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GUATEMALA

June 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUATEMALA

In the context of the Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 10, 2020, following discussions that ended on May 21, 2020, with the officials of Guatemala on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on June 2, 2020.
- A **Statement by the Executive Director** for Guatemala.

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

PR20/241

IMF Executive Board Approves US$594 Million in Emergency Assistance to Guatemala to Help Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved Guatemala's request for emergency financial assistance of about US$ 594 million to help the country meet the urgent balance of payments needs stemming from the COVID-19 pandemic.
- The funds will provide timely resources to counter the economic and social impact of the pandemic and catalyze additional support from other development partners.
- The Guatemalan authorities have taken swift and comprehensive measures to contain the spread of the virus and to mitigate its economic impact.

Washington, DC – June 10, 2020 The Executive Board of the International Monetary Fund (IMF) approved Guatemala's request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 428.6 million (100 percent of quota, or about US$ 594 million at today's exchange rate). The RFI will help the country meet the urgent balance of payments needs stemming from the COVID-19 pandemic and catalyze additional funding from other development partners.

Despite strong fundamentals, Guatemala's economic and social model has proved vulnerable to the COVID-19 outbreak. Extensive reliance on remittances and necessary lockdown measures are amplifying the economic effects of the pandemic. Limited healthcare coverage, especially of the poor and rural populations, pose a substantial challenge to virus containment. To mitigate the effects of the pandemic, the authorities are appropriately increasing healthcare spending and transfers for the most vulnerable, along with a monetary policy easing, expanded liquidity provision, and supportive prudential measures.

Following the Executive Board's discussion of Guatemala's request, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic is severely impacting Guatemala. Faltering external demand, declining remittances, and the necessary lockdown and social distancing to contain the virus, have disrupted economic activity and severely worsened external and fiscal positions. IMF support under the Rapid Financing Instrument will help address the urgent balance of payments and fiscal needs, improve confidence, and catalyze support from other external partners.

"The authorities have marshaled a sizable and well-targeted fiscal response to counter COVID-19, shoring up healthcare facilities, protecting the most vulnerable, and mitigating the impact on firms and employees. Guatemala's low debt levels allow for this temporary fiscal support while preserving debt sustainability. Narrowing the tax gap remains a priority along with rationalizing non-essential spending to contain the fiscal deficit. The authorities are committed to keep monetization of the deficit temporary and limited.

700 19th Street NW
Washington, DC 20431
USA

“To support the recovery and counter future shocks, the authorities intend to maintain an accommodative monetary policy stance and exchange rate flexibility. While credit risk regulations have temporarily been eased to facilitate loan restructuring, the authorities are closely monitoring banks’ exposures and the levels of provisioning to ensure the stability of the financial system.

“The Guatemalan authorities have reaffirmed their commitment to ensure that emergency financing is used effectively, transparently, and through reinforced governance mechanisms.”

GUATEMALA

June 11, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. Guatemala has enjoyed a prolonged period of macroeconomic stability underpinned by prudent fiscal management and a credible monetary policy. Despite strong fundamentals, Guatemala's social and economic model has proved vulnerable to the COVID-19 outbreak. Limited healthcare coverage, especially of the poor and rural populations, pose a substantial challenge to contain the spread of the virus. Amidst plummeting remittances and essential containment measures, growth prospects have deteriorated markedly, creating large fiscal and external financing needs. Risks to the outlook are firmly tilted to the downside.

Policy response. Against a backdrop of unprecedented uncertainty, the new administration has deployed a steadfast and comprehensive policy response. With ample Congress support, the government declared the State of Calamity early into the crisis and implemented a *National Emergency and Economic Recovery Plan,* comprising resolute containment actions, targeted fiscal measures (amounting to about 3 percent of GDP), monetary policy easing, expanded liquidity provision, and supportive prudential measures. Pressing measures to counter the pandemic and faltering revenues prompted, *in extremis* and within the purview of the Constitution, Congress approval for partial monetization of the fiscal deficit.

Request for Fund support. The authorities are requesting financial support under the Rapid Financing Instrument (RFI) of 100 percent of quota (SDR 428.6 million). Guatemala meets the eligibility requirements for support under the RFI as it faces an urgent BOP need, which, if not addressed promptly, would result into severe economic disruption. Furthermore, uncertainty regarding the scale and duration of the COVID-19 pandemic remains elevated. The full amount will become available upon Board approval and will be used for budgetary support. Based on the country's solid track record, staff is confident that the authorities will pursue appropriate policies to mitigate the impact of the pandemic, foster a prompt recovery, and address the urgent balance of payments needs. Guatemala is assessed to have sustainable public debt and adequate capacity to repay the Fund.

Approved By
P. Alonso-Gamo (WHD) and Zuzana Murgasova (SPR)

E. Pérez Ruiz (Head), JF. Clevy, C. Janada, and J. Sin (all WHD), with assistance from H. Canelas and C. Vera.
G. Peraza, Regional Resident Representative, assisted the mission.
Discussions were held via videoconferences from May 19-21, 2020 with the President of the Central Bank of Guatemala S. Recinos, the Minister of Finance A. González-Ricci and senior officials. M. Tábora (OED) also participated in the discussions.

CONTENTS

BACKGROUND

1. **Guatemala has enjoyed a prolonged period of macroeconomic stability.** It has been the steadiest economy in Latin America post-GFC (average growth of 3½ percent). The fiscal deficit, debt and inflation levels have remained moderate, and the external position has proved solid amidst strong remittances inflows.

2. **Guatemala's social and economic model is vulnerable to the pandemic.**

- *Weak healthcare system.* The health system offers very limited coverage of the poor and rural populations (60 and 46 percent of the Guatemalan population, respectively). Basic healthcare covers just about 50 percent of Guatemalans, hospital access is concentrated in the two major cities (Guatemala City and Quetzaltenango), and doctors and medical personnel stand at 0.7 and 1.8 per 1,000 population (1.8 and 6.3, respectively, in good performing peers of similar per capita income).

- *Adverse feedback loop between the pandemic, high food insecurity and chronic malnutrition.* At 46½ percent nationally, and up to 70 percent in some departments, Guatemala's prevalence of stunting in children under 5 is one of the highest in the world. Acute malnutrition has increased sharply post-COVID, up to 57 percent in some departments along the Dry Corridor. Containment measures (mobility restrictions, reduced work in the informal sector, and rising domestic food prices) are expected to compound the May-September seasonal hunger. Poor nutrition jointly with inadequate access to safe water would leave poor communities especially vulnerable to the virus outbreak.

- *Amplification effects from high dependence on remittances.* With remittances accounting for about 30 percent of households' income, and consumption at over 85 percent of GDP, extensive reliance on remittances (primarily from the U.S.) is amplifying the effects of the pandemic.

3. **Two months into the administration, the new government has deployed a steadfast response to the pandemic**. A slim Congress representation notwithstanding, President Giammattei swiftly declared the State of Calamity on March 13th and secured budget augmentations to mitigate the social and economic impacts of the pandemic. As such, the crisis has helped reduce the historical political gridlock between the executive and legislative branches of government.

PRE-COVID-19 DEVELOPMENTS

4. **COVID-19 came at a time of accelerating growth and macroeconomic stability.**

- ***Activity accelerated in 2019.*** Growth picked up to 3.8 percent (3.1 percent in 2018), as robust remittances and vibrant confidence, post-inauguration, supported consumption and investment.

- ***Inflation remained within the Central Bank target range of 4±1 percent***. Inflation flatlined at 3.7 percent in 2019 and eased to 1.8 percent in 1Q2020.

- ***The fiscal stance had remained appropriately countercyclical.*** Over 2017–2019, the cumulative fiscal impulse reached 1.0 percent of GDP amidst slacking capacity.

- ***Monetary policy remained accommodative.*** Over 2017–2019, the monetary policy rate stood at 2¾ percent below its natural rate, real interest rates slipped into negative territory, and inflation expectations remained firmly anchored throughout.

- ***The financial system ended 2019 sound.*** Banks remained well capitalized, profitable and liquid. Credit continued accelerating in tandem with activity and NPLs remained moderate at 2.2 percent.

- ***The external position improved in 2019.*** The current account (CA) balance increased to 2.4 percent (from ¾ percent in 2018), aided by stronger remittances and lower fuel prices. The external position was assessed as stronger than the level implied by medium-term fundamentals and desirable policies.

IMPACT OF COVID-19

5. The COVID-19 pandemic is severely affecting Guatemala's economy. Alongside other Latin and Central America countries, COVID-19 is at its early stages in Guatemala. As of May 27th, there were 3,954 confirmed cases with 63 fatalities. President Giammattei's administration swiftly declared a national State of Calamity on March 13th (in place through June 4th), accompanied by a country-wide curfew (5 pm to 5 am), border closures, and the suspension of non-essential activities, mass gatherings, and domestic travel. During May, the retail sector was allowed to re-open and a full shutdown is in effect over the weekends. As a result, the restaurant industry, manufacturing, and transportation activities have been severely disrupted, and the tourism industry has been paralyzed.

Impacts of COVID-19 1/
(Percent of GDP unless otherwise indicated)

	2020		
	Pre-COVID	Post-COVID	Δ Change
GDP growth (%)	3.6	-2.0	-5.7
Inflation (%)	3.7	2.1	-1.6
Fiscal deficit	2.1	6.1	4.0
Public debt	27.5	32.5	5.0
Current account	1.5	-0.5	-2.0

Sources: Fund staff estimates
1/ Pre-COVID projections as of January 2020.

6. The outlook is for an economic contraction this year and a rebound in 2021. Growth is projected to fall to -2 percent in 2020 (from an expansion of 3.8 percent in 2019). Imploding remittances and local disruptions from the containment measures heavily weigh on growth, partly offset by a sizable fiscal package of about 3.4 percent of GDP (¶10), and depressed oil prices. Growth is expected to rebound to 4 percent next year, as the fallout of the pandemic wears out.

7. Guatemala faces a pronounced balance of payments shock. March 19th through May 8th, remittances contracted by 17 percent and exports growth fell to 1 percent, against growth of 18 and 19 percent, respectively, pre-COVID. Tourism receipts have shrunk over 50 percent since the start of 2020 (Figure 3). Overall the current account is projected to worsen by almost 3 percentage points relative to 2019—an unprecedented deterioration in Guatemala's external position. The impact of the COVID-19 shock on the balance of payments (BOP) can be analyzed by comparing staff's BOP projections for 2020 before and after the outbreak of COVID-19.

Balance of Payments: COVID-19 Impact
(in millions of US dollars, unless otherwise stated)

	2020		
	Pre-COVID	Post-COVID	Change
[A] Current account	**1,185**	**-345**	**-1,530**
(in percent of GDP)	1.5	-0.5	-2.0
Non-oil goods balance	-5,996	-5,526	470
Oil balance	-3,124	-1,678	1,446
Services balance	53	-685	-738
o/w: Tourism	*445*	*203*	*-242*
Net income	-2,046	-1,489	557
Remittances	11,574	8,395	-3,179
Others	279	434	155
[B] Financial inflows ("+": inflows)	**-185**	**-1,171**	**-986**
Foreign direct investment, net	797	338	-459
Porfolio investment, net	-33	1,197	1,230
Other investment, net	-949	-2,706	-1,757
[C] =-([A]+[B]) BOP financing gap	**...**	**1,517**	
(in percent of GDP)	...	2.0	
Change of reserves ("+": increase)	1,000	-443	
Residual BOP financing gap	...	1,074	
Potential financing			
IMF (RFI)		585	
Other IFIs, net		489	
o/w: IADB		*271*	
o/w: WB		*200*	
o/w: CABEI		*18*	

Source: IMF staff estimates

- *BOP financing gap.* Staff estimates that the BOP financing gap for 2020 could reach US$1.5 billion (2.0 percent of GDP) as the current account balance deteriorates by a similar amount relative to its pre-COVID level. The urgent BOP needs primarily emerge from a decline in remittance inflows, and a deterioration in tourism and non-oil commodity exports, while the historic decline in oil prices partly offsets some of these pressures. Net financial outflows remain broadly unchanged post-COVID—FDI inflows shrink and other investments outflows intensify due to a lower rollover of private external debt as Guatemalan firms deleverage, which is partly offset by portfolio investment inflows from a Eurobond issuance of US$1.2 billion on April 21st.

- *Severe economic disruptions.* COVID-19 has provoked widespread layoffs and businesses closures in export-oriented sectors. Around 30 percent of firms in the agricultural and manufacturing sectors have suspended workers, 80 percent of hotels have registered zero occupancy rate since end-March, and the call center and business process outsourcing industry is operating at just 80 percent capacity. The collapse in remittances alongside lockdown measures have depressed private consumption (40 percent drop in the use of credit card lines during April). Guatemala's electricity generation has fallen by 25 percent since the start of the suspension of non-essential activities (Figure 1).

- *Potential financing.* To fill the BOP financing gap the authorities are planning to draw on the RFI (US$ 585 million), loans from other IFIs (US$ 489 million), and reserves drawdown (US$ 443 million). This leaves reserves at 144 percent of the ARA metric; which staff deems appropriate to prevent a possible deterioration in confidence amidst heightened uncertainty and to hedge against a more protracted downturn (¶16).

RISKS TO THE OUTLOOK

8. The balance of risks is firmly tilted to the downside.

- *Continued deteriorating outlook for the U.S. and other trading partners worsening remittances and exports prospects.* Projections are subject to an unusual degree of uncertainty related to the impact of COVID-19 on the global economy, and the outlook can easily turn out much worse than envisaged, particularly in view of 1Q2020 outturns for large economies. Guatemala's heavy reliance on remittances (nearly 14 percent of GDP) and high share of exports to the U.S. (33 percent of total exports) compounds its vulnerability to the crisis.

- *Greater-than-expected scale and duration of the pandemic due to Guatemala's structural vulnerabilities.* Staff projections assume that the spread of the disease will be contained at moderate levels and activity will resume gradually as containment measures are phased out. However, Guatemala's weak healthcare system, widespread poverty, and severe malnutrition could exacerbate the spread of the virus as reopening plans unfold, further delaying the recovery. Challenges with health screening of returning migrants are another source of concern for the local containment of the outbreak. Should this occur, additional measures to strengthen domestic health services and provide support to the most vulnerable populations would be needed to avoid a humanitarian crisis.

- *Loss in fiscal revenues.* Amid still-rising infections and extended containment measures, tax collections and other public revenues may suffer by more than under staff's projections, further widening the financing gap. To mitigate this risk, the Fund is providing technical assistance to the authorities in the formulation of a business continuity plan for the tax agency during and post-COVID (¶13).

- *Debt-financing of budget deficit.* Guatemala's strong record of macroeconomic stability, low deficit and debt levels, has so far allowed the sovereign to keep access to international markets post-COVID. The sovereign placed a Eurobond of US$1,200 million on April 21st at favorable terms. The Ministry of Public Finance has yet to place around US$1,500 million to finance the envisaged deficit. In recent weeks, banks' liquidity hoarding has detracted from domestic demand for treasury bonds.

POLICY DISCUSSIONS

9. The authorities have marshaled a *National Emergency and Economic Recovery Plan* to counter COVID-19. Launched on March 18th, the plan (i) ramps up the capacity of the healthcare system (temporary hospitals, expanded medical supplies and equipment); (ii) encompasses temporary measures targeted to the most vulnerable (food support, risk bonus for healthcare personnel, emergency funding for SMEs, support for grassroots commerce); and (iii) grants temporary relief to firms (expedited tax credit refunds, deferral of tax payments and social security contributions). Complementing these efforts, the government enacted large-scale measures to mitigate the economic impact of containment efforts, including targeted cash transfers, salary subsidies and loans at favorable terms for firms.

