INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/168

GUATEMALA

2019 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

June 2019

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Guatemala, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 6, 2019, with the officials of Guatemala on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 24, 2019.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 19/222
FOR IMMEDIATE RELEASE
June 17, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Guatemala

On June 10, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guatemala[1] and considered and endorsed the staff appraisal without a meeting.[2]

Background

Underpinned by a strong macroeconomic framework, fundamentals remain solid. Growth has revived since mid-2018 after three years of weaker performance supported by strong remittances and private consumption, a positive fiscal impulse, and a turnaround in credit and investment. In 2018, inflation remained subdued at 3¾ percent, and the overall fiscal deficit and public debt ratios stayed at moderate levels of around 1.8 percent and 25 percent of GDP. The external position remained solid as continued strong remittances offset the worsening terms of trade and trade balance. The banking sector continued to be liquid and well-capitalized, and nonperforming loans remained at low levels and well-provisioned.

Near-term growth prospects are positive aided by supportive fiscal and monetary policies. Growth is projected to peak at 3.7 in 2021, before converging to its potential rate of 3½ percent by 2024, while inflation is projected to remain within the 4±1 percent target. The fiscal deficit is expected to widen to 2.4 percent next year, enabling a cumulative fiscal impulse of 0.6 percent of GDP over 2019−20, while monetary policy would remain accommodative over the near term and proceed with a gradual normalization thereafter. The current account balance is expected deteriorate to -1½ percent of GDP by 2024, nonetheless foreign reserves would remain within comfortable ranges. Risks to outlook are titled to the downside coming primarily from a growth slowdown in the U.S. and other regional trade partners, and, domestically, from lagged implementation of business climate reforms and anticorruption efforts.

Over the medium term, higher and more inclusive growth is key to meaningfully lift Guatemalans' living standards, while preserving the strong macroeconomic buffers. Ongoing efforts to improve spending execution capacities, reverse the decline in tax collections, secure a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

more efficient and agile use of public resources, and foster a prosperous business environment, should continue to promote private sector growth and the attainment of the SDGs.

Executive Board Assessment

In concluding the 2019 Article IV Consultation with Guatemala, Executive Directors endorsed staff's appraisal, as follows:

The outlook is positive amidst strong fundamentals, but efforts to raise potential growth remain a priority to improve living standards. Building consensus to implement long-delayed business climate and public sector reforms is key to promote private sector growth and social and infrastructure spending conducive to the attainment of the SDGs.

Near-term growth is poised for a rebound. Growth is projected to accelerate and peak in 2021, propelled by a further fiscal impulse, exports recovery and stronger investment momentum, before converging to its potential rate of 3½ percent by 2024. Inflation is set to reach the mid-point of the target band as spare capacity narrows. The external position remains stronger than the level implied by medium-term fundamentals and desirable policies, but the gap is expected to narrow by 2024.

Fiscal and monetary policies' support of demand should continue in the near term, considering prevailing spare capacity. Fiscal policy needs to reverse the decline in revenues and keep up spending execution. The accommodative monetary conditions should continue as the output gap closes amid well-anchored inflation expectations. Over the medium term, as the economy reaches potential (2021 by staff estimates), the path for normalization should be gradual and data-dependent.

Over the medium term, fiscal policy should preserve macroeconomic stability while undertaking more productive spending. Raising tax collections and enhancing spending efficiency is necessary to expand fiscal space. To this aim, SAT should redouble efforts to fight tax evasion. Spending efficiency reforms should increase the coverage and quality of public services provided, bolster the cost-effectiveness of procurement, increase budget flexibility, and rationalize tax incentives and exemptions. As spending is scaled up, the authorities should prioritize those investments generating the strongest positive externalities and with the highest potential for cost recovery and private sector participation. A comprehensive tax reform should be subsequently considered to finance well-planned spending, given the scale of the existing infrastructure and social gaps.

Building on a strong monetary policy management, additional enhancements to inflation targeting could be considered. A stronger monetary transmission would result from (i) enhancing FX flexibility; (ii) expanding the use of the treasury and/or central bank bills, while fostering the adoption of the securities market law and the dematerialization of securities; and (iii) further refining the forward-looking communication strategy.

The authorities' agenda to promote a thriving business environment is commendable and should be expedited. Planned initiatives to restore legal certainty for large-scale investment projects are vital to improve investors' confidence. Spearheading the PPP framework, passing the road infrastructure bill, and further easing the issuance of construction licenses are also important bolster investment. The creation of an export promotion agency and more expedited customs procedures with El Salvador and Mexico can enhance exports potential.

The government should reaffirm its commitment to the anti-corruption agenda. Strengthening the Attorney General's Office and judicial capacities should be focal points, with efforts aimed at preserving the legal and institutional progress, and existing capabilities, and further fortifying the investigative and prosecutorial competences and reducing the judicial backlog. Staff welcomes the authorities' plans to extend the coverage of the public prosecutor's office and to consolidate its financial independence. Complementing these efforts, a preventive anticorruption strategy should strengthen the procurement and the AML/CFT frameworks, reduce red tape, improve contract enforcement, and increase the transparency of tax exemptions.

Building on a sound financial system, the authorities should focus on promoting financial inclusion. Further efforts are needed to operationalize the 2016 microfinance law, and to set in motion simplified bank accounts and credit bureaus. The creation of an interinstitutional Commission to coordinate the implementation of a National Strategy for Financial Inclusion represents an opportunity to promote FinTech solutions. The authorities' intention to explore regulatory responses via a sandbox approach that balances technological innovation with financial stability, is welcome.

Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2018 (millions)	17	Gini index (2014)	49
Percentage of indigenous population (2016)	41	Life expectancy at birth (2017)	74
Population below the poverty line (Percent, 2014)	59	Adult illiteracy rate (2017)	19
Rank in UNDP development index (2017; of 189)	127	GDP per capita (US$, 2017)	4,470

II. Economic Indicators

					Projections	
	2015	2016	2017	2018	2019	2020
	(Annual percent change, unless otherwise indicated)					
Income and Prices						
Real GDP	4.1	3.1	2.8	3.1	3.4	3.5
Consumer prices (end of period)	3.1	4.2	5.7	2.3	3.8	4.1
Monetary Sector						
M2	9.4	6.6	8.4	9.4	6.9	7.7
Credit to the private sector	12.8	5.9	3.8	7.0	7.0	8.4
	(In percent of GDP, unless otherwise indicated)					
Saving and Investment						
Gross domestic investment	14.0	13.3	11.8	12.0	12.0	12.0
Private sector	12.3	11.7	11.0	10.9	10.9	10.8
Public sector	1.3	1.2	1.1	1.0	1.1	1.2
Gross national saving	13.8	14.8	13.4	12.8	12.6	12.3
Private sector	13.7	14.5	13.4	13.3	13.6	13.4
Public sector	0.1	0.3	0.0	-0.5	-0.9	-1.1
External saving	0.2	-1.5	-1.6	-0.8	-0.6	-0.3
External Sector						
Current account balance	-0.2	1.5	1.6	0.8	0.6	0.3
Trade balance (goods)	-8.7	-7.6	-7.9	-9.3	-10.0	-10.2
Exports	17.0	15.4	14.7	14.1	13.9	13.6
Imports	25.7	23.0	22.6	23.4	23.8	23.8
Of which: oil & lubricants	3.6	3.1	3.4	3.8	3.7	3.8
of which repayment of arrears						
Other (net)	8.6	9.0	9.5	10.1	10.6	10.6
Of which: remittances	10.1	10.7	11.0	12.0	12.8	13.2
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (Net lending (+))	-0.9	0.5	1.2	1.1	0.6	0.3
Of which: FDI, net	-1.7	-1.6	-1.3	-1.0	-1.0	-1.0
Errors and omissions	-0.7	-1.0	-0.4	0.3	0.0	0.0
Change in reserves assets (Increase (+))	0.7	2.0	3.4	1.2	0.0	0.0
Net International Reserves						
(Stock in months of next-year NFGS imports)	4.5	4.9	5.8	6.1	5.7	5.4
(Stock over short-term debt on residual maturity)	1.6	1.8	2.1	2.4	2.4	2.2
Public Finances						
Central Government						
Revenues	10.8	11.0	10.8	10.6	10.4	10.5
Expenditures	12.3	12.1	12.1	12.3	12.6	12.9
Current	10.1	10.0	9.9	9.9	10.0	10.1
Capital	2.2	2.1	2.2	2.4	2.5	2.7
Primary balance	0.1	0.4	0.1	-0.3	-0.7	-0.9
Overall balance	-1.4	-1.1	-1.3	-1.8	-2.2	-2.4
Financing of the central government balance	1.4	1.1	1.3	1.8	2.2	2.4
Net external financing	0.7	0.8	0.2	0.1	0.4	0.1
Net domestic financing	0.7	0.3	1.1	1.7	1.8	2.3
Of which: use of government deposits	-0.1	-0.5	-0.1	-0.1	0.1	0.2
Rest of Nonfinancial Public Sector Balance	0.2	0.2	0.2	0.2	0.2	0.2
Combined Nonfinancial Public Sector						
Primary balance	0.3	0.6	0.3	-0.1	-0.5	-0.7
Overall balance	-1.2	-0.9	-1.1	-1.6	-2.0	-2.2
Central Government Debt	24.2	24.0	23.8	24.7	25.4	26.0
External	11.6	11.5	10.7	10.7	10.6	10.1
Domestic 1/	12.6	12.5	13.0	14.0	14.8	15.9
Memorandum Items:						
GDP (US$ billions)	63.8	68.7	75.6	78.4	80.7	85.6
Output gap (% of GDP)	0.8	0.5	-0.1	-0.4	-0.3	-0.1

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Does not include recapitalization of obligations to the central bank.

INTERNATIONAL MONETARY FUND

GUATEMALA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 24, 2019

KEY ISSUES

Context: Fundamentals remain strong and growth has revived after three years of subpar performance. Improved budgetary execution and monetary accommodation, broadly in line with past staff advice, are providing demand support as the economy navigates weaker terms of trade.

Outlook: Near-term growth is poised for a rebound on the back of fiscal impulse from the 2019 expansionary budget, exports recovery after last year's slump, and construction-driven investment. Lack of progress on long-delayed business climate and public sector reforms, the Sustainable Development Goals (SDG) agenda, and financial inclusion, dampen medium-term prospects.

Key Policy Recommendations: Policies are needed to buttress the ongoing upswing and foster medium-term growth for all Guatemalans.

- **Fiscal policy.** Sustain budgetary execution momentum and stop the erosion of tax revenues in the near term. Over the medium term, raise tax collections and spending efficiency to create fiscal space for necessary infrastructure and social spending that promotes private sector growth and progress towards key SDGs.
- **Monetary and FX policy.** Stay on hold until the upswing solidifies and proceed with gradual normalization thereafter. Over the medium-term, further enhance monetary transmission through improved FX flexibility, liquidity management, and consider refinements to the central bank's forward-looking communication strategy.
- **Business climate and governance agenda.** Foster a business environment where private investment can thrive. Move ahead with initiatives aimed at strengthening contract enforcement and the regulatory framework. Reaffirm commitment to the anti-corruption agenda.
- **Financial sector modernization.** Continue process of adoption of Basel III standards and reinforce the bank resolution framework. Strengthen the AML/CFT framework to bolster financial resilience and integrity.
- **Financial inclusion.** Operationalize earlier financial inclusion initiatives and foster *Fintech* solutions under the National Strategy for Financial Inclusion. Balance innovation with risks to financial stability and integrity.

Approved by:
Patricia Alonso-Gamo (WHD) and Zuzana Murgasova (SPR)

The staff team comprised E. Pérez-Ruiz (Head), J. Clevy, C. Janada, J. Sin, Y. Yakhshilikov, (all WHD). I. Rossi (LEG) supported the mission from headquarters. A. del Cid de Bonilla (OED) participated in the discussions. G. Peraza, Regional Resident Representative assisted the mission while C. Vera and C. Friend provided support from headquarters.

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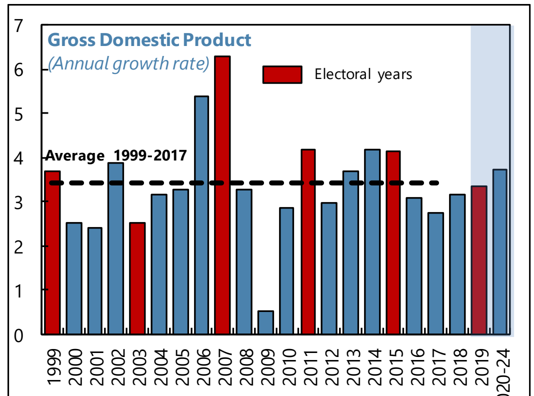
CONTEXT

1. Fundamentals remain strong and higher and more inclusive growth remains a central priority. Growth has revived since mid-2018 after three years of weaker performance. The fiscal deficit, debt and inflation levels remain moderate, while the current account is broadly balanced. However, broad-based reforms on the business climate, the regeneration of the public sector, and the SDG agenda, have been delayed. Building on its strong macroeconomic management, Guatemala is well positioned to reach consensus on those wide-ranging reforms. In this vein, the authorities and the incoming government should unify efforts to drive these reforms during the political handover spanning 4Q2019. The recently created *Cabinet for Economic Development* can contribute to this endeavor.



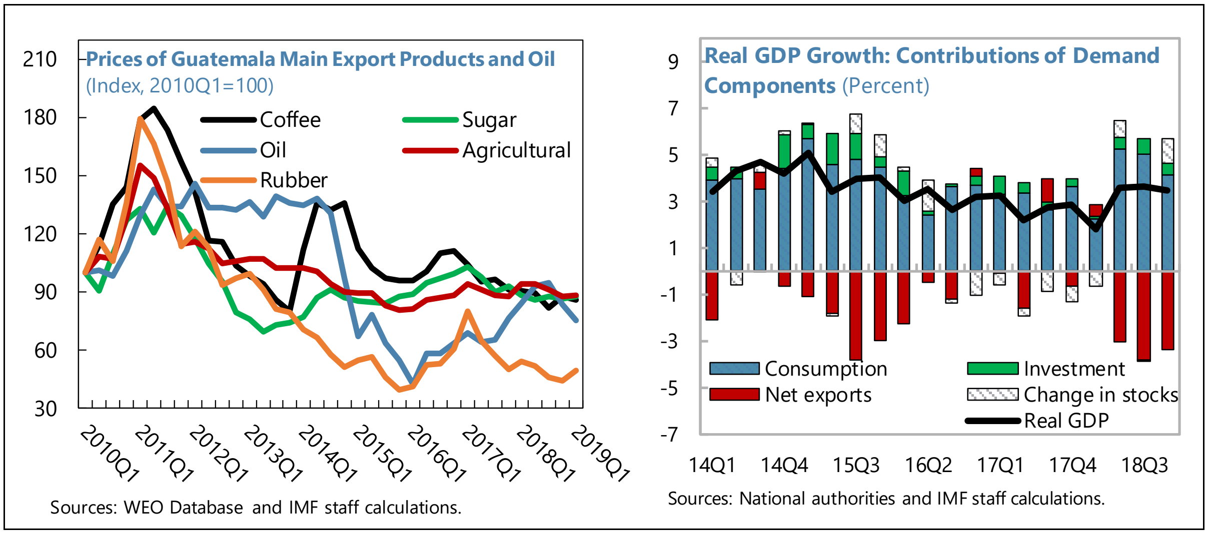
Source: IMF, WEO Database.

RECENT DEVELOPMENTS AND OUTLOOK

2. The economy weathered well the deterioration in the terms of trade in 2018. Growth picked up to 3.1 percent (from 2.8 percent in 2017) driven by domestic demand. Strong remittances supported private consumption, improved budgetary execution enabled a positive fiscal impulse, and continued monetary accommodation allowed for a turnaround in credit and investment since mid-2018. The surge in domestic demand outweighed the drag from exports due to price declines in key export products and noteworthy supply constraints in the mining sector. Despite the worsening terms of trade, the external position remained solid, mostly on account of continued strong remittances. These positive developments notwithstanding, growth still fell below its potential of 3½ percent and the negative output gap bottomed out amid weak employment creation.

3. Near-term growth is poised for a rebound, but efforts are needed to raise potential output over the medium-term. Growth is projected to accelerate to 3.4 percent in 2019, up from 3 percent on average over 2016−18, propelled by a further fiscal impulse, exports recovery after last year's slump, and a pick-up in construction-driven investment owing to easier licensing procedures. Under unchanged policies, growth is expected to peak at 3¾ in 2021 on increasing momentum for investment and exports, before converging to its potential rate of 3½ percent by 2024. Lifting potential growth beyond historical marks is needed to achieve ambitious SDG targets and would call for wide-ranging business climate and public sector reforms that promote private investment and allow for upscaled infrastructure and social spending.

4. Inflation is projected to rise from moderate levels. 2018 inflation closed below the 4±1 percent target range at 2.3 percent y/y, primarily a result of weak core inflation (2.9 percent end-of-period) amidst spare capacity alongside food inflation normalization, and lower energy inflation towards the end of the year. Inflation expectations remained well-anchored throughout. As of April 2019, inflation reached 4¾ percent y/y primarily due to short-lived bouts of food inflation. Near-term inflation is set to converge to the mid-point of the target band as spare capacity narrows aided by the positive fiscal impulse.

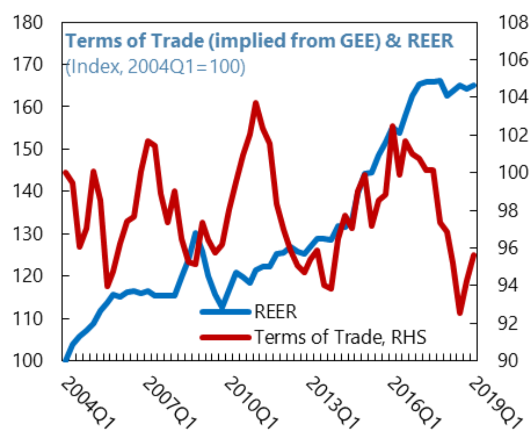


5. Fiscal policy is supporting growth. The fiscal stance turned expansionary last year as slack capacity widened. Budgetary execution improved markedly in 2H2018, particularly for capital expenditures, thanks to better planning in the awarding of government projects, and Ministry of Finance's closer coordination with the General Comptroller's Office and with executing agencies. On the revenue side, flagging tax collections further depressed the revenue-to-GDP ratio to 10.6 percent of GDP in 2018 (10.8 percent of GDP in 2017). Recurrent tax amnesties, weak administrative enforcement capacities, and inadequate human resources at the tax agency (SAT), have lowered taxpayers' risk perception. Overall, the central government deficit widened to 1.8 percent of GDP in 2018, from 1.3 percent the year prior, bringing a fiscal impulse of nearly ½ percent of GDP.

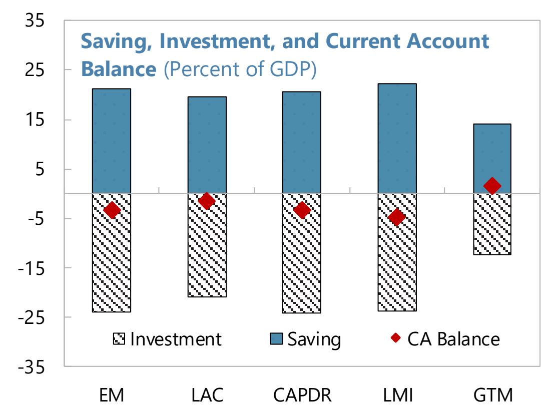
6. The external position remains stronger than the level implied by medium-term fundamentals and desirable policies.

- *Current account (CA) developments*. The CA balance declined to ¾ percent of GDP in 2018 as weaker terms of trade worsened the trade deficit, although continued strong remittances allowed for a CA surplus overall. The CA is expected to deteriorate further to -1½ percent of GDP over the medium term, reflecting the dampening of U.S. and export growth and an increase in the FDI payout.

- *EBA CA assessment.* The EBA CA methodology suggests a CA norm of -4.2 percent of GDP in 2018, mainly reflecting Guatemala's relatively young population and low income per capita. However, staff regards the estimated norm as too negative insofar as the ICRG-informed risk profile fails to capture security conditions weighing heavily on investment (Annex I). Moreover, the EBA-estimated CA deficit norm is well above the debt-stabilizing CA deficit of -1.2 percent of GDP, and would lead to buildup of external financing vulnerabilities, especially since the existing business climate is not conducive to attracting FDI (the share of debt-generating IIP liabilities to total external liabilities stood at 56 percent as of 2018).[1] Taking into account weaker security conditions and the need to avoid a buildup of external vulnerabilities, staff estimates Guatemala's CA norm at -2.2 percent of GDP, implying a CA gap of 2.9 percent of GDP for 2018, with a CA gap range of 1.6 to 4.2 percent of GDP, and an implied REER gap range of -26 to -10, once estimation uncertainties are accounted for. Spending more on public infrastructure, expanding social protection, and removing structural impediments to private investment (¶16, 17) would help erode much of this CA gap. As those bottlenecks that hold back investment are resolved and labor market dynamism takes hold, abating remittances would mitigate REER appreciation on the adjustment path to the norm.

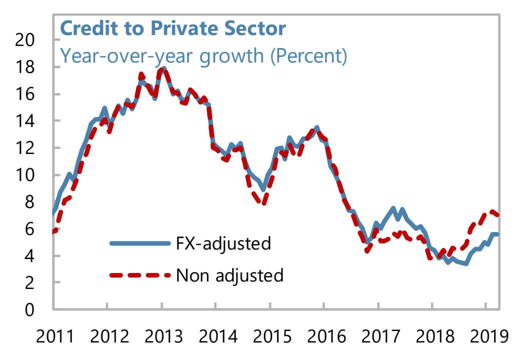


Sources: Haver; INS, IMF.



Sources: WEO Database and IMF Staff calculations.

7. Credit conditions remain supportive. Accommodative monetary conditions enabled a turnaround in credit since mid-2018 in tandem with the acceleration in domestic demand. The expansion in FX-adjusted credit was broad-based and particularly strong in the industrial, consumption, and trade sectors. By segment, the expansion was led by mortgages, followed by credit to large businesses, and consumption loans. Local-currency-denominated loans proved more dynamic than



Sources: Banguat and IMF staff calculations.
Note: FX-adjusted credit growth accounts for valuation changes due to change in exchange rate.

[1] Guatemala's gross external debt is estimated to have reached nearly 30 percent of GDP in 2018. Public sector external debt stands at about 11 percent of GDP (about ½ of total government debt), and related interest payments amounted to 4½ percent of tax revenues, given the low revenue tax base.

those in foreign currency, amid a widening of the spread between FX-denominated loans and deposits.

8. Risks to the outlook are tilted to the downside. External risks primarily originate from a growth slowdown in the U.S. and other regional trading partners. Guatemala also faces serious, albeit low-probability, tail risks from an increase in the return of migrants from the U.S. The main domestic risk stems from drifting anti-corruption efforts and lagged implementation of business environment reforms, which would dampen investment prospects. Further ambiguity on the judicial interpretation of ILO Convention 169 could stall the recovery in mining production, with spillovers to other sectors, and dampen export prospects. On the upside, the timely creation of a government-sponsored trade promotion agency (*ProGuatemala*) alongside the deepening of existing trade agreements would reinvigorate exports (RAM, Annex II).

POLICY DISCUSSIONS

Discussions focused on how to safeguard continued demand support from fiscal and monetary policies. This involves, on the fiscal front, keeping up the spending momentum and reversing the decline in tax revenues, and, on the monetary front, maintaining the current accommodative stance until the upswing solidifies and proceed with a gradual normalization thereafter. Medium-term policy should aim at higher potential growth and living standards and prioritize the structural reforms agenda. Fiscal policy should raise tax collections and spending efficiency to finance necessary social and infrastructure spending. In addition, building consensus to implement long-delayed business climate reforms, as well as greater financial market development and inclusion, are crucial to enable private sector growth and the attainment of the SDGs.

