BANGUAT equal to 4.77 percent of GDP in 2014, related to quasi-fiscal operations and the cost of monetary policy. These liabilities result from quasi-fiscal operations conducted before 2001 and from the annual cost of monetary policy between 2002 and 2013 (Table 3.14).

Table 3.14. Outstanding Liabilities to the BANGUAT – 2014
(in quetzals)

Item	Amount	% of GDP
Quasi-fiscal operations prior to 2001	16,834,201,332	3.70
Monetary policy cost, 2002	905,322,368	0.20
Monetary policy cost, 2011	1,017,094,370	0.22
Monetary policy cost, 2012	1,401,767,852	0.31
Monetary policy cost, 2013	1,523,766,611	0.33
Total	21,682,152,533	4.77

Source: BANGUAT – 2014 Financial Statements.

112. In general, the public nonfinancial corporations are financially autonomous and self-sustaining. They usually make profits and can set their prices and tariffs for the goods and services they render to third parties. Most of them have managing boards or committees composed of members of the government, the private sector, and worker representatives. These boards have the authority to decide on distributions of dividends, which are in some cases shared with the municipality in which they are located, central government, and workers, as well as the social security plan they sponsor. They are all subject to private independent audits and are required to publish periodically reports on budget execution and annual audited financial statements that are accessible on their web pages and on that of the CGC, as well as in the SICOIN-DES. The public corporations are exempt from income tax but have to pay the other taxes (Table 3.15).

Table 3.15. Financial Statements of the Public Corporations 2014
(in quetzals)

Category - Public Corporation	Sector	Assets A	Liabilities P	Net Worth C= A-P	Revenues I	Expenses G	Result R=I-G	Audit Opinion
Total National Corporations	13	108.779.389.388	96.214.903.417	12.564.485.971	7.570.735.978	8.756.135.447	(1.185.399.469)	
Percentage of GDP		23,91	21,15	2,76	1,66	1,93	(0,26)	
Non-Financial Public Corporations		14.517.816.641	4.794.242.239	9.723.574.402	5.047.547.290	4.615.401.854	432.145.436	
Empresa Guatemalteca de Comunicaciones (GUATEL)	Telephone	126.229.422	35.728.285	90.501.137	7.205.103	11.290.805	(4.085.702)	Without Opinion
Zona Libre de Industria y Comercio (ZOLIC)	Logistic	67.606.393	7.521.864	60.084.529	22.322.587	18.992.626	3.329.961	Qualified
Empresa Portuaria Nacional (EMPORNAC)	Ports	1.044.844.466	361.373.518	683.470.948	694.571.089	674.126.291	20.444.798	Qualified
Empresa Portuaria Quetzal (EPQ)	Ports	2.114.184.558	253.539.424	1.860.645.134	619.388.473	498.047.901	121.340.572	Clean
Empresa Portuaria Champerico (EPNCH)	Ports	357.756.468	27.494	357.728.974	5.636.794	5.716.373	(79.579)	Clean
Empresa de Ferrocarriles de Guatemala (FEGUA)	Railway	147.256.692	30.855.168	116.401.524	7.211.440	6.778.560	432.880	Qualified
Instituto Nacional de Comercialización Agrícola (INDECA)	Agriculture	61.592.090	5.223.372	56.368.718	18.175.545	14.489.251	3.686.294	Qualified
Instituto Nacional de Electrificación (INDE)	Energy	10.598.346.552	4.099.973.114	6.498.373.438	3.673.036.259	3.385.960.047	287.076.212	Qualified
National Non-Monetary Financial Public Corporations		1.139.064.538	1.948.733.779	(809.669.241)	351.387.614	265.439.969	85.947.645	
Instituto de Fomento de Hipotecas Aseguradas (FHA)	Financial	996.684.653	400.156.369	596.528.284	340.530.294	254.935.107	85.595.187	Clean
Corporación Financiera Nacional (CORFINA)	Financial	142.379.885	1.548.577.410	(1.406.197.525)	10.857.320	10.504.862	352.458	Not issued
National Monetary Financial Public Corporations		93.122.508.209	89.471.927.399	3.650.580.810	2.171.801.074	3.875.293.624	(1.703.492.550)	
Superintendencia de Bancos (SIB)	Financial	581.249.947	577.968.563	3.281.384	413.482.954	416.470.898	(2.987.944)	Clean
El Crédito Hipotecario Nacional de Guatemala (CHN)	Financial	3.200.715.977	3.022.276.711	178.439.266	663.007.585	652.931.460	10.076.125	Clean
Banco de Guatemala (BANGUAT)	Financial	89.340.542.285	85.871.682.125	3.468.860.160	1.095.310.535	2.805.891.266	(1.710.580.731)	Clean

Source: Respective financial balances of the public corporations

E. Recommendations and Conclusions

113. Table 3.16 summarizes the evaluation of practices in Guatemala in relation to Pillar 3 on Fiscal Risk Analysis and Management in the FTC. In general, much remains to be done in terms of identification, measurement, and management of fiscal risks. The preparation of a report on fiscal risks that cover initially macroeconomic and debt risks, natural disasters, and pension-related issues would be a major step. The following recommendations are geared mainly to addressing those priorities:

- 7- Prepare a report on fiscal risks to be presented together with the budget. Start with the macroeconomic risks, natural disasters, and long-term sustainability (debt and social security), and gradually incorporate risks for the environment, the municipalities, public corporations, and judicial claims (DEF, jointly with the respective thematic areas). Box 3.2 shows a model of this type of report.