Economic Measures to Mitigate COVID-19 Impacts

Program	Description
Family Bonus	- Cash transfers through bank account of US$780 million (1.0% of GDP). - Beneficiaries: 2 million heads of vulnerable. households (electricity consumption below 200 kWh; poor households living with single parent, elderly or malnourished children get prioritized). - Benefits: 130 dollar for up to 3-month period.
Employment Protection Fund	- Cash transfers to private-sector workers of US$260 million (0.3% of GDP). - Beneficiaries: 300,000 households (1,5 million people) with private sector workers affected by the suspension of non-essential activies. - Benefits: US$10 per day during 3 months.
Working Capital Credit Fund	- Loans at favorable terms of US$440 million (0.6% of GDP). - Beneficiaries: SMEs. - Favorable terms: grace periods and below-market interest rates.

Source: Staff based on *National Emergency and Economic Recovery Plan.*

10. To enable these measures, Congress approved three budgetary modifications involving a sizable fiscal support. The three fiscal packages of about 3 percent of GDP, alongside with a projected decline in fiscal revenues of 0.9 of GDP, generate a fiscal support of about 4 percentage points of GDP and a fiscal deficit of around 6 percent of GDP (versus a historical average of 1.8 percent of GDP). The fiscal package steps up healthcare spending (0.2 percent of GDP), provides temporary relief to vulnerable sectors to the pandemic (cash and other transfers of 1.2 percent of GDP), salary subsidies (0.3 percent of GDP), funding to firms (0.6 percent of GDP), and other budget allocations to strengthen the provision of public services (1 percent of GDP).

Fiscal Accounts: COVID-19 Impact

	2020		
	Pre-COVID 1/	Post-COVID	Δ Change
	(In percent of GDP)		
Revenues	**11.4**	**10.5**	**-0.9**
o/w Tax revenues	10.7	9.8	-0.9
Expenditure	**13.5**	**16.5**	**3.0**
Current	10.9	13.2	2.4
o/w Wages	4.0	4.8	0.7
o/w Transfers	2.2	3.4	1.2
Capital	2.6	3.3	0.7
Overall balance	**-2.1**	**-6.1**	**-4.0**
(in millions of dollars)	…	…	-2,893

Sources: Fund staff estimates.
1/ Pre-COVID projections as of January 2020.

11. To cover additional financing needs of about 4 percent of GDP, the authorities are aiming for a hybrid financing strategy. The authorities have mobilized IFIs loans of US$489 million comprising a US$200 million WB loan for disaster relief, US$271 million IADB loans primarily for budget support, and US$18 million CABEI loans for hospital infrastructure. The authorities further plan to draw on the RFI (US$585 million at 100 percent of quota), domestic bond issuance (US$398 million), and central bank monetization at market conditions (US$1.4 billion).[1] In addition to this financing package, on April 30th the government enacted regulations to contain operating expenses. There are significant risks to this financing strategy, including the monetization of the fiscal deficit and a more severe erosion in tax revenues.

Fiscal Accounts: COVID-19 Impact

	Millions of quetzals	Millions of dollars	Percent of GDP
Revenues	**61,155**	**7,902**	**10.5**
Expenditure	**96,551**	**12,476**	**16.5**
Current	77,319	9,991	13.2
Capital	19,232	2,485	3.3
Overall balance	**-35,396**	**-4,574**	**-6.1**
Total Financing	**35,396**	**4,574**	**6.1**
Pre-Covid19 Financing 1/	**13,007**	**1,681**	**2.2**
Financing Gap	**22,390**	**2,893**	**3.8**
IMF (RFI purchases)	4,524	585	0.8
Other IFIs	3,782	489	0.6
o/w IADB	*2,095*	*271*	*0.4*
o/w WB	*1,548*	*200*	*0.3*
o/w CABEI	*139*	*18*	*0.0*
Domestic financing	3,084	398	0.5
Monetization	11,000	1,421	1.9

Sources: Fund staff estimates.
1/ Pre-COVID projections are as of January 2020.

12. Staff advised the authorities to refrain from further monetization of the fiscal deficit. The authorities resorted, *in extremis* and within the purview of the Constitution, to the monetization of urgent measures to protect the most vulnerable from the COVID-19 outbreak. To safeguard monetary policy's credibility and effectiveness, the authorities should strive for alternative financing sources to cover any additional financing needs.

- *Circumstances prompting monetization.* Amidst pressing spending needs to counter the pandemic, faltering tax collections, and drying up of domestic demand for treasury bonds, the Congress authorized the Central Bank—as per the exceptional circumstances envisaged in Art. 133 of the Constitution—to finance a fiscal package of 1.9 percent of GDP, accounting for half of the emergency response.

- *Monetization broadly at market terms.* Pursuant to government agreement 59-2020, the Central Bank is to purchase 20-year bonds at rates broadly consistent with current market conditions.

- *Risks of monetization and staff's advice.* The monetization of the fiscal deficit raises the sterilization costs for the Central Bank, can potentially impair the anchoring of inflation expectations, amplify exchange rate volatility, and undermine the credibility of the Central Bank. To mitigate these risks, the Central Bank should closely monitor the banking system liquidity, international reserves, and inflation expectations, and stand ready to adjust its monetary operations to secure price stability. To safeguard monetary policy's credibility and effectiveness,

[1] At the request of the President of the Republic, Congress has invoked the exception foreseen in Art. 133 of the Constitution whereby, under extraordinary circumstances such the COVID-19 pandemic, the central bank is allowed to provide direct or indirect financing, guarantees, or guarantor's endorsements to the State (Decree 13−2020). As a result, the Central Bank will purchase up to US$1.4 billion in treasury bonds from the Ministry of Public Finance.

staff recommends to contain any further deficit monetization and seek sources other than the RFI (at 100 percent of quota) as new spending needs present and/or revenues disappoint (¶13).

13. Redoubling tax administration efforts is critical to contain the erosion of tax revenues. The implementation of COVID-specific measures has added to prevailing enforcement challenges at the tax agency. During the COVID-19 crisis, the tax authority should focus on executing a revenue administration continuity plan that carefully tracks taxpayer deferrals and expedited refund payments—which staff supports to provide liquidity to firms and to preserve employment. During the recovery, the authorities should focus on reducing VAT and corporate income tax gaps.[2] Key measures to fight against tax evasion include enhanced customs controls, more automatic revenue administration processes, a comprehensive plan for VAT credit control, and a strengthened Large Taxpayer Office. Were these efforts to fall short, realized revenues could turn out lower than currently projected.

14. The authorities have strengthened procurement rules for a proper use of financing resources (LOI, ¶8). MINFIN swiftly adopted regulations under the State of Calamity to ensure that all pandemic-related expenses are channeled through the government e-procurement system (*Guatecompras*) and adequately reported in the dedicated budgetary program. The launch of the State of Calamity dashboard is a welcome initiative to enhance the accountability and control of all COVID-related expenditures. To further ensure the transparent and effective use of resources, the authorities should publish: (i) quarterly reports of COVID-19 related expenditures on the website of the Ministry of Public Finance and all related signed procurement contracts (www.guatecompras.gt), including the names of awarded companies and the name(s) of their beneficial owner(s) as well as an ex-post validation of delivery; and (ii) the audit report by an independent external auditor of RFI-financed spending no later than six months after the end of the fiscal year.

15. Fiscal support has been accompanied by an accommodating monetary stance. Since March 18th, the Central Bank of Guatemala (Banguat hereafter) has lowered the monetary policy rate by 75 basis points to its historic low of 2 percent. The monetary authority has provided additional liquidity to preserve the proper functioning of the payments systems and meet firms' and households' precautionary demand for cash. As a result, the currency in circulation increased by almost 6 percent in the first 3 weeks of the crisis. In addition, the Monetary Board approved several

Monetary Policy and Liquidity Provisions - Post COVID-19

Instrument	*Measures*
Monetary Policy Interest Rate	Policy rate reduced by 75 bps. to 2 percent since March 18th.
Temporary liquidity provision in Guatemalan quetzals (GTQ)	Early redemption of time deposits made in the Central Bank. Purchase in secondary market of Treasury Bonds. Repo operations at 30, 90 and 180 days. Temporary suspension of term deposits by maturity dates. Flexibilization of reserve requirements (treasury and central bank bond enter the computation of reserves)
Temporary liquidity provision in US Dollars	Repo operations at 30, 90 and 180 days for up to USD 1,000 million. Collateral: Treasury Bonds of the Republic of Guatemala (in USD) placed in local/international markets. Flexibilization of reserve requirements (treasury and central bank bond enter the computation of reserves)

Source: Banguat.

[2] Ansón, A., C. Carrera, I. González, M. Ramos, S. Lemus, M. Calijuri, and R. Cessa, "SAT 2019: Alineamiento e Innovación para Alcanzar Resultados," Informe Técnico, January 2019.

other measures to support liquidity through credit facilities and via its role as a lender of last resort to the financial system.

16. Amidst unprecedented uncertainty, Banguat intervened in the foreign exchange market. Net sales of US$386 million from March 19th to April 3rd dampened excessive exchange rate volatility (depreciation limited to 4 percent in the week of March 23rd). Given high remittances-dependency, dollarization, and informality, staff recommends preserving existing reserve buffers to cushion worsening external and/or domestic conditions. FX intervention should be limited to episodes of disorderly market conditions. Otherwise, staff encourages the authorities to allow more exchange rate flexibility at a gradual pace, closely monitoring inflation expectations and balance sheet exposures.

17. The Monetary Board has temporarily eased credit risk regulations to facilitate banks to enter into loan restructuring.

- *Authorities' measures.* Monetary Board's Resolution JM-32-2020 has eased credit risk regulations until end-2020 to enable banks to renegotiate loan terms, on a case-by-case basis, for those operations that were past due 30 days or less by February 29th. They also allow for grace periods without any of these circumstances implying lower credit risk classification. Banks will also be able to use generic provisions to cover specific provisions in justified cases, which should be restored within six months after the end of the temporary measures.

- *Staff's advice.* Although these measures can help solvent debtors to weather liquidity shocks, they should be introduced in a transparent, targeted, and prudent manner in line with regulatory best practice to prevent a potential buildup of financial risks and moral hazard. In this regard, following the temporary redefinition of default (after 180 days past-due, versus 90 days prior), banks should conduct loan portfolio reviews and risk assessments on a regular basis to measure the pandemic's impact on borrowers' financial conditions. The Superintendency of Banks should closely monitor risk exposures to debtors benefiting from those temporary measures.

MODALITIES OF SUPPORT

18. Guatemala meets the eligibility requirements for support under the RFI. It faces an urgent BOP need, which, if not addressed promptly, would result in severe economic disruption. It is not feasible at this stage to put in place an upper-credit-tranche arrangement due to the urgent BOP needs facing Guatemala and the high degree of uncertainty about the duration and severity of the COVID-19 pandemic and consequently the economic outlook. With Guatemala's weak healthcare system, high food insecurity and chronic malnutrition exacerbating exposure to the pandemic, particularly for vulnerable groups, the authorities are focused on containment and immediate relief measures as a matter of social and economic priority. There are also practical difficulties of holding comprehensive discussions with the authorities in the current no-travel environment to put in place an upper-credit-tranche arrangement.

19. Staff proposes to provide support for 100 percent of quota under the RFI. The annual access of 100 percent of quota (SDR428.6 million, or about US$585 million) would provide relief to the external and fiscal needs of the country. As per the authorities' request, RFI resources will be disbursed to the MINFIN and used to counter the economic and social impact of the pandemic. Remaining needs are expected to be filled by the WB, IADB, CABEI, domestic bond issuance, and monetization. Staff supports RFI access at 100 percent of quota given (i) Guatemala's structural vulnerabilities possibly exacerbating the scale and duration of the pandemic; (ii) considerable downside risks to revenues amidst surmounting tax administration challenges; and (iii) the need to preserve comfortable reserve buffers to hedge against a continued deterioration in domestic and/or global conditions and heightened market volatility.

20. A safeguards assessment of Banguat will be needed. The authorities commit to undergo a safeguards assessment that would need to be completed before the Executive Board approval of any subsequent arrangement, to provide Fund staff with the most recently completed external audit reports, and to authorize the external auditors to hold discussions with staff. In their Letter of Intent (Appendix I), the authorities confirm that they will establish a framework (e.g., through a memorandum of understanding) between the Banguat and the MINFIN, that clarifies the roles for timely servicing of payments to the IMF.

21. Guatemala is assessed as having sustainable debt and adequate capacity to repay the Fund. The RFI resources would be the first time since the late 1980s that Guatemala uses Fund resources, and they only represent about 0.8 percent of GDP. The most recent arrangement was requested in support of the authorities' program for 2009 and was treated as precautionary to provide insurance against significant downside risks associated to the GFC. Guatemala is assessed as having sustainable debt and capacity to repay the Fund, even after the impact of the pandemic (Annex I and Table 6). This assessment is further supported by the authorities' excellent track record of servicing their debt obligations, long maturity profile for outstanding debt, and the legal prioritization of debt services. Staff is confident that the authorities will pursue the economic policies appropriate for addressing the impact of the pandemic and the urgent balance of payments needs.

AUTHORITIES' VIEWS

22. The authorities project a significant economic impact from the pandemic with unusually high levels of uncertainty. The Central Bank broadly agrees with staff's macroeconomic outlook and estimates for BOP financing needs. The authorities emphasized the role of containment measures to limit the spread of the virus and macroeconomic policies to mitigate the economic impact of the pandemic. The latter involves an unprecedented stimulus. Downside risks to the outlook remain, stemming from a continued weakening of external conditions, and a delayed re-opening of the economy to more normal levels of activity given still-rising infections and healthcare capacity challenges.

23. COVID-mitigating measures, combined with softening tax revenues, have increased the fiscal deficit. The authorities expressed satisfaction at unanimous approval by a highly fragmented Congress of budgetary augmentations directed to mitigate COVID-19 and noted that economic relief programs are bearing fruit. Policy actions are focused on enhancing the capacity of the healthcare system, protecting the most vulnerable, and granting temporary relief to firms. To contain the fiscal deficit, the authorities are stepping up efforts to sustain tax compliance and to rationalize non-essential spending. They remain committed to a transparent and accountable use of all emergency-related spending. The authorities' budgetary priority post-COVID is to rebuild their financial buffers for disaster management, given Guatemala's high exposure to climate events and geophysical hazards.

24. The authorities remain committed to implement sound macroeconomic policies and concur with staff on the need to safeguard international reserves buffers. The authorities elaborated on the exceptional circumstances that prompted the partial financing of emergency packages through monetization. Short-term inflationary risks from monetization are deemed low, given demand restraint. Over the medium term, the Central Bank stands ready to sterilize any excess liquidity to preserve price stability and expects costs from such sterilization to be limited, given the quasi-market returns for the treasury bonds acquired by the Central Bank. To preserve Central Bank's credibility and monetary policy effectiveness, the authorities intend to keep monetization temporary and limited.

25. The authorities are closely monitoring the incidence in the financial system of the temporarily relaxation of credit risk regulations. The Superintendency of Banks (SIB) is working to ensure that banks are conducting a prudent loan restructuring, where necessary, to sectors, households or firms heavily impacted by the crisis. To ensure that loans restructuring is targeted to temporary illiquid, yet solvent, borrowers, SIB has expanded information requirements for banks, which they intend to disclose to the public. On this basis, SIB will also follow closely the status of banks' exposures to credit risk and the levels of provisioning.