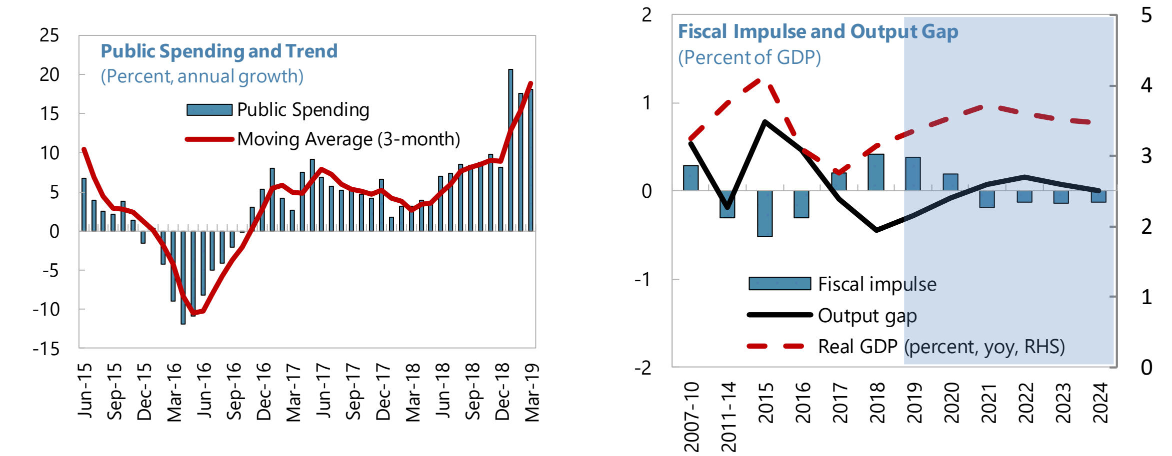
A. Fiscal Policy: Supporting Demand and Advancing Productive Investments

9. In line with past advice, fiscal support to demand is appropriate. Spare capacity[2] and available fiscal space justify fiscal support to demand. The fiscal deficit is forecast to widen to 2.2 percent of GDP by year-end, and to 2.4 percent in 2020 with a strong focus on strategic investments, enabling a cumulative fiscal impulse of 0.6 percent of GDP over 2019–20.[3] Going forward, the authorities should sustain the spending momentum and redouble tax administration efforts—so as to stabilize the revenue-to-GDP ratio at around 10½ percent this year and gradually increase it thereafter. While the recent fiscal stimulus is appropriate on cyclical grounds, there is room to improve spending efficiency (¶12). Over the medium-term, the deficit is

[2] The output gap is estimated at -0.4 and -0.3 percent of potential GDP for 2018 and 2019 respectively, once a positive fiscal impulse of about ½ percent of GDP for both years is accounted for.

[3] The fiscal impulse is calculated as the change in the cyclically-adjusted primary balance in percent of GDP.

assumed to stabilize near its historical mark (slightly over 2 percent), broadly in line with the authorities' medium-term fiscal framework.[4]



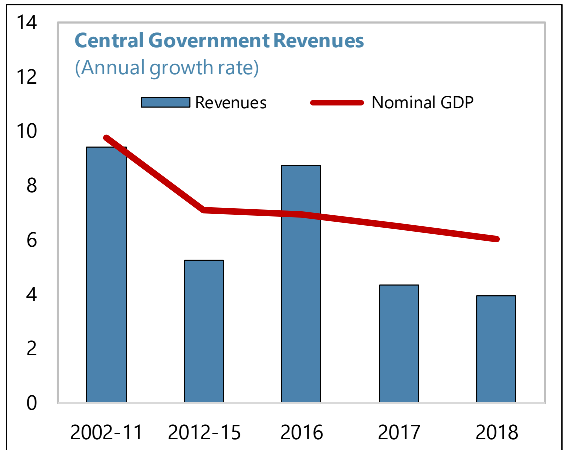
Sources: Ministry of Finance and IMF staff estimates.

10. Over the medium term, fiscal policy should continue to be consistent with macroeconomic stability and redirecting efforts toward productive spending. Guatemala's track record of prudent fiscal management has kept fiscal deficits low despite historically low revenues. Over the last decade, the fiscal deficit averaged 2.1 percent of GDP and never exceeded 3.3 percent. Going forward, as the economy operates near its potential, fiscal policy should aim at a broadly stable debt-to-GDP ratio (Annex III) to safeguard the authorities' ability to deal with unexpected shocks[5] and preserve a stable macroeconomic framework conducive to private sector growth. Against this backdrop, the capacity to address significant infrastructure and social gaps would depend crucially on raising tax collections (¶11), improving spending efficiency (¶12), and maintaining a sound public debt management strategy (Annex III). A broad tax reform (Annex IV) could eventually be considered to finance well-planned spending given the scale of the infrastructure and social gaps.

[4] See "Presupuesto Multianual 2019–23", Ministry of Public Finance. Staff projections for the revenue-to-GDP ratio are more subdued than by the authorities', in view of tax enforcement challenges.

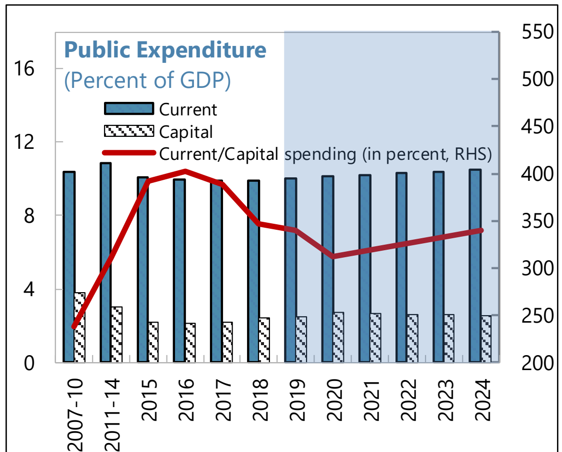
[5] Shocks range from natural disasters to international claims for alleged breaches of contract by the public sector. To cushion against unexpected shocks, the authorities have started to put in place a risk management financial strategy, including an emergency fund, contingent credit lines, and a natural disaster insurance.

11. Reversing the decline in tax collections is necessary to expand fiscal space. Guatemala's debt tolerance is limited as a low revenue base implies a high debt, and debt service, ratio to revenues (234 percent and 14 percent respectively). Despite SAT's attempts to boost tax collections through reinforced internal audits, anti-corruption controls, improved taxpayers' registration and importers' controls, tax revenues as a percent of GDP have declined by around ½ percentage points over 2016–18 (by 2 percentage points over 2002–18). Raising tax collections requires aligning SAT's operational actions with the strategic objective of reducing the tax gap (Box 1).



Sources: Ministry of Finance and Banguat.

12. A gradual and fiscally-sound scaling-up of spending is important to generate efficiency gains and support a favorable business climate. Recent efforts for a more efficient and agile use of public resources include the launch of the general procurement registry and of the open government data portal, as well as the implementation of concurrent auditing and unified criteria by the Comptroller. The following structural fiscal reforms should be considered:



Sources: Ministry of Finance and IMF staff estimates.

- *Reform of laws on civil service and salaries in the public administration.* Tie remunerations with the coverage and quality of health and education services. Professionalize public service (via recruitment based on merit, incentives, and training) to reap efficiency gains.

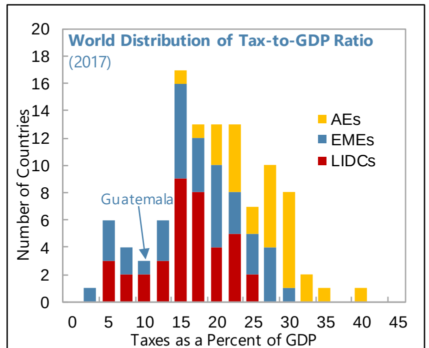
- *Reform of procurement law.* A revamped legal framework for procurement, in line with best international practices, would duly leverage the government e-procurement system *(Guatecompras)*, bolstering cost-effectiveness and providing an adequate balance between agility, transparency and traceability of all procurement stages.

- *Increase budget flexibility.* Scale back revenue earmarking and mandatory spending floors. Enforce performance-based budgeting and couche spending objectives within a medium-term framework.

- *Rationalize tax incentives and exemptions.* Comprehensive information on exemptions and beneficiaries should be centralized and shared between governing agencies to avoid abuses and to prepare cost-benefit analyses.

Box 1. Narrowing the Tax Gap in Guatemala

Guatemala has one of the lowest tax efforts worldwide. The tax burden is well below Guatemala's own aspirational objectives set in the 2000 Fiscal Pact and just about half of the country's tax capacity of around 20 percent (i.e. maximum level of tax revenue achievable given countries' structural characteristics). Tax policy (low statutory rates and numerous exemptions) and tax evasion underly such gap in about equal proportions.

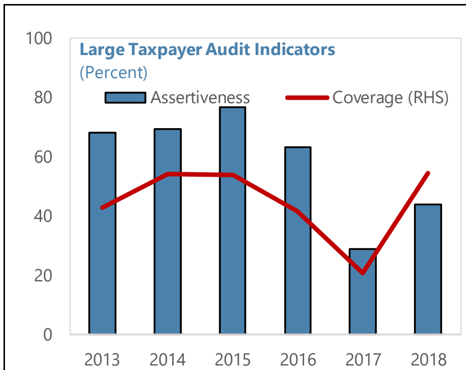


Source: IMF staff estimates.

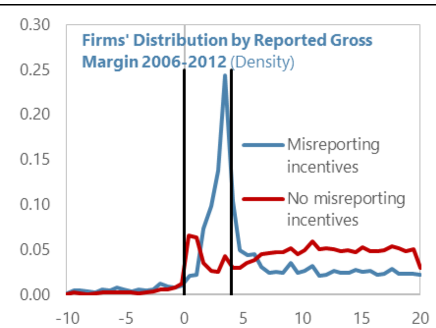
A technical assistance mission found that tax evasion reached almost 5 percent of GDP in 2015, and largely affects the value added tax (VAT) and the corporate income tax (CIT).

- *VAT evasion* increased from 2.4 percent of GDP in 2015 to 2.8 percent of GDP in 2017, mostly reflecting SAT's enforcement challenges. A reduction in the number and effectiveness of tax audits in recent years would have lowered the cost of evasion for taxpayers, although the recovery seen by end-2018 is encouraging.

- *Other taxes evasion*. CIT and other taxes evasion reached similar levels. The evidence for the CIT suggests that policy design affects firms' tax evasion behavior. Guatemala's CIT complex dual system (comprising a regime on profits, and a simplified optional regime on income, from lucrative activities), alongside numerous tax exemptions and incentives have challenged SAT's enforcement capabilities and resulted into arbitrage and tax evasion. The effectiveness of the minimum tax on income is also weakened by exemptions rules and underreporting of assets.[1]



Sources: SAT and IMF staff calculations.



Source: Alejos (2017).
Note: Chart shows that, when eligible, firms adopt strategic behavior to comply with the minimum tax exemption threshold. X-axis shows reported gross margin (%). Y-axis shows density.

Taxpayers' voluntary compliance can be encouraged by:

- *Strengthening tax controls.* Strengthen the large taxpayer office management, improve the use of tax information to correct noncompliance, redirect resources towards risk-based auditing, enhance tax administrative enforcement faculties, especially for unpaid tax debt, and reconsider the lifting of bank secrecy for tax audit purposes. Improving IT infrastructure and human capital is also key to the effectiveness of the new electronic billing.

- *Simplifying and improving tax design.* Rationalize tax incentives and exemptions to enhance economic efficiency and SAT's tax-raising capacities. Reduce income tax arbitrage between regimes by granting regime shifting on a lower frequency (e.g. every 5 years instead of on a yearly basis). Instate transfer pricing rules for operations between related parties when benefited with tax exemptions. Phase-out exemption rules based on gross margin to increase the effectiveness of the income minimum tax.

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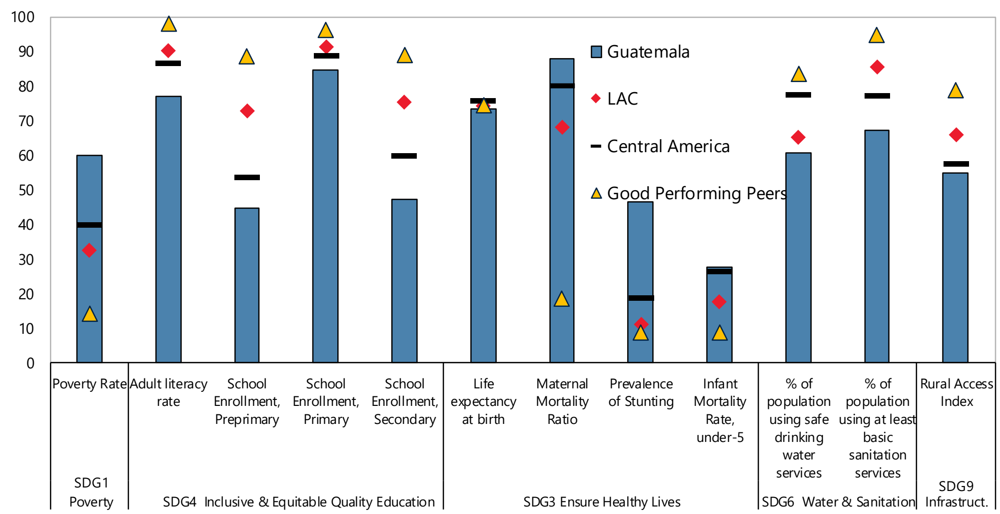
[1/] Alejos, Luis, 2017, "Firms' (mis)reporting under a minimum tax: Evidence from Guatemalan corporate tax returns". http://www-personal.umich.edu/~lalejos/pdf/FirmsMisreporting.pdf.

- *Improve fiscal transparency*. Use effectively the newly collected public-sector personnel census,[6] the incorporation of decentralized institutions into the treasury single account, and the strengthening of fiscal risk oversight and governance of public entities. Increase payroll controls by including all central government entities in the payroll system (*Guatenominas*).

13. Well-targeted and productive infrastructure and social spending would promote private sector growth and key SDGs. The authorities should prioritize those investments generating the strongest externalities (such as water and sanitation services, preventive and primary healthcare, pre-primary education programs, and teachers' training) and those with the highest potential for cost recovery and private sector participation (e.g., transportation infrastructure).[7] Congress approval of multi-year loans (for education, health, food security, justice, infrastructure, and water and sanitation), would enable the incorporation of these priorities into a medium-term budget framework. As spending is scaled-up, more focus should be placed on performance-based budgeting through strengthened monitoring and evaluation, as steered by the Secretary of Planning.

Selected Indicators of Development



Sources: WHO, UNICEF, World Bank Group, and IMF staff calculations.
Note: Good Performing Peers refer to the median of countries with per capita GDP ranging $3,000–$6,000 that rank the highest in each category of development; LAC = Latin America and Caribbean; Central America = Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

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[6] The census aims to provide a better cost-benefit assessment of public employment.

[7] Fund staff has worked on an estimate of the additional spending required for meaningful progress on selected SDGs (SDN/19/03). In the case of Guatemala, an additional spending of about 8½ percent of GDP by 2030 in areas such as education, health, road, electricity, and water and sanitation infrastructure would be key to promote sustainable and inclusive growth (WP/19/60).

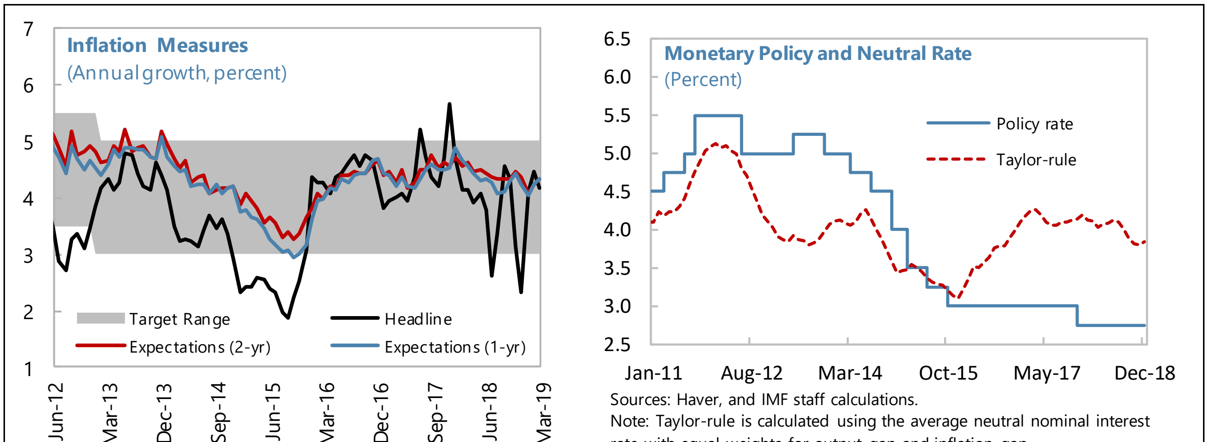
B. Monetary Policy: Continued Accommodation and Eventual Normalization

14. Monetary policy should remain accommodative over the near term and proceed with a gradual normalization thereafter. At 2¾ percent, the policy rate is about 120 basis points lower than what a neutral stance would imply, and the real interest rate is negative. This suggests limited scope for additional interest rate cuts in the near term, given inflation expectations of slightly above 4 percent, and staff inflation prospects of 3.8/4.1 percent for 2019/2020. As growth exceeds its potential rate by 2021, monetary normalization could resume *gradually* (Box 2). Given uncertainties surrounding neutral-rate estimates, the path for normalization should be data-dependent and attuned to signs of activity and inflation expectations.

Guatemala: Neutral Interest Rate

Expected Inflation December 2019			3.80
Actual Monetary Policy Rate			2.75
Method 1/	Neutral Real Interest Rate	Neutral Nominal Interest Rate	Nominal Monetary Policy GAP (bps) 2/
Uncovered Interest Parity	0.1	3.9	116
Forward Looking Monetary Model	0.0	3.8	105
Expected-Inflation Augmented Taylor Rule	0.2	4.0	127
General Equilibrium Model	0.1	3.9	113
Average	0.1	3.9	119

Sources: National authorities and IMF staff estimates.
1/ All units expressed as percent points unless otherwise stated.
2/ (bps): Basis points.



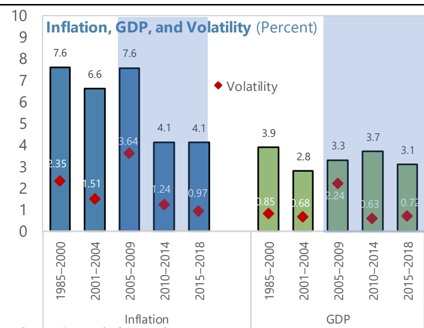
Sources: Banguat and IMF Staff calculations.

Sources: Haver, and IMF staff calculations.
Note: Taylor-rule is calculated using the average neutral nominal interest rate with equal weights for output gap and inflation gap.

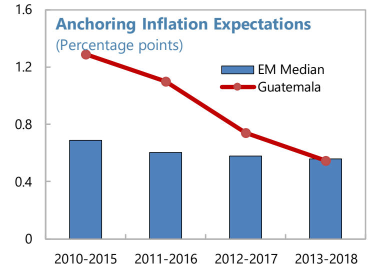
15. Credible monetary management is a cornerstone of macroeconomic stability. Going forward, Banguat could consider further enhancing monetary transmission and the inflation targeting framework overall:

Box 2. Enhancing the Inflation Targeting Framework

Since the inception of the IT framework in 2005, the Central Bank has been successful in gradually anchoring inflation expectations and reducing inflation and output volatility. Throughout 2018, revisions of long-term inflation expectations were at a low and on a par with the median for emerging markets (EM), while inflation volatility over 2015–18 was at its lowest since the start of the IT regime.



Source: Banco de Guatemala.
Note: Shaded area refers to period of inflation target regime.

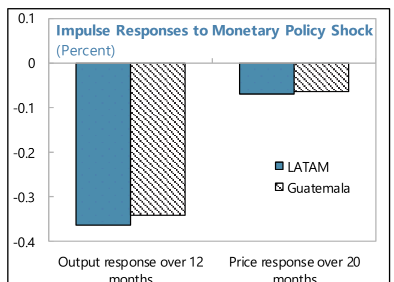


Sources: National authorities, WEO, and IMF staff calculations.
Note: EM median is based on a sample of 19 Emerging Markets.

Looking forward, as monetary policy normalization unfolds domestically, it is important to accurately gauge monetary transmission, which operates through three main channels, aggregate demand, exchange rate, and inflation expectations. Changes in the monetary policy rates (MPRs) may impact on investment, consumption, and aggregate demand; impinge on the exchange rate, exports, and inflation through FX pass-through effects; and directly affect inflation expectations.

A number of studies for Guatemala focusing on the aggregate demand channel has found a strong transmission of MPRs' impulses to the money rates but weaker to the lending rates.

- *Transmission to the money market rates.*[1] Valle and Morales (2017) estimate the short-term correlation between the policy and money market rates at 0.73 percent, akin to the EM average of 0.74 percent found in Mishra and others (2019). The long-term correlation was even higher at 0.81, and well above the EM average of 0.59 percent. This evidence is in line with the 0.8 percent contemporaneous response of the repo rate to a 100-basis points MPR shock found in Solorzano and others (2019).
- *Transmission to the lending channel.*[2] Valle and Morales (2017) estimate the short-term correlation between the money market rate and the lending rate at 0.08 percent, well below the EM average of 0.37 percent found in Mishra and others (2019). Evidence at the micro-level also suggests that the lending channel operates with lags and is relatively small, or even non-existent, in large banks (Blanco and Valle, 2018).



Sources: Brandao and others (2019). Average impulse responses to one standard deviation shock to monetary policy.

Staff estimates based on Brandao and others (2019)[3] would point to a stronger transmission to activity overall. The approach, which heavily draws on Romer and Romer (2004),[4] presents two main advantages relative to previous studies. First, it encompasses the aggregate demand, exchange rate, and inflation expectations channels. Second, it addresses endogeneity between monetary policy and output by purging MPRs' changes of systematic policy responses to the central bank's forecasts. Upon these refinements, overall monetary transmission to output and prices in Guatemala seems commensurate with that estimated for other LatAm IT regimes. This would suggest a gradual approach towards monetary normalization over the medium term.

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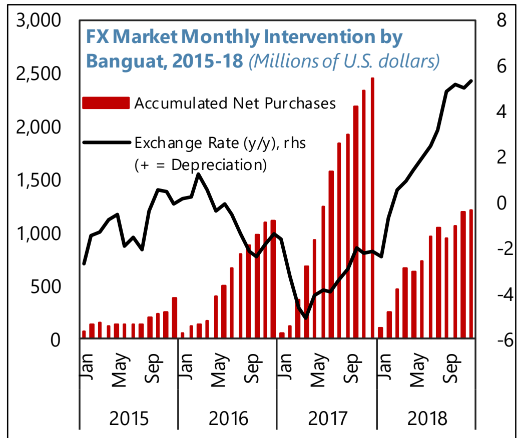
[1] See Valle, H.A. and E. Morales, 2017, "Estimación y evaluación de los mecanismos de transmisión de la política monetaria en Guatemala", Banca Central, No. 74; Mishra, P., R. Morales, and C. Vera, 2019, "Monetary transmission: Effectiveness and policy implications," forthcoming; Solorzano, H., C. Nicolle, and M.A. Arango, 2019, "Mecanismo de Transmisión de la Política Monetaria," Banco Central de Guatemala, Mimeo.

[2] See Blanco, J.A., and H.A. Valle, 2018, "What Microeconomic Banks Data Tell Us about Monetary Policy Transmission and Financial Stability in Guatemala," Mimeo.

[3] Brandao, L., G. Gelos, T. Harjes, R. Sahay, and Y. Xue, 2019, "The Transmission of Monetary Policy in EMDEs", forthcoming.

[4] Romer, C. D., and D. H. Romer, 2004, "A New Measure of Monetary Shocks: Derivation and Implications." American Economic Review, 94 (4): 1055-1084.

- *Greater FX flexibility* and reduced FX intervention would strengthen the control over the longer-maturity money market interest rates, allowing for better targeting of the money supply. The quetzal depreciated by 5.3 percent in 2018, the largest annual variation in seven years, while reserves accumulation came to 3.2 percent of total FX market operations, down from 6½ percent in 2017. Nonetheless, the quetzal is more stable than the currencies of other LatAm inflation targeting (IT) regimes, partly reflecting Banguat's policy of dampening FX volatility.[8] Guatemala has all the supporting elements and ample buffers to minimize risks associated with greater FX flexibility (a credible IT regime, financial stability, reserves at 118 percent of the ARA metric). Enhanced FX flexibility would support market finance development and de-dollarization efforts.