Box 3.2. Structure of a Fiscal Risk Statement

The report should begin with a description of how the government's fiscal strategy has reduced the fiscal risks and should contain a statement on the importance of greater fiscal transparency for the reliability and credibility of fiscal policy.

Macroeconomic risks

- Discussion on the quality of the macroeconomic and fiscal forecasts of recent years, comparing the assumptions used in the forecasts for the budget with the actual performances;
- Sensitivity of revenue and expenditure to changes in each of the key assumptions on which the budget is based (e.g., impact of inflation rates and interest rates on revenue and expenditure), explaining the underlying assumptions;
- Study of the impact of alternative scenarios on the budget projections. Possible ways of presenting these impacts include fan charts. In these exercises, it should be taken in consideration the correlations between various shocks;
- Sustainability analysis as regards debt subject to shocks.

Public debt risks

- Institutional and policy framework for government debt and for the government's loans to other public entities: projection of inflows and outflows and balances; decisions on repayment of debt, floating debt, and loans in arrears;
- Sensitivity of the levels of public debt and debt service costs to changes in the assumptions, such as interest rates for example. Impact of the debt strategy on the government's exposure to risk.

Explicit contingencies

- **Estimated contingencies.** Gross exposure and expected value of the contingencies related to civil service pensions and health care expenditure;
- **Public-private partnerships.** Legal and policy framework and explanation of PPPs, summary of the PPP program, necessities for infrastructure and a public investment program, total cumulative exposure of the PPP program, main characteristics of on-going PPPs, and gross financial exposure (guaranteed value);
- **Judicial claims against the state.** Value of the claims, including a note mentioning that reporting risk does not imply its recognition as a liability by the government. The expected amounts payable for lost claims should be estimated, but individual estimates should not be disclosed;
- **Debt guarantees.** Explanation and criteria for providing debt guarantees. Gross exposure and expected value of guarantees.

Implicit contingencies

- **Disasters caused by acts of nature:** These risks can be deemed in part explicit contingencies when the law requires the government to deal with emergencies. Report the fiscal impact of disasters in recent years. Level and operation of contingency funds for disasters caused by acts of nature; financial instruments for mitigating risks. Other mitigation and prevention instruments;
- **Banking and financial sector:** Existing deposit insurance, banking sector risks. Information on costs of prior bailouts/recapitalization/preventive financial support. Recent performance of the public and private banks. Analysis of sectoral stress;
- **Public corporations.** Policy framework for corporations (policies on debt, rates, dividends, etc.). Financial performance of the corporations and size (and performance of the larger corporations);
- **Municipalities.** Legal framework of intergovernmental fiscal relations. Aggregated financial performance of subnational governments. Subnational debt balance (including floating debt). Debt ceilings.

- 8- Prepare a DSA annually for the medium and long terms, as well as actuarial studies on all pension funds at least every three years.

Table 3.16. Summary of the Evaluation of Fiscal Risk Analysis and Management Practices				
	Principle	Evaluation	Importance	Rec
Risk Analysis and Disclosure				
3.1.1	Macroeconomic risks	Not Met: The MTBF does not present any analysis of the sustainability of the fiscal forecasts, whereas revenue is extremely volatile.	High: The macroeconomic risks are significant and should be monitored.	7
3.1.2	Specific fiscal risks	Not Met: The main fiscal risks are related to corruption, the legal framework, and judicial claims.	High: The specific risks are important and should be monitored.	7
3.1.3	Long-term fiscal sustainability analysis	Not Met: Studies on long-term sustainability are not published, the social security system being very fragmented.	High: The long-term contingent liabilities are significant.	8
Risk management				
3.2.1	Budget contingencies	Not Met: The budget does not contain any contingency reserve.	Average: A contingency reserve would help in responses to emergencies.	
3.2.2	Management of assets and liabilities	Basic: There is no aggregated report on public sector debt, but this should be authorized by the Congress. The management of public assets is fragmented, and this leads to inefficiencies and costs.	Average: The management of financial assets and liabilities is extremely fragmented.	
3.2.3	Guarantees	Basic: There is a normative framework for the granting of guarantees, and the data on those granted are recorded and disseminated.	Low: There are few guarantees, and there is good control.	7
3.2.4	Public-private partnerships	Not applicable: There are no active PPPs. There is a legal framework in which they can develop, as well as a portfolio of projects pending approval.	Low: There is as yet no signed PPP contract.	7

3.2.5	Exposure to the financial sector	Good: The supervision entity, SIB monitors and publishes statistics monthly on the financial system's stability. There is a banking deposit insurance fund.	Average: There is good control by the SIB, but the fiscal risk arising from a problem in the financial system can be very large.	7
3.2.6	Natural resources	Not Met: The government does not publish the volume and value of natural resources but estimates the fiscal revenue generated by them.	Low: The country has not identified significant natural resources.	7
3.2.7	Environmental risks	Basic: Analyses done are based on past events, and a fund has been created for their mitigation.	High: The country is extremely vulnerable to natural disasters.	7
Fiscal coordination				
3.3.1	Sub-national governments	Basic: Although the financial statements of the municipalities are not comprehensive, they are monitored by the MINFIN.	Average: There is little information on debt to suppliers and on other liabilities of the municipalities.	7
3.3.2	Public corporations	Basic: The budgets and financial statements of the public corporations are published, but there is no consolidated report.	Average: The fiscal risks may be significant and should be monitored.	7