STAFF APPRAISAL

26. The short-term outlook has weakened considerably and remains subject to extreme uncertainty. The growth forecast for 2020 has been severely curtailed by plummeting remittances, the retrenchment of external demand, and the collateral damage from the essential lockdown and social distancing to contain the virus. Key risks to the outlook stem from (i) a greater-than-expected severity of the local outbreak in view of Guatemala's structural vulnerabilities (a weak healthcare system, high food insecurity and chronic malnutrition, and inadequate safe water access); (ii) continued worsening external demand in view of 1Q2020 outturns in major economies, and (iii) the associated loss of fiscal revenues.

27. The authorities' fiscal response to the pandemic has been appropriate. The authorities have introduced fiscal measures to shore up healthcare facilities, protect the most vulnerable, and mitigate the impact on firms and employees. Staff recommends stepping up the deployment of temporary testing and treatment facilitates in rural areas lacking healthcare coverage. Guatemala's low debt levels allow for temporary fiscal support while preserving debt sustainability. Staff welcomes the authorities' commitment to ensure the transparency and accountability of the emergency-related spending.

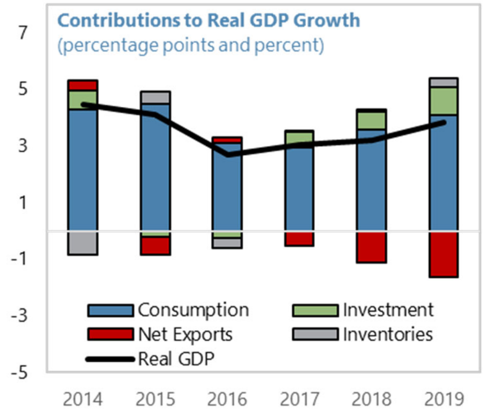
28. Staff deems appropriate the pursuit of a more accommodative monetary stance. Staff encourages Banguat to continue monitoring the banking system liquidity and be prepared to take additional measures if necessary. The temporary relaxation of prudential regulations should be accompanied by close monitoring of credit exposures benefiting from the temporary measures, NPL classification, potential losses, and credit risk management practices.

29. The authorities should refrain from further deficit monetization. To safeguard the credibility of the Central Bank and the effectiveness of monetary policy, the authorities should ensure that Central Bank monetization is temporary and limited. Faced with additional spending needs and/or revenues shortfalls, the authorities should seek alternative financing sources. The Central Bank should stand ready to adjust monetary operations as needed to secure price stability.

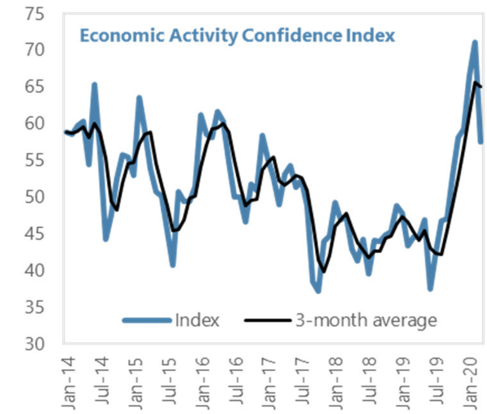
30. Staff supports the authorities' request for an RFI in the amount of SDR428.6 million (100 percent of quota). The unprecedented economic fallout from the COVID-19 outbreak and the already urgent BOP needs justify the authorities' request for emergency financial assistance from the Fund through an RFI. Guatemala's solid track record of prudent macroeconomic policies provides the necessary reassurance for public debt sustainability and capacity to repay the Fund.

Figure 1. Recent Economic Developments

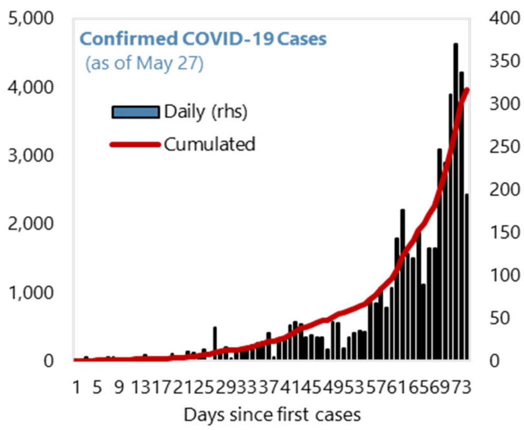
Consumption and investment underpinned a strong economic momentum in 2019....



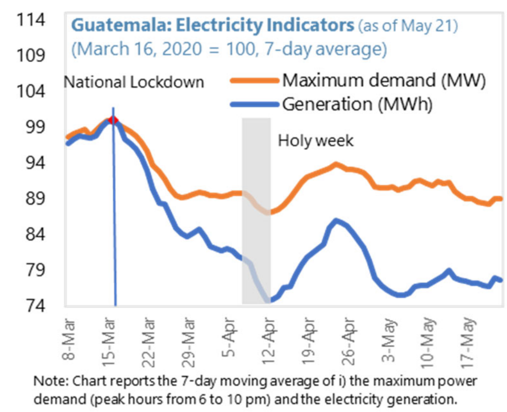
... with private sector confidence at its highest upon the new administration's inauguration in January 2020.



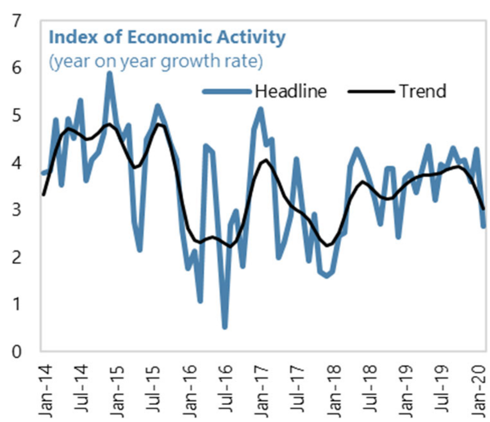
The COVID-19 outbreak is accelerating rapidly...



... despite swift and resolute containment measures.



Economic activity has begun to falter...



... while inflation remains well below the target range.

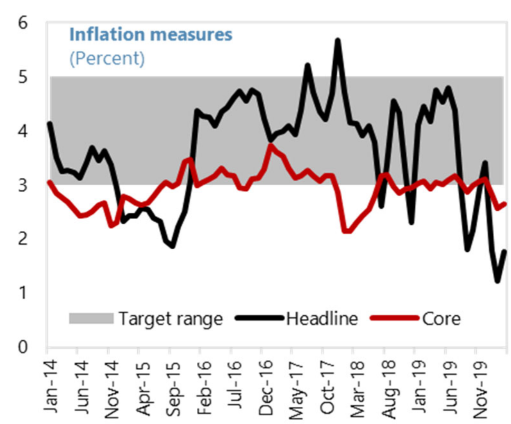
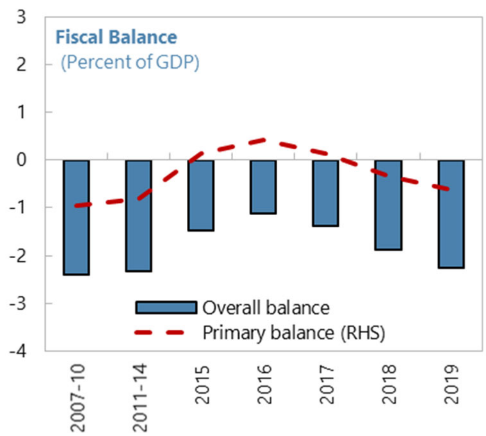
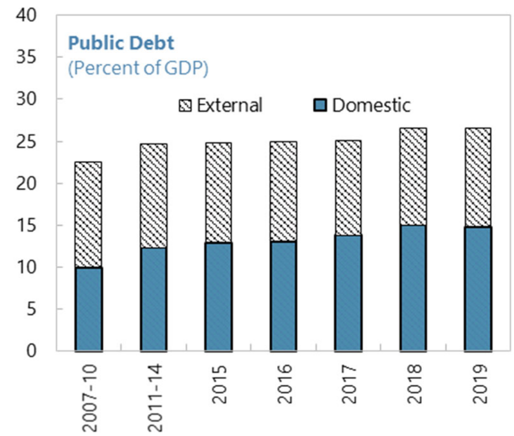


Figure 2. Fiscal Sector Developments

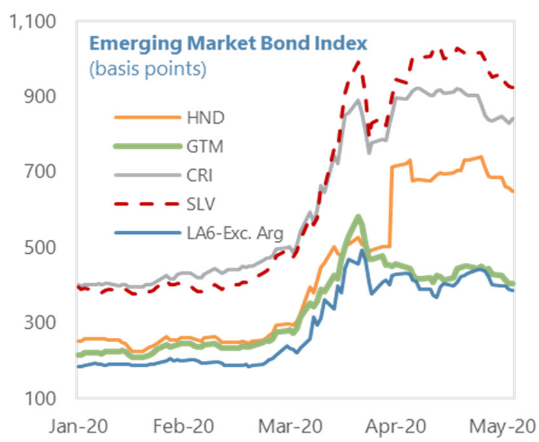
Prudent fiscal policy has maintained low deficit levels and supported macroeconomic stability…



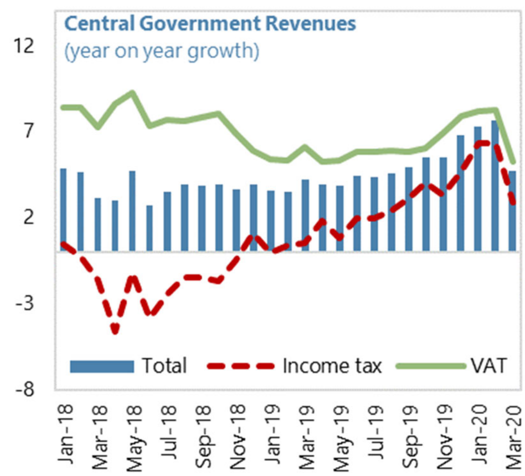
…while low indebtedness levels provide fiscal space for policy response.



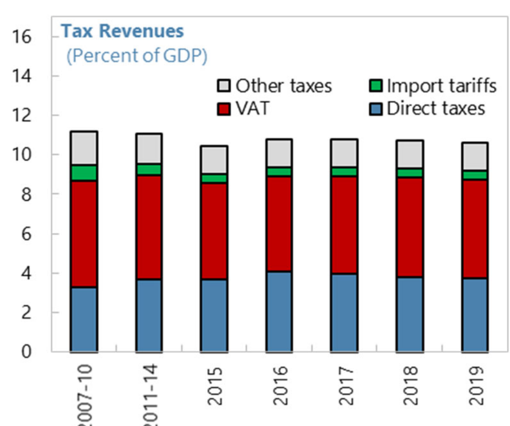
Markets have been favorable since the onset of the crisis…



…allowing the issuance of a Social Bond for health spending, amidst faltering tax collections.



Tax evasion and enforcement challenges weaken revenues



… while limiting infrastructure and social spending.

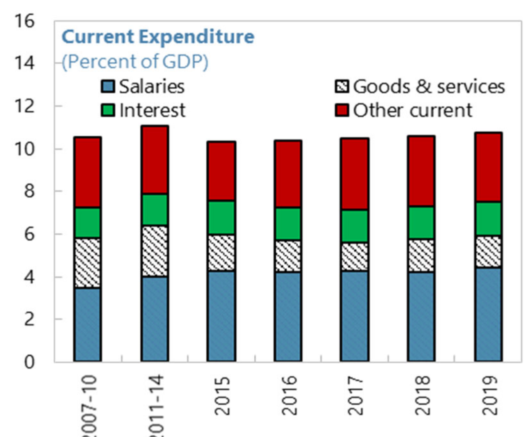
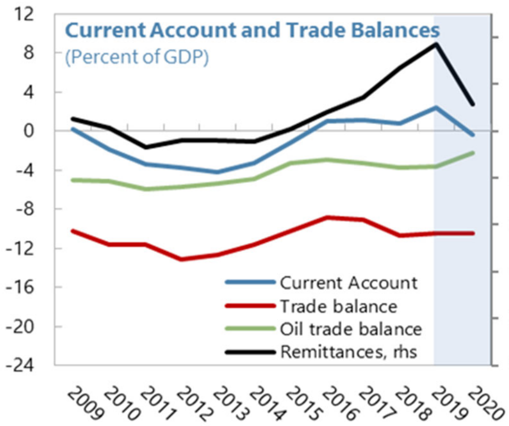
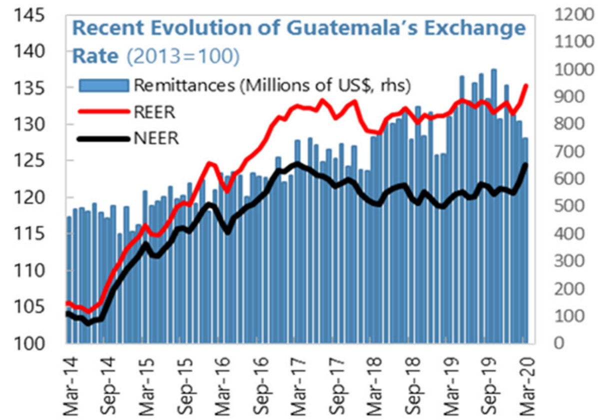


Figure 3. External Sector Developments

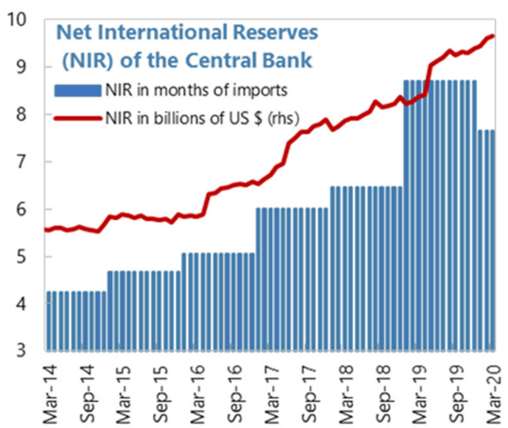
The current account balance has been strong prior to Covid-19, driven by strong remittance inflows.



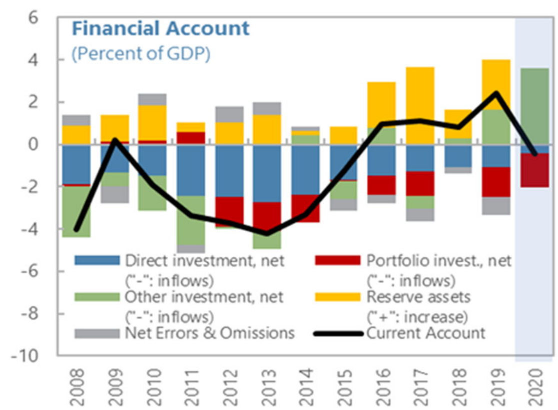
Strong remittances have also supported the appreciation of the effective exchange rate over recent years.



Reserves in months of imports are expected to fall in 2020 due to Covid-19.

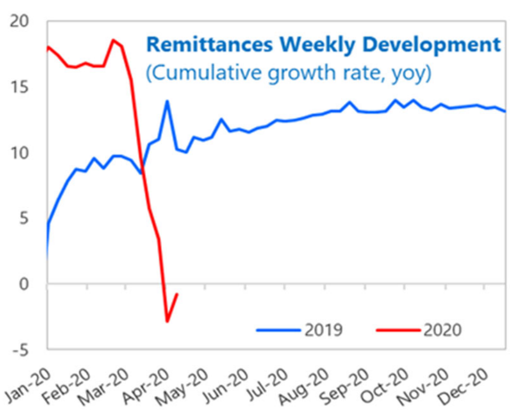


During the previous years when the current account ran into deficit, it was largely financed by FDI inflows.