Sources: Banguat and IMF staff calculations.

- *Absorb excess liquidity*. Bank liquidity remained high in 2018 despite effective sterilization of FX interventions, with most of the excess liquidity lodged in Banguat amid limited credit penetration and an underdeveloped secondary interbank market. Expanded use of the treasury and/or central bank bills, and the recapitalization of the central bank would help to reduce excess liquidity in the banking system.[9]

- *Enhance secondary market development.* Finalizing the securities market law and the full dematerialization of securities are key in supporting monetary policy operations.

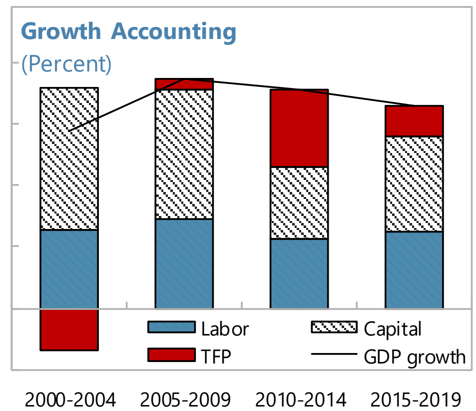
- *Refine communication strategy*. Guatemala's IT regime has brought significant transparency gains, and there is potential for further refinements to the forward-looking communication strategy. In this vein, the quarterly monetary policy reports could place a stronger emphasis on the description of the most likely trajectory for monetary policy at two years under the baseline and sensitivity scenarios.

[8] Effective September 26, 2018, the *de facto* exchange rate arrangement was reclassified to stabilized from crawl-like.

[9] The quasi-fiscal operations performed in the 1980s and 1990 have eroded the Central Bank's capital base. Every week the Central Bank sterilizes the repayment of a large amount of securities reaching maturity.

C. Lifting Potential Growth Through Business Climate Reforms

16. Fostering a prosperous business environment remains a central priority. Mobilizing investment, and bolstering productivity and exports, are key to raising growth and living standards. Key policy areas include:



Sources: IMF staff calculations.

- *Business facilitation.* Easing and digitalizing bureaucratic procedures in citizens' transactions with public entities can reduce red tape and limit exposure to dishonest behavior and susceptibility to corruption.[10] The implementation of the digital procurement registry is a step in the right direction.

- *Rule of law and regulatory environment*. The authorities' agenda to foster the business environment is commendable and should be expedited (Box 3).

17. The authorities should reaffirm their commitment to the anti-corruption agenda.

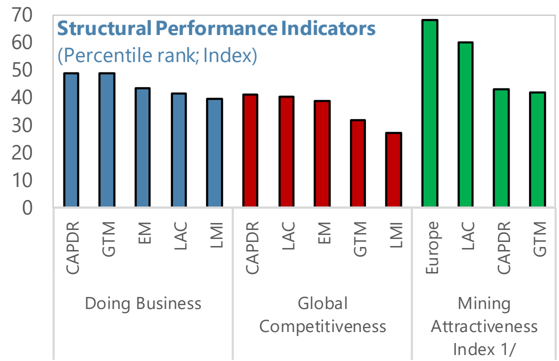
- *Anti-corruption institutional framework.* The withdrawal from CICIG puts a premium on sustaining prior legal and institutional progress (e.g. Organized Crime Act, anti-corruption reforms to the Criminal Code, and the creation of Higher-Risk Courts) and proceeding with outstanding cases. Strengthening the Attorney General's Office and judicial capacities is key to preserve existing capabilities and further fortifying the investigative and prosecutorial competences and to reduce the judicial backlog. The authorities' plans to extend the coverage of the Public Prosecutor's Office and to consolidate its financial independence are welcome. Going forward, further reforms are also needed to strengthen the asset declaration regime by incorporating good practices such as public availability of the information. Enhanced domestic and international cooperation on corruption and related asset recovery cases is also crucial.

- *Preventive measures.* To reduce exposure to corruption a suite of reforms aimed at preventing corruption are partly underway to strengthen procurement (¶12) and the AML/CFT framework (¶21), increase transparency of tax exemptions and broaden the use of the single treasury account (¶12), reduce red tape (¶16), improve contract enforcement (Box 3).

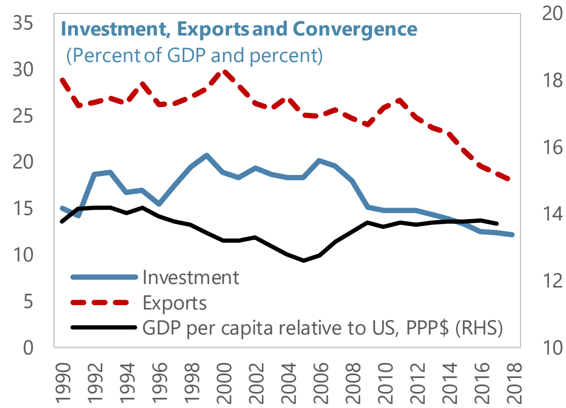
[10] Roseth, B. et al. (2018): Wait No More: Citizens, Red Tapes, and Digital Government. IDB.

Box 3. A Broad-Based Agenda for a Thriving Business Environment

To create a more favorable environment for investment and exports—both on a downward trend during the last decade—the authorities should address Guatemala's substantial governance weaknesses in rule of law and the regulatory framework, which would reduce the vulnerabilities to corruption. A limited role of the REER as a shock absorber adds impetus to the goal of boosting structural competitiveness (Annex VI). The authorities should persevere in their efforts to implement the following measures:



Sources: World Economic Forum Global Competitiveness Index; World Bank Doing Business Indicators; and Fraser Institute.
1/ Index rates regions based on their geological attractiveness and on government policies toward exploration investment (83 jurisdictions included in the 2018 survey).



Sources: World Economic Outlook and World Bank.

Rule of law

- *Contract enforcement* would benefit from the adoption of a law on insolvency that aligns with best practices including by (i) using the cash-flow test as a basis for initiating insolvency procedures; (ii) allowing vote by creditor classes on reorganization plans; (iii) prioritizing post-petition financing in the liquidation waterfall; and (iv) providing comprehensive safeguards for secured creditors.
- *Reducing policy uncertainty* through the adoption of the legal stability law aimed to strengthen investors' protection for large projects. Its scope and exclusions should be consistent with best regional practices.
- *Reducing legal uncertainty by swiftly aligning national legislation with ILO Convention 169*[1] in a way that balances the need to attract investment with the rights for indigenous people. Chile, Peru, Canada represent best practices in this domain. Meanwhile, pending consultations affecting large foreign investments should be resolved expeditiously.

1/ ILO Convention 169 provides for the consultation of indigenous communities prior to deployment of investment projects affecting them.

Box 3. A Broad-Based Agenda for a Thriving Business Environment (concluded)

Regulatory framework

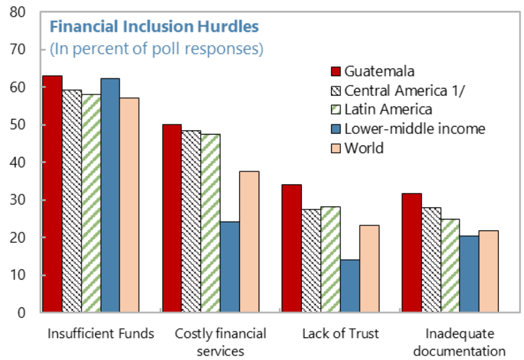
- *Modernizing road infrastructure management*. Passing the road infrastructure bill would complement the existing public-private-partnership vehicle (a portfolio of high-priority investments worth 2 percent of GDP cumulatively over 2018–23) and help catalyze private investments, improving domestic market connectivity and competitiveness. To limit contingent fiscal risks, the law should assign to the Ministry of Finance a clear mandate in the approval and fiscal risks oversight of projects. The new bill should provide legal certainty on right-of-way acquisition and the legal nature of the contract and the road-specific and national procurement framework should be consolidated to avoid overlap.
- *Streamlining the adoption of construction licenses.* Efforts towards easing the granting of construction licenses are welcome and there is room to digitize the process and strengthen the underlying legal framework. Speeding up environmental assessments and connection to water would be key.
- *Continuing efforts for trade facilitation*. SAT's Integral Load Control Plan has resulted into reduced rates of physical inspection and increased appeal filings and resolutions. Further enhancements are possible on post-clearance auditing capacities and controls to prevent abuse of the customs unions with Honduras. Customs automation and modernization should be implemented as per the roadmap enshrined in the *Programa de Modernizacion Integral Aduanera*.
- *Government-sponsored export promotion* through the creation of an export and investment promotion agency (*ProGuatemala* law) could facilitate foreign investment and access to external markets. Attention should be given to private sector's involvement, public-sector funding, and a performance evaluation system, which have all proved successful in similar regional endeavors.

D. Enhancing Financial Modernization and Inclusion

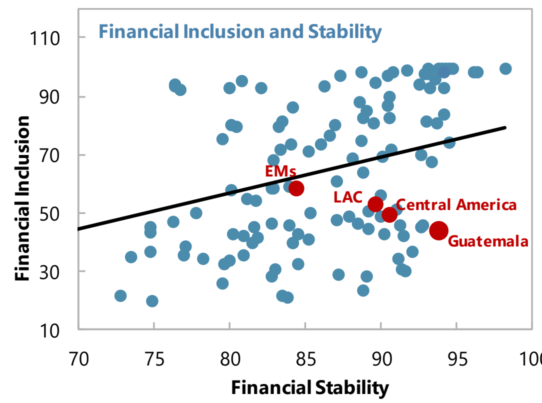
18. The financial system is healthy and there is ample scope to promote financial inclusion.

- *Contained financial vulnerabilities.* Banks continue to be well-capitalized, have sufficient liquidity, and nonperforming loans remain at low levels and well-provisioned. Assets and liabilities' dollarization of over 30 percent and currency mismatches from FX loans granted to unhedged borrowers (17 percent of total loans), leaves banks exposed to exchange rate-related credit risks. As greater FX flexibility is pursued, the authorities should monitor closely those vulnerabilities and act pre-emptively by further tightening prudential requirements on FX-loans to unhedged borrowers.

- *Scope for further financial inclusion.* Despite the steady increase in the financial sector to GDP share, financial inclusion remains shallow. Only 44 percent of adults had an account at a financial institution in 2017, well below the world and LatAm averages.



Sources: 2017 Global Findex, World Bank.
1/ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama



Sources: WEF, Global Competitiveness Index and Global Findex database.

19. The authorities should persevere in their efforts to foster financial inclusion. The recent reforms of the code of commerce and movable guarantees, and approval of the factoring law should facilitate SME's access to credit. Complementing these efforts, the authorities should operationalize the 2016 microfinance law and encourage the introduction of simplified bank accounts and credit bureaus. Staff welcomes the creation of an interinstitutional commission to coordinate the National Strategy for Financial Inclusion (ENIF by its Spanish acronym), including *FinTech* solutions (Box 4) based on a "sandbox" approach that balances innovation with financial stability and integrity. Enhancing technological and financial literacy for all parts of the population, consumer protection, and compliance with Customer Due Diligence (CDD) provisions are important goals in this respect.

20. Implementing other outstanding FSAP recommendations could further modernize the financial system.

- *Alignment with Basel III.* With Fund's technical assistance support, Guatemala has started a process to adopt the LCR regulation, and to update capital requirements for market risks and the off-site reporting system. Draft regulations are under consideration on credit risk management and loan-loss provisioning; as well as actions to develop monitoring tools for credit and interest rate risk in line with Basel provisions and to enhance the monitoring of systemic risks to inform the formulation of macroprudential policies. Efforts are also ongoing to review the framework for financial groups supervision in line with FSAP recommendations, including by updating key definitions and extend supervision powers to holding companies and banks' foreign branches. The authorities are also finalizing the implementation of the risk-based corporate governance framework adopted in 2016.

Box 4. *Fintech's* Potential to Promote Financial Inclusion

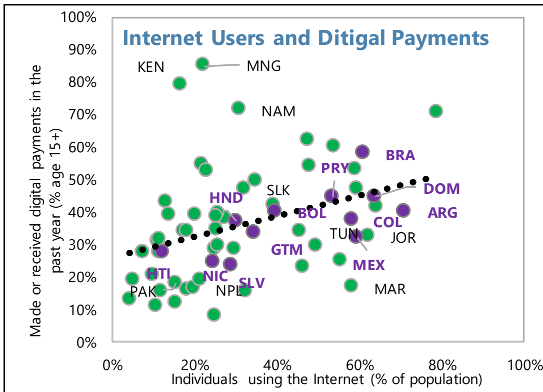
Fintech offers an alternative business model to conventional finance (Berkmen and others, 2019). Guatemala's young population and deep penetration of mobile phones (60 percent in 2017) foretells great potential for *FinTech* in the following domains:

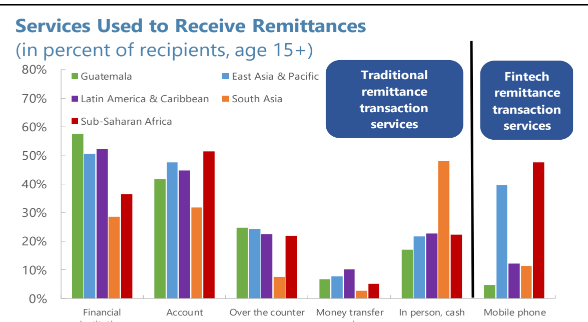
- *Households' access to basic financial services.* As the Kenyan M-Pesa experience shows, *FinTech* affordable mobile platforms can bring money transfers, bills payments, and loans to remote and low-income populations. Similar experiences in Asia and the LatAm region, such as the expansion of universal access to banking services in India or Peru's nation-wide mobile money platform, are good precedents too.

- *SMEs lending. Fintech* can provide SMEs with greater and more efficient access to financing through crowdfunding—as evidenced in Mexico where the rapid expansion in the number of crowdfunding projects and lenders led to the passing of the 2018 *Fintech* law.

- *Remittance transfers. FinTech* can reduce transaction costs and facilitate compliance with AML/CFT provisions. At 4.8 percent, the cost of sending $200 remittance into Guatemala remains below the global average of 7 percent if above the SDG goal of 3 percent. The digitalization of personal identities could reduce the cost of AML/CFT-mandated CDD provisions, depending on the product design and service feature.

- *Lessening information asymmetries.* Those asymmetries increase the perceived risk by both creditors and borrowers. Through *FinTech*, investors with small portfolios can benefit from robo-advice while retail customers can benefit from big data analytics to inform their decisions. *FinTech* can also build digital financial profiles and favor the development of credit bureaus and registries.





Sources: 2017 Global Findex Database World Bank. Based on domestic remittances, the Global Findex survey does not specifically cover international remittances. Over the counter transactions include all transactions conducted at any financial service provider in cash. Account transactions may include both those conducted at a financial institution and those through mobile money when mobile money accounts are available.

- *In Congress since 2016, the bill on banks and financial groups should be given priority*. The bill would align legislation with Basel III standards by increasing capital requirements and establishing a robust framework for bank resolution. The legislation would also introduce greater clarity on the triggers of an effective resolution as well as safeguards for the use of public funds in the open-bank intervention scheme. Other initiatives meriting support include the securities market law and the electronic money law.

21. The drafting of a new AML/CFT framework has been finalized and its passage in Congress should be expedited. The draft AML/CFT law, if adopted, would largely align with FATF standards and (i) expand the list of reporting entities to notaries and other non-financial businesses and professionals; (ii) establish an obligation for financial institutions to adopt a risk-based approach and a sound sanctioning regime for noncompliance; (iii) and secure greater protection for supervisors. While enhancing preventive measures, the bill should further strengthen its provisions on Politically Exposed Persons and enhance the interaction between the supervisor and law enforcement authorities. Ensuring transparency on the ultimate beneficial ownership of corporate vehicles (by e.g. keeping up-to-date the corporate registry and facilitating its access) is also needed to tackle money laundering and reduce the scope for corruption.

Authorities' Views

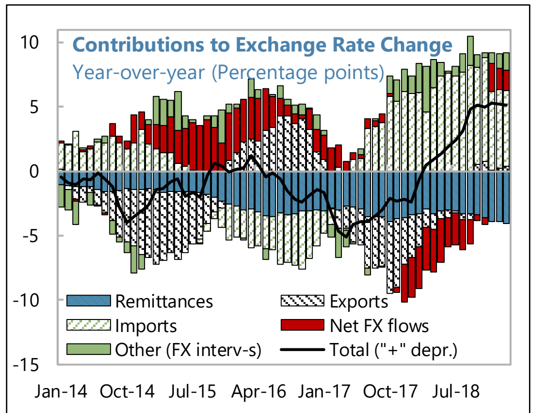
22. The authorities broadly agreed with staff macroeconomic outlook. They noted the increased economic momentum since mid-2018 amid strong fundamentals. The authorities agree with staff that the current account in 2018 was stronger than the level implied by fundamentals and desirable policies although they do not see any misalignment in the REER once temporary factors are accounted for—mainly the strong remittance inflows observed in recent years. The authorities view risks to the outlook as broadly balanced. Downside risks originate from growth slowdown in the U.S. and other regional trading partners, political uncertainty, and constrained government spending (in the event of further revenues shortfall); upside risks stem from stronger construction and exports momentum.

23. The Ministry of Finance means to sustain fiscal support to demand in the near term and couch the SDG agenda within multi-year budgetary plans. The priority this year is to sustain spending execution, while a portfolio of strategic investments would allow for further fiscal impulse in 2020. Over the medium term, the authorities wish to embed the SDG agenda into the budgetary exercise. In their view, spending should be scaled up gradually as reduced tax evasion and improved spending efficiency allow for additional resources, while the debt-to-GDP ratio is kept broadly stable. The authorities concurred on the need to undertake reforms to the public procurement system and to the laws on civil service and public sector salaries.

24. The authorities are striving to stop the erosion of tax revenues. Ongoing measures to increase taxpayers' risk perception include the electronic invoice and a strengthened VAT declaration form. The authorities concurred that further strengthening tax controls, lifting the bank secrecy provisions, and improving the tax policy design, are key to reduce tax evasion.

25. The authorities agree with the staff assessment of the monetary stance. By their estimates, the output gap would close by end-2019 as activity gradually picks up, which would pull core inflation up throughout the year. Nonetheless, they expected to stay on hold until the ongoing rebound firms up, amidst well-anchored inflation expectations, and agreed on a gradual, data-dependent, normalization of the policy rate. The authorities welcomed staff analysis on the assessment that monetary transmission mechanism has improved and highlighted progress in drafting the securities market law and enhancing financial market infrastructures in this regard.

26. The authorities noted the reclassification of *de facto* exchange rate from crawl-like to stabilized. They restated that the FX intervention policy is based on a transparent rule that is designed to smooth exchange rate volatility without affecting its trend. In their view, the exchange rate is primarily driven by market forces and its apparent stability in recent years owes to the offsetting role of remittances to a deteriorating trade balance. They reiterated their commitment to a more flexible exchange rate.



Source: National authorities.

27. The authorities concurred with staff on the need to meaningfully improve the rule of law and the regulatory framework. As such, the Ministry of Economy has put forward a wealth of initiatives (Box 3) to improve the business ecosystem which, for the large part, they mean to pass during the presidential transition in 4Q2019. The *Cabinet for Economic Development* will play a crucial role in steering the economic agenda through Congress. The authorities reinstated their commitment to an anti-corruption agenda (¶17).

28. The authorities emphasized that Guatemala's financial system remains sound. They underscored the benefits of existing prudential measures to contain exchange rate-related credit risks from FX loans to unhedged borrowers and alluded to legal impediments to differentiate reserves requirements by currency. They are proceeding gradually with the adoption of Basel III standards and have prepared draft legislation to this effect. The authorities attached high importance to the nexus between financial inclusion and growth and are fully devoted to the implementation of the ENIF. On AML/CFT standards, they emphasized Guatemala's commitment and progress with the implementation of GAFILAT recommendations. Accordingly, the authorities are strengthening the regulatory framework to secure alignment with FATF standards.

STAFF APPRAISAL

29. The outlook is positive amidst strong fundamentals, but efforts to raise potential growth remain a priority to improve living standards. Building consensus to implement long-delayed business climate and public sector reforms is key to promote private sector growth and social and infrastructure spending conducive to the attainment of the SDGs.

30. Near-term growth is poised for a rebound. Growth is projected to accelerate and peak in 2021, propelled by a further fiscal impulse, exports recovery and stronger investment momentum, before converging to its potential rate of 3½ percent by 2024. Inflation is set to reach the mid-point of the target band as spare capacity narrows. The external position remains stronger than the level implied by medium-term fundamentals and desirable policies, but the gap is expected to narrow by 2024.

31. Fiscal and monetary policies' support of demand should continue in the near term, considering prevailing spare capacity. Fiscal policy needs to reverse the decline in revenues and keep up spending execution. The accommodative monetary conditions should continue as the output gap closes amid well-anchored inflation expectations. Over the medium term, as the economy reaches potential (2021 by staff estimates), the path for normalization should be gradual and data-dependent.

32. Over the medium term, fiscal policy should preserve macroeconomic stability while undertaking more productive spending. Raising tax collections and enhancing spending efficiency is necessary to expand fiscal space. To this aim, SAT should redouble efforts to fight tax evasion. Spending efficiency reforms should increase the coverage and quality of public services provided, bolster the cost-effectiveness of procurement, increase budget flexibility, and rationalize tax incentives and exemptions. As spending is scaled up, the authorities should prioritize those investments generating the strongest positive externalities and with the highest potential for cost recovery and private sector participation. A comprehensive tax reform should be subsequently considered to finance well-planned spending, given the scale of the existing infrastructure and social gaps.

33. Building on a strong monetary policy management, additional enhancements to inflation targeting could be considered. A stronger monetary transmission would result from (i) enhancing FX flexibility; (ii) expanding the use of the treasury and/or central bank bills, while fostering the adoption of the securities market law and the dematerialization of securities; and (iii) further refining the forward-looking communication strategy.

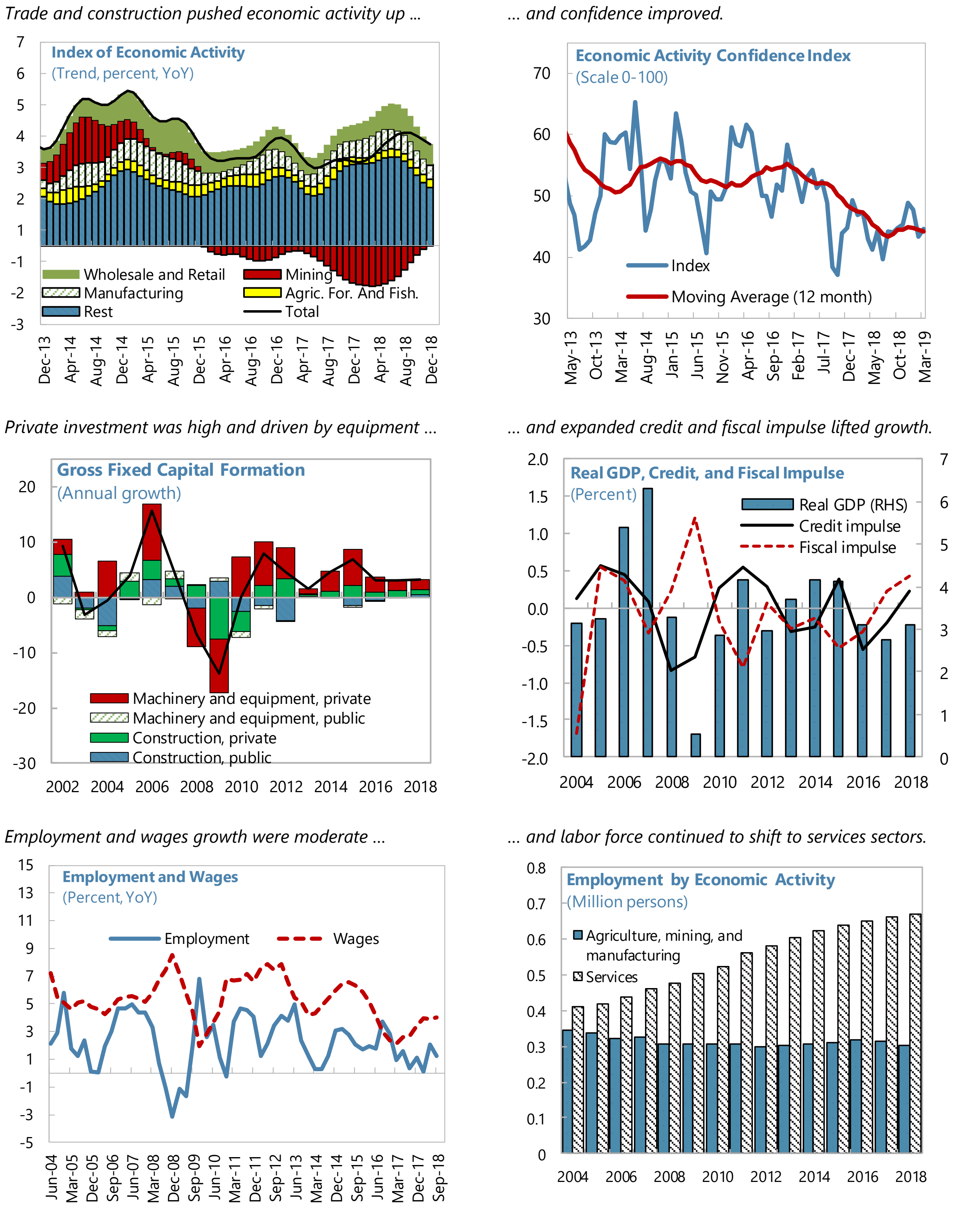
34. The authorities' agenda to promote a thriving business environment is commendable and should be expedited. Planned initiatives to restore legal certainty for large-scale investment projects are vital to improve investors' confidence. Spearheading the PPP framework, passing the road infrastructure bill, and further easing the issuance of construction licenses are also important bolster investment. The creation of an export promotion agency and more expedited customs procedures with El Salvador and Mexico can enhance exports potential.

35. The government should reaffirm its commitment to the anti-corruption agenda. Strengthening the Attorney General's Office and judicial capacities should be focal points, with efforts aimed at preserving the legal and institutional progress, and existing capabilities, and further fortifying the investigative and prosecutorial competences and reducing the judicial backlog. Staff welcomes the authorities' plans to extend the coverage of the public prosecutor's office and to consolidate its financial independence. Complementing these efforts, a preventive anticorruption strategy should strengthen the procurement and the AML/CFT frameworks, reduce red tape, improve contract enforcement, and increase the transparency of tax exemptions.

36. Building on a sound financial system, the authorities should focus on promoting financial inclusion. Further efforts are needed to operationalize the 2016 microfinance law, and to set in motion simplified bank accounts and credit bureaus. The creation of an interinstitutional Commission to coordinate the implementation of a National Strategy for Financial Inclusion represents an opportunity to promote FinTech solutions. The authorities' intention to explore regulatory responses via a sandbox approach that balances technological innovation with financial stability, is welcome.

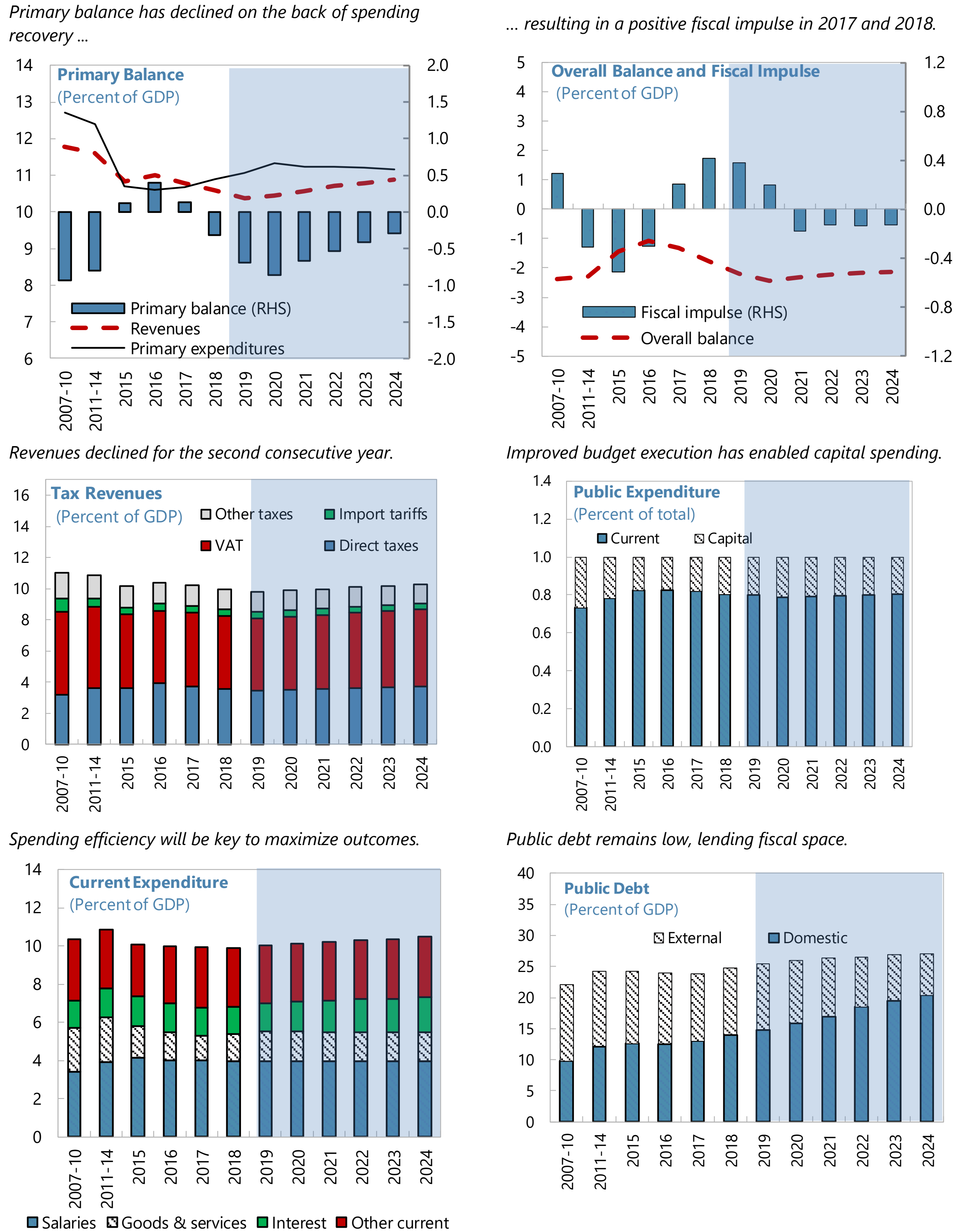
37. It is recommended that the next Article IV consultation with Guatemala be held on the standard 12-month cycle.

Figure 1. Guatemala: Recent Economic Developments



Sources: National authorities and IMF staff calculations.

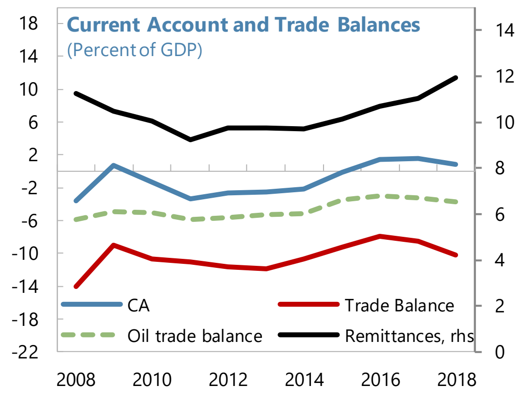
Figure 2. Guatemala: Fiscal Developments



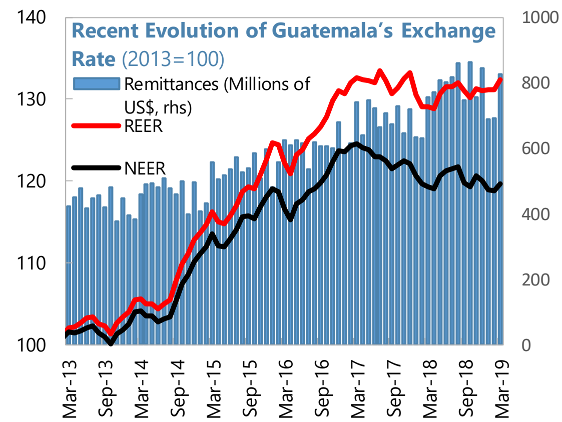
Sources: National authorities and IMF staff calculations.

Figure 3. Guatemala: External Developments

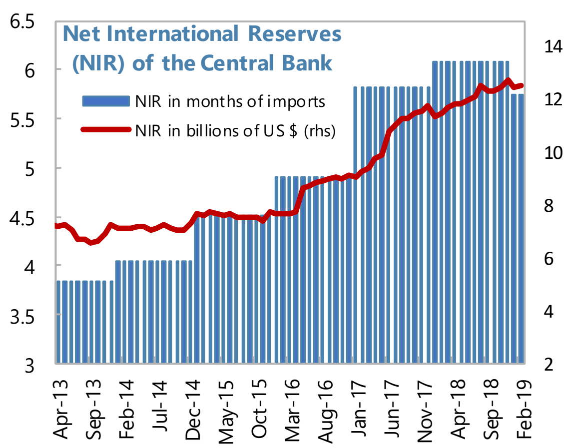
Trade balance deteriorated, but continued strong remittances helped maintain a CA surplus in 2018.



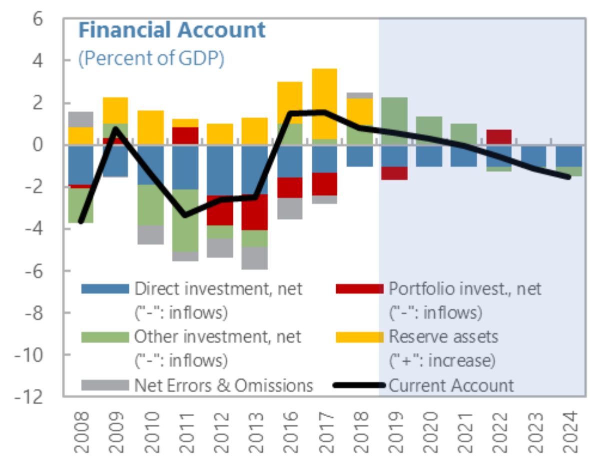
The effective exchange rate depreciated in 2018 on weaker trade balance.



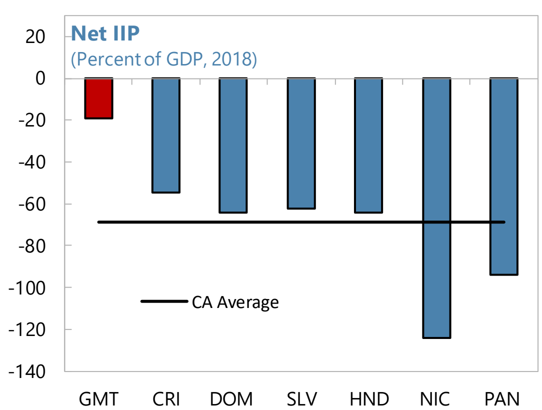
International reserves remain healthy and are well above the benchmark of 3 months of imports.



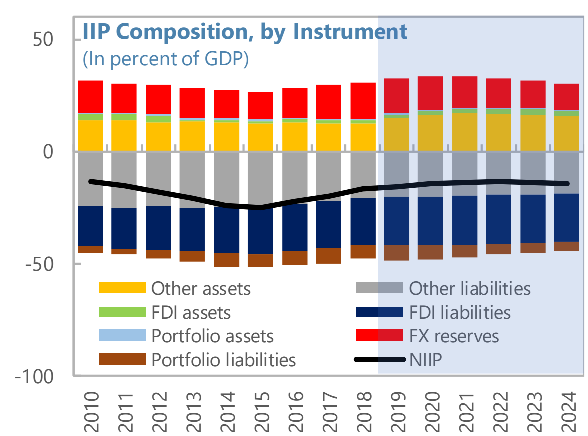
CA balance is projected to deteriorate over the medium term but would be largely funded by FDI inflow.



The net international investment position (IIP) is negative but small compared to other countries in the region.



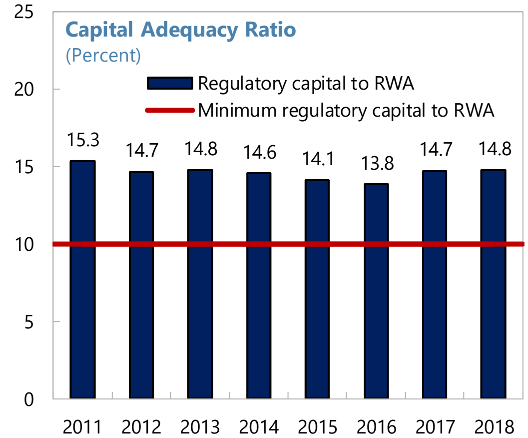
Almost half of the total external liabilities are non-debt generating FDI liabilities.



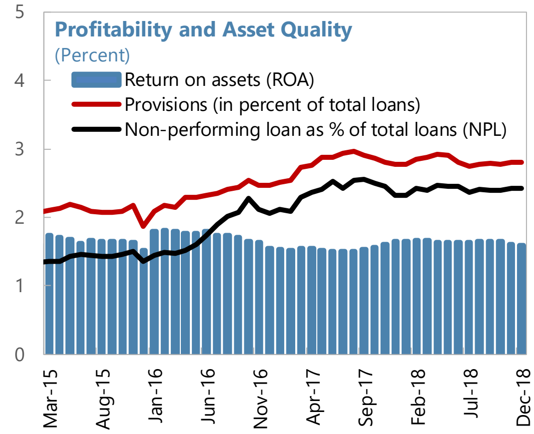
Sources: National authorities and IMF staff calculations.

Figure 4. Guatemala: Financial Developments

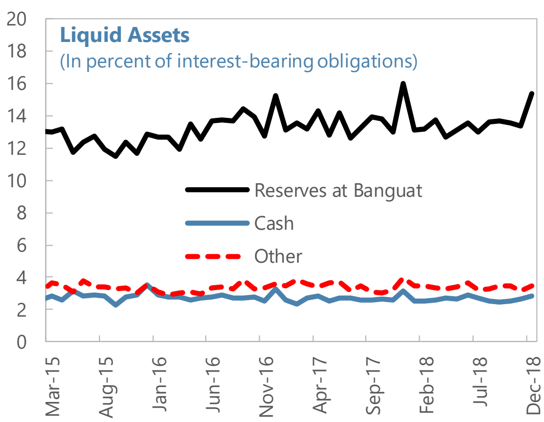
Banks' capital adequacy is well above the minimum required.



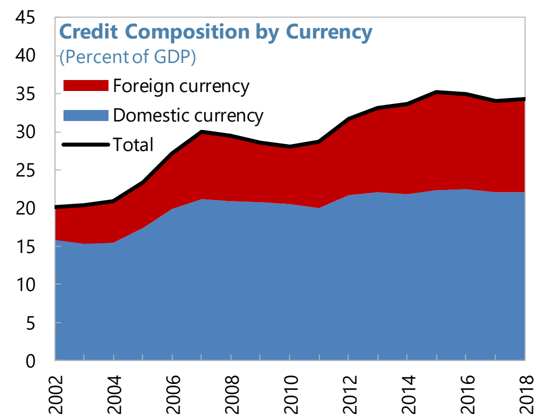
Profitability and loan portfolio quality remain strong.



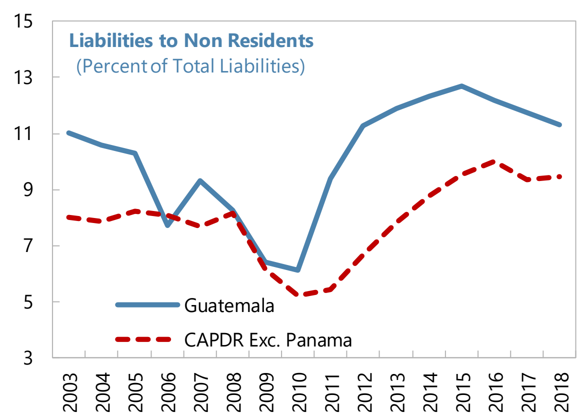
Banks liquidity continues to be adequate.



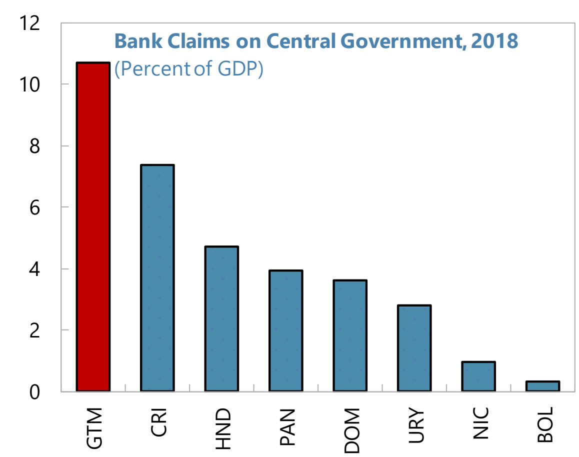
Credit dollarization exposes banks to FX-related credit risk.



Lower foreign liabilities narrowed exposure to rollover risk.



Holdings of sovereign bonds expose banks to interest-driven valuation losses.



Sources: National authorities and IMF staff calculations.

Table 1. Guatemala: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Population 2018 (millions)	17	Gini index (2014)	49
Percentage of indigenous population (2016)	41	Life expectancy at birth (2017)	74
Population below the poverty line (Percent, 2014)	59	Adult illiteracy rate (2017)	19
Rank in UNDP development index (2017; of 189)	127	GDP per capita (US$, 2017)	4,470

II. Economic Indicators

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(Annual percent change, unless otherwise indicated)										
Income and Prices											
Real GDP	4.2	4.1	3.1	2.8	3.1	3.4	3.5	3.7	3.6	3.5	3.5
Consumer prices (end of period)	2.9	3.1	4.2	5.7	2.3	3.8	4.1	4.0	4.1	4.2	4.3
Monetary Sector											
M2	8.7	9.4	6.6	8.4	9.4	6.9	7.7	8.1	8.1	8.3	8.2
Credit to the private sector	8.8	12.8	5.9	3.8	7.0	7.0	8.4	8.3	8.3	8.2	8.2
	(In percent of GDP, unless otherwise indicated)										
Saving and Investment											
Gross domestic investment	13.6	14.0	13.3	11.8	12.0	12.0	12.0	11.9	11.7	11.5	11.4
Private sector	12.0	12.3	11.7	11.0	10.9	10.9	10.8	10.7	10.6	10.4	10.2
Public sector	1.7	1.3	1.2	1.1	1.0	1.1	1.2	1.1	1.1	1.1	1.1
Gross national saving	11.5	13.8	14.8	13.4	12.8	12.6	12.3	11.8	11.2	10.4	9.8
Private sector	11.2	13.7	14.5	13.4	13.3	13.6	13.4	12.8	12.1	11.3	10.7
Public sector	0.2	0.1	0.3	0.0	-0.5	-0.9	-1.1	-1.0	-0.9	-0.9	-0.9
External saving	2.1	0.2	-1.5	-1.6	-0.8	-0.6	-0.3	0.1	0.6	1.1	1.5
External Sector											
Current account balance	-2.1	-0.2	1.5	1.6	0.8	0.6	0.3	-0.1	-0.6	-1.1	-1.5
Trade balance (goods)	-10.3	-8.7	-7.6	-7.9	-9.3	-10.0	-10.2	-10.4	-10.6	-10.7	-10.7
Exports	18.7	17.0	15.4	14.7	14.1	13.9	13.6	13.2	12.9	12.5	11.9
Imports	29.0	25.7	23.0	22.6	23.4	23.8	23.8	23.6	23.4	23.2	22.6
Of which: oil & lubricants	5.6	3.6	3.1	3.4	3.8	3.7	3.8	3.7	3.6	3.6	3.5
of which repayment of arrears											
Other (net)	8.2	8.6	9.0	9.5	10.1	10.6	10.6	10.3	10.0	9.6	9.2
Of which: remittances	9.7	10.1	10.7	11.0	12.0	12.8	13.2	13.3	13.2	13.1	12.8
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (Net lending (+))	-2.9	-0.9	0.5	1.2	1.1	0.6	0.3	-0.1	-0.6	-1.1	-1.5
Of which: FDI, net	-2.2	-1.7	-1.6	-1.3	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Errors and omissions	-0.8	-0.7	-1.0	-0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves assets (Increase (+))	0.1	0.7	2.0	3.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net International Reserves											
(Stock in months of next-year NFGS imports)	4.0	4.5	4.9	5.8	6.1	5.7	5.4	5.1	4.9	4.6	4.6
(Stock over short-term debt on residual maturity)	1.6	1.6	1.8	2.1	2.4	2.4	2.2	1.9	2.0	1.9	1.8
Public Finances											
Central Government											
Revenues	11.5	10.8	11.0	10.8	10.6	10.4	10.5	10.6	10.7	10.8	10.9
Expenditures	13.4	12.3	12.1	12.1	12.3	12.6	12.9	12.9	13.0	13.0	13.0
Current	10.5	10.1	10.0	9.9	9.9	10.0	10.1	10.2	10.3	10.4	10.5
Capital	2.9	2.2	2.1	2.2	2.4	2.5	2.7	2.7	2.6	2.6	2.5
Primary balance	-0.4	0.1	0.4	0.1	-0.3	-0.7	-0.9	-0.7	-0.5	-0.4	-0.3
Overall balance	-1.9	-1.4	-1.1	-1.3	-1.8	-2.2	-2.4	-2.3	-2.2	-2.2	-2.2
Financing of the central government balance	1.9	1.4	1.1	1.3	1.8	2.2	2.4	2.3	2.2	2.2	2.2
Net external financing	0.0	0.7	0.8	0.2	0.1	0.4	0.1	-0.1	-0.8	-0.1	-0.2
Net domestic financing	1.9	0.7	0.3	1.1	1.7	1.8	2.3	2.4	3.0	2.3	2.3
Of which : use of government deposits	0.1	-0.1	-0.5	-0.1	-0.1	0.1	0.2	0.2	0.2	-0.1	-0.1
Rest of Nonfinancial Public Sector Balance	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Combined Nonfinancial Public Sector											
Primary balance	0.0	0.3	0.6	0.3	-0.1	-0.5	-0.7	-0.5	-0.3	-0.2	-0.1
Overall balance	-1.5	-1.2	-0.9	-1.1	-1.6	-2.0	-2.2	-2.1	-2.0	-2.0	-2.0
Central Government Debt	24.3	24.2	24.0	23.8	24.7	25.4	26.0	26.3	26.5	26.9	27.0
External	11.6	11.6	11.5	10.7	10.7	10.6	10.1	9.4	8.0	7.4	6.7
Domestic 1/	12.6	12.6	12.5	13.0	14.0	14.8	15.9	16.9	18.5	19.5	20.4
Memorandum Items:											
GDP (US$ billions)	58.7	63.8	68.7	75.6	78.4	80.7	85.6	91.3	97.3	103.7	112.3
Output gap (% of GDP)	0.2	0.8	0.5	-0.1	-0.4	-0.3	-0.1	0.1	0.2	0.1	0.0

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.
1/ Does not include recapitalization of obligations to the central bank.