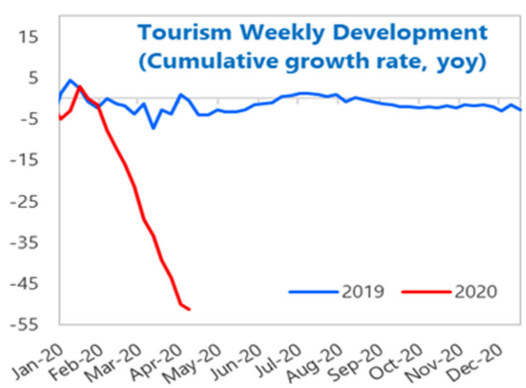
Note: Does not include BOP gap for 2020.

Since the beginning of Covid-19, inflows of remittances have declined sharply.



Note: Latest observation as of April 23, 2020.

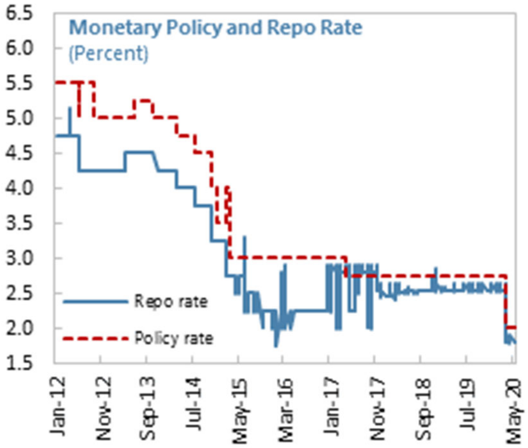
Tourism has also suffered huge declines due to the travel restrictions imposed to contain the pandemic.



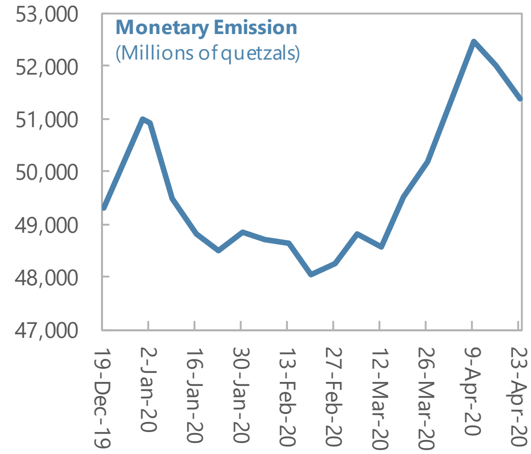
Note: Latest observation as of April 23, 2020.

Figure 4. Monetary Policy and Financial Sector Developments

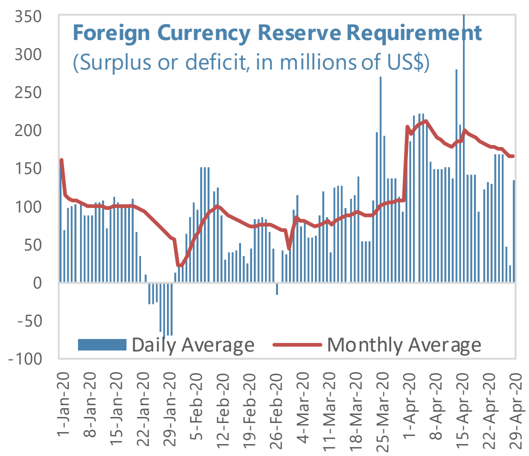
Banguat has lowered the monetary policy rate by 75 basis points to a historic low of 2 percent…



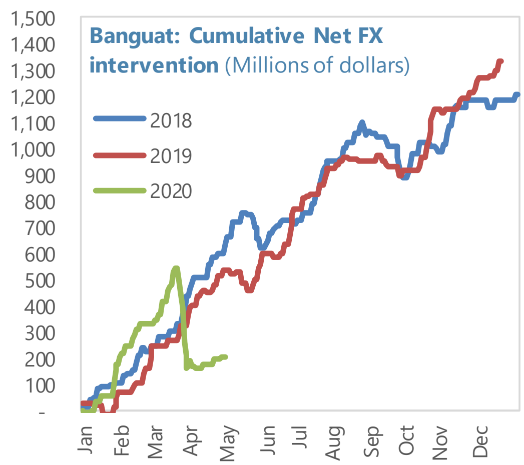
…and provided additional liquidity to meet banks' precautionary demand for cash in both national…



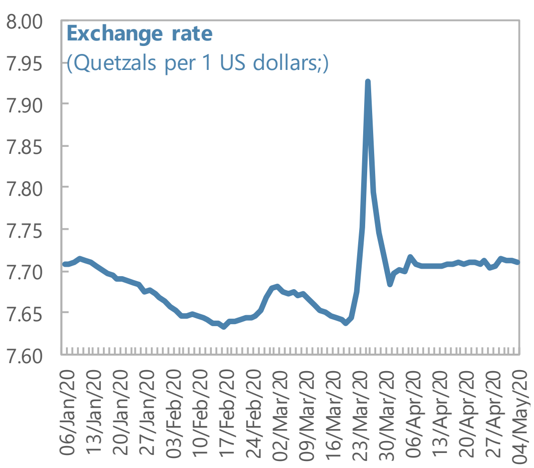
…and FX currency



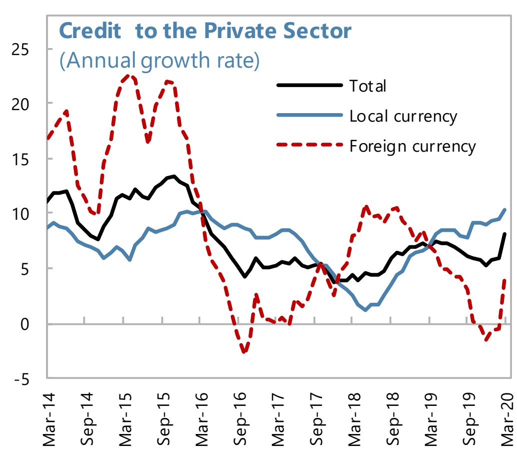
Intervention in the foreign exchange market…



…was also necessary to dampen excessive FX volatility



Easing monetary conditions are facilitating an expansion of credit



Sources: National authorities, WEO Database, and Fund staff estimates.

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					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Annual percent change, unless otherwise indicated)										
Income and Prices											
Real GDP	4.1	2.7	3.0	3.2	3.8	-2.0	4.0	3.7	3.6	3.5	3.5
Consumer prices (end of period)	3.1	4.2	5.7	2.3	3.4	2.1	3.1	3.9	4.1	4.1	4.1
Monetary Sector											
M2	9.4	6.6	8.4	9.4	9.6	2.6	3.9	6.9	6.6	6.7	6.7
Credit to the private sector	12.8	5.9	3.8	7.0	4.9	3.5	6.8	7.3	7.2	7.2	7.2
	(In percent of GDP, unless otherwise indicated)										
Saving and Investment											
Gross domestic investment	14.8	13.9	13.6	13.9	14.5	11.1	12.1	12.2	12.2	12.1	11.8
Private sector	13.3	12.9	12.6	12.5	12.4	9.0	10.3	10.4	10.5	10.5	10.3
Public sector	1.2	1.0	1.1	1.4	1.5	1.8	1.5	1.5	1.4	1.3	1.3
Gross national saving	13.6	14.8	14.7	14.7	16.9	10.6	12.1	12.0	11.7	11.3	10.8
Private sector	13.6	14.8	14.9	15.0	17.5	14.7	13.4	13.1	12.5	12.0	11.6
Public sector	0.0	0.1	-0.1	-0.3	-0.5	-4.0	-1.3	-1.1	-0.9	-0.7	-0.8
External saving	1.2	-1.0	-1.1	-0.8	-2.4	0.5	0.0	0.2	0.5	0.8	1.0
External Sector											
Current account balance	-1.2	1.0	1.1	0.8	2.4	-0.5	0.1	-0.1	-0.4	-0.7	-0.9
Trade balance (goods)	-10.4	-9.2	-9.5	-10.9	-10.4	-9.5	-10.6	-10.7	-10.9	-11.0	-11.0
Exports	14.6	13.6	13.5	13.2	13.0	11.7	12.1	11.9	11.6	11.3	10.9
Imports	25.0	22.8	23.0	24.1	23.4	21.3	22.7	22.6	22.6	22.3	21.9
Of which: oil & lubricants	3.5	3.1	3.5	4.0	3.8	2.3	2.5	2.7	2.8	2.9	3.0
Trade balance (services)	0.1	0.3	0.4	0.2	-0.1	-0.9	-0.8	-0.9	-0.9	-1.0	-1.0
Other (net)	9.0	9.8	10.2	11.5	12.9	10.0	11.4	11.5	11.4	11.2	11.0
Of which: remittances	10.1	10.8	11.4	12.7	13.7	11.1	12.4	12.7	12.9	12.9	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 (+))	-1.8	0.6	0.6	0.5	1.5	1.6	0.1	-0.1	-0.4	-0.7	-0.9
Of which: FDI, net	-1.7	-1.5	-1.3	-1.1	-1.1	-0.4	-1.1	-1.1	-1.1	-1.1	-1.1
Errors and omissions	-0.5	-0.4	-0.6	-0.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (Increase (+))	0.8	2.2	3.6	1.4	2.3	-0.6	0.0	0.0	0.0	0.0	0.0
BOP financing gap 2/	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
Net International Reserves											
(Stock in months of next-year NFGS imports)	4.7	5.1	6.0	6.5	8.7	7.5	7.1	6.8	6.4	6.1	6.1
(Stock over short-term debt on residual maturity)	1.4	1.5	1.8	1.9	2.3	2.7	2.0	2.1	2.0	1.9	1.9
Public Finances											
Central Government											
Revenues	11.1	11.4	11.4	11.3	11.3	10.5	11.0	11.4	11.7	11.8	11.9
Expenditures	12.6	12.6	12.8	13.2	13.5	16.5	14.1	14.1	14.1	14.1	14.0
Current	10.3	10.4	10.5	10.6	10.8	13.2	11.4	11.4	11.5	11.5	11.5
Capital	2.2	2.2	2.3	2.6	2.8	3.3	2.7	2.7	2.6	2.5	2.5
Overall balance	-1.5	-1.1	-1.4	-1.9	-2.2	-6.1	-3.1	-2.8	-2.4	-2.2	-2.0
Financing of the central government balance	1.5	1.1	1.4	1.9	2.2	6.1	3.1	2.8	2.4	2.2	2.0
Net external financing	0.8	0.8	0.2	0.1	1.2	-0.3	-0.1	0.1	0.5	0.3	0.4
Net domestic financing	0.7	0.3	1.2	1.8	1.1	2.6	3.2	2.7	1.9	1.9	1.6
Financing gap	0.0	0.0	0.0	0.0	0.0	3.8	0.0	0.0	0.0	0.0	0.0
Central Government Debt	24.8	24.9	25.1	26.5	26.6	32.5	33.7	34.4	35.0	35.1	35.0
External	11.9	11.9	11.3	11.5	11.8	14.8	14.0	13.3	13.2	12.7	12.3
Domestic 1/	12.9	13.0	13.7	15.0	14.8	17.7	19.7	21.1	21.8	22.4	22.7
Memorandum Items:											
GDP (US$ billions)	62.2	66.1	71.6	73.1	76.7	75.4	79.2	83.8	88.1	94.0	100.4
Output gap (% of GDP)	1.4	0.9	0.9	1.2	2.0	-2.9	-1.9	-1.2	-0.7	-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.

2/ Being the sum of current account deficit and total net financial account outflows.

Table 2. Guatemala: Statement of the Central Government Operations and Financial Balance

GFSM 2001 Classification

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
	(In millions of quetzales)										
Central government operations											
Revenue	**52,858**	**57,413**	**59,984**	**62,339**	**66,551**	**61,152**	**68,093**	**75,172**	**82,340**	**89,111**	**95,994**
Taxes	49,507	54,109	56,477	58,513	62,415	57,056	63,736	70,449	77,302	83,734	90,254
Other revenue	3,350	3,304	3,506	3,826	4,135	4,096	4,357	4,723	5,038	5,376	5,741
Expenditure	**59,865**	**63,076**	**67,271**	**72,708**	**79,833**	**96,548**	**87,440**	**93,583**	**99,454**	**105,802**	**112,240**
Expense	**57,829**	**61,800**	**65,183**	**68,825**	**74,868**	**89,800**	**82,597**	**88,407**	**94,356**	**100,964**	**107,154**
Compensation of employees	20,304	21,028	22,328	23,295	26,036	27,937	27,857	29,775	31,760	33,892	36,187
Use of goods and services	7,996	7,686	7,205	8,483	8,753	12,177	9,294	9,933	10,596	11,307	12,073
Interest	7,617	7,724	8,003	8,484	9,690	11,289	13,116	14,009	15,619	16,939	18,250
Other expense	21,913	25,361	27,647	28,564	30,390	38,397	32,331	34,689	36,381	38,826	40,644
Net acquisition of nonfinancial assets	**2,036**	**1,276**	**2,089**	**3,883**	**4,964**	**6,749**	**4,842**	**5,176**	**5,098**	**4,838**	**5,086**
Gross Operating Balance	**-4,971**	**-4,387**	**-5,199**	**-6,486**	**-8,317**	**-28,648**	**-14,504**	**-13,234**	**-12,016**	**-11,853**	**-11,160**
Net lending (+)/borrowing (–)	**-7,007**	**-5,663**	**-7,288**	**-10,369**	**-13,281**	**-35,396**	**-19,346**	**-18,410**	**-17,115**	**-16,691**	**-16,246**
Net acquisition of financial assets	**637**	**2,490**	**1,026**	**173**	**-1,502**	**-716**	**-1,719**	**-370**	**786**	**686**	**686**
Net incurrence of liabilities	**7,638**	**8,143**	**8,313**	**10,164**	**11,779**	**12,291**	**17,627**	**18,040**	**17,900**	**17,377**	**16,931**
Financing Gap	**0**	**0**	**0**	**0**	**0**	**22,390**	**0**	**0**	**0**	**0**	**0**
(in millions US dollars)	0	0	0	0	0	2,893	0	0	0	0	0
Financial Balance 1/											
Net financial worth 2/	**-91,869**	**-90,963**	**-91,864**	**-102,430**	**-114,723**	**-151,613**	**-172,177**	**-191,986**	**-210,630**	**-227,577**	**-244,633**
Financial assets	**26,201**	**34,231**	**40,164**	**43,207**	**42,276**	**38,428**	**36,254**	**35,693**	**36,343**	**36,792**	**36,691**
Domestic	**26,201**	**34,231**	**40,164**	**43,207**	**42,276**	**38,428**	**36,254**	**35,693**	**36,343**	**36,792**	**36,691**
Currency and deposits	26,201	34,231	40,164	43,207	42,276	38,428	36,254	35,693	36,343	36,792	36,691
Foreign	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net incurrence of liabilities	**118,070**	**125,194**	**132,029**	**145,637**	**156,999**	**190,041**	**208,430**	**227,679**	**246,973**	**264,368**	**281,324**
Domestic 3/	**61,460**	**65,382**	**72,346**	**82,387**	**87,222**	**103,491**	**121,867**	**139,566**	**153,785**	**168,644**	**182,173**
Foreign	**56,610**	**59,811**	**59,683**	**63,251**	**69,777**	**86,550**	**86,563**	**88,113**	**93,188**	**95,725**	**99,151**
Debt securities	13,204	18,279	21,520	22,669	31,796	41,466	41,816	42,377	47,048	51,084	55,119
Loans	43,406	41,533	38,163	40,581	37,981	45,084	44,748	45,736	46,140	44,641	44,033
	(In percent of GDP)										
Central Government Operations											
Revenue	**11.1**	**11.4**	**11.4**	**11.3**	**11.3**	**10.5**	**11.0**	**11.4**	**11.7**	**11.8**	**11.9**
Taxes	10.4	10.8	10.7	10.6	10.6	9.8	10.3	10.6	11.0	11.1	11.2
Other revenue	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure	**12.6**	**12.6**	**12.8**	**13.2**	**13.5**	**16.5**	**14.1**	**14.1**	**14.1**	**14.0**	**14.0**
Expense	**12.1**	**12.3**	**12.4**	**12.5**	**12.7**	**15.4**	**13.3**	**13.4**	**13.4**	**13.4**	**13.3**
Compensation of employees	4.3	4.2	4.2	4.2	4.4	4.8	4.5	4.5	4.5	4.5	4.5
Use of goods and services	1.7	1.5	1.4	1.5	1.5	2.1	1.5	1.5	1.5	1.5	1.5
Interest	1.6	1.5	1.5	1.5	1.6	1.9	2.1	2.1	2.2	2.2	2.3
Other expense	4.6	5.1	5.3	5.2	5.1	6.6	5.2	5.2	5.2	5.2	5.1
Net acquisition of nonfinancial assets	**0.4**	**0.3**	**0.4**	**0.7**	**0.8**	**1.2**	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**
Gross Operating Balance	**-1.0**	**-0.9**	**-1.0**	**-1.2**	**-1.4**	**-4.9**	**-2.3**	**-2.0**	**-1.7**	**-1.6**	**-1.4**
Net lending (+)/borrowing (–)	**-1.5**	**-1.1**	**-1.4**	**-1.9**	**-2.2**	**-6.1**	**-3.1**	**-2.8**	**-2.4**	**-2.2**	**-2.0**
Net acquisition of financial assets	**0.1**	**0.5**	**0.2**	**0.0**	**-0.3**	**-0.1**	**-0.3**	**-0.1**	**0.1**	**0.1**	**0.1**
Net incurrence of liabilities	**1.6**	**1.6**	**1.6**	**1.8**	**2.0**	**2.1**	**2.8**	**2.7**	**2.5**	**2.3**	**2.1**
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Balance 1/											
Net financial worth 2/	**-19.3**	**-18.1**	**-17.5**	**-18.6**	**-19.4**	**-26.0**	**-27.8**	**-29.0**	**-29.8**	**-30.2**	**-30.4**
Financial assets	**5.5**	**6.8**	**7.6**	**7.9**	**7.2**	**6.6**	**5.9**	**5.4**	**5.2**	**4.9**	**4.6**
Domestic	**5.5**	**6.8**	**7.6**	**7.9**	**7.2**	**6.6**	**5.9**	**5.4**	**5.2**	**4.9**	**4.6**
Currency and deposits	5.5	6.8	7.6	7.9	7.2	6.6	5.9	5.4	5.2	4.9	4.6
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	**24.8**	**24.9**	**25.1**	**26.5**	**26.6**	**32.5**	**33.7**	**34.4**	**35.0**	**35.1**	**35.0**
Domestic 3/	**12.9**	**13.0**	**13.7**	**15.0**	**14.8**	**17.7**	**19.7**	**21.1**	**21.8**	**22.4**	**22.7**
Foreign	**11.9**	**11.9**	**11.3**	**11.5**	**11.8**	**14.8**	**14.0**	**13.3**	**13.2**	**12.7**	**12.3**
Debt securities	2.8	3.6	4.1	4.1	5.4	7.1	6.8	6.4	6.7	6.8	6.9
Loans	9.1	8.3	7.3	7.4	6.4	7.7	7.2	6.9	6.5	5.9	5.5