Table 2. Guatemala: Statement of the Central Government Operations and Financial Balance, GFSM 2001 Classification

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(In millions of quetzales)										
Central government operations											
Revenue	**52,217**	**52,858**	**57,413**	**59,984**	**62,332**	**65,258**	**70,821**	**77,502**	**84,883**	**92,698**	**101,094**
Taxes	48,478	49,507	54,109	56,477	58,513	61,265	66,823	72,921	79,930	87,331	95,561
Other revenue	3,739	3,350	3,304	3,506	3,819	3,993	3,997	4,581	4,954	5,367	5,533
Expenditure	**60,811**	**59,865**	**63,076**	**67,271**	**72,708**	**79,035**	**87,335**	**94,457**	**102,655**	**111,337**	**121,093**
Expense	**56,544**	**57,829**	**61,800**	**65,183**	**68,825**	**74,714**	**82,006**	**88,874**	**96,777**	**105,183**	**114,660**
Compensation of employees	18,466	20,304	21,028	22,328	23,295	24,960	26,870	29,067	31,433	34,053	36,878
Use of goods and services	9,346	7,996	7,686	7,205	8,482	9,761	10,508	11,254	12,170	13,084	14,031
Interest	6,583	7,617	7,724	8,003	8,484	9,444	10,657	12,060	13,554	15,140	17,305
Other expense	22,149	21,913	25,361	27,647	28,564	30,549	33,970	36,493	39,620	42,905	46,447
Net acquisition of nonfinancial assets	**4,267**	**2,036**	**1,276**	**2,089**	**3,883**	**4,321**	**5,330**	**5,583**	**5,879**	**6,154**	**6,433**
Gross Operating Balance	**-4,327**	**-4,971**	**-4,387**	**-5,199**	**-6,493**	**-9,457**	**-11,185**	**-11,373**	**-11,893**	**-12,485**	**-13,566**
Net lending (+)/borrowing (–)	**-8,594**	**-7,007**	**-5,663**	**-7,288**	**-10,376**	**-13,778**	**-16,515**	**-16,955**	**-17,772**	**-18,639**	**-19,999**
Net acquisition of financial assets	**-249**	**637**	**2,490**	**1,026**	**-212**	**-643**	**-1,150**	**-1,500**	**-1,500**	**786**	**686**
Net incurrence of liabilities	**8,339**	**7,638**	**8,143**	**8,313**	**10,164**	**13,135**	**15,365**	**15,455**	**16,272**	**19,425**	**20,684**
Financial Balance 1/											
Net financial worth 2/	**-87,479**	**-91,869**	**-90,963**	**-91,864**	**-102,430**	**-117,260**	**-135,092**	**-153,363**	**-172,485**	**-192,473**	**-212,845**
Financial assets	**22,789**	**26,201**	**34,231**	**40,164**	**43,207**	**42,613**	**41,200**	**39,418**	**37,636**	**38,149**	**38,450**
Domestic	**22,789**	**26,201**	**34,231**	**40,164**	**43,207**	**42,613**	**41,200**	**39,418**	**37,636**	**38,149**	**38,450**
Currency and deposits	22,789	26,201	34,231	40,164	43,207	42,613	41,200	39,418	37,636	38,149	38,450
Foreign	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net incurrence of liabilities	**110,269**	**118,070**	**125,194**	**132,029**	**145,637**	**159,873**	**176,292**	**192,781**	**210,121**	**230,622**	**251,295**
Domestic 3/	**57,429**	**61,460**	**65,382**	**72,346**	**82,387**	**93,185**	**107,778**	**124,063**	**146,674**	**167,362**	**189,445**
Debt securities	57,429	61,460	65,382	72,346	82,387	93,185	107,778	124,063	146,674	167,362	189,445
Foreign	**52,840**	**56,610**	**59,811**	**59,683**	**63,251**	**66,688**	**68,514**	**68,718**	**63,447**	**63,260**	**61,850**
Debt securities	13,142	13,204	18,279	21,520	22,669	26,978	27,367	27,758	22,442	22,809	22,809
Loans	39,698	43,406	41,533	38,163	40,581	39,711	41,146	40,959	41,005	40,451	39,041
	(In percent of GDP)										
Central Government Operations											
Revenue	**11.5**	**10.8**	**11.0**	**10.8**	**10.6**	**10.4**	**10.5**	**10.6**	**10.7**	**10.8**	**10.9**
Taxes	10.7	10.1	10.4	10.2	9.9	9.7	9.9	9.9	10.1	10.2	10.3
Other revenue	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Expenditure	**13.4**	**12.3**	**12.1**	**12.1**	**12.3**	**12.6**	**12.9**	**12.9**	**13.0**	**13.0**	**13.0**
Expense	**12.5**	**11.8**	**11.8**	**11.7**	**11.7**	**11.9**	**12.1**	**12.1**	**12.2**	**12.2**	**12.3**
Compensation of employees	4.1	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Use of goods and services	2.1	1.6	1.5	1.3	1.4	1.6	1.6	1.5	1.5	1.5	1.5
Interest	1.4	1.6	1.5	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.9
Other expense	4.9	4.5	4.9	5.0	4.8	4.9	5.0	5.0	5.0	5.0	5.0
Net acquisition of nonfinancial assets	**0.9**	**0.4**	**0.2**	**0.4**	**0.7**	**0.7**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**
Gross Operating Balance	**-1.0**	**-1.0**	**-0.8**	**-0.9**	**-1.1**	**-1.5**	**-1.7**	**-1.6**	**-1.5**	**-1.5**	**-1.5**
Net lending (+)/borrowing (–)	**-1.9**	**-1.4**	**-1.1**	**-1.3**	**-1.8**	**-2.2**	**-2.4**	**-2.3**	**-2.2**	**-2.2**	**-2.2**
Net acquisition of financial assets	**-0.1**	**0.1**	**0.5**	**0.2**	**0.0**	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**0.1**	**0.1**
Net incurrence of liabilities	**1.8**	**1.6**	**1.6**	**1.5**	**1.7**	**2.1**	**2.3**	**2.1**	**2.1**	**2.3**	**2.2**
Financial Balance 1/											
Net financial worth 2/	**-19.3**	**-18.8**	**-17.4**	**-16.5**	**-17.4**	**-18.6**	**-19.9**	**-20.9**	**-21.8**	**-22.4**	**-22.9**
Financial assets	**5.0**	**5.4**	**6.6**	**7.2**	**7.3**	**6.8**	**6.1**	**5.4**	**4.7**	**4.4**	**4.1**
Domestic	**5.0**	**5.4**	**6.6**	**7.2**	**7.3**	**6.8**	**6.1**	**5.4**	**4.7**	**4.4**	**4.1**
Currency and deposits	5.0	5.4	6.6	7.2	7.3	6.8	6.1	5.4	4.7	4.4	4.1
Foreign	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net incurrence of liabilities	**24.3**	**24.2**	**24.0**	**23.8**	**24.7**	**25.4**	**26.0**	**26.3**	**26.5**	**26.9**	**27.0**
Domestic 3/	**12.6**	**12.6**	**12.5**	**13.0**	**14.0**	**14.8**	**15.9**	**16.9**	**18.5**	**19.5**	**20.4**
Debt securities	12.6	12.6	12.5	13.0	14.0	14.8	15.9	16.9	18.5	19.5	20.4
Foreign	**11.6**	**11.6**	**11.5**	**10.7**	**10.7**	**10.6**	**10.1**	**9.4**	**8.0**	**7.4**	**6.7**
Debt securities	2.9	2.7	3.5	3.9	3.8	4.3	4.0	3.8	2.8	2.7	2.5
Loans	8.7	8.9	8.0	6.9	6.9	6.3	6.1	5.6	5.2	4.7	4.2

Sources: Ministry of Finance; Bank of Guatemala; and Fund staff estimates and projections.

1/ Based on available stock elements.

2/ Changes in net financial worth do not equal net lending due to valuation adjustments and statistical discrepancies.

3/ Does not include recapitilization obligations to the central bank.

Table 3. Guatemala: Summary Balance of Payments

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections					
					(In millions of U.S. dollars)					
Current account balance	**-96**	**1,023**	**1,189**	**638**	**484**	**272**	**-53**	**-551**	**-1,158**	**-1,695**
Trade balance (goods)	-5,557	-5,186	-6,010	-7,287	-8,051	-8,763	-9,490	-10,282	-11,103	-11,986
Exports, f.o.b.	10,824	10,581	11,100	11,079	11,201	11,646	12,088	12,508	12,945	13,393
Imports, f.o.b.	16,381	15,767	17,110	18,366	19,252	20,409	21,578	22,790	24,048	25,379
Of which : oil & lubricants	2,306	2,124	2,599	3,013	3,018	3,232	3,377	3,536	3,713	3,911
Net services	-339	-242	-413	-675	-812	-919	-1,028	-1,152	-1,279	-1,418
Net income	-1,399	-1,507	-1,363	-1,311	-1,583	-1,910	-2,272	-2,672	-3,108	-3,445
Net transfers	7,198	7,959	8,975	9,911	10,930	11,863	12,738	13,555	14,332	15,153
Of which: remittances	6,461	7,354	8,338	9,368	10,371	11,269	12,105	12,880	13,613	14,374
Capital account balance	0	0	0	0	0	0	0	0	0	0
Financial account balance	**-567**	**332**	**910**	**893**	**484**	**272**	**-53**	**-551**	**-1,158**	**-1,695**
Foreign direct investment	-1,104	-1,068	-1,001	-821	-846	-897	-956	-1,019	-1,086	-1,177
Net acquisition of financial assets	72	107	12	235	243	257	274	292	312	338
Net incurrence of liabilities	1,176	1,175	1,013	1,056	1,088	1,154	1,230	1,311	1,398	1,514
Portfolio investment	49	-677	-842	6	-497	7	7	707	8	8
Net acquisition of financial assets	-8	19	4	2	2	2	2	2	2	2
Net incurrence of liabilities	-57	696	847	-4	499	-5	-5	-705	-6	-6
Of which: government bonds	0	700	500	0	504	0	0	-700	0	0
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	13	686	187	750	1,827	1,162	896	-239	-79	-527
Change in reserves assets	475	1,392	2,566	957	0	0	0	0	0	0
Errors and omissions	**-470**	**-691**	**-279**	**255**	**0**	**0**	**0**	**0**	**0**	**0**
					(In percent of GDP)					
Current account balance	**-0.2**	**1.5**	**1.6**	**0.8**	**0.6**	**0.3**	**-0.1**	**-0.6**	**-1.1**	**-1.5**
Trade balance (goods)	-8.7	-7.6	-7.9	-9.3	-10.0	-10.2	-10.4	-10.6	-10.7	-10.7
Exports, f.o.b.	17.0	15.4	14.7	14.1	13.9	13.6	13.2	12.9	12.5	11.9
Imports, f.o.b.	25.7	23.0	22.6	23.4	23.8	23.8	23.6	23.4	23.2	22.6
Of which : oil & lubricants	3.6	3.1	3.4	3.8	3.7	3.8	3.7	3.6	3.6	3.5
Net services	-0.5	-0.4	-0.5	-0.9	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3
Net income	-2.2	-2.2	-1.8	-1.7	-2.0	-2.2	-2.5	-2.7	-3.0	-3.1
Net transfers	11.3	11.6	11.9	12.6	13.5	13.9	14.0	13.9	13.8	13.5
Of which: remittances	10.1	10.7	11.0	12.0	12.8	13.2	13.3	13.2	13.1	12.8
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	**-0.9**	**0.5**	**1.2**	**1.1**	**0.6**	**0.3**	**-0.1**	**-0.6**	**-1.1**	**-1.5**
Foreign direct investment	-1.7	-1.6	-1.3	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Net acquisition of financial assets	0.1	0.2	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net incurrence of liabilities	1.8	1.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Portfolio investment	0.1	-1.0	-1.1	0.0	-0.6	0.0	0.0	0.7	0.0	0.0
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-0.1	1.0	1.1	0.0	0.6	0.0	0.0	-0.7	0.0	0.0
Of which: government bonds	0.0	1.0	0.7	0.0	0.6	0.0	0.0	-0.7	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	0.0	1.0	0.2	1.0	2.3	1.4	1.0	-0.2	-0.1	-0.5
Change in reserves assets	0.7	2.0	3.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	**-0.7**	**-1.0**	**-0.4**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Value of exports, f.o.b. (percentage change)	-1.5	-2.2	4.9	-0.2	1.1	4.0	3.8	3.5	3.5	3.5
Value of imports, f.o.b. (percentage change)	-4.0	-3.7	8.5	7.3	4.8	6.0	5.7	5.6	5.5	5.5
Remittances (percentage change)	13.4	13.8	13.4	12.3	10.7	8.7	7.4	6.4	5.7	5.6
Stock of NIR (in millions of U.S. dollars) 1/	7,077	8,321	10,578	11,617	11,617	11,617	11,617	11,617	11,617	11,617
NIR in months of next-year NFGS imports	4.5	4.9	5.8	6.1	5.7	5.4	5.1	4.9	4.6	4.6
NIR over short-term debt on residual maturity	1.6	1.8	2.1	2.4	2.4	2.2	1.9	2.0	1.9	1.8
Nominal GDP (in billions of U.S. dollars)	63.8	68.7	75.6	78.4	80.7	85.6	91.3	97.3	103.7	112.3

Sources: Bank of Guatemala; Ministry of Finance; and Fund staff estimates and projections.

1/ Includes 2009 SDR allocations of US$271 million.

Table 4. Guatemala: Monetary Sector Survey

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections					
					(In millions of quetzales)					
Bank of Guatemala (BOG)										
Net international reserves 1/	**54,155**	**62,816**	**77,679**	**89,817**	**91,273**	**92,591**	**93,914**	**95,372**	**96,930**	**96,930**
(In millions of U.S. dollars) 1/	7,077	8,321	10,578	11,617	11,617	11,617	11,617	11,617	11,617	11,617
Net domestic assets	**-27,007**	**-33,418**	**-44,084**	**-51,794**	**-50,467**	**-48,662**	**-46,583**	**-44,419**	**-41,979**	**-37,690**
Net claims on nonfinancial public sector	-9,500	-15,290	-20,996	-26,794	-26,153	-24,608	-22,685	-20,762	-21,139	-21,248
Central government (CG)	-3,274	-6,697	-9,532	-10,633	-10,132	-8,982	-7,482	-5,982	-6,768	-7,454
Rest of nonfinancial public sector	-6,225	-8,593	-11,464	-16,160	-16,021	-15,625	-15,203	-14,780	-14,371	-13,794
Bank of Guatemala losses	22,285	23,586	25,022	25,711	26,910	28,109	29,308	30,507	31,706	32,905
Net credit to banks	-27,419	-33,180	-37,082	-38,550	-41,046	-44,345	-48,140	-50,505	-53,023	-55,574
Of which: legal reserves	-29,478	-35,239	-39,140	-40,608	-43,104	-46,404	-50,199	-52,563	-55,082	-57,633
Open market operations 2/	-17,642	-15,991	-22,745	-19,239	-15,329	-13,436	-11,026	-9,849	-5,994	-2,205
Other assets (net)	5,269	7,457	11,717	7,078	5,151	5,618	5,960	6,190	6,471	8,431
Currency in circulation	27,148	29,398	33,595	38,023	40,806	43,929	47,331	50,953	54,951	59,240
Banking sector										
Net foreign position	**-32,991**	**-34,924**	**-37,419**	**-36,272**	**-40,410**	**-43,369**	**-46,273**	**-48,553**	**-50,969**	**-52,838**
(in millions of U.S. Dollars)	-4,311	-4,626	-5,095	-4,691	-5,143	-5,441	-5,724	-5,914	-6,108	-6,332
Net claims on Bank of Guatemala	**42,519**	**46,960**	**56,235**	**58,668**	**57,274**	**58,571**	**59,816**	**60,935**	**59,373**	**57,914**
Legal reserves	29,478	35,239	39,140	40,608	43,104	46,404	50,199	52,563	55,082	57,633
BOG securities	15,093	13,773	19,146	20,111	16,221	14,219	11,668	10,423	6,343	2,333
Liabilities to BOG	-2,052	-2,052	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051	-2,051
Net domestic assets	**185,572**	**194,277**	**203,446**	**219,424**	**241,447**	**262,937**	**287,233**	**313,010**	**343,826**	**376,088**
Net credit to the NFPS	8,943	8,653	10,331	19,189	24,631	32,149	40,543	52,106	62,698	74,124
Official capital and reserves	-5,464	-5,943	-6,283	-6,732	-7,190	-7,756	-8,360	-9,079	-9,757	-10,488
Credit to the private sector	172,036	182,199	189,043	202,221	216,376	234,552	254,019	275,103	297,661	322,070
Other items net	10,057	9,368	10,355	4,747	7,630	3,992	1,030	-5,120	-6,776	-9,618
Medium and long-term foreign liabilities	**2,743**	**1,673**	**1,591**	**1,657**	**1,770**	**1,905**	**2,061**	**2,229**	**2,414**	**2,615**
Liabilities to private sector	**192,357**	**204,639**	**220,671**	**240,164**	**256,542**	**276,233**	**298,715**	**323,163**	**349,816**	**378,549**
Demand deposits	64,081	67,722	71,601	75,347	80,487	86,648	93,734	101,361	109,811	118,919
Time and savings deposits, and Securities	106,776	114,270	123,583	137,747	147,145	158,407	171,362	185,306	200,754	217,405
Capital and reserves (private banks)	18,597	19,904	22,215	24,400	26,058	28,108	30,298	32,904	35,361	38,011
Monetary survey										
Net foreign assets	**21,164**	**27,892**	**40,260**	**53,545**	**50,863**	**49,222**	**47,642**	**46,818**	**45,961**	**44,092**
(In millions of U.S. dollars)	2,766	3,695	5,482	6,925	6,473	6,175	5,893	5,703	5,508	5,284
Net domestic assets	**198,181**	**205,075**	**212,325**	**223,628**	**245,403**	**269,776**	**297,144**	**325,934**	**357,330**	**392,098**
Net claims on nonfinancial public sector	-557	-6,637	-10,665	-7,605	-1,522	7,542	17,858	31,344	41,558	52,876
Bank of Guatemala losses	22,285	23,586	25,022	25,711	26,910	28,109	29,308	30,507	31,706	32,905
Credit to private sector	172,036	182,199	189,043	202,221	216,376	234,552	254,019	275,103	297,661	322,070
Other assets (net)	4,416	5,927	8,926	3,301	3,639	-427	-4,041	-11,019	-13,596	-15,753
Medium and long-term foreign liabilities	**2,743**	**1,673**	**1,591**	**1,657**	**1,770**	**1,905**	**2,061**	**2,229**	**2,414**	**2,615**
Liabilities to the private sector	**216,602**	**231,293**	**250,994**	**275,517**	**294,496**	**317,093**	**342,726**	**370,524**	**400,877**	**433,575**
Of which: Money	91,229	97,119	105,196	113,370	121,293	130,577	141,065	152,314	164,762	178,159
Of which: Quasi-money	106,776	114,270	123,583	137,747	147,145	158,407	171,362	185,306	200,754	217,405
Memorandum items:					(Percent change)					
Currency in circulation	12.5	8.3	14.3	13.2	7.3	7.7	7.7	7.7	7.8	7.8
M2	9.4	6.6	8.4	9.4	6.9	7.7	8.1	8.1	8.3	8.2
Credit to private sector	12.8	5.9	3.8	7.0	7.0	8.4	8.3	8.3	8.2	8.2
					(In percent of GDP)					
Currency in circulation	5.6	5.6	6.0	6.5	6.5	6.5	6.5	6.4	6.4	6.4
M2	41.2	41.0	41.8	43.1	43.1	43.1	43.1	43.1	43.0	43.0
Net credit of the banking sector to the CG	1.8	1.7	1.9	3.3	3.9	4.7	5.5	6.6	7.3	8.0
Credit to private sector	35.2	34.9	34.0	34.3	34.4	34.6	34.7	34.7	34.7	34.6
					(In percent of bank liabilities to the private sector)					
Banks' liquid assets	39.7	41.6	45.0	46.8	45.4	45.2	45.0	45.4	44.5	43.6
Demand deposits	33.3	33.1	32.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4
Time and savings deposits	55.5	55.8	56.0	57.4	57.4	57.3	57.4	57.3	57.4	57.4
Capital and reserves (private banks)	9.7	9.7	10.1	10.2	10.2	10.2	10.1	10.2	10.1	10.0

Sources: Bank of Guatemala; and Fund staff estimates and projections.

1/ Excludes foreign currency liabilities of the central bank to financial institutions.

2/ Includes open market placements with the private sector (financial and nonfinancial).

Table 5. Guatemala: Financial Soundness Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
On-shore banks											
Reserves as a percentage of Deposits, in NC	13.4	14.7	14.6	14.6	14.5	14.5	14.6	14.5	14.8	15.0	14.9
Reserves as a percentage of Deposits, in FC	15.1	18.2	18.6	16.2	16.8	20.8	17.1	15.9	16.7	16.3	16.2
Short-term liquidity	19.4	21.6	20.3	21.6	21.6	21.9	20.7	18.9	20.5	21.2	20.6
Liquid asset to total asset ratio	24.4	28.2	28.4	29.0	27.5	28.1	28.8	26.9	27.7	28.4	29.6
Liquidity ratio	20.3	23.7	24.5	24.2	23.6	24.5	25.5	24.5	25.1	25.7	27.0
Regulatory capital to risk-weighted assets	13.5	15.4	15.2	15.3	14.7	14.8	14.6	14.1	13.8	14.7	14.8
Nonperforming loans to total gross loans	2.2	2.7	2.1	1.6	1.3	1.2	1.3	1.4	2.1	2.3	2.2
Provisions to non-performing loans	73.2	89.3	115.3	126.2	143.4	157.6	151.9	138.4	120.4	119.6	123.4
Cash to total deposits	19.4	21.6	20.3	21.6	21.6	21.9	20.7	18.9	20.5	21.2	20.6
Return on assets	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.7	1.6
Return on equity	16.3	15.7	16.3	18.5	17.2	16.0	16.6	16.3	16.9	17.8	16.7
Foreign currency-denominated loans to total loans	33.6	31.0	30.2	34.0	35.2	36.7	38.5	39.9	39.0	38.6	39.2
Foreign currency-denominated liabilities to total liabilities	24.3	23.9	24.6	27.5	28.6	30.3	31.1	30.8	29.8	29.1	29.5
Off-shore banks											
Statutory capital to risk-weighted assets	14.7	18.1	18.5	16.2	16.8	15.8	15.6	14.5	14.8	15.3	15.2
Nonperforming loans to total gross loans	2.2	2.3	2.1	1.7	1.2	0.8	0.9	1.2	1.2	1.7	2.0
Provisions to non-performing loans	58.1	75.4	110.7	143.0	172.4	229.4	178.4	148.8	138.3	114.9	116.8
Return on assets	1.5	1.4	1.4	1.8	1.8	1.4	1.5	1.2	1.5	1.6	1.7
Return on equity	14.2	12.8	12.6	16.0	15.6	12.8	13.8	12.0	14.9	15.3	17.3
Total assets off-shore banks to total assets on-shore banks	16.1	16.5	14.3	12.7	12.2	11.7	10.7	9.6	9.1	8.0	7.8

Source: Superintendency of Banks.
For 2017 Items 54-59 are as of 2017Q3.

Table 6. Guatemala: Financial Soundness Indicators Heatmap

Guatemala	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	Latest
Overall Financial Sector Rating	M	M	M	M	M	M	M	M	M	M	M	M
Credit cycle	L	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	0.2	-0.4	-0.3	-0.6	-0.2	-0.4	-0.9	-0.5	-0.6	-0.1	0.0	0.0
Growth of credit / GDP (%, annual)	0.6	-1.3	-0.9	-1.7	-0.6	-1.3	-2.6	-2.6	-1.5	-1.7	0.1	0.1
Credit-to-GDP gap (st. dev)	-1.3	-1.3	-0.8	-0.9	-0.7	-0.6	-0.1	0.1	0.4	0.8	1.3	1.3
Balance Sheet Soundness	M	M	M	M	M	M	M	M	M	M	M	M
Balance Sheet Structural Risk	M	M	M	M	M	M	M	M	M	M	M	M
Deposit-to-loan ratio	128.5	128.6	125.9	127.1	128.5	129.8	131.0	130.3	132.1	132.7	131.7	131.7
FX liabilities % (of total liabilities)	29.6	29.2	29.8	29.3	28.7	28.7	29.1	29.0	29.3	29.8	29.5	29.5
FX loans % (of total loans)	38.5	38.0	39.0	37.7	37.5	38.0	38.6	39.2	39.5	39.5	39.2	39.2
Balance Sheet Buffers	L	M	M	M	M	M	M	L	L	L	L	L
Leverage	L	L	L	L	L	L	M	L	L	L	L	L
Leverage ratio (%)	7.2	7.3	7.1	7.2	7.3	7.2	7.0	7.4	7.4	7.3	7.4	7.4
Profitability	L	L	L	L	L	L	L	L	L	L	L	L
ROA	1.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
ROE	19.2	18.8	16.7	16.4	15.9	15.8	16.4	15.9	15.7	15.7	15.3	15.3
Asset quality	M	H	H	H	H	H	M	M	L	L	L	L
NPL ratio	1.7	2.1	2.1	2.3	2.5	2.6	2.3	2.5	2.4	2.4	2.2	2.2
NPL ratio change (%, annual)	19.1	44.6	52.5	56.3	45.8	23.5	13.1	7.5	-6.1	-6.9	-6.4	-6.4

Annex I. External Sector Assessment

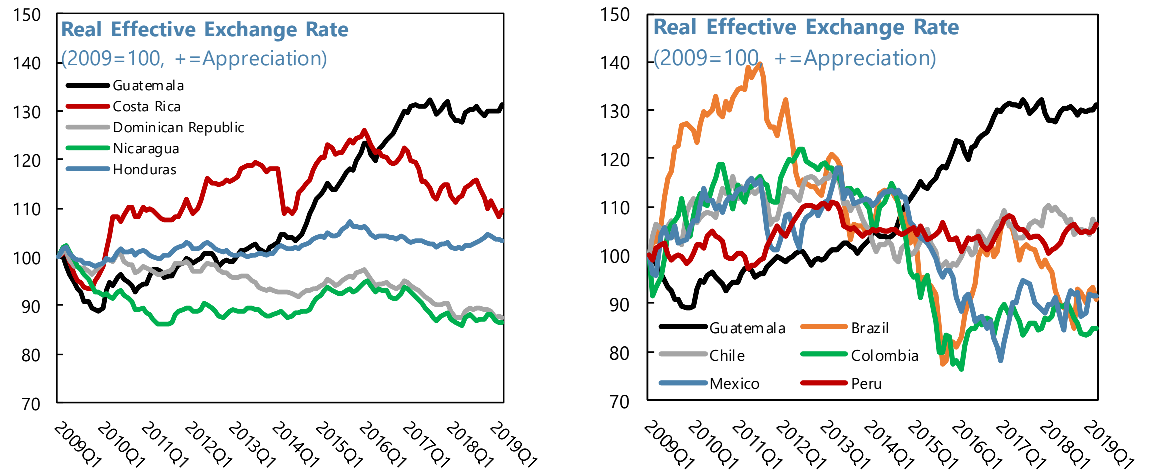
The trade balance deteriorated in 2018 owing to less favorable terms of trade and supply-side constraints in the mining sector, but strong remittances continued to support a moderate current account (CA) surplus. Foreign reserves continued to accumulate in 2018 and the external financing structure remained healthy. Staff estimates based on the EBA CA methodology suggest that the external position is stronger than the level implied by fundamentals and desirable policies. Lower-than-desirable fiscal spending and prevailing structural weaknesses have resulted in a low investment ratio. Structural reforms that improve the business climate would help close the CA gap over the medium term.

A. Recent Developments

1. The current account continued to register a surplus in 2018, supported by remittance inflows. The CA balance deteriorated moderately from 1½ percent of GDP in 2017 to ¾ percent of GDP in 2018, driven by a worsening of the trade balance. Higher oil prices and lower prices on some exports (e.g. coffee, sugar, and rubber) resulted in less favorable terms of trade. This, combined with the impact of the suspension of operations at San Rafael Mine, caused the trade balance to deteriorate by 1¾ percent of GDP in 2018. Its negative impact on the CA was partly offset by the continued increase in remittances as a share of GDP, which grew by about 1 percentage point to 12 percent of GDP in 2018. Over the medium term, the CA balance is expected to fall to negative 1½ percent of GDP due to dampening U.S. and exports growth, and an increase in the FDI payout.

2. The real effective exchange rate (REER) depreciated moderately in 2018. On the back of strong remittances, the REER had appreciated cumulatively by almost 30 percent over 2014−17 (text chart below). In 2018, weaker trade balance resulted in a moderate depreciation of the REER of 2¼ percent along with a moderate deterioration of the CA balance. The nominal bilateral exchange rate with the U.S. dollar depreciated by 5.3 percent (y/y) in 2018, while the nominal effective exchange rate (NEER, measured against a weighted average of trading partners' currencies) depreciated only by 2½ percent, implying that the depreciation of the quetzal is less pronounced than the currencies of Guatemala's trading partners.

3. FDI has dropped steadily in the recent years. Gross FDI inflows decreased by more than 1 percent of GDP since 2013. Reflecting weak infrastructure and prevailing challenges to improve the business climate, FDI is forecast to stay below 1½ percent of GDP over the medium term but would remain the main funding source of the CA deficit in 2024. Portfolio and other capital inflows have played a more limited role in the financial account given Guatemala's weak financial integration.



Sources: IMF, Information Notice System database.

4. **External liabilities remain at low levels.** The net international investment position (IIP) stayed healthy at around minus 17 percent of GDP in 2018, much stronger than the regional average for Central America (minus 70 percent of GDP). However, around 56 percent of total external liabilities in 2018 are portfolio and other liabilities, with the rest being FDI liabilities. Public external borrowing accounts for about 11 percent of GDP in 2018 and is forecast to decline further over the medium term.

5. **Low expenditure-switching effects highlight the need of structural reforms for an improved business environment.** Our analytical work (Annex VI) suggests low expenditure-switching effects in Guatemala following terms-of-trade shocks, implying limited role of the REER in acting as a shock absorber. Meanwhile, continued strong remittances could cause the REER to appreciate again, resulting in a loss of competitiveness in exports. A better business environment requires reforms that focus on structural weaknesses. The World Economic Forum's Global Competitiveness Report 2018 suggests high crime and violence rates, weak institutions, and poor road infrastructure remain the major structural weaknesses.

B. External Sector Assessment

6. **The external balance assessment (EBA) methodology suggests that the external position in 2018 is stronger than the level consistent with medium-term fundamentals and desirable policies.**

- The EBA CA methodology suggests a CA norm of -4.2 percent of GDP in 2018, reflecting Guatemala's relatively young population and relatively low income per capita. However, staff regards this estimate as too negative. Guatemala's level of investment is much below peers, and the ICRG index and its subset of indicators used in the EBA model (on socio-economic conditions, investment profile, corruption, religious tensions, and democratic accountability) fail to capture the poor security conditions weighing heavily on investment.

- Staff regression estimates suggest that poor security conditions have a significant negative impact on investment (text table). Our estimates regress the investment-to-GDP ratio on security conditions (proxied by the homicide rate), controlling for institutional risk (ICRG index), medium-term growth forecast, output per worker and detrended credit-to-GDP ratio. The sample includes all EBA countries for the period 2000−16.

Regression model	Pooled OLS	Fixed effects
Estimated impact of security conditions on Guatemala's investment level (percent of GDP)	-2.7***	-1.3*
*** significant at 1 percent level; * significant at 10 percent level		

- *Staff's overall assessment for the CA gap.* Staff estimates suggest that overall security conditions lower Guatemala's investment by 2 percent of GDP relative to the EBA sample.[1] The adjustment gives a CA norm of -2.2 percent of GDP, with a CA gap range of 1.6 to 4.2 percent of GDP, and implied REER gap range of -26 to -10, once estimation uncertainties are accounted for[2] (Table I.1). This suggests that the external position is stronger than the level consistent with medium-term fundamentals and desirable policies. Policy gaps (linked to the low fiscal deficit and inadequate health spending) account for almost 30 percent of the CA gap. Spending more on public infrastructure, expanding social protection, and removing structural impediments to investment (improved rule of law, regulatory framework, and security conditions) should help erode much of the gap.

7. The stronger-than-norm CA primarily owes to structurally low investment. At 14.8 percent of GDP in 2017, Guatemala's investment rate is low in international comparison. Guatemala ranks poorly in many rule-of-law and regulatory framework indicators, which has created a disabling environment for investment (text charts below). In particular, business extortion and the inadequate protection by security forces impact heavily on investment. As

[1] Simple average of the estimates by pooled OLS and fixed effects. This way, we capture the benefits of both methodologies: Pooled OLS gives more significant results and is consistent with the specification of the EBA CA model, whereas fixed-effects may capture any missing fundamentals and/or persistent policy distortions.

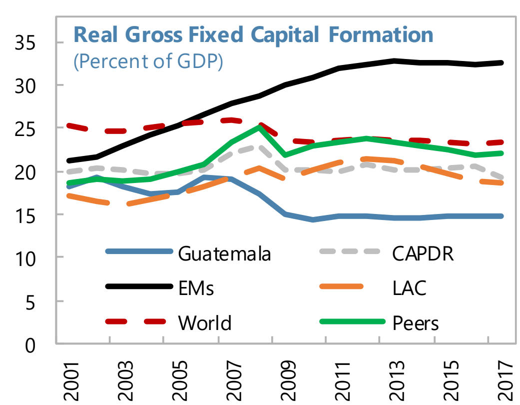
[2] The standard error of the CA norm estimate is 1.3 percent of GDP.

Table I.1. EBA External Sector Assessment

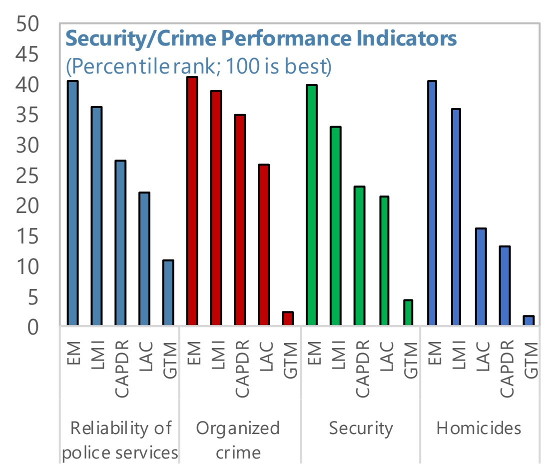
EBA CA methodology		*Percent of GDP*
Actual CA 1/	(A)	0.8
Cyclical contributions 2/	(B)	0.1
Cyclically adjusted CA	(C=A-B)	0.7
Cyclically adjusted CA-Norm 2/	(D)	-4.2 ± 1.3
Cyclically adjusted CA-Norm, staff's correction for security conditions 3/	(E)	-2.2 ± 1.3
CA gap	(F=C-E)	2.9 ± 1.3
Implied REER gap 4/	(G)	[-26, -10 percent]
Contribution of identified policy gaps 2/,5/	(H)	0.8
Residual CA gap	(I=F-H)	2.1 ± 1.3

Source: IMF staff estimates.
1/ Based on BOP data for 2018.
2/ Estimates from the EBA CA model. The standard error of the CA norm is 1.3 percent of GDP for Guatemala.
3/ CA norm adjusted up to reflect the negative impact of Guatemala's security conditions on investment which is not captured by the EBA CA model.
4/ Implied by the elasticity of CA balance to REER estimated for Guatemala (-0.16) using EBA CA methodology. ("-" = Undervaluation).
5/ Of which, 0.7 percent owes to lower fiscal deficit and 0.3 percent owes to lower health spending than desirable policies.

bottlenecks that hold back investment are resolved (Box 3) and labor market dynamism takes hold, REER appreciation would be mitigated by abating remittances.[3]



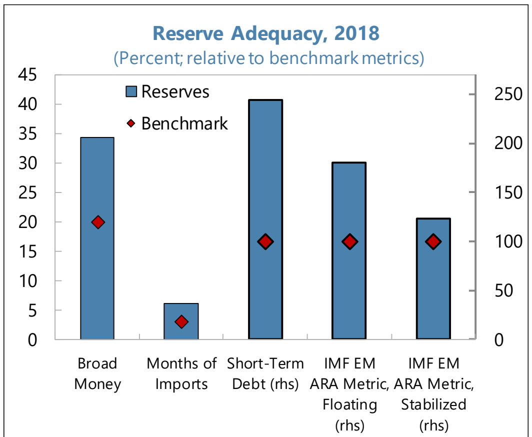
Source: WDI, WEO and IMF Staff calculations.
Note: Peers refer to countries with PPP-adjusted GDP per capita similar to Guatemala's in 2000.



Sources: WEF, Global Competitiveness Database.

[3] The EBA REER index model estimates a 12-percent overvaluation for 2018. The overvaluation assessment in part reflects the large REER appreciation that occurred in recent years (nearly 35 percent cumulatively over 2011–18). We base our assessment on the EBA CA model, because (i) Guatemala is not included in the EBA REER index model so the estimate relies on a fitted value; (ii) the EBA REER index model contains country fixed effects, and therefore the REER gap may miss time-invariant distortions.

C. Reserve Adequacy Assessment



Source: IMF staff calculations.

8. Reserves continued to increase in line with a strong CA balance. At end-2018, the stock net international reserves (NIR) under IMF definition stood at US$11.6 billion, equivalent to 123 percent of ARA (Assessing Reserve Adequacy) EM metric under a stabilized FX regime,[4] falling within the Fund's recommended range (100–150 percent). Reserve coverage is comfortably above other traditional metrics (greater than 3 months of imports, 20 percent of broad money, and 100 percent of short-term external debt). In terms of months of imports, the stock of NIR increased to over 6 months of next year's imports in 2018 and is expected to fall back to 5 months of imports over the medium-term.

[4] Under a floating FX regime, the stock of net international reserves at end-2018 would be 186 percent of the ARA EM metric.

Annex II. Risk Assessment Matrix[1/]

Source of Risks	Relative likelihood	Expected Impact	Policy Response
External risks			
Rising protectionism and retreat from multilateralism	**High**	**Medium** If protectionism prevails it could slow down global trade flows, which in turn would depress global growth, including in a very open economy like Guatemala.	Allow exchange rate flexibility to help absorb external shocks; advance structural reforms preemptively to boost competitiveness; ease monetary policy if weak demand drives inflation below target.
Sharp tightening of global financial conditions	**Low/Medium**	**Medium** A sudden rise in international interest rates and a stronger U.S. dollar could heighten depreciation pressures, leading to an increase in cost of government and private sector financing.	Use monetary policy framework to attract capital inflows; use reserves and allow exchange rate flexibility to help mitigate the impact; further strengthen supervision and regulation of the financial sector; provide emergency liquidity assistance as needed.
Weaker-than-expected global growth	**Medium/High**	**High** A slowdown in the US economy could weaken demand for exports, reduce remittance inflows, dampen growth and deteriorate the external position.	Allow exchange rate depreciation to help absorb external shock. Use policy mix if weak demand drives inflation below target and advance structural reforms preemptively to boost competitiveness.
Intensification of security risks	**High**	**Low** Intensification of security risks in Latin America, particularly Nicaragua, could cause cause regional socio-economic and political disruptions. Nicaragua is a small trading partner for Guatemala but an important thoroughfare for regional trade.	Coordinate with regional trading partners alternative trade routes (transportation logistics).
Large swings in energy prices	**Medium**	**Low** Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility. As shocks materialize, they may cause large and persistent price swings, adding moderately to inflation. Energy price swings could deteriorate terms of trade and, as a result, impact the external position.	Allow exchange rate flexibility to help absorb oil price shocks.
Domestic risks			
Heightened political uncertainty and delays in judiciary decisions	**High**	**High** Uncertainty related to the 2019 election process and the rising polarization over the anti-corruption agenda could further dent investor confidence. Delays in judiciary decisions that allow the resumption of operations in mining industry, could worsen the outlook.	Address governance weaknesses; improve business climate and competitiveness; invest in infrastructure; implement ILO Convention 169.
Tax revenue shortfall	**Medium**	**Medium** Fiscal impulse embedded in the 2019 Budget could be at risk, depressing growth in the near term due to failure to mobilize revenues. On the medium term, inadequate revenues and/or failure to improve spending efficiency could weigh on attaining key SDGs.	Step up efforts to strengthen tax administration focusing on VAT and customs controls. Enhance spending composition and efficiency through implementation of structural fiscal reforms.

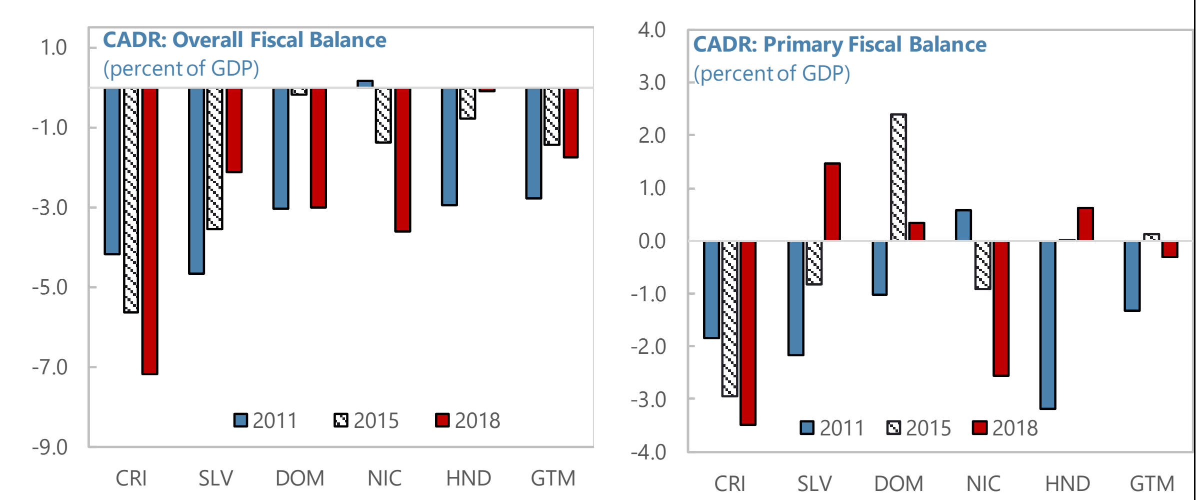
[1.] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Public Debt Sustainability Analysis

This annex presents an assessment of Guatemala's medium and long-term debt sustainability. The results suggest that under the current policies, central government debt is sustainable at 27 percent of GDP. An alternative scenario which considers a temporary increase of the fiscal deficit to 2.7 percent of GDP would increase the debt-to-GDP ratio to 29.5 percent in the longer-term. Another alternative scenario based on a permanent increase of fiscal deficit to 2.3 percent of GDP also indicates debt stabilization in the longer-term at levels of 32 percent of GDP. Debt burden indicators prove to be resilient to short-term macro-fiscal shocks.

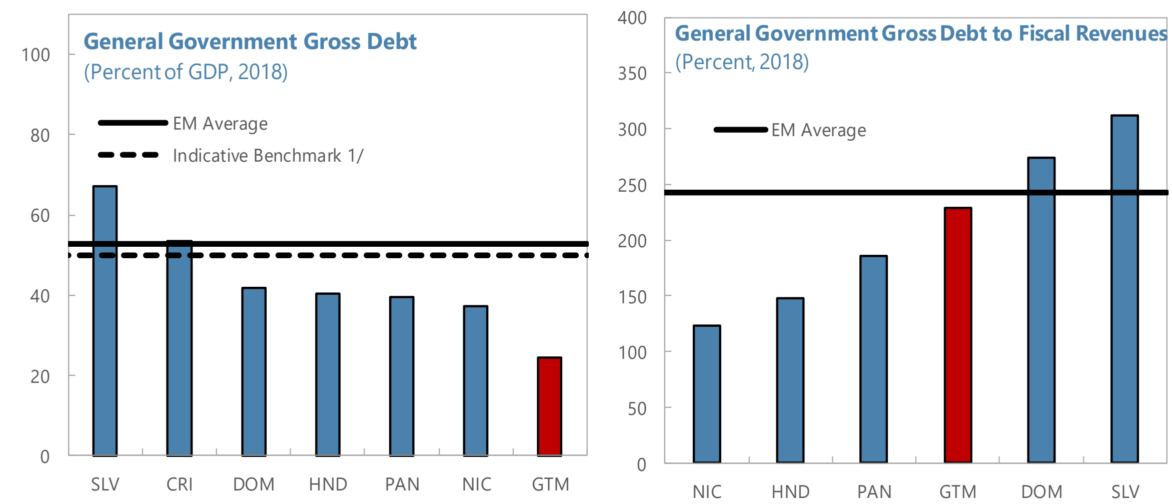
A. Introduction

1. Guatemala's fiscal policy management has contributed favorably to strong macroeconomic fundamentals. With an average primary deficit during the last decade of around 0.6 percent of GDP, and interest payment at 1½ percent of GDP, Guatemala has secured substantial fiscal space. As such, public debt stood at 24.7 percent of GDP by end of 2018. Reforms of the Procurement Law after the 2015 political crisis provided a greater oversight over public spending and contributed to tackling corruption. However, as a side-effect, these improvements slowed the pace of (transfers and capital) spending and lowered the fiscal deficit (1.3 percent of GDP in average) during 2015−17. In 2018, recovery of budgetary execution, particularly for capital spending, enabled fiscal policy to support demand, materialized through a fiscal impulse of 0.4 percent of GDP (consistent with an overall deficit of 1.8 percent of GDP).



Sources: WEO, and IMF staff estimates.

2. Guatemala's prudent fiscal policy has kept debt low as a share of GDP. As public debt stood at 24.7 percent of GDP in 2018, Guatemala has a debt ratio that is below the indicative benchmark of 60 percent of GDP for countries with market access and has one of the lowest ratio in the region and across emerging market peers.[1] However, as a share of revenues, Guatemala's public debt is just commensurate with the average of emerging markets, reflecting its low tax revenues by international standards.[2] Domestic debt stood at 14.0 percent of GDP in 2018, representing 57 percent of total debt. External public debt stood at 10.7 percent of GDP in 2018.



Sources: WEO, and IMF staff estimates.

1/ Indicative benchmark of 50 percent of GDP for emerging market countries beyond which higher scrutiny and a deeper assessment of risks is required.

3. **A revamped public debt management strategy has contributed to meet the financing needs while safeguarding fiscal sustainability.** Strong provisions in the annual budget law clearly designate and define the responsibility of public debt management, which resides with the Minister of Finance. In order to mitigate debt vulnerabilities, the government is developing a well-thought strategy in pursuit of the diversification of the investor base, the extension of the yield curve (20-year Treasury Bond issuance in local currency), and a continued presence in international markets. All these actions could redound to interest payments savings. Further efforts towards dematerialization of securities will be key for secondary market development and efficiency.

B. Assessing Debt Dynamics and Fiscal Sustainability

4. **The sustainability of public finances was analyzed under a baseline scenario and two alternative scenarios.** The baseline scenario draws upon a revised version of the 2019 budget approved with an overall deficit of 2.2 percent of GDP, and an embedded fiscal impulse

[1] See Annex II of the IMF "Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries," 2013 at https://www.imf.org/external/np/pp/eng/2013/050913.pdf.

[2] Guatemala has one of the lowest revenue-to-GDP ratios in the world (see, for example. "Tax Capacity and Growth: Is There a Tipping Point," by Vitor Gaspar, Laura Jaramillo and Philippe Wingender; FAD Seminar Series, December 9, 2015.

of 0.4 percent of GDP. From 2020 to 2024, the baseline assumes an overall fiscal deficit that starts at 2.4 percent of GDP and decreases gradually to 2.2 percent of GDP. The first alternative scenario assumes a *temporary* relaxation (for 6 years) of fiscal policy with an average overall deficit around 2.7 percent of GDP and a maximum deficit of 3.0 percent. The second alternative scenario assumes a *permanent* relaxation of the overall fiscal deficit, reaching on average 2.3 percent of GDP from 2019 to 2075.

5. Fiscal position remains sustainable in the long-run under all three scenarios, while the debt ratio is higher under the permanent relaxation. In the baseline scenario, the debt-to-GDP ratio stabilizes at a level of 27.0 percent of GDP in the medium and long term; and the debt-to-revenue ratio remains at around 249 percent. In the scenario of temporary relaxation, the debt-to-GDP ratio rises slightly in the short term and stabilizes at 29.5 percent of GDP in the long term while debt-to-revenue ratio increases to 255 percent. Under the permanent relaxation scenario, the debt ratio rises until 2035 and stabilizes at 32.0 percent of GDP, with the debt-to-revenue ratio reaching 269 percent. Under all three scenarios the debt-to-GDP does not exceed an indicative benchmark for countries with market access at 60 percent.

6. Sensitivity analysis suggests that Guatemala's debt burden indicators are quite resilient to macroeconomic shocks. Five sensitivity tests are considered, including a shock to the primary balance, a shock to the real GDP growth, a shock to the real interest rate, a shock to the real exchange rate as well as a shock combining all the above. The size of each shock was based on the historical standard deviations of the corresponding variables.

- *Real GDP Growth Shock.* GDP growth rate is reduced by 1 standard deviation for 2 consecutive years, dropping growth rate to 2.5 and 2.7 percent in 2020 and 2021, respectively. Decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth).