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

					Projections						
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(In millions of U.S. dollars)										
Current account balance	**-774**	**637**	**804**	**595**	**1,854**	**-345**	**53**	**-84**	**-357**	**-663**	**-950**
Trade balance (goods)	-6,439	-6,077	-6,810	-7,996	-7,972	-7,204	-8,383	-9,002	-9,630	-10,338	-11,015
Exports, f.o.b.	9,085	8,973	9,651	9,644	9,978	8,831	9,611	9,935	10,258	10,604	10,960
Imports, f.o.b.	15,524	15,050	16,461	17,639	17,950	16,034	17,994	18,937	19,888	20,942	21,975
Of which : oil & lubricants	2,185	2,027	2,501	2,903	2,921	1,734	1,984	2,243	2,488	2,724	2,969
Net services	81	222	290	167	-47	-685	-628	-713	-799	-899	-992
Net income	-1,486	-1,425	-1,501	-1,520	-1,275	-1,489	-1,415	-1,719	-2,062	-2,339	-2,640
Net transfers	7,071	7,917	8,824	9,943	11,148	9,032	10,479	11,349	12,135	12,913	13,696
Of which: remittances	6,267	7,144	8,168	9,272	10,494	8,395	9,805	10,636	11,385	12,113	12,842
Capital account balance	2	0	0	1	0	0	0	0	0	0	0
Financial account balance ("-": inflows)	**-1,112**	**366**	**406**	**391**	**1,170**	**1,171**	**53**	**-84**	**-357**	**-663**	**-950**
Foreign direct investment	-1,048	-965	-934	-791	-817	-338	-909	-961	-1,011	-1,079	-1,152
Net acquisition of financial assets	155	-119	64	145	149	147	154	163	172	183	196
Net incurrence of liabilities	1,203	846	998	936	967	485	1,063	1,124	1,183	1,262	1,347
Portfolio investment	-34	-610	-804	19	-1,081	-1,197	3	3	-497	-497	-497
Net acquisition of financial assets	-12	8	-6	-30	3	3	3	3	3	3	3
Net incurrence of liabilities	22	619	798	-49	1,085	1,200	0	0	500	500	500
Of which: government bonds	9	622	465	-50	1,084	1,200	0	0	500	500	500
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
Other investment	-536	518	-457	176	1,270	2,706	959	874	1,151	913	699
Change in reserve assets ("+": increase)	505	1,424	2,600	988	1,798	-443	0	0	0	0	0
Errors and omissions	**-340**	**-271**	**-398**	**-204**	**-684**	**0**	**0**	**0**	**0**	**0**	**0**
BOP financing gap 1/	**0**	**0**	**0**	**0**	**0**	**1,517**	**0**	**0**	**0**	**0**	**0**
Prospective RFI						585					
Other multilaterals						489					
Reserve drawdowns (as above)						443					
	(In percent of GDP)										
Current account balance	**-1.2**	**1.0**	**1.1**	**0.8**	**2.4**	**-0.5**	**0.1**	**-0.1**	**-0.4**	**-0.7**	**-0.9**
Trade balance (goods)	-10.4	-9.2	-9.5	-10.9	-10.4	-9.5	-10.6	-10.7	-10.9	-11.0	-11.0
Exports, f.o.b.	14.6	13.6	13.5	13.2	13.0	11.7	12.1	11.9	11.6	11.3	10.9
Imports, f.o.b.	25.0	22.8	23.0	24.1	23.4	21.3	22.7	22.6	22.6	22.3	21.9
Of which : oil & lubricants	3.5	3.1	3.5	4.0	3.8	2.3	2.5	2.7	2.8	2.9	3.0
Net services	0.1	0.3	0.4	0.2	-0.1	-0.9	-0.8	-0.9	-0.9	-1.0	-1.0
Net income	-2.4	-2.2	-2.1	-2.1	-1.7	-2.0	-1.8	-2.1	-2.3	-2.5	-2.6
Net transfers	11.4	12.0	12.3	13.6	14.5	12.0	13.2	13.5	13.8	13.7	13.6
Of which: remittances	10.1	10.8	11.4	12.7	13.7	11.1	12.4	12.7	12.9	12.9	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 ("-": inflows)	**-1.8**	**0.6**	**0.6**	**0.5**	**1.5**	**1.6**	**0.1**	**-0.1**	**-0.4**	**-0.7**	**-0.9**
Foreign direct investment	-1.7	-1.5	-1.3	-1.1	-1.1	-0.4	-1.1	-1.1	-1.1	-1.1	-1.1
Net acquisition of financial assets	0.2	-0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net incurrence of liabilities	1.9	1.3	1.4	1.3	1.3	0.6	1.3	1.3	1.3	1.3	1.3
Portfolio investment	-0.1	-0.9	-1.1	0.0	-1.4	-1.6	0.0	0.0	-0.6	-0.5	-0.5
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	0.0
Net incurrence of liabilities	0.0	0.9	1.1	-0.1	1.4	1.6	0.0	0.0	0.6	0.5	0.5
Of which: government bonds	0.0	0.9	0.6	-0.1	1.4	1.6	0.0	0.0	0.6	0.5	0.5
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-0.9	0.8	-0.6	0.2	1.7	3.6	1.2	1.0	1.3	1.0	0.7
Change in reserve assets ("+": increase)	0.8	2.2	3.6	1.4	2.3	-0.6	0.0	0.0	0.0	0.0	0.0
Errors and omissions	**-0.5**	**-0.4**	**-0.6**	**-0.3**	**-0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
BOP financing gap 1/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Prospective RFI						0.8					
Other multilaterals						0.6					
Reserve drawdowns (as above)						0.6					
Memorandum items:											
Value of exports, f.o.b. (percentage change)	-3.1	-1.2	7.6	-0.1	3.5	-11.5	8.8	3.4	3.3	3.4	3.4
Value of imports, f.o.b. (percentage change)	-3.9	-3.1	9.4	7.2	1.8	-10.7	12.2	5.2	5.0	5.3	4.9
Remittances (percentage change)	13.4	14.0	14.3	13.5	13.2	-20.0	16.8	8.5	7.0	6.4	6.0
Stock of NIR (in millions of U.S. dollars) 2/	7,077	8,321	10,578	11,617	13,769	13,326	13,326	13,326	13,326	13,326	13,326
NIR in months of next-year NFGS imports	4.7	5.1	6.0	6.5	8.7	7.5	7.1	6.8	6.4	6.1	6.1
NIR in ARA metric under stablized regime (percent)	82.8	92.7	108.4	118.8	137.6	143.8	131.1	126.0	119.7	113.8	108.1
NIR over short-term debt on residual maturity	1.4	1.5	1.8	1.9	2.3	2.7	2.0	2.1	2.0	1.9	1.9
Nominal GDP (in billions of U.S. dollars)	62.2	66.1	71.6	73.1	76.7	75.4	79.2	83.8	88.1	94.0	100.4

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

1/ Being the sum of current account deficit and total net financial account outflows.

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

Table 4. Guatemala: Monetary Sector Survey

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
ank of Guatemala (BOG)					(In millions of Quetzals)						
Net international reserves 1/	**54,155**	**62,816**	**77,679**	**89,817**	**106,007**	**103,992**	**105,257**	**106,688**	**108,316**	**108,316**	**108,316**
(In millions of U.S. dollars) 1/	7,077	8,321	10,578	11,617	13,769	13,326	13,326	13,326	13,326	13,326	13,326
Net domestic assets	**-27,007**	**-33,418**	**-44,084**	**-51,794**	**-61,992**	**-54,250**	**-52,624**	**-50,570**	**-48,652**	**-44,844**	**-40,760**
Net claims on nonfinancial public sector	-9,500	-15,290	-20,996	-26,794	-24,814	-10,584	-8,181	-7,529	-8,122	-8,451	-7,971
Central government (CG) 2/	-3,274	-6,697	-9,532	-10,633	-8,489	5,850	7,569	7,939	7,153	6,468	5,782
Rest of nonfinancial public sector	-6,225	-8,593	-11,464	-16,160	-16,324	-16,433	-15,749	-15,468	-15,275	-14,919	-13,753
Bank of Guatemala losses	22,285	23,586	25,022	25,711	26,910	28,109	29,308	30,507	31,706	32,905	34,104
Net credit to banks	-27,419	-33,180	-37,082	-38,550	-39,793	-41,191	-42,712	-44,291	-45,736	-47,198	-48,665
Of which: legal reserves	-29,478	-35,239	-39,140	-40,608	-41,851	-43,249	-44,770	-46,349	-47,794	-49,257	-50,723
Open market operations 1/ 3/	-17,642	-15,991	-22,745	-19,239	-24,446	-35,458	-36,067	-34,118	-31,164	-28,391	-24,520
Other assets (net)	5,269	7,457	11,717	7,078	150	4,873	5,026	4,861	4,664	6,292	6,292
Currency in circulation	**27,148**	**29,398**	**33,595**	**38,023**	**44,016**	**49,741**	**52,633**	**56,118**	**59,664**	**63,472**	**67,556**
anking Sector											
Net foreign position	**-32,991**	**-34,924**	**-37,419**	**-36,272**	**-35,417**	**-41,199**	**-43,353**	**-45,274**	**-47,289**	**-48,817**	**-50,360**
(in millions of U.S. Dollars)	-4,311	-4,626	-5,095	-4,691	-4,600	-5,279	-5,489	-5,655	-5,818	-6,006	-6,196
Net claims on Bank of Guatemala	**42,519**	**46,960**	**56,235**	**58,668**	**60,793**	**72,020**	**74,070**	**73,955**	**72,832**	**71,885**	**69,986**
Legal reserves	29,478	35,239	39,140	40,608	41,851	43,249	44,770	46,349	47,794	49,257	50,723
BOG securities	15,093	13,773	19,146	20,111	20,993	30,822	31,351	29,657	27,089	24,679	21,314
Liabilities to BOG	-2,052	-2,052	-2,051	-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**	**237,162**	**234,702**	**245,287**	**266,507**	**289,108**	**312,540**	**338,362**
Net credit to the NFPS	8,943	8,653	10,331	19,189	23,673	31,704	41,243	50,125	57,154	64,728	72,156
Net credit to Central Government	8,943	8,653	10,331	19,189	23,673	31,704	41,243	50,125	57,154	64,728	72,156
Net credit to the rest of NFPS	0	0	0	0	0	0	0	0	0	0	0
Official capital and reserves	-5,464	-5,943	-6,283	-6,732	-7,802	-8,291	-8,883	-9,480	-10,039	-10,639	-11,237
Credit to the private sector	172,036	182,199	189,043	202,221	212,195	219,622	234,556	251,679	269,800	289,225	310,049
Other items net	10,057	9,368	10,355	4,747	9,096	-8,333	-21,628	-25,817	-27,806	-30,774	-32,605
Medium- and long-term foreign liabilities	**2,743**	**1,673**	**1,591**	**1,657**	**1,919**	**1,863**	**1,978**	**2,116**	**2,257**	**2,409**	**2,573**
Liabilities to private sector	**192,357**	**204,639**	**220,671**	**240,164**	**260,619**	**263,660**	**274,026**	**293,072**	**312,394**	**333,198**	**355,416**
Demand deposits	64,081	67,722	71,601	75,347	81,343	84,730	86,882	92,947	99,154	105,840	113,032
Time and savings deposits	106,776	114,270	123,583	137,747	150,000	147,978	154,008	164,757	175,759	187,611	200,360
Securities	2,903	2,743	3,272	2,670	2,770	2,784	2,955	3,161	3,372	3,599	3,844
Capital and reserves (private banks)	18,597	19,904	22,215	24,400	26,506	28,168	30,181	32,207	34,109	36,148	38,179
onetary Survey											
Net foreign assets	**21,164**	**27,892**	**40,260**	**53,545**	**70,590**	**62,793**	**61,904**	**61,414**	**61,027**	**59,499**	**57,956**
(In millions of U.S. dollars)	2,766	3,695	5,482	6,925	9,169	8,047	7,837	7,671	7,508	7,320	7,130
Net domestic assets	**201,084**	**207,818**	**215,597**	**226,298**	**235,963**	**252,472**	**266,732**	**289,892**	**313,288**	**339,581**	**367,588**
Net claims on nonfinancial public sector	-557	-6,637	-10,665	-7,605	-1,141	21,120	33,062	42,596	49,032	56,277	64,185
Central government	5,668	1,956	798	8,556	15,183	37,553	48,812	58,064	64,308	71,196	77,938
Of which: deposits	-26,201	-34,231	-40,164	-43,207	-42,334	-39,067	-36,892	-36,335	-36,992	-37,439	-37,348
Rest of nonfinancial public sector	-6,225	-8,593	-11,464	-16,160	-16,324	-16,433	-15,749	-15,468	-15,275	-14,919	-13,753
Bank of Guatemala losses	22,285	23,586	25,022	25,711	26,910	28,109	29,308	30,507	31,706	32,905	34,104
Credit to private sector	172,043	182,206	189,050	202,228	212,202	219,629	234,563	251,686	269,807	289,232	310,056
Other assets (net)	7,312	8,663	12,191	5,964	-2,008	-16,386	-30,201	-34,897	-37,257	-38,834	-40,757
Medium- and long-term foreign liabilities	**2,743**	**1,673**	**1,591**	**1,657**	**1,919**	**1,863**	**1,978**	**2,116**	**2,257**	**2,409**	**2,573**
Liabilities to the private sector	**219,505**	**234,037**	**254,266**	**278,187**	**304,635**	**313,402**	**326,659**	**349,190**	**372,058**	**396,670**	**422,971**
of which: Money	91,229	97,119	105,196	113,370	125,358	134,472	139,515	149,065	158,818	169,312	180,588
of which: Quasi-money	109,679	117,013	126,855	140,417	152,770	150,762	156,962	167,918	179,132	191,211	204,204
emorandum items:					**Percent change**						
Currency in circulation	12.5	8.3	14.3	13.2	15.8	13.0	5.8	6.6	6.3	6.4	6.4
M2	9.4	6.6	8.4	9.4	9.6	2.6	3.9	6.9	6.6	6.7	6.7
Net credit of the banking sector to the NFPS	-11.9	-3.2	19.4	85.7	23.4	33.9	30.1	21.5	14.0	13.3	11.5
Credit to private sector	12.8	5.9	3.8	7.0	4.9	3.5	6.8	7.3	7.2	7.2	7.2
Domestic currency	10.1	7.8	4.4	6.1	8.5	5.1	8.4	8.9	8.8	8.8	8.8
Foreign currency	18.0	2.7	2.6	8.7	-1.5	0.3	3.4	3.8	3.5	3.4	3.3
					In percent of GDP						
Currency in circulation	5.7	5.9	6.4	6.9	7.5	8.7	8.6	8.6	8.6	8.6	8.5
M2	42.2	42.7	44.1	46.2	47.1	49.7	48.7	48.7	48.7	48.6	48.6
Net credit of the banking sector to the NFPS	1.9	1.7	2.0	3.5	4.0	5.5	6.8	7.7	8.2	8.7	9.1
Credit to private sector	37.7	37.9	37.5	38.2	37.3	39.8	40.0	40.1	40.3	40.5	40.7
Credit to private sector (CmB)	36.1	36.3	35.9	36.8	35.9	38.3	38.5	38.7	38.8	39.0	39.2
Domestic currency	22.9	23.4	23.3	23.7	23.9	25.9	26.4	26.9	27.5	28.0	28.5
Foreign currency	13.2	12.9	12.6	13.1	12.0	12.4	12.1	11.7	11.4	11.0	10.7
					In percent of bank liabilities to the private sector						
Banks' liquid assets	39.7	41.6	45.0	46.8	46.2	53.0	55.0	54.4	52.9	51.5	49.6
Demand deposits	33.3	33.1	32.4	31.4	31.2	32.1	31.7	31.7	31.7	31.8	31.8
Time and savings deposits	55.5	55.8	56.0	57.4	57.6	56.1	56.2	56.2	56.3	56.3	56.4
Capital and reserves (private banks)	9.7	9.7	10.1	10.2	10.2	10.7	11.0	11.0	10.9	10.8	10.7