- *Primary Surplus Shock.* Shock is equivalent 0.3 percent of GDP (half of the 10-year historical standard deviation). Shock triggers an increase in interest rates of 25 basis points for every percentage point of GDP worsening in the primary balance.

- *Interest Rate Shock.* Interest rate increases by 200 basis points respect to the baseline.

- *Real Exchange Rate Shock.* Shock translates to a nominal exchange rate depreciation of 10 percent; pass-through to inflation with an elasticity of 0.25.

Figure III.1. Guatemala: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

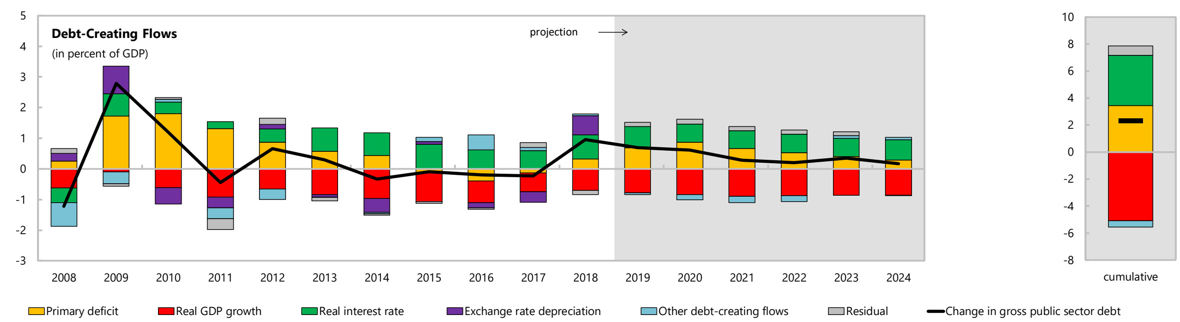
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of February 28, 2019		
	2008-2016 2/	2017	2018	2019	2020	2021	2022	2023	2024	Sovereign Spreads		
Nominal gross public debt	23.6	23.8	24.7	25.4	26.0	26.3	26.5	26.9	27.0	EMBIG (bp) 3/		213
Public gross financing needs	3.5	2.3	2.7	3.3	3.7	3.5	3.4	3.0	3.2	5Y CDS (bp)		N/A
Real GDP growth (in percent)	3.2	2.8	3.1	3.4	3.5	3.7	3.6	3.5	3.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.6	3.6	2.8	3.4	4.0	4.3	4.4	4.7	4.7	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	8.0	6.5	6.0	6.8	7.7	8.2	8.1	8.3	8.3	S&Ps	BB-	BB
Effective interest rate (in percent) 4/	6.9	6.4	6.4	6.5	6.7	6.8	7.0	7.2	7.5	Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing
Change in gross public sector debt	0.3	-0.2	1.0	0.7	0.6	0.3	0.2	0.3	0.2	2.3	primary
Identified debt-creating flows	0.3	-0.4	1.1	0.6	0.5	0.1	0.1	0.2	0.2	1.6	balance 9/
Primary deficit	0.7	-0.1	0.3	0.7	0.9	0.7	0.5	0.4	0.3	3.5	-0.1
Primary (noninterest) revenue and grants	11.4	10.8	10.6	10.4	10.5	10.6	10.7	10.8	10.9	63.8	
Primary (noninterest) expenditure	12.1	10.7	10.9	11.1	11.3	11.2	11.2	11.2	11.2	67.2	
Automatic debt dynamics 5/	-0.3	-0.4	0.7	-0.1	-0.2	-0.3	-0.3	-0.3	-0.2	-1.4	
Interest rate/growth differential 6/	-0.2	0.0	0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.2	-1.4	
Of which: real interest rate	0.5	0.6	0.8	0.7	0.6	0.6	0.6	0.6	0.7	3.7	
Of which: real GDP growth	-0.7	-0.6	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-5.1	
Exchange rate depreciation 7/	0.0	-0.3	0.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.1	0.1	-0.1	-0.2	-0.2	-0.2	0.1	0.1	-0.5	
Use of deposits	-0.1	0.1	0.1	-0.1	-0.2	-0.2	-0.2	0.1	0.1	-0.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (+ reduces financing needs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	0.0	0.2	-0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.7	



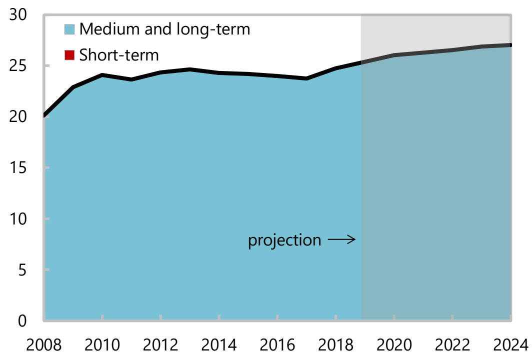
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure III.2. Guatemala: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

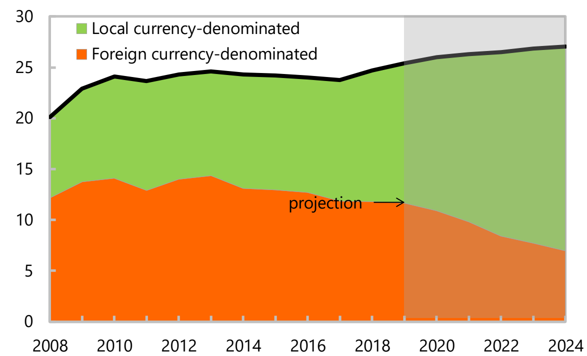
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

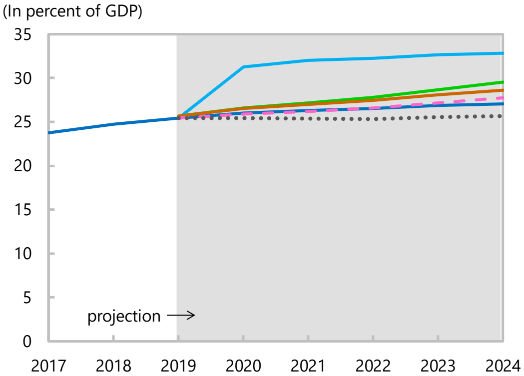


Alternative Scenarios

Baseline | Historical | Constant Primary Balance
Contingent Liability Shock | Temporary Relaxation | Permanent Relaxation

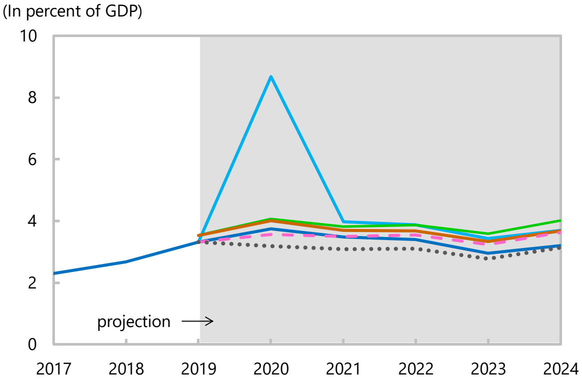
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

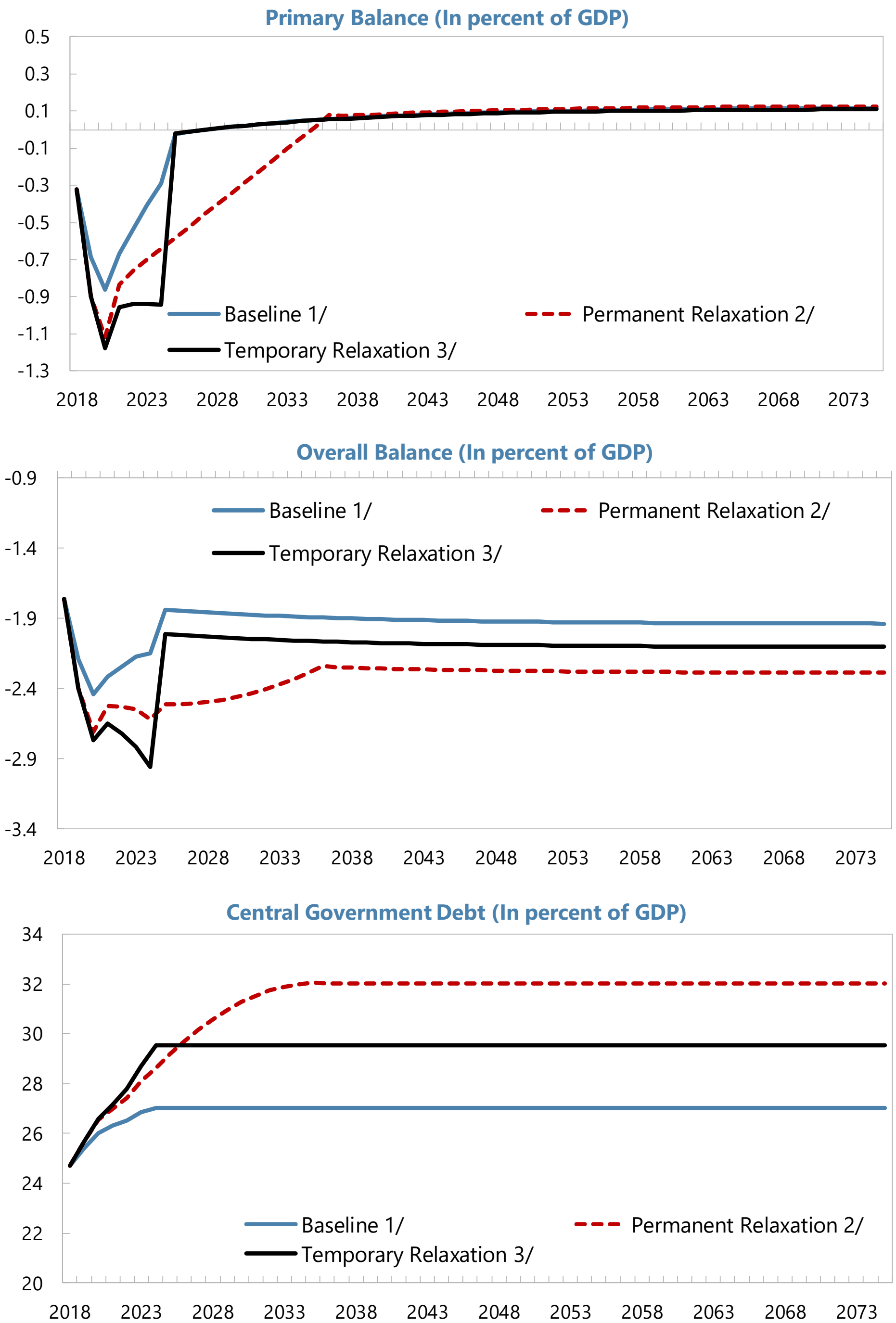
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary Balance	-0.7	-0.9	-0.7	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.7	6.8	7.0	7.2	7.5
Constant Primary Balance Scenario						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary Balance	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	6.5	6.7	6.8	7.0	7.2	7.5
Temporary Relaxation						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary Balance	-0.9	-1.2	-1.0	-0.9	-0.9	-0.9
Effective interest rate	6.5	6.7	6.9	7.1	7.3	7.6

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	3.4	3.8	3.8	3.8	3.8	3.8
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary Balance	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	6.5	6.7	6.8	7.1	7.2	7.6
Contingent Liability Shock						
Real GDP growth	3.4	2.5	2.7	3.6	3.5	3.5
Inflation	3.4	3.7	4.0	4.4	4.7	4.7
Primary Balance	-0.7	-5.4	-0.7	-0.5	-0.4	-0.3
Effective interest rate	6.5	8.1	7.2	7.3	7.5	7.7
Permanent Relaxation						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary Balance	-0.9	-1.1	-0.8	-0.8	-0.7	-0.6
Effective interest rate	6.5	6.7	6.9	7.1	7.3	7.6

Source: IMF staff.

Figure III.3. Guatemala: Long-Term Fiscal Sustainability

(In percent of GDP)



Source: IMF staff calculations.

1/ This path is the baseline through 2024, and primary balance which stabilizes the debt ratio thereafter.

2/ Permanent relaxation begins in 2019. It has an average primary deficit of 0.1 percent of GDP, compatible with an overall deficit of 2.3 percent of GDP for the entire period.

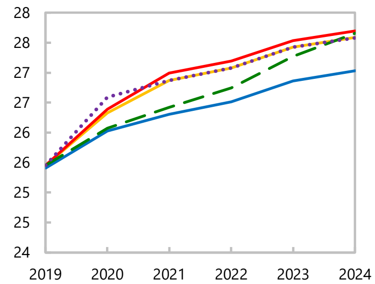
3/ Temporary relaxation scenario runs a 2.7 percent of GDP overall deficit between 2019 and 2024, the deficit declines thereafter.

Figure III.4. Guatemala Public DSA – Stress Test

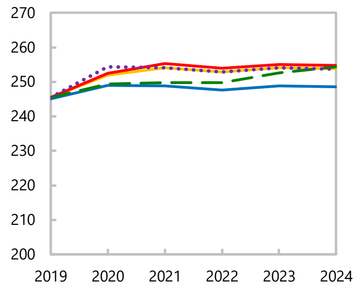
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

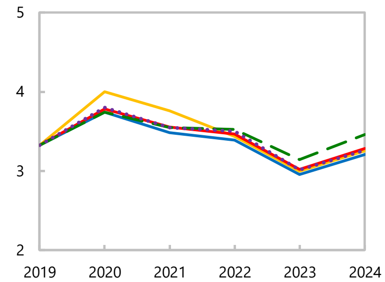
Gross Nominal Public Debt
(In percent of GDP)



Gross Nominal Public Debt
(In percent of Revenue)



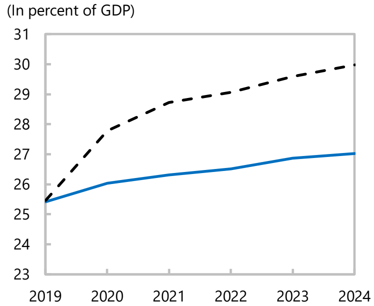
Public Gross Financing Needs
(In percent of GDP)



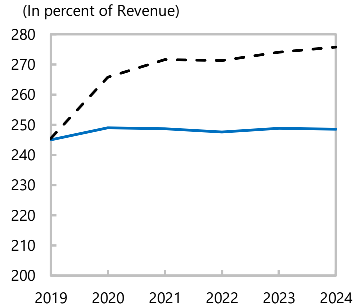
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock

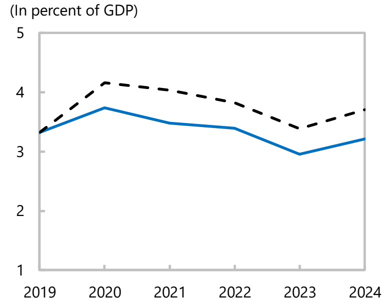
Gross Nominal Public Debt
(In percent of GDP)



Gross Nominal Public Debt
(In percent of Revenue)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions
(In percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary balance	-0.7	-1.1	-0.9	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.7	6.9	7.1	7.2	7.5
Real Interest Rate Shock						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	4.0	4.3	4.4	4.7	4.7
Primary balance	-0.7	-0.9	-0.7	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.7	7.1	7.5	7.9	8.4
Combined Shock						
Real GDP growth	3.4	2.5	2.7	3.6	3.5	3.5
Inflation	3.4	3.7	4.0	4.4	4.7	4.7
Primary balance	-0.7	-1.1	-0.9	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.9	7.1	7.5	7.9	8.4

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	3.4	2.5	2.7	3.6	3.5	3.5
Inflation	3.4	3.7	4.0	4.4	4.7	4.7
Primary balance	-0.7	-0.9	-0.7	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.7	6.8	7.0	7.2	7.5
Real Exchange Rate Shock						
Real GDP growth	3.4	3.5	3.7	3.6	3.5	3.5
Inflation	3.4	6.4	4.3	4.4	4.7	4.7
Primary balance	-0.7	-0.9	-0.7	-0.5	-0.4	-0.3
Effective interest rate	6.5	6.9	6.8	7.0	7.2	7.5

Source: IMF staff.

Annex IV. Financing Strategy: Tax Reform Options

A technical assistance mission on tax reform for Guatemala conducted in 2016 identified significant additional potential revenue from tax policy reform as summarized in Table below.

Tax Reform Options

(Percent of GDP)

Options	Fiscal yield
Increase in VAT to 15 percent	1.20
Use three rates for ISRPI 7.5; 20; 32.5%	0.90
Increase ISC rates on gasoline (30%) and diesel (60%)	0.40
Increase ISRAL rate by 3 percentage points, as part of a comprehensive reform	0.40
Introduce ISC for telecommunications (10% rate)	0.20
Include ISC in VAT base	0.15
Apply dual regime only to natural persons at 10%	0.10
Introduce banking VAT (FAT)	0.05
Increase ISC on non-alcoholic beverages	0.05
Phase out IUSI deductions on ISO	0.05
Total	3.50

Source: Fenochietto and others, 2016.

Note: VAT stands for Value Added Taxes (Impuesto al Valor Agregado), ISRPI stands for personal income tax (Impuesto sobre la Renta de Personas Individuales), ISC for consumption taxes (Impuestos Selectivos al Consumo), and IUSI for property tax (Impuesto Único Sobre Inmuebles). In order to reach 4½ percent of GDP of additional revenues from tax reform, further measures equivalent to 1 percent of GDP should be identified.

Annex V. External Debt Sustainability

Table V.1. Guatemala: External Debt Sustainability Framework, 2014-24

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	34.1	32.8	31.5	30.7	28.8			**28.9**	**28.4**	**27.6**	**26.2**	**25.6**	**24.8**	**-1.8**
Change in external debt	1.0	-1.4	-1.2	-0.9	-1.8			0.1	-0.5	-0.8	-1.4	-0.7	-0.7	
Identified external debt-creating flows (4+8+9)	-2.8	-4.3	-5.4	-5.8	-2.9			-2.6	-2.3	-2.0	-1.4	-0.8	-0.4	
Current account deficit, excluding interest payments	1.0	-0.8	-2.6	-2.7	-2.2			-2.0	-1.7	-1.2	-0.7	-0.1	0.3	
Deficit in balance of goods and services	10.7	9.2	7.9	8.5	10.2			11.0	11.3	11.5	11.8	11.9	11.9	
Exports	23.5	21.4	19.5	18.5	17.7			17.4	17.0	16.6	16.1	15.6	14.9	
Imports	34.2	30.6	27.4	26.9	27.9			28.4	28.4	28.1	27.9	27.6	26.9	
Net non-debt creating capital inflows (negative)	-2.2	-1.7	-1.6	-1.3	-1.0			-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	
Automatic debt dynamics 1/	-1.7	-1.7	-1.2	-1.8	0.3			0.4	0.4	0.3	0.3	0.4	0.3	
Contribution from nominal interest rate	1.1	1.0	1.1	1.1	1.4			1.4	1.3	1.3	1.3	1.2	1.2	
Contribution from real GDP growth	-1.3	-1.3	-0.9	-0.8	-0.9			-0.9	-1.0	-1.0	-0.9	-0.9	-0.8	
Contribution from price and exchange rate changes 2/	-1.5	-1.4	-1.4	-2.1	-0.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.8	2.9	4.2	4.9	1.1			2.6	1.8	1.2	0.0	0.1	-0.4	
External debt-to-exports ratio (in percent)	144.9	153.0	162.0	166.1	162.6			166.1	166.4	166.4	162.8	163.5	166.2	
Gross external financing need (in billions of US dollars) 4/	4.8	4.3	3.4	3.4	4.3			4.3	4.6	5.2	6.7	7.0	7.9	
in percent of GDP	8.3	6.7	5.0	4.6	5.5	10-Year	10-Year	5.3	5.4	5.7	6.9	6.7	7.1	
Scenario with key variables at their historical averages 5/								**28.9**	**28.3**	**27.2**	**24.9**	**22.8**	**20.7**	**-2.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.2	4.1	3.1	2.8	3.1	3.2	1.1	3.4	3.5	3.7	3.6	3.5	3.5	
GDP deflator in US dollars (change in percent)	4.7	4.3	4.4	7.2	0.5	4.0	3.7	-0.3	2.4	2.8	2.9	3.0	4.7	
Nominal external interest rate (in percent)	3.5	3.1	3.7	3.8	4.7	3.7	0.5	4.9	4.9	4.9	4.9	5.0	4.9	
Growth of exports (US dollar terms, in percent)	8.7	-1.3	-2.1	4.4	-0.5	3.6	7.9	1.1	4.0	3.8	3.5	3.5	3.5	
Growth of imports (US dollar terms, in percent)	5.1	-2.7	-3.8	8.4	7.2	4.0	10.7	4.8	6.0	5.7	5.6	5.5	5.5	
Current account balance, excluding interest payments	-1.0	0.8	2.6	2.7	2.2	0.3	1.9	2.0	1.7	1.2	0.7	0.1	-0.3	
Net non-debt creating capital inflows	2.2	1.7	1.6	1.3	1.0	1.8	0.5	1.0	1.0	1.0	1.0	1.0	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

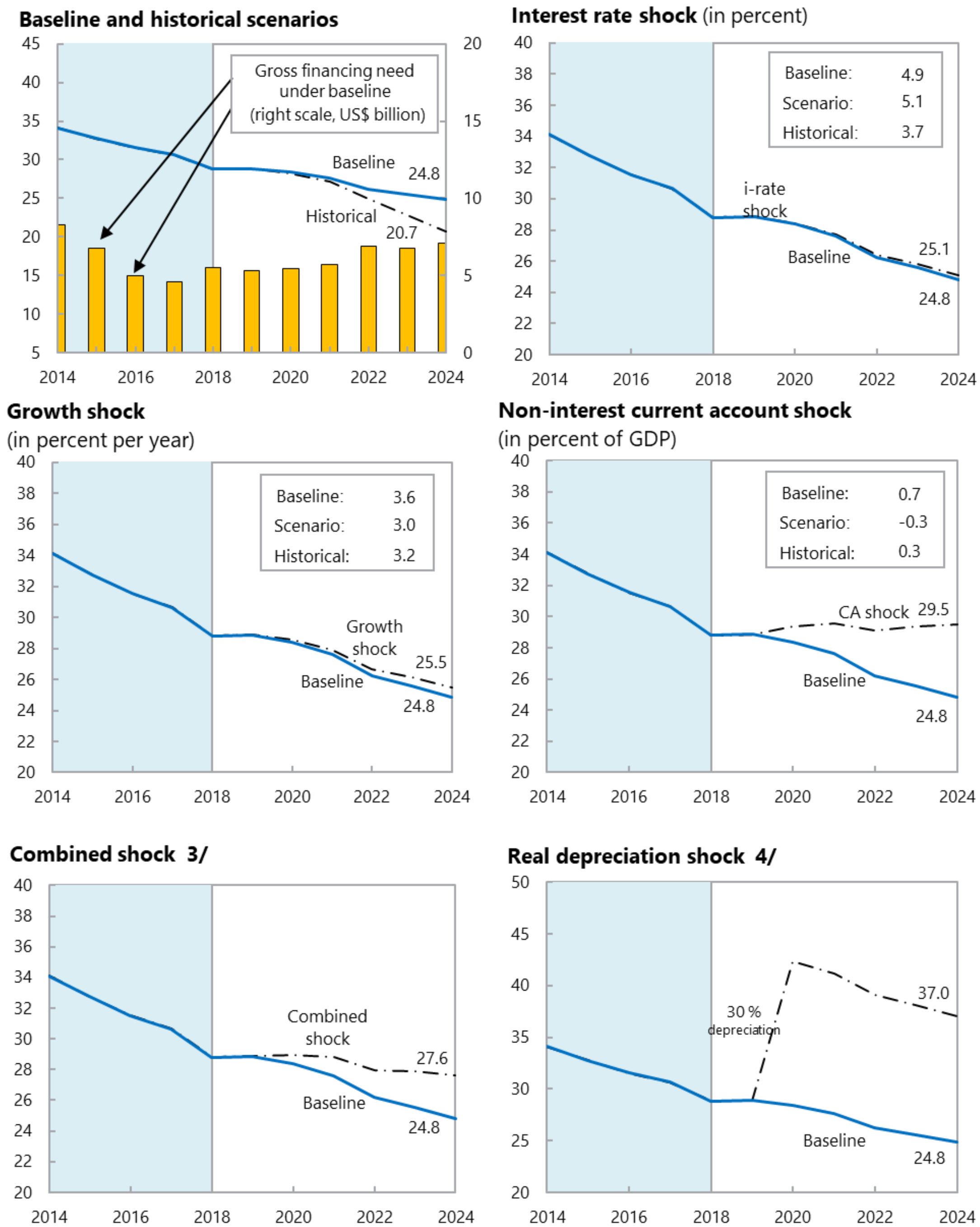
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels

Figure V.1. Guatemala: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2019.