Sources: Bank of Guatemala; and Fund staff estimates.

1/ Program definition which includes foreign currency liabilities of the central bank to financial institutions.

2/ For 2020, includes GTQ 11 billion for Banguat's direct purchase of government bonds amounting to 6.5 percent of total assets as of March 2020. The receipts will be directed to emergency-related spending totaling 1.9 percent of 2020 GDP, according to Decree 13-2020.

3/ Includes open market operations for sterilization of Banguat's purchase of government bonds.

Table 5. Guatemala: Financial Soundness Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
On-shore banks											
Reserves as a percentage of Deposits, in NC	14.7	14.6	14.6	14.5	14.5	14.6	14.5	14.8	15.0	14.9	14.9
Reserves as a percentage of Deposits, in FC	18.2	18.6	16.2	16.8	20.8	17.1	15.9	16.7	16.3	16.2	15.9
Short-term liquidity	21.6	20.3	21.6	21.6	21.9	20.7	18.9	20.5	21.2	20.6	19.0
Liquid asset to total asset ratio	28.2	28.4	29.0	27.5	28.1	28.8	26.9	27.7	28.4	29.6	29.3
Liquidity ratio	23.7	24.5	24.2	23.6	24.5	25.5	24.5	25.1	25.7	27.0	27.1
Regulatory capital to risk-weighted assets	15.4	15.2	15.3	14.7	14.8	14.6	14.1	13.8	14.7	14.8	15.5
Nonperforming loans to total gross loans	2.7	2.1	1.6	1.3	1.2	1.3	1.4	2.1	2.3	2.2	2.2
Provisions to non-performing loans	89.3	115.3	126.2	143.4	157.6	151.9	138.4	120.4	119.6	123.4	135.9
Cash to total deposits	21.6	20.3	21.6	21.6	21.9	20.7	18.9	20.5	21.2	20.6	19.0
Return on assets	1.7	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.7	1.6	1.7
Return on equity	15.7	16.3	18.5	17.2	16.0	16.6	16.3	16.9	17.8	16.7	17.9
Foreign currency-denominated loans to total loans	31.0	30.2	34.0	35.2	36.7	38.5	39.9	39.0	38.6	39.2	36.8
Foreign currency-denominated liabilities to total liabilities	23.9	24.6	27.5	28.6	30.3	31.1	30.8	29.8	29.1	29.5	27.7
Off-shore banks											
Statutory capital to risk-weighted assets	18.1	18.5	16.2	16.8	15.8	15.6	14.5	14.8	15.3	15.2	17.4
Nonperforming loans to total gross loans	2.3	2.1	1.7	1.2	0.8	0.9	1.2	1.2	1.7	2.1	2.2
Provisions to non-performing loans	75.4	110.7	143.0	172.4	229.4	178.4	148.8	138.3	114.9	116.8	135.9
Return on assets	1.4	1.4	1.8	1.8	1.4	1.5	1.2	1.5	1.6	1.4	1.7
Return on equity	12.8	12.6	16.0	15.6	12.8	13.8	12.0	14.9	15.3	16.9	17.9
Total assets off-shore banks to total assets on-shore banks	16.5	14.3	12.7	12.2	11.7	10.7	9.6	9.1	8.0	7.8	7.0

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

Table 6. Guatemala: Indicators of Fund Credit, 2020-25
(in millions of SDRs, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Existing and Prospective drawings (RFI)	428.6					
(in percent of quota)	100					
	(Projected Debt Service to the Fund based on Existing and Prospective Drawings					
Amortization	0.0	0.0	0.0	107.2	214.3	107.2
GRA Charges	1.8	4.5	4.5	4.4	2.8	0.6
GRA Service Charge	2.1	0.0	0.0	0.0	0.0	0.0
SDR Assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR Charges	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service	**3.9**	**4.5**	**4.5**	**111.6**	**217.1**	**107.8**
(in percent of exports of G&S)	0.0	0.0	0.0	1.1	2.2	1.0
(in percent of GDP)	0.0	0.0	0.0	0.2	0.3	0.1
(in percent of GIR)	0.0	0.0	0.0	1.1	2.2	1.1
	(Projected Level of Credit based on Existing and Prospective Drawings)					
Outstanding Stock	**428.6**	**428.6**	**428.6**	**321.4**	**107.2**	**0.0**
(in percent of quota)	100.0	100.0	100.0	75.0	25.0	0.0
(in percent of GDP)	0.8	0.7	0.7	0.5	0.2	0.0
(in percent of GIR)	4.4	4.4	4.4	3.3	1.1	0.0
Memorandum items:						
Exports of goods and services (US$ mn)	11087	12388	12806	13222	13668	14127
GDP (US$ bn)	75.4	80.1	85.0	89.4	95.4	101.9
US$/SDR exchange rate	1.3594	1.3594	1.3594	1.3594	1.3594	1.3594
Gross International Reserves (US $mn)	13326	13326	13326	13326	13326	13326
Quota	428.6	428.6	428.6	428.6	428.6	428.6

Source: IMF Staff estimates.

Table 7. Guatemala: Gross External Financing Requirements and Sources

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections					
					(In millions of U.S. dollars)						
Gross financing needs [A]	**5,849**	**4,527**	**4,591**	**5,277**	**4,162**	**6,304**	**4,974**	**6,641**	**6,664**	**7,480**	**7,997**
Current account deficit	774	-637	-804	-595	-1,854	345	-53	84	357	663	950
Public debt amortization	340	343	445	335	376	418	385	1,078	522	708	597
Private debt amortization	4,735	4,822	4,950	5,538	5,640	5,540	4,642	5,478	5,785	6,108	6,450
Gross Financing Sources [B]	**6,354**	**5,951**	**7,191**	**6,265**	**5,961**	**4,344**	**4,974**	**6,641**	**6,664**	**7,480**	**7,997**
Foreign direct investment (net)	1,048	965	934	791	817	338	909	961	1,011	1,079	1,152
Public sector debt disbursements	815	874	605	395	1,292	1,991	783	1,127	987	1,023	1,022
Private sector debt disbursements 1/	4,918	5,388	6,439	4,949	5,344	2,455	7,308	6,318	6,658	7,068	7,467
Other capital flows (net)	-427	-1,276	-787	130	-1,492	-440	-4,026	-1,765	-1,992	-1,690	-1,643
Accumulation of reserves [C]	505	1,424	2,600	988	1,798	-443	0	0	0	0	0
Financing gap [A+C-B]	**0**	**0**	**0**	**0**	**0**	**1,517**	**0**	**0**	**0**	**0**	**0**
					(In percent of GDP)						
Gross financing needs [A]	**9.4**	**6.9**	**6.4**	**7.2**	**5.4**	**8.4**	**6.3**	**7.9**	**7.6**	**8.0**	**8.0**
Current account deficit	1.2	-1.0	-1.1	-0.8	-2.4	0.5	-0.1	0.1	0.4	0.7	0.9
Public debt amortization	0.5	0.5	0.6	0.5	0.5	0.6	0.5	1.3	0.6	0.8	0.6
Private debt amortization	7.6	7.3	6.9	7.6	7.4	7.3	5.9	6.5	6.6	6.5	6.4
Gross Financing Sources [B]	**10.2**	**9.0**	**10.0**	**8.6**	**7.8**	**5.8**	**6.3**	**7.9**	**7.6**	**8.0**	**8.0**
Foreign direct investment (net)	1.7	1.5	1.3	1.1	1.1	0.4	1.1	1.1	1.1	1.1	1.1
Public sector debt disbursements	1.3	1.3	0.8	0.5	1.7	2.6	1.0	1.3	1.1	1.1	1.0
Private sector debt disbursements 1/	7.9	8.2	9.0	6.8	7.0	3.3	9.2	7.5	7.6	7.5	7.4
Other capital flows (net)	-0.7	-1.9	-1.1	0.2	-1.9	-0.6	-5.1	-2.1	-2.3	-1.8	-1.6
Accumulation of reserves [C]	0.8	2.2	3.6	1.4	2.3	-0.6	0.0	0.0	0.0	0.0	0.0
Financing gap [A+C-B]	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Nominal GDP (in billions of U.S. dollars)	62.2	66.1	71.6	73.1	76.7	75.4	79.2	83.8	88.1	94.0	100.4

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

1/ Includes intercompany lending of FDI companies

Annex I. Public Debt Sustainability Analysis

Bottom line: Debt is sustainable

Baseline

The debt of the central government is expected to remain sustainable. In 2020, debt to GDP ratio is projected to increase from 26.6 to 32.5 percent, as a result of increased spending, loss of tax revenues and negative economic growth. As the economic fallout of the pandemic wanes and the fiscal impulse is withdrawn, debt is expected to stabilize around 35 percent of GDP. After increasing to 7.6 percent of GDP in 2020, gross financing needs will remain below 5 percent of GDP during 2021-25. External debt will remain around 40 percent of total debt.	Prudent economic policies and low indebtedness have proved attractive to investors. However, these strengths are offset by a narrow tax base that limits productive spending and debt carrying capacity. Risks to the baseline stem from longer than expected supply disruptions and depressed remittances.

Stress Tests

Public debt is resilient to short term shocks as debt to GDP ratios remain below 40 percent in all standardized (primary balance, real GDP growth, exchange rate and interest rate shocks) macro-fiscal stress tests.	The sustainability of public finances was also assessed under two severe alternative scenarios (WEO alternative scenarios). The first one assumes that the measures to contain the spread of the virus last longer than in the baseline. The second one assumes a new outbreak in 2021. In both scenarios, a 20 percent exchange rate depreciation is considered in 2020. Even under these stringent scenarios, debt stabilizes below 50 percent of GDP, while gross financing needs stabilize below 5 percent of GDP.

Assumptions

The COVID-19 pandemic is expected to reduce Guatemala's real GDP growth rate to -2.0 percent in 2020, from the earlier IMF staff projection of 3.6 percent. In 2021, growth is projected to rebound to 4 percent.	The baseline growth and fiscal projections are in line with the WEO assumptions. The authorities are broadly aligned with staff's macroeconomic framework.

Coverage and Contingent Liabilities

The public debt sustainability analysis considers a restricted coverage of the public sector at the central government level due to data availability. The rest of non-financial public sector has presented a cash surplus in recent years (mainly coming from the social security system). In 2019, the NFPS posted a deficit of 1.8 percent of GDP (-2.3% of GDP for the Central Government).