Annex VI. External Adjustment to Terms-of-Trade Shocks[1]

This annex discusses the external adjustment to exogenous terms-of-trade shocks in Guatemala. The evidence fails to confirm any significant expenditure-switching effect through REER adjustments. Strong remittances over the past years may have contributed to the substantial appreciation of the REER, weakening its buffering role in the event of a terms-of-trade shock.

A. Theoretical Considerations

1. **Terms-of-trade shocks affect an economy through both income and expenditure-switching effects.** Terms of trade (TOT) represent the ratio of a country's export prices to its import prices. A decrease in export prices, or an increase in import prices, will lead to a deterioration of TOT. In theory, a permanent TOT shock affects an economy by two channels: income effect and expenditure-switching effect. A permanent negative TOT shock has a negative income effect on a country, as it becomes poorer relative to countries without suffering such a shock. In equilibrium, its real exchange rate is expected to depreciate, making its exports more competitive. At the same time, as domestic goods become relatively cheaper, a representative consumer is expected to switch from foreign goods to domestic goods, hence reducing the demand for imports. This change in the composition of the consumption basket and the increase in exports is referred to as the expenditure-switching effect.

2. **The positive impact of expenditure switching on the trade balance can act as a buffer to negative TOT shocks.** If the expenditure-switching effect dominates the negative income effect, the real depreciation following a negative TOT shock would be expansionary. Previous research on Latin America has found that the expenditure-switching effect is stronger in countries with flexible exchange rate regimes and in recent episodes of TOT bust.[2] In light of the TOT deterioration in 2018, this Annex studies the strength of external adjustment in Guatemala and examines any factors that might hinder expenditure switching following a negative TOT shock.

B. Data and Methodology

3. **We use a vector autoregression (VAR) to estimate the external adjustment to a TOT shock.** The VAR framework captures the dynamic responses of the real effective exchange rate (REER), real imports and real exports to an exogenous shock. In the first regression, we study a TOT shock and in the second regression, we study a shock to remittance inflows. Our model is a reduced form of the panel VAR developed by Towbin and Weber (2013), which includes interaction terms of coefficients that allow us to study the changes in the impulse-responses for different sample periods. We use quarterly data for the period from 2001 to 2018Q3 obtained

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[1] Prepared by Jasmin Sin.

[2] IMF (2017), "External Adjustment to Terms-of-Trade shifts," In *Regional Economic Outlook: Western Hemisphere*, April 2017.

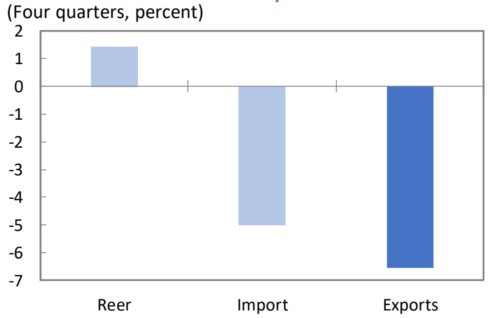
from Haver Analytics except for REER and TOT, which are developed internally. REER is available from the IMF International Financial Statistics (IFS), while TOT is implied from the component-based goods trade deflators available from the Global Economic Environment (GEE) database.

C. Results

4. **The estimated results point to a weak expenditure-switching effect.** The VAR estimates that, one year following a 10-percent negative TOT shock, the REER would cumulatively appreciate by 1.5 percent, while imports and exports would decrease by 5 percent and 6½ percent respectively (Figure VI.1). However, the results for REER is not statistically significant at a 10-percent confidence level, which suggests that the expenditure-switching effect is weak. Therefore, the predicted *fall* in imports appears largely due to the negative income effect (although not statistically significant), while the fall in *exports* could be explained by the fact that some exporters choose to delay selling their products when international prices are unfavorable.

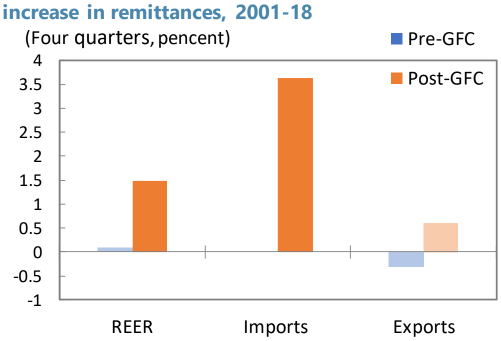
5. **Strong remittances may have prevented the shock-absorber role of the REER in recent TOT episodes.** To understand the reasons behind the weak expenditure-switching effect, we replace the TOT shock in our VAR with a remittance shock. The results show that the role of remittances has changed over time. Before the 2008 global financial crisis (GFC), remittances had insignificant impacts on the external-sector variables. Since the GFC, remittances' impacts have increased remarkably (Figure VI.2). Our impulse-response estimates show that, one year following a 10-percent positive shock in remittances, the REER would appreciate by 1½ percent and imports would increase by 3.6 percent. The result for exports is, however, insignificant. The increase in imports following the positive remittance shock would cause the trade balance to deteriorate, but the overall impact on CA is positive. An important implication of our results is that the strong remittance inflows in the recent years may have contributed to the strong REER appreciation, weakening its role to act as a shock absorber in the event of a TOT bust.

Figure VI.1
Cumulative response to a 10-percent reduction in terms of trade, 2001-18
(Four quarters, percent)



Note: Light blue denotes results are not statistically significant.

Figure VI.2
Cumulative response to a 10-percent increase in remittances, 2001-18
(Four quarters, pencent)

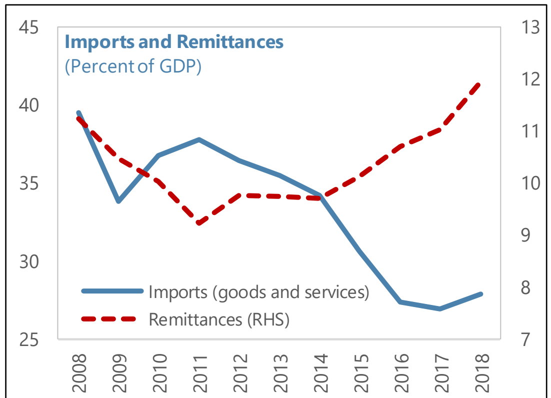


Source: IMF staff estimates.

6. The VAR estimates also suggest that the net effect of remittances on the CA is not neutral.

- *Do remittance inflows lead to a deterioration in the trade balance that fully offsets the positive impact of remittances on the CA?* Put differently, do remittances lead merely to compositional changes in the CA, while leaving the overall CA level broadly unchanged? The argument is based on the assumption that remittance income is channeled mainly to the liquidity-constrained and poor households (with a high marginal propensity to consume) and to finance imports, the trade balance would deteriorate, offsetting the direct impact of remittances on the CA through the secondary income.

- *The evidence for Guatemala shows that remittances had net positive effects on the CA in recent years.* Over the period 2011–18, the increase in the remittances-to-GDP ratio came along with a decline in the imports-to-GDP ratio, leading to an overall improvement in the CA. Further, our VAR empirical analysis suggests that a 10-percent increase in remittances would lead to a 3½ percent increase in imports, yielding a net positive effect on the overall CA.



Sources: National Authorities and IMF estimates.

Annex VII. Past Fund Staff Recommendations and Implementation

Recommendations	Current Status and Progress	
Fiscal Policy		
Spending should be further increased, by around 1 percent of GDP annually, starting next year, centered on a few high-impact programs in pursuit of the Sustainable Development Goals.	The 2019 budget execution expected is consistent with a level of expenditure of 12.6 percent of GDP (12.3 percent in 2018) consistent with a fiscal impulse of 0.4 percent of GDP. Alignment with SDGs requires further improvements in spending composition and efficiency.	
Shifting the General Comptroller's activities towards the development of preventive capacities and concurrent auditing; providing a clear interpretation of the norms applied to procurement and apply unified criteria to protect public employees from arbitrary decisions by auditors; using the newly created Vice Ministry for Transparency to coordinate and supervise the myriad of entities involved in procurement; adopting a medium-term budget framework that would include a national investment strategy that is embedded within a multi-year investment budget.	Execution capacity was improved in 2018, granting an 18 percent growth rate in capital expenditure (10 percent in 2017). Limited progress has been made on preparing a national investment strategy framed within a multi-year investment budget.	
Strengthening tax and customs administration; embracing tax reform.	Authorities have made little progress implementing FAD-recommended measures to reduce the VAT gap and reinforce large taxpayer management. Only 17 percent have been implemented or show high degree of progress. As a result, tax revenues fell for second consecutive year. Improved customs process management (Puerto Quetzal) has provided strong results in 2018. Authorities requested a workshop for SAT's senior managers (March) to clarify the strategy and alignment of the 2019 operational actions with the aim of reducing the VAT gap and improving 2019 results. SAT released a new customs modernization plan (MIAD) that is better aligned with strategic goals. There was no advance in tax policy reform in 2018.	
Better aligning pay with performance in the provision of public services and reforming current regulations of the Laws on the Civil Service and Salaries in Public Administration will be important milestones. Completing the public-sector personnel census should help make the hiring of public officials more transparent and provide for a better cost-benefit assessment of the current structure of public employment.	No progress has been made on reforming Laws on Civil Service and Salaries in Public Administration.	

Monetary Policy		
If activity indicators have not strengthened by mid-year and inflation risks appear to remain to the downside, the central bank should stay open to further lowering policy rates to support the economy.	Budgetary execution surprised in 2018 and even more expansionary fiscal policy is expected in 2019. Monetary policy stance is expected to remain on hold and accommodative throughout 2019.	
Foreign Exchange		
The authorities should allow greater FX flexibility.	The authorities continue to carry out FX interventions according to the intervention rule and the reserves accumulation program. The Quetzal depreciated by 5.3 percent in 2018, the largest annual variation in seven years, while reserves accumulation came down to 3.2 percent of total FX market operations, from 6½ percent in 2017	
Financial Sector		
The authorities could also strengthen the macroprudential framework by developing systemic risk indicators and by designating, and clearly defining, the responsibility for macroprudential regulations. The authorities should also implement consolidated supervision, including through a harmonization of consolidation procedures with international standards and the introduction of consolidated regulatory requirements for financial groups; the new banking law that is being considered by Congress merits support.	The authorities have made progress with prudential regulations and Basel III standards by preparing a number of measures/modifications with Fund's technical assistance. However, a number of these measures/modifications, crucially depend on the passing of the banking bill by Congress, which at this point are uncertain.	
Legal		
Setting the minimum level of remuneration for part-time work to achieve an increase in overall employment.		
A stronger AML/CFT framework.	The drafting of a new AML/CFT framework has been finalized and its passage in Congress should be expedited.	
Business Environment		
Further efforts could be made to streamline the awarding of construction licenses and reduce judicial backlogs in contract disputes. Simplifying customs procedures will be important to maximize the gains from the recently adopted customs unions with Honduras and could be done so without compromising revenue mobilization or the warranted control of illicit flows. Strengthening competition policies, including through the adoption of the pending Competition Law will be important to spur domestic investment and improve Guatemala's attractiveness to foreign investors (#20s, page 15).	Authorities have prepared a wealth of initiatives to ameliorate the business environment. Most of the initiatives are currently pending in Congress. Improvements were made to streamline the awarding of construction licenses. SAT's Integral Load Control Plan has promoted trade facilitation.	
The authorities should incorporate the ILO Convention 169 into the domestic legal system.	Progress has been slow. Uncertainty for extractive industries is still important due to a lack of clear mandate on how to implement/regulate ILO 169 Consultation. Operations of Minería San Rafael remain suspended.	

INTERNATIONAL MONETARY FUND

GUATEMALA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 24, 2019

Prepared by: Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of March 31, 2019)

Membership Status: Joined: December 28, 1945, Article VIII

General Resources Account:	**SDR Million**	**Percentage of Quota**
Quota	428.60	100.00
Fund holdings of currency	374.01	87.26
Reserve Tranche Position	54.60	12.74

SDR Department:	**SDR Million**	**Percentage of Allocation**
Net cumulative allocation	200.91	100.00
Holdings	120.39	59.92

Outstanding Purchases and Loans:

None

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-By	04/22/09	10/21/10	630.60	0.00
Stand-By	06/18/03	03/15/04	84.00	0.00
Stand-By	04/01/02	03/31/03	84.00	0.00

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.69	0.93	0.93	0.93	0.93
Total	**0.69**	**0.93**	**0.93**	**0.93**	**0.93**

Safeguards Assessment. Under the Fund's safeguards assessment policy, the Bank of Guatemala was subject to an assessment with respect to the Stand-By Arrangement approved on April 22, 2009 (IMF Country Report No: 09/143). The assessment, which was completed in September 2009, found that the Bank of Guatemala has strengthened safeguards in the areas of transparency of financial reporting and the management of foreign exchange reserves. Recommendations were made to further strengthen the bank's governance and independence.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement. Since March 1994, Guatemala has had an arrangement based on an interbank foreign exchange market in which authorized financial institutions buy and sell foreign exchange at market-determined rates. Financial institutions authorized to operate in the foreign exchange market include commercial banks, finance companies, and exchange houses. Guatemala has a *de jure* floating exchange rate arrangement, although the Bank of Guatemala (Banguat) may intervene to limit volatility in the nominal exchange rate without affecting its trend. Banguat intervenes through foreign exchange auctions based on a symmetric and public rule that limits daily volatility. Effective January 1, 2018, the fluctuation margin (added to or subtracted from the five-day moving average of the exchange rate) that determines whether Banguat may intervene was increased to 0.80 percent (previously 0.75 percent) as part of Banguat's commitment to increase exchange rate flexibility. Banguat may also intervene outside the scope of this rule whenever the nominal exchange rate shows unusual volatility, but this instrument has only been used once during the GFC. From January 2018, the exchange rate followed a depreciating trend within a 2-percent band against the U.S. dollar, but stabilized since September 2018. Therefore, the *de facto* exchange rate arrangement was reclassified twice in 2018: (i) from "stabilized" to "crawl-like", effective January 17, 2018, and (ii) from "crawl-like" to "stabilized", effective September 26, 2018. As of March 31, 2019, the reference exchange rate was Q7.68 per U.S. dollar. Guatemala has accepted the obligations of Article VIII, Sections 2, 3 and 4, and its exchange system is free of restrictions on the making of payments and transfers for current transactions.

FSAP Participation. An FSAP Update was carried out during March 18-April 1, 2014, and the Financial System Stability Assessment was discussed by the Executive Board on September 12, 2014, at the time of the 2014 Article IV consultation.

Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on May 25, 2018.

Resident Representative. Mr. Gerardo Peraza is the Regional Resident Representative for Costa Rica, Guatemala, and El Salvador, and is based in Guatemala.

Technical Assistance 2011–19 (updated May 2019)

Department	Date of Delivery	Purpose
FAD CAPTAC	2019	Accounting- Account consolidation; Fiscal Risk; Treasury – Payment Policy; Budget; Strengthen tax administration management; Post Clearance Audit (special Procedures); Improving Customs Process
	2018	Fees and License Rights; Risk-Based Trade Operators; Improvement of Main Customs Processes; Load Control Plan; Strengthen Management of Tax Administration; Taxpayer Service; Audit Area; Accounting Consolidation; Cash Planning; System Requirements; Financial Programming; Macroeconomic Risks
	2018, 2017	Trade Operators Based on Risk; Integral Load Control Plan; Customs Administration Process; VAT Credit Control; Cash Planning in Treasury
	2017	System Requirements in Treasury; Fiscal Risks; Treasury Single Account
	2016	Improving Collection with Equity and Efficiency (tax policy mission)
	2016	Revenue administration mission (to define short- and medium-term strategy to reform tax and customs administration)
	2016	Fiscal Transparency Evaluation
	2015, 2014	Support tax control strategy with emphasis on mass control
	2014	Establish tax payers' profiles and data to measure effectiveness of actions
	2015, 2014, 2013, 2012, 2011	Revenue administration (multiple missions)
	2014	Integrated control on VAT Credit; Tax and Customs Compliance Improvement Program; Information based Integrated Control Model
	2013, 2012, 2011	Treasury single account (multiple missions)
	2013, 2012, 2011	Customs administration (multiple missions)
	2012	Control of budgetary execution
	2011	Debt management strategy
	2011	Revenue forecasting
	2011	Government cash flow and financial planning

Department	Date of Delivery	Purpose
MCM, CAPTAC	2019	Credit risk regulation; Insurance Catastrophic Risk
	2018	Market Risk Regulation; Supervisory Reporting; Insurance Catastrophic Risks; Operational Risk Supervision
	2018	Equilibrium Real Exchange Rate Model
	2017	Operational Risk Data Base; Market Risk Regulation; Supervisory Reporting; Insurance Catastrophic Risk; Operational Risk Supervision
	2017	International Financial Reporting Standards (IFRS); Central Bank´s Capacities for Financial Stability Analysis
	2016	Central Securities Depository for Government Securities
	2016, 2015, 2014	Strengthening the central bank's structural model with financial sector frictions Developing a yield curve of public financial instruments Improving the structural liquidity forecast Developing a model to quantify the monetary policy transmission mechanism
	2015	Debt Management
	2014	Enhancing monetary operations Extending and reviewing the Central Bank macroeconomic structural model Strengthening Central Bank macro-modeling including for fiscal sustainability analysis Stress testing model for banking supervision as well as monetary stability purposes
	2014	Development of supervision credit risk models
	2014	Recommendations for market risk regulatory framework
	2013, 2012, 2011	Risk-based bank supervision (multiple missions)
	2013, 2012, 2011	Monetary operations, forecasting and liquidity administration (multiple missions)
	2011	Capital market development (multiple missions); Application of international financial reporting standards in the banking system

Department	Date of Delivery	Purpose
STA, CAPTAC	2019	Public Sector Debt Statistics, Consumer Price Index, Producer Price Index
	2018	Sectorization of the Public Sector and Disclosure of Fiscal Data; Surveys; Government Finance Statistics Implementation Strategy
	2017, 2016, 2015, 2014, 2013, 2012, 2011	National accounts statistics (multiple missions)
	2019, 2016, 2015, 2014, 2013, 2012	Producer price index (multiple missions)
	2016, 2015, 2014, 2013, 2012, 2011	Export and import price indices (multiple missions)
	2016, 2015, 2014, 2013, 2012, 2011	Balance of Payments Statistics and IIP
	2015	Training and CD: Financial Accounts
	2014	Coordinated FDI and Portfolio Surveys
	2014	Regional National Accounts
	2013, 2012, 2011	Monthly Index of Economic Activity
	2013	Training: Balance of Payments Statistics
	2013	Balance of Payments Statistics

STATISTICAL ISSUES

(As of April 2, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance.
National accounts: The Bank of Guatemala (Banguat) publishes annual and quarterly national accounts consistent with the *System of National Accounts 1993* (*1993 SNA*), with 2001 as the base year. In addition, a monthly index of economic activity consistent with the quarterly and annual accounts is disseminated on a regular basis. Banguat started the national accounts rebasing process that is planned to be disseminated in May 2019, with 2013 as the new base year and adopting the main recommendations of the *2008 SNA*.
Consumer prices and unemployment: the consumer price index (CPI) is disseminated monthly, using weights from 2009–10, based on the National Household Income and Expenditure Survey (ENIGFAM), conducted between July 2009 and July 2010. The CPI is compiled at national level and for eight regions. A producer price index (PPI) is currently not disseminated and technical assistance to improve the compilation method is being provided. Unemployment is estimated only on a biannual basis.
Government finance statistics: Guatemala provides annual fiscal data for the GFSY with institutional coverage of Budgetary Central Government. Revenue, expenditure, and financing statistics for social security agencies, local governments, and nonfinancial public enterprises are not reported, hindering the calculation of a consolidated operations statement and balance sheet for the nonfinancial public sector. The coverage and periodicity of data on Budgetary central government financing and debt is adequate. As a result of Guatemala's participation in a regional capacity development program for the harmonization of GFS for Central America, Panama, and the Dominican Republic, led by the IMF's Regional Center for Technical Assistance (CAPTAC-DR), the Ministry of Finance published on a yearly basis (2013-2018) detailed statistics for the non financial public sector. Further technical assistance from CAPTAC-DR is scheduled for October 2019. **Monetary and financial statistics:** Monetary and financial statistics are reported on a regular monthly basis to STA using the standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs). OFCs comprise insurance companies, warehouses and exchange houses. Monetary data exclude credit card companies, securities dealers, other financial intermediaries, and other financial auxiliaries. Guatemala reports data on some key series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: The authorities report on monthly basis all twelve core financial soundness indicators (FSIs) and ten (out of thirteen) of the encouraged set for the deposit taking sector. The authorities are working on expanding the FSI coverage of the OFCs sector.
External sector statistics: Guatemala has made significant progress on the prerequisites for data quality as well as on methodological soundness of concepts and definitions, scope, classification, and basis for recording. The legislation on the obligation of the private sector to provide information to the Bank of Guatemala for statistical purposes is still pending, which affects the response rate to balance of payments surveys and limits the availability of the required information. On dissemination of external sector statistics, Guatemala has successfully: (1) migrated to the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*); (2) disseminated the Reserves Data Template; (3) disseminated comprehensive inward/outward data on the Coordinated Direct Investment Survey (CDIS), and; (4) provided total external debt statistics by sector on the World Bank's website. Compilers at the Central Bank should be encouraged to participate in the Coordinated Portfolio Investment Survey (CPIS).
II. Data Standards and Quality
Guatemala participates in the enhanced General Data Dissemination System (e-GDDS) and meets nearly all of the recommended periodicity and timeliness recommendations of the e-GDDS. Guatemala has not implemented the e-GDDS as it does not have a National Summary Data Page (NSDP).

Table of Common Indicators Required for Surveillance					
	Date of latest observation	Date received	Frequency of Data [7/]	Frequency of Reporting [7/]	Frequency of Publication [7/]
Exchange Rates	Mar 2019	Apr 5, 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1/]	Apr 2019	May 3, 2019	M	M	M
Reserve/Base Money	Mar 2019	Apr 2019	W	W	W
Broad Money	Mar 2019	May 2019	W	W	W
Central Bank Balance Sheet	Mar 2019	Apr 2019	D	D	D
Consolidated Balance Sheet of the Banking System	Mar 2019	May 2019	M	M	M
Interest Rates [2/]	Apr 2019	May 2019	W	W	W
Consumer Price Index	Feb 2019	Mar 29,2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [3/]- Central Government	Dec 2017	Dec 20,2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [4/]- General Government			N/A	N/A	N/A
Stocks of Central Government and Central Government-Guaranteed Debt [5/]	Dec 2017	Dec 20, 2017	M	M	M
External Current Account Balance	Q4/2018	Apr 8, 2019	Q	Q	Q
Exports and Imports of Goods and Services	Q4/2018	Apr 8, 2019	Q	Q	Q
GDP/GNP	Q3	Mar 25, 2019	Q	Q	Q
Gross External Debt	Q4/2017	Dec 20, 2017	Q	Q	Q
International Investment Position [6/]	Q4/2018	Apr 11, 2019	Q	Q	Q

[1/] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2/] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3/] Foreign, domestic bank, and domestic nonbank financing.

[4/] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Provision of this data is hampered by lack of capacity while ongoing efforts, including the recently requested TA advice from the Fund on fiscal transparency, are made to strengthen it. Certain progress has been made in the following areas: defining an action plan to improve fiscal transparency; taking the decision to implement the GFSM 2014 as part of the fiscal transparency effort and designing an action plan for its implementation; creating the open government data portal (https://datos.minfin.gob.gt/) with data on budget formulation and execution, grants to municipalities; publication of fiscal risks as an appendix of Budgets 2017 and 2018; and working on a national publication of consolidated nonfinancial public sector (on a GFSM 1986 format): www.minfin.gob.gt.

[5/] Including currency and maturity composition.

[6/] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7/] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).