Figure AI. 1. Guatemala: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

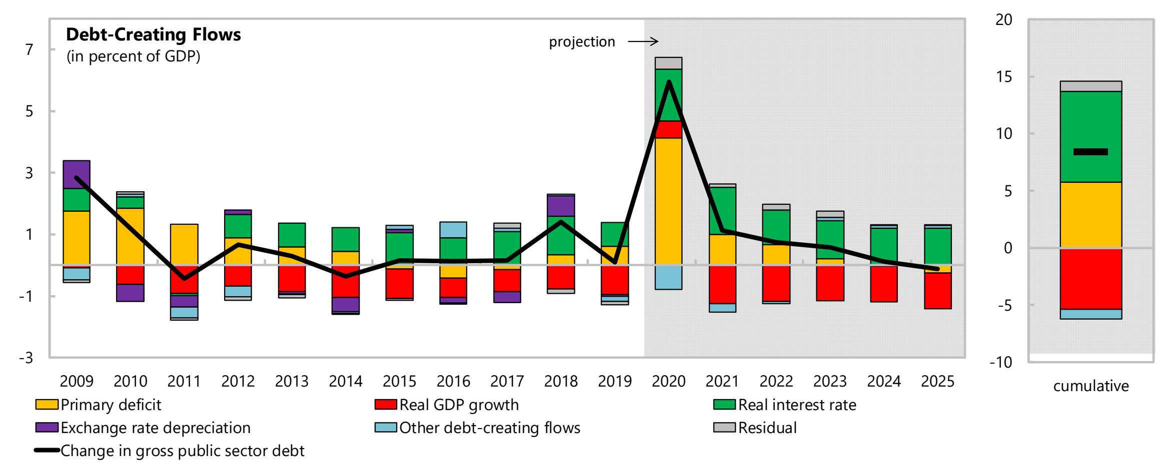
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of April 30, 2020		
	2009-2017 2/	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	24.6	26.5	26.6	32.5	33.7	34.4	35.0	35.1	35.0	EMBIG (bp) 3/	444	
Public gross financing needs	3.5	2.9	3.5	7.6	4.5	4.1	3.5	3.8	3.4	5Y CDS (bp)	N/A	
Real GDP growth (in percent)	3.2	3.2	3.8	-2.0	4.0	3.7	3.6	3.5	3.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.5	1.2	3.4	1.0	1.9	3.0	3.0	3.1	3.1	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	6.8	4.5	7.4	-1.1	6.0	6.9	6.7	6.7	6.8	S&Ps	BB-	BB-
Effective interest rate (in percent) 4/	6.8	6.4	6.7	7.2	6.9	6.7	6.9	6.9	6.9	Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	0.5	1.4	0.1	6.0	1.1	0.7	0.6	0.1	-0.1	8.4	0.1
Identified debt-creating flows	0.5	1.5	0.2	5.6	1.0	0.6	0.4	0.1	-0.1	7.5	
Primary deficit	0.7	0.3	0.6	4.1	1.0	0.7	0.2	0.0	-0.2	5.7	
Primary (noninterest) revenue and grants	11.5	11.3	11.3	10.5	11.0	11.4	11.7	11.8	11.9	68.3	
Primary (noninterest) expenditure	12.2	11.7	11.9	14.6	12.0	12.0	11.9	11.8	11.7	74.0	
Automatic debt dynamics 5/	-0.1	1.1	-0.2	2.2	0.3	-0.1	0.1	0.0	0.0	2.6	
Interest rate/growth differential 6/	0.0	0.5	-0.2	2.2	0.3	-0.1	0.1	0.0	0.0	2.6	
Of which: real interest rate	0.7	1.2	0.8	1.7	1.5	1.1	1.2	1.2	1.2	8.0	
Of which: real GDP growth	-0.7	-0.8	-0.9	0.5	-1.2	-1.2	-1.2	-1.2	-1.2	-5.4	
Exchange rate depreciation 7/	-0.1	0.7	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.1	-0.2	-0.8	-0.3	-0.1	0.1	0.1	0.1	-0.8	
Use of deposits	0.0	0.1	-0.2	-0.7	-0.3	-0.1	0.1	0.1	0.1	-0.7	
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	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
Residual, including asset changes 8/	0.0	-0.1	-0.1	0.4	0.1	0.2	0.2	0.0	0.0	0.9	



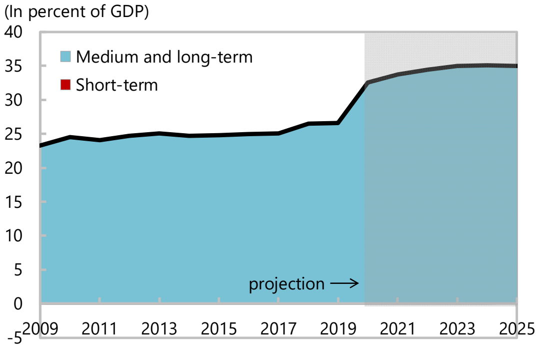
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, 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 AI. 2. Guatemala: Public DSA — Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

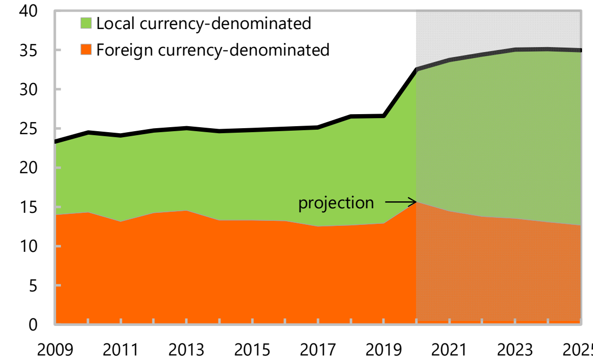
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

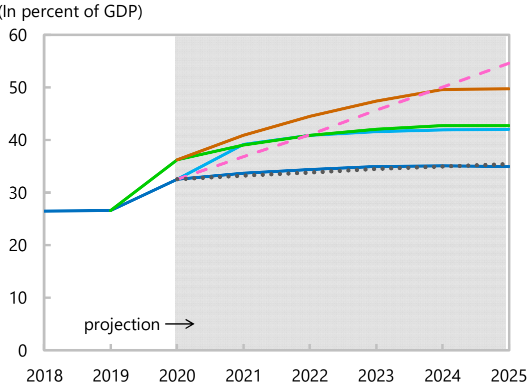


Alternative Scenarios

Baseline
Historical
Constant Primary Balance
Contingent Liability Shock
Longer Outbreak 2020
Longer Outbreak 2020 and new 2021

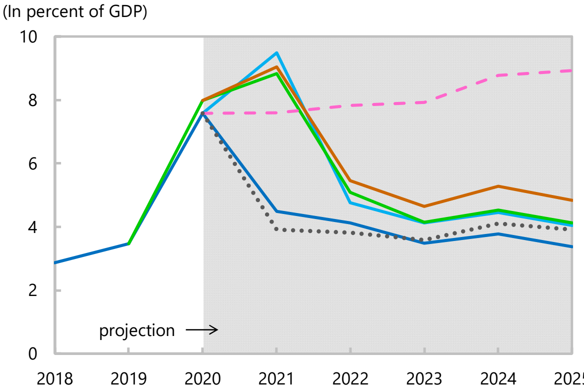
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

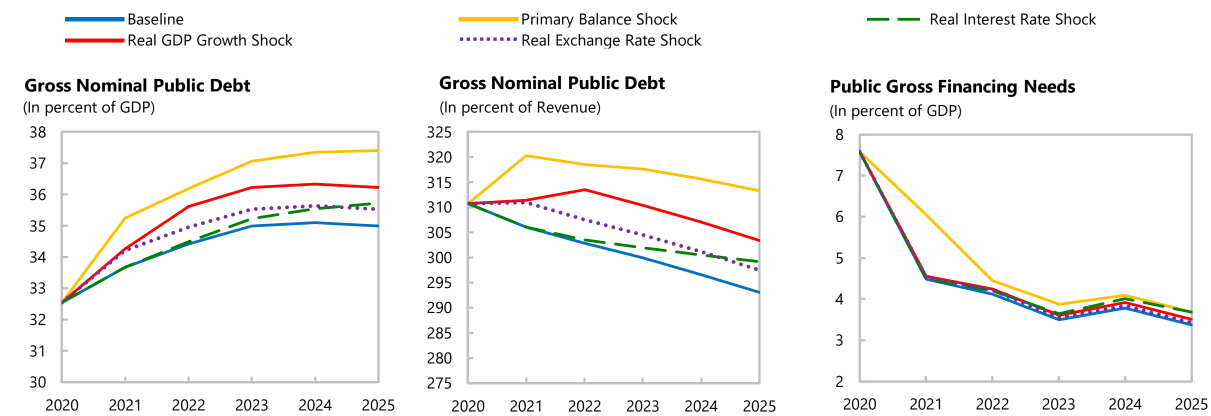
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.0	4.0	3.7	3.6	3.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary Balance	-4.1	-1.0	-0.7	-0.2	0.0	0.2
Effective interest rate	7.2	6.9	6.7	6.9	6.9	6.9
Constant Primary Balance Scenario						
Real GDP growth	-2.0	4.0	3.7	3.6	3.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary Balance	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	7.2	6.9	6.9	7.1	7.2	7.3
Longer Outbreak 2020						
Real GDP growth	-4.9	2.1	2.3	2.4	2.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary Balance	-4.1	-5.2	-1.1	-0.2	0.0	0.2
Effective interest rate	7.2	6.3	7.0	7.2	7.2	7.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.0	3.5	3.5	3.5	3.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary Balance	-4.1	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	7.2	6.9	6.6	6.6	6.5	6.5
Contingent Liability Shock						
Real GDP growth	-2.0	2.6	2.3	3.6	3.5	3.5
Inflation	1.0	1.5	2.7	3.0	3.1	3.1
Primary Balance	-4.1	-5.6	-0.7	-0.2	0.0	0.2
Effective interest rate	7.2	8.0	7.2	7.3	7.3	7.3
Longer Outbreak 2020 and new 2021						
Real GDP growth	-4.9	-3.3	-1.8	-0.9	-0.6	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary Balance	-4.1	-5.2	-1.1	-0.2	0.0	0.2
Effective interest rate	7.2	6.3	7.0	7.2	7.2	7.2

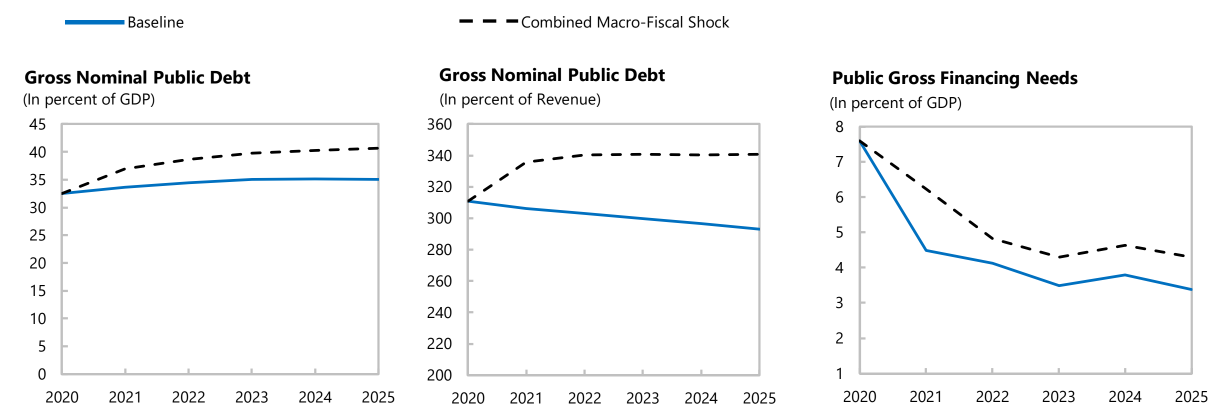
Source: IMF staff.

Figure AI. 3. Guatemala: Public DSA — Stress

Macro-Fiscal Stress Tests



Additional Stress Tests



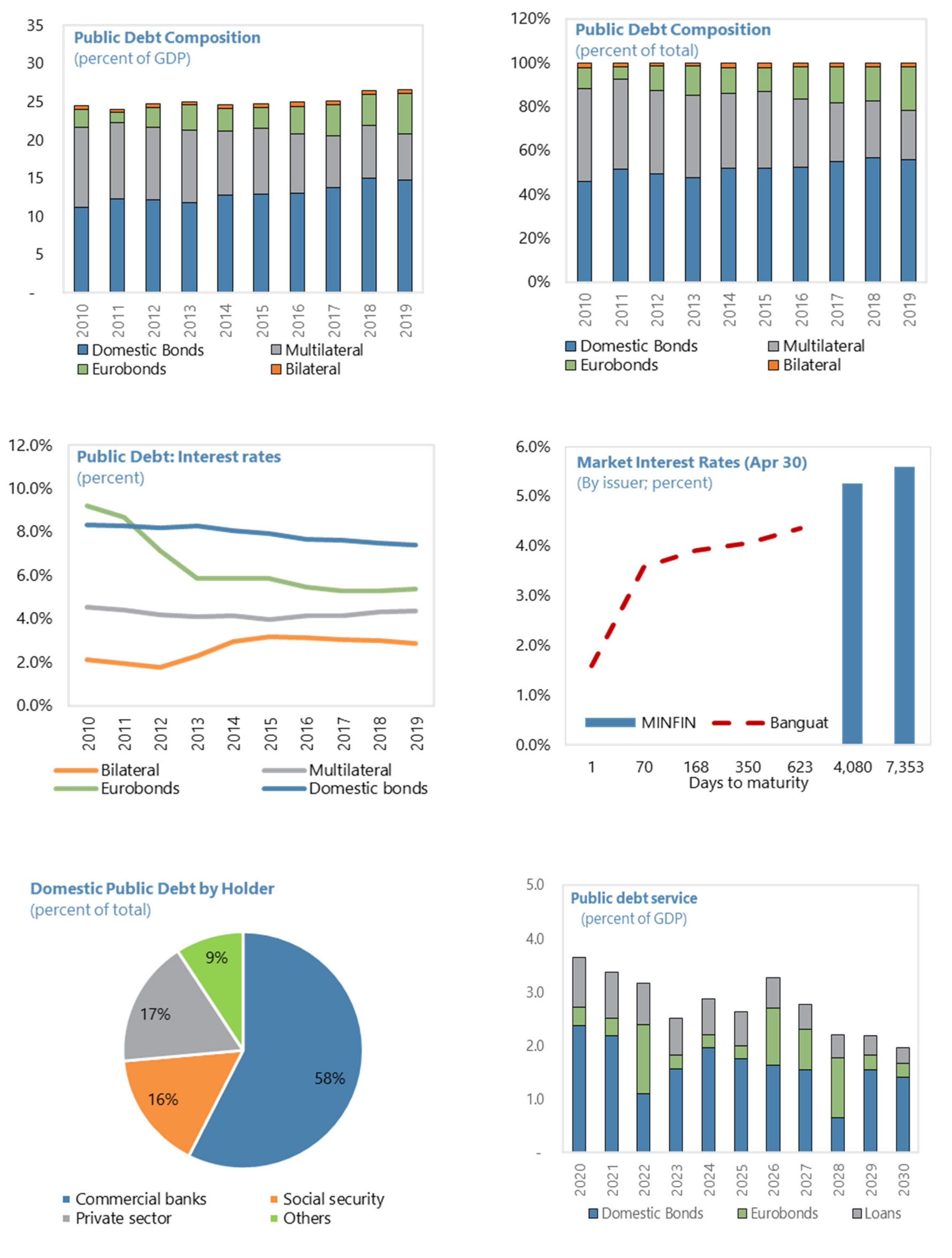
Underlying Assumptions
(In percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-2.0	4.0	3.7	3.6	3.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary balance	-4.1	-2.6	-0.8	-0.4	-0.1	0.1
Effective interest rate	7.2	6.9	6.9	7.0	7.0	7.1
Real Interest Rate Shock						
Real GDP growth	-2.0	4.0	3.7	3.6	3.5	3.5
Inflation	1.0	1.9	3.0	3.0	3.1	3.1
Primary balance	-4.1	-1.0	-0.7	-0.2	0.0	0.2
Effective interest rate	7.2	6.9	7.0	7.3	7.5	7.8
Combined Shock						
Real GDP growth	-2.0	2.6	2.3	3.6	3.5	3.5
Inflation	1.0	1.5	2.7	3.0	3.1	3.1
Primary balance	-4.1	-2.6	-0.8	-0.4	-0.1	0.1
Effective interest rate	7.2	7.1	7.1	7.5	7.7	7.9

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-2.0	2.6	2.3	3.6	3.5	3.5
Inflation	1.0	1.5	2.7	3.0	3.1	3.1
Primary balance	-4.1	-1.0	-0.7	-0.2	0.0	0.2
Effective interest rate	7.2	6.9	6.7	6.9	6.9	6.9
Real Exchange Rate Shock						
Real GDP growth	-2.0	4.0	3.7	3.6	3.5	3.5
Inflation	1.0	3.7	3.0	3.0	3.1	3.1
Primary balance	-4.1	-1.0	-0.7	-0.2	0.0	0.2
Effective interest rate	7.2	7.1	6.7	6.8	6.9	6.9

Source: IMF staff.

Figure AI. 4. Guatemala: Public Debt Indicators



Appendix I. Letter of Intent

Ciudad de Guatemala, Guatemala
June 1, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva:

1. Since early March 2020, the Government of President Alejandro Giammattei has taken swift and resolute actions to slow the spread of COVID-19 in Guatemala. On March 5th, a *State of Calamity* was declared, and unprecedented measures were enacted to minimize the cost of the pandemic on the lives and livelihood of Guatemalans. Non-essential activities in the private and public sectors were suspended, all national borders were closed, all travel between departments was restricted and a curfew (5pm until 5am) is in force. Despite these efforts, as of May 27th, we reported 3,954 confirmed cases of COVID-19 and 63 fatalities.

2. The pandemic is severely affecting our economy. Our preliminary forecasts suggest that real GDP could decline by 2 percent in 2020, substantially below the 3.6 percent growth expected previously. With respect to our balance of payments, notwithstanding moderating pressures from the substantially lower price of oil and restrained demand and imports from the containment measures, we are already experiencing urgent financing needs arising from imploding remittances—Guatemala's major source of foreign exchange—, a lockdown of our tourism sector, plummeting food commodity export prices, and an impending global downturn.

3. In light of the expected social and economic impact of the pandemic in Guatemala, the government has implemented a *National Emergency and Economic Recovery Plan* to counter COVID-19. Led by the Cabinet for Economic Development, the plan (i) ramps up the capacity of the healthcare system (temporary hospitals, expanded medical supplies and equipment); (ii) encompasses temporary measures targeted to the most vulnerable (food support, risk bonus for healthcare personnel, emergency funding for SMEs, support for grassroots commerce); and (iii) grants temporary relief to firms (expedited tax credit refunds, deferral of tax payments and social security contributions). Complementing these efforts, the government enacted large-scale measures to mitigate the economic impact of containment efforts, including targeted cash transfers, salary subsidies, and loans at favorable terms for firms.

4. To enable these measures, the Congress of the Republic approved three supplementary budgets amounting to 3.4 percent of GDP, raising temporarily the 2020 government deficit and debt to 6.1 and 32.5 percent of GDP, respectively. To finance these budgetary augmentations, the authorities are relying on a hybrid financing strategy comprising IFIs loans, bonds issuance in the local and international market, and, *in extremis* and with the purview of the Constitution, central bank monetization at market conditions. These measures could nonetheless fall short. On the spending side, Guatemala's healthcare system is one of the weakest in the region and worldwide. On

the revenue side, the pronounced contraction in economic activity and outstanding, pre-COVID, administration challenges at the tax agency pose significant risks to available resources.

5. The fiscal support has been accompanied by an accommodating monetary stance. Since March 18th, the Central Bank of Guatemala has lowered the monetary policy rate by 75 basis points and provided additional liquidity to preserve the proper functioning of the payments systems and meet firms' and households' precautionary demand for cash. Participation in the foreign exchange market was also necessary to prevent excessive exchange rate volatility. The Superintendency of Banks is closely monitoring the pandemic's impact on financial conditions and remains committed to maintain an adequate balance between preserving financial stability and sustaining economic activity. In this vein, we commit to transparent, targeted, and prudent regulatory practices to preserve financial stability.

6. Against this background, the Government of Guatemala requests emergency financing from the IMF in the equivalent of SDR428.6 million (about US$585 million), equivalent to a purchase of 100 percent of quota under the Rapid Financing Instrument (RFI), to respond to the urgent balance of payments needs. We are confident that, coupled with our own reserves, and committed support from the Inter-American Development Bank, World Bank and Central American Bank for Economic Integration, this purchase will help us fill the external and fiscal financing gaps in 2020.

7. The Government of Guatemala value its cooperation with the IMF. We are committed to ensuring continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We commit to contain the monetization of the fiscal deficit and to explore alternative financing sources as additional spending needs arise and/or revenues underperform. We do not intend to impose new or intensify existing exchange and trade restrictions.

8. In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment in connection with the RFI. We will provide IMF staff with the Central Bank of Guatemala' most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Given that financing from the IMF will be disbursed for budget support, a Memorandum of Understanding will be established between the Central Bank of Guatemala and the Ministry of Public Finance to determine the respective roles for timely servicing of payments to the IMF. To ensure the transparent and effective use of resources, we commit to publish: (i) quarterly reports of COVID-19 related expenditures on the website of the Ministry of Public Finance and all related signed procurement contracts (www.guatecompras.gt), including the names of awarded companies and the name(s) of their beneficial owner(s) as well as an ex-post validation of delivery; and (ii) the audit report by an independent external auditor of RFI-financed spending no later than six months after the end of the fiscal year.

9. We authorize the IMF to publish this Letter of Intent and the staff report for the request for purchase under the RFI.

Sincerely,

/s/	/s/
Sergio Recinos	Alvaro González-Ricci
President of the Central Bank	Minister of Finance

Statement by Mr. Villar and Mr. Tabora Munoz on Guatemala
June 10, 2020

On behalf of our Guatemalan authorities, we would like to thank Mrs. Perez Ruiz and her team for their hard work and proactive engagement during the pandemic. Our authorities also thank the Board and Management for their prompt and effective attention to Guatemala's request for the Rapid Financing Instrument (RFI) which they plan to use to help mitigate the economic and social effects of the spread of COVID-19.

The Government is requesting emergency financing under the RFI of 100 percent of quota equivalent to SDR 428.6 million to support the swift response to the humanitarian, health, and socio-economic emergency and the policies adopted to mitigate the pandemic impact on the population and economy. Guatemala has not made use of Fund resources since the late 80's. The Authorities broadly agree with the staff assessment, and greatly value the IMF's technical and financial cooperation.

Guatemala has a sound track record of macroeconomic stability which has helped to build a strong economy resilient to different kind of shocks, both external and domestic, underpinned by a prudent fiscal stance and credible monetary policy reflected in steady rates of economic growth (around 3.5 percent during the last decade), stable exchange rate and interest rate, low and stable inflation, low fiscal deficit, a solid, solvent and liquid banking system, and the lowest level of public debt (at 26.6 percent of GDP) of the Central American region. Despite these robust economic fundamentals, the COVID-19 pandemic has inflicted a heavy toll on the economic and social situation, and it has the potential to curb the new government's efforts to foster inclusive growth and reduce poverty, as well as sharpen the structural vulnerabilities associated with food insecurity and malnutrition.

Impact of COVID-19

In this context, the Government of Guatemala took decisive measures to contain the spread of the virus in the country, implementing a steadfast and comprehensive policy response. With ample Congress support, the Government declared the State of Calamity on March 13th, and started implementation of the National Emergency and Economic Recovery Plan, comprising firm containment actions, targeted fiscal measures, monetary policy easing, expanded liquidity provision, and supportive prudential measures.

The first COVID-19 case in the country was reported on March 13, 2020. Considering the fragility of the health system, the authorities swiftly implemented a lockdown and other strong containment and mitigation measures, suspending non-essential activities and mass gatherings, closing the borders with neighbor countries, imposing a national curfew and a global travel ban, quarantining everyone entering the country, implementing physical distancing and sanitation protocols, and applying tight mobility restrictions. As of June 6, there are 6,485 COVID-19 reported cases, 216 deaths and 1053 already recovered. Testing and monitoring virus cases, particularly in rural areas, remain an important challenge, but health authorities are gradually increasing capacity. Transformation of some hospitals and health centers and construction of new quarantine facilities throughout the country to assist the population are also in progress.

Implementing the lockdown at an early stage of the virus outbreak was a timely and consistent decision, but it has taken a heavy toll on economic activity, particularly considering the fundamental role that the micro, small and medium-sized enterprises play in the economy. Containment measures have affected not only companies' revenues but also significant levels of employment and families' income given the high level of informality in the labor market (about 70 percent). To mitigate this economic impact, the authorities have devised a set of specific measures and policies aimed at helping the most vulnerable sectors.

Growth is projected to slow down to -2.0 percent in 2020, from a strong 3.8 percent observed in 2019. The economy is expected to be hit by negative external shocks through lower export growth, as economic conditions deteriorate in the main trade partners, remittances contraction mainly due to the high unemployment levels in the U.S., and a sharp decline in tourism revenues. The lockdown is also generating significant local disruptions in the supply and distribution chains, impacting negatively the economic activity. A gradual recovery is envisaged for the second half of the year, with a stronger rebound to 4.0 percent — above last decade average of 3.5 percent— in 2021, but significant downside risks remain. A protracted outbreak, with a prolonged impact on global growth and financial conditions, would have severe health and social consequences, and it would also delay the recovery and affect the fiscal stance.

Initial estimates envisage the fiscal deficit will increase to -6.1 percent from -2.1 percent (Pre-COVID19), due to the largest fiscal stimulus on record in the country's recent economic history—Guatemala's fiscal deficit has not exceeded 2.0 percent of GDP on average in decades— Revenues could deteriorate by about 0.9 percent of GDP in the short term, mainly due to the economic recession and temporary mitigation measures, and additional COVID19-related spending needs are estimated at 3.1 percent of GDP in 2020. Inflation to May 2020 is at 1.8 percent (yoy), while the current account balance is envisaged to deteriorate from 2.4 percent of GDP in 2019—and from 1.5 percent of GDP envisaged Pre-COVID19—to -0.5 percent of GDP in 2020, mainly due to the fall in remittances and the collapse in tourism and exports which will be only partially offset by lower oil prices and imports reduction.

The unprecedent change in Guatemala's external position—almost 3.0 percent of GDP— together with higher financing needs in the public sector have opened a BOP financing need of 2.0 percent of GDP—about US$1.5 billion—in 2020. This gap is to be financed by drawing on the RFI and additional financing from multilateral development banks of US$489 million, thus preserving the reserve cushions. Authorities do not expect the exchange rate to be under pressure due to the pandemic, but they reaffirm their commitment to maintain a flexible exchange rate and act only to smooth volatility.

In 2020, debt-to-GDP ratio is projected to increase from 26.6 to 32.5 percent as a result of negative economic growth, increase in pandemic-related spending and loss of tax revenues. However, the Debt Sustainability Analysis shows that Guatemala remains at low risk of debt distress. The RFI represents only 0.8 percent of GDP, and the country's capacity to repay the Fund is not at risk. Guatemala has the lowest and most stable EMBI spread in the Central American region—353 b.p. at June 3— and its increase (100b.p.) during the last few months reflects a general trend in emerging economies rather than a country-specific situation. Authorities remain fully committed to pursue appropriate economic policies that ensure continued macroeconomic stability and debt sustainability as well as to maintaining the authorities' excellent track record of debt servicing.

The authorities concur with the Staff's overarching macroeconomic outlook on Guatemala and that, given the current circumstances, a very adverse prospective scenario for the remaining of this year is highly plausible. In this sense, remittances—which are one of the main drivers of private consumption and household income— may be further reduced considering that economic activity in the U.S. (origin of more than 97 percent of remittances) may continue to deteriorate, affecting furthermore Guatemala's future fiscal stance and external position.

Policy Response

Measures are targeted to support the most vulnerable, and the efforts are concentrated on shoring up the fragile health system: delivering food and health supplies to needy families, providing risk bonus pay for healthcare personnel as well as temporary cash transfers to informal workers and SME's. Temporary relief measures to support firms are also included, particularly expedited tax credit refunds, deferral of tax payments and social security contributions.

Despite a reduction in nonpriority current spending through budget reallocations to finance the provision of other public services, the authorities envisage a loosening in the fiscal stance by 4.0 percent of GDP in 2020 required to finance the National Emergency and Economic Recovery Plan and cover critical spending to mitigate the impact of the pandemic, as well as the loss of fiscal revenue associated with the decline in economic activity. The fiscal stimulus is estimated at 3.1 percent of GDP in 2020 covering among others: emergency healthcare expenditures (0.2 percent of GDP) and additional social spending, including direct cash transfers to the most vulnerable (1.2 percent of GDP), salary subsidies (0.3 percent of GDP), financing to SME's (0.6 percent of GDP). The authorities plan to use the RFI resources as budget support for COVID-19 related spending.

Guatemala's Government is strongly committed to swiftly return to the fiscal consolidation from 2021 onwards, the fiscal balance is expected to improve through a reduction in the deficit to 3.0 percent of GDP in 2021 and continue its gradual adjustment to reach the historic average (2 percent of GDP) in the following years. In that vein, the authorities recognize that more progress is required on the revenue side to strengthen capacity of the tax administration and gradually broaden the tax base. They continue fully committed to the revenue mobilization agenda that will increase fiscal space to foster growth and reduce poverty over the medium term.

The authorities are also implementing monetary and financial sector measures to provide liquidity and soften the impact of the COVID-19 pandemic, preserving the proper functioning of the payments systems while maintaining financial stability. Monetary policy has maintained an adequate accommodative position through reductions in the monetary policy interest rate to a historic low of 2.0 percent. They have also designed and implemented temporary measures to increase liquidity levels in the financial system, both domestic and in foreign currency, knowing that in junctures like the current one the credit channels tend to be interrupted, just when companies and families need more financial support to weather the crisis.

Guatemala's Central Bank (BANGUAT) is firmly committed to sterilizing any monetary surplus that originates from said injection of primary liquidity in order to avoid pressure on the main macroeconomic prices –inflation, interest rates and the nominal exchange rate— and it is closely monitoring developments in order to adjust its monetary stance to secure price stability, if necessary. BANGUAT authorities consider that invoking the extraordinary constitutional provision to monetize the fiscal deficit, following Congress' approval as stated in Article 133 of the Constitution, should not be used on a recurring basis. BANGUAT is committed to contain the monetization of the fiscal deficit and seek alternative financing sources if more resources are needed. In that regard, BANGUAT and the Ministry of Public Finance (MINFIN) will maintain the historic close inter-institutional coordination to continue preserving macroeconomic stability and discipline on monetary and fiscal policies.

The Bank Superintendence (SIB) has temporarily eased credit risk regulations to alleviate the impact of the COVID-19 pandemic, sustaining economic activity while preserving financial stability using flexibility provided by the current regulatory and supervisory framework. Banks liquidity, Non-Performing Loans and capital adequacy are currently adequate. The authorities are closely monitoring the prudent, transparent and targeted implementation of these measures in line with best practices, and they are firmly committed to act to prevent any financial risk and moral hazard.

The authorities have taken measures to guarantee transparency and accountability of the emergency spending during the pandemic. They have already implemented the "State of Calamity Dashboard" for tracking and controlling all pandemic-related expenditure. They also adopted regulations to ensure that those expenditures are channeled through the electronic government procurement system (Guatecompras). MINFIN is fully committed to expeditiously publish quarterly reports on pandemic-related spending, and to carry out and publish an ex-post independent audit of the RFI-financed spending. In line with the IMF's safeguard policy, authorities are also committed to undergo a safeguards assessment of BANGUAT once the pandemic recedes.

The Guatemalan government is utterly committed to strengthen domestic institutions to foster the fight against corruption and enhance transparency and accountability. The Financial Intelligence Unit (IVE) continues strengthening its analytical capabilities to enforce the AML/CFT regulations.